

Thai Airways International PCL: Route Analysis

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Abstract

During the Thai Airway's Board of Directors Meeting on March 21, 2016, the management team had reported to the Board of Directors and the President that the company had been riding the losses during the past three consecutive years; the year 2013 (12 billion Baht), the year 2014 (15.57 billion Baht), and the year 2015 (13.05 billion Baht). Board of Directors were not satisfied with the company's situation and called for the immediate action from the President and Management team. The management team had proposed the measures for Transformation Plan Adjustments by implementing flight reductions on unprofitable routes, unnecessary expenses, and increasing revenue.

After the endorsement, each of the rehabilitation plans were allocated to related departments. For the task of route path analysis, the President assigned the financial manager, Mr. Putte (hypothetical name), to establish the model with the objective of performing flight route analysis, apply the model on Bangkok – Los Angeles route as the first prototype, and present the feasibility report to the President and Management team at their next scheduled meeting on April 7, 2016. The model was expected to analyze whether the benefits from reopening route would be sufficient to generate profits after considering all the costs and further to demonstrate the impact of route suspension/continuation on the company's financial performance. The route analysis report was expected to include the comprehensive investigation of

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comparing the marginal benefits of suspending and the marginal benefits of reopening the route. The report should also propose a sound financial decision on route analysis based on the feasibility study and determine the contribution of route suspension/continuation to the overall value of the company.

Upon leaving the management team meeting, Mr. Putte instantaneously set about collecting the information that would be necessary to fulfill the task that he was going to present in the meeting on April 7, 2016 so that the company would have sufficient time to prepare the presentation for the Annual General Shareholders' Meeting on May 4, 2016. He did so in the full awareness that he had been assigned for a high-visibility duty, the successful performance of which could only buttress his burgeoning career with Thai Airways.

Keywords: Airline Industry, Thai Airways, Corporate Finance, Feasibility Study, Route Analysis

บริษัท การบินไทย จำกัด (มหาชน): วิเคราะห์เส้นทางการบิน

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บทคัดย่อ

ในระหว่างการประชุมคณะผู้บริหารเมื่อวันที่ 21 มีนาคม 2559 ทีมผู้บริหารได้รายงานต่อที่ประชุมว่าบริษัทการบินไทยประสบปัญหาขาดทุนอย่างหนักตลอดระยะเวลาสามปีที่ผ่านมา โดยบริษัทมีผลขาดทุนเป็นจำนวน 12 พันล้านบาทในปี 2556 ขาดทุน 15.57 พันล้านบาทในปี 2557 และขาดทุน 13.05 พันล้านบาทในปี 2558 คณะกรรมการในที่ประชุมมีความไม่พอใจเป็นอย่างมาก ต่อผลประกอบการดังกล่าวและได้เรียกร้องให้ทีมผู้บริหารและ คุณจรัมพร โชติกเสถียร กรรมการผู้อำนวยการใหญ่ บริษัท การบินไทย จำกัด (มหาชน) ดำเนินการโดยเร่งด่วนเพื่อแก้ไขปัญหาขาดทุนของบริษัท ทีมผู้บริหารได้เสนอแผนฟื้นฟูบริษัท การบินไทย จำกัด (มหาชน) จากปัญหาขาดทุนและฐานะทางการเงินที่น่าเป็นห่วง โดยจะมีการปรับกลยุทธ์ทั้งสองด้าน ได้แก่ กลยุทธ์การเพิ่มรายได้ โดยปรับเส้นทางการบินและตารางการบิน ด้วยการหยุดเส้นทางการบินที่ขาดทุนต่อเนื่อง ส่วนเส้นทางที่พอมีกำไรให้พัฒนาและเพิ่มการบริการ และ กลยุทธ์การลดค่าใช้จ่าย

หลังการลงมติเห็นชอบจากที่ประชุม คุณจรัมพรก็ได้เรียกประชุมคณะกรรมการผู้บริหารเพื่อหารือถึงการดำเนินงานและอภิปรายกับผู้จัดการฝ่ายต่าง ๆ ถึงหนทางที่จะเพิ่มรายได้ และวิธีควบคุมค่าใช้จ่ายโดยพัฒนาประสิทธิภาพในหลาย ๆ ด้าน

ในส่วนของกลยุทธ์การเพิ่มรายได้โดยปรับเส้นทางการบินนั้น คุณจรัมพรได้มอบหมายให้ คุณณภ (นามสมมติ) ผู้จัดการฝ่ายการเงินเตรียมแผนการวิเคราะห์เส้นทางการบิน โดยเริ่มใช้เส้นทาง กรุงเทพฯ – ลอสแอนเจลิส เพื่อเป็นตัวอย่างสำหรับการบินวิเคราะห์เส้นทางการบินอื่น ๆ และนำเสนอแผนการวิเคราะห์ความคุ้มค่าทางการเงินของเส้นทางนี้ ต่อคณะกรรมการบริหารในการประชุมครั้งต่อไปในวันที่ 7 เมษายน 2559

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กรณีศึกษานี้ได้กล่าวถึง ภาพรวมโดยสังเขปและประวัติของการบินไทย ตามด้วยบทสรุปของข้อมูลการบรรยายและการปฏิบัติการทั้งในระดับโลกและท้องถิ่น (ไทย) ของธุรกิจการบิน รวมทั้งโอกาสเด่น ๆ บางโอกาสและการโต้ตอบต่ออุปสรรคต่าง ๆ ในธุรกิจจากพันธมิตรด้านการบินรายหลักทั้ง 3 ราย มีข้อมูลโดยละเอียดเกี่ยวกับผลประกอบการของการบินไทย รวมทั้งสถิติเปรียบเทียบรายได้ ค่าใช้จ่าย กำไร (ขาดทุน) และสัดส่วนทางการเงินที่สำคัญ ย้อนหลัง 3 ปี เช่น อัตรากำไรสุทธิ อัตราผลตอบแทนจากสินทรัพย์ และอัตราส่วนหนี้สินต่อสินทรัพย์ ในบทนี้ยังเสนอเนื้อหาโดยละเอียดมากขึ้นในเรื่องการปฏิบัติการด้านการเงินของการบินไทย รวมถึงรายได้ ค่าใช้จ่าย และฐานะทางการเงินของการบินไทย

