

AirAsia X Bhd (AAX MK)

From Beijing with love

Maintain BUY with higher TP of MYR1.88 (+24%)

After a lacklustre FY23A, the Chinese market drove 1Q24 results to way above our expectations. We maintain our earnings estimates pending a meeting with management. Note that we have yet to impute any upside from the upcoming acquisition of CAPITALA's 4 airlines and contribution from TAAX. We roll forward valuation, pegging on 7x FY25E PER (industry average ex-Interglobe, Spring and VietJet) from 8x FY24E PER and raise our TP to MYR1.88 from MYR1.52.

Results outperformed our expectations by a mile

1Q24 core net profit of MYR118.4m accounted for 139% of our FY estimate. We note that 1Q24 other expense of MYR7.3m is low-ish at 0.8% of revenue (FY15A-FY19A average: 7.0%). Even if we were to normalise 1Q24 other expense, 1Q24 core net profit would be adjusted lower to MYR62.1m but would still be way above our expectations at 73% of our FY estimate. On closer inspection, the outperformance was due to 1Q24 unit passenger revenue of MYR901 which was c.MYR30 above our expectations.

Visa free travel to and from China was a huge positive

The visa exemption policy to and from China that took effect on 1 Dec 2023 had a positive impact on fares and load factor. AAX stated that load factors to and from China (5 destinations) have been high at c.95%. The visa exemption policy (for M'sians to China) has been extended to 31 Dec 2025 (for Chinese to M'sia extended to 31 Dec 2025 too). AAX also recorded similar load factors to and from India (2 destinations) and Japan (3 destinations). To our positive surprise, AAX stated that load factors to new launched Almaty, Kazakhstan (14 Mar 2024) have also been high at >90%.

Maintain estimates pending management meeting

Anyhow, we expect 2Q24 and 3Q24 to be seasonally weaker. Traditionally, 1Q and 4Q are seasonally the strongest for AAX. It will return 1 aircraft to service in Jul 2024 and another in Nov 2024. It also plans to lease another aircraft, bringing the total number of operational aircraft to 19 by YE2024. Note that our estimates have not accounted for its upcoming acquisition of CAPITALA's 4 airlines ([link](#)) and earnings contributions from 49%-owned TAAX (1Q24 core net profit: MYR102.2m).

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	826	2,527	3,685	3,870	3,870
EBITDAR	(274)	289	452	450	450
Core net profit	(1,109)	(79)	85	120	133
Core EPS (sen)	(267.4)	(17.8)	19.0	26.8	29.7
Core EPS growth (%)	nm	nm	nm	41.5	10.4
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	nm	nm	8.2	5.8	5.3
P/BV (x)	nm	7.2	3.5	2.2	1.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(196.9)	(463.5)	53.5	46.0	34.2
ROAA (%)	(50.1)	(2.8)	2.5	3.4	3.7
EV/EBITDAR (x)	nm	12.4	6.4	5.2	4.1
Net gearing (%) (incl perps)	net cash	nm	554.9	241.2	101.4
Consensus net profit	-	-	85	120	132
MIBG vs. Consensus (%)	-	-	(0.1)	0.4	0.3

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BUY

Share Price	MYR 1.56
12m Price Target	MYR 1.88 (+20%)
Previous Price Target	MYR 1.52

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)	2.57/1.18
3m avg turnover (USDm)	1.2
Free float (%)	56.6
Issued shares (m)	447
Market capitalisation	MYR697.4M USD148M

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	14	(11)	(25)
Relative to index (%)	11	(14)	(35)

Source: FactSet

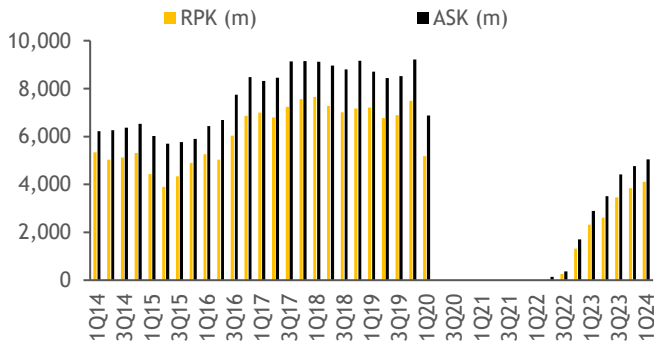
Other companies mentioned in this report:-

- Capital A (CAPITALA MK, BUY, CP: MYR0.86, TP: MYR0.94)
- Thai AirAsia X (TAAX, Not Listed)

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.

