

SAMART AVIATION SOLUTIONS
THAILAND / TRANSPORT & LOGISTICS

SAV TB

BUY

The Cambodian sky is no limit

- ได้รับสิทธิในการบริหารจัดการจราจรทางอากาศแต่เพียงผู้เดียวในกัมพูชา
- เราคาดว่ากำไรปกติจะสูงกว่าระดับก่อนโควิดภายในปี 2025 จากปริมาณเที่ยวบินที่สูงขึ้น อัตราค่าไว้ที่เพิ่มขึ้นและดอกเบี้ยจ่ายที่ลดลง
- เริ่มบทวิเคราะห์ด้วยคำแนะนำซื้อที่ราคาเป้าหมายปี 2024 ที่ 26 บาท (DCF) จากศักยภาพในด้านการเติบโตและผลตอบแทนในรูปเงินปันผลที่น่าสนใจ

TARGET PRICE	THB26.00
IPO PRICE	THB19.00
UP/DOWNSIDE	+36.8%
TP vs CONSENSUS	+36.8%

KEY STOCK DATA

YE Dec (THB m)	2022	2023E	2024E	2025E
Service revenue	1,218	1,638	2,101	2,496
Net profit	200	300	545	696
EPS (THB)	0.35	0.47	0.85	1.09
vs Consensus (%)	-	-	-	-
EBITDA	362	610	831	1,024
Recurring net profit	188	300	545	696
Core EPS (THB)	0.33	0.47	0.85	1.09
EPS growth (%)	nm	43.3	81.6	27.7

ประโยชน์จากการเติบโตของการท่องเที่ยวในกัมพูชา เวียดนามและไทย

SAV ถือหุ้น 100% ใน Cambodia Air Traffic Services (CATS) ซึ่งเป็นผู้ให้บริการวิทยุการบิน (ANSP) แต่เพียงผู้เดียวในน่านฟ้าของกัมพูชา (Phnom Penh FIR) พร้อมสัญญาสัมปทานในการดำเนินงานตั้งแต่ปี 2002 ถึงปี 2051 CATS คิดค่าธรรมเนียมในการให้บริการจากผู้ประกอบการธุรกิจสายการบินสำหรับเที่ยวบินที่บินขึ้นและลงในสนามบิน 6 แห่งในกัมพูชาและเที่ยวบินที่บินผ่านน่านฟ้าของ Phnom Penh FIR โดยเฉพาะอย่างยิ่งเที่ยวบินจากเวียดนาม ไทยและฟิลิปปินส์

คาดการณ์กำไรปกติจะโต 59% และ 82% ในปี 2023-24

SAV อยู่ในอุตสาหกรรมที่มีการเติบโตอย่างรวดเร็วโดยมีปริมาณเที่ยวบินเพิ่มขึ้นในอัตรา 11% CAGR ในช่วงปี 2009-2019 และมีกำไรปกติแตะ 499 ลบ. ในปี 2019 ก่อนได้รับผลกระทบจากโควิด ในช่วงการฟื้นตัวในปัจจุบันเราคาดว่าปริมาณเที่ยวบินจะฟื้นตัวเป็น 74-97% ของระดับก่อนโควิดในปี 2023-2024 และสูงกว่าระดับก่อนโควิดภายในปี 2025 เราคาดว่ากำไรปกติจะโตจาก 188 ลบ. ในปี 2022 เป็น 300 ลบ. ในปี 2023 และสูงกว่าระดับก่อนโควิดในปี 2024 ที่ 545 ลบ. โดยมีสมมติฐานจาก 1) การฟื้นตัวในเกณฑ์ดีของตัวนักท่องเที่ยวขาเข้าสำหรับทั้งกัมพูชา (79% ของระดับก่อนโควิดในช่วง 7M23) และเวียดนาม (89% ของระดับก่อนโควิดในช่วง 8M23); 2) อัตราค่าไว้ที่ปรับตัวดีขึ้นเนื่องจากมากกว่าครึ่งของค่าใช้จ่ายเป็นต้นทุนคงที่; และ 3) ดอกเบี้ยจ่ายที่ลดลงเนื่องจาก SAV วางแผนใช้เงินที่ได้จากการทำ IPO เพื่อจ่ายคืนหนี้ นอกจากนี้เรายังเห็นว่ากำไรอาจมี Upside จากการขึ้นค่าธรรมเนียมหลังไม่ได้อัปเดตตั้งแต่ปี 2011

หุ้นมีศักยภาพทั้งในด้านการเติบโตและเงินปันผล

การเติบโตน่าจะมาจากแนวโน้มการท่องเที่ยวที่สดใสของกัมพูชาและเวียดนาม นอกจากนี้รัฐบาลกัมพูชายังได้พัฒนาสนามบินใหม่อีก 3 แห่ง (Siem Reap, Dara Sakor, และ Phnom Penh) โดยมีกำหนดเปิดในปี 2023-25 ซึ่ง CATS จะได้รับสิทธิสัมปทานโดยอัตโนมัติ นอกจากนี้ SAV น่าจะกลายเป็นบริษัทที่มีเงินสดสุทธิพร้อม EBITDA ที่ 0.8-1.0 พัน ลบ. ในปี 2024-2025 จากกระแสรายได้ที่ดีและความต้องการเงินลงทุนที่อยู่ในระดับต่ำ SAV มีนโยบายจ่ายเงินปันผลในอัตรา 50% จากแบบจำลองของเรา SAV อาจจ่ายเงินปันผลได้สูงถึง 70-80%

ราคา IPO ถูกเมื่อเทียบกับกลุ่มฯ

เราประเมิน SAV โดยใช้วิธี DCF และได้ราคาเป้าหมายปี 2024 ที่ 26 บาท เราเชื่อว่าราคา IPO ที่ 19 บาทเป็นราคาที่ถูกเนื่องจากคิดเป็น 22x ของค่า 2024E P/E (เทียบกับค่าเฉลี่ยของกลุ่มสนามบินที่ 20x) และผลตอบแทนในรูปเงินปันผลที่ 3-4% ภายในปี 2025 ซึ่งคิดจากอัตราจ่ายเงินปันผลที่ 60-70%



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บทวิเคราะห์ฉบับนี้แปลมาจากต้นฉบับภาษาอังกฤษ ที่ออกรายงานเมื่อวันที่ 25 กันยายน 2023

Investment thesis

SAV's earnings are in recovery mode. We expect flight volume to surpass the pre-Covid level by 2024 driven mainly by pent up demand from Chinese tourists which accounted for 36% of tourist arrivals in Cambodia and and 32% in Vietnam in 2019.

More than half of its expenses are fixed costs. Thus, additional net revenue after revenue sharing to SSCA (a Cambodian government entity) from larger flight volumes should flow to its bottom line, resulting in a better margin.

Given the low-capex nature of its business, we expect strong free cashflow that should translate into higher dividends going forward.

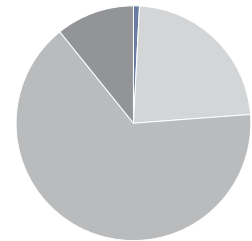
Company profile

SAV holds a 100% stake in Cambodian Air Traffic Services Co Ltd (CATS). CATS owns the exclusive rights to operate air traffic control services at all airports in Cambodia pursuant to the concession agreement granted by the Royal Government of Cambodia. The concession started in 2002 and ends in 2051.

www.samartaviation.com

Principal activities (revenue, 2022)

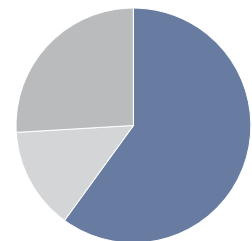
- Landing and Take-off - Domestic - 0.8 %
- Landing and Take-off - International - 23.0 %
- Overflight - 65.3 %
- Concession income - 10.8 %



Source: Samart Aviation Solutions

Major shareholders

- Samart U-trans Co., Ltd. - 60.0 %
- Samart Inter-holding Ltd. - 14.1 %
- IPO - 25.9 %
- Others - 0.0 %



Source: Samart Aviation Solutions

Catalysts

Key potential growth drivers include 1) a faster recovery in flight volume in line with the global tourism recovery; 2) strong pent-up demand from Chinese tourists; and 3) new airports which should attract more flights.

Risks to our call

Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) a slower-than-expected recovery in international tourist numbers; and 3) delays in Cambodia's new airport projects..

Event calendar

Date	Event
Nov 2023	3Q23 results announcement

Key assumptions

	2023E	2024E	2025E
Domestic flight volume growth	22.5	60.0	37.5
International flight volume growth	102.5	57.9	27.8
Overflight volume growth	33.3	16.7	9.5
Total flight growth	45.3	30.7	17.9
THB/USD	35.00	34.00	34.00

Source: FSSIA estimates

Earnings sensitivity

- For every 1% increase in flight volume, we project a 2024 profit increase of 2%, and vice versa, all else being equal.
- For every 1% increase in tariff we project a 2024 profit increase of 2%, and vice versa, all else being equal.

Source: FSSIA estimates

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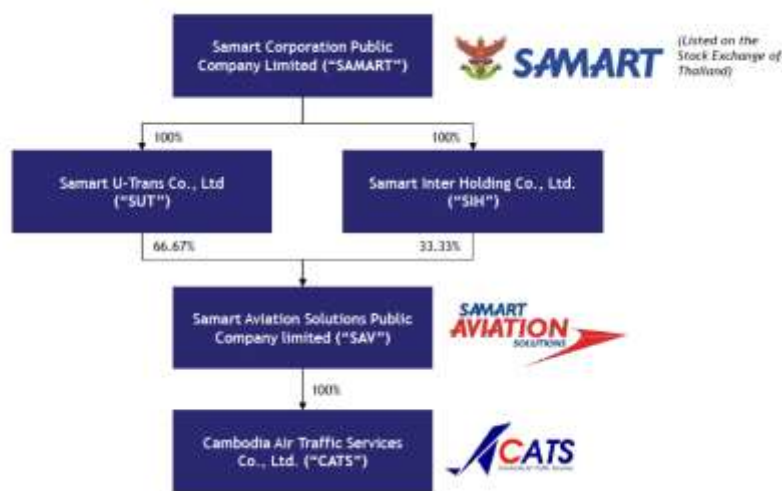
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Company background

SAV is an investment holding company, established in August 2017 by SMART Corporation (SMART TB, not rated), that owns 100% of Cambodia Air Traffic Services (CATS, Not listed). CATS was established in April 2001 by SMART and was granted a concession for 49 years (Oct 2002 to Oct 2051) from the Royal Government of Cambodia to develop and operate the air traffic control and navigation systems in Cambodia in the Phnom Penh Flight Information Region (Phnom Penh FIR), which covers all of Cambodia’s airspace, under the Build, Corporate and Transfer (BCT) terms and conditions.

In the IPO structure, up to 166m shares in SAV (26% of the total 640m shares post IPO) will be offered at THB0.5/shr, comprising 64m new common shares (10% of total shares after the IPO) and 102m secondary common shares (16% of total shares after the IPO) under Smart Inter Holding (SIH). SMART will remain SAV’s major shareholder with not less than a 74% stake after the IPO.

