11 October 2018 | Sector Update

Aviation

***Maintain* POSITIVE**

Growth continues in domestic and international sector

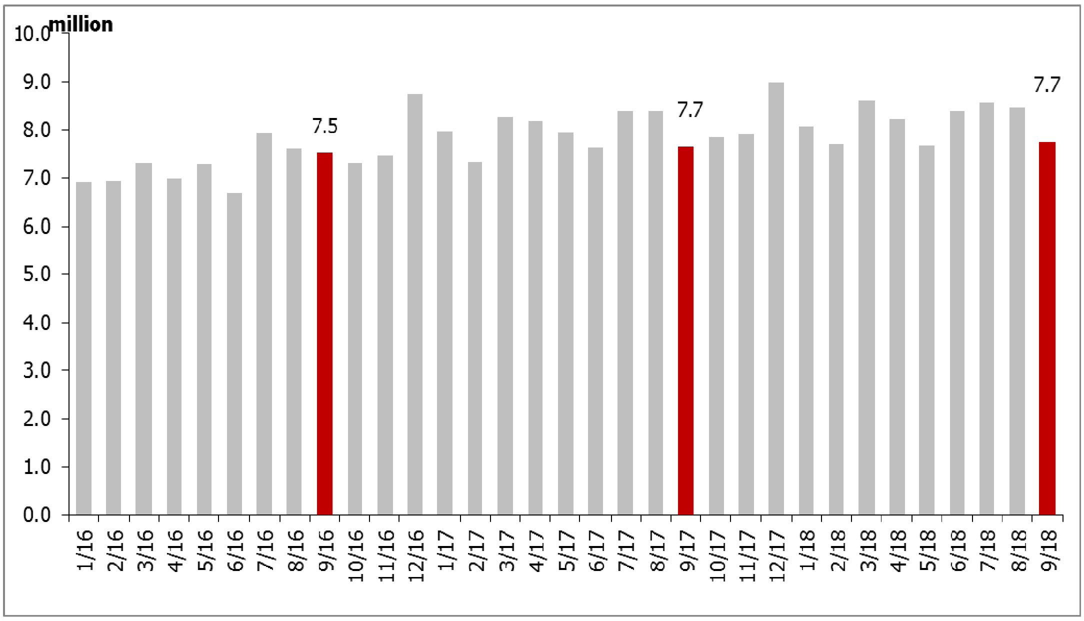
KEY HIGHLIGHTS

- **September passenger traffic growth at Malaysian airports came in +1.3%yoy higher (excluding ISG).**
- **9MFY18 passenger traffic in Malaysian airports grew +2.6%yoy**
- **Both domestic and international segments recorded growth**
- **4QFY18 to remain seasonally strong**
- **Maintain POSITIVE stance on aviation sector**

Passenger traffic growth at Malaysian airports remains intact. Total passenger traffic for the month of September came in +1.3%yoy higher at 7.7m (excluding ISG), extending the gains for the fourth straight month. Recall that the average growth of September passenger traffic for the past three years (excluding 2016 that registered a +13%yoy growth) was +1.2%yoy.

