

## Air Arabia PJSC

Higher OPEX impacted profitability

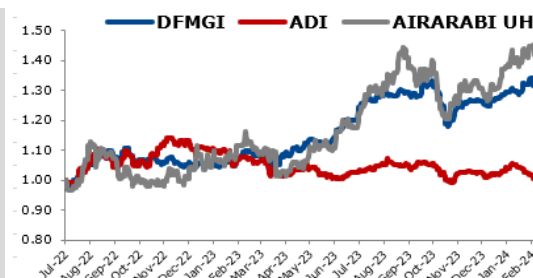
**Current Price**  
AED 2.93

**Target Price**  
AED 3.10

**Upside/Downside (%)**  
+5.80%

**Rating**  
HOLD

- Air Arabia' served 16.7 Mn passengers in 2023 travelling through seven hubs located in the UAE, Morocco, Egypt, Armenia, and Pakistan with a load factor of 80.4%.
- The Company's net profit declined from AED 355 Mn in 4Q22 to AED 225 Mn in 4Q23, whereas turnover increased to AED 1,545 Mn in 4Q23 compared to AED 1,393 Mn in 4Q22.
- Air Arabia's board of directors proposed a cash dividend distribution of 20 fils per share in 4Q23 with a cash and cash equivalent of AED 5.2 Bn in 2023.
- Air Arabia is operating 73 aircraft including 64 Airbus A320ceo and 9 Airbus A321 neo LR at the end of 4Q23. The Company added 26 new routes across seven hubs in 4Q23, with a global network of 206 routes from all operating hubs.



### Stock Information

Market Cap (AED, Mn)	13,720.10
Paid Up Capital (Mn)	4,666.70
52 Week High	3.03
52 Week Low	2.08
3M Avg. daily value (AED)	9,854,771

### 4Q23 Net Profit lower than our estimate

Air Arabia's (AIRARABIA PJSC/the Company) net profit declined from AED 355 Mn in 4Q22 to AED 225 Mn in 4Q23, lower than our estimate of AED 467 Mn. The decline in the net profit is primarily due to an increase in the direct cost along with higher S&D and G&A expenses partially offset by marginal growth in the revenue and higher finance income.

### P&L Highlights

Air Arabia's revenue grew 10.9% YOY to AED 1,545 Mn in 4Q23 primarily driven by the robust passenger demand and effective cost control measures. The Company served more than 4.2 Mn passengers in 4Q23 across seven hubs compared to 3.6 Mn passengers in 4Q22, whereas the seat load factor stood at 81.8% in 4Q23 compared to 82.0% in 4Q22. Air Arabia is adding new routes to enhance the carrier's global network and served 16.7 Mn passengers during 2023. Moreover, AIRARABIA's direct cost rose 23.6% YOY to AED 1,192 Mn in 4Q23 mainly due to an increase in staff cost, landing and overflying charges and other operating costs. Thus, gross profit declined from AED 429 Mn in 4Q22 to AED 353 Mn in 4Q23. Gross profit margin declined from 30.8% in 4Q22 to 22.9% in 4Q23. Air Arabia's selling and marketing expenses rose 23.0% YOY to AED 26 Mn in 4Q23, while G&A expenses also grew 20.4% YOY to AED 135 Mn in 4Q23 mainly due rise in staff cost and other administrative and general expenses. Thus, the operating profit fell from AED 296 Mn in 4Q22 to AED 192 Mn in 4Q23. The Company's EBITDA significantly declined from AED 460 Mn in 4Q22 to AED 361 Mn in 4Q23 mainly due to higher direct and G&A and S&D expenses. Air Arabia's finance income grew from AED 33 Mn in 4Q22 to AED 62 Mn in 4Q23 due to higher benchmark rates whereas finance cost declined 19.5% YOY to AED 25 Mn in 4Q23 due to a decline in total debt including leases.

### 4Q23 Result Review (AED, Mn)

Total Assets	14,674
Total Liabilities	7,139
Total Equity	7,535
EBITDA	361
Net Profit	225

### Financial Ratios

Dividend Yield (12m)	5.10
Dividend Pay-out (%)	0.00
Price-Earnings Ratio(x)	8.93
Price-to-Book Ratio (x)	1.82
Book Value (AED)	1.61
Return-on Equity (%)	21.30

### Stock Performance

5 Days	-1.67%
1 Months	2.44%
3 Months	10.11%
6 Months	5.00%
1 Year	26.72%
Month to Date (MTD%)	-1.34%
Quarter to Date (QTD%)	4.26%
Year to Date (YTD%)	4.26%

Other income significantly declined 62.4% YOY to AED 25 Mn in 4Q23. Share of loss on investments from equity grew significantly from AED 9 Mn in 4Q22 to AED 30 Mn in 4Q23. Furthermore, profits attributable to non-controlling interest holders amounted to AED 0.13 Mn in 4Q23 compared to AED 0.52 Mn in 4Q22.

