

28 November 2019

# Malaysia Airports Holdings

## A Solid 9MFY19 Performance

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**9MFY19 Core Net Profit (CNP) of RM507.5m (+23%) came in above expectations at 89% of our and consensus full-year forecasts. The variance from our end is due to better-than-expected results from Turkey. Hence, we upgrade our FY19E/FY20E net profit by 13%/5%. TP is raised from RM9.50 to RM9.90 based on unchanged 22x FY20E EPS. We like MAHB as an attractive proxy play on the propensity for air travel in the region due to rising per capita income and its well-entrenched monopolistic position. Reiterate OP.**

**Results' highlights.** QoQ, 3QFY19 revenue rose 7.5% thanks to higher revenue from both airport and non-airport operations. Airport operations' revenue increased by 7.3% due to higher aeronautical revenue (+7.5%) mainly from their Turkey operation. The Malaysian operation's 3QFY19 revenue grew by 5% QoQ on higher passenger movements (+4%). The Turkey operation's revenue grew 18% QoQ on higher international passenger growth (+21%). Non-airport operations revenue rose 10.7% due to higher contributions from the project and repair maintenance business. Overall passenger traffic (including Turkey Istanbul Sabiha) recorded 7% QoQ growth where international and domestic passenger movements increased by 8% and 6%, respectively. In Malaysia, international passengers rose 4% due to improvement in Asean (+6%) and non-Asean (+2%). This brings 3QFY19 CNP to RM197.9m (+23.6% QoO) due to higher revenue (+8% QoQ) and boosted by a maiden profit achieved by ISG of RM28m compared to a loss of RM12m in 2QFY19. No dividend was declared in this quarter as expected.

**YoY, 9MFY19** revenue rose 7.5% underpinned by growth in airport operations driven by sustained growth in passenger and aircraft movements. Aeronautical revenue segment grew by 15.1%, driven by strong passenger growth. Malaysia operation recorded passenger growth of 6.0% (international: +2.3%, domestic: +10.0%). The passenger traffic in ISG rose 2.7%. The non-aeronautical revenue increased by 3.8% driven by the concessionaires and retailers from Turkey operation. Non-airport operations revenue increased by 5.4% mainly contributed by the project and repair maintenance business. This brings 9MFY19 CNP to RM507.5m (+23% YoY) excluding fair valuation of investment in GMR Hyderabad International Airport Limited (RM258.4m) and gain on disposal of investment (RM28.2m) in 9MFY18 due to: (i) lower finance cost (-8%), and (ii) narrower loss of RM19.2m in 9MFY19 compared to a loss of RM138.9m recorded in 9MFY18.

**RAB is re-rating catalyst.** Malaysia Aviation Commission (MAVCOM) reaffirmed the implementation of Regulated Base Asset (RAB) model framework-led tariff on aeronautical charges or Passenger Service Charge (PSC) for Malaysia Airports Holdings Berhad (MAHB) and reiterated its stance as having statutory right to set the PSC due to be implemented for FY20 to FY22 with a WACC of 10.88%.

**We raise our FY19E/FY20E net profit by 13%/5%.** Hence, we upgrade our FY19E/FY20E net profit by 13%/5% as we assumed a profit of RM40m/RM50m in Turkey compared to a loss of RM50m/RM30m previously.

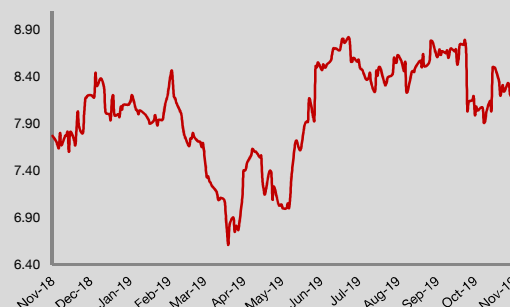
**Reiterate OP.** Correspondingly, our TP is raised from RM9.50 to RM9.90 based on unchanged 22x FY20E EPS (at 5-year historical forward mean) which is at a 20% discount to regional peers' average to reflect MAHB's relatively smaller market capitalisation. We like MAHB as an attractive proxy play on the propensity for air travel in the region due to rising per capita income and it is also well-entrenched because of its monopolistic position. **Reiterate Outperform.**

**Risks to our call include:** (i) lower-than-expected passenger growth, and (ii) weaker-than-expected WACC from the RAB.

