Corporate Update | Monday, 12 December 2022

Capital A Berhad

(5099 | CAPITALA MK) Main | Consumer Products & Services

Gaining a foothold in the Cambodian market

***Maintain* NEUTRAL**

***Unchanged* Target Price: RM0.59**

KEY INVESTMENT HIGHLIGHTS

- **Partnering up with Sivilai Asia to set up AirAsia Cambodia**
- **To start operating in end-CY23 with 2 aircraft and eventually expanding it to 15 aircraft**
- **Current low-cost carrier market penetration is at 28%**
- **No changes to earnings estimates**
- **Maintain NEUTRAL with an unchanged TP of RM0.59**

New JV with a Cambodian local partner. Capital A Berhad's (Capital A) 100%-owned AirAsia Aviation Group Limited (AAAGL), is awaiting the approval from the relevant authorities to set up a new airline joint venture (JV) with Sivilai Asia Co., Ltd (Sivilai Asia). The JV company is to be incorporated under the name AirAsia (Cambodia) Co., Ltd (AirAsia Cambodia). AAAGL will hold 51% stake in the new JV, while Sivilai Asia will hold the remaining 49%. Initial operation will potentially start with 2 aircraft in late-CY23.

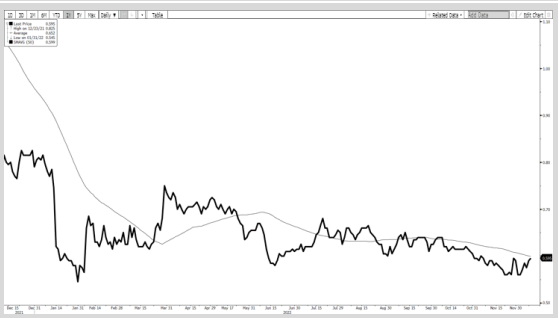
Demand growth in the emerging market. As part of its corporate strategy, the Group is always on the lookout to venture into new emerging markets with high population and rising middle income group. Apart from Cambodia, the management has indicated the possibility of them setting up 2 more ASEAN airlines in the foreseeable future. We believe there is a potential in the Cambodian aviation market given that it is fragmented with the country's 6 airlines having a combined fleet of just 20 aircraft. Its low-cost carrier market penetration stood at 28% vs. >50% in other comparable ASEAN countries. Currently, AAAGL operates 5 routes to Cambodia with 49 weekly flights (vs. 90 weekly flights pre-Covid). The Group aims to eventually expand AirAsia Cambodia's fleet to 15 aircraft to serve routes that are within a 4-hour radius.

Capital injection. The fully paid-up capital requirement is anticipated to be a minimum of USD25.0m/RM110.1m whereby AAAGL intends to use internal funds for its 51% share, while the initial capital will be USD2.55m/RM11.2m and will be injected in 3 tranches.

Maintain NEUTRAL. No changes were made to our earnings estimates as setting up a new airline JV may take a long gestation period. The Group expects to announce its PN17 regularisation plan in Jan-23, which entails the disposal of its aviation arm to AirAsia X Berhad via share swaps. Key headwinds for the Group include MRO constraints and the high maintenance costs to bring back their serviceable aircraft. Potential catalysts include: (i) downtrend in jet fuel prices, (ii) strengthening of ASEAN currencies against USD and the return of Chinese tourists. We remain **NEUTRAL** on Capital A with an unchanged TP of **RM0.59**.

RETURN STATISTICS	
Price @ 9th December 2022 (RM)	0.60
Expected share price return (%)	-1.7
Expected dividend yield (%)	0.0
Expected total return (%)	**-1.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.8	0.2
3 months	-4.8	-5.0
12 months	-23.2	-22.6

KEY STATISTICS	
FBM KLCI	1,477.19
Syariah compliant	Yes
F4BGM Index	No
ESG Grading Band (Star Rating)	No
Issue shares (m)	3,898.05
Estimated free float (%)	56.11
Market Capitalisation (RM'm)	2,476.27
52-wk price range	RM0.54 - RM0.84
Beta vs FBM KLCI (x)	1.05
3-mth average daily volume (m)	4.25
3-mth average daily value (RM'm)	2.56
Top Shareholders (%)	
Tune Air Sdn Bhd	12.41
Tune Live Sdn Bhd	12.23
Positive Boom Limited	7.99

MIDF Research
research@midf.com.my

INVESTMENT STATISTICS

Income Statement	FY2020A	FY2021A	FY2022E	FY2023F	FY2024F
Revenue	3,274.4	1,836.2	5,903.6	10,678.7	12,074.9
EBITDA/(LBITDA)	(2,880.6)	(1,110.0)	(459.4)	1,270.8	2,344.7
EBIT/(LBIT)	(4,953.6)	(2,930.5)	(2,210.4)	(202.6)	1,071.6
PBT/(LBT)	(5,551.3)	(3,575.0)	(2,926.2)	(946.3)	399.5
PAT(LAT)	(5,887.9)	(3,720.8)	(3,101.8)	(984.1)	303.7
PATAMI/(LAT)	(5,111.7)	(2,991.1)	(2,791.6)	(885.7)	353.7
EPS (sen)	n.a.	n.a.	n.a.	n.a.	8.7
PER (x)	n.a.	n.a.	n.a.	n.a.	6.8x

Sources: 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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology