

11 October 2018 | Corporate Update

AirAsia Group Berhad

Resilient performance expected for the year

Maintain BUY

Adjusted Target Price(TP): RM3.62
(from: RM4.47)

INVESTMENT HIGHLIGHTS

- **Fairly successful operation in 1HFY18**
- **Hike in fuel price, a dampener to earnings**
- **Earnings forecasts revised lower**
- **Maintain BUY with adjusted TP of RM3.62**

Earnings were resilient in 1HFY18. Whilst net profit came in lower by -10.5%yoy in 1HFY18 due to impact of fuel price increase, we believe that the group's earnings were resilient as it remained profitable. In addition, operating margin was double-digit, with significant +10.3%yoy increase in revenue. The growth was encouraging due to the continuous expansion in capacity. However, we to recognize the potential earnings slowdown due to the hike in fuel price.

Hike in fuel price, a dampener to earnings. Fuel price on average came in +33.7%yoy higher from USD54.6/b since December 2017. Largely, this was attributable to the anticipated US sanctions on Iranian oil exports, shale bottlenecks and Venezuelan turmoil. Given the disruptions, we are expecting fuel price to remain volatile. Accordingly, downside risk of fuel is more visible to airlines, as it continues to account a large percentage of opex.

Fuel represented the bulk of opex. Note that the group's fuel consumption accounted 42.0-45.0% of total opex. Based on our sensitivity analysis, every +1.0% rise in fuel price, will impact the net operating profit and net core profit by -1.7% and -3.5% respectively. The YTD fuel price is well above our earlier forecast of USD79.3/b. At this juncture, we are revising up our assumption on jet fuel price to USD85.0/b.

Impact to earnings. Subsequent to our revision, core net profit forecasts for FY18 and FY19 are revised by -18.9% and -19.4% respectively.

Maintain BUY with adjusted TP of RM3.62. We adjust our TP lower to RM3.62 (from RM4.47) pegging its FY19 EPS to PER of 10x. Despite the impact from the fuel price increase, we are maintaining our **BUY** call due to the group's 1) compelling growth story, 2) stable operations with added capacity and 3) continuous improvement to derive higher values per km flown. In addition, we believe its integrated efforts to monetize its assets, via digitalization is strategic, as it takes advantage of its passengers' database to enhance customer experience and improve ancillary incomes. Notably, the group's recent announcement on collaboration with Google Cloud is planned to bring the group closer to forming a travel technology company. 

RETURN STATS	
Price (10 Oct 2018)	RM2.84
Target Price	RM3.62
Expected Share Price Return	+27.5%
Expected Dividend Yield	+4.6%
Expected Total Return	+32.1%

STOCK INFO	
KLCI	1,735.18
Bursa / Bloomberg	5099 / AAGB MK
Board / Sector	Main/ Airlines
Syariah Compliant	No
Issued shares (mil)	3,341.9
Market cap. (RM'm)	9,491.2
Price over NA	1.05
52-wk price Range	RM2.80 – RM4.75
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	8.84m
3-mth Avg Daily Value	RM28.7m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
JPMorgan Chase	5.56%

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

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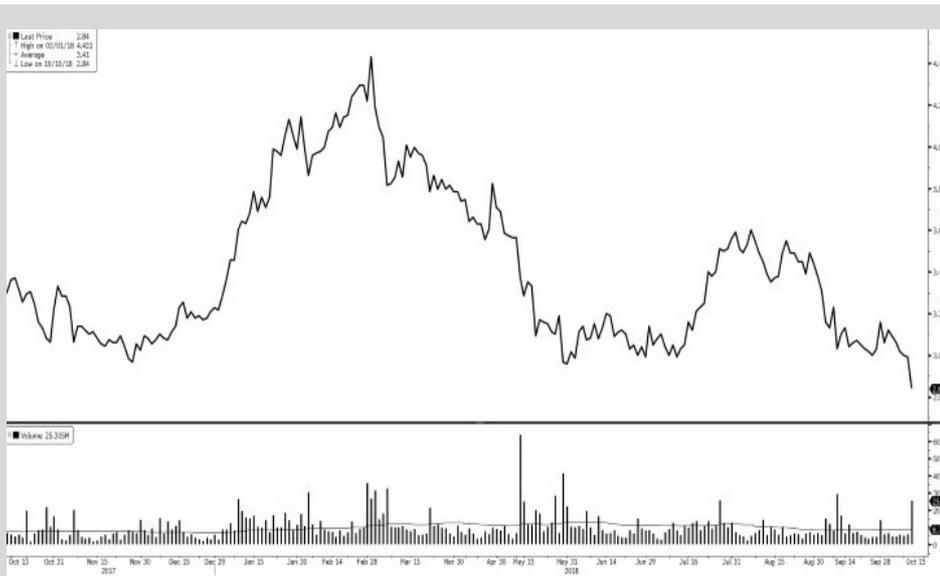
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INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	6297.7	6946.4	9709.7	9783.4	11002.0
EBITDA	2739.9	2800.8	3001.2	1744.9	1731.5
EBIT	2036.6	2055.6	2082.6	1638.3	1607.1
PBT	215.2	2170.2	2087.8	1515.2	1583.2
Net Profit	541.3	2033.6	1592.0	1196.0	1205.3
Core Net Profit	724.9	1372.1	1243.5	1196.0	1205.3
Core EPS (sen)	16.8	40.9	37.2	35.8	36.1
Core EPS growth (%)	197.1	143.5	-9.0	-3.8	0.8
PER (x)	16.9	6.9	7.6	7.9	7.9
Net Dividend (sen)	4.0	12.0	12.0	13.0	13.0
Net Dividend Yield (%)	1.4	4.2	4.2	4.6	4.6

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.