



AmInvestment Bank

Company report

AIRASIA

(AAGB MK EQUITY, AIRA.KL)

30 Mar 2021

RM3.5bil losses in FY20

SELL

(Maintained)

AmInvestment Bank

www.amequities.com.my

03-2036 2240

Rationale for report: Company results/update

Price RM1.13
 Fair Value RM0.63
 52-week High/Low RM1.16/RM0.50

Key Changes

Fair value 
 EPS 

YE to Dec	FY20	FY21F	FY22F	FY23F
Revenue (RM mil)	3,141.1	5,895.2	11,495.6	12,392.0
Core net profit (RM mil)	(3,471.0)	(2,255.6)	232.9	396.5
FD Core EPS (sen)	(103.9)	(59.2)	6.1	10.4
FD Core EPS growth (%)	(1241)	(43)	nm	70
Consensus Net Profit (RM mil)	-	(3,068.0)	(862.7)	-
DPS (sen)	0.0	0.0	0.0	0.0
PE (x)	nm	nm	18.5	10.9
EV/EBITDA (x)	10.5	10.6	5.5	3.7
Div yield (%)	0.0	0.0	0.0	0.0
ROE (%)	96.8	41.0	(4.4)	(8.1)
Net Gearing (%)	(1,092.9)	(1,465.7)	(1,385.7)	(1,401.8)

Stock and Financial Data

Shares Outstanding (million) 3,812.2
 Market Cap (RM mil) 4,307.8
 Book Value (RM/share) (0.37)
 P/BV (x) (3.1)
 ROE (%) 96.8
 Net Gearing (%) (1092.9)

Major Shareholders
 Tune Live Sdn Bhd (13.9%)
 Tune Air Sdn Bhd (13.7%)
 Positive Boom Ltd (9.0%)

Free Float 63.4
 Avg Daily Value (RM mil) 46.1

Price performance	3mth	6mth	12mth
Absolute (%)	24.9	68.7	50.7
Relative (%)	26.7	57.4	25.6



Investment Highlights

- We now project a wider FY21F net loss per share of 59.2 sen (vs. 24.6 sen previously) and a lower FY22F EPS of 6.1 sen (vs. 6.2 sen previously), having reflected higher operating expenses, particularly fuel cost, and earnings dilution from recent private placements of new shares.
- However, we tweak our fair value up slightly to RM0.63 (from RM0.62 previously) to adjust for a 3% premium to reflect a 4-star ESG rating for AirAsia as appraised by us (Exhibit 3). We value AirAsia based on 10x revised FY22F EPS, at a discount to its global peers, Ryanair and Southwest Airlines (19x–49x forward PE) to reflect AirAsia's relatively smaller size and a weaker balance sheet. Maintain SELL.
- AirAsia disappointed with a core net loss of RM3.5bil in FY20 vs. our full-year net loss forecast and the full-year consensus net loss estimates of RM3.1bil. We believe the variance against our forecast came mainly from lower-than-expected revenues due to weak average air fare.
- AirAsia's FY20 revenues dived by 74% YoY on the back of a 77% contraction in revenue passenger kilometres (RPK) amidst travelling restriction and low demand due to the pandemic. The passengers carried in FY20 were lower by 74% YoY (in line with our forecasts of 75% contraction YoY) to 13.3mil vs. 51.6mil previously. There was also a 71% YoY reduction in capacity.
- During the analyst briefing, AirAsia reiterated its plans to raise RM2bil–RM2.5bil fresh funds from a combination of equity and debt. To recap, AirAsia recently completed its private placement of up to 17% new shares (which consists of 2 tranches), comprising 470.2mil new shares or 14% of its pre-exercise share base at an issue price of RM0.675 (for the first tranche) and RM0.865 (for the second tranche), raising proceeds of about RM336mil in total.
- It hopes to embark on a rights issue by 2QFY21 and it is also in final stages of discussion for a government guarantee loan (Danajamin Prihatin Guarantee Scheme). It said that it has secured "commitments from two banks" so far with regards to the scheme.
- We believe it is highly critical for AirAsia to shore up its liquidity quickly given its cash burn rate, we estimate at about RM350mil/month.

