

25 May 2018 | 1QFY18 Results Review

AirAsia Group Berhad

On a strong footing

Maintain BUY

Adjusted Target Price(TP): RM4.87
(from: RM4.80)

INVESTMENT HIGHLIGHTS

- **AAGB reported net profit of RM1.1b in 1QFY18**
- **Core net profit was broadly in-line**
- **Rolling over valuation to FY19**
- **Maintain BUY with adjusted target price of RM4.87**

Core profit was broadly in-line. The group reported 1QFY18 net profit of RM1.1b, whereby there was a significant jump as compared to same period last year due to a stake sale of one of its subsidiary. Excluding the one-off and non-core income items, consolidated core PATAMI came in at RM340.0m. Accordingly, the core profit accounted for 21.2% and 20.7% of full year estimates respectively. Revenue grew strongly by +14.8%yoy, supported by increased ticket sales (+17.0%yoy) and ancillary income (+14.0%yoy) vis-à-vis +16.0%yoy growth to 10.7m in passengers carried in 1QFY18.

Ancillary income expanded. The strong passenger growth had a direct impact to ancillary revenue, which grew by +11.0%yoy to RM505.1m. It is worth noting that ancillary income per pax stood at RM47, a decline of -6.0%yoy due to in our opinion, more price sensitive passengers in new markets. This was evident by the strong jump in passengers which surpassed the growth of ancillary revenue. Moving forward, we believe the group will be able to improve revenue from the ancillary segment, following its sale-drive initiatives in 1QFY18. This includes the utilization of Artificial Intelligence, offering pricing optimisation while enabling ancillary upsell during check-in and at boarding gates.

Capacity expansion giving pressure to short-term yield. In 1QFY18, RASK declined by -2.0%yoy to 14.68sen. Despite the drop, we believe RASK will likely improve in due course supported by resilient travel demand in the longer term, as few new routes transition to mature phase. Despite the drop, it is important to highlight that CASK was mostly flat in the quarter despite higher aircraft fuel expenses, MRO and operating lease expenses. We opine this as commendable despite the increase of average jet fuel price in 1QFY18 by +9.0%yoy to USD83/brl.

RETURN STATS	
Price (24 May 2018)	RM3.23
Target Price	RM4.87
Expected Share Price Return	+50.8%
Expected Dividend Yield	+4.00%
Expected Total Return	+54.8%

STOCK INFO	
KLCI	1,775.66
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.9
Market cap. (RM'm)	10,794.6
Price over NA	1.45
52-wk price Range	RM2.89 – RM4.75
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	10.38m
3-mth Avg Daily Value	RM40.6m


Major Shareholders	
Tune Live	16.73%
EPF	5.02%
Vanguard Group	1.92%

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

But load factor remained strong. We considered the group had maintained a strong load factor at 87%. Although, this was a slight decline of -2.0ppts from 1QFY17 level, we noted that the group had embarked on bulky capacity expansion via frequencies and number of aircrafts. Given the increase in capacity, management highlighted that it will continue to focus on its load active strategy especially for newly commenced routes. This is done to strengthen its presence in new markets, and capture higher market shares. We believe this move as strategic in the long-term, taking AirAsia a step forward in enhancing its brand name as ASEAN Low Cost Carrier. While load factor remained strong following expansion in new markets, it is worth to note that average fare was flat in comparison to last year, at RM171.00.

Interim dividend of 13sen declared. Its board of directors have approved an interim single-tier dividend of 13sen in FY18, which was in line with our estimates.

Impact to earnings. Given that the core earnings came in line with our forecasts, we will make no adjustments at this juncture.

Maintain BUY with adjusted TP of RM4.87. We adjust our TP higher to **RM4.87** (from RM4.80) as we rollover our valuation to **FY19**. Our TP is based on pegging its **FY19 EPS to PER of 10x**. Notably, share price has been on a downtrend, attributable to post GE14 effects. It is now trailing at PER of 6.6x, while its ASEAN peers are approximately 10x, which we opine is unwarranted given the group's position as the leading ASEAN Low Cost Carrier. We believe strong set of results in coming quarters will increase the likelihood for the stock price to recover and rise further. Therefore, at current price level, it represents an opportunity for investors to accumulate. All in, we continue to like Air Asia as the company continues to reinvent itself to maintain its lead in a highly competitive industry. Overall, we believe the prospect of AirAsia remains sanguine predicated on: 1) stable demand growth with consistent yearly ASK expansion; 2) new areas of growth in Air Asia India and Air Asia 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	3,023.9	3,066.6
EBIT	2,036.6	2,055.6	2,082.6	2,098.4	2,128.0
PBT	215.2	2,170.2	2,087.8	2,103.6	2,133.3
Net Profit	541.3	2,033.6	1,592.0	1,604.1	1,626.7
Core Net Profit	724.9	1,372.1	1,243.5	1,604.1	1,626.7
Core EPS (sen)	16.8	40.9	37.2	48.0	48.7
Core EPS growth (%)	197.1	143.5	(9.0)	29.0	1.4
PER (x)	19.2	7.9	8.7	6.7	6.6
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	1.2	3.7	2.7	2.9	4.0

