FAB SECURITIES

First Look Note | 3Q25

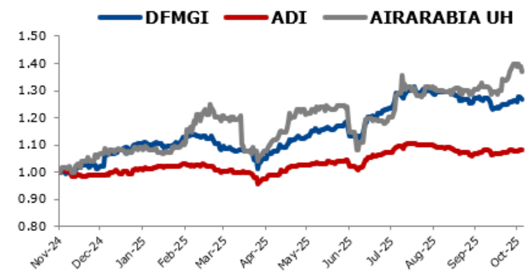
UAE Equity Research | Sector: Transportation | Market: DFM

Air Arabia PJSC

Robust passenger demand and fleet expansion supported profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 3.91	AED 4.40	+12.6%	ACCUMULATE

- Seat load factors across all hubs stood at 84.5% in 3Q25, compared to 81.2% in 3Q24.
- No. of passengers who travelled across all its hubs surged from 5.1 Mn in 3Q24 to 5.9 Mn in 3Q25.
- The Company expanded its network by launching 12 new routes and added six new aircraft to its fleet during 9M25.
- Air Arabia continued to remain debt-free in 3Q25, consistent with its position in 2Q25.
- Cash and bank balance increased from AED 4.7 Bn in 2Q25 to AED 5.1 Bn in 3Q25.



Stock Information	
Market Cap (AED, mn)	18,246.80
Paid Up Capital (mn)	4,666.70
52 Week High	4.05
52 Week Low	2.85
3M Avg. daily value (AED)	15,125,640

3Q25 Result Review (AED, Mn)	
Total Assets	16,096
Total Liabilities	8,111
Total Equity	7,985
EBITDA	585
Net Profit	583

Financial Ratios	
Dividend Yield (12m)	6.30
Dividend Pay-out (%)	63.62
Price-Earnings Ratio(x)	12.15
Price-to-Book Ratio (x)	2.32
Book Value (AED)	1.71
Return-on Equity (%)	19.80

Stock Performance	
5 Days	-2.01%
1 Months	-2.98%
3 Months	3.71%
6 Months	11.40%
1 Year	34.83%
Month to Date (MTD%)	0.26%
Quarter to Date (QTD%)	4.27%
Year to Date (YTD%)	26.95%

3Q25 Net Profit higher than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit increased 11.0% YOY to AED 583 Mn in 3Q25, higher than our estimate of AED 494 Mn. The rise in net profit was primarily driven by higher revenue, resulting from increased passenger traffic and network expansion, coupled with an increase in other income, a higher profit share from an equity-accounted investee, and lower finance costs. This was partially offset by higher direct costs, an increase in general and administrative (G&A) expenses, and income tax charges.

P&L Highlights

Air Arabia's revenue grew 14.4% YOY to AED 2,045 Mn in 3Q25, primarily driven by an increase in the number of passengers from 5.1 Mn in 3Q24 to 5.9 Mn in 3Q25, across its operating hubs, coupled with the addition of new aircraft and network expansion. Moreover, AIRARABIA's direct cost rose 11.3% YOY to AED 1,494 Mn in 3Q25. Thus, gross profit increased 23.7% YOY to AED 550 Mn in 3Q25. Gross profit margin rose from 24.9% in 3Q24 to 26.9% in 3Q25. Selling & marketing expenses were flat YOY at AED 28 Mn in 3Q25. Whereas, G&A expenses increased 40.2% YOY to AED 83 Mn in 3Q25. As a result, the Company's EBITDA rose 10.6% YOY to AED 585 Mn in 3Q25. EBITDA margin decreased from 29.6% in 3Q24 to 28.6% in 3Q25. Operating profit increased 22.8% YOY to AED 439 Mn in 3Q25. Operating profit margin increased from 20.0% in 3Q24 to 21.5% in 3Q25. AIRARABIA's finance income fell 13.5% YOY to AED 57 Mn, and finance cost also declined from AED 19 Mn in 3Q24 to AED 15 Mn in 3Q25. Other income increased 8.3% YOY to AED 67 Mn in 3Q25. Share of profit from equity-accounted investments rose from AED 98 Mn in 3Q24 to AED 107 Mn in 3Q25. Income tax expense increased from AED 39 Mn in 3Q24 to AED 73 Mn in 3Q25 due to implementation of Domestic Minimum Top-up Tax (DMTT) with effect from 01 January 2025.

Balance Sheet Highlights

Air Arabia continued to remain debt-free in 3Q25, consistent with its position in 2Q25. Lease liabilities were flat at AED 1.89 Bn in 2Q25 to AED 1.90 Bn in 3Q25. The Company's cash and bank balance increased from AED 4.7 Bn in 2Q25 to AED 5.1 Bn in 3Q25. Moreover, AIRARABIA's net cash flow from operations decreased from AED 778 Mn in 2Q25 to AED 761 Mn in 3Q25, primarily due to higher profit being offset by lower cash generation from working capital activities.