คุณจรัมพรได้เน้นย้ำกับคุณนภาว่าการวิเคราะห์เส้นทางการบินนี้เป็นสิ่งที่ต้องทำอย่างเร่งด่วนภายในปีนี้โดยแผนการวิเคราะห์จะต้องนำเสนอต่อที่ประชุมคณะผู้บริหารในครั้งต่อไปในวันที่ 7 เมษายน 2559 เพื่อให้ผ่านมติที่ประชุมและทีมผู้บริหารจะสามารถเตรียมนำเสนอในการประชุมผู้ถือหุ้นประจำปีในวันที่ 4 พฤษภาคม 2559 ได้ทันเวลา

คำสำคัญ: อุตสาหกรรมการบิน บริษัทการบินไทย การเงินธุรกิจ การศึกษาความเป็นไปได้ การวิเคราะห์เส้นทางบิน

During the Thai Airway's Board of Directors Meeting on March 21, 2016, the management team had reported to the Board of Directors and the President that the company still had been riding the losses during the past three consecutive years; the year 2013 (12 billion Baht), the year 2014 (15.57 billion Baht), and the year 2015 (13.05 billion Baht). Board of Directors were not satisfied with the company's situation and called for the immediate action from the President and management team. The management team had proposed the measures for Transformation Plan Adjustments by implementing flight reductions on unprofitable routes, unnecessary expenses, and increasing revenue. Resulting in operating results that are not up to expectation, the company has established measures for reform framework as follows:

- Revenue increasing measures: by adjusting its route path and flight schedule.
- Cost reduction measures: by deferring investments that are not urgently needed and controlling costs and expenses related to route, advertising, and donation funds.

“ . . . This Transformation Plan will help THAI return to sustainable growth and become the pride of the Thai People . . . ”

- Mr. Charamporn Jotikasthira, President, Thai Airways Int'l PCL.

After the endorsement, each of the rehabilitation plans were allocated to related department.

For the task of route path analysis, the President assigned the financial manager, Mr. Putte (hypothetical name), to establish the model with the objective of performing flight route analysis, apply the model on Bangkok – Los Angeles route as the first prototype, and present the feasibility report on the Bangkok – Los Angeles route analysis to the President and Management team at their next scheduled meeting on April 7, 2016.

In particular, Bangkok-Los Angeles route was the longest route path and the only one destination to Americas of Thai Airways. They had been serving since 1980 with a frequency of four flights per week before the route was suspended because

it had been a loss-riding route for several years. Most recently, during the first half year of 2015, Bangkok-Los Angeles route contributed to the loss of 200 million Baht as a result from both declining in revenue due to the world economic downturn and rising expenses due to an upsurge in oil price.

The suspension was to be effective from 25 October 2015. However, the company were considering to continue the route again in the year 2016 because of the favorable economic outlook in the US and the decreasing trend in jet fuel price. However, there is a trade-off in the route suspension/continuation decision in several ways. For example, the suspension would result in expense reduction from laying off employee at Los Angeles station including six staffs from Bangkok Head Quarter, 12 local staffs, and 14 salespersons outsourced from local company. In addition, the company would cease the contracts with the LAX airport to terminate the flights, the air cargo rental contract, and the monthly office rental contract. The expenses related to advertisement in local newspaper and hotel rent for aircrews would be eliminated too.

Upon leaving the management team meeting, Mr. Putte instantaneously set about collecting the information that would be necessary to fulfill the task that he was going to present in the meeting on April 7, 2016 so that the company would have sufficient time to prepare the presentation for the Annual General Shareholders' Meeting on May 4, 2016.

In his assignment of the analytical task for Mr. Putte, the President emphasized Mr. Putte to establish the flight route analysis model that could be used to analyze any flight route and to use Bangkok – Los Angeles route as the first prototype to illustrate the performance of the model. The model was expected to analyze whether the benefits from reopening route would be sufficient for the Bangkok-Los Angeles route to generate profits after considering all the costs and further to demonstrate the impact of route suspension/continuation on the company's financial performance. The route analysis report was expected to include the comprehensive investigation of comparing the marginal benefits of suspending and the marginal benefits of reopening the route. The report should also propose a sound financial

decision on route analysis based on the feasibility study and determine the contribution of route suspension/continuation to the overall value of the company.

Thai Airways International PCL: Overview & Developmental Highlights

Thai Airways International Public Company Limited (THAI) is the national carrier of the Kingdom of Thailand. (See Exhibit 1: Thai Airways Global Routes and Exhibit 2: Developmental Highlights of Thai Airways) For more details about Thai Airways history during the year 1960-2012, please see the section “Thai Airways International PCL: Overview & Developmental Highlights”, in the previous case study that has been conducted on the same company but on the different issue. (Vesarach A., 2015)

Thai Airways encountered its toughest time during the past three years of 2013, 2014, and 2015, when it suffered consecutive annual losses of 12,000, 15,573, and 13,047 million THB, respectively. The loss per share of 5.99, which accounted for 65% compared with the market price of 9.20 (as of December 30, 2015), reflected the Company’s extremely critical prospects. In addition, the airline has not been paying any dividends for three consecutive years (2013-2015). It had been these results that had prompted the Thai Government Super Board and shareholders, expressing much concern, to call for prompt action by the Company’s President and management (see Exhibit 3: Thai Airways’ President & Organization Chart) to turn around the airline’s performance and put the airline back on the path of solid and sustainable financial performance.

