# AirAsia flies on strong growth prospects

▶ **Recommendation: Buy**
**Target Price: RM2.32**
By ECMLibra Investment Research (Sept 7)

**▶ AIRASIA BHD**

| | 2009 | 2010F | 2011F | 2012F |
|---|---|---|---|---|
| **REVENUE** (RM mil) | 3,132.9 | 3,629.3 | 4,009.6 | 4,494.8 |
| **NET PROFIT** (RM mil) | 506.3 | 467.6 | 588.1 | 730.0 |
| **EPS** (sen) | 18.9 | 18.5 | 24.4 | 30.3 |
| **PER** (x) | 9.7 | 9.9 | 7.5 | 6.1 |

## Strong 2Q10 Results

AIRASIA Bhd posted strong 2Q10 revenue and earnings mainly on increased passenger volume, ancillary income as well as higher flight frequencies.

Despite the political unrest in Thailand, associate Thai AirAsia (TAA) also managed to record a net profit of 49 million baht (RM4.91 million) in 2Q10, a growth of 161% YoY compared to 2Q09's losses of 80 million baht. This was contributed by higher traffic and improved yields.

Likewise, Indonesia AirAsia (IAA) registered a net profit of 111 billion rupiah (RM38.49 million) compared to a loss of 64 billion rupiah in 2Q09, attributable to passenger increase and higher average fare arising from strong demand on international routes and longer average sector length.

## Expect Stronger 2H10

Going forward, we expect the seasonally better 2H10 to turn in better performance on higher load factors, higher ancillary income, and increased capacity.

Traffic volume is expected to be higher in 2H due to the *Hari Raya Aidilfitri* celebration, National Day holiday and the year-end festivities.

Forward bookings for September and October are looking good, having achieved 37% and 24% respectively.

## Undemanding Valuations

Backed by its stellar 1H10 results, we have upgraded our forecasts and TP to RM2.32 (+39% from RM1.67) based on 11x average peers' CY10-11 EPS.

We believe the valuation range is undemanding given its strong growth prospects.

However, the valuation peg of 11x PE is low compared to other low-cost carriers such as Ryanair and Tiger Airways.

To illustrate, we compare AirAsia to its nearest competitor, Tiger Airways.

AirAsia's 11x is at a 27% discount to the average 15x PE of its Singaporean counterpart. We believe the discount is a reflection of investors' concerns with AirAsia's high gearing.

The stock is poised for a re-rating as management has revealed plans to transfer leased aircrafts and corresponding debts to its associates. This will bring net gearing down.

## Maintain 'Buy'

We continue to like AirAsia for its ability to compete with low-fare structures coupled with potentially strong earnings growth.

Share price has been trending upwards and recently hit a record high of RM1.89 (Sept 2). We reckon that this is most likely due to its strong 1H performance backed by recent news flow.

## Rise in Load Factor

Load factor is expected to increase following the recovery in demand.

In 2Q10, AirAsia's load factor rose to 77%, up by 3.6 ppt, and is likely to rise (to 85%) as more routes mature.

Currently, only half of the routes under the group's portfolio have matured.