HLIB Research
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AirAsia X

Rebirth of an aviation giant

AAX has completed its restructuring exercise and has emerged as one of the largest ASEAN-based airline groups with a fleet of around 250 aircrafts. AAX focuses on short- and medium-haul routes across Asia, Australia, and the Middle East, with plans to establish a Bahrain hub to connect to Europe and Africa, while leveraging on its order book of 377 A321 aircrafts to improve cost and drive growth. Industry yields have stabilized amid strong travel demand and capacity constraints. AAX is well positioned to benefit from VM2026, easing jet fuel prices, and a stronger ringgit. Initiate coverage on AAX with a BUY rating and TP of RM3.35, based on 8x PE tagged to FY26 FD earnings.

AAX - AAG. AAX and Capital A have finally completed their long-delayed restructuring exercise, which began during the Covid-19 period. The new AAX Group (to be renamed AirAsia Aviation Group - AAG) has emerged as one of the largest ASEAN based airline groups, operating a fleet of 250 aircrafts. The group will focus on short-haul regional and domestic routes, as well as medium-haul services connecting to North Asia, Australia, the Middle East, and Central Asia. In addition, AAG plans to establish a new hub in Bahrain to support connections to Europe and Africa. Leveraging on its orderbook of 377 next-generation A321 aircraft, the group aims to enhance its cost structure while driving capacity expansion. By 2030, management expects the fleet to grow to around 300 aircraft.

Resilient yields. Since the pandemic, average yields have declined as airlines rapidly added capacity to meet pent-up travel demand following border re-openings and the introduction of visa-free entry policies to support economic recovery. In recent quarters, airlines have begun to report stabilizing yields, reflecting sustained strength in air travel demand amid constraints on further capacity expansion. In line with this trend, both Malaysia Airports and Changi Airport recorded strong passenger growth in 2025, posting YoY increases of +11.2% and +3.4%, respectively.

VM2026. AAX is well positioned to be a major beneficiary of Visit Malaysia 2026 (VM2026). Data from Malaysia Airports and AirAsia indicated significantly stronger air travel demand, particularly in the international segment during previous VM campaigns in 1990, 1994, 2007, and 2014. With the largest network connectivity and flight frequencies serving the Malaysia hub, AAX is well placed to capture this incremental demand. In addition, VM2026 is expected to stimulate domestic travel, supported by the RM1,000 in tax relief for local tourism-related spending.

Easing jet fuel price and RM appreciation. AAX is expected to benefit from both easing jet fuel prices and a strengthening RM in 2026. Jet fuel accounts for approximately 30-40% of AAX's cost structure, while 60-70% of total costs are denominated in USD. Based on our sensitivity analysis, every USD1 movement in jet fuel prices results in an estimated RM80m impact on its bottom line, while a 10 sen change in the RM/USD exchange rate affects earnings by approximately RM280m.

Balance sheet to improve. Despite a relatively weak balance sheet at the start of FY26, we believe AAX will strengthen its balance sheet materially over FY26–27f, driven by robust earnings and cash flow generation. Management indicated its intention to introduce a dividend payout policy as early as 2029, which we estimate at 9-11 sen per share, based on a 20–25% payout ratio.

Forecast. We estimate AAX to achieve RM1.5bn profits in FY26-27f.

Initiate with BUY, TP: RM3.35. We initiate coverage on AAX with a BUY rating and TP of RM3.35, based on 8x PE tagged to FY26 FD EPS. We expect AAX to commence in 2026 with an improving balance sheet and a clear focus on its growth strategies. The Group is well positioned to benefit from strong air travel demand, resilient yields, declining jet fuel prices, and a weakening USD vs RM.

