

### COMPANY RESULTS

## Airports of Thailand (AOT TB)

FY19: Weak Earnings But Expected To Pick Up From FY21

**AOT registered disappointing FY19 results due to elevated staff cost, which is likely to continue into FY20. Aeronautical revenue growth is also unlikely to improve much unless visitor arrivals improve. As such, we only expect modest earnings for FY20. Still, the main stock price driver will be substantial revenue upside from the new duty-free contract from FY21 and an upcoming bid for a duty-free pick-up centre at DMK. Maintain HOLD but lower our target price by 7.7% to Bt72.00. Entry price: Near Bt62.00.**

### 4QFY19 RESULTS

Year end 30 Sep (Btm)	4QFY19	yoy % chg	Comments
Aeronautical Revenue	8,436	4.2	Higher PSC revenue (+6% yoy) underpinned by 2.3% yoy growth in pax throughput, offset by lower landing fees (-3.4% yoy)
Non- Aeronautical Revenue	6,715	1.0	Higher service rev (+6% yoy), offset by lower concession revenue (-1% yoy)
Total operating revenue	15,151	2.7	
EBIT	6,188	-2.7	33% yoy rise in staff cost
EBITDA	7,670	-2.2	
EBIT Margin (%)	40.8	-2.3	Op expenses rose 7% yoy
PBT	6,493	-1.3	Higher net interest income (+4% yoy)
Net income	5,117	-2.3	

Source: AOT, UOB Kay Hian

### RESULTS

- **Street disappointed by weak earnings.** Airports of Thailand's (AOT) 4QFY19 revenue growth of 2.7% yoy was the slowest in four years. Operating profit has declined for two consecutive quarters amid lacklustre top-line growth. The street was disappointed by the negative jaws for the latest quarter as opex rose by a faster 7% yoy due to a 33% yoy rise in staff cost and 18% yoy rise in repair and maintenance costs. The increase in staff cost was due to: a) recognition of past service costs; and b) the new minimum wage. FY19 net profit was 4.2% and 3.5% below our and consensus estimates respectively.
- **Operating cash flow fell 3% yoy in FY19.** Consequently, free cash flow declined 4% yoy to Bt23.2b in FY19 with capex staying flat yoy. AOT remained highly cash-generative, registering OCF margin-to-revenue of 51% in FY19.

### KEY FINANCIALS

Year to 30 Sep (Btm)	2018	2019	2020F	2021F	2022F
Net turnover	60,537	62,783	66,226	82,005	86,053
EBITDA	36,187	36,367	37,335	50,294	52,661
Operating profit	30,545	30,515	31,195	43,969	46,074
Net profit (rep./act.)	25,171	25,026	25,740	36,307	38,302
Net profit (adj.)	25,041	24,421	25,821	36,390	38,256
EPS (Bt)	1.8	1.7	1.8	2.5	2.7
PE (x)	43.1	44.2	41.8	29.6	28.2
P/B (x)	7.5	7.0	6.6	5.8	5.3
EV/EBITDA (x)	28.1	28.0	27.2	20.2	19.3
Dividend yield (%)	1.4	1.4	1.4	2.0	2.1
Net margin (%)	41.6	39.9	38.9	44.3	44.5
Net debt/(cash) to equity (%)	(38.1)	(40.5)	(40.4)	(44.3)	(41.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	18.3	16.8	16.2	20.7	19.8
Consensus net profit	-	-	28,060	38,283	40,165
UOBKH/Consensus (x)	-	-	0.92	0.95	0.95

Source: Airports of Thailand, Bloomberg, UOB Kay Hian

### HOLD

(Maintained)

Share Price	Bt75.50
Target Price	Bt72.00
Upside	-4.6%
(Previous TP)	Bt78.00

### COMPANY DESCRIPTION

AOT operates 6 of the 38 airports in Thailand, but collectively these 6 airports account for 83% of the total pax throughput

### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	AOT TB
Shares issued (m):	14,285.7
Market cap (Btm):	1,078,570.4
Market cap (US\$m):	35,681.2
3-mth avg daily t'over (US\$m):	52.1