Target Price and Rating

We revise our rating from HOLD to ACCUMULATE on AIRARABIA with a revised target price of AED 4.40. The Company's stock price grew 4.3% since our last rating (September 2025). AIRARABIA reported a double-digit growth in net profit driven by strong network-wide demand, higher passenger volumes, enhanced operational efficiency, and disciplined cost management during 3Q25. The Company's Passenger traffic grew by 16% YOY to 5.9 Mn during 3Q25, while the average seat load factor increased from 81.0% in 3Q24 to 85.0% in 3Q25, underscoring AIRARABIA's strong market positioning and ability to capture rising travel demand. The Company expanded its network by launching 12 new routes during 9M25 and added six new aircraft to its fleet, bringing the total to 88 owned and leased Airbus A320 and A321 aircraft, with additional deliveries expected before the end of 2025. This expansion underscores the Company's strategic focus on strengthening its regional footprint, enhancing route connectivity, and meeting the growing demand for air travel across its key markets. The Company marked a significant milestone with the introduction of its first Airbus A320neo, the initial delivery from its order of 120 aircraft. The new-generation aircraft is designed to deliver up to 20% greater fuel efficiency and lower CO_2 emissions, aligning with Air Arabia's commitment to operational excellence and environmental responsibility. This also reflects the Company's ongoing efforts to optimize costs and improve profitability. Furthermore, AIRARABIA continues to strengthen its regional footprint, enhance route connectivity, and leverage digital transformation to improve customer experience and operational efficiency. The Company also remains debt-free, with a strong cash balance of AED 5.1 Bn as of 3Q25, providing a solid foundation for future growth. Hence, based on our analysis, we assign an ACCUMULATE rating to the stock.

Air Arabia - Relative valuation

(at CMP)	**2021**	**2022**	**2023**	**2024**	**2025F**
PE	25.35	14.93	11.79	12.44	11.03
PB	3.00	2.61	2.42	2.30	2.18
EV/EBITDA	11.46	7.98	6.96	7.33	6.66
BVPS	1.302	1.499	1.614	1.704	1.792
EPS	0.154	0.262	0.332	0.314	0.355
DPS	0.085	0.150	0.200	0.250	0.300
Dividend yield	2.2%	3.8%	5.1%	6.4%	7.7%

FABS Estimates & Co Data

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Air Arabia – P&L

AED Mn	3Q24	2Q25	3Q25	3Q25F	Var %	YOY Ch	QOQ Ch	2024	2025F	Change
Revenue	1,787	1,692	2,045	1,894	8.0%	14.4%	20.8%	6,639	7,348	10.7%
Direct costs	-1,342	-1,317	-1,494	-1,402	6.6%	11.3%	13.4%	-5,076	-5,521	8.8%
Gross profit	**445**	**375**	**550**	**492**	**11.8%**	**23.7%**	**46.9%**	**1,563**	**1,827**	**16.9%**
Selling & mkt expense	-28	-29	-28	-32	-14.2%	0.0%	-3.9%	-104	-112	7.6%
G&A expenses	-60	-61	-83	-70	19.1%	40.2%	36.0%	-275	-316	14.9%
EBITDA	**529**	**455**	**585**	**581**	**0.7%**	**10.6%**	**28.5%**	**1,833**	**2,031**	**10.8%**
EBIT	**358**	**285**	**439**	**390**	**12.6%**	**22.8%**	**54.4%**	**1,184**	**1,399**	**18.2%**
Finance income	66	59	57	61	-6.0%	-13.5%	-2.8%	251	244	-2.8%
Finance costs	-19	-18	-15	-18	-17.6%	-23.6%	-15.8%	-82	-67	-18.7%
Other income	62	45	67	53	26.0%	8.3%	49.3%	132	198	50.7%
Share of profit on eq invt	98	44	107	95	13.4%	9.0%	142.4%	125	169	35.5%
Profit before NCI	**564**	**415**	**656**	**581**	**12.9%**	**16.2%**	**58.1%**	**1,609**	**1,943**	**20.8%**
Tax	-39	-65	-73	-87	-16.0%	87.1%	12.9%	-142	-291	106.0%
Non-controlling int.	0	0	0	0	NM	NM	NM	1	0	NM
Net Profit	**525**	**350**	**583**	**494**	**18.0%**	**11.0%**	**66.6%**	**1,467**	**1,652**	**12.6%**

FABS estimate & Co Data

Air Arabia - Margins

	3Q24	2Q25	3Q25	YOY Ch	QOQ Ch	2024	2025F	Change
Gross Profit	24.9%	22.1%	26.9%	203	478	23.5%	24.9%	132
EBITDA	29.6%	26.9%	28.6%	-100	170	27.6%	27.6%	3
Operating Profit	20.0%	16.8%	21.5%	147	467	17.8%	19.0%	120
Net Profit	29.4%	20.7%	28.5%	-89	782	22.1%	22.5%	38

FABS estimate & Co Data

Key Developments:

- **13th February 2025:** Air Arabia strengthened its expansion and operational excellence, adding 31 new routes across six hubs. This drove a 13% rise in operational capacity and a 12% increase in passengers to 18.8 Mn, with the average seat load factor improving by 2% to 82%, reflecting continued strong demand for its low-cost model.

