

# Portfolio Manager's Views

Investment Department



12 December 2024

# 1. MALAYSIA & REGIONAL

- 1 The Trump administration is back.** The re-election of Trump and the Red Sweep of Congress has altered the outlook for markets. While US equity indices have rallied, the sentiment for the rest of the world (“ROW”) and particularly Asia will turn increasingly cautious.
- 2 FED Chair Jerome Powell’s statements were hawkish** on 7<sup>th</sup> Nov & 14<sup>th</sup> Nov. The Fed is signalling that they are *not* in a hurry to lower rates. The pace of US interest rate cuts are expected to be slower compared to initial expectations. Some economists predict that the terminal Fed Funds Rate at the end of 2025 will reach ~ 3.5% (now 4.75%). The cautious stance by the FED reflects the strong rally in US risk assets post the 5<sup>th</sup> November election, a resilient US labour market and October’s core CPI of 3.3% YoY.
- 3** The recent rebound of US 10Y bond yields to 4.40% (back to Jul-24 levels before the FED rate cut) has led to a resurgent USD. **This has resulted in the weakening of Asian currencies.** The latter will restrict the potential for interest rates to decline in some Asian economies. Furthermore, if Trump implements a 60% tariff on China and 10% to 20% on the ROW, GDP growth for Asia will be negatively affected. The attendant impact is a revision down in corporate earnings. Finally, a tariff hike on China will pressure the CNY to weaken which will drag down Asian currencies.
- 4 Domestic reforms and restructuring** are key to mitigating the downside of the MYR and to improve the economy’s longer-term outlook. It is positive to note that Budget 2025 has committed to reducing the budget deficit to -3.8% of GDP in 2025 and to -3.0% of GDP by 2027 (2024/2023: -4.3%/-5.0% of GDP respectively).
- 5 KLCI’s valuations are reasonable** ie. 2024 PER of 14.9x (10Y range 12.4x to 21.7x), PBR of 1.4x (10Y range 1.1x to 2.1x) and 2024 forecast DY of 4.2% (10Y range 2.7% to 5.3%). Our strategy is to invest in well-managed companies which have potential catalysts, growth and/or decent dividend yield. While valuations are undemanding, we expect regional markets to face short-term headwinds as they brace for Trump’s imminent tariffs. In conclusion, we have turned cautious, are keeping a higher level of cash and will wait for better opportunities to buy.
- 6 Special feature: Does Capital A or AirAsia X look more attractive?** Why we believe Capital A may have more upside than AAX in the longer term.

# 2. MALAYSIA MARKET REVIEW

Malaysia has outperformed in 2024. Ringgit has corrected since Oct-24.

Exhibit 1: KLCI & Shariah Index

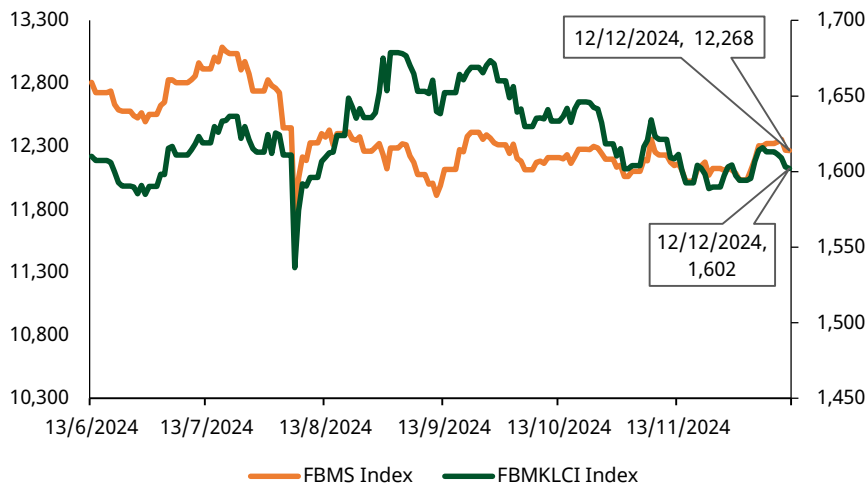
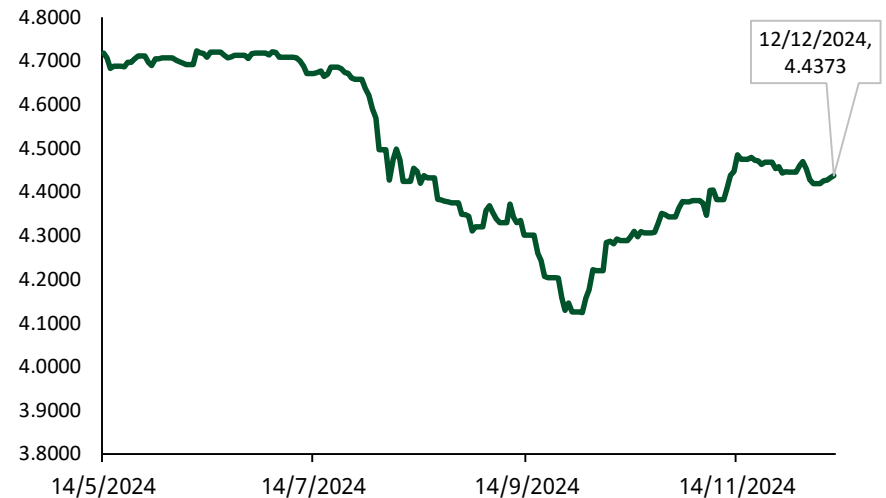


Exhibit 2: USDMYR



Construction and REIT rallied upon expectations of stronger GDP growth. Technology was adversely affected by MYR strengthening.

