

03 September 2018 | 2QFY18 Results review

AirAsia Group Berhad

Commendable despite swollen fuel costs

Maintain BUY

Adjusted Target Price(TP): RM4.47
(from: RM4.87)

INVESTMENT HIGHLIGHTS

- **Results of 1HFY18 was below expectations**
- **Healthy growth seen in top-line**
- **RASK-CASK spread remained resilient**
- **Maintain BUY with adjusted target price of RM4.87**

Below expectations. The group recorded cumulative 1HFY18 core net profit of RM612.1m, which came in below ours and consensus expectations. The earnings accounted for 38.2 % and 44.2% of full year estimates respectively. For 2QFY12, the net profit came in lower by -30.6%yoy to RM272.1m. The decline was a result of an increase in operating expenses by +23.0%yoy, due to higher average fuel price at USD86.0/b.

Healthy growth seen on top-line. The group's 1HFY18 revenue was up by +12.5%yoy, to RM5.2b. The commendable growth was due to higher passengers carried in 2QFY18, recorded at 10.9m with growth of +13.2%yoy. For 1HFY18 the total passengers carried grew by +14.8% to 21.5m. While we noted that the increase in passengers has contributed to higher 1HFY18 ticket sales of +13.1% to RM3.7b, ancillary income revenue was also seen growing by +10.0% to RM977.6m.

Breaking down the increase in opex. The group experienced a rise in opex particularly due to the increase in aircraft fuel expenses. Following the surge in average fuel price of +29.0% to USD89/b coupled with capacity expansion of +14.9% in 2QFY18, the group's 1HFY18 fuel expenses were up by +26.9% to RM1.8b. While we note that fuel costs factor could become a concern, we are on the view that risk will be minimized via the group's fuel hedging policy and gradual adjustments in airfare.


RASK-CASK spread remains resilient. In 1HFY18, despite the rise in opex, RASK-CASK spread remained resilient, supported by higher cumulative revenue of ticket sales and ancillary. At this juncture, we believe the spread still satisfactory considering the unfavourable fuel price level. Moving forward, we opine margin could see further improvement driven by the group's inventive strategy of adopting innovative mechanism in its operation via digitalization coupled with capacity expansion, filling the fleet with fuel-saving aircrafts.

RETURN STATS	
Price (30 Aug 2018)	RM3.44
Target Price	RM4.47
Expected Share Price Return	+30.0%
Expected Dividend Yield	+3.8%
Expected Total Return	+33.8%

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,342.0
Market cap. (RM'm)	11,496.4
Price over NA	1.32
52-wk price Range	RM2.92 – RM4.75
Beta (against KLCI)	0.81
3-mth Avg Daily Vol	9.35m
3-mth Avg Daily Value	RM30.37m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
EPF	5.33%

Aviation abbreviation used in this report:
 RPK: Revenue Passenger Kilometers
 ASK: Available Seat Kilometers
 RASK: Revenue per ASK
 CASK: Cost Per ASK
 BLF: Breakeven load factor
 FSC: Full Service Carrier
 LCC: Low Cost Carrier
 Pax: Passenger
 IAAX: Indonesia Airasia X
 TAAX: Thai Airasia X

Impact to earnings. Overall, the group's cumulative earnings came to conclude on a positive note. As the results came in below our expectation, we are revising our earnings forecast for FY18 and FY19 downwards by -8.1% and -9.0% respectively to take into account our higher assumptions of operating expenses in the immediate term.

