Sector Update | Thursday, 20 April 2023

AVIATION

***Maintain* NEUTRAL**

74% recovery in first quarter

KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 75% in Mar-23 and 74% in 1QCY23**
- **42 additional flight frequencies were added for the China market in Mar-23**
- **Eid Al Fitr holiday and the entry of TransNusa Airlines to boost Apr-23 passenger traffic**
- **Malaysia passenger traffic assumptions remain unchanged**
- **Maintain BUY on Capital A (TP: RM0.91) and NEUTRAL on MAHB (TP: RM7.35)**

Mar-23 passenger traffic. Malaysia Airports Holdings Berhad (MAHB) saw 6.7m passengers passing through their airports in Malaysia in Mar-23. This translates into a recovery of 75% (domestic: 84%, international: 66%). Domestic segment's recovery continued to be above the 80% mark as local airlines restored and introduced new routes. Notably, the international segment recorded the highest number of passengers (3.0m) since the onset of the pandemic with movements mainly coming from Singapore, Indonesia, Thailand, India, China, and Japan. Traffic recovery from the China market continued to gain traction on the back of 42 additional flight frequencies in Mar-23 as compared to the month prior.

1QCY23 passenger traffic. This brings the total passenger movements in 1QCY23 to 18.7m or translating into a recovery of 74% (domestic: 84%, international: 64%). As compared to 4QCY22, the passenger movements grew by +7.4%qoq with growth mainly coming from the non-ASEAN sector (+28.6qoq). The resumption of operations by foreign airlines earlier this year, including Air Arabia, Ethiopian Airlines, China Eastern and Shenzhen Airlines, had partly driven this growth with a total of 9 destinations and 978 additional weekly flight frequencies being added to MAHB's network.

Outlook. Local airlines continue to be supported by: (i) narrowing jet fuel crack spread with fuel surcharges remaining largely in place, (ii) the appreciation of MYR against USD and (iii) airfares being reasonably priced. Passenger movements in Apr-23 should be boosted by homebound trips for Eid Al Fitr as well as the entry of Indonesian-based TransNusa Airlines. We anticipate a further recovery in passenger traffic, particularly as MAHB expects the total destination served within its network to recover to 79% of 2019 level by end-CY23 (end-CY22: 64%). MYAirline's network growth should also help to rebuild pre-Covid capacities as it aims to start servicing international routes starting from Jun-23 and expand its fleet size from 6 to 20 aircraft by year-end.

Maintain NEUTRAL. No revisions were made to our passenger traffic assumptions as the total passenger traffic in 1QCY23 matched 21% of our full-year estimate. 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 free-spending Chinese tourists.

COMPANY IN FOCUS

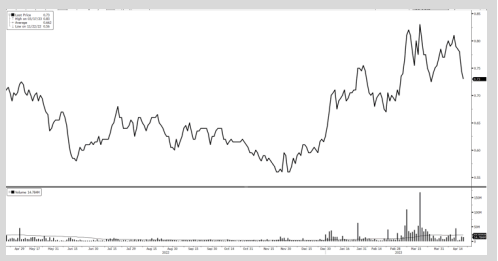
Capital A Berhad

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

Price @ 19th April 2023: RM0.73

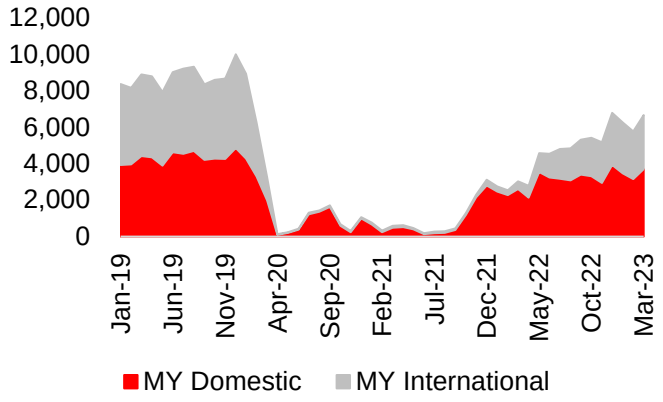
- PN17 regularisation plan to be announced in 2QFY23.
- Targeting to reach full fleet utilisaton in 3QFY23.
- Likely to turn profitable in FY24.

