

# Management Discussion and Analysis for the Second Quarter of 2022



## Executive Summary

In the second quarter of 2022 (“2Q/2022”), global economic growth decelerated from more headwinds than tailwinds. However, the tourism industry strongly recovered as a result of the completely strict public health policy and travelling restrictions being lifted.

The conflict between Russia and Ukraine continued to cause high fuel prices, with the average Brent crude oil price climbing to US 114 dollars in 2Q/2022, increasing from US 100 dollars in the previous quarter. This has translated into elevated inflation rates globally as well as disruptions of key supply chains. Correspondingly, central banks, led by the Federal Reserve (“Fed”), have continually increased policy interest rates to control inflation rates as targeted, which inevitably drove up the cost of funds for businesses.

Nevertheless, the situation of COVID-19 has improved from the last quarter following a downtrend in cases and deaths. As a result, most governments have lifted cross-border travel restrictions, which have boosted tourism and service industries from the last quarter, as reflected in the global Revenue Passenger Kilometres (“RPK”) in June 2022 standing at 71 percent of that in June 2019<sup>1</sup>. However, flights to and from Asia-Pacific were laggard compared to other regions, particularly due to an ongoing Zero-COVID Policy implemented in China.

**Tourism in Thailand strongly rebounded in the quarter, underpinned by the removal of Test & Go since 1 May.**

In 2Q/2022, Thailand saw 51 million domestic tourists, an increase of 423 percent from the same period last year. International tourist arrivals considerably increased to 1.6 million compared to 20,000 in the second quarter of 2021 (“2Q/2021”), driven by the removal of Test & Go

measurement since 1 May and the suspension of commercial flights last year.

Although China's outbound travel remained subdued, tourism in Thailand has been partially compensated by arrivals from Indians, amounting to 220,000 or accounting for 14 percent of total international arrivals in this quarter, followed by those from Malaysia and Singapore, accounted for 12 percent and 7 percent, respectively. With this trend, Indian visitors are expected to outnumber other nationalities this year.

**Asia Aviation Public Company Limited (“the Company”) posted 157 percent Year-on-Year (“YoY”) growth in total revenues and resumed its international flights to 8 countries in 2Q/2022.**

Consequently, the Company reported total revenues of Baht 2,773.8 million. Total passengers carried stood at 1.7 million, up 133 percent from the same period last year, with a load factor of 75 percent. Thai AirAsia maintained its leading domestic market while posting an outstanding on-time performance of 96 percent. In addition, 19 international routes to 8 countries were resumed to correspond with the rising demand for international travel.

The Company has been disciplined on its cost management, returned one aircraft this quarter, resulting in a remaining fleet of 59 aircraft. Nonetheless, primarily due to increasing fuel, maintenance costs, and an impact from Baht depreciation, the Company recorded a net loss of Baht 4,723.6 million, compared to a net loss of Baht 3,077.9 million in 2Q/2021.

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<sup>1</sup> IATA – International Air Transport Association



## Financial Performance Summary

Asia Aviation Public Company Limited is a major shareholder of Thai AirAsia Company Limited (“Thai AirAsia”), an airline operator of Thai AirAsia which the Company holds 100 percent.

Asia Aviation’s financial performance for the three-month and the six-month ended 30 June 2021 and 2022 have been summarised below:

### Statement of Comprehensive Income

Asia Aviation Public Company Limited Unit: Baht million	Consolidated For the three-month period ended 30 June		Change	Consolidated For the six-month period ended 30 June		Change
	2022	2021		2022	2021	
Total revenues	2,773.8	1,080.7	+157%	4,627.8	2,431.4	+90%
Total expenses	7,794.8	3,894.0	+100%	12,373.6	8,451.2	+46%
Profit (loss) from operating activities	(5,021.0)	(2,813.3)	-78%	(7,745.8)	(6,019.7)	-29%
Profit (loss) for the period	(4,723.6)	(3,077.9)	-53%	(7,278.5)	(6,468.5)	-13%
Equity holders of the Company	(4,723.6)	(1,691.9)	-179%	(7,094.2)	(3,556.5)	-99%
Non-controlling interests of the subsidiary	-	(1,386.0)	N.A.	(184.4)	(2,912.0)	+94%
<b>Total comprehensive income for the period</b>	<b>(4,723.6)</b>	<b>(3,070.9)</b>	<b>-54%</b>	<b>(7,167.6)</b>	<b>(6,268.6)</b>	<b>-14%</b>
Equity holders of the Company	(4,723.6)	(1,688.0)	-180%	(7,035.6)	(3,446.5)	-104%
Non-controlling interests of the subsidiary	-	(1,382.9)	N.A.	(132.0)	(2,822.0)	+95%
<b>Basic/Diluted Earnings (loss) Per Share (Baht)</b>	<b>(0.4067)</b>	<b>(0.3488)</b>	<b>-17%</b>	<b>(0.6205)</b>	<b>(0.7333)</b>	<b>+15%</b>

