

## Air Arabia

Higher Revenue supported the bottom-line

### 4Q21 results strongly beats our estimate

Air Arabia reported a significant increase YOY in Net Profit to AED467 Mn in 4Q21, up from a Net profit of AED20 Mn in 4Q20, significantly beating our estimate of AED234 Mn. This increase was mainly attributed to a strong increase in Revenue and lower General and Administrative (G&A) expenses .

### P&L highlights

Revenue has increased tremendously YOY to AED1,302 Mn in 4Q21, up from AED536 Mn in 4Q20. Whereas the Direct Costs has also increased by 86.1% YOY to AED805 Mn, up from AED433 Mn in 4Q20. Therefore, the Gross Profit has strongly increased YOY reaching AED496 Mn in 4Q21, as compared to AED104 Mn in 4Q20, with a Gross Profit margin equal to 38.1%, up from 19.3% in 4Q20. Moreover, the Selling & Marketing Expense grew significantly by 94.6% YOY to AED14 Mn in 4Q21 from AED7 Mn in 4Q20. While the General & Admin Expenses have decreased by 37.3% YOY to AED43 Mn in 4Q21, down from AED68 Mn in 4Q20. As a result, the EBIT has strongly increased to AED440 Mn from AED28 Mn in 4Q20. Finance Income declined by 20.8% YOY to AED15 Mn in 4Q21, down from AED18 Mn in 4Q20. Similarly, the Finance Costs have dropped by 19% YOY to AED34 Mn in 4Q21, down from AED42 Mn in 4Q20. The Share of associates & JV significantly grew to AED28 Mn in 4Q21, up from AED5 Mn in 4Q20. In addition, Other Income/Expense increased by 85.6% YOY to AED19 Mn from AED10 Mn in 4Q20.

### Balance sheet highlights

Total Assets have grown by 5.2% YOY to AED13.31 Bn from AED12.65 Bn in 4Q20. While the Total Liabilities have decreased by 11.2% YOY to AED7.23 Bn, as compared to AED8.15 Bn in 4Q20. The Total Equity rose by 34.8% YOY to AED6.08 Bn in 4Q21, up from AED4.51 Bn in 4Q20.

### Target price and rating

We maintain a BUY rating on Air Arabia, with a revised target price of AED2.10. Air Arabia PJSC is a United Arab Emirates-based public joint stock airline carrier company. The Company has scheduled flight routes to over 170 destinations spreading across the Middle East, North Africa, Asia, and Europe. Despite COVID-19 pandemic continuous impact on aviation, the Company has recorded a strong increase in the Net profit to AED 720 Mn in the year ended 2021 compared to a Net Loss of AED 192 Mn in the same period last year, mainly due to higher Revenue. This increase reflects the strength of the business model, growth strategy, and the group's management team. The Company has reported over 6.7 million passengers carried in 2021 signaling a strong recovery in the passenger demand. Consequently, the Revenue were up by 71.5% YOY hitting AED 3.17 Bn in 2021, up from AED 1.85 Bn in 2020. Whereas the Direct Costs also in-

**Rating : BUY**

### First Look Note – 4Q21

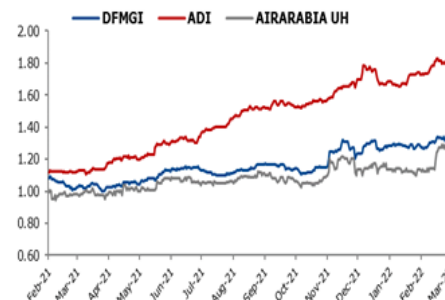
**Sector: Transportation**

#### Recommendation

Current Price (07-March)	1.66
Target Price	2.10
Upside/(Downside) (%)	+27%

#### Stock Information

Market Cap (mm)	7,746.72
Paid Up Capital (mm)	4,666.70
52 Week High	1.67
52 Week Low	1.22
3M Avg. daily value (AED)	7,780,057



#### Financial Ratios

Dividend Yield (12m)	NA
Dividend Pay-out (%)	0.00
Price-Earnings Ratio (x)	11.07
Price-to-Book Ratio (x)	1.27
Book Value (AED)	1.30
Return-on Equity (%)	13.61
Earning Per Share (AED)	0.15
Beta	0.94

