

# AirAsia Berhad

**3<sup>rd</sup> Quarter 2011 Results**

**22 November 2011**



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# 3Q11 Results – Key Highlights

- **Malaysia – Operating profit up y-o-y, exceeds expectations**
  - ❑ Revenue of RM1.08 billion up 10% y-o-y
  - ❑ Operating profit of RM251 million up 2% y-o-y
  - ❑ Passenger volume grew by 8% y-o-y, achieving 77% load factor
  - ❑ EBITDAR margins down only 1 ppt to 39% y-o-y despite high fuel cost
  
- **Thailand – Continues to be profitable**
  - ❑ Revenue of THB3,719 million up 33 % y-o-y
  - ❑ Operating profit of THB195 million down 48% y-o-y due to higher fuel cost
  - ❑ Balance of RM61 million unrecognised share of net profit before it can be equity accounted
  - ❑ Passenger volume grew by 18% y-o-y, achieving 80% load factor
  - ❑ RASK up 10% contributed from higher ancillary income per pax and average fare
  
- **Indonesia – Strong passenger growth drives up revenue**
  - ❑ Revenue of IDR1,070 billion up 37% y-o-y
  - ❑ Operating profit of IDR16,967 million down 90% y-o-y due to higher fuel cost and provision for early return of B737s
  - ❑ Passenger volume grew by 30% y-o-y, achieving 78% load factor
  
- **Unit Passenger Revenue**

MAA – Flat	TAA – up 13%	IAA – up 5%
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- **Launch of Asian Aviation Centre of Excellence and AirAsia Expedia which made immediate profits of which RM10.1 million in total is equity accounted**
- **Launch of BIG Loyalty Programme**

## 3Q11 – Financial Results

	MAA			TAA			IAA		
	RM'000			THB'000			IDR million		
	3Q11	3Q10	Change	3Q11	3Q10	Change	3Q11	3Q10	Change
Revenue	1,076,437	979,710	10%	3,718,674	2,789,197	33%	1,069,564	781,661	37%
EBITDAR	415,344	395,755	5%	908,528	998,827	-9%	184,090	293,233	-37%
Operating Profit	251,395	246,741	2%	195,479	378,753	-48%	16,967	172,161	-90%
Profit after tax	152,299	327,286	-53%	193,628	484,980	-61%	-25,699	157,952	-116%
EBITDAR margin	39%	40%	-1 ppt	24%	36%	-12 ppt	17%	38%	-21 ppt
Operating profit margin (EBIT)	23%	25%	-2 ppt	5%	14%	-9 ppt	2%	22%	-20 ppt

### MAA

- ❑ Revenue up 10% y-o-y driven by steady passenger growth
- ❑ Operating profit up 2% y-o-y despite average fuel cost up 41%
- ❑ Profit after tax down 53% y-o-y due unrealised foreign exchange losses

