

11 March 2015 | Sector Update

MALAYSIA AIRPORTS PASSENGER TRAFFIC

Maintain **NEUTRAL**

Subdued February Despite CNY

HIGHLIGHTS

- MAHB's Malaysian airports passenger traffic declined -1.0%yoy mainly due to a -4.0%yoy decline in international passenger traffic, a sign that international tourism has yet to fully recover.
- Istanbul Sabiha Gokcen International Airport ("SGIA") recorded double digit growth of +14.2%yoy, within management's forecast of +15.0%yoy.
- We maintain our +3.5% growth forecast for passenger traffic in 2015 despite a -2.9%yoy cumulative year-to-date traffic number on the back of: i) removal of visa fees; ii) Visit Malaysia campaign; iii) lower air fares with removal of fuel surcharge; iv) higher presence of foreign carriers.
- We retain our DCF-derived TP of RM7.53 TP for Malaysia Airports Holdings Berhad ("MAHB"). Our DCF calculation assumes a WACC of 7%.

Passenger traffic declined by -1.0%yoy in February 2015. Passenger traffic recorded for Malaysian airports declined -1.0%yoy. The domestic sector passenger growth was encouraging at +2.0%yoy mainly due to the CNY festive season in which average airlines' load factor was 70-80% during the two weeks. Contrastingly, the international sector saw a -4.0%yoy decline in passenger traffic for Feb 2015, despite average load factors of 70-79% during the festive season break. We believe that the international passenger sector is still reeling from the unfortunate aviation incidents in FY14. However, we believe the pro-active measures taken by the government to help boost tourism such as removing visa fees for tourists from various countries (e.g. China) as well as the Visit Malaysia campaign entitled "Year of Festivals 2015" could help in reviving the appeal of Malaysia as a preferred tourist destination.

Istanbul's SGIA maintains double digit growth. Including SGIA, MAHB's total passenger traffic growth grew +1.99%yoy for the month of Feb 2015. SGIA continued to record double digit growth at +14.2%yoy on the back of overall aircraft traffic increase of +10.4%. The growth is very much in line with management's 2015 growth forecast of +15.0%yoy. Moving forward, we expect SGIA to be the main growth driver for MAHB's passenger traffic volume.

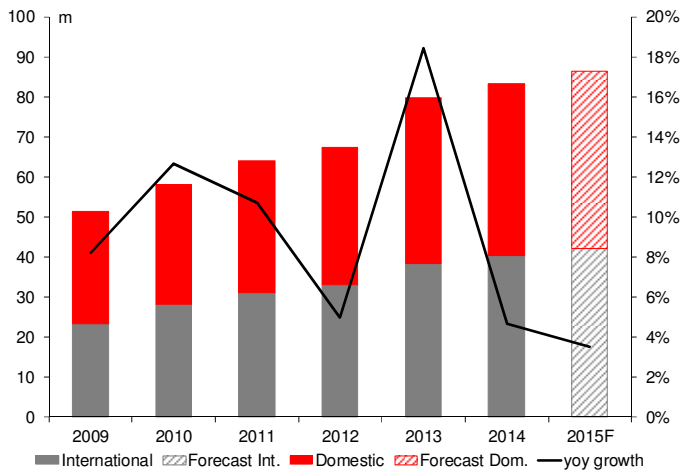
Blip in global air passenger for Jan 2015 due to CNY timing. According to IATA, Jan 2015's passenger growth was at +4.6%yoy. It was below the 10-year average growth rate of +5.6% mainly due to the timing of CNY that affected passenger traffic in Asia. The growth was contributed mainly by the European region due to favorable travel demand on low-cost carriers and Middle Eastern region due to an increased business activity in non-oil sectors. Average load factor for Jan 2015 slipped to 77.7% with capacity growth of +5.2%yoy.

We maintain our +3.5% growth in passenger traffic growth for FY15. Despite the -2.9%yoy drop in cumulative year-to-date passenger traffic (against our full year growth target of +3.5%), we retain our 2015 growth forecast as we expect efforts to boost tourism such as the removal of visa fees and the Year of Festivals 2015 campaign to eventually bear fruit. In addition, we believe that passenger traffic could grow with lower air fares translated from the decline in jet fuel prices and the higher presence of foreign airlines offsetting the impact of lower capacity growth from local carriers.

Maintain NEUTRAL with a DCF-derived TP of RM7.53. Our DCF valuation assumes a WACC of 7%. Despite subdued FY14 results due to start-up expenses for KLIA2, we see potential catalyst for MAHB in FY15 coming from: i) better passenger movements; ii) breakeven of loss-making Sabiha Gokcen International Airport; and iii) higher contributions from non-aeronautical division.

