First Look Note | 3Q26

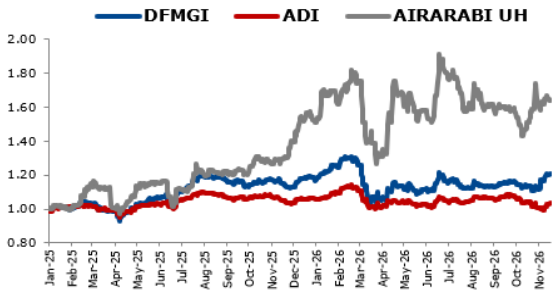
UAE Equity Research | Sector: Transportation | Market: DFM

Air Arabia PJSC

Sequential recovery in operations but cost pressures weigh on profitability

Current Price	Target Price	Upside/Downside (%)	Rating
AED 5.00	AED 5.10	+2%	HOLD

- Average Seat load factor across all hubs stood at 82% in 3Q26, compared to 85% in 3Q25.
- Passenger traffic across the Group's operating hubs declined 3.4% YOY to 5.7 Mn in 3Q26, however the passenger volumes improved by 46.2% QOQ.
- The Company added 10 aircrafts during 9M26, taking the total fleet to 100 aircraft, with four additional aircrafts expected in 4Q26.
- The Company launched 14 new routes across the operating hubs during 9M26, expanding the network to 224 routes.
- Cash and bank balance increased from AED 4.4 Bn in 2Q26 to AED 4.7 Bn in 3Q26.



Stock Information	
Market Cap (AED, Mn)	23,333.50
Paid Up Capital (Mn)	4,666.70
52 Week High	6.03
52 Week Low	3.87
3M Avg. daily value (AED)	18,865,930

3Q26 Result Review (AED, Mn)	
Total Assets	19,450
Total Liabilities	11,277
Total Equity	8,173
EBITDA	480
Net Profit	348

Financial Ratios	
Dividend Yield (12m)	6.00
Dividend Pay-out (%)	71.64
Price-Earnings Ratio(x)	21.73
Price-to-Book Ratio (x)	2.86
Book Value (AED)	1.75
Return-on Equity (%)	13.30

Stock Performance	
5 Days	-1.38%
1 Months	5.26%
3 Months	1.42%
6 Months	7.07%
1 Year	24.07%
Month to Date (MTD%)	0.00%
Quarter to Date (QTD%)	3.31%
Year to Date (YTD%)	7.30%

3Q26 Net Profit higher than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit attributable to equity shareholders decreased 40.3% to AED 348 Mn in 3Q26, higher than our estimate of AED 325 Mn. The decline in net profit was primarily driven by higher direct costs, selling & marketing expense, finance costs and marginal increase in G&A expenses coupled with decline in finance income, other income and share of profit on equity accounted investments, partially offset by higher revenue coupled with lower tax expenses.

P&L Highlights

Air Arabia's revenue increased 9.6% YOY to AED 2,318 Mn in 3Q26, supported by resilient passenger demand amid the challenging regional operating environment, with passenger traffic declining 3.4% YOY to 5.7 Mn in 3Q26. Moreover, AIRARABIA's direct cost rose 23.9% YOY to AED 1,937 Mn in 3Q26, largely due to higher fuel prices. Thus, gross profit decreased 30.7% YOY to AED 381 Mn in 3Q26, while gross profit margin contracted significantly from 26.0% in 3Q25 to 16.5% in 3Q26. Selling & Marketing expenses increased 19.0% YOY to AED 33 Mn in 3Q26, whereas G&A expenses increased marginally by 0.4% YOY to AED 84 Mn in 3Q26. As a result, the Company's EBITDA declined 17.9% YOY to AED 480 Mn in 3Q26, with EBITDA margin contracting from 27.7% in 3Q25 to 20.7% in 3Q26. Operating profit decreased 39.7% YOY to AED 265 Mn in 3Q26, while operating profit margin contracted to 11.4% in 3Q26 from 20.8% in 3Q25. AIRARABIA's finance income fell 16.8% YOY to AED 48 Mn in 3Q26, while finance costs rose from AED 15 Mn in 3Q25 to AED 38 Mn in 3Q26. Other income declined 19.5% YOY to AED 54 Mn in 3Q26. The share of profit from equity-accounted investments decreased 49.4% YOY to AED 54 Mn in 3Q26. Income tax expense decreased significantly from AED 73 Mn in 3Q25 to AED 35 Mn in 3Q26.

