

Air Arabia

Attractively positioned for the demand revival

4Q22 Net profit lower than our estimate

Air Arabia's (The Company/ AIRARABIA PJSC) net profit declined 23.7% YOY to AED 356 Mn in 4Q22 from AED 467 Mn in 4Q21, lower than our estimate of AED 448 Mn. The decline in net profit was mainly due to a hike in direct cost driven by higher fuel costs and a sharp rise in operating expenses partially offset by an increase in revenue.

P&L highlights

Air Arabia's revenue rose 7.0% YOY to AED 1,393 Mn in 4Q22 driven by a stable recovery in the aviation industry along with a healthy air travel demand. The Company flew 2.33 Mn passengers in 4Q22 as compared to 1.85 Mn passengers in 4Q21 whereas the load factor marginally increased to 82% in 4Q22, up from 81% in 4Q21. On the other hand, Air Arabia's direct cost rose 19.7% YOY to AED 964 Mn in 4Q22 mainly due to higher fuel prices and lower yield margins. Thus, gross profit declined 13.6% YOY to AED 429 Mn in 4Q22 with a gross profit margin of 30.8% in 4Q22 as compared to 38.1% in 4Q21. Furthermore, the Company's selling and marketing expenses rose 51.4% YOY to AED 21 Mn in 4Q22 whereas G&A expenses more than doubled from AED 43 Mn in 4Q21 to AED 112 Mn in 4Q22. As a result, operating profit declined 32.7% YOY to AED 296 Mn in 4Q22. The Company's finance income more than doubled to AED 33 Mn in 4Q22 as compared to AED 15 Mn in 4Q21 due to higher benchmark rates in the economy whereas finance cost declined 8.8% YOY to AED 31 Mn in 4Q22. Air Arabia's other income rose significantly to 66 Mn in 4Q22, up from AED 19 Mn in 4Q21 due to an increase in management fees from JVs and associates. In addition, the Company reported a loss of AED 9 Mn in 4Q22 as compared to a profit of AED 28 Mn in 4Q21 from equity-accounted investments due to a decline in share of profit from Air Arabia Marco and losses from investment in JVs in Pakistan and Armenia.

Balance sheet highlights

Air Arabia's borrowings rose to AED 139 Mn in 2022 from AED 38 Mn in 2021. Lease liabilities declined 15.1% to AED 2.8 Bn in 2022. Air Arabia's cash and bank balance stood strong at AED 4.7 Bn in 2022 as compared to AED 3.9 Bn in 2021. Similarly, Air Arabia's generated AED 2.2 Bn in cash flow from operation as compared to AED 2.0 Bn in 2021.

Target price and rating

We maintain our BUY rating on Air Arabia with a revised target price of AED 2.75. The aviation sector witnessed a stable recovery in air travel demand in 2022. The total number of passengers flying Air Arabia almost doubled to 8.4 Mn in 2022 as compared to 4.42 Mn in 2021. The Company witnessed a healthy growth in load factor from 73% in 2021 to 80% in 2022. Air Arabia added 24 new routes in 2022 from its strategic hubs across UAE, Egypt, Morocco, Armenia, and Pakistan. The Company also added 10 new aircraft in 2022 with a total fleet of 68 Airbus A320 and A321 as of December 2022. Furthermore, AIRARABIA ordered 120 Airbus A320 family aircraft whose delivery will start in 2024. The Company's joint venture with Fly Arna commenced operations in 2022 with its base in Yerevan adding five new roots whereas Fly Jinnah started its opera-

Rating : BUY

First Look Note – 4Q22

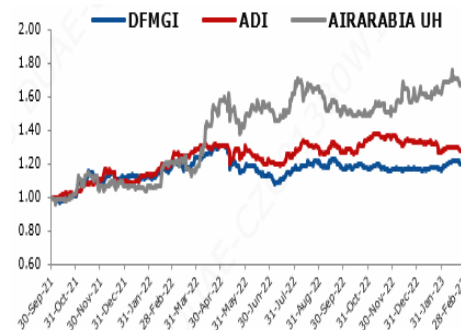
Sector: Transportation

Recommendation

Current Price (3-Mar-23)	2.25
Target Price (AED)	2.75
Upside/Downside (%)	+22%

Stock Information

Market Cap (mm)	10,500.08
Paid Up Capital (mm)	4,666.70
52 Week High	2.41
52 Week Low	1.53
3M Avg. daily value (AED)	8,232,291



Financial Ratios

Dividend Yield (12m)	3.78
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	8.58
Price-to-Book Ratio (x)	1.50
Book Value (AED)	1.50
Return-on Equity (%)	18.70
Earning Per Share (AED)	0.26
Beta	0.84

Stock Performance

5 Days	-0.44%
1 Months	-2.17%
3 Months	5.14%
6 Months	3.69%
1 Year	37.20%
Month to Date (MTD)	0.00%
Quarter to Date (QTD)	4.65%
Year to Date (YTD)	4.65%

tions in October 2022 and expanded to four domestic destinations. Air Arabia also signed an agreement with DAL group to create a joint venture "Air Arabia Sudan" with its base in Khartoum. A hike in fuel prices affected the Company's net profit in 4Q22 and still remains a threat to the airline. However, the Company's strategy to expand its fleet to the latest technology in the aviation industry will drive its profitability in the long term. Air Arabia financial position remained strong with a net cash balance of AED 4.6 Bn equivalent to 44.0% of total market capitalization. It generated steady free cash flow worth AED 2.3 Bn in the last two years. Thus, based on our analysis, we maintain our rating to BUY on the stock.

Air Arabia—Relative Valuation

(at CMP)	2018	2019	2020	2021	2022	2023F
PE	-17.3	10.7	-54.9	14.6	8.6	8.4
PB	2.3	1.9	2.3	1.7	1.5	1.3
EV/EBITDA	8.8	5.5	19.3	5.3	3.5	2.8
Dividend yield	NA	4.0%	NA	3.8%	6.6%	7.1%

FABS estimate & Co Data

Air Arabia - P&L

AED mm	4Q21	3Q22	4Q22	4Q22F	Var	YOY Ch	QOQ Ch	2021	2022	Change
Revenue	1,302	1,606	1,393	1,344	3.7%	7.0%	-13.3%	3,174	5,242	65.1%
Direct costs	-805	-1,186	-964	-817	18.0%	19.7%	-18.7%	-2,291	-3,810	66.3%
Gross profit	496	420	429	527	-18.5%	-13.6%	2.1%	883	1,432	62.1%
Selling & Marketing exp.	-14	-17	-21	-20	5.8%	51.4%	28.4%	-41	-68	64.3%
G&A expenses	-43	-64	-112	-60	85.0%	161.4%	75.7%	-198	-286	44.3%
EBITDA	598	498	459	604	-24.1%	-23.3%	-8.0%	1,257	1,710	36.0%
EBIT	440	340	296	446	-33.7%	-32.7%	-13.0%	643	1,077	67.5%
Finance income	15	24	33	24	35.7%	125.1%	34.2%	63	89	41.3%
Finance costs	-34	-29	-31	-53	-42.0%	-8.8%	7.4%	-138	-115	-16.2%
Other income	19	26	66	31	114.9%	254.0%	151.5%	62	136	118.2%
Share of profit of equity	28	54	-9	0	NM	NA	NA	90	36	-59.6%
Profit before NCI	467	416	356	448	-20.6%	-23.8%	-14.4%	720	1,222	69.8%
Non-controlling interest	0	0	1	0	NM	NA	NA	0	1	NM
Net Profit	467	416	356	448	-20.4%	-23.7%	159.7%	720	1,222	69.7%

FABS Estimates & Co Data

Air Arabia - Margins

	4Q21	3Q22	4Q22	YOY Ch	QOQ Ch	2021	2022	Change
GPM	38.1%	26.2%	30.8%	-171	476	27.8%	27.3%	-50
EBITDA Margin	45.9%	31.0%	32.9%	-567	249	39.6%	32.6%	-698
OPM	33.8%	21.2%	21.2%	393	672	20.3%	20.5%	29
Net margin	35.9%	25.9%	25.6%	-9	1,151	22.7%	23.3%	63

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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