

# AVIATION

**Maintain NEUTRAL**

## Promising Recovery

### KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 72% in Apr-23**
- **The domestic sector was supported by homebound travels during the Aidilfitri festivities**
- **The Hajj season to contribute a rise between +12% to +28% in monthly total passenger movements**
- **Malaysia's passenger traffic assumptions remain unchanged**
- **Maintain BUY on Capital A (TP: RM1.00) and NEUTRAL on MAHB (TP: RM7.45)**

**Apr-23 passenger traffic.** Malaysia Airports Holdings Berhad's (MAHB) collective passenger count reached 6.3m in Apr-23, representing a 72% recovery against Apr-19 level (domestic: 81%, international: 64%). The domestic sector's recovery remained healthy at above 80%, driven by increased travel during the Aidilfitri festivities. International passenger movements also demonstrated a steady recovery despite the Ramadan period, attributed to the resumption of flights from the Chinese market, inaugural TransNusa Airlines' flight from Jakarta as well as additional frequencies from existing airlines.

**Gradual growth post China reopening.** Passenger movements from this market reached only 19% of the levels seen in 2019 in Mar-23, but there has been a gradual improvement from the 10% recorded in Jan-23. According to MAHB's data, the seat capacity filed for the China market in 1QCY23 has only recuperated to 14% of the pre-Covid levels but is expected to increase to at least 60% by year-end as airlines continue reinstating capacities. An encouraging development is that China has eliminated the requirement for a negative PCR test for inbound travelers from early May, replacing it with a negative antigen test taken within 48 hours before boarding.

**Outlook.** The mix of international and domestic passengers should shift closer to the pre-pandemic ratio of 50:50 (Apr-23: 45:55) as local airlines expand its network and more foreign carriers explore Malaysia as viable routes. At present, there are 63 carriers from 7 regions operating at the local airports (85% of 2019 level). Exciting developments on the local front include Batik Air strengthening its network in Australia and East Asia, and MYAirline launching its first international flight to Bangkok starting from Jun-23. Additionally, MAHB's management expects the Hajj season to contribute between +12% to +28% rise in monthly total passenger movements from May-23 to Jul-23. Therefore, the passenger traffic is expected to maintain a solid recovery trajectory.

**Maintain NEUTRAL.** No revisions were made to our passenger traffic assumptions. Relatively 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

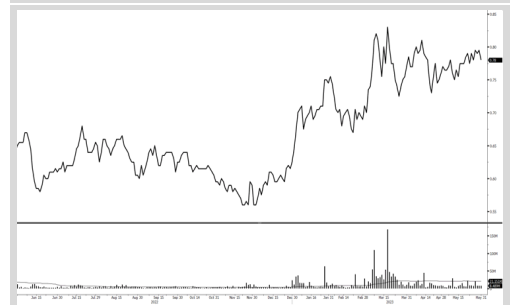
#### Capital A Berhad

Maintain **BUY** | Revised TP: **RM1.00**

Price @ 31<sup>st</sup> May 2023: RM0.78

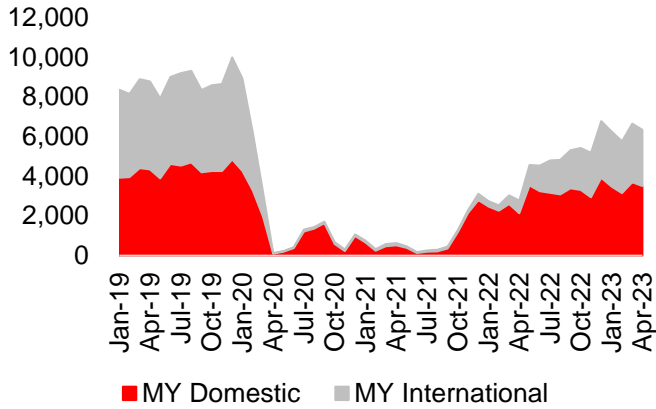
- The Group has returned to the black in 1QFY23.
- PN17 regularisation plan to be announced in Jul-23 and implemented in 4QCY23.
- The aviation group is on track to reach full fleet utilisation in 3QFY23.

