12 December 2018 | Corporate Update

AirAsia Group Berhad

Monetising spree continues

Maintain BUY

***Unchanged* Target Price(TP): RM3.48**

INVESTMENT HIGHLIGHTS

- **U.S investment firm to buy 30 narrowbody planes from AAGB for roughly USD800m**
- **AAGB's net cash position will be increased from the sale**
- **Financial position to be unaffected by writ of summons**
- **Sale of aircrafts is positive for AAGB's shift to increase digitalisation**
- **Maintain BUY with unchanged target price of RM3.48 per share**

US investment firm strikes a deal to buy AAGB's narrowbody planes. According to a news statement by Reuters, U.S. private investment firm, Castlelake LP has clinched a deal to acquire about 30 narrowbody planes from AirAsia Group Berhad (AAGB) for a consideration of roughly USD800m (RM3.34b). The deal entails the purchase of AAGB'S older aircrafts which are under lease to AAGB's affiliated airlines and is expected to be concluded in a few weeks.

Net changes in AAGB's fleet. Previously, management noted that there will be a net addition of 24 aircrafts in FY19. Taking into consideration the sale of 30 aircrafts to Castlelake, there would be a net reduction of AAGB's fleet (including other AOCs) by six aircrafts. As such, we expect aircraft utilisation across AAGB in FY19 to increase above the 2.2% recorded for 9MFY18.

Financial position to be unaffected by writ of summons by MAHB. Assuming that the acquisition would be satisfied via cash, AAGB's cash pile would balloon up to around RM7.77b, translating into a net cash position of roughly RM4.57b. The writ of summons by Malaysia Airports Holdings Berhad (MAHB) to AAGB worth RM9.4m for the uncollected international passenger service charges from July 2018 is rather small, only less than 1% of its cash pile and FY18F/FY19F earnings. Therefore, AAGB's financial health will not be adversely impacted in the event that AAGB has to reimburse the monies owed to MAHB.

Our view. We reckon that the acquisition indicates AAGB's aspirations to invest in shifting from being asset-heavy to being more digitally focused. Operationally, AAGB has partnered with Airbus and Palantir to establish an integrated Big Data platform which includes forecast of predictive maintenance and efficient scheduling of parts with a potential saving of USD0.04m per aircraft per year.

Ancillary segment to be further supported by BIG Loyalty. Aside from big data efforts, AAGB's subsidiary, Big Loyalty Sdn Bhd (BL) acquired shares in Thailand-based Tune Money Co Ltd, PT Tune Money and Think BIG Loyalty Hong Kong Ltd for a total purchase consideration of approximately RM0.69m in November and December this year. To recap, BL launched its BIG Xchange points conversion programme in September 2018 which is expected to increase BL's revenue contribution from credit card points segment by 10%.

RETURN STATS	
Price (11 December 2018)	RM3.04
Target Price	RM3.48
Expected Share Price Return	+14.5%
Expected Dividend Yield	+4.3%
Expected Total Return	**+18.8%**

STOCK INFO	
KLCI	1,652.63
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.97
Market cap. (RM'm)	10,159.60
Price over NA	1.00
52-wk price Range	RM2.30 – RM4.75
Beta (against KLCI)	1.17
3-mth Avg Daily Vol	10.1m
3-mth Avg Daily Value	RM29.1m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
EPF	5.63%

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

Maintain BUY with unchanged TP of RM3.48 per share, pegging its FY19 EPS to PER of 10x. It is notable that AAGB is trailing at a PER of 3.6x, while its Asian peers are trading at PER of above 10x which we opine is unwarranted given AAGB's position as the leading ASEAN low cost carrier. While a risk lies in AAGB having to adhere to the PSC charges which may push average fares higher to sustain margins, we reckon that its dynamic pricing mechanism could mitigate this effect. We continue to like AAGB as the company continues to enhance its cost structure, along with its efforts of rationalising revenue and cost via digitalisation efforts. 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. While we note that sensitivity of passengers towards increased charges to be low in the past, the possible downward revision in the PSC could be an impetus to further lift load factors.

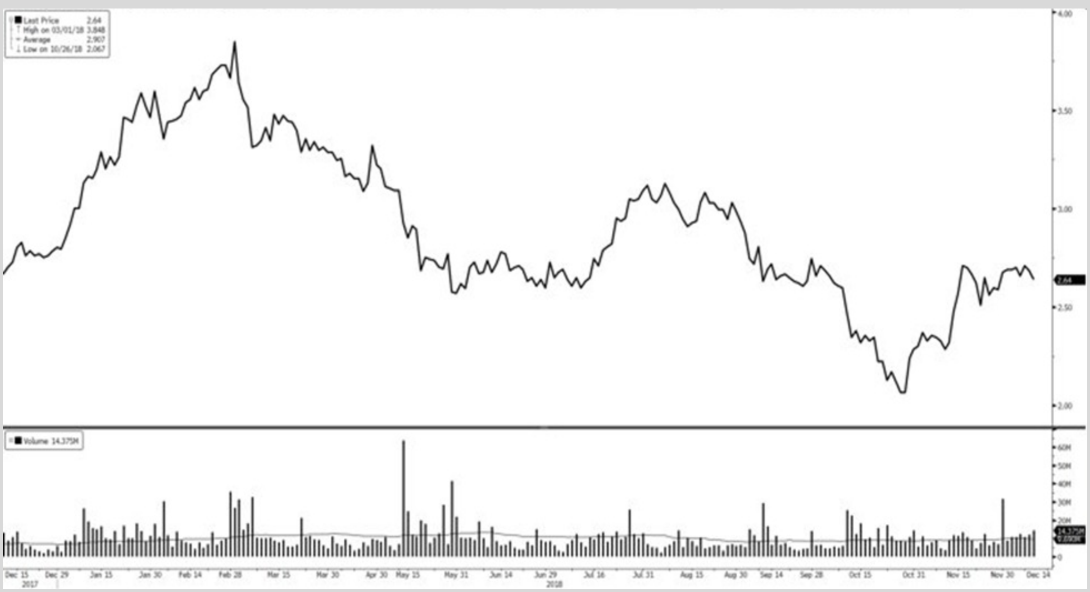
INVESTMENT STATISTICS

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)	18.2	7.5	8.2	9.4	8.8
Net Dividend (sen)	4.0	12.0	12.0	53.0*	13.0
Net Dividend Yield (%)	1.3	3.9	3.9	17.4	4.3

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

DISCLOSURES AND DISCLAIMER

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 *rise* 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 *fall* 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.