



AIRASIA GROUP BERHAD

Underperform

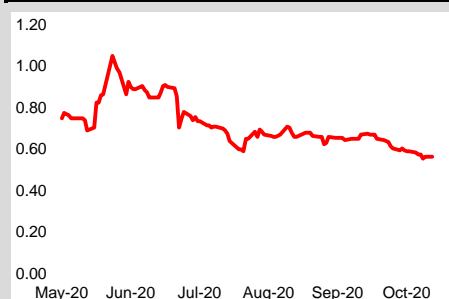
DESCRIPTION

A leading low-cost airline providing services on short-haul, point-to-point domestic and international routes. It currently flies to 119 destinations across 21 countries.

12-Month Target Price RM0.50
Current Price RM0.565
Expected Return -11.5%

Market Main
Sector Airlines
Bursa Code 5099
Bloomberg Ticker AAGB MK
Shariah-Compliant No

SHARE PRICE CHART



52 Week Range (RM) 0.50 – 1.95
3-Month Average Vol ('000) 17,827.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-15.7	-20.4	-27.1
Relative Returns	-14.9	-14.1	-34.0

KEY STOCK DATA

Market Capitalisation (RMm) 1,888.2
No. of Shares (m) 3,342.0

MAJOR SHAREHOLDERS

	%
Tune Live Sdn Bhd	16.7
Tune Air Sdn Bhd	15.5
Skim Amanah Saham	7.0
Employees Provident Fund	2.1

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3QFY20 Operating Statistics

AirAsia Group (AAGB) announced its 3QFY20 operating statistics, with passenger volume for the consolidated aircraft operating certificate (AOC) operations (Malaysia, Indonesia and Philippines) reporting QoQ improvements due to easing travel restrictions in domestic operations. Passenger load for the consolidated AOCs increased by 7.4 ppts QoQ to 66.4%. Meanwhile, Thailand (TAA) and India (AAI) operations also reported a rebound in domestic demand, with overall load factors at 65% and 62% respectively. AAGB's 3QFY20 results and passenger yield data is expected to be released in one month's time, which we believe will continue to be under pressure as 9MFY20 operations only account for 36% of last year's capacity. We maintain our **Underperform** call on AirAsia with target price of RM0.50, pegged to 1x FY21F BVPS.

§ **AirAsia's consolidated operations** reported that passengers carried declined 85% YoY to 1.9m, in-line with its decline in capacity as average seat per km (ASK) fell by 86% YoY to 2.7bn. These were below our expectations, accounting for 68% and 64% of our FY20 forecasts respectively. Passenger load was at 66% for 3Q20, compared to 84% in 3Q19. Overall, it operated at 19% of last year's capacity in 3Q20, compared to 2% in 2Q20. (Table 1)

Its Malaysian operations (MAA) achieved a 68% load factor while carrying 1.77m passengers (-80% YoY) in 3Q20, with easing restrictions on interstate travel compared to 2Q20. Nevertheless, we understand that capacity has been reduced in October 2020 given the conditional movement control order by the Government. Its Indonesian unit (IAA) operated 12 routes during the quarter, including 5 international routes, and operated 20 charter flights (compared to 5 routes in 2Q20). Philippines AA (PAA) also showed a QoQ rebound in passenger traffic in 3Q20, with 65% load factor.

§ **Associates' performance.** Thailand (TAA) reported a strong QoQ rebound in operations, as it operated at 44% of last year's capacity compared to 8% in 2Q20. In September 2020, TAA operated 96% of its pre-Covid domestic capacity. Passenger load was at 65% in 3Q20. (Table 2)

Meanwhile, its Indian (AAI) unit operated at 36% of last year's capacity compared to 12% in 2Q20. Passenger load was commendable at 62%. (Table 3)

§ **Outlook.** To ensure sufficient liquidity over the medium term, the Group is in the midst of securing commitments from banks and is actively exploring capital raising opportunities (i.e. rights issue) in each of its key operating markets. The Group had previously aimed to raise ~RM2.5bn by the end of the year. AAGB had recently secured a loan of ~RM300m from Sabah Development Bank (SDB) mainly to be used for its digital food supply chain and cold chain facilities in Sabah as well as to part finance the project to turn Kota Kinabalu International Airport into an international hub for AirAsia's operations.

KEY FORECAST TABLE

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	CAGR
Revenue	10638.3	11860.4	4392.1	7857.2	8700.1	-4.9%
Op Profit	1114.4	275.7	-1455.5	-191.3	-87.6	-
Pre-tax Profit	1335.2	-521.7	-2126.7	-826.7	-647.6	-
Net Profit	1967.0	-315.8	-2133.1	-845.6	-666.5	-
Core NP*	829.5	9.3	-2133.1	-845.6	-666.5	-
Core EPS (Sen)	24.8	0.3	-63.8	-25.3	-19.9	-
P/E (x)	2.8	254.4	-1.1	-2.8	-3.5	-
DPS (Sen)*	64.0	90.0	0.0	-5.9	-4.7	-
Div Yield (%)	90.8	127.7	0.0	-8.4	-6.6	-

