

# AIRASIA BERHAD

FIRST QUARTER 2014  
ANALYST PRESENTATION



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# 1Q14

## KEY FINANCIAL HIGHLIGHTS



# KEY HIGHLIGHTS – 1Q14

## MALAYSIA

- Revenue of RM1.3 billion flat y-o-y
- Operating profit of RM223.9 mil down 11%
- Profit after tax of RM139.7 million up 33% y-o-y
- EBIT Margin of 17% and EBITDAR margins of 34%
- Continuous cost reduction exercise achieve flat CASK of 4.12 (US cents) y-o-y – Target reduction of 7.5%
- **RASK down 3% only to 4.97 (US cents) y-o-y** - Pricing pressure from Malindo and MAS was not present in 1Q13
- Ancillary Income strategy bearing fruits – **Ancillary per pax up 7% to RM46**
- Load Factor up 2ppt to 81% y-o-y
- **Irrational pricing normalising** - Average fare of RM164 up 4% q-o-q.

## ASSOCIATES

- Thailand – Malaysia equity account RM10.6 million
- Expedia – Malaysia equity accounts RM2.1 million
- AACOE – Malaysia equity accounts RM3.7 million
- Despite continuous political unrest in Thailand, TAA still records operating profit of THB317 million
- **India receives its Air operating permit** - Reviewing date of commencement
- **Philippines aviation safety upgraded back to category 1** – Re-launching turnaround plan

## OPERATIONS

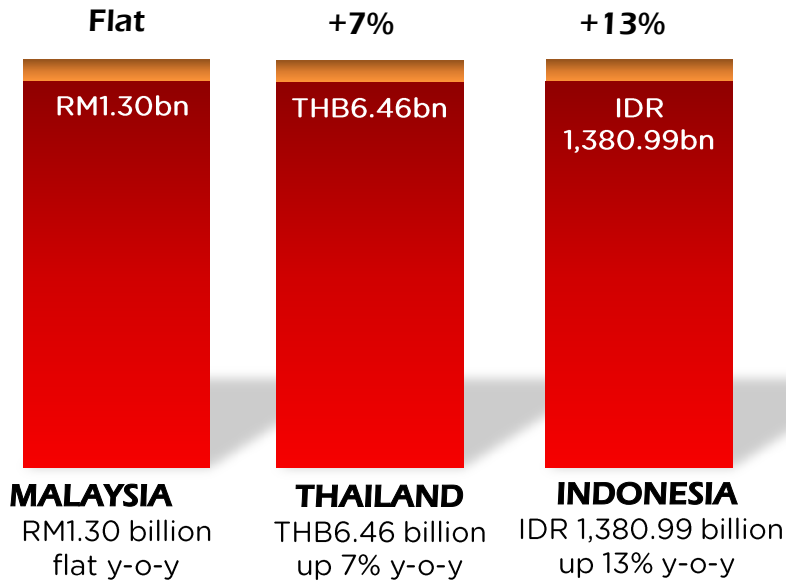
- Focus on capacity management
  - In discussion with Airbus to defer more A320 and switch to more fuel efficient neo
  - Embarking on an asset disposal plan on old aircraft to capitalise on residual value
- **Began Operations in KLIA2** – Massive passenger boost and connectivity