Exhibit 3: Sector Performances Month-to-Date (%)

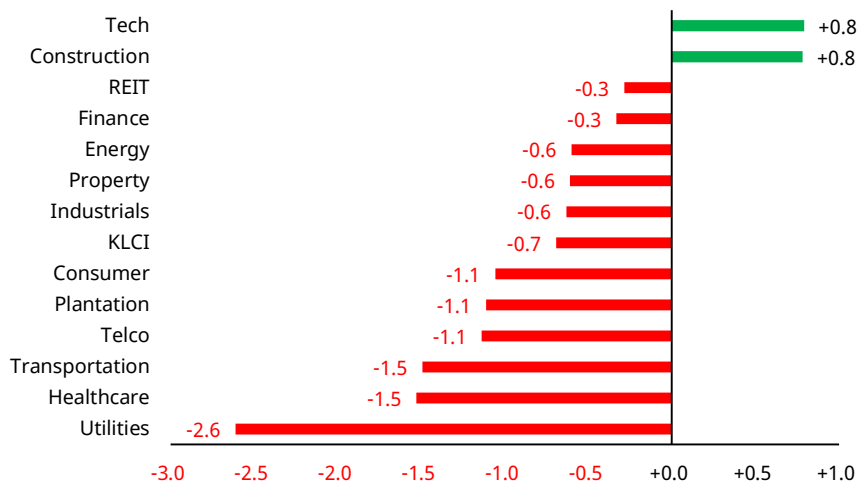
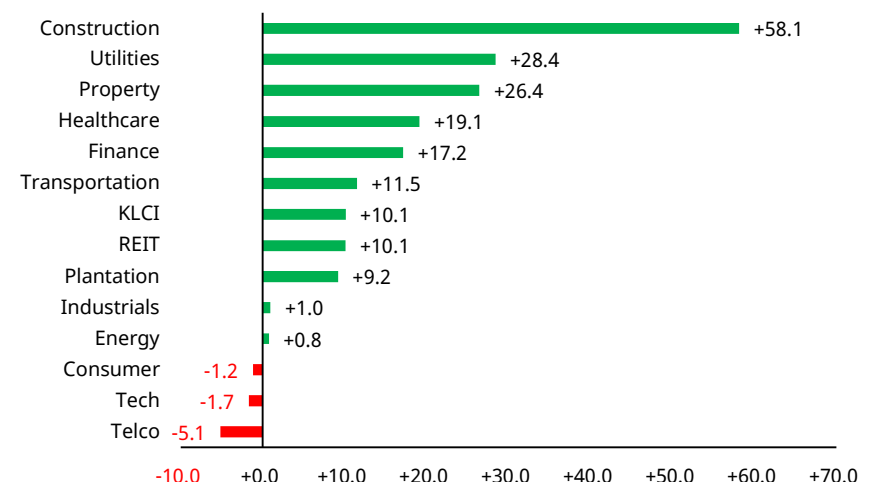


Exhibit 4: Sector Performances Year-to-Date (%)



# 3. MALAYSIA VALUATIONS

KLCI's valuations not as cheap as before.

Exhibit 5: MY's PER Premium/Discount (%) to ASEAN & Asia

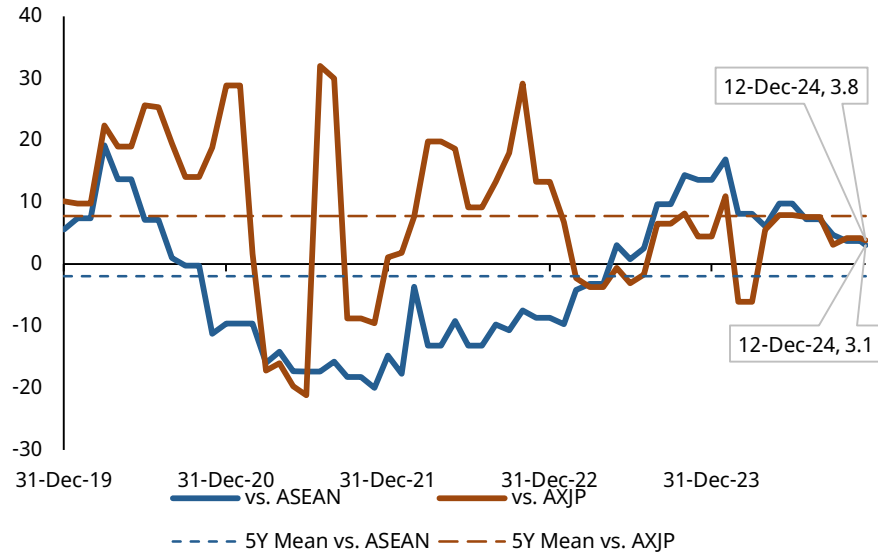


Exhibit 6: KLCI's 2024 PER (x)

