Aviation

Limited Upside in Airport, Downgrade to Market Perform

NEUTRAL

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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 1Q 2022. In terms of profitability, we expect airlines including AirAsia to continue facing tougher operating conditions pending the widespread availability of vaccines as there could be sporadic resurgence of COVID-19 infections. The share price of MAHB has risen 20% YTD reaching close to our TP offering limited upside. As such, we downgrade MAHB from Outperform to Market Perform (TP: RM7.00). The yet-to-be signed Operating Agreement (OA) could be a re-rating impetus 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. Maintain Underperform on AirAsia (TP: RM0.70).

Mixed bag of 1HFY21. In their recently reported 1HFY21 results, AirAsia came in within expectations but Malaysia Airports Holdings came in below. MAHB's 1HFY21 revenue fell 45% in tandem with lower aeronautical (-46%) and non-aeronautical (-52%) segments. Passenger traffic for the Malaysia operation contracted by 84% due to lower international (-94%) and domestic (-76%) to 3m passengers. However, Turkey operation showed signs towards normalisation as passenger traffic rose 17% (international: -4%, domestic: +29%) to 9m. 1HFY21 losses widened to RM447m compared to RM111m in 1HFY20 due to wider losses in Malaysia operation. Core operating cost contracted by RM99.5m or 12%, in line with the group's commitment to further reduce costs. Similarly, AirAsia's 1HFY21 losses narrowed due to absence of fuel hedge swap losses.

AirAsia's outlook. The group had in 1QCY21 completed two tranches of private placement, raising RM336m. BigPay also recently secured investment up to USD100m from a large conglomerate in South Korea, SK Group. It has also announced the proposed RCUIDS which is expected to be completed by the end of the year. They have also completed two batches of renegotiation of lease terms with lessors which will see a lower lease rental per aircraft in the future, and expect to complete the renegotiations with all lessors by end of the year.

In Malaysia, despite travel demand remaining constrained due to the lockdown, AirAsia Malaysia reported a load factor of 64% in 2QCY21. Aided by the 1QFY21 momentum, AirAsia Indonesia achieved 70% of pre-Covid domestic capacity in May 2021. However, this was short lived as it entered into hibernation mode in July 2021 in support of containment efforts by the government as the number of infection cases increased. AirAsia Philippines saw a strong rebound that continued into 2QFY21 with a load factor of 78%, achieving a high load factor of 83% in June 2021. 2QFY21 group consolidated AOCs (Malaysia, Indonesia and Philippines) reported 9ppt increase in load factor to 68% on the back of a sharply increased capacity from low base of 346k to 1.1m seats. Teleport revenue tripled as it sacrificed margins to significantly scale up in certain routes on chartered cargo flights to gain market share and to achieve a consistent and reliable cargo network while the passenger network operated by AirAsia airlines saw minimal operations. Nonetheless, Teleport had narrowed losses, month-on-month, through actively reviewing the network. AirAsia super app's EBITDA losses widened to RM46m in 2QFY21 compared to RM15.5m in 2QFY20 as it ramped up its offerings through expansion and investment in technology. BigPay's revenue increased by 56% YoY through the increase of payment revenues from international transactions, and remittance revenue through the opening of new remittance corridors in late 2020. Group CASK (-65%), due to the absence of fuel swap losses as all fuel derivative contracts have been terminated, fell faster than RASK which came in unchanged.

Potential re-rating if CA is signed; a recovery play on renewed optimism for air travel. Recall 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.

Reiterate Neutral for sector. The share price of MAHB has risen 20% YTD reaching close to our TP offering limited upside. As such we **downgrade MAHB from Outperform to Market Perform**. However, the yet to be signed Operating Agreement (OA) could be a re-rating catalyst for MAHB. Reiterate Underperform on Air Asia.

Peer Comparison – Airlines

Name	Last Price @ 24/9/2021 (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth 1-Yr. Fwd.	Revenue Growth 2-Yr. Fwd.	Core Earnings Growth 1-Yr. Fwd.	Core Earnings Growth 2-Yr. Fwd.	PER (x) - Core Earnings Hist.	PER (x) - Core Earnings 1-Yr. Fwd.	PER (x) - Core Earnings 2-Yr. Fwd.	PBV (x) Hist.	PBV (x) 1-Yr. Fwd.	ROE (%) 1-Yr. Fwd.	Net Div.Yld.\ (%) 1-Yr. Fwd.	Target Price (RM)	Rating
AVIATION UNDER COVERAGE																	
AIRASIA GROUP BHD	1.03	4,015	Y	12/2021	148%	59%	-144%	-87%	N.A.	N.A.	13.2	(2.8)	(1.3)	113%	N.A.	0.700	UP
MALAYSIA AIRPORTS HLDGS BHD	6.80	11,283	N	12/2021	5%	166%	-233%	-39%	N.A.	N.A.	22.4	1.4	1.5	-11%	N.A.	7.00	MP

Source: Bloomberg, Kenanga Research

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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