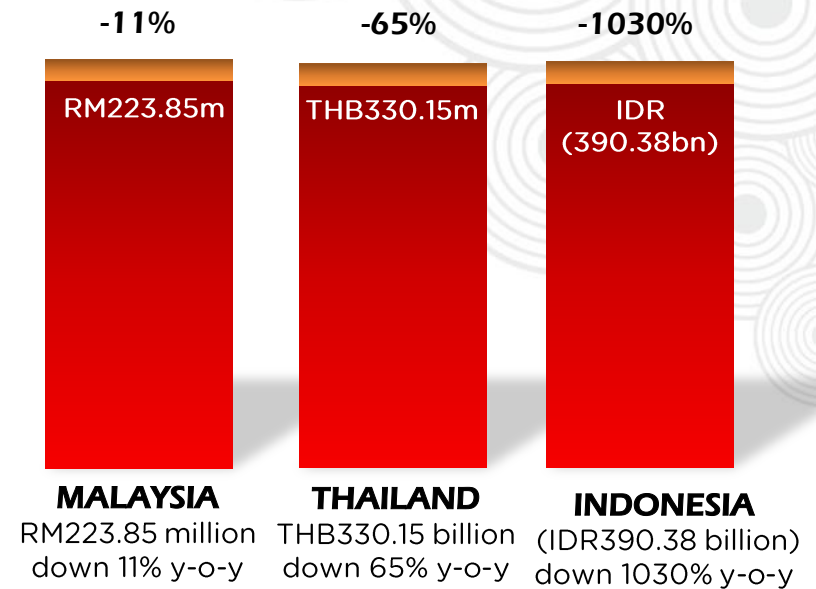
# KEY HIGHLIGHTS – 1Q14

## REVENUES GROWTH AND IMPROVED ANCILLARY REVENUE



### REVENUES

## FARE PRESSURE FOR MAA, POLITICAL IN TAA AND CURRENCY FOR IAA .

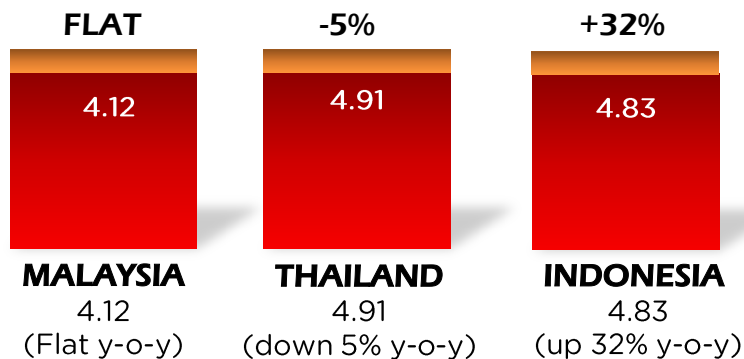


### OPERATING PROFIT

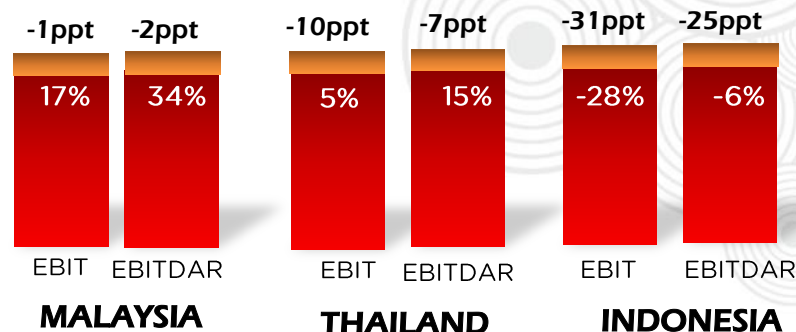


# KEY HIGHLIGHTS – 1Q14

## COST REDUCTION ACROSS ALL AOC AIRASIA STILL THE LEADER



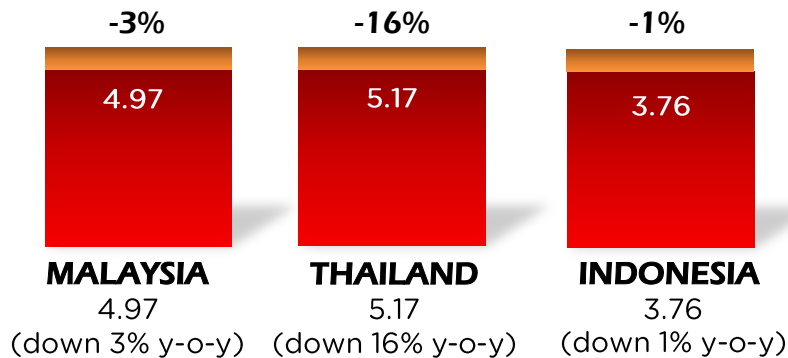
## MALAYSIA MARGINS REMAIN ONE OF THE HIGHEST - INDUSTRY LEADER