The Global and Local Airlines Industries: Overview of Status, Issues, and Trends

Like most other flag carrier airlines in nations around the globe, THAI competed in both the local (national) and the international arenas. THAI executives therefore had to maintain awareness of the contours and dynamics of the airline industry at both levels.

The Global Airlines Industry: Current Status, Salient Issues, and Noteworthy Trends

The global airlines industry was coterminous with the membership of the International Air Transport Association (IATA), the “trade” association for the world’s airlines, formed in 1945 and was comprised of 260 member airlines, accounting for 83% of total air traffic. Thus, the same forces that impinged on IATA impacted the global airlines industry as a whole. In this connection, several facets concerning the industry were of particular importance: alternating cycles of growth and financial distress; the heightened criticality of operating efficiency; and, the increased importance of a global presence, given unrelenting industry consolidation (see Exhibit 4: IATA Industry Outlook for the Year 2016)

The combination of these factors led, in 1997, to the founding of the first global alliance of airlines, the Star Alliance, and the following suit *via* the “SkyTeam” and “OneWorld” alliances (see Table 1: The Three Airlines Alliance).

Table 1: The Three Airline Alliances

	Star Alliance	SkyTeam	OneWorld	Rest of Industry
Founded	1997	2000	1999	NA
Members	28	20	15	NA
Market share	25.22%	20.66%	18.44%	35.68%

Sources: iata.org, oneworld.com, skyteam.com, staralliance.com (Access date: April 1, 2016)

By 2009, the tremendous pressures under which the industry had labored since late-2008 – e.g., the global economic slowdown triggered by the 2007-08 financial crisis in the U.S. and European Union, disease outbreaks (that dampened passenger traffic to affected areas of the globe), and threats and acts of terrorism -- caused air passenger growth to hit a trough in 2009, followed by another minor slowdown in growth during 2010-2012 due to the ongoing global economic slowdown resulting from the European public debt crisis and the continuing woes of the United States economy. However, the revitalization of the world economic and airline industry cycle had gradually begun in 2012, the result of an easing in

fiscal austerity policies, continued expansionary monetary policies, and progress in deleveraging the private sectors. All these factors led to acceleration in air travel, with growth of 6.9% expected in the year 2016 (See Figure 1: Passenger Growth in Airlines Industry and World Economic Growth).

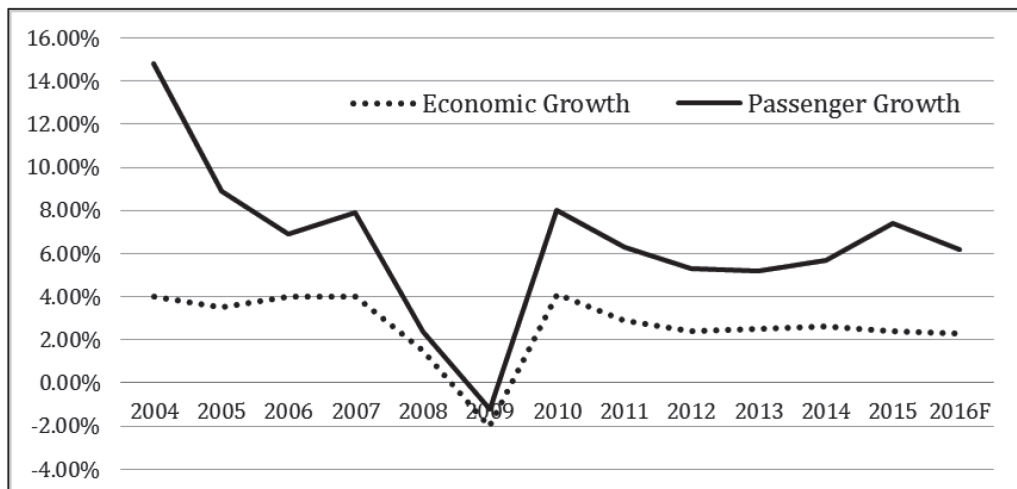


Figure 1: Passenger Growth in Airlines Industry and World Economic Growth (2004-2015)

Source: iata.org (Access date: April 1, 2016)

As the 100th anniversary of scheduled commercial aviation had approached in 2014, signs of an upturn in the economic cycle included the steep fall of crude oil and jet fuel prices (See Exhibit 5: Crude Oil Prices and Jet Fuel Prices (January 2005 – January 2015)). In the past ten years, the jet fuel price had fallen to the lowest point of U.S. \$29.3 per barrel at the beginning of the year 2016. Because jet fuel cost was the largest component in operating expenses of airlines, the substantial decline in jet fuel price was a major contribution to an improvement in airline performance.

The Local (Thai) Airlines Industry: Current Status, Salient Issues, and Noteworthy Trends

The local or domestic airlines industry in Thailand was comprised of those airlines that ferried passengers to and from Thailand and airlines that carried passengers between cities in Thailand. For the year 2015, there were 120 airlines

providing 365,321 international flights to Thailand with a total of 61.34 million passengers. Out of the total passengers, Thai Airways carried 14.9 million passengers or equivalent to 24.3% market share. For domestic routes, there were 12 airlines providing 342,041 flights with a total of 45.45 million passengers. Thai Airways held the market share of 19.6%, which was equivalent to 6.1 million passengers.

