

12 February 2015 | Sector Update

Aviation Sector (Airports)

Maintain **NEUTRAL**

January Passenger Traffic Subdued

HIGHLIGHTS

- **MAHB's Malaysian airports passenger traffic for Jan'15 declined -4.6%yoy but this was mainly due to the shift in the Chinese New Year celebration to February in 2015 (CNY was in Jan 2014) as well as the start of the new school year. Both the international and domestic passenger traffic volume declined -3.7% and -5.6% yoy respectively.**
- **Istanbul Sabiha Gokcen International Airport ("SGIA") recorded a strong +17.2%yoy growth in passenger numbers. This resulted in MAHB's total passenger traffic figures to increase by +22.4%yoy.**
- **Our +3.5% growth forecast for passenger traffic growth which is ahead of management's +3% growth target is unchanged as we expect efforts taken to boost tourism, lower fuel surcharges and 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%.**


Jan'15 passenger traffic declined by -4.6% yoy. Passenger traffic recorded for the Malaysian airports declined -4.6%yoy due to shift in Chinese New Year (CNY) celebration from the month of January in 2014 to February in 2015. Both, international and domestic sectors declined -3.7%yoy and -5.6%yoy respectively.

Expect Feb'15 passenger traffic to fare better. In Jan'14, the international sector was hit by a double-digit decline in Indonesian passenger arrivals. We believe this could be due to knee-jerk reaction following the unfortunate QZ8501 incident. However, the impact was mitigated by growth in passenger traffic from South Asia, Middle East and Central Asia. Meanwhile, domestic passenger volume was impacted by reopening of schools. To our surprise, the East Coast floods had not impacted passenger traffic as flood-hit states saw positive growth. We believe passenger traffic in Feb'15 to fare better due to the CNY celebration season and Thaipusam/Labour Day holiday during the month.

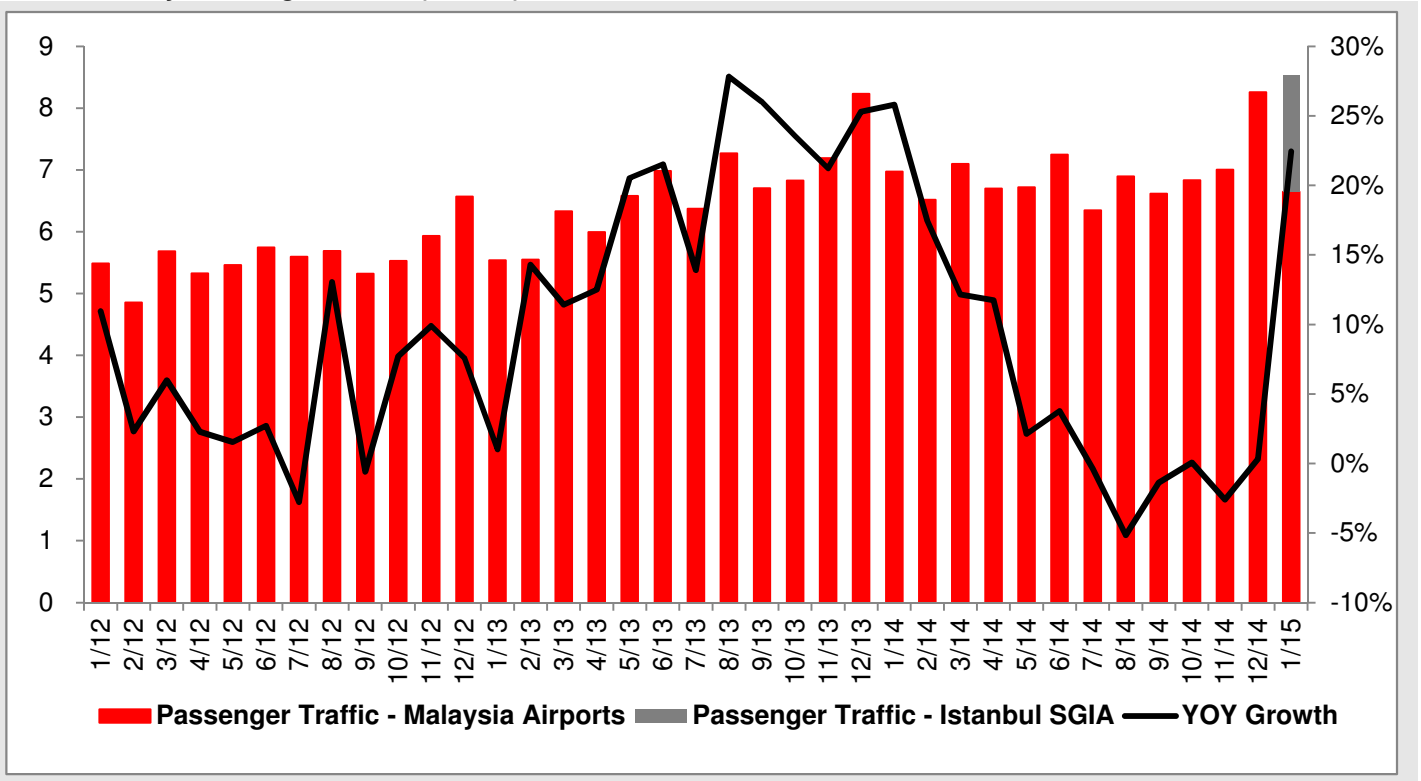
First full contribution from Istanbul SGIA. Including SGIA, MAHB's total passenger traffic growth grew +22.4%yoy for the month of Jan 2015. SGIA recorded an impressive +17.2%yoy growth in passenger traffic which is in line with management's guidance of double-digit growth. The increase was in tandem with the higher airlines' seat capacity which grew +17.1%, and high average load factor of 77-82%. Moving forward, we expect SGIA to be the main growth driver for MAHB's passenger traffic volume.