BUY (Initiate)

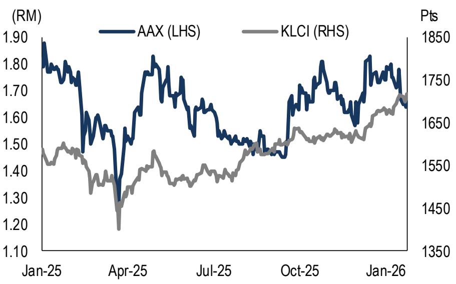
Target Price:	**RM3.35**
Previously:	**N.A.**
Current Price:	**RM1.66**

Capital upside	101.8%
Dividend yield	0.0%
Expected total return	101.8%

Sector coverage: Aviation

Company description: AAX provides low-cost air carrier service. It provides services on short-haul and medium-haul, point-to-point domestic and international routes. The group, headquartered in Malaysia, operates from hubs in Malaysia, Thailand, Indonesia, Philippines and Cambodia.

Share price



Historical return (%)	1M	3M	12M
Absolute	-6.2	-5.1	-8.8
Relative	-8.7	-11.5	-15.7

Stock information

Bloomberg ticker	AAX MK
Bursa code	5238
Issued shares (m)	3,361
Market capitalisation (RM m)	5,579
3-mth average volume ('000)	2,837
SC Shariah compliant	Yes
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Capital A	19.5%
Tune Air	5.9%
Tune Live	5.9%

Earnings summary

FYE (Dec)	FY24	FY25f	FY26f
PATMI - core (RM m)	156	159	1,502
EPS - core (sen)	34.9	35.5	44.7
P/E (x)	4.6	4.5	3.6

Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Cash	58	175	226	3,559	5,508
Receivables	225	186	201	6,538	6,911
Inventories	7	9	10	233	247
PPE	35	45	58	1,251	1,203
ROU	1,306	1,184	1,184	15,858	15,858
Finance lease rec.	0	0	0	97	97
Others	2,813	2,944	2,944	29,457	29,457
Assets	**3,138**	**3,359**	**3,439**	**41,038**	**43,326**
Payables	360	333	324	4,615	4,963
Debt	0	0	0	4,504	4,504
Lease liabilities	1,512	1,414	1,414	16,851	16,851
Others	1,149	1,282	1,213	13,178	13,404
Liabilities	**3,021**	**3,030**	**2,951**	**39,148**	**39,722**
Shareholder's equity	116	329	488	2,989	4,504
Minority interest	0	0	0	(1,100)	(900)
Equity	**116**	**329**	**488**	**1,889**	**3,604**

Cash Flow Statement

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Profit before taxation	(45)	156	159	1,702	1,715
D&A	184	206	216	2,462	2,589
Working capital	(507)	(116)	(95)	(457)	187
Taxation	(0)	(1)	0	0	0
Others	322	150	89	1,274	1,338
CFO	**(46)**	**395**	**369**	**4,980**	**5,828**
Capex	(15)	(19)	(20)	(100)	(100)
Asset disposal	0	0	0	0	0
Acquisitions	0	0	0	0	0
Others	0	(12)	0	0	0
CFI	**(15)**	**(31)**	**(20)**	**(100)**	**(100)**
Changes in debt	0	0	0	0	0
Shares issued	49	0	0	0	0
RCUIDS	0	0	0	0	0
Leases	0	0	0	0	0
Dividends	0	0	0	0	0
Others	(112)	(262)	(298)	(3,590)	(3,779)
CFF	**(63)**	**(262)**	**(298)**	**(3,590)**	**(3,779)**
Net cash flow	**(123)**	**102**	**51**	**1,290**	**1,949**
Forex	4	2	0	0	0
Others	0	12	0	0	0
Beginning cash	177	58	175	2,269	3,559
Ending cash	58	175	226	3,559	5,508

Income Statement

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Revenue	2,527	3,262	3,347	23,349	24,682
EBITDAR	321	493	479	5,805	5,976
EBITDA	249	465	471	5,795	5,966
EBIT	65	259	255	3,333	3,377
Net finance cost	(110)	(103)	(96)	(1,631)	(1,663)
Associates & JV	0	0	0	0	0
Profit before tax	(45)	156	159	1,702	1,715
Tax	377	51	0	0	(0)
Net profit	332	207	159	1,702	1,715
Minority interest	(379)	(51)	0	(200)	(200)
Core PATMI	**(47)**	**156**	**159**	**1,502**	**1,515**
Exceptionals	379	51	0	0	(0)
Reported PATMI	332	207	159	1,502	1,515
Concensus			114	497	528
HLIB/Consensus (%)			139.2%	302.2%	286.9%