In addition to the impacts of trends and forces that affected the global airlines industry, Thai Airways, as a participant in the local airlines industry, had to contend with several other factors. According to THAI's annual report, particularly salient among these were the impacts of a slow-down of growth in the global economy and a fierce competition between airlines.

Impacts of the Economic Slowdown

The external crisis was the global economic slowdown that arose from the euro-zone sovereign debt crisis that began in late 2009 and intensified in 2010 and thereafter. The crisis not only caused adverse economic effects for the euro-zone countries, but also had a spillover impact on the global economy and financial markets. IMF forecasted China's economic growth dropping to 6.8% in the year 2016 which is the lowest in the past 25 years. In the United States, Euro Zone, and Japan, estimated growth is at 2.6%, 1.5%, and 0.6% respectively, with the economy recovering slowly there still being a risk of deflation and a slowdown in consumption. Being a strong cyclical industry, the tourism activities suffered alongside the economic downturn. The overall number of international visitors to Thailand had declined by 6.54% from the year 2014 to 2015, a trend observed in most regions of the world. (see Exhibit 6: The Arrivals to Thailand by Region for the Year 2015).

The Fierce Competition between Airlines

Alternatively, competition between airlines remains fierce in terms of expansion of route networks, fleet and competition in price, both from Middle Eastern airlines, low-cost airlines, and increased capacity due to alliances formed among airlines. The formation of strategic alliances increase competitiveness of airlines and consequently increase the intensity of competition in aviation industry. Some cause

for cautious optimism, however, was seen in the fact that following a number of measures to stimulate tourism in both the public and private sectors, the growth in number of passengers showed a considerable improvement during the year 2014-2015 (see Exhibit 7: Passenger Movements at Suvarnabhumi Airport, Thailand).

Although the growth of demand in the local airline industry was negatively impacted by the global economic downturn (according to Figure 1: Passenger Growth in Airlines Industry and World Economic Growth) and the fierce competition that had afflicted the industry as a whole, at points in time in recent decades, the profitability performance of the airline industry had been determined not only by revenues but also by expenses. Thus, the downward trend in fuel prices could precipitate gains for the local airline industry just as it had for the global sector of the market.

Nevertheless, given their vulnerability to both economic and political circumstances, airlines confronted the challenge of securing their internal strengths by engaging in innovative and proactive marketing strategies, as well as maintaining operating efficiency. Only in this way could they expect to remain viable individual players and make a positive contribution to the overall business and financial performance of the airline industry as a whole.

Thai Airways International PCL: Operating & Financial Performance Results

During the Thai Airways' Board of Directors Meeting on March 21, 2016, Thai Airways management announced that the Company had been generated three years of consecutive net losses of 12 billion Baht for the year 2013, 15.57 billion Baht for the year 2014, and 13.05 billion Baht for the year 2015. Because of the company's continuing and troubling deterioration in financial performance for three consecutive years, there was no dividend payment during these periods (see Exhibit 8: Dividends Payout History, Share Information, & IAA Consensus Target Price of Thai Airways). The consecutive losses were resulted from both declining in revenue and increasing in expense. The decrease in revenue came from recession in airlines

industry due to the world economic downturn. The increase in expense was caused by rising in oil price which was the most significant expense for airlines business. Moreover, the interest-bearing debt to equity ratio during the past three years had been increasing dramatically from 3.1 (in 2013), 4.7 (in 2014), to 5.8 (in 2015) (see Table 2: Thai Airways Operating and Financial Highlights 2013-2015 and Exhibit 9: Financial Statements of Thai Airways and Peers, 2013-2015). As a result, the TRIS (Thai Rating and Information Services) affirmed Thai Airways' company rating and senior debentures rating of A, the rating outlook had been revised downward twice during the past three years, from A+/stable to A+/negative at the end of year 2013 and recently from A+/negative to A/Stable at the beginning of year 2016.

Table 2: Thai Airways Operating and Financial Highlights 2013-2015

Income Statement (Million Baht)	2013	2014	2015
Total Revenue	207,711	203,889	192,591
Net Profit (Loss)	(12,000)	(15,573)	(13,047)
Financial Ratios (Percent)			
Net Profit (Loss) Margin	(5.7)	(8.1)	(6.9)
Return on Assets	(2.3)	(3.5)	(2.7)
Debt to Equity	3.1	4.7	5.8
Return on Equity	(19.0)	(31.7)	(35.2)
Shares (Baht)			
Earnings Per Share	(5.52)	(7.15)	(5.99)
Dividend Per Share	-	-	-

Source: Thai Airways International PCL Financial Statements 2015

To tackle the disappointing results from financial and operating performance, the management team of Thai Airways had developed a business turnaround plan with three transformation goals; re-emerge as a national carrier bearing the pride of the Thai people, ensure sustainable growth and profit, and be ranked among the top three airlines in the world. The reform framework, consisted of two major measures;

revenue increasing and cost reduction, emphasized on one of the most urgent tasks which was to adjust the route path and flight schedule in order to obtain a turnaround in financial performance for the year 2016 and a sustainable growth thereafter.

Thai Airways International PCL: The Bangkok-Los Angeles Route Analysis

The subsequent unfavorable operating financial results indicated that corporate transformation was required in order to take a competitive leap and rebuild its financial integrity. Transformation measures taken include revision of flight routes, careful strategic considerations on certain markets, enhancement of the effectiveness and efficiency of internal management, as well as obtaining cooperation from relevant government bodies in order to jointly create sustainable success.

As of September 2015, THAI operated 632 weekly international flights spanning two geographical zones; Asia, for which there are 47 destinations in 19 countries, and the intercontinental zone for which there are 16 destinations in 11 countries (see Exhibit 10: Annual Report page 21-22). Intercontinental Routes included 11 destinations in 9 countries in Europe, 5 destinations in 2 countries in Australia and New Zealand, and 1 destination in the North America.

