

Nok Airlines - NOK

Q4 growth seen on seasonal benefits

Bloomberg | Reuters
NOK.TB | NOK.BK



Phillip Securities Research Pte Ltd
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Report type: Company Update

Company Overview

NOK operates a budget airline under the brands 'Nok Air' and 'Nok Mini.'

- NOK reported a 16.2% y-y net profit growth in 3QCY13 on higher revenue which was in line with expanded capacity.
- NOK will benefit from seasonally stronger demand in the fourth quarter up to the first quarter, meaning rising passenger traffic. Average passenger fare, in contrast, appears to be subdued. This, coupled with weakening baht, is likely to become a key drag on 4QCY13 earnings growth.
- In CY14, NOK will gradually add six aircrafts to its fleet. The weakness in the baht will likely to pressure NOK's profitability, nonetheless. At current share price, we rate the stock a 'BUY' with CY14 target price of Bt34.50/share, based on 14x P/E.

What is the news?

NOK posted 3QCY13 net profit of Bt244.61mn, up 16.2% y-y, as revenue from aviation business soared by 30.1% y-y. Passenger traffic increased 39% to 1.46mn, driving revenue per kilometer sharply up by 50.2%, while cabin factor remained flat at 84.4%. Operating cost outpaced revenue, blaming weakened baht and soaring oil price.

How do we view this?

NOK is expected to benefit from seasonally stronger demand in the final quarter to the first quarter. As the company will add two aircrafts to its fleet in the fourth quarter, passenger and revenue are expected to climb. Nevertheless, operating cost would come under pressure from the weaker baht and the oil price uptrend.

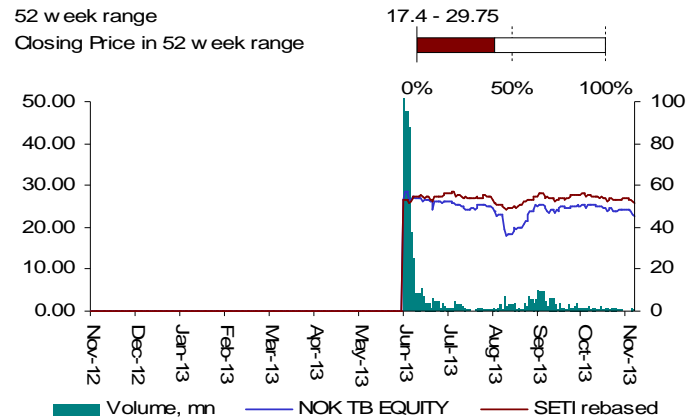
In CY14, NOK will continue to expand its fleet size with more six aircrafts, implying continued growth in passenger traffic. The depreciating baht and rising oil price remain the key drag to earnings.

Investment Actions?

We maintain a 'BUY' call for NOK with a CY14 target price of Bt34.50, based on 14x P/E.

Asia Aviation

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	34.50	
- Previous Target Price (Bt)	36.75	
Closing Price (Bt)	22.50	
Expected Capital Gains (%)	53.3%	
Expected Dividend Yield (%)	6.7%	
Expected Total Return (%)	60.0%	
Raw Beta (Past 2yrs weekly data)	NA	
Market Cap. (USD mn)	442	
Enterprise Value (USD mn)	275	
Market Cap. (Bt mn)	14,063	
Enterprise Value (Bt mn)	8,872	
3M Average Daily T/O (mn)	2.5	
52 week range	17.4 - 29.75	
Closing Price in 52 week range		



Major Shareholders

	(%)
1. THAI	39.2
2. Aviation Investment International Ltd.	8.9
3. State Street Bank Europe Ltd.	6.4

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Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btmn)	6,039	8,218	11,255	14,025
Net Profit (Btmn)	200	505	1,275	1,540
EPS (Bt)	0.40	1.01	2.04	2.46
Net Profit, adj. (Btmn)	200	505	1,275	1,540
EPS, adj. (Bt)	0.40	1.01	2.04	2.46
P/E (X),adj.	56.3	22.3	11.0	9.1
BVPS (Bt)	1.59	1.78	7.91	9.17
P/B (X)	NA	NA	2.8	2.5
DPS (Bt)	0.20	0.83	1.43	1.72
Div. Yield (%)	0.9	3.7	6.4	7.6

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E14 (14x)

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3QCY13 net profit up 16.2% y-y

NOK posted net profit of Bt244.61mn in 3QCY13, rising 16.2% y-y on higher passenger traffic. In q-q terms, net profit fell 6% due to seasonal effect.

