First Look Note | 2Q25

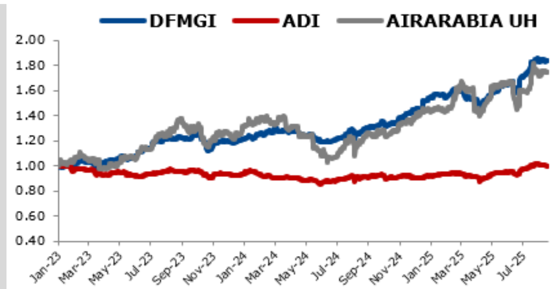
UAE Equity Research | Sector: Transportation | Market: DFM

Air Arabia PJSC

Healthy passenger demand cushions profit pressure

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.75	AED 4.00	+7%	HOLD

- Seat load factor across all hubs stood at 85% in 2Q25, compared to 79% in 2Q24.
- No. of passengers who travelled across all its hubs surged from 4.5 Mn in 2Q24 to 5.1 Mn in 2Q25.
- Added two aircraft in 1H25 with a total fleet of 83 owned and leased fleet.
- 13 new routes added in 1H25 across all its operating hubs
- Air Arabia's debt reduced to nil in 2Q25, compared to AED 8 Mn in 1Q25.
- During 1H25, Air Arabia made an advance payment of AED 416.9 Mn for new aircraft and delivery for the same will start in 2026.



Stock Information	
Market Cap (AED, mn)	17,500.13
Paid Up Capital (mn)	4,666.70
52 Week High	4.05
52 Week Low	2.56
3M Avg. daily value (AED)	20,855,670

2Q25 Result Review (AED, Mn)	
Total Assets	15,388
Total Liabilities	8,011
Total Equity	7,377
EBITDA	455
Net Profit	350

Financial Ratios	
Dividend Yield (12m)	6.68
Dividend Pay-out (%)	63.62
Price-Earnings Ratio(x)	11.72
Price-to-Book Ratio (x)	2.37
Book Value (AED)	1.58
Return-on Equity (%)	20.40

Stock Performance	
5 Days	-0.79%
1 Months	0.81%
3 Months	6.53%
6 Months	9.33%
1 Year	45.91%
Month to Date (MTD%)	0.81%
Quarter to Date (QTD%)	9.33%
Year to Date (YTD%)	21.75%

2Q25 Net Profit higher than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit declined 10.3% YOY to AED 350 Mn in 2Q25, higher than our estimate of AED 301 Mn. The decrease in net profit is mainly attributed to regional conflict and geopolitical tensions, coupled with fuel price volatility, exchange rate fluctuations, and supply chain challenges, along with a rise in tax expenses. This is partially offset by network expansion, addition of new aircraft, strong customer demand and successful implementation of the growth strategy.

P&L Highlights

Air Arabia's revenue grew 2.2% YOY to AED 1,692 Mn in 2Q25, primarily driven by an increase in the number of passengers from 4.5 Mn in 2Q24 to 5.1 Mn in 2Q25, across its operating hubs, coupled with an addition of new aircraft and network expansion. Moreover, AIRARABIA's direct cost rose 8.2% YOY to AED 1,317 Mn in 2Q25. Thus, gross profit declined 14.5% YOY to AED 375 Mn in 2Q25. Gross profit margin also fell from 26.5% in 2Q24 to 22.1% in 2Q25. Selling & marketing expenses rose 34.5% YOY to AED 29 Mn in 2Q25. Whereas, G&A expenses declined 12.4% YOY to AED 61 Mn in 2Q25. As a result, the Company's EBITDA fell 11.9% YOY to AED 455 Mn in 2Q25. EBITDA margin decreased from 31.2% in 2Q24 to 26.9% in 2Q25. Operating profit too declined 18.0% to AED 285 Mn in 2Q25. While, operating profit margin fell from 20.9% in 2Q24 to 16.8% in 2Q25. Air Arabia's finance income grew 5.8% YOY to AED 59 Mn, whereas finance cost declined from AED 19 Mn in 2Q24 to AED 18 Mn in 2Q25. Other income increased 15.5% YOY to AED 45 Mn in 2Q25. Share of profit from equity-accounted investments rose from AED 5 Mn in 2Q24 to AED 44 Mn in 2Q25. The income tax expense increased from AED 37 Mn in 2Q24 to AED 65 Mn in 2Q25 due to implementation of Domestic Minimum Top-up Tax (DMTT) with effect from 01 January 2025.

