

28 November 2019

# AirAsia Group Berhad

## 9MFY19 On Schedule

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9MFY19 core PATAMI came in at RM247m (-81%) which is at 63%/61% to our/consensus full-year forecasts. We consider the results as within expectation, due to the volatile quarterly earnings as well as anticipating a seasonally stronger 4Q. Maintain MP and TP of RM1.70 based on 10x FY20E EPS which is at a discount to average forward PER of 11x of global peers like Ryanair and Southwest Airlines to reflect AirAsia's relatively smaller market capitalization.

9MFY19 core PATAMI came in at RM247m (-81%) which is at 63%/61% to our/consensus full-year forecasts. We consider the results to be within expectation in anticipation of a seasonally stronger 4Q. No dividend was declared in this quarter.

**Results' highlights.** YoY, 3QFY19 revenue for the airline business grew 17%, mainly attributed to higher passengers volume (+20%) and a 1% increase in RASK. All in, capacity grew across the board including Malaysia (+10%), IAA (+10%) and PAA (+19%). Unit Passenger Revenue grew 1% for IAA, 3% for PAA while MAA showed a reduction of 5%. However, CASK rose faster by 11% due to higher staff costs, provisions for maintenance and overhaul (+>100%), user charges and other operating expenses, due to the increase in operations, as well as the impact of adopting MFRS16. Overall ancillary income rose 26% (accounts for 23% of total revenue) underpinned by seat selection (+25%), baggage (+20%), and duty free sales (+39%). However, 3QFY19 suffered a pre-tax loss of RM347m compared to a pre-tax profit of RM309m in 3QFY18 due to: (i) stiff price competition in the Thailand and Malaysian markets leading to lower domestic fares (-15%), (ii) losses at TAA and AAJ (associates) totalling RM61.8m, and (iii) the adoption of MFRS 16, and sale and leaseback programme which drove maintenance and overhaul cost up by 118%. All these sent 3QFY19 CNP lower by 90%.

**YoY 9MFY19** core net profit came in at RM247m fell sharply compared to RM1.3b in 9MFY18 due to: (i) stiff price competition in the Malaysian market, (ii) challenging operating environment in Thailand and India due to low pricing by competitors and higher CASK, respectively, (iii) sale and leaseback programme which requires AirAsia to make provisions or expense off maintenance provisions rather than capitalise and amortise over the useful life of the major overhaul, and (iv) the adoption of MFRS 16 requiring operating leases to be capitalised on the balance sheet, with the right-of-use assets depreciated and interest expense recognised.

**Outlook.** The group expect load factors and fares for the rest of 2019 to remain strong in a seasonally strong period. However, we expect tough operating environment to persist, no thanks to high maintenance cost due to accounting treatment for aircrafts under sales and leaseback arrangements and competitive pressure in Malaysia and Thailand. Teleport (logistics business) is expected to see encouraging growth due to efforts to seek tie-ups with different airlines, as well as SMEs. The group will continue its focus on digital initiatives i.e. AirAsia.com is being developed as a full-fledged one-stop travel and lifestyle platform whilst BigPay will be rolled out in multiple markets in ASEAN.

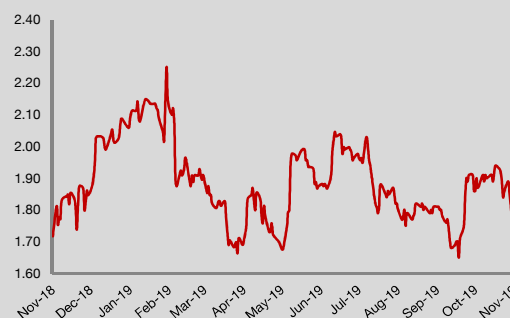
**Reiterate MP.** Our TP is RM1.70 based on 10x FY20E EPS (+0.5SD above 5-year historical forward mean), which is at a discount to average forward PER of 11x of global peers like Ryanair and Southwest Airlines to reflect AirAsia's relatively smaller market capitalization.

**Risks include** lower-than-expected RASK and higher-than-expected fuel costs, and higher-than-expected operating costs.

