

## Air Arabia PJSC

Healthy passenger demand cushions profit pressure

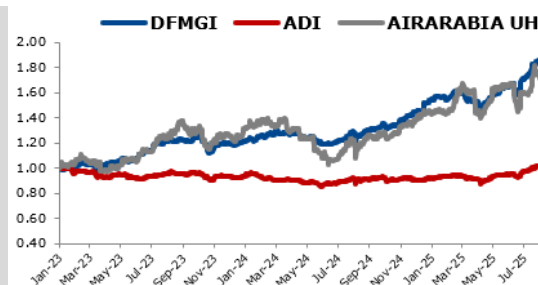
**Current Price**  
**AED 3.75**

**Target Price**  
**AED 4.00**

**Upside/Downside (%)**  
**+7%**

**Rating**  
**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 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.

### 2Q25 Result Review (AED, Mn)

|                   |        |
|-------------------|--------|
| Total Assets      | 15,388 |
| Total Liabilities | 8,011  |
| Total Equity      | 7,377  |
| EBITDA            | 455    |
| Net Profit        | 350    |

### 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.

### 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% |

### 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 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%  |

FABS Estimates & Co Data

**Air Arabia – P&L**

| <b>AED Mn</b>              | <b>2Q24</b> | <b>1Q25</b> | <b>2Q25</b> | <b>2Q25F</b> | <b>Var.</b>  | <b>YOY Ch</b> | <b>QOQ Ch</b> | <b>2024</b>  | <b>2025F</b> | <b>Change</b> |
|----------------------------|-------------|-------------|-------------|--------------|--------------|---------------|---------------|--------------|--------------|---------------|
| 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%         |
| <b>Gross profit</b>        | <b>438</b>  | <b>373</b>  | <b>375</b>  | <b>377</b>   | <b>-0.7%</b> | <b>-14.5%</b> | <b>0.5%</b>   | <b>1,563</b> | <b>1,658</b> | <b>6.1%</b>   |
| 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%          |
| <b>EBITDA</b>              | <b>517</b>  | <b>415</b>  | <b>455</b>  | <b>443</b>   | <b>2.7%</b>  | <b>-11.9%</b> | <b>9.7%</b>   | <b>1,833</b> | <b>1,965</b> | <b>7.2%</b>   |
| <b>EBIT</b>                | <b>347</b>  | <b>267</b>  | <b>285</b>  | <b>275</b>   | <b>3.5%</b>  | <b>-18.0%</b> | <b>6.6%</b>   | <b>1,184</b> | <b>1,267</b> | <b>7.0%</b>   |
| 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%         |
| <b>Profit before NCI</b>   | <b>427</b>  | <b>355</b>  | <b>415</b>  | <b>350</b>   | <b>18.4%</b> | <b>-2.9%</b>  | <b>16.7%</b>  | <b>1,609</b> | <b>1,723</b> | <b>7.1%</b>   |
| 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            |
| <b>Net Profit</b>          | <b>390</b>  | <b>305</b>  | <b>350</b>  | <b>301</b>   | <b>16.1%</b> | <b>-10.3%</b> | <b>14.7%</b>  | <b>1,467</b> | <b>1,465</b> | <b>-0.1%</b>  |

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

|                  | <b>2Q24</b> | <b>1Q25</b> | <b>2Q25</b> | <b>YOY Ch</b> | <b>QOQ Ch</b> | <b>2024</b> | <b>2025F</b> | <b>Change</b> |
|------------------|-------------|-------------|-------------|---------------|---------------|-------------|--------------|---------------|
| 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*

## 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           |
| <b>Weighted Average Valuation (AED)</b> |        |        | <b>4.00</b>    |
| 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        |
| <b>FV to Common shareholders (AED, Mn)</b> | <b>21,122</b> |
| No. of share (Mn)                          | 4,667         |
| Current Market Price (AED)                 | 3.75          |
| <b>Fair Value per share (AED)</b>          | <b>4.53</b>   |

### 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          |
| <b>Free Cash Flow to Equity (FCFE)</b> | <b>1,194</b> | <b>1,277</b> | <b>1,572</b> | <b>1,717</b> | <b>1,794</b> |
| Discounting Factor                     | 0.97         | 0.88         | 0.80         | 0.73         | 0.66         |
| <b>Discounted FCFE<sup>1</sup></b>     | <b>865</b>   | <b>1,123</b> | <b>1,259</b> | <b>1,252</b> | <b>1,191</b> |

Source: FAB Securities, <sup>1</sup>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<br>(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         |
| <b>Average</b>                          |                        | <b>6.7x</b>   | <b>5.2x</b> | <b>9.8x</b>  | <b>7.8x</b> |
| <b>Median</b>                           |                        | <b>5.2x</b>   | <b>5.0x</b> | <b>8.2x</b>  | <b>8.2x</b> |
| <b>Max</b>                              |                        | <b>5.7x</b>   | <b>5.8x</b> | <b>10.7x</b> | <b>8.9x</b> |
| <b>Min</b>                              |                        | <b>4.3x</b>   | <b>4.2x</b> | <b>7.3x</b>  | <b>7.1x</b> |

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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