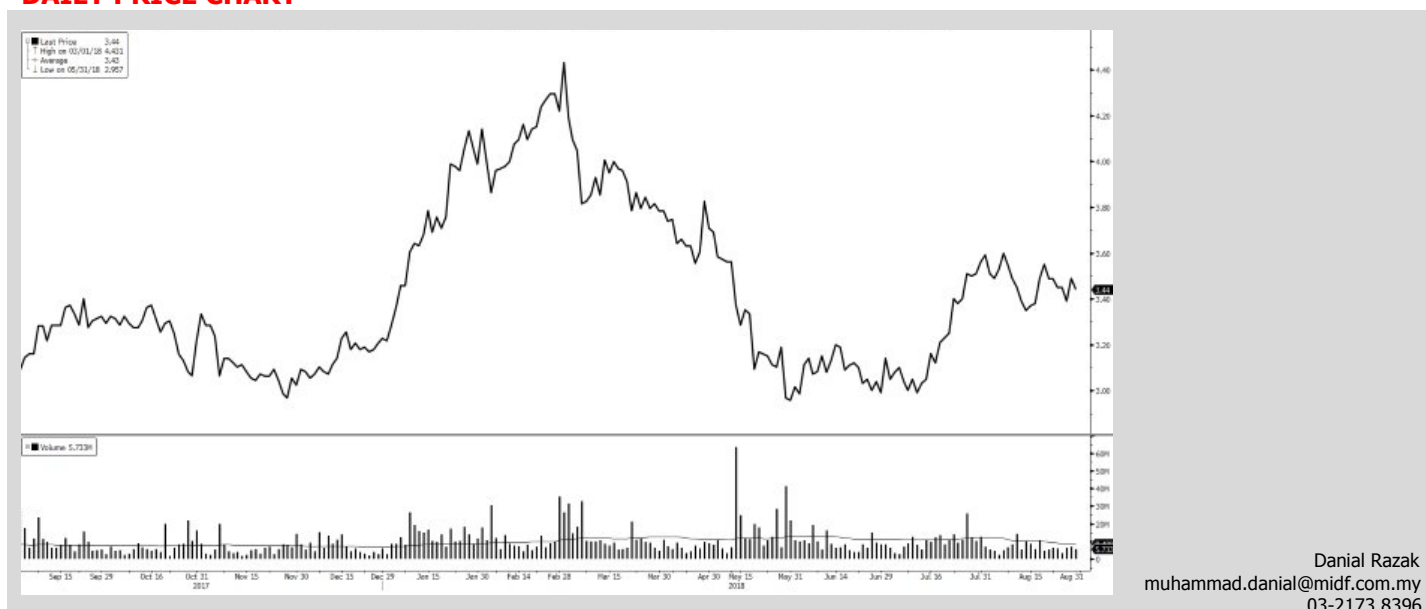
Maintain BUY with adjusted TP of RM4.47. Following our earnings adjustments for FY19, we adjust our TP lower to RM4.47 (from RM4.87) pegging its FY19 EPS to PER of 10x. We like Air Asia as the company continues enhance its cost structure, along with its efforts to derive higher revenue from its existing and new routes. Overall, we believe the prospect of AirAsia remains sanguine predicated on: 1) stable demand growth with conservative ASK expansion of +10.0%; 2) new areas of growth in India and Japan. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	6,297.7	6,946.4	9,709.7	9,783.4	9,921.4
EBITDA	2,739.9	2,800.8	3,001.2	2,779.4	2,818.6
EBIT	2,036.6	2,055.6	2,082.6	1,928.7	1,955.9
PBT	215.2	2,170.2	2,087.8	1,933.5	1,960.7
Net Profit	541.3	2,033.6	1,592.0	1,474.3	1,495.1
Core Net Profit	724.9	1,372.1	1,243.5	1,474.3	1,495.1
Core EPS (sen)	16.8	40.9	37.2	44.1	44.7
Core EPS growth (%)	197.1	143.5	(9.0)	18.6	1.4
PER (x)	19.9	8.2	9.0	7.6	7.5
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	1.2	3.6	2.7	2.9	3.9

