

# Malaysia Airports Holdings Berhad

(5014 | MAHB MK) Transportation & Logistics

**Maintain BUY**

Turkey could likely be a shield from the health scare

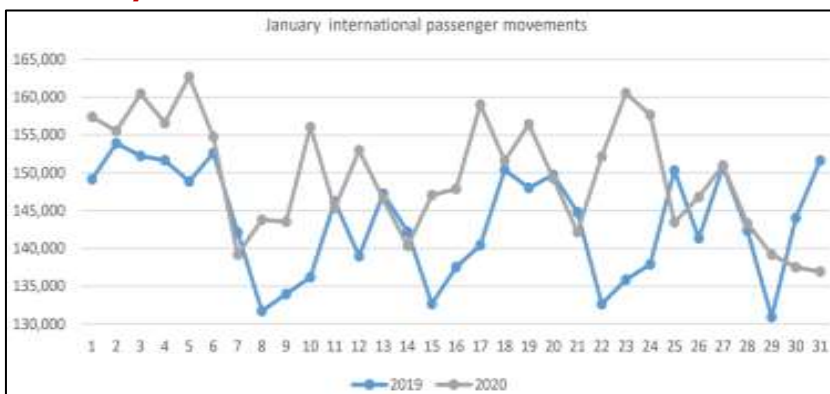
**Revised Target Price: RM8.51**  
(Previously RM8.98)

## KEY INVESTMENT HIGHLIGHTS

- Total passenger movements (excluding ISGA) advanced +6.6%yoy in January 2020
- Therefore, a drop in February 2020's passenger traffic is inevitable at this point.
- Route transfer from Turkish Airlines to AnadoluJet to bring additional PSC collection
- ISGA's indirect exposure to Asia should buffer impact from coronavirus
- Earnings estimates revised downwards to reflect a more conservative passenger growth
- Maintain BUY with a revised TP of RM8.51 per share

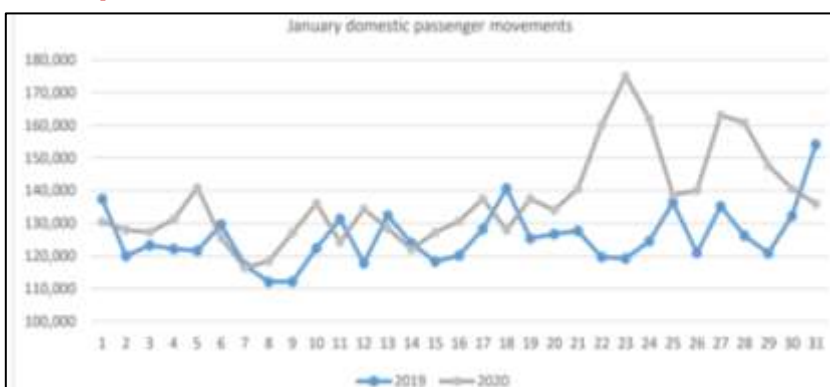
**Passenger traffic remains strong in January 2020 albeit declining trend towards the end.** The January 2020 passenger traffic for MAHB airports (excluding ISGA) increased by +6.6%yoy to 8.9m passenger due to the festive season. Nevertheless it is notable that both international and domestic passenger traffic showed a declining trend after the Chinese New Year break following the coronavirus outbreak in China. The same trend was also observed in passenger transport volumes in China during this year's Chinese New Year period. This was in contrast with last year's trend which peaked towards the end of January before the Chinese New Year break took place on 5<sup>th</sup> and 6<sup>th</sup> February 2020. As such, average load factors in January 2020 had dropped 2.4ppts from a year ago to 71.0%

**Figure 1: MAHB's Malaysia international passenger movement in January 2020**



Source:MAHB

**Figure 2: MAHB's Malaysia domestic passenger movement in January 2020**



Source:MAHB

## RETURN STATISTICS

Price @ 10 <sup>th</sup> Feb 2020 (RM)	6.90
Expected share price return (%)	+23.33
Expected dividend yield (%)	+2.00
<b>Expected total return (%)</b>	<b>+25.33</b>

