

# TRANSPORTATION & AVIATION

National Transport Policy (2019-2030):  
Catapulting the nation's transportation sector to greater heights

Maintain **NEUTRAL** for Transportation  
Maintain **POSITIVE** for Aviation

## KEY INVESTMENT HIGHLIGHTS

- **Launch of National Transport Policy 2019-2030 to promote transformation in the transportation sector**
- **Digitalisation to ensure increased efficiency will be the backbone of developing the transportation sector**
- **Upskilling in talent to adapt to new technologies related to transportation sector is essential**
- **Connectivity to be bolstered by integration of highway and rails in addition to platforms to expand the reach of local business in transporting their products overseas**
- **Adhering to environmental standards and best practices to ensure that the advancement in transportation does not happen at the expense of the environment**
- **Maintain NEUTRAL for transportation and POSITIVE for aviation**

**A new policy for transportation sector.** In a growing and developing economy, the transportation sector will continue to play a major role in improving economic opportunities, provide greater accessibility and bring about greater social development. The National Transport Policy (NTP) 2019-2030 is one of the main pillars to strengthen national transport infrastructure and provide a sustainable transport system as the Government of Malaysia (GoM) strives to drive Malaysia's economic growth.

**Key pillars of the NTP.** As the nation continues to develop, it is critical to ensure that it has an overarching transport policy that can support our ambitions to be a high-income nation by 2025 based on its strong and sustainable growth. Therefore, the NTP was structured to develop a sustainable transport sector that accelerates economic growth and supports the well-being of the rakyat in line with an advanced nation status. Main objectives of the NTP covers three elements: (i) economic competitiveness, (ii) social element, and (iii) environmental protection; which will be addressed under five policy thrusts.

Figure 1: Overview of the National Transport Policy 2019-2030



Source: National Transport Policy 2019-2030

## COMPANY IN FOCUS

### MMC Corporation Berhad

Maintain **BUY** | Unchanged Target price: RM1.30  
Price @ 17<sup>th</sup> October 2019: RM1.04

- Full year consolidation of Penang Port's profit
- Maersk's 30% stake in PTP to shield PTP from any effects of recalibration of shipping alliance
- Acquisition of Alam Flora and Malaysian Shoiba Consortium to address potential earnings gap in Malakoff

### Share price chart

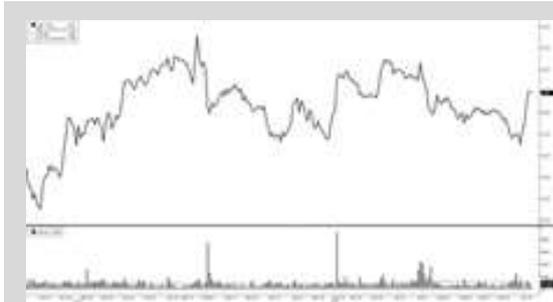


### AirAsia Group Berhad

Maintain **BUY** | Unchanged Target price: RM2.08  
Price @ 17<sup>th</sup> October 2019: RM1.89

- 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



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**Policy Thrust 1: Strengthen governance to create conducive environment for the transport sector.**

**New technological trends warrant a robust institutional framework.** This policy thrust seeks to strengthen existing institutional framework which among others include roles and functions of agencies, regulations, standards and acts, coordination mechanisms, planning matters, capacity building, funding and financing, data gathering and analysis as well as behavioural and mindset change. In addition, the current regulatory framework needs to be prepared to embrace new technologies and disruptive business models such as blockchain and increased automation to ensure the development of the transport sector copes with the current trend.

**A centralized database is essential for the robust evidence based assessment planning.** To allow for sufficient and quality research and modelling to keep up with the pace of game changing technologies, there is a need for a regularly updated data and centralised database that is accessible by all transport-related agencies. An efficient database will enable transport-related agencies to form policies and action plans which will easily facilitate the development of the transportation sector in a timely manner. Therefore there is a clear demand for additional analytical capabilities within transport agencies to perform analysis for strategic and data-driven planning.

**Upskilling of current talent to take shape.** In order to meet the demand for additional analytical capabilities within transport agencies, the education and skills development industries need to minimise the risk of our transport operators not being sufficiently equipped with adequate knowledge to understand and operate new technology and equipment to its optimum capacity. One of the main action items to achieve this goal is by establishing a Centre of Excellence at existing learning institutions to cater for transport related programmes and research and development. For example, the Malaysia Institute for Supply Chain Innovation (MISI) is one of the educational institutions in the country which has specialized in providing education and training in the supply chain field. We believe that transport related programmes should be widened across the country at other learning institutions in order to attract more graduates to have a career in the transportation sector.

