

Capital A (CAPITALA MK)

Veered off course ever so slightly in 2Q24

Maintain BUY call and MYR1.00 SOP-TP

2Q24/6M24 results came in marginally below our expectations as fewer-than-expected aircraft were returned to service. That said, there are very positive tailwinds in easing jet fuel prices and the recovering MYR. Moreover, the return to service of its entire fleet is a matter of 'when' and not 'if' to us. Thus, our earnings estimates, BUY call and MYR1.00 SOP-TP are maintained for now. CAPITALA expects to dispose its shareholding in its 5 airlines to AAX in 4Q24 and lift its PN17 classification in 1Q25/2Q25.

Results a touch below our expectations

2Q24 core net loss of MYR72.8m brought 6M24 core net loss to MYR6.4m which was below our expectations. We had expected a 2Q24 core net profit, similar to the MYR66.5m recorded in 1Q24. As a secondary check, 6M24 EBITDA of MYR1.77b (+213% YoY) also missed our expectations a tad at 42% of our FY estimate. On closer inspection, the underperformance was due to CAPITALA having only 77% of its fleet active as at end-2Q24 when we had expected it to improve to c.85% to carry more passengers.

Still relatively positive fare environment

Average fares eased to MYR240 in 2Q24 from MYR264 in 1Q24. Yet, CAPITALA guided average fares to hover at MYR240 going forward. Recall that its fares received a boost after MYAirline (Not Listed) suspended operations in Oct 2023. With Malaysia Airlines (Not Listed) reducing supply in 2H24 after several operational disruptions, we concur with management that fares will stay elevated in the near future. On average ancillary revenue per pax, CAPITALA guided it to remain above MYR50.

Maintaining earnings estimates for now

We understand that 83% of its fleet is now active to carry more passengers going forward. We expect 3Q24 to report better results as jet fuel prices have eased to c.USD95/bbl and the MYR has recovered strongly to MYR4.31:USD1.00 from an average of MYR4.73:USD1.00 in 6M24. The latter is especially positive as c.70% of CAPITALA's aviation operating expenses are USD denominated. Going into 4Q24, we expect CAPITALA to report even better results thanks to seasonally high demand and fares then.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	6,437	14,772	20,291	22,017	22,017
EBITDAR	(371)	1,610	4,250	4,390	4,412
Core net profit	(2,683)	(877)	318	701	817
Core FDEPS (sen)	(64.4)	(18.9)	6.5	12.9	14.8
Core FDEPS growth(%)	nm	nm	nm	99.2	15.1
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core FD P/E (x)	nm	nm	12.2	6.1	5.3
P/BV (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(289.5)	(81.8)	(19.7)	(63.2)	(233.3)
ROAA (%)	(13.4)	(3.7)	1.1	2.6	3.0
EV/EBITDAR (x)	nm	22.8	7.6	6.4	5.3
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Consensus net profit	-	-	474	750	958
MIBG vs. Consensus (%)	-	-	(32.9)	(6.5)	(14.7)

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BUY

Share Price MYR 0.79
12m Price Target MYR 1.00 (+27%)
Previous Price Target MYR 1.00

Company Description

AirAsia Group is Asia's foremost low cost carrier with operations in Malaysia, Thailand, Indonesia, Philippines and Cambodia.

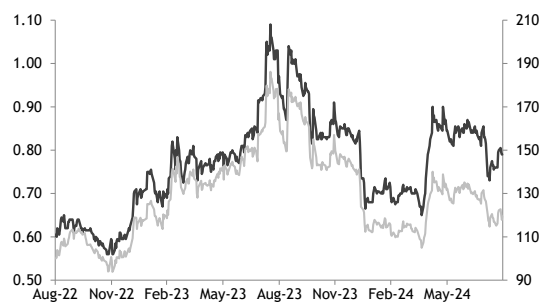
Statistics

52w high/low (MYR) 1.04/0.65
3m avg turnover (USDm) 2.1
Free float (%) 60.8
Issued shares (m) 4,256
Market capitalisation MYR3.4B
USD780M

Major shareholders:

Tune Air Sdn Bhd 12.1%
Tune Live Sdn. Bhd. 12.0%
Positive Boom Ltd. 7.8%

Price Performance



— Capital A - (LHS, MYR) — Capital A / Kuala Lumpur Composite Index - (RHS, %)

