

28 August 2017 | Corporate Update

## AirAsia Berhad

### *First of a string of planned divestments*

#### INVESTMENT HIGHLIGHTS

- **Divesting its 50% stake in AACOE**
- **Not surprised but positive on sale consideration**
- **Sale valued at FY16 price-to-earnings ratio of 17.7x**
- **One-off gain on disposal expected to be booked in 4QFY17**
- **Maintain BUY with unchanged TP of RM3.94**

**Divesting its 50% stake in AACOE.** AirAsia announced that it has executed a Share Purchase Agreement (SPA) to dispose its 50% stake in the Asian Aviation Centre of Excellence Sdn Bhd (AACOE) to its JV partner who operates the academy, CAE International Holding Ltd (CAE) for US\$100m (RM429.3m).

The disposal does not require shareholders' approval. However, consent from the Department of Civil Aviation (DCA) is required.

**Not surprised but positive on the sale consideration.** While the sale itself did not come as a surprise to us (CAE had confirmed it was in advanced talks to purchase the remaining 50% stake in AACOE during a recent conference call held early August), we are positive on the divestment value of US100m (RM429.3m). Earlier in the year, AirAsia had estimated AACOE to be worth RM355m (14.6x). Hence, the upside was a bonus, in our view.

**The sale translates to a FY16 price-to-earnings ratio of 17.7x,** based on FY16 earnings of RM48m which we think is fair. The purchaser, CAE trades at a slightly higher multiple of 20x trailing earnings due to its larger market capitalisation of CA\$5.4b (RM18.5b). There are few other direct comparable companies. Meanwhile, the disposal allows AirAsia to focus on its core commercial aviation business and would not be required to make further investments in AACOE. We gather that CAE intends to expand AACOE, to cater to the growing aviation training requirements of the ASEAN region.

**One-off gain on disposal expected to be booked in 4QFY17.** AirAsia expects to realise a gain on disposal of RM187.6m at AirAsia Group level upon completion slated for November 2017. In the meantime, we make no changes to our earnings forecast as the RM24m JV contribution is expected to be largely offset by a reduction in interest expenses or interest income seeing that management intends to use the proceeds for working capital and liquidity purposes.

**Maintain BUY**

**Unchanged Target Price (TP): RM3.94**

RETURN STATS	
Price (25 Aug 2017)	RM3.30
Target Price	RM3.94
Expected Share Price Return	+19.4%
Expected Dividend Yield	+4.0%
<b>Expected Total Return</b>	<b>+23.4%</b>

STOCK INFO	
KLCI	1,769.2
Bursa / Bloomberg	5099/AIRA MK
Board / Sector	Main/Trading Services
Syariah Compliant	No
Issued shares (mil)	2,783.0
Market cap. (RM'm)	11,028.18
Price over NA	1.34
52-wk price Range	RM2.16-RM3.59
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	10.4m
3-mth Avg Daily Value	RM33.2m
Major Shareholders	
Tune Live	16.73%
Tune Air	15.45%
EPF	5.00%

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

JAA: AirAsia Japan

AAI: AirAsia India

**Sale of its leasing arm imminent?** The divestment marks the first of a string of planned divestments, where AirAsia intends to unlock the value of its private equity investments which it believes are underappreciated. Group CEO, Tan Sri Tony Fernandes was quoted by the media that the sale of its leasing arm, Asia Aviation Capital (AAC) is not facing any roadblocks with an announcement imminent. We expect the sale of AAC to lead to special dividends.

**Maintain BUY with unchanged TP of RM3.94.** Our TP derived from a forward price-to-earnings ratio of 10x FY18 EPS. Airasia remains our top aviation sector predicated on: 1) stable demand growth with conservative ASK expansion of +10%; 2) monetisation of AAC that could potentially lead to special dividends; 3) further consolidation of all AOCs under the AirAsia Group could provide better clarity on combined performance of all AOCs as opposed to MAA. 

### Figure 1: Salient points of the disposal

Item	Details
Unit disposed	Asian Aviation Centre of Excellence Sdn Bhd (AACOE)
Purchaser	CAE International Holding Ltd (CAE)
Stake	50%
FY16a carrying value	RM188.3m
Sale price	US100m (RM429.3m)
Valuation	17.71x FY16 earnings
Estimated completion	Nov-17

Source: Company, MIDF Research

### Figure 3: Possible future divestments

Details
AirAsia X Berhad
Tune Protect Group Berhad
AirAsia Expedia
BIG Loyalty
Asia Aviation Capital
T & Co.
roKKi.com

Source: Company, MIDF Research

## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue	6,297.7	6,946.4	8,282.7	8,572.6	8,872.6
EBITDA	2,739.9	2,800.8	2,216.2	2,289.3	2,364.8
EBIT	2,036.6	2,055.6	1,454.5	1,496.6	1,547.4
PBT	215.2	2,170.2	1,353.5	1,394.1	1,441.5
Net Profit	541.3	2,033.6	1,240.3	1,323.2	1,368.1
Core Net Profit	724.9	1,372.1	1,240.3	1,323.2	1,368.1
Core EPS (sen)	16.8	40.9	36.9	39.4	40.7
Core EPS growth (%)	197.1	143.2	-9.3	6.2	6.2
PER (x)	19.5	8.0	8.4	7.9	7.9
Net Dividend (sen)	4.0	12.0	12	13	13
Net Dividend Yield (%)	1.2	3.7	3.7	4.0	4.0

Source: Company, MIDFR

## 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 >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.