

# Management Discussion and Analysis for the Full Year of 2022



## Executive Summary

The global tourism industry finished the year on a strong note. Despite headwinds, the industry's recovery is on track. Globally, air passenger traffic picked up steam in 2022 and rebounded significantly, reaching 68.5%<sup>1</sup> of revenue passenger kilometres (RPKs) in 2019. The figures showed that tourism and air travel are in high demand along with improving traveller sentiment. Domestic travel recovered better in 2022, with international travel catching up gradually in the second half after many countries lifted restrictions on international borders. Nevertheless, Asia-Pacific continued to lag other regions due to slower border reopening, especially in China, which maintained a zero-COVID policy. According to the International Monetary Fund ("IMF"), 2022 global GDP grew by 3.4% year-over-year ("YoY") pressured by China's subdued growth and the Russia-Ukraine war. Consequently, the average Brent oil price in 2022 was at USD 100.9 per barrel, up 42% YoY deepened by the subsequent sanctions placed on Russia. Meanwhile, central banks' monetary policies to combat high inflation rates may result in a short-term economic slowdown, particularly in the United States and Europe. This has created turbulence in currencies in which the USD hit a 13-year appreciation during the first nine months of 2022 but then highly depreciated in 4Q2022. The Thai Baht started the year at 33.6 Baht per USD and rose to 38.1 Baht per USD in 3Q2022 before finishing at 34.7 Baht per USD in 4Q2022.

**Thailand surpassed its 10 million tourist goal for 2022 with 11.25 million visitors, a leap from 428,000 the year before when strict travel restrictions were in place.**

The numbers, which exceeded the government's goal, showed a significant improvement as Thailand attempted to recover its crucial tourism sector. In 4Q2022, there were 5.46 million tourist arrivals, compared with 3.61 million in the

previous quarter, fuelled by relaxed economic conditions and year-end seasonality. As a result, the number of international arrivals recorded 11.2 million in 2022, a significant increase from 428,000 in 2021, with passengers from ASEAN, Europe, and South Asia accounting for 41%, 23%, and 11%, respectively. On the other hand, domestic tourism experienced strong demand, with 224.8 million total visits, increasing 208% YoY, supported by government stimulus packages and pent-up demand. In 2023, the Tourism Authority of Thailand ("TAT") anticipates 30 million international visitors, including 7-8 million from China, Thailand's largest source market prior to the pandemic.

**2022 performance of Asia Aviation Public Company Limited ("the Company") and Thai AirAsia Company Limited highly improved but pressured by unrealised FX loss.**

In 4Q2022, Thai AirAsia recorded the best operational quarter since COVID-19 supported by an accelerating number of passengers of 4.06 million with a load factor of 90%. With cost control, EBITDA in 4Q2022 turned profitable at Baht 1,628.9 million, the first time in 11 quarters. For 2022, Thai AirAsia carried 9.95 million passengers, while the overall capacity has recovered to 46% of the pre-COVID level (or 72% for 4Q2022). Underpinned by the 84% load factor, the Company's total revenue stood at Baht 18,290.8 million, increasing 306% YoY. CASK continued to decrease to Baht 2.62, down 42% YoY. However, incorporating the Thai Baht depreciation and fuel price hikes during the year, the Company reported a net loss of Baht (8,214.4) million. Normalising the unrealised FX loss and loss from derivatives totalling Baht (1,460.0) million, the Company continued to narrow its EBITDA loss in 2022 to Baht (1,277.9) million, highly improved from Baht (3,109.6) million in 2021.

