

AirAsia Group Berhad

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

Proactive capacity management sustains reasonable load factor

KEY INVESTMENT HIGHLIGHTS

- **1QFY20 preliminary ASK and RPK declined by more than -15.0%yoy**
- **Load factor remained near 80.0% amidst proactive capacity management**
- **Extension of travel bans to exert further downward pressure on number of passengers carried**
- **Earnings estimates unchanged**
- **Maintain Trading SELL with an unchanged TP of RM0.54 per share**

1QFY20 preliminary ASK and RPK took a dip. In 1QFY20, AAGB's consolidated AOCs (Malaysia, Indonesia and Philippines) recorded a drop in preliminary ASK by -19.0%yoy to 14,380 million compared to the +11.0%yoy growth in 1QFY19. The inevitable decline in ASK in 1QFY20 was partially attributable to reduction in number of flights which started February and extended to March 2020 especially for AirAsia Malaysia (MAA) and AirAsia Thailand (TAA) amidst the Covid-19 pandemic (refer Table 1).

Table 1: No. of monthly flights in February 2020

Airlines	Feb-19	Feb-20	%yoy change
MAA	17,289	16,889	-2.3%
IAA	11,122	9,962	-10.4%

Source: OAG Flight Schedule Analyser

AOC's load factor dropped slightly below 80.0%. The contraction in RPK by -27.0%yoy in 1QFY20 outpaced the -19.0%yoy ASK drop. Nevertheless, the passenger load factor stood near the healthy level of 80%, at 78% during the quarter under review. Load factor was deemed manageable due to the proactive capacity management, particularly in the months of February and March 2020 as mentioned above.

Malaysia operations recorded the largest passenger increase in absolute and percentage terms. Amongst the three AOCs, Malaysia was the largest contributor to the drop in passengers carried. In absolute and percentage terms, Malaysia recorded a decrease of 2.3m passengers, in 1QFY20, representing a -27.0%yoy decline.

TAA followed suit to see decline in operating statistics. AirAsia Thailand (TAA) saw a larger decline in preliminary ASK and RPK in 1QFY20. Both ASK and RPK during the quarter slid by -30.0%yoy and -35.0%yoy respectively. TAA's network was realigned through frequency reduction and flight suspension on international routes due to increasing travel restrictions and redeployment of excess capacity to domestic sectors. As such, the load factor dropped by -6.0ppts to 84.0% from 90.0% a year ago.

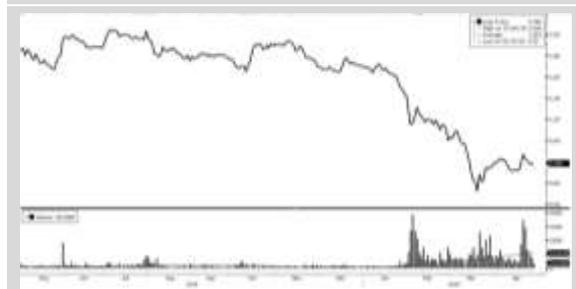
Maintain Trading SELL

Unchanged Target Price: RM0.54

RETURN STATISTICS

Price @ 27th April 2020 (RM)	0.79
Expected share price return (%)	-31.21
Expected dividend yield (%)	+2.54
Expected total return (%)	-28.67

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-13.5	-10.1
3 months	-12.9	-21.1
12 months	-30.9	-24.7

KEY STATISTICS

FBM KLCI	1,370.16
Syariah compliant	Yes
Issue shares (m)	3,341.97
Estimated free float (%)	52.02
Market Capitalisation (RM'm)	2,623.40
52-wk price range	RM0.52– RM1.59
Beta vs FBM KLCI (x)	1.55
Monthly velocity (%)	49.2
Monthly volatility (%)	16.62
3-mth average daily volume (m)	51.9
3-mth average daily value (RM'm)	49.38
Top Shareholders (%)	
Tune Live Sdn Bhd	16.73
Tune Air Sdn Bhd	15.45
PNB Associated Funds	6.39

Analyst(s)
ADAM Mohamed Rahim
 adam.mrahim@midf.com.my
 03-2772 1686

Earnings estimates. No changes to our earnings estimates.

Target Price. We maintain our target price to **RM0.54 per share**. Our 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.

Maintain Trading SELL. On April 17, AirAsia announced it will resume scheduled domestic flights commencing with Malaysia on Wednesday (April 29), followed by Thailand on Friday (May 1), India (May 4), Indonesia (May 7) and the Philippines (May 16), subject to approval from authorities. However, extension of travel bans in some of these countries continues due to the Covid-19 pandemic, only enabling passengers that can be carried under exceptional cases. The Civil Aviation Authority of Thailand extended the ban for all incoming flight to May 31 from the initial date of the lifting of the ban on April 30. Nevertheless domestic flights will be allowed to be operated in Thailand on 1 May. Indonesia is now the worst hit by the Covid-19 with a current fatality rate of 8.4%, higher than the global rate of 6.9%. Henceforth, Indonesia has banned air and sea travel until early June effective from 24 April 2020. Domestically, the upcoming travelling season during Hari Raya Aidilfitri could be thwarted as there is a possibility of the movement control order being extended beyond 12 May 2020. All in, we view that 2QFY20 will continue to be a tough quarter. 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%	-144.1%	123.4%
PER (x)	3.4	-7.6	-5.1	11.6	5.2
Net Dividend (sen)	64.0*	102.0**	0.0	2.0	2.0
Net Dividend Yield (%)	81.5%	129.9%	0.0%	2.5%	2.5%

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.