Network Strategy was the first priority of the six strategic transformation charters during 2015 and 2016 which were approved by the State Enterprise Policy Committee. The strategy aimed to improve flight route networks by stopping further losses from unprofitable routes and generating sustainable profits from profitable and competitive advantage routes in order to create financial stability before moving on to create sustainable growth. Routes are divided into two groups; the first group contains unprofitable routes which are to be either discontinued or further studied in terms of their potential to become profitable routes, while the second group contains unprofitable routes that have been identified as having a high potential to become profitable, and profitable routes for which long-term competitiveness is to

be created. One of the most significant routes that were identified as unprofitable but having a high potential to become profitable was the Bangkok – Los Angeles, the only single destination to Americas of Thai Airways.

In particular, Bangkok-Los Angeles route was the longest and the only one destination to Americas of Thai Airways. Its long historic legend emerged in March 1980 with the Jumbo Jet (Boeing 747-200) flying Bangkok – Tokyo – Seattle – Los Angeles at a frequency of four flights per week. However, it was terminated in December 1980. Afterwards, the path was modified to Bangkok – Seoul – Los Angeles and was reopened in July 1991 until December 2005. Subsequently, the path was rerouted to be the direct flight of Bangkok – Los Angeles served by Airbus 340-500 before it was terminated again in March 2008. Latterly, the route was reconverted back to Bangkok – Seoul – Los Angeles and reopened in May 2012 served by Boeing 777-200ER, the latest model at the time. Not long after it had been struggling to compete with North Asian airlines and had been a loss-riding route for several years, it was suspended since October 2015 until now. However, the company was considering whether the route should be continued again in the year 2016 because of the decreasing trend in jet fuel price and though the North America region was a very high competitive market, it was a relatively large market with optimistic economic outlook. Additionally, in his final speech for the farewell of the last flight, Mr. Sutsveta Svetasobhana, the general manager for Thai Airways' USA market, had expressed that he still held a strong believe that Thai Airways would reconsider to resume the LA-BKK flight once again. His speech recalled everyone for the commitment he had made on the first day of his duty, which was six years and two months ago:

“This is a new market for me, but one that I am excited to experience and learn about. My goal is to continue to provide the legendary service of Thai Airways to all our customers in America.”

America was reconsidered to be a market with high potential to become profitable and since the year 2016 it was considered to be relatively attractive, according to the Economic Outlook by the World Bank (See Exhibit 11: Economic

Growth by Region 2010-2015). The US's economy showed the relatively notable sign of recovery compared to the other regions in the world. Although the world economic was rebounded from last year since the economy of many countries increased, yet lower than anticipated. EU's economic still showed the sign of growth (1.48%) but much lower than that of the US (2.43%). In addition, Euro area still had the high unemployment rate (11.5%), whereas the unemployment rate in the US was lower by almost half (6.2%). Japan's economy grew very slightly (0.47%) as a result of the increase of the VAT rate. Unfortunately, the Latin America and South Africa economic were in the slowdown stage (with the growth of -0.95% and 1.28%, respectively). However, the US's economy started to recover and continued to grow up with the declining rate of unemployment.

In particular for the airlines industry, data from the International Air Transport Association (IATA) reported that the passenger traffic and passenger production indicated the continued growth in which increased by 6.5% and 5.6% respectively. The steady drop of crude oil prices, 47.2% falling from the previous year and fierce competition affecting the ticket price dropped both were beneficial to increase travel demand from the US market. In addition, the IATA analysis of international air passenger markets for the period 2014-2034 had revealed that the United States will remain the largest air passenger market until around 2030, when it would drop to number 2, behind China. Cumulatively over the next 20 years the US will carry 18.3 billion more passengers and China 16.9 billion. For the regional growth highlights, IATA forecasted that the routes to and from Asia-Pacific would have an annual average growth rate of 4.9% and the North American region would grow by 3.3% annually, while the European region was expected to grow by only 2.7%.

Regulations and political situation in Thailand also contributed to be major factors affecting the aviation industry and the volume of air travelers between US and Thailand. As domestic political unrest subsided, and the government started to promote tourism, the travelling from US to Thailand was expected to rebound and grow again. In 2015, foreign tourists traveling to Thailand totaled 29.8 million, up 20.4% from the previous year. Another factor that would have a positive effect for the travelling industry is the emergence of ASEAN Economic Community (AEC)

in 2015 which will provide the impetus for economic growth in the region in terms of trade and investment. Government campaigns promoting Thailand's image as the hub of ASEAN would help to motivate and build confidence in the international travels between US and Thailand.

Nonetheless, there is a trade-off in the route suspension/continuation decision in several ways. For example, the suspension would result in expense reduction from laying off employee at Los Angeles station including 6 staffs from Bangkok Head Quarter, 12 local staffs, and 14 salespersons outsourced from local company. In addition, the company would cease the contracts with the LAX airport to terminate the flights, the air cargo rental contract, and the monthly office rental contract. According to the rules and regulations of Los Angeles airport (LAX), the airport operating permits and fees include the Landing Fee Rates, Ramp, Apron and Remote Area Fees, Aircraft parking Fee, and Annual Administrative Fee (See Exhibit 12: Rules and Regulations of LAX Airport Operating Permits and Fees). Besides, the expenses related to advertisement in local newspaper and hotel rent for aircrews which approximately accounted for 7.8% and 4.4% of the total expenses would also be eliminated.