<sup>1</sup> The International Air Transport Association (IATA)



## Financial Performance Summary

Asia Aviation Public Company Limited is a sole 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 year ended 31 December 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 31 December		Change	Consolidated For the year ended 31 December		Change
	2022	2021		2022	2021	
Total revenues	12,498.8	2,152.1	+481%	18,290.8	4,508.2	+306%
Total expenses	8,218.0	4,266.1	+93%	26,766.4	16,358.8	+64%
Profit (loss) from operating activities	4,280.8	(2,114.0)	N.A.	(8,475.6)	(11,850.6)	+28%
Profit (loss) for the period	3,114.4	(1,671.4)	N.A.	(8,214.4)	(11,957.9)	+31%
Equity holders of the Company	3,114.4	(992.7)	N.A.	(8,030.0)	(6,647.5)	-21%
Non-controlling interests of the subsidiary	-	(678.6)	N.A.	(184.4)	(5,310.5)	+97%
Total comprehensive income for the period	3,239.6	(1,486.3)	N.A.	(7,978.3)	(11,531.5)	+31%
Equity holders of the Company	3,239.6	(864.9)	N.A.	(7,846.2)	(6,386.9)	-23%
Non-controlling interests of the subsidiary	-	(621.3)	N.A.	(132.0)	(5,144.6)	+97%
Basic/Diluted Earnings (loss) Per Share (Baht)	0.2393	(0.1939)	N.A.	(0.6921)	(1.2985)	+47%
<b>EBITDA Reconciliation</b>						
Profit (loss) from operating activities	4,280.8	(2,114.0)	N.A.	(8,475.6)	(11,850.6)	+28%
Gain (loss) on exchange rate	3,712.0	532.8	+597%	(1,361.9)	(3,654.4)	+63%
Gain (loss) on derivatives	(80.6)	18.2	N.A.	(98.0)	391.2	N.A.
Gain (loss) from disposal assets	415.4	(43.2)	N.A.	376.3	(43.5)	N.A.
Depreciation and amortisation	1,394.8	1,886.1	-26%	6,114.1	5,434.3	+13%
EBITDA	1,628.9	(735.7)	N.A.	(1,277.9)	(3,109.6)	+59%

### Revenue

Due to the resurgence of COVID-19 cases in Thailand and the Company's compliance with the regulation, Thai AirAsia suspended the operation temporarily between 12 July and 2 September 2021.

Total revenues in 2022 were Baht 18,290.8 million, up 306% from last year as the pandemic subsided, resulting in an accelerating recovery in tourism, especially after 1 July 2022 when the government relaxed its COVID-19 curbs and fully opened the borders. Consequently, Thai AirAsia carried 9.95 million passengers during the year, increasing 240% from last year, leading to an increase in ASK of 243% and a seat capacity increase of 176%. The domestic capacity has recovered by 63% compared to the pre-pandemic level, marking Thai AirAsia’s leadership in the domestic market. On



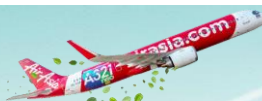
the other hand, the international capacity excluding China has recovered by 31% compared to the pre-pandemic level, led by flights to ASEAN and South Asia, particularly, Vietnam, Malaysia, Singapore, and India. Moreover, Thai AirAsia continued its remarkable on-time performance (“OTP”) at 92%.

- **Revenues from sales and services** were reported at Baht 17,553.3 million, increasing by 358% compared to the same period last year, attributable to the total passengers of 9.95 million and a healthy average fare of Baht 1,434 per passenger, rising by 32% from the reinstatement of more international flights and the imposition of fuel fluctuation fee for domestic flights. Thai AirAsia utilised an average of 29 operating aircraft in 2022 compared to an average of 15 aircraft in 2021, with an elevated utilisation rate of 9.6 hours per aircraft per day, the highest rate since the pandemic. As a result, RASK was strongly posted at Baht 1.70, exceeding Baht 1.49 and Baht 1.28 in 2019 and 2021, respectively.
  - **Ancillary income** was Baht 3,318.7 million, increasing by 410% from last year, driven by the fees from checked baggage, seat selection, processing & service fees, and the resumption of international flights. Ancillary income accounted for 19% of revenues from sales and services, while ancillary income per passenger increased to Baht 334, up from Baht 222 in 2021.
- **Other income** was Baht 737.5 million, increasing by 8% compared to last year, primarily due to the Baht 422.9 million gain from aircraft disposals in 4Q2022.