Balance Sheet Highlights

Air Arabia's recorded nil debt in 2Q25 compared to AED 8 Mn in 1Q25. Lease liabilities reduced from AED 2.0 Bn in 1Q25 to AED 1.9 Bn in 2Q25. The Company's cash and bank balance fell from AED 5.3 Bn in 1Q25 to AED 4.7 Bn in 2Q25 owing to payment of dividends and capex. Moreover, Air Arabia's net cash flow from operations increased from AED 614 Mn in 1Q25 to AED 778 Mn in 2Q25 owing to improved working capital management.

Target Price and Rating

We maintain our HOLD rating on Air Arabia with a revised target price of AED 4.00. AIRARABIA PJSC reported a decline in net profit by 10.3% YOY to AED 350 Mn in 2Q25, impacted by higher expenses and a rise in flight cancellations resulting from regional conflict and geopolitical tensions, along with fuel price volatility, exchange rate fluctuations, and supply chain issues. This fall in net income is partially offset by network expansion, healthy customer demand and successful implementation of the growth strategy, along with higher revenue. This demonstrated the company's resilience and ability to sustain profitability despite external challenges. Additionally, the company remained debt-free with a cash balance of AED 4.7 Bn in 2Q25. This cash balance is equivalent to AED 1.0 per share as of 2Q25. The company saw a rise in passenger traffic by 13% in 1H25 to 10.1 Mn across the UAE, Morocco, Egypt and Pakistan. In 2Q25, the number of passengers travelling with Air Arabia boosted from 4.5 Mn in 2Q24 to 5.1 Mn in 2Q25, reflecting strong demand and higher flight frequencies. Moreover, the seat load factor stood at 85% in 2Q25, compared to 79% in 2Q24, indicating stronger passenger demand and improved capacity utilization, which further supported revenue growth and profitability. To enhance its market presence, Air Arabia strengthened its network by launching 13 new routes in 1H25 and increasing flight frequencies in key markets. Furthermore, the company's growth performance is reflected in its total fleet, which stood at 83 Airbus A320 and A321 aircraft in 2Q25, to meet the rising demand, along with 120 additional aircraft on order from Airbus, expected to be delivered by the end of 2025. Air Arabia is also expected to benefit from the exit of the operation of Wizz Air from Abu Dhabi. Wizz Air is a Hungarian-based low-cost carrier, announced that it will suspend its operations from Abu Dhabi starting from 01 September 2025. During 1H25, Air Arabia made an advance payment of AED 416.9 Mn for new aircraft and delivery for the same will start in 2026. This will enable to the airline to launch operations in the newer routes and boost operations. Hence, based on our analysis, we assign a HOLD rating to the stock.

Air Arabia - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	24.24	14.29	11.28	11.90	11.92
PB	3.87	2.87	2.50	2.32	2.20	2.11
BVPS	0.97	1.30	1.50	1.61	1.70	1.77
EPS	-0.04	0.15	0.26	0.33	0.31	0.31
DPS	0.00	0.09	0.15	0.20	0.25	0.30
EV/EBITDA	36.01	10.83	7.51	6.54	6.90	6.49
Dividend yield	NA	2.3%	4.0%	5.3%	6.7%	8.0%

