AirAsia's 4Q results – Great achievements despite all odds

AirAsia Berhad, Asia's leading low-cost carrier is pleased to announce results for the fourth quarter ended 30 June 2005 and provide a review of recent notable events and achievements.

Tony Fernandes, Chief Executive Officer, said:

"The year past has proven one of immense change, of immense challenge and immense growth at AirAsia. Our group fleet added 9 aircraft (including two based in Jakarta with our new joint venture, PT AWAIR), our revenue has risen 70% and our profit almost doubled to RM112m. The Group carried 6.3 million passengers for the year, more than double the amount of passengers carried in FY2005. To date, we have carried over 12 million passengers since our humble beginnings a little less than four years ago. At a time when most airlines are seeing profits shrink – if producing profits at all, AirAsia continues to grow earnings, achieve strong passenger growth and reduce unit cost.

As prefigured at our interim results and confirmed at the end of the third quarter, our profits fell short of prospectus estimates. The reasons for this, however, were clear and formed part of the risk assessment in our IPO prospectus: namely the impacts of higher than anticipated fuel prices and the delay in inducting aircraft into our fleet, combined with lower than expected contributions from associate enterprises. It is a testimony to the AirAsia team's performance that the actual extent of the deficit (RM47m) relative to forecast was less than the prospectus sensitivities suggested.

While these negative influences had some impact on performance, AirAsia managed to achieve strong load factors, robust yields and maintain one of the industry's highest profit margins. The net profit achieved for the quarter was RM16 million – up RM18 million vs. fourth quarter of 2004 (or 271% ahead at a pre-tax level), with revenue up by 76%. We achieved this on a 44% year on year increase in passenger numbers and a 19% growth in average fares. Our concerted effort to control expenses enabled us to improve unit cost by 8% to 2.40 US cents / ASK when compared to the same period last year. This was all in spite of a 49% average increase in the price of jet fuel that now represents 40% of our cost base vs. 31% in FY04.

A higher tax bill was one of the accompaniments of the decision not to acquire high priced leased aircraft during the final quarter of the year. Our period end fleet numbers actually dipped compared to Q3 because of the return of wet-leased aircraft. This meant that tax credits were not available and this combined with timing differences arising between the depreciation of aircraft and their acquisition to increase our provision for tax. Our tax rate in Q4 rose from an average of 4.1% across the prior three quarters of FY05 to over 38% as a consequence. However, only RM0.65m is actual cash tax, with the balance representing deferred taxation. Were it not for this, our quarterly profit would have been almost RM26m and in line with market expectations. Into FY06, the delivery of the new A320 aircraft should provide significant tax relief.

Looking forward, jet fuel prices remain our principle challenge, although these have been partially mitigated by our active fuel hedge and more recently, our fuel surcharge - implemented in mid-July. The shift to our new home at KLIA's low cost terminal ought to be complete by April 2006 allowing the AirAsia group to centralise for the first time in several years, saving expense and improving efficiency. We have been working closely with Malaysian Airports to ensure the terminal is built with utmost simplicity and functionality. We are very happy at the rate of progress achieved and the terminal construction is progressing ahead of schedule. We are grateful to the Government for its continued support and vision to build Malaysia as the premier location for low cost travel, and also for the provision of back-up war risk insurance to Malaysia's airlines – including ourselves.

We encourage the Malaysian Government to complete its review of Malaysia's domestic aviation route structure, which we feel sure will result in a far more rational division of market between ourselves and MAS, as well as providing significant additional growth opportunities in our home market. Irrational *competition domestically has restrained our profit performance, with our major competitor effectively buying its 2% traffic growth over the past 12 months. The fact that both Malaysian Airline Systems and ourselves have implemented jet fuel surcharges with no appreciable impact on demand suggests that the market could absorb higher fares. We hope with the recent announcements of a greater focus on core activities and profitability at Malaysian Airline Systems that this will result in a more realistic domestic capacity and pricing environment.*

From December of this year our new Airbus A320 fleet begins to arrive, progressively replacing B737s at our Malaysian operation. Not only will this have a significant impact on our cost base given the new equipment's superiority in terms of fuel burn, maintenance requirement, capacity and manning, but it will appreciably free up management time from the concerns of complying with the fleet growth programme that proved so arduous in FY05. The sophistication of these aircraft will enhance our image and this improved perception should enable us to capture market segments that previously had reservations about our in-flight product.

Our sponsorship agreement with Manchester United commenced on 1st August and will be a key component of our marketing strategy in developing regions. Football is the world's favourite, most widely viewed sport that's following in Asia is growing exponentially. Our association with one of the sport's most renowned teams and related signage and promotional deals ought to raise our profile in markets outside those where we have a business base, preparing the ground for our expansion. One such example is China where we intend to add services to five more cities on the current financial year, as well as easing our ultimate move into Indo-China.