### Price Performance (%)

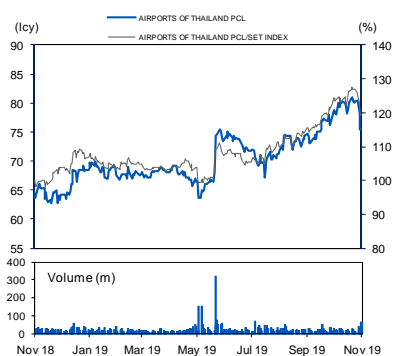
52-week high/low Bt81.00/Bt62.75

1mth	3mth	6mth	1yr	YTD
(2.6)	6.0	12.7	17.5	17.5

### Major Shareholders

Major Shareholders	%
Finance Ministry	70.0
Thai NVDR Co Ltd	4.5
FY20 NAV/Share (Bt)	11.53
FY20 Net Cash/Share (Bt)	4.66

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- **Weak operating profit could be attributed to a decline in domestic pax throughput at BKK (Suvarnabhumi airport) and DMK (Don Mueang).** In 4QFY19, domestic pax throughput at DMK declined 6% yoy while that at BKK recorded its first decline of 2.3% yoy in more than three years. Consequently, operating margins for the two airports declined by 3.5ppt and 4.7ppt yoy respectively. Earnings were also presumably impacted by higher staff costs.
- **Silver lining as visitor arrivals from China and Japan improved in Sep-Oct 19.** This led to overall visitor arrivals rising by double-digits over the same period. In addition, Oct 19 domestic pax throughput has improved with DMK's rate of decline moderating and BKK's turned in positive. This holds scope for improved profitability in FY20 if AOT successfully manages cost.
- **Non-aeronautical revenue to drive earnings for the next three years.** AOT's new duty-free contract with King Power will kick in from FY21 and this should lead to about 180% yoy rise in duty-free revenue, with Bt9.2b flowing to bottom line. In addition, bidding for a new duty-free pick-up contract at DMK will commence in Dec 19 and operations to start in Oct 22. AOT plans to run its own duty-free pick-up counters and the winning bidder will operate the pick-up counters across cities. The 10.5-year contract is expected to have a minimum concession quantum and we estimate effective revenue share could be as high as 20% versus current duty free concession at 15%.

### STOCK IMPACT

- **Saturation point for Thai Aviation?** AOT indicated that low-cost carriers have reached a saturation point, implying that growth in domestic traffic is unlikely to improve materially. This is poignant as the low-cost airport – DMK - has the highest operating margin. In addition, AOT's traffic growth is highly dependent on Chinese visitor arrivals which in turn are dependent on the vagaries of the Chinese economy and travel patterns.
- **AOT is focusing on growing its non-aeronautical business over the next three years and this is likely to be its next growth phase.** Still, downside risk prevails for the aeronautical business unless visitor arrivals pick up. FY20 earnings are expected to be lacklustre with just a 3% yoy growth, before rising 41% in FY21, underpinned by the new duty-free contract.

### EARNINGS REVISION/RISK

- We lower our FY20 and FY21 net profits estimates by 12.7% and 7.7% respectively factoring in higher opex.

### VALUATION/RECOMMENDATION

- **Maintain HOLD but lower our target price by 7.7% to Bt72.00.** We expect stock price to weaken in the short term amid concerns over near-term earnings growth. We recommend investors accumulate near Bt62.00, or 35x FY20F PE. We continue to value AOT based on EV/Invested capital. However, we have lowered our terminal growth rate from 4.5% to 4.2%. Our target price implies 40.0x FY20F PE and 28.3x FY21F PE.

### SHARE PRICE CATALYST

- Higher pax throughput growth.

### 4QFY19 OPERATING STATISTICS

(Bt)	4QFY19	yoy % chg
Total AOT throughput	34.1	2.3
PSC per pax	188.8	3.7
Concession rev per pax	122.4	-3.2
Aeronautical rev per pax	247.6	1.8
Non-Aeronautical rev per pax	197.1	-1.3
Total rev per pax (Bt)	444.7	0.4
EBIT per pax (Bt)	164.2	-14.1
EBITDA per pax (Bt)	225.1	-4.4
EBITDA (1-t) per pax	185.5	-5.3
Op cost per pax (Bt)	263.1	4.5
Op Breakeven throughput (%)	59.2	4.0
OCF per pax (Bt)	434.7	32.9

Source: AOT, UOB Kay Hian

### ASSUMPTIONS

(yoy % chg)	FY19	FY20F	FY21F
Visitor arrivals	3.6	5.0	5.0
Pax throughput	1.7	3.1	4.7
Aircraft movement	2.4	3.2	4.2
Concession rev per pax	2.8	-0.9	70.9

Source: AOT, UOB Kay Hian

### VALUATION

Sustainable ROIC	27.9%
WACC	6.7%
Terminal Growth Rate	4.2%
Derived EV (Btm)	966,735
Add cash less MI (Btm)	65,824
Equity value (Btm)	1,032,559
Value per share (Bt)	72.0

