

10 July 2020

Aviation

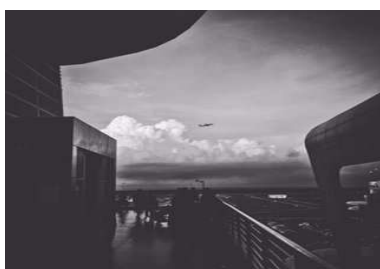
Holding Out at The Airport

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NEUTRAL



We are expecting airlines carriers including AirAsia to face tougher operating conditions following the COVID-19 pandemic due to the restrictions and collapse in air travel despite having resumed its scheduled domestic flights. For the sector, we prefer Malaysia Airport Holdings Berhad (MAHB), being a monopolistic airport operator in the country. While a prolonged coronavirus pandemic could impact MAHB's earnings, the experience from SARS indicates that the impact to passenger volume will see a rapid recovery soon after. We believe the recent sell-down presents an opportunity to buy into MAHB and with renewed optimism in the yet to be signed OA. AirAsia is expected to face losses on weaker loads and higher operating costs. In the meantime, the sector could be further de-rated by fears of longer-than-expected recovery and remain mired with losses. We maintain Underperform on AirAsia with a TP of RM0.52 based on unchanged 0.5x FY21E BVPS. TP for MAHB (OUTPERFORM) is RM6.30 based on 22x FY21E EPS.



A weak 1QFY20 as expected. The recently reported 1QFY20 results saw Airport and AirAsia coming in below expectations. Malaysia Airports Holdings delivered 1QFY20 earnings which came in below expectations due to lower-than-expected contribution from retail and higher-than-expected losses in Turkey. 1QFY20 revenue fell 25% in tandem with the contraction in passenger movements of 23.9% due to the impact of pandemic. Revenue from the aeronautical segment decreased by 22% due to lower passenger movement. Passenger traffic for the Malaysia operations contracted 28% (international: -32.8%, domestic: -22.0%). The passenger traffic for Turkey operations contracted by 12.3% (international: -6.7%, domestic: -15.7%). Non-aeronautical segment revenue decreased 28.6% due to lower retail (-41%) and rent & royalties (-21%). AirAsia was hit by lower load factor and Group CASK (+38) rose faster than RASK (+2%) on improved pricing strategy in Malaysia and Indonesia.

AirAsia domestic flights resumed operations. AirAsia has resumed its scheduled domestic flights commencing with Malaysia on 29 April 2020, followed by Thailand (1 May 2020), the Philippines (1 June 2020) and India (4 May 2020). The resumption of services will initially be focused on key selected domestic routes, which will increase gradually to include international destinations around the network, once the situation improves and governments lift borders and travel restrictions. We highlight that AirAsia's website is experiencing traffic growth of 170%. Some of the most popular routes booked include Kota Kinabalu and Kuching to Kuala Lumpur for Malaysia, Bangkok to Chiang Mai and Hat Yai for Thailand, Manila to Puerto Princesa and Davao for the Philippines, Delhi to Srinagar and Bengaluru to Hyderabad for India and Jakarta to Denpasar and Medan for Indonesia. However, over the medium term, we expect AirAsia to face tough operating environment of low loads derailed by widespread travel disruptions due to the COVID-19. The group has also restructured a major portion of the fuel hedges with supportive counterparties and are still in process of restructuring the remaining exposure. The group have applied for bank loans in their respective operating countries to shore up liquidity, with net cash currently at RM1.0b as at 31 March 2020. In addition, AirAsia has ongoing deliberations with a number of parties for joint-ventures and collaborations that may result in additional third-party investments in specific segments of the group's business.

Potential re-rating if CA is signed in end Dec 2020. We highlight that following 12 Apr 2019, MAHB announced that the Government had approved the extension of MAHB's concession to operate 39 airports in Malaysia from 2034 to 2069. The new Operating Agreement (OA) with the Government following the extension of the concession (yet to be signed) will pave the way for the stock to be re-rated. We believe the new OA will be investor-friendly, and create a sustainable long-term development of MAHB. We expect MAHB to be hit by COVID-19 in terms of passenger traffic growth both in Malaysia and Turkey. Management has highlighted that MAHB insisted on a 90-day credit period for rental of premises instead of rebates at the airport as well as landing and parking charges. While a prolonged pandemic would impact MAHB's earnings, the experience from SARS suggest that passenger volume will see a rapid recovery once the pandemic subsides. With renewed optimism in the yet to be signed OA, we raise out TP from RM5.40 to RM6.30 based higher PER multiple from 19x to 22x based on FY21EPS.

