Capital A

Rebound in Air Travel Falls Short

MARKET PERFORM ↔

Price :	**RM0.59**
Target Price :	**RM0.60 ↔**

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CAPITALA's 9MFY22 results disappointed as the rebound in air travel fell short of expectations. We share its optimism that the recovery in air travel will further accelerate moving into 2023. Separately, it disclosed that it is divesting its aviation group to AirAsia X. We widen our FY22F loss by 48% but keep our FY23F number. We maintain our TP of RM0.60 (which is based on FY23F earnings) and reiterate our MARKET PERFORM call.

9MFY22 core net loss came in wider than expected at RM2.4b, against our full-year loss forecast of RM2.1b and the full-year consensus loss estimate of RM1.9bn. The variance against our forecast came largely from the rebound in air travel falling short of expectations.

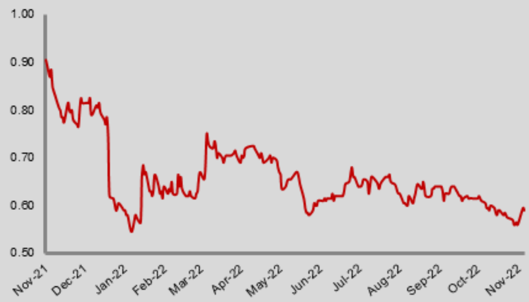
9MFY22 revenue rose 3-fold from both airlines and digital businesses as travel restrictions were relaxed across the region. Airlines revenue rose >200% underpinned by 83% load factor with 7-fold increase in passengers carried boosted by higher ASK (+>100%) and RASK (+25%). The group introduced additional capacity of >100% YoY to support the surge in demand following further relaxation of travel protocols, domestically in Malaysia, Indonesia and the Philippines. AirAsia Malaysia's number of passengers carried and capacity improved by 10-fold due to low base effect on the back of the resumption of a significant increase in number of additional domestic flights, and the relaunch of numerous domestic routes to connect people between major cities. AirAsia Indonesia achieved a much-improved load factor of 79% (+19ppts) due to pent-up demand between Jakarta and Denpasar, and Jakarta and Medan. AirAsia Philippines continued to record the group's highest load factor at 90% (+14ppts). airasia Super app revenue rose 8-fold due to low base effect driven by continued resurgence of travel demand. As a result, the average monthly active users (MAU) was at 10.6m (+>100% YoY), rising across all markets due to travel picking up. Bigpay's user base grew 61% and revenue jumped 50% led by continued growth in both payments and remittance businesses. Teleport's revenue grew 54% due to higher volume deliveries. All in, the group's EBITDA loss narrowed in 9MFY22 due to better performances from airlines and Super app. This brings 9MFY22 core net loss to RM2.7b compared to RM2.2b in 9MFY21, no thanks to higher losses in airlines as RASK (20.0 sen) came in lower than CASK (30.0 sen) due to higher jet fuel cost (+68%).

The key takeaways from the analysts briefing yesterday are as follows:

1. It is seeking for an extension until Jul 2023 to submit a holistic PN17 regularisation plan. Specifically, the group plans to divest its aviation group to AirAsia X via receiving shares and subsequently distribute to its shareholders. The group plans to announce the details of the regularisation plan by end-Jan 2023 with completion expected by Jul 2023.

2. The group reiterated that the passenger throughput recovery is gaining traction. In Nov 2022, the group operated 125 aircraft (about 60% of our 4 airlines fleet size) and is currently targeting to get 140 operational aircraft by end-2022 and expect to reach full fleet utilisation by 2Q23. By end Nov 2022, it would have resumed 86% and 60% of pre-pandemic domestic and international capacity, respectively, by utilising 124 aircraft.

Share Price Performance



KLCI	1,488.80
YTD KLCI chg	-5.0%
YTD stock price chg	-25.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CAPITALA MK
Market Cap (RM m)	2,455.5
Shares Outstanding	4,161.8
52-week range (H)	0.92
52-week range (L)	0.54
3-mth avg daily vol:	4,131,496
Free Float	56%
Beta	1.2

Major Shareholders

Tune Air Sdn Bhd	12.4%
Tune Live Sdn Bhd	12.2%
Positive Boom Limited	8.0%

Summary Earnings Table

FY Dec (RM m)	2021A	2022F	2023F
Turnover	1,682	6,256	9,613
PBT	(3,768.1)	(3,257)	113.3
Net Profit (NP) /(NL)	(3,118.6)	(3,094)	107.7
Core NP / (NL)	(2885.7)	(3,094)	107.7
Consensus (NP)		-1864.5	-79.6
Earnings Revision	-	-48%	-
Core EPS (sen)	-74.9	-51.5	2.6
Core EPS growth (%)	(50.9)	(0.8)	(104)
NDPS (sen)	0.0	0.0	0.0
BVPS (RM)	- 0.748	- 1.113	- 1.097
Core PER (x)	NM	NM	24.2
PBV(x)	NM	NM	NM
Net Gearing (%)	0.43	0.28	0.26
Net Div. Yield (%)	0.0	0.0	0.0

3. The group expects Teleport to achieve a double-digit regional market share on the back of increased utilisation of belly capacity and induction of freighter capacity. Following the launching of wide-body cargo from Kuala Lumpur to cities in Australia, Middle East, Asia and Europe to drive connectivity between major e-commerce growth markets, the volume is expected to be on an upward trend from continuously securing new marketplace partners.
4. For the Group's digital businesses, airasia Super App has officially been launched in Indonesia, completing its Asean expansion plan in the four core operating countries by end 2022. The presence of airasia Super App is expected to grow strongly as the market has embarked on a return to pre-pandemic normal and recovery of the tourism industry is well underway.

Outlook. Looking into 2023, we project CAPITALA's system-wide revenue seat km (RPK) to grow 52% to 35b in FY23, after recovering by 19b to 23b in FY22 based on our forecasts. CAPITALA expects its passenger demand to continue to rise moving into 2023, judging from the encouraging load factors recorded at 159 international routes relaunched in 2Q 2022. Its digital segment is expected to remain loss-making. airasia Super App is expected to grow, underpinned by the continued resurgence of travel demand from borders reopening and tactical campaigns, alongside expected growth from airasia Food, Ride and Xpress. Additionally, Teleport is expected to continue expanding throughout 2022 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform to provide new loan products.

We widened our FY22 net loss to RM3b from RM2.1b as we cut our FY22 revenue seat km (RPK) to 23b from 28b. However, we keep our FY23 assumption and earnings forecast.

We continue to like CAPITALA for: (i) it being a beneficiary to the recovery in air travel as the pandemic comes to an end, (ii) its growing digital business, leveraging on its strong AirAsia brand and AirAsia's existing client base, and (iii) its dynamic and visionary leadership that should help to steer it out of the current financial difficulty. However, we are mindful of it still being under the PN17 status. We maintain our SoP-TP of RM0.60 (see below). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 3). Reiterate **MARKET PERFORM.**

Risks to our recommendation include: (i) the recovery in air travel stalls amidst a global recession, (ii) sustained high jet fuel prices, rendering air travel, especially low-cost air travel unaffordable, (iii) CAPITALA's inability to lift itself out of the PN17 status, and (iv) persistent cash burn at its digital assets.

Sum-of-Parts Valuations

	Value (RM'm)	Basis
Airlines	1,500	10x FY23F PER, at a discount to peers average due to its smaller market capitalisation
Digital assets	996.8	30% discount to Axiata's Boost
Total	**2,496.8**	
No. of shares (m)	4,161	
TP (RM)	**0.60**	

Source: Kenanga Research

^ We value AirAsia's digital assets at 30% discount to Boost USD320m, given their similarity in terms of being digital platforms targeting the same geographical areas, although we acknowledge that AirAsia's digital assets are not strictly comparable to e-wallet operator Boost (Boost boasted 7.5m users and 170k merchant touchpoints at the point of the funding round that fetched a USD320m valuation in 2020, vs. 11m users and 32k merchant touchpoints of AirAsia's digital assets at present). We also take into consideration the sharp fall in the valuations of technology start-ups in the private markets over the last six months, reportedly to the tune of as much as a third on the back of the regulatory crackdowns in China as well as NASDAQ's selloff.

Results Highlight

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	YoY %	QoQ %	9MFY21	9MFY22	YoY %
Revenue	1,960.9	1,465.4	296.0	562.5	33.8	1,015.1	4,238.1	317.5
EBITDA	72.3	108.6	(275.6)	(126.2)	(33.5)	(674.9)	(127.7)	(81.1)
EBIT	(563.9)	(491.3)	(893.0)	(36.9)	14.8	(2,479.1)	(1,966.4)	(20.7)
Associates	(226.8)	(291.5)	(5.7)	NM	(22.2)	(30.8)	(661.4)	NM
Pre-tax profit/(loss)	(1,153.8)	(1,114.5)	(1,111.5)	3.8	3.5	(2,804.0)	(3,344.8)	19.3
Taxation	10.4	(6.4)	1.2	752.5	(263.8)	(2.0)	3.3	(262.3)
MI	242.1	189.6	223.3	8.4	27.7	571.6	605.1	5.9
Reported net profit/ (loss)	(901.3)	(931.2)	(887.0)	1.6	(3.2)	(2,234.5)	(2,736.3)	22.5
Exceptionals:-								
Forex gain / (loss)	(363.9)	(343.4)	(216.9)			(314.8)	(762.0)	
Reversal of impairment	162.0						390.7	
Core net profit/(loss)	(699.4)	(587.8)	(670.1)			(1,919.7)	(2,365.0)	
EPS	(21.7)	(22.4)	(22.8)			(59.6)	(65.8)	
Core EPS / (LPS)	(16.8)	(14.1)	(17.2)			(49.2)	(56.8)	
Operating statistics								
Capacity (ASK million)	8,554	6,380	460	NM	34.1	2,938.0	19,222.0	554.3
Seat capacity ('000)	8,286	6,593	529	NM	25.7	3,106.0	19,820.0	538.1
Passengers ('000)	7,128	5,558	352	NM	28.2	2,088.0	16,435.0	687.1
Seat load factor (%)	86%	84%	67%	29.3	2.0	67%	83%	23.4
RPK (m)	7323	5,278	292	NM	38.7	1954	15,831	710
Revenue passenger per pax (RM)	274.0	252.0	285.0	(3.9)	8.7	231.0	241.0	4.3
Revenue / ASK (sen) (RASK)	22.8	22.0	21.8	4.4	3.9	16.5	20.6	25.0
Average fuel price hedge	151.0	151.0	90.0	67.8	-	84.0	141.0	67.9
Cost/ASK (sen)	29.2	30.4	187.2	(84.4)	(4.0)	92.1	30.4	(67.0)
Cost/ASK ex-fuel (sen)	18.2	19.4	180.2	(89.9)	(6.5)	85.1	20.1	(76.4)
Ancillary income / pax	41.0	38.0	54.0	(24.1)	7.9	47.0	38.0	(19.1)

Source : Company, Bursa Malaysia, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★				
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★	★	
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	☆		
SPECIFIC	Air Safety Record	★	★	★		
	On-Time Record	★	★	★		
	CO2 Emission	★	★	★	☆	
	Fuel Efficiency	★	★	★	☆	
	Customer Data Protection	★	★	★		
	Cybersecurity	★	★	★		
	Anti-Terrorism					
	OVERALL	★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

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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