Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Main | Transportation & Logistics

Well within expectations

***Maintain* BUY**

***Revised* Target Price: RM7.83**

Previously RM8.51

KEY INVESTMENT HIGHLIGHTS

- **FY19 normalised earnings surged more than 20.0%**
- **Domestic traffic grew faster than international traffic**
- **Retail and revenue increased despite ongoing commercial reset**
- **Cost per passenger still well contained despite rise in direct and overhead costs**
- **Ongoing efforts remain to ensure RAB implementation by year end**
- **Earnings forecast adjusted following revision in passenger traffic forecast**
- **Maintain BUY with a revised TP of RM7.83 per share**

FY19 normalised earnings surged more than 20.0%. MAHB's 4QFY19 recorded normalised earnings (after excluding one-off gains) of RM30.7m (+8.8%yoy). This brings the FY19 normalised earnings to RM564.5m (+31.4%yoy). The results made up 101.1% and 96.3% of ours and consensus' full year estimates. The positive performance for the year was mainly due to the better-than-expected passenger traffic growth in Malaysia of +6.1%yoy

Domestic traffic grew faster than international traffic. The FY19 revenue rose by +7.4%yoy. This was in-line with the overall +5.6%yoy growth of passengers' traffic in both Malaysia and Turkey for the period. MAHB's domestic traffic growth in Malaysia during FY19 of +9.5%yoy outpaced its international traffic growth of +3.0%yoy as airlines redirected more capacity to meet the domestic travel demand. The domestic traffic growth in Malaysia even rebounded from the previous low performance whereby the domestic passenger traffic has been experiencing a decline for more than a year prior to January 2019. The increase recorded in 2019 was substantially higher than +0.4%yoy increase in the preceding year.

The international passenger continues to reach a record high. Although the international traffic did not grow as much as the domestic traffic FY19, the international passenger traffic in Malaysia of 53.3m recorded was also the highest ever recorded on an annual basis in Malaysia. Moreover, the international sector continued to retain more than 50% of the passenger market share. Furthermore, considering the international average load factor at 77.1%, being 4.3 percentage points higher than the domestic load factor, indicating the inherent demand for international travel remained resilient. The growth of international traffic was supported by the airlines' additional frequencies, direct connectivity and also contribution by new routes that were not operated previously. For instance, Qatar Airways' flights commenced flights from Doha to Langkawi in October 2019, part of MAHB's hub-and-spoke model which aims to bring global traffic to smaller airports and vice versa

RETURN STATISTICS	
Price @ 28th Feb 2020 (RM)	6.59
Expected share price return (%)	+18.82
Expected dividend yield (%)	+2.10
Expected total return (%)	**+20.92**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-2.2	1.0
3 months	-13.3	-15.9
12 months	-18.8	-6.9

KEY STATISTICS	
FBM KLCI	1,482.64
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
BlackRock Inc	3.65

Analyst(s)
ADAM Mohamed Rahim
adam.mrahim@midf.com.my
03-2772 1686

Rental revenue continued to be on an uptrend. Despite the ongoing of the commercial reset at KLIA Main Terminal, the retail and rental revenue grew by 2.3%yoy and +5.8%yoy respectively in FY19. The growth in retail and rental revenue for the group was partly attributed to ISG which saw a +24.0%yoy increase in retail and food and beverage rental supported by a larger rental space of 13,364m^2 (+11.0%yoy). This helped moderate the impact from the ongoing commercial reset exercise at KLIA Main Terminal and klia2 which saw rental revenue declining by -7.7%yoy and -11.2%yoy respectively.

Cost per passenger was well contained. Overall costs (direct and operating) were higher by +6.4%yoy for FY19, as staff costs jumped +11.9%yoy due to: (i) the annual increment of 3.0% to 5.5% (effective May 2019) and (ii) the increase in total number of staff from 11,617 in FY18 to 11,893 in FY19. Another cause for the increase in costs was the +13.0%yoy jump in utilities cost incurred following the hike in electricity tariff from July 2018 and higher consumption. Nevertheless, we note that the unit cost per passenger was well contained at RM33.78 per passenger, -0.7%yoy lower than a year ago.

Regulatory update. With the Ministry of Transport's (MOT) plans of merging the Malaysian Aviation Commission (MAVCOM) with the Civil Aviation Authority of Malaysia (CAAM), the implementation of the RAB framework could be slowed down. Notwithstanding this, MAHB has been actively engaging with MOT and the Ministry of Finance regarding the RAB framework and feedback has been positive. We are of the opinion that a transparent framework like the RAB framework would still need to be incorporated. This is because it inculcates a discipline capex planning while enabling the recoupment of capital expenditure via aeronautical charges. With the fact that the RAB framework shifts the developmental capex obligation from the Government of Malaysia (GoM) to MAHB, we opine that this is a factor to be strongly considered to proceed with the implementation. In the meantime, we also believe that MAVCOM's focus for now would be ensuring the smooth transition of its functions into CAAM in addition to evaluating the next steps for the RAB framework given the situation that CAAM will have to do follow up works if the RAB framework comes into place.

