

Capital A (AAGB MK)

Restarting engines

Maintain BUY with a revised TP of MYR1.29 (-2%)

4Q21/FY21 net loss was within our expectations. While 4Q21 net loss was wider QoQ, it was necessary to resume flights. This year ought to be better as Malaysia will welcome international travellers soon. We narrow our FY22E net loss by 24% but our FY23E net profit is little changed; we also introduce FY24E. Our SOP-based TP is trimmed a tad by 2% to MYR1.31 from MYR1.29. Maintain BUY. On another note, Capital A has hired 2 financial institutions to regularise its PN17 status.

Results within our expectations

4Q21 core net loss of MYR857.7m (-22% YoY, +27% QoQ) brought FY21 core net loss to MYR2.84b (-19% YoY) which was within our expectations, at 103% of our FY estimate. Note that while 4Q21 revenue surged 142% QoQ as Malaysia permitted interstate travel from 11 Oct 2021, 4Q21 core net loss widened 27% QoQ as aircraft coming out of hibernation underwent maintenance checks and incurred higher maintenance costs. In the long term, we opine that maintenance costs will normalise.

FY22E ought to be better, in our view

Despite the recent *Omicron* wave, the Malaysian government will reopen its international borders soon, thanks to its high vaccination rate. This is important to Malaysia AirAsia (MAA) which has historically contributed c.80% to group earnings. Passengers carried on international flights accounted for 46% of MAA's FY19 passengers carried. To be sure, the recovery in international passenger traffic will likely be gradual due to the high cost of PCR testing pre- and post-travel.

Narrowing FY22E net loss by 24%

Our FY22E/FY23E revenue and EBITDA are unchanged. Yet, we narrow FY22E net loss by MYR758.4m. Following 45%-owned Thai AirAsia's (TAA) injection into Asia Aviation (AAV TB, CP: THB2.52, Not Rated), Capital A need not recognize its share of TAA's previously unrecognized losses which we quantified at MYR1.14b for FY22E. Instead, Capital A will recognize its share of AAV's FY22E net loss which we estimate at MYR378.5m. We trim FY23E net profit by only MYR4.6m on slightly higher interest expense. On that note, we introduce FY24E estimates.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,274	1,732	5,064	12,607	12,633
EBITDAR	(1,485)	(1,059)	175	2,811	2,839
Core net profit	(3,483)	(2,838)	(2,439)	254	362
Core FDEPS (sen)	(104.2)	(74.3)	(39.3)	5.5	7.3
Core FDEPS growth(%)	nm	nm	nm	nm	32.4
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Core FD P/E (x)	nm	nm	nm	11.3	8.5
P/BV (x)	nm	nm	nm	nm	nm
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
ROAE (%)	(71.7)	(97.6)	(409.3)	(51.1)	(191.0)
ROAA (%)	(15.4)	(14.3)	(13.2)	1.6	2.5
EV/EBITDAR (x)	nm	nm	nm	6.6	5.1
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Consensus net profit	-	-	(929)	236	na
MKE vs. Consensus (%)	-	-	(162.7)	7.6	na

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BUY

Share Price	MYR 0.63
12m Price Target	MYR 1.29 (+106%)
Previous Price Target	MYR 1.31

Company Description

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

Statistics

52w high/low (MYR)	1.28/0.55
3m avg turnover (USDm)	3.9
Free float (%)	55.2
Issued shares (m)	4,162
Market capitalisation	MYR2.6B USD620M

Major shareholders:

Tune Air Sdn Bhd	12.4%
Tune Live Sdn. Bhd.	12.2%
Positive Boom Ltd.	8.0%

Price Performance



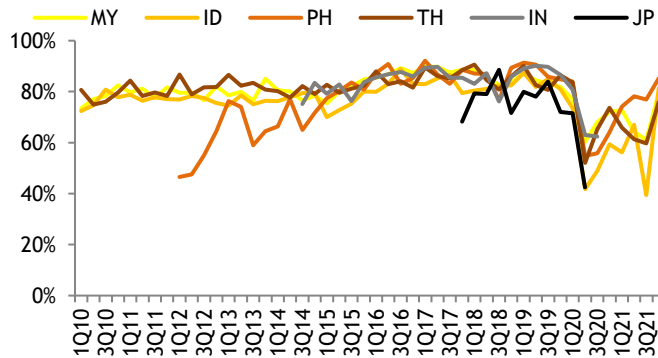
	-1M	-3M	-12M
Absolute (%)	15	(29)	(32)
Relative to index (%)	9	(33)	(32)

Source: FactSet

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, 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 12 times in a row by Skytrax.

