

22 November 2018 | 3QFY18 Results Review

## AirAsia X Berhad

*Major headwinds from fuel prices*

**Maintain NEUTRAL**

**Adjusted Target Price(TP): RM0.22**  
**(From RM0.26)**

### INVESTMENT HIGHLIGHTS

- **9MFY18 performance remains in the red**
- **Volatility in oil price hit operating numbers**
- **RASK-CASK spread stays negative due to reduction and cancellation of certain routes**
- **AAX to take advantage of downtrend in oil price for the short term**
- **Maintain NEUTRAL with adjusted TP of RM0.22 per share**

**9MFY18 performance remains in the red.** AAX recorded net loss in 9MFY18 to the tune of -RM213.4m. Excluding exceptional items, the normalised net loss of -RM238.6m exceeded ours and consensus' expectations by a variance of more than 10%. The negative variance was steered by the increase in overall opex, as a result of the +35.4%yoy rise fuel expenses in 3QFY18 and the provision of doubtful debts.

**Volatility in oil price was a major headwind.** Following the increase in average fuel price, 9MFY18's cost of fuel climbed +28.1%yoy higher. Cumulatively, the amount accounted for 40.9% of total revenue, which was +8.5ppts yoy higher than in 9MFY17. Volatile fuel cost remained a major headwind to the long-haul business model, impacting the RPK in 3QFY18 which dropped -3.3%yoy. In 3QFY18, we noted that CASK ex-fuel was little changed, only increasing by +0.5%yoy, attributable to higher provision of doubtful debts for AAX Indonesia amounting to RM138.0m

**RASK-CASK stays negative.** RASK-CASK spread in 3QFY18 stayed in the negative territory as a result of the termination of Tehran and gradual reduction in flights to Kathmandu. Notably, the impact was evident in its operating numbers. AAX's ASK dropped -3.6%yoy in 3QFY18 which translated to the -3.3%yoy decline in RPK. Nonetheless, the 1.0%yoy increase in passengers carried post-GE led to a +1.0ppt gain in load factors which reached 80% in 3QFY18. This however, came at a cost with average fares falling -4.6%yoy.

**Rebound to be seen in 4QFY18.** Tracing back to 3QFY15, the quarter experienced a net loss of -RM288.2m before recording a profit of RM201.6m in 4QFY15. The main reason for the recovery was the 12.9% decline in average Brent crude oil price; from USD51.29pb to USD44.59pb. So far in 4QFY18, Brent crude oil price has drop by approximately 26% to hover around USD60pb to USD65pb in contrast to the 7.4% rise in 3QFY18. We believe that jet fuel prices will follow suit and AAX will be able to reap benefits by hedging its jet fuel requirement more moving forward.


RETURN STATS	
Price (21 <sup>st</sup> November 2018)	RM0.24
Target Price	RM0.22
Expected Share Price Return	-8.3%
Expected Dividend Yield	0.0%
<b>Expected Total Return</b>	<b>-8.3%</b>

STOCK INFO	
KLCI	1,695.37
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	4,148.2
Market cap. (RM'm)	995.6
Price over NA	1.04
52-wk price Range	RM0.23 – RM0.45
Beta (against KLCI)	1.40x
3-mth Avg Daily Vol	13.5m
3-mth Avg Daily Value	RM3.69m
Major Shareholders (%)	
Tune Group	17.8
AirAsia Bhd	13.8
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

**Future prospects.** While the drop in average fare could weigh down earnings, we believe recovery is on the horizon as core routes start to gain better traction moving forward in addition to the newer ones. AAX has also exercised prudence by shifting some of the future capacity into other core markets namely, Japan, South Korea and India to factor in the slower growth from the China segment. Consequently, we believe further improvement in cost structures such as flights to more cost effective airports i.e. Avalon Airport, Melbourne could sustain earnings in the long run.

**Despite the optimism, downward adjustments to earnings are necessary in the near term.** Given that losses came exceeded our estimate, we trimmed down our forecasts to a higher net loss of RM46.9m in FY18 and a lower net profit of RM105.4m in FY19. This is taking into consideration the reduction in its airfares as well as the increase of our operating expenses assumptions in the near term that may outweigh the downtrend in oil price.