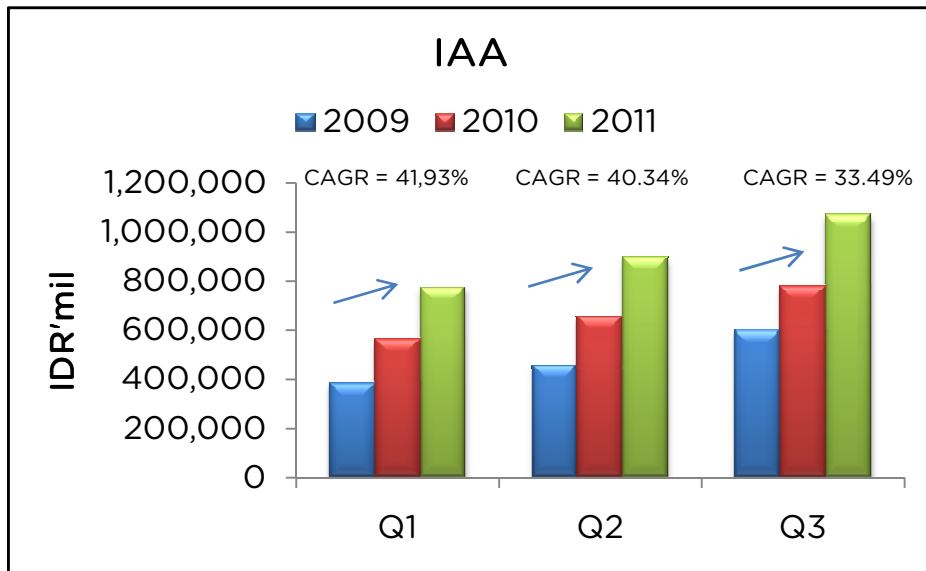
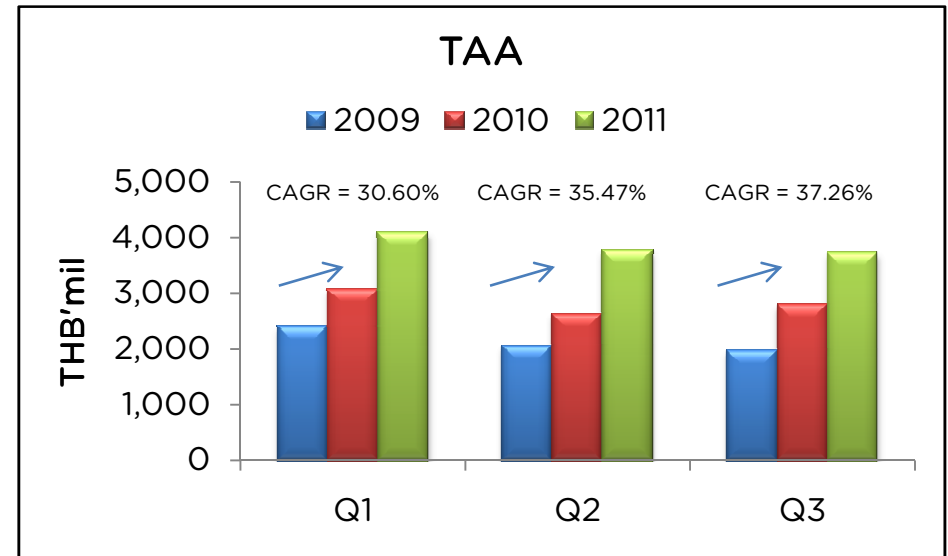
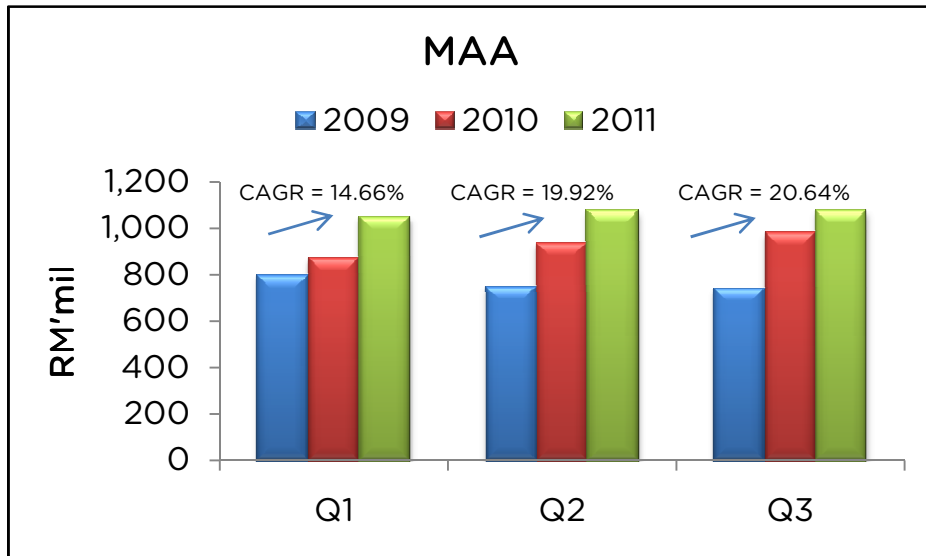
### TAA

- ❑ Revenue grew 33% y-o-y driven by increased fares and ancillary income per pax
- ❑ EBITDAR margins down 12 ppt mainly due to high fuel cost

### IAA

- ❑ Revenue up 37% contributing from a 30% increase in passenger growth y-o-y
- ❑ Operating profit down 90% mainly due to increase in fuel expense and the provision of early returns of B737s

