

Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Transportation & Logistics

Maintain BUY

Recent signs of capacity addition seen in China

Revised Target Price: RM7.65
(Previously RM7.83)

KEY INVESTMENT HIGHLIGHTS

- **Total passenger movements (excluding ISGA) declined -23.4%yoy in February 2020**
- **Domestic traffic growth snapped its 15-month winning streak but the decline was smaller compared to international traffic**
- **ISGA saw a positive growth but is expected to see headwinds with more Covid-19 cases in Europe**
- **Expecting a recovery in capacity from 2HCY20**
- **Earnings estimates revised downwards to reflect a more conservative passenger growth**
- **Maintain BUY with a revised TP of RM7.65 per share**

As expected passenger traffic dipped in February 2020. The February 2020 passenger traffic for MAHB airports (excluding ISGA) declined by -23.4%yoy to 6.2m passengers. This was already expected as the Covid-19 outbreak caused airlines to announce temporary flight suspensions, cancellations in addition to travel restriction imposed by certain countries. On a year-to-date basis, MAHB's airports in Malaysia saw a -8.2% decline in total passenger traffic.

Domestic traffic growth snapped 15-month winning streak. After 15 consecutive months of year-on-year growth, domestic passenger traffic in Malaysia recorded a -16.8%yoy decline in February 2020. The Government of Malaysia had announced stimulus package which includes: i) a personal income tax relief of up to RM1,000 on expenditure related to domestic tourism; and ii) Malaysians will be eligible to digital vouchers for domestic tourism of up to RM100 per person for domestic flights, rails and hotel accommodations for all Malaysians. We believe that this will boost the domestic traffic growth during the major festive periods such as Hari Raya Aidilfitri in May 2020, provided that fears of Covid-19 have gradually waned by then. Excluding seasonal factors, Malaysians may still opt for other modes of transport such as railway which is covered under the stimulus package especially during this current period when the number of Covid-19 cases in Malaysia are still increasing.

Decline in international traffic larger than domestic traffic. Similarly, the international passenger traffic snapped its 15-month growth streak after recording a -29.7%yoy decline in February 2020, a larger drop compared to the domestic passenger traffic. Meanwhile, we noted that the drop in international traffic in klia2 of -29.6%yoy in February 2020 outpaced KLIA Main Terminal's -22.0%yoy reduction. The reason for this was that AirAsia Group Berhad and AirAsia X Berhad have been actively reducing capacity to international routes which mainly consist of ASEAN and Asian routes. Although airlines in KLIA Main Terminal too have been slashing capacity but the exposure that KLIA Main Terminal has on non-Asian destinations such as Europe and Middle East may have partially offset the drop in passengers particularly from North Asia.

ISGA's international traffic growth still in positive territory. For ISGA, its total passenger traffic for February 2020 increased by +4.9%yoy to reach 2.6m. In terms of international passenger traffic, the segment surged +16.6%yoy to 1.1m passengers during the same month. Meanwhile, domestic traffic in ISGA declined by -1.9%yoy to reach 1.6m passengers. Looking ahead, we expect ISGA to face headwinds as Turkey just confirmed its first Covid-19 case while cases in European countries such as Italy has been growing fast recently.

RETURN STATISTICS

Price @ 11 th Mar 2020 (RM)	5.89
Expected share price return (%)	+29.88
Expected dividend yield (%)	+2.40
Expected total return (%)	+32.28

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-14.3	-7.9
3 months	-22.5	-21.5
12 months	-23.1	-11.3

KEY STATISTICS

FBM KLCI	1,443.83
Syariah compliant	No
Issue shares (m)	1659.19
Estimated free float (%)	50.01
Market Capitalisation (RM'm)	9,772.64
52-wk price range	RM5.58 - RM8.88
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	11.02
Monthly volatility (%)	19.26
3-mth average daily volume (m)	3.45
3-mth average daily value (RM'm)	24.30
Top Shareholders (%)	
Khazanah Nasional Bhd	33.21
Employees Provident Fund Board	13.39
BlackRock Inc	3.62

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Expecting March 2020 to see lower in passenger traffic especially for international segment. We are expecting the decline in passenger traffic to extend into March and April 2020 after taking into effect the wider travel ban by the Malaysian government on all Italians, Iranians, South Koreans and other foreigners arriving from these countries effective 13 March 2020. Furthermore, more than a 100,000 Covid-19 cases have been confirmed at the time of writing. The North East Asian market experienced the largest reduction in scheduled airline capacity movements of -44.8% from 20 January 2020 to 9 March 2020 followed by South East Asia at -17.7% (refer Table 1). Pencilling in a -20.0%yoy reduction for MAHB's total passenger traffic in Malaysia for March 2020, 1QCY20 passenger traffic will see an approximately -13.0%yoy decline before staging a recovery at the start of 2HCY20 as the Covid-19 fears are expected to subside. Our basis for the upside in 2HCY20 comes after around 3.0m seats were added to the scheduled airline capacity in China last week, offering early signs of revival as the infection rate of Covid-19 slows down in China. We expect other regional airlines to follow suit in 2HCY20. A net result of the revision in our assumptions brings our revised annual passenger growth forecast for MAHB's Malaysian airports to a more conservative figure of 100.1m (previously 102.6m) for FY20, representing a yearly decline of -4.8%yoy.