Exhibit 1: SAV group’s structure before IPO

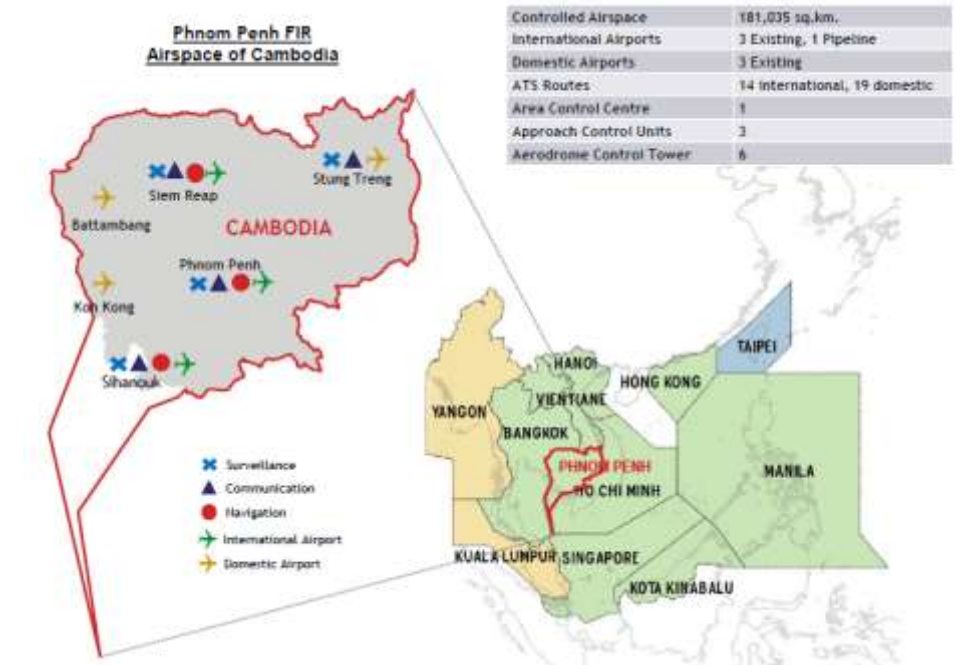


Source: SAV

Business overview

CATS is the sole ANSP in the entire air space of Cambodia (Phnom Penh FIR), which currently includes 14 international Air Traffic Service Route (ATS) routes, 19 domestic ATS routes, three international airports (Phnom Penh, Siem Reap, and Sihanouk), and three domestic airports (Battambang, Koh Kong, and Strung Treng).

Exhibit 2: Phnom Penh FIR airspace of Cambodia



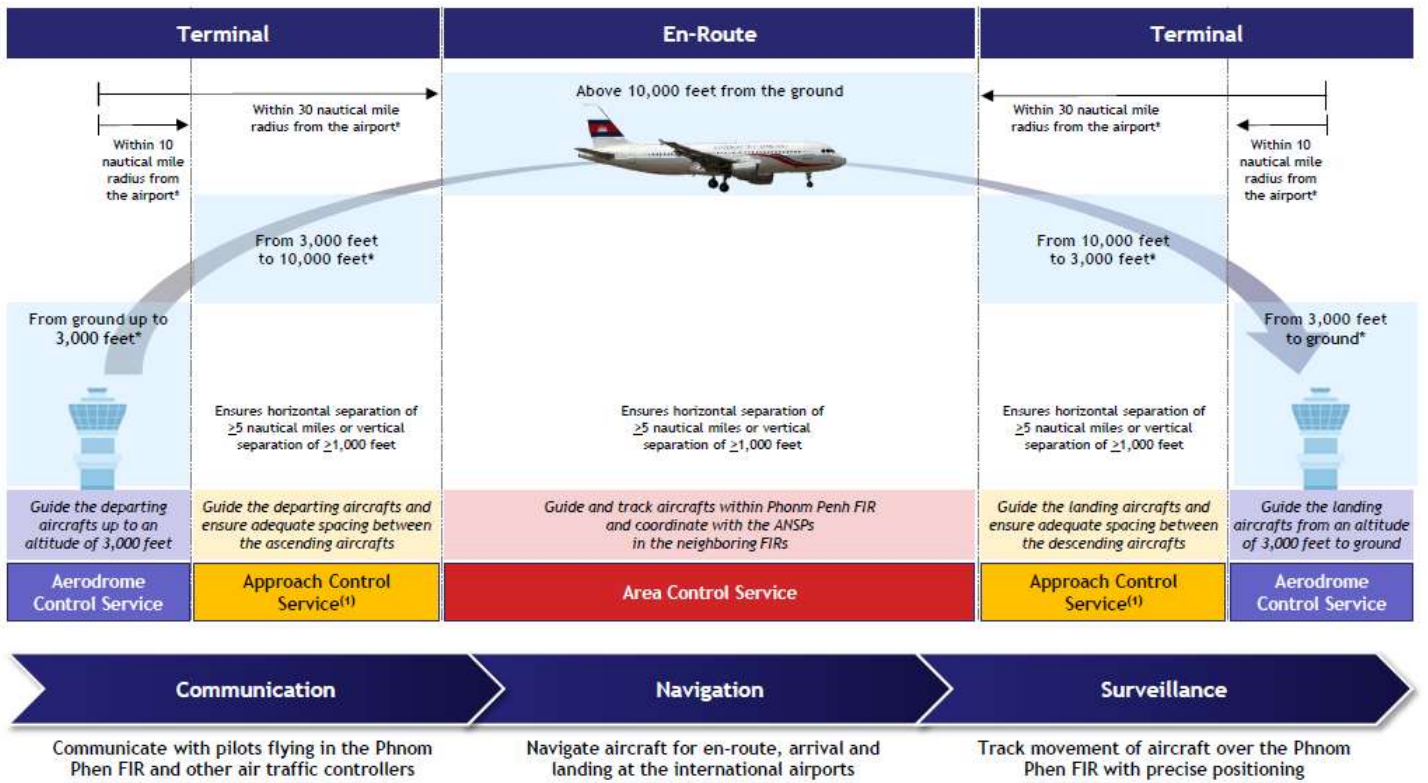
Source: SAV

CATS' services include:

1) Air Traffic Management

- Air Traffic Control Service: Air traffic controllers help pilots keep aircraft safely separated from other aircraft or obstacles while in flight or on the ground, ensuring safe, orderly, and efficient traffic flow. Air traffic controllers offer services such as:
 - Aerodrome Control Service: controllers guide pilots to ensure an orderly flow of landing and take-off flights and give permission to start-up engines and taxi on the runway.
 - Approach Control Service: Approach controllers handle the progress of arriving and departing aircraft within 30 nautical miles via a surveillance system.
 - Area Control Service: controllers coordinate the safe, efficient, and orderly flow of air traffic across Phnom Penh FIR. Controllers track flights within their control, give pilots en-route instructions, and coordinate with adjacent Air Traffic Service units.
- Airspace Management: Airspace management has been established for the management of airspace with the aims of boosting the efficiency of airspace utilisation and increasing flight handling capacity while at the same time enhancing safety.

Exhibit 3: Air Traffic Management

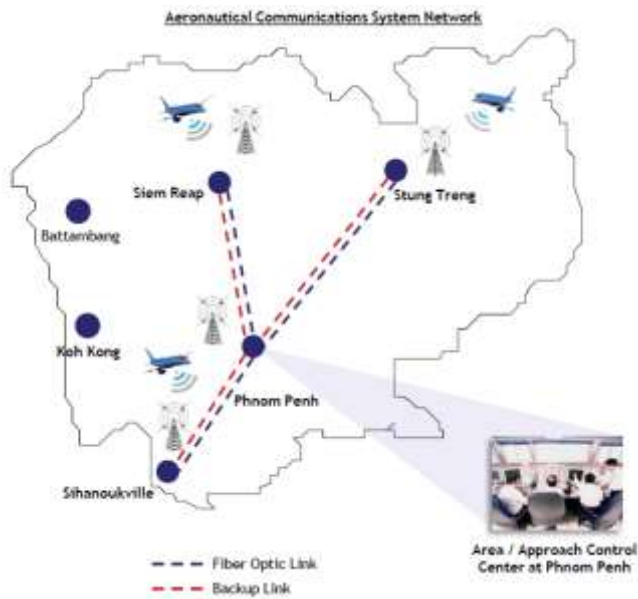


Note: 1) Only at the three international airports in Cambodia
 Source: SAV

2) Aeronautical Communications, Navigation and Surveillance System/Services

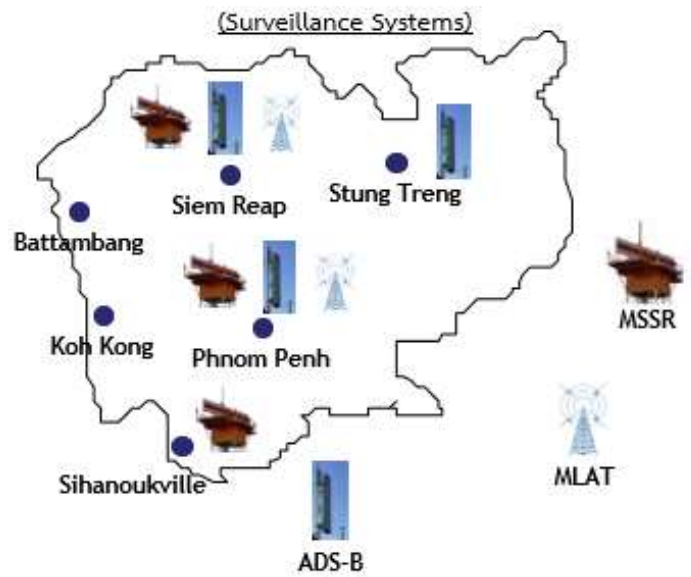
Communications, Navigation and Surveillance (CNS) are essential technological systems for air traffic controllers on the ground and pilots in the air. They facilitate the process of establishing where the aircraft is as well as when and how it plans to arrive at its destination. To advance its air navigation service performance, CATS has modernised its CNS systems in accordance with Cambodian air navigation regulations and the international standards of the International Civil Aviation Organization (ICAO). The CNS system includes an Aeronautical Communications System, Navigation Aids, an Aeronautical Surveillance System, Air Traffic Control Automation, and ATS Interfacility Data Communication.

Exhibit 4: Aeronautical Communications System



Source: SAV

Exhibit 5: Aeronautical Surveillance System



Source: SAV

3) Aeronautical Information Services

CATS provides airline operators with essential aeronautical information necessary for the safety, regularity, and efficiency of international air navigation.

4) Flight Procedure Design

CATS is in charge of the design and maintenance of instrument flight procedures, both conventional and Performance Based Navigation. CATS ensures that the published procedures are maintained within standard obstacle clearances and that they meet with the users' requirements. The impact to the environment, such as CO₂ emissions and noise abatement, are also taken into consideration.

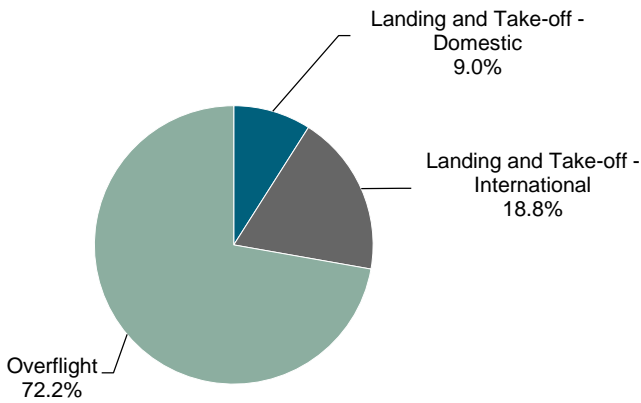
Revenue and tariff structure

1) Revenue structure

Revenue consists of service income from three main categories: domestic and international aircraft landing and take-off, and overflights.

