

16 August 2016 | Briefing Note

## AirAsia Berhad

*Management's confidence resonated with us*

### INVESTMENT HIGHLIGHTS

- **Management optimistic of prospects**
- **Core operations are looking good**
- **AAC monetisation could lead to special dividends**
- **China and Vietnam are the final frontiers**
- **Maintain BUY with unchanged TP of RM3.34**

**Management optimistic of prospects.** We, along with 18 other sell-side analysts, attended a company briefing led by AirAsia Group CEO Tan Sri Dr. Tony Fernandes (TS Tony), AirAsia Berhad CEO Aireen Omar and other members of the company's senior management team. In all, TS Tony and his team displayed confidence in the company's prospects. This optimism resonated with us, leading to the reaffirmation of our BUY call with TP of RM3.34.

**Looking good from multiple angles.** During the briefing, management highlighted various initiatives to grow earnings and address challenges faced by the Group. Chief among them are:

- Growing average fares** as competitors are showing a reluctance to aggressively expand capacity or discount fares. This could potentially lead to better RASK in 2HFY16 following 1QFY16's strong double-digit growth of +11%yoy.
- Expanding ASK by a CAGR of more than +10%** consistent with planned fleet CAGR of +11.1% or +65 aircraft in total over FY2016-FY2019. We do not think this is overly aggressive as young associates AirAsia India and Japan will be allocated the lion's share with a combined 40% of new aircraft. In addition, load factors held firmly above 80% across MAA and associates indicating that expansion could be timely.
- CASK is expected to trend lower going forward** with new fleet deliveries consisting of A320neo and A321neo which consumes between 15-20% less fuel.
- Associates IAA and PAA are expected to perform better** potentially achieving breakeven as soon as 3QFY16 and 2QFY16 respectively by focusing on international routes.

**Maintain BUY**

**Unchanged Target Price (TP): RM3.34**

RETURN STATS	
Price (15 Aug 2016)	RM2.99
Target Price	RM3.34
Expected Share Price Return	+11.7%
Expected Dividend Yield	+3.3%
<b>Expected Total Return</b>	<b>+15.0%</b>

STOCK INFO	
KLCI	1,690.33
Bursa / Bloomberg	5099/AIRA MK
Board / Sector	Main/Trading Services
Syariah Compliant	No
Issued shares (mil)	2,783.0
Par Value (RM)	0.10
Market cap. (RM'm)	8,320.79
Price over NA	1.66
52-wk price Range	RM0.76 - RM3.02
Beta (against KLCI)	1.15
3-mth Avg Daily Vol	24.5m
3-mth Avg Daily Value	RM63.1m
Major Shareholders	
Tune Air	18.56%
EPF	5.05%
JP Morgan	3.79%

Aviation abbreviations used in this report:

RPK: Revenue Passenger Kilometers

ASK: Available Seat Kilometers

RASK: Revenue per ASK

CASK: Cost Per ASK

MAA: Malaysia AirAsia

TAA: Thai AirAsia


IAA: Indonesia AirAsia

PAA: Philippines AirAsia

**Hidden value in AAC and private equity businesses?** Management was clearly upbeat on its leasing arm (AAC) as well as its private equity businesses believing that the market underappreciates the value of these assets. AAC alone which is closest to monetisation could be valued at RM4.1b, falling largely in the middle of our RM3.3b-RM5.5b valuation range derived from extrapolating fleet sizes and market caps of listed peers. AAC currently manages a portfolio of 55 aircraft with 14 more set to be novated from parent AirAsia Berhad in 3QFY16. It has a new fleet order book of 130 aircraft.

**AAC and private equity businesses could lead to special dividends.** We learnt that AAC will be getting a new CEO and CFO as soon as 3QFY16, providing a leap forward in the process of monetising circa 70-80% stake. This could potentially translate into proceeds of RM2.9b-RM3.3b (RM1.04-RM1.19) which could be used to pare debts, fund future expansion and be paid out as special dividends.

