

AirAsia X Bhd (AAX MK)

ESG 2.0 - a lot of runway to improve

Maintain BUY call and MYR3.56 TP

Due to the lack of COVID-19 era disclosures, AAX scores below-average in our proprietary ESG scoring methodology with an overall score of 39/100. Also, we believe that AAX should appoint more women to its BOD. Going forward, AAX assures us that its ESG disclosures will improve as operations normalise. It also plans to expand and renew its fleet with a lot more fuel efficient wide and narrow body aircraft. Our MYR3.56 TP on 6x FY24E PER is unchanged. Next catalyst is upliftment of its PN17 classification.

COVID-19 era disclosures lacking but understandable

Due to the COVID-19 pandemic, AAX ceased flying commercial passenger flights from Mar 2020 to Apr 2022. While they did fly cargo flights during the interim, their numbers were few relative to the number of commercial passenger flights pre-COVID-19. Thus, it would not have been meaningful for AAX to disclose its ESG statistics especially greenhouse gas emissions from the COVID-19 era. Having said that, AAX will report more ESG statistics going forward given that operations are returning to normalcy.

Women could be better represented on the BOD

Through the COVID-19 pandemic, the Board Of Directors (BOD) remained and continued to meet. Yet, the number of women directors on AAX's BOD has not exceeded 1. While it is understandable that women may be under-represented in its total workforce due to the physical demands of certain roles (e.g. engineering), we believe that AAX should appoint more women to its BOD. Malaysian Code on Corporate Governance recommends that companies have $\geq 30\%$ women directors on their BOD.

More fuel efficient aircraft in the pipeline

Currently, Malaysia AirAsia X (MAAX) operates 17 A330-300s while Thai AirAsia X (TAAX) operates 6 A330-300s and 2 A330neos. By 2030, MAAX and TAAX intend to expand their fleet to 50 and 17 aircraft respectively by leasing more A330neos and A321 XLRs. The A330neo is touted to be 15-25% more fuel efficient than the A330-300 and the A321 XLR is touted to be a game changing long range narrow body aircraft (A330-300s and A330neos are wide body aircraft).

FYE Dec (MYRm)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,133	826	2,368	3,447	3,551
EBITDAR	(783)	(352)	442	460	472
Core net profit	(2,650)	(1,172)	144	265	289
Core EPS (sen)	(638.9)	(282.5)	32.3	59.4	64.7
Core EPS growth (%)	nm	nm	nm	83.8	8.9
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	nm	7.5	4.1	3.7
P/BV (x)	nm	nm	2.2	1.4	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	nm	nm	nm	42.3	32.0
ROAA (%)	nm	nm	4.9	7.3	7.4
EV/EBITDAR (x)	nm	nm	6.7	5.0	3.9
Net gearing (%) (incl perps)	nm	nm	158.5	39.2	1.7
Consensus net profit	-	-	144	266	289
MIBG vs. Consensus (%)	-	-	405.5	(0.0)	(0.0)

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BUY

Share Price	MYR 2.42
12m Price Target	MYR 3.56 (+47%)
Previous Price Target	MYR 3.56

Company Description

AirAsia X is a medium to long-haul, low-cost airline operating primarily in the Asia-Pacific region out of 2 hubs, Kuala Lumpur and Bangkok.

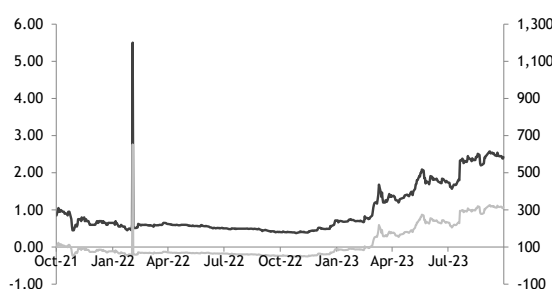
Statistics

52w high/low (MYR)	2.57/0.38
3m avg turnover (USDm)	3.9
Free float (%)	56.6
Issued shares (m)	447
Market capitalisation	MYR1.1B
	USD230M