Reiterate Neutral. On picks, we like MAHB as a monopolistic airport operator in the country. While a prolonged coronavirus pandemic could impact MAHB's earnings, judging by the experience from SARS indicates that the impact to passenger volume should see a rapid recovery soon after. TP for MAHB is RM6.30 based on 22x FY21E EPS. Reiterate Outperform on Malaysia Airport. We believe the recent sell-down presents an opportunity to buy this high beta stock.



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Peer Comparison - Airlines

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
		(RM)	(RM'm)		FYE	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)	
AVIATION UNDER COVERAGE																		
AIRASIA GROUP BHD	MYR	0.875	2,924.2	Y	12/2020	-10.4%	10.4%	264.1	(117.6)	N.A.	N.A.	15.1	0.7	0.7	-12.6%	0.0%	0.520	UP
MALAYSIA AIRPORTS HLDGS BHD	MYR	5.45	9,042.6	N	12/2020	-18.2%	19.7%	-68.0%	176.3%	16.8	52.6	19.0	1.0	1.0	1.8%	0.7%	6.30	OP
Simple Average						-12.2%	12.6%	-49.0%	223.3%	16.8	52.6	17.0	0.8	0.9	-5.4%	0.4%		
CONSENSUS NUMBERS																		
Low-Cost Carriers:																		
AIRASIA X BHD	MYR	0.100	414.8	Y	12/2020	-10.0%	13.9%	-256.3%	-275.8%	N.A.	N.A.	N.A.	1.9	2.0	-46.2%	0.0%	0.037	SELL
ASIA AVIATION PCL	THB	1.99	9,651.5	N	12/2020	-40.9%	46.4%	-16.8%	-947.7%	N.A.	N.A.	N.A.	0.6	0.6	-13.7%	0.0%	2.08	NEUTRAL
CEBU AIR INC	PHP	39.60	23,772.5	N	12/2020	-35.2%	41.0%	-120.4%	30.1%	2.6	N.A.	3.8	0.6	0.6	-4.8%	5.8%	59.70	NEUTRAL
EASYJET PLC	GBp	680.00	2,970.8	N	09/2020	-44.2%	52.4%	-231.7%	340.8%	8.5	N.A.	22.0	1.3	1.1	-16.2%	0.0%	861.59	NEUTRAL
GOL LINHAS AEREAS INTEL-ADR	USD	6.78	1,205.8	N	12/2020	-34.6%	29.3%	-4.6%	-42805.6%	N.A.	N.A.	N.A.	N.A.	N.A.	36.0%	0.2%	6.10	NEUTRAL
JETBLUE AIRWAYS CORP	USD	10.90	2,939.8	N	12/2020	-54.5%	62.8%	-289.4%	485.7%	5.2	N.A.	13.2	0.7	0.7	-23.6%	0.0%	12.00	NEUTRAL
RYANAIR HOLDINGS PLC	EUR	10.66	11,607.1	N	03/2021	-56.6%	99.9%	-202.8%	75.2%	17.9	N.A.	13.1	2.3	2.9	-13.5%	0.0%	12.79	BUY
SOUTHWEST AIRLINES CO	USD	34.18	20,145.2	N	12/2020	-53.3%	63.7%	-216.0%	257.9%	8.8	N.A.	19.5	1.9	1.6	-18.3%	0.5%	41.33	BUY
VIRGIN AUSTRALIA HOLDINGS LT	AUD	N.A.	N.A.	N	06/2020	-18.3%	0.2%	-144.3%	-284.5%	N.A.	N.A.	N.A.	N.A.	N.A.	95.8%	N.A.	0.040	SELL
Full-Service Carriers:																		
