

25 May 2016 | 1QFY16 Results Review

## AirAsia X Berhad

*Take profit for now*

### INVESTMENT HIGHLIGHTS

- **3MFY16 earnings exceeded expectations**
- **Highest average fare recorded since its listing**
- **Opex increased on stronger Dollar and capacity growth**
- **Revise our earnings forecasts and change valuation method**
- **Downgrade to NEUTRAL despite higher TP of RM0.40**

**3MFY16 earnings above expectations.** AirAsia X (AAX)'s 3MFY16 core net profit of RM46m was better than both our and consensus expectations representing 33% and 76% of forecasts respectively. The positive deviation was due to stronger than expected growth in yields of +17%yoy against our projection of +5%yoy. One-off items excluded in our core numbers comprise of FX gains (RM122m) and airport incentives (RM16m).

**Highest average fare recorded since its listing.** The quarter's average fare of RM566 (+31%yoy) was the highest for AAX in its short history, even topping seasonally higher 4Q15's RM563. This led to a +17%yoy improvement in yields (measured in R/ASK) contributed across all of its sectors, namely North Asia, Australia and others. However, we believe that the positive trend could taper slightly as it promotes its new routes to Auckland, New Delhi and Tehran by offering discounted fares.

**Operating expenses increased +8%yoy on a stronger Dollar and capacity growth.** However, this was partly negated by lower jet fuel expenses which improved 11%yoy. In FY16, AAX is looking to grow its ASK by mid-teens after a -8%yoy decline in FY15 through growing its scheduled routes and associate Thai AAX (TAAX), while reducing its wet lease operations. Notably, TAAX recorded a US\$5m net profit in 1QFY16 after finally breaking even in 4QFY15.

**We revise our earnings forecasts and change our valuation method** as we reduce our average fuel cost assumption to US\$55/bbl (100% hedged) from US\$70/bbl and increase our yield growth forecast to +9%yoy. As a result, our core net profit forecast for FY16 and FY17 are raised by +19% and +7% respectively. In addition, we change our valuation methodology from 1.1x justified price-to-book (PB) method to the price-to-earnings ratio (PER) method, similar to our valuation of AirAsia Berhad. We use a PER multiple of 10x on FY16 EPS which is pegged at a 25% discount to its regional low cost carrier peers due to its riskier and unproven medium-haul LCC business model. Thus, we derive a new target price of RM0.40.

**Downgrade to NEUTRAL**

**Increased Target Price (TP): RM0.40  
(from: RM0.29)**


#### RETURN STATS

Price (24 May 2016)	RM0.40
Target Price	RM0.40
Expected Share Price Return	0.0%
Expected Dividend Yield	0.0%
<b>Expected Total Return</b>	<b>0.0%</b>

#### STOCK INFO

KLCI	1,625.84
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	4,148.2
Par Value (RM)	0.15
Market cap. (RM'm)	1,659.26
Price over NA	3.30
52-wk price Range	RM0.15 - RM0.41
Beta (against KLCI)	1.04
3-mth Avg Daily Vol	56.8m
3-mth Avg Daily Value	RM19.0m
<b>Major Shareholders</b>	
Tune Group	17.83%
AirAsia Bhd	13.76%
Kamarudin Meranun	8.14%

Aviation abbreviation used in this report:  
 RPK: Revenue Passenger Kilometers  
 ASK: Available Seat Kilometers  
 RASK: Revenue per ASK  
 CASK: Cost Per ASK  
 BLF: Breakeven load factor  
 FSC: Full Service Carrier  
 LCC: Low Cost Carrier  
 Pax: Passenger

**Downgrade to NEUTRAL with higher TP of RM0.40 (from: RM0.29).** We downgrade AAX to Neutral from BUY with a revised TP of RM0.40 with limited upside and hence recommend investors to take profit on strength. We believe that most of the positives have been priced into AAX share price with YTD gain of 122%. Our Neutral call is premised on AAX benefitting from lower fuel hedges in FY16 and improving yields from better pricing power. However, volatile jet fuel prices in FY17 and USD/MYR exchange rate on top of the added threat of new competition from the new Value Alliance are the main concerns to us. 

## INVESTMENT STATISTICS

FYE Dec	FY13	FY14	FY15	FY16F	FY17F
Revenue (RM'm)	2,308.4	2,939.1	3,062.6	3,674.5	3,926.6
EBIT (RM'm)	157.5	(245.6)	119.6	434.0	633.7
Pretax Profit (RM'm)	36.9	(430.6)	(25.2)	284.1	495.8
Net Profit (RM'm)	(87.3)	(646.0)	(360.2)	165.8	326.7
Core Net Profit (RM'm)	(138.7)	(646.0)	(169.8)	165.8	326.7
Core EPS (sen)	(10.5)	(27.3)	(4.1)	4.0	7.9
Core EPS growth (%)	(496.6)	(159.5)	85.0	197.6	97.1
PER (x)	n.a.	n.a.	(9.8)	10.0	5.1
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

## DAILY PRICE CHART



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Source: Bloomberg

## AirAsia X: 1QFY16 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative	
FYE Dec	1Q16	%YoY	%QoQ	3MFY16	%YoY
<b>Revenue</b>	970.7	25.2%	13.7%	970.7	25.2%
-Ticket sales	679.2	18.3%	9.9%	679.2	18.3%
-Ancillary	155.9	23.2%	13.5%	155.9	23.2%
-Freight	31.0	13.0%	47.0%	31.0	13.0%
-Others	104.6	120.6%	35.5%	104.6	120.6%
<b>Total OPEX</b>	<b>(836.4)</b>	<b>-7.8%</b>	<b>-18.1%</b>	<b>(836.4)</b>	<b>-7.8%</b>
<b>EBITDAR</b>	463.7	555.8%	31.2%	463.7	555.8%
<b>EBITDA</b>	134.3	327.9%	-7.9%	134.3	327.9%
<b>Depreciation</b>	<b>(29.2)</b>	<b>22.8%</b>	<b>6.0%</b>	<b>(29.2)</b>	<b>22.8%</b>
<b>EBIT</b>	105.1	>100%	-8.4%	105.1	>100%
<b>Net interest costs</b>	(9.6)	53.5%	52.6%	(9.6)	53.5%
Forex	122.2	240.1%	113.9%	122.2	240.1%
JV & Associates	0.8	105.0%	>100%	0.8	105.0%
<b>PBT</b>	218.5	286.3%	44.1%	218.5	286.3%
<b>Net profit</b>	179.5	242.5%	-11.0%	179.5	242.5%
Exceptional Items	(133.7)	-39.6%	5.9%	(133.7)	-39.6%
<b>Core net profit</b>	45.8	252.1%	-23.1%	45.8	252.1%

<b>Operating Stats</b>					
Pax Carried ('000)	1,055.1	15.3%	7.0%	1,055.1	15.3%
RPK (m)	5,263.0	18.8%	7.5%	5,263.0	18.8%
ASK (m)	6,438.0	6.9%	9.0%	6,438.0	6.9%
Load Factor (%)	82.0%	8.4%	-1.2%	82.0%	8.4%
Average Fare (RM)	566.0	30.7%	0.5%	566.0	30.7%
Fuel Expense	<b>(243.1)</b>	<b>11.4%</b>	<b>-4.7%</b>	<b>(243.1)</b>	<b>11.4%</b>
R/ASK (sen)	15.1	17.3%	4.5%	15.1	17.3%
C/ASK (sen)	<b>12.9</b>	<b>0.0%</b>	<b>-8.6%</b>	<b>12.9</b>	<b>0.0%</b>

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.