# Consistent Revenue Growth



- ❑ Optimising revenue growth in line with passenger growth
- ❑ Revenue to continue growing as more capacity (new aircraft) feeds into the three operations

## 3Q11 – Operating Statistics (Highlights)

	MAA			TAA			IAA		
	3Q11	3Q10	Change	3Q11	3Q10	Change	3Q11	3Q10	Change
Passengers Carried	4,341,052	4,035,546	8%	1,610,302	1,363,998	18%	1,401,525	1,079,008	30%
Capacity	5,601,600	5,155,020	9%	2,021,040	1,794,544	13%	1,801,056	1,334,728	35%
Load Factor	77%	78%	-1 ppt	80%	76%	4 ppt	78%	81%	-3 ppt
RPK (million)	5,058	4,773	6%	1,813	1,440	26%	1,839	1,437	28%
ASK (million)	6,490	6,056	7%	2,269	1,868	21%	2,375	1,760	35%
Average Fare (RM/THB/IDR)	180	173	4%	1,919	1,708	12%	639,736	611,604	5%
RASK (sen/THB/IDR)	16.59	16.18	3%	1.64	1.49	10%	450.38	444.09	1%
CASK (sen/THB/IDR)	12.71	12.10	5%	1.55	1.29	20%	443.23	346.28	28%
CASK Ex-fuel (sen/THB/IDR)	6.22	7.31	-15%	0.85	0.79	8%	222.43	197.11	13%

# YTD'11 – Financial and Operational Highlights

	MAA			TAA			IAA		
	RM'000			THB'000			IDR million		
	YTD'11	YTD'10	Change	YTD'11	YTD'10	Change	YTD'11	YTD'10	Change
Revenue	3,201,096	2,783,737	15%	11,565,168	8,474,850	36%	2,739,664	1,999,151	37%
EBITDAR	1,186,837	1,061,943	12%	3,415,419	2,660,899	28%	567,006	647,826	-12%
Operating Profit	707,919	634,352	12%	1,356,062	971,789	40%	71,002	285,418	-75%
Profit after tax	456,407	710,735	-36%	1,421,745	1,066,516	33%	46,301	232,903	-80%
Passenger Carried	13,131,884	11,614,411	13%	5,042,640	4,083,061	24%	3,754,905	2,920,175	29%
Capacity	16,528,500	15,222,240	9%	6,238,980	5,268,432	18%	4,837,548	3,837,860	26%
Load Factor	79%	76%	3 ppt	81%	78%	3 ppt	78%	76%	2 ppt
Average Fare	169	173	-2%	1,908	1,771	8%	592,413	570,534	4%

## MAA

- ❑ Revenue up 15% y-o-y
- ❑ Operating profit up 12% y-o-y despite average fuel price for 9 months increased by 30%
- ❑ Load factor of 79% in-line with management targets

## TAA

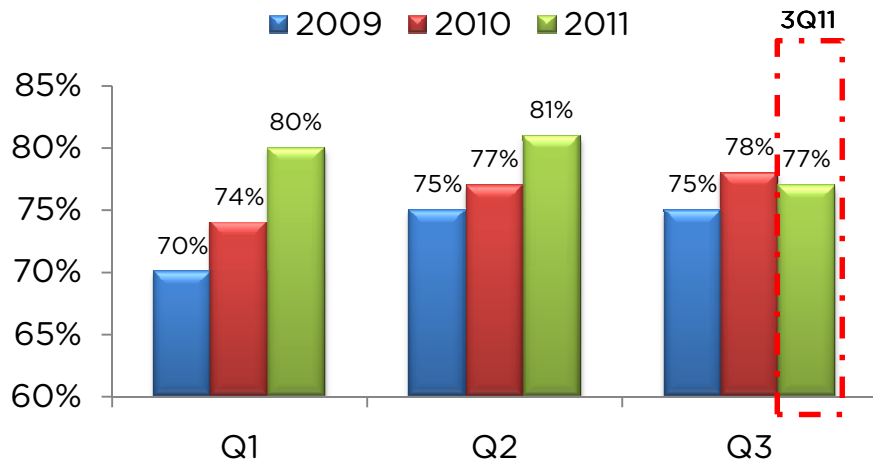
- ❑ Revenue up 36% y-o-y
- ❑ Operating profit still up 40% y-o-y showing model is still robust to offset high fuel cost
- ❑ Load factor gaining strength to 81%

