Malaysia Airports Holdings Berhad

***Maintain* NEUTRAL**

(5014 | MAHB MK) Main | Transportation & Logistics

A step closer to finalising the OA

***Unchanged* Target Price: RM7.45**

DEVELOPMENT

- The Government of Malaysia (GoM) has approved in principle the new material terms for the Operating Agreements (OA) to operate, manage, maintain and develop 39 airports and STOLports until 2069 (OA 2023).
- OA 2023 and other related lease agreements are expected to be finalised and signed by end-1QCY23.
- KLIA and KLIA2 will be rebranded as KLIA Terminal 1 and KLIA Terminal 2 respectively.

OUR VIEW

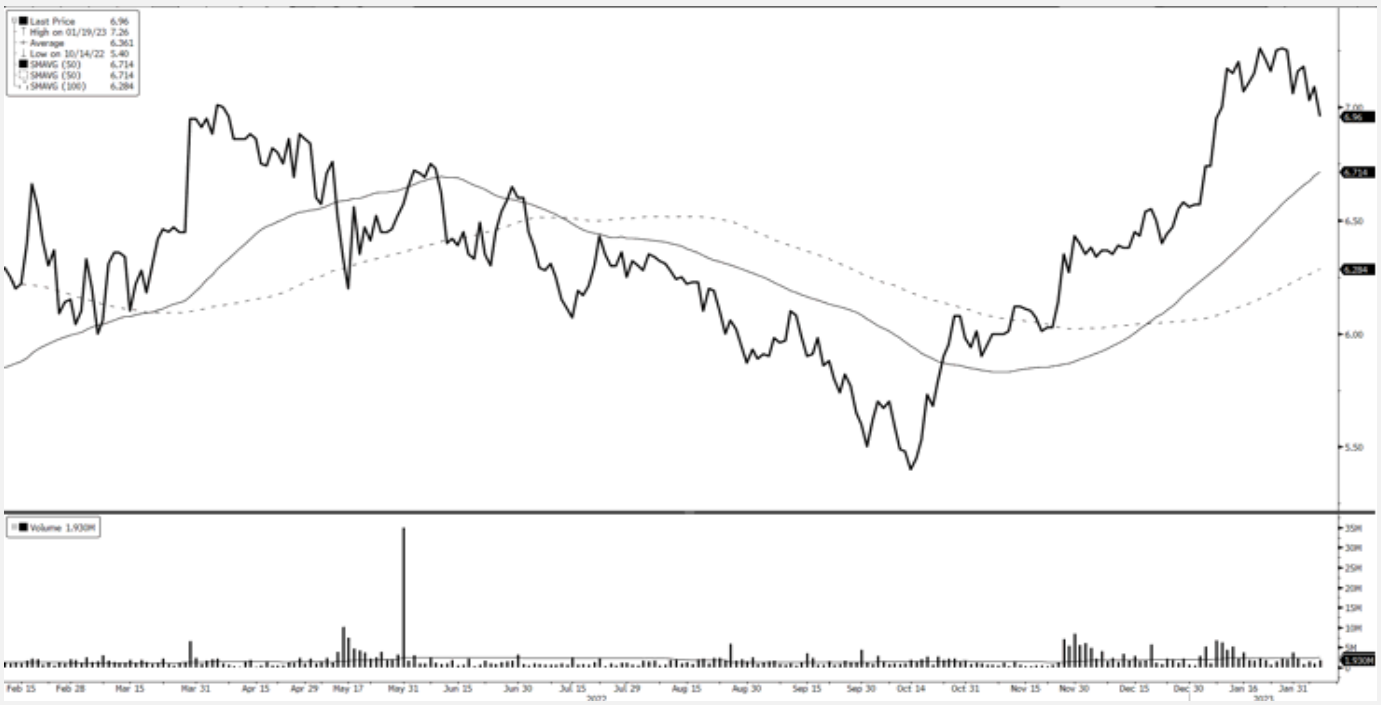
- **Setting up a development trust account.** In our opinion, the key highlight of the proposed OA is the establishment of the Airport Development Fund (ADF) to receive contributions from airport users including the public and airline operators. 50% of the Passenger Service Charge (PSC) component that is considered in the calculation of the User Fee (specified percentage of revenue payable to the GoM) will be channeled to the ADF account. The percentage of PSC or other components in the User Fee, which is to be contributed to the ADF account, will be reviewed every 3 years.
- **2 methods of funding development costs.** The user fee average rate was about 12.8% in 9MFY22 (FY21: 12.6%). It increases over time by +0.25% per annum and is payable on a quarterly basis. This should give Malaysia Airports Holdings Berhad (MAHB) the flexibility in choosing the method of funding development costs either by using: (i) GoM allocations through Development Expenditure (DE), or (ii) MAHB's own funds via an identified investment recovery model mechanism. However, any increase in the amount channeled to the ADF account after the user fee rate reaches a maximum of 14.5% might be solely dependent on the passenger throughput if no revisions are made to the PSCs. Apart from that, it was mentioned that MAHB will have options to form joint ventures with private parties to develop the airports.
- **Rights to restructure.** Additionally, among the material terms in OA 2023, the government has the right to restructure the airport industry via clustering, carving out, divestment of airports, closure of existing airports or terminals or the restructuring of the ownership of any of the facilities, if mutually agreed by MAHB.
- **Maintain NEUTRAL.** We favour MAHB as one of the major beneficiaries of the strong air traffic recovery. However, we have recently downgraded it to **NEUTRAL** as its share price has rallied on news of China's reopening and we believe that the positives have been largely priced in. No changes were made to our losses/earnings forecasts as we wait for the release of the Malaysian Aviation Commission's (MAVCOM) second consultation paper, which will guide the revisions to the PSCs (if any) and pending further details from the management in a meeting later today.

INVESTMENT STATISTICS

Annual Standardised FYE December	FY2020A	FY2021A	FY2022E	FY2023F	FY2024F
Revenue	1,866.35	1,672.99	3,034.83	4,585.12	5,131.78
EBIT	-1,152.3	-460.62	367.67	1,094.77	1,339.89
PBT	-1,764.3	-1,041.37	-193.33	453.05	724.21
PATAMI	-1,116.6	-766.86	-146.93	348.85	557.65
Core PATAMI	-507.8	-751.85	-146.93	348.85	557.65
EPS (sen)	n.m.	n.m.	-8.86	21.03	33.61
PER (x)	n.m.	n.m.	n.m.	33.1x	20.7x
DPS (sen)	n.a.	n.a.	n.a.	9.0	15.0
Dividend yield (%)	n.a.	n.a.	n.a.	1.3%	2.2%

Source: Company, MIDFR

SHARE PRICE CHART



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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