**General initiatives by the GoM for human capital development.** On a broader scale, the government announced two initiatives related to human capital development; Locals@Work and Apprentice@Work. The first initiative would encourage more local employment and indirectly reducing dependency on low-skilled foreign labour. The second initiative also encourages better labour quality and this may eventually increase high skilled-labour ratio to breach 30% level in the near future. This is in line with SPV2030 to alleviate compensation of employees to GDP ratio to almost 50% by 2030.

**Policy Thrust 2: Optimise, build and maintain the use of transport infrastructure, services and networks to maximise efficiency.**

**Leveraging on digitalization to manage demand.** This policy thrust seeks to prioritise the optimisation of existing infrastructure in terms of usage to increase productivity and reduce wastages. This can be achieved through use of digitalisation to effectively manage demand. Plans to build new infrastructure, services and connectivity must be based on demand (understanding customer behaviour) and assessed thoroughly to determine actual need and feasibility. Effective maintenance must also be given importance to improve performance and safety. This thrust also seeks to introduce and promote connectivity and linkages through digital network (Internet of Things, IT systems).

**Champions of digitalization already in the making.** A clear trendsetter in the local scene for digitalization in transportation is **AirAsia Group Berhad (AAGB) (BUY; TP:RM2.08)**. AAGB has concerted efforts of transforming its business model from being a conventional airline company to a travel and financial platform company via digitalization. AAGB's online platform, AirAsia.com recorded a Gross Merchandise Value (GMV) of RM16b only from the sale of flight tickets. This will be further strengthened by its dynamic fare adjustment mechanism which is able to predict the purchasing power of a visitor according to the search trend. Plans to increase its GMV to USD25m by 2025 will not include opening up AirAsia.com for other travel related businesses such as hotels and tour packages but also e-commerce, online media (subscription to music and online gaming) and ride-hailing. To complement AirAsia.com, AAGB has also introduced BigPay to enable mobile payments, cash withdrawals, pre-paid debit Mastercard and point of sales transactions for major currencies at a very competitive exchange rate. This facility is comes along with the loyalty programme, BIGLIFE which enables the purchase of ancillary items and even hotels on AirAsia.com using points.

**Figure 2: AAGB's Online Platform**


Source:AAGB

**Performance and safety improvement through effective maintenance also in AAGB's books.** AAGB's older fleet will be replaced with new A320neo and A321neo sometime in 4QFY19. These aircrafts have advanced fuel efficient technology with an estimated fuel savings of 15% by FY20, translating into lower cost per seat. In addition, AAGB has partnered with Airbus and Palantir to establish an integrated Big Data platform which includes forecast of predictive maintenance and efficient scheduling of parts with a potential saving of USD0.04m per aircraft per year. This will help to contain the increase in overall maintenance and overhaul expenses resulting from the higher provision for engine overhaul due to higher number of leased aircraft following the completion of the sale and leaseback transaction in 4QFY18.

**Stronger relation between public and private sector should be fostered.** As digitalization efforts already in place in corporations such as AAGB we believe that the GoM could work closer with the private sector to enable better utilization of technology. With predictive maintenance used to reduce cost for AAGB's aircraft maintenance cost, we do not discount the possibility of such technology to be applied for the maintenance of existing transport infrastructure and assets such as road, rail and ports. Infrastructure assets that are in the best condition for operation will enable the delivery of reliable and efficient services, meeting users' expectations while minimising accidents, disruptions and costs associated due to lack of maintenance of transport infrastructure.