	-1M	-3M	-12M
Absolute (%)	(8)	(8)	(17)
Relative to index (%)	(10)	(12)	(28)

Source: FactSet

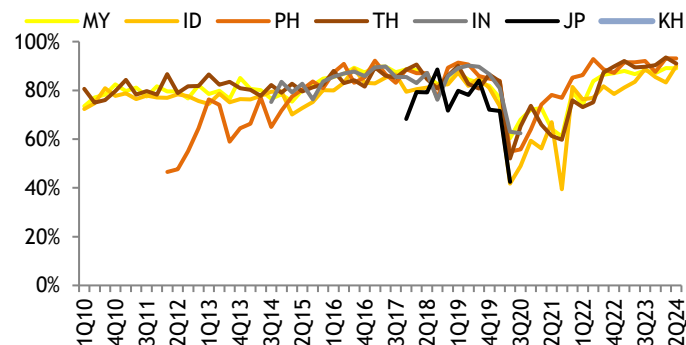
Other companies mentioned in this report:-

AirAsia X (AAX MK, BUY, CP: MYR1.31, TP: MYR2.71)

Value Proposition

- Asia’s leading low cost carrier with highest market share, largest fleet size and most extensive route network.
- Operates in 5 countries after exiting Japan and India, which provides unrivalled route network reach.
- Lowest unit cost airline in the world. Management is very ambitious, cost conscious and forward-thinking.
- Growing middle class in Asia fuelling growth in demand for air travel.
- Won the coveted ‘World’s Best LCC’ award for a record 15 times in a row by Skytrax.

AirAsia passengers load factor by country

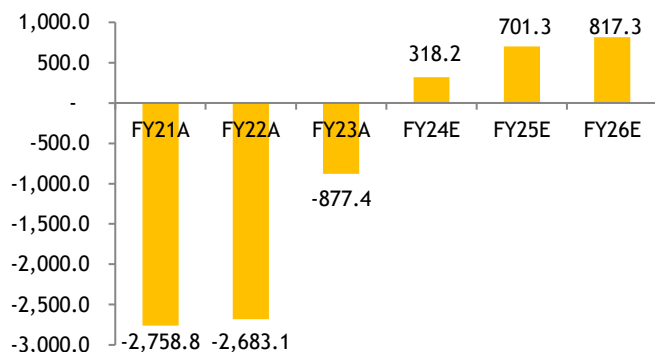


Source: Company

Financial Metrics

- Best financial indicator is core net profit ex-disposal gains, forex and fair value changes, and deferred taxation.
- Forecast FY24E to return to core net profit on more passengers and higher fares.
- Forecast FY25E core net profit to grow further on more passengers as all aircraft would have returned to service.
- Sensitive to fuel price movement, a USD1 per barrel change in fuel price will move earnings by MYR40m-MYR50m.
- Balance sheet as at end-2Q24 in a net debt position of MYR4.38b if ex-finance lease liabilities.

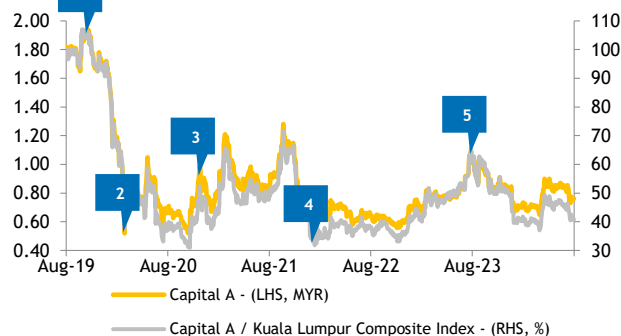
Core net profit/(loss) (MYRm)



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

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

1. CAPITALA began to generate losses due to industry overcapacity.
2. COVID-19 pandemic struck Malaysia. CAPITALA grounded most of its fleet in late-Mar 2020.
3. Pfizer, Moderna and AstraZeneca announced that they have developed effective COVID-19 vaccines.
4. CAPITALA classified as a PN17 listed issuer by Bursa Malaysia.
5. CAPITALA has been reporting narrower and narrower losses.

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 CAPITALA 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 - 60-70% of operating costs are USD denominated.