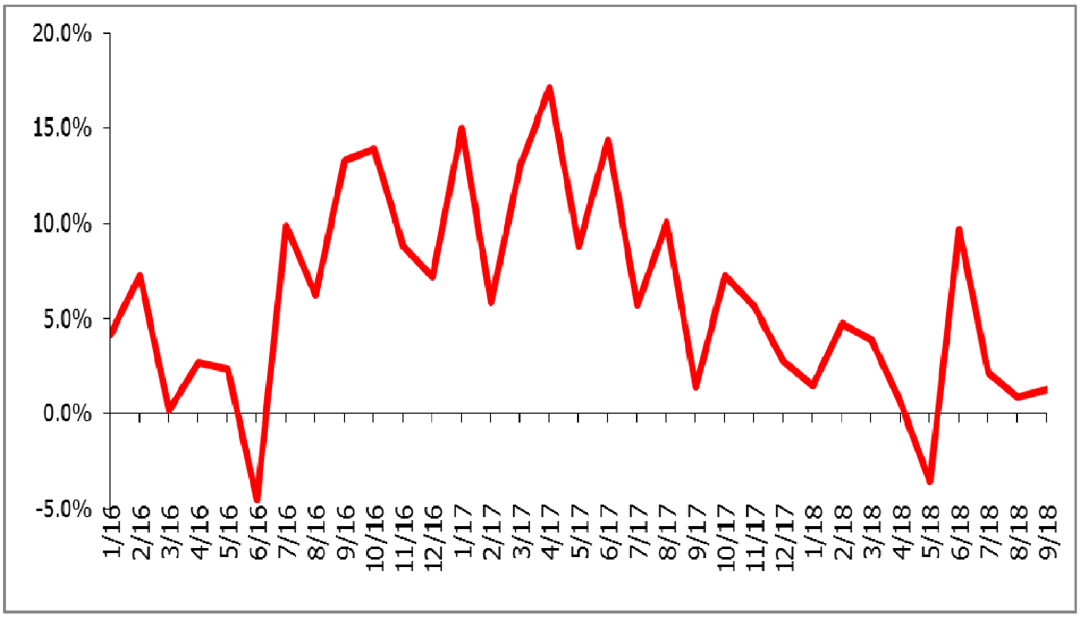
For 9MFY18, Malaysian airports recorded 73.6m pax (excluding ISG), an increase of +2.6%yoy, which constitute 73.6% of our full year passenger estimates in 2018. Including ISG, MAHB handled a total of 99.5m of passenger in 9MFY18, 4.5%yoy higher than 9MFY17. We noted that the travel demand in September was due to the slew of public holidays i.e., Yang di-Pertuan Agong's Birthday, Malaysia Day, and Awal Muharram.

Figure 1: Malaysia Airports Monthly Passenger Traffic (million)



Source: MAHB, MIDFR

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



Source: MAHB,MIDFR

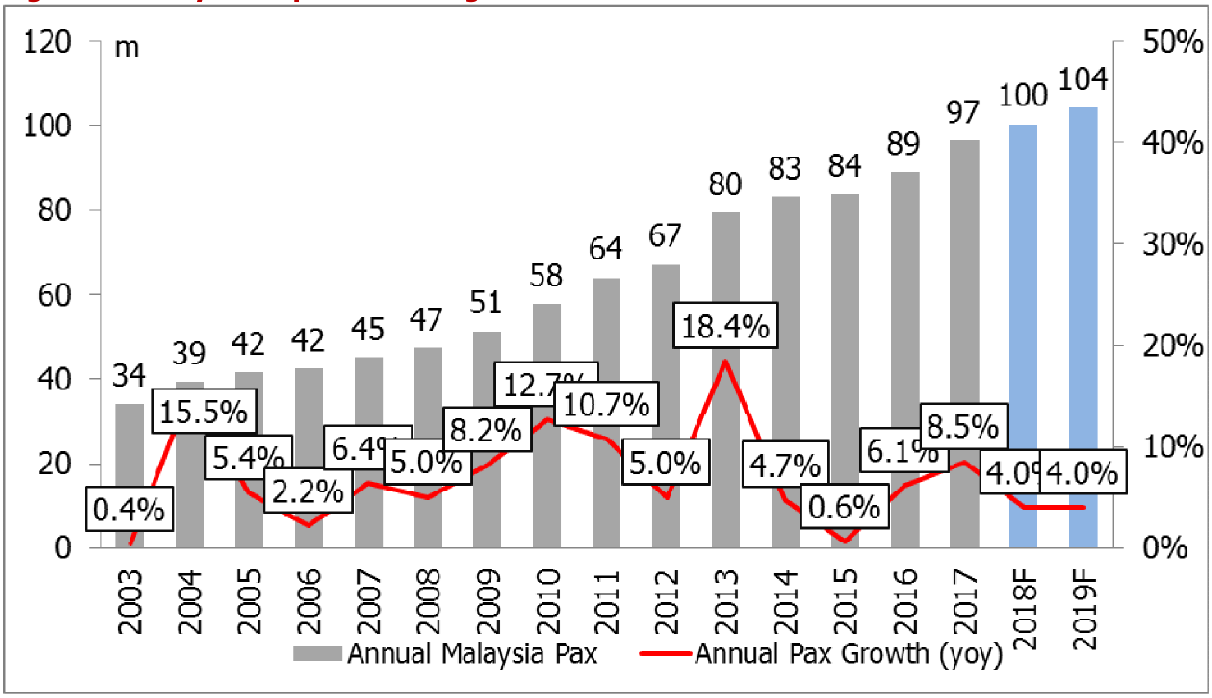
Steady growth for domestic segment. Domestic traffic at Malaysian airports recorded a positive growth for the second straight month of +1.6%yoy in September 2018. The average load factor for the same month meanwhile stood at 70.0%, the lowest so far this year. We noted that the drop in the average load factor was mainly due to the -8.8%yoy decline in domestic traffic at KLIA main terminal, whilst additional seats are added from capacity expansions of airlines especially Air Asia Group. Nonetheless, the overall drop in load factor was cushioned by the +5.5%yoy domestic traffic growth at KLIA2, stretching its yearly gain for the 19th uninterrupted month.

