Maybank research airasia

Finance, Banks

Sax’s operation is strategically located to tap unto a population base of b -? roughly 50% of the world’s population, and catering to the huge undeserved budget market hereby competition and the number of players are low.

Strengths. Sax’s partnership with Raisin has enabled it to have all the hallmarks of a big established airline, whilst at the same time retaining the benefits of a small organization. This has helped AX to have the lowest reported unit cost airline in the world, with superior aircraft utilization rate and operational reliability.

In addition, it is also the longest surviving LECH, and has considerable knowledge of what works, and more importantly what doesn’t. This provides it with a competitive advantage that others are unable to replicate quickly. Financial track record.

AX has yet to churn a positive full year profit (excluding force translation and deferred tax) since inception and is consuming cash. There was one round of equity injection by venture capitalist in 2007, followed by a rights issue in 2010 for working capital and to finance aircraft acquisitions.

The business health has improved considerably in 2012 thanks to the restructuring of its route network and cessation of underperforming routes. It has since been churning strong scofflaws and is on track to make a turnaround in 2013, we estimate.

Risks and challenges. Sax’s growth plan is aggressive with 30% and 58% planned capacity expansion in 013-14, in our estimate. This is dependent on

Sax’s ability to secure route rights in a timely manner, of which the management has alluded that it is not a problem.

Competitive pressures from incumbents are intensifying, especially from the Middle Eastern carriers which may put pressures on load factor and yields. Managing risks.

The management is reputed to be very proactive and quick to implement changes wherever necessary. It had terminated seven routes since inception as they concluded that it is commercially enviable, and also pulled the plug on some unsuccessful experiments. This showcases the ability to adapt and adjust to the fast changing environment and min minimize the impact to the business. Valuation.

We believe AX is worth MYRA . 0/share using PER methodology. We have tagged a xx 2014 PER in our base valuation, which is in the upper band of airlines’ 8-1 xx earnings multiple range across the cycle. Consequently, this works to a 16% premium to the current average for global low cost carriers (LLC). We think this is fair given Sax’s immense growth prospects with projected 3-year forward earnings CARR of 98. 5% and its market leadership Status.

Page 2 of 30 Introduction Jean’s first LECH airline. Fly Asian Express (“ FAX”) was incorporated in 2006 to take over the rural air services from Malaysian Airlines System (“ MASS”).

This was a social service which was us abseiled by the Government of Malaysia (“ COM’) to provide connectivity and ensure development in the rural interiors of Saba and Karakas (East Malaysia). However, this arrangement was cut short due to certain complications and the COM directed the operations to be handed back to MASS in Cot 2007.

Raisin X logo In Jan 2007, FAX entered into a memorandum of understanding with Raisin Bertha (AIR MS, “ Raisin”) to operate a medium and longhand air travel arrives from Koala Lump under the “ Raisin X” banner.

The new airline operates independently from Raisin, with a standalone aircraft operator’s certificate license (“ COCA”), has its own aircraft fleet and a separate management team. Raisin reincarnated. In many ways, AX is a repeat of Raisin’s experience back in its formative years of 2001-05. Key management are people from outside the airline industry and have a distinctive entrepreneurial flair; with deep emphasis on innovation, thinking out of the box, always trying something new and heavy users of technology.

One of the fastest growing airline globally.