

# AVIATION

**Maintain POSITIVE**

## No signs of slowdown in klia2

### KEY INVESTMENT HIGHLIGHTS

- **MAHB (BUY; TP: RM9.43) passenger traffic (excluding ISG) grew by +7.6%yoy in 9MCY19**
- **Bulk of the growth for 9MCY19 came from non-KLIA passenger growth (contributed more than 60% of the growth), supported by MAHB's hub-and-spoke strategy**
- **Although growth in domestic passengers exceeded the growth in international passengers, international passenger movements continued to retain above 50% of passenger mix.**
- **Passenger traffic growth in klia2 exceeds KLIA Main Terminal and is expected to continue due to lower PSC for beyond ASEAN destinations**
- **Maintain POSITIVE on the aviation sector**

### Higher connectivity bolstered growth at other airports.

September 2019 traffic data for MAHB's Malaysian operations reached 8.4m passengers, translating to a +7.6%yoy growth and extended gains for the 11<sup>th</sup> uninterrupted month. This brings the 9MCY19 passenger traffic numbers for Malaysian operations to 78.0m, representing a +5.9%yoy growth and constitutes 76.1% of our full year passenger growth estimate of 102.5m in 2019. Bulk of the increase in passenger traffic during 9MFY19 came from other airports (i.e. excluding KLIA Main Terminal and klia2) which contributed more than 60% to the traffic expansion. We continue to opine that the growth in non-KLIA airports was supported by MAHB's hub-and-spoke model which aims to bring global traffic to smaller airports and vice versa. For example, Britain's TUI Airways and Kazakhstan's Sunday Airlines have been operating from the Langkawi International Airport since late last year. As for ISGA, the total passenger traffic in 9MCY19 grew +2.9%yoy bringing the total cumulative 9MCY19 passenger traffic for MAHB to 104.6m passengers.

### Series of long weekends boosted air travel demand for domestic traffic.

Domestic traffic at Malaysian airports recorded a staggering growth of +10.0%yoy in 9MCY19 to hit 38.6m passengers. Following the Aidilfitri holidays in June, travel demand in 3QCY19 remained strong; (i) a series of three long weekends in September 2019 and (ii) the Aidiladha and the national day holidays in August. The haze which occurred in the middle of September appeared to have no impact to the travel sentiment. Looking ahead, the consolidation in domestic traffic is expected to continue at least until 1QCY20 as airlines shift capacity from the international to domestic sector.

### Highest quarterly traffic ever for international passengers.

Meanwhile, the international traffic at Malaysian Airports grew at a measured pace of +2.2%yoy to hit 39.4m passengers in 9MCY19. Meanwhile, the international passenger traffic of 13.4m recorded in 3QCY19 was also the highest ever recorded on a quarterly basis. Besides the series on long weekends, the +3.3%yoy growth in international traffic during 3QCY19 partially came from the Hajj movements in August 2019. It also proved that the haze in September 2019 did not adversely impact travel demand. We believe that North Asia (China, Taiwan and Korea) likewise supported international traffic in September due to the mid-Autumn festival.

### COMPANY IN FOCUS

#### Malaysia Airports Holding Berhad

Maintain **BUY** | Unchanged Target price: RM9.43

Price @ 10<sup>th</sup> October 2019: RM8.58

- No impact to earnings from recent revision in beyond ASEAN PSC for airports other than KLIA Main Terminal
- VMY2020 to lend support to passenger growth
- On track to meet passenger traffic target of above 100m in 2019

#### Share price chart



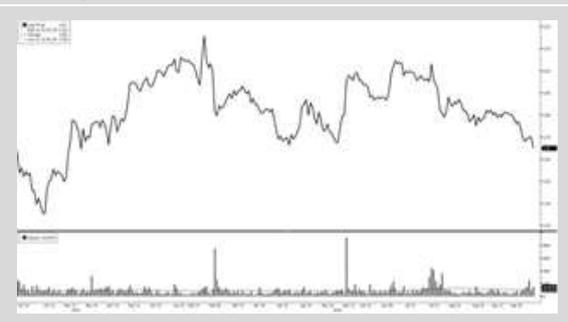
#### AirAsia Group Berhad

Maintain **BUY** | Unchanged Target price: RM2.08

Price @ 10<sup>th</sup> October 2019: RM1.65

- Prudent hedging policy to shield AAGB from any volatility in Brent crude oil price
- Expected to gain from lower amount of interest beyond the fifth year of the lease term.
- Passenger load factor to remain intact despite the departure levy

