

03 September 2018 | 2QFY18 Results Review

## AirAsia X Berhad

### Challenges embedded in cost structure

**Maintain BUY**

**Adjusted Target Price(TP): RM0.40**  
(From RM0.47)

#### INVESTMENT HIGHLIGHTS

- **1HFY18 performance turned red**
- **Volatility in oil price, a lingering challenge**
- **Focus in core markets, to benefit AAX in the long run**
- **Target price adjusted to RM0.40**

**1HFY18 performance turned red.** AAX recorded net loss in 1HFY18 to the tune of RM16.0m. Excluding exceptional items, the core net loss of RM19.0m was below ours and consensus' expectations at -7.14% and -10.46% respectively. Consequently, it led to a drop of net core profits by >100%yoy in 1HFY18. The negative variance was steered by the increase in overall opex, as a result of +24.7%yoy higher fuel expenses in 2QFY18.

**Volatility in oil price, a lingering challenge.** Following the increase in average fuel price, 1HFY18's cost of fuel climbed +24.6%yoy higher. Cumulatively, the amount accounted for 39.3% of total revenue, which was +6.3ppts(yoy) higher than 1HFY17. While operational numbers have been resilient in 2QFY18 with RPK rising by +7.2%yoy, volatile fuel cost remained a major headwind to the long-haul business model. Management mentioned that further volatility will be mitigated through adjustment in air fares and further reduction in ex-fuel costs. In 2QFY18, we noted that CASK ex-fuel was down by -4.0%yoy, attributable to further operational efficiencies.

**RASK-CASK spread shrunk.** RASK-CASK spread in 2QFY18 dipped into negative territory as a result of AAX embarking on a load active, yield passive strategy to squeeze out its competitors and gain market share. Notably, this strategy was evident in its operating numbers. For the first half of 2018, AAX's ASK grew +7.8% which was well absorbed with RPK rising +8.4%yoy leading to a +0.3ppt gain in load factors which averaged at 82.5%. This however, came at a cost with average fares falling -5.4%yoy.


**Long-term positive.** While the drop in average fare could weigh down earnings, we believe further recovery is on horizon as core routes start to gain better traction moving forward. Consequently, we believe further improvement in market share will enable pricing power by AAX, leaving positive impact to yield spread. The effects of which are expected to bear fruit in the long-run, as it continues to take advantage of the high growth potential particularly in China, Japan and South Korea.

RETURN STATS	
Price (30 Aug 2018)	RM0.34
Target Price	RM0.40
Expected Share Price Return	+17.6%
Expected Dividend Yield	0.0%
<b>Expected Total Return</b>	<b>+17.6%</b>

STOCK INFO	
KLCI	1,819.66
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	4,148.1
Market cap. (RM'm)	1,389.6
Price over NA	1.59
52-wk price Range	RM0.33 – RM0.45
Beta (against KLCI)	1.09x
3-mth Avg Daily Vol	11.42m
3-mth Avg Daily Value	RM4.10m
Major Shareholders	
Tune Group	17.83%
AirAsia Bhd	13.76%
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

**Despite the optimism, downward adjustments to earnings are necessary in the near term.** Given that earnings came in below our estimate, we trimmed down our forecasts in FY18 and FY19, by -50.1% and -17.1% respectively. This is taking into consideration the reduction in our airfare as well as the increase of our operating expenses assumptions in the near term.

**Maintain our BUY call.** We expect full year earnings to stage a recovery in 2HFY18. This could be possible through further cost cutting initiatives, better capacity utilization and favourable seasonal factors in 4Q. Despite our lower assumptions of the FY18 and FY19 performance, our optimism on AAX's prospect is tied to its long-term strategic plan of 1) further reduction in CASK following expansion plan; and 2) stronger focus in core markets. This will be supported by AAX's gradual shift to modern fleet operation. It is poised to reap the first mover's advantage in reducing cost and offering more competitive price given its position as the first airline in Asia to operate the A330neo. All things considered, we maintain our **BUY** call with an adjusted TP of RM0.40 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	4,798.0	4,908.2
<b>EBITDA</b>	31.8	389.6	252.3	265.4	374.3
<b>EBIT</b>	(10.4)	276.0	143.0	158.4	249.9
<b>Reported Net Profit</b>	(345.5)	230.5	98.9	109.5	190.8
<b>Core Net Profit</b>	(155.1)	247.5	153.4	109.5	190.8
<b>Core EPS (sen)</b>	(3.7)	6.0	3.7	2.6	4.6
<b>Core EPS growth (%)</b>	86.3	259.6	(38.0)	(28.6)	74.2
<b>PER (x)</b>	(9.6)	6.0	9.7	13.6	7.8
<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: 2QFY18 RESULTS SUMMARY

<i>All in Rm'm unless stated otherwise</i>	Quarterly Results			Cumulative	
FYE Dec	2Q18	%YoY	%QoQ	6MFY18	%YoY
<b>Revenue</b>	1,053.6	1.7%	-16.7%	2,319.0	4.6%
-Ticket sales	698.9	2.8%	-21.2%	1,585.5	5.8%
-Ancillary	198.4	2.5%	-11.4%	422.4	5.0%
-Freight	44.0	12.5%	2.2%	87.1	21.1%
-Others	112.3	-9.1%	0.5%	224.0	-8.3%
<b>Total Opex</b>	(1,122.4)	-9.8%	4.7%	(2,299.8)	8.7%
<b>EBITDAR</b>	146.2	-42.0%	-52.1%	451.3	-22.5%
<b>EBITDA</b>	(68.8)	-571.6%	-178.2%	19.1	-81.2%
<b>Depreciation</b>	(27.2)	0.7%	0.6%	(54.5)	0.2%
<b>EBIT</b>	(95.9)	-650.2%	-258.4%	(35.4)	-174.4%
Net interest costs	(3.3)	-3.4%	-49.6%	(5.6)	-56.6%
Forex	34.7	-28.0%	407.6%	23.5	-54.6%
Other gain/(loss) or JV	(0.3)	93.5%	-103.4%	8.0	-130.3%
<b>PBT</b>	(64.8)	-331.8%	-217.1%	(9.4)	-115.8%
<b>Net profit</b>	(57.5)	-221.1%	-238.5%	(16.0)	-127.6%
E.I.	34.6	-46.7%	209.6%	3.0	-91.5%
<b>Core profit</b>	(92.1)	-424.8%	-226.0%	(19.0)	-186.4%
Operating stat	2Q18	%YoY	%QoQ	6MFY18	%YoY
Pax carried ('000)	1,568.6	13.1%	-1.3%	3,157.2	13.2%
RPK (m)	7,281.0	7.2%	-4.9%	7,469.0	8.4%
ASK (m)	8,957.0	6.0%	-1.8%	9,039.5	7.8%
Load factor (%)	81.0%	0.8%	-3.5%	82.5%	0.3%
Average fare (RM)	418.0	-8.1%	-20.7%	472.5	-5.4%
fuel expense	(441.0)	24.7%	-6.3%	(911.4)	24.6%
R/ASK (sen)	11.8	-4.2%	-15.2%	12.8	-3.1%
C/ASK (sen)	13.0	3.3%	-2.3%	13.1	0.8%

Source: Company, MIDFR

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#### 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.