AirAsia Group Berhad

(5099 | AAGB MK) Main | Consumer Products & Services

Maintain SELL

Band-Aid Fix

***Revised* Target Price: RM0.37**
(Previously RM0.68)

KEY INVESTMENT HIGHLIGHTS

- **Proposes to undertake a private placement exercise**
- **Indicative issue price is assumed at RM0.68 per share, expected to raise gross proceeds up to RM451.51m**
- **Stopgap measure to partially addressed AAGB financial concerns**
- **We posit that the group may need to raise more than one round of funding**
- **Cut our top line forecast for 2021F/2022F by -26%/18%**
- **Maintain SELL with revised TP of RM0.37 per share**

Proposed Private Placement. Based on its recent announcement on Bursa Malaysia, AAGB has proposed to undertake a private placement of up to 20% of the total number of issued shares of the company. The proposed exercise entails an issuance up to 668.39m shares. The indicative issue price is assumed at RM0.68 per share with the estimated timeframe for completion by the end of first quarter of 2021.

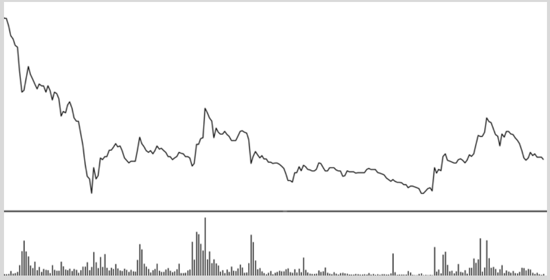
Impact of the proposed exercise. The exercise is expected to raise gross proceeds up to RM451.51m (RM0.68 x 668.39m shares) – where a large portion of the amount; at about 62%, is earmarked for working capital expenses and fuel hedging settlement. (Refer to Table 1). Furthermore, circa 17% of the fund will be allocated to grow the group's digital pillar via AirAsia Digital's subsidiaries, in line with the group strategic pivot to become into a digital lifestyle company. In addition, the group will have enlarged share capital base at 4.01b shares as it includes the additional 20% of new shares.

Our take on the private placement. We view the placement as a step in the right direction for the company. Yet, we believe this exercise only serve as a stopgap measure to partially address AAGB's financial concerns. Recall that, management indicated a conservative estimate that the group capital needs of between RM2-2.5b to tide them over comfortably until end of FY2021. We concur with the management's estimates as we project the group's current cash and equivalent stood at circa RM1.2b; already a very optimistic projection that include 9M20 cash balances and proceed from recent partial sale of stake in AirAsia India. This represent about 5.5x of monthly burn rate (est. RM220.0m) as per its 9M20 earnings result. Nevertheless, at the very least, the exercise provides a brief respite and breathing room for the company as the management contemplates on a longer and more permanent solutions to the group's financial woes.

Second round funding? We posit that the group may need to go through a couple rounds of fund-raising exercises, exposing its current shareholders to more potential dilution in the future. The worrying level of infections in Malaysia and other AAGB key markets is alarming and dampening the recovery trajectory this year. Furthermore, with other AOCs under the group in similar distress, it is probable that AAGB will step in to inject liquidity to maintain capital adequacy. To note, Philippines and Indonesia entities are currently in various stages of bank loan applications.

RETURN STATISTICS	
Price @ 21th Jan 2021 (RM)	**0.730**
Expected share price return (%)	**-49.32**
Expected dividend yield (%)	**0.00**
Expected total return (%)	**-49.32**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-16.6	-13.8
3 months	-17.5	18.8
12 months	-55.2	-55.4

KEY STATISTICS	
FBM KLCI	1,594.80
Syariah compliant	Yes
Issue shares (m)	3341.97
Estimated free float (%)	59.59
Market Capitalisation (RM'm)	2,439.64
52-wk price range	RM0.5 - RM1.65
Beta vs FBM KLCI (x)	1.73
Monthly velocity (%)	0.00
Monthly volatility (%)	24.07
3-mth average daily volume (m)	37.60
3-mth average daily value (RM'm)	30.37
Top Shareholders (%)	
Tune Air Sdn Bhd	15.45
TUNE LIVE SDN BHD	15.23
Amanah Saham Nasional Bhd	6.98

