

26 November 2015 | 3QFY15 Results Review

AirAsia X Berhad

On route to breaking-even operationally in 4Q

Maintain BUY

Unchanged Target Price (TP): RM0.26

INVESTMENT HIGHLIGHTS


- **9MFY15 earnings within expectations**
- **Core net losses narrowed significantly in the 3rd quarter**
- **Improving yields (revenue/RPK) was key in the improvement**
- **Lower operating expenses (-7%/yoy) despite weaker Ringgit**
- **Maintain BUY with unchanged TP of RM0.26**

9MFY15 earnings within expectations. AirAsia X (AAX) 9MFY15's Core Net Loss of -RM215m was within our expectation as we had forecasted a full year core net loss of -RM208m with 4Q15 breaking even. Similarly, the results too came within consensus forecast of a core net loss of -RM258m.

Core net losses narrowed in 3Q15. The core net loss of -RM47m (we forecasted -RM40m core net loss in our report dated 25/11/2015) in 3Q15 was a big improvement over the -RM176m and -RM138m losses recorded in 3Q14 and 2Q15 respectively. If it were not for the strengthening USD which resulted in its 76% USD denominated operating expenses to increase in Ringgit terms, AAX would have been in the black.

Improving yields (revenue/RPK) was the key. AAX was able to sell its tickets at an average fare of RM481.5 in 3Q15 which is the 2nd highest in 7 quarters since 4Q13, indicating the positive effects from capacity cuts and rational competition. As a result, yields improved by +48%/yoy making it the 4th consecutive quarter of positive year-on-year yield growth. Again, the China and Australia routes were key contributors. Meanwhile, the South Asia and Jeddah routes had good showings with the Hajj pilgrimage occurring in 3Q15. Looking into 1Q16, management noted that forward yields will continue trending higher.

Lower operating expenses (-7%/yoy) despite weaker Ringgit. Savings from lower jet fuel prices was more than enough to offset the increase in operating expenses arising from the weaker Ringgit. Nevertheless, management is still adamant in renegotiating its fleet leasing rates and airport landing charges. Furthermore, AAX will be able to reap further benefits from low jet fuel prices as its average US\$88/bbl hedges in FY15 expire, rolling into a lower US\$65/bbl average hedge in FY16.

Maintain BUY with TP of RM0.26. Our TP is based on 1.0x P/B ratio assuming ROE of 10.3% and COE of 10%. Our BUY call is premised on AAX: 1) benefitting from lower fuel hedges in FY16; 2) riding on AirAsia's fly-through network for connecting flights; and 3) Improving yields and load factors from capacity cuts. 

RETURN STATS	
Price (25 Nov 2015)	RM0.195
Target Price	RM0.26
Expected Share Price Return	33.3%
Expected Dividend Yield	0.0%
Expected Total Return	33.3%
STOCK INFO	
KLCI	1,684.42
Bursa / Bloomberg	5238 / AAX MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	4,148.1
Par Value (RM)	0.15
Market cap. (RM'm)	808.9
Price over NA	0.97
52-wk price Range	RM0.15-RM0.58
Beta (against KLCI)	0.82
3-mth Avg Daily Vol	15.2m
3-mth Avg Daily Value	RM3.0m
Major Shareholders	
Tune Group	17.83%
AirAsiaBhd	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	

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INVESTMENT STATISTICS

FYE Dec	FY13A	FY14A	FY15F	FY16F	FY17F
Revenue (RM'm)	2,308.4	2,939.1	2,913.9	3,122.7	3,373.5
EBIT (RM'm)	157.5	(245.6)	(23.4)	380.9	441.6
Pretax Profit (RM'm)	36.9	(430.6)	(177.6)	231.0	303.6
Net Profit (RM'm)	(87.3)	(646.0)	(208.0)	102.6	157.8
Core Net Profit (RM'm)	(138.7)	(646.0)	(208.0)	102.6	157.8
Core EPS (sen)	(10.5)	(27.3)	(5.0)	2.5	3.8
Core EPS growth (%)	(496.6)	(159.5)	81.6	149.3	53.8
PER (x)	n.a.	n.a.	(3.9)	7.9	5.1
Net Dividend (sen)	0.0	0.0	0.0	0.0	0.0
Net Dvd Yield (%)	0.0	0.0	0.0	0.0	0.0

DAILY PRICE CHART



Tay Yow Ken, CFA
 tay.yk@midf.com.my
 03-2173 8384

Source: Bloomberg

AirAsia X: 3QFY15 RESULTS SUMMARY

<i>All in RM'm unless stated otherwise</i>	Quarterly Results			Cumulative		Comments
FYE Dec	3Q15	%YoY	%QoQ	9MFY15	%YoY	
Revenue	793.0	13.5%	21.4%	2,221.42	4.8%	Higher yields and load factors
-Ticket sales	571.2	30.9%	26.2%	1,597.79	19.7%	
-Ancillary	107.8	-23.4%	3.0%	339.00	-21.0%	
-Freight	29.3	13.2%	-1.5%	86.46	1.5%	
-Others	84.8	-11.5%	28.5%	198.16	-26.8%	
Total OPEX	(786.3)	6.7%	-10.0%	(2,277.23)	6.5%	
EBITDAR	188.5	1578.7%	50.5%	384.37	930.5%	
EBITDA	6.7	107.0%	110.9%	(113.99)	34.5%	
Depreciation	(37.8)	21.8%	0.9%	(113.79)	19.6%	
EBIT	(31.1)	78.4%	68.9%	(125.11)	60.4%	
Net interest costs	(13.1)	63.9%	27.6%	(51.72)	34.0%	
Forex	(241.3)	-400.4%	-756.1%	(356.69)	-1871.2%	
JV & Associates	(5.9)	19.5%	63.3%	(37.57)	-42.7%	
PBT	(291.4)	-29.8%	-79.5%	(571.08)	-41.0%	
Net profit	(288.2)	-36.7%	-116.8%	(547.05)	-55.9%	
Exceptional Items	241.3	-400.4%	-	(332.38)	-8963.9%	Unrealized forex losses on borrowings
Core net profit	(46.9)	73.4%	65.9%	(214.67)	46.5%	

Operating Stats						
Pax Carried ('000)	901.884	-13.6%	11.2%	2,947.13	-6.3%	
RPK (m)	4333	-15.5%	11.3%	12,657.00	-18.4%	
ASK (m)	5770	-9.4%	1.4%	17,483.00	-7.3%	
Load Factor (%)	75%	-5.6ppt	+9.6ppt	72.3%	-9.9ppt	
Average Fare (RM)	481.49	14.6%	15.8%	466.93	9.8%	Benefitting from capacity cuts and more rational competition
Fuel Expense	-	23.4%	-29.1%	(258.58)	33.1%	Improved due to lower jet fuel prices
R/RPK (sen)*	10.4	47.7%	21.8%	9.80	36.9%	
C/ASK (sen)	14.32	9.3%	6.6%	13.55	5.6%	

Source: Company, MIDFR

*R/RPK = (Revenue from scheduled flights + fuel surcharge) / RPK

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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.