## MARKET PERFORMANCE ↔

Price : RM1.75  
Target Price : RM1.70 ↔

### Share Price Performance



KLCI 1,587.18  
YTD KLCI chg -6.1%  
YTD stock price chg -13.9%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker AAGB MK Equity  
Market Cap (RM m) 5,848.5  
Shares Outstanding 3,342.0  
52-week range (H) 2.25  
52-week range (L) 1.65  
3-mth avg daily vol: 7,317,284  
Free Float 52%  
Beta 1.6

### Major Shareholders

Tune Live Sdn Bhd 16.7%  
Tune Air Sdn Bhd 15.5%  
Employees Provident Fund 6.5%

### Summary Earnings Table

FY Dec (RM'm)	2018A	2019E	2020E
Turnover	10,603	11,791	12,848
PBT	1,364.7	417.0	585.8
<b>Net Profit (NP)</b>	<b>1,980.0</b>	<b>396.2</b>	<b>556.5</b>
<b>Core NP</b>	<b>583.9</b>	<b>396.2</b>	<b>556.5</b>
Consensus (NP)	-	406.3	617.2
Earnings Revision	-	-	-
Core EPS (sen)	17.5	11.9	16.7
Core EPS growth (%)	(60.7)	(32.2)	40.5
NDPS (sen)	52.0	90.0	5.0
BVPS (RM)	2.35	1.66	1.78
Core PER (x)	10.0	14.8	10.5
PBV(x)	0.7	1.1	1.0
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	29.7	51.4	2.9

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## Results Highlight

FYE Dec (RM'm)	3Q19	3Q18	2Q19	YoY %	QoQ %	9M18	9M19	YoY %
Revenue	2,945.2	2,527.2	3,028.8	16.5	(2.8)	7,779.6	8,754.2	12.5
EBITDA	691.3	316.2	472.6	118.6	46.3	1,438.7	1,881.0	30.7
EBIT	2.1	68.7	(197.6)	(96.9)	(101.1)	1,092.4	(95.9)	(108.8)
Associates	(61.8)	(56.1)	(225.1)	10.1	(72.6)	(46.5)	(255.9)	450.4
Pre-tax profit/(loss)	(347.6)	308.5	(202.5)	(212.7)	71.7	1,780.9	(317.3)	(117.8)
Taxation	280.1	495.5	249.3	(43.5)	12.4	432.0	416.8	(3.5)
MI	16.0	111.9	(29.5)	(85.7)	(154.3)	206.4	(18.8)	(109.1)
Reported net profit/ (loss)	(51.4)	915.9	17.3	(105.6)	(396.7)	2,419.4	80.7	(96.7)
Exceptionals:-								
Forex gain / (loss)	(112.0)	45.9	(19.9)			63.8	(19.6)	
Remeasurement gain on a former subsi	-	-	-			534.7	41.8	
One off gain / (loss)	-	170.8	(147.0)			521.2	(147.0)	
Core net profit	60.6	699.2	184.2			1,299.7	247.4	
EPS	(1.5)	2.9	0.5			72.4	2.4	
Core EPS / (LPS)	1.8	(0.1)	5.5			38.9	8.7	
EBITDA margin (%)	23.5	12.5	15.6			18.5	21.5	
EBIT margin (%)	0.1	2.7	(6.5)			14.0	(1.1)	
Pretax margin (%)	(0.1)	0.1	(0.1)			0.2	(0.0)	
<b>Operating statistics</b>								
Capacity (ASK million)	19,024	15,962	18,645	19.2	2.0	48,391	55,457	14.6
Seat capacity (m)	15,502	12,723	15,093	21.8	2.7	38,157	44,864	17.6
Passengers ('000)	13,002	10,878	12,839	19.5	1.3	32,328	38,390	18.8
Seat load factor (%)	84%	86%	85%	(1.9)	(1.4)	85%	86%	1.0
Revenue passenger per pax (RM)	215.0	217.0	222.0	(0.9)	(3.2)	219.0	216.3	(1.2)
Revenue / ASK (sen) (RASK)	15.0	14.8	16.2	1.3	(7.5)	14.7	15.6	6.1
Average fuel price hedge	85.0	89	87.0	(4.5)	(2.3)	89.0	85.0	(4.5)
Cost/ASK (sen)	15.3	13.77	15.8	11.0	(3.0)	13.9	15.2	9.8
Cost/ASK ex-fuel (sen)	9.6	8.05	10.0	19.6	(3.2)	8.1	9.6	17.8
Ancillary income / pax	39	45	44	(13.3)	(11.4)	45	43	(5.9)