AirAsia passengers load factor by country



Source: Company

Price Drivers

Historical share price trend



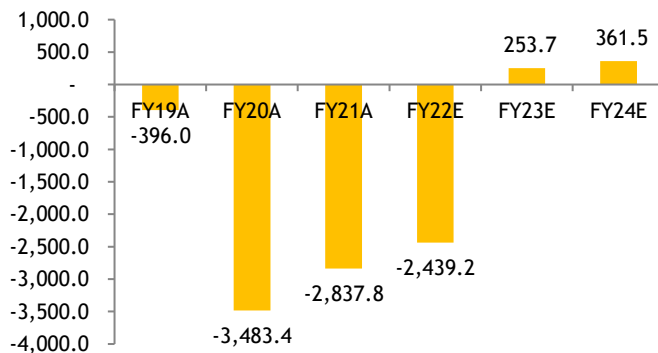
Source: Company, Maybank IBG Research

1. Strong earnings growth and positive earnings outlook engendered market confidence in AAGB.
2. AAGB announced record dividends which provided a catalyst to its share price.
3. Market de-rated following the outcome of the 14th General Election.
4. COVID-19 pandemic struck Malaysia. AAGB grounded most of its fleet in late-Mar 2020.
5. Pfizer, Moderna and AstraZeneca announced that they have developed effective COVID-19 vaccines.

Financial Metrics

- Best financial indicator is core net profit ex disposal gains, forex and fair value changes, and deferred taxation.
- Still forecast FY22E core net loss as number of passengers carried is unlikely to exceed 50% of pre-COVID-19 levels.
- Forecast FY23E to generate net profit on number of passengers carried recovering and average fares rising.
- Sensitive to fuel price movement, a USD1 per barrel change in fuel price will move earnings by MYR10m-MYR30m.
- Balance sheet as at end-4Q21 in a net debt position of MYR1.11b if ex-finance lease liabilities.

Core net profit/(loss) (MYRm)



