

## Air Arabia PJSC

Volatility in oil prices and currency fluctuation impacted the bottom line

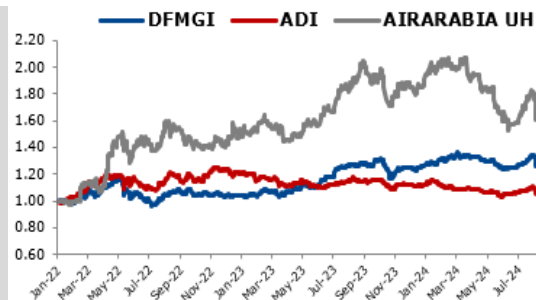
**Current Price**  
AED 2.58

**Target Price**  
AED 3.10

**Upside/Downside (%)**  
+20%

**Rating**  
BUY

- The seat load factor stood at 79% in 2Q24, compared to 76% in 2Q23, reflecting a robust passenger demand.
- The company added three new aircraft to its fleet in 1H24 and now operates 77 owned and leased aircrafts, including 68 Airbus A320 and 9 Airbus A321.
- AIRARABIA's direct cost rose significantly by 30.0% YOY to AED 1,218 Mn in 2Q24, mainly due to currency fluctuations, geopolitical uncertainties, fuel price volatility and ongoing supply chain disruptions.
- Air Arabia generated AED 992 Mn in net cash flow from operations in 2Q24 compared to AED 342 Mn in 1Q24 owing to higher profitability and positive investment inflow from working capital.



### 2Q24 Net Profit higher than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit declined from AED 459 Mn in 2Q23 to AED 390 Mn in 2Q24, higher than our estimate of AED 260 Mn. The decline in the net profit is primarily due to a rise in direct costs owing to geopolitical uncertainties, higher fuel prices and ongoing supply chain disruptions, higher operating expenses coupled with the implementation of taxes in UAE in FY2024, partially offset by a robust growth in revenue owing to an increase in the number of passengers.

### P&L Highlights

Air Arabia's revenue witnessed a robust growth of 18.7% YOY to AED 1,656 Mn in 2Q24 primarily driven by a 16% YOY increase in the number of passengers across its operating hubs to 2.66 Mn in 2Q24 as well as an improvement in the seat load factor. The seat load factor stood at 79% in 2Q24, compared to 76% in 2Q23, reflecting a robust passenger demand. Moreover, AIRARABIA's direct cost rose significantly by 30.0% YOY to AED 1,218 Mn in 2Q24 mainly due to currency fluctuations, geopolitical uncertainties, fuel price volatility and ongoing supply chain disruptions. Thus, gross profit declined 4.4% YOY to AED 438 Mn in 2Q24. Gross profit margin declined from 32.9% in 2Q23 to 26.5% in 2Q24. Air Arabia's selling and marketing expenses rose 10.1% YOY to AED 21 Mn in 2Q24. Moreover, G&A expenses increased 22.4% YOY to AED 70 Mn in 2Q24. The Company's EBITDA declined from AED 541 Mn in 2Q23 to AED 517 Mn in 2Q24 mainly due to higher direct costs and operating expenses. Moreover, the EBITDA margin dropped significantly from 38.7% in 2Q23 to 31.2% in 2Q24. Thus, the operating profit declined significantly from AED 382 Mn in 2Q23 to AED 347 Mn in 2Q24. The operating profit margin declined from 27.4% in 2Q23 to 20.9% in 2Q24. Air Arabia's finance income grew 18.9% YOY to AED 56 Mn in 2Q24 due to higher

### Stock Information

Market Cap (AED, mn)	12,040.09
Paid Up Capital (mn)	4,666.70
52 Week High	3.03
52 Week Low	2.22
3M Avg. daily value (AED)	10,405,590

### 2Q24 Result Review (AED, mn)

Total Assets	14,743
Total Liabilities	7,501
Total Equity	7,242
EBITDA	517
Net Profit	390

### Financial Ratios

Dividend Yield (12m)	7.75
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.78
Price-to-Book Ratio (x)	1.66
Book Value (AED)	1.55
Return-on Equity (%)	19.45