- In terms of cost, AirAsia managed to reduce 52% YoY for the full year of FY20, coming largely from staff costs (headcount reduction and pay cuts -35% YoY), fixed maintenance costs via asset optimization (-79% YoY) and opex (strict control on marketing, rental and IT costs -57% YoY). These were partially offset by one-off items including impairment of rights-of-use asset (RM579mil), impairment of finance lease (RM47mil), impairment of receivables (RM1.3bil), fuel swap losses (RM972mil) and bankruptcy costs of AAJ (RM20mil).
- AirAsia will continue to engage with its lessors, suppliers and creditors for payment deferrals/restructuring of repayment plans. It completed its fuel hedges restructuring (resulting in RM972mil fuel swap losses in FY20) and guided for minimal additional losses in FY21F. It revealed that there is no more fuel hedging contracts from March 2021 onwards.
- While the prospects for the air travel industry and airlines have improved significantly following the large-scale rollout of Covid-19 vaccines globally, we are still mindful of the urgent need for airlines, including AirAsia, to recapitalize their balance sheets. For AirAsia, the process has just begun. Depending on how soon Malaysia and the world at large are to emerge from the pandemic, AirAsia may need to raise more fresh capital, including potentially a debt-to-equity swap for creditors (that is also highly dilutive to its existing shareholders) to ensure its long-term survival.

EXHIBIT 1: RESULTS SUMMARY

FYE Dec (RM mil)	FY19 4Q	FY20 3Q	FY20 4Q	QoQ Chg	FY19 12M	FY20 12M	YoY Chg
Revenue	3226.2	442.9	267.4	-40%	11942.5	3141.1	-74%
Operating expense	-3314.2	-1916.4	-2953.2	54%	-11811.9	-9098.4	-23%
Other income	124.1	455.5	110.2	-76%	582.2	715.6	23%
Operating profit (EBIT)	36.2	-1018.1	-2575.6	153%	712.8	-5241.7	-835%
Finance income	31.4	28.6	38.7	35%	102.2	106.6	4%
Finance costs	-215.8	-169.8	-219.9	30%	-789.0	-707.8	-10%
Net operating profit	-148.2	-1159.2	-2756.8	138%	26.1	-5842.8	-22528%
Associates	-225.7	-3.9	-9.8	150%	-481.6	-63.5	-87%
JV	174.6	0.0	0.0	nm	0.0	-0.2	nm
Forex (loss)/gains	174.6	44.5	182.7	311%	134.9	232.7	73%
FV (loss)/gain	-33.1	-41.1	112.4	-374%	-247.6	-136.6	-45%
PBT	-232.5	-1159.7	-2242.1	93%	-568.2	-5581.1	882%
Taxation	-13.4	-0.2	-2.9	1311%	-30.3	-17.5	-42%
Deferred tax	-139.6	75.9	-422.1	-656%	294.0	-265.4	-190%
NCI (-)	1.0	305.2	222.3	-27%	-18.0	843.5	-4791%
Net profit	-384.4	-778.9	-2444.8	214%	-322.4	-5020.4	1457%
EI	-141.5	-3.4	1350.4	-39981%	112.7	1549.4	1275%
Core net profit	-525.9	-782.3	-1094.4	40%	-209.7	-3471.0	1555%
<u>Margins</u>				ppt			ppt
Gross profit	0%	0%	0%	0	0%	0%	0
EBITDA	0%	0%	0%	0	0%	0%	0
EBIT	1%	-230%	-963%	-733	6%	-85%	-91
PBT	-7%	-262%	-838%	-577	-3%	-106%	-103
Net profit	-12%	-245%	-997%	-753	1%	-102%	-102
Core net profit	-16%	-177%	-409%	-233	3%	-76%	-78

