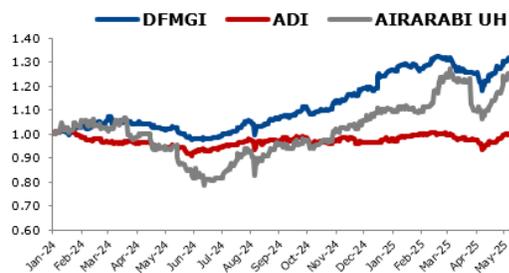


Air Arabia PJSC

Fleet expansion coupled with higher passenger volume supported revenue growth

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.50	AED 3.50	0.0%	HOLD

- The Company's seat load factor stood at 84% in 1Q25.
- Order book of Air Arabia includes 120 aircraft of Airbus A320 category, with delivery scheduled from 2025.
- Added two new aircraft and now operates 83 aircraft including 74 Airbus A320 and 9 Airbus A321 in 1Q25.
- The Airline's turnover grew 14.0% YOY to AED 1.75 Bn in 1Q25.
- EBITDA grew from AED 389 Mn in 1Q24 to AED 415 Mn in 1Q25 mainly due to higher revenue.
- The Company also approved dividend of AED 0.25 per share, generating a dividend yield of 7.1% in 2024.
- Air Arabia introduced 7 new routes, increasing the total number of global destinations served to 217 in 1Q25.



Stock Information

Market Cap (AED, mn)	16,380.12
Paid Up Capital (mn)	4,666.70
52 Week High	3.61
52 Week Low	2.22
3M Avg. daily value (AED)	12,220,840

1Q25 Result Review (AED, Mn)

Total Assets	15,971
Total Liabilities	8,890
Total Equity	7,079
EBITDA	415
Net Profit	305

Financial Ratios

Dividend Yield (12m)	7.12
Dividend Pay-out (%)	63.62
Price-Earnings Ratio(x)	10.70
Price-to-Book Ratio (x)	2.31
Book Value (AED)	1.52
Return-on Equity (%)	21.96

Stock Performance

5 Days	-0.85%
1 Months	10.73%
3 Months	5.41%
6 Months	19.80%
1 Year	42.68%
Month to Date (MTD%)	0.29%
Quarter to Date (QTD%)	13.23%
Year to Date (YTD%)	13.96%

1Q25 Net Profit in line with our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit grew 26.6% YOY to AED 305 Mn in 1Q25, in line with our estimate of AED 297 Mn. The increase in net profit is driven by strong passenger demand and disciplined cost management. Additionally, The growth was attributable to increase in revenue and other income coupled with decline in finance cost, partially offset by an increase in direct costs, G&A expenses, selling and marketing expenses, and income tax expense.

P&L Highlights

Air Arabia's revenue grew 13.9% YOY to AED 1,755 Mn in 1Q25 primarily driven by an 10.9% YOY increase in the number of passengers across its operating hubs to 4.9 Mn in 1Q25 as well as healthy seat load factor. The seat load factor stood at 84% in 1Q25. Moreover, AIRARABIA's direct cost rose 13.4% YOY to AED 1,382 Mn in 1Q25. Thus, gross profit grew 15.8% YOY to AED 373 Mn in 1Q25. Gross profit margin also expanded by 36 bps YOY to 21.2% in 1Q25. Air Arabia's selling and marketing expenses rose 5.9% YOY to AED 26 Mn in 1Q25. G&A expenses increased 5.9% YOY to AED 80 Mn in 1Q25. As a result, the Company's EBITDA grew 6.8% YOY to AED 415 Mn in 1Q25 mainly due to higher revenue. Moreover, the EBITDA margin decreased from 25.2% in 1Q24 to 23.6% in 1Q25. Operating profit rose 20.3% YOY to AED 267 Mn in 1Q25. Operating profit margin increased from 14.4% in 1Q24 to 15.2% in 1Q25. Air Arabia's finance income grew 5.5% YOY to AED 64 Mn, whereas finance cost declined from AED 25 Mn in 1Q24 to AED 17 Mn in 1Q25. Other income increased from AED 18 Mn in 1Q24 to AED 34 Mn in 1Q25. Share of profit from equity-accounted investments recorded to AED 7 Mn in 1Q25 compared to a loss of AED 11 Mn in 1Q24.

Thus, profit before tax and NCI grew from AED 266 Mn in 1Q24 to AED 355 Mn in 1Q25. The income tax expense increased from AED 25 Mn in 1Q24 to AED 50 Mn in 1Q25.

Balance Sheet Highlights

Air Arabia's borrowings significantly reduced from AED 133 Mn in 1Q24 to AED 8 Mn in 1Q25. Lease liabilities reduced marginally from AED 2.1 Bn in 4Q24 to AED 2.0 Bn in 1Q25. The Company's cash and bank balance grew from AED 5.0 Bn in 1Q24 to AED 5.3 Bn in 1Q25. Moreover, Air Arabia's net cash flow from operations increased from AED 342 Mn in 1Q24 to AED 614 Mn in 1Q25 owing to improved working capital management.