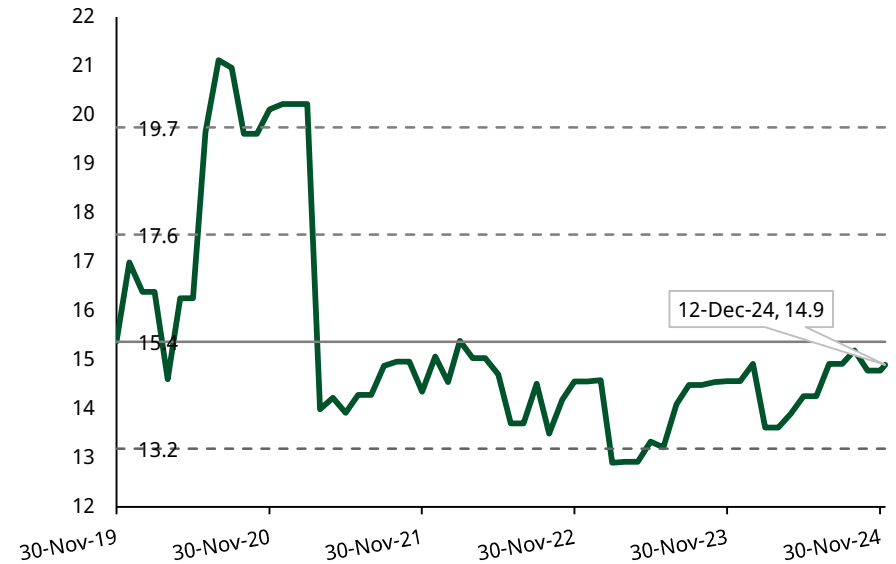


Exhibit 7: KLCI's 2024 PBR (x)

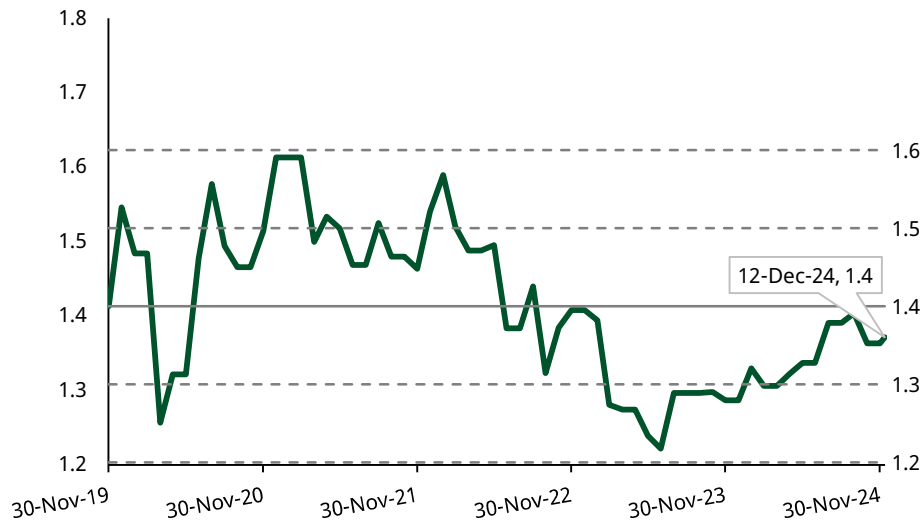
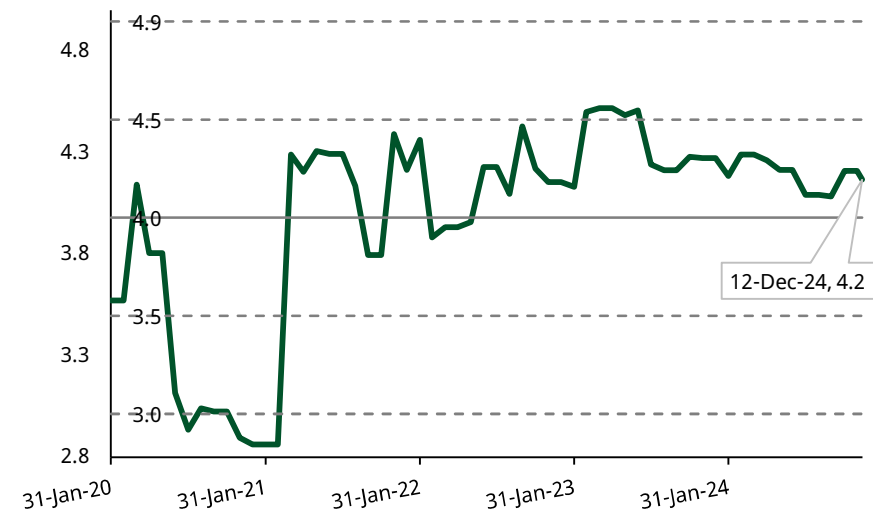