#### Share price chart

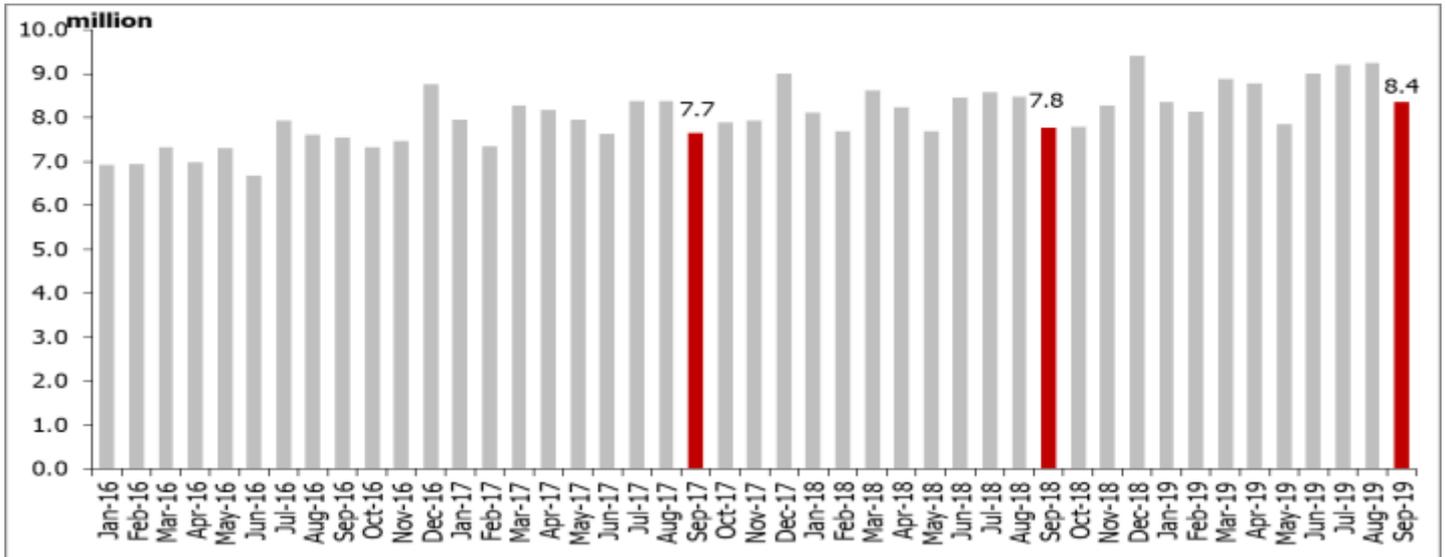


**ANALYST (S)**

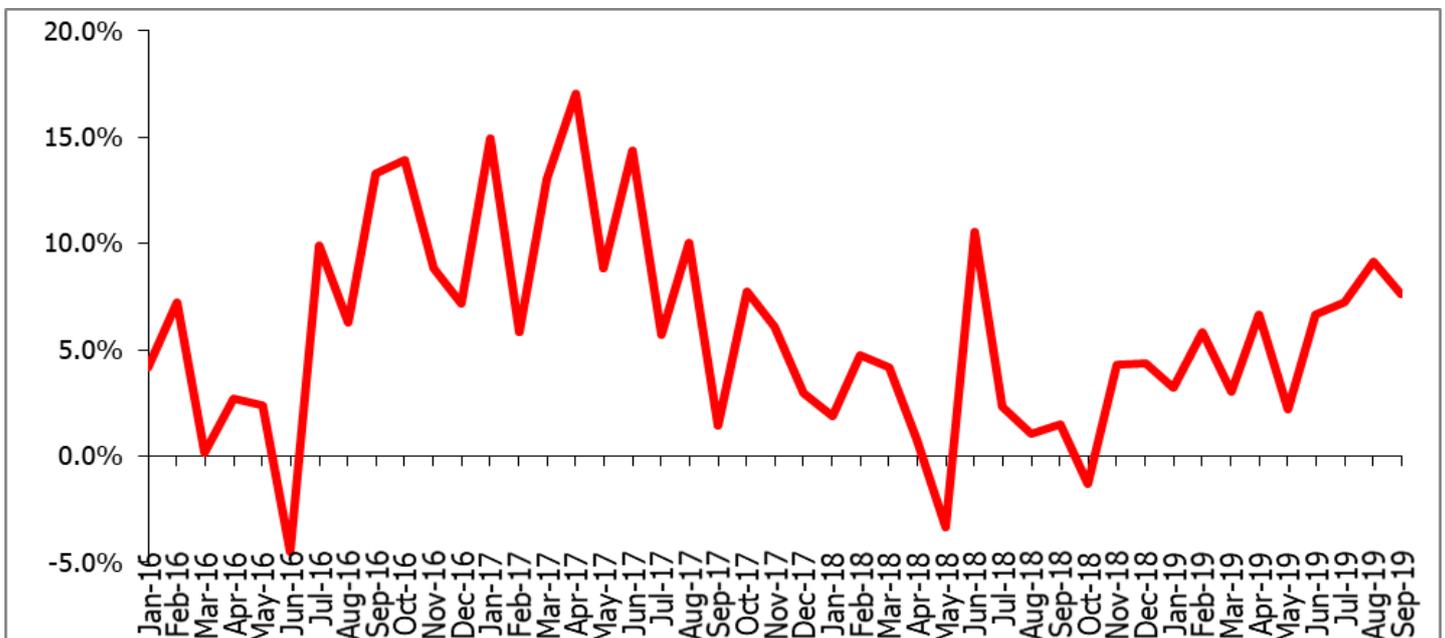
**ADAM** Mohamed Rahim

[adam.mrahim@midf.com.my](mailto:adam.mrahim@midf.com.my)

03 -2772 1686

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


Source: MAHB, MIDFR

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


Source: MAHB, MIDFR

**International passenger mix remains favourable at above 50% despite the travel disruption.** Although growth in the domestic sector outpaced the international sector for 9MCY19, international passenger movements continued to retain slightly more than 50% of the passenger mix. Latest international route additions include Malaysia Airlines' flights from Kuala Lumpur to Pekanbaru and Solo which commenced in mid-September 2019 while Indonesian carrier, Citilink started flight services from Pekanbaru to Kuala Lumpur in late