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
Net turnover	62,783	66,226	82,005	86,053
EBITDA	36,367	37,335	50,294	52,661
Deprec. & amort.	5,851	6,140	6,324	6,587
EBIT	30,515	31,195	43,969	46,074
Total other non-operating income	615	389	396	407
Associate contributions	0.1	0.1	0.1	0.1
Net interest income/(expense)	354	670	931	1,296
<b>Pre-tax profit</b>	<b>31,484</b>	<b>32,252</b>	<b>45,296</b>	<b>47,777</b>
Tax	(6,389)	(6,451)	(8,923)	(9,412)
Minorities	(69)	(62)	(65)	(63)
<b>Net profit</b>	<b>25,026</b>	<b>25,740</b>	<b>36,307</b>	<b>38,302</b>
Net profit (adj.)	24,421	25,821	36,390	38,256

### BALANCE SHEET

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
Fixed assets	112,275	115,948	121,776	136,737
Other LT assets	5,200	5,324	5,448	5,572
Cash/ST investment	76,061	76,123	89,713	89,135
Other current assets	4,878	5,574	6,713	7,020
<b>Total assets</b>	<b>198,414</b>	<b>202,968</b>	<b>223,650</b>	<b>238,464</b>
ST debt	3,181	3,181	3,181	3,181
Other current liabilities	11,527	9,449	11,203	11,437
LT debt	10,516	6,361	4,361	2,361
Other LT liabilities	17,698	17,698	17,698	17,698
Shareholders' equity	153,931	164,656	185,519	202,036
Minority interest	640	701	766	830
<b>Total liabilities &amp; equity</b>	<b>198,414</b>	<b>202,968</b>	<b>223,650</b>	<b>238,464</b>

### CASH FLOW

Year to 30 Sep (Btm)	2019	2020F	2021F	2022F
<b>Operating</b>	<b>33,013</b>	<b>29,850</b>	<b>43,835</b>	<b>45,172</b>
Pre-tax profit	31,484	32,253	45,296	47,777
Tax	(6,609)	(6,451)	(8,923)	(9,412)
Deprec. & amort.	5,851	6,140	6,324	6,587
Working capital changes	1,232	(2,774)	614	(73)
Non-cash items	534	81	82	(45)
Other operating cashflows	519	599	441	339
<b>Investing</b>	<b>(11,523)</b>	<b>(11,518)</b>	<b>(13,859)</b>	<b>(23,127)</b>
Capex (growth)	(9,957)	(10,018)	(12,359)	(21,627)
Investments	(1,773)	(1,500)	(1,500)	(1,500)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	207	0.0	0.0	0.0
<b>Financing</b>	<b>(20,008)</b>	<b>(19,770)</b>	<b>(17,886)</b>	<b>(24,123)</b>
Dividend payments	(14,998)	(15,016)	(15,445)	(21,784)
Issue of shares	204	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(4,330)	(4,155)	(2,000)	(2,000)
Others/interest paid	(884)	(599)	(441)	(339)
<b>Net cash inflow (outflow)</b>	<b>1,481</b>	<b>(1,438)</b>	<b>12,090</b>	<b>(2,077)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>8,602</b>	<b>10,084</b>	<b>8,646</b>	<b>20,736</b>
<b>Ending cash &amp; cash equivalent</b>	<b>10,084</b>	<b>8,646</b>	<b>20,736</b>	<b>18,659</b>

### KEY METRICS

Year to 30 Sep (%)	2019	2020F	2021F	2022F
<b>Profitability</b>				
EBITDA margin	57.9	56.4	61.3	61.2
Pre-tax margin	50.1	48.7	55.2	55.5
Net margin	39.9	38.9	44.3	44.5
ROA	13.0	12.8	17.0	16.6
ROE	16.8	16.2	20.7	19.8
<b>Growth</b>				
Turnover	3.7	5.5	23.8	4.9
EBITDA	0.5	2.7	34.7	4.7
Pre-tax profit	1.1	2.4	40.4	5.5
Net profit	(0.6)	2.9	41.1	5.5
Net profit (adj.)	(2.5)	5.7	40.9	5.1
EPS	(2.5)	5.7	40.9	5.1
<b>Leverage</b>				
Debt to total capital	8.1	5.5	3.9	2.7
Debt to equity	8.9	5.8	4.1	2.7
Net debt/(cash) to equity	(40.5)	(40.4)	(44.3)	(41.4)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.

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