FY20 prospects. While we have previously revised our passenger growth forecasts to take into account of the waning travel demand from China, Covid-19 cases have increasingly spread outside of China such as Italy, South Korea, Japan and Iran. Therefore, we believe that this will exert additional downward pressure on passenger traffic growth in FY20 as capacity cuts by airlines worldwide are inevitable. Note that, passenger traffic from Europe, the Middle East, South Korea and Japan collectively make up around 15.0% of the international passenger traffic in KLIA Main Terminal. Management even guided that February 2020 passenger traffic has dropped by 10-20%yoy. Henceforth, we are revising our passenger traffic growth forecast to -2.5%yoy (previously +3.5%yoy) and +6.5%yoy (previously +5.7%yoy) in FY20 and FY21 respectively. A subsequent impact of a lower passenger traffic growth would be MAHB's retail revenue. Landing and parking fees plus rental revenue will also likely be impacted the latest stimulus package announced by the Government of Malaysia called for rebates on rental for premises at its airport. Details on how the mechanism of the said rebates has not been disclosed by MAHB so far.

Earnings estimates. Following the revision to our passenger growth forecast and also retail revenue, we have adjusted our earnings estimates to RM560.1m (previously RM603.4m) and RM665.6m (previously RM692.1m) for FY20 and FY21 respectively. We have also introduced earnings forecasts for FY22.

Target price. We are revising our target price to **RM7.83 per share** (previously RM8.51) as we roll forward our valuation base year and 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.

Maintain BUY. While there are concerns on the coronavirus particularly in Asia, Malaysia is the third best Asian country in terms of the level of preparedness for a major infectious disease outbreak according to the Economist Intelligence Unit. Assuming that the coronavirus outbreak would last in the next two to four months, we could still expect traction from other countries namely India, which so far has only 3 confirmed cases of coronavirus as of late. The 15-day visa free travel had been extended for Indian nationals for the whole of 2020, coinciding with the Visit Malaysia Year campaign. Moreover, tourist arrivals from India in Malaysia reached 0.6m in FY18, almost comparable to South Korea and 52.2% higher than Japan. Other growth factors would include direct connectivity seen from international airlines flight to locations such as Langkawi. As such, we still believe that MAHB passenger numbers can meet the **102.6m** mark in 2020 at the current juncture, assuming a growth rate of -2.5%yoy. In terms of valuations, MAHB's stock price is trading at a 12-month price-to-earnings ratio (PER) of 22.8x, less than half of its five-year average (PER) of 64.0x and at a discount compared to the regional PER of 32.3x. This presents an opportunity for investors to take position on any weakness given how turnaround occurred during pandemics in the past. We had observed an uptick in valuation three months after the peak of the SARS outbreak in 2003, where its share price rebounded +31.0%. All in, we maintain our BUY call for MAHB.

INVESTMENT STATISTICS

Financial year ending 31st December (in RM'm, unless otherwise stated)	2018A	2019A	2020F	2021F	2022F
Revenue	**4,786.10**	**5,213.1**	**5,032.9**	**5,464.5**	**5,926.8**
EBITDA	2,383.50	2,292.0	2,214.5	2,513.7	2,726.3
EBIT / operating profit	1,496.10	1,350.4	1,417.3	1,684.2	1,826.6
PBT	780.6	659.2	737.0	875.8	949.9
PATANCI	727.3	537.0	560.1	665.6	740.9
Normalised PATANCI	**439.5**	**564.5**	**560.1**	**665.6**	**740.9**
Normalised EPS (sen)	26.5	34.0	33.8	40.1	44.7
Normalised EPS Growth (%)	82.8	28.4	(0.8)	18.8	11.3
PER (x)	24.9	19.4	19.5	16.4	14.8
Dividend Per Share (sen)	14.0	15.0	14.0	14.0	14.0
Dividend yield (%)	2.1	2.3	2.1	2.1	2.1