#### Cost and Expense

**Total expenses** were Baht 26,766.4 million, up 64% from the previous year, attributed primarily to higher fuel and maintenance and overhaul costs following the fuel price increase and activation of 17 aircraft in the year.

- **Cost of sales and services** stood at Baht 23,533.5 million, rising by 111% compared to the same period last year, in line with the 172% increase in the number of flights flown.
  - **Fuel costs** were Baht 8,277.0 million, up 489% compared to last year, due to a 226% YoY higher fuel consumption, while the average jet kerosene price hiked 71% YoY to USD 124.4 per barrel. Currently, the Company is not in any fuel hedging position.
  - **Staff costs** were Baht 2,824.5 million, up 40% from the previous year due to a higher number of onboarded staff for flight operations, corresponding to increased operating aircraft.
  - **Maintenance and overhaul costs** were Baht 4,000.5 million, up 145% from the previous year due to higher maintenance costs to bring the grounded fleet back into service. The Company completed the redelivery of six aircraft in 2022 and is currently redelivering one more aircraft in 1Q2023.
  - **Other costs of sales and services** were Baht 8,431.5 million, increasing by 38% from last year, mainly from depreciation and amortisation of rights-of-use assets, while ramp and airport operation expenses rose from higher number of flights flown.
- **Selling and administration expenses (“SG&A”)** were Baht 1,711.0 million, up 38% from the previous year, primarily due to the expenses paid to AirAsia Com Travel in response to the increase in sales. In 2022, SG&A was 10% of revenues from sales and services, down from 32% in the previous year, and narrowing the gap with 2019 at 8%.



- **Other expenses** were Baht 1,521.9 million, decreasing by 61% compared to the previous year, mainly from a decrease in unrealised loss from the exchange rates.

Overall, CASK significantly reduced to Baht 2.62 as opposed to Baht 4.51 in 2021. With fuel costs excluded, CASK ex-Fuel was Baht 1.81, a significant decrease from Baht 4.04 in 2021, driven by proactive cost management and a marked increase in ASK.

### **Profit and Loss**

In 2022, the Company recorded a narrower EBITDA loss of Baht (1,277.9) million, a 59% improvement from last year, due to the recovery in operating performance. Finance costs were Baht 2,219.5 million, increasing by 17% mainly due to the interest expenses from TFRS 16 on lease liabilities and higher cost of funds. In comparison, the effective interest rate stood at 5.0%, increasing from 4.5% in 2021. Income tax revenue for the year was Baht 2,451.6 million, mainly from the carry forward of tax losses for the period. As a result, the Company reported a net loss for the period attributable to the equity holders amounting to Baht (8,030.0) million, compared to a loss of Baht (6,647.5) million in 2021, with basic and diluted loss per share of Baht (0.69), taking into account the recognition of 100% of Thai AirAsia's net loss compared to 55% in the same period last year.

### **Key Operating Statistics**

Thai AirAsia Company Limited	4Q/2022	4Q/2021	Change	FY2022	FY2021	Change
Passenger carried (million)	4.06	1.15	+253%	9.95	2.93	+240%
Capacity (million seats)	4.52	1.51	+199%	11.90	4.31	+176%
Load factor (%)	90	76	+14 ppts	84	68	+16 ppts
Revenue passenger kilometres (million seats-km)	3,774	783	+382%	8,627	2,083	+314%
Available seat kilometres (million seats-km)	4,246	1,030	+312%	10,308	3,002	+243%
Average fare (Baht)	1,652	1,130	+46%	1,434	1,090	+32%
Revenue per available seat kilometres (Baht)	1.95	1.49	+31%	1.70	1.28	+34%
Cost per available seat kilometres (Baht)	2.02	4.33	-53%	2.62	4.51	-42%
Cost per available seat kilometres (ex-fuel) (Baht)	1.23	3.75	-67%	1.81	4.04	-55%