Exhibit 8: KLCI's 2024 DY (%)

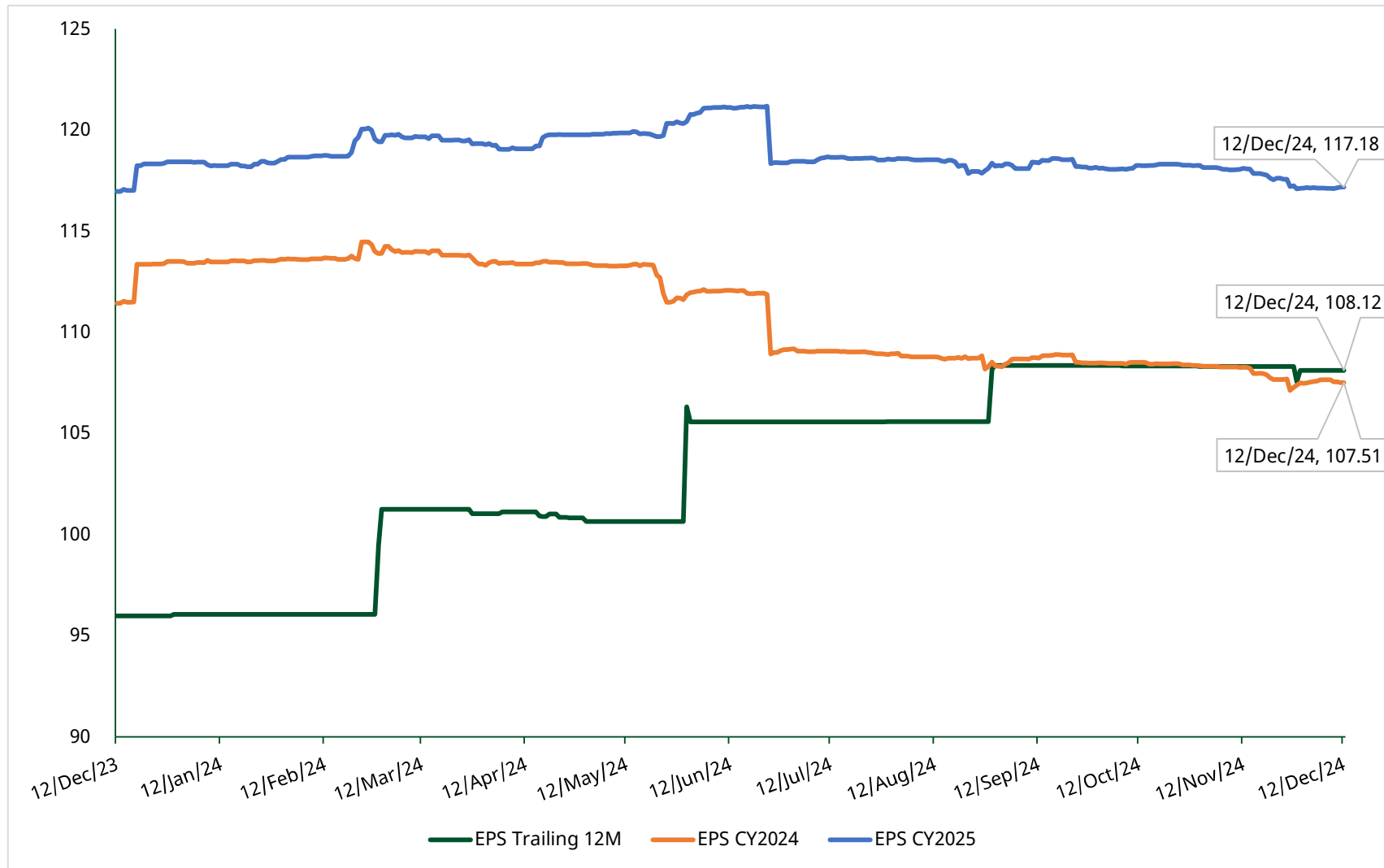


Source: Bloomberg

# 4. CONSENSUS EPS

KLCI earnings have been steady.

