

## Air Arabia

Rebound in Travel Demand supported the bottom-line

**Rating : Accumulate**

### First Look Note – 1Q22

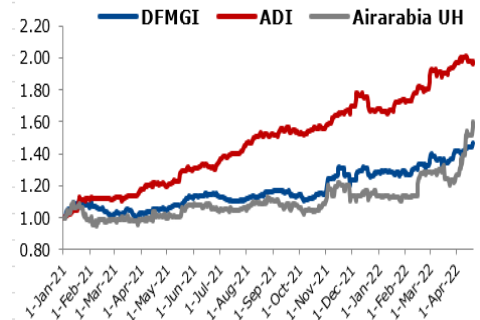
Sector: Transportation

#### Recommendation

Current Price (25-May-22)	1.89
Target Price	2.10
Upside/Downside (%)	+11%

#### Stock Information

Market Cap (mm)	8,820.06
Paid Up Capital (mm)	4,666.70
52 Week High	2.24
52 Week Low	1.31
3M Avg. daily value (AED)	14,122,370



#### Financial Ratios

Dividend Yield (12m)	4.50
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	9.26
Price-to-Book Ratio (x)	1.41
Book Value (AED)	1.34
Return-on Equity (%)	17.49
Earning Per Share (AED)	0.20
Beta	0.97

#### Stock Performance

5 Days	-6.44%
1 Months	-6.90%
3 Months	15.24%
6 Months	22.73%
1 Year	36.96%
Month to Date (MTD)	-12.09%
Quarter to Date (QTD)	17.39%
Year to Date (YTD)	30.34%

### 1Q22 Net Profit lower than our estimate

Air Arabia reported a significant increase in net profit from AED 34 Mn in 1Q21 to AED 291 Mn in 1Q22, lower than our estimate of AED 349 Mn. This increase was mainly attributed to a strong increase in revenue due to strong rebound in travel demand and cost measures adopted starting to show positive results.

### P&L highlights

Revenue increased more than doubled from AED 572 Mn in 1Q21 to AED 1,129 Mn in 1Q22 due to strong recovery in travel, easing of travel restrictions and better yield. Air Arabia flew 2.4 Mn passengers during 1Q22 compared to 1.3 Mn in 1Q21 with available seat load factor of 79% in 1Q22 compared 75% in 1Q21. Direct Costs increased 62.8% YOY to AED 784 Mn due to increase in oil prices and rise in travel demand. Therefore, gross profit strongly increased from AED 90 Mn in 1Q21 to AED 344 Mn in 1Q22, with a gross profit margin of 30.5% compared to 15.8% in 1Q21. Operating expenses rose 40.5% YOY to AED 63 in 1Q22. As a result, EBIT strongly rose from AED 45 Mn in 1Q21 to AED 281 Mn in 1Q22. Net finance cost declined from 19.0% YOY to AED 13 Mn in 1Q22 due to decline in finance expense partially offset by decline in finance income. Share of profit on equity accounted investments significantly grew from a loss of AED 6 Mn in 1Q21 to a profit of AED 11 Mn in 1Q22. Other Income increased 11.9% YOY to AED 12 Mn in 1Q22.

### Balance sheet highlights

Debt rose marginally from AED 37.6 Mn in 4Q21 to AED 45.7 Mn in 1Q22. Lease liabilities stood at AED 3.0 Bn in 1Q22. It maintained healthy liquidity levels with bank and cash balance of AED 3.9 Bn in 1Q22. Cash flow from operation improved from AED 212.7 Mn in 1Q21 to AED 501.2 Mn in 1Q22 mainly due to rebound in profitability. Free cash flow rose from AED 72 Mn in 1Q21 to AED 217 Mn in 1Q22. Free cash flow is computed after deducting capex on PPE & intangibles, payment to finance lease liabilities and finance cost from cash flow from operations.

### Target price and rating

We revise our rating on Air Arabia from BUY to ACCUMULATE with a target price of AED 2.10. The stock price rallied 12.7% since our last rating leading us to revise our rating. There is strong rebound in travel demand post easing of travel restriction and we expect travel demand grow rebound further as economies further ease restriction. Air Arabia is expected to benefit from this trend. Air Arabia added four new routes from its five hubs in the UAE, Morocco and Egypt during 1Q22. It is also preparing to launch operations in Armenia and Pakistan through new joint ventures. The company is

taking measures to improve operational efficiency and cost control to mitigate impact of higher fuel prices. Air Arabia remain nearly debt free and maintain a strong liquidity position enables it grow both organically and inorganically. However, rising fuel prices remain a major threat to airline profitability leading us to maintain our ACCUMULATE rating.

