

Air Arabia PJSC

Robust passenger demand boosted the top-line

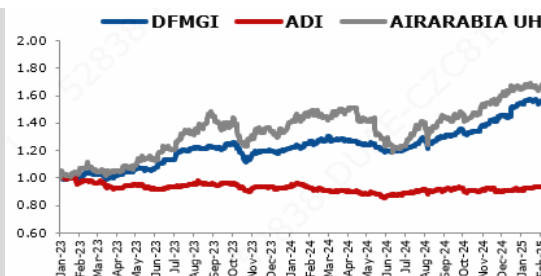
Current Price
AED 3.43

Target Price
AED 3.50

Upside/Downside (%)
2.0%

Rating
HOLD

- The Company's seat load factor stood at 83% in 4Q24, compared to 81% in 4Q23.
- Added ten new aircraft and nine leased aircraft in FY24 and now operates 81 aircraft including 72 Airbus A320 and 9 Airbus A321.
- The Airline's turnover grew 10.7% YOY to AED 6.6 Bn in 2024.
- EBITDA grew from AED 361 Mn in 4Q23 to AED 398 Mn in 4Q24 mainly due to higher revenue and lower G&A expense.
- Air Arabia's net cash flow from operations increased from AED 600 Mn in 4Q23 to AED 692 Mn in 4Q24 owing to improved working capital management.



Stock Information

| | |
|---------------------------|-----------|
| Market Cap (AED, mn) | 16,006.78 |
| Paid Up Capital (mn) | 4,666.70 |
| 52 Week High | 3.50 |
| 52 Week Low | 2.22 |
| 3M Avg. daily value (AED) | 9,839,680 |

4Q24 Net Profit lower than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit grew 38.3% YOY to AED 311 Mn in 4Q24, lower than our estimate of AED 356 Mn. The increase in net profit was attributable to higher revenue growth, decline in G&A expenses, finance cost, and positive contribution from share of profit on equity accounted investment partially offset by an increase in direct costs, selling and marketing expenses and income tax expense.

P&L Highlights

Air Arabia's revenue grew 7.1% YOY to AED 1,655 Mn in 4Q24 primarily driven by an 11.6% YOY increase in the number of passengers across its operating hubs to 4.8 Mn in 4Q24 as well as an improvement in the seat load factor. The seat load factor stood at 83% in 4Q24, compared to 81% in 4Q23, reflecting a robust passenger demand. Moreover, AIRARABIA's direct cost rose 8.8% YOY to AED 1,297 Mn in 4Q24. Thus, gross profit grew 1.3% YOY to AED 358 Mn in 4Q24. Gross profit margin declined from 22.9% in 4Q23 to 21.6% in 4Q24. Air Arabia's selling and marketing expenses rose 17.1% YOY to AED 31 Mn in 4Q24. However, G&A expenses declined 48.2% YOY to AED 70 Mn in 4Q24. The Company's EBITDA grew from AED 361 Mn in 4Q23 to AED 398 Mn in 4Q24 mainly due to higher revenue and lower G&A expense. Moreover, the EBITDA margin increased marginally from 23.3% in 4Q23 to 24.1% in 4Q24. Operating profit rose significantly from AED 192 Mn in 4Q23 to AED 257 Mn in 4Q24. Operating profit margin increased from 12.5% in 4Q23 to 15.6% in 4Q24. Air Arabia's finance income grew 9.4% YOY to AED 68 Mn, whereas finance cost declined 21.1% YOY to AED 20 Mn in 4Q24 due to a decline in total debt including leases. Other income declined significantly from AED 25 Mn in 4Q23 to AED 13 Mn in 4Q24. Share of profit from equity-accounted investments recorded

4Q24 Result Review (AED, mn)

| | |
|-------------------|--------|
| Total Assets | 15,361 |
| Total Liabilities | 7,409 |
| Total Equity | 7,952 |
| EBITDA | 398 |
| Net Profit | 311 |

Financial Ratios

| | |
|-------------------------|-------|
| Dividend Yield (12m) | 5.83 |
| Dividend Pay-out (%) | 63.62 |
| Price-Earnings Ratio(x) | 10.90 |
| Price-to-Book Ratio (x) | 2.01 |
| Book Value (AED) | 1.70 |
| Return-on Equity (%) | 18.95 |

