

Air Transport

BUY: 12M TP @ 3.01

Valuation Summary (TTM)

Price (AED)	2.70
PER TTM (x)	7.7
P/Book (x)	1.8
P/Sales (x)	2.2
EV/Sales (x)	1.6
EV/EBITDA (x)	5.5
Dividend Yield (%)	5.5
Free Float (%)	56%
Shares O/S (mn)	4,667
YTD Return (%)	27%
Beta	0.9

(mn)	AED	USD
Market Cap	12,787	3,481
Total Assets	10,659	2,902

Price performance (%)	1M	3M	12M
Air Arabia PJSC	7%	0%	29%
Dubai Financial Market Gen	0%	-2%	17%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (AED ,000)	6,056	9,574	9,565
Avg Daily Volume (,000)	3,383	3,495	3,631

52 week	High	Low	CTL*
Price (AED)	2.99	2.00	37.0

* CTL is % change in CMP to 52wk low

Major shareholders

Sharjah Asset Manage	19%
EAST & WEST INTERNAT	16.1%
AL Maha Holding Co F	9.2%
Others	56.1%

Other details

Exchange	DFM
Sector	Airlines
Index weight (%)	6.7%

Key ratios	2020	2021	2022
EPS (AED)	-0.04	0.15	0.26
BVPS (AED)	0.97	1.30	1.50
DPS (AED)	0.09	0.09	0.15
Payout ratio (%)	-225%	60%	58%



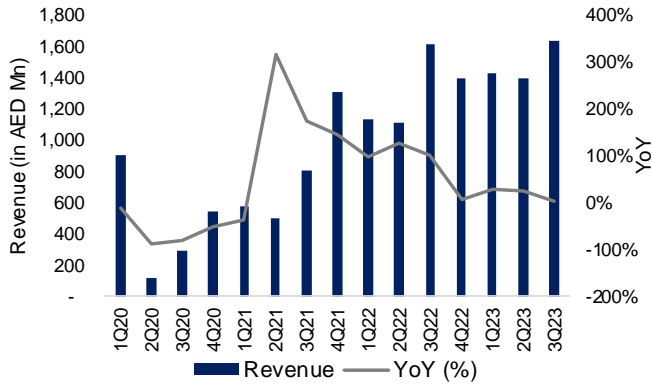
Air Arabia: record pax volumes lower yields

Air Arabia the leading low-cost carrier in the MENA reported its 3Q23 revenue at AED 1.63bn with a marginal 1.5% YoY growth (19% lower than our estimate of AED 2bn). The lower than expected results was due to a significant yield compression (-16% YoY) during the quarter. The top line witnessed flattish growth despite witnessing the highest quarterly PAX volume of 4.7mn (+21% YoY) and a stable load factor of 80% during the quarter. The 9M23 revenue increased 16% YoY to AED 4.45bn driven by 36% YoY surge in the PAX volumes to 12.4mn during the period at the back of fleet expansions (+3 flights added in 9M23). The load factor for 9M23 was at 80% with a 2% YoY growth. Despite the higher traffic, Air Arabia managed to control its direct expenses, largely due to the lower fuel costs leading to a 6.4% YoY increase in gross profit to AED 447mn in 3Q23. The gross margins also improved by 130bps YoY to 27.4% in 3Q23 (vs 26.2% in 3Q22). The operating expenses as a percentage of revenue were stable at 5% in line with previous quarters. Stable operating expenses led to the operating profit increasing in line with gross profit at 6.7% YoY to AED 363mn, and improvement in the operating margins by 110bps YoY to 22.2% in 3Q23. EBITDA for the quarter rose 12.3% YoY to AED 523mn and EBITDA margins grew by 310 bps YoY from 29% in 3Q22 to 32.1% in 3Q23. The strong cash position of AED 5bn translated into higher finance income of AED 60mn in 3Q23 (AED 24mn in 3Q22). The share of profit from associates surged 73% YoY to AED 93mn (vs 53.6mn in 3Q22) during the quarter. This along with the 11% reduction in the finance cost led to the net profit growth of 25.5% YoY to AED 522mn in 3Q23 (12.6% higher than our estimate of AED 464mn). The net margins improved significantly by 610bps YoY to 32% during the quarter. Effective cost control measures and higher level of operations across its seven hubs all through the year increased the 9M23 net profit by 53% to AED 1.32bn. Based on the current results and expected yield compression continuing into the next year we reduce our full year revenue estimate by 9.1% to AED 5.8bn. We expect margin expansion to drive net profit to AED 1.6bn higher than previous estimate by 8.2%. We retain our price target at AED 3.01/share which offers a 11% upside from current level, and upgrade our rating to BUY from HOLD.

