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<b>Buy</b> ↔ <b>THB</b>	
Target	THB6.63
Previous	THB5.32
Price	THB5.35

**Airlines**

Asia Aviation is the 55% holding company of Thai AirAsia.

**Stock Statistics**

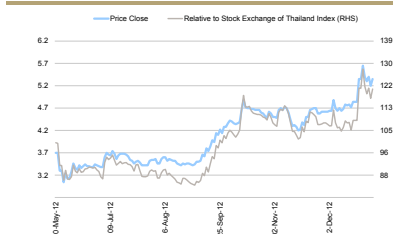
Bloomberg Ticker	AAV TB
Market Cap	THB25,948m USD857m
52 wk H/L price (THB)	5.65   3.04
3m ADT	THB290m
YTD Returns	10.5%
Beta (x)	

**Major Shareholders (%)**

Bieliewien Tasaphon	33.0
BBL Asset Management	10.1
Asia Aviation Co Ltd	0.5

**Share Performance (%)**

Month	Absolute	Relative
1m	15.8	10.5
3m	9.6	0.6
6m	45.4	28.6
12m		

**6-month Share Price Performance**

Source: Bloomberg

**Company Update****Asia Aviation****Flying High**

Although the final numbers are not out, we gather that TAA (Thai AirAsia) has seen sharp growth in its passenger numbers, especially after the delivery of three aircraft in 4QFY12. AOT said passenger traffic from LCCs soared 33% y-o-y, which we believe was boosted by AirAsia Group's growing fleet, as well as those of competing carriers. We maintain our BUY on AAV, at a FV of THB6.63, premised on 13.5x EV/EBITDAR (from 11.7x earlier). AAV's 13.5x EV/EBITDAR is justified by its sturdy growth prospects due to an aggressive fleet rollout in the upcoming years.

**LCCs propel AOT's passenger traffic.** Although the final numbers are not out yet, we gather that TAA is experiencing sharp growth in passenger numbers, especially after the delivery of three aircraft in 4QFY12. According to AOT, LCC passenger traffic from Oct-Dec 2012 grew 33% y-o-y, exceeding the 27% y-o-y growth rate of the full service carriers (FSCs). We believe these encouraging numbers were boosted by both aggressive fleet rollouts for the AirAsia group and Orient Thai in the past few months.

**Taking delivery of 7 aircraft in 2013.** TAA expects to take delivery of at least seven new aircraft this year, which will bodes well in bringing fuel and maintenance costs down. TAA is embarking on a fleet expansion plan over the next five years to enlarge its fleet of 27 aircraft currently to 48 by 2016. At the current rate, we are forecasting a 23% CAGR in the airline's capacity and revenue growth from FY11-FY14.

**AirAsia may make its way to India.** The Indian media have reported rumors of AirAsia being close to setting up a new hub in India, the world's second biggest aviation market after China. We do not see this as a surprise as AirAsia Group CEO Tony Fernandes has hinted of such a move in his Twitter update. This move, if it materializes, is positive as it will feed more traffic to TAA given its 4-hour reach.

**Upgrade FV; maintain BUY.** We maintain BUY on AAV with THB6.63 FV, premised on 13.5x EV/EBITDAR (from 11.7x earlier). The stock's 13.5x EV/EBITDAR is justified given the company's rapid growth, propelled by aggressive fleet expansion in the coming years. As AirAsia's EV/EBITDAR peaked at 20x (15x on average) in 2006, there may be some potential upside for TAA.

Forecasts and Valuations	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
Total turnover (THBm)	12,099	16,158	19,238	24,432	30,156
Recurring net profit (THBm)	908	989	753	1,000	1,430
Recurring net profit growth	0.0%	9.0%	(23.9%)	32.9%	42.9%
Core EPS (THB)	0.19	0.20	0.16	0.21	0.29
Core EPS growth	0.0%	9.0%	(23.9%)	32.9%	42.9%
Core P/E (x)	28.6	26.2	34.5	25.9	18.1
Return on average equity		(67.6%)	50.9%	21.4%	20.3%
P/B (x)	na	na	7.04	4.60	3.07
EV/EBITDA (x)	11.6	12.0	12.0	8.6	5.7
Net debt to equity	14.6%	159.4%	net cash	net cash	net cash
OSK vs consensus EPS			(29.5%)	(37.4%)	(30.9%)