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MCO 2.0. The newly announced selective MCO is certainly a gut punch to the aviation players, especially after a dreadful 2020. With border control measures putting a halt on international passenger traffics, MCO will hinder the recovery of domestic passenger traffics. However, unlike the 'doom and gloom' situations of the first MCO early last year, hope is in the air for aviation players. Currently, with positive development on the vaccine fronts, the recovery narrative can be gauge with better clarity. Furthermore, with governments and businesses are more adept at managing the pitfalls of the virus, we believe punitive measures that hinder air travel will gradually be eased and potentially lifted, slated to be 2H21. Key considerations to our assumption are on the timing of vaccines approval, and of course successful and impactful administration of vaccines in large scale. Other key risk to our stance is prolonged MCO measures extending post 1Q21 will be detrimental for the recovery of the financial performance of aviation players.

Earnings forecast. We are revising our 2021F and 2022F forecast, to reflect our outlook on the aviation sector. We opine MCO 2.0 is the wet blanket for domestic traffic recovery this year, potentially extending past February. As of now, the we lower our revenue and earnings projection for 2021F, and we posit that the group will only stage a larger top line recovery in 2022F. We cut our top line forecast for 2021F/2022F by -26%/18% and earnings by -189%/-57% as we adopt a more cautious stance on the Group.

Target price. To account for the enlarged share capital, we are revising down our target price to RM0.37 per share, pegged to 0.8x P/BV FY21F.

Maintain Sell. We believe the recent ascension of the share price might overshoot the valuation level that we deem fair for the company as of now. Currently, AAGB is trading at 2.1x P/BV FY21F, above +1 standard deviation of its 5 years P/BV average. With that, we are maintaining our **SELL** call on AAGB. We opine that although recovery for the aviation sector and air travel is expected to gradually take place in 2021, it remains an uphill battle for AAG given that it is struggling financially to remain afloat in the current pandemic-laden operating environment. Key risks to our call include, (i) faster-than- expected travel demand recovery, (ii) worsening pandemic, and (iii) stricter movement controls order imposed on air travels, and (iv) further round of equity fund raising.

Table 1: Proposed Utilization of proceeds

Items:	*(RM'000)*	*%*	*Est. Timeframe*
Fuel hedging settlement	146,628	32%	Within 6 – 12 months
Aircraft lease & maintenance payments	95,187	21%	Within 3 months
AirAsia Digital	76,960	17%	Within 12 months
General working capital expenses	135,573	30%	Within 6 months
Estimated expenses for the Proposed Private Placement	160	0%	Immediate upon completion
Total	454,508	100%	

Table 2: Impact of the placement exercise

	No. of Shares ('000)	*RM'000*
Share capital	3,341,974	8,023,268
To be issued pursuant to the Proposed Private Placement	668,395	454,508
Enlarged Share Capital	4,010,369	8,477,776

Based on the indicative issue price of RM0.68 per Placement Share.

Source: Company, Bursa

INVESTMENT STATISTICS

Income Statement	**2018A**	**2019A**	**2020E**	**2021F**	**2022F**
Revenue	10,406.5	11,594.7	3,168.8	4,480.0	8,870.0
Operating exp.	(8,969.8)	(9,369.7)	(4,098.9)	(3,085.9)	(6,757.8)
Group EBITDA	1,482.8	2,359.5	(930.1)	1,394.1	2,112.2
Depreciation	(584.5)	(1,646.7)	(1,457.7)	(492.8)	(975.7)
EBIT	898.3	712.8	(2,387.8)	901.3	1,136.5
Net Interest	(378.3)	(686.7)	(627.6)	(899.0)	(761.5)
PBT	350.5	(568.2)	(3,353.0)	(97.0)	229.1
Net Tax	346.2	263.8	0.0	0.0	(55.0)
PAT	696.7	(322.5)	(3,353.0)	(97.0)	174.1

Source: Company, MIDFR

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STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.