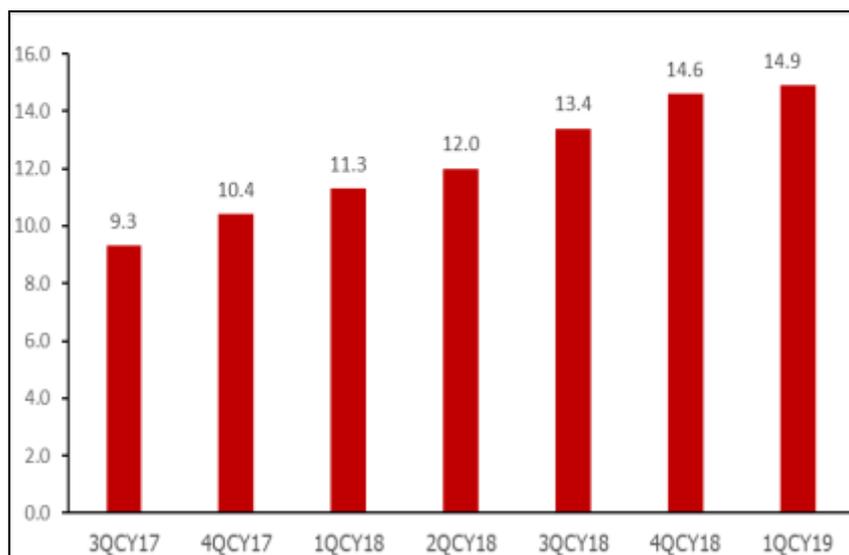
**Policy Thrust 3: Enhance safety, integration, connectivity and accessibility for seamless journey for passenger and goods.**

**Enhancing connectivity between various modes of transport.** This thrust is aimed at providing seamless journey for passenger and goods by enhancing safety levels, improving connectivity between transport modes, service integration through digitalisation and accessibility to transport services, including affordability. A demand exists for additional connectivity between various transport nodes (seaports, airports, terminals and inland ports) via roads and rail lines in order to reduce delays and cost of transporting passengers.

**Enablers of greater transport connectivity.** The GoM has marked a good start by commencing feasibility studies on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles, with both projects estimated to cost RM8.3bn in the recently tabled Budget 2020. Another big ticket project which will integrate sea and land connectivity is the ECRL project where Kuantan Port and Port Klang are expected to benefit. Despite the rerouting of the ECRL from Gombak to Negeri Sembilan, we opine that this should not heavily impact the flow of freight traffic. We still believe that travel time taken from Shenzhen, China via Kuantan Port and ECRL to Port Klang could be reduced by slightly more than a day instead of passing by the Straits of Malacca. Cost estimates of using Kuantan Port and ECRL are slightly higher with railway accommodating around 100 TEUs of containers per service compared 20,000 TEUs that can be carried by mega vessels. Nonetheless, we reckon that this could be partially mitigated by demand to transport time sensitive goods especially during peak festive seasons.

**Greater attention to ensure higher utilisation of public transport services.** We expect growth to continue for the ridership of public transportation such especially LRT, KTM Komuter and KVMRT Line 1 has been on an upward trajectory. Moreover, the introduction of the unlimited monthly pass called My100 and My50 will further encourage the use of public transportation in the near term. On a longer term, the completion of KVMRT Line 2 in 2022 which connects Sungai Buloh, Serdang and Putrajaya combined with the possibility of KVMRT Line 3 to be reinstated will accelerate the usage of public transportation. Specifically for the SPRINT highway, the Damansara Link runs parallel to the stretch of KVMRT Line 1 from Semantan Station to Taman Tun Dr. Ismail station and we opine that the impact towards traffic volume will be more pronounced with the continuous improvement in public amenities and connectivity. Of the four stations competing directly with Damansara Link, Phileo Damansara and Pusat Damansara Station are equipped with park and ride facilities with over 500 car parking bays. A spillover effect would be felt for last mile delivery providers such as **GD Express Carrier Berhad (GDEX) (NEUTRAL; TP:RM0.30)** as lesser cars on the road would enable faster delivery of goods to the customers especially in the Klang Valley which is susceptible to traffic congestion. Overall, the integration of various modes of transports, be it public and industrial would lead to a seamless and efficient transport ecosystem.

**Figure 3: Ridership for KVMRT Line 1 (million)**



Source : Ministry of Transport

**Better connectivity via hub-and-spoke model. MAHB's (BUY;TP:RM9.43)** hub-and-spoke model 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. Meanwhile, existing airlines such as Malindo Air have commenced its Langkawi-Phuket route in late March this year. As for the KLIA Main Terminal, Air Arabia began its flight services to the airport in early July 2019 while Qatar Airways will be extending its Doha-Penang services to Langkawi in October 2019. We believe the stronger mix of international passengers could be maintained.