International traffic growth stayed put. The international traffic of airports in Malaysia grew +0.9%yoy for the fourth consecutive month to reach 4.0m passengers in September despite the peak of the monsoon season which mainly affected routes covering Hong Kong and the Philippines. We understand that the major contributors of the international traffic growth were the Middle East countries such as Oman, Saudi Arabia and Iraq in addition to Korea, Vietnam and Ethiopia. It came to no surprise that Korea would be one of the large contributors to the international traffic as the country had their four-day Chuseok holiday.

Passenger traffic at ISG grew by +4.1%yoy in September 2018. ISG recorded more than 3m passengers for the third uninterrupted month. This was underpinned by the +6.9%yoy growth in international traffic supported by: (i) the tail end of Turkish school holidays and; (ii) the daily flight commencement of Pobeda Airlines, a Russian low-cost carrier to and from Moscow Vnukovo.

4QFY18 to remain seasonally strong. We note that there were circa 30% decline in Chinese tourists during the Golden Week holiday from October 1-7 according to industry players, as Chinese Yuan depreciated -6.2% against the USD and -3.1% against our Ringgit. This resulted in the decline in Chinese arrivals, not only in Malaysia but also our other ASEAN neighbours. Notwithstanding this, we opine that 4QFY18 could still make up for this shortfall. For the past couple of years, the month of December has always been the strongest month of the year, leading to the strength of the fourth quarter. In 4QFY18, there will be three public holidays falling on Tuesday; Maulidur Rasul, the birthday of Sultan of Selangor, and Christmas. Therefore, this is likely to further encourage travelling amongst Malaysians as they can take additional leave on the Monday before the public holiday to create a four-day weekend.

Figure 3: Malaysia Airports Passenger Traffic Forecasts



Source: MAHB, MIDFR

LCCs to benefit. Given the encouraging trend of passenger traffic in KLIA2 especially from the domestic side, this puts LCCs such as AirAsia to benefit significant as it commands a considerable market share in the KLIA2 for both international and domestic sectors. Considering the +5.5%yoy growth in domestic passengers, we opine that AirAsia will continue to record commendable operational statistics in 3QFY18. We note that AirAsia's market share of the domestic traffic at KLIA as of September 2018 accounted for 67%, an improvement of +7ppts from the same period last year. Aside from that, the monthly growth of domestic traffic in KLIA2 from January to September 2018 has averaged at +12.9%yoy compared to +10.4%yoy last year. As for the international sector, the Asean portion will remain as the bulk of this segment and has registered an +8.8%yoy growth for the first nine months of 2018, benefitting AirAsiaX.

Reiterate positive stance on the sector. Despite the looming risks from rising fuel prices, MAHB has minimal exposure to changes in fuel price driven by its strong mix of domestic and international passengers that will be the strongest in the fourth quarter. Such grounds have constituted to our **BUY** call on **MAHB** with a **TP of RM9.88 per share**. Another player that we favour in the aviation space is AirAsia which has a **BUY** call with a **TP of RM3.62 per share,** predicated on its continuous improvement in operational cost and ability to grow operating revenue. While we reckon the growth of Asean passengers to contribute to **AirAsiaX**, we are reverting to a **NEUTRAL** stance (previously BUY) with a revised **TP of RM0.26 per share**. We expect the higher fuel price will dampens AirAsiaX's move to increase yields, necessitating a revision in our earnings estimates of AirAsiaX.

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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 *rise* 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 *fall* 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.