

30 May 2019

AirAsia Group Berhad

Special Dividend Play

By Adrian Ng | adrian.ng@kenanga.com.my

1Q19 CNP of RM112.7m makes up 15%/12% of our/consensus full-year expectations. However, we would deem the results to be broadly in line, as we expect stronger performance in subsequent quarters due to expanded capacity and seasonality. Positively, an unexpected special dividend of 90.0 sen was declared, funded by disposal of aircrafts. No changes to FY19-20E earnings. Upgrade to OP with higher TP of RM2.20.

Within expectations. 1Q19 CNP of RM112.7m makes up 15%/12% of our/consensus full-year expectations. However, we deem the results to be broadly in line, as we expect stronger performance in subsequent quarters due to expanded capacity and seasonality. Positively, an unexpected special dividend of 90.0 sen was declared, funded by disposal of aircrafts.

Results highlight. YoY, 1Q19 CNP dropped sharply by 69% despite revenue growing 9%. The decline in FY18 CNP was mainly due to the compression in operating margin to 9% (-5ppt), and higher net interest expense. For 1Q19, its average fare was down by 2% to RM166.9/pax while its Cost/Ask-ex fuel increased by 13% which we believe was driven by higher costs like user fees, maintenance fees and staff costs. **QoQ,** 1Q19 revenue is flattish (+1%) but it managed to register CNP of RM112.7m compared to CNL of RM219.1m in 4Q18 due to lower fuel cost (-14%).

Outlook. For FY19, management is looking at net addition of 18 aircrafts in their bid to grow market share, and remain hopeful that markets like Indonesia will see further improvements. On its digital transformation front, they are actively engaging with their partners, i.e. Google, Airbus (Skywise) & Palantir, to integrate machine-learning into their Big Data platform to improve airline operations. This would lead to cost savings in the future via automation, which leading to rationalisations, lisations which is part of the company's direction. **Earnings estimates are unchanged.**

Upgrade to OUTPERFORM with a higher Target Price of RM2.20 (from RM1.95) which includes 9.0x FY20E PER (4-year average) on its core earnings as we roll forward from FY19E. We deem our 9.0x FY20E PER on their core business (pegged at 4-year average) fair given AIRASIA's much healthier net gearing post AAC di our call posal. Hence, our upgrade to OUTPERFORM (previously, UNDERPERFORM) backed by its generous special dividend of 90.0 sen.

Risks include lower-than-expected load factors and higher-than-expected fuel costs, and higher-than-expected operating costs.

OUTPERFORM

Price : **RM2.63**
Ex-Div. Target Price : **RM2.20**

Share Price Performance



KLCI 1,623.67
YTD KLCI chg -4.0%
YTD stock price chg 5.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	AAGB MK Equity
Market Cap (RM m)	9,658.3
Shares Outstanding	3,342.0
52-week range (H)	3.29
52-week range (L)	2.00
3-mth avg daily vol:	8,543,348
Free Float	62%
Beta	1.4

Major Shareholders

Tune Live Sdn Bhd	16.7%
Tune Air Sdn Bhd	15.5%
Employees Provident Fund Board	6.1%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	10604	11893	12247
EBIT	851	815	901
PBT	1365	788	879
Net Profit	1980	731	815
Core PATAMI	587	731	815
Consensus (NP)	n.a.	798	881
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	17.6	21.9	24.4
Core EPS growth (%)	-61%	24%	11%
NDPS (sen)	65.0	95.5	6.0
NTA per Share (RM)	2.3	1.6	1.8
Price to NTA (x)	1.1	1.6	1.5
PER (x)	15.0	12.0	10.8
Debt-to-Equity ratio (x)	0.1	0.2	0.2
Return on Asset (%)	3%	4%	5%
Return on Equity (%)	25%	14%	14%
Net Div. Yield (%)	24.7%	36.3%	2.3%

30 May 2019

Result Highlight					
	1Q19	4Q18	QoQ	1Q18	YoY
FYE Dec (RM'm)					
Turnover	2,780.1	2,824.2	-2%	2,551.8	9%
EBITDA	244.0	-14.1	n.m.	547.1	-55%
Depreciation	-450.4	-158.5	184%	-185.4	143%
EBIT	244.0	-172.6	n.m.	361.6	-33%
Interest inc/(exp)	-153.0	-32.2	375%	-104.7	46%
Associates/JV	31.1	-54.8	n.m.	55.5	-44%
Exceptional items	0.0	-223.7	n.m.	876.1	n.m.
Forex gain/(loss)	92.2	67.0	38%	5.8	1483%
Pretax profit	214.3	-416.2	-151%	1,194.3	-82%
Taxation	-3.9	-21.7	-82%	-6.2	-37%
Deferred tax	-108.8	-63.6	71%	-97.8	11%
Profit after tax	101.6	-501.6	n.m.	1,090.3	-91%
Minority interest	-5.5	62.2	n.m.	51.6	n.m.
PATAMI	96.1	-439.4	n.m.	1,142.0	-92%
Core PATAMI	112.7	-219.1	n.m.	357.9	-69%
DPS (sen)	90.0	12.0		13.0	
EBIT margin	9%	-6%		14%	
Pretax margin	8%	-15%		47%	
NP margin	8%	-15%		47%	
CNP margin	4%	-8%		14%	
EPS (sen)	2.9	-13.1		34.2	
Core EPS(sen)	3.4	-6.6		10.7	
BV/share (RM)	1.98	1.86		2.38	
Net gearing (x)	-0.27	-0.35		0.90	
Effective tax	2%	-5%		1%	

