

02 April 2021

Aviation

Airport for Economy Re-opening Play

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NEUTRAL



Although availability of vaccines has renewed optimism for air travel returning to normal sooner than expected, we only expect air travel to recover at a gradual pace starting from 2H 2021. In terms of profitability, we are expecting airlines including AirAsia to continue facing tougher operating conditions at least in the 1H 2021 until the widespread availability of vaccines, as there could be sporadic resurgence of COVID-19 infections. For the sector, we prefer Malaysia Airport Holdings Berhad (MAHB), being the monopolistic airport operator in the country. The yet-to-be signed Operating Agreement (OA) could be an impetus for a re-rating catalyst for MAHB. On the other hand, faced with losses on collapse in passenger loads, and cash flows challenges, AirAsia is in need to raise capital. On picks, we like MAHB as a monopolistic airport operator in the country with the availability of vaccines renewing optimism for air travel to return to normal, albeit at a gradual pace. The yet to be signed Operating Agreement (OA) could be an impetus for a re-rating catalyst for MAHB. Reiterate Outperform on MAHB.



4QFY20 was much weaker than expected. In their recently reported 4QFY20 results, both AirAsia and Malaysia Airports Holdings came in below expectations. MAHB's 4QFY20 revenue fell 34% due to re-imposition of Conditional Movement Control Order (CMCO) across Malaysia, and curfew re-imposition in Turkey effective November last year due to resurgence of COVID-19 cases. Specifically, airport operations' revenue fell 39% due to lower revenue from the aeronautical (-52%) and non-aeronautical (-14%) segments. Passenger traffic for the Malaysia operation contracted by 53.3% (international: -33.3%, domestic: -54.8%) to 2.1m passengers as compared to 4.5m passengers recorded in 3QFY20. The passenger traffic for Turkey operation contracted slightly to 4.7m passengers as compared to 4.8m in 3QFY20 while 4QFY20 reported a net loss of

RM685m due to impairment of RM500.4m in ISG's concession rights. The impairment arose due to a significant contraction in passenger movement impacted by the COVID-19 pandemic. Excluding RM500m one-off impairment loss, 4QFY20 core losses narrowed to RM185m compared to RM320m in 3QFY20 cushioned by the recognition of deferred tax asset arising from Investment Tax Allowance (ITA) amounting to RM247m.

AirAsia's domestic flights resumed operations. We view its recent fund raising, via new shares issue in order to shore up liquidity, positively as an interim measure to address its immediate cash flow requirements during this on-going pandemic. AirAsia is navigating its recovery phase exceptionally well as key operational metrics improved in December in comparison to September, notably with a 31% increase in passengers carried by AirAsia Thailand, doubling of passengers carried by AirAsia Philippines, while AirAsia Indonesia multiplied its number of passengers carried by a whopping 11 times. These improvements signify a solid rebound for air travel demand across the Group's key operating markets. AirAsia Malaysia closed 4QCY20 with 834,934 passengers (72% load factor), despite the setback in October and November given the reimplementation of interstate travel restrictions. Following the easing of restrictions in December, AirAsia Indonesia posted a strong rebound in 4Q 2020, as the number of passengers carried rose a few fold to 389,283 passengers (59% load factor, up 10 percentage points QoQ) as more flights resumed and travel restrictions eased. Operations remained primarily domestic, with domestic running at a remarkable 93% of pre-Covid capacity in December. AirAsia Philippines carried 117,948 passengers in 4Q2020 and reported a load factor of 64%. On a month-to-month basis, AirAsia Philippines' number of passengers carried doubled while domestic operating capacity increased by 5 ppt to 13% in December as compared to September. AirAsia Thailand's performance further gained momentum in 4Q 2020, riding on strong domestic travel demand from the festive season and travel incentives from the government. AirAsia Thailand's 4Q 2020 operations exceeded expectations as it surpassed its pre-Covid domestic capacity by 7%. In an effort to reduce operating expenses, the group has undertaken cost cutting measures such as right sizing of manpower, salary cuts for management, staff and directors, negotiation of deferrals with lessors, suppliers and partners, and restructuring of fuel hedging positions.

Potential re-rating if CA is signed; a recovery play on renewed optimism for air travel. We highlight that on 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 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 which has been hit by COVID-19 in terms of passenger traffic growth both in Malaysia and Turkey. **We rollover our valuation from FY21E to FY22E. Our TP is raised from RM6.86 to RM7.50 based on 23x FY22E EPS.**

Reiterate Neutral for sector. On picks, we like MAHB as a monopolistic airport operator in the country with the availability of vaccines renewing optimism for air travel to return to normal, albeit at a gradual pace. The yet to be signed Operating Agreement (OA) could be an impetus for a re-rating catalyst for MAHB. Reiterate Outperform on MAHB.

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Peer Comparison – Airlines

Name	Local Currency	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld.\ (%)	Target Price (RM)	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.		
AVIATION UNDER COVERAGE																		
AIRASIA GROUP BHD	MYR	1.19	4,536.5	Y	12/2021	164.9%	49.0%	-288.3%	618.1%	N.A.	N.A.	20.4	0.9	1.0	89.3%	0.0%	0.70	UP
MALAYSIA AIRPORTS HLDGS BHD	MYR	6.64	11,017.0	N	12/2021	136.8%	14.5%	129.9%	14.0%	20.5	35.7	22.1	1.2	1.2	5.8%	1.2%	7.50	OP
Simple Average						150.8%	31.8%	-79.2%	316.1%	20.5	35.7	21.2	1.0	1.1	47.5%	0.6%		

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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