

23 November 2021

AirAsia Group Berhad

Narrowed 9MFY21 Losses

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9MFY21 Core Net Loss (CNL) came in below expectations at RM1,919m compared to our/consensus loss estimates of RM2,064m/RM2,563m. The results came in below our estimate due to lower-than-expected passengers and higher-than-expected losses in digital which prompts us to cut our FY21E earnings by 17%. However, we leave our FY22E earnings unchanged. Our TP is kept at RM0.70 based on 10.5x FY22E EPS. Reiterate UP.

Results review. 3QFY21 revenue fell 37% YoY and 20% QoQ due largely to lockdown measures in Malaysia and Indonesia. 3QFY21 group consolidated AOCs (Malaysia, Indonesia and Philippines) reported a 1ppt increase in load factor to 67% on the back of a sharply lower passengers (-82%). AirAsia Philippines demonstrated a strong performance in 3Q 2021, posting growth in the number of passengers (+167% YoY and + 5% QoQ) and a load factor at 77%. With the recent positive news announcing the uplifted travel ban for senior citizens and minors commencing last week, AirAsia Philippines is confident of a strong path to recovery, driven by strong pent-up demand for leisure travel and to reconnect with relatives. AirAsia Malaysia operated at 10% of capacity and carried 9% of passengers in 3QFY21 compared to 3QFY20, due to strict travel restrictions in place. Nonetheless, a M-o-M comparison in September indicate AirAsia Malaysia more than doubled the number of passengers carried driven by the opening of the Langkawi travel bubble which commenced from 16 September. Due to the temporary hibernation of the fleet in support of the containment efforts by the government, AirAsia Indonesia carried 21% of passengers with 26% of capacity operated YoY. Since mid-October, AirAsia Indonesia has gradually started resuming flights in line with demand, commencing with the Jakarta-Bali route. AirAsia Thailand carried 4% of passengers on 5% of capacity compared to 3QFY20. With the upcoming year-end peak holiday season and reopening of the Phuket Sandbox to international travellers, AirAsia Thailand remains confident of a strong recovery in demand in 4Q 2021. YoY, 3QFY21 Teleport revenue grew 180% despite chalking EBITDA losses (RM12m) compared to a 3QFY20 positive EBITDA (RM20m) 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 its losses by 24% QoQ. AirAsia super app's EBITDA losses widened to RM76m in 3QFY21 from RM46m in 2QFY21 as it ramped up its offerings through expansion and investment in technology. This brings 3QFY21 core net loss to RM670m compared to RM835m in 3QFY20 due to stringent cost containment and the absence of fuel swap losses bringing **9MFY21 core net loss** narrowing to RM1.9b from RM2.7b in 9MFY20.

Outlook. The RCUIDS 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.

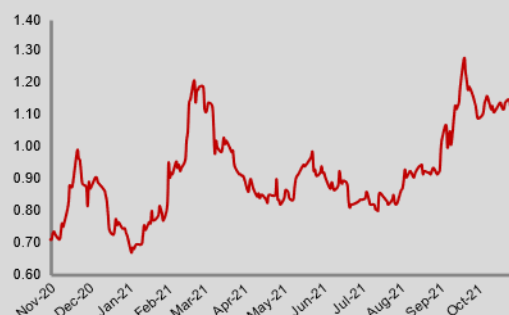
Reiterate UP. Longer term, AirAsia's fortune rests on how successfully it can turn around and transform itself into a digital travel and lifestyle company. Faced with negative operating cashflow and negative equity – BVPS projected at -RM0.87, it is urgently resolving its liquidity and capital adequacy issues via cash calls such as the aforementioned, which we believe will not be the last. Until then, we maintain an UP call. TP maintained at RM0.70 based on 10.5x FY22E EPS.

