

09 March 2017 | Visit Note

AirAsia Berhad

Special dividends on the horizon

INVESTMENT HIGHLIGHTS

- **Airasia held an analyst briefing at its RedQ**
- **Both IAA and PAA recapitalised and seeking to list**
- **Various listing proposals being examined**
- **Special dividends from AAC are worth the wait**
- **Maintain BUY with unchanged TP of RM3.45**

Airasia held an analyst briefing at its RedQ which was headed by Mr. How Kim Lian (CFO), Ms. Esme Law (Head of IR) and Mr. Alifnor (Asia Aviation Capital, AAC). The briefing focused on providing analysts with further clarity on a variety of matters, chief among them were: 1) the effect of currency volatility on earnings, 2) IAA and PAA's capital position, 3) listing plans and 4) insights into the structure of AAC.

Mismatch in currency denominations. To recap, Airasia recorded a RM54m gain on forex for its recently released 4QFY16 results, which was surprising given there was a mismatch in the currency denominations of its assets and liabilities which should have led to a forex loss: its aircraft assets aircraft were captured in Ringgit while 85% of its borrowings (liability) were denominated in US\$.

Less erratic forex swings, hopefully. Management explained that the main reason for this discrepancy is the novation of 29 of its owned aircraft fleet from Airasia Berhad's books into its fully owned subsidiary, AAC which captures both its assets and liabilities in US\$. Hence, with AAC having a net asset position, a strengthening of the Dollar would result in Airasia recording an unrealised gain on forex. We think that this is a good move, potentially resulting in less erratic unrealised gains/losses. On another note, Airasia receives 34% of its revenue in foreign currencies which helps to offset a good portion of its US\$ denominated operating expenses which we estimate at 70% of its total expenses.

Having recapitalised both IAA and PAA (substance over form accounting treatment) through debt (accounts receivables) to equity (perpetual bond) swaps, the future share of IAA and PAA's P&L will be recorded on Airasia's bottom line. Both have turned profitable operationally and could provide upside to our earnings forecast.

Maintain BUY

Unchanged Target Price (TP): RM3.45

RETURN STATS	
Price (8 March 2017)	RM2.78
Target Price	RM3.45
Expected Share Price Return	+24.1%
Expected Dividend Yield	+1.4%
Expected Total Return	+25.5%

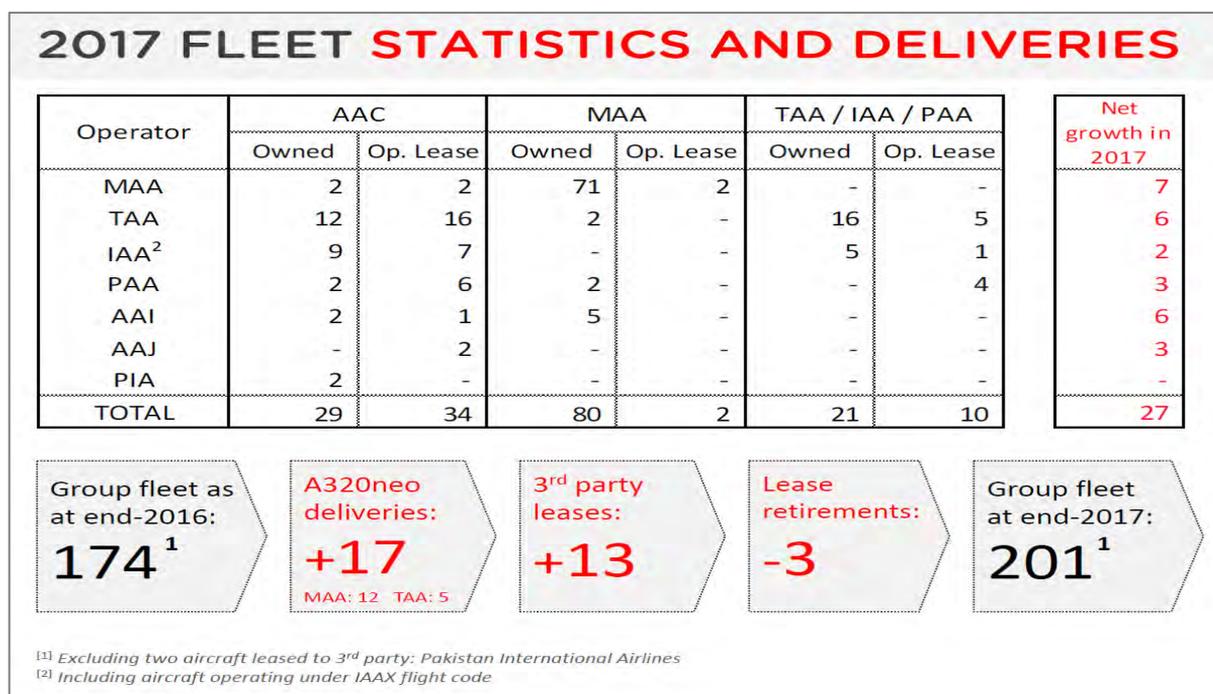
STOCK INFO	
KLCI	1725.54
Bursa / Bloomberg	5099/AIRA MK
Board / Sector	Main/Trading Services
Syariah Compliant	No
Issued shares (mil)	3,341.87
Par Value (RM)	0.10
Market cap. (RM'm)	9,290.41
Price over NA	1.17
52-wk price Range	RM1.65 - RM3.3
Beta (against KLCI)	1.14
3-mth Avg Daily Vol	18.4m
3-mth Avg Daily Value	RM46.5m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
EPF	4.51%