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

AirAsia: 1QFY18 RESULTS SUMMARY

All in Rm'm unless stated otherwise	Quarterly Results					Cumulative		
	FYE Dec	1Q18	1Q17	4Q17	%YoY	%QoQ	3MFY18	3MFY17
Revenue	2,555.2	2,226.6	2,657.4	14.8%	-3.8%	2,555.2	2,226.6	14.8%
-ticket sale	1,823.1	1,558.7	1,898.8	17.0%	-4.0%	1,823.1	1,558.7	17.0%
-ancillary income	505.1	454.6	482.6	11.1%	4.7%	505.1	454.6	11.1%
-lease income	238.0	234.3	276.0	1.6%	-13.8%	238.0	234.3	1.6%
Operating exp.	(2,092.7)	(1,742.7)	(1,738.0)	-20.1%	-20.4%	(2,092.7)	(1,742.7)	20.1%
EBITDAR	1,143.4	744.4	1,551.6	>100%	-26.3%	1,143.4	744.4	>100%
EBITDA	943.2	595.8	1,359.7	58.3%	-30.6%	943.2	595.8	58.3%
Depreciation	(185.4)	(204.8)	(222.9)	9.4%	16.8%	(185.4)	(204.8)	-9.4%
EBIT	757.7	391.0	1,136.8	93.8%	-33.3%	757.7	391.0	93.8%
Interest income	7.5	19.0	15.1	-60.7%	-50.5%	7.5	19.0	-60.7%
Interest exp.	(112.2)	(142.9)	(161.8)	21.5%	30.7%	(112.2)	(142.9)	-21.5%
Forex	5.8	56.9	7.9	-89.8%	-26.6%	5.8	56.9	-89.8%
Contr.of JV and assoc.	55.5	317.4	22.8	-82.5%	143.8%	55.5	317.4	-82.5%
Pre-tax profit	1,206.4	641.4	1,014.5	88.1%	18.9%	1,206.4	641.4	88.1%
PATAMI	1,090.3	615.9	874.5	77.0%	24.7%	1,090.3	615.9	77.0%
E.I.	750.3	323.5	(159.5)	131.9%	570.4%	750.3	323.5	131.9%
Core PATAMI	340.0	292.4	1,034.0	16.3%	-67.1%	340.0	292.4	16.3%
Operating stat	1Q18	1Q17	4Q17	%YoY	%QoQ	3MFY18	3MFY17	%YoY
Passenger carried ('000)	10,654.2	9,149.3	10,440.0	16.4%	2.1%	10,654.2	9,149.3	16.4%
RPK (m)	13,815.0	11,973.0	13,429.0	15.4%	2.9%	13,815.0	11,973.0	15.4%
ASK (m)	15,979.0	13,589.0	15,610.0	17.6%	2.4%	15,979.0	13,589.0	17.6%
Load factor (%)	0.9	0.9	0.9	-2.2%	-1.1%	0.9	0.9	-2.0%
average fare (RM)	171.0	171.0	182.0	0.0%	-6.0%	171.0	171.0	0.0%
Fuel Expenses	(852.5)	(680.8)	(748.2)	25.2%	13.9%	(852.5)	(680.8)	25.2%
Unit fuel cost (USD/b)	83.0	67.0	69.0	23.9%	20.3%	83.0	67.0	23.9%
% fuel cost of OPEX	0.4	0.4	0.4	4.3%	-5.4%	0.4	0.4	1.7%
RASK (sen/km)	14.7	14.9	15.5	-1.5%	-5.0%	14.7	14.9	-1.5%
CASK (sen/km)	13.6	13.6	13.1	-0.4%	3.8%	13.6	13.6	-0.4%
USD/MYR	3.9	4.1	4.1	-4.8%	-5.7%	3.9	4.1	-4.8%
RASK-CASK	1.1	1.3	2.4	-13.1%	-53.1%	1.1	1.3	-13.1%
Ancillary per pax	47.0	50.0	49.0	-6.0%	-4.1%	47.0	50.0	-6.0%
Unit passenger revenue	218.0	220.0	231.0	-0.9%	-5.6%	218.0	220.0	-0.9%
Aircraft	123.0	106.0	123.0	16.0%	0.0%	123.0	106.0	16.0%

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.