## SHARE PRICE CHART



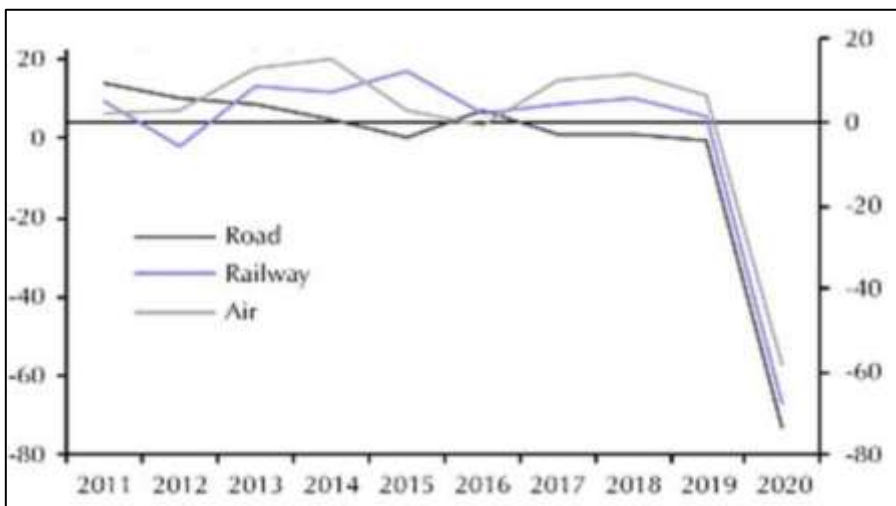
Share price performance (%)	Absolute	Relative
1 month	-2.1	1.0
3 months	-9.2	-15.2
12 months	-12.7	-4.5

## KEY STATISTICS

FBM KLCI	1,542.80
Syariah compliant	No
Issue shares (m)	1659.19
Estimated free float (%)	50.59
Market Capitalisation (RM'm)	11,448.42
52-wk price range	RM6.18 - 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	12.81
BlackRock Inc	3.69

## Analyst(s)

**ADAM** Mohamed Rahim  
adam.mrahim@midf.com.my  
03-2772 1686

**Figure 3: Passenger Transport Volumes in China during the Chinese New Year Holiday (%yoy)**

Source: Capital Economics

**Domestic traffic growth outpaced international traffic growth in Malaysia.** Domestic traffic for airports in Malaysia in January 2020 continued its upward trend, increasing by +8.9%yoy to 4.3m passengers. The bulk of the growth was attributable to the +17.6%yoy jump in domestic traffic at KLIA Main Terminal. We opine that this was due to the shift in airlines capacity from the international to the domestic sector. Meanwhile, international passenger traffic for Malaysian operations increased by +4.7%yoy to 4.7m passengers. KLIA Main Terminal was also the main contributor for international traffic with a +5.3%yoy increase. We opine that klia2 experienced a smaller growth in international traffic of +3.0%yoy partly due to the suspension of AirAsia flights from and to Wuhan (via Kota Kinabalu, Bangkok and Phuket) announced on 23<sup>rd</sup> January 2020 and effective until 29<sup>th</sup> February 2020. In addition, AirAsia passengers travelling to mainland China, Hong Kong and Macao are given the option to obtain a credit account or a full refund until 1<sup>st</sup> March 2020.

**Expecting February 2020 to see a blip in passenger growth especially for international traffic.** We expect a drop in February 2020's passenger traffic is inevitable at this point. Assuming that the average daily passenger traffic remains around 140,000 passengers per day for international and 130,000 per day for domestic in February, the total passenger movement will decline by approximately -3.8%yoy. As such, it will be necessary to relook at our annual passenger traffic forecast for MAHB's Malaysian airports. We are assuming that the coronavirus outbreak will continue until April or May 2020 amidst China's efforts to contain the coronavirus outbreak. Therefore, we are estimating a 15-20% reduction from normal levels in passengers coming from countries such as China and Singapore from February to May 2020. This brings our revised annual passenger growth forecast for MAHB's Malaysian airports to a more conservative figure of 109.3m for FY20.

