

30 January 2023

Malaysia Airports Holdings

FY22 Passenger Throughput Beats

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AIRPORT's FY22 passenger throughput beat our expectation by 8% driven by a stronger-than-expected rebound in air travel. On a sustained strong recovery beyond FY22, we raise our FY23-24F passenger throughput assumptions. On the flip side, MAVCOM's recent proposal to cap airport tariffs (despite rising operating cost) limits earnings upside. We narrow our FY22F net loss by 6%, raise our FY23F net profit by 3%, lift our TP by 15% to RM7.00 (from RM6.10) but maintain our MARKET PERFORM call.

FY22 system-wide passenger throughput beat our full-year forecast by 8%. AIRPORT's FY22 system-wide passenger throughput (including Istanbul SGIA) beat our expectation by 8% at 84m (see page 3), accounting for 60% of pre-COVID 2019 level. Its Malaysia operations recorded 53m (50% of 2019 levels) passengers in 2022 driven by airlines average load factor of 71% compared to 52% in 2021. Amplifying the increase in load factor were 59 airlines operating at all airports managed by Malaysia Airports compared to 48 in 2021. Specifically, in 2022, there were 84 international (+65%) and 35 domestic destinations (+9%). Similarly, Sabiha Gokcen International Airport (SGIA) in Istanbul recorded 31m passengers, accounting for 87% of the 2019 level. However, its international passenger movements surpassed the 2019 level by 10.4%, while domestic passenger movements were at 15.5m or 71.2% of the 2019 level.

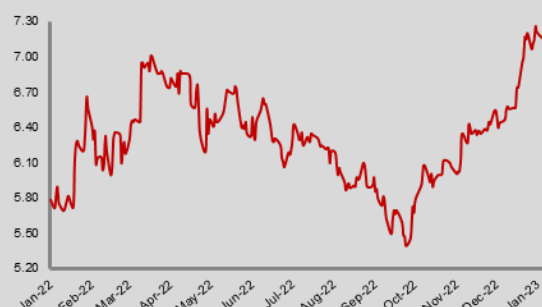
Outlook. We project tourist arrivals in Malaysia to jump four-fold to 9.6m in 2023 from an estimated 2.5m a year ago (see chart on the next page) thanks to: (i) the return of both business and leisure air travel globally as the pandemic comes to an end, (ii) the revocation of all on-arrival quarantine and testing requirements in Malaysia from 1 Aug 2022, and (iii) the gradual reopening of China which historically contributed to an estimated 12% of total tourist arrivals in Malaysia.

This should underpin growth in AIRPORT's passenger throughput demand in 2023. We expect traffic trajectory to grow in subsequent months as airlines continue to reactivate more aircraft to match increasing demand. Amplifying traffic growth trajectory is aircraft movements that are pointing towards increased medium and long haul flights to Perth, Sydney and Auckland, Southeast Asia and South Asia destinations. Recently, KL International Airport saw the return of Kuwait Airways after a seven-year hiatus, while two other foreign carriers i.e. KLM Royal Dutch Airlines and All Nippon Airways, will resume non-stop flight operations to Amsterdam and Tokyo, respectively, after temporarily ceasing operations due to COVID-19 pandemic. In addition, Malaysia Airlines increased its flight frequency to Tokyo from November 2022, in anticipation of the surge in travel demand following the reopening of Japan's borders to international travellers. AirAsia Group meanwhile is focusing on its medium haul operations by increasing its Malaysia AirAsia X flights to 44 weekly across 10 routes commencing November 2022.

MARKET PERFORM ↔

Price : RM7.26
Target Price : RM7.00 ↑

Share Price Performance



KLCI 1,497.55
YTD KLCI chg 0.1%
YTD stock price chg 10.7%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MAHB MK Equity
Market Cap (RM m) 12,045.7
Shares Outstanding 1,659.2
52-week range (H) 7.29
52-week range (L) 5.40
3-mth vg daily vol: 2,361,085
Free Float 37%
Beta 1.1

Major Shareholders

Khazanah Nasional Bhd 33.2%
Employees Provident Fund Board 15.6%
KWAP 6.3%

Summary Earnings Table

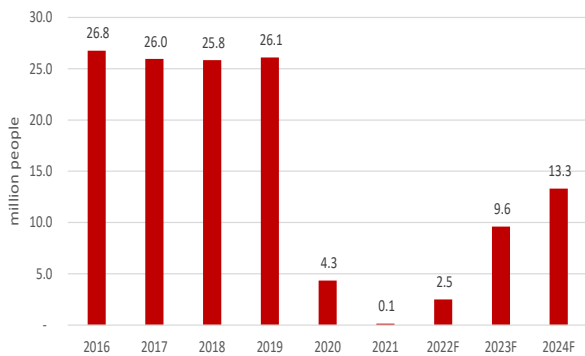
FYE Dec (RM m)	2022F	2023F	2024F
Turnover	2,736	3,499	4,049
PBT	(251)	602	685
Net Profit / loss	(172)	470	527
Core NP / NL	(172)	470	527
Consensus NP/NL	(185)	392	658
Earnings Revision	-6%	+3%	New
Core EPS (sen)	(10.3)	28.3	31.8
Core EPS growth (%)	(77.6)	>100	12.2
NDPS (sen)	0.0	12.5	14.0
BV/Share (RM)	4.30	4.43	4.57
Core PER (x)	(70.2)	25.6	22.9
Net Gearing (x)	0.6	0.4	0.4
Dividend Yield (%)	0.0	1.7	1.9