Non-controlling interest decreased from AED 0.11 Mn in 3Q25 to AED 0.08 Mn in 3Q26.

Balance Sheet Highlights

Air Arabia's debt increased to AED 2.8 Bn in 3Q26 from AED 2.3 Bn in 2Q26. Lease liabilities remained stable at AED 1.5 Bn in 3Q26 compared to 2Q26. The Company's cash and bank balances increased from AED 4.4 Bn in 2Q26 to AED 4.7 Bn in 3Q26. Moreover, AIRARABIA's net cash flow from operations decreased from AED 761 Mn in 3Q25 to AED 707 Mn in 3Q26.

Target Price and Rating

We revised our rating on AIRARABIA from ACCUMULATE to HOLD with an unchanged target price of AED 5.10. AIRARABIA reported a 9.6% YOY increase in revenue to AED 2,318 Mn in 3Q26, supported by resilient passenger demand despite the ongoing regional conflict. Passenger traffic across the operating hubs declined 3.4% YOY to 5.7 Mn, compared with a 23.5% YOY decline in 2Q26, while the average seat load factor remained healthy at 82% in 3Q26. The improvement in passenger traffic indicates a gradual recovery in operating activity following the disruptions in 2Q26. Revenue increased 37.3% QOQ, reflecting recovery as the Company continues to navigate in the challenging regional environment. However, profitability continued to face pressure from elevated operating costs, with direct costs outpacing the revenue growth, leading to contraction in gross profit margin from 26.0% in 3Q25 to 16.5% in 3Q26. On sequential basis gross profit margin improved 810 bps to 16.5% in 3Q26. While profitability improved significantly QOQ, margins remained under pressure, reflecting the continued impact of elevated fuel prices and higher operating costs on earnings. On the operational front, AIRARABIA continued to expand the network and strengthen the Company's multi-hub presence. During 9M26, the Group introduced 14 new routes across its operating markets, taking the total network to 224 routes. In 3Q26, AIRARABIA commenced operations from the new Dammam hub in Saudi Arabia with initial domestic connections to Jeddah, Madinah and Riyadh. The Company also added 10 new aircrafts during 9M26, taking the total fleet to 100 aircrafts, with four more aircrafts expected to be added to the fleet in 4Q26. The continued expansion of the fleet and network during a challenging operating environment reflects AIRARABIA's focus on building capacity for future demand rather than allowing near-term disruptions to derail the longer-term growth strategy. Looking ahead, the operating environment is expected to remain challenging, with regional geopolitical developments, fuel price volatility, inflationary pressures and supply-chain constraints continuing to pose risks to earnings. The recovery in passenger traffic, gradual ramp-up of the Dammam hub and planned aircraft additions are expected to support revenue growth over the medium term. However, the pace of margin recovery will remain dependent on the normalisation of fuel prices, easing of regional disruptions and the Company's ability to manage the operating cost base. Thus, based on our analysis, we assign a HOLD rating to the stock.

Air Arabia - Relative valuation

(at CMP)	2021	2022	2023	2024	2025	2026F
PE	32.54	19.17	15.14	15.97	14.39	21.99
PB	3.86	3.35	3.11	2.95	2.79	2.73
EV/EBITDA	15.58	11.01	9.71	9.95	10.44	13.40
BVPS	1.302	1.499	1.614	1.704	1.802	1.836
EPS	0.154	0.262	0.332	0.314	0.349	0.228
DPS	0.085	0.150	0.200	0.250	0.300	0.194
Dividend yield	1.7%	3.0%	4.0%	5.0%	6.0%	3.9%