Major shareholders:

Tune Group Sdn. Bhd.	16.5%
Capital A Berhad	12.8%
Kamarudin bin Meranun	8.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	38	490
Relative to index (%)	4	34	492

Source: FactSet

FY21A refers to 18M FPE 30 Jun 2021

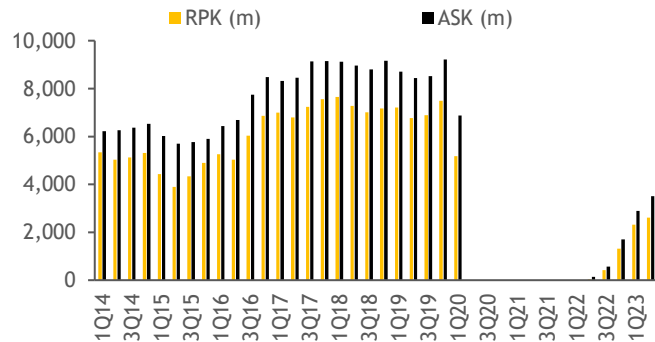
FY22A refers to 18MFPE 31 Dec 2022

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Tear Sheet Insert

Value Proposition

- Leading medium to long-haul, low-cost airline operating primarily in the Asia-Pacific region.
- Operates out of Kuala Lumpur (100%-owned Malaysia AirAsia X) and Bangkok (49%-owned Thai AirAsia X).
- Prides itself as one of the lowest cost airlines in the world. Prices tickets >30% lower than full service carriers.
- Growing middle class in Asia fuelling growth in demand for air travel.
- Voted 6th best long-haul low-cost airline in the world 2023 by SkyTrax.

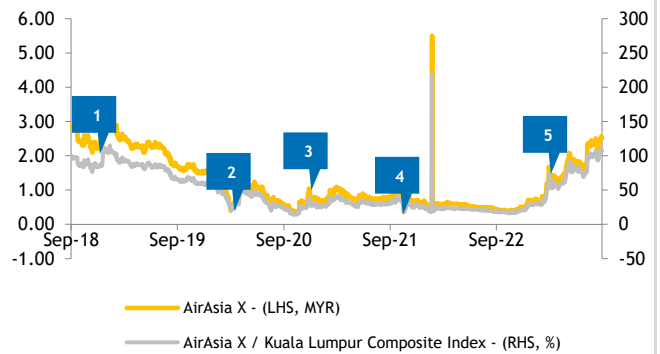
MAAX Revenue Passenger and Available Seat Kilometres



Source: Company

Price Drivers

Historical share price trend



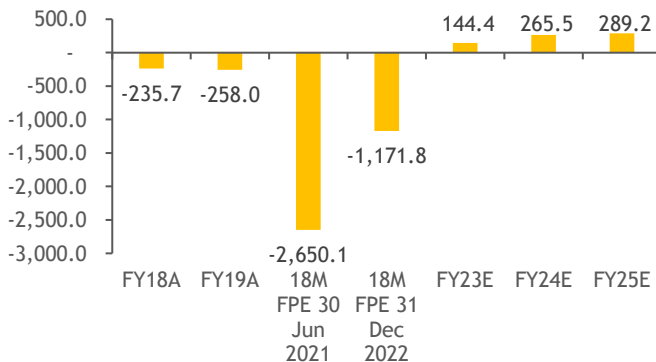
Source: Company, Maybank IBG Research

1. Reported 2Q18 net loss of MYR57.5m due to lower fares and higher jet fuel prices.
2. COVID-19 pandemic struck Malaysia. AAX grounded its fleet in late-Mar 2020.
3. Pfizer, Moderna and AstraZeneca announced that they have developed effective COVID-19 vaccines.
4. Classified as a PN17 listed issuer after auditors expressed a disclaimer on its financial statements
5. Positively surprised by reporting 4Q22 net profit of MYR153.5m (core net profit: MYR32.6m).

