FAB SECURITIES أبوظبي الأول للأوراق المالية

First Look Note | 4Q25

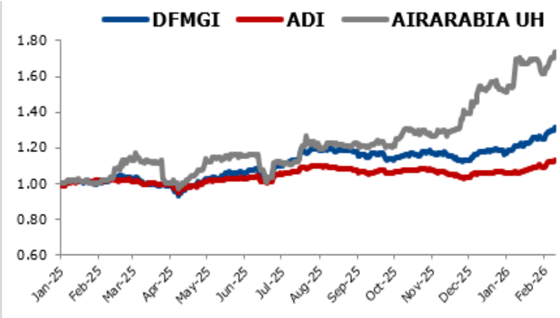
UAE Equity Research | Sector: Transportation | Market: DFM

Air Arabia PJSC

Strong topline growth, network expansion, and higher other income drove earnings

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.48	AED 5.10	-7%	REDUCE

- Seat load factors across all hubs stood at 86.9% in 4Q25, compared to 83% in 4Q24.
- No. of passengers who travelled across all its hubs surged from 4.7 Mn in 4Q24 to 5.7 Mn in 4Q25.
- The Company expanded its network by launching 30 new routes and added nine new aircraft to its fleet during 2025.
- Cash and bank balance increased from AED 5.1 Bn in 3Q25 to AED 5.2 Bn in 4Q25.
- The Company proposed a cash dividend of 30 fils per share for 2025, subject to shareholder approval at the upcoming Annual General Meeting.



Stock Information	
Market Cap (AED, mn)	25,573.52
Paid Up Capital (mn)	4,666.70
52 Week High	5.66
52 Week Low	2.85
3M Avg. daily value (AED)	31,529,770

4Q25 Result Review (AED, Mn)	
Total Assets	17,699
Total Liabilities	9,289
Total Equity	8,410
EBITDA	436
Net Profit	391

Financial Ratios	
Dividend Yield (12m)	4.51
Dividend Pay-out (%)	71.64
Price-Earnings Ratio(x)	16.03
Price-to-Book Ratio (x)	3.06
Book Value (AED)	1.80
Return-on Equity (%)	19.91

Stock Performance	
5 Days	2.43%
1 Months	4.98%
3 Months	35.98%
6 Months	46.13%
1 Year	61.65%
Month to Date (MTD%)	10.04%
Quarter to Date (QTD%)	17.60%
Year to Date (YTD%)	17.60%

4Q25 Net Profit in line with our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit increased 25.8% YOY to AED 391 Mn in 4Q25, in line with our estimate of AED 386 Mn. The rise in net profit was primarily driven by higher revenue, increased other income coupled with a decline in finance costs and tax charges. This was partially offset by higher direct costs, an increase in General & Administrative (G&A) expenses, Selling & Marketing expense (S&M) coupled with lower finance income and decline in share of profit on equity accounted investment.

P&L Highlights

Air Arabia's revenue grew 28.8% YOY to AED 2,296 Mn in 4Q25, primarily driven by an increase in the number of passengers from 4.7 Mn in 4Q24 to 5.7 Mn in 4Q25, across its operating hubs, coupled with the addition of new aircraft and network expansion. Moreover, AIRARABIA's direct cost rose 33.0% YOY to AED 1,894 Mn in 4Q25. Thus, gross profit increased 12.2% YOY to AED 402 Mn in 4Q25 and gross profit margin declined from 20.1% in 4Q24 to 17.5% in 4Q25. Selling & marketing expenses increased 3.1% YOY to AED 32 Mn in 4Q25. Whereas, G&A expenses increased 30.9% YOY to AED 91 Mn in 4Q25. As a result, the Company's EBITDA rose 9.5% YOY to AED 436 Mn in 4Q25 and EBITDA margin decreased 336 bps YOY to 19.0% in 4Q25. Operating profit increased 8.2% YOY to AED 279 Mn in 4Q25 and operating profit margin decreased 232 bps YOY to 12.1% in 4Q25. AIRARABIA's finance income fell 11.2% YOY to AED 61 Mn, and finance cost also declined 13.0% YOY to AED 17 Mn in 4Q25. Other income increased significantly to AED 51 Mn in 4Q25, compared to AED 13 Mn in 4Q24. Share of profit from equity-accounted investments declined 3.1% YOY to AED 31 Mn in 4Q25. Income tax expense declined from AED 41 Mn in 4Q24 to AED 14 Mn in 4Q25.