AIR CHINA LTD-H	HKD	4.62	93,314.4	N	12/2020	-29.3%	47.7%	-183.5%	78.7%	14.5	N.A.	13.7	0.7	0.7	-5.1%	0.0%	6.56	BUY
AIR NEW ZEALAND LTD	NZD	1.32	1,482.1	N	06/2020	-20.9%	-33.7%	-132.8%	-37.5%	5.5	N.A.	N.A.	0.8	1.1	-4.8%	4.2%	0.988	SELL
ANA HOLDINGS INC	JPY	2,451.00	854,169.5	N	03/2021	-39.9%	47.3%	-944.6%	1082.1%	30.9	N.A.	39.6	0.8	1.0	-27.4%	2.0%	2,350.00	SELL
ASIANA AIRLINES	KRW	3,840.00	857,223.5	N	12/2020	-23.8%	16.7%	-124.1%	-314.8%	N.A.	N.A.	N.A.	6.7	1.7	-43.9%	0.0%	4,000.00	NEUTRAL
CATHAY PACIFIC AIRWAYS	HKD	7.50	29,503.8	N	12/2020	-46.0%	54.0%	-598.9%	532.8%	17.4	N.A.	18.6	0.5	0.6	-18.8%	0.2%	8.39	SELL
CHINA AIRLINES LTD	TWD	8.20	44,452.1	N	12/2020	-26.9%	19.2%	162.0%	-574.9%	N.A.	60.0	N.A.	0.8	0.9	-15.9%	N.A.	8.00	NEUTRAL
CHINA EASTERN AIRLINES CO-H	HKD	2.76	66,147.5	N	12/2020	-32.4%	50.8%	-256.1%	104.5%	20.7	N.A.	13.9	0.6	0.7	-5.4%	0.2%	3.81	BUY
CHINA SOUTHERN AIRLINES CO-H	HKD	3.43	77,355.3	N	12/2020	-32.9%	44.9%	-365.5%	189.1%	29.3	N.A.	20.9	0.6	0.7	-5.3%	0.3%	4.77	BUY
EVA AIRWAYS CORP	TWD	11.20	54,360.0	N	12/2020	-32.3%	11.7%	-96.3%	1311.0%	13.6	372.3	26.4	0.8	0.8	-5.4%	N.A.	11.20	NEUTRAL
GARUDA INDONESIA	IDR	246.00	6,368,097.8	N	12/2020	-36.7%	34.1%	-2587.1%	-1654.8%	911,533.1	N.A.	N.A.	0.6	0.8	-35.8%	N.A.	337.50	NEUTRAL
HAINAN AIRLINES HOLDING CO-A	CNY	1.50	25,137.9	N	12/2020	N.A.	N.A.	N.A.	N.A.	46.3	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	SELL
JAPAN AIRLINES CO LTD	JPY	1,942.00	654,732.7	N	03/2021	-44.5%	56.9%	-399.8%	351.3%	12.3	N.A.	14.4	0.6	0.7	-18.2%	4.9%	2,405.00	NEUTRAL
JET AIRWAYS INDIA LTD	INR	30.85	3,504.5	N	03/2019	5.1%	N.A.	-18.6%	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
KOREAN AIR LINES CO LTD	KRW	17,350.00	1,782,459.2	N	12/2020	-23.3%	23.2%	-98.1%	330.5%	N.A.	N.A.	9.3	1.1	1.1	-25.3%	1.2%	19,129.08	BUY
QANTAS AIRWAYS LTD	AUD	3.78	5,635.2	N	06/2020	-24.5%	-29.3%	-101.9%	20.4%	6.3	N.A.	68.0	2.2	3.9	-1.6%	2.9%	4.52	BUY
SINGAPORE AIRLINES LTD	SGD	3.73	11,051.3	N	03/2021	-49.3%	67.2%	-13.2%	887.8%	N.A.	N.A.	61.2	0.7	0.8	-11.8%	2.1%	3.81	SELL
THAI AIRWAYS INTERNATIONAL	THB	3.80	8,294.5	N	12/2020	-35.1%	27.5%	-46.7%	-219.0%	N.A.	N.A.	N.A.	0.7	N.A.	-180.0%	0.0%	2.33	SELL
VIRGIN AUSTRALIA HOLDINGS LT	AUD	N.A.	N.A.	N	06/2020	-18.3%	0.2%	-144.3%	-284.5%	N.A.	N.A.	N.A.	N.A.	N.A.	95.8%	N.A.	0.040	SELL