Financial Metrics

- Best financial indicator is core net profit ex-disposal gains, forex and fair value changes, and deferred taxation.
- Forecast FY23E core net profit to hit record high of MYR144.4m driven by high airfares and more aircraft.
- Forecast FY24E core net profit to hit another record high on more aircraft and full year contribution from TAAX.
- Sensitive to fuel price movement, a USD1 per barrel change in fuel price will move earnings by MYR7m-MYR13m.
- Balance sheet as at end-2Q23 in a net cash position of MYR269.0m (MYR0.60/shr) if ex-finance lease liabilities.

Core net profit (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Swing Factors

Upside

- Policy changes - visa requirement relaxations and tourist-friendly events drive passenger traffic growth.
- Less competition - COVID-19 pandemic has caused competitors to reduce capacity and raise prices.
- Financial assistance - will enable AAX to fill temporary liquidity gaps and survive.

Downside

- Exogenous events - SARS; MH370, MH17 & AK8501 tragedies; and COVID-19 negatively impacted passenger traffic growth.
- Fuel prices - they are volatile and there is no certainty that they will be hedged at low levels.
- Weak MYR - c.80% of operating costs are USD denominated.

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Risk Rating & Score ¹	N/A
Score Momentum ²	N/A
Last Updated	N/A
Controversy Score ³	N/A

Business Model & Industry Issues

- Being an airline, AAX may not be deemed as environmentally friendly but it operates Airbus A330 family aircraft which are already fuel efficient. It will gradually employ the even more fuel efficient Airbus 330neo and Airbus A321XLR aircraft.
- To be sure, AAX could improve its ESG reporting, especially on Scope 1, 2 and 3 CO₂ emissions. It also does not disclose what percentage of staff are women, how many hours of training its staff undergo and how many accidents, if any, occur.
- An especially positive point is that AAX supported staff that were laid off during the COVID-19 pandemic and even sent them to an academy to retrain them. It is also committed to rehiring all staff laid off during the COVID-19 pandemic.
- Some senior managers have made headlines for the wrong reasons (India's Central Bureau of Investigation filed a case against Tony Fernandes, Tony Fernandes and Kamarudin Bin Meranun were implicated in a bribery case involving Airbus) but no criminal or civil misconduct has been proven to date.
- In all, we rate AAX's ESG credentials as moderate. Of note, 13%-shareholder CAPITALA was included in the FTSE4GOOD Bursa Malaysia Index in Dec 2020 but AAX has itself not been included in the aforementioned index as yet.
- AAX scores below-average in our proprietary scoring methodology with an overall score of 39/100.

Material E issues

- Operates 17 Airbus A330s at 100%-owned Malaysia AirAsia X and 8 Airbus A330s at 49%-owned Thai AirAsia X.
- For the 18M FPE 31 Dec 2022, AAX generated only 282,081 tonnes of CO₂ (FY19: 1,997,551 tonnes).
- This is because it only recommenced commercial flights in Apr 2022 after borders were reopened post-COVID.
- Increasing fuel efficiency by utilising one engine to taxi, cutting paper documents and optimising flight paths.
- Targets carbon neutral growth (relative to 2019 as the base line year) and net zero CO₂ emissions by 2050.
- Plans to incorporate sustainable aviation fuel and introduce carbon offsetting options.
- Cutting paper consumption substantially by utilising digital solutions for training and trip files.

Material S issues

- 13%-shareholder, CAPITALA launched Redbeat Academy in Oct 2020 to retrain staff in technology and IT.
- AAX utilised Redbeat Academy to retain its staff. Retrained 675 staff in the 18M FPE 31 Dec 2022.
- AAX is committed to rehiring staff laid off during the COVID-19 pandemic.
- As at 31 Dec 2022, AAX has rehired 39 pilots and 146 cabin crew.
- AAX did not disclose what percentage of staff were women as at 31 Dec 2022.
- Neither did it disclose how many hours of training its staff underwent and how many accidents, if any, occurred.

