

Air Arabia PJSC

Robust growth in passenger and revenue supported profitability

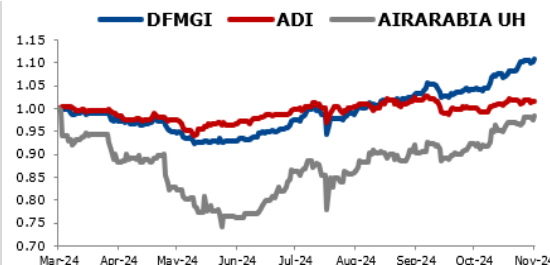
Current Price
AED 2.91

Target Price
AED 3.30

Upside/Downside (%)
+13%

Rating
ACCUMULATE

- The Company's seat load factor stood at 81% in 3Q24, compared to 79% in 3Q23.
- Added three new aircraft in 9M24 and now operates 77 aircraft including 68 Airbus A320 and 9 Airbus A321 during 3Q24.
- The airline's turnover grew 12.0% YOY to AED 5.0 Bn in 9M24.
- EBITDA grew from AED 523 Mn in 3Q23 to AED 529 Mn in 3Q24 mainly due to higher revenue and lower G&A expense.
- Air Arabia's net cash flow from operations declined from AED 412 Mn in 3Q23 to AED 253 Mn in 3Q24 owing to increased working capital activities.



3Q24 Net Profit higher than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit grew marginally 0.7% YOY to AED 525 Mn in 3Q24, higher than our estimate of AED 395 Mn. The growth in net profit is primarily driven by higher revenue, and finance income coupled with lower G&A expenses and finance costs, and a strong increase in other income partially offset by a rise in direct costs, S&M expenses, and income tax expense.

P&L Highlights

Air Arabia's revenue grew 9.6% YOY to AED 1,787 Mn in 3Q24 primarily driven by an 8% YOY increase in the number of passengers across its operating hubs to 5.1 Mn in 3Q24 as well as an improvement in the seat load factor. The seat load factor stood at 81% in 3Q24, compared to 79% in 3Q23, reflecting a robust passenger demand. Moreover, AIRARABIA's direct cost rose 13.5% YOY to AED 1,342 Mn in 3Q24. Thus, gross profit declined marginally 0.5% YOY to AED 445 Mn in 3Q24. Gross profit margin declined from 27.4% in 3Q23 to 24.9% in 3Q24. Air Arabia's selling and marketing expenses rose 18.6% YOY to AED 28 Mn in 3Q24. However, G&A expenses declined 2.5% YOY to AED 60 Mn in 3Q24. The Company's EBITDA grew from AED 523 Mn in 3Q23 to AED 529 Mn in 3Q24 mainly due to higher revenue and lower G&A expense. Moreover, the EBITDA margin dropped significantly from 32.1% in 3Q23 to 29.6% in 3Q24. Thus, the operating profit declined significantly from AED 363 Mn in 3Q23 to AED 358 Mn in 3Q24. The operating profit margin declined from 22.2% in 3Q23 to 20.0% in 3Q24. Air Arabia's finance income grew 9.8% YOY to AED 66 Mn, whereas finance cost declined 23.7% YOY to AED 19 Mn in 3Q24 due to a decline in total debt including leases. Other income rose significantly from AED 32 Mn in 3Q23 to AED 62 Mn in 3Q24. Share of profit from equity-accounted investments grew

Stock Information

Market Cap (AED, mn)	13,580.10
Paid Up Capital (mn)	4,666.70
52 Week High	3.03
52 Week Low	2.22
3M Avg. daily value (AED)	7,912,223

3Q24 Result Review (AED, mn)

Total Assets	15,046
Total Liabilities	7,389
Total Equity	7,657
EBITDA	529
Net Profit	525

Financial Ratios

Dividend Yield (12m)	6.87
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	9.82
Price-to-Book Ratio (x)	1.77
Book Value (AED)	1.64
Return-on Equity (%)	18.31

Stock Performance

5 Days	-0.68%
1 Months	5.43%
3 Months	9.81%
6 Months	18.29%
1 Year	6.59%
Month to Date (MTD%)	1.04%
Quarter to Date (QTD%)	6.20%
Year to Date (YTD%)	3.19%

6.1% YOY to AED 98 Mn in 3Q24. Thus, profit before tax and NCI grew from AED 522 Mn in 3Q23 to AED 564 Mn in 3Q24. The income tax expense amounted to AED 39 Mn in 3Q24 owing to the introduction of corporate tax in the UAE impacting the bottom line.

Balance Sheet Highlights

Air Arabia's borrowings grew from AED 133 Mn in 2Q24 to AED 134 Mn in 3Q24. Lease liabilities fell marginally from AED 2.08 Bn in 2Q24 to AED 2.03 Bn in 3Q24. The Company's cash and bank balance grew from AED 4.86 Bn in 2Q24 to AED 4.94 Bn in 3Q24. Moreover, Air Arabia's net cash flow from operations declined from AED 412 Mn in 3Q23 to AED 253 Mn in 3Q24 owing to increased working capital activities.

