

AirAsia X Berhad

(5238 | AAX MK) Main | Consumer Products & Services

Pandemic outbreak to exert downward pressure on passengers carried

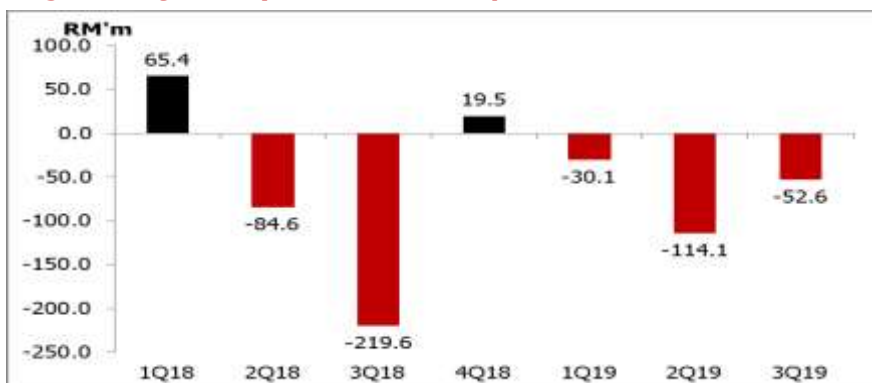
KEY INVESTMENT HIGHLIGHTS

- **4QFY19 preliminary ASK and RPK inched higher due to additional frequencies and routes**
- **Still expecting an overall loss of RM209.1m for FY19 due to MFRS16 impact**
- **Passengers carried to and from China expected to face temporary headwinds due to the pandemic outbreak**
- **Adjusting earnings downwards to reflect lower RPK**
- **Downgrade to Trading SELL with a revised TP of RM0.11 per share**

4QFY19 preliminary ASK and RPK inched higher... In 4QFY19, AirAsia X's preliminary RPK growth of +4.6%yoy outpaced the +0.5%yoy growth of its ASK. As such, the load factor was +3ppts higher at 81.0% in 4QFY19. This was supported by the additional frequencies for six routes, Bali, Taipei, Seoul, Perth, Sydney and Gold Coast to cater for the year-end travel peak season. In addition, AirAsia X Malaysia launched two new routes in November 2019; Kuala Lumpur-Singapore (14 flights per week) and Kuala Lumpur-Tokyo (Narita) commenced on top of Kuala Lumpur-Tokyo (Haneda) services. We believe that the new routes had increased aircraft utilisation rates by roughly more than 0.2 hours from the current 14.4 hours.

.....but still an expecting a loss in 4QFY19. Notwithstanding the year-on-year improvement in operational statistics in 4QFY19, we are expecting AAX to record a marginal normalized loss of around -RM5m to -RM15m in the said quarter compared to the RM19.5m normalised profit after tax in 4QFY18. AAX's had a prudent hedging ratio of 86% with an average hedge cost of USD73.7pb in 4QFY19. However, jet fuel prices averaged at USD74.2pb in the same period, resulting in minimal hedging benefits. In addition, impact from the MFRS16 accounting treatment was not present a year ago. All in we are still estimating a normalised loss of -RM209.1m for FY19 slightly lesser than FY18, mainly propelled by the 3QFY19 which saw an -76.0%yoy reduction in losses.

Figure 1: Quarterly normalised net profit/loss of AAX



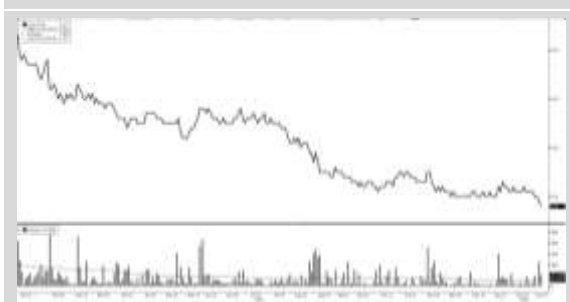
Source: AAX, MIDFR

Downgrade to Trading SELL
(Previously NEUTRAL)
Revised Target Price: RM0.11
(Previously RM0.17)