Source: company, AmlInvestment Bank

EXHIBIT 2: OPERATING STATISTICS

FYE Dec (RM mil)	FY19 4Q	FY20 3Q	FY20 4Q	YoY Chg	FY19 12M	FY20 12M	YoY Chg
Passengers Carried	13.2	1.9	1.3	-30%	51.6	13.3	-74%
Capacity	16.0	2.9	2.0	-31%	60.9	17.9	-71%
Load Factor (%)	82	66	67	100%	85%	74%	-11%
RPK (mil)	15,916	1,854	1,051	-43%	63,381	14,293	-77%
ASK (mil)	19,185	2,598	1,621	-38%	74,642	19,003	-75%
Number of flights	88,175	16,305	10,942	-33%	335,399	98,897	-71%
Average stage length (km)	1,217	906	842	-7%	1,232	998	-19%
Aircraft - end of period	149	147	149	2	149	149	0
Average Fare (RM)	190	169	129	-24%	178	181	2%
Unit Passenger Rev (RM)	234	194	172	-11%	221	224	1%
Rev/ASK (sen)	16.09	14.69	14.20	-3%	15.40	15.04	-2%
Cost/ASK (sen)	16.25	46.85	60.96	30%	15.47	105.82	584%
Cost/ASK-ex Fuel (sen)	11.16	34.05	60.96	79%	9.97	84.88	751%
Fuel Consumed (Barrels)	3,114,176	442,294	284,513	-36%	12,003,620	3,195,439	-73%
Average Fuel Price (US\$/Barrel)	83	192	59	-69%	83.75	275.25	229%

Source: company, AmlInvestment Bank

EXHIBIT 3: ESG RATING

Overall	★	★	★	★	
Zero-carbon initiatives	★	★	★	★	
Pollution control	★	★	★		
Sustainable industrialization	★	★	★	★	
Diversity and inclusion	★	★	★	★	
Employees welfare	★	★	★		
Corporate social responsibilities	★	★	★	★	
Accessibility & transparency	★	★	★	★	
Supply chain auditing	★	★	★		

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 4: PB BAND CHART

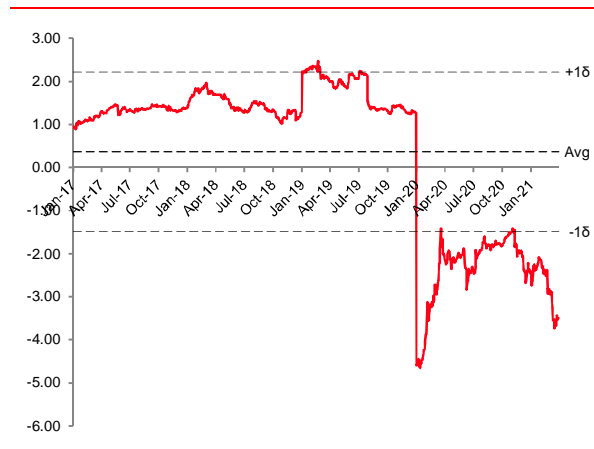
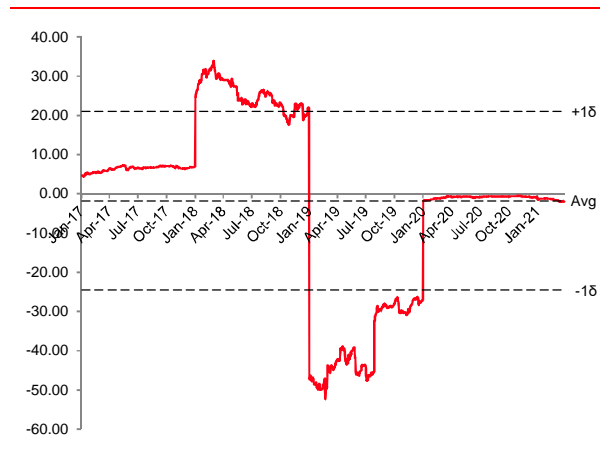


EXHIBIT 5: PE BAND CHART



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