**Air Arabia - Relative valuation**

(at CMP)	2018	2019	2020	2021	2022F
PE(X)	NA	8.9	NA	12.3	8.7
PB(X)	2.0	1.6	2.0	1.5	1.5
EV/EBITDA	7.0	4.3	14.9	3.9	3.4
Dividend yield	NA	4.8%	NA	4.5%	4.5%

*FABS Estimates & Co Data*
**Air Arabia - P&L**

AED mm	1Q21	4Q21	1Q22A	1Q22F	Var.	YOY Ch	QOQ Ch	2021	2022F	YOY
Revenue	572	1,302	1,129	1,183	-4.6%	97.3%	-13.3%	3,174	4,633	45.9%
Direct costs	-482	-805	-784	-781	0.5%	62.8%	-2.6%	-2,291	-3,382	47.6%
<b>Gross profit</b>	<b>90</b>	<b>496</b>	<b>344</b>	<b>402</b>	<b>-14.4%</b>	<b>280.5%</b>	<b>-30.7%</b>	<b>883</b>	<b>1,251</b>	<b>41.7%</b>
Selling & Mkt expense	-9	-14	-13	-17	-18.9%	55.8%	-4.6%	-41	-88	112.2%
G&A expenses	-37	-43	-50	-47	5.8%	36.9%	16.9%	-198	-287	44.7%
<b>EBITDA</b>	<b>195</b>	<b>598</b>	<b>435</b>	<b>488</b>	<b>-10.8%</b>	<b>123.1%</b>	<b>-27.2%</b>	<b>1,263</b>	<b>1,452</b>	<b>14.9%</b>
<b>EBIT</b>	<b>45</b>	<b>440</b>	<b>281</b>	<b>338</b>	<b>-17.0%</b>	<b>520.0%</b>	<b>-36.1%</b>	<b>643</b>	<b>876</b>	<b>36.2%</b>
Finance income	18	15	15	15	-3.1%	-18.5%	1.7%	63	62	-1.9%
Finance costs	-34	-34	-28	-32	-12.9%	-18.7%	-17.3%	-138	-172	24.7%
Other income	11	19	12	20	-37.5%	11.9%	-34.4%	62	46	-25.5%
Share of profit on equity -accounted investments	-6	28	11	8	32.9%	-270.7%	-60.8%	90	81	-9.6%
<b>Profit before NCI</b>	<b>34</b>	<b>467</b>	<b>291</b>	<b>349</b>	<b>-16.7%</b>	<b>759.4%</b>	<b>-37.7%</b>	<b>720</b>	<b>893</b>	<b>24.0%</b>
Non-controlling int.	0	0	0	0	NM	0.0%	0.0%	0	116	0.0%
<b>Profit to shareholders</b>	<b>34</b>	<b>467</b>	<b>291</b>	<b>349</b>	<b>-16.7%</b>	<b>759.4%</b>	<b>-37.7%</b>	<b>720</b>	<b>1,009</b>	<b>40.1%</b>

*FABS Estimates & Co Data*
**Air Arabia - Margins**

	1Q21	4Q21	1Q22A	YOY ch	QOQ ch	2021	2022F	Change
Gross profit margin	15.8%	38.1%	30.5%	1,469	-763	27.8%	27.0%	-81
EBITDA margin	5.9%	35.9%	25.8%	1,986	-1,008	22.7%	21.8%	-91
Operating profit margin	15.8%	38.1%	30.5%	1,469	-763	27.8%	27.0%	-81
Net Margin	34.1%	45.9%	38.6%	447	-735	39.8%	31.3%	-846

*FABS estimate & Co Data*

**Research Rating Methodology:**

Rating	Upside/Downside potential
BUY	Higher than +15%
ACCUMULATE	Between +10% to +15%
HOLD	Lower than +10% to -5%
REDUCE	Between -5% to -15%
SELL	Lower than -15%

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