## IAA

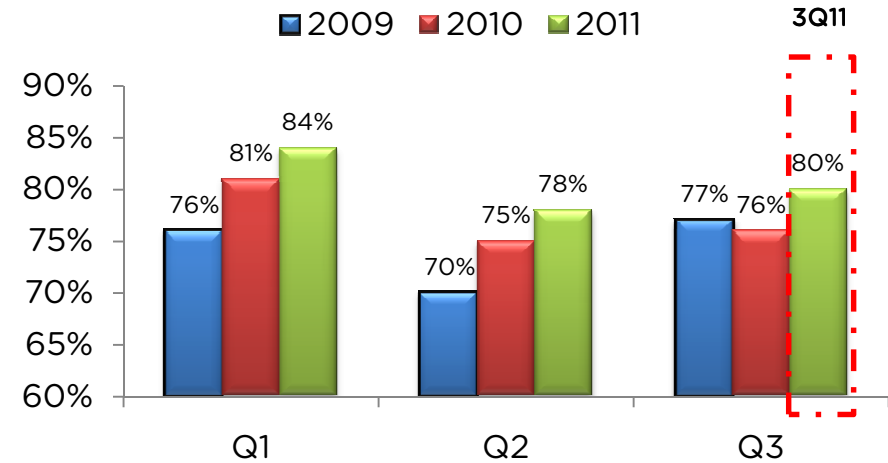
- ❑ Revenue up 37% y-o-y
- ❑ Operating profit down 75% due to cost related to switching to full Airbus fleet
- ❑ Load factor up 2 ppt to 78% despite 26% capacity increase<sup>7</sup>

# Load Active Airline

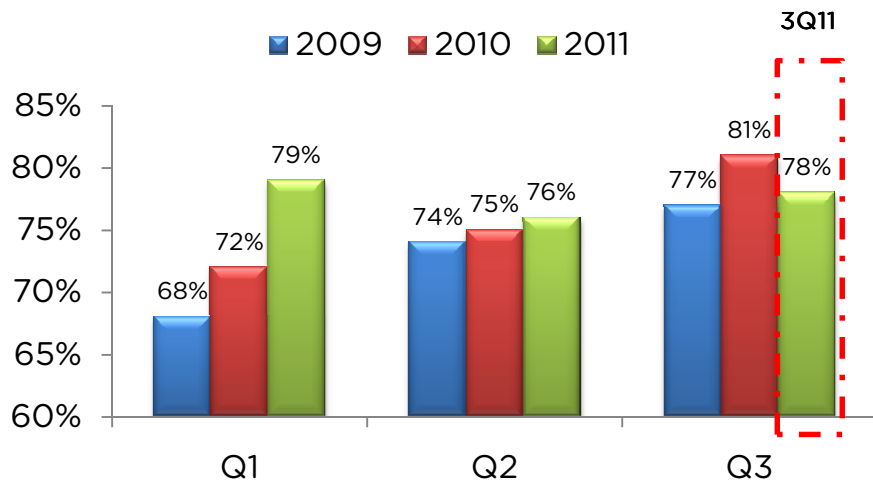
## MAA



## TAA



## IAA



- ❑ **MAA** - Load factor in 3Q11 down due to full month impact of fasting month. 4Q11 expected to rise being the strongest quarter
- ❑ **TAA** - Consistently strong load factor throughout the year
- ❑ **IAA** - Able to achieve high load factors with high capacity increase