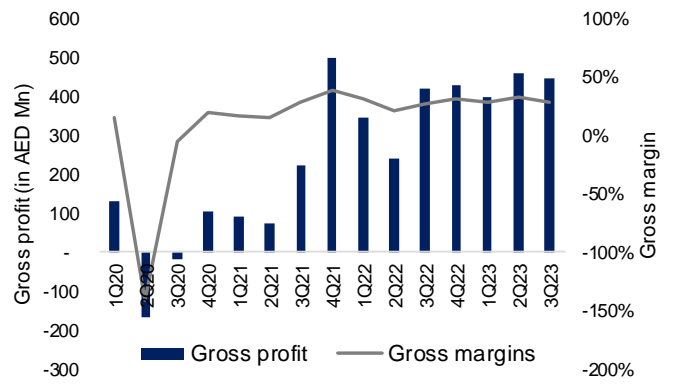
Key highlights for the quarter:

- Air Arabia added two leased Airbus A320 aircraft bringing the total fleet size to 72. Also, four short-term leased Airbus A320 aircraft were added to the Morocco hub to support the summer operations.
- During the 9M23, the company added 17 new routes to its global network catering to a total of 206 destinations from its seven hubs in the UAE, Egypt, Morocco, Armenia and Pakistan. Currently Air Arabia operates 63 Airbus A320ceo and 9 Airbus A321 neo LR.
- Total PAX carried exceeded 12.4mn in 9M23, across all 7 hubs an increase of 36%.

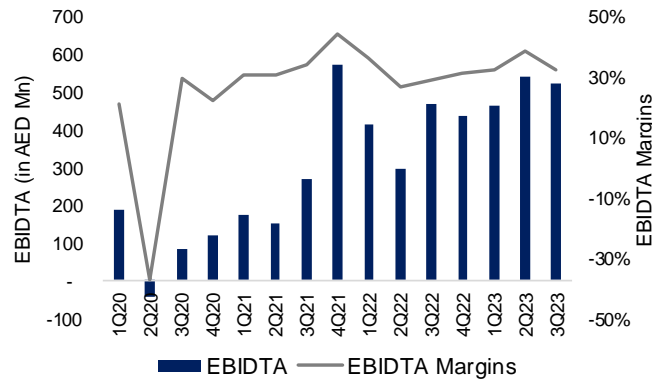
3Q23 revenue below than expected flattish YoY



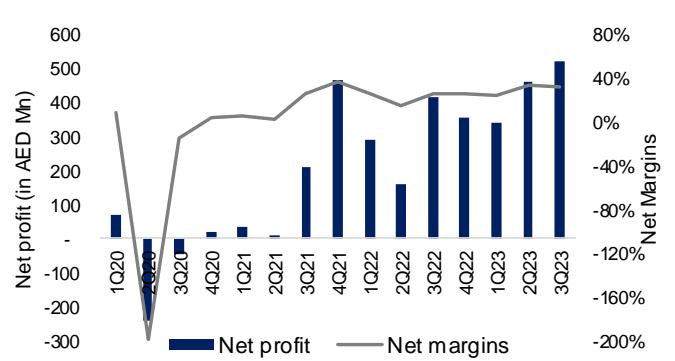
Gross margins remain steady despite volume increase



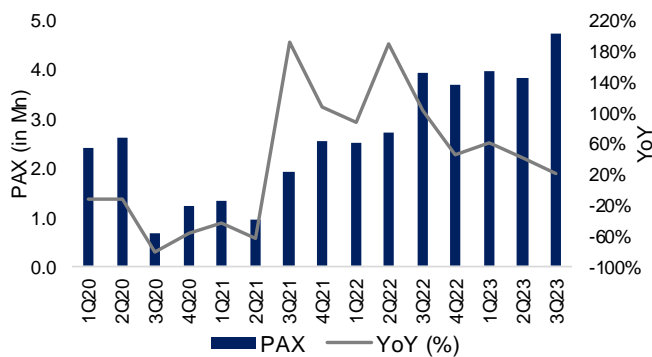
EBIDTA margins rangebound, EBIDTA grows 12% YoY



