

30 November 2018 | 3QFY18 Results Review

AirAsia Group Berhad

Poised for recovery in the fourth quarter

Maintain BUY

Adjusted Target Price(TP): RM3.48
(from: RM3.62)

INVESTMENT HIGHLIGHTS

- **Results of 9MFY18 deemed within expectations**
- **Healthy growth seen in top-line amidst strong passenger growth.**
- **Ancillary income driven by dynamic pricing initiatives**
- **Special dividend to be paid in December 2018**
- **Maintain BUY with adjusted target price of RM3.48 per share**

Below expectations. The group recorded a cumulative 9MFY18 normalised net profit of RM805.8m (-33.0%yoy). The results accounted for 67.4% and 60.3% of our and consensus' estimates respectively. The deviation was caused by the +35.0%yoy increase in fuel price expense to RM2.8b. Normalised net profit exclude the one-off gains such as the sale of Expedia.

Healthy growth seen on top-line. The group's 9MFY18 revenue was up by +10.4%yoy, to RM7.9b. The robust growth was due to higher passengers carried in 3QFY18, recorded at 10.8m with a growth of +9.1%yoy. For 9MFY18, the total passengers carried grew by +14.8% to 21.5m led to an average load factor of 85% which we deem is reasonable as the group embarked on expansion via increased frequencies and number of aircrafts.

Ancillary stood strong. The increase in passengers which contributed to higher 9MFY18 ticket sales of +12.5% to RM5.6b, also resulted in ancillary income revenue to grow by +9.2%yoy to RM1.5b. Notably, baggage fees represented 48.0% of ancillary revenue. The strength in ancillary income was also driven by dynamic pricing and ancillary personalisation which facilitated target marketing. For instance, the customisation of AAGB's website and app to individual visitors has boosted conversion rates from below 5% to nearly 9%.

Volatility in fuel price was a major headwind. The group experienced a rise in opex particularly due to the increase in aircraft fuel expenses. Following the surge in average fuel price of +51%yoy to USD95/b coupled with capacity expansion of +16% in 3QFY18, the portion of fuel price out of total opex increased to 46.2%, a level not seen since FY15. As such, the RASK-CASK spread also narrowed to 0.4sen/km compared to 2.0sen/km a year ago.

RETURN STATS	
Price (29 Nov 2018)	RM2.98
Target Price	RM3.48
Expected Share Price Return	+16.8%
Expected Dividend Yield	+4.4%
Expected Total Return	+21.2%


STOCK INFO	
KLCI	1,696.34
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.97
Market cap. (RM'm)	9,959.08
Price over NA	1.03
52-wk price Range	RM2.30 – RM4.75
Beta (against KLCI)	1.19
3-mth Avg Daily Vol	9.41m
3-mth Avg Daily Value	RM27.20m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
EPF	5.57%

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

Rebound to be seen in 4QFY18. Tracing back to 3QFY15, the quarter experienced a net loss after tax of – RM405.7m before recording a net profit of RM554.1m in 4QFY15. The main reason for the recovery was the 12.9% decline in average Brent crude oil price in 4QFY15; from USD51.29pb to USD44.59pb. So far, first two month in 4QFY18, Brent crude oil price has drop by approximately 24% to hover around USD60pb to USD65pb in contrast to the 7.4% rise in 3QFY18. We believe that jet fuel prices will follow suit and AAGB will be able to reap benefits by hedging more in the near future. In addition, yields could see further improvement driven by the group’s digitalization strategy coupled with capacity expansion that utilizes fuel-saving aircrafts.

Special dividend to be distributed in December 2018. AAGB announced that it will be giving a special dividend of RM0.40per share in December 2018. This relates to the sale of its aircraft leasing business, AAC to BBAM for USD1.18b.

Impact to earnings. As the normalised results came below our expectations, we are revising our earnings forecast downwards for FY19 and FY20 by -9.0% and -3.6% respectively to take into account our higher assumptions of operating expenses in terms of operating lease expenses.

