

Fitch Upgrades Bangkok Aviation Fuel Services' Rating to 'A+(tha)'; Revises Outlook to Stable

Fitch Ratings-Bangkok/Singapore- 14 January 2011: Fitch Ratings (Thailand) Limited has today upgraded Bangkok Aviation Fuel Services Public Company Limited's (BAFS) National Long-term rating to 'A+(tha)' from 'A-(tha)', and the National Short-term rating to 'F1(tha)' from 'F2(tha)'. Simultaneously, the agency has revised the Outlook on the Long-term rating to Stable from Positive.

The upgrades reflect BAFS' strong earnings and cash flow, as well as moderate capex which led to a continued improvement in its financial leverage (measured against cash flow) to below 2.0x at end-H110. Based on its existing investment plan, BAFS' financial leverage is likely to be maintained below 2.0x, and fixed charge coverage above 10.0x.

BAFS' revenue growth turned positive in 2010, with full-year growth expected to be in the range of 8%-9%, driven by a recovery in visitors and air traffic, and with the expiration in March 2010 of the discount on storage fees. The company's operating EBITDAR margin remained stable at 60%. BAFS' financial leverage improved significantly given minimal capex (less than THB100m a year over 2009-2010). Net adjusted debt/last 12-month (LTM) operating EBITDAR fell to 1.6x at end-9M10 (end-2009: 2.3x).

In 2011, air traffic demand is expected to continue to grow along with both the domestic and global economies. In 2010, passengers from China, Korea and India were the main growth drivers for Thai air travel, and the agency expects this particular trend to continue, especially given these countries' expected stronger GDP growth (versus other key tourist areas such as the U.S. and Europe).

BAFS's ratings reflect its dominant position in the aviation fuel service market in Thailand. BAFS is the sole operator of the fuel depot and hydrant network at Suvarnabhumi Airport, the country's largest international airport, and also the major into-plane fuelling service provider at the airport, with an 88% market share. The industry's barriers to entry are also high due to the requirement for an operating concession from the airport operator.

The existing fee structure - under which BAFS's main revenue is derived from a service fee with payments made directly from the oil companies - insulates BAFS from the volatility of fuel price. Given that its major cost is the pre-agreed concession fee BAFS' profitability is stable. BAFS' performance over the long term, therefore, depends on stable or growing air traffic volumes (linked to global and local economic growth), but conversely could be affected by events that cause a prolonged shock to air traffic (for example diseases or political turmoil).

Fitch notes that political unrest in Thailand remains a concern, as well as its potential to deter travelers from visiting Thailand. However some preventative measures and contingency plans are in place, and the company was not significantly affected by events in the last 12 months.

Fitch regards 'A+(tha)' as a ceiling for BAFS' rating and therefore an upgrade is considered unlikely in the medium-term given BAFS's current size and diversity of operations. The ratings could be negatively affected by substantial debt-funded investments, or high dividend payouts, that lead to an increase in financial leverage to above 2.0x on a sustained basis.

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Note to Editors: Fitch's National ratings provide a relative measure of creditworthiness for rated entities in countries with relatively low international sovereign ratings and where there is demand for such ratings. The best risk within a country is rated 'AAA' and other credits are rated only relative to this risk. National ratings are designed for use mainly by local investors in local markets and are signified by the addition of an identifier for the country concerned, such as 'AAA(thai)' for National ratings in Thailand. Specific letter grades are not therefore internationally comparable.

Additional information is available at www.fitchratings.com.

Applicable criteria, 'Corporate Rating Methodology', dated 16 August 2010, and 'National Ratings - Methodology Update', dated December 18, 2006 are available at www.fitchratings.com.

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