Since this route analysis was considered as the pilot project to be applied to the other routes in the future, in his assignment of the analytical task for Mr. Putte, the President requested Mr. Putte to establish the program with the model to perform general route analysis and use the Bangkok – Los Angeles route as the first prototype. In specific to this route, the program should be able to analyze whether the benefits from fuel price reduction and US economic recovery would be sufficient for the Bangkok-Los Angeles route to generate sufficient and sustainable profits after considering all the costs of reopening the route, equipped with the supplementary report providing the impact of route suspension/continuation on the company's overall financial performance. The route analysis was expected to include the comprehensive investigation of comparing the marginal benefits of suspending and the marginal benefits of reopening the route. Ultimately, the analysis should also propose a sound financial decision on route analysis based on the feasibility study and demonstrate the contribution of route suspension/continuation to the overall value of the company.

A Felicitous Time to Liftoff

With continuing pressure from the general public and the charge from the Government's Super Board to stop the bleeding and turn around the national airline, the president had made explicit when he assigned Mr. Putte to develop the pilot project of route analysis program and conduct the first illustration on the analysis of Bangkok – Los Angeles route, the analysis was a matter of urgency since the route was the only single destination of Thai Airways to America market but it had been under suspension for six months. If the route was profitable, the longer time it was suspended, the higher opportunity cost and forgone revenue it incurred. Mr. Putte had to decide the optimal solution out of the two alternatives which are to resume or to suspend the route before the upcoming Board Meeting on April 7, 2016.

Exhibit 1: Thai Airways International PCL Global Routes

International Destinations: 36 countries/71 destinations - excluding Bangkok.

Asia/Pacific 19 countries/47 destinations

Northern Routes: China (Beijing, Kunming, Guangzhou, Shanghai, Changza, Cheng-Du, Chongqing, Xiamen, Hong Kong, Macao*), Japan (Osaka, Tokyo, Nagoya, Fukuoka, Sapporo), Korea (Busan, Seoul), Taiwan (Taipei), Philippines (Manila)

Southern Routes: Singapore, Malaysia (Kuala Lumpur, Penang), Indonesia (Jakarta, Denpasar)

Western Routes: India (Kolkata, Delhi, Mumbai, Hyderabad, Bengaluru, Chennai, Gaya, Varanasi), Bangladesh (Dhaka), Sri Lanka (Colombo), Nepal (Kathmandu), Myanmar (Mandalay*, Yangon), Pakistan (Karachi, Lahore, Islamabad)

Middle East 2 countries / 2 destinations

Oman (Muscat), United Arab Emirates (Dubai)

Domestic Destinations: 10 Destinations - excluding Bangkok.

North: Chiang Mai, Chiang Rai*

Northeast: Khon Kaen*, Ubon Ratchathani*, Udon Thani*, Roi Ed (code share with Nok Air)

South: Phuket, Krabi, Samui, Surat Thani*, Narathiwat*, Hat Yai*

*Operated by Thai Smile

Source: Annual Report 2015 page 20-22

Indochina 3 countries / 5 destinations

Cambodia (Phnom Penh), Laos (Vientiane, Luang Prabang), Vietnam (Ho Chi Minh, Hanoi)

Intercontinental 1 destination

North America (Los Angeles) suspended from October 25, 2015

Europe: 9 countries / 11 destinations

England (London), Germany (Frankfurt, Munich), France (Paris), Italy (Rome, Milan), Denmark (Copenhagen), Sweden (Stockholm), Switzerland (Zurich), Belgium (Brussels), Norway (Oslo)

Australia & New Zealand 2 countries / 5 destinations

Australia (Brisbane, Melbourne, Perth, Sydney), New Zealand (Auckland).

Exhibit 2: The 1959-2015 Developmental Highlights of Thai Airways

1959 - In August 1959, Thai Airways Company (TAC) entered into a partnership with the Scandinavian Airlines System (SAS) to create a dynamic new international airline for Thailand. The Thai Government through TAC held 70 percent and SAS 30 percent of shares in Thai Airways International Company Limited, registered with a capital investment of USD 100,000 (2 million baht).

1960 - On May 1st, a propeller-driven Douglas DC-6B with a full load of 60 passengers took off from Bangkok International Airport en route to Hong Kong, Taipei and Tokyo. This first flight launched THAI's services, which during the first year, linked Bangkok with 11 Asian destinations and utilised a fleet of 3 DC-6B aircraft.

1967 - The one millionth passenger was carried. THAI pioneered its highly profitable Bali route. This insightful move established THAI as an innovative airline, supportive of regional development.

1971 - THAI's first intercontinental route was launched, linking Bangkok to Sydney via Singapore. A new Cargo Terminal was opened at Bangkok International Airport. In its first year, it handled around 2,000 tons of cargo.

1973 - Long haul services to Frankfurt and London were inaugurated developing Bangkok as a major hub and gateway between Europe and Asia. THAI managed the Bangkok International Airport's spacious new Tax Free shop.

1976 - THAI's flights connecting Bangkok to Amsterdam, Paris and Athens, launched the year before, grew quickly in popularity. Passengers flying from Europe stopped over in Bangkok on their way to Australia or to other Asian cities.

1977 - After 17 successful years, the partnership between TAC and SAS ended. SAS shares were sold back to the Thai Airways International was now entirely Thai owned and managed. Backed by a route net covering 3 continents, Thailand's flag carrier was ready to take on the world.

1980 - With the arrival of the jumbo jets, THAI was now ready for trans-Pacific services to North America. Los Angeles became THAI's gateway city into the US. At the same time THAI increased its operations to the Middle East.

1981 - THAI pioneered the North Pacific Bangkok-Seattle route. It expanded its route into the People's Republic of China by serving Canton. During that year, the company's share capital was increased to 1,100 million baht.

