

20 April 2023

Malaysia Airports Holdings

1QCY23 Passengers Up 81% YoY

By Raymond Choo Ping Khoo | pkchoo@kenanga.com.my

AIRPORT's 1QCY23 passenger throughput jumped 81% YoY but was within our expectation, driven by the rebound in air travel. We expect the recovery of business and leisure air travel to continue throughout CY23. On the flip side, MAVCOM's recent proposal to peg airport tariffs to the Consumer Price Index (despite operating cost rising at a much faster pace) limits AIRPORT's earnings upside. We keep our earnings forecasts, TP of RM7.00 and MARKET PERFORM call.

1QCY23 system-wide passenger throughput meets our expectation. AIRPORT's 1QCY23 system-wide passenger throughput (including Istanbul SGIA) came in within our expectation. Total airport network of airports passenger traffic continued to gain traction in 1QCY23, recording 27m (+4% QoQ; +81% YoY) which came in at 23% of our full-year forecast of 122m (vs. 84m in 2022). As an indication that traffic recovery continued to gain traction, 1QCY23 passenger movements reached 80% of 1QCY19 levels. Specifically, international passenger throughput for 1QCY23 grew 8.1% QoQ or 78% of 1QCY19 level. Domestic passenger throughput continued to record a steady growth, reaching 81% of 1QCY19 level with 14.2m passengers.

Its Malaysia operation's total passenger movements for 1QCY23 grew by 7% QoQ, with international and domestic segments recording 8.4m (+16% QoQ) and 10.3m (+1% QoQ) passengers, respectively. 1QCY23 international growth was contributed partly by the airline's resumption of operations by Air Arabia, China Eastern, Shenzhen Airlines and Ethiopian Airlines to nine international destinations with a total additional 978 weekly frequencies over 4QCY22. Similarly, Turkey operation namely Istanbul SGIA's traffic continued to exhibit positive momentum, Passenger movements for Istanbul SGIA continued to show resilience in 1QCY23, recording more than 2.4m passengers each month. It is also noteworthy that the 1QCY23 international passengers for Istanbul SGIA exceeded 1QCY19's by 42%.

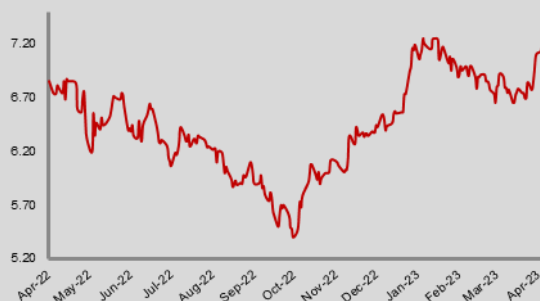
Outlook. We expect business and leisure air travel to continue to recover throughout CY23 with activity poised to return to pre-pandemic levels in CY24. According to Tourism Malaysia, tourist arrival in Malaysia is expected to jump 60% to 16m in CY23 from an estimated 10m a year ago (see Exhibit 1). 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 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 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, 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 : RM7.08
Target Price : RM7.00 ↔

Share Price Performance



KLCI 1,425.07
YTD KLCI chg -4.7%
YTD stock price chg 7.9%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker MAHB MK
Market Cap (RM m) 11,747.1
Shares Outstanding 1,659.2
52-week range (H) 7.29
52-week range (L) 5.40
3-mth vg daily vol: 2,124,803
Free Float 38%
Beta 1.1

Major Shareholders

Khazanah Nasional Bhd 33.2%
Employees Provident Fund Board 15.1%
KWAP 6.0%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	3,127	3,440	3,805
PBT	184.6	604	689
Net Profit / Loss	187	471	530
Core NP / NL	(358.8)	471	530
Consensus NP/NL	-	398	668
Earnings Revision	-	-	-
Core EPS (sen)	(21.6)	28.4	32.0
Core EPS growth (%)	(53.2)	(231.4)	12.5
NDPS (sen)	3.9	12.5	14.0
BV/Share (RM)	4.48	4.63	4.81
Core PER (x)	NM	24.9	22.2
Net Gearing (x)	0.4	0.3	0.3
Dividend Yield (%)	0.6	1.8	2.0

