Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Main | Transportation & Logistics

Passenger growth recovery; slowly but surely

Downgrade to NEUTRAL

From BUY

***Revised* Target Price: RM4.97**

Previously RM5.13

KEY INVESTMENT HIGHLIGHTS

- **MAHB recorded a normalized net loss in 1QFY20, missing ours and consensus' estimates**
- **Lower passenger traffic impacted aeronautical revenue which declined -22.3%yoy and also affected retail revenue**
- **Substantial drop in 2QFY20 passenger traffic inevitable amidst travel restrictions during CMCO**
- **As such, MAHB has embarked on a cost containment exercise since March 2020**
- **Earnings forecast adjusted following revision in passenger traffic forecast**
- **Downgrade to NEUTRAL from BUY with a revised TP of RM4.97 per share**

1QFY20 saw a normalised net loss for MAHB. In 1QFY20, MAHB recorded normalised net loss (after excluding one-off gains) of -RM21.6m compared to a normalised net profit of RM146.0m a year ago. This was below ours and consensus' estimates with a variance of more than 10.0%. The lower-than-expected performance during the quarter was mainly due to the higher provision for doubtful debts related to a specific airline and also lower passenger traffic.

Slow passenger traffic impacted aeronautical revenue. The 1QFY20 aeronautical revenue declined by -22.3%yoy. This was due to the overall -27.6%yoy drop in passenger traffic during the quarter under review in-line. Domestic traffic at Malaysian airports recorded a -22.4%yoy drop in 1QCY20. Flight operations of domestic sectors continued subject to conditions and travel restrictions set by the Government of Malaysia from time to time during the MCO period. As such, there was not much incentive for airlines to actively operate within that period. For instance, Malaysia Airlines Berhad (MAB) has halted all interstate operations in Peninsular Malaysia (which connects Kuala Lumpur to Kuala Terengganu, Kota Bharu, Penang, Kuantan, Johor, Alor Setar and Langkawi) for the first time due to poor passenger load factor.

International passenger growth contraction exceeded domestic passenger growth The international sector growth of -32.4%yoy for MAHB's Malaysian operations outpaced the domestic sector's drop during 1QCY20, Other airports (which excludes KLIA Main Terminal and klia2) recorded the largest decline in international passenger growth during the quarter of -40.9% partially due to the non-Asean flights. Recall that MAHB's hub and spoke model aims has enabled smaller airports such as Langkawi International Airport to accommodate flights of international carriers such TUI Airways from Birmingham and Qatar Airways from Doha.

Turkey also followed suit to register a decline in passengers. Over in Turkey, Istanbul Sabiha Gokcen Airport (ISGA), saw a -12.5%yoy decline in 1QFY20 with international and domestic passenger traffic reduced by -57.1% and -39.3% respectively. Turkey's Ministry of Health has issued a travel ban on 3 March, for foreigners who have visited China, South Korea, Iran, Iraq, and Italy within the last 14 days due to the ongoing Covid-19 outbreak. All passenger flights to and from these countries were also cancelled.

RETURN STATISTICS	
Price @ 22nd May 2020 (RM)	4.94
Expected share price return (%)	+0.61
Expected dividend yield (%)	+2.90
Expected total return (%)	**+3.51**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-6.6	-11.0
3 months	14.4	-23.5
12 months	-29.8	-21.9

KEY STATISTICS	
FBM KLCI	1436.76
Syariah compliant	No
Issue shares (m)	1659.19
Estimated free float (%)	50.42
Market Capitalisation (RM'm)	10,934.07
52-wk price range	RM6.18 - RM8.88
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	54.30
Monthly volatility (%)	19.32
3-mth average daily volume (m)	3.21
3-mth average daily value (RM'm)	23.25
Top Shareholders (%)	
Khazanah Nasional Bhd	33.21
Employees Provident Fund Board	12.98
ASNB	3.65

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Rental revenue continued to be on an uptrend. With lesser footfall at MAHB's retail outlets, retail and rental revenue dropped by -40.9%yoy and -21.1%yoy respectively. We gathered that MAHB has yet to be given the greenlight to offer rebates to retailers. Nevertheless, MAHB has taken the initiative to (i) grant a 90-day credit period to retailers to manage their liquidity; and (ii) negotiate with the retailers to lengthen the tenure of the rental period, enabling them to recoup their capital invested in their outlets. As the management guided that around 70.0% of MAHB's commercial revenue is on fixed term, we do not discount the possibility of MAHB revising the rental rates lower in the long run to retain the retailers.

