Capital A

Counting on Better Quarters Ahead

UNDERPERFORM ↓

Price :	RM0.86
Target Price :	RM0.78 ↔

By Raymond Choo Ping Khoon l pkchoo@kenanga.com.my

CAPITALA's 1QFY24 results met expectations. It reported a core net loss of RM92m in 1QFY24 as higher costs negated a doubling in its top line. We maintain our forecasts and TP of RM0.78 but downgrade our call to UNDERPERFORM from MARKET PERFORM after the recent run-up in its share price. The stock remains under the Practice Note 17 (PN17) status.

It reported a core net loss of RM92m in 1QFY24, against our full-year net profit forecast of RM229m and the full-year consensus net profit estimate of RM416m. However, we consider the results within expectations as we expect it to turn profitability during the remaining quarters as the demand for air travel continues to rise.

YoY, its 1QFY24 revenue more than doubled on improved performance from both its airlines and digital segments. For the airlines segment, AirAsia Malaysia, Thailand, Indonesia, and Philippines delivered improved performance across key metrics, with a system-wide load factor of 90%, reflecting a 1ppt improvement. Passenger volume grew 17% to 15.4m (84% of Pre-COVID) boosted by higher ASK (+80%), outpacing capacity growth of 15% while capacity recovery achieved 82%. The growth was largely attributed to school holidays and Chinese New Year season in the first quarter. Additionally, China and India routes both delivered robust load factor of 94%, higher than pre-Covid due to the visa-free travel corridors of both regions introduced at the end of 2023. AirAsia Philippines and Thailand emerged as top performers, chalking the highest load factor of 93%. AirAsia Malaysia and Indonesia followed closely with an impressive load factor of 89% and 83%, respectively.

For the digital segment, Capital A Aviation services' 1QFY24 revenue rose 33% of which 67% was contributed by ADE, followed by Santan (15%) and the balance by DARTS and Capital A Consultancy. Teleport's revenue rose 48% driven by growth from existing and onboarding of new customers, re-activation of AirAsia fleet, and additional capacity from third party airlines allowing expansion into new lanes beyond AirAsia's network. Airasia MOVE's (formerly AirAsia Superapp) revenue for the quarter fell 20% due to price competition within the offline travel agents landscape.

However, it dipped into a core net loss of RM92m due to high depreciation, aircraft leasing charges and finance cost.

QoQ, its 1QFY24 revenue grew, driven by festive travelling. Its core net profit narrowed 43% due to lower fuel cost and gains of operating scale.

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

1. To capitalise on the robust demand, the group is currently prioritising the active expansion of its capacity and network to meet growing demand. As of the end of March, the airline group has deployed 167 operational aircraft. It reiterated that the passenger throughput recovery is gaining traction. Its ongoing aircraft re-activation program is nearing completion, with only 19 planes left to be reinstated in the second half of 2024 and targeting 202 operational aircrafts. It expects to launch six international routes to capitalise on the anticipated demand growth from the China and India visa-free program in the next two quarters.

Share Price Performance

KLCI	1,605.35
YTD KLCI chg	10.4%
YTD stock price chg	4.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	CAPITALA MK
Market Cap (RM m)	3,659.8
Shares Outstanding	4,255.6
52-week range (H)	1.12
52-week range (L)	0.64
3-mth avg. daily vol.	15,870,560
Free Float	70%
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)	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)		416.2	719.8
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)	-	15.6	12.0
PBV(x)	-	-	-
Net Gearing (%)	-	-	-
Net Div. Yield (%)	-	-	-

2. To recap, CAPITALA has recently announced disposal of its aviation group to AirAsia X in exchange of shares. It is targeting to submit circular and obtain the approval from Bursa Malaysia by the end of June 2024. Thereafter it plans to convene an extraordinary general meeting in 3Q2024 to proceed with the necessary approvals.
3. On the digital front, the construction of Asia Digital Engineering (ADE)'s new base maintenance facility in KLIA is on track with six new lines to begin operations from 3QCY24 and another eight new lines operational by end-2024. In tandem with the launch of AirAsia Cambodia, ADE has also expanded its line maintenance services into Cambodia. This will be followed by the Philippines and Indonesia, which will commence operations by 2QFY24 and 2HFY24, respectively.
4. Teleport will focus its efforts on growing its core network beyond AirAsia via collaboration with more strategic partner airlines. It is looking to strengthen and extend our end-to-end operational capabilities with multi-modal, first-to-last mile capabilities in key markets, delivering reliable, affordable, next-day cross border logistics solutions in Southeast Asia.

Forecasts. Maintained.

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

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. Downgrade to **UNDERPERFORM** from **MARKET PERFORM** after the recent run-up in its share price.

Risks to our recommendation include: (i) stronger recovery in air travel, (ii) lower jet fuel prices, (iii) sooner-than-expected uplift from the PN17 status, and (iv) monetisation of its digital assets.

CAPITALA's Sum-of-Parts Valuation

Segment	Valuation (RM m)	Basis
Airlines	2250	9x FY24F PER inline with peers average
Digital assets	996.8	30% discount to Axiata's Boost
Total	3,246.8	
No. of shares (m)	4,161	
TP (RM)	0.78	

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 sell-offs in NASDAQ.

Results Highlight

FYE Dec (RM m)	1QFY23	4QFY23	1QFY24	YoY %	QoQ %
Revenue	2,529.7	4,859.4	5,241.4	107.2	7.9
EBITDA	547.0	989.4	662.2	21.1	(33.1)
Depreciation	(363.8)	(491.6)	(512.0)	40.8	4.2
EBIT	183.2	497.8	150.2	(18.0)	(69.8)
Net interest expense	(166.7)	(378.6)	(399.1)	139.4	5.4
Associates	13.4	(2.8)	(1.0)	(107.4)	(65.4)
Pre-tax profit/(loss)	29.9	116.4	(249.8)	(935.9)	(314.6)
Taxation	(3.9)	(95.4)	5.6	(243.6)	(105.8)
MI	31.1	(180.5)	152.7	391.4	(184.6)
Net profit (loss)	57.1	(159.6)	(91.6)	(260.4)	(42.6)
EPS	1.4	(3.8)	(2.2)	(260.4)	(42.6)
Operating statistics					
Capacity (ASK m)	11,201	19,962	20,237	80.7	1.4
Seat capacity ('000)	9,794	16,900	17,048	74.1	0.9
Passengers ('000)	8,576	14,880	15,414	79.7	3.6
Seat load factor (%)	88%	88%	90%	3.3	2.7
Revenue passenger per pax (RM)	258.0	304.0	321.0	24.4	5.6
Revenue / ASK (sen) (RASK)	19.8	22.7	24.4	23.6	7.8
Average fuel price hedge	121.0	125.0	122.0	0.8	(2.4)
Cost/ASK (sen)	19.7	23.7	23.4	18.6	(1.2)
Cost/ASK ex-fuel (sen)	11.1	5.1	14.1	26.2	177.7
Ancillary income / pax	48.0	54.0	57.0	18.8	5.6

Source : Company, Bursa Malaysia, Kenanga Research

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.***

Published by:

KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my