

26 April 2024

CAPITAL A

Selling Airline Business to AirAsia X

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CAPITALA is selling its airline business to AAX (Not Rated) for RM6.8b, to be satisfied by 2.3b new AAX shares @ RM1.30 and settlement of RM3.8b debt, which should lift it out of the Practice Note 17 (PN17) status. Pending the completion of the deal, we maintain our forecasts, TP of RM0.78 and MARKET PERFORM call. The deal could lift our TP for CAPITALA by 3% to RM0.80.

Selling aviation business to AirAsia X Berhad. The group has entered into share sale and purchase agreement with AirAsia Group Sdn Bhd (AAG) (following AirAsia X Berhad (AAX) internal reorganisation, AAG will assume the listing status of AAX prior to the completion of the proposed disposals) to divest AirAsia Berhad (AAB) and AirAsia Aviation Group Limited (AAAGL) for a total disposal consideration of RM6.8b. AAAGL owns Thai AirAsia, Philippines AirAsia, Indonesia AirAsia and AirAsia Cambodia while AAB operates AirAsia Malaysia. The proposed divestment is expected to be completed by 3Q 2024.

The divestment entails: (i) selling AAAGL for RM3b via issuance of 2.307b new AAG shares at an issue price of RM1.30/share, and (ii) selling AAB for RM3.8b via a debt settlement i.e. AAG assumption of CAPITALA's debt due to AAB. The group will undertake a pre-completion intercompany debt adjustment in which it will assume AAAGL's debt to AAB and subsequently AAAGL debt shall be entirely set off against cash dividend to be declared by AAB to the group. Based on the issue price of RM1.30, the group is expected to retain approximately 673m AAG shares or 18% of the enlarged issued shares of AAG post completion of the disposals (assuming RM1b private placement by AAG).

Subsequently, it also proposed a distribution-in-specie via a reduction and repayment of CAPITALA's share CAPITALA and distributes the new ordinary shares in AAG of approximately RM2.2b in value to the shareholders of CAPITALA of which ratio has yet to be determined. For illustration purposes, based on the issue price of RM1.30, and distribution of RM2.2b implying approximately 1,692.3m new AAG shares (assuming CAPITALA's outstanding shares of 4,254m). Based on CAPITALA 4,254m shares, the distribution shares are expected to be distributed on the basis of 397 new AAG shares for every 1000 CAPITALA's shares.

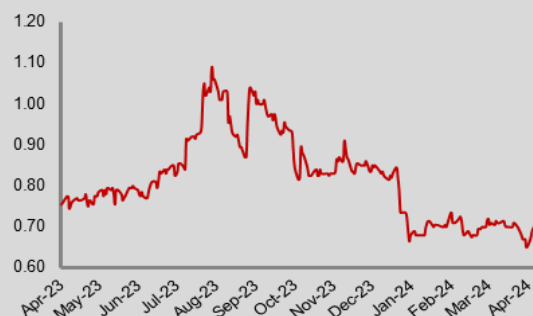
We are positive on this latest corporate development by CAPITALA which will form part of the proposed regularisation plan to lift it out of the PN17 status. The expected gain from divestment of AAGL and AAB are RM4.7b and RM6.1b, respectively. For illustration purposes, the aggregate total gain of RM10.8b is able to offset its negative shareholder equity of RM10.5b as at 31 Dec 2023 and bring it out of PN17.

Based on an independent valuation conducted by Deloitte Corporate Advisory Services Sdn Bhd, AAB and AAGL were valued at RM27b-RM3.5b, and RM3.5b-RM4.4b, respectively. Note that the valuation methodology adopted was based on 5-year discounted projected cash flow for FY24-FY28. Based on the disposal consideration of RM6.8b, the PER works out to 27x our FY24F CAPITALA's airlines business net profit and 17x consensus FY24 net profit which is premium compared to peers averaging between 9x to 23x. Low-cost carrier peers are trading at consensus 1-year forward PER of between 9x to 23x including Ryanair Holdings Plc (15x), Spring Airline (23x), Easyjet Plc (8x), Air Arabia (9x), and Wizz Air Holdings Plc (9x).

