

February 18, 2010

## AIR ARABIA (AIRA.DU)

**12-Month Fair Value: Under Review**

**Last Close (18 February 2010): AED 0.98**

**Recommendation: Under Review - Risk Level: Under Review**

- Air Arabia posted a 5% decline in total revenue in 2009 to AED 2 billion—a result that is in line with our forecast. The 20% drop in yield is the main reason for the decline in revenue, as the airline was able to grow RPK (revenue passenger kilometers) by approximately 20%.
- Around 1.1 million passengers flew with Air Arabia in 4Q2009 raising the total number of passengers for 2009 to 4.1 million.
- Air Arabia's load factor declined by 500 basis points in FY2009 compared to FY2008; however, it remained at a healthy level of 80%. The airline saw a strong load factor in 4Q2009, which boosted 2009 load factor from the 79% achieved during the first nine-month of 2009.
- At the EBITDAR level, the airline saw a minor increase of 3% to AED 539 million for FY2009—a result that is 10% below our forecast.
- Net income declined by 11% to AED 452.2 million in FY2009 compared to FY2008, and 5.5% below our forecast of AED 478.1 million. Air Arabia's FY2009 net income was negatively impacted by an AED 31.6 million share of loss from associates, which according to management relates mostly to the startup costs in the Morocco hub. On the other hand, the airline had AED 36.7 million in unrealized gains on fuel derivatives.
- In the conference call held yesterday, management stated that they expect to start operations in Alexandria, Egypt in mid April. Also, management stated that the airport hotel is expected to be ready in August 2010.
- The board of directors has proposed the distribution of cash dividend of AED 0.10 per share. This represents a payout ratio of 103%, and based on yesterday's closing price this translates into a dividend yield of 10.6%. We view this as a high dividend payout by Air Arabia, considering the company is in an expansionary phase. Air Arabia's CEO commented in the conference call that this payment takes into consideration the company's cash flows, current high liquidity position, and future requirements.
- We will be issuing an update for Air Arabia to incorporate the airline's latest performance and incorporating the hubs in Morocco and Egypt. Accordingly, we are withdrawing our previous forecasts and recommendation on Air Arabia, and placing the company "Under Review" till we meet with management and get a better understanding of the hubs strategy they are adopting.

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## Related Research

- Analyst Comment - 09 August 2009
- Air Arabia Update - 31 May 2009

**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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