

29 December 2014 | Corporate Update

AirAsia Bhd

Unfortunate Disappearance of AirAsia Indonesia QZ8501

Maintain BUY

Target Price (TP): RM3.70

INVESTMENT HIGHLIGHTS

- AirAsia Indonesia flight QZ8501 lost contact with Indonesian air traffic control 40 minutes into the flight.
- Indonesia Air Asia (IAA)'s earnings could come under pressure due to: i) flight cancellations caused by knee-jerk reaction in light of the disappearance; ii) switching to competitors; and iii) possible compensation to affected parties
- AirAsia Berhad (AIRA) has a 49% stake in IAA. We expect earnings impact from this incident to be limited.
- The knee-jerk share price reaction makes a good buying opportunity. Maintain BUY with TP of RM3.70, premised on 10x FY15 earnings.

Lost contact with air traffic control. AirAsia Indonesia flight QZ8501 lost contact with Indonesian air traffic control early Sunday morning of 28 Dec. The plane, an Airbus A320-216, vanished forty minutes into its two-hour flight from Surabaya, Indonesia to Singapore.

IAA earnings likely hit by negative developments. Consequent to this unfortunate event, we believe IAA's earnings could come under pressure due to: i) flight cancellations caused by knee-jerk reaction in light of the disappearance; ii) switching to competitors; and iii) possible compensation to affected parties. Under the Montreal Convention (international aviation agreement), passengers' families can claim up to US\$174k in the event of a fatal crash. Accounting for 155 passengers on board, the compensation could cost IAA US\$27.1mil.

Limited impact from possible switching. Channel checks show that more than eight other airlines ply the Surabaya-Singapore route of which three are established LCCs namely IAA, Tiger Airways and Jetstar. Most airlines offer daily and/or multiple daily flights while IAA only makes four weekly flights. As such, we believe the earnings impact from travellers switching to other airlines could be minimal. We also take the view that AirAsia branding would remain largely intact due to limited presence of established LCCs in the region.

AIRA's exposure to IAA. AirAsia Berhad (AIRA) has a 49% stake in its associate, Indonesia AirAsia (IAA). IAA's earnings had turned profitable in 2H14 due to a mixture of capacity rationalization and increased air fares. IAA had been in the red over the last 3 preceding quarters.

Maintain BUY with TP of RM3.70. We expect AIRA's share price to come under immediate selling pressure. We opine that the incident is isolated and is not reflective of the overall lean operations carried out by AIRA. Thus, we believe this makes a good buying opportunity to accumulate shares in light of favourable operating conditions going into 2015.



RETURN STATS	
Price (29 Dec 2014)	RM2.94
Target Price	RM3.70
Expected Share Price Return	+25.9%
Expected Dividend Yield	+1.9%
Expected Total Return	+27.8%

STOCK INFO	
KLCI	1,764.44
Bursa / Bloomberg	5099/
Board / Sector	AIRA MK
Syariah Compliant	Main/ Trading Services
Issued shares (mil)	No
Par Value (RM)	2,783.0
Market cap. (RM'm)	0.10
Price over NA	8,181.9
52-wk price Range	1.5x
Beta (against KLCI)	RM2.19-RM2.94
3-mth Avg Daily Vol	1.1
3-mth Avg Daily Value	7.5m
Major Shareholders	
Tune Air	19.09%
Wellington Management Co.	13.84%
EPF	6.98%

INVESTMENT STATISTICS

FYE Dec	FY13	FY14F	FY15F	FY16F
Revenue (RM'm)	5,181.4	5,437.6	5,613.4	6,209.5
EBITDA (RM'm)	1,420.9	1,396.4	2,022.4	2,223.8
EBIT (RM'm)	786.5	686.8	1,270.1	1,378.7
Pretax Profit (RM'm)	443.1	493.2	1,072.6	1,143.7
Net Profit (RM'm)	444.0	641.2	1,054.7	1,123.0
Core Net Profit (RM'm)	594.9	473.2	1,029.7	1,098.0
Core EPS (sen)	21.4	16.9	37.0	39.3
Core EPS growth (%)	(30.6)	(26.4)	118.9	6.21
PER(x)	11.5	14.5	7.4	7.0
Net Dividend (sen)	4.0	6.0	7.0	8.0
Net Dividend Yield (%)	1.6	2.4	2.6	2.9

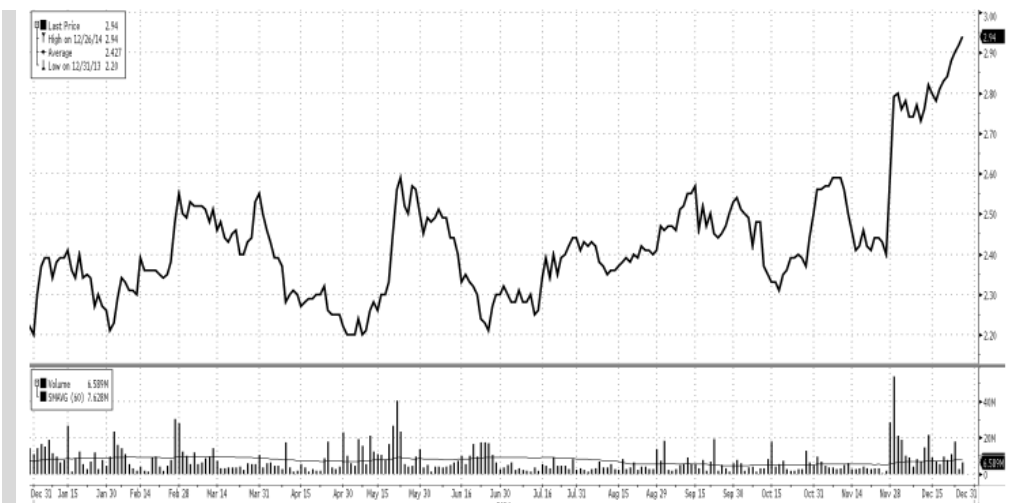
Source: Company, Forecasts by MIDFR

Figure 1: Airbus A320-216 Aircraft PK-AXC



Source: Planespotters, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.