Sector Update | Monday, 27 March 2023

AVIATION

***Maintain* NEUTRAL**

Gaining a solid footing

KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 71% in Feb-23**
- **The passenger movements from the China sector grew +61%mom**
- **Entry of another Indonesian carrier should boost the traffic from this market**
- **Still expect an 85% traffic recovery in CY23**
- **Maintain BUY on Capital A (TP: RM0.91) and NEUTRAL on MAHB (TP: RM7.35)**

Feb-23 passenger traffic. Malaysia Airports Holdings Berhad's (MAHB) network of airports in Malaysia collectively recorded 5.8m passenger movements in Feb-23. This translates into a recovery of 71% (domestic: 80%, international: 62%). More than 112,000 average daily passengers travelled domestically – a level similar to Jan-23 despite it being a shorter month, driven by year-end school holidays which began on February 17. Meanwhile, the international segment saw its average daily passengers growing by +4.0%mom mainly contributed by the Northeast Asia sector (China, South Korea, and Japan).

Ramping up capacities for the land of the dragon. The China sector, which historically contributed about 10% of the total traffic in CY19, is still in the early stage of recovery in tandem with the gradual reinstatement of capacities by airlines. The passenger movements for this sector grew by +61%mom in the month under review. On the local front, Malaysia AirAsia (MAA) plans to recover 90% of pre-pandemic capacity (~290 weekly flights) by Aug-23 and growing it by +11% (~363 weekly flights) relative to 2019 level by Nov-23, while its sister airline, AirAsia X Malaysia has just returned to the China market after reinstating flights to Shanghai, Hangzhou and Chengdu in Mar-23.

Outlook. The steady improvement in higher-yielding international passenger mix should be favourable for the aviation players. The local airlines will continue to be supported by: (i) narrowing jet fuel crack spread as the refinery capacities recover, (ii) the expectation of a stronger MYR against USD this year and (iii) airfares being rationally priced. More routes should be reinstated and introduced in the coming months as airlines reinstate their capacities. Meanwhile, the traffic from the Indonesian market – which contributed ~20% of the total traffic in CY19 – should improve on the back of TransNusa Airlines' entry into the Malaysian market starting from Apr-23.

Maintain NEUTRAL. No revisions were made to our passenger traffic assumptions as we believe they are on track to meet our full-year projection. Relative to 2019 levels, we expect a traffic recovery of 85% in CY23 (domestic: 90%, international 80%). Potential upsides to our projections include: (i) local airlines rebuilding their fleet and (ii) faster-than-expected return of Chinese tourists.

COMPANY IN FOCUS

Capital A Berhad

Maintain **BUY** | Unchanged TP: **RM0.91**

Price @ 24th March 2023: RM0.74

- PN17 regularisation plan to be announced in 2QFY23.
- Targeting to reach full fleet utilisaton in 3QFY23.
- Likely to turn profitable in FY24.

Share Price Chart

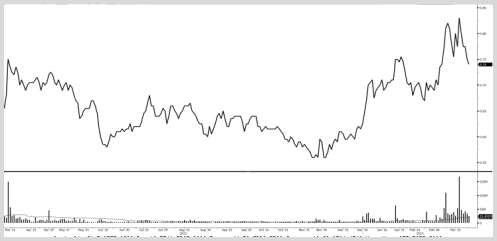

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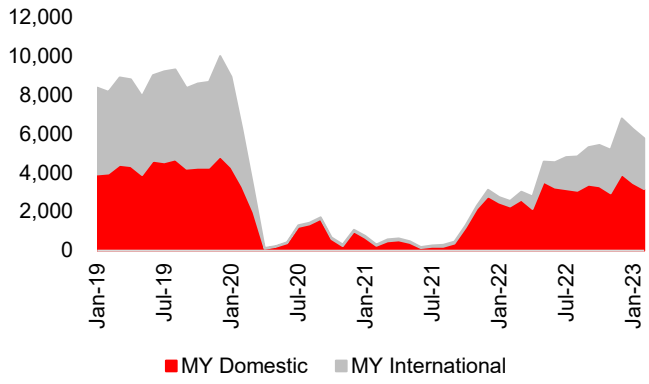
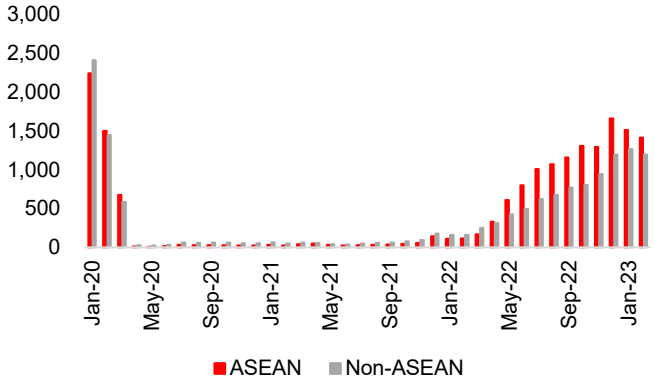
Chart 1: MY Passenger Traffic ('000)



