Malaysia Airports Holdings

A Good Start to FY23

By Raymond Choo Ping Khoon I pkchoo@kenanga.com.my

MARKET PERFORM ↔

Price :	**RM6.99**
Target Price :	**RM7.00** ↔

AIRPORT's 1QFY23 results met expectations. We expect the recovery of business and leisure air travel to continue throughout the year. 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) will limit AIRPORT's earnings upside. We keep our earnings forecasts, TP of RM7.00 and MARKET PERFORM call.

AIRPORT's 1QFY23 core net profit of RM82m (excluding RM23.7m one-off donation for Türkiye earthquake) came in at 17% and 19% of our full-year forecast and the full-year consensus estimate, respectively. However, we consider the result within expectations as we expect earnings momentum to escalate in the remaining quarters as air travel continues to normalise.

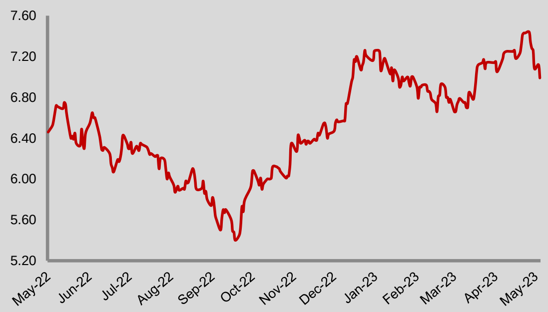
YoY, 1QFY23 revenue rose 81% in tandem with an 82% increase in passenger throughput to 26.8m (80% of pre-COVID volume). Specifically, passenger throughput in Malaysia rose to 18.7m compared to 8.3m in 1QFY22. Similarly, in Türkiye, passenger throughput rose 27%. The solid revenue was driven by higher aeronautical (+88%) and non-aeronautical (+89%) segments. The better performance from non-aeronautical segment was due to higher retail revenue attributed to an increase in passenger throughput. EBITDA rose >100% due to higher yielding international passenger throughput in Türkiye. Correspondingly, 1QFY23 register a core net profit of RM82m compared to a loss of RM105m in 1QFY22 due to profitability registered in both Türkiye and Malaysia operations. No dividend was declared in this quarter which came in within our expectation.

The key takeaways from its analysts briefing yesterday are as follows:

1. The group reiterated passenger's throughput recovery is gaining traction in both Malaysia and Türkiye. Its Malaysia operation recorded 26.8m (80% of 2019 levels) passengers in 1QFY23 driven by airlines average load factor of 77%. Amplifying the increase in load factor were 63 carriers from seven regions currently operating at airports in Malaysia, at 85% of 2019 levels. As an indication that traffic recovery has continued to gain traction, 1QFY23 passenger movements reached 80% of 1QFY19 level. Specifically, international passenger throughput for 1QFY23 grew 8.1% QoQ or 78% of 1QFY19 level. Domestic passenger throughput continued to record a steady growth, reaching 81% of 1QFY19 level with 14.2m passengers.1QFY23 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 4QFY22. Similarly, its Türkiye operation, namely Istanbul SGIA's traffic continued to exhibit positive momentum, Passenger movements for Istanbul SGIA continued to show resilience in 1QFY23, recording more than 2.4m passengers each month. It is also noteworthy that the 1QFY23 international passengers for Istanbul SGIA exceeded 1QFY19 by 42%.

2. It reckons that its international sector has much more to gain from China's reopening. Note that China historically contributed to an estimated 12% of total tourist arrivals in Malaysia.

Share Price Performance



KLCI	1,396.91
YTD KLCI chg	-6.6%
YTD stock price chg	6.6%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAHB MK Equity
Market Cap (RM m)	11,663.2
Shares Outstanding	1,668.6
52-week range (H)	7.54
52-week range (L)	5.40
3-mth vg daily vol:	3,271,740
Free Float	38%
Beta	1.1

Major Shareholders

KhazanahNasionalBhd	33.2%
Employees Provident Fund Board	14.2%
KWAP	6.6%

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	-	410	667
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

3. AIRPORT plans to build a sustainable recurring income via the KLIA Aeropolis land targeting global logistics, aerospace and industrial players. Presently, key tenants in KLIA Aeropolis are established global logistics and aviation players including Cainiao Aeropolise WTP Hub and DHL Express. Recall, AIRPORT was recently granted a 99-year development agreement from the Malaysian government to plan, design, develop and construct the KLIA Aeropolis land measuring 3,454.92 hectares. A few parties have shown their interest; however, negotiations are still at the preliminary stage.
4. The group reiterated that the Operating Agreement (OA) provides a framework in terms of flexibility in method of airport funding through government allocation either via development expenditure or AIRPORT through suitable investment recovery model mechanism subject to mutual agreement.

