

11 October 2018 | Corporate Update

AirAsia X Berhad

Fuel price risk elevated

INVESTMENT HIGHLIGHTS

- **FY18 performance expected to be in the red**
- **Volatility in oil price, a lingering challenge**
- **Focus in core markets, to benefit AAX in the long run**
- **Downgrade to NEUTRAL**
- **Target price adjusted to RM0.26**

Losses could widen in 3QFY18. Recall that AAX's net profit slumped into the red in 1HFY18, as a result of elevated fuel cost. On average, fuel price came in +33.7%yoy higher from USD54.6/b since December 2017. Largely, this was attributable to the anticipated US sanctions on Iranian oil exports, shale bottlenecks and Venezuelan turmoil. As such, we are expecting price to remain volatile. This will elevate the downside risk of fuel cost especially for airlines, as it account to a large percentage of opex.

AAX's cost structure remains a challenge. Despite AAX's attempt to further squeeze out savings from ex-fuel costs, fuel price increase remains a major encumbrance to earnings. We expect it to remain in the near term as the move to increase yield continue to be challenging. Notably, we have to make allowance for the introduction of new routes, whereby fare prices are typically given heavy discounts. Although this is positive to enhance presence and connectivity, we have to be cognizant of the short-term pressure it has on seat sales revenue.

Making provision of temporary setbacks. The current environment serves as a proving ground for AAX to firm up its long-haul low-cost business model. Its ability to sustain earnings in the long run would be largely driven by the continuous improvement in cost structures and the generation of meaningful revenue in new routes. While these are already in the works, we believe an adjustment to our earnings forecasts is necessary. Note that fuel consumption accounted for the largest portion of the group's overall expenses at 35.0-38.0%. From our sensitivity analysis, we estimate that every +1.0% rise in fuel price; will impact net operating profit by -12.0%.

Earnings adjusted lower. Accordingly, we adjusted our earnings forecasts lower to take into account the elevated fuel price for FY18 and FY19. This is based on our average fuel price assumption of USD85/b (from USD79/b previously) for both fiscal years respectively. We expect AAX to record losses this year, while we adjust FY19 by -34.4% lower.

Downgrade to NEUTRAL

Adjusted Target Price(TP): RM0.26
(From RM0.40)

RETURN STATS	
Price (10 Oct 2018)	RM0.26
Target Price	RM0.26
Expected Share Price Return	+0.0%
Expected Dividend Yield	0.0%
Expected Total Return	+0.0%

STOCK INFO	
KLCI	1,735.18
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Airlines
Syariah Compliant	Yes
Issued shares (mil)	4,148.1
Market cap. (RM'm)	1,078.5
Price over NA	1.59
52-wk price Range	RM0.26 – RM0.45
Beta (against KLCI)	1.19x
3-mth Avg Daily Vol	12.07m
3-mth Avg Daily Value	RM3.99m
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

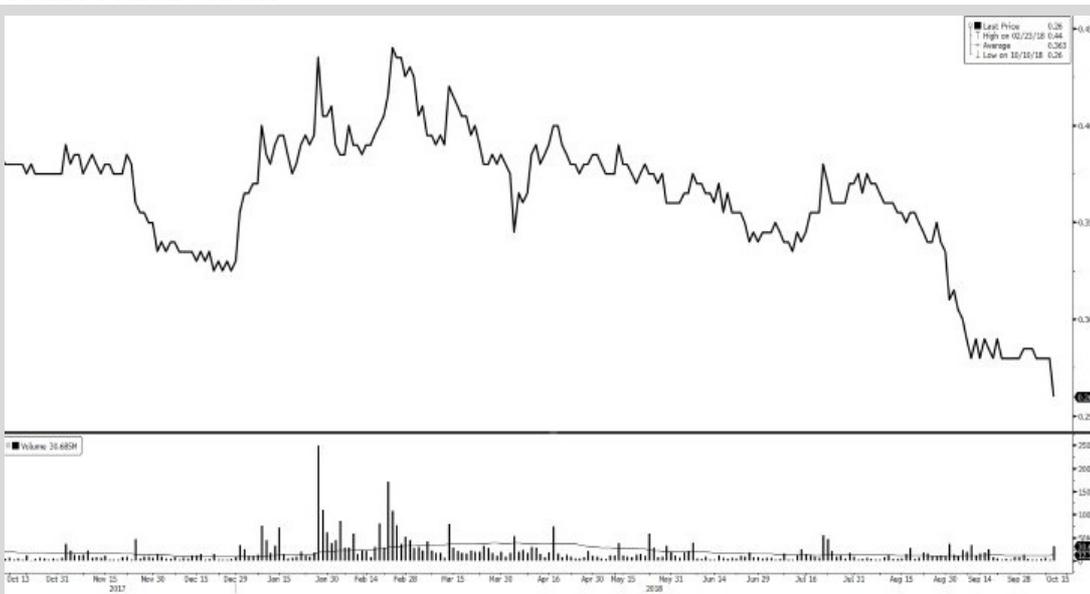
Downgrade to NEUTRAL. Based on the changes made, our **TP** is adjusted lower to **26.0sen**. This is pegging its **FY19 EPS** to **PE** of **8.5x**. Despite the cloudy outlook for the rest of FY18, we are expecting AAX to return to profits in FY19. This could be possible through further cost cutting initiatives, better capacity utilization and stable fuel environment. Although we are downgrading the stock due to short term headwinds, we remain encouraged by AAX's long-term prospect that is tied to the strategic plan of 1) further reduction in CASK; 2) stronger focus in core markets. This will be supported by AAX's gradual shift to modern fleet operation via the purchase of new generation aircrafts. 

INVESTMENT STATISTICS

FYE Dec (RM'm)	FY15	FY16	FY17	FY18F	FY19F
Revenue	3,075.4	4,006.5	4,562.0	4,798.0	5,212.0
EBITDA	31.8	389.6	252.3	102.3	288.4
EBIT	(10.4)	276.0	143.0	(4.7)	164.0
Reported Net Profit	(345.5)	230.5	98.9	(15.9)	125.2
Core Net Profit	(155.1)	247.5	153.4	(15.9)	125.2
Core EPS (sen)	(3.7)	6.0	3.7	(0.4)	3.0
Core EPS growth (%)	86.3	259.6	(38.0)	(110.4)	887.4
PER (x)	(9.6)	6.0	9.7	(93.9)	11.9
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.