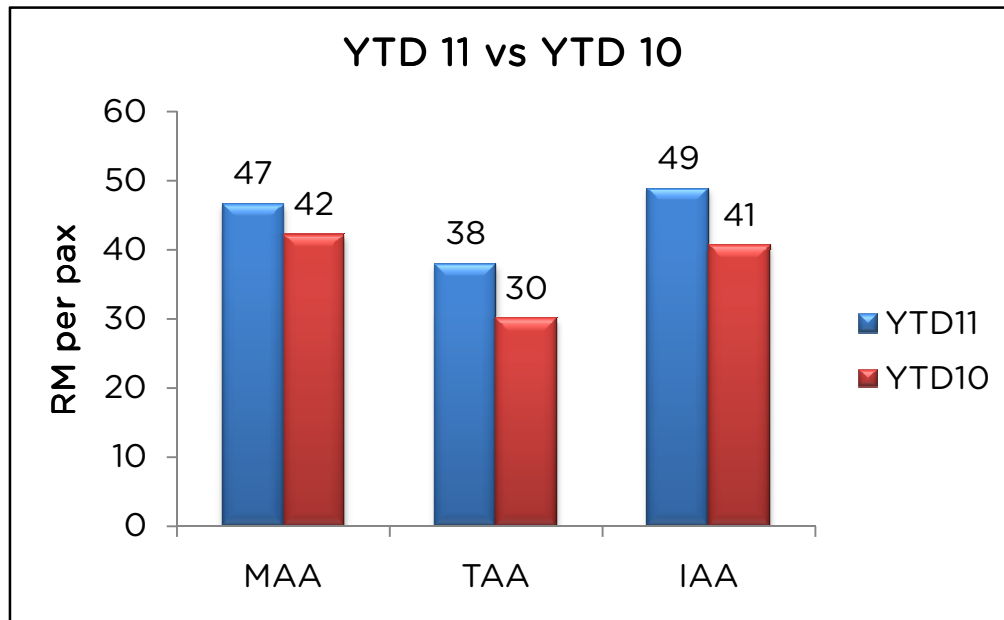
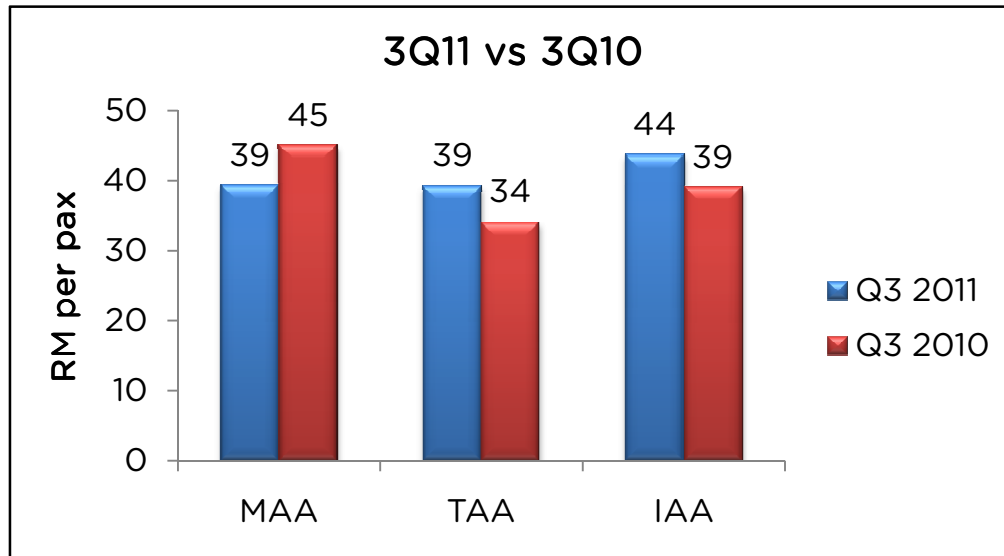


## 3Q11 – CASK Breakdown

Cost / ASK (US cents)	MAA		TAA		IAA	
	3Q11	3Q10	3Q11	3Q10	3Q11	3Q10
Staff Costs	0.64	0.50	0.53	0.48	0.51	0.53
Depreciation	0.73	0.74	0.02	0.06	0.03	0.03
Aircraft Fuel Expense	2.13	1.58	2.32	1.66	2.56	1.73
Aircraft Operating lease expense	0.10	0.07	1.01	1.04	0.79	0.77
Maintenance, Overhaul	0.08	0.11	0.41	0.31	0.39	0.41
User Charges and other related expense	0.48	0.51	0.73	0.70	0.49	0.48
Travel and tour operations expenses	-	0.10	-	-	-	-
Provision for early return of aircraft	-	-	-	-	0.26	-
Others Operating Expenses	0.11	0.16	0.23	0.16	0.14	0.08
Other losses / (gains )-net	0.35	0.27				
Other Income	-0.44	-0.04	-0.13	-0.15	-0.03	-0.02
<b>Total Cost / ASK</b>	<b>4.18</b>	<b>4.00</b>	<b>5.12</b>	<b>4.26</b>	<b>5.14</b>	<b>4.01</b>

