

03 June 2019

# Malaysia Airports Holdings

## 1Q19 Broadly Within Expectation

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**1Q19 CNP of RM135.4m makes up 38%/26% of our/consensus full-year estimates. Expecting weaker quarters ahead due to higher operating costs, the results are broadly within our expectation. No dividend declared, as expected. Maintain OP with a higher TP of RM8.70 based on FY20E PBV of 1.72x (previously, TP: RM8.55, based on FY19E PBV of 1.72x).**

**Broadly within.** 1Q19 CNP of RM135.4m makes up 38%/26% of our/consensus full-year estimates. However, we deem it as broadly within our expectation, as we expect weaker quarters ahead due to higher costs, i.e. airline incentives, tax, and lower contribution from its non-aeronautical segments. No dividend declared, as expected.

**Results' highlights.** 1Q19 CNP declined by 6%, YoY, despite revenue growth of 3%, due to compression in operating margins from 30% to 26%. This is mainly driven by higher cost like direct labour (+43%), utilities (+20%), other costs (+143%) and higher airline incentives (+22%). QoQ, 1Q9 CNP grew 895% (low-base effect) amid flattish revenue growth, as management incurred a higher operating cost in 4Q18 in maintaining KLIA and KLIA2 to comply with MAVCOM's QoS standards.

**Outlook.** In terms of the implementation of RAB framework, management remains hopeful that they can meet the implementation timeline in 1st January 2020. We expect the expansion of Penang Airport, which is currently operating 20% above its original capacity, is imminent in the near future followed by KLIA upon the implementation of RAB.

**Earnings review.** No changes to our FY19-20E earnings.

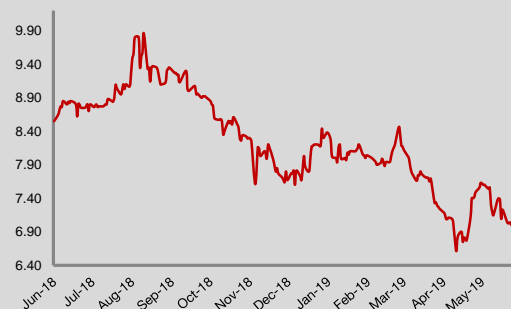
**Maintain OP with a higher TP of RM8.70** (previously, TP: RM8.55 base on FY19E PBV of 1.72x), as we roll forward our valuation base year to FY20E based on PBV of 1.72x. Our ascribed PBV of 1.72x is pegged at +0.5SD to its 2-year average. Amid its operational challenges, we think our applied +0.5SD level is reasonable given that the potential revision in PSC charges would help cushion the higher operating costs.

**Risks to our call** include: (i) lower-than-expected passenger growth, (ii) sharp swing in forex MYR/EUR, and (iii) the unclear structure of the proposed airport REIT which could affect AIRPORT's development direction.

# OUTPERFORM ↔

Price : **RM7.34**  
Target Price : **RM8.70** ↑

### Share Price Performance



|                     |          |
|---------------------|----------|
| KLCI                | 1,650.76 |
| YTD KLCI chg        | -2.4%    |
| YTD stock price chg | -12.4%   |

### Stock Information

|                      |                |
|----------------------|----------------|
| Shariah Compliant    | No             |
| Bloomberg Ticker     | MAHB MK Equity |
| Market Cap (RM m)    | 12,178.5       |
| Shares Outstanding   | 1,659.2        |
| 52-week range (H)    | 9.98           |
| 52-week range (L)    | 6.60           |
| 3-mth avg daily vol: | 3,121,539      |
| Free Float           | 49%            |
| Beta                 | 1.1            |

### Major Shareholders

|                                |       |
|--------------------------------|-------|
| Khazanah Nasional Bhd          | 33.2% |
| Employees Provident Fund Board | 13.9% |
| Blackrock Inc                  | 3.7%  |

