

## Capital A Berhad

**Maintain NEUTRAL**

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


### AirAsia Bids for Sri Lanka's National Carrier

**Unchanged Target Price: RM0.74**

#### DEVELOPMENT

- According to a statement from Sri Lanka's Ministry of Finance, Economic Stabilization, and National Policies, AirAsia Consulting Sdn. Bhd., a wholly owned subsidiary of Capital A, is one of six bidders for purchasing shares in Sri Lanka Airlines Limited (SAL). The document also identified Dharshaan Elite Investment Holding (Pvt) Ltd, FITS Aviation (Private) Limited, Sherisha Technologies Private Limited, Treasure Republic Guardians Limited, and local conglomerate Hayleys PLC as the other bidders in the acquisition process. The deadline for submissions was yesterday.

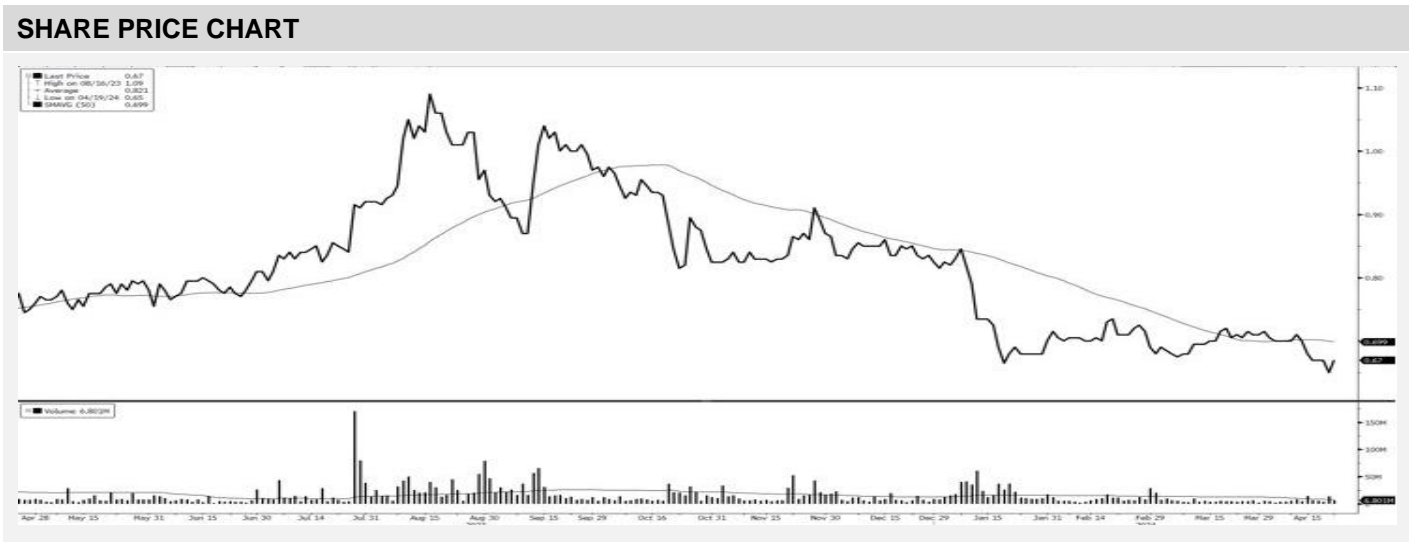
#### OUR VIEW

- An initial background check has revealed that SAL currently operates a fleet comprising 24 Airbus A320 and A330 aircraft, serving a network of 126 destinations across 61 countries. However, the airline is facing challenges, with three aircraft grounded for over a year due to insufficient funds to cover mandatory engine overhauls.
- SAL holds a dominant position at Bandaranaike International Airport (CMB), the primary international airport in Sri Lanka, commanding a 52% market share. Before the pandemic, SAL transported approximately 5.0m passengers and 100,000 tons of cargo, operating around 15,000 flights annually. Its major destinations, including Male, Chennai, London, and Singapore, collectively accounted for 25% of the airline's total seat capacity.
- SAL was in a profitable state until its management contract with Emirates was abruptly ended in CY08, due to a disagreement with then-President Mahinda Rajapaksa. Sri Lanka's commitment to privatise SAL, as pledged by then-Prime Minister Wickremesinghe in May 2022, aimed to relieve the state of the burden of restructuring the airline, particularly in addressing its substantial legacy debt servicing costs. This initiative sought to shift the responsibility to private investors rather than relying on public finances.
- In the previous month, Minister of Ports, Shipping, and Aviation Nimal Siripala de Silva announced that the government plans to absorb over a quarter of SAL's reported USD2.0b in accumulated losses, as per its latest audited year in March 2023. This move aims to enhance the airline's appeal to potential investors. Additionally, the government has decided to inject USD60.0-70.0m into SAL over the next six months to ensure its financial stability and safeguard the jobs of its 6,000 employees until the privatisation process is completed.
- We believe the Group sees this acquisition as part of its corporate strategy, as it continually seeks opportunities to enter new emerging markets with growing populations and rising middle-income groups. Management has previously hinted at the potential establishment of two more regional airlines in addition to its ventures in Cambodia. Through this acquisition, it can establish connections between major and secondary cities in India and various points in Southeast Asia. However, further details on the potential acquisition are scarce at this juncture, with the process to review the proposals from the bidders expected to take about 4 months.
- No changes were made to our earnings estimates. With the valuation aligning with its pre-pandemic historical mean, we are maintaining our **NEUTRAL** call with an unchanged TP of **RM0.74** (8x FY24F EPS). The primary catalyst remains the potential for a faster-than-expected restoration of network and seat capacity to pre-Covid levels. A potential headwind could stem from geopolitical tensions in the Middle East, leading to elevated jet fuel prices. We estimate that for every USD1/bbl increase in jet fuel price, our core net profit could decrease by RM41.0m. Nonetheless, Capital A has been able to implement higher airfares, leveraging the constrained availability of aircraft among local airlines, while fuel surcharges remain in effect. 

**INVESTMENT STATISTICS**

Income Statement	2021A	2022A	2023E	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)	-	-	-	7.2x	4.6x

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