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Corporate Update| Monday, 18 March 2024

Malaysia Airports Holdings Berhad

Maintain **NEUTRAL**

(5014 | MAHB MK) Main | Transportation & Logistics

Regulation of Aviation Services Charges for RP1

***Revised* Target Price: RM8.75**

(Previously RM7.80)

KEY INVESTMENT HIGHLIGHTS

- **PSC revisions maintain revenue neutrality for MAHB**
- **Other ASCs will be subject to inflation adjustments**
- **Improved mechanism for capex recovery overall**
- **Revision of FY24F/FY25F earnings by +4.0%**
- **Maintain NEUTRAL with a revised TP of RM8.75**

RP1 set to commence in Jun-24. In its latest decision paper, the Malaysian Aviation Commission ("MAVCOM" or "the Commission") detailed the aviation service charges (ASCs), including the passenger service charge (PSC), landing fees, and aircraft parking fees, among others, applicable for the first regulatory period (RP1) (covering the period from June 1, 2024, to December 31, 2026). To recap, the Commission is deferring the adoption of a cost-based framework for determining ASC until the second regulatory period (RP2) (starting January 1, 2027) due to the ongoing recovery of the passenger traffic.

Unveiling the revised PSCs. In its second consultation paper (CP2) released in Mar-23, MAVCOM suggested increasing the **actual PSC** (gazetted charges collected from departing passengers by airlines) to match inflation rates during RP1. However, it also mentioned considering restructuring PSC, with the condition that it remains revenue neutral for MAHB. After receiving input from stakeholders, MAVCOM ultimately opted for the latter option. Key changes include: (i) the differentiation of tariffs based on airports rather than the origin/destination of the flight, and (ii) the introduction of discounted PSC for transfer passengers.

Below is the summary:

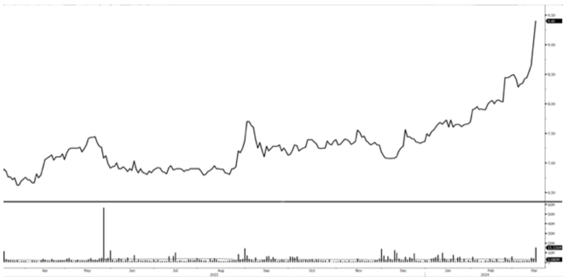
Table 1: Current and New PSC Rates for Departures

TRAVEL	TYPE OF PSC	CURRENT PSC	REVISED PSC (RP1: 2024-2026)
Domestic travel from/ through* all airports	Departure PSC	RM 11	RM 11
	Transfer PSC	-	RM 7
International travel from/ through* KUL Terminal 1	Departure PSC	ASEAN: RM 35 Beyond ASEAN: RM 73	RM 73
	Transfer PSC	-	RM 42
International travel from/ through* KUL Terminal 2 and other airports	Departure PSC	ASEAN: RM 35 Beyond ASEAN: RM 73	RM 50
	Transfer PSC	-	RM 29

Source: MAVCOM

RETURN STATISTICS	
Price @ 15th March 2024 (RM)	9.40
Expected share price return (%)	-6.9
Expected dividend yield (%)	+2.0
Expected total return (%)	**-4.9**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.8	13.2
3 months	24.2	15.0
12 months	34.2	22.6

INVESTMENT STATISTICS

FYE Dec	2023A	2024F	2025F
Revenue	4,914.2	5,786.7	5,943.4
Operating profit	1,137.3	1,582.1	1,622.7
PBT	506.1	941.6	992.1
Core PAT	470.2	715.6	754.0
EPS (sen)	28.2	43.0	45.3
DPS (sen)	10.8	19.0	20.0
Dividend yield (%)	1.1%	2.0%	2.1%

KEY STATISTICS	
FBM KLCI	1,552.83
Issue shares (m)	1,664.84
Estimated free float (%)	45.20
Market Capitalisation (RM'm)	15,250.59
52-wk price range	RM6.59 - RM9.18
3-mth average daily volume (m)	2.91
3-mth average daily value (RM'm)	22.71
Top Shareholders (%)	
Khazanah Nasional Bhd	33.24
Employees Provident Fund	7.00
KWAP	6.76