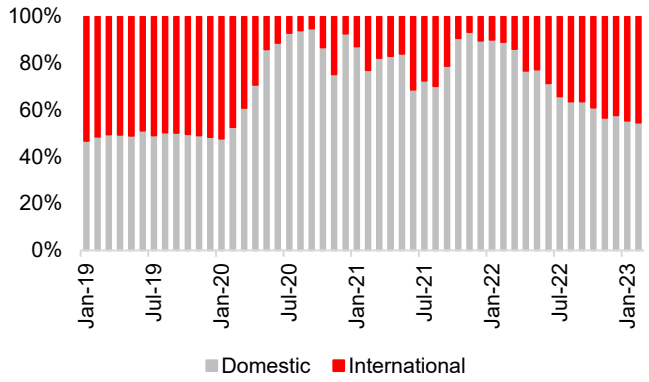
Source: MAHB, MIDFR

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



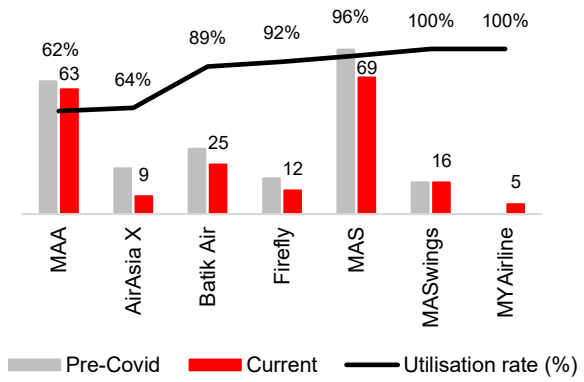
Source: MAHB, MIDFR

Chart 3: MY Passenger Mix (%)



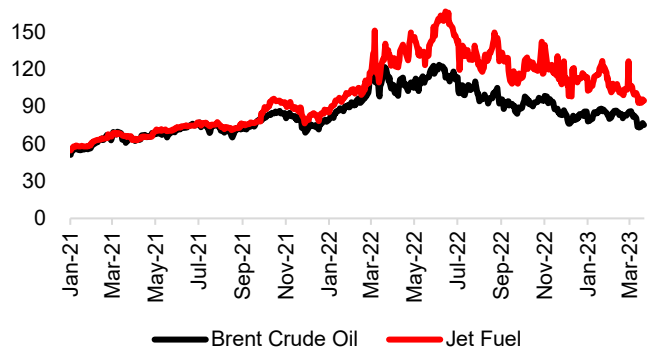
Source: MAHB, MIDFR

Chart 4: Fleet Size of Local Airlines



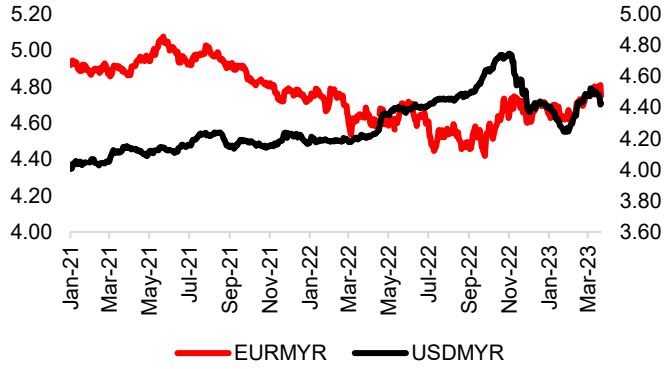
Source: Planespotters.net, MIDFR

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



Source: Bloomberg, MIDFR

Chart 6: USDMYR & EURMYR Exchange Rates



Source: Bloomberg, MIDFR

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

Table 3: Passenger Traffic Recovery/Growth as a % of 2019 level (%)

Sector	2021A	2022A	2023E	2024F	2025F
Domestic	18%	69%	90%	105%	108%
International	3%	31%	80%	102%	105%
ASEAN	2%	36%	84%	105%	108%
Non-ASEAN	3%	25%	77%	100%	103%
Total	**10%**	**50%**	**85%**	**104%**	**107%**

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	BUY	0.75	0.91	n.a.	8.5x	n.a.	n.a.	n.a.	n.a.
MAHB	NEUTRAL	6.78	7.35	32.7x	20.4x	4.8%	7.4%	1.3%	2.2%

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