

11 July 2018 | Sector Update

## Aviation Sector

**Maintain POSITIVE**

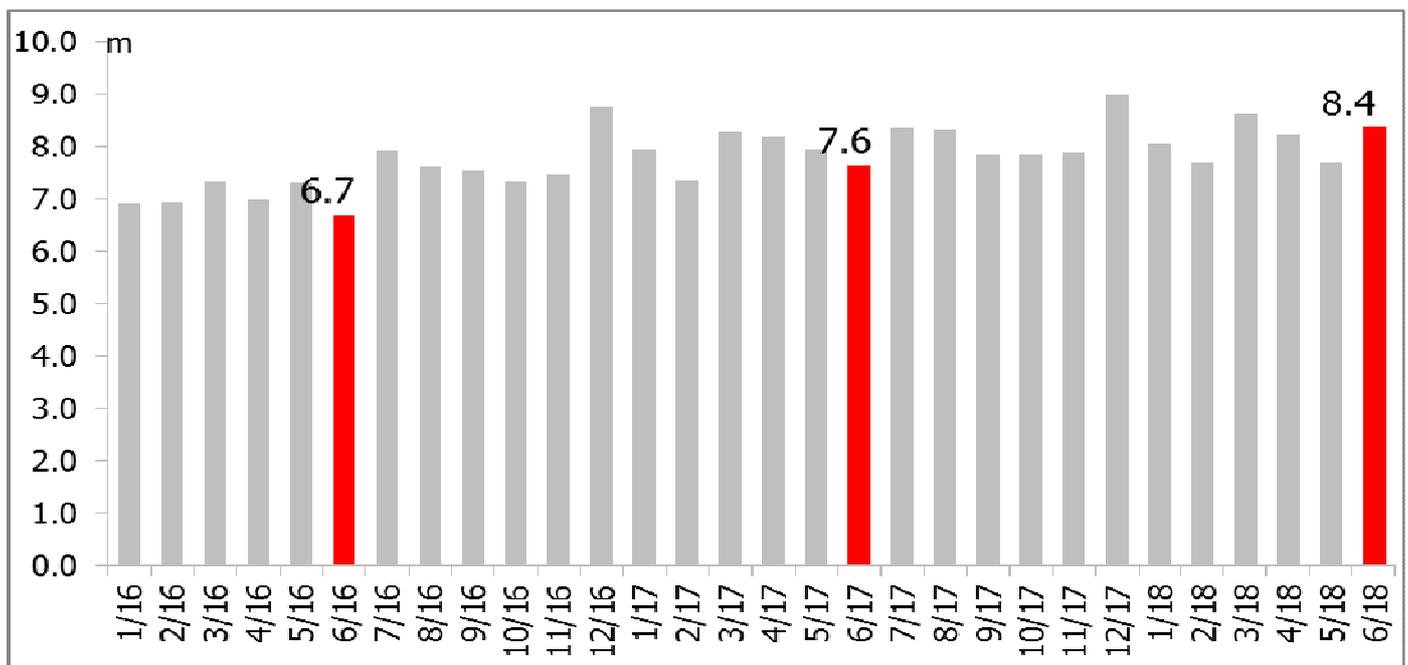
### Domestic Traffic Recorded Growth

#### INVESTMENT HIGHLIGHTS

- MAHB's passengers grew by +9.5%yoy in June 2018
- 1H18 passengers traffic in Malaysia airports charted growth of +3.0%
- Growth recorded in both international and domestic sectors
- **POSITIVE** for the sector