#### Stock Performance

5 Days	0.61%
1 Months	15.28%
3 Months	13.70%
6 Months	20.29%
1 Year	30.71%
Month to Date (MTD)	1.22%
Quarter to Date (QTD)	14.48%
Year to Date (YTD)	14.48%

creased by 27.3% YOY to AED 2.3 Bn, up from AED 1.8 Bn in 2020. Therefore, the Gross profit robustly increased reaching AED 883 Mn, as compared to AED 51 Mn in the end of 2020, with a Gross Profit margin (GPM) equal to 27.8%, up from 2.7% in 2020. Moreover, the Selling & marketing expenses have increased by 20.3% YOY standing at AED 41 Mn in the end of 2021. While the General & Administrative expenses have slightly increased reaching AED 198 Mn, up from AED 196 Mn in 2020. Despite the increase in the expenses, the Company's EBIT has significantly grown to AED 643 Mn in 2021, up from a loss of AED 180 Mn, where the Operating Profit Margin (OPM) stood at 20.3% in 2021. Furthermore, the Finance Income has declined by 38.3% YOY to reach AED 63 Mn at the end of 2021. Finance Costs have slightly dropped by 0.2% YOY to AED 137.8 Mn, down from AED 138.1 Mn in 2020. Additionally, the Share of associates & JV were strongly up reaching AED 90 Mn in 2021. Similarly, the Other Income/Expense surged by 55.8% YOY standing at AED 62 Mn in the year ended 2021, as compared to AED 40 Mn in the end of 2020.

Meanwhile, the Company's Balance Sheet improved during the year ended 31 December 2021, with a Total Assets of AED 13.31 Bn, which is a 5% YOY increase from AED 12.65 Bn in 2020. This increase was mainly attributed to an increase by 23% YOY in the Cash & cash equivalents reaching AED 3.88 Bn in 2021. The Company has reported a strong increase in the Retained Earnings from a loss of AED 192 Mn in 2020, compared to AED 405 Mn in 2021. As a result, the Total Equity grew by 35% YOY standing at AED 6.08 Bn at the end of 2021. On the other hand, Company's Total Debt declined by 24% YOY to AED 3.27 Bn, compared to AED 4.28 Bn in 2020. The Company will continue focusing on operational efficiency and cost control while optimizing commercial opportunities for growth.

According to the CEO of "Air Arabia", Adel Ali expected the company's business to grow by 50% this year, in addition, he indicated that the company is not affected by geopolitical tensions so far, indicating that all flights to Ukraine have been suspended. And also he explained during his interview with CNBC Arabia that the existing reserves of oil are sufficient for the year 2024, adding that the hedged oil price is 55-60 dollars per barrel.

The Company has a strong aircraft fleet with 58 aircraft fleet in operation. Out of the total 52 are Airbus A320ceo and 6 are Airbus A321 neo LR. The A320ceo operates over UAE hub, Morocco hub and Egypt Hub. The Company has put a new order for a 120 Airbus A320 family aircraft and expects the delivery to start in 2024. The 2022 outlook for the Industry and Company is mixed. Despite the strong performance in 4Q21, the COVID-19 is likely to continue to hamper growth and performance in 2022. However, UAE has eased travel restrictions that are likely to boost airlines industry recovery and financial performance of the Company. The global macroeconomic environment is boosting, and initiatives are likely to normalize the impact of the pandemic. Air Arabia is likely to maintain its current operations and capitalize on opportunities. Furthermore, the Company is focusing to maintain a robust cash position and achieve cost efficiency for the sustainable outlook of the Company.

The Board of Directors of Air Arabia, held on February 14, 2022, recommended a distributing of 8.5% as cash dividend (equivalent to 8.5 fils per share) of the capital for the year 2021. Based on our analysis, we maintain a BUY rating on the stock.