### Stock Performance

5 Days	2.79%
1 Months	0.00%
3 Months	4.88%
6 Months	-10.73%
1 Year	-8.51%
Month to Date (MTD%)	-1.90%
Quarter to Date (QTD%)	12.17%
Year to Date (YTD%)	-8.51%

benchmark rates, whereas finance cost declined 28.3% YOY to AED 19 Mn in 2Q24 due to a decline in total debt including leases. Other income rose 24.7% YOY to AED 39 Mn in 2Q24. Share of profit from equity-accounted investments fell from AED 25 Mn in 2Q23 to AED 5 Mn in 2Q24. Thus, profit before tax declined from AED 459 Mn in 2Q23 to AED 427 Mn in 2Q24. The income tax expense amounted to AED 37 Mn in 2Q24 owing to the introduction of corporate tax in the UAE impacting the bottom line.

### Balance Sheet Highlights

Air Arabia's borrowings remained stable at AED 133 Mn in 2Q24. Lease liabilities fell from AED 2.13 Bn in 1Q24 to AED 2.08 Bn in 2Q24. The Company's cash and bank balance declined to AED 4.9 Bn in 2Q24 compared to AED 5.0 Bn in 1Q24 owing to dividend payments despite robust cash generated from operations in 2Q24. Moreover, Air Arabia's net cash flow from operations rose from AED 342 Mn in 1Q24 to AED 992 Mn in 2Q24 owing to higher profitability and positive investment inflow from working capital.

### Target Price and Rating

We maintain our BUY rating on Air Arabia with an unchanged target price of AED 3.10. The Company remains a key beneficiary of robust growth in air passenger demand experienced globally, the number of passengers served across all the hubs rose 15.8% YOY to 8.9 Mn in 1H24 coupled with an improvement in the seat load factor from 80.7% in 1H23 to 81.9% in 1H24. This led to a robust growth in the topline, offsetting the impact of rising costs attributed to geopolitical uncertainties, fuel price volatility, currency fluctuations, and ongoing supply chain disruptions. Furthermore, the management of AIRARABIA focuses on optimizing costs amid geopolitical uncertainty, driving business growth and leveraging new opportunities. The company added three new aircraft in 1H24 and now operates 77 aircraft including 68 Airbus A320 and 9 Airbus A321 during 2Q24. Moreover, Air Arabia added 16 new routes to its existing network in 1H24, which is likely to benefit the airline by attracting additional passengers and enhancing its presence in various markets. It also increased the flight frequencies across its operating hubs in the UAE, Morocco, Egypt, and Pakistan to benefit from the robust air travel demand. It also offers one of the best dividend yield of 7.8% in FY2024 among the listed UAE companies. Hence, based on our analysis, we maintain our BUY rating on the stock.

#### Air Arabia - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	12.2	NA	16.7	9.9	7.8	9.7
PB	2.2	2.7	2.0	1.7	1.6	1.5
EV/EBITDA	6.5	22.9	6.5	4.4	3.7	4.1
Dividend yield	3.5%	NA	3.3%	5.8%	7.8%	7.8%