Valuation & Ratios

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
Reported EPS (sen)	74.2	46.3	35.5	44.7	45.1
Core EPS (sen)	(10.6)	34.9	35.5	44.7	45.1
FD Core EPS (sen)	(10.6)	34.9	23.7	41.9	42.3
Core P/E (x)	N.M.	4.8	4.7	3.7	3.7
FD Core P/E (x)	N.M.	4.8	7.0	4.0	3.9
EV/EBITDAR (x)	1.6	0.8	0.7	1.1	0.7
EV/EBITDA (x)	2.8	1.3	1.1	1.1	0.8
DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
BVPS (RM)	0.26	0.74	0.44	0.89	1.34
P/B (x)	6.4	2.3	3.8	1.9	1.2
EBITDA margin	9.9%	14.3%	14.1%	24.8%	24.2%
EBIT margin	2.6%	7.9%	7.6%	14.3%	13.7%
PBT margin	-1.8%	4.8%	4.7%	7.3%	6.9%
Net margin	-1.9%	4.8%	4.7%	6.4%	6.1%
ROE	-40.6%	70.1%	38.9%	86.4%	40.4%
ROA	-1.5%	4.8%	4.7%	6.8%	3.6%
Net gearing	N.Cash	N.Cash	N.Cash	31.6%	N.Cash

Assumptions

FYE Dec	FY23	FY24	FY25f	FY26f	FY27f
ASK (m)	15,604	20,369	22,255	122,231	133,705
RPK (m)	12,222	16,676	18,360	101,703	110,690
Load factor (%)	78.3%	81.9%	82.5%	83.2%	82.8%
Yield - rev/RPK (sen)	13.7	12.2	11.0	17.5	16.7
Pax Carried (k)	2,823	3,993	4,215	73,430	78,288
Ancillary inc (RM/pax)	241.7	253.7	271.4	69.8	72.1
Fuel cost (USD/bbl)	109	102	92	88	85
RM/USD	4.56	4.57	4.27	4.05	4.05

A larger AAX aviation group

Enlarged stronger LCC. Following AAX's acquisition of AirAsia Aviation in Dec 2025 via new share issuance exercise, AAX has emerged as one of ASEAN's largest regional low-cost carriers (LCCs) – with major hubs across Malaysia (including AAX), Thailand (including TAAX), Indonesia, the Philippines, and Cambodia (see Figure #1). From 2026 onwards, the group will operate a combined fleet of approximately 250 aircraft (see Figure #2), positioning it well to capture the rising regional air travel demand. We expect the group to accelerate integration, achieve greater operational scale, and unlock synergies through network expansion and enhanced connectivity across short- and medium-haul routes, including in North Asia, Australia, Central Asia, and the Middle East. In addition, the establishment of a new Bahrain hub in the Middle East will also support connection to Europe, Africa, Central Asia, and the wider Middle East.