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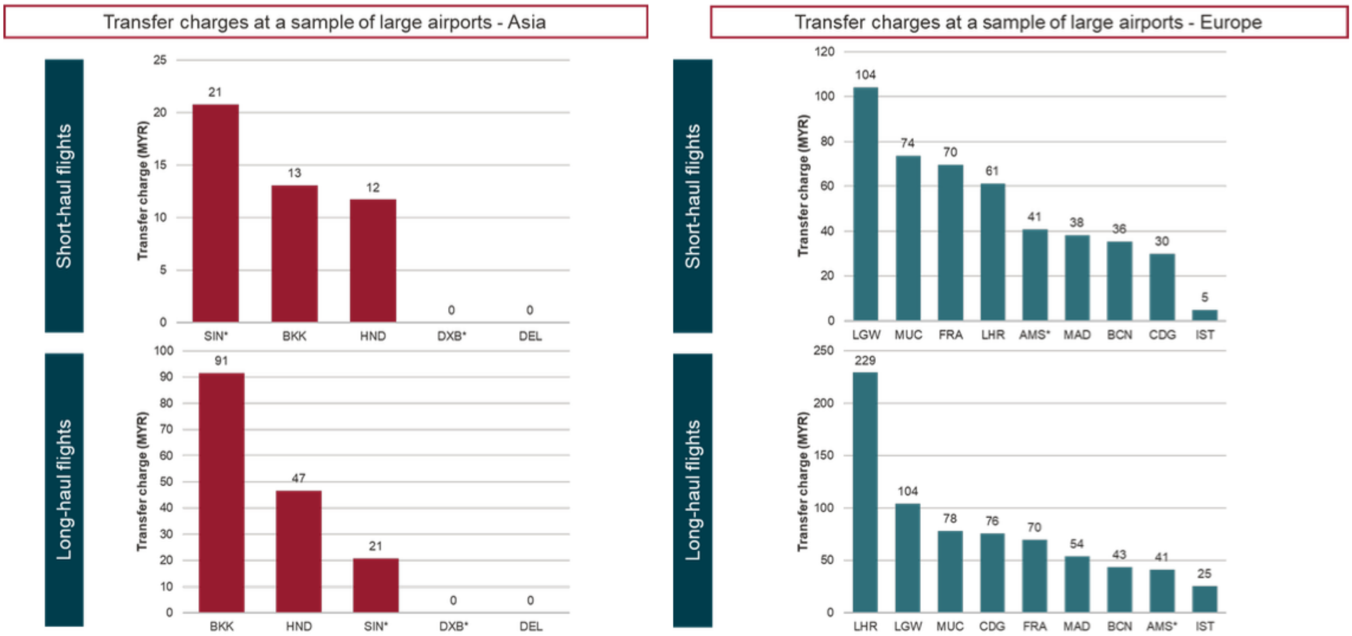
Harmonising interests. Firstly, equalising ASEAN and non-ASEAN PSCs aligns with regional airport norms, acknowledging the shared use of airports facilities by passengers. Interestingly, transfer PSC was introduced at a discounted rate of -43% on similar grounds. However, PSC for KUL Terminal 2 (KUL-T2) and other airports are lower compared to those at KUL Terminal 1 (KUL-T1), considering that ASEAN and/or low-cost carrier passengers may be more sensitive to pricing. Meanwhile, the decision to keep domestic PSC unchanged reflects the higher potential for inter-modal substitution on short-haul routes and consideration for the B40 community.

Figure 1: Transfer Passenger Charges at a Sample of Airports



Source: MAVCOM

Revenue neutrality in the revised PSC. MAHB accounts for **benchmark PSC**, as specified in the operating agreement (OA) with the government (adjusted for compounded inflation every 5 years), as revenue. Historically, this has been higher than actual PSC collections. The government then compensates the difference to MAHB through the Marginal Cost Support (MARCS) mechanism. As per our understanding, the new actual PSC will now match the benchmark PSC (recently reviewed in Feb-24), resulting in the elimination of government compensation (MARCS = 0). This implies revenue neutrality for MAHB, aligning with MAVCOM's intended outcome.

Adjusting other ASCs for inflation. The Commission has maintained its proposal for the other ASCs, as outlined in CP2, despite opposition from airlines. This entails the escalation of tariffs for parking, landing, and all other ASCs to account for inflation over the RP1 period. The CPI escalation is based on the actual data from the Department of Statistics Malaysia (DOSM), showing +2.5% for CY23, while Consensus Economics forecasts +2.3% and +2.4% for CY24 and CY25 respectively. We welcome this development as it presents an upside to earnings, especially given that these charges have remained unchanged since CY14.

Table 2: Parking Fees for MAHB in RP1 (RM)

Description	2024	2025	2026
For each period of 12 hours or any part of 12 hours and for the space occupied 10 square meters or part of 10 square meters	1.07	1.09	1.12
For the space occupied 10 square meters or part of 10 square meters	0.87	0.89	0.91

Source: MAVCOM

Table 3: Landing Fees for MAHB in RP1 (RM)

MTOW (kg)	2024		2025		2026	
	Fixed min.	Subs. 500kg	Fixed min.	Subs. 500kg	Fixed min.	Subs. 500kg
0-5,000	0	4.17	0	4.26	0	4.37
5,001 - 45,000	41.69	5.56	42.65	5.69	43.67	5.82
45,001 – 90,000	486.36	6.52	497.55	6.67	509.49	6.83
90,001 – 135,000	1,073.21	7.38	1,097.89	7.55	1,124.24	7.73
Above 135,000	1,737.02	7.91	1,776.97	8.09	1,819.62	8.29