We feel that these measures will sustain the double-digit traffic growth rates that we expect of ourselves, whilst also delivering the continuous improvement that has been evident since 2002 in unit costs terms – especially when the pernicious impact of jet fuel is excluded. Adding new routes from our Bangkok hub and building scale in Indonesia are priorities this year as we expand the AirAsia footprint and associated low fares to more of the region."

Summary of Fourth Quarter and Full Year 2005 audited Financial Results

Year End : June RM'000	Q4 2005	Q4 2004	2005	2004	Δ (%)	
					qoq	yoy
Revenue	199,508	113,595	666,250	392,690	76%	70%
EBITDAR	46,206	24,778	204,169	115,402	86%	77%
Pre-tax	26,184	7,051	125,478	58,071	271%	128%
Net Income**	16,108	(1,953)	111,625	49,067	na	128%
EBITDAR Margin	23%	22%	31%	29%		

** Net Income = Profit attributable to shareholders

Summary of Fourth Quarter and Full Year 2005 Operating Results

Year End : June	Q4 2005	Q4 2004	2005	2004	Δ (%)	
					qoq	yoy
Passengers Carried	1,203,459	838,247	4,414,069	2,838,822	44%	55%
ASK (million)	1903	1080	6525	3592	76%	82%
RPK (million)	1447	843	4881	2771	72%	76%
Average Fare (RM)	150	126	143	131	19%	9%
Cost/ASK (US cents)	2.40	2.62	2.22	2.46	(8%)	(10%)
Load Factor	76%	78%	75%	77%		
Aircraft (end period)	19	13	19	13		

Full Year 2005:
As indicated in the third quarter results, there was a profit shortfall relative to the RM160m forecast in the IPO prospectus. FY2005 was negatively affected by a number of issues such as fewer than expected number of aircraft in operation, higher fuel costs, irrational competition and the impact on air travel demand following the Tsunami disaster, multiple earthquakes off Sumatra and civil unrest in southern Thailand. Furthermore, the acquisition of PT AWAir was not incorporated in the Initial Public Offering prospectus forecast, with associated start-up losses affecting the bottom line.

Irrespective, AirAsia delivered a respectable set of results for the financial year ended 30 June 2005. Revenue rose by 70% to RM666m compared to RM393m for the same period last year. This was driven by a 55% growth in passengers carried and a 9% rise in average ticket prices partially offset by a two percentage point drop in load factor to 75% as capacity rose by 82% YoY. Net income almost doubled to RM112m as compared to RM58m for FY2004. The higher average fare achieved coupled with improved unit cost to enhance the EBITDAR margin, lifting this to 31% vs. 29% last year.

Fourth Quarter:
Revenue for the quarter rose by 76% to RM200m as against RM114m for the same period last year. The increase was driven by a 44% increase in passengers carried, a 19% rise in average ticket prices vs. a five percentage point drop in load factor as capacity rose by 76%. Consequently, net income grew by 271% at the pre-tax level to RM26m as compared to RM7m for Q4FY2004, with a 19% higher average fare and a 13% drop in unit cost driving EBITDAR margins to 24%, up from 22% last year. After tax, we were RM18 million up.

The quarter's key features are outlined below:-

Superior Unit Cost – second to none cost control discipline
Our cost per ASK improved by 8% from the same period last year to 2.40 US cents. Unit costs were also lower by 10% for the full year to 2.22 US cents. This is an outstanding achievement given that average fuel prices rose by 49% for the financial year. AirAsia will likely prove the only airline company to have successfully lowered unit operating costs for the last twelve months. All cost elements – other than fuel, are in line with expectations and in some cases better than expected.

Thai-AirAsia – turnaround achieved, next step focus on growth
Thai AirAsia's operation suffered primarily due to lack of aircraft. The lack of scale was further exacerbated by the higher price of fuel, the slower than expected recovery in demand from the Asian Tsunami and civil unrest in Southern Thailand. Due to these combined factors, Thailand operations failed to achieve breakeven status for the full financial year 2005.

AWAIR @ Indonesia-AirAsia – no shortage of demand from this side of the Archipelago
PT AWAir delivered stellar performances as it carried 151,526 passengers in its second quarter of operations. Load factor was strong at 78% – a remarkable feat for a new entrant in a highly fragmented market. PT AWAir's losses in this quarter were essentially start-up related, and are likely to continue impacting profitability until economies of scale are attained. Currently, PT AWAir only operates two aircraft.

Expansion to Philippines – rolling out more routes in ASEAN
On 5 April 2005, we launched flights from Kuala Lumpur and Kota Kinabalu to Clark Base, in the Philippines. This constitutes a milestone capitalising on the Philippine's open-door policy to the low cost travel industry. We are very pleased by the strong support on this route and both sectors are achieving encouraging load factors. As well as the popularity of the Philippines as a destination, its nationals are the largest source of overseas workers in Asia, providing a ready source of potential traffic.