## OUTPERFORM ↔

Price : **RM8.22**  
Target Price : **RM9.90** ↑

### Share Price Performance



KLCI 1,587.18  
YTD KLCI chg -6.1%  
YTD stock price chg -1.9%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker MAHB MK EQUITY  
Market Cap (RM m) 13,638.6  
Shares Outstanding 1,659.2  
52-week range (H) 8.88  
52-week range (L) 6.60  
3-mth avg daily vol: 2,141,229  
Free Float 51%  
Beta 1.0

### Major Shareholders

Khazanah Nasional Bhd 33.2%  
Employees Provident Fund Board 12.1%  
Blackrock Incorporated 3.7%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	4,851.7	5,232.8	5,560.5
EBITDA	2,383.5	2,385.7	2,454.4
PBT	780.6	798.6	933.7
<b>Net Profit (NP)</b>	<b>727.9</b>	<b>638.9</b>	<b>747.0</b>
<b>Core NP</b>	<b>469.5</b>	<b>638.9</b>	<b>747.0</b>
Consensus (CNP)	-	570.1	647.3
Earnings Revision	-	+13%	+5%
Core EPS (sen)	28.3	38.5	45.0
Core EPS growth(%)	95.8	36.1	16.9
NDPS (sen)	14.0	17.5	21.0
BV/Share (RM)	5.51	5.64	5.85
Core PER (x)	29.0	21.3	18.3
Net Gearing (x)	0.4	0.4	0.2
Dividend Yield (%)	1.7	2.1	2.6

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<b>Result Highlight</b>							
<b>FY Dec</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>QoQ</b>	<b>9M</b>	<b>9M</b>	<b>YoY</b>
<b>(RMm)</b>	<b>2019</b>	<b>2019</b>	<b>2019</b>	<b>%chg</b>	<b>2018</b>	<b>2019</b>	<b>%chg</b>
Revenue	1,252.3	1,261.2	1,355.2	7.5	3,600.0	3,868.7	7.5
EBITDA	565.8	603.9	647.2	7.2	1,964.8	1,816.9	(7.5)
Pretax profit	164.6	201.6	246.8	22.4	753.1	613.0	(18.6)
Taxation	(15.0)	(41.5)	(48.9)	17.8	(53.9)	(105.5)	95.6
Net profit	149.6	160.1	197.9	23.6	699.2	507.5	(27.4)
Core net profit	149.6	160.1	197.9	23.6	412.6	507.5	23.0
EPS (sen)	8.2	8.8	11.1	25.9	39.6	28.0	(29.2)
EBITDA margin (%)	45%	48%	48%		55%	77%	
Pretax margin (%)	29%	33%	14%		38%	21%	
Effective tax rate (%)	9%	21%	20%		7%	17%	
<b>Aeronautical</b>							
PSC & PSCC	503.0	522.5	573.9	9.8	1,375.7	1,599.4	16.3
Landing & Parking	104.7	104.0	107.9	3.8	299.3	316.6	5.8
Airline Incentives	-9.1	(12.9)	(19.3)	49.6	(44.0)	(41.3)	(6.1)
Others (cargo, airside, etc)	47.9	50.2	51.4	2.4	128.1	149.5	16.7
Total Aeronautical charges	646.5	663.8	713.9	7.5	1,759.1	2,024.2	15.1
<b>Non-aeronautical</b>							
Retail	211.6	210.6	210.3	(0.1)	615.1	632.5	2.8
Rent & Loyalties	273.1	276.3	311.7	12.8	807.4	861.1	6.7
Car park	23.0	23.2	24.2	4.3	76.0	70.4	(7.4)
Others	18.0	18.1	18.4	1.7	60.2	54.5	(9.5)
<b>Total Non-aeronautical charges</b>	<b>525.7</b>	<b>528.2</b>	<b>564.6</b>	<b>6.9</b>	<b>1,558.7</b>	<b>1,618.5</b>	<b>3.8</b>
<b>Non-airport operations</b>							
Hotel	25.4	23.1	24.2	4.8	73.4	72.7	(1.0)
Agriculture & Horticulture	6.2	6.5	7.7	18.5	24.6	20.4	(17.1)
Project & repair maintenance	48.5	39.6	44.8	13.1	184.2	132.9	(27.9)
Total	80.1	69.2	76.7	10.8	282.2	226.0	(19.9)
<b>Total group revenue</b>	<b>1,252.3</b>	<b>1,261.2</b>	<b>1,355.2</b>	<b>7.5</b>	<b>3,600.0</b>	<b>3,868.7</b>	<b>7.5</b>
<b>Revenue breakdown</b>							
Airport services	682.5	665.1	695.4	4.6	1,894.2	2,043.1	7.9
Duty free	212.1	211.3	211.1	(0.1)	616.4	634.4	2.9
Project & Repair	48.5	39.6	44.6	12.4	10.1	132.7	1,213.5
Hotel	23.2	20.6	21.6	4.6	66.8	65.4	(2.1)
Agriculture	6.4	6.3	7.8	23.5	24.6	20.4	(17.1)
Turkey (ISG and LGM)	279.7	318.2	374.7	17.8	987.7	972.7	(1.5)
<b>Total</b>	<b>1,252.3</b>	<b>1,261.2</b>	<b>1,355.2</b>	<b>7.5</b>	<b>3,600.0</b>	<b>3,868.7</b>	<b>7.5</b>