Source: MAVCOM

Efficient capex allocation with LCM. Introduced in CP2, the Commission will implement the Loss Capitalisation Mechanism (LCM) in RP1 to incentivise MAHB to undertake only efficient and prudent capital expenditures. This enables MAHB to recover/return 90% of any regulatory losses/gains from/to customers (i.e., passengers and airlines) over 10 years starting from Year 1 of RP2 through proportionately higher/lower ASCs. The Commission is open to shortening the recovery period, subject to the aviation sector's recovery. This loss or gain is not associated with MAHB's accounting profit. Instead, it refers to the difference between: (i) the actual economic costs (depreciation, a fair rate of return on capital investment, opex and tax obligations) and (ii) the actual airport-related revenue.

Figure 2: LCM RP1 Losses Calculation Process

Step	Summary
Step 1	• Collect capex, opex and airport-related revenue data from MAHB in the final year of RP1. • This includes actual data for 2024, 2025 and part of 2026 and forecasts for the remainder of 2026.
Step 2	• Determine the split of pre-approved projects (PAPs) and non-PAPs.
Step 3	• Allocate actual airport-related revenue to non-PAPs expenditures before allocating to PAPs expenditures in RP1.
Step 4	• Calculate net losses over RP1 for non-PAP costs by applying the following formula: *Net non-PAPs losses = Actual non-PAPs costs over RP1 - Actual airport-related revenue over RP1*
Step 5	• Apply the sharing ratio of 90% to losses associated with non-PAP expenditure over RP1.
Step 6	• Calculate total losses over RP1 by aggregating (a) PAP-related losses (100%, no sharing ratio applied); and (b) non-PAP-related losses (90% sharing ratio applied) accumulated over RP1.
Step 7	• Add net losses from RP1 to the DCB to recover capitalised losses in RP2.

Source: MAVCOM

Fully recoverable capex for pre-approved projects. MAVCOM acknowledges that adopting a more flexible approach to capex governance could facilitate the implementation of significant and genuinely necessary capex projects in RP1. Under this approach, if MAHB intends to undertake specific investments during RP1, it can request the Commission to allow full recovery of this capex through the LCM if cannot be recovered within RP1. In such cases, the proposed capex for the pre-approved projects (PAPs) would not be subject to the loss-sharing ratio in the LCM. However, the Commission would need to approve the capex associated with the project investment as prudent and efficient beforehand (i.e., on an ex-ante basis) for this to be possible. In the decision paper, the Commission moves away from CP2, where it proposed limiting the ex-ante review to select high-priority projects. This removal streamlines the process by eliminating the need to designate project priorities. Furthermore, as per CP2, MAVCOM opted to remove its ability to conduct an ex-post review of capex incurred during RP1 but has not ruled out its implementation as part of the RP2 framework.

Figure 3: RP1 Ex-Ante Capex Approval Process

Stage	Summary	Indicative timeline	Stakeholder consultation
Stage 1	• MAHB submits a PAP proposal to seek ex-ante capex approval from MAVCOM. • In preparing the proposal, MAHB would need to undertake stakeholder consultation.	week 1	✓
Stage 2	• Stakeholders invited to provide written submissions on MAHB's PAP proposal (~ 3 weeks).	week 4	✓
Stage 3	• The Commission publishes its draft determination.	week 7	
Stage 4	• Stakeholders invited to provide written submissions on the Commission's draft determination (~ 3 weeks).	week 10	✓
Stage 5	• The Commission publishes its final determination.	week 13	
Stage 6	• If *approved*, MAHB's proposed PAP capex will be categorised as a PAP. • If *rejected*, the MAHB's proposed PAP capex will continue to be a non-PAP.		

Source: MAVCOM

Summary. As previously noted, the implementation of the new PSC will have no impact on MAHB's topline as it only involves the elimination of government compensation. However, we are uncertain whether the benchmark PSC mechanism and corresponding MARCS scheme will be retained in the new OA. MAHB has repeatedly assured investors that the new OA is either an improvement or maintains the current status quo. Apart from that, the revision of other ASCs to account for inflation is greatly welcomed, as the specific details regarding the quantum and frequency of these revisions were not clearly addressed in the current OA. Meanwhile, the LCM mechanism is advantageous as it allows MAHB to recover its regulatory losses (if any) starting in RP2, with at least 90% of non-PAPs and 100% on PAPs, in the event of its failure to meet its regulated revenue in RP1. It is worth noting that MAHB has delayed certain high-priority investments since the beginning of the pandemic. Among these is the replacement of the aerotrain and baggage handling system at KUL-T1, with an estimated cost of RM600.0m. The management has yet to disclose details regarding its government-mandated airport expansion plans. We understand that the Penang International Airport (PIA) expansion is set to commence in 2HCY24, with an investment recovery mechanism in place through lower user fees rather than being determined by tariffs. However, the management has not revealed the specific details of this mechanism at this time.