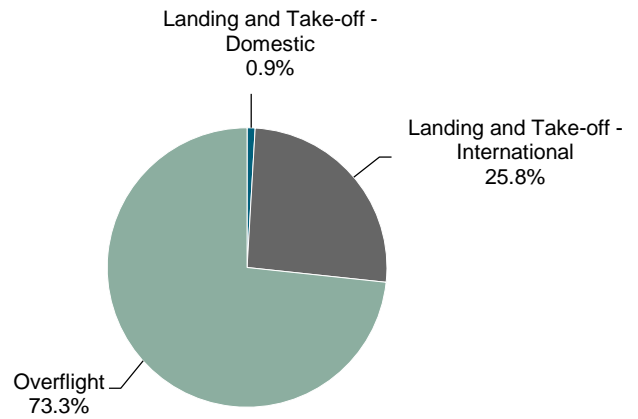
- CATS charges a service fee to airline operators that land and take off for domestic flights. Revenue contribution from this category was 1% in 2022.
- CATS charges a service fee to airline operators that land and take off for international flights. Revenue contribution from this category was 26% in 2022. The top three revenue contributors were flights that departed from Thailand (38%), Vietnam (15%) and Singapore (14%).
- CATS charges a service fee to airline operators that fly through Phnom Penh FIR from one airport outside Cambodia to another airport outside Cambodia. The revenue contribution from this category was 73% in 2022. The top three revenue contributors were flights that departed from Vietnam (44%), the Philippines (17%), and Thailand (15%) in 2022.

Exhibit 6: Flight volume breakdown in 2022



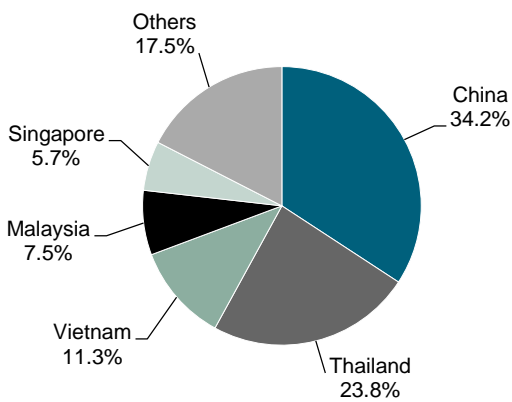
Sources: SAV; FSSIA's compilation

Exhibit 7: Revenue breakdown in 2022



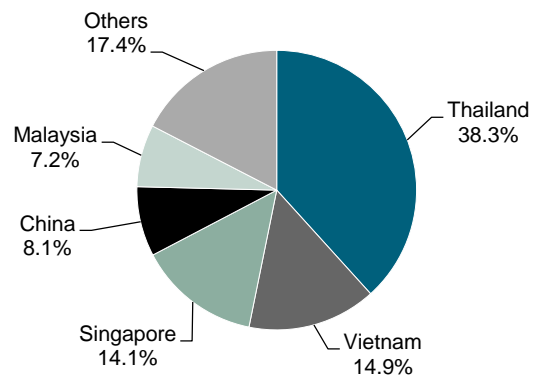
Sources: SAV; FSSIA's compilation

Exhibit 8: Cambodia's landing & take-off flight breakdown by departure country in 2019



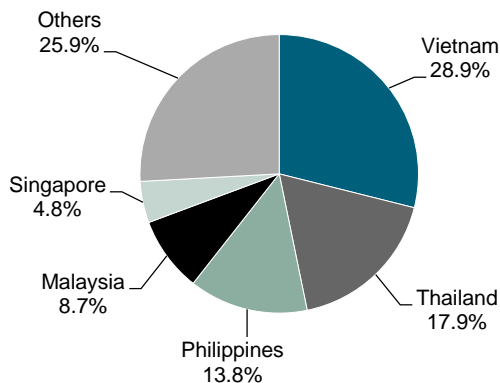
Sources: SAV; FSSIA's compilation

Exhibit 9: Cambodia's landing & take-off flight breakdown by departure country in 2022



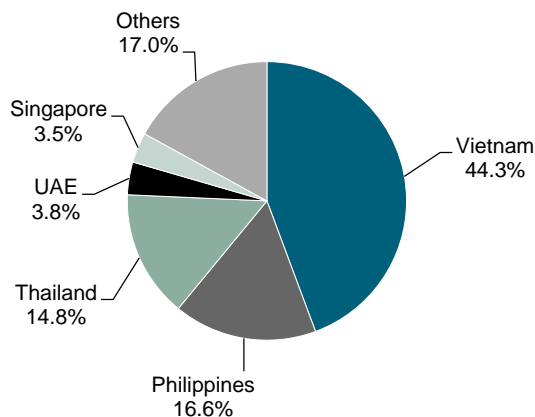
Sources: SAV; FSSIA's compilation

Exhibit 10: Cambodia's overflights by departure country in 2019



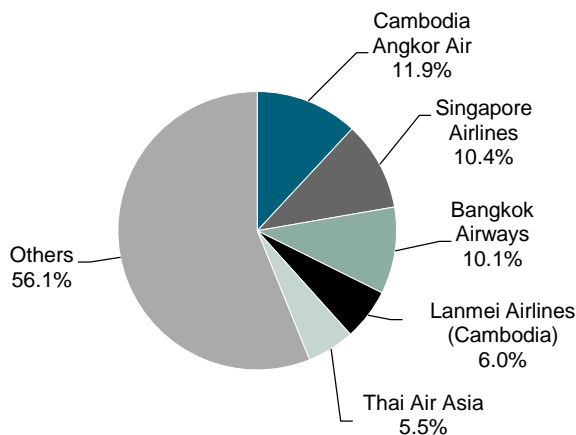
Sources: SAV; FSSIA's compilation

Exhibit 11: Cambodia's overflights by departure country in 2022



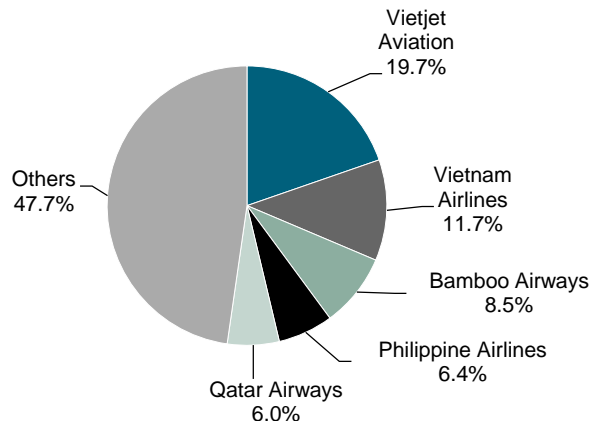
Sources: SAV; FSSIA's compilation

Exhibit 12: International landing & take-off revenue by airline in 2022



Sources: SAV; FSSIA's compilation

Exhibit 13: Overflight revenue by airline in 2022



Sources: SAV; FSSIA's compilation

2) Tariff structure

Tariff rates are defined by the State Secretariat of Civil Aviation (SSCA). The SSCA is a Cambodian government body that manages and oversees the operation of CATS.

Exhibit 14: Tariff structure

MTOW ¹⁾ (tons)	Example type of Aircraft	Landing & Take-off ²⁾ (USD per charge)	Overflight (USD per charge)
> 300	B747	850	515
201 – 300	A333	812	486
101 – 200	B767	773	454
51 – 100	B737	734	412
26 – 50	GLF4	580	324
11 – 25	ATR42	386	216
4 – 10	BE30	193	108
≤ 3	B505	116	66

Note: 1) MTOW: Maximum take-off weight; 2) Aircraft is charged once per landing and take-off
Sources: SAV; FSSIA's compilation

There are additional surcharges of 10% for flights on Saturday, Sunday, and holidays, and 25% for flights outside airport business hours.

Certain flights are exempted from service charges including military flights, VIP aircraft, flights used by the International Red Cross agencies, and flights which are forced to return to the departure aerodrome.

The SSCA gives a service fee discount to local airline operators for domestic flights of 70% of the standard rate for Siem Reap Airport and 50% for other airports except Phnom Penh and Siem Reap airports to support domestic travel.

The SSCA adjusts tariff rates based on the tariff rates of other regional countries and the situation in Cambodia. Note that the SSCA has increased the tariff rate in 2008 and in 2011 since CATS was granted the concession contract.

Exhibit 15: Actual charges – landing & take-off

Actual charges – Landing & Take-off		
	Domestic	International
Phnom Penh	100%	100%
Siem Reap	70% ¹⁾	100%
Other Airports	50% ¹⁾	n/a

Note: 1) only applies to local airlines and domestic flights only
Sources: SAV; FSSIA's compilation

Exhibit 16: Additional surcharge

Surcharges		
	Holiday	Overtime ¹⁾
Landing & Take-off	10%	25%
Overflight	10%	(USD per charge)

Note: 1) outside airport business hours
Sources: SAV; FSSIA's compilation

3) Revenue sharing with the SSCA

Under the concession agreement, CATS shares revenue with the SSCA:

- Landing & take-off: SSCA collects a revenue share of 50% of CATS' collectable service income.
- Overflight: SSCA collected 30% of revenue during 2002-2017. After CATS obtained a concession extension for seven more years in 2017, SSCA adjusted the revenue sharing scheme. SSCA now collects a revenue share of 30% of CATS' base revenue (USD27.5m of CATS' 2017 revenue) and collects 40% of any incremental increase in revenue in excess of CATS' base revenue.

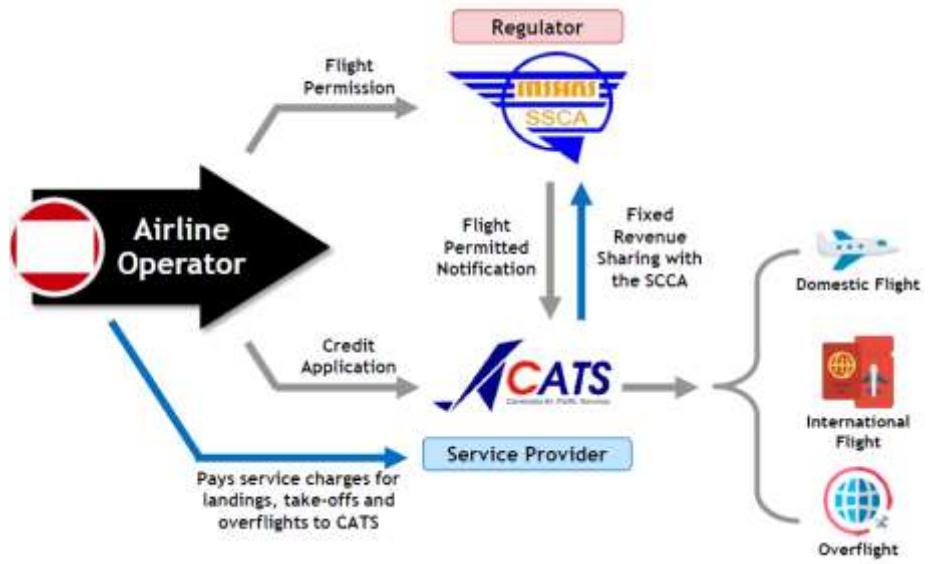
Note that CATS' revenue sharing with the SSCA covers the amount that CATS can collect from airlines.

Exhibit 17: Highly visible revenue stream



Source: SAV

Exhibit 18: Operational process flow



Source: SAV

4) Potential for extension of concession contract

In 2001, CATS was granted a 15-year concession (2002-2017) from the SSCA. Since then, CATS has obtained an extension four times: seven more years in 2001, 10 more years in 2007, seven more years in 2017 and 10 more years in 2022. Thus, the current contract will expire in Oct 2051. For each extension, CATS was required to invest in new equipment under the contract terms and conditions.