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FY Dec (RMm)	1Q 2019	2Q 2019	3Q 2019	QoQ %chg	9M 2018	9M 2019	YoY %chg
<b>EBITDA</b>							
Airport services	304.9	314.8	355.0	12.7	916.8	974.7	6.3
Duty free	12.6	11.0	9.4	(14.8)	40.6	33.1	(18.7)
Project & repair maintenance	14.7	13.4	13.4	0.4	16.8	41.5	146.2
Hotel	8.5	5.5	8.6	57.0	18.3	22.6	23.8
Agriculture	0.3	0.2	2.7	NM	9.7	3.2	(66.6)
Turkey (ISG and LGM)	207.1	240.7	291.6	21.1	664.1	739.4	11.3
Others	66.6	70.5	24.7	(65.0)	581.5	161.8	(72.2)
Adjustments	(48.9)	(52.3)	(58.1)	11.2	(283.1)	(159.4)	(43.7)
<b>Total</b>	<b>565.8</b>	<b>603.9</b>	<b>647.3</b>	<b>7.2</b>	<b>1,964.8</b>	<b>1,816.9</b>	<b>(7.5)</b>
<b>EBITDA margin %</b>							
Airport services	45%	47%	51%		48%	48%	
Duty free	6%	5%	4%		7%	5%	
Project & Repair	30%	34%	30%		167%	31%	
Hotel	37%	27%	40%		27%	35%	
Agriculture	5%	3%	35%		39%	16%	
Turkey (ISG and LGM)	74%	76%	78%		67%	76%	
<b>PBT</b>							
Airport services	158.1	165.8	213.6	28.8	512.1	537.5	5.0
Duty free	10.2	8.8	7.5	(14.9)	33.6	26.5	(21.2)
Project & Repair	12.2	9.4	9.5	0.9	16.5	31.0	87.7
Hotel	6.2	(1.2)	3.1	(370.9)	9.4	8.2	(12.9)
Agriculture	(1.0)	(1.1)	1.5	(237.7)	6.3	(0.6)	(108.8)
Turkey (ISG and LGM)	5.4	37.7	86.8	130.2	6.6	130.0	NM
Others	33.3	37.2	(12.9)	(134.7)	470.9	57.6	(87.8)
adjustments	(59.8)	(55.1)	(62.3)	13.1	(302.2)	(177.3)	(41.4)
<b>Total</b>	<b>164.6</b>	<b>201.6</b>	<b>246.8</b>	<b>22.4</b>	<b>753.1</b>	<b>613.0</b>	<b>(18.6)</b>
<b>Core PAT</b>							
Airport services	134.3	125.2	170.4	36.1	448.0	429.9	(4.1)
Duty free	7.7	6.3	3.6	(42.4)	24.9	17.6	(29.2)
Project & Repair	9.8	7.2	7.6	5.0	12.6	24.6	94.8
Hotel	6.0	(2.0)	3.2	(261.8)	7.5	7.2	(4.4)
Agriculture	(0.8)	(1.2)	0.5	(143.0)	4.8	(1.5)	(131.0)
Turkey (ISG and LGM)	9.4	31.5	76.6	143.6	5.7	117.5	NM
Others	33.3	37.2	(12.9)	(134.7)	465.0	57.6	(87.6)
adjustments	(50.1)	(44.0)	(51.2)	16.2	(269.3)	(145.3)	(46.1)
<b>Total</b>	<b>149.6</b>	<b>160.1</b>	<b>197.9</b>	<b>23.6</b>	<b>699.2</b>	<b>507.5</b>	<b>(27.4)</b>

Source : Bursa Malaysia, Kenanga Research

### Key assumptions

	FY18A	FY19F	FY20F
Total passengers	133,200	140,101	149,096
KLIA	28100	29,764	33,347
KLIA 2	31900	34,054	35,883
other airports	39100	40,273	42,689
Turkey	34,100	35,464	37,126
Int'l Passenger Traffic Growth (%)	4.7%	2.0%	8.0%
Domestic Pax Traffic Growth (%)	0.5%	9.5%	6.0%

