midf RESEARCH

28 February 2018 | 4QFY17 Results Review

AirAsia Berhad

Ending on solid note

Maintain BUY

***Adjusted* Target Price(TP): RM4.80 (from: RM4.02)**

INVESTMENT HIGHLIGHTS

- **AIRA recorded net profit of RM1.6b for FY17**
- **Cumulatively, revenue was up by +41.8%yoy**
- **Group's hedging policy will minimize downward risk of fuel consumption**
- **Upward adjustments to FY18 and FY19 earnings**
- **Maintain BUY with adjusted target price of RM4.80**

Above expectations. The group recorded FY17 net profit of RM1.6b, which came in above ours and consensus expectations. The earnings accounted for 117.4% and 102.5% of full year estimates respectively. For 4QFY17, the net profit came in lower by -6.6%yoy to RM434.2m. The decline was attributable to the increase in operating expenses which particularly comprised of staff costs (+53.6%yoy) and aircraft fuel (+66.0%yoy).

Ancillary income expanded. The group's FY17 revenue was up by +41.8%yoy, to RM9.7b. The commendable growth of topline number was a result of higher passengers carried in 4QFY17, recorded at 10.4m with growth of +17.0%yoy. For FY17 the total passengers carried grew +11.4%yoy to 39.1m. While we noted that the increase in passengers has contributed to higher FY17 ticket sales of +56.5%yoy to RM6.9b, ancillary income revenue was also seen growing by +52.1%yoy to RM1.8b. The positive deviation in ancillary income translated to better ancillary per pax of RM49, which grew +6.5%yoy.

Breaking down the increase in opex. As mentioned, the rise in opex came in from staff costs and aircraft fuel expenses. The jump in staff cost of +53.6%yoy was due to staff bonus and salary increment for engineers. Despite the increase, management guided that the recurring staff costs will remain below RM500m mark. Another notable factor of the cost increase was aircraft fuel expenses. Following the surge in fuel price of +9.8% to USD67/b coupled with capacity expansion of +16.0%, it is worth to note that the group's FY17 fuel expenses were up by +73.7%yoy to RM2.8b. While we note that the surge in fuel expenses could become a concern, we are on the view that risk will be minimized via the group's fuel hedging policy. Going into FY18, management informed that ~18% of fuel expenses are hedged at USD63/b.

RETURN STATS	
Price (27 Feb 2018)	RM4.46
Target Price	RM4.80
Expected Share Price Return	+7.62%
Expected Dividend Yield	+2.90%
Expected Total Return	**+10.52%**

STOCK INFO	
KLCI	1,871.46
Bursa / Bloomberg	5099 / AIRA MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.9
Market cap. (RM'm)	14,904.8
Price over NA	1.83
52-wk price Range	RM2.58 – RM4.49
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	10.01m
3-mth Avg Daily Value	RM37.9m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
JPMorgan Chase	5.00%

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

RASK-CASK spread remains attractive. For FY17, despite the rise in opex, RASK-CASK spread was mostly flat at 2.0 sen/km, driven by higher cumulative revenue of ticket and ancillary sales. At this juncture, we believe the spread still remain attractive based on 3-year historical average of 2.0 sen/km. Moving forward, we opine opex will see further reduction driven by the group's inventive strategy of adopting artificial intelligence in its operation coupled with its capacity expansion with new A320 Neo aircrafts, which consume 15% less fuel. Following the planned fleet expansion to 500 aircrafts in less than ten years, the group's aeronautical operation is poised to benefit in the long run from economies of scale.

Impact to earnings. Overall, the group's earnings came in to conclude FY17 on a solid note. As the result came in above our expectation, we are revising our earnings forecast for FY18 and FY19 upwards by +17.7% and +18.9% respectively to take into account higher earnings from ticket sale, ancillary income and the expectation of opex improving further, which will translate to better earnings.

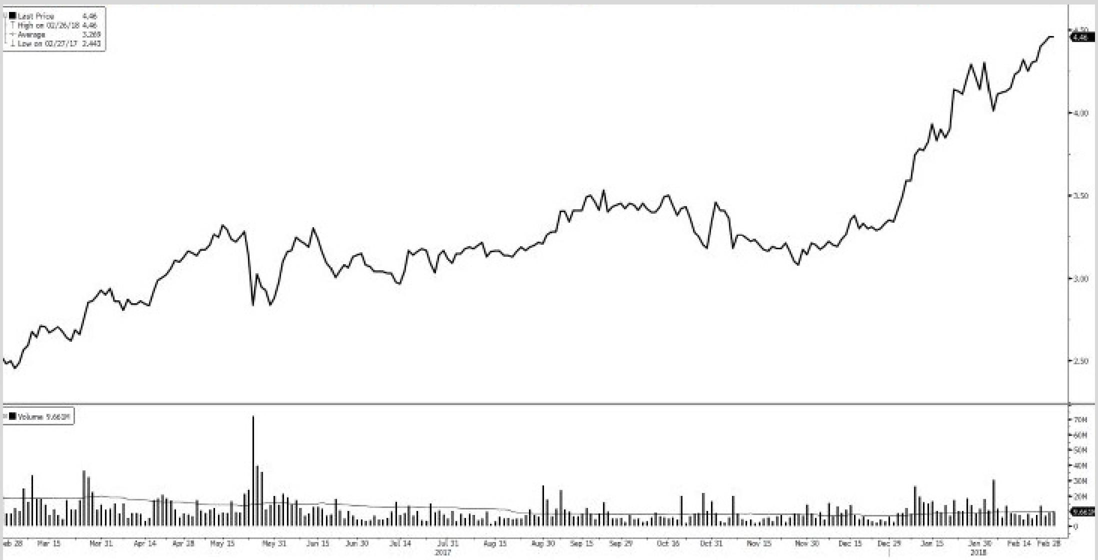
Maintain BUY with adjusted TP of RM4.80. Following our earnings adjustments for FY18, we adjust our TP higher to RM4.80 (from RM4.02) pegging its FY18 EPS to PER of 10x. We like Air Asia as the company continues to reinvent itself, doing its best to make sure that it stays ahead of the curve in a highly competitive industry. 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 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)	26.5	10.9	12.0	9.3	9.2
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	0.9	2.7	2.7	2.9	2.9