Cost containment is of utmost importance. Direct costs were -31.2%yoy lower in 1QFY20 in line with the low traffic volume. Meanwhile, the operating costs were slightly higher +4.0%yoy during the quarter due to the net allowance of provision for doubtful debts related to an airline which partially outweighed the decline seen in staff costs, utilities costs and maintenance costs. We also noted that the unit cost per passenger increased by +11.5%yoy from RM33.29 per passenger in 1QFY19 to RM37.15 per passenger in 1QFY20. Looking ahead, MAHB has embarked on a cost containment exercise beginning from March 2020 with a -20%yoy reduction target for FY20 via consolidation & closure of underutilized areas and revise maintenance schedules relating to passenger movement. Under this initiative, MAHB has deferred all development capex, prioritising key critical maintenance capex (including replacement of aerotrain and baggage systems), leaving approximately RM300m (previously circa RM1b) of budgeted capex in FY20.

Passenger trend near and medium term outlook. Travel restrictions were imposed for individuals travelling in and out of Malaysia since the MCO began on 18 March 2020 and continues during the Conditional Movement Control order (CMCO) which ends on 9 June 2020. Therefore, 2QFY20 will see a larger decline in passenger traffic compared to 1QFY20 with April already seeing only 137 passengers. The month of May 2020 has seen the resumption of domestic flights by certain airlines such as AirAsia Group Berhad to Sabah and Sarawak while Malaysia Aviation Group has operated several domestic routes out of KLIA and Subang Airport. As for ISGA, Pegasus, Anadolu Jet and Turkish Airlines will recommence domestic flights from 4 June after the suspension of flights since 2 March 2020. On the other hand, most Malaysian carriers are set to resume international services from July 2020 before progressively increasing frequencies from end 3QFY20. Henceforth, we opine that domestic will pick up faster compared to international traffic as the overall sentiment remained a drag amidst the Covid-19 pandemic which has yet to find a vaccine.

Social distancing measures to impact capacity flown. With regard to social distancing measures, Prevention and Control of Infectious Diseases (Measures Within Infected Local Areas) (No. 5) Regulations 2020, dated 3rd May 2020, point number 8 (1) states that:

"A holder of any land, sea or air public transport license or permit to carry passengers shall ensure that the public transport relating to his license or permit does not carry more than half of the total maximum capacity of the number of passengers that may be carried on board the public transport for each journey."

However there is an exception for: (i) scheduled flights from Peninsular Malaysia to Sabah and Sarawak whereby the allowable number of passengers per flight is revised from 50% up to a maximum of 66.6%, of the total number of passenger seats depending on the aircraft type and (ii) all inbound and outbound international charter flights meant for the repatriation of Malaysian nationals back to Malaysia or foreigners back to their home country. Assuming all carriers flying in and out from Malaysia will have to comply with the above regulation, flight capacity will be severely impacted. Carriers will also have to hike airfares to compensate the lack of capacity offered, creating an additional hurdle in the already dampened travel market.

Earnings estimates. We are revising our passenger growth forecast to -37.5%yoy (-previously -32.8%yoy) with an assumption that social distancing rules and higher airfares may deter leisure travel. In addition we have adjusted our domestic to international mix to 53:47 (previously 50:50) to take into account of the expected pickup in the domestic sector. Recall that departing domestic passengers pay a cheaper passenger service charge (PSC) of RM11 compared to RM35 for international departures within ASEAN while beyond ASEAN is RM50 for klia2 and RM73 for KLIA. The deferral in capex has also led to a downward revision in finance costs estimates. As a net result, we have adjusted our earnings estimates in FY20E/FY21F/FY22F to RM96.8m/236.4m/537.7m from RM245.3m/RM487.4m/RM575.2m previously.

Target price. We are revising our target price to **RM4.97 per share** (previously RM5.13) following the revision in our earnings estimates. Our valuation is based on our DCF assuming an unchanged WACC of 8.0% and Beta of 1.1.