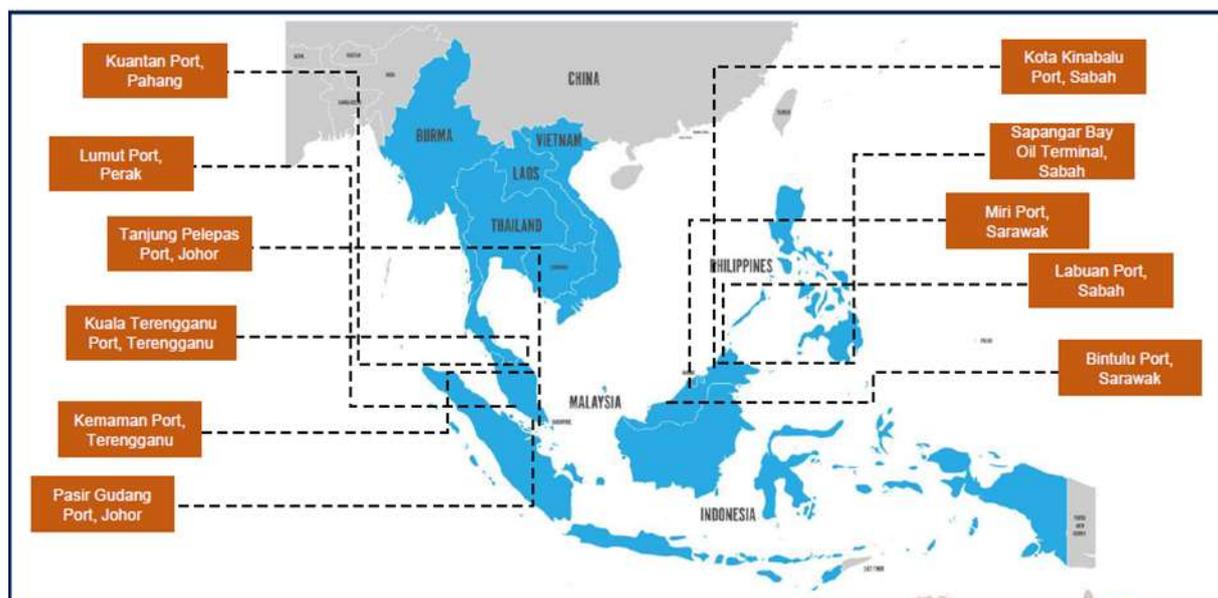
#### **Policy Thrust 4: Advance towards a green transport ecosystem**

**Complying with SDG 2030.** In line with Sustainable Development Goals (SDG) 2030, particularly Goals 9 and 11, which emphasised on sustainable transport system for all and resilient infrastructure to support socio-economic development, this thrust will ensure that the transport system will be efficient, clean and resilient with minimal impact to the environment and natural resources, while serving the purpose of providing efficient mobility to the nation.

**Maritime transport.** Vessel traffic along Malaysia's coastline has increased steadily, increasing water-borne pollution and impacting the maritime ecosystems. In addition to this there is a need to ensure shipping companies are fully compliant to environmental regulations to ensure minimal impact on the environment as well as living standards of those living along the coastline and inland waterways. As such, Malaysia has not allowed any ships operating open-loop scrubbers (which causes pollutions by its wastewater) while in Malaysian waters in support of the IMO2020 sulphur cap regulations which limits the sulphur content of shipping fuel at 0.5% (from 3.5%) effective from 1 January 2020 emission. Meanwhile, local shipping companies such as **MISC Berhad (NEUTRAL; TP:RM8.35)** has pushed forward for the usage of IMO2020 compliant fuel; i.e. low sulphur fuel oil, marine gas oil and liquefied natural gas (LNG).

This is substantiated by the delivery of its two LNG dual fuel dynamic positioning shuttle tankers, powered using LNG as the primary fuel. In terms of supply of IMO2020 compliant fuel, government is reviewing existing regulations and policies that would allow Malaysia to emerge as a bunkering hub. So far, there is only one public listed company which provides bunkering services, **Straits Inter Logistics Berhad (NON-RATED)** and is set to benefit from the IMO2020 sulphur cap as the Malaysian demand in 2019 for marine gas oil, an IMO2020 compliant fuel is expected to increase by 40% per annum. Straits Inter Logistics has presence in some of the major Malaysian ports such as **Corporation Berhad's (BUY;TP:RM1.30)** Johor Port and Port of Tanjung Pelepas. Therefore we believe that these two ports should remain well equipped to cater for the bunkering needs of container liners and hence, facilitate the nation's aspirations to be a bunkering hub.

