

## Capital A Berhad

**Maintain NEUTRAL**

(5099 | CAPITALA MK) Main | Consumer Products &amp; Services


### Setting Up an MRO Base in Cambodia

**Unchanged Target Price: RM0.90**

#### DEVELOPMENT

- Capital A's wholly owned subsidiary, Asia Digital Engineering Sdn Bhd (ADE), has entered into a Shareholders Agreement (SHA) with Sivilai Asia Co., Ltd (Sivilai Asia). This SHA involves the subscription of 60% of the capital in the newly formed joint venture (JV) company, "ADE (Cambodia) Co., Ltd", aimed at establishing a Maintenance, Repair and Overhaul (MRO) business in Cambodia.

#### OUR VIEW

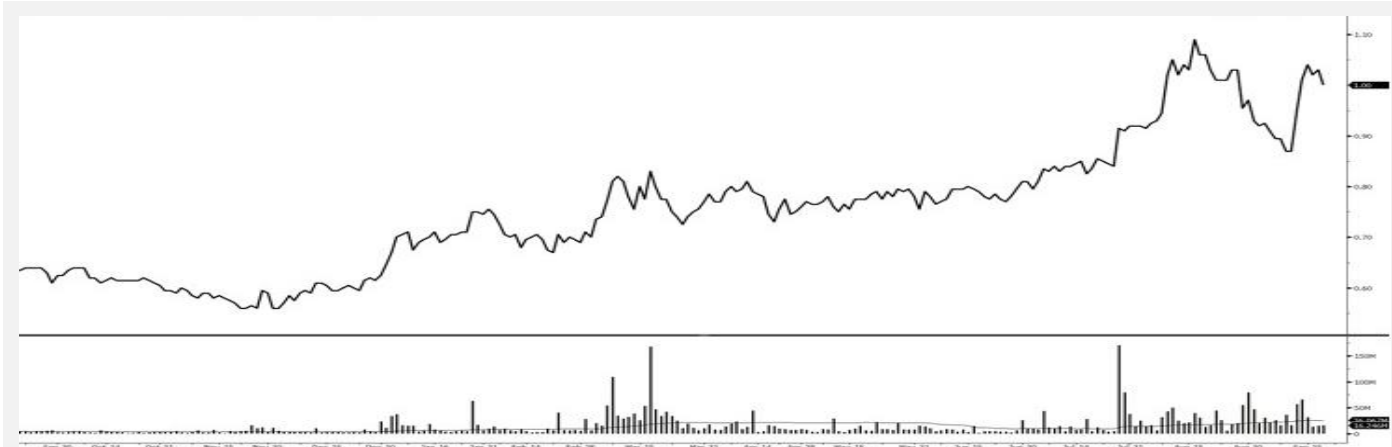
- To recap, Capital A has incorporated a 51%-owned JV entity known as AirAsia (Cambodia) Co., Ltd, with operations scheduled to commence in Nov-23. The initial operation is expected to commence with two aircraft, and the Group's long-term goal is to expand its fleet to include 15 aircraft, facilitating the services of routes within a 4-hour radius.
- Operating its own MRO base provides the airline with enhanced control over maintenance schedules and processes, resulting in more efficient aircraft maintenance and reduced aircraft downtime. ADE reportedly boasts the shortest aircraft maintenance services turnaround time (TAT) at just 29 days, aligning closely with one of AirAsia Group's most efficient MRO providers.
- Furthermore, the airline's MRO base has the potential to not only service its own fleet but also extend its offerings to other airlines, creating opportunities for additional revenue generation. Notably, a new airport known as Techo Takhmao International Airport, is currently under construction in Cambodia's Kandal province. Positioned approximately 30-40 kilometers to the south of Phnom Penh, it is anticipated to become fully operational by 2025, ultimately supplanting the current Phnom Penh International Airport as the primary airport serving the city. Upon completion, it is set to rank as the ninth largest airport globally in terms of land area and will hold the designation of a 4F class airport.
- ADE will be injecting a total of USD1.2m (RM5.6m) in two tranches (with the first tranche before incorporation and the remaining amount post-incorporation), and it intends to utilise its internal funds for its equity investment share. The Group has a cash balance of RM735.0m as of 2QFY23, which should be sufficient for the JV share subscription. The subscription process is anticipated to conclude in 4QFY23.
- No changes were made to our earnings estimates.
- We expect a continued revival in passenger traffic as the Group increases flight frequencies, reinstates routes, and introduces new ones. With the addition of seat capacity, the load factor is anticipated to remain strong at nearly 90%. The Group aims to achieve full fleet reactivation by Dec-23, although the original target for Aug-23 has been delayed in the past due to supply shortages and maintenance requirements for aging aircraft. The prevailing high USDMYR environment could also bring about near-term challenges, especially with its substantial USD-denominated expenses including fuel and aircraft leases. In the meantime, the continued implementation of fuel surcharges should assist in mitigating the impact of fluctuations in crude oil prices. Overall, we maintain **NEUTRAL** on the stock with an unchanged TP of **RM0.90** (8x FY24F EPS). A key driving factor would be faster-than-expected restoration of network and capacity to pre-Covid levels. 

## INVESTMENT STATISTICS

Income Statement	2021A	2022A	2023E	2024F	2025F
Revenue	1,682.9	6,437.1	13,484.2	14,400.4	15,537.2
Operating profit	-2,845.6	-1,393.8	935.2	1,827.6	2,136.3
PBT	-3,575.0	-3,303.7	-255.6	569.9	864.8
PATAMI	-2,991.1	-2,626.4	-194.3	433.1	657.3
Core PATAMI	-2,860.8	-2,564.0	-194.3	433.1	657.3
EPS (sen)	-	-	-	10.7	16.2
PER (x)	-	-	-	9.4x	6.2x

Source: Capital A, MIDFR

## SHARE PRICE CHART



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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.

#### ESG RECOMMENDATIONS\* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

\* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology