

01 June 2023

# Capital A

## A Strong Start to FY23

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**CAPITALA's 1QFY23 core net profit beat expectations on strong flight demand and higher yields realised. We share its optimism that the recovery in air travel will continue to accelerate this year. It will unveil its PN17 regularisation plans in early-July. We raise our FY23-24F net profit forecasts by 87% and 44%, respectively, lift our TP by 25% to RM0.84 (from RM0.67) but maintain our MARKET PERFORM call.**

1QFY23 core net profit of RM57m beat expectations, accounting for 53% of our full-year net profit forecast and against consensus net loss estimate of RM166m. The variance against our forecast came largely from stronger-than-expected demand for its flights and higher yields realised.

1QFY23 revenue rose 2-fold in both airlines and digital segments. Airlines revenue rose 3-fold underpinned by 88% load factor with a 128% increase in passengers to 8.5m (about 80% of pre-COVID) boosted by higher ASK (>100%) and RPK (>100%). In 1QFY23, the group operated 142 aircrafts with 15 spares which saw robust travel demand resulting in strong passenger throughput of 13.2m (153% YoY; 11% QoQ). AirAsia Malaysia achieved a load factor of 92% (75% of pre-pandemic level). AirAsia Indonesia achieved a healthy load factor of 81% (+3ppts QoQ; +5ppts YoY) due to pent-up demand between Singapore and Denpasar, and Jakarta and Singapore. Similarly, AirAsia Philippines's seat capacity and passengers carried recovered to between 83% and 84% of pre-pandemic levels leading to load factor of 92% (+6ppts YoY and +5ppts QoQ), which together with AirAsia Thailand recorded the highest load factor of 92% (+19ppts YoY; +2ppts QoQ). Notably, China's routes achieved an astounding load factor of 90%.

In the digital segment, Airasia Super app revenue rose 175% driven by the strong revival of domestic and international travel demand in most regions. As a result, the average monthly active users (MAU) was at 12.9m (+20% YoY), rising across all markets as travelling activities picked up. Bigpay's user base grew 17% and revenue jumped 79%, led by continued growth in both payments and remittances. Teleport's revenue rose 15% due to third party capacity additions and regional deals with global freight forwarders. All in, EBITDA came in at RM502m against a loss of RM309m in 1QFY22 due to better performance from airlines. Fuel charges partly mitigated the high fuel costs and supported the improvement in EBITDA margin in 1QFY23. This brings 1QFY23 core net profit to RM57m compared to a loss of RM900m in 1QFY22 thanks to profits in airlines as RASK (+40%) came in higher than CASK (-40%) due to higher average fares (+60%).

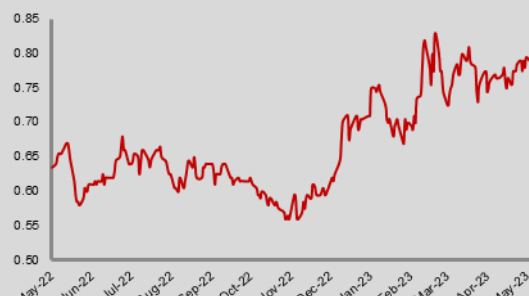
The key takeaways from the analysts briefing yesterday are as follows:

1. The group is on track to announce the details of its PN17 regularisation plan in July 2023 with completion expected by end-3QCY23. The delay was due to the need to incorporate the latest FY22 audited figures. We gathered that the group plans to divest its aviation group to AirAsia X in exchange of shares for subsequent distribution to its shareholders.
2. The group reiterated that the passenger throughput recovery is gaining traction. The group has reactivated 157 aircrafts in 1QCY23 with plans to reallocate aircraft to operating countries that have stronger demand. By end of 2023, the group is targeting to have all its 215 aircrafts deployed to cater for the rising demand which includes three A321 Freighters and four upcoming aircraft via 3rd party lease.

## MARKET PERFORM ↔

Price : **RM0.78**  
Target Price : **RM0.84** ↑

### Share Price Performance



KLCI 1,387.12  
YTD KLCI chg -7.2%  
YTD stock price chg 24.8%

### Stock Information

Shariah Compliant Yes  
Bloomberg Ticker CAPITALA MK  
Market Cap (RM m) 3,251.4  
Shares Outstanding 4,168.5  
52-week range (H) 0.88  
52-week range (L) 0.56  
3-mth avg daily vol: 20,983,160  
Free Float 75%  
Beta 0.9

### 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)	2022A	2023F	2024F
Turnover	6,606.3	9,712	9,711
PBT	(3,169.3)	211.9	241.7
Net Profit (NP) / (NL)	(2,480.1)	201.3	229.6
Core NP / (NL)	(3,094.1)	201.3	229.6
Consensus (NP)	-	-166	371
Earnings Revision	-	+87%	+44%
Core EPS (sen)	-74.4	4.8	5.5
Core EPS growth (%)	(20.5)	(108.1)	14.1
NDPS (sen)	0.0	1.0	0.0
BVPS (RM)	NM	NM	NM
Core PER (x)	NM	12.9	11.3
PBV(x)	NM	NM	NM
Net Gearing (%)	NM	NM	NM
Net Div. Yield (%)	0.0	0.0	0.0