Stock Performance

| | |
|------------------------|--------|
| 5 Days | 2.39% |
| 1 Months | 11.00% |
| 3 Months | 16.67% |
| 6 Months | 29.92% |
| 1 Year | 18.28% |
| Month to Date (MTD%) | 11.00% |
| Quarter to Date (QTD%) | 11.36% |
| Year to Date (YTD%) | 11.36% |

to AED 32 Mn in 4Q24 compared to a loss of AED 30 Mn in 4Q23. Thus, profit before tax and NCI grew from AED 225 Mn in 4Q23 to AED 352 Mn in 4Q24. The income tax expense amounted to AED 41 Mn in 4Q24 owing to the introduction of corporate tax in the UAE impacting the bottom line.

Balance Sheet Highlights

Air Arabia's borrowings reduced from AED 134 Mn in 3Q24 to AED 15 Mn in 4Q24. Lease liabilities grew marginally from AED 2.0 Bn in 3Q24 to AED 2.1 Bn in 4Q24. The Company's cash and bank balance grew from AED 4.9 Bn in 3Q24 to AED 5.3 Bn in 4Q24. Moreover, Air Arabia's net cash flow from operations increased from AED 600 Mn in 4Q23 to AED 692 Mn in 4Q24 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 3.50. The Company reported growth in profitability driven by higher revenue owing to increased passengers, increased share of profit from equity accounted investments, and lower G&A expenses in 4Q24. 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 12.4% YOY to AED 18.8 Mn in 2024 coupled with an improvement in the seat load factor from 80% in 2023 to 82% in 2024. Air Arabia added ten new aircraft and nine leased aircraft in 2024 and now operates 81 aircraft including 72 Airbus A320 and 9 Airbus A321. Moreover, Air Arabia added 31 new routes to its existing network in 2024 which will likely benefit the airline by attracting additional passengers and enhancing its presence in various markets. The Airline's turnover also grew 10.7% YOY to AED 6.6 Bn in 2024. The Company also proposed dividend of AED 0.25 per share, generating a dividend yield of 7.2% in 2024. Hence, based on our analysis, we maintain our HOLD rating on the stock.

Air Arabia - Relative valuation

| (at CMP) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025F |
|----------------|------|------|------|------|------|-------|
| PE | NA | 22.2 | 13.1 | 10.3 | 10.9 | 10.1 |
| PB | 3.6 | 2.6 | 2.3 | 2.1 | 2.0 | 1.9 |
| EV/EBITDA | 32.5 | 9.7 | 6.7 | 5.8 | 6.1 | 5.4 |
| Dividend yield | NA | 2.5% | 4.4% | 5.8% | 7.3% | 7.3% |

FABS Estimates & Co Data

Air Arabia – P&L

| AED mn | 4Q23 | 3Q24 | 4Q24 | 4Q24F | Var. | YOY Ch | QOQ Ch | 2023 | 2024 | Change |
|----------------------------|------------|------------|------------|------------|---------------|--------------|---------------|--------------|--------------|--------------|
| Revenue | 1,545 | 1,787 | 1,655 | 1,648 | 0.4% | 7.1% | -7.4% | 6,000 | 6,639 | 10.7% |
| Direct costs | -1,192 | -1,342 | -1,297 | -1,177 | 10.2% | 8.8% | -3.4% | -4,343 | -5,076 | 16.9% |
| Gross profit | 353 | 445 | 358 | 471 | -24.0% | 1.3% | -19.5% | 1,657 | 1,563 | -5.7% |
| Selling & mkt expense | -26 | -28 | -31 | -26 | 16.6% | 17.1% | 11.2% | -89 | -104 | 16.9% |
| G&A expenses | -135 | -60 | -70 | -126 | -44.8% | -48.2% | 17.3% | -329 | -275 | -16.5% |
| EBITDA | 361 | 529 | 398 | 503 | -20.8% | 10.4% | -24.8% | 1,886 | 1,833 | -2.8% |
| EBIT | 192 | 358 | 257 | 318 | -19.1% | 33.8% | -28.0% | 1,239 | 1,184 | -4.4% |
| Finance income | 62 | 66 | 68 | 69 | -1.6% | 9.4% | 3.2% | 210 | 251 | 19.4% |
| Finance costs | -25 | -19 | -20 | -19 | 1.4% | -21.1% | 0.2% | -102 | -82 | -19.9% |
| Other income | 25 | 62 | 13 | 14 | -6.9% | -48.0% | -78.9% | 113 | 132 | 16.0% |
| Share of profit on eq invt | -30 | 98 | 32 | 7 | NM | NM | -67.1% | 88 | 125 | 41.6% |
| Profit before NCI | 225 | 564 | 352 | 389 | -9.7% | 56.3% | -37.7% | 1,548 | 1,609 | 4.0% |
| Tax | 0 | -39 | -41 | -34 | 18.9% | NM | 3.8% | 0 | -142 | NM |
| Non-controlling int. | 0 | 0 | 0 | -1 | NM | NM | NM | 1 | 1 | NM |
| Net Profit | 225 | 525 | 311 | 356 | -12.6% | 38.3% | -40.8% | 1,547 | 1,467 | -5.2% |