Source: Company, Kenanga Research

Segmental Breakdown					
	1Q19	4Q18	QoQ	1Q18	YoY
External Revenue					
Passenger seat sales	2,094.6	2,067.0	1%	1,823.1	15%
Baggage fees	515.2	268.7	92%	244.3	111%
Aircraft operating lease income	170.2	107.5	58%	238.0	-28%
Surcharges and fees	0.0	11.3	-100%	10.2	-100%
Freight services	100.9	139.3	-28%	44.3	128%
Other revenue	0.0	229.6	-100%	195.3	-100%
Total	2,880.9	2,823.4	2%	2,555.2	13%
Operating Cost					
Staff Cost	445.3	473.4	-6%	379.1	17%
Depreciation	450.4	158.5	184%	185.4	143%
Aircraft Fuel	956.7	1,109.1	-14%	852.5	12%
Maintenance & Overhaul	279.5	453.4	-38%	170.6	64%
User Charges	419.5	471.9	-11%	357.0	18%
Aircraft Lease	0.0	416.5	-100%	200.2	-100%
Others	217.3	378.1	-43%	145.4	49%
Total	2,768.7	3,460.9	-20%	2,290.1	21%
Performance Indicators					
Passengers Carried ('000)	12,548.5	12,109.1	4%	10,654.2	18%
Capacity ('000)	14,268.9	14,380.1	-1%	12,204.3	17%
Seat Load Factor	88%	85%		87%	
RPK ('m)	15,678.0	14,962.0	5%	13,815.0	13%
ASK ('m)	17,788.0	17,870.0	0%	15,979.0	11%
Load Factor	88%	84%		86%	
Average Fare	166.9	170.7	-2%	171.1	-2%
Ancillary Income/pax (RM)	49.1	53.6	-8%	46.4	6%
Revenue/ASK (sen)	16.20	15.80	3%	15.99	1%
Cost/ASK (sen)	15.57	19.37	-20%	14.33	9%
Cost/ASK-ex fuel (sen)	10.19	13.16	-23%	9.00	13%

