

12 August 2020

AirAsia Group Berhad

Weak 2QFY20 Preliminary Operating Statistics

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AirAsia's reported 2QFY20 preliminary operating statistics were generally lower across the board, reporting a group-wide load factor averaging 59% bringing 1H20 to 77% which we consider to be below our full-year expectation of 72% as we expect lower passengers carried in subsequent quarters. We widened our FY20E losses to RM1,489m from RM1,105m. We now forecast a loss of RM275m in FY21 instead of a profit of RM194m. Correspondingly, TP is reduced from RM0.52 to RM0.41 based on unchanged 0.5x revised FY21E BVPS. Maintain UNDERPERFORM.

2QFY20 operating statistics indicating a weak quarter. AirAsia's 2QFY20 operating statistics were generally lower across the board, reporting a group-wide load factor of 59% bringing 1H20 to 77% which we consider to be below our full-year expectation of 72% as we expect lower passengers carried in subsequent quarters. 2QFY20 group consolidated AOCs (Malaysia, Indonesia and Philippines) reported a 26pts decline in load factor to 59% which trails a lower ASK (-98%). As a result, YoY for 2QFY20, the number of passengers carried was down 98% as capacity was reduced by 98%. Generally, passengers carried and ASK were lower across the board. In terms of outlook, going forward, the Group saw a pickup in key operational metrics in June as compared to May, including tripling the number of passengers carried by AirAsia Malaysia, doubling the number of passengers carried by AirAsia Thailand, and increasing 10 percentage points in load factor while reaching 6 times the number of passengers carried by AirAsia India, reflecting the strong rebound in demand for air travel. AirAsia Indonesia's number of passengers carried fell by 99.8% YoY. AirAsia Indonesia resumed operations on 19 June with 5 routes. At the end of July, the daily sales have reached 5 times the daily sales recorded in early June. In May 2020, AirAsia Thailand reinstated domestic flights in phases and with the encouraging rebound in traffic, AirAsia Thailand operated at 18% of pre-Covid-19 capacity in June 2020. In 3Q and 4Q of this year, AirAsia Thailand expects to operate at 75% and 95% of pre-Covid-19 domestic capacity, respectively. AirAsia India restarted its domestic operations on 25 May 2020, and was quick to ramp up to 30% of pre-Covid-19 capacity in June 2020, with 36 operational routes.

Cut our FY20E assumptions and hence forecast a net loss of RM1,489m instead of RM1,105m. We now forecast a loss of RM275m in FY21 instead of a profit of RM194m. We cut our load factor assumption from 72% to 68%.

Outlook. The group has also restructured a major portion of the fuel hedges with supportive counterparties and are still in process of restructuring the remaining exposure. Over the medium term, we expect AirAsia to face tough operating environment derailed by widespread travel disruptions due to the COVID-19, and hits from lower load factor. The group have applied for bank loans in their respective operating countries to shore up liquidity to help fund working capital and repayment of lease liabilities, which stand at RM12.2b as at 31 March 2020. In addition, AirAsia has ongoing deliberations with a number of parties for joint-ventures and collaborations that may result in additional third-party investments in specific segments of the group's business.

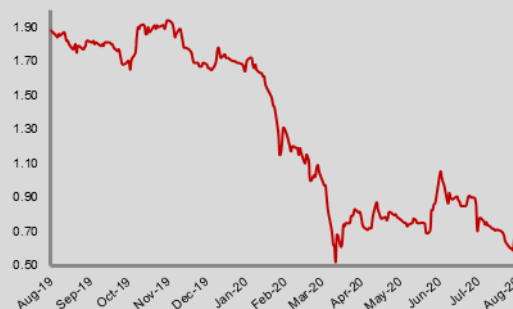
Reiterate UP. Our TP is cut from RM0.52 to RM0.41 based on unchanged 0.5x revised FY21E BVPS (-1.5SD below 5-year forward historical average).

Risks include higher-than-expected RASK and better-than-expected load factor.

UNDERPERFORM ↔

Price : RM0.66
Target Price : RM0.41 ↓

Share Price Performance



KLCI 1,564.74
YTD KLCI chg -1.5%
YTD stock price chg -61.2%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AAGB MK EQUITY
Market Cap (RM m) 2,205.7
Shares Outstanding 3,342.0
52-week range (H) 1.95
52-week range (L) 0.50
3-mth avg daily vol: 59,752,980
Free Float 54%
Beta 1.8

Major Shareholders

Tune Live Sdn Bhd 16.7%
Tune Air Sdn Bhd 15.5%
Amanah Saham Nasional 5.4%

Summary Earnings Table

FY Dec (RM'm)	2019A	2020E	2021E
Turnover	11,964	10,315	11,337
PBT	(549.8)	(1,568.3)	(290.2)
Net Profit (NP)	(303.7)	(1,489.9)	(275.7)
Core NP	(158.6)	-1489.9	-275.7
Consensus (NP)		-1590.7	-19.8
Earnings Revision	-	+35%	-242%
Core EPS (sen)	-9.1	-44.6	-8.3
Core EPS growth (%)	(152.0)	390.6	(81.5)
NDPS (sen)	90.0	0.0	0.0
BVPS (RM)	1.329	0.883	0.820
Core PER (x)	NM	NM	NM
PBV(x)	0.5	0.7	0.8
Net Gearing (%)	N.Cash	N.Cash	N.Cash
Net Div. Yield (%)	136.4	0.0	0.0

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Consolidated AOCs operating statistics (Malaysia, Indonesia and Philippines)

