Capital A

Selling Airline Business to AirAsia X

MARKET PERFORM ↔

Price :	RM0.845
Target Price :	RM0.84 ↔

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Capital A Bhd will dispose its airline business to sister company AirAsia X Bhd (AAX), with the consideration to be negotiated at a later date, in both cash and shares. Pending more details of the deal, we maintain our earnings forecasts, TP of RM0.84 and MAKRKET PERFORM call.

Selling aviation business to AirAsia X Berhad. The group has entered into a non-binding letter of offer with AirAsia X Berhad (AAX) to divest AirAsia Berhad (AAB) and AirAsia Aviation Group Limited (AAAGL) for a disposal consideration to be agreed upon at a later date. A detailed announcement on the proposed disposal will be made upon the signing of a definitive agreement. The disposal consideration is expected to be satisfied by a combination of cash and issuance of new shares of AAX. The proposal is part of a comprehensive consolidation plan that involves the transfer of all short-haul businesses in Malaysia, Thailand, Indonesia, and the Philippines to AAX, which currently operates only mid-haul flights. We are positive on this latest corporate development by CAPITALA which will form part of the proposed regularisation plan to lift it out of the PN17 status.

Essentially, the exercise is expected to result in greater clarity of investment between CAPITALA, being the aviation services and digital businesses provider, and AAX, a pure aviation business consolidating both long and short haul routes under the AirAsia brand name. This would result in the development of a more focused shareholder base, which is also expected to facilitate a business-centric valuation of the separate entities and potentially unlock value to shareholders. Once the sale is completed, CAPITALA will focus on four businesses, namely Teleport, Santan, BigPay, and Asia Digital Engineering Sdn Bhd.

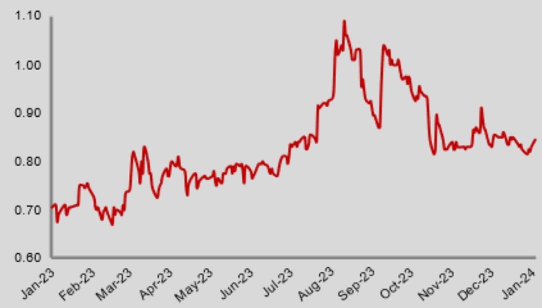
Recall, in Nov 2023, CAPITALA has proposed the listing of a unit, which is the licensee of the AirAsia brand, via a special purpose acquisition company (SPAC), on NASDAQ at an USD1b (RM4.77b) valuation.

Low-cost carrier peers are trading at consensus 1-year forward PER of between 7x to 14x including Ryanair Holdings Plc (11x), Spring Airline Co Ltd (14x), Easyjet Plc (8x), Air Arabia (9x), and Wizz Air Holdings Plc (7x). For illustration purposes, (i) based on our FY24F net profit of RM250m for CAPITALA's airlines business and applying low cost carriers peers 1-year forward PER of between 7x and 14x, the indicative valuation works out to between RM1.8b and RM3.5b, and (ii) based on indicative valuation of RM3.5b, our SoP-TP is expected to be raised by 28% from RM0.84/share to RM1.08/share. However, based on CAPITALA's FY24F consensus net profit of RM446m (assuming consensus forecast a bottom line breakeven for its digital business), the indicative airlines business valuation works out to between RM3.1b to RM6.2b which is expected to raise our SoP-TP by 17%-100% to RM0.98-RM1.74 per share.

Consequently, there could be potential earnings leakages or losses to the group from revenue and profit contribution following the sale of its airlines business to AAX.

We maintain our forecasts, TP of RM0.84 and **MARKET PERFORM** call pending more details upon the signing of a definitive agreement. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Share Price Performance



KLCI	1,495.70
YTD KLCI chg	2.8%
YTD stock price chg	2.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CAPITALA MK
Market Cap (RM m)	3,595.1
Shares Outstanding	4,254.6
52-week range (H)	1.12
52-week range (L)	0.67
3-mth avg daily vol:	13,344,070
Free Float	76%
Beta	0.8

Major Shareholders

Tune Air Sdn Bhd	12.1%
Tune Live Sdn Bhd	12.0%
Positive Boom Limited	7.8%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	6,606.3	9,465	9,711
PBT	(3,169.3)	(34.4)	241.7
Net Profit (NP) /(NL)	(2,480.1)	(32.7)	229.6
Core NP / (NL)	(3,094.1)	(32.7)	229.6
Consensus (NP)	-	-71.5	446.4
Earnings Revision	-	-	-
Core EPS (sen)	-74.4	-0.8	5.5
Core EPS growth (%)	(20.5)	(98.7)	(801.7)
NDPS (sen)	-	1.0	-
BVPS (RM)	-	-	-
Core PER (x)	-	-	15.3
PBV(x)	-	-	-
Net Gearing (%)	-	-	-
Net Div. Yield (%)	-	-	-