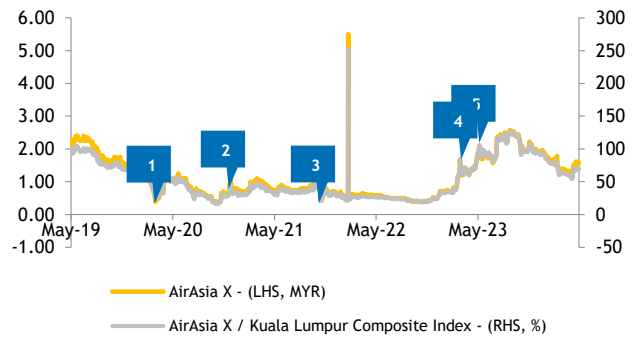
MAAX Revenue Passenger and Available Seat Kilometres



Source: Company

Price Drivers

Historical share price trend



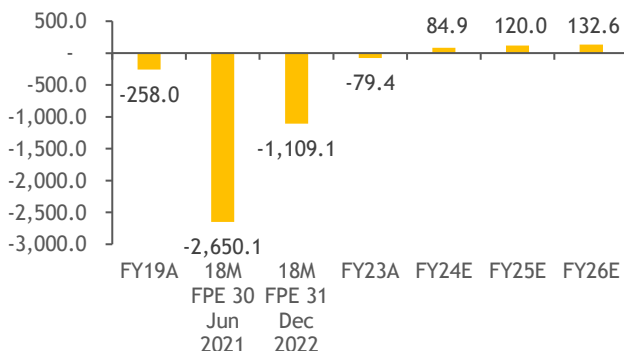
Source: Company, Maybank IBG Research

1. COVID-19 pandemic struck Malaysia. AAX grounded its fleet in late-Mar 2020.
2. Pfizer, Moderna and AstraZeneca announced that they have developed effective COVID-19 vaccines.
3. Classified as a PN17 listed issuer after auditors expressed a disclaimer on its financial statements
4. Positively surprised by reporting 4Q22 net profit of MYR153.5m (core net profit: MYR32.6m).
5. Positively surprised by reporting 1Q23 net profit of MYR328.0m (core net profit: MYR42.5m).

Financial Metrics

- Best financial indicator is core net profit ex-disposal gains, forex and fair value changes, and deferred taxation.
- Forecast FY24E core net profit due to more aircraft in operation.
- Sensitive to fuel price movement, a USD1 per barrel change in fuel price will move earnings by c.MYR15m.
- Balance sheet as at end-1Q24 in a net cash position of MYR59.0m (MYR0.13/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.

Figure 1: AAX summary results table

FY Dec (MYR m)	1Q24	1Q23	% YoY	4Q23	% QoQ
Revenue	908.9	548.8	65.6	818.2	11.1
Operating expenses	(701.9)	(454.4)	54.5	(808.1)	(13.1)
EBITDA	207.0	94.4	119.3	10.1	N/M
Depreciation & amortisation	(49.6)	(35.1)	41.3	(50.8)	(2.4)
EBIT	157.5	59.3	165.4	(40.7)	(487.1)
Interest expense	(38.8)	(16.8)	130.5	(29.1)	33.1
Exceptional items	(38.3)	285.5	(113.4)	109.2	(135.1)
Pre-tax profit	80.4	328.0	(75.5)	39.4	104.0
Tax	(0.3)	(0.0)	N/M	(1.7)	(85.2)
Deferred tax	-	-	N/M	(10.3)	(100.0)
Net profit/(loss)	80.1	328.0	(75.6)	27.4	192.7
Core net profit/(loss)	118.4	42.5	178.6	(71.5)	(265.6)
	1Q24	1Q23	+/- ppt	4Q23	+/- ppt
<i>EBITDA margin (%)</i>	22.8	17.2	5.6	1.2	21.5
<i>Tax rate (%)</i>	0.3	0.0	0.3	4.3	(4.0)
Statistics					
Passengers carried (m)	959,623	504,476	90.2	890,289	7.8
Capacity (m)	1,155,788	630,069	83.4	1,088,844	6.1
Load factor	83%	80%	3.7	82%	1.5
RPK (m)	4,106	2,312	77.6	3,839	7.0
ASK (m)	5,039	2,899	73.8	4,770	5.6
Average fare (MYR)	650	785	(17.2)	619	5.0
Average ancillary income (MYR)	251	244	2.9	216	16.2
Unit passenger revenue (MYR)	901	1,029	(12.4)	835	7.9
Fuel consumed (m bbl)	796,393	445,030	79.0	767,296	3.8
Average fuel price (USD/bbl)	108	116	(6.9)	131	(17.6)

Source: Company

Results analysis

- 1Q24 core net profit was up 179% YoY largely due to:- (i) passengers carried growing 90% YoY; (ii) average fuel price easing 7% YoY in USD terms; but moderated by; (i) unit passenger revenue easing 12% YoY as capacity was reinstated.
- AAX swung from a 4Q23 core net loss of MYR71.5m to 1Q24 core net profit of MYR118.4m largely due to:- (i) passengers carried growing 8% QoQ; (ii) unit passenger revenue growing 8% QoQ; and (iii) average fuel price easing 18% QoQ in USD terms.

