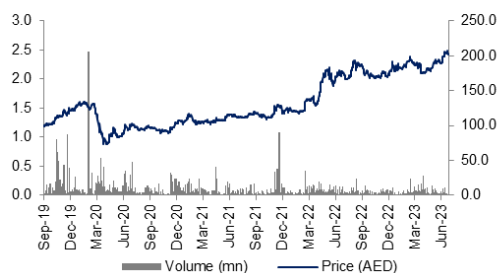


Transport

HOLD: 12M TP @ 3.01

Valuation Summary (TTM)

Price (AED)	2.73		
PER TTM (x)	8.1		
P/Book (x)	1.8		
P/Sales (x)	2.2		
EV/Sales (x)	1.6		
EV/EBITDA (x)	5		
Dividend Yield (%)	5.5		
Free Float (%)	56.1%		
Shares O/S (mn)	4,667		
YTD Return (%)	27%		
Beta	0.8		
(mn)	AED	USD	
Market Cap	12,740	3,469	
Total Assets	10,612	2,889	
Price performance (%)	1M	3M	12M
Air Arabia PJSC	3%	20%	22%
Dubai Financial Market Gen	1%	15%	19%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (AED ,000)	10,482	9,938	11,705
Avg Daily Volume (,000)	4,871	3,909	5,011
52 week	High	Low	CTL*
Price (AED)	2.82	2.00	36.5
* 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 (%)	6.6%		
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 (%)	57%		58%



Air Arabia: Flying high

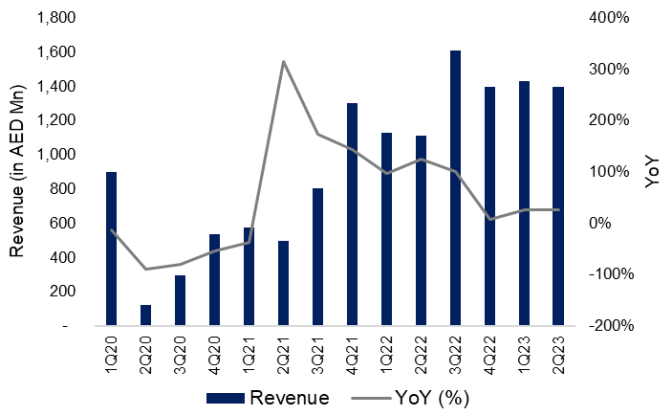
Air Arabia is the leading low-cost carrier in the Middle East and North Africa. Currently the company operates from 7 hubs and manages a fleet of 71 aircrafts and caters to over 200 destinations. Air Arabia's 2Q23 revenue witnessed a growth of 25% YoY at AED 1.39bn, albeit lower than our expectation by 11%. While volumes were near our estimates, we had expected better yields on account of higher demand during the quarter. In 1H23 the revenue grew by 26% to AED 2.82bn driven by 47% growth in passenger volumes and continued demand for air travel. The airline's gross profit grew 92% YoY during 2Q23 to AED 458mn owing to the increased operations through fleet expansion, while staying focused on the cost control measures. Significant reduction in fuel cost during the quarter led to direct expenses increasing only modestly by 7% YoY compared to the revenue growth, leading to a surge in gross margins. The gross margins improved to 32.9% in 2Q23 from 21.4% in 2Q22. Operating expenses during 2Q23 declined by 1.15% YoY, leading to an increase in operating profit by 138% YoY to AED 382mn. Depreciation charges increased on flight additions by 19% YoY, this along with higher operating profits led to 84% higher EBITDA for the quarter at AED 541mn from AED 294mn in 2Q22. EBITDA margins increased to a quarterly high of 38.7% in 2Q23 from 26.4% in the same period last year. Two non-core incomes increased during the quarter, the stable cash levels of AED 40 Mn invested at higher interest rates led to an increase in finance income and the share of profit from associates was at AED 25 Mn. This along with moderate decrease in finance costs led to high net margin for the period. Net profit was reported at AED 459mn in 2Q23 registering a growth of 187% YoY beating our estimates by 29.6%. The company reported that the 2Q23 net profit included an exceptional one-off that it received from one of its suppliers, the details of which are yet to be disclosed. For the 1H23 the company made net profit of AED 800mn witnessing a growth of 78% YoY beating our estimates by 15%. We revise our revenue and net profit estimates higher by 3.8% and 9.2% respectively. Our revised target price of AED 3.01 per share offers an upside of 7.5% from current levels, and we change our rating to HOLD from BUY earlier.