Downgrade to NEUTRAL. Consumer confidence in air travel remains key and may take some time to be restored; even after governments begin the process of opening borders and relaxing travel restrictions. The reason being is that, additional procedures such as a 14-day quarantine from returning abroad may hamper demand for leisure travel. As we have noted earlier, after a lockdown in 2QCY20, domestic and short-haul air travel markets will begin to recover over the course of 3QCY20, but long-haul markets will be slower to recommence. Domestic RPKs are expected to decline by around 40% this year, while international RPKs are likely to decline by around 60% according to IATA. Global GDP growth is expected to fall by around 5% this year, before rebounding, and returning to its 2019 level in 2021. To put this decline into context, it is around 4x larger than that of the global financial crisis, where world GDP fell by 1.3% in 2009. In contrast, the expected decline in air passenger volumes (measured by Revenue Passenger Kilometres – RPKs) is much more severe, with a decline of around 50% this year. The recovery is such that we believe a return to the level of 2019 does not occur until 2023, taking around two years longer than global GDP. Taking all of these matters into consideration; we are downgrading MAHB from BUY to **NEUTRAL**.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	**2018A**	**2019A**	**2020E**	**2021F**	**2022F**
Revenue	**4,786.10**	**5,213.1**	**3,792.9**	**4,165.0**	**4,564.9**
EBITDA	2,383.50	2,292.0	1,137.9	1,707.6	2,099.8
EBIT / operating profit	1,496.10	1,350.4	568.9	1,110.0	1,406.9
PBT	780.6	659.2	130.9	333.0	689.4
PATANCI	727.3	537.0	96.8	236.4	537.7
Normalised PATANCI	**439.5**	**564.5**	**96.8**	**236.4**	**537.7**
Normalised EPS (sen)	26.5	34.0	5.8	14.2	32.4
Normalised EPS Growth (%)	82.8	28.4	(82.8)	144.2	127.4
PER (x)	18.1	14.1	82.2	33.7	14.8
Dividend Per Share (sen)	14.0	14.0	14.0	14.0	14.0
Dividend yield (%)	2.9	2.9	2.9	2.9	2.9

Source: Company, MIDFR

MAHB: 1QFY20 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results				
FYE Dec	**1Q20**	**4Q19**	**1Q19**	**QoQ**	**YoY**
Revenue	933.8	1,344.4	1,252.3	-30.5%	-25.4%
Revenue (without IC12)	933.8	1,344.4	1,252.3	-30.5%	-25.4%
Operating expense	(629.6)	(869.4)	(686.6)	-27.6%	-8.3%
EBITDA	304.2	475.1	565.8	-36.0%	-46.2%
Depreciation & Amort.	(167.7)	(241.4)	(241.3)	-30.6%	-30.5%
EBIT	136.565	233.625	324.5	-41.5%	-57.9%
Finance cost	(175.8)	(201.6)	(166.9)	-12.8%	5.4%
Assoc & JV	3.7	14.1	7.0	-73.8%	-47.4%
PBT	(35.5)	46.1	164.6	<-100%	<-100%
PATAMI	(20.4)	29.5	149.6	-169.1%	-169.1%
Core PATAMI	(21.6)	30.7	145.973	-170.1%	-170.1%

Source: Company, MIDFR

MAHB:1QFY20 BREAKDOWN IN REVENUE AND EXPENSES

FYE Dec	Quarterly Results				
RM'm	**1Q20**	**4Q19**	**1Q19**	**QoQ**	**YoY**
Aeronautical revenue	502.2	740.3	646.4	-32.2%	-22.3%
-PSC & PSSC	372.8	581.8	503.0	-35.9%	-25.9%
-Landing & Parking	87.8	111.2	104.7	-21.0%	-16.1%
-MARCS	0.0	0.0	0.0	n.a.	n.a.
-Airlines incentives	0.0	(3.6)	(9.1)	-100.0%	-60.4%
-Others	41.6	51.1	47.9	-18.6%	-13.2%
Non-aeronautical rev	375.4	543.0	525.7	-30.9%	-28.6%
-Retail	125.1	217.7	211.6	-42.5%	-40.9%
-Rental	215.6	280.0	273.1	-23.0%	-21.1%
-Others	34.7	45.4	41.0	-23.6%	-15.4%
Non-airport Operations	56.2	61.1	80.2	-8.0%	-29.9%
Hotel	19.8	25.6	25.4	-22.7%	-22.0%
Agri	6.6	6.5	6.4	1.5%	3.1%
Project & repair n maintenance	29.8	29.0	48.5	2.8%	-38.6%
Expenses breakdown:	(834.0)	(834.0)	(756.3)	0.0%	10.3%
Direct Costs	(137.5)	(216.3)	(199.8)	-36.4%	-31.2%
Direct materials	(71.0)	(114.9)	(116.9)	-38.2%	-39.3%
Direct labour	(36.2)	(45.4)	(40.3)	-20.3%	-10.2%
Direct overheads	(30.3)	(56.0)	(42.6)	-45.9%	-28.9%
Operating Costs	(617.7)	(617.7)	(556.5)	0.0%	11.0%
Staff costs	(159.9)	(255.2)	(170.9)	-37.3%	-6.4%
Utilities & comm.	(101.9)	(108.3)	(103.8)	-5.9%	-1.8%
Maintenance	(81.2)	(116.3)	(80.0)	-30.2%	1.5%
User fee	(78.2)	(124.6)	(112.3)	-37.2%	-30.4%
Others	(157.5)	(13.4)	(88.3)	>100%	78.4%

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.