## CASK (US CENTS)

## EBIT AND EBITDAR MARGINS

## RASK DECLINE MINIMISED EXCEPT FOR THAILAND

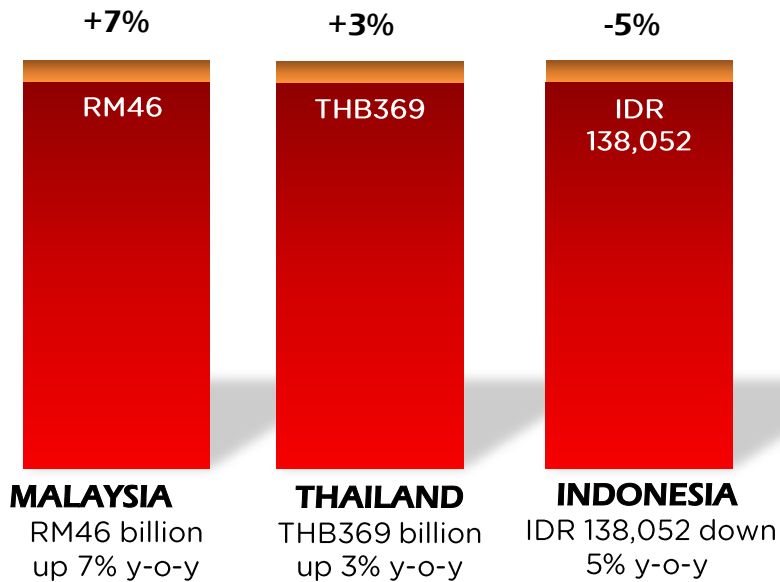


## RASK (US CENTS)



# KEY HIGHLIGHTS – 1Q14

## ANCILLARY STRATEGY PAYING OFF



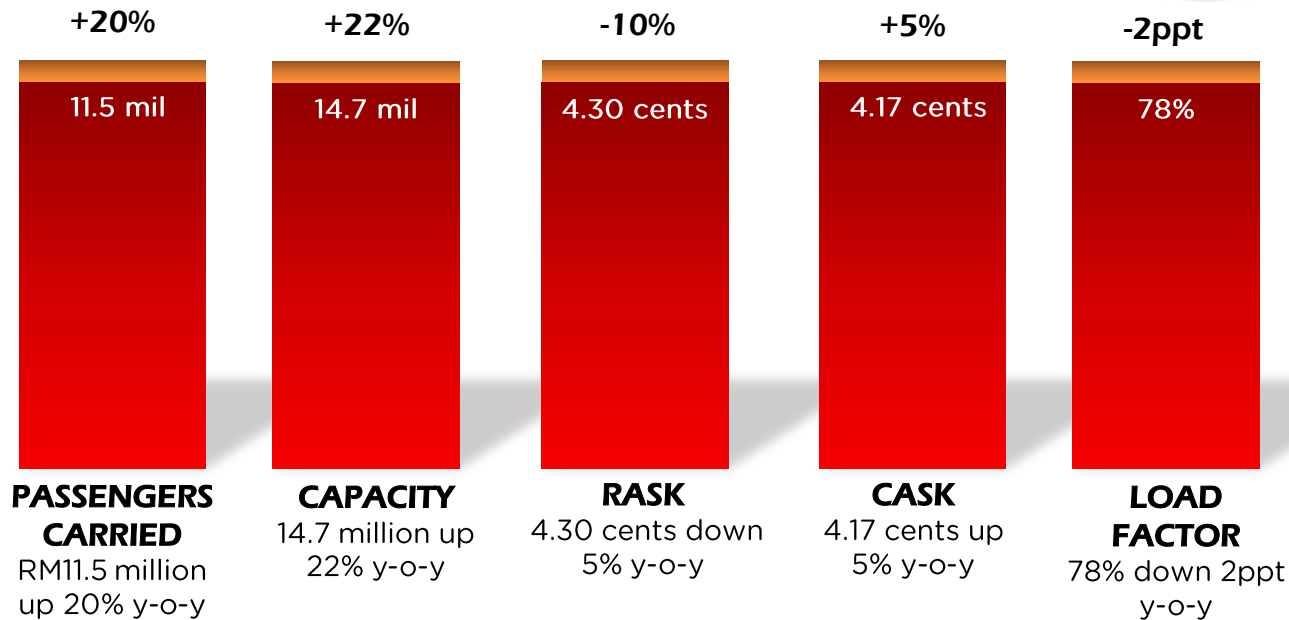
- Due to aggressive marketing and CRM, we have seen higher take up in :-
  - Assigned seating
  - Baggage upsize
  - Insurance

