

AVIATION

Maintain NEUTRAL

Positive Dynamics Drove Traffic Surge

KEY INVESTMENT HIGHLIGHTS

- **Malaysia's passenger traffic recovered to 96% in Feb-24**
- **Daily international passenger movements occasionally exceeded Feb-19 levels**
- **The domestic sector achieved an 83% average load factor**
- **Expecting a +2.0% growth in passenger traffic against 2019 levels by end-CY24**
- **Maintain NEUTRAL on Capital A (TP: RM0.74) and MAHB (TP: RM8.75)**

Feb-24 passenger traffic. Airports in Malaysia remained resilient, reaching a new peak of 7.8m passengers and achieving 96% recovery (domestic: 95%, international: 97%) last month. In addition to ongoing airline route expansions, the surge was fueled by a combination of factors including the 1-month year-end school holidays, the Chinese New Year festivities, and the Routes Asia event in Langkawi. It is worth highlighting that the daily average of international passenger movements surpassed Feb-19 levels on seven separate occasions, ranging from +1% to +10%.

Visa-free travel bears fruit. We are now observing further progress with the 30-day visa-free entry program, as both the Mainland China and India have seen recoveries of 86% and 90% respectively compared to 2019 levels. The number of passengers from Mainland China is likely influenced by the 8-day Chinese Spring Festival season. In addition, the domestic sector performed strongly, achieving its highest recovery rate since the pandemic outbreak. With an average load factor of 83%, it suggests that traffic is progressing towards normalisation.

Outlook. Load factors after the pandemic are comparable to, if not higher than, pre-pandemic levels, suggesting that airlines could accommodate even more passengers by increasing their capacity. Therefore, the pace of recovery depends on how quickly seat capacity can rebound, considering the constraints posed by limited aircraft availability. AirAsia aims to achieve at least 90% of pre-Covid capacity levels by end-FY24 through the reactivation of its grounded fleet. Our traffic projections mainly rely on MAHB's target to welcome 17 new carriers to operate from local airports this year, with 5 already confirmed.

Maintain NEUTRAL. We are keeping our passenger traffic assumptions unchanged. Our projection for this year indicates a +2.0% growth compared to 2019 levels, which is in line with the Malaysian Aviation Commission's (MAVCOM) higher range projection. Key downside risks include: (i) potential delays in AirAsia's full fleet reactivation and (ii) disruptions in Boeing aircraft deliveries to local airlines due to recent incidents.



COMPANY IN FOCUS

Malaysia Airports Holdings Berhad

Maintain **NEUTRAL** | TP: **RM8.75**

Price @ 15th March 2024: RM9.40

- Waivers and discounts for tenants are expected to end in FY24F.
- MAVCOM's decision on RP1 aviation service charges sets positive tone.
- New operating agreement (OA 2023) to be finalised in CY24.

Share Price Chart

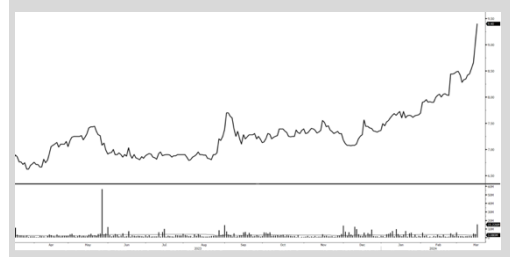
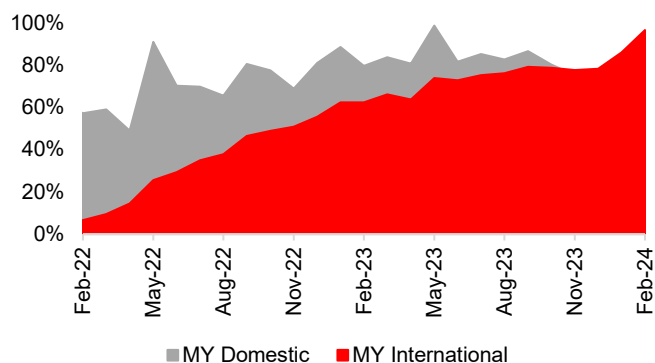
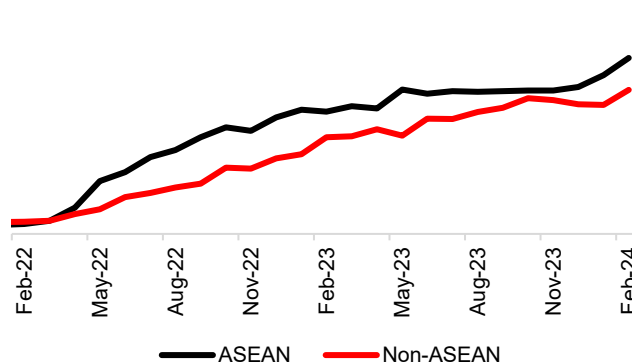

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Chart 1: Recovery of Passenger Traffic (%)



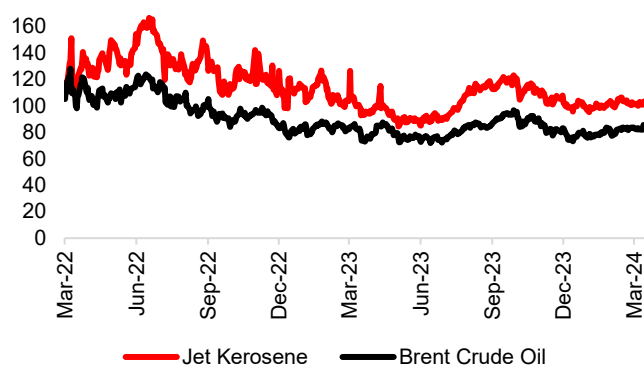
Source: MAHB, MIDFR

Chart 2: Recovery of ASEAN & Non-ASEAN Pax (%)



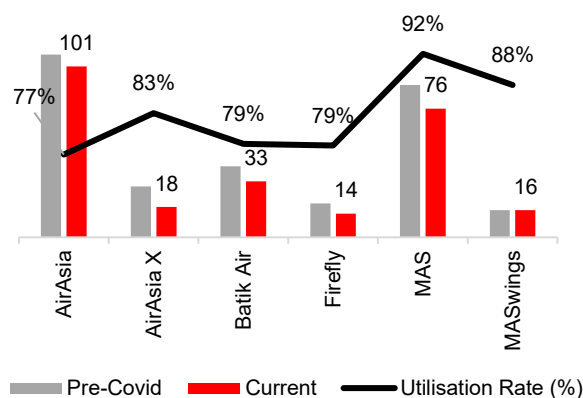
Source: MAHB, MIDFR

Chart 3: Brent Crude Oil vs. Jet Kerosene (USD)



Source: Bloomberg, MIDFR

Chart 4: Fleet Size of Local Airlines as of Mar-24



Source: Planespotters.net, MIDFR

Table 1: Passenger Traffic Recovery as a % of 2019 level

Sector	2021A	2022A	2023A	2024F	2025F
Domestic	18%	69%	83%	102%	107%
International	3%	31%	72%	102%	105%
ASEAN	2%	36%	78%	105%	108%
Non-ASEAN	3%	25%	67%	100%	103%
Total	10%	50%	78%	102%	106%

Source: MAHB, MIDFR

SECTOR VALUATION MATRIX

Company	Rating	Share Price	TP	PER		ROE		Dividend Yield	
		RM	RM	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Capital A	Neutral	0.70	0.74	7.6x	4.8x	-	-	-	-
MAHB	Neutral	9.40	8.75	21.9x	20.8x	8.6%	8.7%	2.0%	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