### Summary Earnings Table

| FYE Dec (RM m)         | 2018A      | 2019E      | 2020E      |
|------------------------|------------|------------|------------|
| Turnover               | 4,852      | 4,880      | 4,926      |
| EBITDA                 | 2,211      | 2,189      | 2,206      |
| PBT                    | 781        | 483        | 519        |
| <b>Net Profit (NP)</b> | <b>669</b> | <b>352</b> | <b>378</b> |
| <b>Core NP</b>         | <b>361</b> | <b>352</b> | <b>378</b> |
| Consensus (CNP)        | n.a.       | 521        | 597        |
| Earnings Revision      | n.a.       | 0%         | 0%         |
| Core EPS (sen)         | 21.7       | 21.2       | 22.8       |
| Core EPS grow. (%)     | 101%       | -2%        | 7%         |
| NDPS (sen)             | 14         | 15         | 15         |
| BV/Share (RM)          | 4.91       | 4.97       | 5.05       |
| Core PER (x)           | 34         | 35         | 32         |
| Net Gearing (x)        | 0.4        | 0.4        | 0.4        |
| Dividend Yield (%)     | 1.9%       | 2.0%       | 2.0%       |

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| <b>Result Highlights</b> |                |                |             |                |             |
|--------------------------|----------------|----------------|-------------|----------------|-------------|
|                          | <b>1Q19</b>    | <b>4Q18</b>    | <b>QoQ</b>  | <b>1Q18</b>    | <b>YoY</b>  |
| <b>FYE Dec (RM'm)</b>    |                |                |             |                |             |
| <b>Turnover</b>          | <b>1,252.3</b> | <b>1,251.7</b> | <b>0%</b>   | <b>1,215.8</b> | <b>3%</b>   |
| EBITDA                   | 565.8          | 418.8          | 35%         | 581.3          | -3%         |
| Depreciation             | -241.3         | -233.4         | 3%          | -218.0         | 11%         |
| <b>EBIT</b>              | <b>324.5</b>   | <b>185.4</b>   | <b>75%</b>  | <b>363.3</b>   | <b>-11%</b> |
| Interest inc/(exp)       | -166.9         | -171.0         | -2%         | -179.7         | -7%         |
| Associates/JV            | 7.0            | 13.1           | -46%        | 2.5            | 182%        |
| Exceptional items        | 0.0            | 0.0            | n.m.        | 286.6          | -100%       |
| Forex gain/(loss)        | 0.0            | 0.0            | n.m.        | 0.0            | n.m.        |
| <b>Pretax profit</b>     | <b>164.6</b>   | <b>27.5</b>    | <b>499%</b> | <b>472.7</b>   | <b>-65%</b> |
| Taxation                 | -15.0          | 0.6            | -2515%      | -28.1          | -46%        |
| Deferred tax             | 0.0            | 0.0            | n.m.        | 0.0            | n.m.        |
| <b>Profit after tax</b>  | <b>149.6</b>   | <b>28.1</b>    | <b>432%</b> | <b>444.6</b>   | <b>-66%</b> |
| Minority interest        | -14.2          | -14.5          | -2%         | -14.2          | 0%          |
| <b>PATAMI</b>            | <b>135.4</b>   | <b>13.6</b>    | <b>895%</b> | <b>430.4</b>   | <b>-69%</b> |
| <b>Core PATAMI</b>       | <b>135.4</b>   | <b>13.6</b>    | <b>895%</b> | <b>143.8</b>   | <b>-6%</b>  |
| DPS (sen)                | 0.0            | 9.0            |             | 0.0            |             |
| EBIT margin              | 26%            | 15%            |             | 30%            |             |
| Pretax margin            | 13%            | 2%             |             | 39%            |             |
| NP margin                | 13%            | 2%             |             | 39%            |             |
| CNP margin               | 11%            | 1%             |             | 12%            |             |
| EPS (sen)                | 8.2            | 0.8            |             | 25.9           |             |
| Core EPS(sen)            | 8.2            | 0.8            |             | 8.7            |             |
| BV/share (RM)            | 5.6            | 5.5            |             | 5.5            |             |
| Net gearing (x)          | 0.5            | 0.4            |             | 0.4            |             |
| Effective tax            | 9%             | -2%            |             | 6%             |             |