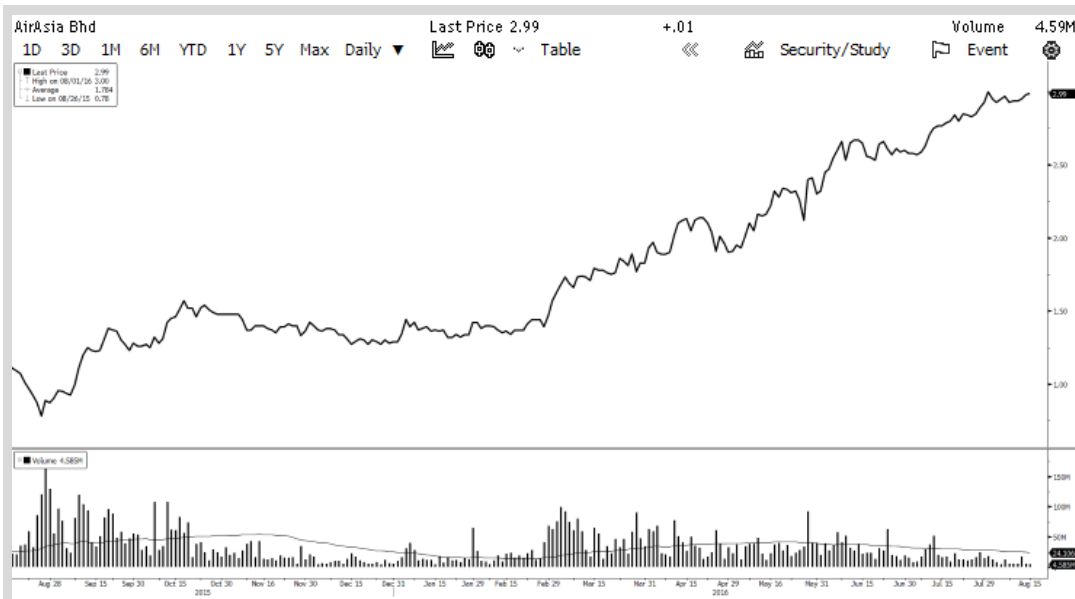
**JV airline in China and Vietnam are the next frontiers.** Management noted that setting up associates in China and Vietnam could complete its Asian ambitions due to the attractive demographics of these markets. Further inroads into China could be on the cards soon with a specialised team already set up.

**Maintain BUY with TP of RM3.34.** Our TP of RM3.34 is based on PER of 8.5x FY16 EPS pegged at a 35% discount to Asian Low Cost Carrier (LCC) valuation of 12.9x to account for AirAsia's loss-making associates namely IAA and PAA. Potential rerating catalysts from AirAsia include: 1) acceleration in aviation policy liberalisation within Asean; 2) monetisation of AAC; and 3) swift turnaround of IAA and PAA. Meanwhile, potential risks to our call are terrorist incidents and fuel prices moving steeply higher. 

## INVESTMENT STATISTICS

FYE Dec	FY13A	FY14A	FY15	FY16F	FY17F
Revenue	5,111.8	5,415.7	6,297.7	6,725.9	6,831.7
EBITDA	1,278.9	1,160.6	2,739.9	2,808.2	2,783.2
EBIT	681.6	441.1	2,036.6	1,962.6	1,895.3
PBT	361.2	(175.6)	215.2	1,736.1	1,758.8
Net Profit	362.1	(115.4)	541.3	1,319.4	1,336.7
Core Net Profit	353.8	157.3	724.9	1,319.4	1,336.7
Core EPS (sen)	12.7	5.7	16.8	39.3	39.8
Core EPS growth (%)	(119.5)	(125.1)	197.1	133.8	1.3
PER (x)	23.5	52.9	17.8	7.6	7.5
Net Dividend (sen)	4.0	3.0	4.0	10.0	10.0
Net Dividend Yield (%)	1.3	1.0	1.3	3.3	3.3

## DAILY PRICE CHART



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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	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.