Exhibit 9: 12M Trailing & 2024 & 2025 EPS

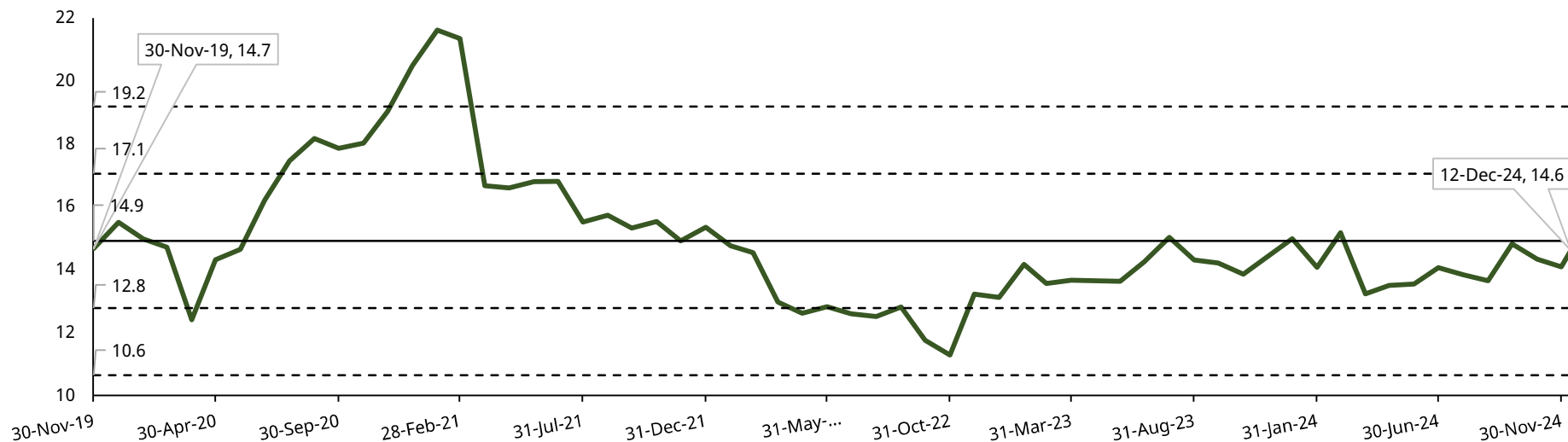


Source: Bloomberg

# 5. MSCI ASIA EX JAPAN PER & USD

Asia ex Japan is trading near historical averages.

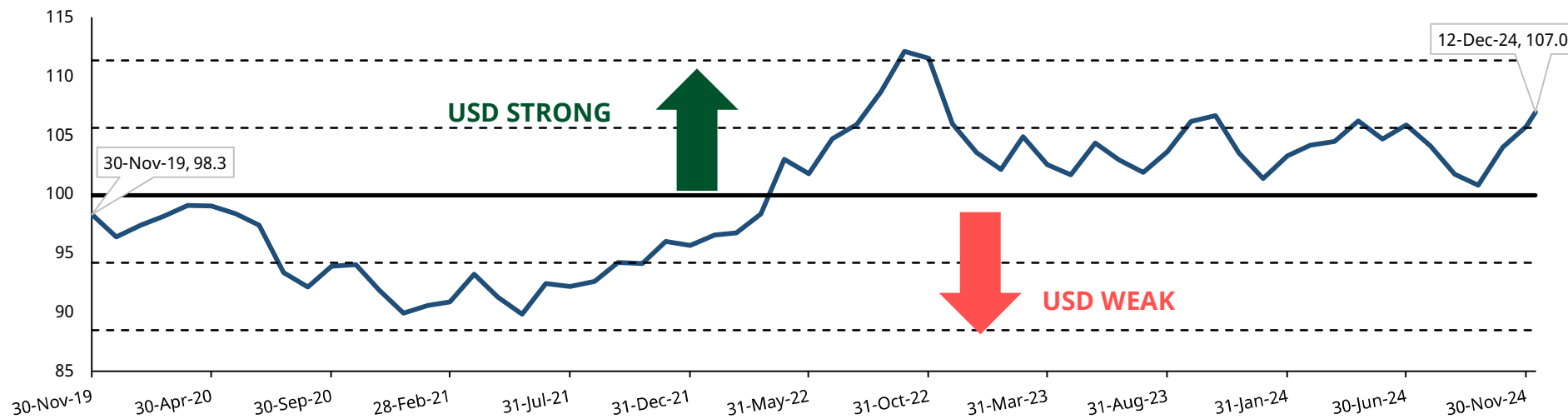
Exhibit 10: MSCI Axj Index's 2024 PER (x)



Source: Bloomberg

Fed poised to further cut interest rates. However, dollar strength will continue.