### Share Price Chart



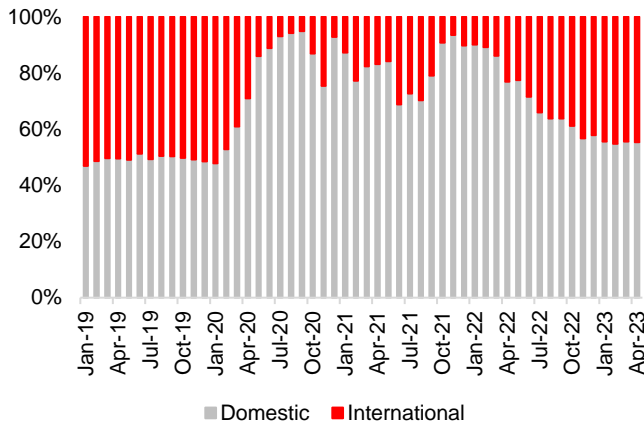
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**Chart 1: MY Passenger Traffic ('000)**



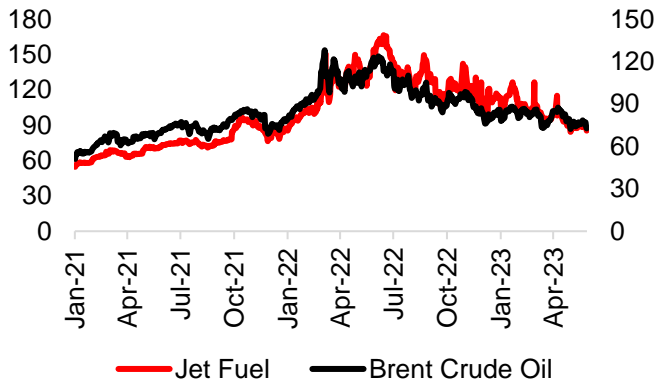
Source: MAHB, MIDFR

**Chart 3: MY Passenger Mix (%)**



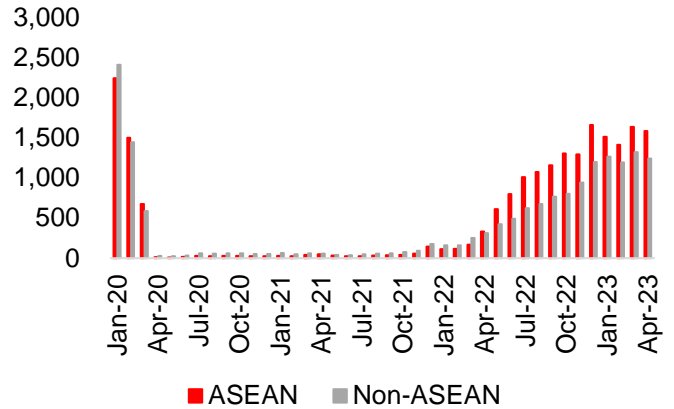
Source: MAHB, MIDFR

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



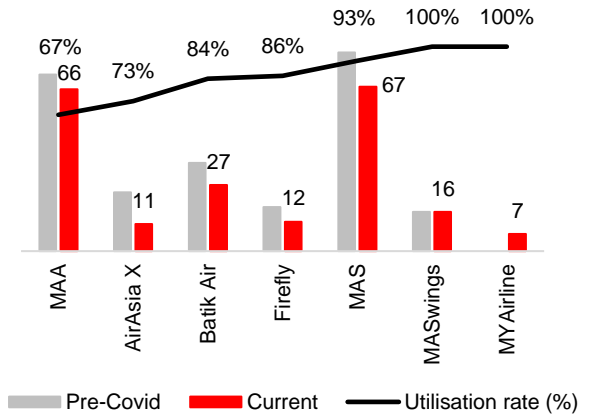
Source: Bloomberg, MIDFR

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



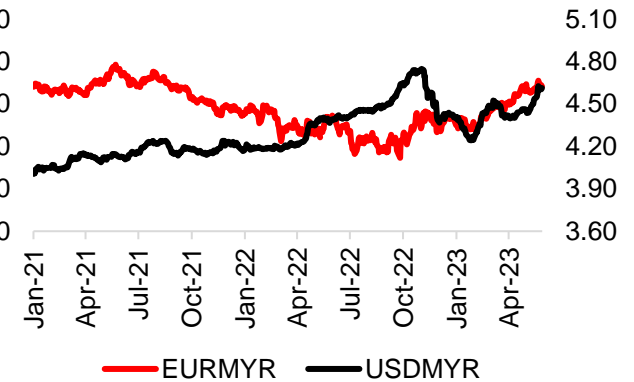
Source: MAHB, MIDFR

**Chart 4: Fleet Size of Local Airlines**



Source: Planespotters.net, 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
<b>Total</b>	<b>10,723</b>	<b>52,550</b>	<b>89,663</b>	<b>109,185</b>	<b>112,343</b>

Source: MAHB, MIDFR

**Table 3: 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%
<b>Total</b>	<b>10%</b>	<b>50%</b>	<b>85%</b>	<b>104%</b>	<b>107%</b>

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	0.78	1.00	n.a.	6.0x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	6.91	7.45	33.3x	20.8x	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 <i>rise</i> 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 <i>fall</i> 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