September 2019. Moving forward, we expect international traffic for Malaysian operations to be supported by incoming addition of frequencies routes and also airlines. For instance, Turkmenistan Airlines will begin operating flights between Kuala Lumpur and Ashgabat from December 2019 while Uzbekistan Airways will be introducing a third flight beginning from mid-December 2019 under its Tashkent-Kuala Lumpur services which replaced the triangle routing with Jakarta.

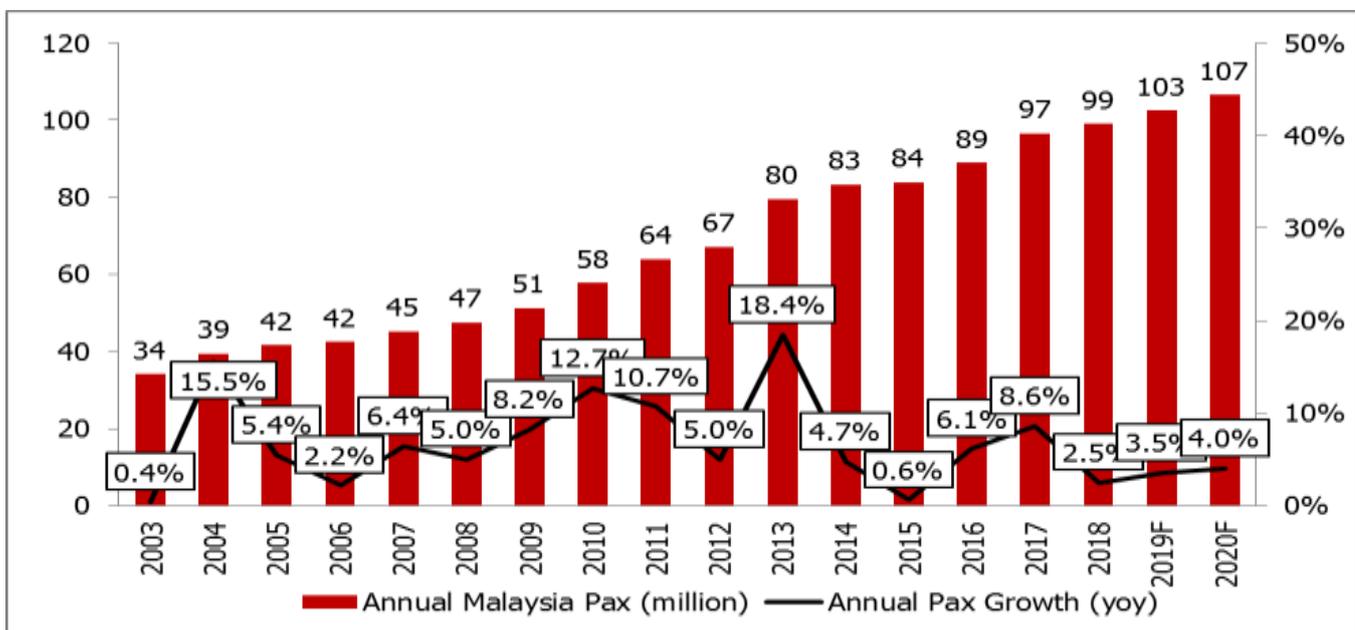
**Passenger traffic growth in klia2 exceeds KLIA Main Terminal.** Passenger traffic growth in klia2 for 9MCY19 of +4.2%yoy outpaced the +2.2%yoy growth seen in KLIA Main Terminal, mainly driven by the 6.9% growth in the domestic traffic during the same period. On the international front, passenger traffic for ASEAN countries in klia2 grew by +5.4%yoy and +6.6%yoy in 9MCY19 and 3QCY19 respectively.