Figure 1: Summary Results Table

FY Dec (MYR m)	2Q24	2Q23	% YoY	1Q24	% QoQ	6M24	6M23	% YoY
Revenue	4,862.9	3,151.1	54.3	5,241.4	(7.2)	10,104.3	5,680.8	77.9
Operating expenses	(4,127.7)	(2,789.2)	48.0	(4,208.6)	(1.9)	(8,336.3)	(5,115.7)	63.0
EBITDA	735.2	361.9	103.1	1,032.8	(28.8)	1,767.9	565.2	212.8
Depreciation & amortisation	(516.4)	(385.0)	34.1	(512.0)	0.9	(1,028.4)	(748.7)	37.4
EBIT	218.8	(23.0)	N/M	520.7	(58.0)	739.5	(183.5)	N/M
Interest expense	(343.7)	(312.7)	9.9	(399.1)	(13.9)	(742.8)	(479.4)	55.0
Associates & JVs	(1.7)	(24.4)	(93.1)	(1.0)	71.4	(2.7)	(11.0)	(75.7)
Exceptional items	(435.2)	825.1	N/M	(370.5)	17.4	(805.7)	1,168.9	(168.9)
Pre-tax profit	(561.8)	465.1	N/M	(249.8)	124.9	(811.6)	495.0	N/M
Tax	11.2	(11.7)	N/M	(7.1)	N/M	4.1	(15.5)	N/M
Deferred tax	8.1	3.9	106.5	12.6	(36.0)	20.7	3.9	428.9
Minority interest	88.4	188.9	(53.2)	152.7	(42.1)	241.1	220.0	9.6
Net profit/(loss)	(454.2)	646.3	N/M	(91.6)	396.1	(545.7)	703.4	N/M
Core net profit/(loss)	(72.8)	(182.8)	(60.2)	66.5	N/M	(6.4)	(469.5)	(98.6)
	2Q24	2Q23	+/- ppt	1Q24	+/- ppt	6M24	6M23	+/- ppt
EBITDA margin (%)	15.1	11.5	3.6	19.7	(4.6)	17.5	9.9	7.5
Tax rate (%)	2.0	2.5	(0.5)	(2.8)	4.8	0.5	3.1	(2.6)
Statistics								
Passengers carried (m)	15.6	11.1	41.1	15.4	1.5	32.8	19.7	66.8
Capacity (m)	17.4	12.7	36.6	17.0	2.0	36.3	22.5	61.3
Load factor	90%	87%	3.3	90%	(0.4)	90%	87%	3.4
RPK (m)	18,287	12,868	42.1	18,109	1.0	38,291	22,597	69.5
ASK (m)	20,547	15,027	36.7	20,237	1.5	42,888	26,229	63.5
Average fare (MYR)	240	205	17.1	264	(9.1)	239	207	15.5
Unit passenger revenue (MYR)	292	254	15.0	321	(9.0)	291	256	13.7
RASK (sen)	22.52	18.72	20.3	24.42	(7.8)	22.19	19.16	15.8
CASK (sen)	23.18	22.23	4.3	23.36	(0.8)	21.97	21.15	3.9
CASK-ex fuel (sen)	13.89	14.72	(5.6)	14.05	(1.1)	13.29	13.19	0.8
Fuel consumed (m bbl)	3.4	2.4	41.3	3.3	5.3	7.0	4.2	66.0
Average fuel price (USD/bbl)	111	104	6.7	122	(9.0)	110	110	-

Source: Company

Results analysis

- 2Q24 EBITDA recovered 103% YoY largely due to:- (i) passengers carried recovering 41% YoY; and (ii) unit passenger revenue growing 15% YoY.
- 2Q24 EBITDA was down 29% QoQ largely due to unit passenger revenue seasonally easing 9% QoQ.
- 6M24 EBITDA recovered 213% YoY largely due to:- (i) passengers carried recovering 67% YoY; and (ii) unit passenger revenue growing 14% YoY.