### Revenue

In 2Q/2022, the Company had total revenues of Baht 2,773.8 million, up 157 percent from 2Q/2021. Revenues from sales and services were Baht 2,691.8 million, up 174 percent over the same period last year, thanks to a robust recovery of the tourism and service industries. Other income stood at Baht 82.0 million, a 16 percent decrease due to the lower number of foreign currency forward contracts.

With strong pent-up travel demand in this quarter, the Company carried 1.7 million passengers, expanded from 0.7 million in 2Q/2021, underpinned by the continuous lifting of COVID-19 travelling restrictions and an apparent upturn of both domestic and international flights. As a result, the load factor increased to 75 percent or up 14 percentage points from the same period last year. Consequently, the average fare climbed to Baht 1,317 per passenger, increasing by 17 percent from Baht 1,129 per passenger in 2Q/2021. This was attributable to the rising number of the international flights, the collection of fuel surcharges and the sale of Super+ Pass, an annual-based promotional subscription with unlimited



flights across ASEAN. Apart from that, the Company recognised ancillary revenues per passenger of Baht 285, up from Baht 235 in 2Q/2021, supported by a strong rebound of checked baggage and other service fees along with a higher number of passengers, offset by lower freight revenues and the restriction on domestic in-flight services. Consequently, in this quarter Thai AirAsia reported Revenue per Available Seat Kilometres (“RASK”) of Baht 1.49, an increase of 27 percent from 2Q/2021, despite a solid improvement of 116 percent YoY in Available Seat Kilometres (“ASK”). Supportively, our on-time performance (“OTP”) remained noticeable at 96 percent, exceeding the target of 90 percent, demonstrating our unwavering commitment to punctuality and strict adherence to safety and hygiene standards.

### **Cost and Expense**

In 2Q/2022, the Company had total expenses of Baht 7,794.8 million, an increase of 100 percent from the same period last year, primarily due to a rise in cost of sales and services, up 79 percent from the same period last year to stand at Baht 4,987.4 million. Compared to 2Q/2021, fuel costs sharply increased from the same period last year, mainly due to a 115 percent increase in fuel consumption and a 100 percent increase in reference jet kerosene prices. This was driven primarily by the stronger demand for fuel than the tight supply partially caused by the conflict between Russia and Ukraine as well as a reduction of refinery exports from China. Maintenance and overhaul expenses also rose following a higher number of average operating aircraft from 15 in 2Q/2021 to 24 aircraft in this quarter. Consequently, aircraft utilisation improved from 6.1 hour per day to 8.0 hour per day. Depreciation and amortisation also increased from the amortisation of aircraft maintenance reserves following the sale and lease back transactions.

Selling and administration expenses (“SG&A”) were Baht 375.5 million, increasing by 20 percent from the same period last year, majorly due to expenses paid to AirAsia Com Travel for online ticket sales and distribution channel. As a percentage of revenue, SG&A stood at 13 percent in this quarter, a sharp reduction from 29 percent in 2Q/2021. Considering ASK outpacing operating costs in this quarter, Cost per Available Seat Kilometres (“CASK”) and Cost per Available Seat Kilometres excluding fuel (“CASK Ex-Fuel”) declined to Baht 3.19 and Baht 2.33 or a decrease of 19 percent and 34 percent from 2Q/2021, respectively. Other expenses were Baht 2,431.9 million, increasing by 207 percent from the same period last year, mainly due to unrealised loss on lease liabilities due to Baht weakening against the US dollar.

### **Profit and Loss**

In 2Q/2022, the Company recorded finance costs of Baht 551.7 million, increasing by 30 percent from 2Q/2021 due to interest expenses from TFRS 16 lease liabilities and the higher cost of funds. However, the Company had income tax revenue of Baht 841.4 million from the carryforward of tax loss for the period. As a result, a net loss for the period attributable to the equity holders of the Company amounted to Baht 4,723.6 million with basic and diluted loss per share of Baht 0.4067, a further drop from 2Q/2021 partially due to the recognition of 100 percent of Thai AirAsia’s net loss compared to 55 percent in the same quarter last year.