Source: Company, Maybank IBG Research

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 AAGB 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)	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
Revenue	717.1	328.4	118.4	295.9	142.4	1,732.3	3,274.4	(47.1)
- Passenger revenue	450.8	215.4	109.3	96.7	366.2	911.9	2,778.0	(67.2)
- Aircraft operating lease income	11.7	7.0	67.1	9.4	24.5	49.6	64.6	(23.2)
- Digital & others	254.7	106.0	140.3	189.9	34.1	770.8	431.8	78.5
Operating expenses	(1,063.7)	(966.1)	10.1	(572.0)	86.0	(2,790.8)	(4,759.6)	(41.4)
- Staff costs	(217.2)	(203.6)	6.7	(184.8)	17.5	(791.6)	(1,166.2)	(32.1)
- Aircraft fuel expenses	(187.9)	(458.7)	(59.0)	(32.7)	474.7	(393.9)	(1,962.7)	(79.9)
- Maintenance and overhaul	(286.7)	(17.4)	N/M	(55.9)	412.5	(449.8)	(533.7)	(15.7)
- User charges and other related expenses	(224.9)	(85.1)	164.4	(192.2)	17.0	(762.8)	(703.6)	8.4
- Other operating expenses and income	(146.9)	(201.3)	(27.0)	(106.3)	38.2	(392.6)	(393.5)	(0.2)
EBITDA	(346.6)	(637.7)	(45.7)	(276.1)	25.5	(1,058.5)	(1,485.2)	(28.7)
Depreciation & amortisation	(427.2)	(491.7)	(13.1)	(458.0)	(6.7)	(1,786.8)	(2,073.0)	(13.8)
EBIT	(773.8)	(1,129.4)	(31.5)	(734.1)	5.4	(2,845.3)	(3,558.2)	(20.0)
Interest expense	(203.4)	(178.5)	14.0	(159.4)	27.6	(648.1)	(597.7)	8.4
Associates & JVs	(4.6)	(9.5)	(51.4)	(5.7)	(18.6)	(35.4)	(63.5)	(44.2)
Exceptional items	17.8	(886.8)	(102.0)	(212.3)	(108.4)	(239.3)	(1,331.8)	(82.0)
Pre-tax profit	(964.0)	(2,204.2)	(56.3)	(1,111.5)	(13.3)	(3,768.1)	(5,551.3)	(32.1)
Tax	(0.1)	(2.6)	(96.8)	(1.5)	(94.4)	(4.8)	(17.8)	(72.9)
Deferred tax	(44.2)	(475.5)	(90.7)	2.7	N/M	(41.5)	(318.8)	(87.0)
Minority interest	124.2	226.9	(45.3)	223.3	(44.4)	695.8	776.3	(10.4)
Net profit/(loss)	(884.1)	(2,455.4)	(64.0)	(887.0)	(0.3)	(3,118.6)	(5,111.7)	(39.0)
Core net profit/(loss)	(857.7)	(1,093.1)	(21.5)	(677.4)	26.6	(2,837.8)	(3,483.4)	(18.5)
	4Q21	4Q20	+/- ppt	3Q21	+/- ppt	FY21	FY20	+/- ppt
<i>EBITDA margin (%)</i>	(48.3)	(194.2)	145.9	(93.3)	45.0	(61.1)	(45.4)	(15.7)
<i>Tax rate (%)</i>	(0.0)	(0.1)	0.1	(0.1)	0.1	(0.1)	(0.3)	0.2
	4Q21	4Q20	% YoY	3Q21	% QoQ	FY21	FY20	% YoY
EBITDA								
Aviation	(310.9)	(682.1)	(54.4)	(146.3)	112.6	(764.7)	(1,509.0)	(49.3)
Digital	(35.6)	44.4	(180.3)	(129.8)	(72.6)	(293.8)	23.8	N/M
Statistics								
Passengers carried (m)	2.7	1.3	103.0	0.4	N/M	4.8	13.3	(63.8)
Capacity (m)	3.4	2.0	69.8	0.5	N/M	6.5	17.9	(63.8)
Load factor	80%	67%	19.6	67%	20.6	74%	74%	(0.2)
RPK (m)	2,195	1,051	108.8	292	N/M	4,149	14,267	(70.9)
ASK (m)	2,786	1,621	71.9	460	N/M	5,723	19,118	(70.1)
Average fare (MYR)	141	129	9.3	231	(39.0)	160	175	(8.6)
Unit passenger revenue (MYR)	173	172	0.6	285	(39.3)	196	215	(8.8)
RASK (sen)	16.91	14.20	19.1	21.83	(22.5)	16.67	15.06	10.7
CASK (sen)	43.86	80.00	(45.2)	187.16	(76.6)	68.64	35.24	94.8
CASK-ex fuel (sen)	37.00	60.96	(39.3)	180.16	(79.5)	61.70	24.96	147.2
Fuel consumed (m bbl)	0.5	0.3	70.1	0.1	465.8	1.0	3.2	(69.0)
Average fuel price (USD/bbl)	95	58	63.8	90	5.6	89	117	(23.9)

Source: Company

Results analysis

- 4Q21 core net loss was 22% lower YoY largely due to passengers carried doubling YoY and nil fuel swap losses (4Q20: MYR390.8m).
- 4Q21 core net loss was 27% wider QoQ largely due to higher fuel prices and higher maintenance cost as aircraft went through maintenance checks before resuming flights.
- FY21 core net loss was 19% lower YoY largely due to lower staff cost and only MYR30m of fuel swap losses (FY20: MYR972.2m).

Figure 2: AAGB SOTP valuation

	FY23E	PER (x)	Value	Value/shr	Comment
Airlines	299.2	14.0	4,189.2	0.7014x	FY23E net profit with RCUIDS interest expense added back
AirAsia X			-		-assume nil
Tune Protect Group			51.3	0.0114%	of market capitalisation
Proceeds from warrants			649.7	0.11MYR	1.00 exercise price
Proceeds from ESOS			118.4	0.02MYR	0.743 exercise price
Incumbent business (A)			5,008.5	0.83	
airasia SuperApp			4,041.3	0.67	96% of USD1.0b valuation
teleport			1,247.8	0.21	99% of USD300m valuation
Digital business (B)			5,289.1	0.88	
Total (C=A+B)			10,297.6	1.71	
(25% discount) (D=CX-25%)			-2,574.4	-0.43	
SOTP (E=C+D)			7,723.2	1.29	
FD number of shares			6,006.5		
SOTP/sh			1.29		

