

# AirAsia X Berhad

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

**Maintain Trading SELL**

**Revised Target Price: RM0.03**  
Previously RM0.06

## Putting its fleet into hibernation mode

### KEY INVESTMENT HIGHLIGHTS

- AirAsia X Berhad (AAX) has decided to temporarily hibernate most of its aircraft at its hub in Kuala Lumpur for a period of two months
- Effect of lower fuel prices insufficient to offset lower travelling demand
- Decline in travel demand will largely outweigh the benefit of the landing and parking fees waiver
- Earnings forecast adjusted downwards
- Maintain Trading SELL with a revised TP of RM0.03 per share

**Temporary suspension of all flights by AAX.** AirAsia X Berhad (AAX) has decided to temporarily hibernate most of its aircraft at its hub in Kuala Lumpur for a period of two months. AirAsia X Thailand (TAAX) has also followed suit suspend its flight but for a longer period of three months.

**Table 1: Suspension/reduction in frequency of flights of AAX and TAAX**

Airlines	Details of suspension
AAX	Suspension of most flights from 28 March to 31 May 2020
TAAX	Suspension of all flights from 16 March 2020 for a period of three months except for DMK-ICN which is suspended until 19 April 2020

Source: AAGB

**Expecting around 3,000 flights cancelled for AAX during the suspension period.** For the month of February 2020, AAX and TAAX still showed an increase in number of flights by 2.2%yoy and 14.9%yoy respectively. Previously during AAX's analyst briefing in February 2020, the management only guided that more than 600 flights will be cancelled in March 2020 covering non-profitable routes such as Tianjin, Lanzhou and Jaipur. However, the unaccounted portion lies in the period from April to May 2020, translating into roughly 3,000 flights suspended.

**Table 2: No. of monthly flights in February 2020 of AAX and TAAX**

Airlines	Feb-19	Feb-20	%yoy change
AAX	1,534	1,568	2.2%
TAAX	616	708	14.9%

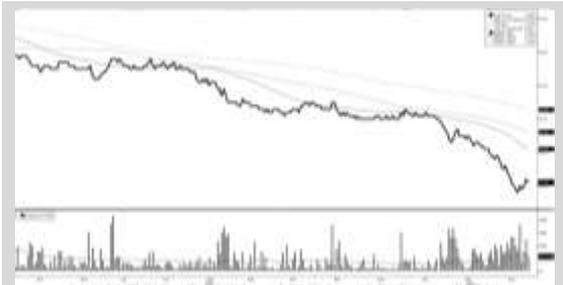
Source: OAG Flight Schedule Analyser

**Effect of lower fuel prices insufficient to offset lower travelling demand.** The chain of events in early March 2020 involving Russia resisting further output cuts beyond and Saudi Arabia slashing its pricing for crude oil has further dragged Brent crude oil prices below USD40pb. Notwithstanding this, our analysis finds that the total hedge cost post-revision of our average Brent crude oil price forecast for 2020 to be only -5.4% lower. The effect of lower jet fuel expense is marginal for AAX's FY20 net loss as it will be lowered by around +1.0%.

### RETURN STATISTICS

Price @ 26 <sup>th</sup> Mar 2020 (RM)	0.06
Expected share price return (%)	-45.45
Expected dividend yield (%)	+0.00
Expected total return (%)	-45.45

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-47.6	-40.6
3 months	-64.5	-55.5
12 months	-77.6	-72.2

### KEY STATISTICS

FBM KLCI	1328.09
Syariah compliant	Yes
Issue shares (m)	4148.15
Estimated free float (%)	51.04
Market Capitalisation (RM'm)	228.15
52-wk price range	RM0.04 - RM0.25
Beta vs FBM KLCI (x)	1.70
Monthly velocity (%)	11.02
Monthly volatility (%)	32.49
3-mth average daily volume (m)	12.18
3-mth average daily value (RM'm)	1.26
Top Shareholders (%)	
Tune Group Sdn Bhd	17.83
AirAsia Bhd	13.76
Meranun Kamarudin Bin	8.94

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**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 AAX's fleet grounded at airports in Malaysia, parking fees is what the airline 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. In terms of AAX's financial position, AAX has pure borrowings of RM304.0m while its lease liabilities stood at RM6.0b as at 31 December 2019 as majority of its fleet are leased. Thus far, we understand that AAX is targeting to renegotiate a 30% lease reduction across its entire fleet. 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. Bloomberg quoted that AAGB is weighing options for AAX by introducing a financial investor to ease its financial burden. Other alternatives include the integration of AAX into AAGB.

**Earnings estimates.** With two months of flights scrapped off, we are now expecting 1HFY20 to have a greater adverse impact. Overall, we have penciled in a substantially lower unit revenue per passenger and higher percentage decline in passengers carried. We are now forecasting a wider loss of -RM283.6m (previously -RM193.6m) and -RM99.1m (previously RM77.4m) for FY20 and FY21 respectively while projecting a smaller core net profit of RM19.8m (previously RM23.9m) for FY22.

**Target Price.** Following the revision in our earnings estimates, we are revising out target price to **RM0.03 per share** (previously RM0.06). Our TP is derived via pegging our FY21F book value per share to a target PBV of 1.2x or -1SD of the five-year historical average PBV to reflect the challenging operating environment.

**Maintain Trading SELL.** AAX launched the one-year RM499 unlimited pass to selected destinations (Korea, China, India, Japan, Japan and Australia). Although China has recently experienced a slowdown in Covid-19 infections, the overall travelling sentiment remains dampened as other parts of Asia such as India and even Europe are facing an increasing trend of Covid-19 cases. Even assuming that the Covid-19 pandemic will subside in 2HFY20, the Tokyo 2020 Olympics scheduled in July 2020 has been postponed to a date not later than summer 2021. Therefore, the catalyst that would have driven passengers to Japan will only likely be felt next year provided that the date set is not beyond March 2020 when the unlimited pass will expire. Taking macro-economic conditions and company specific risk of AAX having substantial exposure to North Asia (more than 30% of ASK), we are reiterating our **Trading SELL** call on AAX. 

## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> Dec (in RM'm, unless otherwise stated)	2018A	2019E	2020F	2021F	2022F
<b>Revenue</b>	<b>4,571.4</b>	<b>4,392.6</b>	<b>3,572.2</b>	<b>3,965.1</b>	<b>4,401.3</b>
EBITDA	(76.7)	831.7	714.4	832.7	924.3
EBIT	(203.9)	(90.5)	(75.0)	(74.9)	83.2
Reported Net Profit	(301.5)	(489.5)	(242.9)	(99.1)	19.8
<b>Core Net Profit</b>	<b>(235.7)</b>	<b>(283.0)</b>	<b>(242.9)</b>	<b>(99.1)</b>	<b>19.8</b>
Core EPS (sen)	(5.7)	(6.82)	(5.86)	(2.39)	0.48
Core EPS growth (%)	(416.8)	(20.1)	14.2	59.2	120.0
PER (x)	(1.0)	(0.8)	(0.9)	(2.3)	11.5
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

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.