We value SAV based on the assumption that its concession contract ends in 2051. We see potential for negotiating further contract extensions given that the Cambodian government has planned new airport projects including a new Phnom Penh Airport by 2025. Once the projects are completed, we think CATS will be able to negotiate an extension of its contract by investing in equipment for air traffic control at the new airports.

Key growth drivers

1) Strong tourism outlook in Cambodia and Vietnam

Cambodia is famous for “heritage tourism” to key tourist destinations such as Angkor Wat and Angkor Thom. The government is also pushing for the development of tourism zones. Potential sites include Siem Reap province, Tonle Sap Lake, Chhay Areng Valley, Chi Phat commune, coastal areas, and the Northeast region.

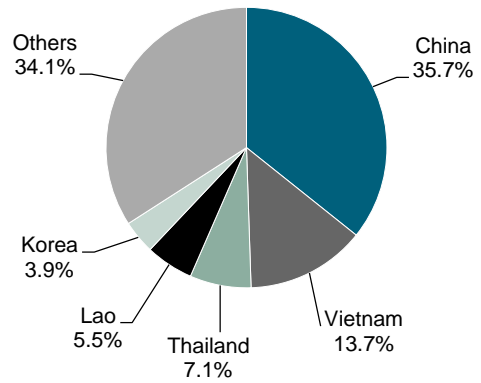
Before the Covid pandemic, Cambodia enjoyed strong tourism growth momentum. International tourist arrivals grew at a 12% CAGR to 6.6m during 2009-2019 driven by Chinese tourists which accounted for 36% of total tourist arrivals in 2019. Post Covid, tourist arrivals recovered by 35% in 2022 and have reached 3.0m in 7M23 or 79% of pre-Covid. According to Cambodia’s Ministry of Tourism, tourist arrivals are expected to reach 4.5m in 2023, equivalent to 68% of the pre-Covid level.

Exhibit 19: Cambodia’s international tourist arrivals



Source: Cambodia’s Ministry of Tourism

Exhibit 20: Cambodia’s international tourism by country as of 2019



Source: Cambodia’s Ministry of Tourism

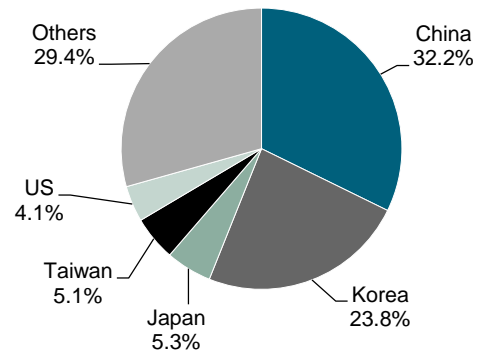
SAV also indirectly benefits from growth in Vietnam’s tourism industry as overflight movements increase. Before the Covid pandemic, Vietnam’s international tourist arrivals grew at a 13% CAGR to 18m over 2009-2019 driven by Chinese tourists who accounted for 32% of total tourist arrivals in 2019. Post Covid, tourist arrivals recovered to 20% of pre-Covid in 2022 and ramped up to 7.8m in 8M23 or 89% of-pre-Covid and should exceed the government’s target of 8m in 2023.

Exhibit 21: Vietnam’s international tourist arrivals



Sources: Vietnam National Administration of Tourism, Ministry of Culture, Sports & Tourism

Exhibit 22: Vietnam’s international tourism by country as of 2019



Sources: Vietnam National Administration of Tourism, Ministry of Culture, Sports & Tourism

2) Three new airports in Cambodia

Currently, Cambodia has six airports: three international (Phnom Penh, Siem Reap, and Sihanouk) and three domestic (Battambang, Koh Kong and Stung Treng).

CATS' concession rights cover all future expansions of existing airports and new airports in Cambodia.

Cambodia's government has developed three new airports:

- The new Siem Reap Airport is expected to begin operating by 4Q23 with an initial capacity of 7m passengers per annum and potentially expand to 20m passengers by 2050.
- Dara Sakor International Airport in the Botum Sakor district of Koh Kong province will be capable of handling 10m passengers per annum. It will be Cambodia's 4th international airport and is expected to begin operating by the end of 2023.
- The new Phnom Penh Airport (Techo International Airport) is in Kandal province, approximately 25km from Phnom Penh. It will be one of the largest airports in terms of land area at 2,600 hectares. It is scheduled to open by 2025 with a first-phase capacity of 10m passengers per annum and potentially expand to 30m passengers by 2050.

Exhibit 23: New Cambodian airports summary

	Siem Reap	Dara Sakor	Phnom Penh Airport
Developer	Angkor International Airport Investment (AIAI)	Union Development Group (UDG)	Cambodia Airport Investment Company (CAIC)
Project value	USD880m	USD200m	USD1,500m
Airport size	4E (2023) and 4F (2550)	4E (2023) and 4F in the future	4F
Opening date	4Q23	2023	2025
Construction progress as end of 2Q23	98%	95%	49.90%

Note: 4E is an upper airport class indicating that the airport can serve large aircraft such as the B747 and A340. 4F is the highest airport class indicating that the airport can serve the largest aircraft such as the A380.

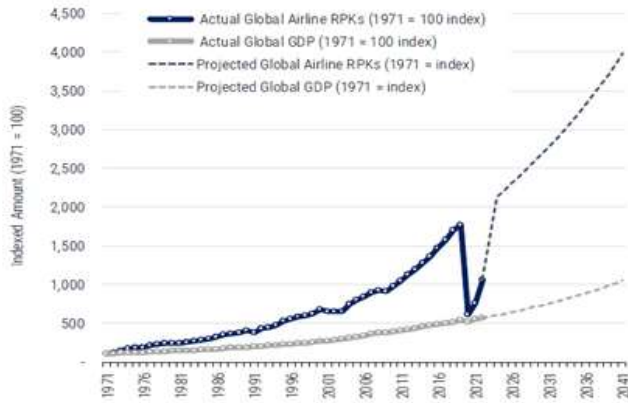
Sources: SAV; FSSIA's compilation

3) Robust GDP growth to drive flight volume

According to the Strategic Airport Planning Group (SAP), a strategy consultant for airports and airlines, GDP growth is highly correlated to the tourism industry. Countries with a high GDP per capita tend to have higher flight movements and passenger volumes. Based on historical data, global GDP grew 2.9% p.a. over 1971-2019, while global Revenue Passenger Kilometres (RPKs) grew by 6.1% p.a., approximately twice GDP growth.

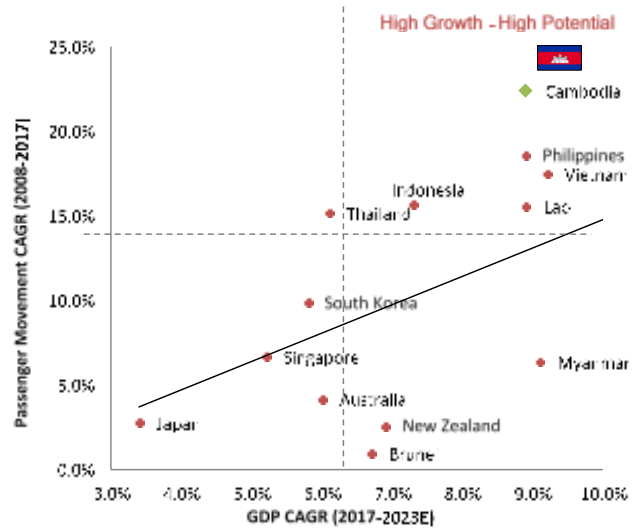
The Boeing Company forecasts global GDP to grow by 3.8% p.a. over 1999-2041. Meanwhile, global RPKs are expected to grow by 6.5% p.a. for Southeast Asia.

Exhibit 24: Forecast of GDP and RPKs



Sources: Airline Monitor, IATA, Boeing Current Market Outlook 2022, World Bank and World Development indicators, October 2022

Exhibit 25: GDP and passenger volume growth in the region



Source: The Strategic Airport Planning Group (SAP)

Over 2002-2022, Cambodia registered average annual GDP growth of 9.9% p.a., ranked sixth in Asia Pacific.

SAP found that domestic landing and take-off flight volume has a high correlation with GDP, while international landing and take-off flight volume and overflight volume has a high correlation with the GDP of emerging countries in Asia. Thus, SAP concluded that high GDP growth and strong international tourist arrivals in Cambodia should drive an increase in both international and domestic flight volumes. Meanwhile, the high GDP growth of Vietnam and the Philippines, which ranked first and third for overflight volume, should be a key driver for overflight volume.

Financial analysis

Revenue to surpass pre-Covid by 2024

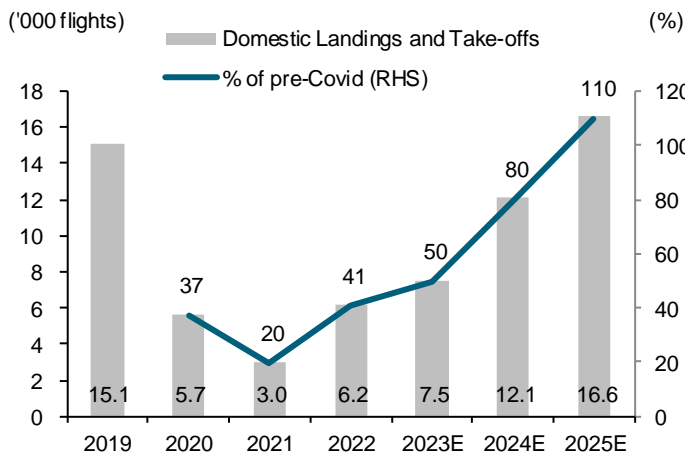
Overflight volume should recover faster than landing and take-off volume thanks to the strong recovery of Vietnam tourism. Thus, we estimate it to recover to 90% of pre-Covid in 2023 and exceed pre-Covid in 2024.

We estimate that international landing and take-off volumes should recover to 57% of pre-Covid in 2023 and significantly jump to 90% of pre-Covid in 2024 led by a recovery in Chinese tourist arrivals as overseas travel resumes next year at a volume exceeding the pre-Covid level in 2025.

However, we think domestic landing and take-off volumes are likely to recover more slowly as locals have other travelling options. Thus, we expect domestic flights to recover to only 50-80% of pre-Covid in 2023-24.

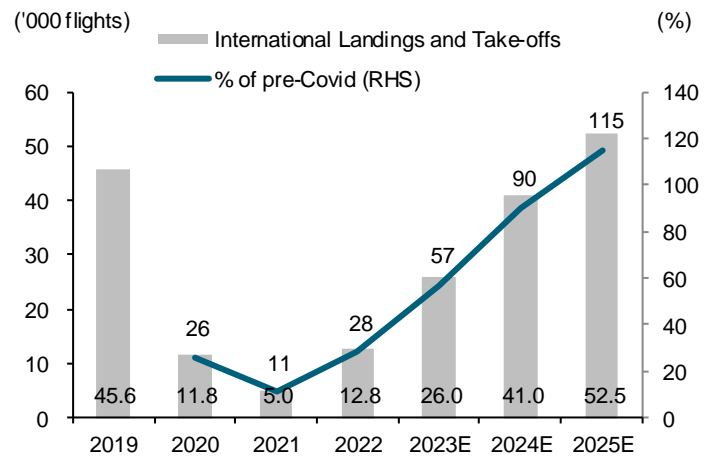
Overall, we forecast SAV's revenue (excluding concession revenue, which is a non-recurring item) to jump from THB1.1b in 2022 to THB1.6b in 2023 and THB2.1b in 2024, exceeding the pre-Covid level and driven mainly by overflight volumes.