## Key Operating Statistics

Thai AirAsia Company Limited	Q2/2022	Q2/2021	Change	1H/2022	1H/2021	Change
Passenger Carried (Million)	1.68	0.72	+133%	3.14	1.70	+84%
Capacity (Million seats)	2.24	1.18	+90%	4.23	2.66	+59%
Load Factor (%)	75	61	+14 ppts	74	64	+10 ppts
Revenue Passenger Kilometres (Million seats-km)	1,363	536	+154%	2,375	1,236	+92%
Available seat kilometres (Million seats-km)	1,811	839	+116%	3,198	1,873	+71%
Average fare (Baht)	1,317	1,129	+17%	1,179	1,027	+15%
Revenue per Available seat kilometres (Baht)	1.49	1.17	+27%	1.40	1.14	+23%
Cost per Available seat kilometres (Baht)	3.19	3.94	-19%	3.40	3.56	-4%
Cost per Available seat kilometres (ex-fuel)(Baht)	2.33	3.53	-34%	2.64	3.16	-16%

Asia Aviation's financial performance for the six-month ended 30 June 2021 and 2022 have been summarised below:

### Revenue

Following an ongoing resumption of the tourism industry since the beginning of 2022, in the first half of 2022 ("1H/2022"), the Company had total revenues of Baht 4,627.8 million, rising by 90 percent from the same period last year mainly due to revenues from sales and services which rose 110 percent. Thai AirAsia carried 3.1 million passengers in total, up from 1.7 million passengers or 84 percent over the same period last year, while the load factor strongly expanded to 74 percent, compared to 64 percent in the first half of 2021 ("1H/2021"). This has translated into average fare and ancillary revenue per passenger growing by 15 percent and 10 percent, respectively, over the same period last year. Correspondingly, RASK rose 23 percent from Baht 1.14 in 1H/2021 to stand at Baht 1.40. Other income was Baht 149.6 million, decreasing by 50 percent from the same period last year mainly from the gain from derivatives amounting to Baht 237.6 million recognised in 1H/2021.

### Cost and Expense

The Company recorded total expenses of Baht 12,373.6 million, an increase of 46 percent from the same period last year. Cost of sales and services was Baht 9,323.1 million, an increase of 66 percent from the same period last year, driven by a rise in maintenance and overhaul expenses following a higher number of operating aircraft and aircraft utilisation as well as a rise in depreciation and amortisation of aircraft maintenance reserves following sale and leaseback transactions. Expenses related to ramp and airport operations also increased in tandem with more flights flown, while fuel costs rose significantly 217 percent from the same period last year following both higher fuel consumption and prices. Staff costs related to flight operations slightly declined from the previous compensation restructure. However, aircraft utilisation improved to 8.0 hour per day from 6.0 hour per day along with sustained OTP at 97 percent.

Selling and administration expenses were Baht 743.1 million, an increase of 20 percent from the same period last year particularly due to expenses paid to AirAsia Com Travel for online ticket sales and distribution channel, higher staff cost





from voluntary pay cuts last year, and professional fees related to Company's capital raising. This was partially offset by lower information technology expenses from efficiency enhancement. As a result, CASK Ex-Fuel stood at Baht 2.64, declining from Baht 3.16 in the same period last year driven by an outpace of ASK over operating costs. Fuel costs per ASK stood at Baht 0.76, up from Baht 0.40 in 1H/2021, primarily due to a rise in fuel prices and consumption volume of 82 percent and 73 percent, respectively, over the same period last year. Other expenses amounted to Baht 2,307.4 million mainly from unrealised loss on lease liabilities due to Baht depreciation against the US dollar.

### Profit and Loss

In 1H/2022, the Company had finance costs of Baht 1,110.2 million, an increase of 31 percent from the same period last year, from lease restructuring and higher cost of funds. Income tax revenue was recorded at Baht 1,563.4 million, compared to Baht 363.6 million in 1H/2021, due to sale and leaseback transactions and the carryforward of tax loss for the period. As a result, the Company reported a net loss for the period attributable to the equity holders of the Company amounting to Baht 7,094.2 million, compared to the net loss of Baht 3,556.5 million in 1H/2021. With the gain on cash flow hedges – net of income tax amounting to Baht 110.9 million, total comprehensive expense for the period attributable to the equity holders of the Company was Baht 7,035.6 million, compared to Baht 3,446.5 million in 1H/2021, mainly from the recognition of 100 percent of Thai AirAsia's net loss compared to 55 percent in the same period last year.