Hence, we opine that AAGB will continue to record commendable operational statistics for 3QCY19. Although the growth of international passengers beyond ASEAN for klia2 declined by -0.6% in 9M CY19, we believe that this would change as routes operated by AAX especially from Kuala Lumpur to Fukuoka, which started in 1QCY19 and is expected to mature as the 2020 Tokyo Olympics gets closer. Moreover, we view AAX's new service from Kuala Lumpur to Narita, Tokyo beginning in late November 2019 on top of its existing flights to Haneda, Tokyo will serve to further strengthen AAX's position as one of the largest airlines in Japan's emerging medium/long haul market.

**Headwinds from departure levy to be negated by VMY2020.** Recall that the international departure levy came into effect on 1 September 2019. As this was only applicable for tickets purchased on or after the implementation date, the effects of the departure levy may have yet to be felt. Nonetheless, we continue to believe that the impact of the departure levy will be negated by robust travel demand heading into Visit Malaysia Year 2020 (VMY2020). In comparison with other countries such as Hong Kong, Bangkok and Australia, Malaysia still has the lowest departure levy for economy class passengers (for both ASEAN and non-ASEAN destinations) and premium class passengers (for ASEAN destinations).

**Maintain POSITIVE on the sector.** The downward revision of PSC for international departures beyond ASEAN to RM50 (previously RM73) for airports excluding KLIA Main Terminal which took effect on 1 October 2019 could undermine the efforts of implementing the Regulated Asset Base framework from January 2020. Nevertheless, we believe that the Government of Malaysia has been working closely with the Malaysian Aviation Commission to ensure that new PSC rates starting from January 2020 would be reflective of the service levels of respective airports under the Regulated Asset Base framework. In the meantime, the lower PSC for beyond ASEAN destinations in airports ex-KLIA will spur traffic growth especially for LCCs such as AAGB (for routes in China and India) and AAX between now and the of implementation of new aeronautical charges in January 2020. Henceforth, the prospect of travel demand remains upbeat coming into seasonally strong 4QCY19 and approaching VMY2020. Therefore, we strongly believe that MAHB passenger numbers for Malaysian operations can surpass the 100m mark in 2019, while maintaining a relatively conservative growth rate of **3.5%** at approximately **102.5m passengers**. All in, reiterate our **BUY** call on MAHB with a **TP of RM9.43 per share** which is our top pick for the aviation sector.

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



Source:  
Compan

## PEER COMPARISON TABLE

Stock	FYE	Recommendation	Price @ 13-Aug-19	Target Price (RM)	EPS (sen)		PER (x)		Net DPS (sen)		Net Divd Yield (%)	
					FY19E	FY20F	FY19E	FY20F	FY19E	FY20F	FY19E	FY20F
MAHB	Dec	BUY	8.58	9.43	33.6	36.8	25.5	23.3	14.0	14.0	1.6	1.6
AAGB	Dec	BUY	1.65	2.08	16.9	18.9	9.8	8.7	102.0	12.0	61.8	7.3
AAX	Dec	NEUTRAL	0.16	0.19	0.43	1.58	37.0	10.1	0.0	0.0	0.0	0.0

Source: Company MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.