**Figure 4: Strait Inter Logistics Business Presence in Malaysia**



Source: Straits Inter Logistics Berhad

**Land transport.** In the recently tabled Budget 2020, the GoM plans to implement the Biodiesel B20 program for the transportation sector by end-2020. Recall that existing last mile delivery companies such as GDEX have been looking at alternative means such as bio-diesel, hybrid vehicles to minimize the fuel usage and carbon emissions. The company has embarked on its long term strategy to reduce the carbon footprints of its >1,000 vehicles by replacing the old equipment with catalytic converters that are more fuel-efficient and emits less carbon. For instance, GDEX has replaced its one-tonne and three-tonne city trucks with lighter and more fuel efficient vans that are suited to city driving, enabling us to save on fuel and reduce carbon emissions.

**Aviation.** The GoM has allocated RM30m for the research and development grants for collaborations with the industry and academia to develop higher value added downstream uses of palm oil specifically tocotrienol in pharmaceuticals and bio-jet fuel. This would certainly augur well in the long run with AAGB's plans to introduce biofuel-powered flights. The International Air Transport Association (IATA) has approved a resolution that calls on governments to continue working towards the implementation of CORSIA, the Carbon Offsetting and Reduction Scheme for International Aviation. CORSIA, which was agreed through the United Nations' International Civil Aviation Organisation, caps net carbon dioxide emissions from international aviation at 2020 levels to achieve carbon-neutral growth. Other major carriers have targeted larger-scale usage of biofuel in 2019 and 2020, including JetBlue Airways Corp and Cathay Pacific Airways Ltd, according to Bloomberg.

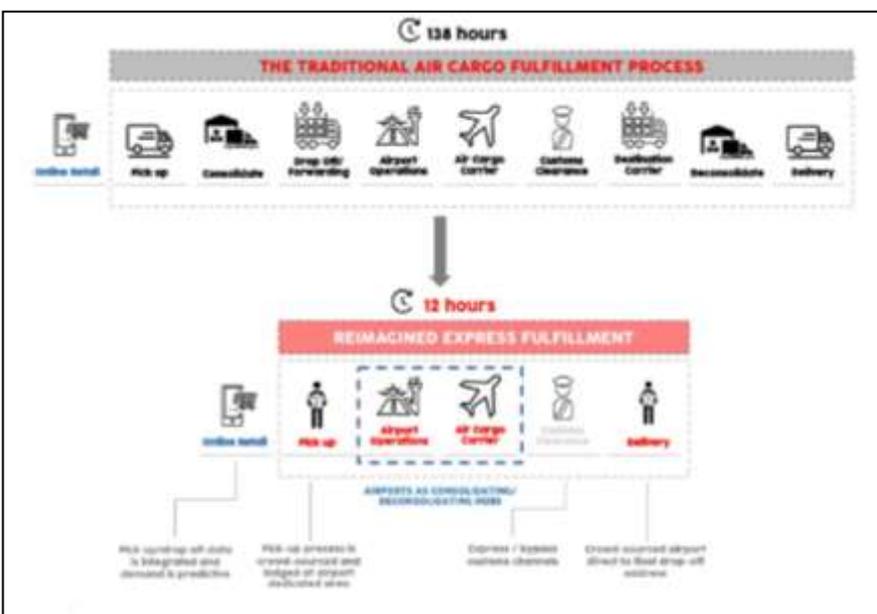
**Policy Thrust 5: Expand global footprint and promote internationalisation of transport services**

**Wider exposure via internationalisation.** The internationalisation of transport service providers will be a key lever to take the transport sector to the next level. This thrust strives to promote Malaysia’s transport service providers to expand their business, export their services and penetrate the regional and global market. Currently, there is high demand for door to door multimodal transport, and integrated logistics services to cater to bigger volumes and delivery to larger markets. This creates case for transport providers to merge, collaborate or coordinate their activities to achieve economies of scale and tap into larger global trade.

**DFTZ to be the main enabler for internationalization.** Global e-commerce reached the US\$10 trillion (RM40 trillion) mark in 2017 after growing at almost 25 per cent year on year. Such rapid growth has presented huge opportunities for SMEs to accelerate their growth and future-proof their business. Under Alibaba’s Electronic World Trade Platform (eWTP) The Digital Free Trade Zone (DFTZ) which involves Pos Malaysia collaboration with Lazada Malaysia to establish e-Commerce Regional Distribution Centre in KLIA Air Cargo Terminal 1 (KACT1) located at the former low-cost carrier terminal serves as a suitable platform to accelerate the growth of local SMEs. One of the prominent services offered under the eWTP is the MY2SG program which has established a direct logistics link between Malaysia and Singapore that allows sellers in Malaysia to sell in the Singapore market. The MY2SG programme enables SMEs to create a brand presence in Singapore without having a local company in Singapore while ensuring consolidation and local fulfillment volume to ensure competitive international rates. While Singapore is just a neighbouring country, we do not rule out the potential of Singapore to be a stepping stone for local businesses to expand their regional and global outreach later on.