- ❑ For MAA and TAA, the key cost component for the increase in CASK is fuel expense
- ❑ IAA key factor for the rise in CASK is the provision for the early return of the remaining B737s

# 3Q11 - Ancillary Income



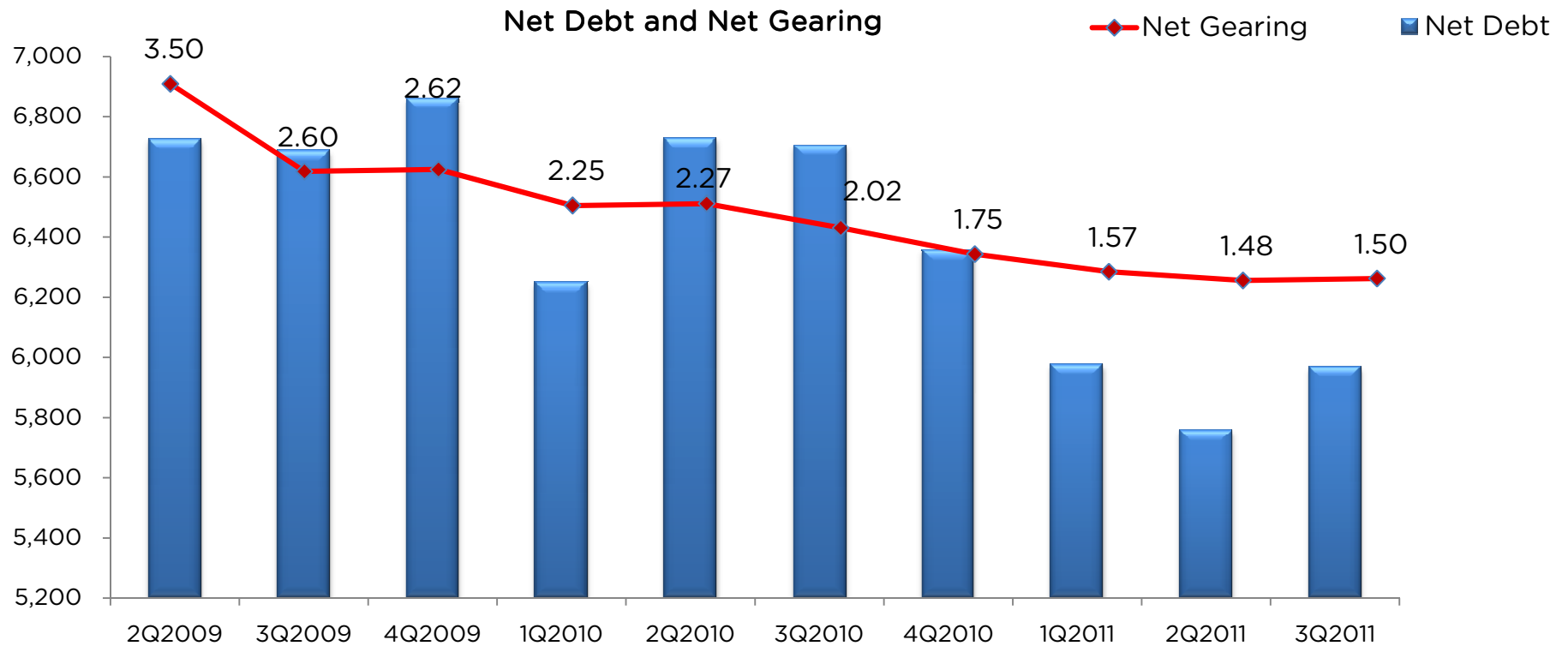
## 3Q11 Ancillary Income

- ❑ In MAA, ancillary income per pax reduce by 14% to RM39 per pax y-o-y due to reclassification
- ❑ **Reclassification:-**
  - AirAsiaGo (Reclassified as share of associate) - approximately RM5 per pax contribution
- ❑ **Introduction**
  - Counter Check in (Introduced in 3Q11) included in per pax calculation
- ❑ Existing items still posted strong revenue growth:-
  - Assigned seats - up 55%
  - Baggage Supersize - up 15%