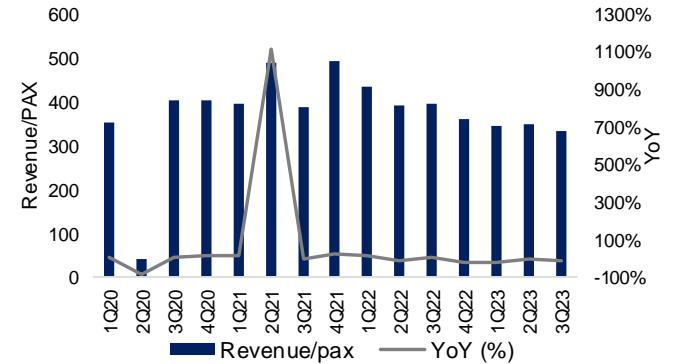
Net margins higher on other income



Record high nine month and quarterly PAX volumes



PAX yields lower than expected during the quarter



Income Statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	4,758	1,851	3,174	5,242	5,837	7,538	8,421	9,091	10,357
Direct Costs	3,509	1,800	2,291	3,810	4,144	5,352	6,148	6,637	7,561
Gross Profit	1,249	51	883	1,432	1,693	2,186	2,274	2,455	2,796
Admin and general expenses	233	196	198	286	263	339	379	409	466
Selling and marketing expenses	83	34	41	68	88	113	126	136	155
Operating profit	933	-180	643	1,077	1,343	1,734	1,768	1,909	2,175
EBIDTA	1,461	347	1,171	1,609	1,806	2,220	2,282	2,419	2,711
EBIT	933	-180	643	1,077	1,343	1,734	1,768	1,909	2,175
Finance income	96	102	63	89	198	101	104	113	113
Finance costs	129	138	138	115	105	103	113	133	149
Share of profit / (loss) of associates	32	-16	90	36	118	120	120	120	120
Other income / (expense) -net	76	40	62	136	118	100	100	100	100
PBT	1,008	-192	720	1,222	1,672	1,952	1,979	2,109	2,358
Tax	-	-	-	-	-	176	178	190	212
PAT	1,008	-192	720	1,222	1,672	1,776	1,801	1,919	2,146

Balance Sheet (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	6,866	6,367	5,868	5,403	5,089	5,103	5,189	5,279	5,343
Right-of-use assets	369	575	624	645	689	717	731	729	713
Intangible assets	1,312	1,324	1,332	1,338	1,338	1,338	1,338	1,338	1,338
Other non-current assets	652	635	840	1,419	1,929	2,211	2,298	3,365	6,490
Total non-current assets	9,199	8,902	8,665	8,805	9,045	9,369	9,556	10,711	13,884
Current inventories	23	26	24	33	41	40	31	40	45
Trade and current receivables	617	527	739	863	706	912	1,019	1,100	1,253
Cash and bank balances	2,806	3,149	3,878	4,736	5,203	6,831	8,537	9,262	8,401
Other current assets	168	50	-	-	-	-	-	-	-
Total current assets	3,615	3,751	4,641	5,632	5,950	7,783	9,587	10,402	9,699
Total Assets	12,814	12,653	13,306	14,437	14,995	17,152	19,143	21,113	23,584

Share capital	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667	4,667
Reserves	549	33	1,003	1,320	1,320	1,320	1,320	1,320	1,320
Retained earnings	342	-192	405	1,008	1,980	3,056	4,058	5,077	6,264
Total Equity to shareholders	5,558	4,508	6,075	6,995	7,967	9,043	10,045	11,064	12,251
Non controlling interests	-	-	-	1	1	1	1	1	1
Total equity	5,558	4,508	6,075	6,996	7,967	9,044	10,046	11,065	12,251

Provision for staff benefits	145	131	145	170	158	204	227	245	280
Trade and other payables	1,061	1,766	1,350	1,407	1,865	2,408	2,766	2,986	3,402
Bank Borrowings	-	-	-	31	23	10	10	10	10
Finance Lease liabilities	3,165	3,073	2,584	2,126	2,003	1,971	2,171	2,565	2,900
Total non-current liabilities	4,371	4,970	4,079	3,734	4,048	4,593	5,175	5,807	6,592

Deferred income	352	301	492	514	514	514	514	514	514
Trade and other payables	1,654	1,662	1,970	2,462	1,865	2,408	2,766	2,986	3,402
Bank Borrowings	352	552	38	109	100	100	100	100	100
Current lease liabilities	528	660	652	622	501	493	543	641	725
Total current liabilities	2,885	3,175	3,153	3,707	2,979	3,515	3,923	4,241	4,741
Total equity and liabilities	12,814	12,653	13,306	14,437	14,995	17,152	19,143	21,113	23,584

Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	2,093	785	1,949	2,188	1,949	3,099	2,991	2,884	3,432
Investing cash flow	-1,752	281	-267	-1,173	-452	-613	-600	-1,600	-3,600
Financing cash flow	-401	-563	-1,248	-1,113	-1,559	-1,592	-1,662	-1,790	-1,941
Change in cash	1,161	342	729	858	466	1,628	1,706	725	-862
Beginning cash	1,645	2,806	3,149	3,878	4,736	5,203	6,831	8,537	9,262
Ending cash	2,806	3,149	3,878	4,736	5,203	6,831	8,537	9,262	8,401