Balance Sheet Highlights

Air Arabia's debt stood at AED 1.5 Bn 4Q25, compared to AED 1.1 Bn in 4Q24. Lease liabilities declined from AED 1.9 Bn in 3Q25 to AED 1.3 Bn in 4Q25. The Company's cash and bank balance increased from AED 5.1 Bn in 3Q25 to AED 5.2 Bn in 4Q25. Moreover, AIRARABIA's net cash flow from operations increased from AED 773 Mn in 4Q24 to AED 838 Mn in 4Q25.

Target Price and Rating

We maintain our REDUCE rating on AIRARABIA based on preview report with a revised target price of AED 5.10. AIRARABIA reported robust growth in net profit driven by disciplined execution of its growth strategy, continued network expansion, and sustained operational efficiency. The Company benefited from strong demand across its operating hubs, optimized capacity deployment, and ongoing investment in fleet expansion, reflecting the resilience of its business model and focus on delivering sustainable profitability. The Company's passenger numbers including all hubs grew by 21.3% YOY to 5.7 Mn during 4Q25, while the average seat load factor increased from 83% in 4Q24 to 86.9% in 4Q25, underscoring strong demand for Air Arabia's value-driven product offering. It continued to expand its network in 2025, adding a total of 30 new routes across its operating hubs in the UAE, Morocco, Egypt and Pakistan, bringing the total network size to 219 routes, while operational capacity increased 10% YOY in 2025. Furthermore, AIRARABIA added nine Airbus A320 family aircraft during the year, bringing its total operating fleet to 90 Airbus A320 and A321 aircraft, excluding five short-term leased aircraft deployed to support peak demand. AIRARABIA continues to strengthen its regional footprint, enhance route connectivity, and leverage digital transformation to improve customer experience and operational efficiency. The Company maintained a strong liquidity position, with cash and cash equivalents of AED 5.2 Bn as of 4Q25, reinforcing its net cash position and providing a solid foundation to support future growth initiatives. AIRARABIA remains confident in the resilience and agility of its diversified business model, supported by its multi-hub structure, disciplined cost management, and strong balance sheet. Looking ahead, the Company intends to continue executing its growth strategy by further strengthening its multi-hub operations, expanding its global network, and increasing capacity across high-demand markets. In parallel, the company remains focused on optimizing fleet utilization, enhancing operational efficiency, improving customer engagement, and delivering sustainable long-term growth. The Company has proposed a dividend distribution of 30% of share capital, equivalent to 30 fils per share, subject to approval by shareholders at the upcoming Annual General Meeting. After the strong up-move in the prices in 2025, the stock price has gained an additional 18.2% on YTD basis leading us to maintain our REDUCE rating on the stock.

Air Arabia - Relative valuation

(at CMP)	**2021**	**2022**	**2023**	**2024**	**2025**	**2026F**
PE	36.37	21.43	16.92	17.85	16.08	15.23
PB	4.31	3.74	3.47	3.29	3.11	3.00
EV/EBITDA	17.77	12.61	11.17	11.46	11.16	9.81
BVPS	1.302	1.499	1.614	1.704	1.802	1.870
EPS	0.154	0.262	0.332	0.314	0.349	0.368
DPS	0.085	0.150	0.200	0.250	0.300	0.300
Dividend yield	1.5%	2.7%	3.6%	4.5%	5.4%	5.4%

