

Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Transportation & Logistics

Maintain BUY

Expecting a weak 1QFY20

Revised Target Price: RM5.13

(Previously RM6.81)

KEY INVESTMENT HIGHLIGHTS

- **Negative passenger growth in 1QCY20 to drag quarterly earnings by at least 40.0%**
- **ISGA's -12.5%yoy drop in 1QCY20 was not as large as Istanbul Airport's -19.0%yoy decline in passenger traffic**
- **Wider travel restrictions and enhanced movement restrictions warrants a revision in passenger forecast**
- **Expecting a recovery in capacity in 2HCY20 assuming that the same capacity resumption trend in China happens**
- **Earnings estimates revised downwards to reflect a more conservative passenger growth**
- **Maintain BUY with a revised TP of RM5.13 per share**

1QFY20 earnings to be lower. We believe that MAHB's 1QFY20 normalised profit will be in the range of RM50-70m. This would represent a yearly decline of at least -40.0%. The drag in earnings will mainly come from the -27.6%yoy decline in passenger traffic for MAHB's Malaysian operations to 18.4m in 1QCY20 due to the impact from the Covid-19 pandemic. Klia2 experienced the largest drop in passenger traffic of -31.7%yoy in 1QCY20 as AirAsia Group and AirAsia X carried out massive capacity cuts amidst the weak travel demand. Passenger traffic for Malaysia's operations onwards will remain weak in 2Q20 as April 2020 will see the effect of the grounding of AirAsia Malaysia's fleet. This is in addition to the suspension of local interstate operations by Malaysia Airlines Berhad.

ISGA's passenger traffic dropped but not as bad as Istanbul Airport. For ISGA, its total passenger traffic for 1QCY2020 declined by -12.5%yoy to reach 7.1m. Nevertheless, the decline was not as large as Istanbul Airport which saw a -19.0%yoy contraction in passenger traffic during the quarter. It is important to note that Pegasus Airlines has suspended its domestic services from end of March 2020 until 30 April 2020 as a result of restrictions introduced by Turkey's Directorate General of Civil Aviation. With Europe being the epicentre of the Covid-19 besides the U.S, international flights to and from ISGA will be affected further in 2QCY20. Recall that around 70.0% of ISGA's international passengers come from Europe.

Current conditions warrant a further adjustment in passenger traffic forecast. We previously forecasted passenger traffic to hit 98.8m in FY20. However, the wider travel bans and movement restrictions imposed by nations such as Singapore, India, the Philippines and even Malaysia, warrants a further downward revision in our passenger traffic forecast. Therefore, we have revised our passenger traffic forecast for Malaysian operations to 70.7m (-32.8%yoy) in FY20 before rebounding to 95.3m (+34.8%yoy) in FY21. In addition, we have also made an adjustment to ISGA's passenger traffic forecast from 30.3m to 27.5m in FY20.

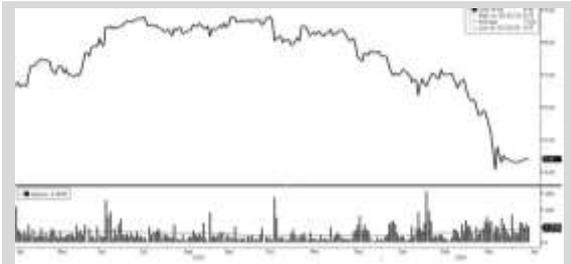
Earnings estimates. Following the revision in our annual passenger traffic forecast and the lower retail and rental revenue amidst reduced footfall, our earnings estimates for FY20E, FY21F and FY22F have been reduced by -49.0%, -21.0% and -19.0% respectively.

Target price. We are revising our target price to **RM5.13 per share** (previously RM6.81) after taking into account of the effect of the revised annual passenger traffic forecast and lower retail revenue. Our valuation is based on our DCF assuming an unchanged WACC of 8.3% and Beta of 1.1.

RETURN STATISTICS

Price @ 10 th Apr 2020 (RM)	4.40
Expected share price return (%)	+16.59
Expected dividend yield (%)	+3.18
Expected total return (%)	+19.77

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-2.1	1.0
3 months	-9.2	-15.2
12 months	-12.7	-4.5

KEY STATISTICS

FBM KLCI	1,357.50
Syariah compliant	No
Issue shares (m)	1659.19
Estimated free float (%)	50.59
Market Capitalisation (RM'm)	7300.40
52-wk price range	RM4.40 - RM8.88
Beta vs FBM KLCI (x)	1.04
Monthly velocity (%)	54.30
Monthly volatility (%)	19.32
3-mth average daily volume (m)	2.95
3-mth average daily value (RM'm)	22.04
Top Shareholders (%)	
Khazanah Nasional Bhd	33.21
Employees Provident Fund Board	13.65
BlackRock Inc	3.58

Analyst(s)

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Maintain BUY. While the movement control order (MCO) will adversely impact international passenger traffic, we believe that such sacrifice is of utmost importance in containing the Covid-19 pandemic. As such, we continue to reaffirm our view that the passenger traffic will see a nascent recovery in 2HCY20 provided that the Covid-19 pandemic subsides. Our basis for the upside in 2HCY20 comes after airlines in China such as Air China has filed domestic schedules for the week-long May holidays that offer similar capacity to 2019 levels, a remarkable sign of planned domestic aviation recovery. The flight resumption patterns established in China may offer some guidance to the rest of the world, just as China's strict containment measures have also provided cues to efforts elsewhere. Henceforth, we believe that Malaysia's containment efforts will likely flatten the rate of infection, enabling MAHB's passenger traffic Malaysia to hit the **70.7m** mark in 2020 before recovering in 2021. In terms of valuations, MAHB's stock price is trading at a 12-month price-to-earnings ratio (PER) of 15.2x, less than half of its five-year average (PER) of 63.9x and at a discount compared to the regional PER of nearly 30.0x. 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)	2018A	2019E	2020F	2021F	2022F
Revenue	4,786.10	5,213.1	4,082.9	4,468.9	4,883.4
EBITDA	2,383.50	2,292.0	1,306.5	2,055.7	2,246.4
EBIT / operating profit	1,496.10	1,350.4	770.9	1,336.2	1,505.1
PBT	780.6	659.2	331.5	641.4	737.5
PATANCI	727.3	537.0	245.3	487.4	575.2
Normalised PATANCI	439.5	564.5	245.3	487.4	575.2
Normalised EPS (sen)	26.5	34.0	14.8	29.4	34.7
Normalised EPS Growth (%)	82.8	28.4	(56.5)	98.7	18.0
PER (x)	16.6	12.9	29.8	15.0	12.7
Dividend Per Share (sen)	14.0	14.0	0.0	14.0	14.0
Dividend yield (%)	3.2	3.2	3.2	3.2	3.2

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.