Source: Bloomberg, 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	1.75	5,848.5	N	12/2019	11.2%	9.0%	-60.7%	-32%	10.0	14.8	10.5	0.7	1.1	5.9%	51.4%	1.70	MP	
MALAYSIA AIRPORTS HLDGS BHD	MYR	8.22	13,638.6	N	12/2019	7.9%	6.3%	36.1%	16.9%	29.0	21.3	18.3	1.5	1.5	6.9%	1.8%	9.90	OP	
<b>Simple Average</b>						<b>9.5%</b>	<b>7.6%</b>	<b>-12.3%</b>	<b>-7.6%</b>	<b>19.5</b>	<b>18.05</b>	<b>14.4</b>	<b>1.1</b>	<b>1.3</b>	<b>6.4%</b>	<b>26.6%</b>			
<b>CONSENSUS NUMBERS</b>																			
AIRPORTS OF THAILAND PCL	THB	78.25	1,117,856.0	N	09/2020	9.0%	27.4%	12.4%	37.0%	44.7	39.7	29.0	7.5	6.6	17.3%	1.4%	80.48	BUY	
AUCKLAND INTL AIRPORT LTD	NZD	9.18	11,154.1	N	06/2020	2.7%	7.7%	-47.5%	6.3%	21.3	40.6	38.1	1.8	1.8	4.5%	2.5%	8.24	SELL	
BEIJING CAPITAL INTL AIRPO-H	HKD	7.52	34,435.4	N	12/2019	-4.2%	-8.5%	-19.6%	-26.0%	12.0	14.9	20.2	1.2	1.2	9.6%	2.8%	7.75	NEUTRAL	
FLUGHAFEN WIEN AG	EUR	38.00	3,192.0	N	12/2019	6.7%	2.2%	18.0%	4.0%	23.3	19.7	18.9	2.5	2.4	13.4%	3.0%	40.18	NEUTRAL	
FLUGHAFEN ZURICH AG-REG	CHF	178.10	5,468.0	N	12/2019	3.7%	2.0%	25.8%	2.9%	23.0	18.3	17.8	2.4	2.2	12.3%	4.0%	188.15	NEUTRAL	
GRUPO AEROPORT DEL PACIFIC-B	MXN	200.53	112,497.3	N	12/2019	7.6%	15.2%	7.6%	14.2%	22.3	20.8	18.2	6.1	6.3	27.3%	4.4%	216.45	NEUTRAL	
GRUPO AEROPORT DEL SURESTE-B	MXN	340.04	102,012.0	N	12/2019	7.4%	17.4%	9.0%	8.6%	20.5	18.8	17.3	3.4	3.1	17.7%	2.6%	347.79	NEUTRAL	
GRUPO AEROPORTUARIO DEL CENT	MXN	132.34	52,111.6	N	12/2019	2.1%	6.1%	14.6%	11.5%	18.3	15.9	14.3	5.8	4.9	35.3%	3.3%	139.69	BUY	
GUANGZHOU BAIYUN INTERNATI-A	CNY	16.75	34,661.1	N	12/2019	2.1%	10.6%	-23.8%	40.0%	30.7	40.3	28.8	2.2	2.1	5.4%	0.8%	19.92	BUY	
JAPAN AIRPORT TERMINAL CO	JPY	5,770.00	487,429.4	N	03/2020	0.3%	12.9%	-75.1%	38.4%	14.8	59.3	42.8	2.8	2.8	4.8%	0.7%	5,525.00	NEUTRAL	
KOBENHAVNS LUFTHAVNE	DKK	5,800.00	45,518.8	N	12/2019	N.A.	N.A.	N.A.	N.A.	41.2	N.A.	N.A.	14.9	N.A.	N.A.	N.A.	N.A.	SELL	
MALAYSIA AIRPORTS HLDGS BHD	MYR	8.22	13,638.6	N	12/2019	9.9%	7.2%	-15.8%	17.2%	20.4	24.2	20.6	1.6	1.5	6.9%	2.3%	9.18	BUY	
SYDNEY AIRPORT TAV HAVALIMANLARI	AUD	9.19	20,756.5	N	12/2019	3.5%	4.5%	0.4%	15.3%	55.7	55.5	48.1	N.A.	N.A.	-178.7%	4.2%	8.68	SELL	
HOLDING AS	TRY	27.32	9,924.8	N	12/2019	-24.8%	-1.3%	-41.6%	20.0%	6.8	11.7	9.7	1.5	1.5	13.5%	4.7%	33.62	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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Published and printed by:

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