Maintain BUY with adjusted TP of RM3.48 per share, (previously RM3.62 per share) pegging its FY19 EPS to PER of 10x. It is notable that AAGB is trailing at a PER of 3.5x, while its Asian peers are approximately trading at a PER slightly above 10x which we opine is unwarranted given the group’s position as the leading ASEAN low cost carrier. We continue to like Air Asia as the company continues enhance its cost structure, along with its efforts of rationalising revenue and cost via digitalisation efforts. We also believe that the headwind from oil prices to be moderated by AAGB hedging policies. Overall, we believe the prospect of AirAsia remains sanguine predicated on: 1) stable demand growth with conservative average ASK expansion of 13.3% so far in FY18; and 2) resilient load factor despite volatile fuel price. Although the departure levy for international outbound passengers will come into effect mid-next year, sensitivity towards the increase in passenger charges has been low in the past and will be offset by higher travelling demand, translating into better ticket sales. 

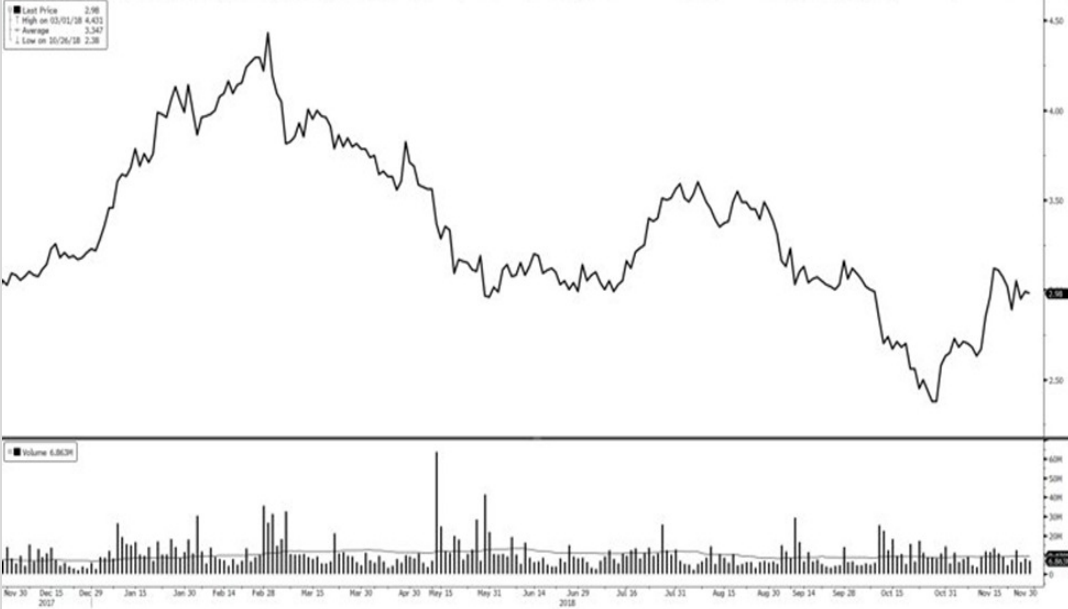
INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	6,297.7	6,946.4	9,709.7	9783.4	11002.0
EBITDA	2,739.9	2,800.8	3,001.2	1649.9	1671.5
EBIT	2,036.6	2,055.6	2,082.6	1549.1	1551.4
PBT	215.2	2,170.2	2,087.8	1432.7	1528.3
Net Profit	541.3	2,033.6	1,592.0	1,088.9	1,161.5
Core Net Profit	724.9	1,372.1	1,243.5	1,088.9	1,161.5
Core EPS (sen)	16.8	40.9	37.2	32.6	34.8
Core EPS growth (%)	197.1	143.5	(9.0)	(12.4)	6.7
PER (x)	17.7	7.3	8.0	9.1	8.6
Net Dividend (sen)	4.0	12.0	12.0	53.0*	13.0
Net Dividend Yield (%)	1.3	4.0	4.0	4.4	4.4