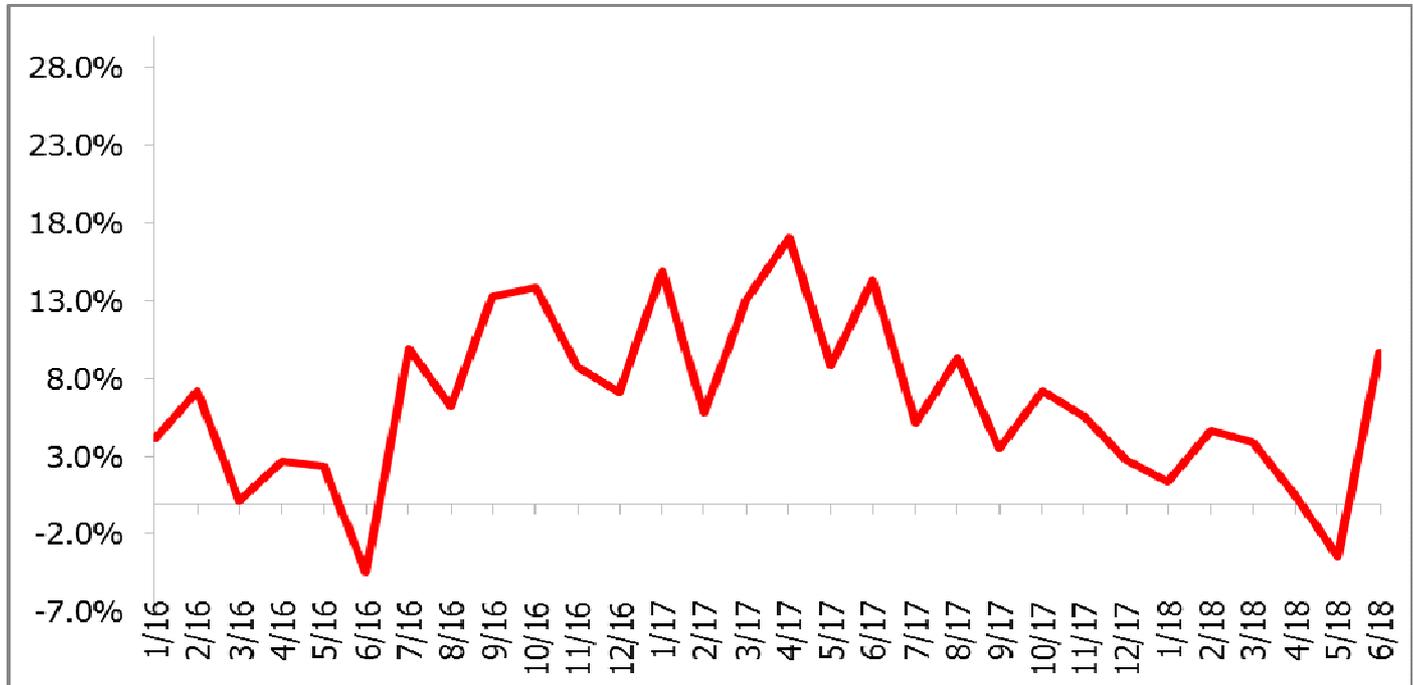
**June traffic data** displayed strong improvement in both international and domestic sectors. Cumulatively, the passengers' traffic recorded by MAHB in June was +9.5%yoy higher in comparison to the same period last year. Recall, the average growth of June passenger traffic for the past three years was +6.5%yoy. In 1HFY18, MAHB (including ISG) in total handled 64.9m passengers, which was +5.2%yoy higher than 1HFY17. Excluding ISG, passengers traffic at Malaysia airports climbed by +3.0%yoy. We noted that that the travel demand in June was higher due to Eid-fitr holiday season, which also coincided with the 2-week mid-term school holidays break. Accordingly, this has stimulated higher travel demand for both international and domestic sectors.

