

AirAsia Group Berhad

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

Maintain BUY

Potential beneficiary from MAS's suspension of Boeing 737 MAX

Unchanged Target Price: RM2.04

KEY INVESTMENT HIGHLIGHTS

- **MAS suspends delivery of 25 Boeing 737 MAX with five initially planned to be delivered this year**
- **Meanwhile, AAGB plans 4 aircraft delivery to Malaysia**
- **Therefore, AAGB could benefit from grabbing MAS's market share assuming the suspension remains throughout 2020**
- **Strengthened market share will translate into higher passenger traffic at klia2**
- **Earnings estimates unchanged**
- **Maintain BUY with unchanged TP of RM2.04 per share**

MAS suspends Boeing 737 MAX delivery. Malaysia Airlines (MAS) has decided to suspend the delivery of 25 Boeing 737 MAX jets amidst the plane's delayed return to service. The 737 MAX have been grounded since March last year following the Lion Air and Ethiopian Airlines incidents. Other airlines that have followed suit include American Airlines which extended its Boeing 737 MAX cancellations through June 2020 while Air Canada and WestJet have kept the said aircraft off their schedules until at least March this year. Closer to Malaysian shores, Silk Air which has six Boeing 737 MAX aircraft has relocated its fleet for a long-term storage at a "plane graveyard" in Central Australia.

AAGB to be a potential beneficiary. Out of the 25 deliveries of the Boeing 737 Max jets being suspended by MAS, the airline previously planned to have 5 of the said aircraft delivered in 2020. Assuming that MAS will not replace these Boeing 737 MAX deliveries, other airlines particularly AAGB is set to benefit by capturing the capacity. The Boeing 737 MAX is a narrowbody jet with a capacity of 160 to 220 passengers. AAGB's Malaysian arm, Malaysia AirAsia (MAA) on the other hand is expecting a delivery of 3 new A321 neos (236 seats each) and one A320 neo (186 seats) in 2020. Therefore, we believe that AAGB's fleet plan for Malaysia is poised to grab some market share from MAS, increasing its share of circa 60.0%. Moreover, this will stand well with the expected increase tourism activity in conjunction with the Visit Malaysia Year 2020.

Impact towards passenger growth in klia2. In line with the expectation of AAGB grabbing more market share of MAS, we believe that it will have a positive impact to passenger traffic in klia2. Recall that in 2019, klia2 saw total passenger traffic of 1.3m compared to 1.1m in KLIA Main Terminal. Furthermore, KLIA2 recorded a higher growth in international traffic of +3.8%yoy in 2019 compared to the +2.4%yoy growth recorded at KLIA Main Terminal during the same year. As such, we believe that AAGB will continue to attract more passenger traffic to klia2 in 2020.

RETURN STATISTICS

| | |
|----------------------------------|---------------|
| Price @ 15th Jan 2020 (RM) | 1.66 |
| Expected share price return (%) | +22.89 |
| Expected dividend yield (%) | +7.20 |
| Expected total return (%) | +30.09 |

SHARE PRICE CHART



| Share price performance (%) | Absolute | Relative |
|-----------------------------|----------|----------|
| 1 month | 0.6 | -0.3 |
| 3 months | -2.4 | -10.9 |
| 12 months | -19.1 | -14.3 |

KEY STATISTICS

| | |
|----------------------------------|-----------------|
| FBM KLCI | 1,585.14 |
| Syariah compliant | Yes |
| Issue shares (m) | 3341.97 |
| Estimated free float (%) | 52.02 |
| Market Capitalisation (RM'm) | 5,547.68 |
| 52-wk price range | RM1.63 - RM2.25 |
| Beta vs FBM KLCI (x) | 1.59 |
| Monthly velocity (%) | 43.95 |
| Monthly volatility (%) | 16.62 |
| 3-mth average daily volume (m) | 6.30 |
| 3-mth average daily value (RM'm) | 11.19 |
| Top Shareholders (%) | |
| Tune Live Sdn Bhd | 16.73 |
| Tune Air Sdn Bhd | 15.45 |
| Employees Provident Fund Board | 6.54 |

Analyst(s)

ADAM Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

Table 1: Absolute increase/decrease in annual passenger traffic at MAHB's airport in Malaysia (million)

| Airport | FY17 | FY18 | FY19 |
|---|------|------|------|
| KLIA Main Terminal | 2.8 | -0.2 | 1.1 |
| KLIA2 | 3.1 | 1.6 | 1.3 |
| MASB | 1.7 | 1.0 | 3.7 |
| Total absolute change in annual passenger traffic | 7.7 | 2.5 | 6.1 |

Source: MAHB, MIDFR

Earnings estimates. No changes are made to our earnings estimates.

Target price. We are maintaining our **target price of RM2.04 per share**. Our target price is derived via pegging our FY20F EPS of 13.6sen to an unchanged target PER of 15x. The target PER is premised on AAGB's regional peers which are trading at a 12-month trailing PER of 15x on average.

Maintain BUY. While earnings in FY19 thus far were below our expectations, it was due to the accounting effect of MFRS16. We believe that Air Asia's operation continue to remain sound. We continue to like Air Asia as the company continues enhance its cost structure, along with its efforts of rationalising revenue and cost via digitalisation efforts. Our positive outlook on the AAGB also hinges on: 1) its more prudent hedging policy 2) stable operations with added capacity and 3) continuous improvement to drive its non-airline ancillary business.

Meanwhile, the adoption MFRS 16 will be a headwind in the coming few years as the majority of AAGB's fleet are leased. Nonetheless, AAGB is expected to gain from lower amount of interest beyond the fifth year of the lease term. We opine that passenger growth in Malaysia to remain intact despite the departure levy which took effect in September 2019 as the levies gazetted are lower than regional peers such as Thailand and Hong Kong. As for low cost carriers such as AAGB, the percentage of departure levy from the total ticket price is still immaterial at around 1.6% on average for normal fares. All in, we maintain our **BUY** call with an unchanged **target price of RM2.04 per share**. Risks to our call are: (i) lower-than-expected travel demand and (ii) unfavourable revision of passenger service charges especially for klia2. 

INVESTMENT STATISTICS

| Financial year ending 31 st Dec (in RM'm, unless otherwise stated) | 2017A | 2018A | 2019E | 2020F | 2021F |
|--|----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 9,709.7 | 10,638.3 | 10,974.9 | 11,669.0 | 12,511.1 |
| EBITDA | 3,024.8 | 1,803.7 | 2,195.0 | 2,333.8 | 2,752.4 |
| EBIT | 2,160.8 | 1,218.9 | 482.9 | 746.8 | 963.4 |
| PBT | 2,087.8 | 1,335.2 | 265.6 | 604.9 | 751.4 |
| Reported Net Profit | 1,571.4 | 1,695.4 | 199.2 | 453.7 | 563.6 |
| Core Net Profit | 1,307.9 | 543.6 | 199.2 | 453.7 | 563.6 |
| Core EPS (sen) | 39.1 | 16.3 | 6.0 | 13.6 | 16.9 |
| Core EPS growth (%) | -4.7 | -58.4 | -63.4 | 127.8 | 24.2 |
| PER (x) | 4.2 | 10.2 | 27.9 | 12.2 | 9.8 |
| Net Dividend (sen) | 12.0 | 64.0 | 102.0 | 12.0 | 12.0 |
| Net Dividend Yield (%) | 7.2 | 38.6 | 61.4 | 7.2 | 7.2 |

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878-X))
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878-X)) It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

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. |