FABS Estimates & Co Data

**Air Arabia – P&L**

AED mn	2Q23	1Q24	2Q24	2Q24F	Var.	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,396	1,541	1,656	1,535	7.9%	18.7%	7.5%	6,000	6,401	6.7%
Direct costs	-937	-1,219	-1,218	-1,213	0.4%	30.0%	-0.1%	-4,343	-4,834	11.3%
<b>Gross profit</b>	<b>459</b>	<b>322</b>	<b>438</b>	<b>322</b>	<b>36.0%</b>	<b>-4.4%</b>	<b>36.3%</b>	<b>1,657</b>	<b>1,566</b>	<b>-5.5%</b>
Selling & mkt expense	-19	-24	-21	-23	-7.2%	10.1%	-11.4%	-89	-96	8.1%
G&A expenses	-57	-76	-70	-77	-8.8%	22.4%	-7.3%	-329	-339	3.0%
<b>EBITDA</b>	<b>541</b>	<b>389</b>	<b>517</b>	<b>381</b>	<b>35.7%</b>	<b>-4.4%</b>	<b>33.0%</b>	<b>1,886</b>	<b>1,789</b>	<b>-5.2%</b>
<b>EBIT</b>	<b>382</b>	<b>222</b>	<b>347</b>	<b>223</b>	<b>55.9%</b>	<b>-9.2%</b>	<b>56.3%</b>	<b>1,239</b>	<b>1,131</b>	<b>-8.7%</b>
Finance income	47	61	56	58	-3.8%	18.9%	-8.9%	210	231	9.9%
Finance costs	-26	-25	-19	-25	-26.8%	-28.3%	-24.7%	-102	-101	-1.2%
Other income	31	18	39	23	68.2%	24.7%	NM	113	96	-15.4%
Share of profit on eq invt	25	-11	5	8	-41.2%	-82.1%	NM	88	13	-85.5%
<b>Profit before NCI</b>	<b>459</b>	<b>266</b>	<b>427</b>	<b>286</b>	<b>49.5%</b>	<b>-7.0%</b>	<b>60.6%</b>	<b>1,548</b>	<b>1,369</b>	<b>-11.5%</b>
Tax	0	-25	-37	-26	44.0%	NM	49.5%	0	-123	NM
Non-controlling int.	0	0	0	0	NM	NM	NM	1	0	NM
<b>Net Profit</b>	<b>459</b>	<b>241</b>	<b>390</b>	<b>260</b>	<b>50.0%</b>	<b>-15.1%</b>	<b>61.8%</b>	<b>1,547</b>	<b>1,246</b>	<b>-19.4%</b>

FABS estimate & Co Data

**Air Arabia - Margins**

	2Q23	1Q24	2Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	32.9%	20.9%	26.5%	-641	559	27.6%	24.5%	-314
EBITDA	38.7%	25.2%	31.2%	-755	597	31.4%	27.9%	-349
Operating Profit	27.4%	14.4%	20.9%	-643	654	20.6%	17.7%	-297
Net Profit	32.9%	15.6%	23.5%	-935	791	25.8%	19.5%	-632

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	3.13	70.0%	2.19
Relative Valuation (RV)	3.01	30.0%	0.90
<b>Weighted Average Valuation (AED)</b>			<b>3.10</b>
Current market price (AED)			2.58
Upside/Downside (%)			+20%

### 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 9.4%. Cost of equity is calculated by using 10-year government bond yield of 5.4%, beta of 1.00 and equity risk premium of 4.1%. 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)	4,039
Terminal value (AED, Mn)	10,552
<b>FV to Common shareholders (AED, Mn)</b>	<b>14,591</b>
No. of share (Mn)	4,667
Current Market Price (AED)	2.58
<b>Fair Value per share (AED)</b>	<b>3.13</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	1,246	1,197	1,304	1,188	1,133
D&A	657	739	802	891	953
Capex	-1,111	-989	-997	-1,011	-1,030
Net change in working capital	110	155	48	187	69
<b>Free Cash Flow to Equity (FCFE)</b>	<b>903</b>	<b>1,101</b>	<b>1,158</b>	<b>1,256</b>	<b>1,125</b>
Discounting Factor	0.97	0.88	0.81	0.74	0.67
<b>Discounted FCFE</b>	<b>437</b>	<b>975</b>	<b>937</b>	<b>929</b>	<b>761</b>

Source: FAB Securities

## 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 2024 EV/EBITDA multiple of 6.4x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Pegasus Hava Tasimacigli anonim sirketi	3,236	6.1	5.3	9.5	10.1
Jetblue Airways corporation	1,644	14.1	7.0	NM	NM
Capital A Berhad	739	6.4	6.0	6.5	4.4
Chorus Aviation Inc.	375	5.3	5.9	23.3	7.9
Allegiant Travel Company	692	7.2	4.6	NM	8.0
<b>Average</b>		<b>7.8x</b>	<b>5.7x</b>	<b>13.1x</b>	<b>7.6x</b>
<b>Median</b>		<b>6.4x</b>	<b>5.9x</b>	<b>9.5x</b>	<b>8.0x</b>
<b>Max</b>		<b>7.2x</b>	<b>6.0x</b>	<b>16.4x</b>	<b>8.6x</b>
<b>Min</b>		<b>6.1x</b>	<b>5.3x</b>	<b>8.0x</b>	<b>7.0x</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%

### FAB Securities Contacts:

#### Research Analyst

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 +971-4-4245765

### 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 and 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.