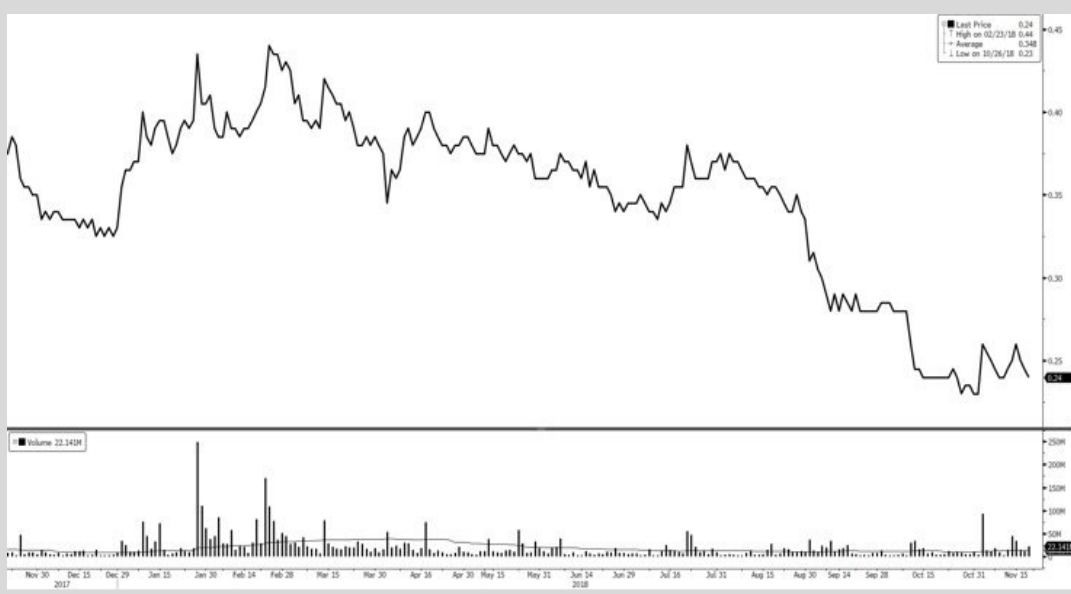
**Maintain our NEUTRAL call.** We expect full year earnings to stage a recovery in FY19. This could be possible through further cost cutting initiatives and better capacity utilization. Despite our lower assumptions of the FY18 and FY19 performance, the headwinds faced by AAX is tempered by its prospect which 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. However, we are cognizant of the volatility in oil prices given the uncertain outlook as Saudi plans to reduce global supplies while President Trump is in favour of increased production. All things considered, we maintain our **NEUTRAL** call with an adjusted TP of RM0.22 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	4,740.0	5,212.0
<b>EBITDA</b>	31.8	389.6	252.3	52.1	223.4
<b>EBIT</b>	(10.4)	276.0	143.0	(8.3)	127.1
<b>Reported Net Profit</b>	(345.5)	230.5	98.9	(46.9)	105.4
<b>Core Net Profit</b>	(155.1)	247.5	153.4	(46.9)	105.4
<b>Core EPS (sen)</b>	(3.7)	6.0	3.7	(1.1)	2.5
<b>Core EPS growth (%)</b>	86.3	259.6	(38.0)	(130.6)	324.7
<b>PER (x)</b>	(6.4)	4.0	6.5	(21.2)	9.4
<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: 3QFY18 RESULTS SUMMARY

<i>All in Rm'm unless stated otherwise</i>	Quarterly Results			Cumulative	
<b>FYE Dec</b>	<b>3Q18</b>	<b>%YoY</b>	<b>%QoQ</b>	<b>9MFY18</b>	<b>%YoY</b>
<b>Revenue</b>	1,077.4	-4.2%	2.3%	3,396.4	1.6%
-Ticket sales	719.2	-4.4%	2.9%	2,304.7	2.4%
-Ancillary	197.3	-5.7%	-0.5%	619.7	1.3%
-Freight	47.7	3.5%	8.2%	134.8	14.2%
-Others	113.3	-3.3%	0.9%	337.2	-6.7%
<b>Total Opex</b>	(1,231.3)	-6.8%	-9.7%	(3,531.1)	8.1%
<b>EBITDAR</b>	69.5	-66.4%	-52.5%	520.8	-34.0%
<b>EBITDA</b>	(153.9)	-451.5%	-123.8%	(134.7)	-282.0%
<b>Depreciation</b>	(48.6)	-76.3%	-79.0%	(103.1)	25.8%
<b>EBIT</b>	(202.5)	-264.9%	-111.1%	(237.9)	2898.7%
Net interest costs	(2.7)	41.3%	17.7%	(8.3)	-52.5%
Forex	(20.2)	-157.3%	-158.0%	3.3	-96.2%
Other gain/(loss) or JV	(22.5)	n.a.	n.m.	(14.4)	41.2%
<b>PBT</b>	(247.8)	-2772.8%	-282.6%	(257.3)	-602.2%
<b>Net profit</b>	(197.5)	-356.0%	-243.7%	(213.4)	-1574.8%
E.I.	(22.2)	-50.9%	-164.1%	(19.1)	-190.7%
<b>Core profit</b>	(219.6)	-278.7%	-138.6%	(238.6)	562.3%
<b>Operating stats</b>	<b>3Q18</b>	<b>%YoY</b>	<b>%QoQ</b>	<b>9MFY18</b>	<b>%YoY</b>
Pax carried ('000)	1,511.6	0.8%	-3.6%	4,668.8	8.9%
RPK (m)	7,005.0	-3.3%	-3.8%	21,943.0	4.4%
ASK (m)	8,806.0	-3.6%	-1.7%	26,885.0	3.8%
Load factor (%)	80%	0.4%	-1.8%	2.4	0.3%
Average fare (RM)	473.0	-4.6%	13.2%	1,418.0	-5.2%
fuel expense	(476.4)	-35.4%	8.0%	(1,387.9)	28.1%
R/ASK (sen)	12.3	-0.6%	4.1%	37.9	-2.3%
C/ASK (sen)	14.6	12.3%	12.8%	40.9	4.6%

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.