### **A snapshot of Asia Aviation's financial performance for the three-month ended 31 December 2021 and 2022 has been summarised below:**

Thai AirAsia experienced a successful 4Q2022, marked by an uptrend of passenger numbers, reaching 4.06 million, a 253% YoY growth and 47% QoQ. This was fuelled by domestic passenger growth of 43% QoQ, while international passengers saw a robust 61% QoQ growth. During this quarter, Thai AirAsia inaugurated new routes, including the first flights from Don Mueang to Fukuoka, Dhaka, and Lucknow, and introduced new routes from the Chiang Mai hub to Danang and Hanoi. In addition, flight frequency to Singapore was doubled to 42 flights a week following the opening of Changi's Terminal 4. By year-end, Thai AirAsia had 42 operating aircraft and posted an overall load factor of 90%, a level not seen since 1Q2019.





As a result, AAV reported **total revenue** of Baht 12,498.8 million, an increase of 481% YoY and 155% QoQ. The **average fare per passenger** was Baht 1,652, an increase of 46% YoY and 18% QoQ, mainly due to the imposition of the domestic fuel fluctuation fee and a healthy fare environment for international flights. Additionally, **ancillary income** grew to Baht 1,571.3 million, increasing by 567% YoY and 65% QoQ, while **ancillary income per passenger** reached a record of Baht 387, driven by revenues from checked baggage, processing fees, and inflight services.

**Cost of sales and services** reached Baht 7,591.9 million, up by 100% YoY and 15% QoQ. The increase was mainly driven by higher **fuel costs**, which reached Baht 3,369.1 million, an increase of 464% YoY and 35% QoQ, as a result of the rising jet fuel prices and an increase of 196% YoY and 43% QoQ in the number of flights flown. Meanwhile, **staff costs** rose to Baht 971.2 million, an increase of 54% YoY and 37% QoQ, in line with the higher number of flights flown. **Maintenance and overhaul expenses** stood at Baht 900.6 million, increasing by 50% YoY but decreasing by 22% QoQ. The drop QoQ was from lower redelivery expenses and a lower rate of aircraft activation. **SG&A** expenses increased by 66% YoY and 35% QoQ to Baht 555.5 million, mainly from online sale commissions paid to AirAsia Com Travel. However, **SG&A to revenues from sales and services** decreased from 22% in 4Q2021 and 9% in 3Q2022 to 7% in this quarter.

In summary, AAV reported a positive **EBITDA** of Baht 1,628.9 million, the first since the COVID-19 pandemic. The appreciation of the Thai Baht from 38.1 Baht per USD in 3Q2022 to 34.7 Baht per USD in this quarter resulted in an unrealised FX gain of Baht 3,712.0 million, while **finance costs** were Baht 484.2 million, decreasing by 15% YoY and 23% QoQ due to lower debt and lease liabilities. Additionally, there was **income tax expense** amounted to Baht 689.9 million. Consequently, AAV recorded a **net profit for the equity holders of the Company** of Baht 3,114.4 million, an improvement compared to a net loss of Baht (992.7) million in 4Q2021 and Baht (4,050.2) million in 3Q2022.

#### Statement of Financial Position

Asia Aviation Public Company Limited	Consolidated		
Unit: Baht million	As at	As at	Change
	31 December 2022	31 December 2021	
Total assets	64,685.5	71,208.3	-9%
Total liabilities	56,731.1	54,379.5	+4%
Equity attributable to owners of the Company	7,954.4	20,201.1	-61%
Non-controlling interests of the subsidiary	-	(3,372.3)	N.A.
Total shareholders' equity	7,954.4	16,828.8	-53%



## Assets

As of 31 December 2022, the Company had Baht 64,685.5 million of total assets, decreasing by 9% from the end of 2021 mainly from lower cash and cash equivalents, right-of-use assets, aircraft maintenance reserves, and fixed assets<sup>2</sup> while partially offset by higher deferred tax assets.