Figure 2: Low cost airlines peer comparisons

Name	Country	Mkt cap USDm	Last price Lcl ccy	CY24E EPS	CY25E EPS	CY24E PER	CY25E PER
Ryainair Holdings	Ireland	22,199	17.96	2.24	2.37	8.0	7.6
Interglobe Aviation	India	19,779	4,256.50	219.15	208.13	19.4	20.5
Southwest Airlines	United States	16,063	26.84	1.09	1.83	24.7	14.7
Spring Airlines	China	7,717	57.12	3.37	4.20	17.0	13.6
easyJet	United Kingdom	4,416	4.58	0.68	0.73	6.7	6.3
JET2	United Kingdom	3,691	13.50	1.80	1.92	7.5	7.0
AirArabia	United Arab Emirates	3,049	2.40	0.30	0.32	8.0	7.5
Wizz Air Holdings	Hungary	2,851	9,875.00	1,704.36	1,761.34	5.8	5.6
Vietjet Aviation	Vietnam	2,297	108,000.00	3,162.50	5,429.50	34.2	19.9
Norwegian Air Shuttle	Norway	1,334	14.65	2.32	2.29	6.3	6.4
Cebu Pacific	Philippines	302	28.15	10.55	16.81	2.7	1.7
Simple average						12.8	10.1
Average ex-Interglobe Aviation, Spring Airline and Vietjet Aviation						8.7	7.1

Share prices as of 24 May 2024; Source: Bloomberg

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	2.3	8.2	5.8	5.3
Core P/E (x)	nm	nm	8.2	5.8	5.3
P/BV (x)	nm	7.2	3.5	2.2	1.5
P/NTA (x)	(0.9)	7.2	3.5	2.2	1.5
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	45.8	nm	67.1	67.5	61.9
EV/EBITDAR (x)	nm	12.4	6.4	5.2	4.1
EV/EBIT (x)	nm	nm	13.1	9.5	7.5
INCOME STATEMENT (MYR m)					
Revenue	825.9	2,527.1	3,685.4	3,869.9	3,869.9
EBITDAR	(273.8)	289.0	452.3	450.3	450.3
Depreciation	(40.3)	(184.4)	(202.9)	(202.9)	(202.9)
EBIT	(347.7)	32.5	221.2	247.5	247.5
Net interest income / (exp)	(761.4)	(109.9)	(136.3)	(127.4)	(114.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	33,805.5	421.2	0.0	0.0	0.0
Pretax profit	32,696.3	343.8	84.9	120.0	132.6
Income tax	0.0	(1.9)	0.0	0.0	0.0
Reported net profit	33,308.6	331.5	84.9	120.0	132.6
Core net profit	(1,109.1)	(79.4)	84.9	120.0	132.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	176.7	57.7	281.7	476.8	632.8
Accounts receivable	230.6	224.6	584.9	614.2	614.2
Inventory	9.2	7.0	11.4	12.0	12.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	41.8	35.3	45.3	55.3	65.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	2,024.4	2,813.0	2,600.5	2,397.6	2,194.7
Total assets	2,482.8	3,137.6	3,523.9	3,555.9	3,519.1
ST interest bearing debt	57.0	152.4	145.8	158.4	172.0
Accounts payable	429.2	360.2	763.7	800.8	800.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,005.4	1,359.6	1,251.4	1,093.0	921.0
Other liabilities	1,250.0	1,149.0	1,162.0	1,183.0	1,172.0
Total Liabilities	2,742.0	3,021.4	3,322.8	3,234.8	3,065.4
Shareholders Equity	(259.2)	116.2	201.0	321.1	453.6
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	(259.2)	116.2	201.0	321.1	453.6
Total liabilities and equity	2,482.8	3,137.6	3,523.9	3,555.9	3,519.1
CASH FLOW (MYR m)					
Pretax profit	32,696.3	343.8	84.9	120.0	132.6
Depreciation & amortisation	40.3	184.4	202.9	202.9	202.9
Adj net interest (income)/exp	763.0	111.2	136.3	127.4	114.9
Change in working capital	390.1	(505.2)	51.5	28.0	(11.1)
Cash taxes paid	(0.0)	(0.2)	0.0	0.0	0.0
Other operating cash flow	(33,779.2)	(179.8)	2.7	2.7	2.7
Cash flow from operations	110.4	(45.8)	478.3	481.0	442.0
Capex	(2.0)	(15.3)	(10.0)	(10.0)	(10.0)
Free cash flow	108.3	(61.1)	468.3	471.0	432.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	49.5	0.0	0.0	0.0
Change in Debt	(20.1)	(112.0)	(232.7)	(265.9)	(265.9)
Other invest/financing cash flow	5.6	0.1	(10.0)	(10.0)	(10.0)
Effect of exch rate changes	14.4	4.5	(1.5)	0.0	0.0
Net cash flow	108.2	(119.0)	224.1	195.1	156.0