Exhibit 11: DXY Index

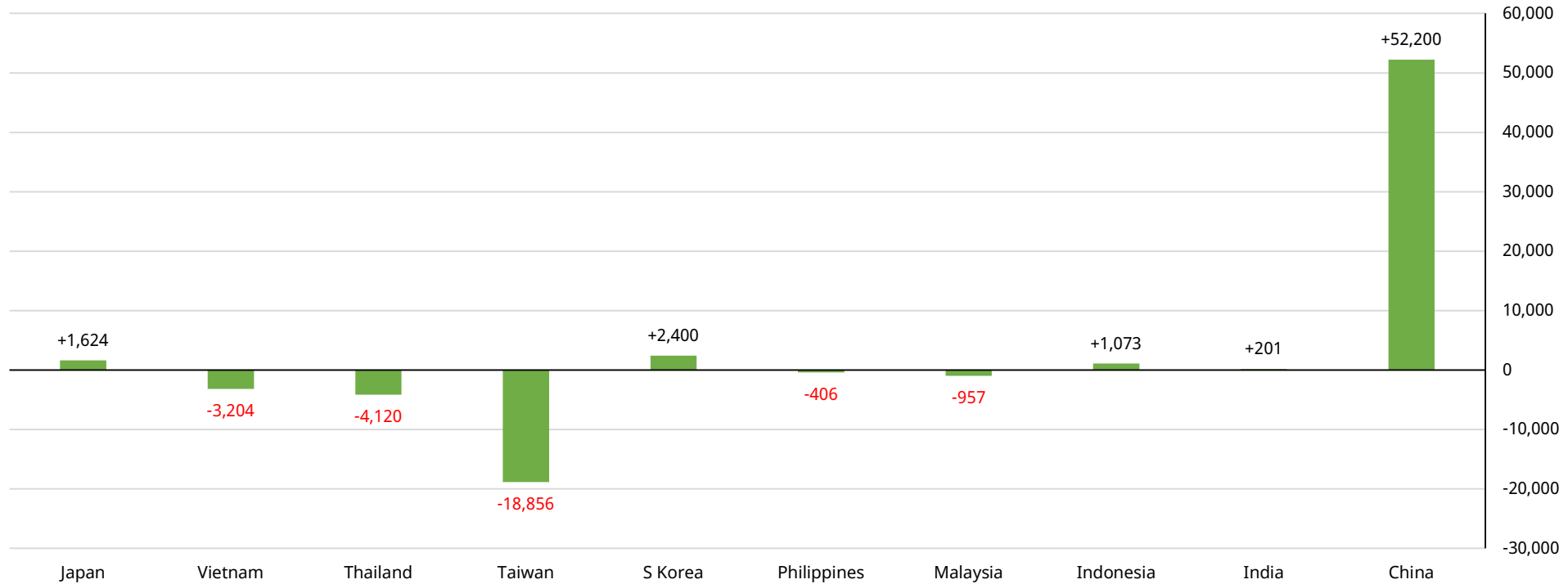


Source: Bloomberg

# 6. FUND FLOWS YTD-24

Outflows from North Asia, ASEAN is seeing inflows except for Vietnam.

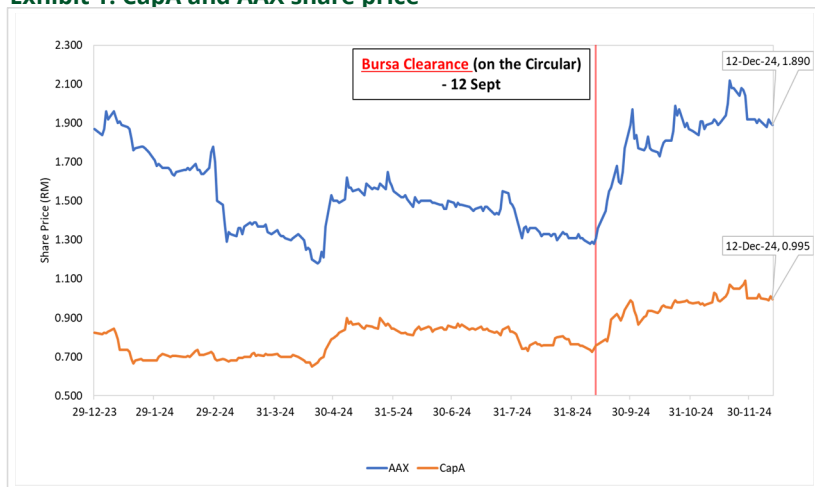
Exhibit 12: Selected ASEAN Markets (Net USD mil)



Source: Bloomberg

# 7. CAPITAL A OR AIRASIA X?

Exhibit 1: CapA and AAX share price



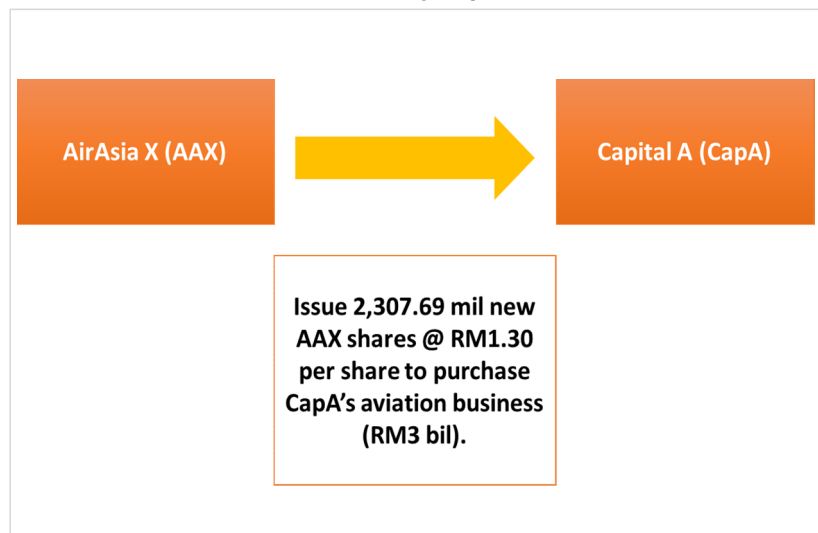
Source: Bloomberg

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We are holders of Capital A and AAX. However, based on current share prices, we believe CapA has more upside.