## ANCILLARY INCOME PER PAX



# KEY HIGHLIGHTS – 1Q14

## PLANS FOR CONSOLIDATION OVERVIEW OF CONSOLIDATED STATISTICS



### • TIMELINE FOR CONSOLIDATION

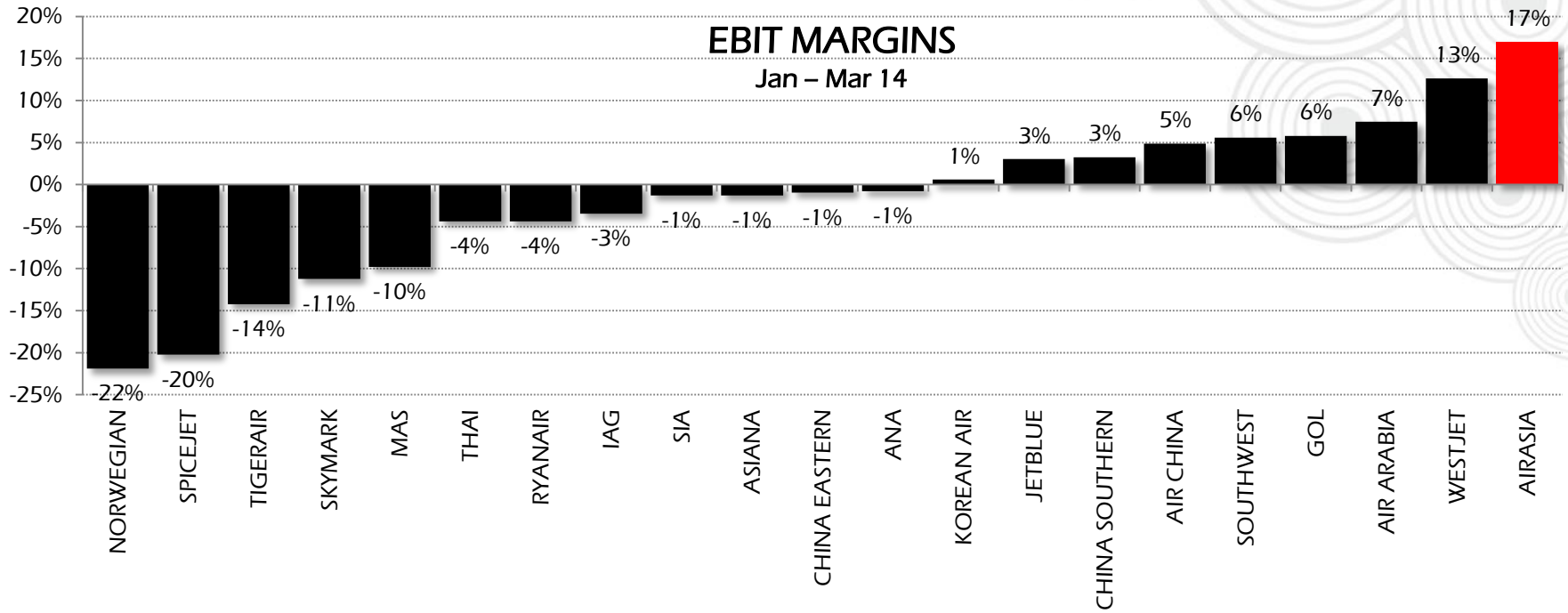
- Still in discussions with respective auditors and legal firms
- Accounting consolidation in place
- Plan to release pro-forma consolidated numbers in 2015