Source : Company, Kenanga Research

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## 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-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.				
<b>AVIATION UNDER COVERAGE</b>																			
AIRASIA GROUP BHD	MYR	1.75	5,848.5	N	12/2019	11.2%	9.0%	-60.7%	-32.2%	10.0	14.8	10.5	0.7	1.1	5.9%	51.4%	1.70	MP	
MALAYSIA AIRPORTS HLDGS BHD	MYR	8.22	13,638.6	N	12/2019	7.9%	6.3%	36.1%	16.9%	29.0	21.3	18.3	1.5	1.5	6.9%	1.8%	9.90	OP	
<b>Simple Average</b>						<b>9.5%</b>	<b>7.6%</b>	<b>-12.3%</b>	<b>-7.6%</b>	<b>19.5</b>	<b>18.05</b>	<b>14.4</b>	<b>1.1</b>	<b>1.3</b>	<b>6.4%</b>	<b>26.6%</b>			
<b>CONSENSUS NUMBERS</b>																			
<b>Low-Cost Carriers:</b>																			
AIRASIA X BHD	MYR	0.150	622.2	Y	12/2019	1.3%	8.7%	-139.7%	-680.0%	N.A.	N.A.	N.A.	2.9	1.7	-56.3%	0.0%	0.128	SELL	
ASIA AVIATION PCL	THB	2.34	11,349.0	N	12/2019	4.8%	6.4%	-308.1%	26.1%	162.2	N.A.	20.4	0.6	0.6	-0.4%	2.0%	3.56	BUY	
CEBU AIR INC	PHP	92.10	55,344.4	N	12/2019	15.4%	7.5%	142.7%	9.8%	14.1	5.8	5.3	1.3	1.2	20.9%	6.2%	127.76	BUY	
EASYJET PLC	GBp	1,340.50	5,324.6	N	09/2020	5.4%	5.2%	4.7%	16.7%	15.3	14.6	12.5	1.8	1.6	10.9%	0.0%	1,243.30	NEUTRAL	
GOL LINHAS AEREAS INTEL-ADR	USD	15.51	2,756.9	N	12/2019	14.2%	9.9%	473.5%	311.1%	N.A.	12.0	2.9	N.A.	N.A.	-3.3%	2.5%	24.09	BUY	
JETBLUE AIRWAYS CORP	USD	19.26	5,560.2	N	12/2019	5.7%	6.9%	204.4%	22.6%	29.6	9.7	7.9	1.2	1.1	12.0%	0.0%	21.73	BUY	
RYANAIR HOLDINGS PLC	EUR	14.00	15,172.0	N	03/2020	9.7%	5.0%	-4.1%	29.5%	17.1	17.9	13.8	2.4	2.9	15.8%	0.4%	13.02	NEUTRAL	
SOUTHWEST AIRLINES CO	USD	57.75	30,392.4	N	12/2019	2.1%	6.3%	-3.0%	6.9%	12.3	12.7	11.9	3.1	2.5	23.6%	1.2%	59.63	NEUTRAL	
VIRGIN AUSTRALIA HOLDINGS LT	AUD	0.155	1,309.0	N	06/2020	0.5%	0.1%	-693.7%	428.3%	N.A.	N.A.	111.4	2.2	9.7	-6.2%	0.0%	0.143	NEUTRAL	
<b>Full-Service Carriers:</b>																			
AIR CHINA LTD-H	HKD	7.21	128,204.0	N	12/2019	5.1%	7.4%	8.1%	23.0%	17.4	16.1	13.1	1.0	1.0	8.4%	1.6%	8.28	BUY	
AIR NEW ZEALAND LTD	NZD	2.83	3,177.6	N	06/2020	3.1%	2.9%	9.8%	15.2%	11.8	10.7	9.3	1.5	1.5	14.1%	7.8%	2.94	NEUTRAL	
ANA HOLDINGS INC	JPY	3,730.00	1,299,898.9	N	03/2020	1.9%	6.1%	-13.5%	14.0%	11.7	13.6	11.9	1.1	1.1	8.3%	2.1%	3,662.86	NEUTRAL	