**ISGA's international traffic reached a record performance.** For ISGA, its total passenger traffic for the month increased by +6.1%yoy to reach 2.9m in January 2020. In terms of international passenger traffic, the segment surged +24.4%yoy to 1.2m passengers during the same month. Meanwhile, domestic traffic in ISGA declined by -3.8%yoy to reach 1.7m passengers. This came as a result of the impact of Pegasus' route restructuring which began somewhere in the middle of 1HCY2019.

**Route transfer from Turkish Airlines to AnadoluJet to bring additional PSC collection.** According to a document released by Turkish's Civil Aviation Directorate in mid-January 2020, requests for additional routes using ISGA would no longer be approved. Such measures will direct passengers and airline companies to the Istanbul airport instead of ISGA. Notwithstanding this, Turkish's national carrier, Turkish Airlines has filed inventory changes for summer 2020 season (late March 2020) as it confirmed the transfer of all international flights at ISGA to its fully-owned subsidiary AnadoluJet, as well as selected international routes. We understand that Turkish Airlines operates either the Airbus A320 or the Boeing 737-800 which has a seat capacity ranging from 153 to 150 passengers. Meanwhile, AnadoluJet will fly the new international routes with its Boeing 737-800 with a full-economy class set configuration of 189 seats. Therefore, the capacity offered by AnadoluJet could be beneficial in terms of higher collection of passenger service charges (PSC) from departing passengers. Based on our analysis on the routes transferred to AnadoluJet and assuming load factor of 82.0%, we expect an additional EUR3.2m worth of PSC (excluding transfer PSC) to be collected in FY20.

**How did ISGA fare during MERS-CoV?** We observed that ISGA experienced no decline in passenger traffic during the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003. But a more meaningful comparison would be during the Middle East respiratory syndrome coronavirus (MERS-CoV) in 2012 due to ISGA'S closer proximity to the Middle East. Even then passenger traffic at ISGA stood resilient during the MERS-CoV period, growing by +8.6%yoy in 2012. In addition, ISGA's has no direct impact to ASEAN (excluding Malaysia via Malaysia Airlines), South Asia and North Asia as most of its flights are for Europe, Africa and the Middle East. Therefore, the exposure that ISGA has towards the coronavirus could come from Europe (via France, Russia and Germany) and the United Arab Emirates.

Nevertheless, latest statistics indicate that confirmed cases in these countries are at a contained level. As for Turkey, there have been no confirmed cases of the coronavirus at the moment. Therefore we believe the current momentum of passenger traffic at ISGA to maintain at its current pace.

**Table 1: International flights transferred from Turkish Airlines to AnadoluJet at ISG beginning from 29 March 2020 at ISGA**

International destinations from ISG	Flight Frequency
Abu Dhabi	4 per week
Amsterdam	1 daily
Baghdad	1 daily
Bahrain	1 daily
Baku	1 daily
Barcelona	1 daily
Berlin Tegel	1 daily
Brussels	4 per week (7 per week from 12 May to 7 September 2020)
Erbil	1 daily
Dammam	5-6 per week
Dubai	1 daily
Dusseldorf	1 daily
Frankfurt	1 daily
Jeddah	1 daily (2 daily from 11 May 2020)
Kuwait City	1 daily
London Stansted	1 daily
Madinah	4 per week
Milan Malpensa	1 daily
Munich	1 daily
Paris CDG	1 daily
Riyadh	4 per week (7 per week from 17 May 2020)
Rome	1 daily
Stuttgart	1 daily
Tbilisi	1 daily
Tehran Imam Khomeini	1 daily
Tel Aviv	1 daily
Vienna	1 daily

Source: Routes Online

**Table 2: International flights transferred from Turkish Airlines to AnadoluJet at ISGA beginning from 29 March 2020**

Type of Aircraft	Business Class seats	Economy Class seats	Total Number of Seats
Boeing 737-800 Version 1 (Turkish Airlines)	20	135	155
Boeing 737-800 Version 2 (Turkish Airlines)	12	147	159
Boeing 737-800 Version 3 (Turkish Airlines)	16	135	151
Airbus A320 (Turkish Airlines)	12	141	153
Boeing 737-800 (AnadoluJet)	0	189	189

