

# **AirAsia Group Berhad Analysis**

Based on Quarterly Report in 2019 and 2020

AirAsia Berhad is a public limited airline company headquartered in Kuala Lumpur and led by Tony Fernandes, a successful Malaysian entrepreneur. AirAsia is wellknown for its budget-flights which have swiftly broken expensive travel norms and soared to become the largest low-fare airlines in Asia (LCCT.COM.MY, 2014). Being a budget air company, AirAsia centres its business model around a low-cost philosophy with full utilization of its aircrafts in optimal efficiencies to ensure the company is making a profit. However, the aviation industry has been severely hit by the COVID-19 pandemic which struck the globe unprecedentedly. From the imposed travel bans to shut down of countries' borders and flight cancellations, AirAsia has been forced to halt its operations since March 2020.

Their business operations were substantially disrupted and the demand for flight declined drastically. This causes a plummeting of more than 50% cumulative sales from RM5.4 Billion to RM2.2 Billion as per June 2020. Hence, its profitability as a measure of success in wealth creation will be impacted. Although AirAsia has downscaled its operation to reduce the operating expenses through retrenchment and temporarily hibernating most of its fleet across the aviation industry, the greater decrease in revenue still leaves the operating profit margin to be negative. It then leads to a net loss for the year 2020 and a negative Return on Ordinary Shareholders' Fund (ROSF). This acts as a red flag for AirAsia as they might be losing investors who avoid a negative return as aggressively as possible. Investors always seek out opportunities in the market to secure a return. It is also expected that profitability will worsen if there is no increase in revenue in upcoming quarters. Therefore, AirAsia has to explore various strategies in overcoming the struggles for revenue as it is the main factor that determines a company's survival in both the short and long term.

Based on an unaudited statement of financial position as at June 2020 compared to the end of 2019, AirAsia Group Berhad needs to settle roughly RM8 billion current liabilities, which is 1 billion more than the latter. Even with the current assets, the net current liabilities in mid-2020 is approximately 2.5 times more than at the end of 2019. This can be traced back to the liabilities for regular aircraft maintenance provisions and

payables even though some of the operations have been reduced due to travel restrictions, including international flights, in the COVID-19 pandemic. Therefore, a huge amount of cash is burnt for commitments towards aircraft manufacturers and leasing companies. In this case, the company might struggle to meet its short-term obligations or future business threats. Besides, the significant decrease in their deposits, bank, and cash balances would also affect the group's liquidity and even solvency in the long term. When the debts or liabilities along with the assets are not managed well, the business might not be able to continue operating. Thus, AirAsia would have limited capacity in facing the financial commitments in the long time period and decreased competitive advantage in expanding their business in the future.

For the entirety of financial year 2020, AirAsia reported negative operating activities figures. Despite experiencing losses, AirAsia is also overwhelmed with cash flow constraints. The great fall in revenue by 75% and 270 times decline in profit before tax had a direct negative impact towards the company's liquidity in addition to its burden on current liabilities. Liquidity issues worsened when the passengers with booked tickets resorted to cancelling and compensation during the October-November travel restrictions. This resulted in the drop of cash balances and accounts payables of accrued income. Additionally, most of their assets are considered not entirely liquid. The 50% reduction in operating expenses only had little effect owing to the massive losses from the previous quarters. This drastic reduction in net income may then further weaken the liquidity as their cash flows have consistently reported decreases every quarter. Thus, AirAsia might be at risk of bankruptcy if its cash flow problems are not resolved at the earliest. In order to cope with the situation, AirAsia could begin with looking for methods to prevent further cash drainage from the business to improve their economic circumstances.

Despite the challenges experienced by the aviation industry during the pandemic, AirAsia Group remains committed to emerge stronger. Their decision to close AirAsia Japan, restructuring the investment of AirAsia India, and selling idle aircrafts helped reduce their bleeding of cash. Reduced variable costs improved their efficiency in

terms of managing their funds and can prevent economic losses which often encourages exits. It enabled them to increase the amount of cash flows and meet their daily operating expenses, thereby preparing themselves in building resilience for the future. Furthermore, AirAsia has expanded its portfolio to digital ventures to alleviate the impact of Covid-19. They successfully launched their ASEAN digital travel and lifestyle super app, "airasia.com." Moreover, their logistics venture, Teleport, has also been vital during this pandemic by providing air logistics services to businesses and door-to-door delivery services in major cities. These transformations are pivotal for the steady growth of their non-airline businesses as an alternative way to gain revenue. These strategies could ensure the company's sustainability in the contemporary business environment.

To summarise, AirAsia has implemented strong strategies to recover from the hard blows of the Covid-19 pandemic. They have endured severe losses in comparison to their previous performances. Through our essay, we have learned the detrimental effects rendered by an inevitable economic slump on the aviation industry and inspected how AirAsia managed to navigate through it. However, the prompt solutions taken by AirAsia are responding and aiding them in recovering from the economic turmoil. It provided us with insights into the importance of understanding a company's financial condition including profitability, efficiency, liquidity, and solvency to make suitable decisions for survival.

## References

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