PAX volumes at all-time high: During the quarter around 3.8mn passengers flew with Air Arabia, registering a growth of 37% YoY. For the 1H23, the passenger volume grew 47% YoY to 7.7mn across all its seven hubs in the UAE, Egypt, Morocco, Armenia and Pakistan. PAX volumes were supported by increase in fleet size. Air Arabia added 3 new aircraft, totaling its fleet size to 71 owned and leased aircrafts. Currently the company has 62 Airbus A320ceo aircrafts and 9 Airbus A321 neo LR. Out of the 62 A320ceo aircrafts, 34 are allocated to Sharjah, 10 to Abu Dhabi, 9 to Morocco, 4 Egypt, 3 Pakistan and 2 to Armenia. Air Arabia has ordered for another 120 Airbus A320 family aircrafts, expected to be delivered from 2024. During the 1H23 the airline expanded its network by launching 18 new routes across its seven hubs. We are optimistic on the 2H23 PAX growth volumes and expect them to be better than 1H23.

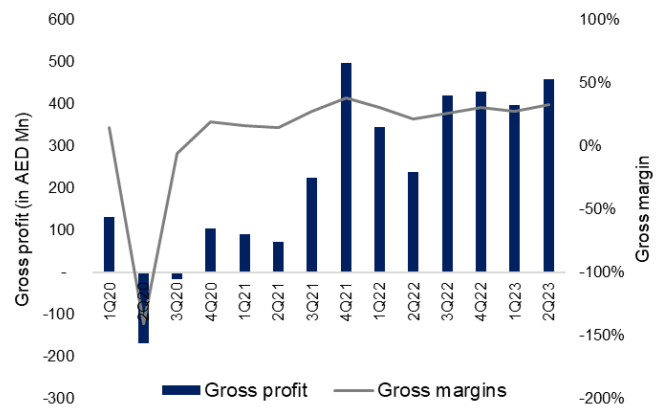
Operationally a good quarter: The additional aircrafts led to a marginal decline in the load factor from 79% in 2Q22 to 76% in 2Q23. However, for the 1H23 load factor remains high at 81%. Contrary to the declining trend witnessed in the regional airline industry the yields for Air Arabia held at 1Q23 levels. Air Arabia has been able to capitalize on the increasing demand without compromising much on the ticket rates. We believe the yield trend would stabilize around the current levels after the high levels witnessed post covid. Admin and general expenses declined by 6% in 2Q23 compared to the same period last year, while marketing expenses increased by 17%. Overall operational expenses declined by 1.15% YoY for the 2Q23.

Outlook and valuation: We have been optimistic on the air traffic industry in the region and as per IATA estimates middle-east is the second fastest growing sector next only to North America. Air Arabia is the best pure play airline stock and it is located in UAE which makes it even more enticing. We had initiated coverage on the stock with a BUY rating in March 2023 expecting a record year in PAX volumes. Our stance stands vindicated and our target price has been achieved much earlier than expected. The company also gave its highest dividend of AED 0.150 per share in April this year. The stock price has appreciated by 24% since our initiation and provided a total return of 30.5% including dividends. It is also higher by 30.2% on a YTD basis. While we continue to remain positive on the company and increase our revenue estimates for 2023 by 3.8% and net profit by 9.2%. Based on the revised forecast we arrive at a target price of AED 3.01 per share which offers an upside of 7.5% from current levels. Considering the run up in share price and the expected upside we reduce our BUY rating to HOLD.