FABS Estimates & Co Data

Air Arabia – P&L

AED Mn	3Q25	2Q26	3Q26	3Q26F	Var	YOY Ch	QOQ Ch	2025	2026F	Change
Revenue	2,114	1,689	2,318	2,004	15.7%	9.6%	37.3%	7,788	8,146	4.6%
Direct costs	-1,564	-1,548	-1,937	-1,643	17.9%	23.9%	25.1%	-6,088	-6,893	13.2%
Gross profit	**550**	**141**	**381**	**361**	**5.7%**	**-30.7%**	**NM**	**1,699**	**1,253**	**-26.3%**
Selling & mkt expense	-28	-25	-33	-26	26.2%	19.0%	32.9%	-114	-118	4.0%
G&A expenses	-83	-73	-84	-84	-0.4%	0.4%	14.7%	-316	-334	5.6%
EBITDA	**585**	**228**	**480**	**437**	**9.8%**	**-17.9%**	**NM**	**1,891**	**1,594**	**-15.7%**
EBIT	**439**	**43**	**265**	**250**	**5.7%**	**-39.7%**	**NM**	**1,270**	**801**	**-36.9%**
Finance income	57	46	48	53	-10.5%	-16.8%	3.6%	241	200	-16.9%
Finance costs	-15	-28	-38	-31	21.1%	NM	33.7%	-67	-119	NM
Other income	67	41	54	50	7.4%	-19.5%	31.7%	197	204	3.3%
Share of profit on eq invt	107	-6	54	60	-9.7%	-49.4%	NM	190	98	-48.5%
Profit before NCI	**656**	**96**	**383**	**383**	**0.0%**	**-41.6%**	**NM**	**1,831**	**1,184**	**-35.3%**
Tax	-73	-8	-35	-57	-38.6%	NM	NM	-202	-118	-41.4%
Non-controlling int.	0.11	0	0.08	0	NM	-26.1%	NM	0	0	NM
Net Profit	**583**	**88**	**348**	**325**	**6.8%**	**-40.3%**	**NM**	**1,628**	**1,065**	**-34.6%**

FABS estimate & Co Data

Air Arabia - Margins

	3Q25	2Q26	3Q26F	YOY Ch	QOQ Ch.	2025	2026F	Change
Gross Profit	26.0%	8.4%	16.5%	-958	810	21.8%	15.4%	-644
EBITDA	27.7%	13.5%	20.7%	-696	720	24.3%	19.6%	-471
Operating Profit	20.8%	2.6%	11.4%	-936	886	16.3%	9.8%	-647
Net Profit	27.6%	5.2%	15.0%	NM	979	20.9%	13.1%	-783

FABS estimate & Co Data

Key Developments:

- **16th November 2026:** Air Arabia Dammam announced the launch of four weekly non-stop flights connecting Dammam with Damascus, expanding its regional connectivity and providing passengers in Saudi Arabia's Eastern Province with direct access to the Syrian capital.

- **11th November 2026:** Air Arabia Dammam, Saudi Arabia's new national low-cost carrier, announced the launch of its first international route connecting Dammam with Queen Alia International Airport in Amman, Jordan.

- **08th October 2026:** Air Arabia announced the introduction of four weekly non-stop flights between Sharjah International Airport and Amman City Airport. The new service will add a second airport in Jordan's capital to the Sharjah network.

- **14th September 2026:** Saudi Arabia's General Authority of Civil Aviation (GACA) granted an Air Operator Certificate (AOC) to the Air Arabia-led consortium, comprising Air Arabia Group, Nesma Group and KUN Holding. The carrier is expected to serve 24 domestic and 57 international destinations, with an annual passenger target of c. 10 Mn by 2030.

- **14th July 2026:** Air Arabia, the Middle East and North Africa's first and largest budget carrier operator, has inaugurated its new non-stop service between Sharjah International Airport and Rome Fiumicino Airport, marking another milestone in the airline's continued expansion across Europe.

- **05th July 2026:** Air Arabia, has announced the commencement of its new double daily non-stop service connecting Sharjah International Airport with London Gatwick Airport. The inaugural flight took off on July 4th, marking a significant milestone in the airline's expanding international network.

- **18th June 2026:** Air Arabia, announced the launch of its non-stop service between Sharjah and Aleppo, effective 4 July 2026, further strengthening its connectivity to Syria. The new service will operate daily between Sharjah and Aleppo, offering customers greater travel flexibility and reinforcing Air Arabia's commitment to providing affordable and convenient air travel options across key markets.