Figure #1 Enlarged AAX with short haul and medium haul networks

Company

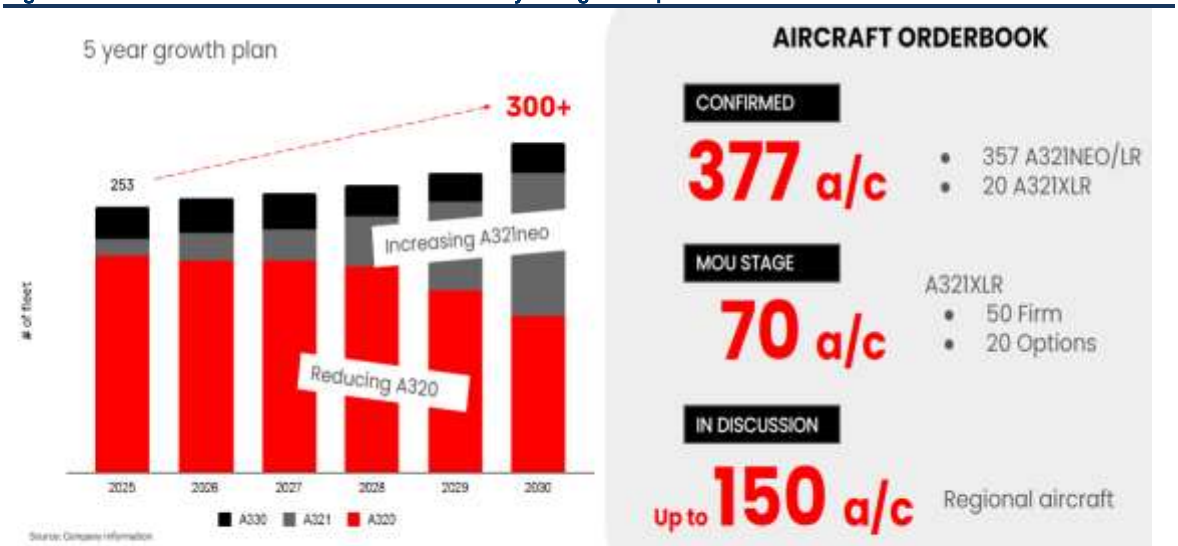
Figure #2 Regional airline groups as of Dec 2025

Airline	Fleet size	Narrow Body	Widebody	Hubs
Low Cost Carrier				
AAX Group	250	220	30	Malaysia, Thailand, Indonesia, Philippines, Cambodia
Lion Air Group	270	251	19	Indonesia, Malaysia, Thailand
Vietjet Group	126	118	8	Vietnam, Thailand
Cebu Pacific	80	66	14	Philippines
Full Service Carrier				
Cathay Pacific Group	237	60	177	Hong Kong
SIA Group	219	58	161	Singapore
Garuda Group	127	95	32	Indonesia
MAS Airlines	96	59	37	Malaysia
Thai Airways	80	21	59	Thailand
Philippine Airlines	71	47	24	Philippines

Company, Planespotter

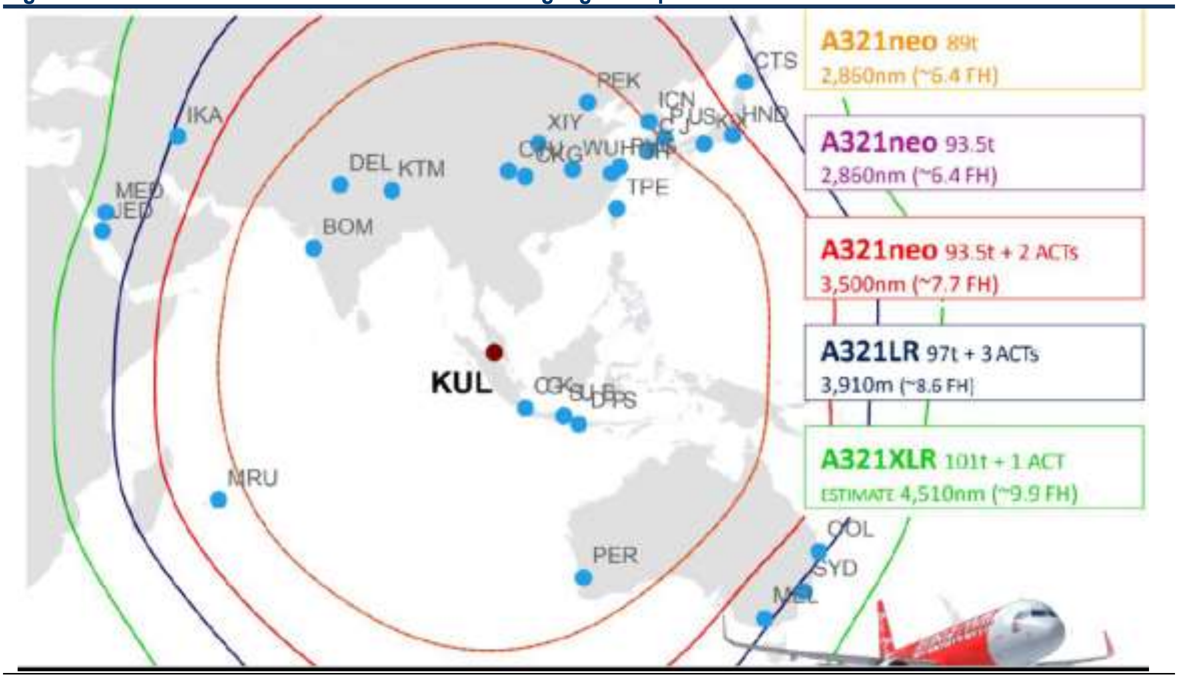
New fleets. AAX has secured an orderbook of 377 aircrafts, with an additional 70 aircrafts at the MOU stage and up to 150 aircrafts under discussion (see Figure #3). The fleet comprises new-generation A321NEO/LR and A321XLR aircraft, intended to both replace older aircraft and support capacity expansion alongside the development of additional hubs. These new generation aircraft align closely with AAX's strategic growth plans, enabling deeper operational integration and network expansion into North Asia, Australia, Central Asia, and the Middle East. The A321's extended range capabilities (see Figure #4) delivers improved cost efficiency per seat and per kilometer, while maintaining cost commonality with the existing A320 fleet. By 2030, AAX is targeting an operational fleet of more than 300 aircrafts.