## YTD Ancillary income

- ❑ All three operations still ahead y-o-y on based on ancillary income per pax
- ❑ Existing items posted strong revenue growth YTD includes:-
  - Assigned seats - up 70%
  - Baggage Supersize - up 25%

# 3Q11 - Net Gearing

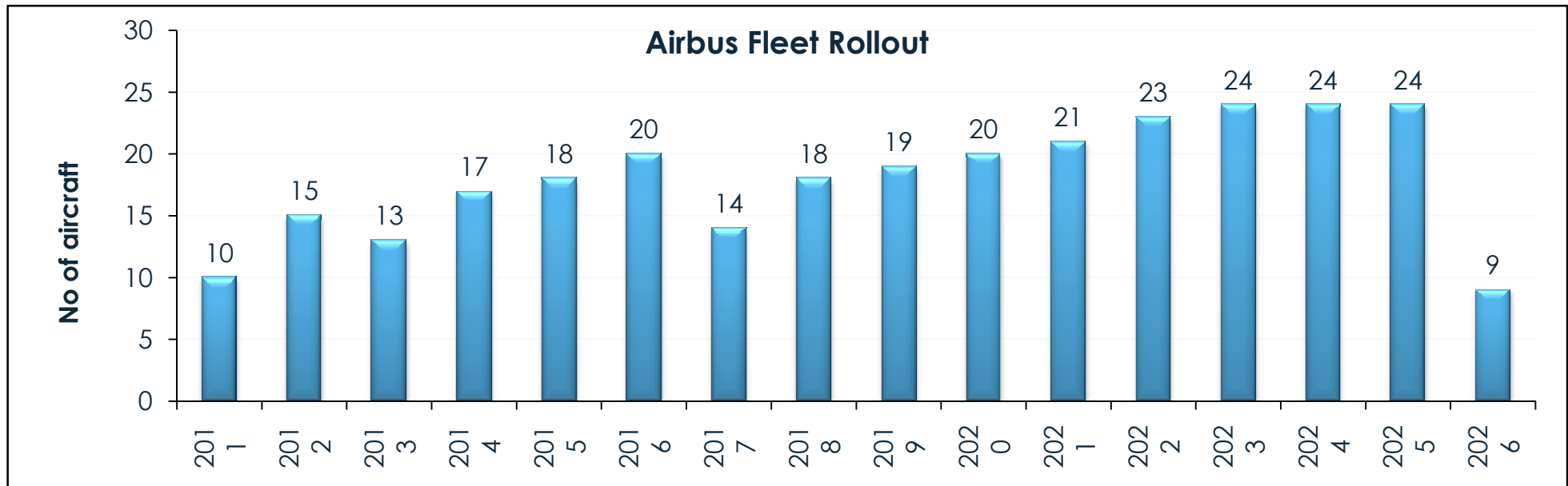


- ❑ Gearing level up slightly from 1.48 to 1.50 q-o-q
- ❑ Cash up to RM2 billion
  - Cash balance of RM1.6 billion as at end 3Q11
  - Cash used for equity injection into joint venture with
    - Expedia, CAE & AirAsia Philippines
  - Including deposits on aircraft purchases, total cash is close to RM2 billion

# Business Updates

# Fleet Strategy

- ❑ Fleet rollout next 15 years based from Airbus
- ❑ Youngest fleet in the region with an average age of 3 years



- ❑ **Aircraft delivered in 3Q11**
  - 2 aircraft on Sale and Leaseback for PAA and TAA
  - 1 aircraft on Commercial financing for MAA
- ❑ **Remaining aircraft in 4Q11**
  - 2 aircraft on Sale and Leaseback - 1 for TAA & 1 for PAA
  - 2 aircraft on Commercial financing - 2 for MAA
- ❑ **Additional 2 aircraft on Operating lease to support AirAsia Group growth**
  - MAA will take two additional aircraft on Operating lease (not part of Airbus order)
- ❑ In discussion with Airbus to bring forward at least 2 aircraft to 2012
- ❑ Financing secured up to 2013