FABS Estimates & Co Data

Air Arabia – P&L

AED Mn	4Q24	3Q25	4Q25	4Q25F	Var	YOY Ch	QOQ Ch	2024	2025	Change
Revenue	1,782	2,045	2,296	1,866	23.0%	28.8%	12.3%	6,766	7,788	15.1%
Direct costs	-1,424	-1,494	-1,894	-1,385	36.7%	33.0%	26.8%	-5,203	-6,088	17.0%
Gross profit	**358**	**550**	**402**	**481**	**-16.5%**	**12.2%**	**-27.0%**	**1,563**	**1,699**	**8.7%**
Selling & mkt expense	-31	-28	-32	-30	5.9%	3.1%	14.5%	-104	-114	9.4%
G&A expenses	-70	-83	-91	-92	-0.1%	30.9%	9.6%	-275	-316	15.0%
EBITDA	**398**	**585**	**436**	**534**	**-18.4%**	**9.5%**	**-25.5%**	**1,833**	**1,891**	**3.2%**
EBIT	**257**	**439**	**279**	**359**	**-22.5%**	**8.2%**	**-36.6%**	**1,184**	**1,270**	**7.2%**
Finance income	68	57	61	63	-4.5%	-11.2%	6.0%	251	241	-4.0%
Finance costs	-20	-15	-17	-17	-0.5%	-13.0%	14.1%	-82	-67	-18.8%
Other income	13	67	51	53	-2.9%	NM	-23.1%	132	197	49.7%
Share of profit on eq invt	32	107	31	25	23.7%	-3.1%	-70.7%	125	190	52.3%
Profit before NCI	**352**	**656**	**405**	**484**	**-16.3%**	**15.2%**	**-38.3%**	**1,609**	**1,831**	**13.8%**
Tax	-41	-73	-14	-98	-85.9%	-66.0%	-81.1%	-142	-202	42.8%
Non-controlling int.	0	0	0	0	NM	NM	NM	1	0	NM
Net Profit	**311**	**583**	**391**	**386**	**1.4%**	**25.8%**	**-32.9%**	**1,467**	**1,628**	**11.0%**

FABS estimate & Co Data

Air Arabia - Margins

	4Q24	3Q25	4Q25	YOY Ch	QOQ Ch	2024	2025	Change
Gross Profit	20.1%	26.9%	17.5%	-260	-943	23.1%	21.8%	-128
EBITDA	22.4%	28.6%	19.0%	-336	-962	27.1%	24.3%	-280
Operating Profit	14.4%	21.5%	12.1%	-232	-936	17.5%	16.3%	-120
Net Profit	17.4%	28.5%	17.0%	-41	-1,145	21.7%	20.9%	-77

FABS estimate & Co Data

Key Developments:

- **13th February 2025:** Air Arabia strengthened its expansion and operational excellence, adding 31 new routes across six hubs. This drove a 13% rise in operational capacity and a 12% increase in passengers to 18.8 Mn, with the average seat load factor improving by 2% to 82%, reflecting continued strong demand for its low-cost model.

- **21st July 2025:** A consortium led by Air Arabia, Nesma Group, and KUN Holding won the General Authority of Civil Aviation’s bid to establish a new national low-cost carrier based in Dammam. The airline will strengthen domestic and international connectivity for Saudi Arabia’s Eastern Province and is projected to operate 24 domestic and 57 international routes with 45 aircraft by 2030, serving 10 Mn passengers annually and creating over 2,400 direct jobs, in line with Saudi Vision 2030.

- **13th August 2025:** Air Arabia added 2 new aircraft, expanding its fleet to 83 Airbus A320 and A321 jets, with 120 more on order for delivery starting at the end of 2025. The airline reported 13% growth in passengers to 10.1 Mn, while launching 13 new routes across the UAE, Morocco, Egypt, and Pakistan in 1H25.