Source: Company, MIDFR

MAHB : 4QFY19 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
FYE Dec	**4Q19**	**3Q19**	**4Q18**	**QoQ**	**YoY**	**12M19**	**12M18**	**YoY**
Revenue	1,344.4	1,355.2	1,251.7	-0.8%	7.4%	5,213.1	4,851.7	7.4%
Revenue (without IC12)	1,344.4	1,355.2	1,251.7	-0.8%	7.4%	5,213.1	4,851.7	7.4%
Operating expense	(869.4)	(707.9)	(832.9)	22.8%	4.4%	(2,921.1)	(2,468.2)	18.4%
EBITDA	475.1	647.3	418.8	-26.6%	13.4%	2,292.0	2,383.5	-3.8%
Depreciation & Amort.	(241.4)	(230.7)	(233.4)	4.7%	3.5%	(941.6)	(887.5)	6.1%
EBIT	233.625	416.625	185.4	-43.9%	26.0%	1,350.4	1,496.1	-9.7%
Finance cost	(201.6)	(175.3)	(171.0)	15.0%	17.9%	(726.0)	(745.6)	-2.6%
Assoc & JV	14.1	5.5	13.1	157.0%	7.7%	34.7	30.1	15.3%
PBT	46.1	246.8	27.5	-81.3%	68.0%	659.2	780.6	-15.6%
PATAMI	29.5	197.9	28.1	-85.1%	5.0%	537.0	727.3	-26.2%
Core PATAMI	30.7	192.2	28.3	-84.0%	8.8%	564.5	429.5	31.4%

Source: Company, MIDFR

MAHB: 4QFY19 BREAKDOWN IN REVENUE AND EXPENSES

FYE Dec	Quarterly Results					Cumulative		
RM'm	**3Q19**	**2Q19**	**3Q18**	**QoQ**	**YoY**	**9M19**	**9M18**	**YoY**
Aeronautical revenue	740.3	714.1	645.2	3.7%	14.7%	2,764.7	2,404.3	15.0%
-PSC & PSSC	581.8	573.9	511.5	1.4%	13.7%	2,181.2	1,887.1	15.6%
-Landing & Parking	111.2	107.9	106.9	3.1%	4.0%	427.8	406.2	5.3%
-MARCS	0.0	0.0	0.0	n.a.	n.a.	0.0	0.0	n.a.
-Airlines incentives	(3.6)	(19.3)	(18.8)	-81.3%	2.7%	(44.9)	(62.8)	-28.5%
-Others	51.1	51.4	45.5	-0.6%	12.3%	200.6	173.7	15.5%
Non-aeronautical rev	543.0	564.5	531.8	-3.8%	2.1%	2,161.5	2,090.5	3.4%
-Retail	217.7	210.3	216.2	3.5%	0.7%	850.2	831.3	2.3%
-Rental	280.0	311.7	271.3	-10.2%	3.2%	1,141.1	1,078.8	5.8%
-Others	45.4	42.6	44.2	6.6%	2.7%	170.3	180.4	-5.6%
Non-airport Operations	61.1	76.5	77.1	-20.1%	-20.8%	286.9	291.3	-1.5%
Hotel	25.6	24.2	25.6	5.8%	0.0%	98.3	99.0	-0.7%
Agri	6.5	7.7	5.5	-15.6%	18.2%	26.9	30.1	-10.6%
Project & repair n maintenance	29.0	44.6	46.1	-35.0%	-37.1%	161.7	162.2	-0.3%
Expenses breakdown:	(834.0)	(771.2)	(909.0)	8.1%	-8.3%	(3,083.5)	(2,899.1)	6.4%
Direct Costs	(216.3)	(202.4)	(216.9)	6.9%	-0.3%	(818.2)	(753.6)	8.6%
Direct materials	(114.9)	(126.6)	(123.8)	-9.2%	-7.2%	(476.5)	(454.7)	4.8%
Direct labour	(45.4)	(37.4)	(50.7)	21.4%	-10.5%	(164.8)	(161.9)	1.8%
Direct overheads	(56.0)	(38.4)	(42.4)	45.8%	32.1%	(176.9)	(137.0)	29.1%
Operating Costs	(617.7)	(568.8)	(692.1)	8.6%	-10.7%	(2,265.3)	(2,145.5)	5.6%
Staff costs	(255.2)	(181.5)	(217.8)	40.6%	17.2%	(771.7)	(689.6)	11.9%
Utilities & comm.	(108.3)	(111.7)	(109.6)	-3.0%	-1.2%	(437.8)	(387.6)	13.0%
Maintenance	(116.3)	(95.2)	(119.2)	22.2%	-2.4%	(375.4)	(363.6)	3.2%
User fee	(124.6)	(115.6)	(110.1)	7.8%	13.2%	(461.5)	(417.6)	10.5%
Others	(13.4)	(64.8)	(135.4)	-79.3%	-90.1%	(218.9)	(287.1)	-23.8%

Source: Company, MIDFR

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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.