

Capital A Berhad

Maintain NEUTRAL

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


Teaming Up with Indonesian Carriers

Unchanged Target Price: RM0.90

DEVELOPMENT

- Capital A Berhad (Capital A) and its subsidiary, AirAsia Aviation Group Limited (AAAGL), had entered into Memorandums of Understanding (MoUs) on September 27, 2023 with PT Garuda Indonesia (Persero) Tbk (Garuda) and PT Citilink Indonesia (Citilink) respectively to facilitate collaborative efforts and establishing strategic partnerships for travel and logistics services within the ASEAN region.

OUR VIEW

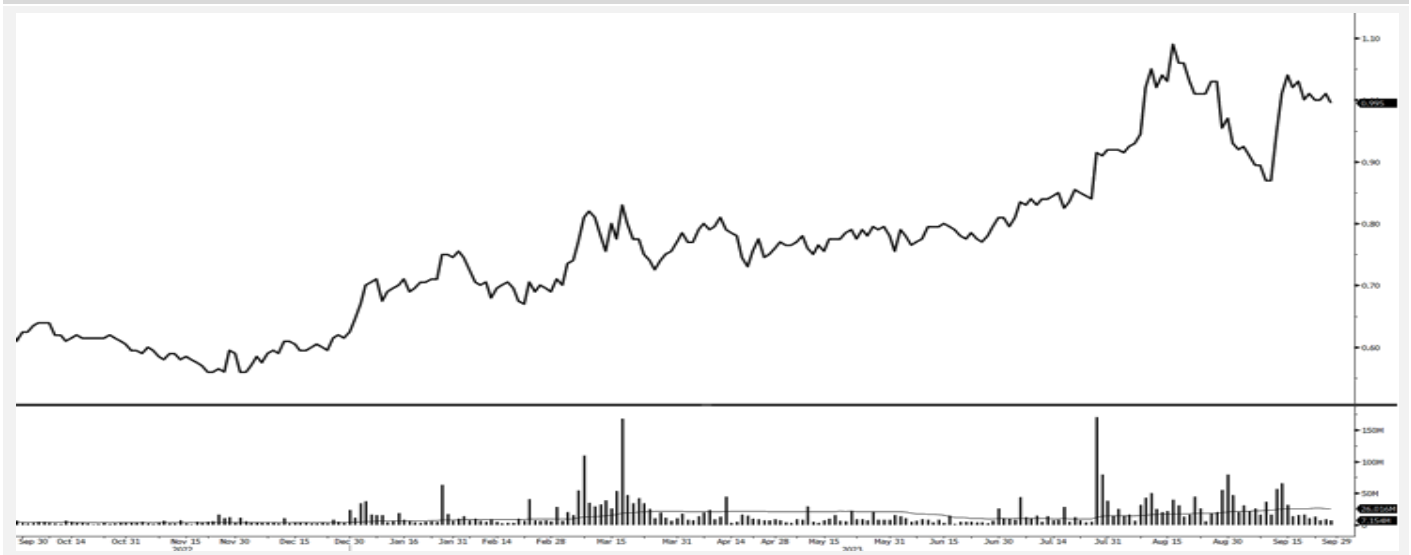
- The interline MoU between AAAGL and Citilink will offer travelers access to underserved Indonesian cities and connect AAAGL's international routes to Citilink's domestic network, simplifying baggage transfer and services by 1QFY24. This marks AAAGL's first bilateral interline agreement.
- Meanwhile, the interline partnership between Capital A's cargo logistics business under Teleport Everywhere Pte Ltd (Teleport) and Garuda's cargo operation will enable customers to transport their goods seamlessly across Teleport's 160 destinations in the Asia Pacific and Garuda's more than 90 global destinations using a single airway bill.
- We view the MoUs as a positive development for Capital A, strengthening the Group's market position and operational efficiency in both passenger and cargo transportation sectors. However, as the MoUs are not legally binding, we do not expect it to have an immediate direct impact on the earnings.
- We anticipate a gradual recovery in passenger traffic as the Group ramps up flight frequencies and restore routes. The increase in seat capacity should help maintain a robust load factor of close to 90%. We look forward to the Group's full fleet reactivation by Dec-23, which is a pivotal milestone considering their substantial 40% market share in terms of passengers carried. The current high USD to MYR exchange rate may pose near-term challenges given the Group's significant USD-denominated expenses. However, the ongoing implementation of fuel surcharges is expected to help offset the impact of fluctuating crude oil prices. We maintain **NEUTRAL** on the stock with unchanged TP of **RM0.90** (based on 8x FY24F EPS) as it is trading close to its pre-pandemic mean. A key factor for potential growth would be a faster-than-expected return of the 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



MIDF Research Team
 research@midf.com.my

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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