# COMPETITIVE PRESSURES

— Despite competition, AirAsia has a robust model and remains a leader



Source: Bloomberg



# COMPETITIVE PRESSURES

## — Regional updates

Airlines	Updates
MAS	<ul style="list-style-type: none"><li>• 1Q14 losses of approx 500 million due to irrational pricing. Potential restructuring on the cards</li></ul>
Malindo	<ul style="list-style-type: none"><li>• Cutting capacity due to weak load factors</li><li>• Diverting capacity to routes beyond 4 hours to avoid competing with AirAsia</li><li>• Multiple cancelation recently due to staff strike</li></ul>
Lionair	<ul style="list-style-type: none"><li>• Excess of aircraft orders</li><li>• Signs of 6-10 grounded aircraft at each hub with low utilisation</li><li>• Struggling to gain foothold in Thailand due to strong local carriers like Thai AirAsia, Nok Air and Thai Airways</li></ul>
Citilink	<ul style="list-style-type: none"><li>• Up for sale</li></ul>
Tiger Group	<ul style="list-style-type: none"><li>• <b>Tiger Phillipines</b> exited the market and sold to Cebu</li><li>• <b>Tiger Mandala</b> - Up for sale</li><li>• All shareholders want to exit</li><li>• <b>Tiger Singapore</b> - Change of management due to continuous losses</li><li>• Intervention by Singapore airlines into day to day business</li><li>• Grounding more aircraft. Plans to park grounded aircraft in Senai Airport</li></ul>
Cebu	<ul style="list-style-type: none"><li>• Cebu long haul dragging losses on short haul business</li><li>• Load factor for middle east market believe to be sub 40%</li></ul>
Jetstar	<ul style="list-style-type: none"><li>• Believe to be loss making due to aggressive pricing</li><li>• No expansion plans</li></ul>
Scoot	<ul style="list-style-type: none"><li>• Grounding more aircraft due to weak load factors.</li><li>• Interlining with Tiger to push sales</li></ul>



# **OUTLOOK & STRATEGY**



# REVENUE ENHANCEMENT

## ANCILLARY INCOME

- **TO DRIVE CORE ANCILLARY TAKE UP.**
  - Achieve RM46 in 1Q14 - On target to achieve RM50 by year end
- **ON-BOARD WIFI**
  - Installed on 4 aircraft currently undergoing testing and regular approval. Available on air in June/July
  - May accelerate installation from 50 to 150 aircraft in 2014
- **DUTY FREE**
  - Targeting June launch to sell duty free on board. Delivery service to launch in 2H14
- **FLY-THRU** - Introducing more connecting flights with AAX and other AOCS with KLIA2 move
  - Dedicated transfer hall for passengers
  - To launch Multi sector booking
  - Developing new fly-thru hubs
- **PREMIUM FLEX**- to launch new high flyer product on 20<sup>th</sup> June 2014 called “Premium Flex”
  - To introduce priority baggage drop, pick-up and exploring express security and immigration checks.
  - **With KLIA2 move, larger platform to target business travelers** . Key revenue upside:-
    - ✓ Convenience (Express Rail Link to KL city hub)
    - ✓ Comfort (aerobridges)
    - ✓ Flexibility (flight changes)
    - ✓ Express (boarding, bags release, security and immigration)
- **INVENTORY TO BE AVAILABLE ON ALL GDS** and other online platforms other than Expedia. Expedia currently contributes 3% of seats sold.
  - To cross sell on other OTAs other than Expedia when India and Japan launch

## CRM

- YTD conversion up 0.7 ppt to 4.7%. Malaysia leader with 1.7 ppt up to 7.18% YTD
- Drive Sales via mobile. Pushing mobile sales to approx 4% seats sold.
- Mobile app have seen 4.1 million downloads YTD.



# STRATEGY

- **UPDATE ON COST REDUCTION EXERCISE**

- **KLIA2 – The force use by MAHB to use SITA check in system and aerobridge still COST NEUTRAL**

- To ensure no impact on cost for check in and aerobridge, AirAsia implemented a RM3 charge to passengers

- **AUTOMATION**

- Denied by MAHB to use own self check in system in KLIA2. To use their SITA system
- To be charge per passenger on SITA system. Passengers to be charged even not using system
- AirAsia never had this cost at LCCT for using our own kiosk hence a KLIA2 charge was implemented
- Note that SITA system doesn't cater for:-
  - Interpol screening
  - Cannot verify visa/passport validity
  - Baggage drop and Self tagging not available
- **AirAsia Passenger initiatives** :- Introduce Check in, kiosk visa and interpol verification, self tagging and bag drop kiosk - All new kiosk to be rolled across all airports except for KLIA2 with NO CHARGE

- **AEROBRIDGES**

- MAHB enforce the use of aerobridges and AirAsia complied to support Governments plea to use it
- No cost incurred in LCCT as there was no aerobridge facility there
- Additional charge by MAHB to use aerobridge at KLIA2
- AirAsia implemented a new separate KLIA2 charge to passengers to cover the new cost

- **ROUTE RATIONALISATION** - All high frequencies routes rationalised to optimise profitability.





