Sector Update | Monday, 27 February 2023

AVIATION

***Maintain* NEUTRAL**

Encouraging start to the year

KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 75% in Jan-23**
- **Passenger movements have surpassed the 6.0m pax mark for the 2nd consecutive month**
- **Seat capacity for the China market was up by +16.2%mom following its reopening**
- **Malaysia passenger traffic assumptions remain unchanged**
- **Maintain NEUTRAL on Capital A (TP: RM0.70) and MAHB (TP: RM7.45)**

Jan-23 passenger traffic. Malaysia Airports Holdings Berhad's (MAHB) network of airports in Malaysia recorded 6.3m passenger movements in Jan-23, surpassing the 6.0m pax mark for the second consecutive month. This translates into a recovery of 75% (domestic: 89%, international: 62%) relative to its 2019 levels. The strong domestic sector recovery in Jan-23, which is just -11.4% behind Jan-19, was mostly driven by homebound travels during the Chinese New Year holidays. Meanwhile, the international sector recovery was partially uplifted by China's reopening on January 8, 2023 and the resumption of Qatar Airways operations after a temporary suspension during the FIFA World Cup which ended on December 18, 2022.

China's reopening. We have yet to see a meaningful return of free-spending Chinese tourists due to the short notice of its reopening. Jan-23 saw 5,907 additional seat capacity (+16.2%mom) being added for the China market. MAHB reported that the seat capacity filing was up by +5.0%mom in Feb-23. Despite seeing continuous reinstatement of capacities by local airlines, we reckon that the relaunch of more China destinations might be staggered due to: (i) the uncertainty pertaining to China-bound Covid-19 requirements and (ii) the time taken to get passports renewed and visas approved. Nonetheless, the dismantling of their strict zero-Covid policy is an undoubted boon for the sector this year.

Outlook. The continuous improvement in higher-yielding international passenger mix should help the aviation players rebuild their profitability in the coming quarters. Key headwinds for the local airlines remain: (i) the narrowing jet fuel crack spread (Chart 5), (ii) the expectation of a stronger MYR against USD and (iii) airfares being rationally priced. Domestic traffic will be partially supported by MYAirline's network growth as it received another A320 aircraft last month, expanding its existing fleet to 5 aircraft. We should expect to see more routes being reinstated and introduced as local airlines reactivate their fleet.

Maintain NEUTRAL. We remain **NEUTRAL** on the sector as we believe the positives have been priced in. No revisions were made to our earnings and target prices pending the quarterly results release in the next couple of days. Relative to 2019 levels, we expect MY passenger traffic to recover to 85% in CY23 (domestic: 90%, international: 80%). Potential upsides for the sector are: (i) local airlines rebuilding their fleet to match 2019 levels, and (ii) faster-than-expected return of the Chinese tourists. Downside risks include: (i) delay in achieving full fleet activation by AirAsia Malaysia and (ii) the resurgence of another Covid-19 variant.

COMPANY IN FOCUS

Malaysia Airports Holdings Berhad

Maintain **NEUTRAL** | Unchanged TP: **RM7.45**

Price @ 24th February 2023: RM7.00

- Key beneficiary of China's reopening.
- Have likely reached breakeven and recorded profits in 4QFY22.
- Dividend payout resumption in FY23F.
- The material terms of the new operating agreement (OA) have recently been approved in principle by the government.

Share Price Chart



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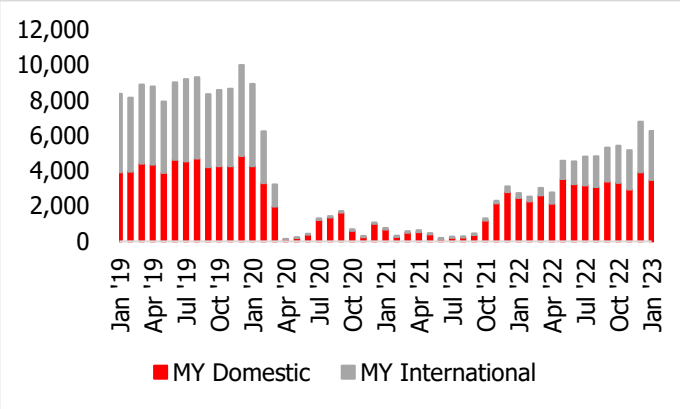
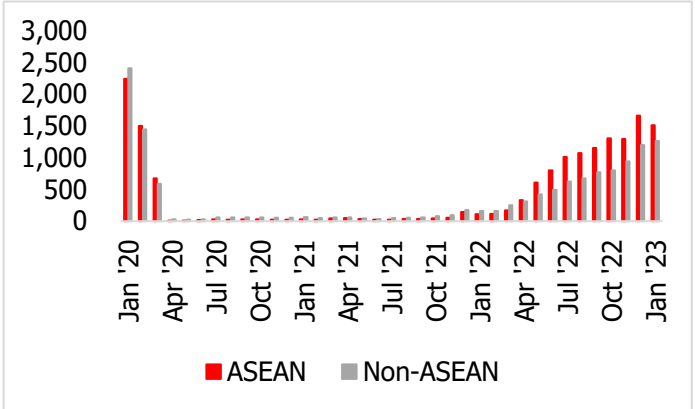
Chart 1: MY Passenger Traffic ('000)