### Balance Sheet Highlights

Air Arabia's borrowings declined marginally from AED 130 Mn in 3Q23 to AED 126 Mn in 4Q23. Lease liabilities declined from AED 2.4 Bn in 3Q23 to AED 2.3 Bn in 4Q23. The Company's cash and bank balance rose to AED 5.2 Bn in 4Q23 from AED 4.9 Bn in 3Q23. Moreover, Air Arabia's net cash flow from operations grew from AED 2,188 Mn in 2022 to AED 2,353 Mn in 2023 due to lower investment in working capital.

### Target Price and Rating

We maintain our HOLD rating on Air Arabia with a target price of AED 3.10. Air Arabia experienced robust growth in profitability in FY2023 owing to a strong increase in revenue, fueled by consistent high demand from passengers for air travel. The Company experienced a decline in yield margins in 4Q23 mainly due to challenges in the industry supply chain such as the availability of skilled manpower, aircraft, and spare parts. It still managed to maintain resilience in profitability coupled with robust load and passenger volume. Air Arabia remained committed to diversifying and growing its operation which is evident from robust operational and commercial strategies. The company operated 73 aircraft in service including 64 Airbus A320 and 9 Airbus A321 during the last quarter of the year. In addition, Air Arabia ordered 120 Airbus A320 family aircraft whose delivery will be scheduled to start in 2024 which will allow it to include additional routes to its network. Air Arabia maintained its global network expansion by introducing 26 routes from its seven strategic hubs in FY2023. Moreover, the management of Air Arabia is dedicated to enhancing operational efficiency and implementing measures to control costs and boost the company's performance in the forthcoming period. The company's management focuses on effective fleet management and to focus on new technologies to facilitate robust growth. However, numerous geopolitical and economic challenges faced by the global aviation industry coupled with higher fuel prices might affect Air Arabia's profitability going ahead. The Company's board of directors proposed a cash dividend of 20 fils per share with a dividend yield of 6.8% in 2023. Hence, based on our analysis, we recommend a HOLD rating on the stock.

### Air Arabia - Relative valuation

(at CMP)	2019	2020	2021	2022	2023	2024F
PE	13.8	NA	19.0	11.2	8.8	10.1
PB	2.5	3.0	2.3	2.0	1.8	1.6
EV/EBITDA	7.6	26.8	7.8	5.3	4.5	4.0
Dividend yield	3.1%	NA	2.9%	5.1%	6.8%	6.1%

FABS Estimates & Co Data

**Air Arabia – P&L**

AED Mn	4Q22	3Q23	4Q23	4Q23F	Var	YOY Ch	QOQ Ch	2022	2023	Change
Revenue	1,393	1,630	1,545	1,509	2.4%	10.9%	-5.2%	5,242	6,000	14.5%
Direct costs	-964	-1,183	-1,192	-1,054	13.0%	23.6%	0.8%	-3,810	-4,343	14.0%
<b>Gross profit</b>	<b>429</b>	<b>447</b>	<b>353</b>	<b>455</b>	<b>-22.3%</b>	<b>-17.6%</b>	<b>-20.9%</b>	<b>1,432</b>	<b>1,657</b>	<b>15.7%</b>
Selling & mkt expense	-21	-23	-26	-24	9.7%	23.0%	12.6%	-68	-89	30.5%
G&A expenses	-112	-61	-135	-62	117.5%	20.4%	120.8%	-286	-329	14.9%
<b>EBITDA</b>	<b>460</b>	<b>523</b>	<b>361</b>	<b>527</b>	<b>-31.6%</b>	<b>-21.6%</b>	<b>-31.1%</b>	<b>1,711</b>	<b>1,886</b>	<b>10.2%</b>
<b>EBIT</b>	<b>296</b>	<b>363</b>	<b>192</b>	<b>369</b>	<b>-47.8%</b>	<b>-34.9%</b>	<b>-46.9%</b>	<b>1,077</b>	<b>1,239</b>	<b>15.0%</b>
Finance income	33	60	62	63	-0.8%	89.8%	3.6%	89	210	136.3%
Finance costs	-31	-26	-25	-27	-7.1%	-19.5%	-3.1%	-115	-102	-11.3%
Other income	66	32	25	31	-18.8%	-62.4%	-21.2%	136	113	-16.3%
Share of profit on eq invt	-9	93	-30	31	NM	NM	NM	36	88	NM
<b>Profit before NCI</b>	<b>356</b>	<b>522</b>	<b>225</b>	<b>467</b>	<b>-51.8%</b>	<b>-36.8%</b>	<b>-56.9%</b>	<b>1,222</b>	<b>1,548</b>	<b>26.6%</b>
Non-controlling int.	1	0	0	0	NM	NM	NM	1	1	NM
<b>Net Profit</b>	<b>355</b>	<b>522</b>	<b>225</b>	<b>467</b>	<b>-51.9%</b>	<b>-36.7%</b>	<b>-56.9%</b>	<b>1,222</b>	<b>1,547</b>	<b>26.6%</b>