Figure #3 AAX aircraft orderbooks and 5 years growth plan



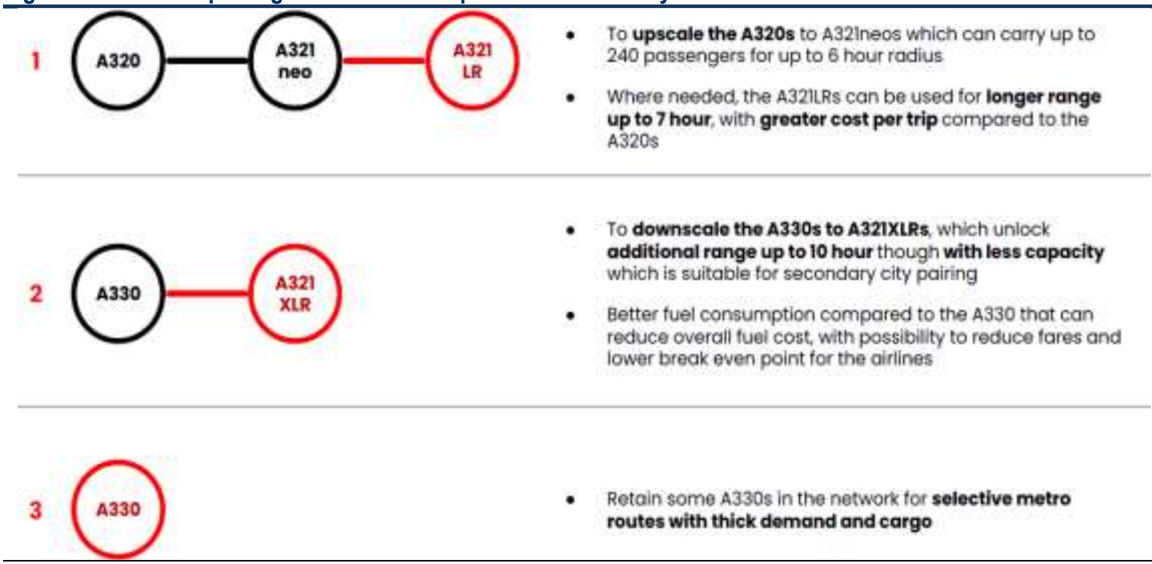
Company

Figure #4 Airbus A321s fit into AAX's strategic growth plan for wider reach and destinations



Company

Figure #5 Upsizing A321 fleets for operational efficiency and wider network



Company

Sustaining yield environment

Stabilizing ticket yields. In the post–Covid-19 recovery beginning in 2021, ticket yields surged to record highs as the rapid rebound in air travel demand following border re-openings outpaced airlines' ability to restore aircraft capacity. As carriers accelerated aircraft deliveries to meet this pent-up demand, yields gradually normalised. Governments (particularly in China and India) have also been proactive in stimulating both leisure and business travel through visa-free and visa-exemption arrangements. In recent quarters (see Figure #6), yields have stabilised, reflecting the continued tight supply of aircraft deliveries due to ongoing supply chain disruptions, alongside persistently strong air travel demand.