- AAX's share price rose +48% while CapA's share price rose +34% since Bursa Malaysia gave its clearance on the exercise's circular on the 12 September 2024.

Exhibit 2: Sale of aviation business by CapA to AAX



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AAX will acquire CapA's aviation business for RM6.8bil via shares (RM3 bil) and debt (RM3.8 bil).

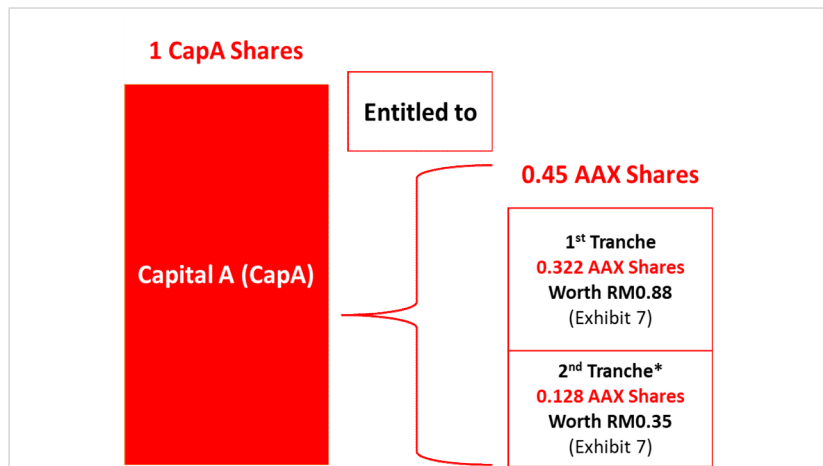
- AAX will issue 2,307.69 mil shares at an issue price of RM1.30 to CapA.
- AAX shares received by CapA will be **distributed-in-specie** to CapA shareholders.
- CapA shareholders will **receive AAX shares** in **2 tranches** after **completion** of the sale of its aviation business to AAX.

Source: AirAsia X, Capital A



# 7. CAPITAL A OR AIRASIA X?

Exhibit 3: CapA's shareholders entitlement to AAX Shares



\*Within 12 months after completion.

Source: Capital A, Astute Fund Management Research

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CapA's shareholders will be entitled to approximately 0.45 AAX Shares for every 1 CapA Share.

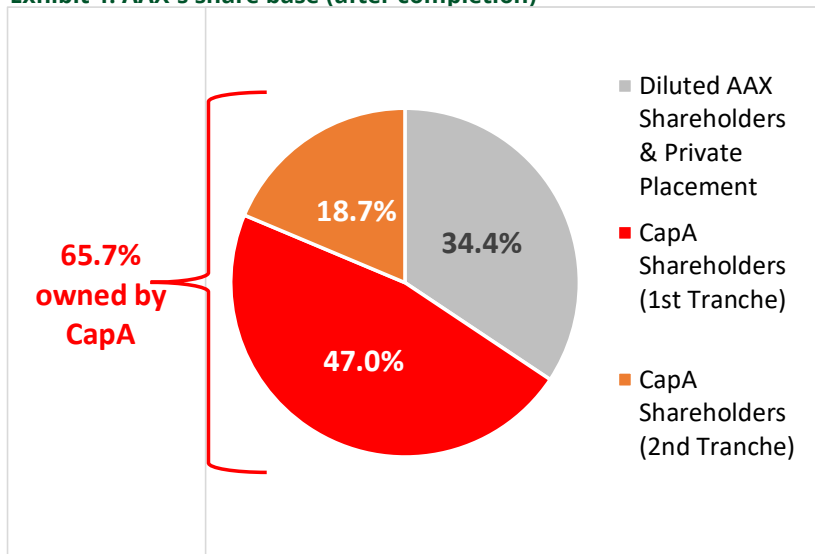
- CapA will distribute AAX shares to its shareholders in 2 tranches.

- **1st Tranche:** Distribution of **0.322 AAX shares** for every 1 CapA share.

- **2nd Tranche\*:** Distribution of **0.128 AAX shares** for every 1 CapA share.

\* Within 12 months after completion.

Exhibit 4: AAX's share base (after completion)



Source: Astute Fund Management Research

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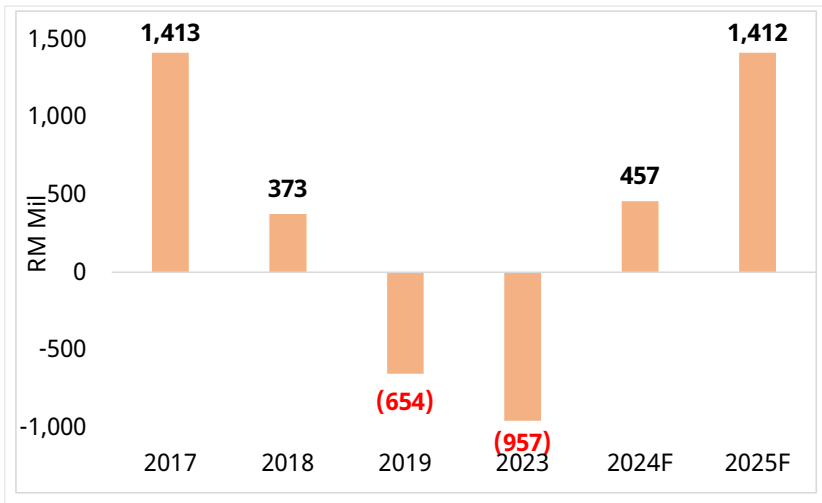
CapA's shareholders will own 65.7% of AAX directly after completion of the deal.