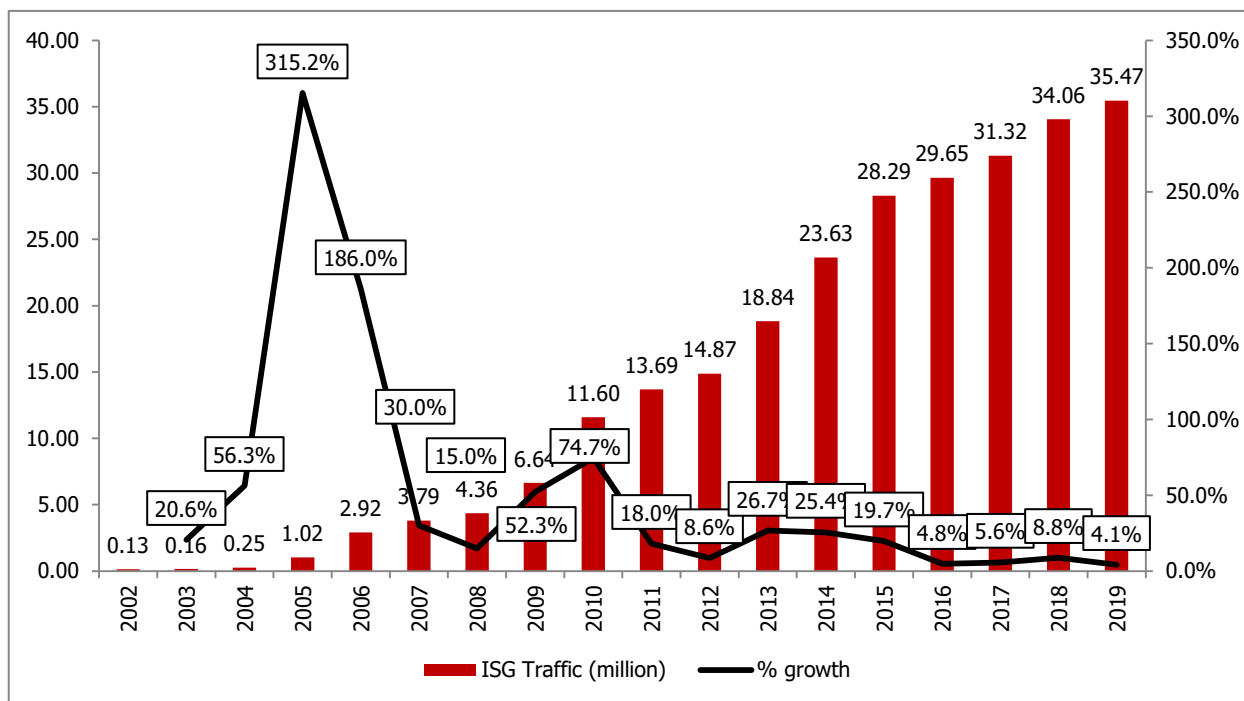
Source: The Flight info, Seat Guru

**Table 3: International passenger movements by region at ISGA in 2018**

Region	Total International Passengers (Million)	Market Share )%_
Europe	8.52	73
Middle East	2.92	25
Africa	0.23	2
<b>Total</b>	<b>11.67</b>	<b>100</b>

Source: MAHB

**Figure 4: Annual passenger traffic at ISGA**



Source: MAHB

**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 -1.1% reduction in both FY20E and FY21F earnings estimates.

**Target price.** We are revising our target price to **RM8.51 per share** (previously RM8.98) after taking into account of the net effect of the revised annual passenger traffic forecast and expected additional PSC at ISGA. The adjustment in our target price was also the result of ascribing a higher WACC of 8.0% (previously 7.8%) into our DCF valuation to reflect the tough operating environment in the aviation sector

**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 three months, we could still expect traction from other countries namely India, which so far has only 3 confirmed cases of coronavirus as of late. 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 109.3m mark in 2020 at the current juncture, assuming a growth rate of 3.9%. In terms of valuations, MAHB's stock price is trading at a 12-month price-to-earnings ratio (PER) of 24.7x, less than half of its five-year average (PER) of 64.0x and at a discount compared to the regional PER of 35.9x. 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%