### Statement of Financial Position

Asia Aviation Public Company Limited	Consolidated		
Unit: Baht million	As at 30 June 2022	As at 31 December 2021	Change
Total assets	65,827.3	71,208.3	-8%
Total liabilities	57,062.3	54,379.5	+5%
Equity attributable to owners of the Company	8,765.0	20,201.1	-57%
Non-controlling interests of the subsidiary	-	(3,372.3)	N.A.
Total shareholders' equity	8,765.0	16,828.8	-48%

### Assets

As of 30 June 2022, total assets amounted to Baht 65,827.3 million, decreasing by 8 percent compared to as of 31 December 2021, primarily due to a decrease of 75 percent and 26 percent in cash and cash equivalents and aircraft maintenance reserves, respectively.

- (1) Current assets decreased by Baht 3,197.0 mainly from cash and cash equivalents which decreased by Baht 4,034.0 million following the purchase of non-controlling interest to acquire 100 percent of Thai AirAsia, repayments of debentures matured during the period, repayments for liabilities under lease agreements, and repayments of borrowings. Also, the Company's operations are not fully recovered compared to Pre-COVID-19 level.



- (2) Non-current assets decreased by Baht 2,184.0 million mainly from aircraft maintenance reserves, right-of-use assets, and property, building, aircraft, leasehold improvements and equipment, as a result of sale and leaseback transactions and higher accumulated depreciation and amortisation of aircraft maintenance reserves. Deferred tax assets were Baht 1,227.8 million, increasing from carryforward of tax loss in previous periods.

## Liabilities

As of 30 June 2022, total liabilities amounted to Baht 57,062.3 million, increasing by 5 percent compared to as of 31 December 2021, primarily due to an increase in lease liabilities.

- (1) Current liabilities increased by Baht 1,918.7 million mainly comprising a rise in lease liabilities amounting to Baht 1,479.7 million and unearned income amounting to Baht 479.8 million, mostly from increasing passengers and sale of Super+ Pass.
- (2) Non-current liabilities increased by Baht 764.1 million particularly from Baht 1,089.0 million increase in lease liabilities following 5 aircraft sale and leaseback transactions in 2022.

## Equity

As of 30 June 2022, total shareholders' equity amounted to 8,765.0 million, decreasing by 48 percent compared to as of 31 December 2021, due primarily to a restructure of investment in Thai AirAsia and net loss for the period. The Company also received a proceed of Baht 3,000.0 million from the right offering. As a result, the Company's Debt-to-Equity Ratio (Interest-Bearing Debt) and Net Gearing Ratio as of 30 June 2022 were 5.35x and 5.20x, respectively. Excluding the operating lease liabilities, D/E Ratio and Net Gearing Ratio were 0.92x and 0.77x, respectively.

## Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the six-month period ended 30 June	
	2022	2021
Net cash generated from (used in) operating activities	(2,504.9)	(440.7)
Net cash generated from (used in) investing activities	(226.9)	(64.2)
Net cash generated from (used in) financing activities	<u>(1,303.9)</u>	<u>(379.1)</u>
Net increase (decrease) in cash and cash equivalents	(4,035.6)	(884.0)
Unrealised exchange gain (loss) on cash and cash equivalents	1.6	7.2
Cash and cash equivalents at the beginning of the period	<u>5,359.6</u>	<u>1,110.4</u>
Cash and cash equivalents at the end of the period	<u>1,325.6</u>	<u>233.5</u>



For the six-month period ended 30 June 2022, the Company had net cash used in operating activities in the amount of Baht 2,504.9 million, mainly due to the operating loss for the period. Net cash used in investing activities was Baht 226.9 million, primarily from the acquisition of shares to increase its stake in Thai AirAsia to 100 percent in an amount of Baht 3,896.1 million and proceeds received from the sales of aircraft and equipment in an amount of Baht 3,870.8 million. On the other hand, net cash used in financing activities was Baht 1,303.9 million mainly from the net proceeds received from the right offering in an amount of Baht 3,000.0 million, offset by payments of Baht 1,719.2 million for early termination of certain lease agreements, repayments for liabilities under lease agreements, and repayments of debentures and borrowings due in the period. Therefore, the net decrease in cash and cash equivalents was Baht 4,035.6 million, with Baht 1,325.6 million of cash and cash equivalents at the end of the period.





## Business Outlook

Global economic growth continues but at a slower pace amid elevated inflation rates and fuel prices forecast.

According to the July 2022 report, the International Monetary Fund (“IMF”) estimated 3.2 percent global GDP growth in 2022, a revision down from 3.6 percent in April because of overall sluggish economic activities in 2Q/2022 together with deceleration growth in China and overhanging conflict between Russia and Ukraine. This has started to trigger fear of recession. Meanwhile, the IMF projected that the global inflation rate would land at 8.3 percent in 2022, a revision up from 7.4 percent in April.