MARKET PERFORM ↔

Price : **RM0.71**
Target Price : **RM0.78** ↔

Share Price Performance



KLCI	1,569.25
YTD KLCI chg	7.9%
YTD stock price chg	-15.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CAPITALA MK
Market Cap (RM m)	2,978.3
Shares Outstanding	4,254.7
52-week range (H)	1.12
52-week range (L)	0.64
3-mth avg. daily vol.	7,672,555
Free Float	76%
Beta	0.6

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)	2023A	2024F	2025F
Turnover	14,772	14,954	15,036
PBT	533.4	563.0	625.5
Net Profit (NP) / (NL)	837.0	229.3	299.2
Core NP / (NL)	-450.3	229.3	299.2
Consensus (NP)	-	406.0	703.7
Earnings Revision	-	-	-
Core EPS (sen)	20.1	5.5	7.2
Core EPS Growth (%)	(133.7)	(72.6)	30.5
NDPS (sen)	-	-	-
BVPS (RM)	-	-	-
Core PER (x)	-	12.9	9.9
PBV(x)	-	-	-
Net Gearing (%)	-	-	-
Net Div. Yield (%)	-	-	-

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Based on our estimates, CAPITALA'S SoP-TP will increase by 3% to RM0.80 (from RM0.78) (see Exhibit 2). We currently value its airlines business at RM2,250m based on 9x FY24 PER. Post the exercise, CAPITALA will no longer own its airline business directly but via 2,307m shares in AAX. We value AAX post the acquisition of CAPITALA's airline business at RM2,791m (the sum of its market capitalisation of RM541m before the announcement of the deal and our valuation for CAPITALA's airline business of RM2,250m), translating to RM1.013/share based on the enlarged AAX share based of 2,754m.

We maintain our forecasts, TP of RM0.78 and MARKET PERFORM call pending approval of its regularisation plan to lift it out of the PN17 status. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

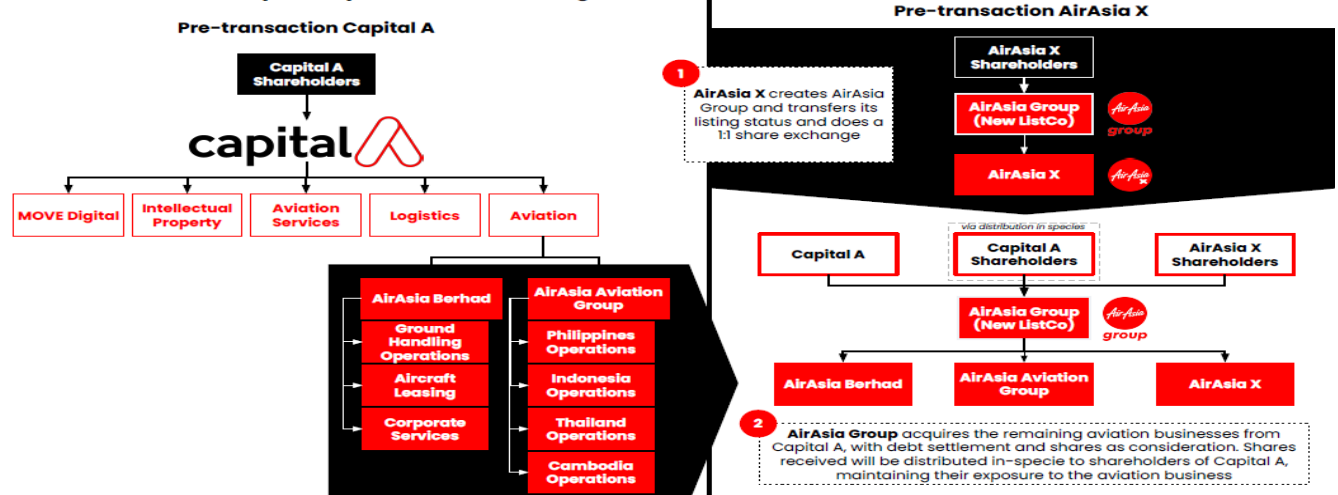
Valuations. We also keep our SoP-TP of RM0.78. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

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.

Investment case. We continue to like CAPITALA for: (i) it being a beneficiary to 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 pending the above-mentioned proposals. Reiterate MARKET PERFORM.

Exhibit 1 – Corporate Structure Pre and Post

Illustrative structure pre corporate restructuring



Source: Kenanga Research, Company

Exhibit 2: CAPITALA's Sum-of-Parts Valuation

Segment	BEFORE		AFTER	
	Valuation (RM m)	Basis	Valuation (RM m)	Basis
Airlines	2,250	9x FY24F PER in-line with peers average	2,339	2,307m AAX shares @ RM1.013
Digital assets^	996.8	30% discount to Axiata's Boost	996.8	30% discount to Axiata's Boost
Total	3,246.8		3,335.8	
No. of shares (m)	4,161		4,161	
TP (RM)	0.78		0.80	

Source: Kenanga Research

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^ We value AirAsia's digital assets at 30% discount to Boost USD320m valuation, 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 has 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.

