

Air Arabia PJSC: 3Q'23 Result Review

Analyst: Neetika Gupta

Previous Recommendation:

Accumulate

Target Price (AED):

3.16

Previous Reco. & Date:

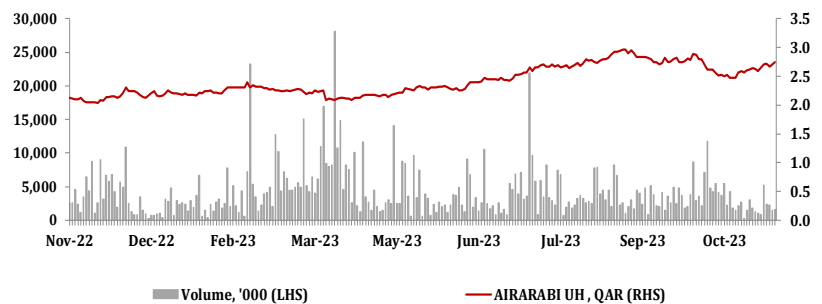
TP: AED 3.16 per share; Accumulate on 22-August-2023

Upside / (Downside):

15%

Date: 14-11-2023

Bloomberg Ticker	AIRARABI UH
Current Market Price (AED)	2.740
52wk High / Low (AED)	2.99/2
12m Average Vol. (000)	4,185.3
Mkt. Cap. (USD/AED mn)	13,058/12,787
Shares Outstanding (mn)	4,666.7
Free Float (%)	65%
3m Avg Daily Turnover (000)	9,574.1
6m Avg Daily Turnover (000)	9,565.5
P/E'23e (x)	8.0x
EV/EBITDA'23e (x)	5.5x
Dividend Yield '23e (%)	6.3%
Price Perf. (1m/3m) (%)	7.5%/0%



Revenue grows 17% QoQ, in-line with U-Capital estimate.

The company's Q3'23 revenue was AED 1,630mn, (1% YoY and 17% QoQ), in-line with our estimates. On a YTD basis revenue increased 15%. This substantial rise, both on a QoQ and YTD basis, can be attributed primarily to the expansion of operations across its seven operational hubs and the introduction of new routes, enhancing the carrier's global network. The increase in capacity during this period was complemented by an impressive surge in passenger numbers, reaching a total of 12.4 million, marking a remarkable 36% increase compared to the same period in 9M'22.

Gross profit and Operating profit increases YoY, in-line with estimates.

The company achieved a gross profit of AED 447mn (6% YoY and -3% QoQ) and an operating profit of AED 363mn (7% YoY and -5% QoQ), in-line with our initial estimates of AED 426mn and AED 336mn, respectively. This robust growth was driven by their rigorous cost control measures, leading to significant cost savings and higher revenues.

Net Income increases 26% YoY, beats estimate.

Net Income for Q3'23 stood at AED 522 mn (26% YoY and 14% QoQ) beating our estimated AED 403mn. This substantial growth can be primarily attributed to better-than-expected operating margins and revenue. Furthermore, the group experienced a remarkable 73% increase in contributions from associates and joint ventures, contributing to the overall rise in net profit.

Maintaining Target Price.

Air Arabia witnessed significant growth in Q3'23. With the addition of 17 new routes to its global network and the implementation of effective management, along with rigorous cost control measures, Air Arabia is in a strong position to capitalize on this momentum. Furthermore, the group has successfully integrated Enterprise Resource Planning (ERP) to enhance automation and efficiency. Considering these factors, we are maintaining our Buy rating on the stock and maintaining our target price at AED 3.16 per share.

Valuation.

Air Arabia is trading at 2023e P/E of 8.0x compared to the historical average 1-year forward P/E of 8.3x. Similarly, the stock is valued at an EV/EBITDA multiple of 5.5x, based on our FY23 estimate, compared with the historical average of 4.9x.