Source: Company, Kenanga Research

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| <b>Result Highlights</b>             |              |              |             |              |             |
|--------------------------------------|--------------|--------------|-------------|--------------|-------------|
|                                      | <b>1Q19</b>  | <b>4Q18</b>  | <b>QoQ</b>  | <b>1Q18</b>  | <b>YoY</b>  |
| <b>Malaysia Revenue</b>              |              |              |             |              |             |
| PSC & PSSC                           | 368.8        | 337.2        | 9%          | 344.5        | 7%          |
| Land & Parking                       | 104.7        | 86.4         | 21%         | 91.5         | 14%         |
| Airline Incentives                   | -9.1         | -45.0        | -80%        | -13.7        | -34%        |
| Others                               | 19.7         | 15.1         | 30%         | 16.2         | 22%         |
| <b>Aeronautical (RM'm)</b>           | <b>484.1</b> | <b>393.7</b> | <b>23%</b>  | <b>438.5</b> | <b>10%</b>  |
| Retail                               | 211.6        | 238.6        | -11%        | 217.1        | -3%         |
| Rental & Royalties                   | 171.3        | 131.4        | 30%         | 165.2        | 4%          |
| Car Park                             | 14.8         | 11.6         | 28%         | 15.1         | -2%         |
| Others                               | 12.9         | -2.1         | -714%       | 23.0         | -44%        |
| <b>Non-Aeronautical (RM'm)</b>       | <b>410.6</b> | <b>379.5</b> | <b>8%</b>   | <b>420.4</b> | <b>-2%</b>  |
| Hotel                                | 23.2         | 27.7         | -16%        | 24.0         | -3%         |
| Agriculture                          | 6.4          | 13.6         | -53%        | 7.8          | -18%        |
| Project & Repair Maintenance         | 48.5         | 39.1         | 24%         | 38.9         | 25%         |
| <b>Non-Airport Operations (RM'm)</b> | <b>78.1</b>  | <b>80.4</b>  | <b>-3%</b>  | <b>70.7</b>  | <b>10%</b>  |
| <b>Construction (RM'm)</b>           | <b>0.0</b>   | <b>0.0</b>   | <b>n.m.</b> | <b>0.0</b>   | <b>n.m.</b> |
| <b>Malaysia Cost Analysis</b>        |              |              |             |              |             |
| Direct Materials                     | 116.9        | 152.4        | -23%        | 118.6        | -1%         |
| Direct Labour                        | 40.3         | 48.9         | -18%        | 37.2         | 8%          |
| Direct Overheads                     | 42.6         | 54.2         | -21%        | 29.7         | 43%         |
| Staff Costs                          | 157.8        | 217.4        | -27%        | 150.7        | 5%          |
| Utilities                            | 97.4         | 54.3         | 79%         | 81.1         | 20%         |
| Maintenance                          | 60.6         | 76.1         | -20%        | 55.6         | 9%          |
| User Fee                             | 112.3        | 84.3         | 33%         | 105.9        | 6%          |
| Others                               | 52.8         | 86.8         | -39%        | 21.7         | 143%        |
| Construction                         | 0.0          | 0.0          | n.m.        | 0.0          | n.m.        |
| <b>Malaysia: Total Cost (RM'm)</b>   | <b>680.7</b> | <b>774.4</b> | <b>-12%</b> | <b>600.5</b> | <b>13%</b>  |
| <b>EBITDA Segmentation</b>           |              |              |             |              |             |
| Aeronautical                         | 304.9        | 196.0        | 56%         | 352.5        | -13%        |
| Non-Aeronautical                     | 12.6         | 34.8         | -64%        | 18.9         | -33%        |
| Hotel                                | 8.5          | 5.8          | 47%         | 7.6          | 11%         |
| Agriculture                          | 0.3          | -1.6         | -120%       | 3.1          | -90%        |
| Project & Repair Maintenance         | 8.7          | 1.4          | 523%        | 5.7          | 54%         |
| <b>Pre-tax Segmentation</b>          |              |              |             |              |             |
| Aeronautical                         | 158.1        | 54.3         | 191%        | 215.9        | -27%        |
| Non-Aeronautical                     | 10.2         | 32.4         | -68%        | 16.5         | -38%        |
| Hotel                                | 6.2          | 3.3          | 89%         | 3.8          | 61%         |
| Agriculture                          | -1.0         | -2.8         | -66%        | 2.0          | -148%       |
| Project & Repair Maintenance         | 8.6          | 1.2          | 595%        | 5.6          | 54%         |
| <b>EBITDA margins</b>                |              |              |             |              |             |
| Aeronautical                         | 63%          | 50%          |             | 80%          |             |
| Non-Aeronautical                     | 3%           | 9%           |             | 4%           |             |
| Hotel                                | 37%          | 21%          |             | 32%          |             |
| Agriculture                          | 5%           | -12%         |             | 40%          |             |
| Project & Repair Maintenance         | 18%          | 4%           |             | 15%          |             |
| <b>Pre-tax margins</b>               |              |              |             |              |             |
| Aeronautical                         | 33%          | 14%          |             | 49%          |             |
| Non-Aeronautical                     | 2%           | 9%           |             | 4%           |             |
| Hotel                                | 27%          | 12%          |             | 16%          |             |
| Agriculture                          | -15%         | -21%         |             | 25%          |             |
| Project & Repair Maintenance         | 18%          | 3%           |             | 14%          |             |