Key G metrics and issues

- BOD comprises an Independent Non-Executive Chairman, 2 Non-Independent Non-Executive Directors (NINED) and 3 Independent Non-Executive Directors (INED).
- INEDs make up 67% of its BOD, meeting the Malaysian Code on Corporate Governance's recommendation.
- Only 1 of the 6 BOD members, Chin Ming Ming, is a woman, short of the 30% recommendation. She is an INED.
- Major shareholder Tune Group is represented on the BOD by NINED, Datuk Kamarudin Bin Meranun (KM).
- All BOD committees (Audit, Nomination & Remuneration, Risk Management and Safety Review) are chaired by INEDs.
- 18M FPE 31 Dec 2022 directors' remuneration fell 21% YoY despite reporting a net profit.
- Ernst & Young PLT has been the independent auditor since 2017. The predecessor was PricewaterhouseCoopers PLT.
- Fined by Malaysian Aviation Commission for advertising misleading airfares in FY18 (MYR160k).
- Also fined by Malaysian Aviation Commission for charging processing fees in FY19 and FY20 (MYR2.2m total).
- India's Central Bureau of Investigation (CBI) filed a case against the co-founder and 3%-shareholder, Tan Sri Tony Fernandes (TF). TF has not responded to the CBI's case.
- Purportedly the case was over alleged violation of norms in getting international flying licenses in FY18.
- TF and KM were implicated in a bribery case involving Airbus in 2020. Both were later cleared.
- Recently, defunct 49%-owned Indonesia AirAsia X was requested by the Indonesian Tax Office to pay MYR200.7m relating to underpayment of tax in respect of FY17.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative Parameters (Score: 12)						
	Particulars	Unit	2019	18MFPE6/21	18MFPE12/22	LUV US (FY12/22)
E	Scope 1 emissions	tCO2e	1,997,551	459,555	282,081	18,627,259
	Scope 2 emissions	tCO2e	3,956	N/A	N/A	36,487
	Total	tCO2e	2,001,507	459,555	282,081	18,663,746
	Scope 3 emissions	tCO2e	N/A	N/A	N/A	5,610,029
	Total	tCO2e	2,001,507	459,555	282,081	24,273,775
	Scope 1 intensity	gCO2/RPK	71	N/A	N/A	93.5
	Energy consumption intensity	kWh/sqm	226	N/A	N/A	N/A
	Water consumption intensity	m3/sqm	0.4	N/A	N/A	N/A
	Waste generated intensity	g/pax	N/A	N/A	N/A	46.2
	Recycling rate at headquarters	%	7.6%	N/A	N/A	21.0%
S	% of women in workforce	%	41.9%	N/A	N/A	44.0%
	% of women in managerial roles	%	25.0%	N/A	N/A	25.0%
	Locals as a % to total employees	%	76.5%	N/A	N/A	N/A
	Investment in community projects	% of revenue	N/A	N/A	N/A	0.1%
	Net promoter score	score	N/A	N/A	N/A	51.2
	Employee attrition rate	%	N/A	N/A	N/A	9.5%
	Employee training per employee	hours	N/A	N/A	N/A	58
G	Board salary as % of revenue	%	0.0%	0.1%	0.1%	0.0%
	INEDs on the BOD (tenure <10 years)	%	42.9%	42.9%	50.0%	85.7%
	Female directors on the Board	%	14.3%	14.3%	16.7%	15.0%
	Board salary as % of revenue	%	0.0%	0.1%	0.1%	0.0%

Qualitative Parameters (Score: 33)	
a) Is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. There is a standalone Sustainability Working Team that reports to the Risk Management Committee.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>No, but plans to follow TCFD framework going forward. AAX has appointed an Independent Director that specialises in ESG reporting.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No, but it plans to going forward.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Digitised training and trip files to save on paper consumption, maintain a Carbon Dashboard to monitor fuel burn, exploring utilising sustainable aviation fuels, employing one engine taxi arrival and departure and optimising flight paths.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Ensure zero carbon emissions growth from international flights from 2021 onwards	0%	N/A
Reduce emissions by 50% in 2050 from 2005 levels	50%	N/A
Ensure 10% electricity reduction p.a. in all AirAsia premises	10%	N/A
Achieve zero single-use plastic waste in offices and onboard	100%	N/A
Reduce water usage by 10% in our offices	10%	N/A
Ensure 100% sustainably and ethically sourced goods & services	100%	N/A
Impact		
NA		
Overall Score: 39		
As per our ESG matrix, AirAsia X (AAX MK) has an overall score of 39.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	12	6
Qualitative	25%	33	8
Target	25%	100	25
Total			39

