

Capital A Berhad

(5099 | CAPITALA MK) Main | Transportation & Logistics

Proposed Aviation Business Divestment

KEY INVESTMENT HIGHLIGHTS

- **Newly established AAG set to takeover AAX's listing status**
- **Share capital reduction through in specie distribution**
- **Aviation disposal targeted for 3QFY24, regularisation plan by 1QFY25**
- **Forward earnings estimates remain unchanged**
- **Maintain NEUTRAL with an unchanged TP of RM0.74**

Yesterday, Capital A Berhad (Capital A) and AirAsia X Berhad (AAX) jointly unveiled the details of the corporate exercises that are intended to be undertaken. Below is the summary:

AAG to assume AAX's listing status. AAX will initiate an internal organisation, which entails setting up a new entity called AirAsia Group Sdn Bhd (AAG) (refer to Figure 1). Shareholders of AAX will exchange their current shares for shares in the newly formed AAG on a 1:1 basis. AAG will then assume the listing status previously held by AAX. Following that, AAG will proceed to acquire Capital A's aviation businesses through:

- acquiring 100% equity interest in AirAsia Berhad (AAB) by assuming RM3.80b of the RM3.83b debt owed by Capital A to AAB, and
- acquiring 100% equity interest in AirAsia Aviation Group Ltd (AAAGL) by issuing 2.31b new AAG shares at an issue price of RM1.30 per share.

Reward for AAX shareholders. Pending the acquisitions/disposals, there was a proposed issuance of up to 223.5m free warrants in AAG based on 1 AAG warrant for every 2 AAG shares held by the existing AAX shareholders. The entitlement date for this issuance is to be determined after the competition of AAX's internal reorganisation. Subsequently, AAG will proceed with a private placement of RM1.0b, with the proceeds earmarked to finance the newly consolidated business, which is already in progress.

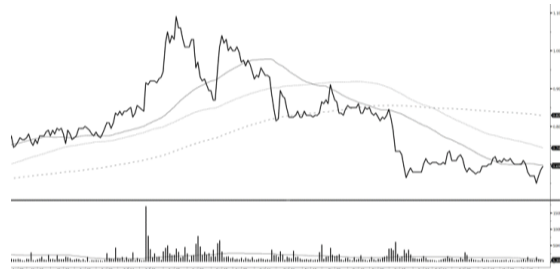
Distribution in specie via a reduction and repayment of Capital A's share capital. Following this, approximately 73.33% or 1.69b of the new ordinary shares in AAG, valued at RM2.20b, will be distributed to entitled shareholders of Capital A according to their respective shareholdings (Proposed Distribution). To illustrate, with the total issued share capital of Capital A at RM8.73b, comprising 4.25b ordinary shares, the distribution shares are expected to be allocated at a ratio of 397 new AAG shares for every 1000 shares held. Capital A is projected to retain around 18.39% or 672.5m of the enlarged issued shares of AAG, with the assumption of the RM1.0b private placement.

Maintain NEUTRAL
Unchanged Target Price: RM0.74

RETURN STATISTICS

Price @ 25 th April 2024 (RM)	0.70
Expected share price return (%)	+5.7
Expected dividend yield (%)	0.0
Expected total return (%)	+5.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.4	-3.2
3 months	-1.4	-1.4
12 months	-7.3	-16.1