- **11th Nov 2025:** Air Arabia carried over 5.9 Mn passengers in the quarter, marking a 16% YOY increase, while its seat load factor rose 4 points to 85%, reflecting the airline’s strong operational efficiency and sustained growth under its low-cost business model.

Valuation:

We use Discounted Free Cash flow (DCF), Dividend Discount Model (DDM), and Relative Valuation (RV) to value Air Arabia. We assigned a 70% weight to DCF, with the remaining 30% equally split between DDM and RV at 15% each.

Valuation Method	Target	Weight	Weighted Value
DCF Method	5.55	70.0%	3.89
DDM Method	4.60	15.0%	0.69
Relative Valuation (RV)	3.48	15.0%	0.52
Weighted Average Valuation (AED)			**5.10**
Current market price (AED)			5.48
Upside/Downside (%)			**-7%**

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 9.5%. Cost of equity is calculated by using the 10-year government bond yield of 5.1%, the beta of 1.00 and the country risk premium of 4.4%. Government bond yield is calculated after adding Dubai's 10-year spread over the 10-year US risk-free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	6,737
Terminal value (AED, Mn)	19,176
FV to Common shareholders (AED, Mn)	**25,914**
No. of shares (Mn)	4,667
Current Market Price (AED)	5.48
Fair Value per share (AED)	**5.55**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net profit	1,719	1,899	2,064	2,225	2,371
D&A	703	786	877	985	1,081
Capex	-1,224	-1,373	-1,516	-1,432	-1,553
Net change in working capital	-1	336	314	341	291
Free Cash Flow to Equity (FCFE)	**1,197**	**1,649**	**1,739**	**2,119**	**2,190**
Discounting Factor	*0.92*	*0.84*	*0.77*	*0.70*	*0.64*
Discounted FCFE	**1,106**	**1,391**	**1,341**	**1,491**	**1,408**

Source: FAB Securities

2) DDM Method:

Air Arabia has maintained a consistent dividend payment track record historically. Accordingly, we assume Air Arabia will continue to declare regular dividends over the forecast period, with a payout ratio of 84% of annual net profit. The dividends are discounted at the cost of equity.

Sum of PV (AED, Mn)	5,871
Terminal value (AED, Mn)	15,613
FV to Common shareholders (AED, Mn)	**21,484**
No. of shares (Mn)	4,667
Current Market Price (AED)	5.48
Fair Value per share (AED)	**4.60**

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend Paid					
Dividend	1,400	1,615	1,754	1,891	2,015
Total Dividend	**1,400**	**1,615**	**1,754**	**1,891**	**2,015**
Discounting Factor	*0.82*	*0.75*	*0.68*	*0.62*	*0.57*
Present Value of Dividend	**1,144**	**1,206**	**1,196**	**1,178**	**1,147**

Source: FAB Securities

3) 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 2026 EV/EBITDA multiple of 6.2x in line with peers.

Company	Market cap	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Pegasus Hava Tasimaciligi AS	2,562	6.2	5.0	9.8	6.3
Jetblue Airways corporation	2,187	11.8	8.3	NM	NM
Chorus Aviation Inc.	391	5.0	5.0	9.9	12.4
Allegiant Travel Company	1,970	5.8	5.0	22.4	10.7
Flynas Co SJSC	2,758	5.9	4.5	23.8	18.0
Jazeera Airways Co KSC	1,287	8.2	7.2	2.0	1.5
Ryanair Holdings PLC	34,165	7.4	6.6	18.6	13.1
Wizz Air Holdings PLC	1,985	5.1	4.0	8.6	71.1
Interglobe Aviation Ltd	21,192	12.3	9.1	32.6	30.2
Average		**7.5x**	**6.1x**	**17.9x**	**13.7x**
Median		**6.2x**	**5.0x**	**13.3x**	**11.6x**
Max		**12.3x**	**9.1x**	**43.8x**	**24.3x**
Min		**1.0x**	**1.0x**	**1.0x**	**1.0x**

Source: FAB Securities

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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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