As per our ESG assessment, AAX has an established framework, internal policies, and tangible mid/long-term targets. That said, ESG related statistics during the COVID-19 era are lacking. AAX's overall ESG score is 39, which makes its ESG rating below average, in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	nm	1.5	4.1	3.7
Core P/E (x)	nm	nm	7.5	4.1	3.7
P/BV (x)	nm	nm	2.2	1.4	1.0
P/NTA (x)	nm	nm	2.2	1.4	1.0
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	45.8	36.5	54.4	35.3
EV/EBITDAR (x)	nm	nm	6.7	5.0	3.9
EV/EBIT (x)	nm	nm	13.3	8.4	6.2
INCOME STATEMENT (MYR m)					
Revenue	1,132.6	825.9	2,368.1	3,446.7	3,551.1
EBITDAR	(783.0)	(352.5)	442.0	460.3	472.1
Depreciation	(961.5)	(39.6)	(167.1)	(174.8)	(174.8)
EBIT	(1,746.9)	(425.7)	222.9	273.6	297.3
Net interest income / (exp)	(903.2)	(746.1)	(88.4)	(92.5)	(92.5)
Associates & JV	0.0	0.0	310.0	84.4	84.4
Exceptionals	(31,025.0)	33,842.2	285.5	0.0	0.0
Pretax profit	(33,675.2)	32,670.4	729.9	265.5	289.2
Income tax	0.0	612.2	0.0	0.0	0.0
Reported net profit	(33,675.2)	33,282.6	729.9	265.5	289.2
Core net profit	(2,650.1)	(1,171.8)	144.4	265.5	289.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	74.1	176.7	528.5	891.9	1,015.7
Accounts receivable	119.6	230.6	375.9	547.0	563.6
Inventory	0.0	9.2	7.3	10.7	11.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	159.0	209.0	259.0	309.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	310.0	394.4	478.9
Other assets	1,750.8	1,876.3	1,953.1	1,778.3	1,603.5
Total assets	1,944.5	2,451.9	3,383.8	3,881.4	3,981.7
ST interest bearing debt	6,766.6	57.0	122.5	155.3	155.3
Accounts payable	1,587.1	411.0	463.2	702.1	721.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	0.0	1,005.4	1,189.3	1,034.0	878.6
Other liabilities	27,158.0	1,264.0	1,115.0	1,230.0	1,178.0
Total Liabilities	35,511.6	2,737.1	2,889.7	3,121.8	2,933.0
Shareholders Equity	(33,567.1)	(285.2)	494.1	759.6	1,048.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	(33,567.1)	(285.2)	494.1	759.6	1,048.7
Total liabilities and equity	1,944.5	2,451.9	3,383.8	3,881.4	3,981.7
CASH FLOW (MYR m)					
CASH FLOW (MYR m)					
Pretax profit	(33,675.2)	32,670.4	729.9	265.5	289.2
Depreciation & amortisation	961.5	39.6	167.1	174.8	174.8
Adj net interest (income)/exp	904.2	747.7	88.4	92.5	92.5
Change in working capital	670.2	421.3	45.4	180.1	(50.4)
Cash taxes paid	0.1	(0.0)	0.0	0.0	0.0
Other operating cash flow	31,096.6	(33,768.5)	(585.5)	(74.4)	(74.4)
Cash flow from operations	(42.6)	110.4	445.4	638.5	431.7
Capex	(4.3)	(2.0)	(50.0)	(50.0)	(50.0)
Free cash flow	(46.9)	108.3	395.4	588.5	381.7
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	49.4	0.0	0.0
Change in Debt	(232.5)	(20.1)	(94.8)	(215.1)	(247.9)
Other invest/financing cash flow	44.7	5.6	(10.0)	(10.0)	(10.0)
Effect of exch rate changes	(4.4)	14.4	11.8	0.0	0.0

