

Capital A Berhad

Maintain NEUTRAL

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


Unlocking AirAsia's Value in the U.S. Market

Unchanged Target Price: RM0.90

DEVELOPMENT

- Capital A Berhad (Capital A) has entered into a letter of intent with Aetherium Acquisition Corp (GMFI), a special purpose acquisition corporation (SPAC) listed on NASDAQ, for a merger involving the formation of a Cayman Islands entity, Capital A International (CAPI) (Proposed Business Combination).
- Following the incorporation of CAPI, this special purpose unit will acquire Brand AA Sdn Bhd and Fleet Consolidated Pte Ltd from Capital A. The former holds the rights to the AirAsia brand and collects royalty fees from AirAsia Aviation Group Ltd, while the latter handles aircraft procurement and delivery for the aviation group according to an agreed allocation plan. CAPI's plans include engaging in strategic acquisitions, incubation, and partnerships to support emerging entrepreneurs, while generating revenue from brand royalty and aircraft leasing.
- The Proposed Business Combination involves GMFI acquiring all the issued and outstanding share capital of CAPI, leading to CAPI's debut as a new publicly listed company on NASDAQ. GMFI will assign a value of approximately USD1.00b (RM4.77b) to CAPI for the purpose of the merger and this valuation will also take into account any additional net cash proceeds received by CAPI.

OUR VIEW

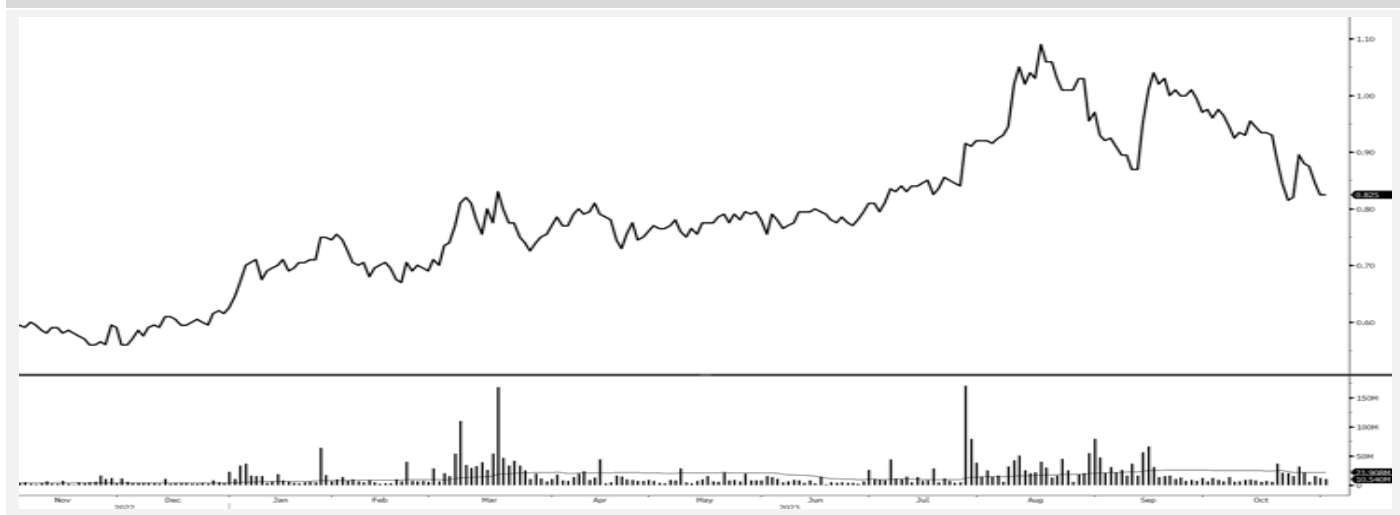
- This merger is one component of the Group's larger strategy to address and uplift its PN17 status. It presents an avenue for the Group to unlock the value of the AirAsia brand. It will also provide the group with exposure to the U.S. capital markets via NASDAQ, which are generally known to be more receptive to financial endeavors of this nature.
- The expected impact of the Proposed Business Combination will be disclosed in a detailed announcement when the Definitive Agreement is signed tentatively in 1QCY24. Capital A will no longer generate revenue and potential profits from AirAsia Brand royalties. After the Proposed Business Combination is finalised, anticipating a pro forma gain from this merger, it should improve the Group's shareholders' equity which stood at -RM10.20b as of 2QFY23. Moreover, post the completion of the merger, the Group will have the opportunity for indirect participation in the profits of the disposed business through its ownership of consideration shares and consideration securities.
- The implementation of the Proposed Business Combination depends on the approval of the Group's board of directors and shareholders at an Extraordinary General Meeting (EGM), in addition to obtaining the necessary approval from Bursa Securities for the Group to execute its proposed regularisation plan, among other considerations.
- We made no changes to our earnings estimates.
- 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. Key catalysts 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)	-	-	-	7.7x	5.1x

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