*Peers are denominated in their respective local currencies

Source: Bloomberg, Kenanga Research

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Peer Comparison-Airports

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
		(RM)	(RM'm)		FYE	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)		
AVIATION UNDER COVERAGE																			
AIRASIA GROUP BHD	MYR	0.875	2,924.2	Y	12/2020	-10.4%	10.4%	264.1	(117.6)	N.A.	N.A.	15.1	0.7	0.7	-12.6%	0.0%	0.520	UP	
MALAYSIA AIRPORTS HLDGS BHD	MYR	5.45	9,042.6	N	12/2020	-18.2%	19.7%	-68.0%	176.3%	16.8	52.6	19.0	1.0	1.0	1.8%	0.7%	6.00	OP	
Simple Average						-12.2%	12.6%	-49.0%	223.3%	16.8	52.6	17.0	0.8	0.9	-5.4%	0.4%			
CONSENSUS NUMBERS																			
Low-Cost Carriers:																			
AIRPORTS OF THAILAND PCL	THB	60.50	864,284.9	N	09/2020	-47.3%	25.8%	-76.3%	75.3%	34.5	145.8	83.2	5.8	5.7	4.4%	0.5%	59.34	NEUTRAL	
AUCKLAND INTL AIRPORT LTD	NZD	6.57	9,674.7	N	06/2020	-23.2%	-32.7%	-68.8%	-69.8%	18.5	59.2	196.0	1.3	1.3	2.4%	0.5%	6.67	NEUTRAL	
BEIJING CAPITAL INTL AIRPO-H	HKD	4.85	22,209.0	N	12/2020	-31.5%	17.0%	-80.9%	118.6%	9.2	48.2	22.0	0.8	0.8	2.6%	1.8%	6.18	NEUTRAL	
FLUGHAFEN WIEN AG	EUR	25.30	2,125.2	N	12/2020	-45.6%	52.5%	-132.3%	80.7%	13.4	N.A.	33.4	1.6	1.6	-3.8%	1.4%	30.03	NEUTRAL	
FLUGHAFEN ZURICH AG-REG	CHF	123.10	3,779.4	N	12/2020	-38.6%	42.5%	-98.9%	5415.1%	12.2	1,142.8	20.7	1.5	1.5	0.8%	3.2%	145.00	BUY	
GRUPO AEROPORT DEL PACIFIC-B	MXN	165.27	92,716.5	N	12/2020	-13.7%	23.9%	-38.8%	46.5%	17.3	28.3	19.3	4.1	3.9	17.6%	3.9%	180.80	NEUTRAL	
GRUPO AEROPORT DEL SURESTE-B	MXN	256.65	76,995.0	N	12/2020	-24.2%	17.2%	-46.6%	40.7%	14.1	26.4	18.7	2.3	2.2	9.3%	3.7%	285.53	NEUTRAL	
GRUPO AEROPORTUARIO DEL CENT	MXN	106.85	41,810.5	N	12/2020	-33.3%	40.3%	-35.0%	44.3%	13.0	20.0	13.8	4.0	3.5	21.1%	3.4%	118.93	BUY	
GUANGZHOU BAIYUN INTERNATI-A	CNY	15.24	31,536.4	N	12/2020	-15.6%	36.1%	-59.4%	223.7%	31.5	77.7	24.0	1.9	1.9	3.0%	0.4%	17.64	BUY	
JAPAN AIRPORT TERMINAL CO	JPY	4,590.00	387,747.1	N	03/2021	-35.8%	50.1%	-287.2%	120.6%	77.4	N.A.	49.8	2.3	2.3	-5.3%	0.3%	4,850.00	NEUTRAL	
KOBENHAVNS LUFTHAVNE	DKK	4,570.00	35,865.7	N	12/2020	N.A.	N.A.	N.A.	N.A.	35.2	N.A.	N.A.	10.7	N.A.	N.A.	N.A.	N.A.	SELL	
MALAYSIA AIRPORTS HLDGS BHD	MYR	5.45	9,042.6	N	12/2020	-32.1%	33.0%	-138.7%	65.3%	18.9	N.A.	31.8	1.2	1.1	-1.1%	1.1%	5.67	NEUTRAL	
SYDNEY AIRPORT	AUD	5.67	12,813.2	N	12/2020	-51.4%	55.0%	-137.0%	113.6%	31.7	N.A.	97.3	N.A.	N.A.	14.3%	1.0%	7.05	NEUTRAL	
TAV HAVALIMANLARI HOLDING AS	TRY	19.37	7,036.8	N	12/2020	-34.8%	47.0%	-123.9%	233.5%	3.0	N.A.	29.1	0.8	0.8	-4.7%	9.9%	23.04	BUY	

*Peers are denominated in their respective local currencies

Source: Bloomberg, 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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