**AAGB’s Teleport to also give better outreach to local businesses.** Teleport (formerly known as RedCargo Logistics) manages belly cargo space for all of AAGB airlines. Recently, Teleport has also formed an arrangement with Oman Air which will give customers (which may include local businesses) access to the belly space on Oman Air’s cargo network which covers Africa, the U.K and Europe. This signifies Teleport’s agility to integrate the demand and network from other airlines with more extensive coverage. In relation to e-commerce activity, Teleport will eliminate the various layers of the traditional air cargo fulfilment process from 138 hours to just 12 hours which will also be enhanced with predictive analytics. Therefore, one-day delivery could be a norm under the services offered by Teleport and increasing the participation of local businesses to distribute their products internationally. All in, the key to attract more local businesses to venture internationally is by providing a comprehensive transportation eco-system which eliminates barriers in the form of time and red tape.

**Figure 5: Traditional Air Cargo Fulfillment Process vs. Teleport’s Air Cargo Fulfillment Process**



Source: AAGB

**Maintain NEUTRAL for transportation.** Overall, we applaud the GoM's plans outlined in the latest NTP as it signals a paradigm shift in the making. We remain optimistic on Malaysian ports given their strategic location along major trade lanes and the economic prospects of the ASEAN region driven by the emergence of regional distribution hubs. However, for the logistics industry, the anticipated higher demand of e-commerce activities will attract more new entrants, prompting price competition and compressing margins. All factors considered, we maintain our **NEUTRAL** stance on the transportation sector.

**Maintain POSITIVE for aviation.** We opine that MAHB's innovative efforts such as the Joint International Tourism Development Programme (JITDP) with Tourism Malaysia will facilitate airlines in promoting Malaysia overseas. This in turn would bode well for MAHB's strategy to attract more airlines and increase connectivity which will moderate effects of the international departure levy and possibly higher PSCs. Meanwhile, LCCs such as AAGB and AirAsia X are strengthening their presence in core markets while establishing new hubs in destinations such as Lombok. This will continue to attract higher passengers in 2019 and will benefit MAHB. Overall, we believe that the RAB framework will ensure a fair cost to airport users while maintaining a fair level of returns to MAHB as it increases clarity between revenue and capital investment. 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, we reiterate our **BUY** call on **MAHB** with a **TP** of **RM9.43** per share which is our top pick for the aviation sector. 

## PEER COMPARISON TABLE

Stock	FYE	Recommendation	Price @ 17-Oct-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	8.04	9.43	33.6	36.8	23.9	21.9	14.0	14.0	1.7	1.7
AAGB	Dec	BUY	1.89	2.08	16.9	18.9	11.2	10.0	102.0	12.0	54.0	6.3
AAX	Dec	NEUTRAL	0.16	0.19	0.4	1.6	37.0	10.1	0.0	0.0	0.0	0.0
MMC Corp	Sep	BUY	1.04	1.30	7.5	8.0	13.9	13.0	4.0	4.0	3.8	3.8
MISC	Dec	NEUTRAL	8.38	8.35	40.8	41.7	26.5	25.9	20.5	20.1	3.6	3.6
Westports	Dec	BUY	4.34	4.27	18.0	19.9	24.2	21.8	13.5	14.9	3.1	3.4
Tasco	Mar	NEUTRAL	1.05	1.22	4.5	10.2	23.3	10.3	2.5	2.5	2.4	2.4
GDEX	June	NEUTRAL	0.29	0.30	0.5	0.5	59.2	55.7	0.3	0.3	0.9	0.9
Tiong Nam	Mar	SELL	0.48	0.39	1.5	2.3	31.6	20.1	0.5	0.0	1.0	0.0
LITRAK	Mar	Trading BUY	4.80	5.18	47.2	48.4	10.2	9.9	25.0	25.0	5.2	5.2

Source: Company MIDFR

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### 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.