Source: Company, PublicInvest Research estimates, *excluding exceptional items

**Table 1: AirAsia Group Consolidated AOCs (MAA, IAA, PAA) - 3QFY20 Operating Statistics**

<u>Malaysia, Indonesia & Philippines</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>
Passengers carried	1,914,606	13,002,178	204,082	-85.3%	838.2%
Seat capacity	2,882,666	15,501,606	345,970	-81.4%	733.2%
Load factor (%)	66.4%	83.9%	59.0%	-20.8%	12.6%
Revenue passenger km (RPK) (m)	1,828	16,021	232	-88.6%	687.9%
Available seat km (ASK) (m)	2,716	19,024	391	-85.7%	594.6%
No of stages	15,667	85,403	1,868	-81.7%	738.7%
Average sector length (km)	940	1,224	1,121	-23.2%	-16.1%
Size of fleet	148	147	149	1	-1

Source: Company

Table 2: TAA - 3QFY20 Operating Statistics

<u>Thailand (TAA)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>
Passengers carried	1,864,484	5,284,489	283,601	-64.7%	557.4%
Seat capacity	2,858,316	6,547,152	544,746	-56.3%	424.7%
Load factor (%)	65.2%	80.7%	52.1%	-19.2%	25.3%
Revenue passenger km (RPK) (m)	1,607	5,444	172	-70.5%	834.3%
Available seat km (ASK) (m)	2,365	6,766	329	-65.0%	618.8%
No of stages	15,609	36,253	2,977	-56.9%	424.3%
Average sector length (km)	829	1,034	1,092	-19.8%	-24.1%
Size of fleet	62	62	62	0	0

Source: Company

Table 3: AAI - 3QFY20 Preliminary Operating Statistics

<u>India (IAA)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>YoY chg (%)</u>	<u>QoQ chg (%)</u>
Passengers carried	590,873	2,352,141	190,395	-74.9%	210.3%
Seat capacity	946,800	2,621,520	302,040	-63.9%	213.5%
Load factor (%)	62.4%	89.7%	63.0%	-30.4%	-1.0%
Revenue passenger km (RPK) (m)	683	2,549	224	-73.2%	204.9%
Available seat km (ASK) (m)	1,081	2,814	355	-61.6%	204.5%
No of stages	5,260	14,564	1,678	-63.9%	213.5%
Average sector length (km)	1,142	1,073	1,172	6.4%	-2.6%
Size of fleet	30	22	30	8	0

Source: Company

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	10,638.3	11,860.4	4,392.1	7,857.2	8,700.1
Operating expenses	(10,027.9)	(10,321.4)	(4,627.4)	(6,873.1)	(7,640.5)
Other income	1,193.3	648.8	190.0	400.0	400.0
Operating Profit	1,114.4	275.7	(1,455.5)	(191.3)	(87.6)
Other Gains / (Losses)	632.3	(141.6)	-	-	-
Finance Costs	(411.4)	(655.7)	(671.2)	(635.4)	(560.0)
Pre-tax Profit	1,335.2	(521.7)	(2,126.7)	(826.7)	(647.6)
Income Tax	360.2	238.4	(6.4)	(18.9)	(18.9)
Minorities	271.6	(32.6)	-	-	-
Reported Net Profit	1,967.0	(315.8)	(2,133.1)	(845.6)	(666.5)
Core Net Profit / (Loss)	829.5	9.3	(2,133.1)	(845.6)	(666.5)
Growth					
Revenue (%)	9.6	11.5	-63.0	78.9	10.7
Operating Profit (%)	-50.0	-75.3	<-100	-86.9	-54.2
Core Net Profit (%)	-48.1	-98.9	<-100	-60.4	-21.2

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Property, Plant & Equipment	2,851.9	1,201.6	1,024.4	847.2	670.0
Cash and Cash Equivalents	3,326.9	2,588.1	1,951.0	1,261.2	653.6
Other Assets	12,370.9	21,805.0	20,675.2	21,888.1	20,999.5
Total Assets	18,549.8	25,594.7	23,650.5	23,996.4	22,323.0
Payables	2,722.9	2,495.6	1,187.7	1,764.1	1,961.0
Borrowings	1,205.1	12,888.7	15,050.2	15,071.4	13,620.9
Tax payables	4.7	52.9	52.9	52.9	52.9
Other Liabilities	8,431.7	7,246.8	6,582.1	6,977.6	7,068.9
Total Liabilities	12,364.5	22,684.0	22,872.9	23,865.9	22,703.6
Shareholders' Equity	6,185.3	2,910.7	777.7	130.5	(380.6)
Total Equity and Liabilities	18,549.8	25,594.7	23,650.5	23,996.4	22,323.0

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	1.9	0.9	0.2	0.0	(0.1)
Reported EPS (Sen)	58.9	(9.4)	(63.8)	(25.3)	(19.9)
DPS (Sen)*	64.0	90.0	0.0	-5.9	-4.7
Payout Ratio (%)	108.7	<-100	0.0	23.5	23.3
ROA (%)	10.6	-1.2	-9.0	-3.5	-3.0
ROE (%)	31.8	-10.8	<-100	<-100	>100

Source: Company, PublicInvest Research estimate

*FY19F DPS include 90 sen special dividend

RATING CLASSIFICATION

STOCKS

OUTPERFORM	The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months.
NEUTRAL	The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months.
UNDERPERFORM	The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months.
TRADING BUY	The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call.
TRADING SELL	The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months.
NOT RATED	The stock is not within regular research coverage.

SECTOR

OVERWEIGHT	The sector is expected to outperform a relevant benchmark over the next 12 months.
NEUTRAL	The sector is expected to perform in line with a relevant benchmark over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform a relevant benchmark over the next 12 months.

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