Figure 2: CAPITALA SOP-based valuation

	FY25E	PER (X)	Value	Value/shr	Comment
Airline net profit with RCUIDS interest expenses added back	798.3	7.0	5,588.0	0.94	
AirAsia X			90.7	0.02	13% of market capitalization
Tune Protect Group			35.9	0.01	14% of market capitalization
Proceeds from warrants			649.7	0.11	MYR1.00 exercise price
Proceeds from ESOS			93.7	0.02	MYR0.743 exercise price
Incumbent business (A)			6,458.0	1.08	
MOVE SuperApp			4,419.0	0.74	96% of USD1.0b valuation
Teleport			1,068.9	0.18	78% of USD300m valuation
Digital business (B)			5,487.9	0.92	
Total (C=A+B)			11,945.9	2.00	
(50% discount) (D=CX-50%)			(5,972.9)	(1.00)	
SOP (E=C+D)			5,972.9	1.00	

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	nm	4.1	10.6	4.8	4.1
Core P/E (x)	nm	nm	10.6	4.8	4.1
Core FD P/E (x)	nm	nm	12.2	6.1	5.3
P/BV (x)	nm	nm	nm	nm	nm
P/NTA (x)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	66.2	53.8	114.2	114.7
EV/EBITDAR (x)	nm	22.8	7.6	6.4	5.3
EV/EBIT (x)	nm	nm	14.6	11.5	9.4

INCOME STATEMENT (MYR m)

Revenue	6,437.1	14,771.7	20,291.0	22,017.4	22,017.4
EBITDAR	(371.3)	1,610.3	4,250.0	4,390.4	4,412.1
Depreciation	(1,441.6)	(1,728.9)	(2,025.7)	(1,958.7)	(1,940.8)
EBIT	(1,903.0)	(118.5)	2,224.3	2,431.7	2,471.3
Net interest income / (exp)	(964.6)	(1,199.4)	(1,553.8)	(1,474.9)	(1,398.4)
Associates & JV	(345.4)	(14.2)	26.7	26.7	26.7
Exceptionals	(90.6)	1,865.5	0.0	0.0	0.0
Pretax profit	(3,303.7)	533.4	697.2	983.6	1,099.6
Income tax	(15.6)	(35.4)	(23.7)	(23.7)	(23.7)
Minorities	677.8	329.4	(355.3)	(258.6)	(258.6)
Reported net profit	(2,626.4)	837.0	318.2	701.3	817.3
Core net profit	(2,683.1)	(877.4)	318.2	701.3	817.3

BALANCE SHEET (MYR m)

Cash & Short Term Investments	470.0	703.2	2,350.8	3,885.9	5,424.6
Accounts receivable	765.9	1,173.0	1,173.0	1,173.0	1,173.0
Inventory	204.5	294.4	294.4	294.4	294.4
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	882.9	1,548.4	1,443.9	1,339.4	1,234.9
Intangible assets	748.4	4,719.0	4,719.0	4,719.0	4,719.0
Investment in Associates & JVs	924.5	402.8	429.5	456.2	482.9
Other assets	15,931.4	19,066.3	17,156.0	15,272.3	13,407.3
Total assets	19,927.5	27,907.2	27,566.7	27,140.3	26,736.1
ST interest bearing debt	4,871.8	6,241.4	4,650.0	4,743.8	4,829.0
Accounts payable	2,878.6	4,301.0	4,301.0	4,301.0	4,301.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	13,122.8	17,444.0	18,028.9	16,548.9	14,983.6
Other liabilities	8,571.0	10,390.0	10,383.0	10,383.0	10,383.0
Total Liabilities	29,444.5	38,376.7	37,362.5	35,976.3	34,496.3
Shareholders Equity	(5,725.1)	(8,710.6)	(8,392.3)	(7,691.0)	(6,873.7)
Minority Interest	(3,791.9)	(1,758.9)	(1,403.6)	(1,145.0)	(886.4)
Total shareholder equity	(9,517.0)	(10,469.5)	(9,795.9)	(8,836.0)	(7,760.2)
Total liabilities and equity	19,927.5	27,907.2	27,566.7	27,140.3	26,736.1

CASH FLOW (MYR m)