Source: Maybank IBG Research

PN17 status - a work in progress

Capital A stated that it has not written back any impairments or lease payments waived (as at end-FY21E, there were deferred aircraft leases of MYR2.4b) to narrow its negative shareholders' equity. That said, it stated that it is still in discussion with its auditors and some may be written back before the audited financial statements are issued. Capital A also updated that it has hired 2 financial institutions to help it regularise its PN17 status.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	9.6	6.7
Core P/E (x)	nm	nm	nm	9.6	6.7
Core FD P/E (x)	nm	nm	nm	11.3	8.5
P/BV (x)	nm	nm	nm	nm	nm
P/NTA (x)	(1.6)	(0.8)	(0.4)	(0.4)	(0.4)
Net dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	nm	nm	nm	4.9	6.0
EV/EBITDAR (x)	nm	nm	nm	6.6	5.1
EV/EBIT (x)	nm	nm	nm	21.8	16.5

INCOME STATEMENT (MYR m)

Revenue	3,274.4	1,732.3	5,064.1	12,607.4	12,632.9
EBITDAR	(1,485.2)	(1,058.5)	174.9	2,811.3	2,838.8
Depreciation	(2,073.0)	(1,786.8)	(1,959.1)	(1,959.1)	(1,959.1)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(3,558.2)	(2,845.3)	(1,784.2)	852.2	879.7
Net interest income / (exp)	(597.7)	(648.1)	(648.3)	(635.5)	(555.3)
Associates & JV	(63.5)	(35.4)	(397.6)	26.0	26.0
Exceptionals	(1,331.8)	(239.3)	0.0	0.0	0.0
Pretax profit	(5,551.3)	(3,768.1)	(2,830.0)	242.7	350.5
Income tax	(17.8)	(4.8)	(15.6)	(15.6)	(15.6)
Minorities	776.3	695.8	406.4	26.7	26.7
Reported net profit	(5,111.7)	(3,118.6)	(2,439.2)	253.7	361.5
Core net profit	(3,483.4)	(2,837.8)	(2,439.2)	253.7	361.5

BALANCE SHEET (MYR m)

Cash & Short Term Investments	533.3	1,255.5	736.3	960.0	1,211.2
Accounts receivable	1,336.0	989.1	814.9	814.9	814.9
Inventory	141.4	153.6	153.6	153.6	153.6
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,085.6	759.9	708.9	658.0	607.1
Intangible assets	640.6	794.0	794.0	794.0	794.0
Investment in Associates & JVs	484.1	1,033.9	636.3	662.3	688.3
Other assets	15,443.1	15,029.7	13,056.4	11,143.6	9,230.8
Total assets	19,664.1	20,015.7	16,900.5	15,186.4	13,499.9
ST interest bearing debt	4,263.5	5,154.9	2,829.0	2,908.5	2,991.4
Accounts payable	2,307.1	1,874.2	1,874.2	1,874.2	1,874.2
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	9,460.7	11,572.9	13,628.0	11,606.7	9,502.6
Other liabilities	7,203.0	7,402.0	7,404.0	7,404.0	7,404.0
Total Liabilities	23,233.9	26,004.3	25,734.9	23,793.7	21,772.4
Shareholders Equity	(1,214.3)	(3,111.7)	(5,550.9)	(5,297.2)	(4,935.6)
Minority Interest	(2,355.5)	(2,877.0)	(3,283.4)	(3,310.1)	(3,336.8)
Total shareholder equity	(3,569.8)	(5,988.7)	(8,834.3)	(8,607.3)	(8,272.5)
Total liabilities and equity	19,664.1	20,015.7	16,900.5	15,186.4	13,499.9

CASH FLOW (MYR m)

Pretax profit	(5,551.3)	(3,768.1)	(2,830.0)	242.7	350.5
Depreciation & amortisation	2,073.0	1,786.8	1,959.1	1,959.1	1,959.1
Adj net interest (income)/exp	549.9	528.6	542.7	524.6	444.4
Change in working capital	(800.3)	471.8	54.6	67.7	68.4
Cash taxes paid	(25.3)	(4.4)	(14.3)	(15.0)	(15.6)
Other operating cash flow	1,585.7	650.1	397.6	(26.0)	(26.0)
Cash flow from operations	(2,168.2)	(335.2)	109.5	2,753.0	2,780.6
Capex	(100.5)	(27.2)	(100.0)	(100.0)	(100.0)
Free cash flow	(3,148.9)	(675.7)	(1,025.1)	119.0	146.6
Dividends paid	0.0	0.0	0.0	0.0	0.0
Equity raised / (purchased)	0.0	336.5	0.0	0.0	0.0
Change in Debt	(412.5)	930.1	(868.1)	(2,534.1)	(2,534.1)
Other invest/financing cash flow	589.8	(178.4)	339.3	104.7	104.7
Effect of exch rate changes	65.0	(3.6)	0.0	0.0	0.0
Net cash flow	(2,026.4)	722.2	(519.2)	223.6	251.2