1988 - THAI and its parent company, TAC, merged into a single airline, bringing together domestic and international air operations. The route net comprised 48 cities in 35 countries around the world plus a network of 23 cities in Thailand.

1990 - There was much to celebrate on THAI's 30th anniversary. It was the second most profitable year in the Company's history. THAI recorded a profit before-tax of 6,753.6 million baht and 8.3 million passengers were carried, the highest number ever recorded. Early that year, THAI took delivery of its first Boeing 747-400, which remains the largest commercial aircraft in passenger service.

1991-1992 - THAI became a full partner of AMADEUS Global Distribution System, a vast computerized network for reservations information that linked 98 airlines and over 47,500 travel agents worldwide. THAI's privatization process began. 100 million of the company's shares were listed on the stock Exchange of Thailand, the country's largest share.

1994 - On 20 May 1994, THAI was formally registered as Thai Airways International Public Company Limited.

1997 - THAI and 4 of the world's major airlines joined together to form the Star Alliance, the largest airline consortium in the world. Being part of this strong global network enabled THAI to offer its passengers a world of services and destinations.

2004 - THAI signed a contract with InterBrand Co.,Ltd to develop the Company's new Corporate identity, THAI introduced new Premium Customer Service for its First and Business Class passengers, offering added travel convenience and comfort. THAI invested 39% shares in "Nok Air", a joint ventured low cost airline.

2007 - The first full year of operations at Suvarnabhumi Airport since its opening on September 28, 2006. THAI recommenced its domestic services at Don Muang Airport. As a result, THAI operated THAI city Air Terminal to provide an alternative check-in point for domestic passengers without flight connections flying out of Don Muang Airport.

2008 - THAI received numerous number 2 ranking for its First Class Lounge from Skytrax. Thai also received the Best Intercontinental Airline award for the 4th consecutive year from the Norwegian travel industry.

2009 - THAI achieved numerous awards from the various international institutions, for instance; the second rank under the category of Best Asian Carrier from Gold Awards and the second rank in Best Intercontinental Airlines regarding to the announcement in Grand Travel Award Ceremony. THAI also received Trusted Brands Platinum Award 2009 from Reader's Digest for 10 consecutive years. In addition, THAI's **Royal First Class Lounge** at Suvarnabhumi Airport ranked the Best in Skytrax 2009.

2010 - THAI celebrated its 50th anniversary with the highest profits of 14,792 million THB which marked the highest profits in the airline's fifty years of operation.

2013 – Established a wholly owned subsidiary, Thai Smile Airways Co., Ltd., with 100% of the shares held by THAI.

2014 – THAI was among three loss-making state enterprises (the other two were the State Railway of Thailand, and the Bangkok Mass Transit Authority) under the Transport Ministry which were required to submit plans to address their financial problems to the State Enterprises Policy Commission, or the superboard.

2015 –THAI went through the transformation plan with six strategies to turnaround its performance.

Exhibit 3: Thai Airways' President & Organization Chart



Mr. Charamporn Jotikasthira, President (Appointed on November 12, 2014)

Education:

- M.B.A. Harvard University, U.S.A.,
- B.Eng (Electrical Engineering and Computer Science), Massachusetts Institute of Technology, U.S.A.

Experience:

- President of the Stock Exchange of Thailand (June 1, 2010 – May 31, 2014)
- Chief Information Officer and Senior Executive Vice President, Siam Commercial Bank Public Company Limited, Thailand

Specialization:

- Information Technology
- Money Management
- Corporate Finance
- Risk Management

Source: <http://www.bloomberg.com/research/stocks/people/person.asp?personId=8594386&ticker=SCB:TB> (Date Access: March 30, 2016)

Organization Chart

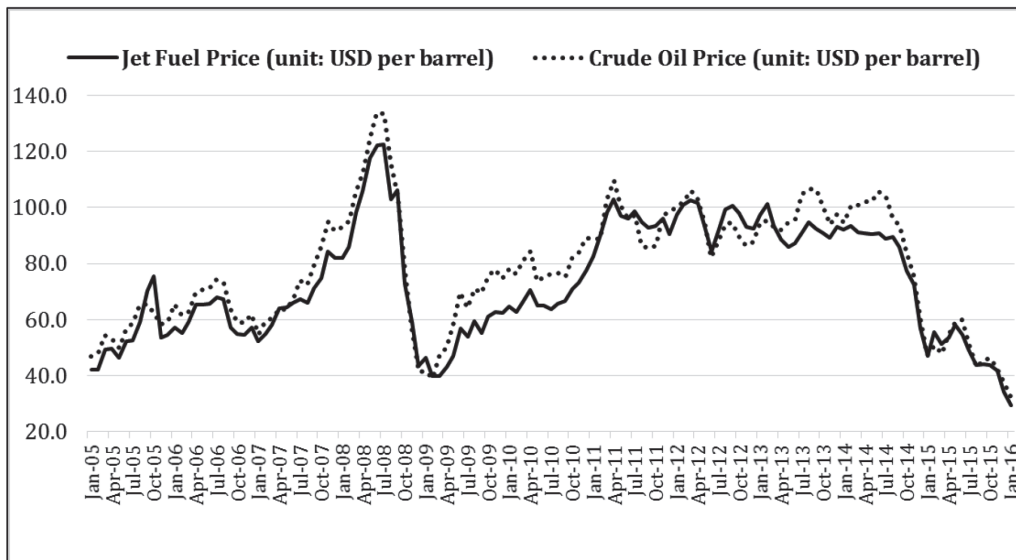
File available upon request. (AnnualReport_2015.pdf file, Annual Report page 60-61)