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	1,682	6,006	14,772	14,954	15,036	Growth					
EBITDA	(1,072)	0	2,009	4,117	4,352	Turnover	-41%	257%	146%	1%	1%
Dep & Amort	(2,105)	(2,140)	(2,175)	(2,210)	(2,244)	EBITDA	-67%	-100%	NM	105%	6%
Op. Profit	(3,507)	(2,165)	(919)	1,908	2,108	Operating Profit	-41%	-38%	-58%	-308%	11%
PBT	(3,575)	(3,169)	533	563	625	PBT	-36%	-11%	-117%	NM	NM
Taxation	179	158	(26)	(334)	(326)	Net Profit /(loss)	-39%	-20%	-134%	NM	NM
Net Profit	(3,119)	(2,480)	837	229	299	Profitability					
Core net profit	(2,886)	(3,094)	(450)	229	299	EBITDA Margin	-64%	0%	14%	28%	29%
						Operating Margin	-208%	-209%	-6%	13%	14%
						PBT Margin	-213%	-53%	4%	4%	4%
						Core Net Margin	-185%	-41%	6%	2%	2%
						Eff. Tax Rate	5%	5%	5%	59%	52%
						ROA	-15%	-12%	3%	1%	1%
						ROE	52%	26%	-8%	-2%	-3%
						DuPont Analysis					
						Net Margin (%)	-185	-41	6	2	2
						Assets T/O (x)	45	14	10	10	10
						Lev. Factor (x)	-21	-6	-7	-7	-7
						ROE (%)	52	26	-8	-2	-3
						Valuations					
						EPS (sen)	-74.9	-59.6	0.16	0.16	0.16
						NDPS (sen)	-22.0	-22.0	(0.42)	(0.43)	(0.4)
						BVPS (RM)	1.44	2.27	0.2	0.2	0.2
						PER (x)	NM	NM	NM	12.9	9.9
						Net Div. Yield(%)	NM	NM	NM	NM	NM
Balance Sheet											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Fixed Assets	760	867	1,548	1,548	1,548						
Int. Assets	1,034	707	403	403	403						
Other FA	794	831	4,719	4,719	4,719						
Inventories	15,761	16,415	18,592	18,497	18,202						
Receivables	154	207	294	294	294						
Derivatives	747	832	1,210	1,448	1,456						
Other CA	377	852	188	188	188						
Others	5	8	8	8	8						
Cash	1,256	525	703	703	703						
Total Assets	20,887	21,242	27,666	27,809	27,522						
Payables	1,874	2,506	4,301	2,745	2,233						
ST Borrowings	887	495	791	791	791						
Ot. ST Liability	6,273	8,221	9,782	9,336	9,344						
LT Borrowings	1,482	2,412	3,652	3,652	3,652						
Ot. LT Liability	13,488	13,383	17,850	19,850	19,850						
Minorities Int.	2,877	3,652	1,759	1,759	1,759						
Net Assets	(5,994)	(9,428)	(10,469)	(10,323)	(10,107)						
Share Capital	8,457	8,655	8,712	8,712	8,712						
Reserves	(14,451)	(18,082)	(19,181)	(19,035)	(18,819)						
Equity	(5,994)	(9,427)	(10,469)	(10,323)	(10,107)						
Cashflow Statement											
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F						
Operating CF	(335)	(1,319)	1,047	(1,248)	1,358						
Investing CF	(206)	-	(23)	-	-						
Financing CF	1,267	779	(864)	(2,164)	(2,560)						
Change In Cash	726	(540)	161	(3,412)	(1,202)						
Free CF	(243)	(1,718)	159	(1,125)	1,494						

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	★	★	★		
SPECIFIC	Workers Safety & Wellbeing					
	Corporate Governance	★	★	☆		
	Airport Service Quality & Safety	★	★	★		
	Cybersecurity/Data Privacy	★	★	★		
	Customer Experience	★	★	★	☆	
	Supply Chain Management	★	★	★	☆	
OVERALL	Energy Efficiency	★	★	★		
	Effluent/Waste Management	★	★	★		
		★	★	★		

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

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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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