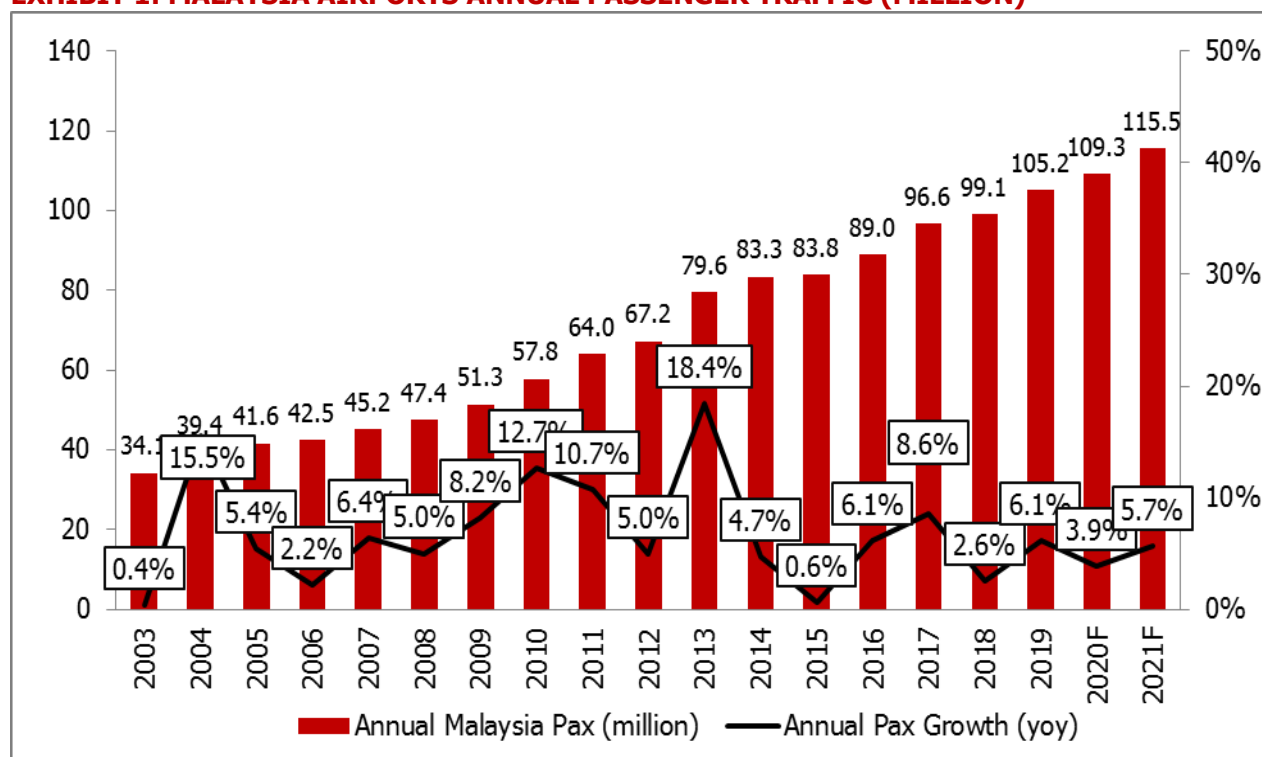
## INVESTMENT STATISTICS

Financial year ending 31 <sup>st</sup> December (in RM'm, unless otherwise stated)	2017A	2018A	2019E	2020F	2021F
<b>Revenue</b>	4,593.40	4,786.10	5,240.8	5,421.9	5,682.1
EBITDA	1,919.60	2,383.50	2,201.1	2,385.6	2,613.8
EBIT / operating profit	1,038.80	1,496.10	1,562.8	1,526.8	1,751.2
PBT	338.8	780.6	734.5	793.9	910.6
PATANCI	239.8	727.3	558.2	603.4	692.1
<b>Normalised PATANCI</b>	240.4	439.5	558.2	603.4	692.1
Normalised EPS (sen)	14.5	26.5	33.6	36.4	41.7
Normalised EPS Growth (%)	210.0	82.8	27.0	8.1	14.7
PER (x)	47.6	26.0	20.5	19.0	16.5
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

## 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

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.