RETURN STATISTICS

Price @ 29 th Jan 2020 (RM)	0.11
Expected share price return (%)	-21.40
Expected dividend yield (%)	+0.00
Expected total return (%)	-21.40

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-6.7	-3.0
3 months	-9.7	-18.6
12 months	-55.6	-51.5

KEY STATISTICS

FBM KLCI	1,550.47
Syariah compliant	Yes
Issue shares (m)	4148.15
Estimated free float (%)	51.04
Market Capitalisation (RM'm)	580.74
52-wk price range	RM0.13 - RM0.31
Beta vs FBM KLCI (x)	1.17
Monthly velocity (%)	30.0
Monthly volatility (%)	22.58
3-mth average daily volume (m)	5.96
3-mth average daily value (RM'm)	0.95
Top Shareholders (%)	
Tune Group Sdn Bhd	17.83
AirAsia Bhd	13.76
Kamarudin Meranun	8.94

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Potential impact from coronavirus outbreak. According to past figures during the 2003 SARS outbreak, MAHB's passenger traffic growth in Malaysia took a breather that year to fall by just -1.5%yoy to 33.5m. In addition, total international passengers at KLIA Main Terminal travelling to and from China declined by -10.7%yoy during the same period. Henceforth, we do not discount any downside risks for its China routes. Based on our preliminary analysis, we found that capacity catered for destinations in China by AAX make up between 25% and 45% of AAX's total capacity. We understand passengers flying to or from destination in mainland China are given an option for a credit account or full refund. Assuming a worst case scenario where all affected passengers opted for a full refund, we estimate that RPK could decline by nearly as much as 20% to 30%. This in turns will reduce AAX's profit after tax by 27.0%. Nevertheless, it was noteworthy that the passenger traffic at MAHB's Malaysian airports rebounded +17.8%yoy in 2004. Similarly, international passengers from China at KLIA Main Terminal recorded a whopping +75.8%yoy growth in 2004.

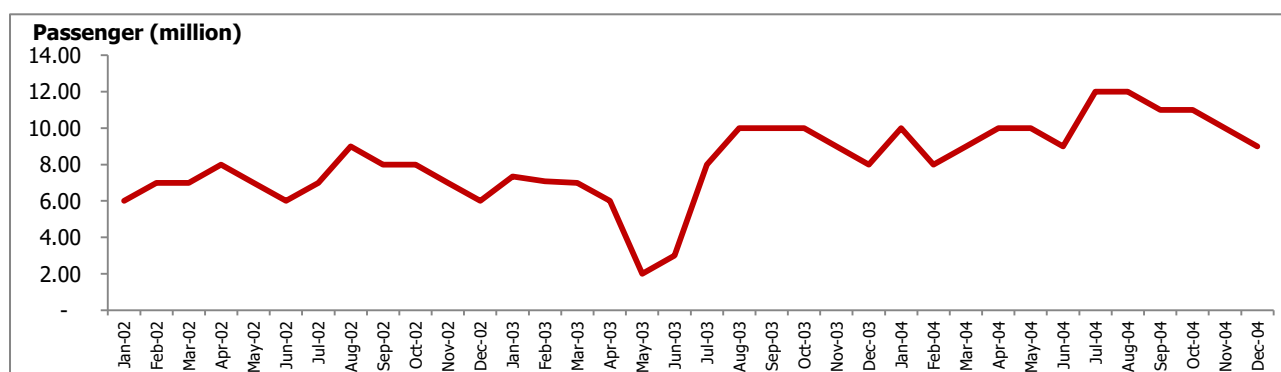
Table 1: Growth in Passengers to and from China at KLIA Main Terminal

Year	Total Passengers to and from China at KLIA Main Terminal (million)	% growth
2002	0.64	N/A
2003	0.57	-10.7
2004	1.00	+75.8
2005	1.25	+24.7

Source: MAHB

SARS outbreak in 2003 saw a quick recovery in monthly passenger growth. Moreover, we found that during the SARS outbreak between November 2002 and July 2003, passenger traffic took an average of two to three months to normalise. For instance in Malaysia, April 2003 saw a huge -30.1%mom drop to reach the lowest point that year of 1.02m passengers before increasing +18.1%mom in June 2003 and another +19.6%mom increase in July 2003 to reach back a normal level of 1.48m passengers. As for China, May 2003 saw a -66.7%mom decrease in passengers before advancing +50.0%mom in June 2003 and another +166.7%mom gain in July 2003. Given that this was nearly 20 years ago, we believe that technological advancements in the healthcare sector will likely contain the disease better.