**Air Arabia - Relative Valuation**

	2017	2018	2019	2020	2021
P/E	11.71	-12.62	7.81	NA	10.93
P/B	1.27	1.70	1.38	1.70	1.26
Dividend Yield	6.1%	6.1%	5.5%	0.0%	0.0%

*FABS Estimate & Co Data*

**Air Arabia - P&L**

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
Revenue	536	804	1,302	NM	61.9%	1,851	3,174	71.5%
Direct costs	-433	-580	-805	86.1%	38.8%	-1,800	-2,291	27.3%
<b>Gross profit</b>	<b>104</b>	<b>224</b>	<b>496</b>	<b>NM</b>	<b>NM</b>	<b>51</b>	<b>883</b>	<b>NM</b>
Selling & mkt expense	-7	-10	-14	94.6%	42.6%	-34	-41	20.3%
G&A expenses	-68	-76	-43	-37.3%	-43.5%	-196	-198	1.1%
<b>EBIT</b>	<b>28</b>	<b>139</b>	<b>440</b>	<b>NM</b>	<b>NM</b>	<b>-180</b>	<b>643</b>	<b>NM</b>
Finance Income	18	14	15	-20.8%	3.6%	102	63	-38.3%
Finance costs	-42	-35	-34	-19.0%	-4.4%	-138.1	-137.8	-0.2%
Share of associates & JV	5	72	28	NM	-61.8%	-16	90	NM
Other income/expense	10	19	19	85.6%	-2.4%	40	62	55.8%
<b>Net profit</b>	<b>20</b>	<b>209</b>	<b>467</b>	<b>NM</b>	<b>NM</b>	<b>-192</b>	<b>720</b>	<b>NM</b>

**Air Arabia - Margins**

AED mm	4Q20	3Q21	4Q21	YOY Ch	QOQ Ch	2020	2021	Change
GPM	19.3%	27.9%	38.1%	1,882	1,027	2.7%	27.8%	2,507
OPM	5.2%	17.2%	33.8%	2,852	1,654	-9.7%	20.3%	2,998
Net margin	3.8%	26.0%	35.9%	3,204	989	-10.4%	22.7%	3,306

*FABS estimate & Co Data*

**Research Rating Methodology:**

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

**FAB Securities Contacts:****Research Analysts**

Ahmad Banihani +971-2-6161629 [ahmad.banihani@Bankfab.com](mailto:ahmad.banihani@Bankfab.com)

**Sales & Execution**

Abu Dhabi Head Office

Trading Desk +971-2-6161700/1 [Online Trading Link](#)  
+971-2-6161777

Institutional Desk +971-2-6161628

Sales and Marketing +971-2-6161641

**DISCLAIMER**

This report has been prepared by FAB Securities (FABS), which is authorised by the UAE Securities and Commodities Authority, licensing registration number 604002, and is a member of the Abu Dhabi Securities Exchange, Dubai Financial Market. The information, opinions and materials contained in this report are provided for information purposes only and are not to be used, construed, or considered as an offer or the solicitation of an offer or recommendation to sell or to buy or to subscribe for any investment security or other financial instrument. The information, opinions and material in this report have been obtained and derived from publicly available information and other sources considered reliable without being independently verified for their accuracy or completeness. FABS gives no representation or warranty, express or implied, as to the accuracy and completeness of information and opinions expressed in this report. Opinions expressed are current as of the original publication date appearing on the report only and the information, including the opinions contained herein, are subject to change without notice. FABS is under no obligation to update this report. The investments referred to in this report might not be suitable for all recipients. Recipients should not base their investment decisions on this report and should make their own investigations, and obtain independent advice, as appropriate. Any loss or other consequences arising from the uses of material contained in this report shall be the sole and exclusive responsibility of the recipient and FABS accepts no liability for any such loss or consequence. The value of any investment could fall as well as rise and the investor may receive less than the original amount invested. Some investments mentioned in this report might not be liquid investments, which could be difficult to realise in cash. Some investments discussed in this report could be characterised by high level of volatility, which might result in loss. FABS owns the intellectual property rights and any other material contained in this report. No part of this report may be reproduced, utilised or modified in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or stored in any retrieval system without the prior consent of FABS in writing. While utmost care has been taken to ensure that the information provided is accurate and correct, neither FABS, nor its employees shall, in any way, be responsible for the contents. By accepting this document, the recipient agrees he/she has read the above disclaimer and to be bound by the foregoing limitations/restrictions.

**FAB Securities Awards**



Best Brokerage House  
in UAE 2016 & 2017  
by "Banker Middle East"



Best Brokerage House in UAE  
2016, 2017, 2019 and 2020  
by "IFA"



Best Brokerage in the UAE  
2016 By "Global Investor/  
ISF ME Awards"



Best Research House  
in UAE 2016 and 2020  
by "IFA"



Best New Mobile Application  
in UAE 2016  
by "IFA"



Best Equity Finance Company  
in UAE 2016  
by "IFA"