

09 September 2021

AirAsia Group Berhad

Narrowed 1HFY21 Losses

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1HFY21 Core Net Loss (CNL) came in at RM1,289m compared to our/consensus loss estimates of RM2,064m/RM2,081m. The results came in line with expectation. Whilst forward prospects could be brighter due to renewed optimism on air travel following the increased availability of vaccines, we expect AirAsia to continue facing bumpy quarters ahead with potential derailment of widespread air travel due to intermittent surge in infections. Our TP is kept at RM0.70 based on 9x FY22E EPS. Reiterate UP.

YoY, 2QFY21 revenue rose 161% due to low base effect in 2QFY20 as all four key operating entities shows marked improvement and boosted by Teleport which tripled YoY driven by higher cargo deliveries. In Malaysia, despite travel demand remain constrained due to the lockdown, AirAsia Malaysia reported a load factor of 64% in 2Q21. Aided by the 1QFY21 momentum, AirAsia Indonesia achieved 70% of pre-Covid domestic capacity in May 2021. However, this was short-lived as it entered into hibernation mode in July 2021 in support of containment efforts by the government as the number of infection cases increased. AirAsia Philippines saw a strong rebound that continued into 2QFY21 with a load factor of 78%, achieving a high load factor of 83% in June 2021. 2QFY21 group consolidated AOCs (Malaysia, Indonesia and Philippines) reported 9ppt increase in load factor to 68% on the back of a sharply increased capacity from low base of 346k to 1.1m seats. Teleport revenue tripled as it sacrificed margins to significantly scale up in certain routes on chartered cargo flights to gain market share and to achieve a consistent and reliable cargo network while the passenger network operated by AirAsia airlines saw minimal operations. Nonetheless, Teleport had narrowed losses, month-on-month, through actively reviewing the network. AirAsia super app's EBITDA losses widened to RM46m in 2QFY21 compared to RM15.5m in 2QFY20 as it ramped up its offerings through expansion and investment in technology. BigPay's revenue increased by 56% YoY through the increase of payment revenues from international transactions, and remittance revenue through the opening of new remittance corridors in late 2020. Group CASK (-65%), due to the absence of fuel swap losses as all fuel derivative contracts have been terminated, fell faster than RASK which came in unchanged. This brings 2QFY21 core net loss to RM662m compared to RM1,030m in 2QFY20. The Group continued with its cost containment measures, including the right-sizing of manpower while actively managing its capacity to be in line with demand which saw 1HFY21 core net loss narrowing to RM1,289m from RM1,802m in 1HFY20.

Outlook. The group had in 1QCY21 completed two tranches of private placement, raising RM336m. BigPay also recently secured investment up to USD100m from a large conglomerate in South Korea, SK Group. It has also announced the proposed RCUIDS which is expected to be completed by the end of the year. They have also completed two batches of renegotiation of lease terms with lessors which will see a lower lease rental per aircraft in the future, and expect to complete the renegotiations with all lessors by end of the year.

Reiterate UP. Longer term, AirAsia's fortune rests on how successfully it can turn around and transform itself into a digital travel and lifestyle company. Faced with negative operating cashflow and negative equity – BVPS projected at -RM0.71, it is urgently resolving its liquidity and capital adequacy issues via cash calls such as the aforementioned, which we believe will not be the last. Until then, we maintain UP call. TP maintained at RM0.70 based on 9x FY22E EPS.

Upside risks include faster-than-expected economy reopening and a successful US listing of its digital business.

UNDERPERFORM ↔

Price : RM0.945
Target Price : RM0.700 ↔

Share Price Performance



KLCI 1,597.63
YTD KLCI chg -1.8%
YTD stock price chg 6.8%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AAGB MK EQUITY
Market Cap (RM m) 3,683.7
Shares Outstanding 3,898.1
52-week range (H) 1.27
52-week range (L) 0.51
3-mth avg daily vol: 11,585,970
Free Float 62%
Beta 1.7

Major Shareholders

Tune Air Sdn Bhd 13.3%
Tune Live Sdn Bhd 13.1%
Positive Boom Limited 8.5%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Turnover	2,844	7,058	11,228
PBT	(5,583.7)	(2,173.0)	274.7
Net Profit (NP)	(5,096.7)	-2,204	260.9
Core NP	-4649.4	-2064.4	260.9
Consensus (NP)	-	-2081.6	-517.3
Earnings Revision	-	-	-
Core EPS (sen)	-152.5	-61.8	7.8
Core EPS growth (%)	NM	(59.5)	(112.6)
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	-	-	-
Core PER (x)	0.369	0.712	0.654
PBV(x)	NM	NM	14.5
Net Gearing (%)	NM	NM	NM
Net Div. Yield (%)	0.0	0.0	0.0

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Results Highlight

FYE Dec (RM m)	2QFY21	1QFY21	2QFY20	YoY %	QoQ %	1HFY20	1HFY21	YoY %
Revenue	370.6	298.2	142.1	160.8	24.3	2,380.0	668.8	(71.9)
EBITDA	(207.2)	(217.2)	(683.2)	(69.7)	(4.6)	(683.2)	(424.4)	(37.9)
EBIT	(802.3)	(808.9)	(1,311.6)	(38.8)	(0.8)	(1,977.9)	(1,611.2)	(18.5)
Associates	0.3	0.5	(20.5)	(101.6)	(37.3)	(49.9)	0.8	(101.7)
Pre-tax profit/(loss)	(726.8)	(965.8)	(1,212.1)	(40.0)	(24.7)	(2,179.3)	(1,692.5)	(22.3)
Taxation	7.2	(10.5)	52.6	(86.3)	(168.8)	66.5	(3.3)	(104.9)
MI	139.5	208.8	166.6	(16.2)	(33.2)	316.1	348.3	10.2
Reported net profit/ (loss)	(580.1)	(767.4)	(992.9)	(41.6)	(24.4)	(1,796.7)	(1,347.5)	(25.0)
Exceptionals:-								
Forex gain / (loss)	81.4	(179.3)	37.4			5.5	(97.8)	
One off gain / (loss)	-	39.7	-			-	39.7	
Core net profit/(loss)	(661.5)	(627.8)	(1,030)			(1,802.3)	(1,289.3)	
EPS	(15.2)	(21.6)	(29.7)			(53.8)	(36.8)	
Core EPS / (LPS)	(17.4)	(16.5)	(30.8)			(53.9)	(33.8)	
EBITDA margin (%)	NM	NM	NM			NM	NM	
EBIT margin (%)	NM	NM	NM			NM	NM	
Pretax margin (%)	NM	NM	NM			NM	NM	
Operating statistics								
Capacity (ASK million)	1,149	1,329	390			11,547	2,478.0	
Seat capacity ('000)	1,113	1,463	346			12,715	2,576.0	
Passengers ('000)	759	977	204			9,847	1,736.0	
Seat load factor (%)	68%	67%	59%			77%	67%	
Revenue passenger per pax (RM)	241.0	204.0	78.0			152	222.5	
Revenue / ASK (sen) (RASK)	15.9	15.0	15.9			16	15.5	
Average fuel price hedge	90.0	78.0	76.0			81	84.0	
Cost/ASK (sen)	76.5	72.8	295.7			158	74.6	
Cost/ASK ex-fuel (sen)	18.6	17.7	53.3			34	18.2	
Ancillary income / pax	47.0	45.0	(161.0)			(59)	46.0	

Source : Company, Bursa Malaysia, 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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