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

UNDERPERFORM ↔

Price : RM1.03
Target Price : RM0.700 ↔

Share Price Performance



KLCI 1,526.87
YTD KLCI chg -6.2%
YTD stock price chg 16.4%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker AAGB MK EQUITY
Market Cap (RM m) 4,015.0
Shares Outstanding 3,898.1
52-week range (H) 1.33
52-week range (L) 0.67
3-mth avg daily vol: 28,386,780
Free Float 62%
Beta 1.6

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	4,754	11,228
PBT	(5,583.7)	(2,541.3)	274.7
Net Profit (NP)	(5,096.7)	(2,414.3)	260.9
Core NP	-4649.4	-2414.3	260.9
Consensus (NP)		-2563.0	-941.0
Earnings Revision		-17%	-
Core EPS (sen)	-152.5	-68.9	6.7
Core EPS growth (%)	NM	(54.8)	(109.7)
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	-	-	-
	0.37	0.87	0.68
Core PER (x)	NM	NM	15.4
PBV(x)	NM	NM	NM
Net Gearing (%)	NM	NM	NM
Net Div. Yield (%)	0.0	0.0	0.0

23 November 2021

Results Highlight

FYE Dec (RM m)	3QFY21	2QFY21	3QFY20	YoY %	QoQ %	9MFY20	9MFY21	YoY %
Revenue	296.0	370.6	468.9	(36.9)	(20.1)	2,640.9	964.8	(63.5)
EBITDA	(281.3)	(207.2)	(454.1)	(38.1)	35.8	(1,150.0)	(705.7)	(38.6)
EBIT	(898.7)	(802.3)	(1,163.1)	(22.7)	12.0	(3,150.5)	(2,509.9)	(20.3)
Associates	(1.0)	0.3	(3.9)	(74.2)	(416.7)	(54.6)	(0.2)	(99.7)
Pre-tax profit/(loss)	(1,111.5)	(726.8)	(1,159.7)	(4.2)	52.9	(3,347.1)	(2,804.0)	(16.2)
Taxation	1.2	7.2	75.6	(98.4)	(83.0)	141.5	(2.0)	(101.4)
MI	223.3	139.5	232.3	(3.9)	60.1	549.4	571.6	4.0
Reported net profit/ (loss)	(887.0)	(580.1)	(851.8)	4.1	52.9	(2,656.2)	(2,234.5)	(15.9)
Exceptionals:-								
Forex gain / (loss)	(216.9)	81.4	44.5			52.5	(314.8)	
One off gain / (loss)		-	394.0			(50.0)		
Core net profit/(loss)	(670.1)	(661.5)	(835.3)			(2,658.7)	(1,919.7)	
EPS	(22.8)	(15.2)	(25.5)			(79.3)	(59.6)	
Core EPS / (LPS)	(17.2)	(17.4)	(25.0)			(78.9)	(49.2)	
Operating statistics								
Capacity (ASK million)	460	1,149	2,716	(83.1)	(60.0)	14,145.0	2,938.0	
Seat capacity ('000)	529	1,113	2,882	(81.6)	(52.5)	15,596.5	3,104.9	
Passengers ('000)	352	759	1,916	(81.6)	(53.6)	11,763.2	2,088.0	
Seat load factor (%)	67%	68%	66%	0.1	(2.4)	75%	67%	
Revenue passenger per pax (RM)	285.0	241.0	194.0	46.9	18.3	165.7	243.3	
Revenue / ASK (sen) (RASK)	21.8	15.9	14.8	47.8	37.0	15.3	17.6	
Average fuel price hedge	90.0	90.0	192.0	(53.1)	-	347.3	86.0	
Cost/ASK (sen)	187.2	76.5	51.9	260.9	144.6	120.8	112.1	
Cost/ASK ex-fuel (sen)	180.2	18.6	37.1	385.9	867.6	26.1	72.2	
Ancillary income / pax	54.0	47.0	25.0	116.0	14.9	(31.0)	48.7	

Source : Company, Bursa Malaysia, Kenanga Research

23 November 2021

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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