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	(27.1)	206.0	45.8	5.0	0.0
EBITDAR growth	nm	nm	56.5	(0.4)	0.0
EBIT growth	nm	nm	581.4	11.9	0.0
Pretax growth	nm	(98.9)	(75.3)	41.5	10.4
Reported net profit growth	nm	(99.0)	(74.4)	41.5	10.4
Core net profit growth	nm	nm	nm	41.5	10.4
Profitability ratios (%)					
EBITDAR margin	nm	11.4	12.3	11.6	11.6
EBIT margin	nm	1.3	6.0	6.4	6.4
Pretax profit margin	nm	13.6	2.3	3.1	3.4
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	13.1	2.3	3.1	3.4
Revenue/Assets (x)	0.3	0.8	1.0	1.1	1.1
Assets/Equity (x)	nm	27.0	17.5	11.1	7.8
ROAE (%)	(196.9)	(463.5)	53.5	46.0	34.2
ROAA (%)	(50.1)	(2.8)	2.5	3.4	3.7
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.6	0.6	0.8	0.9	1.0
Leverage & Expense Analysis					
Asset/Liability (x)	0.9	1.0	1.1	1.1	1.1
Net gearing (%) (incl perps)	net cash	nm	554.9	241.2	101.4
Net gearing (%) (excl. perps)	net cash	nm	554.9	241.2	101.4
Net interest cover (x)	na	0.3	1.6	1.9	2.2
Debt/EBITDAR (x)	nm	5.2	3.1	2.8	2.4
Capex/revenue (%)	0.2	0.6	0.3	0.3	0.3
Net debt/ (net cash)	885.8	1,454.3	1,115.4	774.6	460.2

Source: Company; Maybank IBG Research

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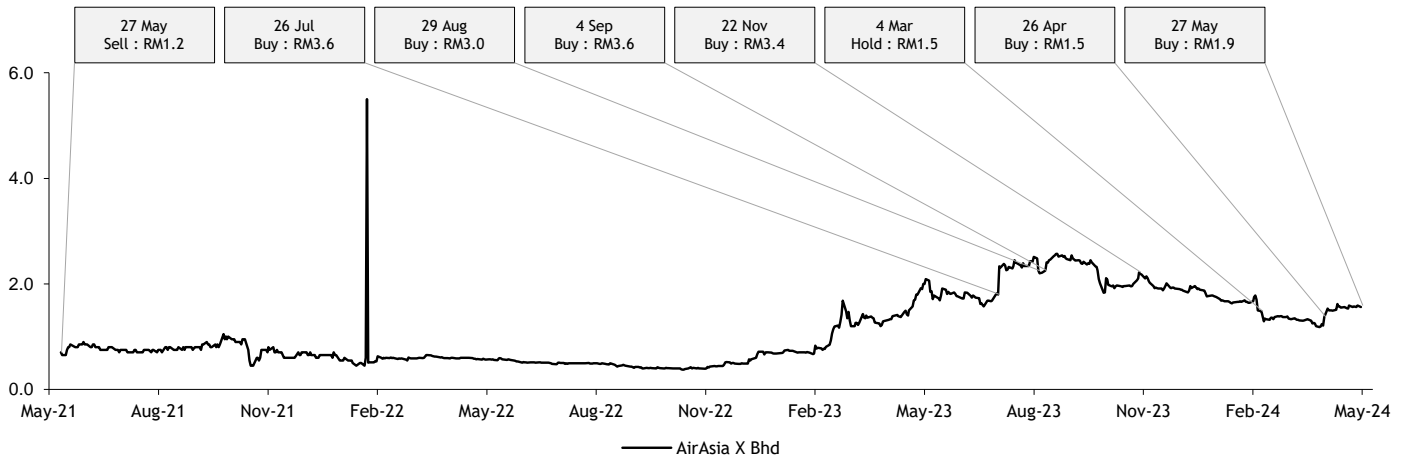
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