Strong air travel demand. Malaysia Airports Holdings Berhad (MAHB) handled a total of 104.4m passengers in 2025, representing +11.2% YoY growth in its Malaysian operations, with Dec 2025 alone recording a robust +15.5% YoY increase. Similarly, Singapore's Changi Airport handled a record high 70m passengers in 2025, reflecting +3.4% YoY growth. The strong performance of both airport operators underscores the continued resilience and strength of regional air travel demand. In addition, the Thailand aviation market experienced a notable recovery in 4Q25, following a weaker 2Q–3Q25 period that was impacted by softer demand from North Asia.

Figure #6 **Sustaining yields in 2Q-3Q25**

Period	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25
AAX Group (MYR)							
AAX (sen/ASK)	18.0	15.2	15.4	15.0	16.0	13.6	14.3
AirAsia Aviation (sen/ASK)	24.4	22.5	20.9	21.4	21.3	20.1	19.5
SIA Group (SGD)							
SIA (cent/ASK)	10.1	9.8	9.5	10.1	9.7	9.6	9.5
Scoot (cent/ASK)	6.4	5.7	5.7	6.1	6.2	5.6	5.4
Garuda Group (USD)							
Garuda (cent/ASK)	8.4	8.7	8.2	8.0	7.4	7.9	7.3
Citilink (cent/ASK)	7.5	7.8	7.7	7.6	7.0	7.1	6.9

Company, Respective airlines

Visit Malaysia 2026

Benefit from VM2026. Malaysia has launched Visit Malaysia 2026 (VM2026) campaign under the themes "Malaysia Truly Asia" and "Surreal Experiences." The government has allocated RM700m for the tourism sector in 2026, of which RM500m is earmarked specifically for VM2026 promotional campaigns, supported by a year-long calendar of special events and activities. VM2026 targets 47m visitors and RM329bn in tourism receipts, while also seeking to stimulate domestic tourism through RM1,000 in tax relief for spending on local attractions and cultural activities. Based on MAHB's statistics from previous Visit Malaysia campaigns (see Figure #7), international passenger growth has typically outpaced domestic passenger growth. With VM2026 in place, we expect the enlarged AAX Group to benefit meaningfully from the campaign, given that a substantial portion of its aviation network is connected to Malaysian destinations.

