

02 January 2018 | Corporate Update

AirAsia Berhad

Completion of IAA listing

Maintain BUY

Unchanged Target Price(TP): RM4.02

INVESTMENT HIGHLIGHTS

- Listing of its Indonesian arm
- Enlarge funding by tapping into the Indonesian equity market
- Maintain BUY with unchanged target price of RM4.02


In a Bursa filing last week, Air Asia has announced the completion of its Indonesian arm, Indonesia Air Asia's ("IAA") listing via a reverse-takeover exercise with PT Indonesia Air Asia ("AAID"). This was pursuant to the AAID's acquisition of a 57.3% stake in IAA.

AAID recently raised RM1.1b via rights issue. Prior to the acquisition exercise, AAID has recently completed a rights issue, raising IDR3.4t (RM1.1b), while at the same time divested its coal trading and transportation business for IDR26.0b (RM7.8m). It was noted that the proceeds will be used for working capital purposes. We note that AirAsia Investment Limited (AAIL) continues to hold a 20.95% direct interest in IAA. Following the transfer of IAA perpetual securities amounting to IDR1.3t to AAID, this transaction translated into 47.7% shareholding ownership in the listed AAID.

Rationale of IAA's listing:

- 1) To support the financing needs of IAA through rights issue or private placements.
- 2) To unlock the value of AirAsia Berhad's investment in IAA
- 3) Improve the visibility and transparency of IAA

Enlarge funding by tapping into the Indonesian equity market. IAA's listing on the IDX would allow it to tap into the Indonesian equity markets for funding. We opine that this would reduce its reliance to AirAsia. At the same time it would also allow AirAsia to unlock the value of IAA as a listed entity. We note that the listing of IAA followed the listing of AirAsia business entities in the stock markets in Malaysia and Thailand. Following from this, the management indicated that the listing of its Philippines arm will possibly take place in FY18.

Maintain BUY with unchanged TP of RM4.02. As we are positive on the news, we maintain our **BUY** recommendation for AirAsia. Our TP derived from a forward price-to-earnings ratio of 10x FY18 EPS. We like Air Asia because of the company continuous efforts to reinvent itself, introducing new digital offerings to ensure that it stays relevant in a highly competitive industry. Air Asia remains our top pick for the aviation sector 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. 

RETURN STATS	
Price (29 Dec 2017)	RM3.35
Target Price	RM4.02
Expected Share Price Return	+20.0%
Expected Dividend Yield	+3.9%
Expected Total Return	+23.9%

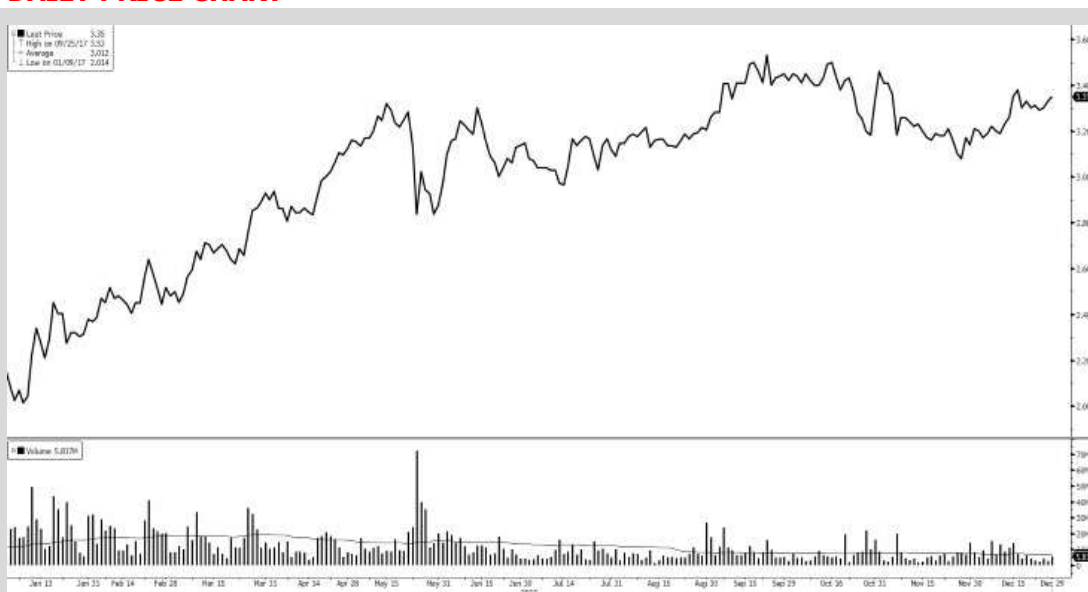
STOCK INFO	
KLCI	1,796.81
Bursa / Bloomberg	5099 / AIRA MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.9
Market cap. (RM'm)	11,195.3
Price over NA	1.38
52-wk price Range	RM2.16 – RM3.59
Beta (against KLCI)	1.25
3-mth Avg Daily Vol	6.89m
3-mth Avg Daily Value	RM22.66m
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

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	6,297.7	6,946.4	8,691.2	8,744.1	8,872.6
EBITDA	2,739.9	2,800.8	2,415.7	2,335.1	2,364.8
EBIT	2,036.6	2,055.6	1,585.4	1,526.5	1,547.5
PBT	215.2	2,170.2	1,475.3	1,422.0	1,441.5
Net Profit	541.3	2,033.6	1,356.3	1,362.9	1,368.2
Core Net Profit	724.9	1,372.1	1,356.3	1,362.9	1,368.2
Core EPS (sen)	16.8	40.9	36.9	39.4	40.7
Core EPS growth (%)	197.1	143.5	(9.7)	6.7	3.4
PER (x)	19.9	8.2	9.1	8.5	8.2
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	1.2	3.6	3.6	3.9	3.9

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 <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.