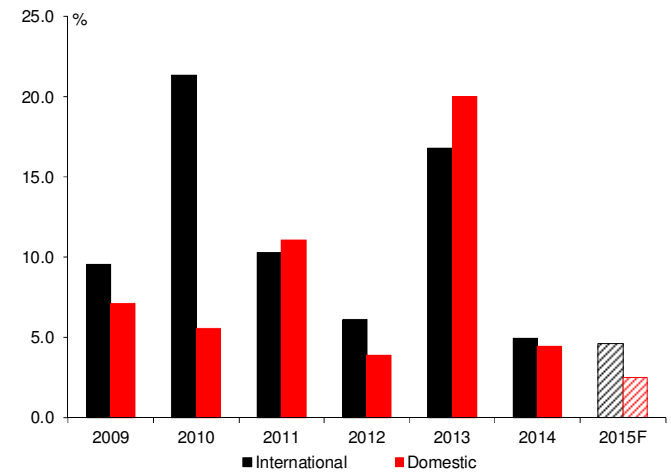


PASSENGER TRAFFIC AT MALAYSIAN AIRPORTS



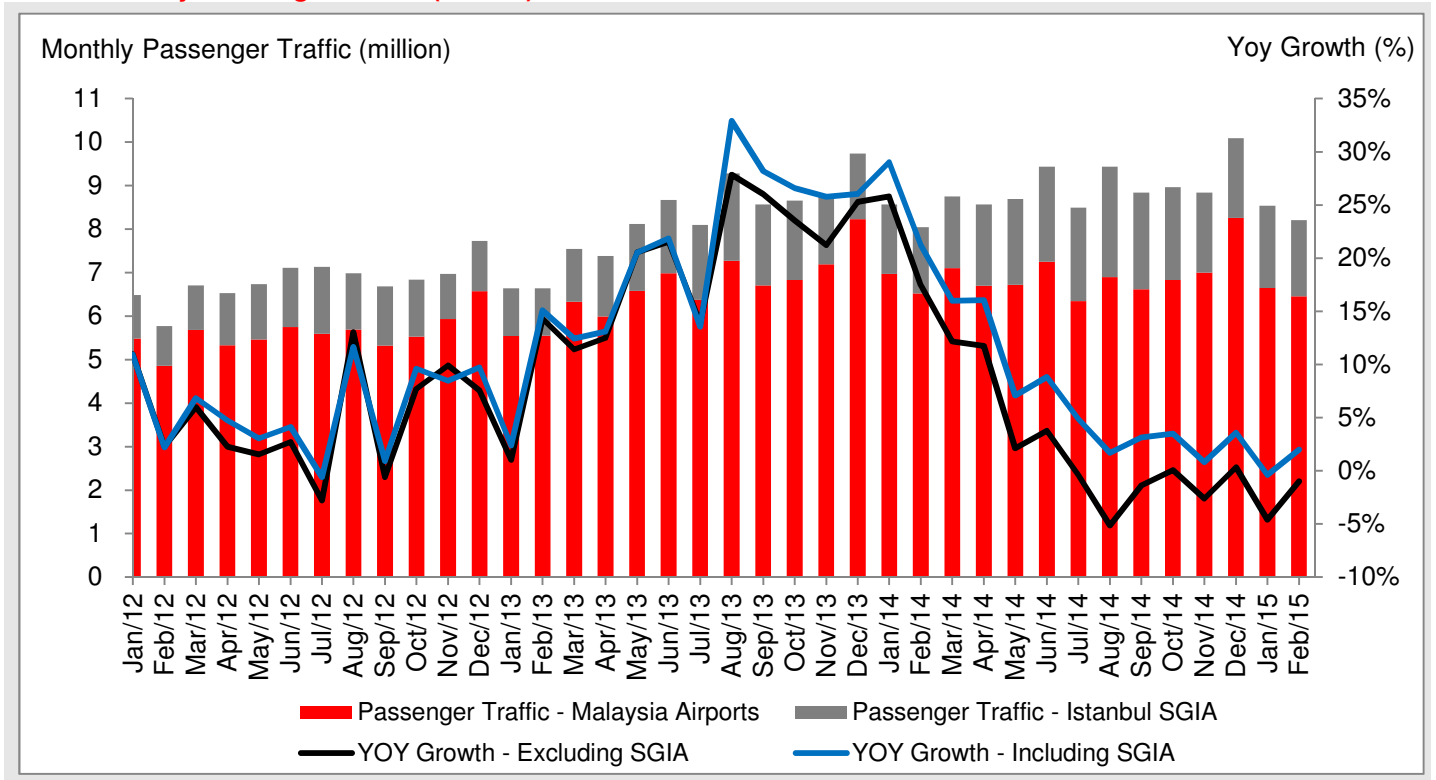
Source: MAHB, MIDFR

CHANGE IN TRAFFIC AT MALAYSIAN AIRPORTS



Source: MAHB, MIDFR

Total Monthly 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 >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.