Source: Company, MIDF Research

Note: *Special dividend of RM0.40 and dividend of RM0.13 per share

DAILY PRICE CHART



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Source: Bloomberg

AirAsia: 3QFY18 RESULTS SUMMARY

<i>All in Rm'm unless stated otherwise</i>	Quarterly Results					Cumulative		
FYE Dec	3Q18	3Q17	2Q18	%YoY	%QoQ	9MFY18	9MFY17	%YoY
Revenue	2,608.8	2,447.8	2,623.6	6.6%	-0.6%	7,787.6	7,052.7	10.4%
-ticket sale	1,896.1	1,700.7	1,867.5	11.5%	1.5%	5,586.7	4,963.9	12.5%
-ancillary income	509.3	472.9	483.5	7.7%	5.3%	1,486.9	1,361.4	9.2%
-lease income	203.4	274.2	272.6	-25.8%	-25.4%	714.0	727.4	-1.8%
Operating exp.	(2,236.5)	(1,682.3)	(2,057.3)	32.9%	8.7%	(6,398.5)	(5,067.2)	26.3%
EBITDAR	82.8	926.8	786.7	-91.1%	-89.5%	2,000.9	2,556.1	-21.7%
EBITDA	372.3	765.5	566.3	-51.4%	-34.3%	1,869.8	2,097.4	-10.9%
Depreciation	(119.6)	(271.2)	(127.9)	55.9%	6.5%	(432.9)	(695.6)	-37.8%
EBIT	252.7	494.3	438.5	-48.9%	-42.4%	1,436.9	1,401.8	2.5%
Interest income	14.4	8.1	6.6	78.0%	116.1%	28.5	39.9	-28.6%
Interest exp.	(142.2)	(128.2)	(120.2)	10.9%	18.3%	(374.7)	(405.0)	-7.5%
Forex	68.9	86.8	(4.0)	-20.6%	1839.0%	70.8	130.3	-45.7%
Contr.of JV and assoc.	(56.1)	25.1	(45.9)	-323.9%	-22.3%	(46.5)	347.2	-113.4%
Pre-tax profit	308.5	486.0	275.0	-36.5%	12.2%	1,777.9	1,514.2	17.4%
PATAMI	915.9	505.3	361.8	81.2%	153.1%	2,419.7	1,267.7	90.9%
E.I.	756.6	7.5	73.1	10036.4%	934.8%	1,613.9	(5.9)	-27397.9%
Core PATAMI	159.3	426.8	242.2	-62.7%	-34.2%	805.8	1,202.5	-33.0%
Operating stat	3Q18	3Q17	2Q18	%YoY	%QoQ	9MFY18	9MFY17	%YoY
Passenger carried ('000)	10,795.9	9,891.9	10,878.1	9.1%	-0.8%	32,328.2	28,653.0	12.8%
RPK (m)	13,575.0	12,875.0	13,612.0	5.4%	-0.3%	41,002.0	37,376.0	9.7%
ASK (m)	16,450.0	14,910.0	15,962.0	10.3%	3.1%	48,391.0	42,701.0	13.3%
Load factor (%)	82%	86%	86%	-4.0%	-4.0%	85%	88%	-3.0%
average fare (RM)	177.0	172.0	172.0	2.9%	2.9%	520.0	520.0	0.0%
Fuel Expenses	(1,032.9)	(680.4)	(914.2)	51.8%	13.0%	(2,799.6)	(2,072.9)	35.1%
Unit fuel cost (USD/b)	95.0	63.0	89.0	50.8%	6.7%	267.0	199.0	34.2%
% fuel cost of OPEX	0.5	40.4%	44.4%	14.2%	3.9%	1.3	1.2	8.3%
RASK (sen/km)	14.7	14.8	14.8	-0.4%	-0.9%	44.2	45.0	-1.8%
CASK (sen/km)	14.3	12.8	13.8	11.7%	3.8%	41.6	39.6	5.0%
USD/MYR	4.1	4.3	4.0	-3.7%	3.1%	12.0	12.7	-5.4%
RASK-CASK	0.4	2.0	1.1	-79.6%	-62.3%	2.6	5.4	-51.9%
Unit passenger revenue	222.0	221.0	217.0	0.5%	2.3%	657.0	667.0	-1.5%
Aircraft	127.0	110.0	124.0	15.5%	2.4%	374.0	322.0	16.1%

Source: Company, MIDFR

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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.