Outlook. Looking farther into CY24, we project CAPITALA's system-wide revenue seat km (RPK) to grow 20% to an estimated 70b in CY24, after recovering by an estimated 24b to 58b in FY23 based on our forecasts. The group reiterated that the passenger throughput recovery is gaining traction. It is targeting to reactivate 187 aircrafts with 161 aircrafts available for operation, and its operating capacity to reach 74% of pre-COVID level, leveraging on the high travel season and the newly established visa-free travel between China and Malaysia starting 1 Dec 2023. 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 2024 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 of the recovery in air travel post pandemic, (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
Total	3,496.8	
No. of shares (m)	4,161	
TP (RM)	**0.84**	

^ *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.*

Source: Kenanga Research

Income Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	2,844	1,682	6,006	9,465	9,711
EBITDA	(3,236)	(1,072)	0	2,268	2,595
Dep & Amort	(2,070)	(2,105)	(2,140)	(2,175)	(2,210)
Op. Profit	(5,908)	(3,507)	(2,165)	93	385
PBT	(5,584)	(3,575)	(3,169)	(34)	242
Taxation	(283)	179	158	2	(12)
Net Profit	(5,097)	(3,119)	(2,480)	(33)	230
Core net profit	(5,097)	(2,886)	(3,094)	(33)	230

Balance Sheet

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	1,120	760	867	867	867
Int. Assets	542	1,034	707	707	707
Other FA	641	794	831	831	831
Inventories	15,353	15,761	16,415	15,794	15,304
Receivables	141	154	207	207	207
Derivatives	843	747	832	953	977
Other CA	743	377	852	583	583
others	79	5	8	8	8
Cash	1,141	1,256	525	(740)	(1,925)
Total Assets	20,603	20,887	21,242	19,210	17,557
Payables	2,252	1,874	2,506	1,604	1,646
ST Borrowings	787	887	495	495	495
Ot. ST Liability	5,125	6,273	8,221	7,802	7,828
LT Borrowings	(67)	1,482	2,412	1,733	(348)
Ot. LT Liability	16,090	13,488	13,383	13,383	13,598
Minorities Int.	(2,351)	2,877	3,652	3,652	3,652
Net Assets	(1,233)	(5,994)	(9,428)	(9,460)	(9,314)
Share Capital	8,023	8,457	8,655	8,655	8,655
Reserves	(9,257)	(14,451)	(18,082)	(18,115)	(17,969)
Equity	(1,233)	(5,994)	(9,427)	(9,460)	(9,314)

Cashflow Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	(2,152)	(335)	(1,319)	(776)	978
Investing CF	369	(206)	-	-	-
Financing CF	(340)	1,267	779	(679)	(2,164)
Change In Cash	(2,122)	726	(540)	(1,455)	(1,186)
Free CF	(2,228)	(243)	(1,718)	(1,664)	1,101

Financial Data & Ratios

FY Dec	2020A	2021A	2022A	2023F	2024F
Growth					
Turnover	-76%	-41%	257%	58%	3%
EBITDA	-221%	-67%	-100%	NM	14%
Operating Profit	-953%	-41%	-38%	-104%	314%
PBT	916%	-36%	-11%	-99%	NM
Net Profit /(loss)	1578%	-39%	-20%	-99%	NM
Profitability					
EBITDA Margin	-114%	-64%	0%	24%	27%
Operating Margin	-208%	-209%	-36%	3%	1%
PBT Margin	-196%	-213%	-53%	0%	2%
Core Net Margin	-179%	-185%	-41%	0%	2%
Eff. Tax Rate	-5%	5%	5%	5%	5%
ROA	-25%	-15%	-12%	0%	1%
ROE	413%	52%	26%	0%	-2%
DuPont Analysis					
Net Margin (%)	-179%	-185%	-41%	0%	2%
Assets T/O (x)	39%	45%	14%	9%	9%
Lev. Factor (x)	-92%	-21%	-6%	8%	21%
ROE (%)	413%	52%	26%	0%	-2%
Valuations					
EPS (sen)	-152.5	-74.9	-59.6	4.8	5.5
NDPS (sen)	0.0	-22.0	-22.0	0.0	0.0
BVPS (RM)	-0.37	-1.44	-2.27	-2.27	-2.24
PER (x)	(0.5)	(1.1)	(1.4)	NM	15.3
Net Div. Yield(%)	0.0	-26.8	-26.8	0.0	0.0

Source: Kenanga Research, Bursa Malaysia

Stock ESG Ratings:

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