- CapA's shareholders will **directly own 47.0% of AAX (1st tranche)** and an **additional 18.7% of AAX (2nd tranche)**. The total shareholding held by CapA's shareholders in AAX will be 65.7%.

- Meanwhile, existing **AAX shareholders** will own **34.4%** after conversion of AAX free warrants & private placement.

# 7. CAPITAL A OR AIRASIA X?

Exhibit 5: Consolidated AAX core net profit (RM mil)



Source: Astute Fund Management Research

Exhibit 6: Consolidated AAX estimated valuations

CONSOLIDATED AAX VALUATION	
Diluted No. of AAX Shares	3,602,772,723
<b>EPS (RM)</b>	<b>0.3920</b>
Asia Pacific Low Cost Carrier	
Average PER Multiple (x)	7
<b>Fair Value (RM)</b>	<b>2.74</b>
Current Price	1.89
<b>Upside</b>	<b>45%</b>

Source: Astute Fund Management Research

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## What is the fair value of AAX?

- We forecast AAX to record **RM1.4bil core net profit in FY25 which is close to 2017 profitability levels.**
- We therefore arrive at a **fair value for AAX of RM2.74** based on the Asia-Pac Low Cost Carrier Average PER Multiple of 7x and EPS of RM0.3920.
- This gives an **upside of 45%** based on AAX share price of RM1.89 @ 12th December 2024.

# 7. CAPITAL A OR AIRASIA X?

Exhibit 7: CapA's fair value

AAX Fair Value (RM)	2.74	Valuation (RM Mil)	Remarks
+ 1st Tranche AAX Shares Distribution Price	0.88	4,644	0.322 AAX Shares (Exhibit 3) x RM2.74 (Exhibit 6)
+ 2nd Tranche AAX Shares Distribution Price	0.35	1,845	0.128 AAX Shares (Exhibit 3) x RM2.74 (Exhibit 6)
+ CapA Non-Aviation Price	0.43	2,275	(Exhibit 8)
= CapA Fair Value (RM)	1.67	8,765	
Current CapA Price (RM)	0.995		
<b>Upside</b>	<b>68%</b>		

Source: Astute Fund Management Research

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## What is the fair value of CapA?

- We estimate the fair value of CapA at approx RM 1.67 and is broken down as follows:

	<b>RM</b>
Value of AAX (1st Tranche)	0.88 Refer
Value of AAX (2nd Tranche)	0.35
Value of CapA's non-aviation business	0.43
<b>CapA's Fair Value</b>	<b>1.66</b>
Current CapA's Share Price	0.995
<b>Upside (%)</b>	<b>68%</b>

- This gives an upside of **68%** based on CapA share price of RM0.995 @ 12th December 2024.

Exhibit 8: CapA's non-aviation sum-of-parts valuation

CapA's Non-Aviation Businesses	FY25f EBITDA (RM mil)	EV/EBITDA Multiple (x)	Enterprise Value (RM mil)	Note
ADE (Engineering)	200	10.90	2,180	50% Discount to SIA Engineering FY2025 Forward EV/EBITDA
Santan (Aviation Services)	24	-	-	
Teleport (Logistics)	23	-	-	
Move (Online Travel Agency)	50	-	-	
BigPay (Fintech)	-	-	-	
AirAsia Brand Co. (Brand & IP)	151	-	1,125	75% Discount to USD1b SPAC Lisitng
Add: Cash & Cash Equivalent			313	
Less: Non-Aviation Debt			-1,343	
<b>Equity Value of Capital A</b>			<b>2,275</b>	
Fully Diluted No. of Shares (mil)			5,250	
<b>Cap A Fair Value (RM)</b>			<b>0.43</b>	

Source: Astute Fund Management Research

# 7. CAPITAL A OR AIRASIA X?

Exhibit 9: CapA's current share price breakdown

Current AAX Price (RM)	1.89	Valuation (RM Mil)
<b>1st Tranche AAX Shares</b>		
Distribution Price	0.61	3,198
<b>2nd Tranche AAX Shares</b>		
Distribution Price	0.24	1,271
CapA Non-Aviation Price	0.14	754
<b>Current Capital A Price (RM)</b>	<b>0.995</b>	<b>5,223</b>

Source: Astute Fund Management Research

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**Conclusion: Based on a longer term view (> 12 months), CapA (+68%) may provide a higher upside than AAX (+45%).**

- The implied valuation of CapA's non-aviation business is RM0.14 or RM754 mil based on the current share price of CapA. This compares with our estimates of RM0.43 or RM2.28 bil (See Exhibit 7).

- We therefore believe that **CapA's non-aviation business is undervalued.**

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