We like AIRPORT for: (i) it being the dominant airport operator in Malaysia and one of the largest in Turkey, (ii) being a good proxy to the recovery of air travel and tourism locally, regionally and globally, and (iii) its strong shareholders who have demonstrated unwavering support through thick and thin (including during the pandemic and a massive cash call in 2014), However, recent proposal to keep airport tariffs status quo could work against AIRPORT’s ability to generate enough cash flow for capex purposes, particularly for airport expansion and maintenance. While MAVCOM also proposes a mechanism for AIRPORT to recoup losses incurred during RP1 in RP2, we are concerned over AIRPORT’s cash flow over RP1. While the proposals in the MAVCOM consultation paper are not cast in stone, they do significantly raise AIRPORT’s earnings risk over the medium term.

We narrow our FY22F net loss by 6%, raise our FY23F net profit by 3% as we raise our FY23-24F passenger throughput assumptions by 15% and 9% to 116m and 126m, respectively (from 101m and 116m). We introduce our FY24F earnings (based on a passenger throughput assumption of 126m). We lift our TP by 15% to RM7.00 (from RM6.10) as we roll forward our valuation base year to FY24F (from FY23F). Our TP is based on 22x FY24F EPS or at a 40% discount to closest peer Airport of Thailand due to its smaller market capitalisation. Note that Thailand’s tourism revenue is 3x larger than Malaysia. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 5).

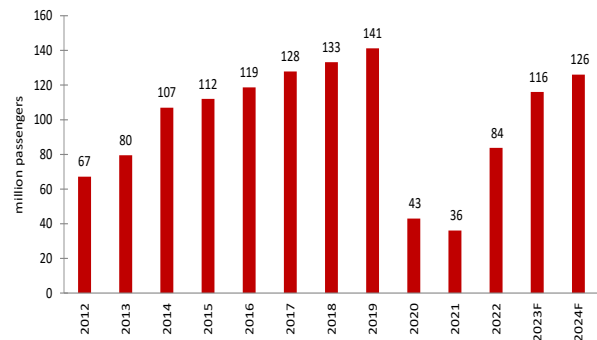
Risks to our call include: (i) endemic and pandemic occurrences deterring air travel, (ii) unfavourable terms for airport operations, and (iii) risks associated with overseas operations.

Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

AIRPORT’s System-wide Passenger Throughput*



*million passengers
Source: Kenanga Research, Company

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Passenger movement						
('000)	4QFY22	3QFY22	QoQ Chg (%)	12MFY21	12MFY22	YoY chg (%)
KLIA Main						
Asean	1,421	995	43%	340	3,252	NM
Non-Asean	2,400	1,769	36%	806	5,815	621%
International	3,821	2,764	38%	1,146	9,067	691%
Domestic	1,275	1,146	11%	1,008	4,249	322%
Total	5,096	3,910	30%	2,154	13,316	518%
KLIA 2						
Asean	1,884	1,455	29%	166	4,235	NM
Non-Asean	500	305	64%	14	951	NM
International	2,384	1,760	35%	180	5,186	NM
Domestic	1,917	1,790	7%	1,678	6,876	310%
Total	4,301	3,550	21%	1,858	12,062	549%
KLIA Main & KLIA2						
Asean	3,305	2,450	35%	506	7,487	NM
Non-Asean	2,900	2,074	40%	820	6,766	NM
International	6,205	4,524	37%	1,326	14,253	NM
Domestic	3,192	2,936	9%	2,686	11,125	314%
Total	9,397	7,460	26%	4,012	25,378	533%
Other Malaysia Airports besides KLIA						
Asean	940	743	27%	33	2,101	NM
Non-Asean	89	55	62%	2	152	NM
International	1,029	798	29%	35	2,253	NM
Domestic	7,016	6,727	4%	6,691	25,049	274%
Total	8,045	7,525	7%	6,726	27,302	306%
Total Malaysia Airports						
Asean	4,245	3,193	33%	539	9,588	NM
Non-Asean	2,989	2,129	40%	822	6,918	NM
International	7,234	5,322	36%	1,361	16,506	NM
Domestic	10,208	9,663	6%	9,377	36,174	286%
Total	17,442	14,985	16%	10,738	52,680	391%
Istanbul SGIA Airport						
International	4,434	4,531	-2%	8,972	15,711	75%
Domestic	3,876	4,498	-14%	16,384	15,468	-6%
Total	8,310	9,029	-8%	25,356	31,179	23%
Total AIRPORT System						
International	11,668	9853	18%	10,333	32,217	212%
Domestic	14,084	14161	-1%	25,761	51,642	100%
Total	25,752	24,014	7%	36,094	83,859	132%