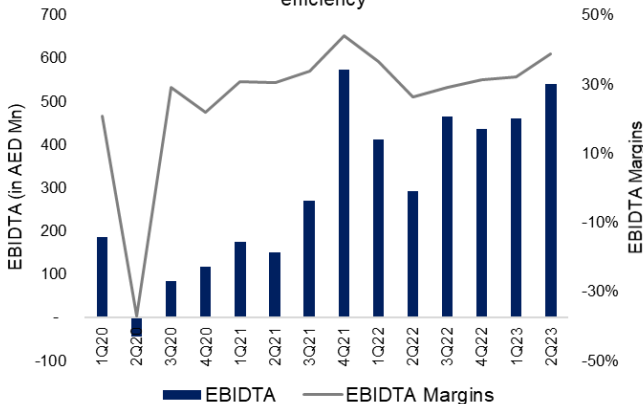
2Q23 Revenue growth robust at 25.3% YoY



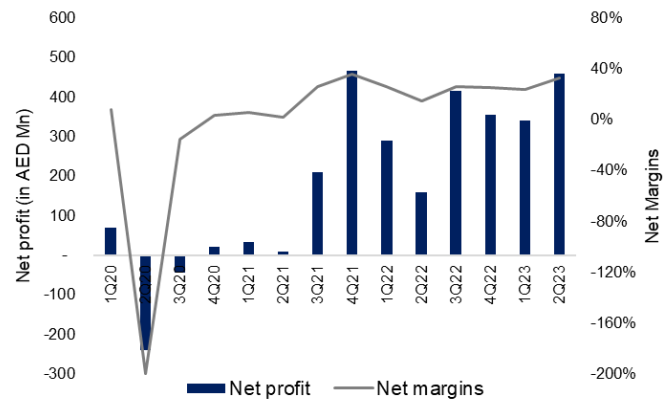
Gross margins remain elevated as fuel cost declines



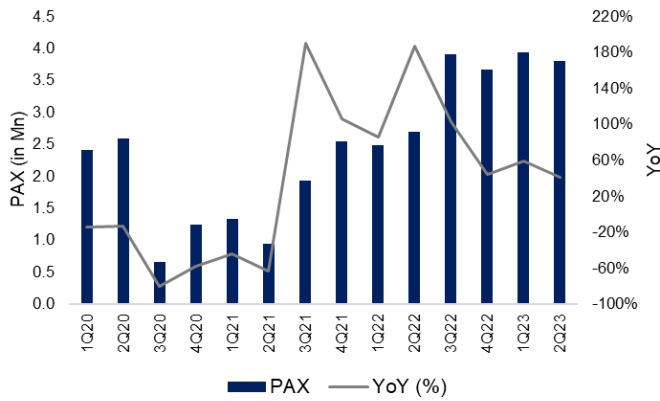
EBIDTA margins inches upwards on better operational efficiency



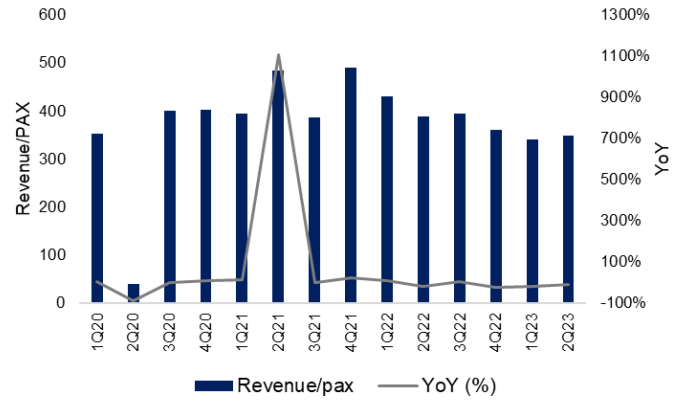
Net margins higher on other income and lower finance cost



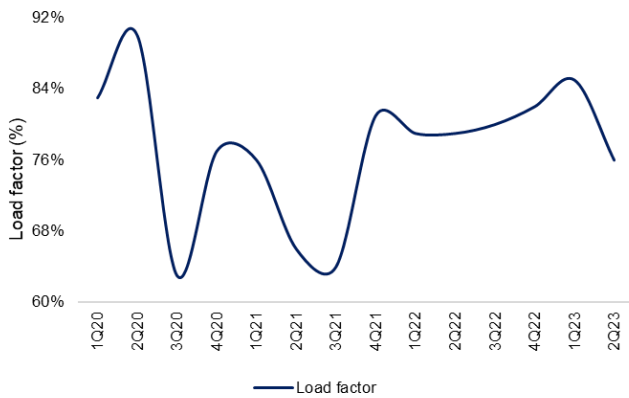
Highest half yearly PAX volumes ever



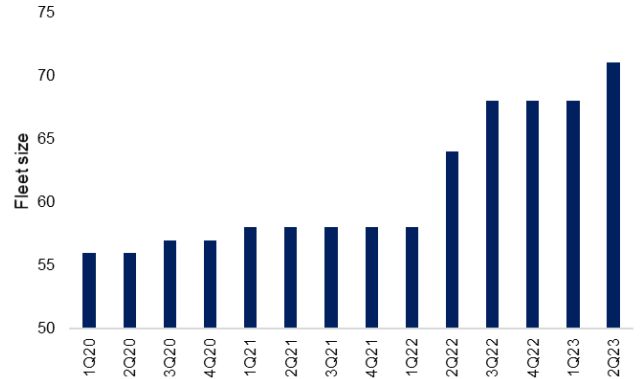
PAX yields are setting at current levels