- Current assets were Baht 5,236.3 million, decreasing by 32% compared to the end of 2021. Cash and cash equivalents stood at Baht 797.8 million, dropping by 85% mainly due from net repayment in debt. Amounts due from related parties rose by 132% to Baht 2,539.9 million mainly from sales received on behalf for the Company within the AirAsia Group.
- Non-current assets were Baht 59,449.2 million, declining by 6% from Baht 4,351.0 million of fixed and right-of-use assets being depreciated and Baht 1,902.9 million of aircraft maintenance reserves amortised for aircraft overhaul activities, offset by an increase in deferred tax assets of Baht 2,084.6 million mainly incurred from operating loss.

## Liabilities

As of 31 December 2022, the Company reported total liabilities of Baht 56,731.1 million, increasing by 4% from the end of 2021 mainly from higher unearned income and accrued expenses, offset by lower liabilities under lease agreements and interest-bearing debt.

- Current liabilities were Baht 21,893.1 million, increasing by 25%. Unearned income rose by 96% to Baht 4,750.9 million mainly from the improvement in travelling sentiment, while accrued expenses increased by 68% to Baht 4,137.8 million due to higher accrual for aircraft maintenance reserve.
- Non-current liabilities were Baht 34,838.0 million, decreasing by 5% mainly from lower lease liabilities which dropped by 4% to Baht 30,125.4 million following lease payment during the year.
- Interest-bearing debt excluding lease liabilities was Baht 7,298.8 million, down from Baht 7,664.3 million following a net repayment in debentures and borrowings.

## Equity

As of 31 December 2022, the Company had Baht 7,954.4 million of total shareholders' equity, declining by 53% from the end of 2021 mainly due to the deficits from the operating loss for the period partially offset by a higher share premium from the right offering and the converted debentures in the year. Overall, the Company's interest-bearing (excluding lease liabilities) debt-to-equity and net debt-to-equity ratios equalled 0.92x and 0.82x, respectively.

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<sup>2</sup> Fixed assets comprise property, building, aircraft, leasehold improvements and equipment.



## Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the year ended 31 December	
	2022	2021
Net cash generated from (used in) operating activities	564.0	(4,347.0)
Net cash generated from (used in) investing activities	(589.7)	1,283.7
Net cash generated from (used in) financing activities	(4,530.7)	7,313.6
Net increase (decrease) in cash and cash equivalents	(4,556.4)	4,250.3
Unrealised exchange gain (loss) on cash and cash equivalents	(5.4)	(1.1)
Cash and cash equivalents at the beginning of the period	5,359.6	1,110.4
Cash and cash equivalents at the end of the period	<u>797.8</u>	<u>5,359.6</u>

In 2022, the Company had net cash generated in operating activities totalling Baht 564.0 million, turning positive again since 2019 mainly due the strong business recovery in the second half of 2022. Net cash used in investing activities was Baht 589.7 million mainly from the payments for maintenance reserves, for leasehold improvement and acquisitions of equipment, and the acquisition of shares to increase the stake in Thai AirAsia to 100%, a total of Baht 14,789.1 million, offset by the proceeds received from the sales of aircraft and equipment, a total of Baht 4,292.2 million. Net cash used in financing activities totalled Baht 4,530.7 million, mainly from the Baht 6,763.6 million net payments for lease agreements including the early termination and the Baht 370.9 million net repayments for debentures and borrowings. This was partially offset by the Baht 3,000.0 million proceeds from the right offering during the period. In summary, the Company had Baht 4,556.4 million net decrease in cash and cash equivalents and had a cash balance of Baht 797.8 million at the end of the period.

