

May 09, 2010

AIR ARABIA (AIRA.DU)

12-Month Fair Value: AED 1.15

Last Close (06 May, 2010): AED 0.94

Recommendation: Buy - Risk Level: 4

- Air Arabia's total revenues reached AED 482 million in 1Q2010, a 4% increase from the same period last year. This result is 9.4% lower than our forecast of AED 532 million for 1Q2010.
- The number of passengers flying with Air Arabia increased by 9%, year-on-year, in 1Q2010 to 1.03 million. Load factor dropped by a 100 basis points to 80% in 1Q2010, while revenue per passenger declined by 3.7% in 1Q2010—highlighting pressure on the airline's yield. In our forecasts we were anticipating a 1% decline in yield and a load factor of 81%.
- Air Arabia achieved an EBITDA of AED 28.6 million for 1Q2010, a result that is lower than our forecast by 30%. (We do not have a breakdown of operating costs for 1Q2010, thus we cannot assess Air Arabia's performance at the EDITDAR level.)
- Interest income (which accounted for 44% of Air Arabia's net income in 1Q2009) declined by 27% in 1Q2010. This added further pressure on the company's bottom line, which dropped by 51% in 1Q2010 to AED 50.1 million.
- The airline attributed this decline in profitability to the increase in fuel prices and the continued pressure on yields. In 1Q2010 oil prices averaged around USD 80 per barrel compared to around USD 58 per barrel in 1Q2009. Moreover, Air Arabia has hedged for only 35% of its fuel requirement for 2010 (at around USD 65 per barrel), as compared for around 55% of its fuel requirement for 2009 (at around USD 55 per barrel).
- We hope to get more details on the company's performance in its upcoming conference call on May 11, 2010. For now we maintain our fair value target of AED 1.15 per share, which represents an upside potential of 22% from the share's closing price on May 6, 2010. Accordingly, our recommendation on the stock is a "Buy."

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Related Research

- Air Arabia Analyst Comment - 20 April 2010
- Air Arabia Update - 24 March 2010

RISK AND RECOMMENDATION GUIDE

RECOMMENDATION		UPSIDE (DOWNSIDE) POTENTIAL		
BUY		MORE THAN 20%		
ACCUMULATE		BETWEEN 5% AND 20%		
HOLD		BETWEEN -10% AND 5%		
REDUCE		BETWEEN -25% AND -10%		
SELL		LESS THAN -25%		
RISK LEVEL				
LOW RISK			HIGH RISK	
1	2	3	4	5

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