Source: Company, MIDF Research

DAILY PRICE CHART



Danial Razak
 muhammad.danial@midf.com.my
 03-2173 8396

AirAsia: 2QFY18 RESULTS SUMMARY

<i>All in Rm'm unless stated otherwise</i>	Quarterly Results					Cumulative		
FYE Dec	2Q18	2Q17	1Q18	%YoY	%QoQ	6MFY18	6MFY17	%YoY
Revenue	2,623.6	2,378.3	2,555.2	10.3%	2.7%	5,178.8	4,604.9	12.5%
-ticket sale	1,867.5	1,704.5	1,823.1	9.6%	2.4%	3,690.6	3,263.2	13.1%
-ancillary income	483.5	454.9	494.1	6.3%	-2.1%	977.6	888.5	10.0%
-lease income	272.6	218.9	238.0	24.5%	14.5%	510.6	453.2	12.7%
Operating exp.	(2,057.3)	(1,642.2)	(2,104.7)	25.3%	2.3%	(4,162.0)	(3,384.9)	23.0%
EBITDAR	786.7	587.4	1,131.4	33.9%	-30.5%	1,918.1	1,331.8	44.0%
EBITDA	566.3	736.1	931.2	-23.1%	-39.2%	1,497.5	1,331.9	12.4%
Depreciation	(127.9)	(219.6)	(185.4)	-41.8%	31.0%	(313.3)	(424.4)	-26.2%
EBIT	438.5	516.5	745.7	-15.1%	-41.2%	1,184.2	907.5	30.5%
Interest income	6.6	12.8	7.5	-48.0%	-11.2%	14.1	31.8	-55.6%
Interest exp.	(120.2)	(133.9)	(112.2)	-10.2%	-7.2%	(232.5)	(276.8)	-16.0%
Forex	(4.0)	(13.3)	5.8	-70.2%	-168.0%	1.9	43.6	-95.7%
Contr.of JV and assoc.	(45.9)	4.7	55.5	-1072.4%	-182.7%	9.6	322.1	-97.0%
Pre-tax profit	275.0	386.8	1,194.4	-28.9%	-77.0%	1,469.4	1,028.1	42.9%
PATAMI	315.3	139.9	1,090.3	125.4%	-71.1%	1,405.6	724.2	94.1%
E.I.	43.2	(331.4)	750.3	-113.0%	-94.2%	793.5	(7.9)	->100.0%
Core PATAMI	272.1	391.8	340.0	-30.6%	-20.0%	612.1	684.2	-10.5%
Operating stat	2Q18	2Q17	1Q18	%YoY	%QoQ	6MFY18	6MFY17	%YoY
Passenger carried ('000)	10,878.1	9,611.8	10,654.2	13.2%	2.1%	21,532.3	18,761.1	14.8%
RPK (m)	13,612.0	12,528.0	13,815.0	8.7%	-1.5%	13,713.5	12,250.5	11.9%
ASK (m)	15,962.0	14,202.0	15,979.0	12.4%	-0.1%	15,970.5	13,895.5	14.9%
Load factor (%)	0.9	0.9	0.9	-3.4%	-1.1%	87%	89%	-2.5%
average fare (RM)	172.0	177.0	171.0	-2.8%	0.6%	171.5	174.0	-1.4%
Fuel Expenses	(914.2)	(711.7)	(852.5)	28.5%	7.2%	(1,766.7)	(1,392.5)	26.9%
Unit fuel cost (USD/b)	89.0	69.0	83.0	29.0%	7.2%	86.0	68.0	26.5%
% fuel cost of OPEX	0.4	0.4	0.4	2.5%	9.7%	0.4	41%	1.3%
RASK (sen/km)	14.8	15.4	14.7	-3.4%	1.0%	14.8	15.1	-2.5%
CASK (sen/km)	13.8	13.2	13.6	4.2%	1.6%	13.7	13.4	1.8%
USD/MYR	4.0	4.3	3.9	-7.6%	2.2%	3.9	4.2	-6.2%
RASK-CASK	1.1	2.1	1.1	-50.2%	-6.2%	1.1	1.7	-36.2%
Unit passenger revenue	217.0	226.0	218.0	-4.0%	-0.5%	217.5	223.0	-2.5%
Aircraft	124.0	106.0	123.0	17.0%	0.8%	123.5	106.0	16.5%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.