Source: Bursa Malaysia, Company, Kenanga Research
 SGIA – Istanbul Sabiha Gokcen International Airport

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Income Statement					Financial Data & Ratios				
FY Dec (RM m)	2021A	2022F	2023F	2024F	FY Dec	2021A	2022F	2023F	2024F
Revenue	1,673.0	2,735.8	3,499.0	4,048.8	Growth				
EBITDA	220.3	1,446.9	2,182.0	2,179.8	Turnover	-10.4%	63.5%	27.9%	15.7%
Depre. & Amort	(887.8)	(907.3)	(951.3)	(944.6)	EBITDA	919.9%	556.8%	50.8%	-0.1%
Operating Profit	(394.4)	539.6	1,230.8	1,235.2	Operating Profit	-63.8%	-236.8%	128.1%	0.4%
PBT	(1,040.9)	(250.6)	602.4	684.7	PBT	-41.0%	-75.9%	-340.4%	13.7%
Taxation	208.2	78.9	(132.5)	(157.5)	Net Profit /(loss)	-31.3%	-77.6%	-373.7%	12.2%
MI	-	-	-	-	Profitability				
Net Profit	(766.4)	(171.7)	469.9	527.2	EBITDA Margin	13.2%	52.9%	62.4%	53.8%
					Operating margin	-23.6%	19.1%	32.5%	29.8%
					PBT Margin	-62.2%	-9.2%	17.2%	16.9%
					Core Net Margin	-45.8%	-6.3%	13.4%	13.0%
					Eff. Tax Rate	20.0%	31.5%	22.0%	23.0%
					ROA	-3.8%	-0.8%	2.3%	2.5%
					ROE	-10.6%	-2.4%	6.4%	7.0%
					DuPont Analysis				
					Net Margin (%)	-45.8%	-6.3%	13.4%	13.0%
					Assets T/O (x)	0.3	0.5	0.3	0.2
					Lev. Factor (x)	0.2	0.2	0.4	0.3
					ROE (%)	-10.6%	-2.4%	6.4%	7.0%
					Leverage				
					Debt/Asset (x)	0.3	0.3	0.3	0.3
					Debt/Equity (x)	0.7	0.7	0.7	0.7
					Valuations				
					EPS (sen)	(16.7)	(7.0)	12.5	14.0
					NDPS (sen)	4.4	4.3	4.4	4.6
					BVPS (RM)	(15.7)	(70.2)	25.6	22.9
					PER (x)	(2.3)	(1.0)	1.7	1.9
					Net Div. Yield(%)	1.7	1.7	1.6	1.6
					PBV (x)	(16.7)	(7.0)	12.5	14.0
Balance Sheet									
FY Dec (RM m)	2021A	2022F	2023F	2024F					
Fixed Assets	494	1,294	1,038	713					
Intangibles	15,215	14,387	13,559	14,028					
Other FA	222	270	323	381					
Inventories	1,416	1,416	1,416	1,416					
Receivables	116	190	243	134					
Derivatives	395	646	826	959					
Other CA	15	15	15	15					
Financial assets	706	706	706	706					
Cash	1,583	1,294	2,602	2,613					
Total Assets	20,163	20,217	20,727	20,964					
Payables	669	1,094	1,399	1,399					
ST Borrowings	1,746	1,746	1,746	1,746					
Ot. ST Liability	695	1,127	1,437	1,437					
LT Borrowings	3,566	3,566	3,566	3,566					
Ot. LT Liability	6,234	5,545	5,235	5,235					
Net Assets	7,253	7,139	7,344	7,581					
Share Capital	5,114	5,114	5,114	5,114					
Reserves	2,138	2,025	2,229	2,467					
Equity	7,252	7,139	7,344	7,581					
Cashflow Statement									
FY Dec (RM m)	2021A	2022F	2023F	2024F					
Operating CF	271	2,050	2,406	1,995					
Investing CF	(134)	(879)	133	147					
Financing CF	471	(1,461)	(955)	(4,070)					
Change In Cash	609	(290)	1,584	(1,929)					
Free CF	371	1,660	1,527	2,128					

Source: Kenanga Research, Bursa Malaysia, Bloomberg

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Community Investment Workers Safety & Wellbeing Corporate Governance	★	★	★		
SPECIFIC	Airport Service Quality (ASQ)	★	★	★	★	
	Cybersecurity/Data Privacy	★	★	★		
	Customer Experience	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
	Effluent/Waste Management	★	★	☆		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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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