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Equity Beat

midf RESEARCH

01 March 2010

4Q09 Results Review

AirAsia

A soaring quarter

***Maintain* NEUTRAL**

***Revised* Target Price (TP): RM1.47 (from RM1.40)**

- **AirAsia's FY09 revenue is RM3,178.9m, within our expectations with a difference of only 0.2%, while it is above the consensus by 8.8%.**
- **AirAsia's FY09 net profit of RM549.1m exceeded ours and consensus expectations by 20.9% and 10.5% respectively. We had overestimated their costs, especially the finance portion.**
- **We are assigning a PER of 10x based on the average PER of its peers. As the market already prices the stock close to our target price, we are maintaining our NEUTRAL recommendation, with a revised target price of RM1.47.**

STOCK INFO

Price (25 February 2010)	RM1.44	KLCI	1270.78
Issued shares (mil)	2758.3	Bursa / Bloomberg	5099 /AIRA MK
Par Value (RM)	RM0.10	Board / Sector	Main / Trading & Services
Market cap. (RM'm)	3971.9	Syariah Compliant	Yes
Price over NTA	1.75		
52-wk price Range	RM0.885 – RM1.57	Major Shareholders	
Beta (against KLCI)	0.87	Tune Air	26.5%
3-mth Avg Daily Vol	5.6m	EPF	9.1%
3-mth Avg Daily Value	RM7.8m		

Ticket sales fell, but ancillary income increased. For FY09, AirAsia achieved a revenue of RM3,178,9m, 11.5% higher than FY08 revenue. Ticket sales were lower by in FY09 by 0.3%,. The lower ticket sales were due to lower yields as average fare dropped from RM203.7 in FY08 to RM168.2 in FY09, representing a decrease of 17.4% However, the lower ticket sales is offset by an increase of 76.8% in ancillary income. Load factor remains around the 75% region, with only a 0.4 percentage point difference.

An operationally good year. Operationally, FY09 was a good year as AirAsia achieved a growth of 20.7% and 21.4% in passengers carried and capacity respectively. Costs were also contained as Cost / ASK dropped from 12.8 sen in FY08 to 10.4 sen in FY09. However, as mentioned above, yields had decrease but offset with higher ancillary income.

Net profit exceeded our expectations. AirAsia's net profit of RM549.1m is higher by 210.5% yoy. It has exceeded ours and consensus estimates by 20.9% and 10.5% respectively as we had overestimated their cost especially the finance cost. FY09's finance cost increased 51.3% yoy due to gains in forex exchange of RM123.6m.

FY10 would not be as strong. The good performance in FY09 was expected as the global economic crisis forced companies and individuals to switch to low cost carrier (LCC) for their travelling. For FY10, as the global economic recovery continues, we expect full service carriers (FSC) to gain passengers from LCC as the passenger "switch back" to FSC. However, this "switch back" is moderated by yield pressure in FSC. Also, fuel cost would not be in favour of AirAsia in FY10 as an increase of fuel prices typically follows a growing economy. However, we believe that

FYE 31 Dec	FY08	FY09	FY10F	FY11F
Revenue (RM'm)	2,640.3	3,178.9	4,065.8	4,977.5
EBIT (RM'm)	-246.3	882.7	1,102.4	1,209.7
Pretax Profit (RM'm)	-662.4	639.3	545.8	559.7
Net Profit (RM'm)	-471.7	549.1	420.2	431.0
EPS (sen)	-19.9	22.4	14.7	15.1
EPS growth (%)	-195	212.6	-34.2	2.6
PER(x)	na	6.4	9.8	9.5
Net Dividend (sen)	0	0	0	0
Net Dividend Yield (%)	0	0	0	0

Source: Company, Forecasts by MIDFR

this is negated slightly as AirAsia has taken up hedging positions for its fuel. Therefore, we are increasing our forecast slightly from a net profit of RM360.8m to RM420.2m to take into account AirAsia's decision to hedge its fuel. However, it is still a drop in net profit from FY09 as we believe AirAsia will be affected by increased fuel costs, expiring tax benefits, and more competition from FSC.

Valuations. We are assigning a PER of 10x based on the average PER of its peers. With an estimated FY10 EPS of 14.7 sen, we are revising our target price to RM1.47. As the market has already priced Air Asia close to our target price, we are maintaining our NEUTRAL call on the stock.

AirAsia: 4QFY09 RESULTS SUMMARY

	Quarterly Results			Cumulative		Comments
FY Dec (RM'm)	4Q09	%YoY	%QoQ	FY09	%YoY	
Ticket Sales	703.6	*-7.9%*	*38.4%*	2,397.3	*-0.3%*	Ticket sales lower due to lower fares
Ancillary Income	98.8	*33.8%*	*-24.0%*	415.2	*76.8%*	Ancillary income growth outpacing passenger growth rate. New product innovations are a contributing factor.
Fuel Costs USD/barrel	80.1	*-22.1%*	*1.0%*	70.3	*-45.7%*	
Net Finance Costs	7.5	*106.4%*	*-47.7%*	(243.4)	*51.3%*	
Pre-tax profit	240.8	*156.%*	*76.7%*	639.3	*173.4%*	Cost is lower FY09 due to lower fuel cost as compared to FY08.
Net Profit	76.7	*138.0%*	*-41.1%*	549.1	*210.6%*	Net profit is higher in 4Q09 due to lower exceptional item. In 4Q08, AirAsia suffered a loss of RM614.9m from unwinding of fuel derivative contracts and interest rate swaps.
		+/- ppts	*+/- ppts*		*+/- Ppts*	
Op margin (%)	14.1	7.8	-2.2	25.7	17.5	

Source: Company, MIDFR

DAILY PRICE CHART

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be > 5% compared with that of an assigned benchmark over the next 12 months.
TRADING BUY	Stock price is expected to rise within 3-months after an investment rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -5% and +5% compared with that of an assigned benchmark over the next 12 months.
SELL	Total return is expected to be < 5% compared with that of an assigned benchmark over the next 12 months.
TRADING SELL	Stock price is expected to fall within 3-months after an investment rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.