

22 February 2018 | 4QFY17 Results Review

AirAsia X Berhad

Showing its mettle

INVESTMENT HIGHLIGHTS

- **AAX earned commendable net profit of RM98.9m**
- **Earnings will likely stabilize, supported by new routes**
- **Demand for LCC is still robust**
- **Prospect for FY18 is sanguine**
- **We reaffirm BUY on AAX with adjusted TP of RM0.46 (from RM0.43)**

Earnings rebounded. AAX's 4QFY17 core earnings rebounded from its fall in the previous quarter. As a result it concluded the year with cumulative net profit of RM98.9m. On quarterly basis, 4QFY17 net profit was RM84.4m vs RM39.0m in the same period last year, growing by >+100.0%yoy. However, earnings came in below ours and consensus full year estimates at 70.0% and 85.8% respectively. This was due to one-off debt provision in 3QFY17. We note that excluding this, earnings would have exceeded expectations.

Revenue grew by double-digit. AAX's FY17 revenue was up by +17.0%yoy, which reflected a growing demand for AAX long haul flight services. This was shown by encouraging trend in the ticket sales, ancillary and freight segments with at least ~+15.7%yoy incremental growth. The highest growth was in the ancillary segment, at almost +30.0%yoy to RM830.5m. For 4QFY17, AAX's ASK grew +8.0% which was well absorbed by RPK rising +10.0%. Notably, yearly ASK growth of 19.5% was exceeded by the growth of passengers carried, at +24.5%yoy. This has reflected on the load factor improvement in FY17 of +2.0pptsyoy to 83.0%.

The falling of average fare. For FY17, average fare was lower by -6.7% to RM503.50 due to lower fares across key markets, in-line with AAX's load active strategy. A load active strategy is positive in manoeuvring against competitors and a positive for AAX given that it will strengthen its foothold in a competitive market. However, we believe this only occurs in certain routes which are over capacity. We are encouraged to know that AAX has already embarked in capacity management for certain routes, with the addition of more unique routes. We believe the overall yield to hover around the comfortable range, considering that more frequencies will be added to more unique routes, which historically have generated lucrative margin.

Maintain BUY

Adjusted Target Price(TP): RM0.46
(from: RM0.43)


RETURN STATS	
Price (21 Feb 2018)	RM0.41
Target Price	RM0.46
Expected Share Price Return	+10.3%
Expected Dividend Yield	0.0%
Expected Total Return	+12.2%

STOCK INFO	
KLCI	1,858.17
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Trading Services
Shariah Compliant	Yes
Issued shares (mil)	4,148.1
Market cap. (RM'm)	1,680.0
Price over NA	1.69
52-wk price Range	RM0.33 - RM0.55
Beta (against KLCI)	1.66
3-mth Avg Daily Vol	25.2m
3-mth Avg Daily Value	RM9.8m
Major Shareholders	
AirAsiaBhd	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

Prospect in 2018. In terms of its earnings prospect, we believe the turnaround exercise in the company will lend support to earnings generation. For this, we have seen capacity management practice already being implemented. Accordingly, certain routes with over capacity will see reduction in frequencies, which will then be rerouted to North Asia. North Asia is seen to be a new earnings generator for AAX where the demand for air travel is high. Notably, AAX is expected to take delivery of three aircrafts each, for both AAX Malaysia and AAX Thailand. The expansion of aircrafts number will give support to six to seven new routes in China and Japan. We believe that routes in China will likely see earnings accretion in the immediate term, driven by the growing demand of air travel in the said market, partly due to the growth of household income. We note that China unemployment rate has touched 3.9% in the previous quarter, the lowest ever recorded. Looking further into the consumer confidence index, China has breached 120 points, a level not seen for 24 years. Given these positives, we believe conditions are ripe for an increase demand in air travel.

Impact on earnings. Given our strong outlook on AAX' performance in 2018, we are prompted to adjust our earnings forecast upward. Despite the earnings came in below expectation due to one-off provision, we believe that FY18 will see the full-effect of AAX's turnaround, with the new business model showing its effectiveness. Hence, we are revising up our estimates for FY18 and FY19 by +7.5% and +5.5% respectively factoring in lower cost of expenses and higher yield.

Reaffirm BUY call with TP of RM0.46. Our target price is pegged to a forward FY18 price-to-earnings ratio of 8.5x. Our buy stance is predicated on AAX's aggressive capacity expansion through higher utilisation of aircraft through increasing frequencies and route network. Considering that the business prospects are on the mend, AAX capacity expansion move is strategic to benefit from long-term profitability. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	3,075.4	4,006.5	4,562.0	4,908.2	5,124.2
EBITDA	31.8	389.6	252.3	415.2	432.5
EBIT	(10.4)	276.0	143.0	331.4	352.8
Net Profit	(345.5)	230.5	98.9	223.5	230.1
Core Net Profit	(155.1)	247.5	153.4	223.5	230.1
Core EPS (sen)	(3.7)	6.0	3.7	5.4	5.5
Core EPS growth (%)	86.3	259.6	(38.0)	46.0	1.9
PER (x)	(11.0)	6.9	11.1	7.6	7.5
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

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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AirAsia X: 4QFY17 RESULTS SUMMARY

All in Rm'm unless stated otherwise	Quarterly Results			Cumulative	
	FYE Dec	4Q17	%YoY	%QoQ	FY17
Revenue	1,220.5	4.3%	8.5%	4,562.0	17.0%
-Ticket sales	855.2	3.6%	13.7%	3,105.7	15.7%
-Ancillary	218.8	16.4%	4.6%	830.5	29.9%
-Freight	53.0	29.6%	15.1%	171.0	26.8%
-Others	93.4	-19.6%	-20.2%	454.8	3.0%
Total Opex	(1,082.4)	-3.8%	4.4%	(4,309.7)	-17.1%
EBITDAR	367.6	10.5%	61.8%	1,196.9	-3.1%
EBITDA	138.0	8.1%	1964.3%	252.3	-35.2%
Depreciation	(27.4)	0.7%	0.8%	(109.3)	3.7%
EBIT	110.7	10.5%	416.3%	143.0	-48.2%
Net interest costs	(10.5)	-1931.0%	-125.3%	(28.0)	-11.6%
Forex	29.5	131.7%	100.6%	76.1	314.4%
Other gain/(loss) or JV	5.9	-73.5%	-63.6%	(4.3)	-117.1%
PBT	135.6	353.7%	1671.5%	186.8	125.3%
Net profit	84.4	116.4%	294.9%	98.9	120.5%
E.I.	75.4	-14.3%	613.0%	10.0	-41.3%
Core profit	159.8	25.8%	375.6%	153.4	-38.0%

Operating stat	4Q17	%YoY	%QoQ	FY17	%YoY
Pax carried ('000)	1,549.05	12%	3%	5,837.53	24.5%
RPK (m)	7,553.00	10%	4%	28,579.00	23.3%
ASK (m)	9,146.00	8%	0%	35,054.00	19.5%
Load factor (%)	0.83	2%	5%	0.82	3.4%
Average fare (RM)	519.00	-8%	5%	503.50	-6.7%
fuel expense	(383.53)	-8%	-9%	(1,466.68)	-31.4%
R/ASK (sen)	13.36	-3%	8%	13.04	-5.0%
C/ASK (sen)	12.15	-6%	-5%	12.69	-0.6%

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.