

Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Transportation & Logistics

Maintain BUY

Assessing the potential impact of Wuhan virus

Unchanged Target Price: RM8.98

KEY INVESTMENT HIGHLIGHTS

- **WHO determined that the coronavirus is not yet a global health emergency**
- **Tourist arrivals in ASEAN and Malaysia took a breather in 2003 during the SARS outbreak**
- **Nevertheless, passenger growth in Malaysia and even China took an average of two to three months to recover to the normal level**
- **Assuming no major coronavirus outbreak in Malaysia, tourists from India could offset the potential decline from China**
- **No changes to our earnings estimates**
- **Maintain BUY with an unchanged TP of RM8.98 per share**

Coronavirus; not yet a global health emergency. The world has raised the alarm on the coronavirus (2019-nCoV) spread from Wuhan, China. The coronavirus originates from the same viral family of the Severe Acute Respiratory Syndrome (SARS) which had an outbreak from November 2002 to July 2003. Meanwhile, the World Health Organisation (WHO) on 23 January 2020 had determined that the outbreak of the coronavirus spreading rapidly across China is not yet a global health emergency. The decision came after: (i) independent experts spent two days assessing information about the spread of corona virus; and (ii) Chinese authorities moved to lock down three cities on Thursday and canceled major events in Beijing during the Lunar New Year holiday period.

ASEAN tourist arrivals growth. In ASEAN, China contributed the most to the tourist arrivals in 2018 at around 21.0%. As for the period of the SARS outbreak, tourist arrivals from China in ASEAN declined by -15.6%yoy in 2003, more than the -12.3%yoy drop seen in total tourists arrivals in the region. Likewise, Malaysia saw a -37.1%yoy drop tourist arrivals in 2003 when the contribution of China to Malaysia's tourist stood at 4.2% compared to 11.4% in 2018.

Impact on MAHB passenger traffic. Due to the SARS outbreak in 2003, MAHB's passenger traffic growth in Malaysia took a breather that year to drop by just -1.5%yoy to 33.5m. In addition, total international passengers at KLIA Main Terminal travelling to and from China declined by -10.7%yoy during the same period. Nevertheless, recovery was fast, with passenger traffic at MAHB's Malaysian airports rebounding +17.8%yoy in 2004. Similarly, international passengers from China at KLIA Main Terminal recorded a whopping +75.8%yoy growth in 2004. On a side note, Istanbul Sabiha Gokcen (ISG) airport which was not operated by MAHB at that time saw a +20.6%yoy passenger traffic growth in 2003.

RETURN STATISTICS

Price @ 23 th Jan 2020 (RM)	6.86
Expected share price return (%)	+30.90
Expected dividend yield (%)	+2.00
Expected total return (%)	+32.90

SHARE PRICE CHART



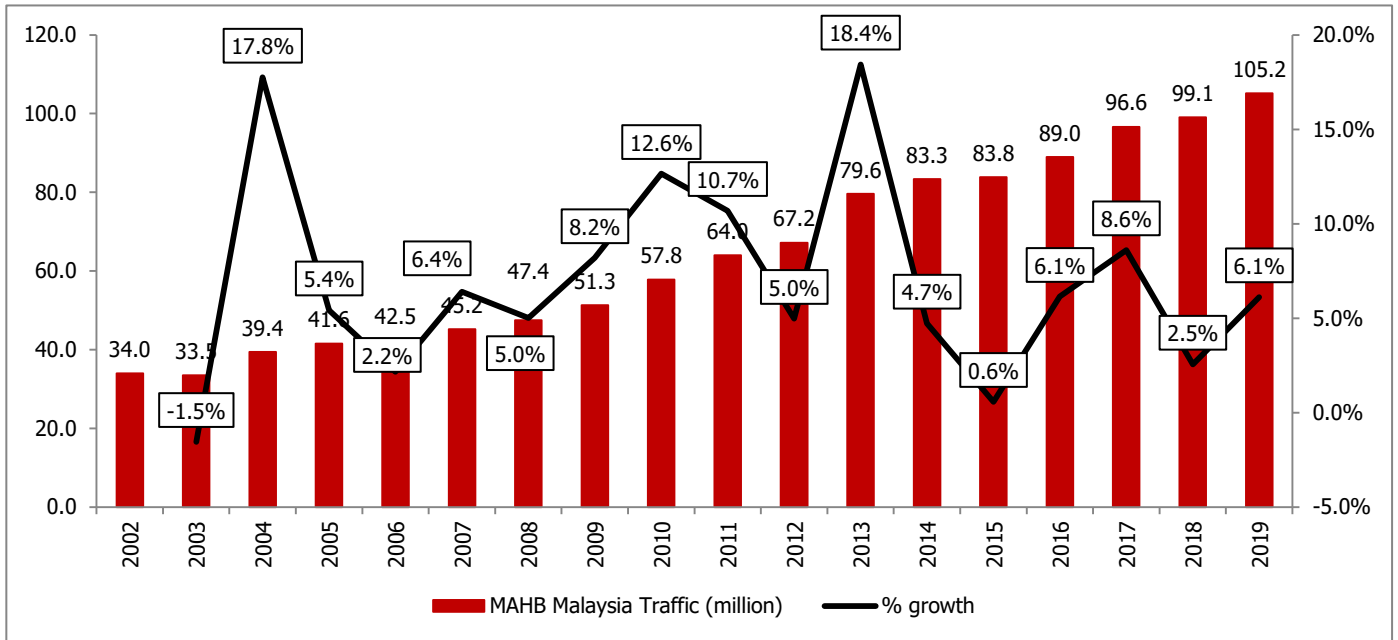
Share price performance (%)	Absolute	Relative
1 month	-11.3	-9.6
3 months	-9.7	-15.3
12 months	-15.8	-9.5