INVESTMENT STATISTICS

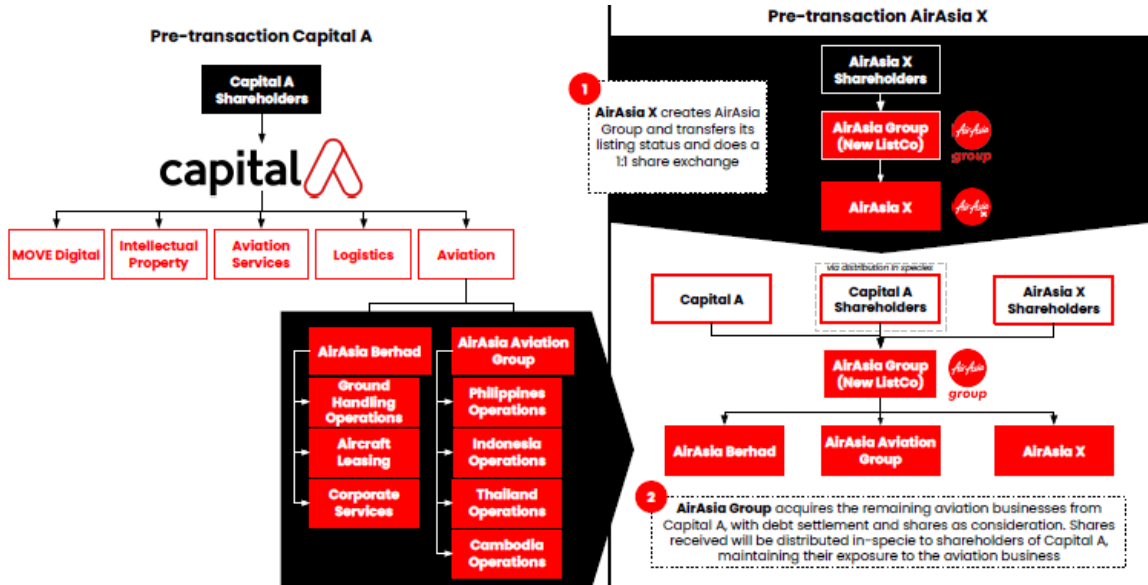
FYE Dec	2023A	2024F	2025F
Revenue	13,484.2	14,400.4	15,537.2
Operating profit	667.2	1,793.4	2,128.2
PBT	-523.6	535.7	856.7
Core PATAMI	-398.0	407.1	651.1
EPS (sen)	-	9.8	15.6

KEY STATISTICS

FBM KLCI	1,569.25
Issue shares (m)	4,254.58
Estimated free float (%)	75.81
Market Capitalisation (RM'm)	2,978.28
52-wk price range	RM0.64 - RM1.12
3-mth average daily volume (m)	7.75
3-mth average daily value (RM'm)	5.41
Top Shareholders (%)	
Tune Air Sdn Bhd	12.14
Tune Live Sdn Bhd	11.96
Positive Boom Limited	7.81

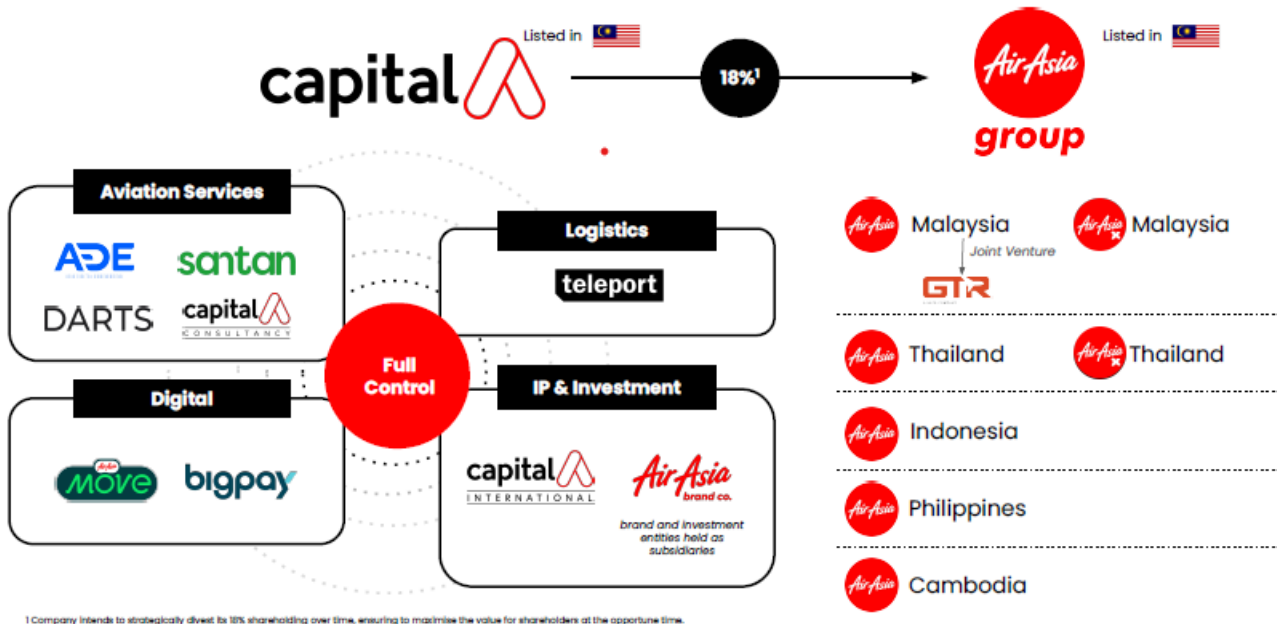
MIDF Research Team
 research@midf.com.my

Figure 1: Illustrative Structure Pre-Corporate Restructuring



Source: Capital A

Figure 2: Illustrative Structure Post-Corporate Restructuring



Source: Capital A

Positive shareholders' equity. After the issuance of warrants and placement, AAG intends to reduce its share capital from RM4.05b to RM100.0m. This reduction involves cancelling paid-up share capital that exceeds available assets, thereby eliminating accumulated losses totaling RM3.27b (refer to Figure 3). In the case of Capital A, there are 942.7m remaining RCUIDS convertible into new shares at RM0.75 per share and 649.7m outstanding warrants. After the Proposed Distribution, with no conversion of outstanding RCUIDS and warrants, share capital will decrease by RM2.20b to RM6.46b, and shareholders' equity will turn positive at RM492.8m through the deconsolidation of the merger deficit resulting from Capital A's previous acquisition of AAB following its disposal. If all outstanding RCUIDS and warrants are exercised, the projected shareholders' equity would amount to RM1.67b following the Proposed Distribution and disposal of AAB (refer to Figure 4).

Figure 3: Newly Enlarged AAG or AAX Pro-Forma Post Transaction

RM '000	AAX Group		New AirAsia Group								
	Audited as at 31 December 2022	After the Placement 2023	After the Proposed Internal Reorganisation	After the Proposed Issuance of Free Warrants	After the Proposed Private Placement	After the Proposed AAAGL Acquisition	After the Proposed AAB Acquisition	After the Proposed Share Capital Reduction	After the Proposed Granting of Subscription Options	After assuming full subscription of the Subscription Shares	After assuming full exercise of the Warrants
Share capital	1,534	51,029	51,029	51,029	1,051,029	4,051,029	4,051,029	100,000	100,000	812,855	1,103,452
Reverse acquisition reserve	-	-	-	-	-	(2,479,523)	(2,479,523)	(2,479,523)	(2,479,523)	(2,479,523)	(2,479,523)
Foreign exchange reserve	14	14	14	14	14	293,487	293,487	293,487	293,487	293,487	293,487
Other reserves	-	-	-	-	-	2,371,934	2,371,934	3,057,138	3,056,898	3,056,898	3,056,898
Accumulated losses(3)	(286,751)	(286,846)	(287,246)	(287,616)	(317,356)	(3,259,575)	(3,265,505)	-	-	-	-
Shareholders' funds / NA	(285,203)	(235,803)	(236,203)	(236,573)	733,687	977,257	971,422	971,102	970,862	1,683,717	1,974,314

Source: Capital A

Figure 4: Capital A's Pro-Forma Post Transaction

RM million	Audited as at 31 Dec 2022	Minimum Scenario (No conversion of outstanding RCUIDS & Warrants)			Maximum Scenario (All outstanding RCUIDS & Warrants are exercised)			
		Subsequent events prior to the Proposals	After Proposed AAAGL Disposal and Proposed Distribution	After Proposed AAB Disposal	Subsequent events prior to the Proposals	After all the outstanding RCUIDS and Warrants are exercised	After Proposed AAAGL Disposal and Proposed Distribution	After Proposed AAB Disposal
Share Capital	8,655.0	8,655.0	6,455.0	6,455.0	8,655.0	10,081.3	7,881.3	7,881.3
Merger Deficit	(5,507.6)	(5,507.6)	(5,507.6)	-	(5,507.6)	(5,507.6)	(5,507.6)	-
Other Reserves	204.0	204.0	210.1	274.8	204.0	(35.5)	(29.5)	35.2
Forex Reserve	(153.3)	(153.3)	(446.8)	(7.1)	(153.3)	(153.3)	(446.8)	(7.1)
Acc. Losses	(8,923.2)	(9,723.4)	(6,289.3)	(6,229.9)	(9,723.4)	(9,737.5)	(6,303.4)	(6,244.0)
Shareholders' equity/ NA	(5,725.1)	(6,525.3)	(5,778.6)	492.8	(6,525.3)	(5,352.6)	(4,406.0)	1,665.4

