First Look Note | 2Q26

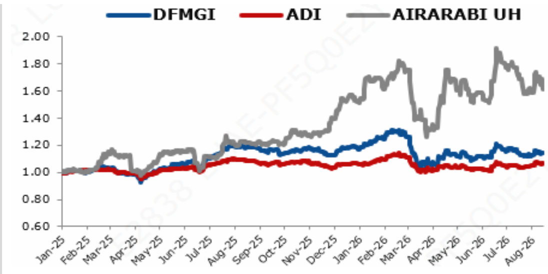
UAE Equity Research | Sector: Transportation | Market: DFM

Air Arabia PJSC

Regional conflict and rising costs weighed on earnings

Current Price	Target Price	Upside/Downside (%)	Rating
AED 4.87	AED 5.10	+5%	HOLD

- Average Seat load factor across all hubs stood at 81% in 2Q26, compared to 85% in 2Q25.
- No. of passengers who travelled across its hubs declined 23% YOY to more than 3.9 Mn in 2Q26, reflecting reduced operating capacity amid the regional conflict.
- The Company added 6 aircraft to its fleet and launched five new routes across its operating hubs during 1H26.
- Cash and bank balance decreased from AED 5.0 Bn in 1Q26 to AED 4.4 Bn in 2Q26.
- Dammam hub is expected to commence operations in 3Q26, supporting the Company's multi-hub growth strategy.



Stock Information	
Market Cap (AED, Mn)	22,726.83
Paid Up Capital (Mn)	4,666.70
52 Week High	6.03
52 Week Low	3.68
3M Avg. daily value (AED)	25,074,790

2Q26 Result Review (AED, Mn)	
Total Assets	18,134
Total Liabilities	10,688
Total Equity	7,446
EBITDA	228
Net Profit	88

Financial Ratios	
Dividend Yield (12m)	6.16
Dividend Pay-out (%)	71.64
Price-Earnings Ratio(x)	17.67
Price-to-Book Ratio (x)	3.05
Book Value (AED)	1.60
Return-on Equity (%)	17.67

Stock Performance	
5 Days	-5.07%
1 Months	-2.79%
3 Months	4.28%
6 Months	-11.45%
1 Year	29.87%
Month to Date (MTD%)	-0.61%
Quarter to Date (QTD%)	-10.64%
Year to Date (YTD%)	4.51%

2Q26 Net Profit lower than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit attributable to equity shareholders decreased from AED 350 Mn in 2Q25 to AED 88 Mn in 2Q26, lower than our estimate of AED 275 Mn. The decline in net profit was primarily driven by higher direct costs, G&A expenses and finance costs, a shift from a share of profit of AED 44 Mn in 2Q25 to a share of loss of AED 6 Mn in 2Q26 on equity accounted investment, coupled with lower revenue, finance income and other income, partially offset by lower Selling & Marketing expense (S&M) and income tax expense.

P&L Highlights

Air Arabia's revenue decreased 3.4% YOY to AED 1,689 Mn in 2Q26, driven by reduced operating capacity amid the ongoing regional conflict, resulting in a 23% YOY decline in passengers to more than 3.9 Mn in 2Q26. Moreover, AIRARABIA's direct cost rose 12.7% YOY to AED 1,548 Mn in 2Q26. Thus, gross profit decreased from AED 375 Mn in 2Q25 to AED 141 Mn in 2Q26, while gross profit margin declined significantly from 21.4% in 2Q25 to 8.4% in 2Q26. Selling & Marketing expenses decreased 14.0% YOY to AED 25 Mn in 2Q26, whereas G&A expenses increased 19.0% YOY to AED 73 Mn in 2Q26. As a result, the Company's EBITDA declined 49.9% YOY to AED 228 Mn in 2Q26, with EBITDA margin decreasing from 26.1% in 2Q25 to 13.5% in 2Q26. Operating profit decreased to AED 43 Mn in 2Q26 from AED 285 Mn in 2Q25, while operating profit margin decreased to 2.6% in 2Q26 from 16.3% in 2Q25. AIRARABIA's finance income fell 22.0% YOY to AED 46 Mn in 2Q26, while finance costs rose from AED 18 Mn in 2Q25 to AED 28 Mn in 2Q26. Other income declined 8.7% YOY to AED 41 Mn in 2Q26. The Company recorded a share of loss from equity-accounted investments of AED 6 Mn in 2Q26, compared to a share of profit from equity-accounted investments of AED 44 Mn in 2Q25. Income tax expense decreased significantly from AED 65 Mn in 2Q25 to AED 8 Mn in 2Q26.