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(72.4)	(47.1)	192.3	149.0	0.2
EBITDAR growth	nm	nm	nm	1,507.4	1.0
EBIT growth	nm	nm	nm	nm	3.2
Pretax growth	nm	nm	nm	nm	44.4
Reported net profit growth	nm	nm	nm	nm	42.5
Core net profit growth	nm	nm	nm	nm	42.5
Profitability ratios (%)					
EBITDAR margin	nm	nm	3.5	22.3	22.5
EBIT margin	nm	nm	nm	6.8	7.0
Pretax profit margin	nm	nm	nm	1.9	2.8
Payout ratio	0.0	0.0	0.0	0.0	0.0
DuPont analysis					
Net profit margin (%)	nm	nm	nm	2.0	2.9
Revenue/Assets (x)	0.2	0.1	0.3	0.8	0.9
Assets/Equity (x)	nm	nm	nm	nm	nm
ROAE (%)	(71.7)	(97.6)	(409.3)	(51.1)	(191.0)
ROAA (%)	(15.4)	(14.3)	(13.2)	1.6	2.5
Liquidity & Efficiency					
Dividend cover (x)	nm	nm	nm	nm	nm
Current ratio (x)	0.3	0.3	0.3	0.3	0.3
Leverage & Expense Analysis					
Asset/Liability (x)	0.8	0.8	0.7	0.6	0.6
Net gearing (%) (incl perps)	nm	nm	nm	nm	nm
Net gearing (%) (excl. perps)	nm	nm	nm	nm	nm
Net interest cover (x)	na	na	na	1.3	1.6
Debt/EBITDAR (x)	nm	nm	nm	5.2	4.4
Capex/revenue (%)	3.1	1.6	2.0	0.8	0.8
Net debt/ (net cash)	13,190.8	15,472.3	15,720.7	13,555.3	11,282.7

Source: Company; Maybank

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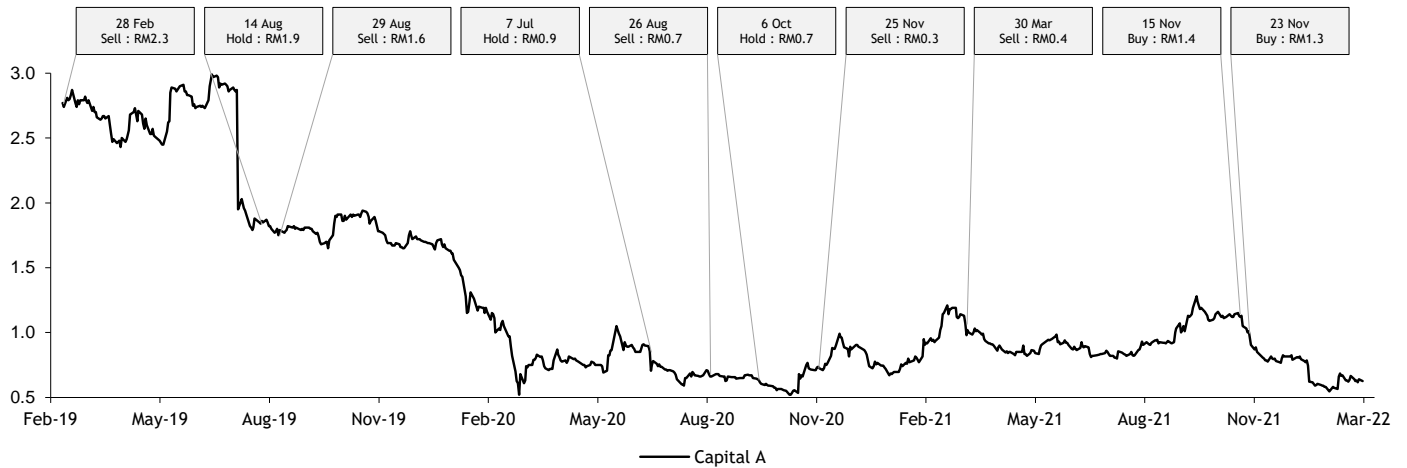
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