Share Price Chart



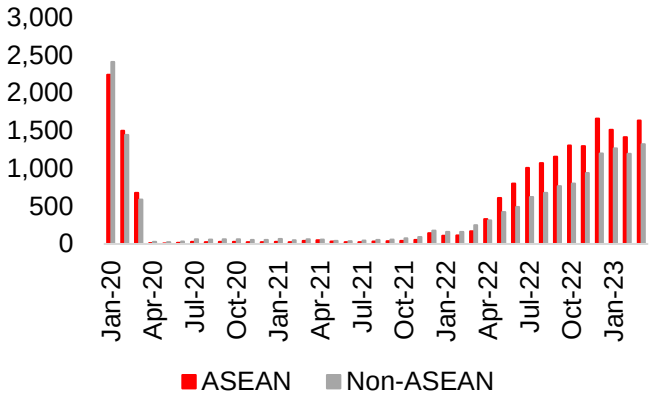
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Chart 1: MY Passenger Traffic ('000)



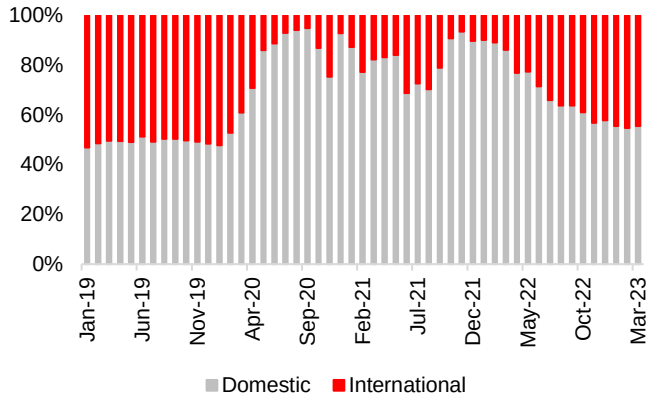
Source: MAHB, MIDFR

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



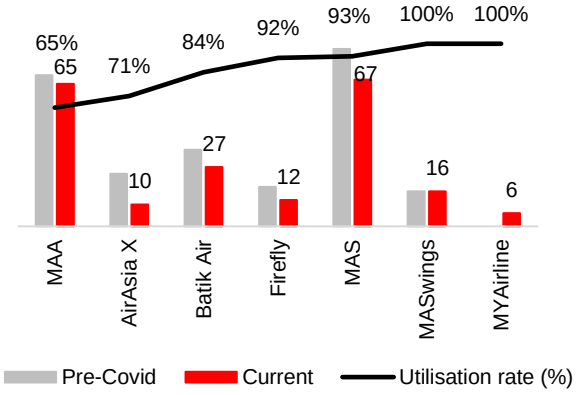
Source: MAHB, MIDFR

Chart 3: MY Passenger Mix (%)



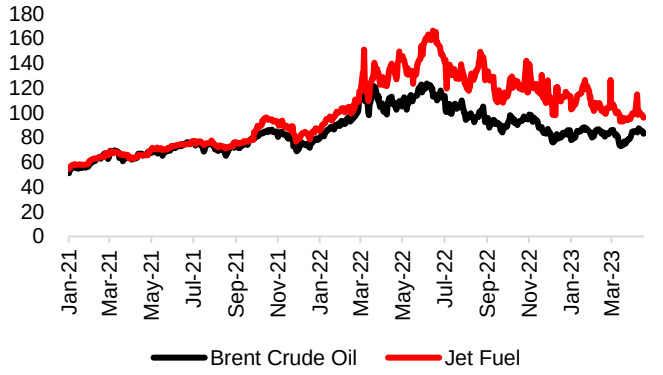
Source: MAHB, MIDFR

Chart 4: Fleet Size of Local Airlines



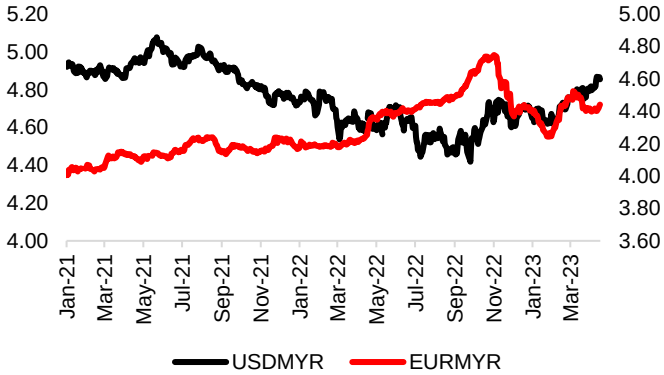
Source: Planespotters.net, MIDFR

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



Source: Bloomberg, MIDFR

Chart 6: USDMYR & EURMYR Exchange Rates



Source: Bloomberg, MIDFR

Table 1: 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 2: 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	0.73	0.91	n.a.	8.4x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	7.08	7.35	34.1x	21.3x	4.8%	7.4%	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