

Air Arabia PJSC: 4Q'23 Result Review

Analyst: Neetika Gupta

Previous Recommendation: Accumulate

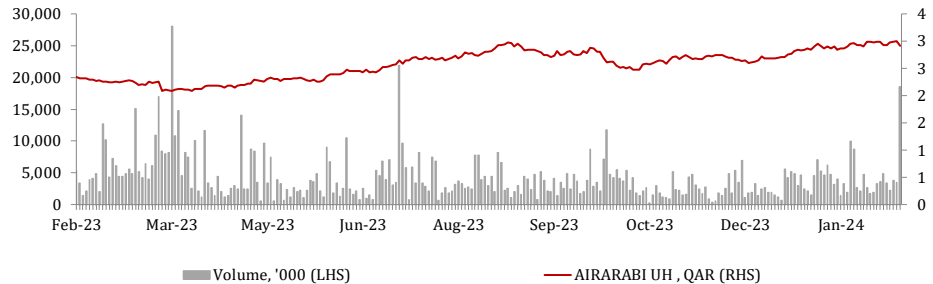
Target Price (AED): 3.16

Previous Reco. & Date: TP: AED 3.16 per share; Accumulate on 22-August-2023

Upside / (Downside): 9%

Date: 15-02-2024

Bloomberg Ticker	AIRARABI UH
Current Market Price (AED)	2.9
52wk High / Low (AED)	3.03/2.08
12m Average Vol. (000)	3,518.9
Mkt. Cap. (USD/AED mn)	3,667/13,580
Shares Outstanding (mn)	4,666.7
Free Float (%)	64%
3m Avg Daily Turnover (000)	10,034.2
6m Avg Daily Turnover (000)	9,804.2
P/E'24e (x)	8.8x
EV/EBITDA'24e (x)	5.5x
Dividend Yield '24e (%)	6.2%
Price Perf. (1m/3m) (%)	0.3%/9%



Revenue grows 11% YoY for 4Q23, largely in-line with U-Capital estimate

The company's 4Q23 revenue was AED 1,545mn (11% YoY and -5% QoQ) largely in-line with U-Capital estimate of AED 1,461mn but ahead of Bloomberg consensus of AED 1,402mn. This significant YoY growth for 4Q23 is primarily due to 17% increase in the number of passengers and strong seat load factor of 81% in 4Q23. For FY23, revenue stood at AED 6,000mn reflecting a 14% rise compared to FY22. This growth can be attributed to 31% increase in the number of passengers for FY23.

Gross profit and Operating profit decreases YoY for 4Q23

The company's gross profit for 4Q23 was AED 353mn (-16% YoY and -21% QoQ), falling short of our estimated AED 401mn. This shortfall from our estimate is due to higher-than-expected direct costs, which increased by 24% YoY in 4Q23 amid higher fuel cost, staff cost, passenger, ground and technical handling charges and landing and overflying charges. Operating income for the quarter was AED 192 mn (-35% YoY and -47% QoQ), below U-Capital's estimate of AED 325mn and Bloomberg's consensus of AED 224mn. The deviation from our estimate is due to higher-than-expected administrative and general expenses, as well as selling and marketing expenses, which saw respective YoY growth rates of 20% and 23% in 4Q23. For FY23, operating income reached AED 1,239mn, reflecting a 15% YoY growth driven by robust topline performance and better operating margins during the first three quarters of 2023.

Net Income decreases 37% YoY for 4Q23 – below U-Capital estimate and Bloomberg consensus

Net Income for 4Q23 stood at AED 225mn (-37% YoY and -57% QoQ), below U-Capital estimate of AED 451mn and Bloomberg consensus of AED 304mn. This miss from our estimate is due to lower-than-expected operating margins (12% vs 22% expected) and lower-than-expected contributions from associates and joint ventures which incurred loss in 4Q23. For FY23, net income stood at AED 1,548mn reflecting a 27% growth YoY driven by strong performance in the first three quarters of 2023.

Maintaining Target Price

In 4Q23, Air Arabia experienced weak results due to challenges stemming from escalating geopolitical tensions, alongside prolonged disruptions in the supply chain caused by shortages in skilled manpower, aircraft, and spare parts availability. These challenges led to increased operating costs during the period. However, for FY23, Air Arabia saw growth driven by strong performance in the first three quarters of 2023. We anticipate challenges in the initial period of FY24e amid the ongoing difficulties, which are expected to impact margins. However, the demand for air travel remains robust across all key markets, and we foresee stability during the latter half of the year. Additionally, Air Arabia has placed orders to expand its fleet size, with 120 Airbus A320 family aircraft scheduled for delivery starting in 2024, along with the addition of new routes in 2024, which is expected to drive growth in the future. Considering these factors, we maintain our target price of **AED 3.16 per share** with **Accumulate** rating on the stock.

Valuation

Air Arabia is trading at 2024e P/E of 8.8x compared to the historical average 1-year forward P/E of 8.6x. Similarly, the stock is valued at an EV/EBITDA multiple of 5.5x, based on the FY24 estimate, compared with the historical average of 4.9x.