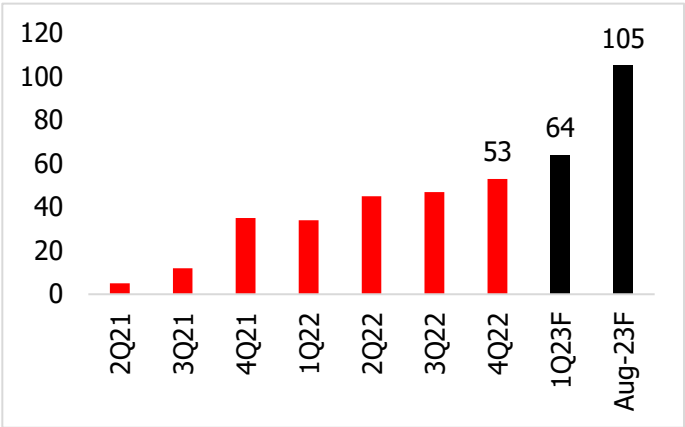
Source: MAHB, MIDFR

Chart 2: MY ASEAN & Non-ASEAN Pax ('000)



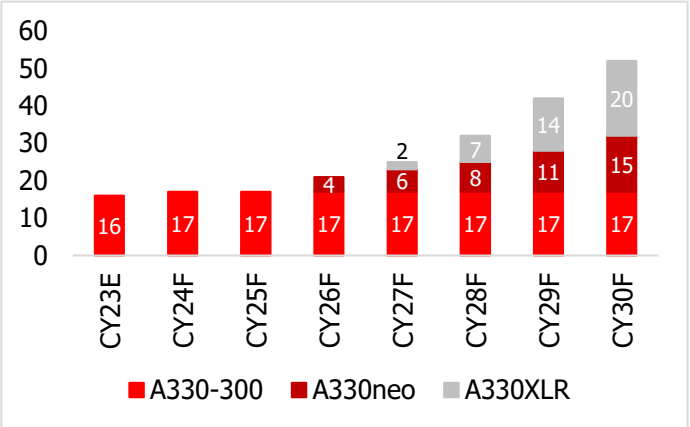
Source: MAHB, MIDFR

Chart 3: AirAsia Malaysia Fleet Plan



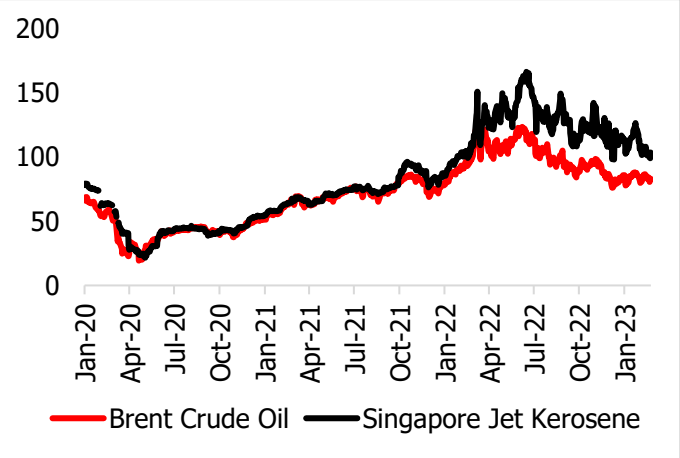
Source: Capital A, MIDFR

Chart 4: AirAsia X Malaysia Fleet Plan



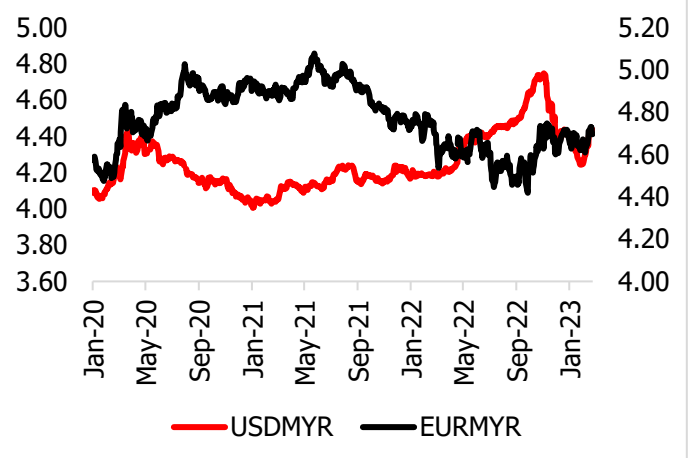
Source: AirAsia X, MIDFR

Chart 5: Crude Oil vs. Jet Fuel Prices (USD/barrel)



Source: Bloomberg, MIDFR

Chart 6: USDMYR & EURMYR Exchange Rates



Source: Bloomberg, MIDFR

Table 1: Fleet Size of Local Airlines

Airline	Current			Utilisation rate (%)	Exited since CY20
	In Service	Parked	Total		
AirAsia Malaysia	56	45	101	55%	4
Airasia X	8	6	14	57%	14
Batik Air/Malindo	26	3	29	90%	7
Firefly	10	3	13	77%	6
Malaysia Airlines	69	4	73	95%	13
MASwings	16	0	16	100%	0
MYAirline	5	0	5	100%	0
Total	**190**	**61**	**251**	**76%**	**44**

Source: Capital A, Planespotters.net

Table 2: MAHB MY Passenger Traffic Assumptions ('000)

Sector	2021A	2022A	2023E	2024F	2025F
Domestic	9,363	36,095	46,779	54,576	56,135
International	1,360	16,455	42,884	54,610	56,208
ASEAN	538	9,642	22,253	27,817	28,611
Non-ASEAN	822	6,813	20,631	26,793	27,597
Total	**10,723**	**52,550**	**89,663**	**109,185**	**112,343**

Source: MAHB, MIDFR

SECTOR VALUATION MATRIX

Company	Rating	Share Price	TP	PER (X)		ROE (%)		Dividend Yield (%)	
		RM	RM	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Capital A	Neutral	0.75	0.70	n.a.	8.0x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	7.26	7.45	33.3x	20.8x	4.9%	7.5%	1.3%	2.1%

Source: Bloomberg, MIDFR

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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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology