

05 January 2018 | Corporate Update

AirAsia Berhad

Ground handling partnership to complement expansion plan **Maintain BUY**
Unchanged Target Price(TP): RM4.02

INVESTMENT HIGHLIGHTS

- **AirAsia completed the share-swap agreement of its subsidiary with SATS Ltd. ("SATS")**
- **Gain on disposal worth ~RM360.2m**
- **Positive on the news due to ability to leverage on SATS expertise in passenger and ramp handling that will improve turnaround time**
- **No impact on core net earnings**
- **Maintain BUY with unchanged target price of RM4.02**

JV partnership with SATS on ground handling unit. On the proposed JV partnership between AirAsia with SATS dated 30 October 2017, both parties have yesterday completed the share-swap agreement transaction (please refer to appendix for the full transaction). In the next step of the agreement, AirAsia shall transfer 38.6% of its equity stake in GTRH (the JV company formed between AirAsia and SATS) to SATS for a consideration of RM360.2m.

Positive on the news... Upon the completion of these exercises, both AirAsia and SATS will have an equal ownership in the joint investment vehicle. GTRH will hold majority stakes in both AirAsia and SATS ground handling subsidiaries, Ground Team Red Sdn Bhd (GTR) and SGSS respectively. Accordingly, both companies will be responsible for growing the ground handling business in their respective markets and will explore expansion into Indonesia, the Philippines and Thailand.

...as the partnership will complement AirAsia's expansion plan. We opine that the move is positive for AirAsia, considering the favourable fast-growing travel landscape of Asean. This would bode well with AirAsia's expansion plan up until 2027 with planned capacity of 500 planes. We believe having an efficient ground handling service is crucial to enhance its low-cost business structure. Additionally, we believe further improvement in turnaround time is likely, leveraging on each parties' expertise to enhance efficiency and drive down operational costs.

No impact on core net earnings. We make no changes to our earnings forecasts as we treat this gain as a one-off item. Despite AirAsia divesting 49% stake in GTR Malaysia, we note that AirAsia's ground handling cost will remain unchanged as communicated by management in the latest third quarter results briefing.

RETURN STATS

Price (4 Jan 2018)	RM3.49
Target Price	RM4.02
Expected Share Price Return	+15.2%
Expected Dividend Yield	+3.7%
Expected Total Return	+18.9%

STOCK INFO

KLCI	1,803.45
Bursa / Bloomberg	5099 / AIRA MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.9
Market cap. (RM'm)	11,663.1
Price over NA	1.43
52-wk price Range	RM2.16 – RM3.59
Beta (against KLCI)	1.25
3-mth Avg Daily Vol	6.96m
3-mth Avg Daily Value	RM22.84m

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

Special dividend may be on the horizon. We believe there is a possibility of a special dividend. This is premised on management's promise to pay out proceeds of business disposal. Assuming 100% pay-out of the RM360.2m gain, the special dividend is estimated to be 10.8sen.

Maintain BUY with unchanged TP of RM4.02. We maintain our **BUY** recommendation for AirAsia. Our TP is 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 (such as by introducing new digital offerings) to ensure that it stays relevant in the 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%, and 2) new areas of growth in Air Asia India and Air Asia Japan. 

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)	20.8	8.5	9.5	8.9	8.6
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	1.1	3.4	3.4	3.7	3.7

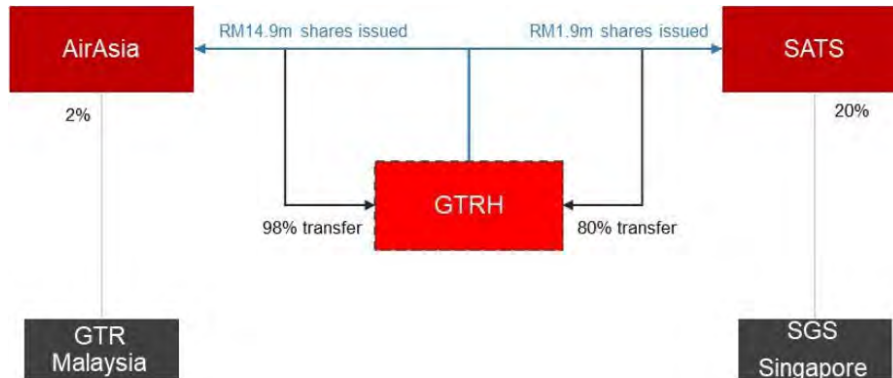
DAILY PRICE CHART



Danial Razak
 muhammad.danial@midf.com.my
 03-2173 8396

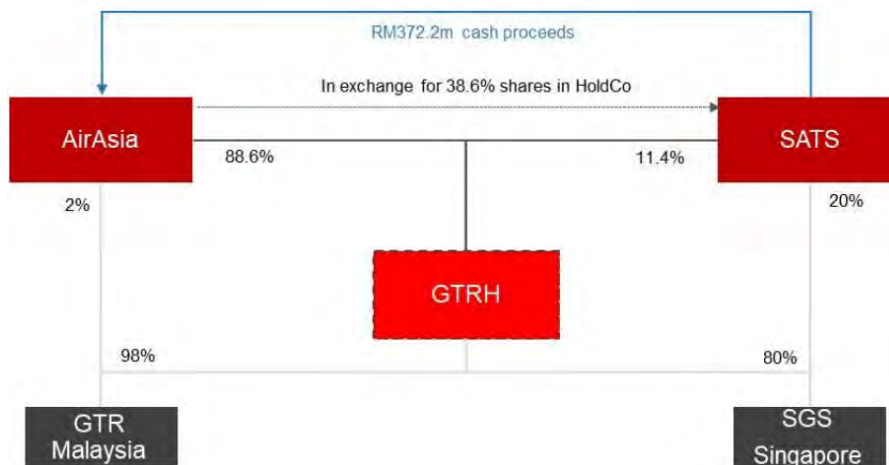
Source: Bloomberg

PRIOR TO PROPOSED TRANSACTION



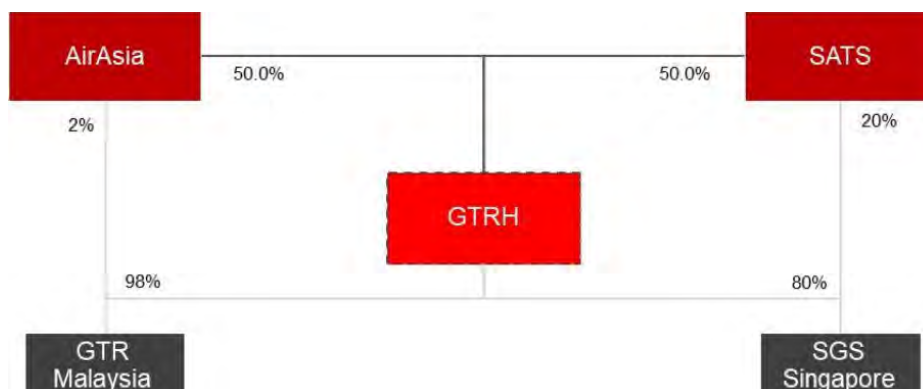
Source: Company

SATS ACQUIRES 38.6% EQUITY STAKE OF GTRH FROM AIRASIA



Source: Company

CORPORATE STRUCTURE AFTER PROPOSED TRANSACTION



Source: Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.