	2QFY20	1QFY20	2QFY19	YoY chg	1HFY20	1HFY19	YoY Chg
Passengers Carried	204082	9,901,726	12,839,204	-98%	10,105,808	25,387,664	-60%
Capacity	345970	12,708,140	15,093,048	-98%	13,054,110	29,361,966	-56%
Load factor (%)	59%	78%	85%	-26ppt	77%	86%	-9ppt
ASK (m)	391	14,380	18,645	-98%	14,771	36,433	-59%
RPK (m)	232	11,367	15,766	-99%	11,599	31,444	-63%
Number of stages	1868	69,749	83,112	-98%	71,617	161,821	-56%
Average stage length	1121	1,116	1,233	-9%	2,237	2,472	-10%
Size of fleet	149	149	146	3	298	287	11

Source: Company, Kenanga Research

ASK – Average Seat Kilometres, Revenue Passenger Kilometres

Operating statistics – Malaysia Air Asia

	2QFY20	1QFY20	2QFY19	YoY chg	1HFY20	1HFY19	YoY Chg
Passengers Carried	170912	6,382,314	8,791,586	-98%	6,553,226	17,507,782	-63%
Capacity	283150	8,236,940	10,408,188	-97%	8,520,090	20,389,146	-58%
Load factor (%)	60%	77%	84%	-24%	77%	86%	-9%
ASK (m)	328	9389	12695	-97%	9,717	25,044	-61%
RPK (m)	202	7457	10732	-98%	7,659	21,601	-65%
Number of stages	1519	44909	57085	-97%	46,428	111,972	-59%
Average stage length	1149	1129	1217	-6%	2,278	2,446	-7%
Size of fleet	97	97	98	-1	194	192	2

Source: Company, Kenanga Research

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Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2018A	2019A	2020E	2021E	FY Dec	2018A	2019A	2020E	2021E
Revenue	10,603.8	11,964.9	10,315.2	11,336.7	Growth				
EBITDA	1,799.7	2,679.9	792.3	2,143.0	Turnover	9.2%	12.8%	-13.8%	9.9%
Depre. & Amort	(591.4)	(1,987.6)	(2,002.5)	(2,037.3)	EBITDA	-40.5%	48.9%	-70.4%	170.5%
Operating Profit	1,208.3	692.3	(1,210.2)	105.6	Operating Profit	-44.1%	-42.7%	-274.8%	-108.7%
PBT	1,364.7	(549.8)	(1,489.9)	(275.7)	PBT	-34.6%	-140.3%	185.3%	-81.5%
Net Profit	1,980.0	(303.7)	-1489.9	-275.7	Net Profit /(loss)	21.6%	-115.3%	390.6%	-81.5%
Operating Margin					Profitability				
FY Dec (RM m)	2018A	2019A	2020E	2021E	EBITDA Margin	17.0%	22.4%	7.7%	18.9%
Fixed Assets	2,854.0	1,165.9	985.8	(321.4)	Operating margin	22.3%	11.4%	8.0%	9.1%
Intangibles	871.0	675.1	675.1	675.1	PBT Margin	12.9%	-4.6%	-15.2%	-2.6%
Other FA	615.4	632.7	632.7	632.7	Core Net Margin	18.7%	-2.5%	-14.4%	-2.4%
Inventories	4,978.8	17,643.1	17,039.9	17,039.9	Eff. Tax Rate	-25.4%	5.0%	5.0%	5.0%
Receivables	106.3	146.1	146.1	146.1	ROA	10.5%	-1.2%	-6.7%	-1.3%
Derivatives	1,855.3	1,157.3	1,035.6	1,134.5	ROE	25.3%	-6.8%	-50.5%	-10.1%
Other CA	1,021.9	887.4	887.4	887.4	DuPont Analysis				
Financial assets	3,118.4	247.4	247.4	247.4	Net Margin (%)	18.7%	-2.5%	-14.4%	-2.4%
Cash	3,348.7	2,590.6	535.5	117.2	Assets T/O (x)	0.3	0.1	0.1	0.0
Total Assets	18,769.9	25,145.6	22,185.5	20,558.8	Lev. Factor (x)	0.4	0.6	0.2	0.0
Payables	2,601.9	2,027.1	1,748.4	1,921.6	ROE (%)	25.3%	-6.8%	-50.5%	-10.1%
ST Borrowings	412.6	329.8	329.8	329.8	Valuations				
Ot. ST Liability	3,733.7	5,719.2	5,629.1	5,737.2	EPS (sen)	17.5	-9.1	-44.6	-8.3
LT Borrowings	761.4	99.0	(1,002.4)	(2,701.4)	NDPS (sen)	52.0	90.0	0.0	-2.0
Ot. LT Liability	5,029.7	14,117.4	14,117.4	14,117.4	BVPS (RM)	2.35	1.33	0.88	0.82
Minorities	(1,608.1)	(1,587.2)	(1,587.2)	(1,587.2)	PER (x)	3.8	(7.3)	(1.5)	(8.0)
Net Assets	7,838.7	4,440.3	2,950.3	2,741.4	Net Div. Yield(%)	78.8	136.4	0.0	-3.0
Share Capital	8,023.3	8,023.3	8,023.3	8,023.3	PBV (x)	0.3	0.5	0.7	0.8
Reserves	(184.5)	(3,583.0)	(5,072.9)	(5,281.8)					
Equity	7,838.7	4,440.3	2,950.3	2,741.4					
Cashflow Statement									
FY Dec (RM m)	2018A	2019A	2020E	2021E					
Operating CF	1,980.9	3,721.8	(870.8)	478.7					
Investing CF	(516.1)	4,108.1	(83.0)	735.2					
Financing CF	(1,335.6)	(8,269.3)	(1,101.4)	(1,632.2)					
Change In Cash	129.1	(439.3)	(2,055.1)	(418.3)					
Free CF	1,518.6	3,694.9	(947.2)	568.1					

Source: Bursa Malaysia, Bloomberg, 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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