

25 August 2017 | 2QFY17 Results review

AirAsia X Berhad

Earnings hit by load active strategy

INVESTMENT HIGHLIGHTS

- **Weak earnings in a lean quarter**
- **Market share gains to benefit AAX in the long run**
- **Embarking on a load active, yield passive strategy**
- **2HFY17 should be more of the same**
- **We maintain NEUTRAL on AAX with TP of RM0.43**

Weak earnings in a lean quarter. AirAsia X's (AAX) 2QFY17 core net profit of RM19m was a marked improvement over the -RM7m core net loss recorded in 2QFY16. Despite the improvement, 1HFY17 core profit of RM51.5m missed expectations, representing 22% of ours and 23% of consensus numbers. The negative deviation is caused by lower than expected average fare and higher than expected operating expense.

Chinese routes were uncharacteristically soft. Demand for Chinese routes was soft in 2QFY17 as Chinese carriers expanded aggressively to Europe and North America. However, AAX believes that it is too early to sound the alarm bells, as Chinese tourists are expected return once the novelty of European and NA routes wear off.

Market share gains to benefit AAX in the long run. RASK-CASK spread in 2QFY17 dipped into negative territory for the first time since 4QFY15 as a result of AAX embarking on a load active, yield passive strategy to squeeze out its competitors and gain market share. The effects of which are starting to bear fruit, as seen on its KL-Perth and KL-Taipei routes where AAX has maintained its capacity whereas competitors have started reducing theirs.

Load active, yield passive strategy evident in its operating numbers. For the first half of 2017, AAX's ASK grew +27.8% which was well absorbed with RPK rising +33.9%yoy leading to a +3.5ppt gain in load factors which averaged at 82%. This however, came at a cost with average fares falling -8.5%yoy.

2HFY17 should be more of the same. ASK growth is expected to taper down from the robust growth in 1HFY17 due to a higher base in 2HFY16. AAX continues to explore the possibility of leasing 2-4 second-hand aircraft as its current fleet approaches full capacity. Meanwhile, AAX expects to announce a new medium-haul route soon. We reckon that Jeju (Korea), Zhengzhou (China) or Adelaide (Australia) could be possible destinations.

Maintain NEUTRAL

Adjusted Target Price (TP): RM0.43
(From: RM0.50)

RETURN STATS	
Price (24 Aug 2017)	RM0.39
Target Price	RM0.43
Expected Share Price Return	+10.3%
Expected Dividend Yield	0.0%
Expected Total Return	+10.3%

STOCK INFO	
KLCI	1,775.50
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	4,148.2
Market cap. (RM'm)	1,617.78
Price over NA	1.64
52-wk price Range	RM0.35 - RM0.55
Beta (against KLCI)	1.22
3-mth Avg Daily Vol	27.8m
3-mth Avg Daily Value	RM11.5m
Major Shareholders	
Tune Group	14.29%
AirAsiaBhd	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

Associate earnings to be consolidated in 2HFY17. TAAX managed to turnaround from a loss of -US\$2.9m in 2QFY16 to register a slight profit of US\$61k in 2QFY17 as a result of robust tourist arrivals which increased +8%yoy. Looking forward, TAAX intends to increase its frequencies to Japan and Korea, after a successful audit by the International Civil Aviation Organization (ICAO). On the other hand, IAA's net loss narrowed from US\$9.8m to US\$3.8m, largely due to promotional activities and fares for its Denpasar-Narita and Denpasar-KL-Mumbai routes launched in late May 2017. AAX Group CEO, Mr. Benyamin Ismail intends to consolidate both TAAX and IAAX's financials into AAX Berhad following the footsteps of AirAsia Berhad once they receive the necessary approvals.


Maintain NEUTRAL with lower TP of RM0.43 (from: RM0.50). We reduce our FY17 and FY18 earnings forecast by 23.5% and 12.3% respectively as we reduce our average fare and increase our operating expense assumptions. Our target price is pegged to a forward FY18 price-to-earnings ratio of 8.5x. Our neutral stance is predicated on AAX's aggressive capacity expansion through higher utilisation of aircraft through increasing frequencies and route network, which on the flipside, comes at the expense of yields. 