Figure #7 **Malaysia tourist arrivals during past VMYs**

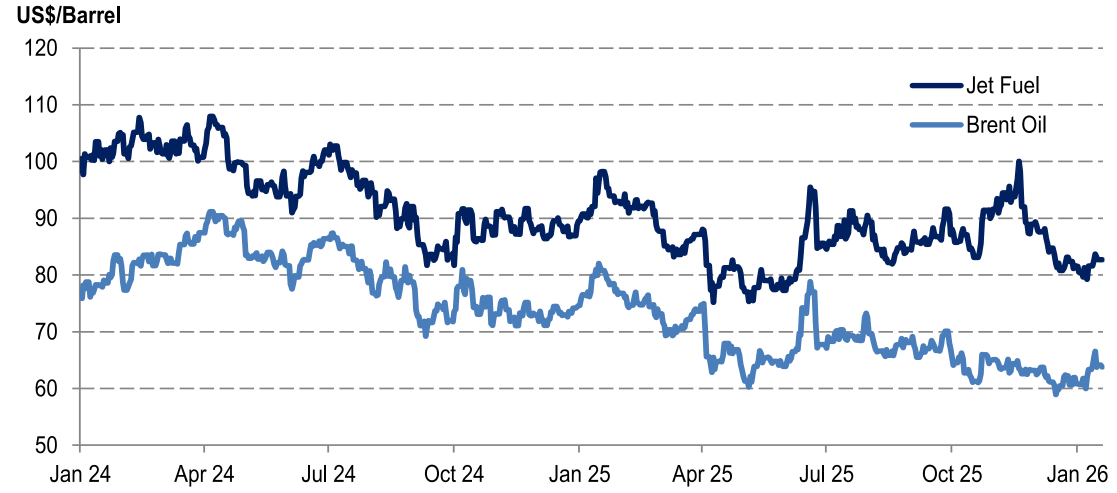
	VM 1990		VM 1994		VM 2007		VM 2014	
	1989	1990	1993	1994	2006	2007	2013	2014
Tourist Arrivals (m)	4.85	7.45	6.50	7.20	17.55	21.10	25.72	27.44
Growth (%)		+53.6		+10.7		+19.5		+6.7
MAHB total pax (m)	14.11	17.32	22.88	24.19	42.47	45.17	79.59	83.32
Growth (%)		+22.8		+5.7		+6.4		+4.7
MAHB int'l pax (m)	N.A.	N.A.	7.85	8.66	18.17	20.09	38.26	40.17
Growth (%)				+10.2		+10.5		+4.9
AirAsia Group (m)	N.A.	N.A.	N.A.	N.A.	1.5	2.8	42.61	45.58
Growth (%)						+91.7		+7.0

Tourism Malaysia, MAHB, CapitalA

Low jet fuel price

Easing jet fuel price. Jet fuel prices trended down to approximately USD80-90 per barrel in 4Q25, in line with weakening global crude oil prices. Lower jet fuel prices are generally positive for AAX Group, as fuel accounts for around 30-40% of its operating cost base and directly supports margin improvement. Reduced fuel costs may also enable more competitive airfares, thereby stimulating air travel demand. Based on our expectation that Brent crude oil will average USD65 per barrel in 2026 (barring any geopolitical crisis), we estimate an indicative jet fuel price of USD80-85 per barrel, compared with an average of USD86.5 per barrel in 2025. We estimate that every USD1 change in jet fuel price would translate to approximately RM80m or 5.3% impact on the Group's bottom line, assuming all else remains equal.