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(73.2)	(27.1)	186.7	45.5	3.0
EBITDAR growth	nm	nm	nm	4.1	2.5
EBIT growth	nm	nm	nm	22.8	8.7
Pretax growth	nm	nm	(97.8)	(63.6)	8.9
Reported net profit growth	nm	nm	(97.8)	(63.6)	8.9
Core net profit growth	nm	nm	nm	83.8	8.9
Profitability ratios (%)					
EBITDAR margin	nm	nm	18.7	13.4	13.3
EBIT margin	nm	nm	9.4	7.9	8.4
Pretax profit margin	nm	nm	30.8	7.7	8.1
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	30.8	7.7	8.1
Revenue/Assets (x)	0.6	0.3	0.7	0.9	0.9
Assets/Equity (x)	nm	nm	6.8	5.1	3.8
ROAE (%)	nm	nm	nm	42.3	32.0
ROAA (%)	nm	nm	4.9	7.3	7.4
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.0	0.6	1.0	1.1	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	0.1	0.9	1.2	1.2	1.4
Net gearing (%) (incl perps)	nm	nm	158.5	39.2	1.7
Net gearing (%) (excl. perps)	nm	nm	158.5	39.2	1.7
Net interest cover (x)	na	na	2.5	3.0	3.2
Debt/EBITDAR (x)	nm	nm	3.0	2.6	2.2
Capex/revenue (%)	0.4	0.2	2.1	1.5	1.4
Net debt/ (net cash)	6,692.5	885.8	783.3	297.4	18.3

Source: Company; Maybank IBG Research

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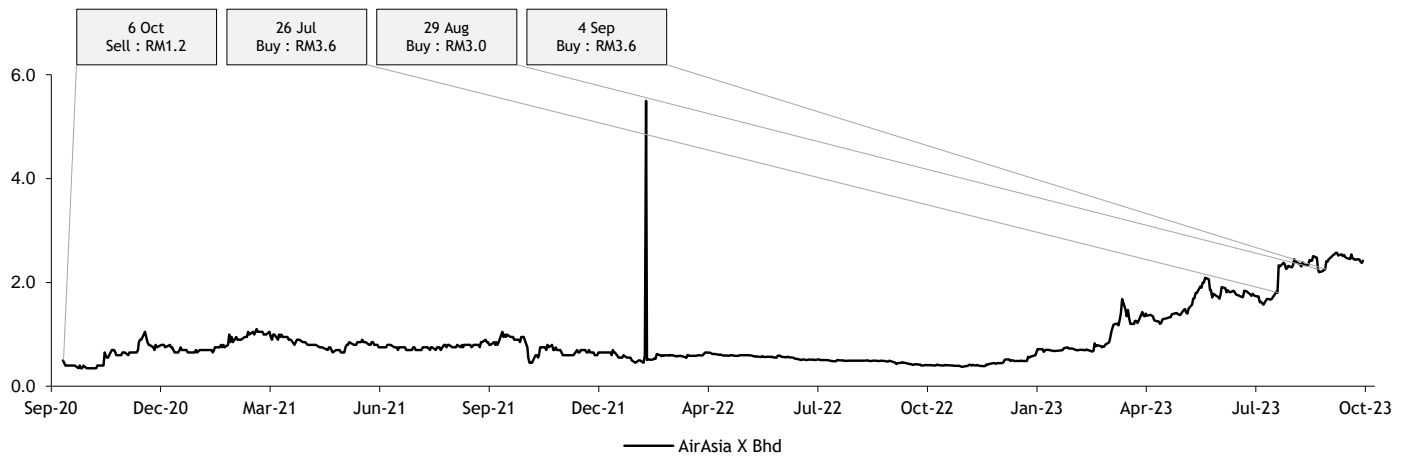
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