On a y-y basis, revenue from aviation business grew as much as 30.1% to Bt2,722mn after NOK replaced its aircrafts with the larger capacity model and added more aircrafts to its fleet, increasing capacity per available seat kilometer (C/ASK) by 38.2%. Passenger traffic rose 39% to 1.46mn vs 1.05mn, translating to a 50.2% increase in RPK. Higher RPK led to stable cabin factor at 84.4% vs 84.5%. However, fiercer competition to stimulate sales during the low-season period led to an 8% decline in average passenger fare to Bt1,751, translating to passenger yield per RPK of Bt2.92. Service revenue also increased 28.9% in line with higher passenger volume. On the cost side, the expanded capacity, combined with higher oil price and weaker baht, pushed operating cost up by 33.5% -- up to 60% of total expense was charged in US dollar. SG&A expense also rose by 28.9%. Nonetheless, the unused proceeds from its IPO allowed NOK to enjoy a sizable interest income, rising 269%, and BOI's tax privileges helped cut effective tax rate at low level.

4QCY13 earnings benefitting from seasonal effect with some cautious

Thailand's tourism industry enters into high season from the fourth quarter to the first quarter. NOK is expected to benefit from seasonally stronger demand as the company will receive two 373-800 Boeings in 4QCY13, adding to a total of 21-aircraft fleet. The company opened new route to Myanmar, though the capacity remains small but the trend looks bright with gradually increasing passengers. Operating cost is likely to soar given weakening baht following the market's broad expectation over QE tapering in the near future. As mentioned earlier, up to 60% of total expenses has been charged in US dollar, while total revenue is in baht; thus, the depreciating baht has an adverse impact on NOK's profitability. Based on this assumption, average passenger fare and yield per RPK would decline y-y but are expected to improve q-q on seasonal effect. In sum, net profit is projected to grow y-y and q-q.

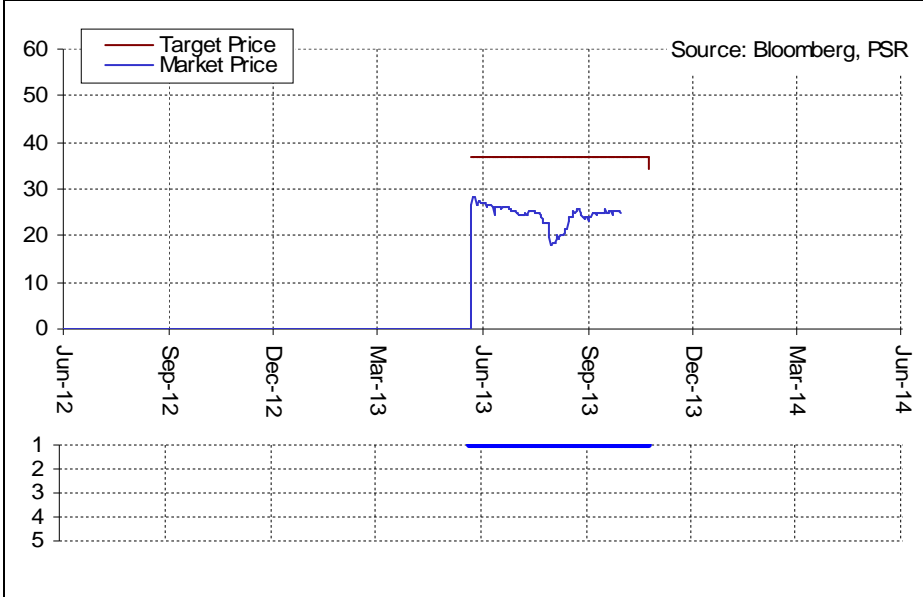
CY14 earnings likely to continue to grow on higher capacity, currency exchanges and intensifying competition are risks to our valuation

In an effort to boost future growth, NOK will continue to expand its fleet size to 27 by adding six aircrafts in 2014 and to explore both domestic and international routes as well as increasing flight frequencies. As its peers are expected to expand fleet sizes and new players (Thai Lion Air and Vietjet Air) will share cake in the low-cost market, the competition is expected to heat up and price-cutting strategy seems inevitable. Based on the scenario, NOK is likely to face some headwinds to boost passenger yield per RPK. Meanwhile, operating cost is likely to increase further given the depreciating trend for baht, despite stable oil price outlook (according to TOP's management guidance).

CY13 earnings projection downgraded; CY14 valuation sees growth

We slash our CY13 earnings project to reflect weaker passenger yield per RPK and depreciating baht. Revenue is estimated at Bt11,255mn and net profit would grow 152.7% y-y to Bt1,275 (lower compared from earlier Bt1,349mn). For CY14, revenue is forecast at Bt14,024mn and net profit would increase 20.8% y-y to Bt1,540mn. At current share price, we reiterate a 'BUY' rating on NOK with a target price of Bt34.50/share, based on P/E of 14x.

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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