Target Price and Rating

We maintain our HOLD rating on Air Arabia with a target price of AED 3.50. The Company delivered strong bottom-line performance for 1Q25 owing to higher revenue due to increased passengers, increase in other income and decrease in finance cost, despite the impact of seasonality shift due to the month of Ramadan, fuel price volatility, currency fluctuations in key markets, and ongoing supply chain challenges that contributed to higher inflationary costs across the industry. In January 2025, the airline added two new Airbus A320s to boost fleet capacity and now operates 83 aircraft including 74 Airbus A320 and 9 Airbus A321 across all six hubs. Additionally, order book of Air Arabia includes 120 aircrafts of Airbus A320 category, with delivery scheduled from 2025. Air Arabia continued expansion of its route network by introducing seven new routes, increasing the total number of destinations served to 217 across the UAE, Morocco, Egypt, and Pakistan. Additionally, in 1Q25, Air Arabia carried 4.9 Mn passengers showing 10.9% YOY increase in pax across all hubs compared to the 1Q24 maintaining a high seat load factor of 84%. The seat capacity available across all hubs increased by 11% YOY during the 1Q25 compared to the same period last year. Despite facing ongoing regional and global challenges, such as geopolitical tensions, economic uncertainty, volatile oil prices, currency fluctuations, and inflation, Air Arabia remains focused on executing its strategic growth plans for 2025. These external pressures are expected to continue affecting the overall performance of the airline industry. The Airline's turnover also grew 14.0% YOY to AED 1.75 Bn in 1Q25. The Company also approved dividend of AED 0.25 per share, generating a dividend yield of 7.1% in 2024. Hence, based on our analysis, we assign HOLD rating to the stock.

Air Arabia - Relative valuation

(at CMP)	2020	2021	2022	2023	2024	2025F
PE	NA	22.8	13.4	10.6	11.2	11.1
PB	3.6	2.7	2.3	2.2	2.1	2.0
EV/EBITDA	33.4	10.0	6.9	6.0	6.3	5.4
DPS	0.00	0.09	0.15	0.20	0.25	0.25
Dividend yield	NA	2.4%	4.3%	5.7%	7.1%	7.1%

FABS Estimates & Co Data

Air Arabia – P&L

AED Mn	1Q24	4Q24	1Q25	1Q25F	Var	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	1,541	1,655	1,755	1,587	10.6%	13.9%	6.1%	6,639	7,316	10.2%
Direct costs	-1,219	-1,297	-1,382	-1,238	11.7%	13.4%	6.6%	-5,076	-5,516	8.7%
Gross profit	322	358	373	349	6.7%	15.8%	4.1%	1,563	1,799	15.1%
Selling & mkt expense	-24	-31	-26	-24	7.4%	5.9%	-16.7%	-104	-117	12.7%
G&A expenses	-76	-70	-80	-78	2.9%	5.9%	14.6%	-275	-329	19.7%
EBITDA	389	398	415	420	-1.2%	6.8%	4.2%	1,833	2,042	11.4%
EBIT	222	257	267	248	7.9%	20.3%	3.7%	1,184	1,353	14.3%
Finance income	61	68	64	66	-3.2%	5.5%	-5.6%	251	234	-6.6%
Finance costs	-25	-20	-17	-21	-17.8%	-30.2%	-12.2%	-82	-83	1.6%
Other income	18	13	34	25	34.6%	87.5%	NM	132	110	-16.7%
Share of profit on eq invt	-11	32	7	8	-13.6%	NM	-78.9%	125	110	-12.0%
Profit before NCI	266	352	355	327	8.8%	33.6%	1.1%	1,609	1,723	7.1%
Tax	-25	-41	-50	-29	70.9%	NM	23.7%	-142	-241	70.5%
Non-controlling int.	0	0	0	0	NM	-77.9%	-27.5%	1	0	NM
Net Profit	241	311	305	297	2.7%	26.6%	-1.9%	1,467	1,482	1.0%

FABS estimate & Co Data

Air Arabia - Margins

	1Q24	4Q24	1Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	20.9%	21.6%	21.2%	36	-40	23.5%	24.6%	105
EBITDA	25.2%	24.1%	23.6%	-158	-42	27.6%	27.9%	31
Operating Profit	14.4%	15.6%	15.2%	81	-34	17.8%	18.5%	66
Net Profit	15.6%	18.8%	17.4%	174	-140	22.1%	20.3%	-184

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	3.73	70.0%	2.61
Relative Valuation (RV)	2.96	30.0%	0.89
Weighted Average Valuation (AED)			3.50
Current market price (AED)			3.50
Upside/Downside (%)			0.0%

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 9.8%. Cost of equity is calculated by using 10-year government bond yield of 5.6%, beta of 1.00 and country risk premium of 4.2%. 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)	4,936
Terminal value (AED, Mn)	12,479
FV to Common shareholders (AED, Mn)	17,416
No. of share (Mn)	4,667
Current Market Price (AED)	3.50
Fair Value per share (AED)	3.73

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Net profit	1,482	1,551	1,598	1,607	1,586
D&A	689	746	806	870	935
Capex	-982	-954	-922	-894	-840
Net change in working capital	-51	-91	-104	-154	-205
Free Cash Flow to Equity (FCFE)	1,139	1,252	1,379	1,429	1,476
Discounting Factor	0.94	0.86	0.78	0.71	0.65
Discounted FCFE	805¹	1,076	1,079	1,018	958

Source: FAB Securities, ¹Adjusted for partial year

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 5.2x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2025F	2026F	2025F	2026F
Pegasus Hava Tasimacigli anonim sirketi	3,224	5.7	5.8	7.8	8.0
Jetblue Airways corporation	1,747	17.3	9.9	NM	NM
Capital A Berhad	913	1.1	1.1	5.8	4.5
Chorus Aviation Inc.	403	4.3	5.0	8.7	10.4
Allegiant Travel Company	1,030	5.2	4.2	16.8	8.5
Average		6.7x	5.2x	9.8x	7.8x
Median		5.2x	5.0x	8.2x	8.2x
Max		5.7x	5.8x	10.7x	8.9x
Min		4.3x	4.2x	7.3x	7.1x

Source: FAB Securities