01 June 2023

3. In an effort to capitalise from the reopening of the China market in March 2023, both AirAsia Malaysia and AirAsia Thailand, which have previously enjoyed considerable financial benefits from China routes, have been prioritising deploying capacity to China to capitalise on the pent-up demand. The group expects the high fares to persist. As such, the strategy is to deploy and reactivate more aircraft in order to remove dead costs and improve the overall financial position.
4. For the Group's digital businesses, airasia Super App in 2023 will realign its focus back on travel verticals in tandem with the recovery in travel demand. airasia Superapp has continuously introduced several strategic initiatives to drive user engagement and enhance customer convenience to increase app loyalty. Specifically, it partners with Foodpanda which operates the food delivery for Superapp while using airasia ride-hailing as one of its delivery service providers. This collaboration immediately broadens our market presence. Users from both platforms can now conveniently access both services in one place, creating valuable opportunities for cross-selling.

We raise our FY23-24 net profit forecasts by 87% and 44%, respectively, as we raise our FY23-24F revenue seat km (RPK) to 43b from 35b and to 50b from 43b, respectively. Consequently, we lift our SoP-TP by 25% from of RM0.67 to RM0.84 (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.

**Outlook.** Looking farther into CY23, we project CAPITALA's system-wide revenue seat km (RPK) to grow 79% to 43b in FY23, after recovering by 20b to 24b in FY22. CAPITALA expects its passenger demand to continue to rise moving farther into 2023, judging from the encouraging load factors recorded at 159 international routes. The group has reactivated 157 aircrafts in 1QCY23 with plans in place to reallocate aircraft to operating countries that has stronger demand. By end of 2023, the group is targeting to have all its 215 aircrafts deployed to cater for the rising demand. 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 2023 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform to provide new loan products.

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 steer it out of the current financial difficulty. However, we are mindful of it still being under the PN17 status.

**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.

#### CAPITALA's Sum-of-Parts Valuation

Segment	Valuation (RM m)	Basis
Airlines	2,500	10x FY24F PER, at a discount to peers average due to its smaller market capitalisation
Digital assets	996.8	30% discount to Axiata's Boost
<b>Total</b>	<b>3496.8</b>	
No. of shares (m)	4,161	
<b>TP (RM)</b>	<b>0.84</b>	

Source: Kenanga Research

<sup>^</sup> 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 sell-offs in NASDAQ.

01 June 2023

**Results Highlight**

FYE Dec (RM m)	1QFY22	4QFY22	1QFY23	YoY %	QoQ %
Revenue	811.8	2,368.2	2,529.7	211.6	6.8
EBITDA	(308.6)	488.6	502.2	(262.8)	2.8
EBIT	(911.2)	(198.8)	(28.2)	(96.9)	(85.8)
Associates	(143.1)	166.5	13.4	(109.3)	(92.0)
Pre-tax profit/(loss)	(1,076.5)	175.4	29.9	(102.8)	(83.0)
Taxation	(0.7)	(3.1)	(3.9)	420.3	26.5
MI	173.4	83.8	31.1	(82.1)	(62.9)
Reported net profit/ (loss)	(903.8)	256.2	57.1	(106.3)	(77.7)
Exceptionals:-					
Reversal of impairment	0.0	161.0	0.0		
Gains from disposal	0.0	0.0	0.0		
Core net profit/(loss)	(903.8)	95.2	57.1		
EPS	(21.7)	6.2	1.4		
EBITDA margin (%)	(38.0)	20.6	19.9		
EBIT margin (%)	(112.3)	(8.4)	(1.1)		
Pretax margin (%)	(1.3)	0.1	0.0		
<b>Operating statistics</b>					
Capacity (ASK m)	4,288	9,974	11,201	161.2	12.3
Seat capacity ('000)	4,941	9,111	9,794	98.2	7.5
Passengers ('000)	3,749	7,812	8,576	128.8	9.8
Seat load factor (%)	76%	86%	88%	15.4	2.1
Revenue passenger per pax (RM)	161.0	291.0	258.0	60.2	(11.3)
Revenue / ASK (sen) (RASK)	14.1	22.8	19.8	40.3	(13.3)
Average fuel price hedge	115.0	136.0	121.0	5.2	(11.0)
Cost/ASK (sen)	33.0	22.2	19.7	(40.3)	(11.2)
Cost/ASK ex-fuel (sen)	24.8	12.5	11.1	(55.2)	(10.6)
Ancillary income / pax	30.0	44.0	48.0	60.0	9.1

Source : Company, Bursa Malaysia, Kenanga Research

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★				
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★	★	
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
<b>SPECIFIC</b>	Corporate Governance	★	★	☆		
	Airport Service Quality & Safety	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Customer Experience	★	★	★	☆	
	Supply Chain Management	★	★	★	☆	
	Energy Efficiency	★	★	★		
	Effluent/Waste Management	★	★	★		

01 June 2023

OVERALL

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★ ★ ★

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

01 June 2023

**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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