FABS estimate & Co Data

Air Arabia - Margins

| | 4Q23 | 3Q24 | 4Q24 | YOY Ch | QOQ Ch | 2023 | 2024 | Change |
|------------------|-------|-------|-------|--------|--------|-------|-------|--------|
| Gross Profit | 22.9% | 24.9% | 21.6% | -124 | -326 | 27.6% | 23.5% | -407 |
| EBITDA | 23.3% | 29.6% | 24.1% | 73 | -555 | 31.4% | 27.6% | -383 |
| Operating Profit | 12.5% | 20.0% | 15.6% | 310 | -446 | 20.6% | 17.8% | -281 |
| Net Profit | 14.6% | 29.4% | 18.8% | 424 | -1,059 | 25.8% | 22.1% | -369 |

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 | 3.54 | 70.0% | 2.48 |
| Relative Valuation (RV) | 3.39 | 30.0% | 1.02 |
| Weighted Average Valuation (AED) | | | 3.50 |
| Current market price (AED) | | | 3.43 |
| Upside/Downside (%) | | | +2.0% |

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 9.7%. Cost of equity is calculated by using 10-year government bond yield of 5.7%, beta of 1.00 and country risk premium of 4.0%. 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) | 4,167 |
| Terminal value (AED, Mn) | 12,367 |
| FV to Common shareholders (AED, Mn) | 16,534 |
| No. of share (Mn) | 4,667 |
| Current Market Price (AED) | 3.43 |
| Fair Value per share (AED) | 3.54 |

DCF Method

| (All Figures in AED Mn) | FY 2025E | FY 2026E | FY 2027E | FY 2028E | FY 2029E |
|--|------------|--------------|--------------|--------------|--------------|
| Net profit | 1,590 | 1,606 | 1,628 | 1,639 | 1,626 |
| D&A | 689 | 745 | 803 | 864 | 927 |
| Capex | -981 | -947 | -907 | -871 | -813 |
| Net change in working capital | -352 | -152 | -240 | -242 | -276 |
| Free Cash Flow to Equity (FCFE) | 946 | 1,252 | 1,285 | 1,391 | 1,463 |
| Discounting Factor | 0.92 | 0.84 | 0.77 | 0.70 | 0.64 |
| Discounted FCFE | 218 | 1,055 | 987 | 973 | 934 |

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 2025 EV/EBITDA multiple of 6.2x in line with peers.

| Company | Market cap (USD Mn) | EV/EBITDA (x) | | P/E (x) | |
|---|------------------------|---------------|-------------|--------------|-------------|
| | | 2025F | 2026F | 2025F | 2026F |
| Pegasus Hava Tasimacigli anonim sirketi | 3,352 | 7.2 | 5.3 | 9.8 | 9.0 |
| Jetblue Airways corporation | 2,556 | 9.5 | 7.7 | NM | NM |
| Capital A Berhad | 852 | 6.2 | 5.7 | 6.1 | 5.2 |
| Chorus Aviation Inc. | 389 | 4.3 | 5.0 | 9.7 | 11.8 |
| Allegiant Travel Company | 1,525 | 5.7 | 4.9 | 11.2 | 9.1 |
| Average | | 6.6x | 5.7x | 9.2x | 8.8x |
| Median | | 6.2x | 5.3x | 9.7x | 9.0x |
| Max | | 7.2x | 5.7x | 10.1x | 9.8x |
| Min | | 5.7x | 5.0x | 8.8x | 8.1x |

Source: FAB Securities

