

20 November 2013 | 3QFY13 Results Review

AirAsia X Bhd

Defending its yield

Maintain BUY

Adjusted Target Price (TP): RM1.60
(previously RM1.70)

INVESTMENT HIGHLIGHTS

- Stripping the unrealized forex item and deferred taxation, AAX registered 3Q13 core net profit at RM4.2m, reversing last quarter's net core loss of RM28.4m.
- Long term prospect of the long haul LCC remains intact as growth in Asian travel demand stays healthy.
- Maintain BUY with revised TP of RM1.60, derived from FY14–PER of 12x, which is the average of the global peers.

Breakeven core profit. AAX's 3Q13 swung to core net profit of RM4.2m as compared to last quarter's core net loss of RM28.4m. However, 9Q13 accumulated core profit was RM35.6m, which is still lagging our estimates. The variance to our forecast is mainly attributable to the decline of passenger load factor by -1.0pts yoy to 82.3% in 3Q13 and higher unit average cost of jet fuel price of USD130.7/b.

Ancillary growth outpaced ticket sales. Driven by the higher take up rate in ancillary products and rollout of new services, 3Q13 ancillary income surged by +37%yoy with higher average ancillary income per pax at RM144 (3Q12: RM139 per pax). The seat sale was higher by +26% to RM422m, in tandem with the increased traffic.

BLF climbed slightly. RASK depressed slightly by -1.6%yoy to 12.0sen amid the additional frequency for its existing routes and the promotional fare on its newly launched routes such as Busan and Shanghai. CASK inched up slightly by +1.2%yoy to 11.6sen due to the higher average unit costs of jet fuel price. The narrower spread in its yield and unit cost had pushed higher its 3Q13 breakeven load factor (BLF) by +1.3pts to 80.2% when compared to 3Q12.

Continued expansion of routes and existing frequencies. For the third quarter, AAX launched the two new routes flying from KL to Adelaide and Maldives via Colombo as well as adding frequencies on existing routes such as Taipei and Perth. The net increase of operating fleet by another five A330s had caused the bump in capacity by +32%yoy. AAX also officially announced that Nagoya as its 19th destinations and is expected to commence the flight by 1Q14.

Maintain BUY with revised TP of RM1.60. We are adjusting upwards our costs assumptions and imputing slightly slower growth in yield. Consequently, we reduce our FY13-14 forecasts by -15% and -6% respectively. However, we are reiterating our BUY recommendation on AAX with revised TP of RM1.60. Our valuation is derived from FY14 - PER of 12.0x, which is the average of the global LCC peers. Despite the steep decline in yield base among the regional carriers, we believe that the yield base of long-haul LCC can be sustained. This is due to growing demand of long haul travel, especially low-cost. The fourth quarter is traditionally the strongest for long haul carriers and we should see improvement in earnings.

RETURN STATS

Price (19 Nov 2013)	RM1.04
Target Price	RM1.60
Expected Share Price Return	+53.8%
Expected Dividend Yield	+0.0%
Expected Total Return	+53.8%

STOCK INFO

KLCI	1,807.16
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Trading Services
Syariah Compliant	Yes
Issued shares (mil)	2,370.4
Par Value (RM)	0.15
Market cap. (RM'm)	2,465.2
Price over NA	1.82
52-wk price Range	RM1.00-RM1.28
Beta (against KLCI)	N.A
3-mth Avg Daily Vol	2.42
3-mth Avg Daily Value	2.65
Major Shareholders	
Aero Ventures	34.46%
AirAsia Bhd	13.76%
Orix Airline	6.35%

Aviation abbreviations used in this report:

RPK: Revenue Passenger Kilometers

ASK: Available Seat Kilometers

RASK: Revenue per ASK

CASK: Cost Per ASK

BLF: Breakeven load factor

FSC: Full Service Carrier

LCC: Low Cost Carrier



INVESTMENT STATISTICS

FYE Dec	FY12	FY13F	FY14F	FY15F
Revenue (RM'm)	1,967.4	2,461.4	4,144.0	5,693.5
EBIT (RM'm)	156.1	360.0	714.4	1,171.3
Pretax Profit (RM'm)	49.0	247.3	508.0	773.9
Net Profit (RM'm)	(4.7)	143.9	316.1	436.3
Core Net Profit (RM'm)	(4.7)	143.9	316.1	436.3
Core EPS (sen)	(1.8)	6.1	13.3	18.4
Core EPS growth (%)	95.6	444.9	119.7	38.0
PER(x)	n.a.	17.1	7.8	5.7
Net Dividend (sen)	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.0	0.0	0.0	0.0

Source: Company, Forecasts by MIDFResearch

AirAsia X: 3QFY13 RESULTS SUMMARY

FYE Dec	Quarterly Results			Cumulative		Comments
	3Q13	%YoY	%QoQ	FY13	%YoY	
Revenue	601.5	23.6%	22.5%	1,627.9	14.0%	
-Ticket sales	422.2	26.0%	19.1%	1,180.4	13.5%	In line with the 30% increase in RPK traffic
-Ancillary	120.4	36.9%	23.1%	314.4	24.1%	Higher due to Introduction of new ancillary products, higher take-up rate and price revision
-Freight	23.0	19.8%	7.8%	64.2	1.5%	
-Others	35.9	-18.8%	>100%	68.9	9.6%	Lower was caused by re-accommodation of flight after the discontinuation routes to London, Paris, Mumbai and Delhi.
Opex	(508.9)	-23.8%	-17.1%	(1,357.6)	-9.7%	
EBITDAR	92.6	22.6%	63.6%	270.3	41.2%	
EBITDA	53.3	44.1%	>100%	151.8	97.7%	
Depre. & amort.	(40.7)	-53.2%	-28.9%	(99.0)	-24.8%	
EBIT	12.6	20.9%	>100%	52.8	>100%	
Net interest costs	(19.9)	-59.6%	-19.9%	(49.7)	-30.5%	
E.I.	(24.0)	<-100%	20.6%	(63.8)	<-100%	Combination of unrealized forex loss on borrowing for RM24m and deferred taxation from tax incentive
PBT	(18.9)	<-100%	67.6%	(42.6)	<-100%	
Net profit	26.4	-45.9%	>100%	44.3	>100%	Recognised income tax allowance of RM40.9m for acquisition of new A330 fleets
Core profit	4.2	>100%	>100%	35.6	>100%	
Operating stat						
Pax carried ('000)	843.7	32.4%	21.0%	2,188.2	14.5%	

RPK (m)	4,227	30.3%	20.8%	10,995.0	7.2%	
ASK (m)	5,137	31.9%	20.2%	13,296.0	9.0%	Capacity expanded due to the net increase of 5 A330 aircrafts
Load factor (%)	82.3%	-1.0%	0.4%	82.7%	-1.4%	
average fare (RM)	501.1	-4.8%	-1.5%	-	-	
fuel expense	(291.1)	-36.5%	-26.0%	(748.9)	-7.5%	Increased usage of fuel consumption and higher average unit cost of jet fuel (3Q13: USD130.7/b vs 3Q12: USD124.8/b)
RASK (sen)	12.0	-1.6%	3.0%	-	-	Lower pax yield was attributable to additional frequencies on existing routes and promotional fare on the launching of new routes including Busan and Shanghai routes.
CASK (sen)	11.6	1.2%	-2.3%	-	-	

Source: Company, MIDFR

DAILY PRICE CHART



Chua Boon Kian
 Chua.bk@midf.com.my
 03-2173 8393

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.