Income Statement												
(AED mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Sales/Revenue	1,393	1,429	1,396	1,630	1,545	1,461	11%	-5%	6%	5,242	6,000	14%
Gross Profit (Loss)	421	398	459	447	353	401	-16%	-21%	-12%	1,432	1,657	16%
Operating Profit (Loss)	295	301	382	363	192	325	-35%	-47%	-41%	1,077	1,239	15%
Net Profit/(Loss)	356	342	459	522	225	451	-37%	-57%	-50%	1,222	1,548	27%
Balance Sheet												
(AED mn)	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Shareholders' Equity	6,995	6,544	6,921	7,429	7,534	7,882	8%	1%	-4%	6,995	7,534	8%
Key Ratios												
	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23e	YoY (%)	QoQ (%)	Var (%)	FY22	FY23	YoY (%)
Gross Profit Margin	30%	28%	33%	27%	23%	27%				27%	28%	
Operating Profit Margin	21%	21%	27%	22%	12%	22%				21%	21%	
Net Profit Margin	26%	24%	33%	32%	15%	31%				23%	26%	
Return on Equity (RoE)	20%	21%	27%	28%	12%	23%				17%	21%	

Source: Financials, DFM disclosure, Bloomberg, U Capital Research


For our earlier report, please [click here](#).


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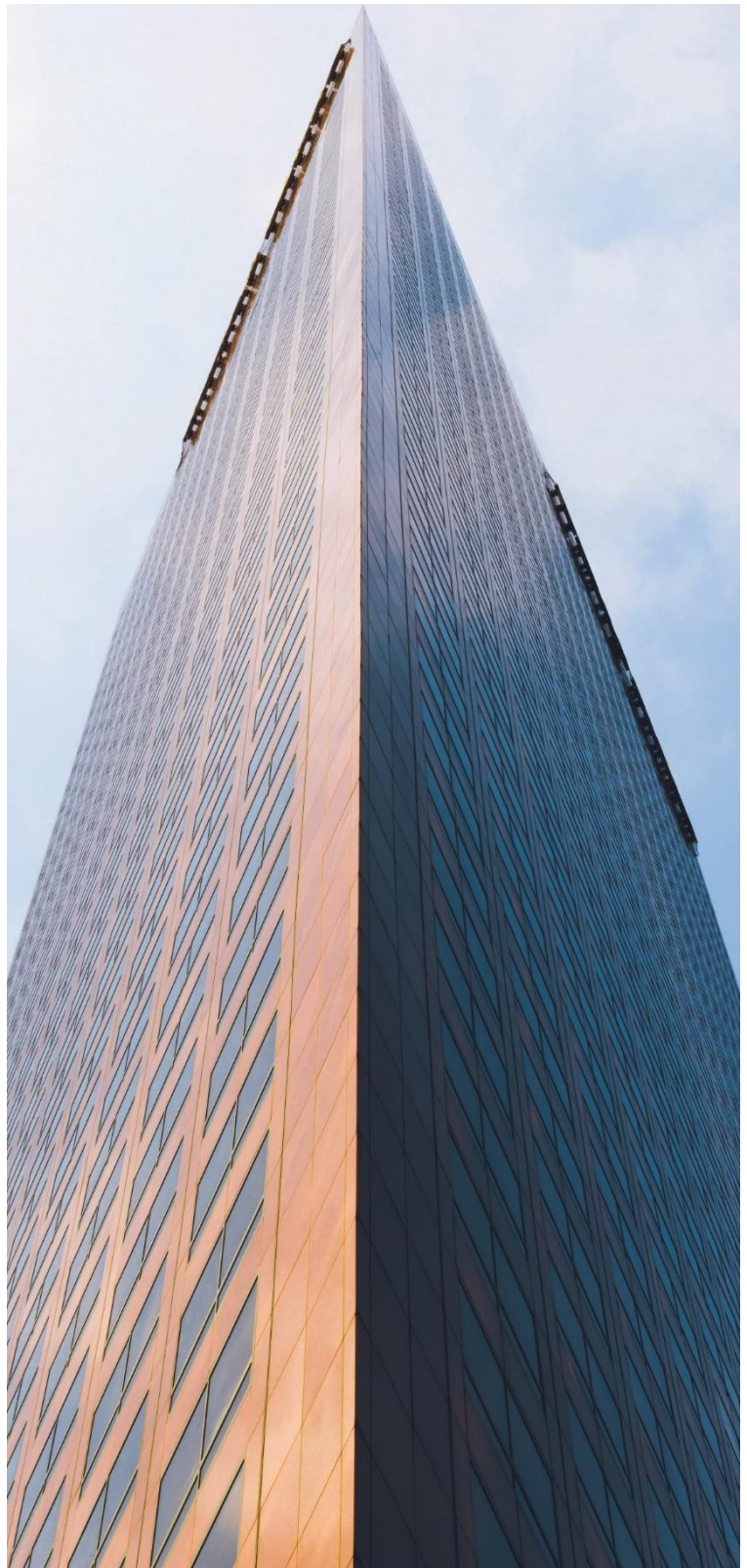
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Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%