- **24th April 2026:** Air Arabia announced the launch of its new non-stop service to Amman City Airport (ADJ), in Jordan. The new route will commence on May 1, 2026, with three weekly flights operating between Zayed International Airport and Amman City Airport, offering customers convenient and affordable travel options between the two cities.

- **26th February 2026:** Air Arabia announced the launch of its daily non-stop service connecting Sharjah International Airport with Rome Fiumicino Airport. Commencing on July 1st, 2026, the new route will further strengthen the airline's growing European network and enhance direct connectivity between the UAE and Italy.

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	5.60	70.0%	3.92
DDM Method	5.02	15.0%	0.75
Relative Valuation (RV)	2.84	15.0%	0.43
Weighted Average Valuation (AED)			**5.10**
Current market price (AED)			5.00
Upside/Downside (%)			+2%

1) DCF Method:

Air Arabia is valued using free cash flow to equity. We have discounted the cash flow using the cost of equity of 9.5%. Cost of equity is calculated by using the 10-year government bond yield of 5.4%, the beta of 1.00 and the country risk premium of 4.1%. 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)	6,781
Terminal value (AED, Mn)	19,368
FV to Common shareholders (AED, Mn)	**26,149**
No. of shares (Mn)	4,667
Current Market Price (AED)	5.00
Fair Value per share (AED)	**5.60**

DCF Method

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Net profit	1,065	1,560	1,717	1,885	2,065	2,269
D&A	784	852	929	1,020	1,097	1,199
Capex	-2,949	-1,291	-1,224	-1,130	-1,240	-1,357
Net change in working capital	34	90	279	304	337	155
Free Cash Flow to Equity (FCFE)	**-1,066**	**1,212**	**1,701**	**2,079**	**2,260**	**2,266**
Discounting Factor	*0.99*	*0.90*	*0.83*	*0.75*	*0.69*	*0.63*
Discounted FCFE	**-264[1]**	**1,095**	**1,403**	**1,567**	**1,556**	**1,424**

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 85% of annual net profit. The dividends are discounted at the cost of equity.

Sum of PV (AED, Mn)	6,927
Terminal value (AED, Mn)	16,488
FV to Common shareholders (AED, Mn)	**23,415**
No. of shares (Mn)	4,667
Current Market Price (AED)	5.00
Fair Value per share (AED)	**5.02**

(All Figures in AED Mn)	FY 2026E	FY 2027E	FY 2028E	FY 2029E	FY 2030E	FY 2031E
Dividend Paid						
Dividend	906	1,326	1,459	1,603	1,756	1,929
Total Dividend	**906**	**1,326**	**1,459**	**1,603**	**1,756**	**1,929**
Discounting Factor	*0.99*	*0.90*	*0.83*	*0.75*	*0.69*	*0.63*
Present Value of Dividend	**896**	**1,199**	**1,204**	**1,208**	**1,208**	**1,212**

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 2027 EV/EBITDA multiple of 5.6x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2026F	2027F	2026F	2027F
Pegasus Hava Tasimaciligi AS	1,563	9.4	5.1	5.9	6.5
Jetblue Airways corporation	1,404	57.8	13.2	NA	NA
Chorus Aviation Inc.	574	5.7	5.6	13.3	12.6
Allegiant Travel Company	2,578	7.6	5.3	14.2	8.8
Flynas Co SJSC	1,828	6.2	3.9	NA	15.4
Jazeera Airways Co KSC	1,030	9.2	7.0	15.7	11.9
Ryanair Holdings PLC	29,231	7.2	7.5	15.2	17.2
Wizz Air Holdings PLC	1,567	7.1	5.3	NA	NA
Interglobe Aviation Ltd	22,790	15.2	9.7	108.4	29.1
Average		**13.9x**	**7.0x**	**28.8x**	**14.5x**
Median		**7.6x**	**5.6x**	**14.7x**	**12.6x**
Max		**57.8x**	**13.2x**	**108.4x**	**29.1x**
Min		**5.7x**	**3.9x**	**5.9x**	**6.5x**

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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