Target Price and Rating

We maintain our ACCUMULATE rating on Air Arabia with a revised target price of AED 3.30. The Company reported growth in profitability driven by higher revenue owing to increased passengers, increased finance income, and strong growth in other income in 3Q24. The aviation industry continued to navigate inflationary pressures driven by persistent supply chain disruptions, currency fluctuations, and fuel price volatility. Despite these challenges, Air Arabia effectively expanded its network, increased operational capacity, and sustained a robust operating margin. The Company remains a key beneficiary of strong growth in air passenger demand experienced globally, the number of passengers served across all its hubs rose 12.9% YOY to 14.0 Mn in 9M24 coupled with an improvement in the seat load factor from 80.3% in 9M23 to 81.6% in 9M24. The Company added three new aircraft in 9M24 and now operates 77 aircraft including 68 Airbus A320 and 9 Airbus A321 during 3Q24. Moreover, Air Arabia added 22 new routes to its existing network in 9M24 which will likely benefit the airline by attracting additional passengers and enhancing its presence in various markets. The airline's turnover also grew 12.0% YOY to AED 5.0 Bn in 9M24. The Company 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 attractive dividend yields of 6.8% in FY2024 among the listed UAE companies. Hence, based on our analysis, we maintain our ACCUMULATE rating on the stock.

Air Arabia - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.8	NA	18.9	11.2	8.8	9.4
PB	2.5	3.0	2.2	1.9	1.8	1.7
EV/EBITDA	7.5	26.7	7.8	5.3	4.5	4.7
Dividend yield	3.1%	NA	2.9%	5.1%	6.9%	6.9%

FABS Estimates & Co Data

Air Arabia – P&L

AED mn	3Q23	2Q24	3Q24	3Q24F	Var	YOY Ch	QOQ Ch	2023	2024F	Change
Revenue	1,630	1,656	1,787	1,744	2.5%	9.6%	7.9%	6,000	6,632	10.5%
Direct costs	-1,183	-1,218	-1,342	-1,290	4.0%	13.5%	10.2%	-4,343	-5,016	15.5%
Gross profit	447	438	445	453	-1.9%	-0.5%	1.5%	1,657	1,616	-2.4%
Selling & mkt expense	-23	-21	-28	-26	5.6%	18.6%	29.2%	-89	-99	12.0%
G&A expenses	-61	-70	-60	-70	-15.3%	-2.5%	-15.0%	-329	-332	0.7%
EBITDA	523	517	529	521	1.5%	1.1%	2.4%	1,886	1,877	-0.5%
EBIT	363	347	358	357	0.2%	-1.4%	3.1%	1,239	1,185	-4.3%
Finance income	60	56	66	58	14.4%	9.8%	18.9%	210	252	19.9%
Finance costs	-26	-19	-19	-25	-23.0%	-23.7%	5.2%	-102	-82	-20.1%
Other income	32	39	62	26	NM	94.6%	59.4%	113	133	16.9%
Share of profit on eq invt	93	5	98	17	NM	6.1%	NM	88	99	12.9%
Profit before NCI	522	427	564	432	30.6%	8.2%	32.1%	1,548	1,587	2.6%
Tax	0	-37	-39	-37	6.5%	NM	5.6%	0	-130	NM
Non-controlling int.	0	0	0	0	NM	NM	NM	1	0	NM
Net Profit	522	390	525	395	32.8%	0.7%	34.6%	1,547	1,457	-5.8%

FABS estimate & Co Data

Air Arabia - Margins

	3Q23	2Q24	3Q24	YOY Ch	QOQ Ch	2023	2024F	Change
Gross Profit	27.4%	26.5%	24.9%	-253	-157	27.6%	24.4%	-324
EBITDA	32.1%	31.2%	29.6%	-249	-158	31.4%	28.3%	-313
Operating Profit	22.2%	20.9%	20.0%	-223	-93	20.6%	17.9%	-277
Net Profit	32.0%	23.5%	29.4%	-262	583	25.8%	22.0%	-382

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	3.31	70.0%	2.32
Relative Valuation (RV)	3.29	30.0%	0.99
Weighted Average Valuation (AED)			3.30
Current market price (AED)			2.91
Upside/Downside (%)			+13%

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 9.7%. Cost of equity is calculated by using 10-year government bond yield of 5.3%, beta of 1.00 and equity risk premium of 4.4%. 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)	4,141
Terminal value (AED, Mn)	11,317
FV to Common shareholders (AED, Mn)	15,458
No. of share (Mn)	4,667
Current Market Price (AED)	2.91
Fair Value per share (AED)	3.31

DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net profit	1,457	1,380	1,363	1,341	1,346
D&A	692	708	733	762	782
Capex	-1,111	-851	-741	-682	-645
Net change in working capital	481	-133	-173	-163	-232
Free Cash Flow to Equity (FCFE)	1,519	1,105	1,182	1,258	1,250
Discounting Factor	0.99	0.90	0.82	0.75	0.68
Discounted FCFE	376	996	972	943	854

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 6.7x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Pegasus Hava Tasimacigli anonim sirketi	3,421	6.6	5.5	7.0	6.1
Jetblue Airways corporation	2,449	12.9	8.2	NM	NM
Capital A Berhad	974	6.7	6.2	8.2	5.4
Chorus Aviation Inc.	478	6.0	6.9	19.4	10.2
Allegiant Travel Company	1,378	8.0	5.7	77.8	13.6
Average		8.0x	6.5x	28.1x	8.8x
Median		6.7x	6.2x	13.8x	8.1x
Max		8.0x	6.9x	34.0x	11.0x
Min		6.6x	5.7x	7.9x	5.9x

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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