# Joint Ventures Update

## Joint ventures

## Details

### AirAsia Philippines

- 2 aircraft delivered
- Target launch earliest late Dec'11 or Jan'12

### AirAsia Japan

- Staff currently being recruited and trained in Malaysia
- To launch latest Aug' 12

### AirAsia Go/Expedia

- Launched in July
- Currently operating in Expedia Japan, India, Singapore, Korea, Malaysia
- AirAsia recognised RM7 mil profits in 3Q11

### Big (Loyalty programme)

- Launched in October
- 70,000 members signed up

### AirAsia/CAE

- Fully operational
- All pilots training has been moved under the joint venture
- Non-pilots training will be moved in due time
- Plans to acquire three more flight simulators

# Key Events for 4Q11

## Entities

## Details

AirAsia Malaysia

### New routes

- KL - Danang

### Increased Frequencies

- KL - Bangkok (8 times) - AK flights
- KL - Kota Kinabalu (13 times)
- KL - Miri (4 times)
- KL - Singapore (13 times)
- KL - Langkawi (9 times)

### Aircraft deliveries

- 4 aircraft to be delivered into Malaysia

### MAHB rise in PSC, landing and parking charges

- In discussions with MAHB to not raise AirAsia's charges

AirAsia Thailand

### New routes

- Bangkok - Colombo

### Increased Frequencies

- Bangkok - Macau (4 times)

**Flood impact in Thailand - Traffic remains strong**

### Aircraft deliveries

- 1 aircraft to be delivered in Thailand

**IPO to be submitted to regulators**

## Key Events for 4Q11 (cont')

Entities	Details
AirAsia Indonesia	<p data-bbox="667 435 905 474"><b><u>New routes</u></b></p> <ul data-bbox="667 480 1087 519" style="list-style-type: none"><li data-bbox="667 480 1087 519">▪ Bandung - Surabaya</li></ul> <p data-bbox="667 526 1136 565"><b><u>Increased Frequencies</u></b></p> <ul data-bbox="667 571 1283 610" style="list-style-type: none"><li data-bbox="667 571 1283 610">▪ Surabaya - Denpasar (2 times)</li></ul> <p data-bbox="667 617 1163 656"><b>To be a fully Airbus fleet</b></p> <p data-bbox="667 662 1738 703"><b>All AirAsia operations have been moved to Terminal 3</b></p>





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# Accounting for TAA and IAA

## Overview

- ❑ AirAsia has investments of 48.9% in both TAA and IAA
- ❑ The aviation laws of Thailand and Indonesia require foreign shareholdings to not exceed 50% interest in these entities
- ❑ Based on the shareholders' agreements for these entities, TAA is considered to be a jointly controlled entity and IAA is considered to be an associate of AirAsia.
- ❑ The basis of this consideration is due to the various covenants in the agreements whereby in the case of TAA, key decisions are taken jointly and in the case of IAA, AirAsia has only significant influence

## Accounting Considerations

- ❑ AirAsia's accounting treatment for its investments in IAA and TAA is in full compliance with International Financial Reporting Standards ("FRS")
- ❑ The IFRS applied are FRS 131 "Accounting for Jointly Controlled Entities" (IFRS 31) which applies to TAA and FRS 128 "Accounting for Associates" (IFRS 28) which applies to IAA
- ❑ TAA and IAA are accounted for using the equity method of accounting per the respective Standards
- ❑ Consolidation of TAA and IAA is strictly prohibited by the IFRS unless the shareholder arrangements change, which result in AirAsia having control. AirAsia can account for all the losses of TAA and IAA if it assumes obligations for all liabilities of TAA and IAA which will obviously be detrimental to the shareholders of AirAsia

# Accounting for TAA and IAA (cont')

## Equity Accounting

- ❑ The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.
- ❑ FRS 128 and FRS 131 provide that if an investor's share of losses of an associate or jointly controlled entity equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses unless the investor has incurred legal or constructive obligations or made payments on behalf of the associate.
- ❑ Consequently, as the share of losses for both TAA and IAA have exceeded the cost of investment in these entities, AirAsia has in prior years fully provided for the cost of investment in both TAA and IAA (amounting to RM12 million and RM4 million respectively), and discontinued its recognition of share of any further losses, as required by the Standard, as it has not provided any legal or constructive obligations or made payments on behalf of the associate or jointly controlled entity.