KEY STATISTICS

FBM KLCI	1,574.44
Syariah compliant	No
Issue shares (m)	1659.19
Estimated free float (%)	51.20
Market Capitalisation (RM'm)	11,382.06
52-wk price range	RM6.60 - RM8.88
Beta vs FBM KLCI (x)	0.99
Monthly velocity (%)	41.10
Monthly volatility (%)	19.32
3-mth average daily volume (m)	2.26
3-mth average daily value (RM'm)	17.78
Top Shareholders (%)	
Khazanah Nasional Bhd	33.21
Employees Provident Fund Board	12.21
BlackRock Inc	3.71

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Figure 1: MAHB Passenger Traffic in Malaysia



Source: MAHB

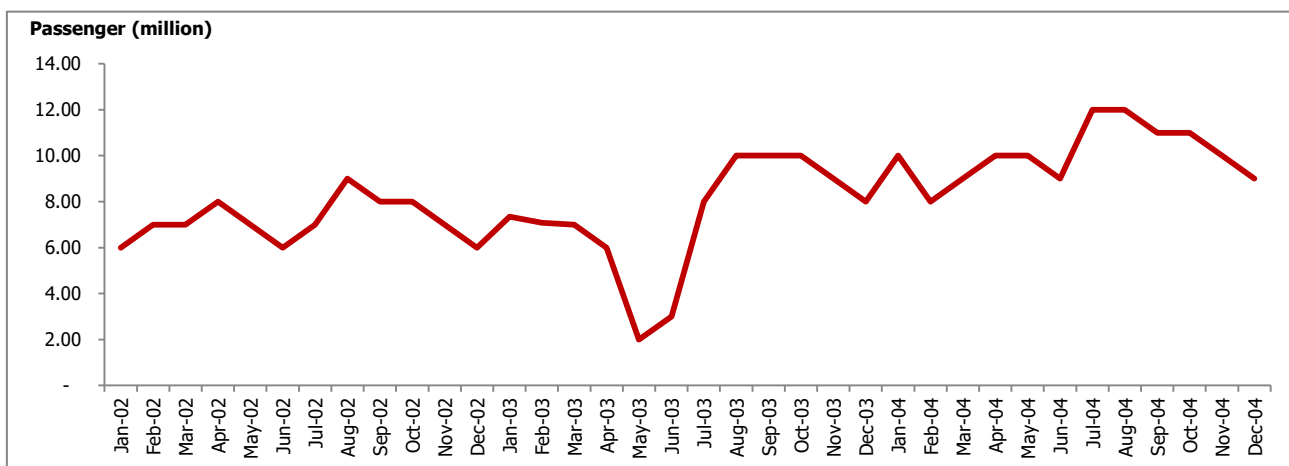
Table 1: Growth in Passengers to and from China at KLIA Main Terminal

Year	Total Passengers to and from China at KLIA Main Terminal (million)	% growth
2002	0.64	N/A
2003	0.57	-10.7
2004	1.00	+75.8
2005	1.25	+24.7