ASIANA AIRLINES	KRW	5,480.00	1,212,369.4	N	12/2019	-1.6%	3.6%	-32.2%	-1892.1%	N.A.	N.A.	N.A.	1.1	1.3	-28.9%	N.A.	5,200.00	NEUTRAL	
CATHAY PACIFIC AIRWAYS	HKD	10.22	40,203.9	N	12/2019	-3.6%	5.8%	16.6%	36.8%	17.1	14.7	10.8	0.6	0.6	2.9%	1.9%	11.77	BUY	
CHINA AIRLINES LTD	TWD	9.03	48,951.5	N	12/2019	-1.3%	2.7%	-95.3%	1619.0%	27.3	582.8	33.9	0.9	0.8	2.0%	0.0%	10.25	NEUTRAL	
CHINA EASTERN AIRLINES CO-H	HKD	4.00	84,713.1	N	12/2019	8.8%	9.3%	123.1%	14.3%	31.4	14.1	12.3	0.9	0.8	7.3%	0.6%	4.70	BUY	
CHINA SOUTHERN AIRLINES CO-H	HKD	4.95	81,848.4	N	12/2019	8.3%	9.1%	78.8%	16.4%	28.3	15.8	13.6	0.9	0.8	7.0%	1.2%	5.72	BUY	
EVA AIRWAYS CORP	TWD	14.05	68,192.7	N	12/2019	0.8%	5.5%	-38.9%	37.6%	10.4	17.0	12.4	1.0	1.0	9.6%	1.1%	18.00	NEUTRAL	
GARUDA INDONESIA PERSERO TBK	IDR	540.00	13,978,751.2	Y	12/2019	10.3%	6.1%	126.9%	20.5%	N.A.	98,999.7	82,131.3	1.1	1.0	16.0%	0.0%	702.50	NEUTRAL	
HAINAN AIRLINES HOLDING CO-A	CNY	1.67	28,116.6	N	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.6	N.A.	N.A.	N.A.	N.A.	SELL	
JAPAN AIRLINES CO LTD	JPY	3,388.00	1,162,797.5	N	03/2020	2.2%	4.7%	-27.2%	6.4%	7.7	10.6	9.9	1.0	1.0	9.3%	3.3%	4,258.57	BUY	
JET AIRWAYS INDIA LTD	INR	21.70	2,465.1	N	03/2019	5.1%	-98.5%	-18.6%	-51760.6%	N.A.	N.A.	N.A.	N.A.	N.A.	44.0%	N.A.	N.A.	SELL	
KOREAN AIR LINES CO LTD	KRW	25,050.00	2,375,858.1	N	12/2019	-1.5%	2.4%	-27.7%	6225.6%	N.A.	N.A.	214.9	0.9	1.0	-25.3%	0.9%	31,875.00	BUY	
QANTAS AIRWAYS LTD	AUD	7.30	10,882.8	N	06/2020	2.5%	2.5%	2.1%	11.1%	12.2	12.0	10.8	3.3	3.1	25.8%	3.7%	6.93	NEUTRAL	
SINGAPORE AIRLINES LTD	SGD	9.14	10,832.1	N	03/2020	3.6%	4.1%	2.9%	12.6%	15.9	15.4	13.7	0.9	0.8	5.3%	3.5%	10.25	BUY	
THAI AIRWAYS INTERNATIONAL	THB	7.20	15,716.0	N	12/2019	-1.6%	6.9%	-94.5%	-187.1%	N.A.	N.A.	N.A.	1.3	1.3	-79.1%	0.5%	5.60	SELL	
VIRGIN AUSTRALIA HOLDINGS LT	AUD	0.155	1,309.0	N	06/2020	0.5%	0.1%	-693.7%	428.3%	N.A.	N.A.	111.4	2.2	9.7	-6.2%	0.0%	0.143	NEUTRAL	

\*Peers are denominated in their respective local currencies

Source: Kenanga Research

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**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.**

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