

April 20, 2010

AIR ARABIA (AIRA.DU)

12-Month Fair Value: AED 1.15

Last Close (19 April, 2010): AED 0.90

Recommendation: Buy - Risk Level: 4

- On April 19, 2010, Air Arabia's CEO, Adel Ali, informed reporters that the airline has been affected by the volcanic ash cloud coming from Iceland, without giving any estimates for the financial impact. As a result of the volcanic ash cloud, eight weekly flights from Sharjah to Ukraine and Turkey have been grounded. On the other hand, the company's recently established Moroccan hub, which currently caters strictly to European markets, has halted all flights.
- We do not expect the ash cloud disruptions to have a significant impact on Air Arabia's performance out of Sharjah, given the limited exposure of its network. On the other hand, the Moroccan hub is still in its infancy, as it operates three planes with flights to 11 destinations across Europe. Accordingly, the size of the hub coupled with Air Arabia 29% stake will limit the downside risk on the company's financial results in FY2010.
- In addition, Air Arabia announced the delay of the launch of the new hub in Egypt till May 2010. Air Arabia was originally expected to open the hub in April 2010; however, it is still waiting for a license to commence operations. In the short run, this postponement may have come at a good time for the company, as flights originating out of Egypt are expected to cater to the effected European markets. We do not expect this delay to have any material impact on our forecasts for FY2010.
- Air Arabia reported an 80% load factor for 1Q2010, a result that is slightly lower than our forecast of 81% for the quarter.
- Given the limited exposure that Air Arabia has to the disruption resulting from Icelandic volcanic ash and that 1Q2010 load factor has been close to our estimate, we maintain our fair value target of AED 1.15. This represents an upside potential of 28% from the close on April 19, 2010; hence our recommendation for the stock is "Buy."

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Related Research

- 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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