# CAPACITY MANAGEMENT & CREATING VALUE FROM BALANCE SHEET

- **CAPACITY MANAGEMENT – 2015 and beyond**

- In discussion with Airbus to defer more aircraft and convert current CEO to NEO
- To manage growth to ensure all country operations focus on maximising profits from current routes
- Allowing operations in Indonesia and Philippines to execute turnaround plan and Thailand to recover from political unrest which impacted tourism
- Growth to be given to new markets like Japan and India

A. Fleet Order	2015	2016	2017	2018
CEO Orders	17	24	9	
NEO Orders		4	22	32
Total Fleet Orders Before Deferment	17	28	31	32
CEO Deferral (Proposed by Airbus)	-4	-6	-9	
NEO Deferral (Proposed by Airbus)			-2	-8
Finalised Acft Delivery post deferment	13	22	20	24
<b>Additional A320 CEO deferment proposed by Airbus</b>	<b>-3</b>			
Fleet Size Post Additional Deferment	10	22	20	24



# CAPACITY MANAGEMENT & CREATING VALUE FROM BALANCE SHEET

## CREATING VALUE FROM BALANCE

- Ensuring net gearing is below 2 times
- Residual value from aircraft retired can be used to reduce debt on replacement aircraft
- To maintain a very young fleet by replacing aircrafts at 12 years in line with company's cost reduction exercise
- Take advantage of FX rate through with US strengthening with potential gain on sales
- To use cash on sale to reduce further cost of aircraft purchase
- Due to strong demand on our aircraft, AirAsia will increase aircraft sale from 6 to 12 aircraft in 2014
- From the sale of 12 aircraft this year. Accounting treatment as follows:-

### Projected impact (may change as sale not finalised)

- Profit and Loss Statement
  - Loss on disposal, Agency fee and derivative impact ~ RM141 mil
  - Aircraft, which are USD based assets, are stated at cost in MYR at the date of acquisition and there is a potential book loss due to forex translation if the Aircraft are sold lower than their Net Book Value
- Cash Flow
  - Cash positive net of repayment of borrowings, termination of derivatives and engineering cost  
~ Cash upside of RM550 million



# ASSOCIATES

## THAILAND

- Strong marketing to drive back tourism to Thailand
- To focus on North Asia strategy and push for more slots
- Thai AirAsia X to provide greater feeder into other short haul routes

## INDONESIA

- Network optimisation
  - ✓ To terminate 9 routes (weakest performing routes)
  - ✓ Rationalising some 6 key routes by reducing frequencies
  - ✓ Re-introduction and adding frequencies as part of strategy to focus on selected key markets
- Rationalising loss making routes
- Forecasted to be profitable in 3Q14

## PHILIPPINES

- Turnaround plan in place
- To launch more Korea and new Japan routes with reinstatement back to category 1
- Fares on the rise which will boost revenues
- To promote Kalibo as a key hub (New airport open in June)
- Congressional approval within weeks to approve consolidation process. Will be rebranded as Philippines AirAsia

## INDIA

- Received Air operating permit
- Finalising route plans and official launch date

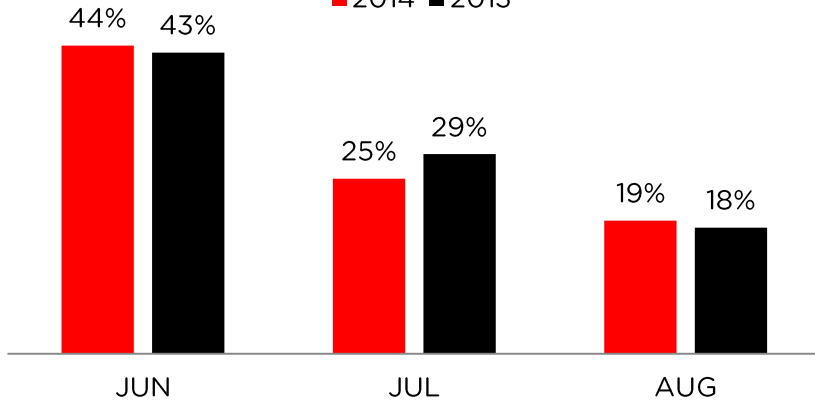


# FORWARD BOOKINGS

- 2014 forward bookings are generally higher than 2013's
- Historically stronger pick up on month of travel
- This year's fasting month (for Muslims) falls in July, hence the drop in booking y-o-y