Aviation abbreviations used in this report:
 RPK: Revenue Passenger Kilometers
 ASK: Available Seat Kilometers
 RASK: Revenue per ASK
 CASK: Cost Per ASK
 MAA: Malaysia AirAsia
 TAA: Thai AirAsia
 IAA: Indonesia AirAsia
 PAA: Philippines AirAsia

Various listing proposals being examined. Management is studying various listing proposals including reverse takeovers (RTO) for IAA and PAA which would help raise fresh funds and diversify the domestic shareholder base to comply with minimum domestic shareholder regulations. Besides, the idea of a dual listing in either Hong Kong or the US aimed at drawing a broader investor base to enhance the company's valuations is also being analysed. Ultimately, Airasia aspires to list a holding company in Hong Kong which fully owns each of its operations across Asia.

Special dividends are worth the wait. In our previous report, we emphasised that the sale of AAC would be the highlight for Airasia in 2017. While refraining to divulge specifics, management updated analysts that the sale is progressing well and could be concluded by 3QFY17 as planned. That said, Management was generous enough to share with us that the structure of AAC's would consist of 1) 29 aircraft which would grow to 36 comprising of aircraft leased to Airasia's associates, 2) 28 aircraft from MAA which would entail a sale and leaseback agreement, 3) 14 aircraft engines and 4) a third of Airasia's 400 aircraft order backlog with Airbus consisting of A320neo and A321neo aircraft. Meanwhile, the previously floated price tag of US\$1-1.2b remains intact and could result in a significant gain on disposal, in our view.

Maintain BUY with unchanged TP of RM3.45. Our valuation is based on a price-to-earnings ratio of 8.5x FY17 EPS. We like Airasia as one of our top aviation sector picks predicated on: 1) stable demand growth with conservative ASK expansion of +10%; 2) monetisation of AAC that could potentially lead to special dividends; 3) progress in turning around of IAA and PAA; 4) new areas of growth in Airasia India and Airasia Japan. 



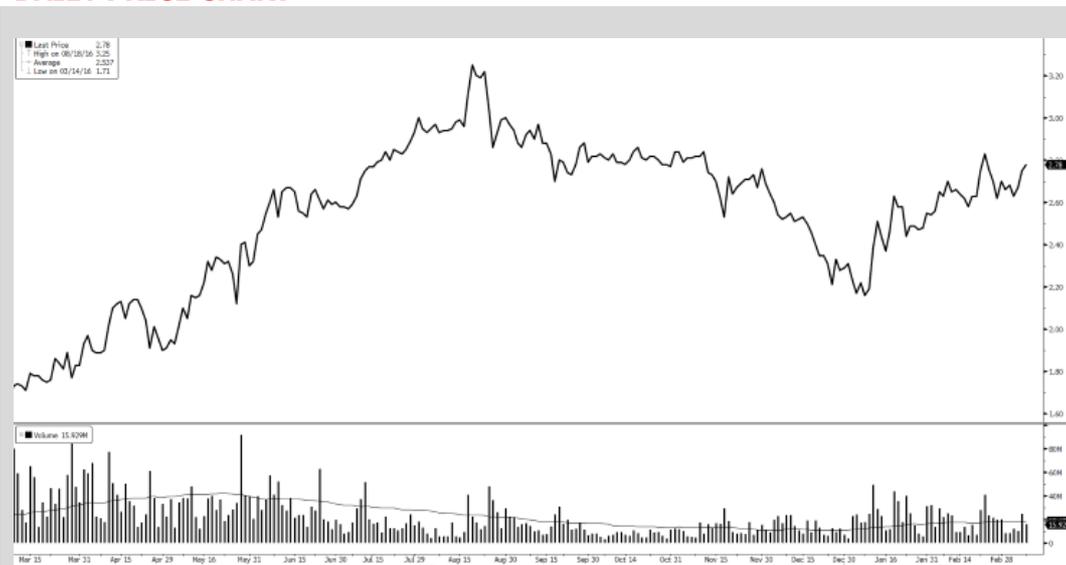
Source: Company, MIDFR

INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17F	FY18F
Revenue	5,415.7	6,297.7	6,946.4	6,930.9	7,248.0
EBITDA	1,160.6	2,739.9	2,800.8	2,817.7	2,886.3
EBIT	441.1	2,036.6	2,055.6	1,929.9	1,954.1
PBT	(175.6)	215.2	2,170.2	1,793.3	1,824.1
Net Profit	(115.4)	541.3	2,033.6	1,362.9	1,386.3
Core Net Profit	157.3	724.9	1,372.1	1,362.9	1,386.3
Core EPS (sen)	5.7	16.8	40.9	40.6	41.1
Core EPS growth (%)	(125.1)	197.1	143.2	(0.7)	1.2
PER (x)	48.8	16.4	6.8	6.8	6.7
Net Dividend (sen)	3.0	4.0	4.0	4.0	4.0
Net Dividend Yield (%)	1.1	1.4	1.4	1.4	1.4

Source: Company, 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	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.