Balance Sheet Highlights

Air Arabia's debt increased to AED 2.3 Bn in 2Q26, compared to AED 1.4 Bn in 1Q26. Lease liabilities remained stable at AED 1.5 Bn in 2Q26 compared to 1Q26. The Company's cash and bank balances decreased from AED 5.0 Bn in 1Q26 to AED 4.4 Bn in 2Q26. Moreover, AIRARABIA's net cash flow from operations increased from AED 778 Mn in 2Q25 to AED 829 Mn in 2Q26.

Target Price and Rating

We revised our rating on AIRARABIA from REDUCE to HOLD with an unchanged target price of AED 5.10. AIRARABIA reported a decline in net profit in 2Q26, primarily impacted by the regional conflict, which resulted in airspace closures, temporary operational restrictions, reduced operating capacity, and record-high fuel prices. During 2Q26, passenger numbers across the Company's operating hubs declined 23% YOY to more than 3.9 Mn, reflecting reduced operating capacity, while the average seat load factor remained resilient at 81%. Despite the challenging operating environment, AIRARABIA remains vigilant and agile in navigating rapidly changing and uncertain conditions, while maintaining network connectivity and operational efficiency through disciplined cost management and operational adjustments. During 1H26, the Company added 6 aircraft to its fleet, bringing the total fleet to 96 owned and leased Airbus A320 and A321 aircraft. The Company also launched five new routes across its operating hubs in the UAE, Morocco, Egypt and Pakistan, further expanding its network connectivity. In June 2026, AIRARABIA was named "Most Sustainable Low-Cost Airline in the MENA Region 2026" by World Finance Magazine as part of its annual Sustainability Awards Program. AIRARABIA remains focused on adapting its operations to evolving market conditions, with continued emphasis on disciplined financial and cost optimization, operational efficiency and a customer-centric approach across all hubs. Additional aircraft are scheduled for delivery through the remainder of the year as part of the existing Airbus order book, supporting further network capacity expansion. The Company's multi-hub growth strategy continues, with its latest hub in Dammam expected to commence operations in 3Q26. However, elevated fuel price volatility, inflationary pressures and ongoing supply-chain constraints remain key industry headwinds. The Company remains confident in the strength of the local and regional economies it serves and, in its ability, to navigate the evolving operating environment as conditions continue to improve, supported by its robust business model, disciplined financial approach and continued demand for its value-driven product. Thus, based on our analysis, we assign a HOLD rating to the stock.

Air Arabia - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	31.57	18.60	14.69	15.49	13.96	19.65
PB	3.74	3.25	3.02	2.86	2.70	2.65
EV/EBITDA	15.03	10.60	9.34	9.57	10.07	12.41
BVPS	1.302	1.499	1.614	1.704	1.802	1.839
EPS	0.154	0.262	0.332	0.314	0.349	0.248
DPS	0.085	0.150	0.200	0.250	0.300	0.211
Dividend yield	1.7%	3.1%	4.1%	5.1%	6.2%	4.3%

FABS Estimates & Co Data

Air Arabia – P&L

AED Mn	2Q25	1Q26	2Q26	2Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	1,748	1,800	1,689	1,828	-7.6%	-3.4%	-6.2%	7,788	8,238	5.8%
Direct costs	-1,373	-1,498	-1,548	-1,489	3.9%	12.7%	3.3%	-6,088	-6,809	11.8%
Gross profit	**375**	**302**	**141**	**338**	**NM**	**NM**	**NM**	**1,699**	**1,429**	**-15.9%**
Selling & mkt expense	-29	-29	-25	-29	-15.4%	-14.0%	-13.3%	-114	-120	5.8%
G&A expenses	-61	-92	-73	-73	-0.1%	19.0%	-20.2%	-316	-371	17.2%
EBITDA	**455**	**349**	**228**	**413**	**-44.8%**	**-49.9%**	**-34.5%**	**1,891**	**1,665**	**-11.9%**
EBIT	**285**	**182**	**43**	**236**	**NM**	**NM**	**NM**	**1,270**	**938**	**-26.1%**
Finance income	59	56	46	58	-21.0%	-22.0%	-17.9%	241	230	-4.4%
Finance costs	-18	-22	-28	-30	-6.9%	NM	29.0%	-67	-112	NM
Other income	45	48	41	42	-2.8%	-8.7%	-15.7%	197	222	12.8%
Share of profit on eq invt	44	14	-6	18	NM	NM	NM	190	82	NM
Profit before NCI	**415**	**278**	**96**	**324**	**NM**	**NM**	**NM**	**1,831**	**1,361**	**-25.7%**
Tax	-65	-30	-8	-49	NM	NM	NM	-202	-204	1.0%
Non-controlling int.	0.08	0	0.04	0	NM	-42.1%	-2.2%	0	0	NM
Net Profit	**350**	**248**	**88**	**275**	**NM**	**NM**	**NM**	**1,628**	**1,157**	**-29.0%**

