

AirAsia Group Berhad

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

Bracing for further impact from the pandemic

KEY INVESTMENT HIGHLIGHTS

- Temporary suspension of all flights by MAA and other airlines under AAGB such as PAA, TAA, IAA and AAI
- Suspension for MAA and TAA already expected as number of flights had been significantly reduced in Feb 2020
- Domino effect on non-airline business such as AirAsia.com
- Rebate on landing and parking fees to be outweighed by low travel demand.
- Earnings estimates adjusted downwards
- Downgrade to Trading SELL from NEUTRAL with a revised TP of RM0.54 per share

Temporary suspension of all flights by MAA. AAGB has temporarily suspended all international and domestic flights operated under the AirAsia Malaysia (MAA) from 28 March to 21 April 2020. We view that the move is expected as the Movement Control Order which restricts movement of passengers has been extended to 14 April 2020. Other airlines within AAGB such as Philippines AirAsia Inc (PAA), Thai AirAsia Co. Ltd (TAA), PT Indonesia AirAsia (IAA) and AirAsia India Limited (AAI) have followed suit in substantially suspending their flights or reducing flight frequencies.

Table 1: Suspension/reduction in frequency of flights

Airlines	Types of flights suspended	Period
MAA	International & domestic	28 Mar – 21 Apr 2020
PAA	International & domestic	20 Mar – 14 Apr 2020
TAA	All international suspended, domestic to continue at reduced capacity	22 Mar – 25 Apr 2020
IAA	Only reduce frequency for international and domestic	Not disclosed
AAI	Domestic only suspended	25 Mar – 14 Apr 2020

Source: AAGB

MAA and TAA already showed reduction in number of flights in February 2020. For the month of February 2020, MAA and TAA have already shown reduction in the number of flights by -2.3%yoy and -10.4%yoy respectively. With March 2020 marking the point of the acceleration of the Covid-19 infection rate in Asia, the suspension and reduction in flight frequencies of other airlines under AAGB is inevitable.

Table 2: No. of monthly flights in February 2020

Airlines	Feb-19	Feb-20	%yoy change
MAA	17,289	16,889	-2.3%
IAA	3,698	4,703	27.2%
TAA	11,122	9,962	-10.4%
PAA	3,770	4,594	21.9%
AAI	3,782	6,104	61.4%

Source: OAG Flight Schedule Analyser

Downgrade to Trading SELL

From NEUTRAL

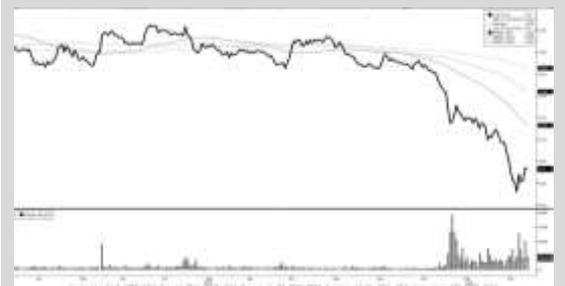
Revised Target Price: RM0.54

Previously RM0.63

RETURN STATISTICS

Price @ 26 th Mar 2020 (RM)	0.73
Expected share price return (%)	-26.02
Expected dividend yield (%)	+2.70
Expected total return (%)	-23.32

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-34.2	-25.4
3 months	-57.1	-48.2
12 months	-60.5	-51.1

KEY STATISTICS

FBM KLCI	1328.09
Syariah compliant	Yes
Issue shares (m)	3341.97
Estimated free float (%)	53.79
Market Capitalisation (RM'm)	2439.64
52-wk price range	RM0.5 - RM2.15
Beta vs FBM KLCI (x)	1.79
Monthly velocity (%)	11.02
Monthly volatility (%)	24.07
3-mth average daily volume (m)	36.85
3-mth average daily value (RM'm)	38.95
Top Shareholders (%)	
TUNE LIVE SDN BHD	16.73
Tune Air Sdn Bhd	15.45
Employees Provident Fund Board	4.77

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Domino effect on AAGB's other businesses. As a consequence, 2QFY20 earnings will take a larger hit than what was expected previously due to the aforementioned flight suspension. In addition, other businesses such as AAGB's logistics arm, Teleport will also be impacted due to the constraint in the belly space capacity. Nevertheless, Teleport will still be utilizing some passenger aircraft to transport special cargo such as medical aid and protective equipment to selected destinations without making any configurations. We also do not discount the possibility that Teleport will leverage on the direct interline agreement with Lufthansa Cargo as the German airline has started operating passenger aircraft for cargo transport. AirAsia.com will also bear the brunt as the online travel platform offers products such as holiday packages insurance and flights from other airlines. Based on our preliminary analysis, we expect overall revenue of both Teleport and AirAsia.com to drop below RM400m and RM20m in FY20, respectively due to the temporary suspension and reduction of flights by AAGB and its related airlines.