Exhibit 26: Domestic landing and take-off volumes



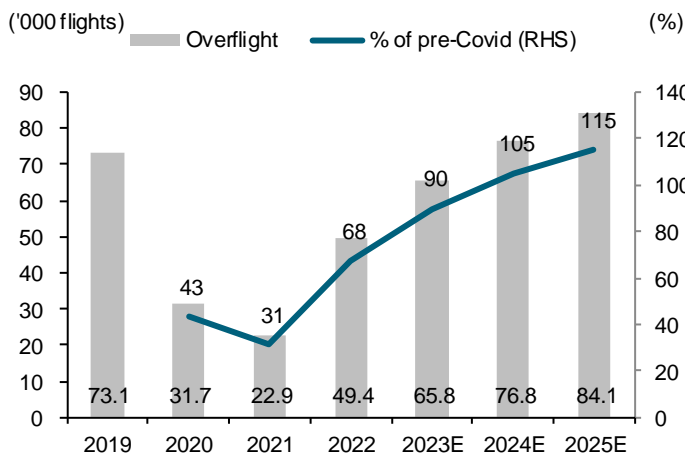
Sources: SAV; FSSIA estimates

Exhibit 27: International landing and take-off volumes



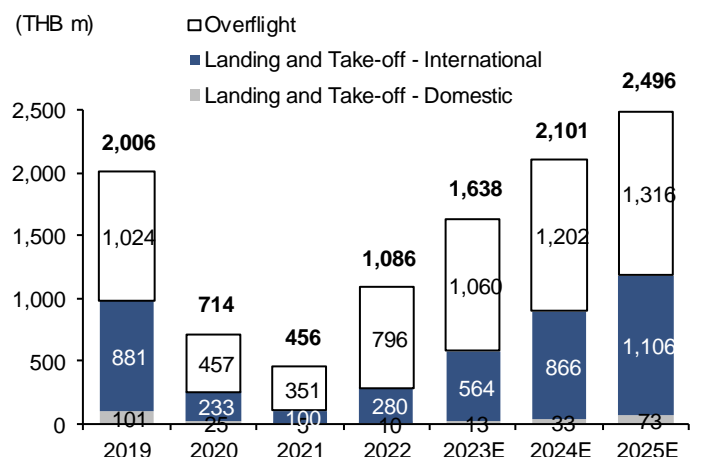
Sources: SAV; FSSIA estimates

Exhibit 28: Overflight volume



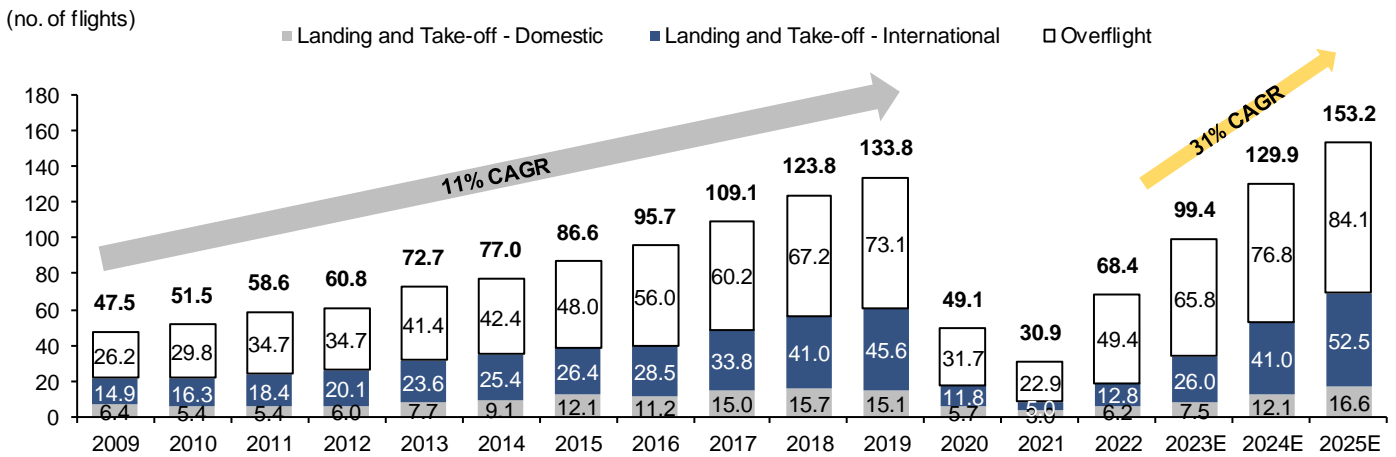
Sources: SAV; FSSIA estimates

Exhibit 29: Revenue forecast



Note: Excludes concession revenue
Sources: SAV; FSSIA estimates

Exhibit 30: Total flight volume trend



Note: excludes construction revenue
Sources: SAV; FSSIA estimates

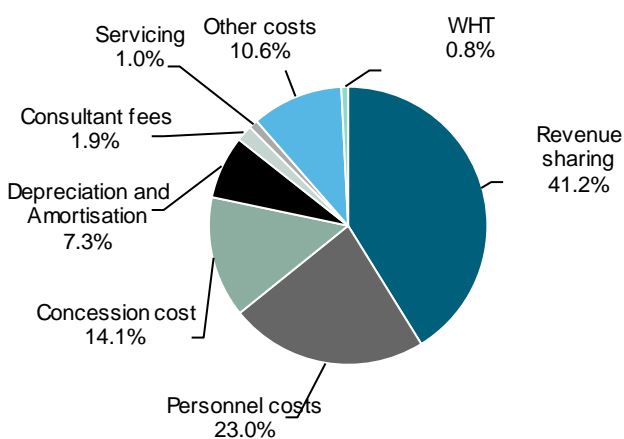
Improving EBITDA margin and lower interest expenses to drive earnings

Approximately 40% of SAV’s expenses are revenue sharing with the SSCA and these are variable costs. Meanwhile, most of the remaining expenses are fixed costs including personnel costs and amortisation. Thus, around half of additional revenue should flow through the bottom line. Therefore, we expect the EBIT margin to increase from 24% in 2022 to 38% in 2025 (vs 37% pre-Covid level).

In addition, we expect interest expenses to fall by cTHB60-70m in 2024 given that SAV plans to use IPO proceeds to repay its interest-bearing debt of THB1.0b as of 2Q23.

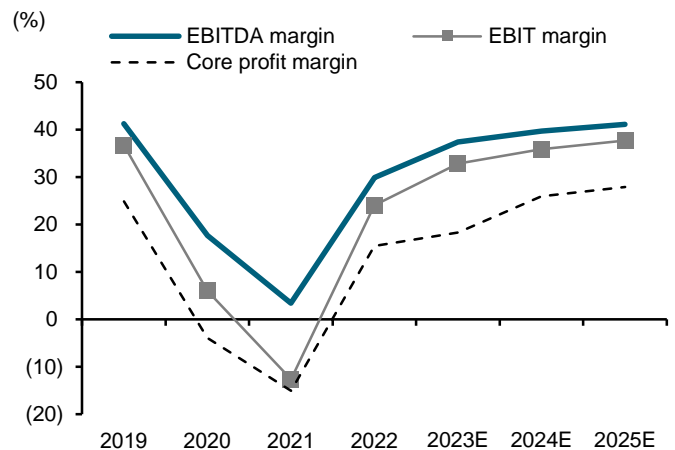
As a result, we forecast core profit to rise from THB188m in 2022 to THB300m in 2023 from the recovery in flight volume and jump to THB545m in 2024, exceeding its pre-Covid core profit of THB499m, driven by strong revenue growth, an improving EBIT margin, and lower interest expenses.

Exhibit 31: Operating expenses breakdown in 2022



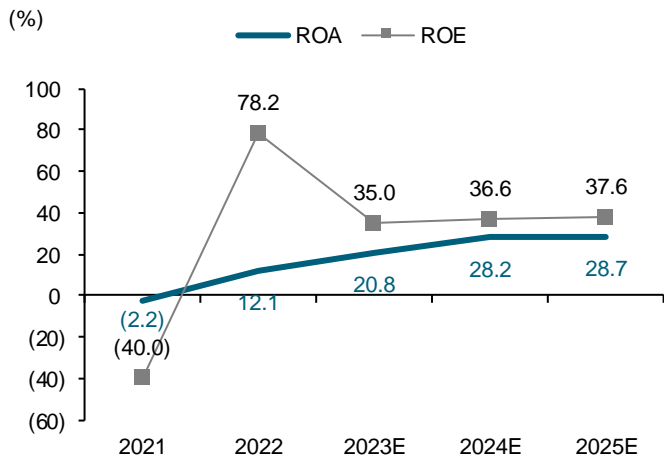
Note: WHT is withholding tax expense, resulting from dividends paid to SAV by CATS which are taxed at a rate of 10%.
Sources: SAV; FSSIA’s compilation

Exhibit 32: Margin recovery trends



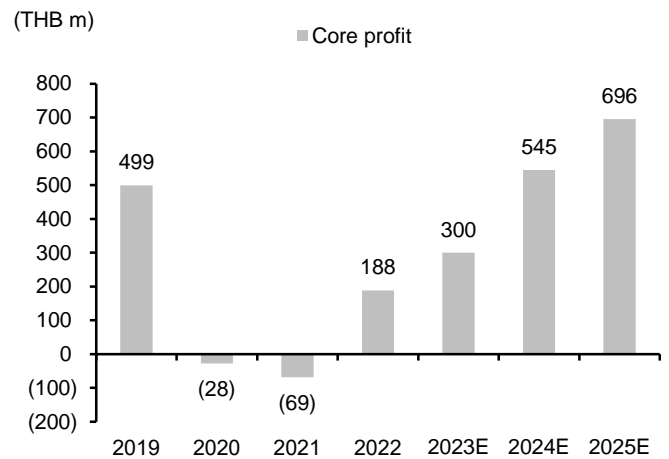
Sources: SAV; FSSIA estimates

Exhibit 33: ROA and ROE



Sources: SAV; FSSIA estimates

Exhibit 34: Core profit forecast



Note: excludes FX gain/loss and impairment gain/loss
Sources: SAV; FSSIA estimates

Net cash company with a healthy balance sheet could offer a dividend upside

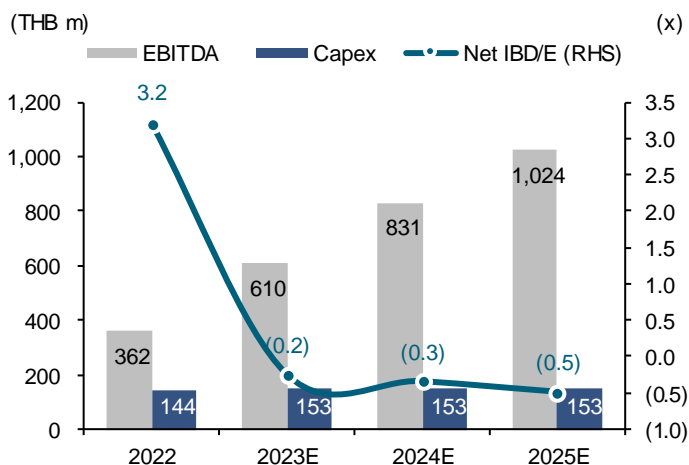
SAV had THB1.0b in long-term loans outstanding as of 2Q23. SAV should become a net cash company as it plans to use part of the IPO proceeds to repay all long-term loans. This should reduce its interest expense by THB60-70m per year.

