26 December 2018 | Corporate Update

AirAsia Group Berhad

Proposed disposal of aircrafts confirmed

Maintain BUY

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

INVESTMENT HIGHLIGHTS

- **AAGB proposed to dispose 25 aircrafts to an entity indirectly controlled by Castlelake for RM3.22b**
- **AACL also entered into a sale and leaseback agreement for 4 new aircraft with Castlelake's indirectly controlled entity**
- **Net cash position of AAGB to increase further to RM2.43b even after excluding debt repayments and transaction costs**
- **Proposed disposal of aircraft is positive for AAGB's shift to increase digitalisation**
- **Maintain BUY with unchanged target price of RM3.48 per share**

Proposed disposal of aircraft to Castlelake confirmed. AirAsia Group Berhad's (AAGB) indirect wholly-owned subsidiary, Asia Aviation Capital Limited (AACL) entered into an agreement to dispose its 100% equity stake in Merah Aviation Holding Limited (Merah Aviation) to an indirectly controlled entity of U.S investment firm, Castlelake L.P. which is AS Air Lease Holdings 5T DAC (AALH) for an aggregate consideration of USD768m or approximately RM3.22b. Merah Aviation will then own 25 aircrafts (18 Airbus A320 CEO and 7 Airbus A320 NEO), which will be leased to AirAsia Berhad and its affiliates. This confirms the media reports on 11 December 2018. AACL also entered into a sale and leaseback agreement with AALH for four new Airbus A320 NEOs which are expected to be delivered in 2019.

AAGB's net cash position to increase further. Taking into account of: (i) the repayment of existing debt related to the 25 aircraft and (ii) the expenses incurred for the proposed disposal, the remaining proceeds to AAGB from the proposed disposal will be around RM1.30b. As such, AAGB's net cash position will increase from RM1.23b (as of 30 September 2018) to approximately RM2.43b.

Proposed disposal concurs with AAGB's digitalisation efforts. AAGB's strong net cash pile will bode well for AAGB'S route network expansion without the financial burden of owning aircraft. Moreover, the proposed disposal will result in annual savings of expenses related to financing and depreciation worth RM90.1m and RM196.8m respectively, partially offsetting rental expenses of RM348.0m. The strong net cash position will also assist its aspirations of being more digitally focused and aid any investments needed. In the long run, the proposed disposal will strengthen the ties between AAGB and Castlelake, paving ways for more opportunities in the field of aircraft leasing.

RETURN STATS	
Price (24 December 2018)	RM2.74
Target Price	RM3.48
Expected Share Price Return	+27.0%
Expected Dividend Yield	+4.7%
Expected Total Return	**+31.7%**

STOCK INFO	
KLCI	1,683.82
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	3,341.97
Market cap. (RM'm)	9,157.01
Price over NA	0.90
52-wk price Range	RM1.99 – RM4.12
Beta (against KLCI)	1.14
3-mth Avg Daily Vol	9.85m
3-mth Avg Daily Value	RM27.9m
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 below 5.0x (while its Asian peers are approximately trading at a PER above 10x) which we opine is unwarranted given the group'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 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.

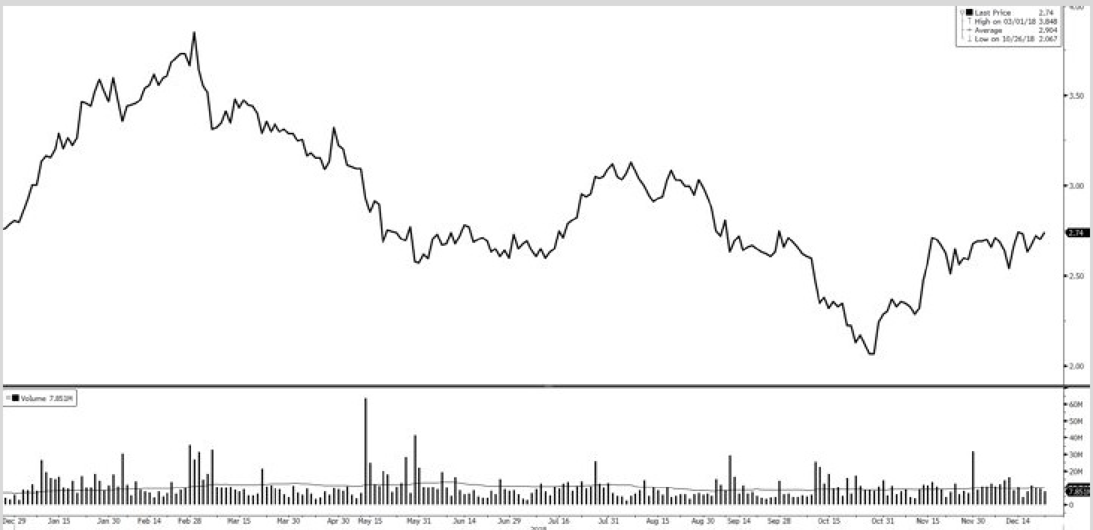
INVESTMENT STATISTICS

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)	16.3	6.7	7.4	8.4	7.9
Net Dividend (sen)	4.0	12.0	12.0	53.0	13.0
Net Dividend Yield (%)	1.5	4.4	4.4	19.3	4.7

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

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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 *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.