## Key Financial Ratio

Asia Aviation Public Company Limited	Consolidated	
	For the year ended 31 December	
	2022	2021
Current Ratio (excluding lease liabilities)	0.2x	0.4x
EBITDA Margin	(7%)	(81%)
Net Profit Margin	(47%)	(312%)
Return on Assets	(12%)	(17%)
Return on Equity	(66%)	(70%)
Net Interest-Bearing Debt-to-Equity Ratio (excluding lease liabilities)	0.8x	0.1x
Interest Coverage Ratio (excluding interest due to TFRS16)	(2.8x)	(4.4x)





## Business Outlook

The Company anticipates that the strong momentum of the global tourism industry will continue in 2023. According to the World Bank's forecast, the GDP growth in the East Asia and Pacific region, which constitutes 96 percent of Thai AirAsia's capacity flown in 2019 (all except South Asia), is expected to increase by 4.3% in 2023, 260 ppts above the average of the global GDP growth forecast. This superior growth is expected to be driven by the reopening of China and the milder inflation severity, which renders the region less susceptible to recession compared to other regions.

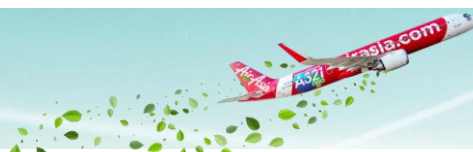
Moreover, the Bank of Thailand ("BOT") predicts that Thailand's GDP growth will be 3.7% in 2023, primarily due to the improvements in tourism and domestic consumption, offset by expected slower exports and some deceleration in investments. The Tourism Authority of Thailand ("TAT") has recently revised its inbound tourist target to 30 million, up from 25 million in late January, following promising Chinese arrivals. The domestic tourism sector is also expected to remain robust.

Thai AirAsia aims to carry 20 million passengers in 2023, compared to its peak of 22.2 million in 2019. Thailand's Domestic passengers are projected to fully recover to 2019 levels, at approximately 14 million people, while international passengers are expected to quadruple from 2 million in 2022 to 8 million this year, driven by the demand for travelling in ASEAN, a healthy recovery in South Asia, and the resumption of flights to and from China. Thai AirAsia intends to continue leading the domestic market with the most extensive route network and competitive fares while placing more focus on the international market. With the reopening of China, Thai AirAsia plans to resume flights to 11 cities in China by June, accounting for around 73% of weekly flights flown to China in 2019. New international routes will continue to be explored, including potential flights from Don Mueang to Jakarta (Indonesia), Manila

(Philippines), and Colombo (Sri Lanka). This is supported by the fleet size of 53 aircraft, all of which are planned to be fully operated in 2H23. As the Company does not have an aircraft delivery order this year, available aircraft within AirAsia Group might be utilised if the travelling demand is justified later in the year.

With a positive outlook for the top-line, the Company aims to achieve profitability this year driven by lower operating costs per unit from enhanced aircraft utilisation rate at 12.5 hours/aircraft/day and a stronger load factor of 87 percent. However, several uncontrollable downside risks exist, including the prolonged conflict between Russia and Ukraine, which may exert pressure on fuel prices to remain elevated or decline at a slow pace. As a result, the Company is cautious about hedging the fuel price until the reward-to-risk ratio is justified, while continuing to partially hedge foreign currency exposure and attempt to naturally hedge cash inflows and outflows.

In summary, 2023 is expected to mark a return to normalcy as the COVID-19 pandemic is gradually relegated to the past. To capitalise on this trend, Thai AirAsia will maintain its commitment to high service standards reflected in our exceptional OTP and strive to enhance business sustainability through closer collaboration with regulatory bodies and improved communication with passengers. As a participant in CORSIA, Thai AirAsia must monitor and report carbon emissions required by CAAT including participating in carbon offsetting programs. According to the current flight plans, the carbon credit purchases for 2023, if any, should be immaterial. Despite that, the Company will continue to actively implement the Green Operation program, including enhancing flight efficiency and exploring the potential use of sustainable aviation fuel (SAF) in the medium term to mitigate our carbon footprint.



## 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