Figure 1: AAX Group network

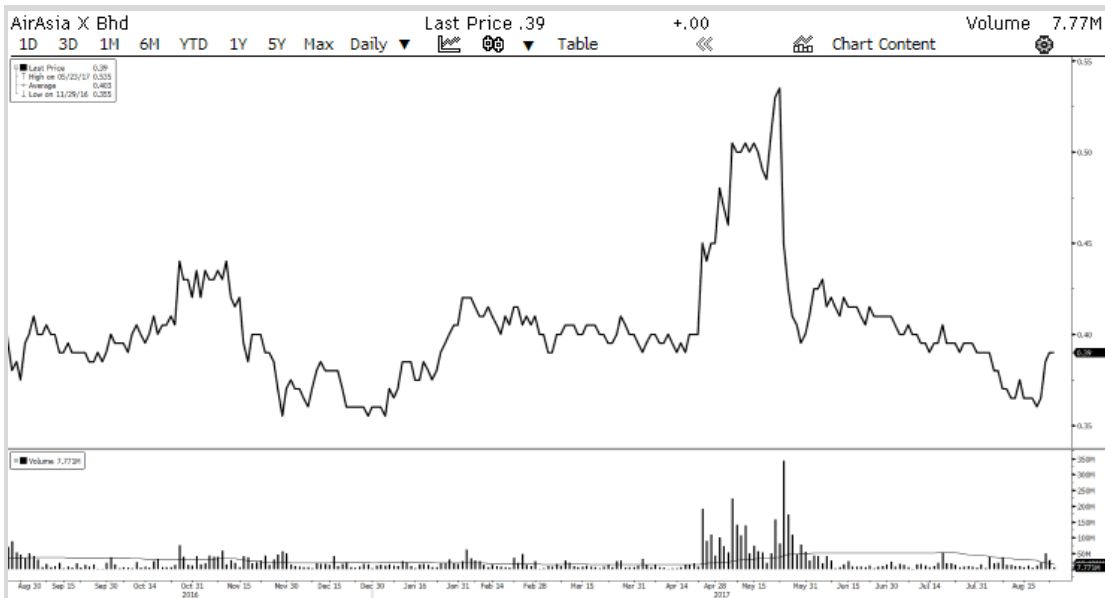


Source: Company, MIDF Research

INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17F	FY18F	FY19F
Revenue (RM'm)	3,075.4	1,853.8	4,424.5	4,610.3	4,771.7
EBIT (RM'm)	31.8	183.1	319.2	375.5	391.3
Pretax Profit (RM'm)	(10.4)	125.1	251.9	302.6	315.7
Net Profit (RM'm)	(345.5)	180.5	176.2	212.3	222.1
Core Net Profit (RM'm)	(155.1)	77.5	176.2	212.3	222.1
Core EPS (sen)	(3.7)	1.9	4.2	5.1	5.4
Core EPS growth (%)	86.3	149.9	127.4	20.5	4.6
PER (x)	(10.4)	20.9	9.2	7.6	7.3
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

DAILY PRICE CHART



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Source: Bloomberg

AirAsia X: 2QFY17 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative	
FYE Dec	2Q17	%YoY	%QoQ	6MFY17	%YoY
Revenue	1,036.3	17.3%	-12.2%	2,217.1	19.6%
-Ticket sales	680.2	11.8%	-16.9%	1,498.4	16.4%
-Ancillary	193.5	41.4%	-7.4%	402.4	37.4%
-Freight	39.2	27.3%	19.5%	71.9	16.6%
-Others	123.5	15.1%	2.2%	244.4	15.3%
Total OPEX	(1,002.0)	-20.1%	8.4%	(2,095.4)	-25.4%
EBITDAR	271.9	4.1%	-17.7%	602.1	0.0%
EBITDA	34.3	-29.7%	-60.7%	121.7	-33.5%
Depreciation	(27.4)	5.1%	-1.3%	(54.4)	6.2%
EBIT	7.0	-65.1%	-88.4%	67.3	-46.2%
Net interest costs	(3.2)	65.6%	66.4%	(12.8)	32.3%
Forex	28.5	192.7%	734.1%	31.9	-65.1%
Other losses	(4.3)	(>100%)	80.7%	(26.5)	(>100%)
PBT	27.9	402.8%	-12.4%	59.9	-71.4%
Net profit	47.4	>100%	359.0%	57.8	-68.0%
Exceptional Items	(28.5)	-256.7%	-28.0%	(50.7)	50.8%
Core net profit	19.0	372.3%	-41.8%	51.5	-33.5%

Operating Stats	2Q17	%YoY	%QoQ	6MFY17	%YoY
Pax Carried ('000)	1,387.3	34.4%	-1.1%	2,789.5	33.6%
RPK (m)	6,791.0	35.0%	-2.9%	13,785.0	33.9%
ASK (m)	8,449.0	26.4%	1.5%	16,773.0	27.8%
Load Factor (%)	80%	5.0%	-4.8%	82%	3.5%
Average Fare (RM)	455.0	-13.5%	-16.4%	499.5	-8.5%
Fuel Expense	(353.7)	-50.1%	6.4%	(731.4)	-52.8%
R/ASK (sen)	12.3	-7.3%	-13.5%	13.2	-6.6%
C/ASK (sen)	12.3	-6.7%	-8.6%	12.9	-3.9%

Source: Company, MIDFR

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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.