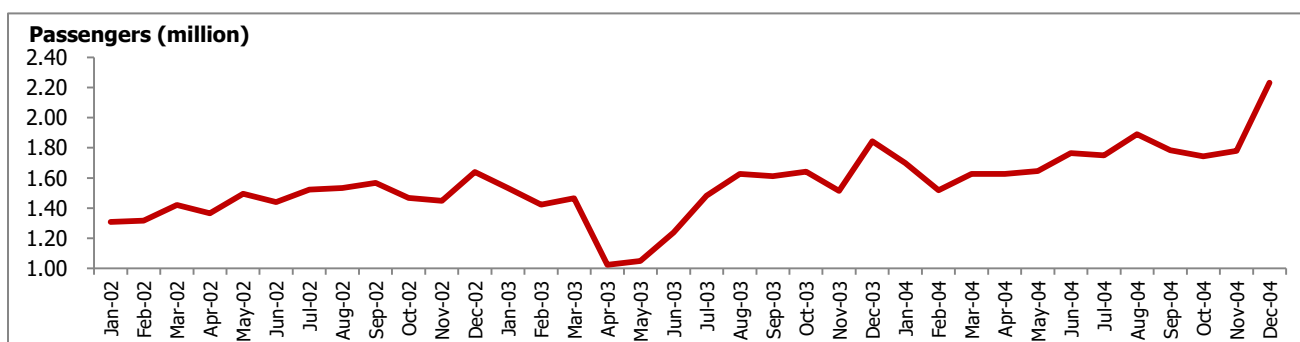
Figure 2: Monthly Passenger Traffic in China during SARS Outbreak



Source: CEIC

Data


Figure 3: Monthly Passenger Traffic in Malaysia during SARS Outbreak



Source: MAHB

Earnings estimates. The precedents of pandemic adversely impacting passengers travelling to and from China in 2003 albeit for a short period of time warrants a downward revision in our RPK assumptions. As a result, our earnings estimates for FY20 have been reduced by -15.0% from RM45.6m to RM38.7m.

Target Price. Following the revision in our earnings estimates, we are adjusting our target price to RM0.11 per share (RM0.17 previously). Our TP is derived via pegging our FY20F EPS of 0.93sen to a target PER of 12.0x, which is a slight discount to the 15.0x average PER of global low cost carrier peers. The lower target PER is to reflect AAX's exposure to North Asia which is susceptible to the latest pandemic outbreak.

Downgrade to Trading SELL. Premised on the precedent that passengers carried are bound for a temporary decline during a pandemic outbreak, we are downgrading AAX from **NEUTRAL** to **Trading SELL**. With regard to that, the current pandemic outbreak could potentially derail AAX's plan to launch the four weekly flights from Kuala Lumpur to Okinawa via Taipei (KUL-TPE-OKA) in 1QFY20. This is in addition to the adoption of MFRS 16 will be a hurdle as the majority of AAX's fleet are leased, with gains from lower amount of interest to be realized beyond the fifth year of the lease term. An upside risks for AAX includes a faster-than-expected recovery of the coronavirus outbreak. 

INVESTMENT STATISTICS

Financial year ending 31 st Dec (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue	4,578.7	4,571.4	4,850.3	4,357.3	4,836.6
EBITDA	221.9	(76.7)	388.0	383.4	445.0
EBIT	112.6	(203.9)	27.2	53.7	62.3
Reported Net Profit	98.9	(301.5)	(209.1)	38.7	44.9
Core Net Profit	153.4	(219.7)	(209.1)	38.7	44.9
Core EPS (sen)	3.7	(5.3)	(5.04)	0.93	1.08
Core EPS growth (%)	(38.0)	(243.2)	4.8	118.5	16.0
PER (x)	3.8	(2.6)	(2.8)	15.0	12.9
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

Source: Company, MIDFR

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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.