- **21st July 2025:** A consortium led by Air Arabia, Nesma Group, and KUN Holding won the General Authority of Civil Aviation’s bid to establish a new national low-cost carrier based in Dammam. The airline will strengthen domestic and international connectivity for Saudi Arabia’s Eastern Province and is projected to operate 24 domestic and 57 international routes with 45 aircraft by 2030, serving 10 Mn passengers annually and creating over 2,400 direct jobs, in line with Saudi Vision 2030.

- **13th August 2025:** Air Arabia added 2 new aircraft, expanding its fleet to 83 Airbus A320 and A321 jets, with 120 more on order for delivery starting at the end of 2025. The airline reported 13% growth in passengers to 10.1 Mn, while launching 13 new routes across the UAE, Morocco, Egypt, and Pakistan in 1H25.

- **11th NOV 2025:** Air Arabia carried over 5.9 Mn passengers in the quarter, marking a 16% YOY increase, while its seat load factor rose 4 points to 85%, reflecting the airline’s strong operational efficiency and sustained growth under its low-cost business model.

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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	4.80	70.0%	3.36
DDM Method	3.63	15.0%	0.54
Relative Valuation (RV)	3.29	15.0%	0.49
Weighted Average Valuation (AED)			**4.40**
Current market price (AED)			3.91
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 9.8%. 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 4.7%. 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)	6,523
Terminal value (AED, Mn)	15,900
FV to Common shareholders (AED, Mn)	**22,423**
No. of shares (Mn)	4,667
Current Market Price (AED)	3.91
Fair Value per share (AED)	**4.80**

DCF Method

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Net profit	1,655	1,716	1,859	1,944	1,995	2,022
D&A	623	674	725	777	843	900
Capex	-1,130	-1,130	-957	-949	-914	-913
Net change in working capital	-50	-74	-31	32	1	-30
Free Cash Flow to Equity (FCFE)	**1,097**	**1,186**	**1,597**	**1,804**	**1,925**	**1,978**
Discounting Factor	0.99	0.90	0.82	0.75	0.68	0.62
Discounted FCFE[1]	**271[1]**	**1,066**	**1,308**	**1,346**	**1,308**	**1,224**

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 75% of annual net profit. The dividends are discounted at the cost of equity.

Sum of PV (AED, Mn)	5,932
Terminal value (AED, Mn)	11,010
FV to Common shareholders (AED, Mn)	**16,942**
No. of shares (Mn)	4,667
Current Market Price (AED)	3.91
Fair Value per share (AED)	**3.63**

(All Figures in AED Mn)	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E
Dividend Paid						
Dividend	1,241	1,287	1,394	1,458	1,496	1,517
Total Dividend	**1,241**	**1,287**	**1,394**	**1,458**	**1,496**	**1,517**
Discounting Factor	0.89	0.81	0.74	0.67	0.61	0.56
Present Value of Dividend	**1,107**	**1,046**	**1,032**	**982**	**918**	**848**

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 5.5x in line with peers.

Company	Market cap	EV/EBITDA (x)		P/E (x)	
	(USD Mn)	2025F	2026F	2025F	2026F
Pegasus Hava Tasimaciligi AS	2,390	5.7	4.7	9.8	6.3
Jetblue Airways corporation	1,579	20.2	10.7	NM	NM
Chorus Aviation Inc.	462	4.6	5.5	9.9	12.4
Allegiant Travel Company	1,182	5.7	4.7	22.4	10.7
Flynas Co SJSC	3,285	5.9	5.0	23.8	18.0
Jazeera Airways Co KSC	1,226	10.2	9.0	2.0	1.5
Ryanair Holdings PLC	33,454	9.6	7.3	18.6	13.1
Wizz Air Holdings PLC	1,471	5.1	4.6	8.6	71.1
Interglobe Aviation Ltd	25,608	13.8	11.4	32.6	30.2
Average		**9.0x**	**7.0x**	**16.0x**	**20.4x**
Median		**5.9x**	**5.5x**	**14.3x**	**12.8x**
Max		**10.2x**	**9.0x**	**22.8x**	**21.1x**
Min		**5.7x**	**4.7x**	**9.5x**	**9.6x**

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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