Load factor declines on expanded fleet



Fleet size increases by 3 aircraft more to follow



Income Statement (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	4,758	1,851	3,174	5,242	6,419	7,574	8,732	9,989	11,785
Direct Costs	3,509	1,800	2,291	3,810	4,558	5,377	6,375	7,292	8,603
Gross Profit	1,249	51	883	1,432	1,862	2,196	2,358	2,697	3,182
Admin and general expenses	233	196	198	286	337	398	480	549	648
Selling and marketing expenses	83	34	41	68	96	114	131	150	177
Operating profit	933	-180	643	1,077	1,428	1,685	1,746	1,998	2,357
EBIDTA	1,461	347	1,171	1,609	1,961	2,283	2,412	2,730	3,157
EBIT	933	-180	643	1,077	1,428	1,685	1,746	1,998	2,357
Finance income	96	102	63	89	90	101	104	113	113
Finance costs	129	138	138	115	102	98	105	119	129
Share of profit / (loss) of associates	32	-16	90	36	37	36	34	33	33
Other income / (expense) -net	76	40	62	136	90	101	104	113	113
PBT	1,008	-192	720	1,222	1,544	1,826	1,883	2,136	2,486
Tax	-	-	-	-	-	164	169	192	224
PAT	1,008	-192	720	1,222	1,544	1,661	1,714	1,944	2,262

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	4,955	5,617	6,246	6,808	7,302
Right-of-use assets	369	575	624	645	689	807	856	929	978
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	1,620	1,862	2,115	2,397	2,745
Total non-current assets	9,199	8,902	8,665	8,805	8,602	9,624	10,555	11,473	12,363
Current inventories	23	26	24	33	46	40	32	44	52
Trade and current receivables	617	527	739	863	1,412	1,708	2,017	2,362	2,787
Cash and bank balances	2,806	3,149	3,878	4,736	5,151	5,523	6,447	7,671	9,338
Other current assets	168	50	-	-	-	-	-	-	-
Total current assets	3,615	3,751	4,641	5,632	6,609	7,271	8,496	10,078	12,177
Total Assets	12,814	12,653	13,306	14,437	15,211	16,895	19,050	21,550	24,540

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	1,852	2,813	3,780	4,954	6,423
Total Equity to shareholders	5,558	4,508	6,075	6,995	7,839	8,800	9,767	10,941	12,410
Non controlling interests	-	-	-	1	1	1	1	1	1
Total equity	5,558	4,508	6,075	6,996	7,839	8,801	9,768	10,941	12,410

Provision for staff benefits	145	131	145	170	202	239	288	330	389
Trade and other payables	1,061	1,766	1,350	1,407	1,641	1,908	2,229	2,509	2,960
Bank Borrowings	-	-	-	31	-	-	-	-	-
Finance Lease liabilities	3,165	3,073	2,584	2,126	2,003	1,919	2,053	2,347	2,542
Total non-current liabilities	4,371	4,970	4,079	3,734	3,846	4,066	4,570	5,186	5,891

Deferred income	352	301	492	514	514	514	514	514	514
Trade and other payables	1,654	1,662	1,970	2,462	2,461	2,985	3,636	4,272	5,040
Bank Borrowings	352	552	38	109	50	50	50	50	50
Current lease liabilities	528	660	652	622	501	480	513	587	635
Total current liabilities	2,885	3,175	3,153	3,707	3,526	4,028	4,713	5,423	6,239

Total equity and liabilities	12,814	12,653	13,306	14,437	15,211	16,895	19,050	21,550	24,540
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Cash Flow (in AED Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	2,093	785	1,949	2,188	1,160	2,727	3,030	3,218	3,800
Investing cash flow	-1,752	281	-267	-1,173	-1,247	-1,500	-1,541	-1,541	-1,541
Financing cash flow	-401	-563	-1,248	-1,113	-1,606	-1,699	-1,708	-1,795	-1,953
Change in cash	1,161	342	729	858	415	372	923	1,225	1,667
Beginning cash	1,645	2,806	3,149	3,878	4,736	5,151	5,523	6,447	7,671
Ending cash	2,806	3,149	3,878	4,736	5,151	5,523	6,447	7,671	9,338

Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (AED)	0.212	-0.041	0.154	0.262	0.331	0.356	0.367	0.416	0.485
BVPS (AED)	1.191	0.966	1.302	1.499	1.680	1.886	2.093	2.344	2.659
DPS (AED)	0.000	0.090	0.085	0.150	0.150	0.160	0.165	0.170	0.175
FCF per share (AED)	0.073	0.229	0.360	0.217	-0.019	0.263	0.319	0.359	0.484
Valuation									
Marketcap (AED Mn)	7,373	5,973	6,767	10,033	11,387	11,387	11,387	11,387	11,387
EV (AED Mn)	8,612	7,109	6,163	8,185	8,789	8,313	7,557	6,699	5,275
EBITDA (Mn)	1,461	347	1,171	1,609	1,961	2,283	2,412	2,730	3,157
P/E (x)	7.45	-31.08	9.40	8.21	7.38	6.86	6.65	5.86	5.04
EV/EBITDA (x)	5.89	20.50	5.26	5.09	4.48	3.64	3.13	2.45	1.67
Price/Book (x)	1.33	1.33	1.11	1.43	1.45	1.29	1.17	1.04	0.92
Dividend Yield (%)	0.0%	7.0%	5.9%	7.0%	6.1%	6.6%	6.8%	7.0%	7.2%
Price to sales (x)	1.55	3.23	2.13	1.91	1.77	1.50	1.30	1.14	0.97
EV to sales (x)	1.81	3.84	1.94	1.56	1.37	1.10	0.87	0.67	0.45
Liquidity									
Cash Ratio (x)	0.97	0.99	1.23	1.28	1.46	1.37	1.37	1.41	1.50
Current Ratio (x)	1.25	1.18	1.47	1.52	1.87	1.80	1.80	1.86	1.95
Quick Ratio (x)	1.24	1.17	1.46	1.51	1.86	1.79	1.80	1.85	1.94
Returns Ratio									
ROA (%)	7.9%	-1.5%	5.4%	8.5%	10.1%	9.8%	9.0%	9.0%	9.2%
ROE (%)	18.1%	-4.3%	11.9%	17.5%	19.7%	18.9%	17.5%	17.8%	18.2%
ROCE (%)	10.2%	-2.0%	7.1%	11.4%	13.2%	12.9%	12.0%	12.1%	12.4%
Cash Cycle									
Inventory turnover (x)	149.4	70.4	97.5	116.4	100.0	133.3	200.0	166.7	166.7
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	2.5	2.4	2.4	2.3	2.3
Inventory days	2.4	5.2	3.7	3.1	3.7	2.7	1.8	2.2	2.2
Payable Days	282.4	695.0	528.9	370.7	328.5	332.2	335.8	339.5	339.5
Receivables days	47.3	103.9	97.8	85.8	146.0	149.7	153.3	157.0	157.0
Cash Cycle	-232.6	-586.0	-427.4	-281.7	-178.9	-179.8	-180.7	-180.3	-180.3
Profitability Ratio									
Net Margins (%)	21.2%	-10.4%	22.7%	23.3%	24.0%	21.9%	19.6%	19.5%	19.2%
EBITDA Margins (%)	30.7%	18.7%	36.9%	30.7%	30.5%	30.1%	27.6%	27.3%	26.8%
PBT Margins (%)	21.2%	-10.4%	22.7%	23.3%	24.0%	24.1%	21.6%	21.4%	21.1%
EBIT Margins (%)	19.6%	-9.7%	20.3%	20.5%	22.3%	22.3%	20.0%	20.0%	20.0%
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	2554	2449	2616	2984	3227
Net Debt (AED Mn)	1238	1135	-604	-1848	-2597	-3074	-3830	-4687	-6111
Debt/Capital (x)	0.87	0.92	0.70	0.62	0.55	0.52	0.56	0.64	0.69
Debt/Total Assets (x)	0.32	0.34	0.25	0.20	0.17	0.14	0.14	0.14	0.13
Debt/Equity (x)	0.73	0.95	0.54	0.41	0.33	0.28	0.27	0.27	0.26

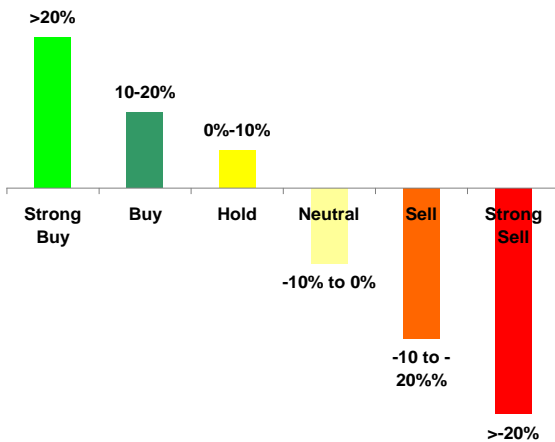
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Rating Criteria and Definitions

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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