Source: Company, Kenanga Research

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### Peer Comparison - Airport

| Name  | Local Currency | Last Price | Market Cap | Shariah Compliant | Current | Revenue Growth |             | Core Earnings Growth |             | PER (x) - Core Earnings |             |             | PBV (x)    |            | ROE (%)     |              | Net Div.Yld . (%) | Target  | Rating |
|---|----------------|------------|------------|-------------------|---------|----------------|-------------|----------------------|-------------|-------------------------|-------------|-------------|------------|------------|-------------|--------------|-------------------|---------|--------|
|   |                |            |            |                   |         | 1-Yr. Fwd.     | 2-Yr. Fwd.  | 1-Yr. Fwd.           | 2-Yr. Fwd.  | Hist.                   | 1-Yr. Fwd.  | 2-Yr. Fwd.  | Hist.      | 1-Yr. Fwd. | 1-Yr. Fwd.  | 1-Yr. Fwd.   | Price (RM)        |         |        |
| <b>AVIATION UNDER COVERAGE</b>              |                |            |            |                   |         |                |             |                      |             |                         |             |             |            |            |             |              |                   |         |        |
| AIRASIA GROUP BHD                           | MYR            | 2.89       | 9,658.3    | N                 | 12/2019 | 12.2%          | 3.0%        | 24.5%                | 11.5%       | 16.4                    | 13.2        | 11.9        | 1.2        | 1.8        | 11.1%       | 33.0%        | 2.20              | OP      |        |
| MALAYSIA AIRPORTS HLDGS BHD                 | MYR            | 7.34       | 12,178.5   | N                 | 12/2019 | 0.6%           | 1.0%        | -2.3%                | 7.4%        | 33.8                    | 34.6        | 32.2        | 1.5        | 1.5        | 3.8%        | 2.0%         | 8.70              | OP      |        |
| <b>Simple Average</b>                       |                |            |            |                   |         | <b>6.4%</b>    | <b>2.0%</b> | <b>11.1%</b>         | <b>9.4%</b> | <b>25.1</b>             | <b>23.9</b> | <b>22.0</b> | <b>1.4</b> | <b>1.6</b> | <b>7.4%</b> | <b>17.5%</b> |                   |         |        |
| <b>CONSENSUS NUMBERS</b>                    |                |            |            |                   |         |                |             |                      |             |                         |             |             |            |            |             |              |                   |         |        |
| AIRPORTS OF THAILAND PCL                    | THB            | 63.75      | 910,713.4  | N                 | 09/2019 | 7.6%           | 9.0%        | 8.4%                 | 9.2%        | 36.2                    | 33.4        | 30.6        | 6.4        | 5.8        | 18.1%       | 1.7%         | 70.87             | NEUTRAL |        |
| AUCKLAND INTL AIRPORT LTD                   | NZD            | 8.77       | 10,617.2   | N                 | 06/2019 | 9.0%           | 4.5%        | -57.8%               | 2.3%        | 16.3                    | 38.7        | 37.9        | 1.8        | 1.9        | 4.8%        | 2.6%         | 7.54              | SELL    |        |
| BEIJING CAPITAL INTL AIRPO-H                | HKD            | 6.63       | 28,713.8   | N                 | 12/2019 | -6.0%          | -10.1%      | -20.8%               | -28.1%      | 10.0                    | 12.6        | 17.5        | 1.1        | 1.0        | 9.3%        | 3.3%         | 7.28              | NEUTRAL |        |