In addition, CATS has low maintenance capex of roughly USD1-2m per year. Meanwhile, capex that CATS requires for upgrading and investing in new equipment for the two new airports, Siem Reap and Dara Sakor, is cUSD10m, of which CATS has already spent USD8-9m and the remaining USD1-2m will be spent in 2023-25.

We forecast strong EBITDA of THB0.6-1.0b in 2023-25. Given its strong revenue stream and low capex requirements, we believe that if SAV has no plans to invest in other businesses, the free cash flow should translate into higher dividends.

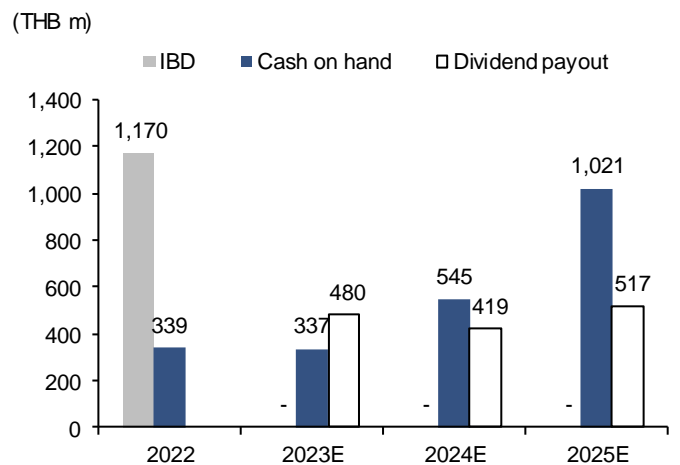
SAV has a dividend payout policy of 50%. Based on our model, SAV could pay out up to 70-80%. Note that in our projection, we assume a dividend payout ratio of 60% from 2024 until the end of the concession in 2051.

Exhibit 35: Net IBD/E, EBITDA and capex



Sources: SAV; FSSIA estimates

Exhibit 36: Strong free cashflow offers scope for higher dividends



Note: SAV plans to pay an extra dividend of THB0.75/shr in 2023 after IPO
Sources: SAV; FSSIA estimates

Valuation and TP

Before the Covid pandemic, flight volumes steadily increased at an 11% CAGR over 2009-2019. Post Covid, SAP estimates that flight volumes should continue to recover and grow at an 8% CAGR over 2019-2025 for the base line case. Our assumption of a 5% CAGR over 2019-2025 is more conservative than SAP's.

For long-term growth, SAP forecasts flight volume growth over 2019-2052 of 6.5% CAGR under its baseline scenario and a 7.3% CAGR for its aggressive scenario. We assume a 5.2% CAGR over 2019-2052, suggesting an upside to our valuation.

Our DCF-derived valuation for SAV covers the years 2024-2051 with 2024E as the base year with an 8.7% discount rate. We assume a 3% risk-free rate, 8% market risk premium and 0.7 beta to derive our discount rate, based on a 100% equity weighting. Note that our beta assumption is conservative given that it is higher compared to the 0.63 beta of ENAV S.p.A. (ENAV IM). ENAV, an ANSP in Italy, is currently the only listed ANSP in the world. We derive a DCF-based TP of THB26/shr.

The IPO price is THB19/shr, which implies 22x 2024E P/E (vs ENAV's 16x and airport sector peers' average of 20x). We believe SAV deserves to trade at a premium due to our projection for superior core profit growth at a 55% CAGR over 2023-2025 (vs a 9% CAGR for ENAV).

Exhibit 37: Comparison of our flight volume forecast with SAP's

Flight volume CAGR	2009-2019 (%)	2019-2025 (%)	2019-2052 (%)
Actual	11.0	-	-
FSSIA forecast	-	4.6	5.2
SAP forecast - Baseline scenario	-	7.7	6.5
SAP forecast - Aggressive scenario	-	10.5	7.3

Sources: Cambodia 30-Year Flight Movement Forecasts and Air Navigation Service Charge Benchmarking as of May 2023 prepared by SAP; FSSIA estimate

Exhibit 38: DCF-derived TP

Cost of equity assumptions (%)	Cost of debt assumptions (%)
Risk-free rate	Pre-tax cost of debt
Market risk premium	Marginal tax rate
Stock beta	Net cost of debt, Kd
Cost of equity, Ke	Weight applied
Weight applied	
WACC	

DCF valuation estimate	(THB b)	(THB/share)	Comments
NPV	15.8	24.7	WACC 8.6%, Risk-free rate 3%, Risk premium 8%
Terminal value	0.0	0.0	Terminal growth 3%
Cash & liquid assets	0.6	0.9	At end-2024E
Investments	0.2	0.4	At end-2024E
Debt	0.0	0.0	At end-20224E
Minorities	0.0	0.0	At end-2024E
Residual ordinary equity	16.6	26.0	

Source: FSSIA estimates

Exhibit 39: Airport sector peer comparisons as of 21 Sep 2023

Company	BBG	Rec	--- Share price ---		Market cap (USD m)	3Y EPS CAGR (%)	----- PE -----			--- ROE ---		--- PBV ---		----- EV/ EBITDA -----		
			Current (THB)	Target (THB)			23E (x)	24E (x)	25E (x)	23E (%)	24E (%)	23E (x)	24E (x)	23E (x)	24E (x)	25E (x)
Thailand																
Airports of Thailand*+	AOT TB	BUY	70.00	85.00	27,683	(255)	99.2	31.3	27.2	9.5	25.5	9.0	7.2	46.5	20.4	17.5
Malaysia																
Malaysia Airports	MAHB MK	n/a	7.28	NR	2,598	80	29	17	15	6.2	9.8	1.7	1.6	8.0	6.7	6.7
China																
Beijing Capital Intl -A	694 HK	n/a	3.66	NR	2,143	(164)	n/a	16	9	(7.1)	6.1	1.0	0.9	38.3	8.7	8.7
Hainan Meilan Intl	357 HK	n/a	7.17	NR	434	(242)	21	6	4	1.7	10.0	0.7	0.6	8.1	5.7	5.7
Shanghai Intl Airport-A	600009 CH	n/a	38.16	NR	13,005	(209)	56	21	15	4.0	10.1	2.3	2.1	26	14.1	14.1
Guangzhou Baiyun Intl	600004 CH	n/a	11.51	NR	3,731	(209)	45.0	17.8	13.6	3.4	8.2	1.5	1.4	11.0	7.8	7.8
Shenzhen Airport -A	000089 CH	n/a	6.89	NR	1,935	(172)	100	31.0	20.8	1.9	4.1	1.3	1.3	17	12.9	12.9
Xiamen Int Airport -A	600897 CH	n/a	13.03	NR	744	(413)	14	12.3	14	11.3	12.1	1.5	1.4	4.5	4.1	4.1
Australia																
Auckland Intl Airport**	AIA AU	n/a	7.19	NR	6,817	n/a	81	39.7	35.5	1.7	3.3	1.4	1.4	33.0	20.5	20.5
Japan																
Japan Airport Termi***	9706 JP	n/a	6,241	NR	3,920	(238)	n/a	6.2	34.1	3.8	6.2	3.8	3.6	37	15.1	15.1
Average					63,011	(240)	55.6	19.9	18.8	3.6	9.6	2.4	2.2	22.9	11.6	11.3

*Fiscal year-end is 30 September; ** Fiscal year-end is 30 June; *** Fiscal year-end is 31 March
Sources: Bloomberg consensus; +FSSIA estimates

Exhibit 40: ANSP peer comparisons as of 21 Sep 2023

Company	BBG	Rec	--- Share price ---		Market Cap (USD m)	3Y EPS CAGR (%)	----- PE -----			--- ROE ---		--- PBV ---		----- EV/ EBITDA -----		
			Current (THB)	Target (THB)			23E (x)	24E (x)	25E (x)	23E (%)	24E (%)	23E (x)	24E (x)	23E (x)	24E (x)	25E (x)
Thailand																
Smart Aviation Solutions	SAV TB	BUY	19.00*	26.00	363	49	40.6	22.3	17.5	35.0	36.6	8.8	7.6	19.4	14.0	10.9
Italy																
Enav SpA	ENAV IM	NR	3.60	NR	2,077	6	18.2	16.3	14.1	8.8	9.6	1.6	1.6	8.0	7.6	7.6
Average					2,440	36	29.4	19.3	15.8	21.9	23.1	5.2	4.6	13.7	10.8	9.2

*IPO price
Sources: Bloomberg; FSSIA estimates

Risks

1) CATS may be unable to extend its concession contract

CATS' concession contract will end in Oct 2051. CATS' key risk is that it may be unable to extend the concession contract. However, CATS has been an Air Navigation Service Provider since 2002 and has been able to obtain an extension four times in the past. Furthermore, the Cambodian government has no policy to operate air traffic control services by itself.

One mitigating factor is that SAV may diversify its business by investing in other companies related to air traffic control services in the future.

2) Operational risks

CATS' revenue relies on flight volumes which may be impacted by an economic slowdown and extraordinary events such as political instability or natural disasters.

Furthermore, most of CATS' revenue is derived from overflight volume. External factors may lead to the cancellation of flights that fly through Phnom Penh FIR airspace.

3) Adjustment of tariff rates and revenue sharing by the SSCA

CATS' tariff rates and revenue sharing rates are determined by the SSCA. For tariff rates, the SSCA tends to revise up based on the tariffs of other countries in the region. This generally benefits CATS. The SSCA increased tariff rates twice in 2008 by an average of 15% and once in 2011 by 3-5%.

CATS is exposed to the risk that the SSCA may request higher revenue sharing rates. However, the negotiations usually take place when CATS seeks an extension of its concession contract.

4) FX impact

SAV and CATS' functional currency is the USD as its revenue and most of its operating expenses are in USD. However, the reporting currency of SAV is in THB. Thus, there will be an FX conversion impact and FX gain/loss in its financial statements. Note that the impact is only an accounting one and there is no impact on cashflow.

Corporate Governance and ESG – SAV

Board structure, 2022

Independent Directors (ID)	3/9 of board members, one female director
Percentage of IDs on the board	33.33%
ID attendance at board meetings	n/a

Note: The chairman of the board is an ID. The ID shall serve no longer than three terms except with unanimous approval from the nominating & compensation committee and approval from the board of directors and/or the shareholders.

Audit Practices

Auditor	EY Office Limited
Fee track record*	2021 = THB1.95m and 2022 = THB2.1m

*For company and subsidiary

ESG and sustainability management

Mission – To become an Aviation Solution Provider with technology and standards

Smart Aviation Solutions Plc (SAV) is a holding company investing in a 100% stake in Cambodia Air Traffic Services Co Ltd (CATS), a Cambodian company which has the exclusive right to operate the business of providing air traffic control services and systems installation in all airports in Cambodia pursuant to the concession agreement granted by the Royal Government of Cambodia. The concession agreement was executed in 2001 with a period starting from 2002 until 2041.

