

# Malaysia Flash Note

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DBS Group Research . Equity

28 Feb 2020

## AirAsia Group (AAGB MK) : HOLD

Mkt. Cap: US\$878m | 3m Avg. Daily Val: US\$7.0m

Last Traded Price ( 27 Feb 2020): RM1.11

Price Target 12-mth: RM1.15 (4% upside) (Prev RM1.95)

### Analyst

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### Cloudy prospects

- FY19 forecast below expectations
- COVID-19 could derail growth plans
- UK SFO allegations may lead to near-term volatility for the stock
- Maintain HOLD with lower TP of RM1.15

Forecasts and Valuation				
FY Dec (RMm)	2018A	2019A	2020F	2021F
Revenue	10,638	11,965	12,613	13,585
EBITDA	1,699	(124)	3,064	3,557
Pre-tax Profit	1,335	(564)	42.5	184
Net Profit	1,967	(324)	100	236
Net Pft (Pre Ex.)	913	(154)	107	242
Net Pft Gth (Pre-ex) (%)	(38.8)	nm	nm	126.6
EPS (sen)	58.9	(9.71)	3.00	7.05
EPS Pre Ex. (sen)	27.3	(4.60)	3.19	7.24
EPS Gth Pre Ex (%)	(39)	nm	2,540	127
Diluted EPS (sen)	58.9	(9.71)	3.00	7.05
Net DPS (sen)	52.0	89.8	0.25	1.10
BV Per Share (sen)	233	192	201	207
PE (X)	1.9	nm	37.0	15.7
PE Pre Ex. (X)	4.1	nm	34.7	15.3
P/Cash Flow (X)	10.5	nm	1.6	1.4
EV/EBITDA (X)	0.0	(1.5)	3.9	3.1
Net Div Yield (%)	46.9	80.9	0.2	1.0
P/Book Value (X)	0.5	0.6	0.6	0.5
Net Debt/Equity (X)	CASH	CASH	0.0	CASH
ROAE (%)	24.8	33.5	1.5	3.5

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

### Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**Below expectations.** AirAsia Group (AAGB) posted a 4QFY19 headline loss of RM384m. After removing one-off items like foreign exchange (forex), deferred taxes and other items, it posted a core net loss of RM77m, bringing FY19 core net loss to RM154m, which was below our and consensus' expectations.

The weak results were primarily due to; i) lower yields for Malaysia AirAsia (MAA) operations, ii) charges for the sales and leaseback of its A320 aircrafts, causing increased cost recognition from Malaysian Financial Reporting Standard 16 (MFRS16) and, iii) higher losses from Thai AirAsia (TAA).

4Q19 revenue passenger kilometres (RPK) growth at MIP (Malaysia, Indonesia, the Philippines) airlines was 19% higher y-o-y with a higher load factor of 81%. There was also higher contribution from ancillary revenue (+50% y-o-y). Earnings before interest, tax, depreciation and amortisation (EBITDA) for its ancillary segment rose to RM30.3m from a loss of RM5.2m in 4QFY18, primarily driven by its Teleport segment.

4Q19 share of results from its associates includes RM133.5m recognised for AirAsia India's losses on injection of investment into AirAsia India. A further RM74m was adjusted to align the policy practices of the associates with AAGB.

### Outlook

The ongoing COVID-19 outbreak could potentially cause significant downside effects on its financial performance. Travel restrictions due to COVID-19 are expected to dampen



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AAGB's load factor substantially. The recent corruption and bribery allegations by the United Kingdom's Serious Fraud Office (SFO) would also be a concern. AAGB has denied the corruption and bribery allegations. The group stated that it was neither involved in any way whatsoever with the SFO investigations on Airbus and was not given any opportunity to provide information or clarification. The SFO allegations are currently being investigated by both the Securities Commission (SC) and the Malaysian Anti-Corruption Commission (MACC).

### Valuation and Recommendation

**Maintain HOLD with a lower target price (TP) of RM1.15,** imputing a 40% discount to net book value. We believe that the SFO bribery allegations have raised some corporate governance concerns among investors. The allegations may be an overhang on share price until the issue is cleared by the Malaysian Anti-Corruption Commission (MACC) and Securities Commission (SC). Besides the corruption allegations, the COVID-19 epidemic is also expected to dampen air travel globally. If the epidemic prolongs, we foresee AAGB's load factor being adversely affected.

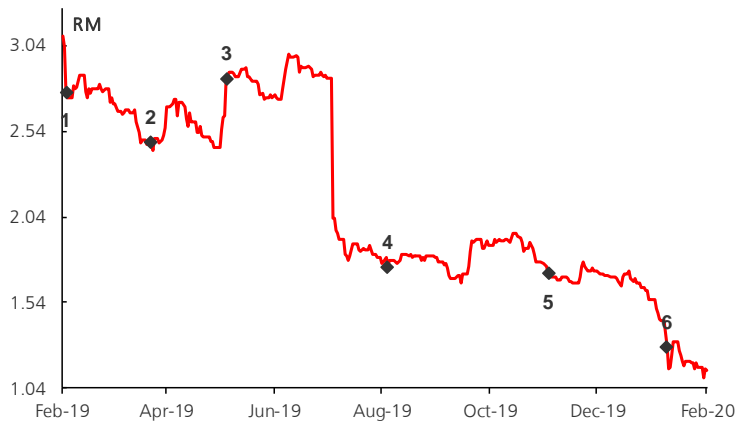
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### Quarterly Income Statement (RMm)

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Revenue	2,823	2,945	3,359	19.0	14.1
Other Oper. (Exp)/Inc	(3,012)	(2,681)	(3,199)	6.2	19.3
<b>Operating Profit</b>	<b>(188)</b>	<b>264</b>	<b>36.2</b>	<b>(119.2)</b>	<b>(86.3)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	(54.8)	(61.8)	(226)	nm	nm
Net Interest (Exp)/Inc	(32.1)	(200)	(184)	nm	8.0
Exceptional Gain/(Loss)	(414)	(350)	141	nm	nm
<b>Pre-tax Profit</b>	<b>(689)</b>	<b>(348)</b>	<b>(232)</b>	<b>66.3</b>	<b>33.1</b>
Tax	(85.6)	280	(153)	78.7	nm
Minority Interest	62.1	16.0	0.99	(98.4)	(93.8)
<b>Net Profit</b>	<b>(713)</b>	<b>(51.4)</b>	<b>(384)</b>	<b>46.1</b>	<b>647.3</b>
Net profit bef Except.	(235)	5.97	(77.3)	67.1	nm
EBITDA	(91.4)	691	35.3	nm	(94.9)
<b>Margins (%)</b>					
Opg Profit Margins	(6.7)	9.0	1.1		
Net Profit Margins	(25.3)	(1.7)	(11.4)		

Source of all data: Company, AllianceDBS

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Jin Wu LOW

Siti Ruzanna Mohd Faruk

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AllianceDBS recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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