Exhibit 4: IATA Industry Outlook for the Year 2016

Files available upon request. (Exhibit4_IATA.pdf and Exhibit4_IATA_FactSheet.pdf files)

Source: <https://www.iata.org/whatwedo/Documents/economics/IATA-Economic-Performance-of-the-Industry-end-year-2015-report.pdf> (Date Access: March 30, 2016)

Exhibit 5: Crude Oil Prices and Jet Fuel Prices during the Year 2005 to 2015



Sources: Bureau of Transportation Statistics – BTS (Coordination between the Research & Innovative Technology Administration – RITA and the U.S. Department of Transportation - DOT, U.S. Energy Information Administration – EIA)

Exhibit 6: The Arrivals to Thailand by Region for the Year 2015

File available upon request. (Data_2016.xlsx file)

Source: Department of Tourism, Thailand

Exhibit 7: Passenger Movements at Suvarnabhumi Airport, Thailand

File available upon request. (Data_2016.xlsx file)

Source: Air Transport Information Division, AOT

Exhibit 8: Dividends Payout History, Share Information, & IAA Consensus Target Price of Thai Airways**Dividends Payout History**

Operation Period	X-Date	Payment Date	Dividend (Baht/Share)
01/01/15 – 31/12/15			No Dividend
01/01/14 – 31/12/15			No Dividend
01/01/13 – 31/12/14			No Dividend
01/01/12 – 31/12/13	13/03/13	10/05/13	0.50
01/01/11 – 31/12/12			No Dividend
01/01/10 – 31/12/11	11/03/11	20/05/11	1.25
01/01/09 – 31/12/10	31/03/10	27/05/10	0.25
01/01/08 – 31/12/09			No Dividend
01/10/07 – 31/12/08	18/04/08	09/05/08	0.45
01/10/06 – 30/09/07	07/01/08	25/01/08	1.80
01/10/05 – 30/09/06	05/01/07	26/01/07	1.65
01/10/04 – 30/09/05	03/01/06	20/01/06	1.50

Source: http://thai.listedcompany.com/dividend_policy.html

Share Information (as of 31 December 2015)

Authorized Capital	26,989,009,500 THB
No. of Listed Share	2,182,771,917 shares
Paid up Capital	21,827,719,170 THB
Free Float	46.84%
Date of Listing	19 July 1991

Source: http://www.settrade.com/C04_03_stock_companyhighlight_p1.jsp?txtSymbol=THAI&ssopa_geld=12&selectPage=3, (Date Access: March 30, 2016)

IAA Consensus Target Price (as of 31 March 2016)

Broker	EPS 2016F	EPS 2017F	P/E 2016F	P/BV 2016F	Div (%) 2016F	Target Price
UOBKHST	4.10	4.90	6.5	-	-	15.40
KKTRADE	2.81	3.66	9.5	-	-	28.00
PST	1.08	1.99	11.0	0.7	-	12.90
BLS	2.28	2.60	9.7	1.0	-	17.40
KSS	4.66	6.10	5.3	1.3	-	32.00
Average	2.99	3.85	8.4	1.0		21.14
High	4.66	6.10	11.0	1.3	-	32.00
Low	1.08	1.99	5.3	0.7	-	12.90
Median	2.81	3.66	9.5	1.0	-	17.40

Source: http://www.settrade.com/AnalystConsensus/C04_10_stock_saa_p1.jsp?txtSymbol=THAI&selectPage=10 (Date Access: March 31, 2016)

Exhibit 9: Financial Statements of Thai Airways & Peers 2010-2015

File available upon request. (Exhibit10_FS.xlsx file)

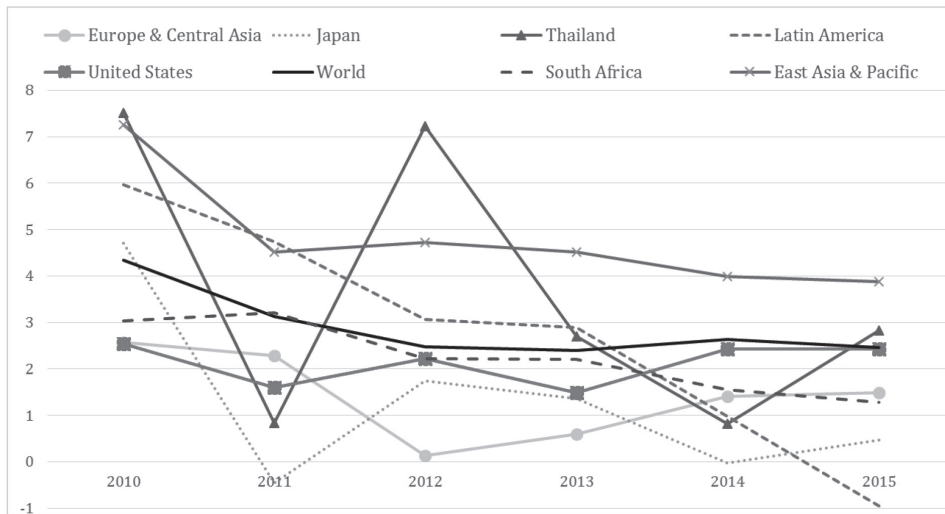
Source: Thompson Reuters Database

Exhibit 10: Annual Report 2015

File available upon request. (AnnualReport_2015.pdf file)

Source: www.thairways.com

Exhibit 11: Economic Growth by Region 2010-2015



File available upon request. (Table data in Exhibit12_EcoGrowth.xlsx file)

Source: World Bank

Exhibit 12: Rules and Regulations of LAX Airport Operating Permits and Fees

File available upon request. (Exhibit13_LAX Airport.pdf file)

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