Table 1: Major Regional Market Scheduled Airline Capacity Movements from 20 Jan'20 to 9 Mar '20

Regional Market	Scheduled Airline Capacity Movements (20 Jan 2020)	Scheduled Airline Capacity Movements (9 Mar 2020)	% change between 20 Jan '20 and 9 Mar '20
North America	22,644,121	24,432,880	7.9
Europe: Western Europe	18,606,424	19,043,668	2.3
Asia: North East Asia	25,178,594	13,886,480	-44.8
Asia: South East Asia	10,866,623	8,944,259	-17.7
Asia: South Asia	5,160,958	5,204,038	0.8

Source: OAG Schedules Analyser

Earnings estimates. Following the revision in our annual passenger traffic forecast and the expected additional PSC at ISGA, the net effect on our earnings estimates would be a -1.0% reduction in both FY20E, FY21F and FY22F earnings estimates.

Target price. We are revising our target price to **RM7.65 per share** (previously RM7.83) after taking into account of the net effect of the revised annual passenger traffic forecast. Our valuation is based on our DCF assuming an unchanged WACC of 8.0% and Beta of 1.1.

Maintain BUY. 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 60 confirmed cases of coronavirus as of late, a manageable figure so far amongst major Asian nations. 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 the roll out of MAHB's biometric identification process for international departing passengers by June 2020. We opine that the fears over the Covid-19 will subside by then. Henceforth, we still believe that MAHB passenger numbers can meet the **100.1m** mark in 2020 at the current juncture, representing a growth rate of -4.8%yoy before rebounding +8.2%yoy in 2021 underpinned by the expected recovery from Covid-19. In terms of valuations, MAHB's stock price is trading at a 12-month price-to-earnings ratio (PER) of 20.4x, less than half of its five-year average (PER) of 64.0x and at a discount compared to the regional PER of above 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%. 

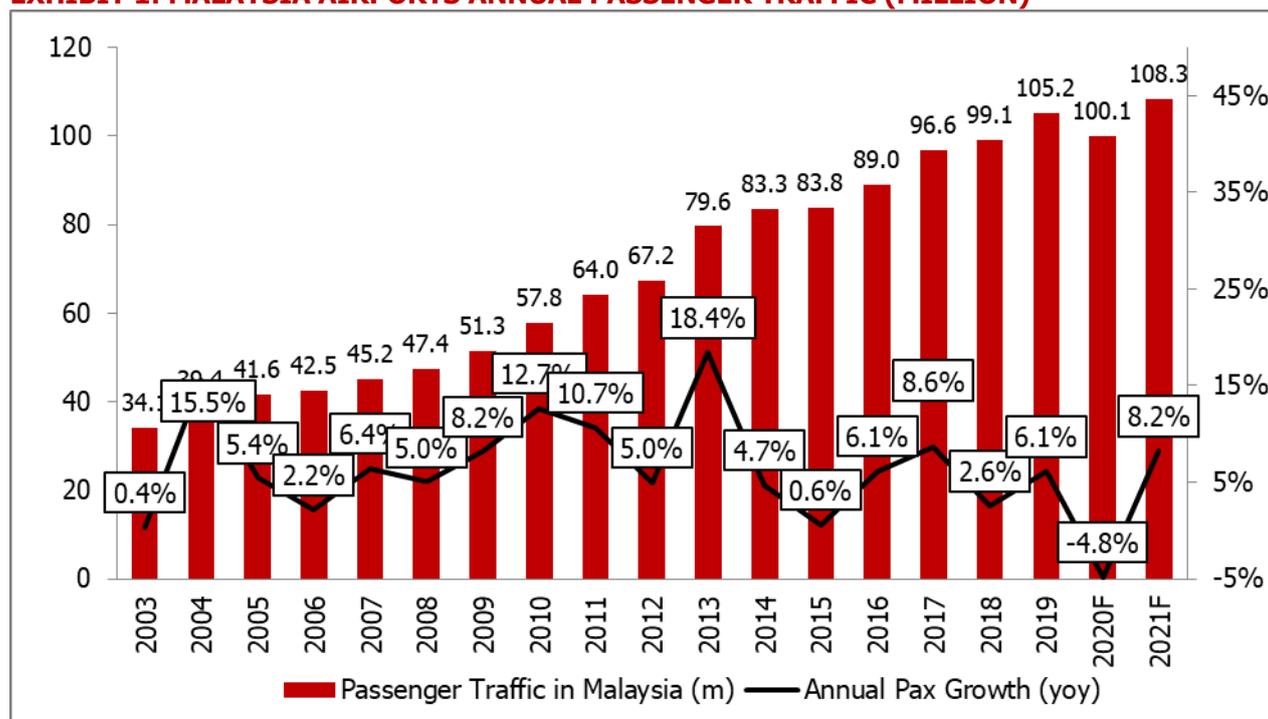
INVESTMENT STATISTICS

Financial year ending 31 st December (in RM'm, unless otherwise stated)	2018A	2019A	2020E	2021F	2022F
Revenue	4,786.10	5,213.1	4,982.9	5,412.1	5,871.9
EBITDA	2,383.50	2,292.0	2,192.5	2,489.6	2,701.1
EBIT / operating profit	1,496.10	1,350.4	1,403.2	1,668.0	1,809.7
PBT	780.6	659.2	729.7	867.4	941.0
PATANCI	727.3	537.0	554.5	659.2	734.0
Normalised PATANCI	439.5	564.5	554.5	659.2	734.0
Normalised EPS (sen)	26.5	34.0	33.4	39.7	44.2
Normalised EPS Growth (%)	82.8	28.4	(1.8)	18.9	11.4
PER (x)	22.2	17.3	17.6	14.8	13.3
Dividend Per Share (sen)	14.0	14.0	14.0	14.0	14.0
Dividend yield (%)	2.4	2.4	2.4	2.4	2.4

Source: Company, MIDFR

APPENDIX

EXHIBIT 1: MALAYSIA AIRPORTS ANNUAL PASSENGER TRAFFIC (MILLION)



Source: MAHB, 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.