

30 March 2023

Aviation

Now Everyone Can Fly

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NEUTRAL



We maintain our **NEUTRAL** view on the sector. We expect the recovery of business and leisure air travel to continue throughout CY23. Activity is also poised to return to pre-pandemic levels in CY24, as reflected in Tourism Malaysia's projection of 16.1m tourist arrivals in Malaysia in CY23, up 60% from 10.1m in 2022. This will translate to continued rise in passenger throughput at **AIRPORT** (MP; TP: RM7.00) and passengers carried at **CAPITALA** (UP; TP: RM0.67). However, each player has its own unique set of issues. For **AIRPORT**, a tariff hike pegged to CPI recently proposed by Malaysia Aviation Commission (MAVCOM) may not be sufficient for **AIRPORT** to generate enough cash flows for capex purposes, particularly for airport expansion and maintenance. Meanwhile, the clock is ticking on a more viable and holistic regularisation plan to lift **CAPITALA** out of its Practice Note 17 (PN17) status. We do not have any pick for the sector.

Tourist arrivals to rise 60% to 16m in CY23. We maintain our **NEUTRAL** view on the sector. We expect business and leisure air travel to continue to recover throughout CY23 with activity poised to return to pre-pandemic levels in CY24. According to Tourism Malaysia, tourist arrival in Malaysia is expected to jump 60% to 16m in CY23 from an estimated 10m a year ago (see Exhibit 1). A key driver is Chinese tourists that historically contributed to an estimated 12% of total tourist arrivals in Malaysia. In 2024, we project tourist arrivals to jump further by 24% to 20m, compared to pre-pandemic level of 26m. This will translate to continued rise in passenger throughput at **AIRPORT** and passengers carried at **CAPITALA**.

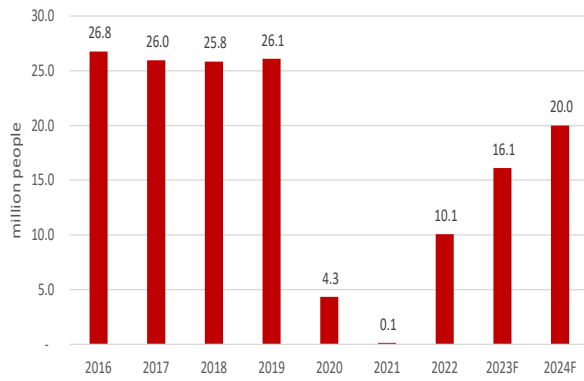
AIRPORT's passenger throughput in FY23-24 raised by 5-7%. We raise our projection for **AIRPORT's** system-wide passenger throughput by 5% and 7% to 122m and 131m in FY23 and FY24, respectively, but it still has some way to go from matching the pre-pandemic level of 141m recorded in 2019. By the same token, we also raise our FY23-24F net profit forecasts for **AIRPORT** by 2-3%, respectively, while lifting our TP slightly from RM6.80 to RM7.00 based on unchanged 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. We expect traffic trajectory to grow in subsequent months as airlines continue to reactivate more aircrafts 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. In addition, Malaysia Airlines has increased its flight frequency to Tokyo from November 2022. AirAsia Group meanwhile is focusing on its medium haul operations and has increased its Malaysia AirAsia X flights to 44 weekly across 10 routes since November 2022.

Further volume improvement for CAPITALA in CY23. Looking into CY23, we project **CAPITALA's** system-wide revenue seat km (RPK) to grow 52% to 35b in FY23, after recovering by 20b to 24b in FY22. **CAPITALA** expects its passenger demand to continue to rise moving into CY23. Last year in Nov 2022, the group already operated 125 aircrafts and is currently targeting to get 140 operational aircrafts to reach full fleet utilisation by 2QCY23. Its digital segment is expected to remain loss-making. Its airasia Super App is expected to grow, underpinned by the continued resurgence of travel demand from borders reopening and tactical campaigns, alongside expected growth from airasia Food, Ride and Xpress. Additionally, Teleport is expected to continue expanding throughout CY23 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform extending its services to include new loan products.

Pegging airport tariffs to CPI may not be sufficient to raise enough for capex. Meanwhile, in a recent consultation paper published by MAVCOM, the proposal to raise airport tariffs based on CPI may not be sufficient for **AIRPORT** to generate enough cash flows for capex purposes, particularly for airport expansion and maintenance. While MAVCOM also proposes a mechanism for **AIRPORT** to recoup losses incurred during Regulatory Period 1 (RP1) in Regulatory Period 2 (RP2), we are concerned over **AIRPORT's** cash flows over RP1. While the proposals in this MAVCOM consultation paper are not cast in stone, they do significantly raise **AIRPORT's** earnings risk over the medium term.

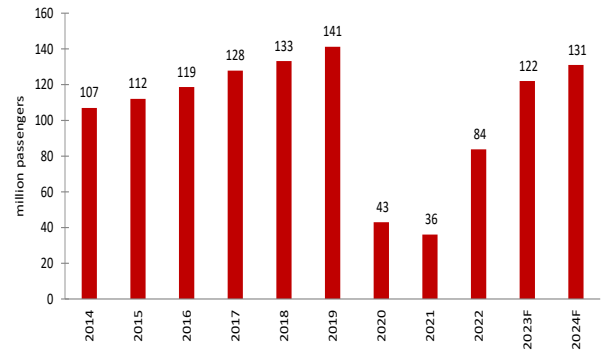
CAPITALA's regularisation plans to exit PN17 in the works. The group plans to announce the details of its PN17 regularisation plan by mid-April 2023 with completion expected by end-3QCY23. While we continue to like **CAPITALA** for being a beneficiary of the recovery in air travel as the pandemic comes to an end, we are mindful of it still being under the PN17 status.

Exhibit 1: Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

Exhibit 2: AIRPORT's Passenger Throughput*



*million passengers

Source: Kenanga Research, Company

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
CAPITAL A BHD	UP	0.750	0.670	-10.7%	3,122	Y	12/2023	2.6	3.8	-97%	48%	29.0	19.5	NM	NM	0.0	0.0
MALAYSIA AIRPORTS HOLDINGS BHD	MP	6.75	7.00	3.7%	11,200	Y	12/2023	28.4	32.0	31%	12%	23.8	21.1	1.5	6.2%	13.0	1.9%

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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