Figure #8 Receding jet fuel price

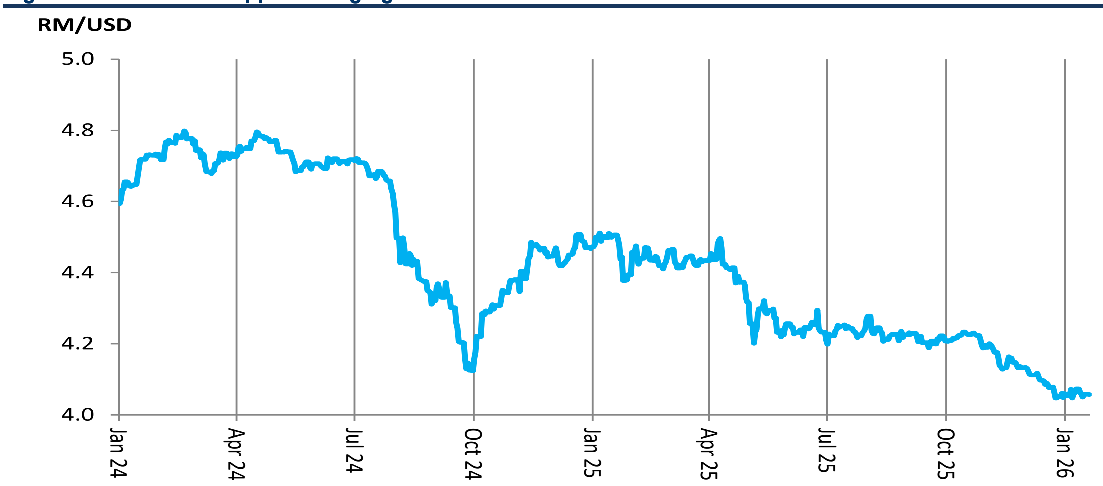


Bloomberg

Depreciating USD

Weakened USD. The USD weakened significantly against the RM in 2025, ending the year at around 4.05, down from 4.50 levels at the start of the year. For 2026, we expect the RM to appreciate further, averaging RM/USD 4.05 (2025: RM/USD 4.28), with an end-2026 target of RM/USD 4.00. Our economists anticipate cumulative Fed rate cuts of 50bp over the course of 2026, while Bank Negara Malaysia (BNM) is expected to keep the OPR unchanged at 2.75%. A stronger RM against the USD is broadly positive for AAX, as approximately 60-70% of its normalised operating costs, including jet fuel, are USD denominated. We estimate that every 10 sen movement in the RM/USD exchange rate would result in an approximately RM280m or 20% impact on the Group's bottom line, assuming all else remains equal.

Figure #9 RM appreciating against USD



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Weak balance sheet to improve

Aiming to improve its balance sheet, dividends to follow. Following the acquisition, AAX has assumed AirAsia Aviation's RM4.5bn in debt and RM15.4bn in lease liabilities, which has stretched its balance sheet despite the RM1.0bn raised through a share placement exercise. Management's immediate priority is to restructure this debt to lower interest costs (from the current average of 11-12% to a targeted range of 7-8%) and to improve repayment terms by mid-2026. We expect the strong earnings and cash flow generation in FY26-FY27 to materially strengthen AAX's balance sheet over the next two to three years, in line with management guidance. Management is targeting the commencement of dividend payments as early as 2029, which we estimate could amount to RM300-375m (9-11 sen/share), based on a 20-25% payout ratio (vs. SIA's 50% payout ratio), implying a potential dividend yield of approximately 5.3-6.6%.

Figure #10 To improve balance sheet, followed by dividend payout

Bloomberg

Forecast, valuation and recommendation

Forecast. We forecast the enlarged AAX group to register profits of RM1.5bn for FY26f and FY27f.

AAX (BUY, TP: RM3.35). We initiate coverage on AAX (to be renamed AirAsia Group, AAG) with a **BUY** recommendation and a TP of **RM3.35**, based on a conservative 8x P/E on FY26 fully diluted EPS. Following the restructuring, AAX is expected to emerge with a cleaner balance sheet and a clearer focus on its growth strategies. The Group is well positioned to benefit from strong air travel demand, resilient yields, declining jet fuel prices, and a weakening USD against the RM. We believe that AAX is currently materially undervalued vs peers average valuation at FY26 15.5x PE and 3.4x PB.

Figure #11 Peers Comparison

Stock	Mkt Cap (USD m)	Mkt Cap (LC bn)	Price (LC)	Target (RM)	Rating	FYE	P/E (x)		P/B (x)		Yield (%)	
							FY26	FY27	FY26	FY27	FY26	FY27
AAX	**1,377.5**	**5.6**	**1.66**	**3.35**	**BUY**	**DEC**	**4.0**	**3.9**	**1.9**	**1.2**	**0.0**	**0.0**
Indigo	20,610.1	1,875.0	4,850.0			MAR	36.5	21.7	13.0	8.3	0.2	0.3
Cebu	339.8	20.2	33.0			DEC	3.8	3.3	0.5	0.5	6.6	10.0
Spring	8,280.1	57.6	58.96			DEC	18.7	16.2	2.7	2.4	1.7	1.9
Thai Airways	6,777.2	210.9	7.45			DEC	7.3	7.3	2.0	1.6	3.8	3.5
SIA	15,682.3	20.2	6.39			MAR	21.4	18.3	1.3	1.2	3.3	3.6
Cathay	10,751.1	83.8	12.47			DEC	9.4	8.0	1.3	1.2	5.1	5.6
Ryanair	35,279.8	30.2	28.83			MAR	13.7	11.9	3.8	3.1	1.6	1.9
Southwest	22,299.7	22.3	43.12			DEC	13.5	10.6	2.7	2.4	1.8	1.7
Average (ex-AAX)							**15.5**	**12.2**	**3.4**	**2.6**	**3.0**	**3.6**

HLIB Research, Bloomberg

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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