FABS estimate & Co Data

**Air Arabia - Margins**

	4Q22	3Q23	4Q23	YOY Ch	QOQ Ch	2022	2023	Change
Gross Profit	30.8%	27.4%	22.9%	-791	-455	27.3%	27.6%	30
EBITDA	33.0%	32.1%	23.3%	-966	-877	32.6%	31.4%	-121
Operating Profit	21.2%	22.2%	12.5%	-877	-980	20.5%	20.6%	10
Net Profit	25.5%	32.0%	14.6%	-1,094	-1,745	23.3%	25.8%	248

FABS estimate & Co Data

## Valuation:

We use Discounted Free Cash flow (DCF) and Relative Valuation (RV) to value Air Arabia. We have assigned 80% weight to DCF and 20% to RV.

Valuation Method	Target	Weight	Weighted Value
DCF Method	2.97	70.0%	2.08
Relative Valuation (RV)	3.40	30.0%	1.02
<b>Weighted Average Valuation (AED)</b>			<b>3.10</b>
Current market price (AED)			2.93
Upside/Downside (%)			+5.80%

### 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 5.7%, beta of 1.02 and equity risk premium of 4.0%. Government bond yield is calculated after adding Dubai 10-year spread over 10-year US risk free rate. Also, assumed a terminal growth rate of 2.0%.

Sum of PV (AED, Mn)	4,651
Terminal value (AED, Mn)	9,231
<b>FV to Common shareholders (AED, Mn)</b>	<b>13,882</b>
No. of share (Mn)	4,667
Current Market Price (AED)	2.93
<b>Fair Value per share (AED)</b>	<b>2.97</b>

### DCF Method

(All Figures in AED Mn)	FY 2024E	FY 2025E	FY 2026E	FY 2027E	FY 2028E
Net Income	1,354	1,410	1,487	1,477	1,481
D&A	626	645	646	671	666
Capex	-638	-521	-466	-434	-398
Net change in working capital	24	-415	-313	-686	-639
<b>Free Cash Flow to Equity (FCFE)</b>	<b>1,365</b>	<b>1,120</b>	<b>1,354</b>	<b>1,027</b>	<b>1,110</b>
Discounting Factor	0.92	0.84	0.76	0.70	0.63
<b>Discounted FCFE</b>	<b>1,258</b>	<b>939</b>	<b>1,035</b>	<b>715</b>	<b>704</b>

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 6.8x in line with peers.

Company	Market cap (USD Mn)	EV/EBITDA (x)		P/E (x)	
		2024F	2025F	2024F	2025F
Pegasus Hava Tasimacigli anonim sirketi	2,590	4.4	3.2	5.9	3.8
Jetblue Airways corporation	2,500	10.8	7.6	NA	19.4
Capital A Berhad	622	6.8	5.6	8.2	4.1
Chorus Aviation Inc.	353	4.2	3.9	6.1	6.2
Allegiant Travel Company	1,400	7.0	5.3	12.0	8.3
<b>Average</b>		<b>6.6x</b>	<b>5.1x</b>	<b>8.1x</b>	<b>8.4x</b>
<b>Median</b>		<b>6.8x</b>	<b>5.3x</b>	<b>7.1x</b>	<b>6.2x</b>
<b>Max</b>		<b>7.0x</b>	<b>5.6x</b>	<b>9.2x</b>	<b>8.3x</b>
<b>Min</b>		<b>4.4x</b>	<b>3.9x</b>	<b>6.0x</b>	<b>4.1x</b>

Source: FAB Securities