FABS estimate & Co Data

Air Arabia - Margins

	2Q25	1Q26	2Q26	YOY Ch	QOQ Ch	2025	2026F	Change
Gross Profit	21.4%	16.8%	8.4%	NM	-842	21.8%	17.3%	-448
EBITDA	26.1%	19.4%	13.5%	NM	-584	24.3%	20.2%	-407
Operating Profit	16.3%	10.1%	2.6%	NM	-754	16.3%	11.4%	-492
Net Profit	20.0%	13.8%	5.2%	NM	-858	20.9%	14.0%	-687

FABS estimate & Co Data

Key Developments:

- **14th July 2026:** Air Arabia, the Middle East and North Africa's first and largest budget carrier operator, has inaugurated its new non-stop service between Sharjah International Airport and Rome Fiumicino Airport, marking another milestone in the airline's continued expansion across Europe.

- **05th July 2026:** Air Arabia, has announced the commencement of its new double daily non-stop service connecting Sharjah International Airport with London Gatwick Airport. The inaugural flight took off on July 4th, marking a significant milestone in the airline's expanding international network.

- **18th June 2026:** Air Arabia, announced the launch of its non-stop service between Sharjah and Aleppo, effective 4 July 2026, further strengthening its connectivity to Syria. The new service will operate daily between Sharjah and Aleppo, offering customers greater travel flexibility and reinforcing Air Arabia's commitment to providing affordable and convenient air travel options across key markets.

- **24th April 2026:** Air Arabia announced the launch of its new non-stop service to Amman City Airport (ADJ), in Jordan. The new route will commence on May 1, 2026, with three weekly flights operating between Zayed International Airport and Amman City Airport, offering customers convenient and affordable travel options between the two cities.

- **26th February 2026:** Air Arabia announced the launch of its daily non-stop service connecting Sharjah International Airport with Rome Fiumicino Airport. Commencing on July 1st, 2026, the new route will further strengthen the airline's growing European network and enhance direct connectivity between the UAE and Italy.

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	5.79	70.0%	4.05
DDM Method	3.99	15.0%	0.60
Relative Valuation (RV)	2.97	15.0%	0.45
Weighted Average Valuation (AED)			**5.10**
Current market price (AED)			4.87
Upside/Downside (%)			+5%

1) DCF Method:

Air Arabia is valued using free cash flow to equity. 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)	5,442
Terminal value (AED, Mn)	21,581
FV to Common shareholders (AED, Mn)	**27,023**
No. of shares (Mn)	4,667
Current Market Price (AED)	4.87
Fair Value per share (AED)	**5.79**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net profit	1,157	1,544	1,686	1,881	2,102
D&A	718	811	886	976	1,055
Capex	-1,989	-1,267	-1,195	-1,107	-1,225
Net change in working capital	12	54	281	367	422
Free Cash Flow to Equity (FCFE)	**-103**	**1,142**	**1,659**	**2,116**	**2,354**
Discounting Factor	*0.97*	*0.88*	*0.81*	*0.74*	*0.67*
Discounted FCFE	**-50[1]**	**1,009**	**1,339**	**1,559**	**1,585**

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

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 85% of annual net profit. The dividends are discounted at the cost of equity.

Sum of PV (AED, Mn)	4,773
Terminal value (AED, Mn)	13,844
FV to Common shareholders (AED, Mn)	**18,618**
No. of shares (Mn)	4,667
Current Market Price (AED)	4.87
Fair Value per share (AED)	**3.99**

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend Paid					
Dividend	983	1,313	1,433	1,599	1,787
Total Dividend	**983**	**1,313**	**1,433**	**1,599**	**1,787**
Discounting Factor	*0.82*	*0.75*	*0.68*	*0.62*	*0.57*
Present Value of Dividend	**804**	**980**	**977**	**996**	**1,017**

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 8.0x in line with peers.

Company	Market cap	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2026F	2027F	2026F	2027F
Pegasus Hava Tasimaciligi AS	1,584	8.7	5.1	23.4	6.1
Jetblue Airways corporation	2,132	30.5	9.4	NA	NA
Chorus Aviation Inc.	491	5.3	5.4	12.1	12.4
Allegiant Travel Company	2,344	6.0	4.0	12.3	7.1
Flynas Co SJSC	2,238	8.0	5.4	159.2	15.6
Jazeera Airways Co KSC	1,273	10.8	8.2	20.6	13.8
Ryanair Holdings PLC	29,348	6.5	6.1	14.1	12.7
Wizz Air Holdings PLC	1,514	6.0	4.3	NA	NA
Interglobe Aviation Ltd	21,535	13.3	8.8	65.6	24.5
Average		**10.6x**	**6.3x**	**43.9x**	**13.2x**
Median		**8.0x**	**5.4x**	**20.6x**	**12.7x**
Max		**30.5x**	**9.4x**	**159.2x**	**24.5x**
Min		**1.0x**	**1.0x**	**1.0x**	**1.0x**

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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