HollAnd Advisors

Holland Views – AirAsia – Price: MYR0.70: MCap: MYR2.5bn (€500m)

O'Leary + Branson = ?

Our search for compounders and passionate business owners who share the benefits of scale via lower prices has brought us to an unlikely place: Malaysia. What follows is us laying down a marker: here lies a potentially exciting winning EDLP business in a sector we know very well. Granted, many of our clients will not have the remit, desire or even appetite for the scale of work that is required to make an investment in a €500m company on the other side of the world. Perchance you are the exception, then your timing could be good for AirAsia (AA) needs your money having just announced a 20% equity private placing!* Why are we suggesting to read on? Because this just might be a very cheap share.

The business of research

The 'marketplace' of equity research and stock ideas is an increasingly crowded, and sometimes murky world. Every day we seemingly read of short attacks and ramps very often out of the gaze of the regulator. Meanwhile, for those of us playing within the regulated rules in London, we work hard to stay law-abiding, independent and follow our noses to find value. True independence means not just ignoring the crowd but also diving down a rabbit hole you fancy even if there is a little commercial logic in doing so. What follows is a taster of our work after we picked up the scent of a great business on sale. Few of our readers will be able to invest in this business, but hey we had fun!

Big Picture – what excites us about AirAsia

- **Tried and tested model:** We see ourselves as 'mental model' investors. We like to see a model that we know works that is employed in another sector or geography.
  - As such what struck us immediately about AirAsia was that its business model is an exact replica, a clone of one we know really well. The short haul low-cost model pursued by Ryanair, Wizz, and of course Southwest before them
  - Regular readers will remember our other snowballs – JW Wetherspoon (our original!) and Schwab and their long hills of growth (wet snow!)
  - AirAsia (AA)'s target market is south east Asia (ASEAN) which has a population of c650m where AA are "*educating a great part of the population on how to fly*"
- **Owner Manager(s):** The company was built from scratch and is run passionately by two owner managers, who own 30% of the company via their Tune holding group. Tony Fernandes is front of house ("marketing and publicity") whereas his low-profile partner Din[1] does what he calls "the boring stuff in the background" aka making money!

[1] Full name: Kamarudin bin Meranun

*(needless to say as truly independent researchers we are not set to profit from this placing at all).

> "*Tony is a unique manager, has a deep bench at AirAsia and one of the most capable management teams that we'd come across. And we think they will navigate this virus better than any airline in Asia*" – **Steven Zissis, CEO BBAM, 7 February 2020**

- **Culture:** The company still acts as like 'David' even though these days its scale in Asia suggests it really is more of a Goliath. This is a great mindset to see in action and talks to the culture of the owners. The group is passionate about lowest unit cost, describing unit costs as their only real competition

  > "*the day we don't focus on costs is the day we have to worry"*

- **Brand**: A loved and respected brand
  - Unlike Ryanair, AirAsia has built a much more consumer-service orientated offering, but still doing so whilst offering low unit costs – just like Southwest
  - As a result, they have won the world's best low-cost carrier accolade from WTA 10 years in a row
- **Front of house**: Tony Fernandes
  - Co-Founder Tony Fernandes is possibly a cross between Michael O'Leary and Richard Branson. An comparison that we think he is happy to portray
  - He is unusual in that he is respected and widely recognised by politicians, business people and consumers in Asian Society
  - He has been and remains and important part of the AirAsia brand in the same way Branson has for Virgin
- **Big Hairy Audacious Goals / The Pivot** – Digital platform optionality
  - In 2018 and 19, pre-Covid19, AirAsia started using its scale to try and become more of a platform business and become asset light. Its sold its entire plane fleet and invested in a number of add-on services
  - More recently it has suggested that non-airlines services will make up 50% of the companies revenues within 5 years
  - Whilst this bold claim is dismissed by Mr Market any sign of its success would be very profitable for its shareholders as most new services are asset light
  - Fernandes and team show credible signs of wanting to monetise the scale and customer relationships they have created in an innovative way by selling additional services to its existing large customer base
- **The Amazon Playbook. Turning costs into Revenues –** The company has also done some interesting things with its cost base that are a little Amazon-esq.
  - Like taking its catering and making it a branded restaurant business
  - And taking its cargo business and making it freight forwarding business using spare aircraft belly space

Disclaimer

This document does not consist of investment research as it has not been prepared in accordance with UK legal requirements designed to promote the independence of investment research. Therefore even if it contains a research recommendation it should be treated as a marketing communication and as such will be fair, clear and not misleading in line with Financial Conduct Authority rules. Holland Advisors is authorised and regulated by the Financial Conduct Authority. This presentation is intended for institutional investors and high net worth experienced investors who understand the risks involved with the investment being promoted within this document. This communication should not be distributed to anyone other than the intended recipients and should not be relied upon by retail clients (as defined by Financial Conduct Authority). This communication is being supplied to you solely for your information and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose. This communication is provided for information purposes only and should not be regarded as an offer or solicitation to buy or sell any security or other financial instrument. Any opinions cited in this communication are subject to change without notice. This communication is not a personal recommendation to you. Holland Advisors takes all reasonable care to ensure that the information is accurate and complete; however no warranty, representation, or undertaking is given that it is free from inaccuracies or omissions. This communication is based on and contains current public information, data, opinions, estimates and projections obtained from sources we believe to be reliable. Past performance is not necessarily a guide to future performance. The content of this communication may have been disclosed to the issuer(s) prior to dissemination in order to verify its factual accuracy. Investments in general involve some degree of risk therefore Prospective Investors should be aware that the value of any investment may rise and fall and you may get back less than you invested. Value and income may be adversely affected by exchange rates, interest rates and other factors. The investment discussed in this communication may not be eligible for sale in some states or countries and may not be suitable for all investors. If you are unsure about the suitability of this investment given your financial objectives, resources and risk appetite, please contact your financial advisor before taking any further action. This document is for informational purposes only and should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. Holland Advisors and/or its officers, directors and employees may have or take positions in securities or derivatives mentioned in this document (or in any related investment) and may from time to time dispose of any such securities (or instrument). Holland Advisors manage conflicts of interest in regard to this communication internally via their compliance procedures.