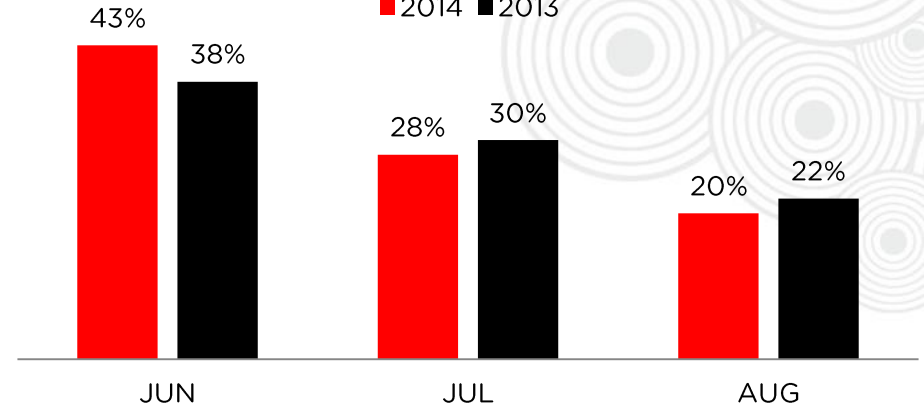
## MAA

■ 2014 ■ 2013



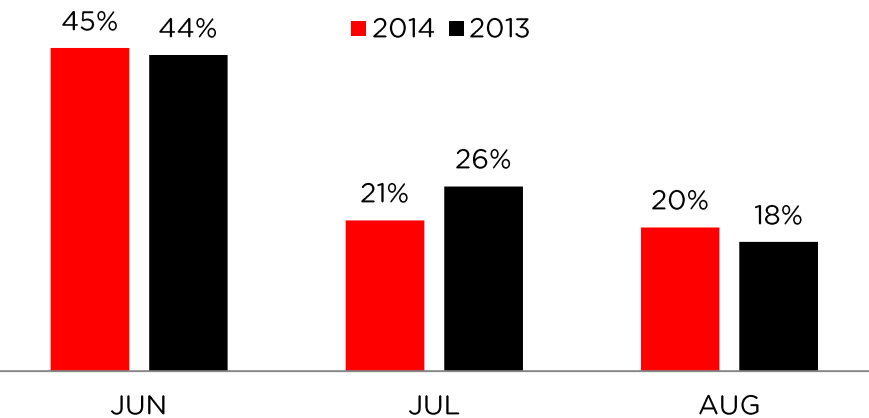
## TAA

■ 2014 ■ 2013



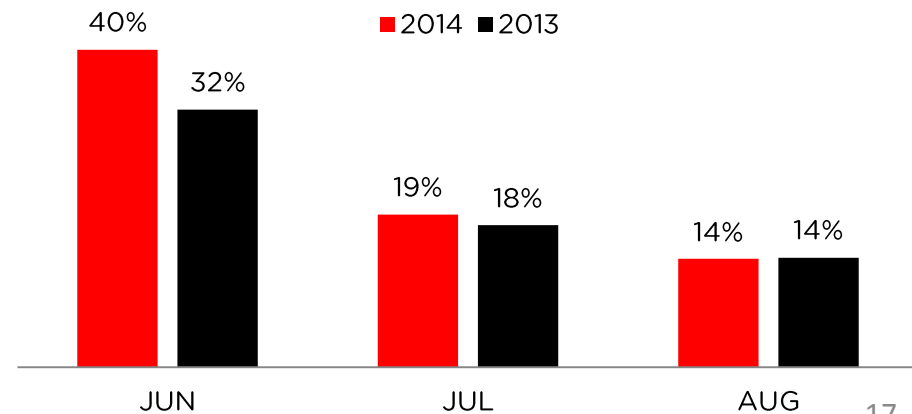
## IAA

■ 2014 ■ 2013



## PAA

■ 2014 ■ 2013







*AirAsia*