## FINANCIAL

<b>Profit &amp; Loss (THBm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12F</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total turnover	12,099	16,158	19,238	24,432	30,156
Cost of sales	(9,424)	(13,035)	(16,085)	(20,031)	(23,945)
<b>Gross profit</b>	<b>2,674</b>	<b>3,122</b>	<b>3,153</b>	<b>4,401</b>	<b>6,211</b>
Gen & admin expenses	(230)	(651)	(800)	(1,220)	(1,761)
Selling expenses	(358)	(445)	(673)	(855)	(1,055)
<b>Operating profit</b>	<b>2,086</b>	<b>2,027</b>	<b>1,680</b>	<b>2,326</b>	<b>3,394</b>
Operating EBITDA	2,209	2,099	1,801	2,761	4,255
Depreciation of fixed assets	(119)	(67)	(116)	(429)	(855)
Amortisation of intangible assets	(4)	(5)	(5)	(6)	(6)
<b>Operating EBIT</b>	<b>2,086</b>	<b>2,027</b>	<b>1,680</b>	<b>2,326</b>	<b>3,394</b>
Interest income	50	136	41	106	109
Interest expense	(243)	(184)	(26)	(124)	(205)
Exceptional income - net	118	41	46	-	-
<b>Pre-tax profit</b>	<b>2,011</b>	<b>2,020</b>	<b>1,741</b>	<b>2,308</b>	<b>3,298</b>
Taxation	-	-	(174)	(346)	(495)
Minority interests	(985)	(990)	(768)	(961)	(1,374)
<b>Profit after tax &amp; minorities</b>	<b>1,026</b>	<b>1,030</b>	<b>799</b>	<b>1,000</b>	<b>1,430</b>
<b>Net income to ord equity</b>	<b>1,026</b>	<b>1,030</b>	<b>799</b>	<b>1,000</b>	<b>1,430</b>
<b>Recurring net profit</b>	<b>908</b>	<b>989</b>	<b>753</b>	<b>1,000</b>	<b>1,430</b>
<b>Balance Sheet (THBm)</b>	<b>Dec-10</b>	<b>Dec-11</b>	<b>Dec-12F</b>	<b>Dec-13F</b>	<b>Dec-14F</b>
Total cash and equivalents	567	1,383	5,474	5,876	8,008
Inventories	6	51	62	79	99
Accounts receivable	111	192	228	290	358
<b>Total current assets</b>	<b>4,058</b>	<b>2,836</b>	<b>6,601</b>	<b>7,186</b>	<b>9,421</b>
Other current assets	3,375	1,210	837	941	956
Tangible fixed assets	275	303	2,098	7,162	11,544
Intangible assets	21	14	11	7	3
Total other assets	513	636	718	752	789
Total non-current assets	808	953	2,827	7,921	12,336
<b>Total assets</b>	<b>4,867</b>	<b>3,790</b>	<b>9,428</b>	<b>15,107</b>	<b>21,757</b>
Short-term debt	201	491	68	239	410
Accounts payable	175	106	131	163	195
Other current liabilities	6,992	3,634	4,435	5,440	6,574
<b>Total current liabilities</b>	<b>7,368</b>	<b>4,231</b>	<b>4,634</b>	<b>5,843</b>	<b>7,179</b>
Total long-term debt	1	22	1,002	3,508	6,014
Other liabilities	-	83	108	111	114
<b>Total non-current liabilities</b>	<b>1</b>	<b>105</b>	<b>1,110</b>	<b>3,619</b>	<b>6,128</b>
<b>Total liabilities</b>	<b>7,370</b>	<b>4,336</b>	<b>5,744</b>	<b>9,462</b>	<b>13,308</b>
Share capital	400	400	436	436	436
Retained earnings reserve	(2,904)	(947)	620	2,581	5,385
Other reserves	1	1	2,629	2,629	2,629
<b>Shareholders' equity</b>	<b>(2,503)</b>	<b>(546)</b>	<b>3,684</b>	<b>5,646</b>	<b>8,449</b>
<b>Total equity</b>	<b>(2,503)</b>	<b>(546)</b>	<b>3,684</b>	<b>5,646</b>	<b>8,449</b>
<b>Total liabilities &amp; shareholders' equity</b>	<b>4,867</b>	<b>3,790</b>	<b>9,428</b>	<b>15,107</b>	<b>21,757</b>

Cashflow (THBm)	Dec-10	Dec-11	Dec-12F	Dec-13F	Dec-14F
<b>Operating profit</b>	<b>2,086</b>	<b>2,027</b>	<b>1,680</b>	<b>2,326</b>	<b>3,394</b>
<b>Depreciation &amp; amortisation</b>	<b>123</b>	<b>72</b>	<b>121</b>	<b>435</b>	<b>861</b>
<b>Change in working capital</b>	<b>(2,523)</b>	<b>(1,621)</b>	<b>1,124</b>	<b>1,043</b>	<b>985</b>
Other operating cashflow	(2)	17	174	346	495
<b>Operating cashflow</b>	<b>(316)</b>	<b>494</b>	<b>3,100</b>	<b>4,150</b>	<b>5,735</b>
Interest received	3	51	21	74	76
Interest paid	(0)	(24)	(13)	(87)	(143)
Tax paid	-	-	(174)	(346)	(495)
<b>Cashflow from operations</b>	<b>(314)</b>	<b>521</b>	<b>2,933</b>	<b>3,791</b>	<b>5,173</b>
Capex	(109)	(82)	(2,300)	(5,750)	(5,750)
Other investing cashflow	75	113	(425)	(44)	576
<b>Cashflow from investing activities</b>	<b>(33)</b>	<b>31</b>	<b>(2,725)</b>	<b>(5,794)</b>	<b>(5,174)</b>
Increase in debt	199	293	196	2,227	2,277
Other financing cashflow	-	(35)	(13)	(87)	(143)
<b>Cashflow from financing activities</b>	<b>199</b>	<b>258</b>	<b>183</b>	<b>2,140</b>	<b>2,134</b>
Cash at beginning of period	654	508	1,360	1,797	1,934
<b>Total cash generated</b>	<b>(148)</b>	<b>810</b>	<b>391</b>	<b>137</b>	<b>2,133</b>
Forex effects	2	42	46	-	-
<b>Implied cash at end of period</b>	<b>508</b>	<b>1,360</b>	<b>1,797</b>	<b>1,934</b>	<b>4,067</b>

Source : OSK, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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