COMPANY PROFILE

AirAsia Group Berhad

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COMPANY OVERVIEW

AirAsia Group Berhad (AirAsia) is a provider of low-cost airline. The company provides passenger and cargo transportation services across domestic and international markets. The company through its partnered companies provides airline network operations, travel and lifestyle commerce platform, financial and insurance services, logistics services, lifestyle and entertainment services. The company's ancillary services include courier services, cafes and charter flights. The company also provides car rental services and arranges concerts, sporting events, musicals, and theater performances under the banner of AirAsia Red Tix. The company operates through a network of hubs in Malaysia, Thailand, the Philippines, India, Indonesia and Japan. AirAsia is headquartered in Sepang, Malaysia.

The company reported revenues of (Ringgit) MYR11,860.4 million for the fiscal year ended December 2019 (FY2019), an increase of 11.5% over FY2018. In FY2019, the company's operating margin was 6.1%, compared to an operating margin of 18.1% in FY2018. The net loss of the company was MYR315.8 million in FY2019, compared to a net profit of MYR1,967 million in FY2018.

The company reported revenues of MYR387.3 million for the third quarter ended September 2020, a decrease of 82.6% over the previous quarter.

KEY FACTS

Head Office	AirAsia Group Berhad RedQ, Jalan Pekeliling 5 Selangor Darul Ehsan Sepang Selangor Sepang Selangor MYS
Phone	60 3 86604784
Fax	60 3 8660 7777
Web Address	www.airasia.com
Revenue / turnover (MYR Mn)	11,860.4
Revenue (USD Mn)	2,865.0
Financial Year End	December
Employees	18,122
Bursa Malaysia Ticker	AIRASIA

SWOT ANALYSIS

AirAsia Group Berhad (AirAsia) is a passenger and cargo transportation services provider. Robust network, liquidity position and growth in traffic volume, are key strengths of the company, even as cost efficiency and solvency position remains cause for concern. Positive outlook for travel and tourism industry in Asia-Pacific, strategic initiatives and growth prospects in aviation industry could provide new opportunities to the company. However, regulations in the airline industry, stringent labor laws in Malaysia, volatile fuel charges and coronavirus outbreak could affect the company's performance.

Strength	**Weakness**
Robust Network and Market Position Growth in Traffic Volume Liquidity Position	Solvency Position Cost Efficiency
Opportunity	**Threat**
Growth Prospects: Aviation Industry Strategic Initiatives Positive Outlook for Travel and Tourism Industry in Asia-Pacific	Coronavirus Outbreak Volatile Fuel Charges Stringent Labor Laws in Malaysia Regulations in the Airline Industry

Strength

Robust Network and Market Position

The company's robust network and strong market position provides an edge over its competitors while attracting a loyal customer base. The company's major airline service subsidiaries include AirAsia Malaysia, AirAsia Philippines, AirAsia Indonesia, AirAsia Thailand, AirAsia India, AirAsia Japan, and AirAsia X. As of December2019, the company connected 160 destinations and 24 hubs across 23 markets. The company flew 51.56 million passengers annually, through 402 routes. In FY2019, the company had over 402 routes and operated 10,000 flights per week. The company holds a market share of 49% in Malaysia; 20% in Thailand; 14% Philippines; 9% in Indonesia; 6% in India; and 1% in Japan.

Growth in Traffic Volume

AirAsia reported growth in its traffic volume. In FY2019, the company carried out 51.56 million passengers, which grew 16.02 % YoY; and recorded capacity of 60.88 million, which grew 15.9 % YoY. The company recorded Revenue Passenger Kilometers (RPK) of 63,382million, as compared to 55,962 million in FY2018, which grew 13.3% YoY. It also recorded Available Seat Kilometers (ASK) of 74,642 million, as compared to 66,261 million in FY2018, which grew 12.64 % YoY.

Liquidity Position

Strong cash and liquidity position put the company at an advantage when attempting to fund any potential market opportunities. AirAsia's current ratio was 1.00 at the end of FT2019, significantly higher than 0.8 at the end of the FY2019. A higher current ratio than previous year indicates that the company is in a relatively strong liquidity position. At the end of the review year, the company had cash and equivalents worth MYR1,715.71 million.

Weakness

Solvency Position

The company’s solvency position was weak in FY2019. The company’s debt to equity ratio was 2.87 at the end of FY2019 compared to 0.15 at the end of FY2018. At the end of FY2019, the company recorded an increase in debt from MYR12,888.67 million in FY2019, to MYR1,205.13 million in FY2018. Weakening solvency position indicates utilization of higher financial leverage through debt and its comparatively weak equity position, thereby noting the lower creditworthiness of the company. At the end of FY2019, the company’s total equity declined to MYR4,498.33 million compared to MYR7,784.45 million in FY2018.

Cost Efficiency

The company reported decline in cost efficiency in FY2018, which reduced its profitability. During FY2019, its operating cost as a percentage of sales stood at 93.9%, as compared to 81.9% in FY2018. This was due to increase in operating expense by 21.8% from MYR 11135.83 million in FY2019 to MYR 8713.7 million in the FY2018. The fall in cost to sale ratio resulted in fall in operating margin. The operating margin decreased to 6.11% in FY2019 from 18.1% in FY2018. Its operating income also decreased to MYR724.58 million in FY2019 from MYR1,924.53 million in FY2018.

