

23 May 2018 | 1QFY18 Results Review

## AirAsia X Berhad

### *On the right track*

**Maintain BUY**

**Adjusted Target Price(TP): RM0.47**  
**(From RM0.46)**

#### INVESTMENT HIGHLIGHTS

- **Net profit grew tremendously**
- **Despite pressure from higher opex**
- **Encouraging recovery among associates**
- **Target price of adjusted to RM0.47 (from RM0.46)**

**Posted strong 1QFY18 profit.** AAX net profit in 1QFY18 recorded strong growth of >+100%yoy, at RM41.5m. Stripping out exceptional items, the core net profit of RM61.8m was 27.6% and 34.8% of ours and consensus' expectations. Healthy load factors (84.0%), improving CASK (-1.8%yoy) and strong associates' performance led to positive variance of 1QFY18 earnings results.

**Growth in revenue** by +7.2%yoy was mostly driven by ticket sales (+8.4%yoy), ancillary (+7.2%yoy) and freight services (+31.4%yoy). Notably, 1QFY18 revenue came in highest since inception at RM1.27b vis-à-vis 13.3% growth of passengers carried. Ancillary income per pax (including freight services) eased by -2.0%yoy to RM169.00. However, we opine this performance as decent considering the bulky ASK expansion.

**ASK growth of 10%, to cater new market...** Management kept its strategy intact, focusing on high growth market in North Asia. This was seen through the addition of flight frequencies in Hangzhou (from 4x to 6x weekly) and Taipei (from 18x to 19x weekly). Aside from increased frequencies, two new routes were introduced namely Jaipur and Jeju. The commencement of new route was partly a result of capacity realignment from loss-making route such as Tehran.

**...putting short-term pressure to yield.** Given the infancy status of these two new routes, management are aware of the challenges to improve yield. Accordingly, RASK declined in 1QFY18 by -2.0%yoy to 13.88sen. Despite the drop, we believe RASK will rebound in due course underpinned by stronger demand considering that AAX is the only low cost carrier to offer direct route from Kuala Lumpur to the Jaipur city.


**Improvement in CASK, driven by cost efficiency.** Following notable growth in the company's ASK, CASK improved by -2.0%yoy. This was despite external pressure of higher fuel price (by +33.0%yoy) and higher fuel consumption due to the increased capacity. Thus far, fuel price averaged at USD88/bbl vs. USD66/bbl last year.

RETURN STATS	
Price (22 May 2018)	RM0.38
Target Price	RM0.47
Expected Share Price Return	+23.6%
Expected Dividend Yield	0.0%
<b>Expected Total Return</b>	<b>+23.6%</b>

STOCK INFO	
KLCI	1,845.03
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	4,148.1
Market cap. (RM'm)	1,576.3
Price over NA	1.59
52-wk price Range	RM0.33 – RM0.55
Beta (against KLCI)	1.59x
3-mth Avg Daily Vol	26.21m
3-mth Avg Daily Value	RM10.56m
Major Shareholders	
AirAsia Berhad	13.76%
Tune Group	13.62%
Kamarudin Meranun	8.14%

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

**Associates fared better last quarter.** Both TAAX and IAAX gained positive traction, with profits recorded at USD21.9m and losses narrowing to US\$2m (from: US\$10.7m) in 1QFY18 respectively. TAAX recorded robust load factor of 94% supported by strong tourism demand in Thailand. We see upside for TAAX in terms of ASK and RPK growth from China which only represents 20% of its network. Meanwhile, IAAX's performance was commendable considering the low season in Indonesia.

**Maintain our BUY call.** We expect full year earnings to be strong given its solid start for the year. We believe the company is able to sustain this momentum on the premise of robust travel demand, efficient capacity management and cost discipline practice. While we are aware that rising fuel price is a downside risk to the company's earnings, we believe that demand for air travel will still be intact and be a compensating factor. Notably, international flight fare could go higher especially for full-service airline, following the increase in fuel price. Accordingly, we believe the situation will drive more passengers to opt for a more affordable option to travel. This will place AirAsia X to benefit given its robust route network and better capacity internationally. All-in, we maintain our **BUY** call with a revised **TP** of **RM0.47** rolling forward our valuation to FY19, pegging its EPS to PE of 8.5x. 

## INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
<b>Revenue</b>	3,075.4	4,006.5	4,562.0	4,908.2	5,124.2
<b>EBITDA</b>	31.8	389.6	252.3	415.2	432.5
<b>EBIT</b>	(10.4)	276.0	143.0	331.4	352.8
<b>Net Profit</b>	(345.5)	230.5	98.9	223.5	230.1
<b>Core Net Profit</b>	(155.1)	247.5	153.4	223.5	230.1
<b>Core EPS (sen)</b>	(3.7)	6.0	3.7	5.4	5.5
<b>Core EPS growth (%)</b>	86.3	259.6	(38.0)	46.0	1.9
<b>PER (x)</b>	(10.2)	6.4	10.3	7.0	6.9
<b>Net Dividend (sen)</b>	0.0	0.0	0.0	0.0	0.0
<b>Net Dividend Yield (%)</b>	0.0	0.0	0.0	0.0	0.0

Source: Company, MIDFR

## DAILY PRICE CHART



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Source: Bloomberg

## AirAsiaX: 1QFY18 RESULTS SUMMARY

All in Rm'm unless stated otherwise	Quarterly Results			Cumulative	
	FYE Dec	1Q18	%YoY	%QoQ	3MFY18
<b>Revenue</b>	1,265.3	7.2%	3.7%	1,265.3	7.2%
-Ticket sales	886.6	8.4%	3.7%	886.6	8.4%
-Ancillary	224.0	7.2%	2.4%	224.0	7.2%
-Freight	43.1	31.4%	-18.7%	43.1	31.4%
-Others	111.7	-7.6%	19.6%	111.7	-7.6%
<b>Total Opex</b>	(1,177.5)	7.7%	-8.8%	(1,177.5)	7.7%
<b>EBITDAR</b>	305.1	-7.6%	-17.0%	305.1	-7.6%
<b>EBITDA</b>	87.9	0.6%	-36.3%	87.9	0.6%
<b>Depreciation</b>	(27.3)	-1.2%	0.2%	(27.3)	-1.2%
<b>EBIT</b>	60.5	0.3%	-45.3%	60.5	0.3%
Net interest costs	(2.2)	76.7%	78.8%	(2.2)	76.7%
Forex	(11.3)	76.7%	-138.3%	(11.3)	76.7%
<b>PBT</b>	55.3	73.4%	-59.2%	55.3	73.4%
<b>Reported Net profit</b>	41.5	>100.0%	-50.8%	41.5	>100.0%
E.I.	(20.3)	52.2%	-126.9%	(20.3)	52.2%
<b>Core profit</b>	61.8	17.2%	-61.4%	61.8	17.2%

Operating stat	1Q18	%YoY	%QoQ	3MFY18	%YoY
Pax carried ('000)	1,588.6	13.3%	2.6%	1,588.6	13.3%
RPK (m)	7,657.0	9.5%	1.4%	7,657.0	9.5%
ASK (m)	9,122.0	9.6%	-0.3%	9,122.0	9.6%
Load factor (%)	0.8	-9.8%	113.2%	0.8	-9.8%
Average fare (RM)	527.0	-3.1%	1.5%	527.0	-3.1%
fuel expense	(470.5)	-24.6%	22.7%	(470.5)	-24.6%
R/ASK (sen)	13.9	-2.3%	3.9%	13.9	-2.3%
C/ASK (sen)	13.3	-1.6%	9.2%	13.3	-1.6%

Source: Company, MIDFR

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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.