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Air Arabia – P&L

AED Mn	2Q24	1Q25	2Q25	2Q25F	Var.	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	1,656	1,755	1,692	1,797	-5.8%	2.2%	-3.6%	6,639	7,256	9.3%
Direct costs	-1,218	-1,382	-1,317	-1,420	-7.2%	8.2%	-4.7%	-5,076	-5,597	10.3%
Gross profit	**438**	**373**	**375**	**377**	**-0.7%**	**-14.5%**	**0.5%**	**1,563**	**1,658**	**6.1%**
Selling & mkt expense	-21	-26	-29	-29	0.0%	34.5%	12.5%	-104	-116	11.8%
G&A expenses	-70	-80	-61	-74	-16.7%	-12.4%	-23.3%	-275	-276	0.3%
EBITDA	**517**	**415**	**455**	**443**	**2.7%**	**-11.9%**	**9.7%**	**1,833**	**1,965**	**7.2%**
EBIT	**347**	**267**	**285**	**275**	**3.5%**	**-18.0%**	**6.6%**	**1,184**	**1,267**	**7.0%**
Finance income	56	64	59	59	0.4%	5.8%	-8.7%	251	245	-2.4%
Finance costs	-19	-17	-18	-21	-15.3%	-4.5%	3.1%	-82	-71	-13.6%
Other income	39	34	45	27	66.0%	15.5%	30.9%	132	160	21.2%
Share of profit on eq invt	5	7	44	11	NM	NM	NM	125	123	-1.1%
Profit before NCI	**427**	**355**	**415**	**350**	**18.4%**	**-2.9%**	**16.7%**	**1,609**	**1,723**	**7.1%**
Tax	-37	-50	-65	-49	32.2%	75.1%	29.1%	-142	-258	82.7%
Non-controlling int.	0	0	0	0	NA	-38.7%	NM	1	0	NM
Net Profit	**390**	**305**	**350**	**301**	**16.1%**	**-10.3%**	**14.7%**	**1,467**	**1,465**	**-0.1%**

FABS estimate & Co Data

Air Arabia - Margins

	2Q24	1Q25	2Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	26.5%	21.2%	22.1%	-432	91	23.5%	22.9%	-68
EBITDA	31.2%	23.6%	26.9%	-428	327	27.6%	27.1%	-53
Operating Profit	20.9%	15.2%	16.8%	-413	160	17.8%	17.5%	-38
Net Profit	23.5%	17.4%	20.7%	-288	329	22.1%	20.2%	-191

FABS estimate & Co Data

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Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Air Arabia. We have assigned 70% weight to DCF and 30% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	4.53	70.0%	3.17
Relative Valuation (RV)	2.78	30.0%	0.83
Weighted Average Valuation (AED)			**4.00**
Current market price (AED)			3.75
Upside/Downside (%)			+7.0%

1) DCF Method:

Air Arabia is valued using free cash flow to equity since the Company is nearly debt-free. We have discounted the cash flow using the cost of equity of 9.8%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 1.00 and country risk premium of 4.2%. Government bond yield is calculated after adding Dubai's 10-year spread over 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	5,690
Terminal value (AED, Mn)	15,432
FV to Common shareholders (AED, Mn)	**21,122**
No. of share (Mn)	4,667
Current Market Price (AED)	3.75
Fair Value per share (AED)	**4.53**

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net profit	1,465	1,607	1,729	1,752	1,732
D&A	688	755	826	900	976
Capex	-980	-965	-946	-926	-876
Net change in working capital	21	-119	-37	-9	-38
Free Cash Flow to Equity (FCFE)	**1,194**	**1,277**	**1,572**	**1,717**	**1,794**
Discounting Factor	*0.97*	*0.88*	*0.80*	*0.73*	*0.66*
Discounted FCFE[1]	**865**	**1,123**	**1,259**	**1,252**	**1,191**

Source: FAB Securities, [1]Adjusted for partial year

2) Relative Valuation:

We have used local and international peers to value Air Arabia and it is valued using the EV/EBITDA multiple. It is valued at a 2025 EV/EBITDA multiple of 5.2x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Pegasus Hava Tasimacigli anonim sirketi	3,224	5.7	5.8	7.8	8.0
Jetblue Airways corporation	1,747	17.3	9.9	NM	NM
Capital A Berhad	913	1.1	1.1	5.8	4.5
Chorus Aviation Inc.	403	4.3	5.0	8.7	10.4
Allegiant Travel Company	1,030	5.2	4.2	16.8	8.5
Average		**6.7x**	**5.2x**	**9.8x**	**7.8x**
Median		**5.2x**	**5.0x**	**8.2x**	**8.2x**
Max		**5.7x**	**5.8x**	**10.7x**	**8.9x**
Min		**4.3x**	**4.2x**	**7.3x**	**7.1x**

Source: FAB Securities

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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