Financial assistance for airlines. Thus far, the only assistance announced by the government of Malaysia is the rebate for landing and parking fees by Malaysia Airports Holdings Berhad. With MAA's fleet grounded at airports in Malaysia, parking fees is what AAGB will have to bear the most. However, we opine that the decline in travel demand will largely outweigh the benefit of the landing and parking fees rebate. Meanwhile, media reports suggest that there is some initiative under proposals to assist the local airline industry which includes setting up a vehicle to take over the debt of local carriers in Malaysia and mergers between the local carriers. Breaking down AAGB's debt as at 31 December 2019, pure borrowings of AAGB are manageable at less than RM428m while the lease liabilities are at RM12.0b as majority of their fleet are leased. Thus far, we understand that AAGB will be delaying the delivery of six A321neos and six A320neos in FY20 in lieu of renewing its lease contracts at possibly cheaper lease rates for aircraft that are expiring this year. Notwithstanding this, we still believe that some form of financial assistance from the government is needed to ease the financial burden of AAGB especially with Visit Malaysia Year 2020 cancelled. It is crucial to keep airlines afloat in light of the pandemic with hopes that Malaysian aviation sector will emerge stronger once the situation recovers.

Impact on earnings estimates. With almost a month's worth of flights scrapped off, we are now expecting 1HFY20 to be a disappointing half. Nonetheless, we believe that the Covid-19 will subside in 2HFY20, assuming that Malaysia's infection rate will mirror China's. Overall, we have penciled in a substantially lower unit revenue per passenger and higher percentage decline in passengers carried. As a result, we are forecasting a net loss of -RM514.8m (previously earnings of RM145.0m) while lowering our earnings estimates for FY21 and FY22 to RM227.1m (from RM248.8m) and RM507.3m (from RM513.0m), respectively.

Target price. Following the revision in our earnings estimates, we revised our target price to **RM0.54 per share** (from RM0.63 previously). Our revised target price is derived via pegging our FY21F EPS of 6.8sen to a target PER of 8.0x which resembles the lower end of the aviation cycle.

Downgrade to Trading SELL from NEUTRAL. AirAsia Indonesia and AirAsia India used to be the darlings for AAGB. However, the increasing contagion of the Covid-19 pandemic outside China and wider travel bans by countries such as India will exert additional pressure on AAGB. Domestically, the upcoming Hari Raya Aidilfitri could be thwarted as travelers remain cautious due to the Covid-19 pandemic which we expect to stay serious in 1HFY20. This would then offset the impact of the stimulus packages for domestic tourism announced by the Government of Malaysia in late February 2020. All of the aforementioned matters warrants a downgrade in our call For AAGB from **NEUTRAL** to **Trading SELL**. A rerating catalyst for AAGB would a faster-than-expected recovery from the Covid-19 pandemic. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	2018A	2019E	2020F	2021F	2022F
Revenue	10,638.3	11,964.9	10,505.9	11,454.0	12,384.3
EBITDA	1,803.7	2,730.6	1,575.9	2,405.3	2,724.5
EBIT	1,218.9	742.9	(157.6)	733.6	1,062.6
PBT	1,335.2	(549.8)	(100.9)	553.9	818.2
Reported Net Profit	1,695.4	(412.3)	(514.8)	227.1	507.3
Core Net Profit	767.1	(345.7)	(514.8)	227.1	507.3
Core EPS (sen)	23.0	(10.3)	(15.4)	6.8	15.2
Core EPS growth (%)	-41.3%	-145.1%	48.9%	-154.0%	123.4%
PER (x)	3.2	-7.1	-4.7	10.7	4.8
Net Dividend (sen)	64.0	102.0*	0.0	2.0	2.0
Net Dividend Yield (%)	87.7%	139.7%	0.0%	2.7%	2.7%

Source: Company, MIDFR

Note: *Special dividend of RM0.40 and two interim dividend of RM0.12 per share in FY18

** Includes special dividend of RM0.90 to be paid on 29 August 2019

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> 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 <i>fall</i> 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.