**Figure 1: Malaysia Airports Monthly Passenger Traffic (million)**



Source: MAHB, MIDFR

**Figure 2: Malaysia Airports Monthly Passenger Traffic (Growth %yoy)**



Source: MAHB, MIDFR

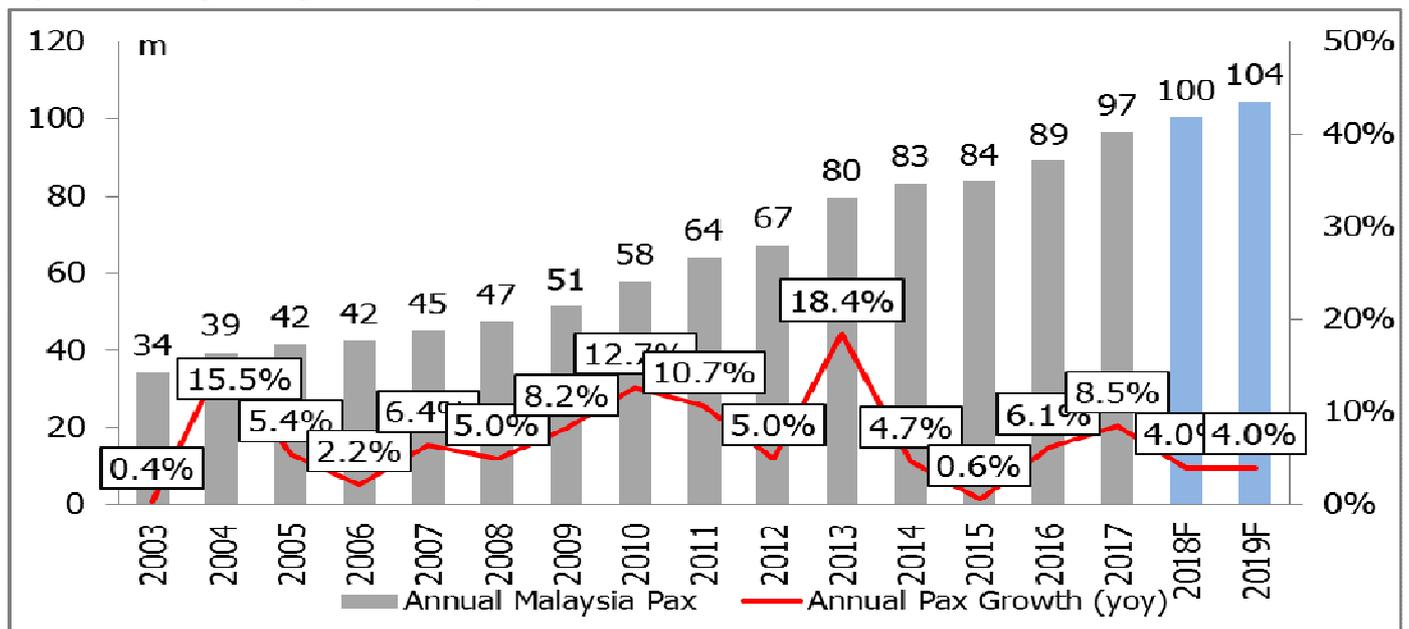
**Notable growth seen in domestic traffic...** Domestic traffic at Malaysia airports recorded growth for the first time since November 2017. It grew by +11.1%yoy in June 2018, to record the highest average load factor for the year at 76.2%. We noted that it was largely driven by the traffic in KLIA2, which were higher by +25.2%. Notably, the growth had far outpaced the domestic traffic flow in other airports, including KLIA Main Terminal with only +4.5%yoy growth in June. On the other hand, we noted that international traffic had lower growth compared to domestic traffic, at +8.3%yoy at airports in Malaysia. We understand that the highest contributors to the traffic were China, Indonesia, India and Taiwan, with the highest recorded by Chinese and Indian nationals. Accordingly, this was expected due to the visa relaxation programme catered for Chinese and Indian tourists. Overall, airports in Malaysia concluded the 1HFY18 on a positive note, recording passengers' traffic of 48.6m. This constitutes 48% of our full year passengers estimates in 2018.

**...benefiting LCCs.** Given the encouraging trend of passenger traffic in KLIA2, this put LCCs operating in the airport to benefit significantly. That includes AirAsia and AirAsiaX which commands considerable market share in the airport for both domestic and international sectors. Considering the significant growth of 25.2% of domestic passengers, we opine that AirAsia will most likely recorded strong operational statistic in 2QFY18. We noted that AirAsia market share of the domestic traffic at KLIA accounted for 66%, showing an improvement of +11.0ppts yoy from last year. Comparatively, monthly growth of domestic traffic in KLIA2 averaged at +12.2%yoy in FY17.

**Strong international passengers expected in 2H18.** We expect the positive momentum of traffic flow to remain, coming from the long holidays in countries such as China. It is worth noting that Chinese tourists represent a significant portion of international traffic which we attribute to the relaxation of visa permit to Malaysia and demographic factors. The occurrence of golden week in October is also expected to encourage outbound travel among Chinese tourists. Consequently, revenue from retail segments is expected to benefit given higher footfalls expected in the month of October in airports operated by MAHB.

**Optimistic on AirAsia and AirAsiaX.** These LCCs are poised to register higher earnings moving forward due to its notable presence in North Asia routes. China will lend strong base in passengers carried. Accordingly, we opine that load factor will remain strong above 85%. While the entries of new LCCs in the market are expected, given the growing demand, we believe both AirAsia and AirAsiaX will maintain its pole position. This stems from the company's comprehensive and forward-looking strategy of retaining its dominant market share in the region via additional frequency utilization and competitive fare prices.

**Figure 3: Malaysia Airports Passenger Traffic Forecasts**



Source: MAHB, MIDFR

**Positive on the sector.** While the current trend of rising fuel prices should pose downside risks, we believe both low cost short and medium-long haul business to remain buoyant based on its ability to weather higher fuel prices in the past years. Additionally, the bottom line earnings will be underpinned by its continuous improvement in operational cost and its ability to grow operating revenue. Accordingly, our optimistic views on the low-cost airlines business lead us to maintain our **BUY** call on **AirAsia (TP: RM4.87)** and **AirAsiaX (TP: RM0.47)**. Consequently, with a sanguine outlook on passenger traffic, MAHB is poised to benefit as the main airport operator in Malaysia. We also have a **BUY** call on **MAHB (TP: RM9.88)**

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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.