

2 March 2018 | Corporate Update

AirAsia Berhad

Special dividend has landed

Maintain BUY

**Unchanged Target Price(TP):
RM4.80**

INVESTMENT HIGHLIGHTS

- **Selling of AACL by AirAsia**
- **The group entered into three agreements with units under BBAM**
- **More aircrafts to be disposed by AirAsia in the future**
- **Special dividend could go up to 78sen/share**
- **Maintain BUY with unchanged target price of RM4.80**

Selling of AACL by AirAsia. The group is divesting its aircraft leasing business, currently operated Asia Aviation Capital ("AACL") to BBAM, one of the world's largest managers of investment in leasing business. The sale of the group's wholly owned subsidiary was valued at RM4.6b, on the back of an enterprise value of RM11.1b. Accordingly, the proposed transaction will be satisfied in cash and in-kind manner.

Sale Structure. The proposed disposal comprised of three different Sale and Purchase Agreement ("SPA") with entities managed by BBAM, namely Herondell Ltd, Incline B Aviation Ltd Partnership and Fly Leasing Ltd, involving the sale of the entire equity interest of four wholly-owned subsidiaries of AACL. Cumulatively, the SPAs involved the disposals of 84 aircrafts and 14 aircraft engines by AACL to the entities aforementioned. Also, we noted that the group will enter into lease arrangement to lease back 79 aircrafts and 14 aircraft engines from the respective purchasers, for the duration of up to 12 years. Upon the completion of proposed disposal, the group is expected to record a net gain on sale of circa RM967.1m.

More aircrafts to be disposed by AirAsia. In conjunction with the sale arrangement of the group's leasing business; we noted that AirAsia and AACL also entered into agreements with the same parties to sell approximately 98 aircrafts to be delivered in the future, up until 2025. While the purchase consideration is yet to be known, the cumulative estimated original cost of investment for the 98 aircrafts amounted to circa ~RM45.8b.

RETURN STATS	
Price (1 March 2018)	RM4.60
Target Price	RM4.80
Expected Share Price Return	+4.35%
Expected Dividend Yield	+2.90%
Expected Total Return	+7.25%*

STOCK INFO	
KLCI	1,860.86
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	1.91
52-wk price Range	RM2.62 – RM4.63
Beta (against KLCI)	1.05
3-mth Avg Daily Vol	10.8m
3-mth Avg Daily Value	RM41.9m
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

Proceeds utilization and special dividend. AirAsia is expected to raise gross cash proceeds of RM3.5b (excluding the proceeds from Proposed Disposal to Herondell). Approximately ~22.4% of the total amount will be used to pare down debt to reduce its financial leverage. Subsequently, the group's gross gearing ratio is expected to drop from 1.6x to 0.4x, bringing it to the lowest level since 2006. Following the stake sale, a portion of the remaining proceeds will be distributed as special dividend. We estimate special dividend could as high as 78.3sen/share after accounting debt repayment and cost, depending on the quantum to be determined by the board.

Moving forward. We believe AirAsia's has a bright prospect given its long-term strategic plan of monetizing assets while crystalizing its efforts to enhance the Group core business which will strengthen its LCC brand in the global market. While we see the AACL sale will result in revenue lost from the leasing business, which represents a fifth of the group's total revenue, we opine its aggressive growth in other routes in China and India will sustain its current revenue generation capability. According to management, more assets monetization is expected from its other non-core assets namely AirAsia Expedia and Santan. We view this string of divestments will continue to drive excitement among investors over special dividends.