Expansion to China – driving the LCC concept further East
On 25 April, we launched the maiden flight to China from Bangkok – making Thai AirAsia the first LCC ever to fly into China. China posed a tricky challenge in its initial stages since Chinese tourist are

accustomed to travelling on group packages. However, we have made significant progress in mitigating the over-reliance on travel agents and are continually diversifying our passenger profile. We remain highly optimistic with regards our Chinese prospects and are working towards adding three to four new routes to China within the short term.

Inclusion in the KLCI

In November 2004, we were listed on the Kuala Lumpur Stock Exchange and now feature in two of the region's more important benchmark indices with a market capitalisation in excess of US$1 billion. AirAsia was inducted to the Kuala Lumpur Composite Index (KLCI) on 1 July 2005. KLCI is the premier benchmark for Bursa Malaysia's major listed companies. The benefit of inclusion was immediate in terms of appetite for AirAsia stock, with a net uptake among indexed funds. This has diversified our shareholder mix, with AirAsia included in both the KLCI and the MSCI Standard Index Series.

Financial Review and Outlook

Aircraft availability – the bottleneck for growth

The second-hand aircraft market has undermined our performance, as a consequence of both a shortage of leased aircraft at prices that the company is prepared to pay and delays in contracted aircraft being inducted into the fleet. This has been the underlying culprit in delaying AirAsia's growth plans. Fortunately this will be a problem of the past as AirAsia takes delivery of the Airbus A320. The rollout schedule commences in December 2005, with seven aircraft delivering in FY06. This enables us to render a higher level of service and optimizes management time to focus on key issues.

Fuel – the cost wild card

The fuel price continues to post record levels and is exerting a negative influence on our cost structure. Our fuel hedge, at current market levels, extends a US$12/bbl discount to the market that partially covers the rising fuel cost. We have resisted the implementation of a fuel surcharge for as long as we can, however prices have reached a point where we can no longer defy its inevitability. Malaysian Airline Systems imposed a fuel surcharge on its domestic operations on 1 May with no notable impact on demand. After closely monitoring the situation, management decided to levy a modest surcharge to all destinations commencing 14 July. This fuel surcharge should render an equivalent recovery of US$8-10/bbl of our unit fuel cost.

Thailand – poised for growth

Thailand's operations have hit critical mass and are poised for strong growth as we introduce additional aircraft there. The Tsunami's impact on traffic volumes and unrest in Southern Thailand, in our opinion, has bottomed out. The introduction of a fuel surcharge by domestic airlines has not impacted load factors and it proves that the market is prepared to absorb the higher fare levels. The intense pricing competition observed when we first began our Thai operations has diminished and we have managed to expand and grow sustainably during this period, as the steady improvement in yield and average fare indicates. Our entry into China is a milestone and we are excited about prospects for increasing the route network into China and Indo-China from our Bangkok hub. With the business now profitable and cash flow positive, we feel confident that Thailand will deliver improved profits and deliver on its promise as the template for our regional expansion plans.

Indonesia – set for success

The Indonesian business is delivering robust performances despite operating with only two aircraft. High demand for our low fares is evident in the 78% Q4FY2004 load factor. The Indonesian operation is operating cash flow positive and we are continually reducing unit costs as economies of scale are attained. Indonesian operations should have five aircraft by the end of December 2005 and profitability is targeted at that time. Current high fuel prices ought to shake out marginal players, with consolidation probable. To our knowledge at least two Indonesian airlines are up for sale and we suspect that this is just the beginning.

Ringgit Repeg – music to our ears
On 21 July, Bank Negara Malaysia (Malaysia Central Bank) lifted the Ringgit's peg to the US$ and moved to a managed float regime for the Malaysian currency. Approximately 70% of AirAsia's operating costs are US$ denominated whilst hardly any revenue stream is linked to the US$. Consensus suggests that the Ringgit will appreciate against the US$ going forward. If this eventuates, then AirAsia will be a net beneficiary.

LCC terminal – new home for AirAsia
The construction of the new low cost terminal is progressing well ahead of schedule and is on track to be ready for operations by April next year. This is the first terminal designed and constructed for exclusive use by LCCs. When completed, this terminal will feature 30 parking bays and will be capable of handling 10 million passengers annually. We have been working closely with Malaysian Airports to ensure the terminal is built with utmost simplicity and functionality. We are very optimistic about the upside potential as a consequence of improved efficiency and turn around time, which would help cut operational cost.

Manchester United Sponsorship – elevating our brand name to the next level
AirAsia has entered into a sponsorship deal with Manchester United – the world's highest profile football team. Teaming up with Manchester United enables us to leverage our brand worldwide, and strengthens our brand prominence in markets we already serve. This will also help to drive our revenue as we promote our special edition AirAsia-Manchester United merchandise and memorabilia.

Barring any unforeseen circumstances, the Directors remain positive about the future growth prospects for the Group and expect strong growth for the full financial year ending 30 June 2006.

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