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.212	-0.041	0.154	0.262	0.358	0.381	0.386	0.411	0.460
BVPS (AED)	1.191	0.966	1.302	1.499	1.707	1.938	2.152	2.371	2.625
DPS (AED)	0.000	0.090	0.085	0.150	0.150	0.171	0.193	0.206	0.253
FCF per share (AED)	0.073	0.229	0.360	0.217	0.321	0.533	0.512	0.275	-0.036
Valuation									
Marketcap (AED Mn)	7,373	5,973	6,767	10,033	12,600	12,600	12,600	12,600	12,600
EV (AED Mn)	8,612	7,109	6,163	8,185	10,024	8,343	6,887	6,654	7,934
EBITDA (Mn)	1,461	347	1,171	1,609	1,806	2,220	2,282	2,419	2,711
P/E (x)	7.45	-31.08	9.40	8.21	7.54	7.10	7.00	6.57	5.87
EV/EBITDA (x)	5.89	20.50	5.26	5.09	5.55	3.76	3.02	2.75	2.93
Price/Book (x)	1.33	1.33	1.11	1.43	1.58	1.39	1.25	1.14	1.03
Dividend Yield (%)	0.0%	7.0%	5.9%	7.0%	5.6%	6.3%	7.1%	7.6%	9.4%
Price to sales (x)	1.55	3.23	2.13	1.91	2.16	1.67	1.50	1.39	1.22
EV to sales (x)	1.81	3.84	1.94	1.56	1.72	1.11	0.82	0.73	0.77
Liquidity									
Cash Ratio (x)	0.97	0.99	1.23	1.28	1.75	1.94	2.18	2.18	1.77
Current Ratio (x)	1.25	1.18	1.47	1.52	2.00	2.21	2.44	2.45	2.05
Quick Ratio (x)	1.24	1.17	1.46	1.51	1.98	2.20	2.44	2.44	2.04
Returns Ratio									
ROA (%)	7.9%	-1.5%	5.4%	8.5%	11.1%	10.4%	9.4%	9.1%	9.1%
ROE (%)	18.1%	-4.3%	11.9%	17.5%	21.0%	19.6%	17.9%	17.3%	17.5%
ROCE (%)	10.2%	-2.0%	7.1%	11.4%	13.9%	13.0%	11.8%	11.4%	11.4%
Cash Cycle									
Inventory turnover (x)	149	70	97	116	100	133	200	167	167
Accounts Payable turnover (x)	1.3	0.5	0.7	1.0	1.1	1.1	1.1	1.1	1.1
Receivables turnover (x)	7.7	3.5	3.7	4.3	4.5	4.5	4.5	4.5	4.5
Inventory days	2.4	5.2	3.7	3.1	3.7	2.7	1.8	2.2	2.2
Payable Days	282	695	529	371	329	329	329	329	329
Receivables days	47	104	98	86	80	80	80	80	80
Cash Cycle	-233	-586	-427	-282	-245	-245	-246	-246	-246
Profitability Ratio									
Net Margins (%)	21.2%	-10.4%	22.7%	23.3%	28.6%	23.6%	21.4%	21.1%	20.7%
EBITDA Margins (%)	30.7%	18.7%	36.9%	30.7%	30.9%	29.5%	27.1%	26.6%	26.2%
PBT Margins (%)	21.2%	-10.4%	22.7%	23.3%	28.6%	25.9%	23.5%	23.2%	22.8%
EBIT Margins (%)	19.6%	-9.7%	20.3%	20.5%	23.0%	23.0%	21.0%	21.0%	21.0%
Effective Tax Rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	9.0%	9.0%	9.0%	9.0%
Leverage									
Total Debt (AED Mn)	4045	4284	3274	2888	2627	2574	2824	3317	3735
Net Debt (AED Mn)	1238	1135	-604	-1848	-2576	-4257	-5713	-5946	-4666
Debt/Capital (x)	0.87	0.92	0.70	0.62	0.56	0.55	0.61	0.71	0.80
Debt/Total Assets (x)	0.32	0.34	0.25	0.20	0.18	0.15	0.15	0.16	0.16
Debt/Equity (x)	0.73	0.95	0.54	0.41	0.33	0.28	0.28	0.30	0.30

Key contacts

Research Team

Joice Mathew Sr. Manager - Research E-Mail: joice@usoman.com Tel: +968 2476 3311	Manna Thomas ACCA Research Associate Email: manna.t@usoman.com Tel: +968 2476 3347	Contact Address P. O Box: 2566; P C 112 Sultanate of Oman Tel: +968 2476 3300
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Rating Criteria and Definitions

Rating	Rating Definitions
	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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