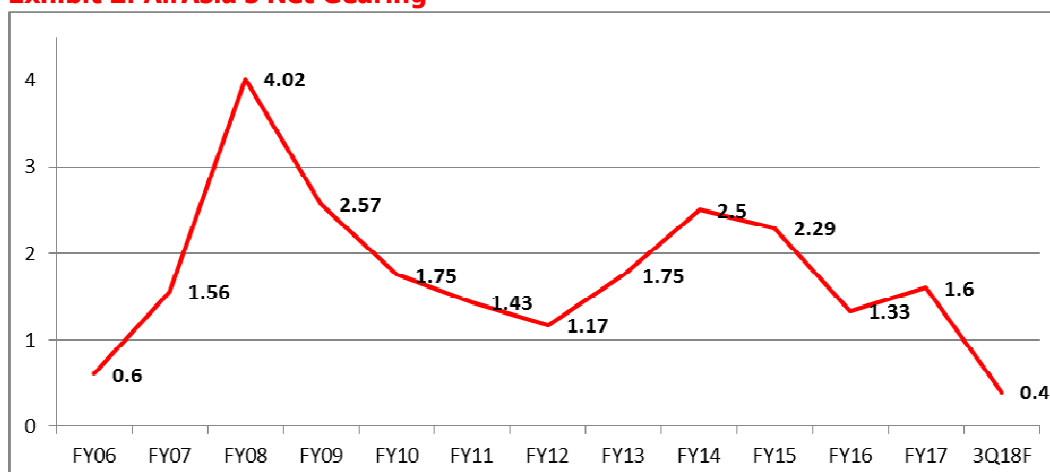
Maintain BUY with unchanged TP of RM4.80. Our TP of RM4.80 is derived from pegging AirAsia's FY18 EPS to PER of 10x. We like Air Asia as the company continues to reinvent itself, doing its best to make sure that it stays ahead of the curve in a highly competitive industry. Overall, we believe the prospect of AirAsia remains sanguine predicated on: 1) stable demand growth with conservative ASK expansion of +10.0%; 2) new areas of growth in India, Japan and China. At this juncture, we maintain our BUY call despite the potential upside coming in below our 10% threshold due to its long term prospect. We believe that there might be a short term retracement in its share price as the run up was more driven by investors' sentiment on special dividend. 

Exhibit 1: Details of the Proposed Disposal

	Proposed Disposal to Herondell (million)	Proposed Disposal to Incline B (million)	Proposed Disposal to FLY (million)	Total (million)
(i) Cash	USD183.2 (approximately RM714.2)	USD498.5 (approximately RM1,943.4)	USD403.3 (approximately RM1,572.3)	USD1,085.0 (approximately RM4,229.9)
(ii) In-kind:				
- Investment in funds ⁽¹⁾	-	USD50.0 (approximately RM194.9)	-	USD50.0 (approximately RM194.9)
- Subscription of FLY's equity ⁽²⁾	-	-	USD50.0 (approximately RM194.9)	USD50.0 (approximately RM194.9)
Total	USD183.2	USD548.5	USD453.3	USD1,185.0

Source: Bursa

Exhibit 2: AirAsia's Net Gearing



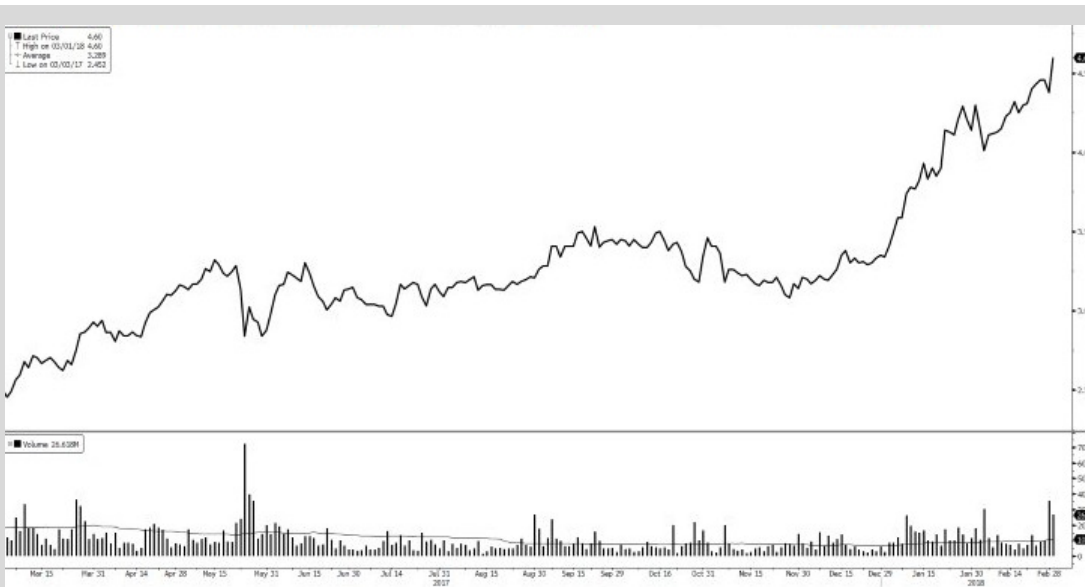
Source: Company, MIDF Research

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



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.