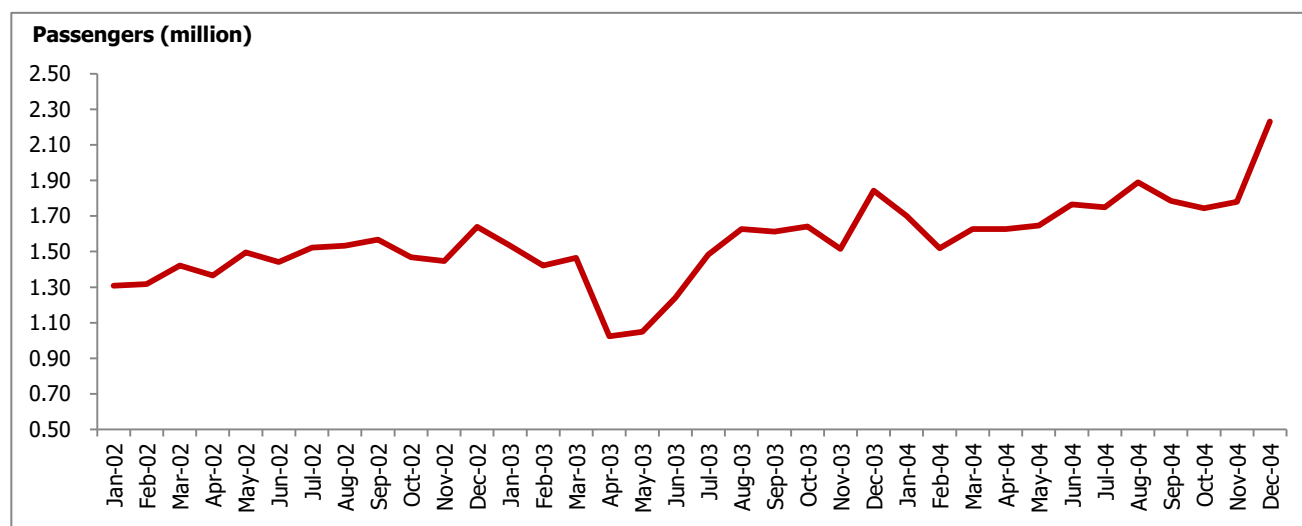
Source: MAHB

SARS outbreak saw a quick recovery in monthly passenger growth. Based on our analysis, we found that during the SARS outbreak between November 2002 and July 2003, passenger traffic took an average of two to three months to normalise. For instance in Malaysia, April 2003 saw a huge -30.1%mom drop to reach the lowest point that year of 1.02m passengers before increasing +18.1%mom in June 2003 and another +19.6%mom increase in July 2003 to reach back a normal level of 1.48m passengers. As for China, May 2003 saw a -66.7%mom decrease in passengers before advancing +50.0%mom in June 2003 and another +166.7%mom gain in July 2003. Given that this was nearly 20 years ago, we believe that technological advancements in the healthcare sector will likely contain the disease better.

Figure 2: Monthly Passenger Traffic in China during SARS Outbreak




Source: CEIC Data

Figure 3: Monthly Passenger Traffic in Malaysia during SARS Outbreak


Source: MAHB

Earnings estimates. We are making no changes to our earnings estimates at this juncture. Nevertheless, a downside risk posed by the prolonging of the coronavirus may prompt a revision in earnings in the future.

Valuation. We are maintaining target price at **RM8.98 per share**. Our valuation is based our DCF valuation with a WACC of 7.8% and beta of 1.5.

Maintain BUY. While there are concerns on the coronavirus around Asia, airports in the region have stepped up screening procedures at all check points. Assuming that there is no major outbreak of the coronavirus in Malaysia, we could still expect traction from other countries namely India. Apart from Chinese citizens, the 15-day visa free travel has also 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, 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 110.8m mark in 2020 at current juncture, assuming a growth rate of 5.4%. In terms of valuations, MAHB's stock price is trading at a 12-month price-to-earnings ratio (PER) of 24.6x, less than half of its five-year average (PER) of 63.7x and at a discount compared to the regional PER of 37.6x. 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 3 months after the peak of the SARS outbreak in 2003, where its share price rebounded +31.0%. 

INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
Revenue	4,593.40	4,786.10	5,355.8	5,752.1	6,028.2
EBITDA	1,919.60	2,383.50	2,249.4	2,530.9	2,773.0
EBIT / operating profit	1,038.80	1,496.10	1,597.1	1,619.8	1,857.9
PBT	338.8	780.6	750.6	842.3	966.1
PATANCI	239.8	727.3	570.5	640.1	734.2
Normalised PATANCI	240.4	439.5	570.5	640.1	734.2
Normalised EPS (sen)	14.5	26.5	34.4	38.6	44.3
Normalised EPS Growth (%)	210.0	82.8	29.8	12.2	14.7
PER (x)	47.3	25.9	20.0	17.8	15.5
Dividend Per Share (sen)	13.0	14.0	14.0	14.0	14.0
Dividend yield (%)	1.9	2.0	2.0	2.0	2.0

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 <i>rise</i> 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 <i>fall</i> 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.