Pretax profit	(3,303.7)	533.4	697.2	983.6	1,099.6
Depreciation & amortisation	1,441.6	1,728.9	2,025.7	1,958.7	1,940.8
Adj net interest (income)/exp	733.6	996.5	1,032.3	953.3	876.9
Change in working capital	183.9	(1,801.8)	40.4	42.9	38.2
Cash taxes paid	(35.9)	(8.0)	(31.4)	(23.7)	(23.7)
Other operating cash flow	698.3	(402.1)	(26.7)	(26.7)	(26.7)
Cash flow from operations	(282.1)	1,046.8	3,737.5	3,888.1	3,905.0
Capex	(90.7)	(272.4)	(50.0)	(50.0)	(50.0)
Free cash flow	(1,476.7)	2,286.8	1,809.0	3,838.1	3,855.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(313.7)	(787.9)	(2,040.0)	(2,302.9)	(2,316.3)
Other invest/financing cash flow	(119.8)	174.1	0.0	0.0	0.0
Effect of exch rate changes	(34.9)	(42.5)	0.0	0.0	0.0
Net cash flow	(841.2)	118.0	1,647.6	1,535.1	1,538.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	282.5	129.5	37.4	8.5	0.0
EBITDAR growth	nm	nm	163.9	3.3	0.5
EBIT growth	nm	nm	nm	9.3	1.6
Pretax growth	nm	nm	30.7	41.1	11.8
Reported net profit growth	nm	nm	(62.0)	120.4	16.5
Core net profit growth	nm	nm	nm	120.4	16.5
Profitability ratios (%)					
EBITDAR margin	nm	10.9	20.9	19.9	20.0
EBIT margin	nm	nm	11.0	11.0	11.2
Pretax profit margin	nm	3.6	3.4	4.5	5.0
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	5.7	1.6	3.2	3.7
Revenue/Assets (x)	0.3	0.5	0.7	0.8	0.8
Assets/Equity (x)	nm	nm	nm	nm	nm
ROAE (%)	(289.5)	(81.8)	(19.7)	(63.2)	(233.3)
ROAA (%)	(13.4)	(3.7)	1.1	2.6	3.0
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.2	0.2	0.3	0.4	0.5
Leverage & Expense Analysis					
Asset/Liability (x)	0.7	0.7	0.7	0.8	0.8
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Net gearing (%) (excl. perps)	nm	nm	nm	nm	nm
Net interest cover (x)	na	na	1.4	1.6	1.8
Debt/EBITDAR (x)	nm	14.7	5.3	4.8	4.5
Capex/revenue (%)	1.4	1.8	0.2	0.2	0.2
Net debt/ (net cash)	17,524.6	22,982.2	20,328.2	17,406.8	14,388.1

Source: Company; Maybank IBG Research

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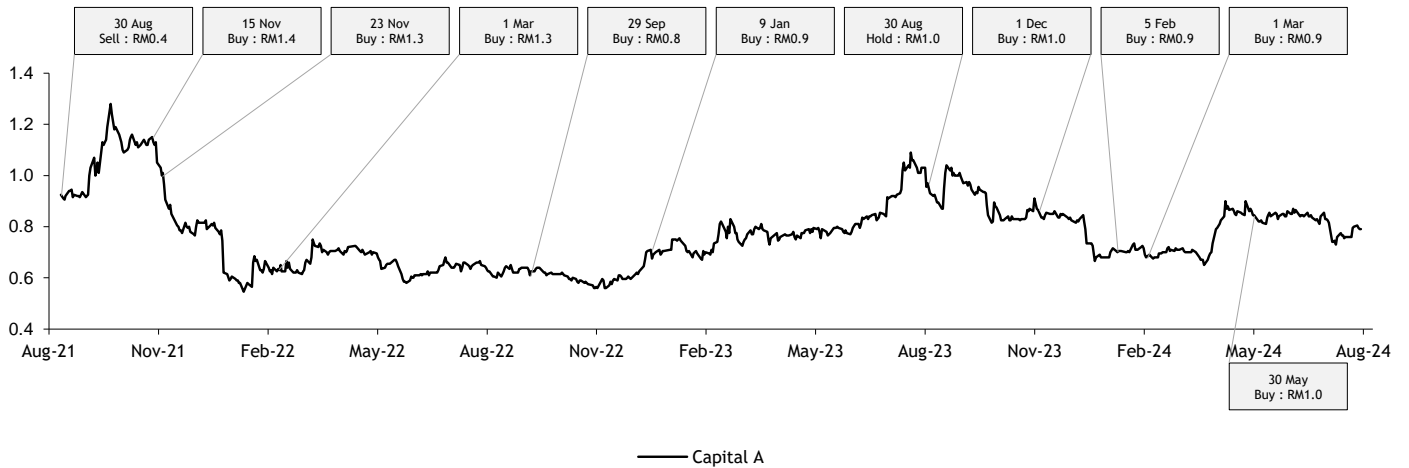
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