| FLUGHAFEN WIEN AG                           | EUR            | 37.15      | 3,120.6    | N                 | 12/2019 | 4.6%           | 2.9%        | 11.8%                | 5.6%        | 22.7                    | 20.3        | 19.3        | 2.6        | 2.3        | 12.3%       | 2.8%         | 36.98             | NEUTRAL |        |
| FLUGHAFEN ZURICH AG-REG                     | CHF            | 169.00     | 5,188.6    | N                 | 12/2019 | 3.6%           | -1.2%       | 26.9%                | -2.7%       | 21.8                    | 17.2        | 17.7        | 2.1        | 2.3        | 12.2%       | 4.2%         | 186.14            | NEUTRAL |        |
| GRUPO AEROPORT DEL PACIFIC-B                | MXN            | 191.79     | 107,594.2  | N                 | 12/2019 | 7.0%           | 12.0%       | 9.7%                 | 9.8%        | 21.4                    | 19.5        | 17.7        | 4.9        | 5.0        | 25.5%       | 4.8%         | 202.29            | NEUTRAL |        |
| GRUPO AEROPORT DEL SURESTE-B                | MXN            | 309.43     | 92,829.0   | N                 | 12/2019 | 9.2%           | 14.4%       | 10.4%                | 11.0%       | 18.6                    | 16.9        | 15.2        | 3.0        | 2.8        | 17.5%       | 2.3%         | 344.73            | NEUTRAL |        |
| GRUPO AEROPORTUARIO DEL CENT                | MXN            | 118.29     | 46,579.2   | N                 | 12/2019 | 1.4%           | 4.3%        | 9.6%                 | 10.1%       | 16.3                    | 14.9        | 13.5        | 5.1        | 4.9        | 34.2%       | 4.2%         | 127.81            | BUY     |        |
| GUANGZHOU BAIYUN INTERNATI-A                | CNY            | 15.67      | 32,426.3   | N                 | 12/2019 | 6.3%           | 9.4%        | -12.2%               | 33.7%       | 28.7                    | 32.7        | 24.5        | 2.0        | 2.0        | 6.2%        | 0.9%         | 15.20             | BUY     |        |
| JAPAN AIRPORT TERMINAL CO                   | JPY            | 4,120.00   | 348,043.2  | N                 | 03/2020 | 3.9%           | 13.3%       | -70.7%               | 38.0%       | 10.5                    | 36.0        | 26.1        | 2.0        | 2.0        | 5.7%        | 1.0%         | 5,940.00          | BUY     |        |
| KOBENHAVNS LUFTHAVNE                        | DKK            | 5,780.00   | 45,361.8   | N                 | 12/2019 | N.A.           | N.A.        | N.A.                 | N.A.        | 41.0                    | N.A.        | N.A.        | 13.8       | N.A.       | N.A.        | N.A.         | N.A.              | SELL    |        |
| MALAYSIA AIRPORTS HLDGS BHD                 | MYR            | 7.34       | 12,178.5   | N                 | 12/2019 | 9.0%           | 7.3%        | -22.2%               | 14.6%       | 18.2                    | 23.4        | 20.4        | 1.5        | 1.4        | 6.5%        | 2.7%         | 8.80              | BUY     |        |
| SYDNEY AIRPORT TAV HAVALIMANLARI HOLDING AS | AUD            | 7.41       | 16,725.0   | N                 | 12/2019 | 4.3%           | 5.2%        | 6.2%                 | 7.6%        | 44.9                    | 42.3        | 39.3        | 207.8      | N.A.       | -178.4%     | 5.3%         | 7.15              | SELL    |        |
|   | TRY            | 25.44      | 9,241.9    | N                 | 12/2019 | -7.5%          | 4.5%        | -31.2%               | 50.6%       | 6.4                     | 9.2         | 6.1         | 1.6        | 1.4        | 17.7%       | 5.9%         | 33.89             | BUY     |        |

\*Peers are denominated in their respective local currencies

Source: Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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