Global air passenger expanded +5.9% in full year FY14. According to IATA, FY14's growth of +5.9%yoy was robust compared to the 10-year average growth rate of +5.6%. The growth was contributed mainly by the Asia Pacific and Middle East regions riding on increasing business-related and domestic travel (most pronounced in China). Average load factors for FY14 was at a historical high of 79.7%.

We maintain our +3.5% growth in passenger traffic growth for FY15. Despite the -4.6% yoy drop in passenger numbers in Jan'15 for the Malaysian airports, we retain our +3.5% growth forecast as we expect efforts to boost tourism such as the removal of visa fees (e.g. China), coupled with the launching of the Year of Festivals 2015 campaign could stimulate tourist arrivals. In addition, we believe that the higher presence of foreign carriers could offset the impact of lower capacity growth from local carriers.

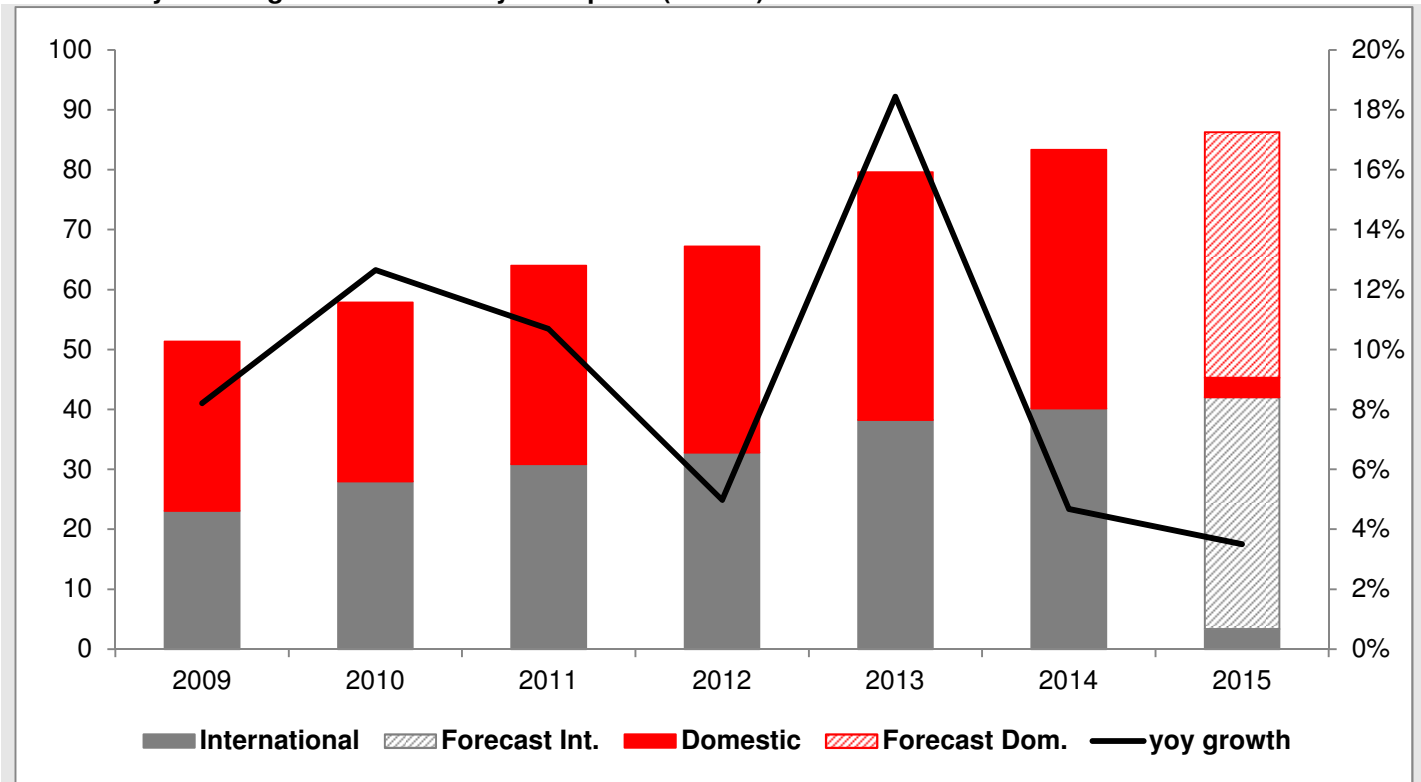
Maintain NEUTRAL on MAHB with TP of RM7.53. We currently have a NEUTRAL recommendation on MAHB with a DCF-derived TP of RM7.53. We see the potential catalyst for MAHB coming from: i) better than expected passenger movements; ii) turnaround of loss-making Sabiha Gokcen International Airport; and iii) better than expected contributions from non-aeronautical division. 

Total Monthly Passenger Traffic (million)



Source: MAHB, MIDFR

Total Yearly Passenger Traffic at Malaysia airports (million)



Source: MAHB, 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

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.