

20 July 2018 | Corporate Update

AirAsia X Berhad *Firming up the long-haul model*

Maintain BUY

Unchanged Target Price(TP): RM0.47

INVESTMENT HIGHLIGHTS

- **100 orders of A330neo confirmed for USD30b price tag**
- **More cost reduction, following replacement of older generation aircrafts**
- **Paving way for longer-range flights**
- **Maintain BUY with TP of RM 0.47**

A total of 100 orders for A330neo. AAX announced additional A330neo orders at an event yesterday which we attended. While the initial decision was only to reconfirm the 66 A330neo orders, we noted that 34 more were added. Accordingly, this brought its total backlog for that aircraft to 100.

List price of USD296m/unit. According to the management, the deal is worth USD30b for 100 units of A330neo (i.e. the larger A330-900 models) with a sticker price of USD296.4m/unit. AAX is now the largest airline customer for the A330neo model, making up a significant portion of the 250 firm orders prior to entry-into-service. Considering that airlines usually benefit from discounts to list prices, we opine AAX likely benefitted from hefty mark down due its large orders. Following this deal, AAX will be the first Asian airlines to operate the model with initial deliveries expected to start in Q419. The new units will be operated out of its bases in Malaysia, Thailand and Indonesia, adding to the current aircrafts fleet.

A330neo-the right aircraft, right now? Given the long-haul business model adopted by AAX, we believe the deployment of new generation A330 aircrafts as strategic. This is taking into account its ability to induce higher cost-saving in comparison with the older AAX's A330-300 models. Few advances made with A330neo includes the incorporation of new generation Rolls-Royce Trent 7000 engines, a new optimised wing and increase use of lighter composite materials. Altogether, the model is able to bring significant reduction in fuel consumption by 25% than the older generation aircrafts of similar size. Coupled with 5% saving in maintenance cost, A320neo is able to reduce cost by 11-12%.

Potential for more long-haul routes. Given the potential economic benefit, we see new opportunities emerging for an ultra-long-haul flight by AAX with one could potentially be the Kuala Lumpur-London Gatwick route. While the introduction of European route is possible, we incline to believe that ultra-long flight is likely to be shelved at this juncture. This is stemming from the unfavourable oil price trend this year which has averaged at USD68.81/brl, an increase of +25.7% since the beginning of the year.

RETURN STATS	
Price (19 July 2018)	RM0.36
Target Price	RM0.47
Expected Share Price Return	+30.6%
Expected Dividend Yield	0.0%
Expected Total Return	+30.6%

STOCK INFO	
KLCI	1,759.24
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	4,148.1
Market cap. (RM'm)	1,472.6
Price over NA	1.59
52-wk price Range	RM0.33 – RM0.45
Beta (against KLCI)	1.10x
3-mth Avg Daily Vol	11.89m
3-mth Avg Daily Value	RM4.37m

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

Exhibit 1: A330-900neo Model



Source: Airbus

Exhibit 2: A330-300 and A330-900neo Model Comparison

Capacity	A330-300	A330-900neo
Typical seating	277	287
Max	440	440
Overall length (m)	63.66	63.66
Performance	A330-300	A330-900neo
Range (km)	11,750.0	13,334.0
Max ramp weight (tonnes)	242.9	251
Max take-off weight (tonnes)	242.0	242

Source: Airbus, MIDFR

Financing structure not yet finalized. One point for us to note is that the financing arrangement for the aircrafts purchases lacks details. Notably, possible routes could take in the form of internal cash flow, debt, or sale-and-leaseback agreement. According to the management, all the options are equally possible. We believe more clarity will be given moving forward, once they were able to confirm on aircraft deliveries. Accordingly, the contract period for aircraft deliveries is set to conclude in the next ten years. We noted that some of the new generation will be replacing the older models, A330-300.

Overall a positive development for AAX. We believe that AirAsiaX's commitment to expand its fleet size sends a positive signal to investors, on its confidence for the value based long-haul model. While the company had to weather some bumpy rides previously, the management is optimistic that it will be able to find the right tune in the long-haul market. With more new generation aircrafts expected to fill up its fleet, we expect further reduction on cost per Available Seat Kilometres across the group.

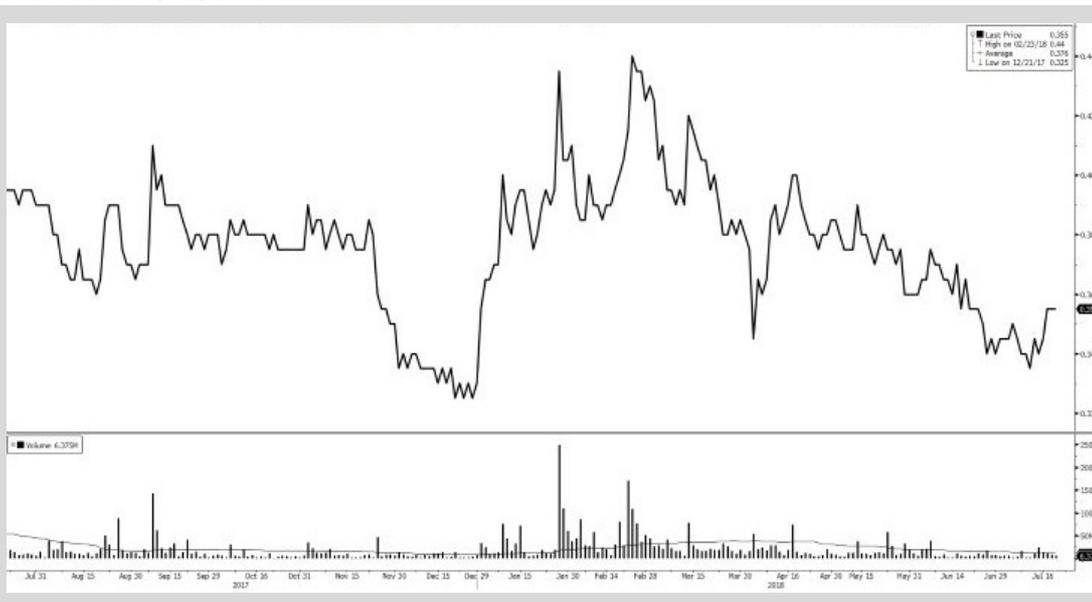
Maintain our BUY call. Given our positive view on the new development, we maintain our positive stance on the stock. Moving forward, we opine that AAX is expected to see further cost reduction following its gradual shift to modern fleet operation. Additionally, AAX is poised to reap the first mover's 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 unchanged **TP** of **RM0.47** pegging its EPS to PE of 8.5x. 

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
Reported Net Profit	(345.5)	230.5	98.9	223.5	230.1
Core Net Profit	(155.1)	247.5	153.4	223.5	230.2
Core EPS (sen)	(3.7)	6.0	3.7	5.4	5.5
Core EPS growth (%)	86.3	259.6	(38.0)	45.7	3.0
PER (x)	(9.6)	6.0	9.7	6.7	6.5
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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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.