SAV realises that achieving and maintaining the goals pursuant to this vision and mission successfully on a sustainable basis means that the company must commit and pay attention to its business operations in a way that responds to the stakeholders, creates benefits for the economy and society, and reduces impacts on the environment. Thus, the company has defined a sustainable management policy that covers and responds to the company’s shareholders and the development of the company together with its social, environmental, and governance responsibilities, as well as respect for human rights as follows:

E/S/G	Materiality matrix	Operations and practices
Economic & sustainable operation	Safety and modern technology	<p>Communications, Navigation and Surveillance (CNS) are essential technological systems for air traffic management. In order to advance its air navigation service performance, CATS has modernised its CNS systems in accordance with Cambodian air navigation regulations and the international standards of International Civil Aviation Organisation (ICAO).</p> <p>Communications - CATS’s air traffic control facilities are equipped with controller-pilot, air-ground Very High Frequency (VHF) radio and communication network systems which enable air traffic controllers (ATCOs) to establish radio contact with pilots flying in the whole airspace of Cambodia and communicate with other local and neighboring ATCOs. Air Traffic Services Message Handling System (AMHS) is used for ground-ground communication and the exchange of air traffic service messages such as flight plans, NOTAM, meteorological data, etc.</p> <p>Navigation - Navigation aids system, which consists of three Doppler Very High Frequency Omni-directional Radio Range (DVOR) and Distance Measuring Equipment (DME), supports ATCOs and pilots in navigating aircraft accurately on the intended flight path. Performance Based Navigation (PBN), which was first introduced in Cambodia in 2013, is being used in navigating aircraft for en-route, arrival, and landing at some air routes in Cambodian airspace and the three international airports (Phnom Penh, Siem Reap, and Sihanouk). This contributes to the maximisation of safety and efficient access to the airports.</p> <p>Surveillance - Air traffic control facilities at CATS track the movement of aircraft with precise position, altitude, and velocity from its surveillance system which is comprised of three Monopulse Secondary Surveillance Radars (MSSRs) and three Automatic Dependent Surveillance - Broadcast (ADS-B) stations. MSSRs are installed at the three main airports of Cambodia (Phnom Penh, Siem Reap, and Sihanouk), which provide surveillance coverage of the entire airspace of Cambodia. ADS-B, which is stationed at Phnom Penh, Siem Reap, and Stung Treng, provides supplementary tracking capability, increasing the reliability of the surveillance service.</p>
	Support Cambodian economy	The company plays a part in supporting tourism in Cambodia, increasing employment, and generating revenue for the people of Cambodia which leads to growth in the Cambodian economy.
Cooperate Governance	CG policy and compliance	The company prepared the following important policies and requires compliance with such policies as guidelines for business operations with transparency including 1) good governance; 2) business ethics; 3) anti-corruption policy – to conduct business with political impartiality and compliance with laws; and 4) inside information prevention policy. During Nov-Dec 2022, SAV had Trinity Intelligence Plus Co Ltd investigate and evaluate the group’s internal controls to ensure that the systems at both the organisational and operational levels are generally accepted and aligned with COSO (The Committee of Sponsoring Organisations of the Treadway Commission).
	Business ethics	SAV distributed handbooks concerning business ethics for all members of the board of directors, managerial team, and employees. The handbook serves as a guideline for performing their duties with honesty, integrity, morality, and the highest quality. It also requires fair treatment in accordance with legal restrictions, to maximise shareholder value, and to prevent plausible conflicts of interest. SAV develops personnel at all levels to increase their capability and potential.
Social	Employment	SAV evaluates performance by considering remuneration and welfare pursuant to knowledge, proficiency, and performance. The company treats all employees equally and fairly, respects human rights without discrimination against gender, age, race, religion, and physical condition. It also arranges occupational healthcare and safety and provides good working conditions while strictly complying with labor laws.
	Support local community	SAV takes part in assisting or supporting community activities in the form of providing scholarships, apprenticeships for local youth, and providing public health funds for the Cambodian people. The company operates its business pursuant to all relevant laws, rules, and regulations, and conducts itself as a good member of society. It jointly develops and improves nearby communities alongside local people to ensure safety via good environmental conditions, and fosters enhanced, positive relationships through activities that the company jointly arranges with communities.
Environment	Reduction of CO2 Emissions through Implementation of PBN	CATS is committed to reducing the impact of its services and those of its customers on the environment while at the same time maintaining a focus on safety. In line with Resolution 37A-11 of the ICAO, Cambodia has taken a major step forward in improving its navigation system from the costly ground-based system to Performance Based Navigation (PBN) in which the navigational infrastructure relies on the Global Navigational Satellite System (GNSS). Together with the State Secretariat of Civil Aviation (SSCA) and other stakeholders, CATS has joined hands in the introduction of PBN by supporting all the relevant requirements. PBN was successfully implemented at Phnom Penh, Siem Reap, and Sihanouk International Airports in July 2013, May 2014, and January 2016, respectively. PBN has been introduced to some air routes across Cambodian airspace. A study was conducted in January 2017 to evaluate the commercial, operational, and environmental benefits of PBN. It found that PBN implementation at the three airports has reduced flying distance by 206,000 nautical miles and saved almost 1.6m kg of fuel per year. Most importantly, Cambodia’s PBN helps save the world by reducing CO2 emissions by approximately 5,000 tons per year.

Sources: [SAV’s sustainable management policy](#); FSSIA compilation

Financial Statements

Smart Aviation Solutions

Profit and Loss (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Revenue	456	1,218	1,638	2,101	2,496
Cost of goods sold	(324)	(695)	(858)	(1,094)	(1,288)
Gross profit	131	523	780	1,007	1,207
Other operating income	-	-	-	-	-
Operating costs	(189)	(230)	(242)	(253)	(266)
Operating EBITDA	12	362	610	831	1,024
Depreciation	(70)	(68)	(72)	(77)	(82)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	(57)	293	538	754	941
Net financing costs	(35)	(54)	(146)	(33)	(19)
Associates	-	-	-	-	-
Recurring non-operating income	3	2	3	3	3
Non-recurring items	(5)	11	0	0	0
Profit before tax	(95)	253	395	724	925
Tax	20	(54)	(95)	(180)	(229)
Profit after tax	(74)	200	300	545	696
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	(74)	200	300	545	696
Non-recurring items & goodwill (net)	(5)	(11)	0	0	0
Recurring net profit	(68)	188	300	545	696
Per share (THB)					
Recurring EPS *	(0.12)	0.33	0.47	0.85	1.09
Reported EPS	(0.13)	0.35	0.47	0.85	1.09
DPS	0.00	0.00	1.05	0.51	0.65
Diluted shares (used to calculate per share data)	576	576	640	640	640
Growth					
Revenue (%)	(36.2)	167.2	34.5	28.2	18.8
Operating EBITDA (%)	(89.3)	2,794.6	68.7	36.3	23.1
Operating EBIT (%)	nm	nm	83.5	40.1	24.8
Recurring EPS (%)	nm	nm	43.3	81.6	27.7
Reported EPS (%)	nm	nm	35.2	81.6	27.7
Operating performance					
Gross margin inc. depreciation (%)	28.8	43.0	47.6	47.9	48.4
Gross margin exc. depreciation (%)	44.2	48.6	52.0	51.6	51.7
Operating EBITDA margin (%)	2.7	29.7	37.2	39.6	41.0
Operating EBIT margin (%)	(12.6)	24.1	32.9	35.9	37.7
Net margin (%)	(15.0)	15.5	18.3	25.9	27.9
Effective tax rate (%)	2.2	17.7	10.0	0.0	12.0
Dividend payout on recurring profit (%)	-	-	224.1	60.0	60.0
Interest cover (X)	(1.6)	5.5	3.7	23.2	49.6
Inventory days	-	-	-	-	-
Debtor days	55.3	34.9	36.8	28.7	24.2
Creditor days	57.0	50.0	88.9	83.4	86.6
Operating ROIC (%)	(5.0)	18.3	38.9	71.4	77.0
ROIC (%)	(4.1)	16.0	32.7	58.3	63.1
ROE (%)	(40.0)	78.2	35.0	36.6	37.6
ROA (%)	(2.2)	12.1	20.8	28.2	28.7
* Pre-exceptional, pre-goodwill and fully diluted					
Revenue by Division (THB m)					
Landing and Take-off - Domestic	5	10			
Landing and Take-off - International	100	280			
Overflight	351	796			
Concession income	-	131			

Sources: Smart Aviation Solutions; FSSIA estimates

Financial Statements

Samart Aviation Solutions

Cash Flow (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Recurring net profit	(68)	188	300	545	696
Depreciation	70	68	72	77	82
Associates & minorities	7	7	28	28	27
Other non-cash items	0	0	57	12	0
Change in working capital	(80)	(165)	472	60	49
Cash flow from operations	(72)	99	929	721	854
Capex - maintenance	-	-	-	-	-
Capex - new investment	(124)	(144)	(153)	(153)	(153)
Net acquisitions & disposals	-	-	-	-	-
Other investments (net)	(23)	18	(85)	(39)	(27)
Cash flow from investing	(147)	(126)	(237)	(192)	(180)
Dividends paid	0	0	(480)	(320)	(199)
Equity finance	20	(2)	1,216	0	0
Debt finance	120	239	1,003	0	0
Other financing cash flows	-	-	-	-	-
Cash flow from financing	140	237	(693)	(320)	(199)
Non-recurring cash flows	-	-	-	-	-
Other adjustments	0	0	0	0	0
Net other adjustments	0	0	0	0	0
Movement in cash	(79)	210	(2)	209	475
Free cash flow to firm (FCFF)	(187.39)	29.35	762.69	528.57	674.22
Free cash flow to equity (FCFE)	(98.48)	212.81	(738.01)	528.57	674.22

Per share (THB)

FCFF per share	(0.29)	0.05	1.19	0.83	1.05
FCFE per share	(0.15)	0.33	(1.15)	0.83	1.05
Recurring cash flow per share	0.01	0.46	0.71	1.03	1.26

Balance Sheet (THB m) Year Ending Dec	2021	2022	2023E	2024E	2025E
Tangible fixed assets (gross)	1,832	2,006	2,159	2,312	2,465
Less: Accumulated depreciation	(900)	(999)	(1,071)	(1,148)	(1,230)
Tangible fixed assets (net)	932	1,007	1,088	1,164	1,235
Intangible fixed assets (net)	0	0	0	0	0
Long-term financial assets	-	-	-	-	-
Invest. in associates & subsidiaries	163	240	240	240	240
Cash & equivalents	129	339	337	545	1,021
A/C receivable	67	165	165	165	165
Inventories	0	0	0	0	0
Other current assets	305	496	63	81	96
Current assets	501	1,000	565	791	1,282
Other assets	0	2	2	2	2
Total assets	1,597	2,249	1,895	2,197	2,758
Common equity	143	339	1,375	1,600	2,096
Minorities etc.	0	0	0	0	0
Total shareholders' equity	143	339	1,375	1,600	2,096
Long term debt	1,190	1,171	0	0	0
Other long-term liabilities	159	252	252	252	252
Long-term liabilities	993	1,274	252	252	252
A/C payable	85	180	202	262	311
Short term debt	0	259	0	0	0
Other current liabilities	20	48	65	84	99
Current liabilities	180	927	268	345	410
Total liabilities and shareholders' equity	1,454	1,910	1,895	2,197	2,758
Net working capital	268	433	(39)	(99)	(149)
Invested capital	1,363	1,682	1,290	1,306	1,328

* Includes convertibles and preferred stock which is being treated as debt

Per share (THB)

Book value per share	0.25	0.59	2.15	2.50	3.28
Tangible book value per share	0.25	0.59	2.15	2.50	3.28

Financial strength

Net debt/equity (%)	743.0	321.5	(24.5)	(34.1)	(48.7)
Net debt/total assets (%)	66.5	48.5	(17.8)	(24.8)	(37.0)
Current ratio (x)	4.8	2.1	2.1	2.3	3.1
CF interest cover (x)	1.7	7.6	(3.0)	21.9	44.4

Valuation	2021	2022	2023E	2024E	2025E
Recurring P/E (x) *	(159.9)	58.1	40.6	22.3	17.5
Recurring P/E @ target price (x) *	(218.8)	79.5	55.5	30.6	23.9
Reported P/E (x)	(147.4)	54.8	40.6	22.3	17.5
Dividend yield (%)	-	-	5.5	2.7	3.4
Price/book (x)	76.6	32.3	8.8	7.6	5.8
Price/tangible book (x)	76.6	32.3	8.8	7.6	5.8
EV/EBITDA (x) **	961.1	33.3	19.4	14.0	10.9
EV/EBITDA @ target price (x) **	1,283.9	44.4	26.7	19.4	15.3
EV/invested capital (x)	8.8	7.2	9.2	8.9	8.4

* Pre-exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income

Sources: Samart Aviation Solutions; FSSIA estimates

Public disclosures related to sustainable development evaluation of Thai listed companies

Rating regarding the sustainable development of Thai listed companies, both on the SET and MAI, are publicly available on the website of the Securities and Exchange Commission of Thailand (SEC). Currently, ratings available are 1) "**CG Score**" by the Thai Institute of Directors Association (Thai IOD); 2) "**AGM Checklist**" by the Thai Investors Association (TIA), a "**CAC certified member**" of the Thai Private Sector Collective Action Against Corruption (CAC); and 3) "**Sustainability Investment List (THSI)**" by the Stock Exchange of Thailand. The ratings are updated on an annual basis. FSS International Investment Advisory Company Limited does not confirm nor certify the accuracy of such ratings.