Source: Company, MIDF Research

DAILY PRICE CHART



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Source: Bloomberg

AirAsia: 4QFY17 RESULTS SUMMARY

All in Rm'm unless stated otherwise	Quarterly Results					Cumulative		
FYE Dec	**4Q17**	**4Q16**	**3Q17**	**%YoY**	**%QoQ**	**FY17**	**FY16**	**%YoY**
Revenue	2,657.4	1,936.8	2,447.8	37.2%	8.6%	9,709.7	6,846.1	41.8%
-ticket sale	1,898.8	1,248.3	1,700.7	52.1%	11.6%	6,862.7	4,386.0	56.5%
-ancillary income	482.6	307.3	472.9	57.0%	2.1%	1,844.0	1,212.5	52.1%
-lease income	276.0	381.2	274.2	-27.6%	0.7%	1,003.4	1,347.9	-25.6%
Operating exp.	(1,738.0)	(1,184.2)	(1,682.3)	-46.8%	-3.3%	(6,708.5)	(4,069.7)	64.8%
EBITDAR	727.6	617.0	604.2	17.9%	20.4%	2,350.5	2,296.9	2.3%
EBITDA	919.4	752.6	765.5	22.2%	20.1%	3,001.2	2,776.4	8.1%
Depreciation	(222.9)	(192.4)	(271.2)	-15.8%	17.8%	(918.6)	(710.8)	29.2%
EBIT	696.5	560.1	494.3	24.4%	40.9%	2,082.6	2,065.6	0.8%
Interest income	15.1	50.7	8.1	-70.2%	87.3%	55.0	105.3	-47.8%
Interest exp.	(161.8)	(126.8)	(128.2)	-27.6%	-26.2%	(551.4)	(593.1)	-7.0%
Forex	7.9	114.7	86.8	-93.1%	-90.9%	74.5	131.6	-43.4%
Contr.of JV and assoc.	22.8	(85.8)	25.1	126.5%	-9.2%	91.6	159.0	-42.4%
Pre-tax profit	574.3	349.2	486.0	64.5%	18.2%	2,087.8	1,704.7	22.5%
PATAMI	434.2	464.7	434.3	-6.6%	0.0%	1,592.0	1,618.6	-1.6%
EPS (sen)	11.2	16.7	15.1	-32.9%	-25.8%	49.1	58.3	-15.8%
Operating stat	**4Q17**	**4Q16**	**3Q17**	**%YoY**	**%QoQ**	**FY17**	**FY16**	**%YoY**
Passenger carried ('000)	10,440.0	8,925.5	9,891.9	17.0%	5.5%	39,093.0	35,102.3	11.4%
RPK (m)	13,429.0	11,708.0	12,875.0	14.7%	4.3%	50,805.0	45,762.0	11.0%
ASK (m)	15,610.0	13,689.0	14,910.0	14.0%	4.7%	58,311.0	53,272.0	9.5%
Load factor (%)	0.9	0.9	0.9	1.1%	1.9%	0.9	0.9	1.1%
average fare (RM)	182.0	195.0	172.0	-6.7%	5.8%	176.0	176.0	0.0%
Fuel Expenses	(748.2)	(450.8)	(680.4)	66.0%	10.0%	(2,821.1)	(1,624.2)	73.7%
Unit fuel cost (USD/b)	69.0	64.0	63.0	7.8%	9.5%	67.0	61.0	9.8%
% fuel cost of OPEX	0.4	0.4	0.4	13.1%	6.4%	0.4	0.4	5.4%
RASK (sen/km)	15.5	16.1	14.8	-4.2%	4.7%	15.1	14.7	3.0%
CASK (sen/km)	13.1	13.2	12.8	-0.9%	2.0%	13.2	12.7	3.7%
USD/MYR	4.1	4.4	4.3	-5.9%	-3.1%	4.2	4.1	3.3%
RASK-CASK	2.4	3.0	2.0	-18.9%	23.0%	2.0	2.0	-1.5%
Ancillary per pax	49.0	48.0	49.0	2.1%	0.0%	49.0	46.0	6.5%
Unit passenger revenue	231.0	243.0	221.0	-4.9%	4.5%	225.0	222.0	1.4%
Aircraft	123.0	105.0	110.0	17.1%	11.8%	123.0	105.0	17.1%

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 *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.