Maintain NEUTRAL. We have adjusted our FY24F/FY25F earnings estimates by +3.9%/+4.3% due to updates in other ASCs and corrected our figures for the revised benchmark PSCs, which is set for its next review in Feb-29. Consequently, our target price has been raised to **RM8.75** from RM7.80. The Commission will obtain required clearances from relevant agencies, including the Attorney General's Chambers, to gazette the determined ASC for RP1. We anticipate the release of a third consultation paper (CP3) from MAVCOM, providing further insights into the extended regulatory framework applicable from RP2 onwards. A key catalyst is the potential for the new OA to deliver terms that are better-than-expected. The stock's valuation is in line with its pre-pandemic EV/EBITDA average of about 10x.

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023A	2024F	2025F
Revenue	1,673.0	3,127.0	4,914.2	5,786.7	5,943.4
Operating profit	-394.4	349.2	1,137.3	1,582.1	1,622.7
PBT	-1,040.9	184.6	506.1	941.6	992.1
PATAMI	-823.9	129.7	485.7	715.6	754.0
Core PATAMI	-805.2	-363.5	470.2	715.6	754.0
EPS (sen)	n.a.	n.a.	28.2	43.0	45.3
PER (x)	n.a.	n.a.	33.3x	21.9x	20.8x
DPS (sen)	n.a.	3.9	10.8	19.0	20.0
Dividend yield (%)	n.a.	0.4%	1.1%	2.0%	2.1%

Balance Sheet (RM'm)	2021A	2022A	2023A	2024F	2025F
Intangible assets	15,215.4	14,579.7	14,662.7	12,877.2	11,935.1
PPE	432.5	418.3	462.0	787.2	778.1
Non-current assets	**17,348.0**	**16,865.0**	**17,145.4**	**17,529.2**	**16,445.5**
Trade debtors	275.1	536.0	675.2	713.4	732.7
Cash & cash equivalents	1,583.2	1,529.6	1,845.1	2,493.2	3,580.2
Current assets	**2,814.6**	**2,585.0**	**3,309.6**	**3,986.0**	**5,095.5**
Long-term debt	3,566.0	4,144.4	3,337.7	3,765.0	3,265.0
Non-current liabilities	**9,770.8**	**9,166.3**	**8,542.4**	**9,495.0**	**9,111.3**
Trade creditors	668.8	2,116.5	1,552.0	1,933.9	1,986.2
Short-term debt	1,745.8	697.3	1,249.5	697.3	697.3
Current liabilities	**3,139.2**	**2,857.4**	**3,912.4**	**3,742.1**	**3,794.5**
Share capital	5,114.3	5,114.3	5,170.7	5,170.7	5,170.7
Retained earnings	1,121.0	1,250.7	1,671.4	1,949.3	2,306.5
Equity	**7,252.5**	**7,426.3**	**8,000.2**	**8,278.0**	**8,635.2**

Cash Flow (RM'm)	2021A	2022A	2023A	2024F	2025F
PBT	-1,040.9	184.6	506.1	941.6	992.1
Operating cash flow	271.1	1,039.9	1,679.3	2,936.9	2,676.7
Investing cash flow	-133.5	238.5	-287.1	-700.0	-300.0
Financing cash flow	471.2	-1,360.2	-1,268.0	-1,588.7	-1,289.6
Net cash flow	**608.8**	**-81.8**	**124.3**	**648.1**	**1,087.0**
Beginning cash flow	**973.7**	**1,583.2**	**1,529.6**	**1,845.1**	**2,493.2**
Ending cash flow	**1,583.2**	**1,529.6**	**1,845.1**	**2,493.2**	**3,580.2**

Key Assumptions (Pax '000)	2021A	2022A	2023A	2024F	2025F
MY International	1,360	16,455	38,547	54,610	56,208
MY Domestic	9,363	36,095	43,224	53,017	55,615
Total MY	10,723	52,550	81,771	107,626	111,824
TY International	8,972	15,712	19,577	19,928	20,639
TY Domestic	16,384	15,469	17,984	22,153	22,805
Total TY	25,356	31,181	37,561	42,081	43,444

Profitability Margins	2021A	2022A	2023A	2024F	2025F
OP margin	-	11.2%	23.1%	27.3%	27.3%
PBT margin	-	5.9%	10.3%	16.3%	16.7%
PAT margin	-	-	9.6%	12.4%	12.7%
Core PAT margin	-	-	9.6%	12.4%	12.7%

Source: MAHB, 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