CG Score by the Thai Institute of Directors Association (Thai IOD)¹

The **CG Score** indicates corporate governance (CG) strength in the sustainable development of Thai listed companies. Annually, the Thai IOD, with support from the Stock Exchange of Thailand (SET), surveys and assesses the CG practices of companies and publishes the results on the [Thai IOD website](#) in a bid to promote and enhance the CG of Thai listed companies in order to promote compliance with international standards for better investment decisions. The results are from the perspective of a third party, not an evaluation of operations, as of the date appearing in the report, and may be changed after that date.

The **five underlying categories and weighting** used for the CG scoring in 2022 include the rights of shareholders and equitable treatment of shareholders (weight 25% combined), the role of stakeholders (25%), disclosure and transparency (15%), and board responsibilities (35%).

The CGR report rates CG in six categories: 5 for Excellent (score range 90-100), 4 for Very Good (score range 80-89), 3 for Good (Score range 70-79), 2 for Fair (score range 60-69), 1 for Pass (score range 60-69), and not rated (score below 50).

Corporate Governance Report Disclaimer

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of companies listed on the Stock Exchange of Thailand and the Market of Alternative Investment disclosed to the public and able to be accessed by a general public investor at [Thai IOD website](#). The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the data appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. **FSSIA** does not confirm nor certify the accuracy of such survey result.

AGM Checklist by the Thai Investors Association (TIA)²

The "**AGM Checklist**" quantifies the extent to which shareholders' rights and equitable treatment are incorporated into business operations and the extent to which information is sufficiently disclosed and the level of its transparency. All the considered factors form important elements of two out of five the CG components. Annually, the TIA, with support from the SEC, leads the project to evaluate the quality of Annual General Meetings of Shareholders (AGMs) and to rate quality of the meetings.

The **Checklist** contains the minimum requirements under law that companies must comply with, or best practices according to international CG guidance. Representatives of the TIA will attend the meetings and perform the evaluation. The assessment criteria cover AGM procedures before the meeting (45%), at the meeting date (45%), and after the meeting (10%). The first assesses 1) advance circulation of sufficient information for voting; and 2) facilitating of how voting rights can be exercised. The second assesses 1) the ease of attending meetings; 2) transparency and verifiability; and 3) openness for Q&A. The third involves the meeting minutes that should contain discussion issues, resolutions and voting results.

The results are classified into four categories: 5 for Excellent (score 100), 4 for Very Good (score 90-99), 3 for Fair (score 80-89), and not rated (score below 79).

CAC certified member by the Thai Private Sector Collective Action Against Corruption (CAC)³

A **CAC certified member** is a listed company whose Checklist satisfies the CAC Certification's criteria and is approved by the CAC Council. The core elements of the Checklist include corruption risk assessment, establishment of key controls, and the monitoring and developing of policies. Note that the CAC does not certify the behaviour of the employees nor whether the companies have engaged in bribery, and Certification is good for three years.

Companies deciding to become a CAC certified member **start with** by submitting a Declaration of Intent signed by the Chairman of the Board to kick off the 18-month deadline for companies to submit the CAC Checklist for Certification. The 18-month provision is for risk assessment, in place of policy and control, training of managers and employees, establishment of whistleblowing channels, and communication of policies to all stakeholders.

The checklist document will be reviewed by the CAC Certification Committee for adequate information and evidence. It is worth noting that the committee consists of nine professionals in business law, corporate governance, internal audit, financial audit and experienced representatives from certified members.

A passed Checklist will move on to the **CAC Council** for granting certification approvals. The CAC Council consists of twelve prominent individuals who are highly respected in professionalism and ethical achievements. Among them are former ministers, a former central bank governor, the former head of the Thai Listed Companies Association, Chairman of Anti-Corruption Organizations (Thailand), Chairman of Thai Institute of Directors, and reputable academic scholars.

Sustainability Investment (THSI)⁴ by the Stock Exchange of Thailand (SET)

Thailand Sustainability Investment (**THSI**) quantifies responsibility in **Environmental**, and **Social** issues, by managing business with transparency in **Governance**. The THSI serves as another choice for investors who desire to adopt a responsible investment approach, according to the SET.

Annually, the SET will announce the voluntary participation of the company candidates which pass the preemptive criteria, and whose two key crucial conditions are met, i.e. no irregular trading of the board members and executives and a free float of >150 by the number of shareholders, and combined holding must >15% of paid-up capital. Some key disqualifying criteria include a CG score of below 70%; independent directors and free float violation; executives' wrongdoing related to CG, social and environmental impacts, equity in negative territory, and earnings in the red for more than three years in the last five years. To become eligible for THSI, the candidate must pass three indicators in data declaration: **Economic** (CG, risk management, customer relation management, supply chain management, and innovation); **Environmental** (environmental management, eco-efficiency, and climate risk); **Social** (human rights, talent attraction, operational health & safety, community development, and stakeholder engagement); and the incorporation of ESG in business operations.

To be approved for THSI inclusion, verified data must be scored at a 50% minimum for each indicator, unless the company is a part of the Dow Jones Sustainability Indices⁵ (DJSI) during the assessment year. The scoring will be fairly weighted against the nature of the relevant industry and materiality.

Note that, from the **THSI list**, the SET further developed a sustainability **SETTHSI Index** in June 2018 from selected THSI companies whose 1) market capitalisation > THB5b (~USD150b); 2) free float >20%; and 3) liquidity >0.5% of paid-up capital for at least 9 out of 12 months. The SETTHSI Index is a market capitalisation-weighted index, cap 5% quarterly weight at maximum, and no cap for number of stocks.

Sources: [SEC](#); [Thai IOD](#); [Thai CAC](#); [SET](#); FSSIA's compilation

Disclaimer:

¹ Thai Institute of Directors Association ([Thai IOD](#)) was established in December 1999 and is a membership organisation that strives to promote professionalism in directorship. The Thai IOD offers directors certification and professional development courses, provides a variety of seminars, forums and networking events, and conducts research on board governance issues and practices. Membership comprises board members from companies ranging from large publicly listed companies to small private firms.

² Thai Investors Association ([TIA](#)) was established in 1983 with a mission to promote investment knowledge and to protect the investment rights of Thai investors. In 2002, the association was appointed by the Securities and Exchange Commission (SEC) to represent individual shareholders. To obtain information for evaluation, the association recruits volunteer investors to join AGMs and score the meetings. Weightings for each meeting are at a 45:45:10 ratio. They have been applied since 2017 and subject to change.

³ Thai Private Sector Collective Action against Corruption ([CAC](#)) was founded in 2010 and is 100% privately funded. It is an initiative by the Thai private sector to take part in tackling corruption problems via collective action. The CAC promotes the implementation of effective anti-corruption policies in order to create a transparent business ecosystem by developing a unique certification program for large/medium/small companies to apply for and to control corruption risk systematically and efficiently. The CAC's operations are sponsored by the US-based Center for Private Enterprise (CIPE) and the UK Prosperity Fund.

⁴ Sustainability Investment List ([THSI](#)), created by the Stock Exchange of Thailand in 2015, comprises the listed companies that conduct sustainable business operations.

⁵ Dow Jones Sustainability Indices – [Wikipedia](#) – Launched in 1999, DJSI evaluates the sustainability performance of companies based on corporate economic, environmental, and social performance.

GENERAL DISCLAIMER

ANALYST(S) CERTIFICATION

Teerapol Udomvej, CFA FSS International Investment Advisory Securities Co., Ltd

The individual(s) identified above certify(ies) that (i) all views expressed in this report accurately reflect the personal view of the analyst(s) with regard to any and all of the subject securities, companies or issuers mentioned in this report; and (ii) no part of the compensation of the analyst(s) was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein.

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History of change in investment rating and/or target price

Airports of Thailand (AOT TB)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
11-Feb-2021	BUY	85.00	13-Aug-2021	BUY	80.00	02-Jun-2022	BUY	85.00
09-Jun-2021	BUY	82.00	26-Nov-2021	BUY	79.00			

Teerapol Udomvej, CFA started covering this stock from 10-Sep-2020

Price and TP are in local currency

Source: FSSIA estimates

Company	Ticker	Price	Rating	Valuation & Risks
Smart Aviation Solutions	SAV TB	THB 19.00*	BUY	Downside risks to our DCF-based target price include 1) extraordinary events such as political turmoil and natural disasters; 2) the slower-than-expected recovery of international tourist numbers; and 3) the delay of Cambodia's new airport projects
Airports of Thailand	AOT TB	THB 70.00	BUY	Downside risks to our DCF-based target price include 1) a slowdown in the recovery of international passengers; 2) delays in the Suvarnabhumi Airport expansions (satellite terminal and northern expansion); and 3) the termination of the duty-free concession contracts from King Power.

*IPO price

Source: FSSIA estimates

Additional Disclosures

Target price history, stock price charts, valuation and risk details, and equity rating histories applicable to each company rated in this report is available in our most recently published reports. You can contact the analyst named on the front of this note or your representative at Finasia Syrus Securities Public Company Limited

FSSIA may incorporate the recommendations and target prices of companies currently covered by FSS Research into equity research reports, denoted by an 'FSS' before the recommendation. FSS Research is part of Finasia Syrus Securities Public Company Limited, which is the parent company of FSSIA.

All share prices are as at market close on 21-Sep-2023 unless otherwise stated.

RECOMMENDATION STRUCTURE

Stock ratings

Stock ratings are based on absolute upside or downside, which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$.

BUY (B). The upside is 10% or more.

HOLD (H). The upside or downside is less than 10%.

REDUCE (R). The downside is 10% or more.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

Industry Recommendations

Overweight. The analyst expects the fundamental conditions of the sector to be positive over the next 12 months.

Neutral. The analyst expects the fundamental conditions of the sector to be maintained over the next 12 months.

Underweight. The analyst expects the fundamental conditions of the sector to be negative over the next 12 months.

Country (Strategy) Recommendations

Overweight (O). Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Neutral (N). Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

Underweight (U). Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.