The Fed led an increase in the federal funds rate of another 0.75 percent in July 2022, causing an uptrend in US dollar to appreciate against other major currencies including Thai Baht. As the Company has expenses in various foreign currencies such as those in repair and maintenance as well as aircraft rentals, the Company has adopted the practice of natural hedging by matching cash expenses and revenues in the same currency as practically as possible. Moreover, the foreign currency loans is structured to be in accordance with the currency of net operating cash flow. The Company also uses financial instruments for currency risk management when deemed applicable.

The supply of crude oil has a high tendency to be tight toward year-end following the sanctions against several oil-producing countries while the OPEC+ persists its lower-than-expected increase in production capacity. Correspondingly, IATA forecasts that jet kerosene prices will be averaged at US 125.5 dollars per barrel throughout 2022. As of 30 June 2022, the Company has no fuel price swap agreements.

**Domestic consumption and tourism are key factors to drive growth in Thailand.**

For Thailand, in June 2022 the Bank of Thailand (“BOT”) forecast a GDP growth of 3.3 percent, revising up from 3.2 percent previously, with domestic consumption and recovery of the tourism industry being key engines to drive the economy. This is supported by stronger forecasts of international arrivals in 2022 at 6 million by the BOT and 10 million by the Tourism Authority of Thailand (“TAT”) after the Thailand Pass Registration and COVID-19 restrictions were lifted to facilitate inbound tourists. In addition, domestic tourism is expected to continue its pace, incentivised by travel campaigns from the government toward the end of the year as well as long holiday periods in the second half of 2022.

**Target 10 million passengers and 81 percent load factor in 2022 with robust growth to be seen in 2H/2022.**

From the above-mentioned, the Company expects a healthy resumption in tourism activities for the rest of the year. Thai AirAsia targets total passengers carried of 10 million in 2022 and a load factor of 81 percent, supported by pent-up travel demand from last year, while implementing the strategy to rationalise capacity and network for profit maximisation. Furthermore, the Company has enhanced its revenue growth through promotional sales such as the well-accepted Super+ Pass, which combines flight tickets within Thailand and ASEAN routes, unlimited free food delivery, and travel cancellation insurance. The latest announcement in July from the Civil Aviation Authority of Thailand greenlighting in-flight food and beverage services for domestic flights would also improve ancillary revenues.

Currently, Thai AirAsia aims to resume its domestic capacity level close to that in the end of 2019 before the COVID-19 pandemic. The opening of more international routes is being considered along with the opening plan of the destination country. In 2H/2022, Thai AirAsia has plans to add routes to China, Hong Kong, Myanmar, Nepal, and Japan, to name a few.



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## Glossary

**Load factor:** Represents the number of passengers carried as a proportion to capacity, which is the number of seats available for passengers

**Available seat kilometres (ASK):** which is the total number of seats available on all flights multiplied by the number of kilometres these seats were flown

**Revenue passenger kilometres (RPK):** Revenue passenger kilometres, which is the number of paying passengers carried on all flights multiplied by the number of kilometres those seats were flown

**Average fare:** Calculated as Thai AirAsia's total passenger revenues and fuel surcharge divided by total number of passengers carried

**Revenue per ASK (RASK):** Calculated as Thai AirAsia's revenues divided by ASK

**Cost per ASK (CASK):** Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses divided by ASK

**Cost per ASK (CASK ex-fuel):** Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses less fuel costs divided by ASK

**Average stage length (kilometres):** Represents the average number of kilometres flown per flight

**Aircraft utilisation:** Represents the average block hours per day per aircraft during the relevant period. Lock hours are calculated by measuring the duration between the time of departure of an aircraft and the time of arrival at its destination.

**Debt to Equity ratio (D/E):** Calculated as Thai AirAsia's total interest-bearing debt divided by total equity

**Net Gearing ratio:** Calculated as Thai AirAsia's total interest-bearing debt less (cash and cash equivalents + short-term investment + deposit) divided by total equity

**Gross profit margin:** Calculated as revenues from sales and services less cost of sales and service divided by revenues from sales and services.

**The earnings before interest and tax, depreciation, and amortisation (EBITDA) margin:** Calculated as total income (excluding dividend income, gain on sale of investments, gain on sale of assets, finance income, gain on exchange rate, and gain on derivative) less total expenses plus depreciation and amortisation expenses divided by revenues from sales and services

**Net profit margin:** Calculated as profit for the period divided by revenues from sales and services