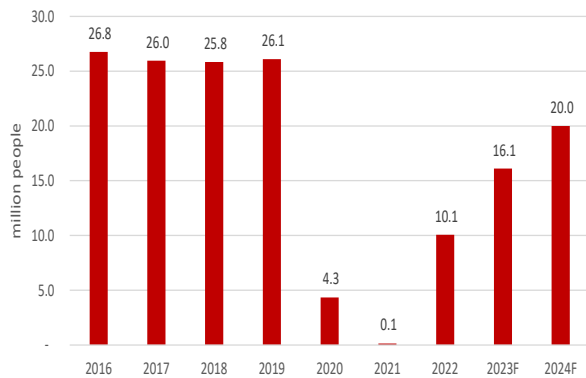
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We like AIRPORT for: (i) it being the dominant airport operator in Malaysia and one of the largest in Turkey, (ii) being a good proxy to the recovery of air travel and tourism locally, regionally and globally, and (iii) its strong shareholders who have demonstrated unwavering support through thick and thin (including during the pandemic and a massive cash call in 2014). However, in a recent consultation paper published by MAVCOM, the proposal to raise airport tariffs based on Consumer Price Index 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 RP1 in RP2, we are concerned over AIRPORT's cash flows during 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 maintain our earnings forecasts, and TP of RM7.00 which is based on 22x FY24F EPS at a 40% discount to its 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). **Reiterate MARKET PERFORM.**

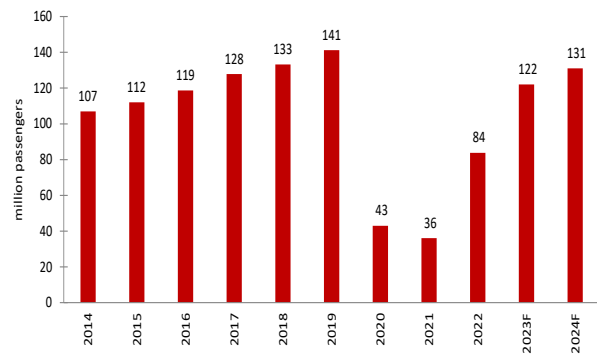
Risks to our call include: (i) endemic and pandemic occurrences deterring air travel, (ii) unfavourable terms for airport operations, and (iii) risks associated with overseas operations.

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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Passenger movement						
('000)	1QFY23	4QFY22	QoQ Chg (%)	1QFY22	1QFY23	YoY chg (%)
KLIA Main						
Asean	1,447	1,421	2%	251	1,447	476%
Non-Asean	2,744	2,400	14%	566	2,744	385%
International	4,191	3,821	10%	817	4,191	413%
Domestic	1,137	1,275	-11%	808	1,137	41%
Total	5,328	5,096	5%	1,625	5,328	228%
KLIA 2						
Asean	2,105	1,884	12%	118	2,105	1684%
Non-Asean	812	500	62%	6	812	13433%
International	2,917	2,384	22%	124	2,917	2252%
Domestic	2,338	1,917	22%	1,503	2,338	56%
Total	5,255	4,301	22%	1,627	5,255	223%
KLIA Main & KLIA2						
Asean	3,552	3,305	7%	369	3,552	863%
Non-Asean	3,556	2,900	23%	572	3,556	522%
International	7,108	6,205	15%	941	7,108	655%
Domestic	3,475	3,192	9%	2,311	3,475	50%
Total	10,583	9,397	13%	3,252	10,583	225%
Other Malaysia Airports besides KLIA						
Asean	1,026	940	9%	26	1,026	3846%
Non-Asean	236.0	89	165%	1.0	236.0	23500%
International	1,262	1,029	23%	27	1,262	4574%
Domestic	6,879	7,016	-2%	5,056	6,879	36%
Total	8,141	8,045	1%	5,083	8,141	60%
Total Malaysia Airports						
Asean	4,578	4,245	8%	395	4,578	1059%
Non-Asean	3,792	2,989	27%	573	3,792	562%
International	8,370	7,234	16%	968	8,370	765%
Domestic	10,354	10,208	1%	7,367	10,354	41%
Total	18,724	17,442	7%	8,336	18,724	125%
Istanbul SGIA Airport						
International	4,253	4,434	-4%	3,164	4,253	34%
Domestic	3,821	3,876	-1%	3,272	3,821	17%
Total	8,074	8,310	-3%	6,436	8,074	25%
Total AIRPORT System						
International	12,623	11,668	8%	4,132	12,623	205%
Domestic	14,175	14,084	1%	10,639	14,175	33%
Total	26,798	25,752	4%	14,772	26,798	81%

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

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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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my