Opportunity

Growth Prospects: Aviation Industry

AirAsia could benefit from the positive outlook for the global aviation industry, which could drive the demand for its services in the aviation market space. According to the Airports Council International (ACI) report, the global passenger volume is projected to reach 20.9 billion by 2040, with an annual growth of 4.1%. China is forecasted to be the largest air passenger market with 4.0 billion passengers, a 19% share of the global air passenger traffic. The US and India are expected to be second and third largest air passenger traffic markets with 3.1 billion and 1.3 billion passengers, respectively. The passenger volume in advanced economies is expected to grow at a CAGR of 2.8%, whereas in emerging and developing economies, it is expected to grow at a CAGR of 5.3%. Emerging economies including Indonesia, Turkey and Vietnam are expected to play significant roles in the global passenger traffic market. The global air cargo volume is also expected to reach 203.4 million tonnes by 2040. It is also expected that over 20% of all air cargo could be handled in the US alone by 2040, while China and the UAE could be considered as the second and third largest air cargo markets. The US, China and India are estimated to be the primary markets for global aircraft movements by 2040, representing 21%, 16% and 4% of aircraft movements, respectively.

Strategic Initiatives

The company is taking various strategic initiatives to acquire new customers, which will drive its business growth. In November 2020, AirAsia entered into partnership with GrayMatter, a specialist company in big data, analytics, data science, artificial intelligence and IoT data integration. This agreement was formed to launch Scan2Fly, which is a technology that helps the company to analyse a passenger's eligibility to fly before they arrive at the airport by verifying medical reports on real time basis. In the same month, the company entered into partnership with Turkish Airlines, which has a fleet of 365 (passenger and cargo) aircraft flying to 319 worldwide destinations. This initiative helps the company to enhance its pan-Asia flight network. In November 2020, AirAsia collaborated with Tourism Malaysia to offer Cuti-Cuti Malaysia RM50 e-voucher. This initiative helps the company to enhance its domestic tourism.

Positive Outlook for Travel and Tourism Industry in Asia-Pacific

AirAsia is expected to benefit from the positive outlook for Asia-Pacific T&T sector. According to the World Travel & Tourism Council, the direct contribution of the sector to the region's GDP is expected to increase 4.2% per annum from 2018-2028, to reach US$2,218.4 billion in 2028. The industry's total contribution to the Asia-Pacific economy is forecast to reach US$6,694.3 billion (10.5% of GDP) in 2028. Visitor exports are expected to increase 3.8% per annum, from 2018-2028, to US$993.4 billion in 2028. The increase in investments to US$808.3 billion in 2028 is expected to boost activity within the Asia-Pacific T&T sector.

Threat

Coronavirus Outbreak

Coronavirus (COVID-19) pandemic will have a negative impact on global economy. It has resulted in huge human loss, and the necessary protection measures such as isolation, lockdowns, quarantines, and social distancing to contain the spread of virus is severely impacting economic activity. It has affected the international economic and trade activities, ranging from tourism and hospitality, medical supplies and other global value chains, consumer electronics, and financial markets to energy, transportation, food, and various social activities. Based on the current pandemic situation and required containment measures in the second quarter for most countries, World Economic Outlook report for April forecasted that global growth will be at -3% in 2020.

Volatile Fuel Charges

The company's business is highly dependent on the price and availability of jet fuel, and its performance could be adversely affected by high volatility in fuel costs, increased fuel prices and disruptions in the supply of jet fuel. The fuel market is volatile and changes according to market, political and economic movements. Therefore, a modest decline or increase in prices could have a significant impact on the company's business operations. Several factors are responsible for such changes including domestic and foreign supply of oil, global economic conditions, price and availability of alternative fuels, governmental regulations, weather conditions and technological advances, among others. According to International Air Transport Association, jet fuel price was US$ 52.5 per barrel as of November 27, 2020, which increased 8% over a week ago and 26.4% a month ago. Such increase in jet fuel price could affect the company's overall profitability.

Stringent Labor Laws in Malaysia

The stringent labor laws in Malaysia could limit AirAsia's ability to find qualified personnel. It is also subjected to various external factors such as the availability of a sufficient number of qualified persons in the local operating markets, unemployment levels within those markets, prevailing wage rates, changing demographics, health and other insurance costs and adoption of new or revised employment and labor laws and regulations. The Malaysian government has made amendment of Employment Act 1955 legalizing contract for the supply of labor. There has been protest against the amendment of this regulation from the Malaysian public. IMF General Secretary, Jyrki Raina, over a letter to the Malaysian Prime Minister, expressed serious concern regarding legalizing the contract labor system. In addition, the company must comply with labor laws such as the Trade Unions Act 1959, Wages Council Act 1947, Workman's Compensation Act 1952, Children and Young Persons (Employment) Act 1966, Occupational Safety and Health Act 1994, Employees Social Security Act 1969 and Industrial Relations Act 1967. Such labor laws and protest regarding them could disrupt the company's operations.

Regulations in the Airline Industry

AirAsia is required to comply with the regulations of Civil Aviation Authority of Malaysia (CAAM), Civil Aviation Authority of Thailand (CAAT), the Japan Civil Aviation Bureau (JCAB) in Japan, and the Directorate General of Civil Aviation (DGCA) in India. These civil aviation authorities regulate all major areas of aviation services, which include airworthiness, aircrew, aerodromes, air operations and the provision of air navigation services. The compliance or change in regulations could force the company to update its processes, in turn increasing the capital expenditure and impacting its financial position.