Source: Company, Kenanga Research

30 May 2019

Peer Comparison

Name	Local Currency	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld.1 (%) 1-Yr. Fwd.	Target Price (RM)	Rating
						1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.				
AVIATION UNDER COVERAGE																			
AIRASIA GROUP BHD	MYR	2.63	8,789.4	N	12/2019	12.2%	3.0%	24.5%	11.5%	15.0	12.0	10.8	1.1	1.6	14.1%	36.3%	2.20	OP	
MALAYSIA AIRPORTS HLDGS BHD	MYR	7.00	11,614.3	N	12/2019	0.6%	1.0%	-2.3%	7.4%	32.2	33.0	30.7	1.4	1.4	3.8%	2.1%	8.55	OP	
Simple Average						6.4%	2.0%	11.1%	9.4%	23.6	22.5	20.7	1.3	1.5	7.4%	19.2%			
CONSENSUS NUMBERS																			
Low-Cost Carriers:																			
AIRASIA X BHD	MYR	0.215	891.9	Y	12/2019	12.5%	9.1%	1438.7%	133.5%	N.A.	42.6	18.2	1.2	1.2	-1.1%	0.0%	0.195	SELL	
ASIA AVIATION PCL	THB	3.98	19,303.0	N	12/2019	12.2%	10.7%	1332.8%	237.4%	275.9	19.3	5.7	0.9	0.9	5.0%	3.0%	4.76	BUY	
CEBU AIR INC	PHP	87.20	52,428.0	N	12/2019	13.4%	8.5%	86.7%	21.8%	13.4	7.2	5.9	1.2	1.1	16.9%	4.5%	104.80	BUY	
EASYJET PLC	GBP	888.00	3,527.2	N	09/2019	8.1%	7.8%	0.0%	13.1%	9.9	9.8	8.7	1.4	1.0	10.7%	0.1%	1,173.73	NEUTRAL	
GOL LINHAS AEREAS INTEL-ADR	USD	13.16	2,303.2	N	12/2019	14.4%	10.2%	241.7%	47.5%	N.A.	5.1	3.5	N.A.	N.A.	-10.2%	3.8%	16.26	BUY	
JETBLUE AIRWAYS CORP	USD	17.12	5,152.2	N	12/2019	6.5%	8.4%	199.4%	20.6%	27.4	9.2	7.6	1.1	1.0	10.7%	0.0%	19.75	NEUTRAL	
RYANAIR HOLDINGS PLC	EUR	10.41	11,765.0	N	03/2020	10.0%	8.4%	6.0%	22.1%	13.3	12.5	10.3	2.3	2.1	17.5%	0.0%	11.78	NEUTRAL	
SOUTHWEST AIRLINES CO	USD	49.56	26,914.3	N	12/2019	5.1%	7.3%	-0.3%	9.4%	10.9	11.0	10.0	2.7	2.2	24.4%	1.4%	59.32	NEUTRAL	
VIRGIN AUSTRALIA HOLDINGS LT	AUD	0.175	1,477.9	N	06/2019	6.3%	2.1%	-1763.3%	-300.2%	N.A.	N.A.	N.A.	1.5	2.0	-4.6%	0.0%	0.175	NEUTRAL	
Full-Service Carriers:																			
AIR CHINA LTD-H	HKD	7.25	129,207.0	N	12/2019	8.5%	8.6%	49.3%	20.4%	17.6	11.8	9.8	1.0	0.9	10.8%	2.2%	10.32	BUY	
AIR NEW ZEALAND LTD	NZD	2.61	2,924.9	N	06/2019	5.1%	4.5%	-33.1%	25.4%	7.5	11.2	8.9	1.4	1.4	12.0%	8.4%	2.59	NEUTRAL	
ANA HOLDINGS INC	JPY	3,642.00	1,269,231.0	N	03/2020	4.7%	7.2%	0.1%	15.6%	11.5	11.4	9.9	1.2	1.1	9.8%	2.1%	4,270.00	NEUTRAL	
ASIANA AIRLINES	KRW	5,940.00	1,314,137.6	N	12/2019	2.3%	4.2%	553.3%	140.2%	N.A.	36.7	15.3	1.3	1.1	2.3%	0.0%	4,850.00	BUY	
CATHAY PACIFIC AIRWAYS	HKD	11.32	44,531.1	N	12/2019	3.1%	4.9%	90.6%	14.9%	19.0	10.0	8.7	0.7	0.7	6.9%	3.8%	15.47	BUY	
CHINA AIRLINES LTD	TWD	9.59	51,987.2	N	12/2019	1.0%	2.2%	150.5%	-34.6%	29.0	11.6	17.7	0.9	0.8	7.9%	3.6%	9.50	NEUTRAL	
CHINA EASTERN AIRLINES CO-H	HKD	4.42	88,292.2	N	12/2019	10.9%	10.7%	152.1%	18.4%	32.7	13.0	11.0	1.0	0.9	10.5%	1.2%	6.07	BUY	
CHINA SOUTHERN AIRLINES CO-H	HKD	5.18	89,388.0	N	12/2019	11.6%	10.0%	118.4%	22.1%	30.9	14.1	11.6	0.9	0.8	9.6%	2.1%	7.45	BUY	
EVA AIRWAYS CORP	TWD	14.95	69,997.7	N	12/2019	5.6%	3.8%	11.1%	-27.9%	10.7	9.6	13.3	1.0	1.0	13.1%	3.3%	17.08	BUY	
GARUDA INDONESIA	IDR	444.00	11,493,639.9	Y	12/2019	11.8%	7.5%	8623.9%	61.7%	N.M.	N.M.	N.M.	0.9	1.2	8.1%	0.0%	592.20	NEUTRAL	
HAINAN AIRLINES HOLDING CO-A	CNY	2.02	34,085.9	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	SELL	
JAPAN AIRLINES CO LTD	JPY	3,438.00	1,199,960.7	N	03/2020	3.4%	5.1%	-25.3%	9.5%	8.0	10.7	9.7	1.0	1.0	9.5%	3.2%	4,516.00	BUY	
JET AIRWAYS INDIA LTD	INR	148.00	16,812.4	N	03/2019	4.9%	5.8%	-18.6%	-743.4%	N.A.	N.A.	N.A.	N.A.	N.A.	42.4%	N.A.	80.00	SELL	
KOREAN AIR LINES CO LTD	KRW	31,500.00	2,987,606.0	N	12/2019	2.1%	3.4%	90.1%	98.2%	N.A.	14.1	7.1	1.1	0.9	6.8%	0.8%	40,708.33	BUY	
QANTAS AIRWAYS LTD	AUD	5.45	8,691.2	N	06/2019	5.4%	3.0%	-2.1%	4.4%	8.9	9.1	8.7	2.6	2.5	25.7%	4.3%	6.27	BUY	
SINGAPORE AIRLINES LTD	SGD	9.14	10,818.7	N	03/2020	4.4%	4.6%	18.9%	0.0%	15.8	13.3	13.3	0.8	0.8	6.0%	4.1%	10.94	BUY	
THAI AIRWAYS INTERNATIONAL	THB	10.20	22,264.3	N	12/2019	5.6%	5.2%	-618.6%	141.4%	N.A.	N.A.	16.8	1.1	1.0	-8.5%	0.3%	10.87	SELL	
VIRGIN AUSTRALIA HOLDINGS LT	AUD	0.175	1,477.9	N	06/2019	6.3%	2.1%	-1763.3%	-300.2%	N.A.	N.A.	N.A.	1.5	2.0	-4.6%	0.0%	0.175	NEUTRAL	

*Peers are denominated in their respective local currencies

Source: Kenanga Research

30 May 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my



Chan Ken Yew
Head of Research