Income Statement												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	9M22	9M23	YoY (%)
Sales/Revenue	1,606	1,393	1,429	1,396	1,630	1,638	1%	17%	-1%	3,849	4,455	15.7%
Gross Profit (Loss)	420	421	398	459	447	426	6%	-3%	5%	1,003	1,303	30.0%
Operating Profit (Loss)	340	295	301	382	363	336	7%	-5%	8%	781	1,046	33.9%
Net Profit attributable to shareholders	415	356	342	459	522	403	26%	14%	29%	866	1,323	52.8%
Balance Sheet												
(SAR mn)	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Shareholders' Equity	6,816	6,995	6,544	6,921	7,429	7,324	9%	7%	1%	6,816	7,429	9.0%
Key Ratios												
	3Q22	4Q22	1Q23	2Q23	3Q23	3Q23e	YoY (%)	QoQ (%)	Var (%)	1H22	1H23	YoY (%)
Gross Profit Margin	26%	30%	28%	33%	27%	26%						
Operating Profit Margin	21%	21%	21%	27%	22%	21%						
Net Profit Margin	26%	26%	24%	33%	32%	25%						
Return on Equity (RoE)	24%	20%	21%	27%	28%	22%						

Source: Financials, Bloomberg, U Capital Research


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


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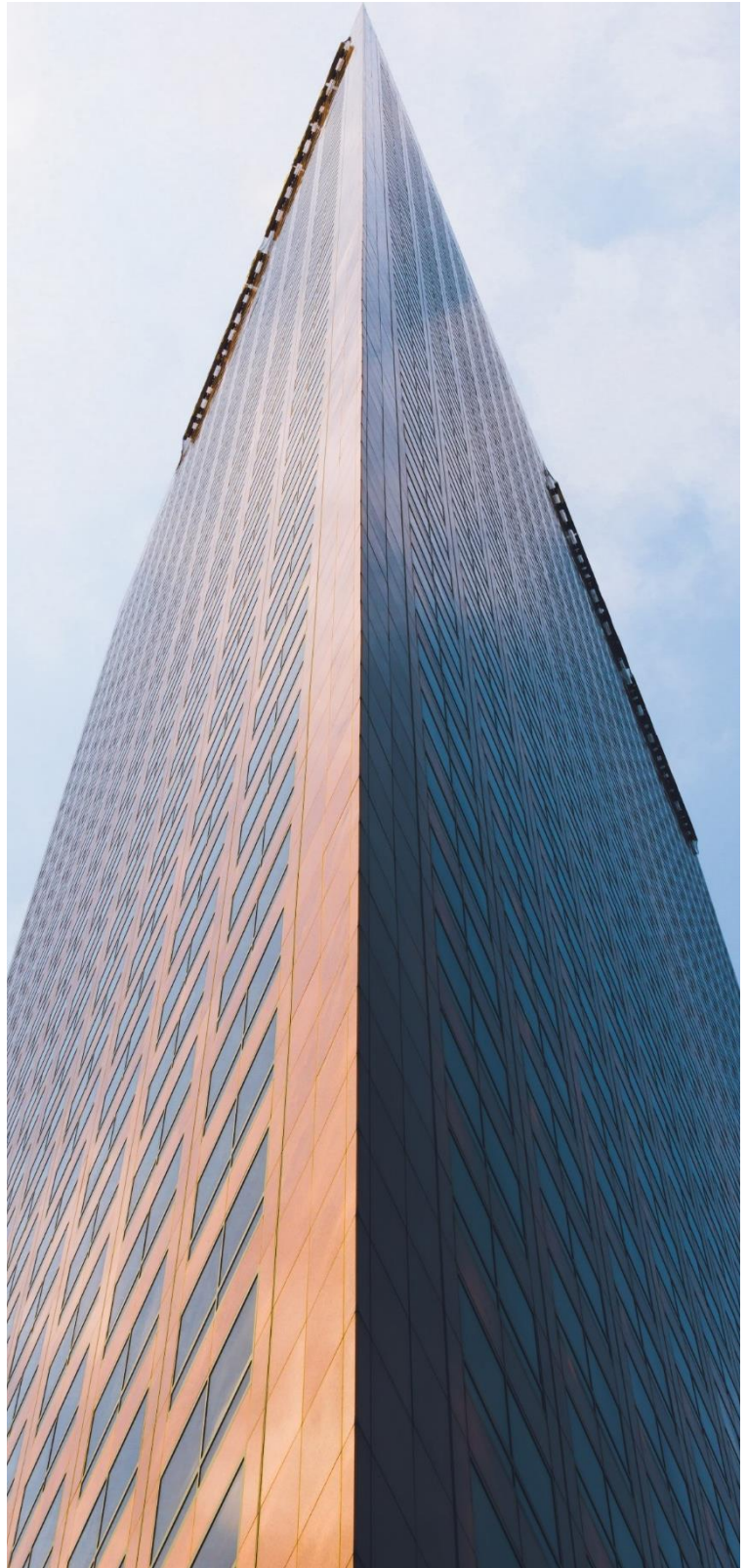
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Recommendation

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

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