Source: Capital A

Maintain NEUTRAL. In summary, the proposed disposals will optimise the business operations by focusing on aviation services and digital ventures that synergise with and enhance its passenger airlines business. The proposed corporate exercises will aid the Group in its transition out of its PN17 status, with a deadline of 20 June 2024, to submit the plan to Bursa. During yesterday's briefing, there was an indication that the plans to list AirAsia's brand manager through a Nasdaq-listed SPAC might be scrapped, as it is deemed unnecessary. No adjustments have been made to our earnings estimates thus far, as the exercises are subject to requisite approvals. The management intends to begin sharing profit guidance for its digital entities during the briefing of its 1QFY24 results. The completion of the aviation disposal/acquisition is anticipated by 3QFY24, with the regularisation plan expected to be finalised by 1QFY25. We maintain our **NEUTRAL** stance on the stock with an unchanged target price of **RM0.74** (based on FY24F EPS), as it is currently trading at its pre-pandemic average. Key drivers for potential earnings growth could involve an accelerated restoration of its network and capacity to pre-pandemic levels.



FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	1,682.9	6,437.1	14,771.7	16,278.8	18,490.5
Operating profit	-2,845.6	-1,393.8	-1,252.5	1,581.7	1,831.9
PBT	-3,575.0	-3,303.7	-999.6	507.6	793.6
PATAMI	-2,991.1	-2,626.4	837.0	385.8	603.1
Core PATAMI	-2,860.8	-2,678.4	-696.0	385.8	603.1
EPS (sen)	-	-	-	9.2	14.5
PER (x)	-	-	-	7.6x	4.8x
Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
ROU assets	9,750.7	10,182.1	8,887.2	7,707.0	6,762.4
PPE	933.5	882.9	827.2	780.7	741.9
Non-current assets	17,580.1	18,158.6	18,701.6	17,843.6	17,277.3
Trade debtors	608.4	651.0	1,329.9	1,420.3	1,532.4
Cash & cash equivalents	1,256.8	470.0	2,467.9	4,394.6	6,527.2
Current assets	2,449.7	1,769.0	4,527.9	6,539.7	8,801.7
Long-term debt	1,422.7	2,405.8	3,405.8	4,405.8	5,405.8
Non-current liabilities	17,248.9	19,166.5	20,166.5	21,166.5	22,166.5
Trade creditors	2,308.9	2,878.6	4,261.5	4,183.4	4,440.5
Short-term debt	887.2	531.0	531.0	531.0	531.0
Current liabilities	9,203.9	10,278.0	11,661.0	11,582.9	11,839.9
Share capital	8,457.2	8,655.0	8,655.0	8,655.0	8,655.0
Retained earnings	-6,213.4	-8,719.2	-9,117.1	-8,710.0	-8,058.9
Equity	-6,422.9	-9,517.0	-8,598.0	-8,366.1	-7,927.4
Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	-3,575.0	-3,303.7	-523.6	535.7	856.7
Operating cash flow	-677.7	-282.1	1,872.1	1,818.0	2,159.6
Investing cash flow	389.0	-210.5	-295.0	-345.0	-395.0
Financing cash flow	1,070.3	-313.7	554.0	453.7	368.0
Net cash flow	781.7	-806.3	2,131.1	1,926.7	2,132.6
Beginning cash flow	465.9	1,177.9	336.8	2,467.9	4,394.6
Ending cash flow	1,177.9	336.8	2,467.9	4,394.6	6,527.2
Profitability Margins	2021A	2022A	2023A	2024F	2025F
OP margin	-	-	4.9%	12.5%	13.7%
PBT margin	-	-	-	3.7%	5.5%
PATAMI margin	-	-	-	2.8%	4.2%
Core PATAMI margin	-	-	-	2.8%	4.2%

Source: Capital A, MIDFR

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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