Outlook. We expect business and leisure air travel to continue to recover throughout the year 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 the 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.

Forecasts. 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).

We like AIRPORT for: (i) it being the dominant airport operator in Malaysia and one of the largest in Türkiye, (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 peg airport tariffs to the consumer price index (despite operating cost rising at a much faster pace) 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 flows over RP1 duration. 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. Maintain **MARKET PERFORM**.

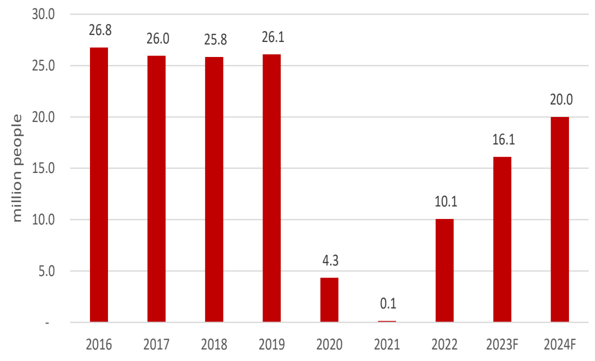
Risks to our call include: (i) endemic and pandemic occurrences, deterring air travel, (ii) unfavourable terms for airport operations, and (iii) risks associated with overseas operations.

Result Highlight					
FYE Dec	**1Q**	**4Q**	**1Q**	**QoQ**	**YoY**
(RM m)	**2022**	**2022**	**2023**	**%chg**	**%chg**
Revenue	570.8	1,002.8	1,034.4	3.1	81.2
EBITDA / (LBTIDA)	186.9	326.4	441.9	35.4	136.4
Pretax profit (loss)	(150.4)	445.2	63.3	(85.8)	NM
Taxation	45.6	(86.1)	(5.1)	(94.1)	NM
Net profit / (loss)	(104.8)	359.1	58.2	(83.8)	NM
Core net profit / (loss)	(104.8)	(186.9)	81.9	NM	NM
EPS / LPS (sen)	(7.2)	20.8	2.7	(87.2)	NM
Aeronautical					
PSC & PSCC	203.7	424.0	421.2	(0.7)	106.8
Landing & Parking	56.4	76.9	77.1	0.3	36.7
Others (cargo, airside, etc)	34.7	43.2	55.5	28.5	59.9
Total Aeronautical charges	294.8	544.1	553.8	1.8	87.9
Non-aeronautical					
Retail	18.3	108.3	120.3	11.1	557.4
Rent & Loyalties	169.4	238.9	243.1	1.8	43.5
Car park	11.8	19.2	25.1	30.7	112.7
Others	15.9	16.8	18.3	8.9	15.1
Total Non-aeronautical charges	215.4	383.2	406.8	6.2	88.9
Non-airport operations					
Hotel	16.9	29.4	28.9	(1.7)	71.0
Agriculture & Horticulture	15.2	6.7	7.0	4.5	(53.9)
Project & repair maintenance	28.5	39.1	37.9	(3.1)	33.0
Total	60.6	75.2	73.8	(1.9)	21.8
Total group revenue	570.8	1,002.5	1,034.4	3.2	81.2
Revenue breakdown					
Airport services	218.9	447.5	467.1	4.4	113.4
Duty free	19.0	109.3	121.4	11.1	537.7
Project & Repair	28.5	39.2	37.7	(3.7)	32.4
Hotel	14.1	24.3	23.7	(2.7)	68.1
Agriculture	15.2	6.7	7.0	5.2	(53.9)
Overseas	275.1	375.8	377.4	0.4	37.2
Total	570.9	1,002.7	1,034.4	3.2	81.2

FYE Dec (RM m)	1Q 2022	4Q 2022	1Q 2023	QoQ %chg	YoY %chg
EBITDA / (LBITDA)					
Airport services	(35.2)	104.3	137.1	31.4	NM
Duty free	(31.9)	17.3	20.8	19.9	NM
Project & repair maintenance	14.4	35.4	11.2	(68.3)	(22.1)
Hotel	3.9	7.1	7.5	5.8	94.8
Agriculture	9.8	(0.3)	2.6	NM	(73.4)
Overseas	207.6	222.9	249.1	11.7	20.0
Others	53.0	102.7	75.8	(26.2)	42.9
Adjustments	(34.7)	(162.9)	(62.2)	(61.8)	79.1
Total	186.9	326.4	441.9	35.4	136.4
EBITDA margin %					
Airport services	-16%	23%	29%		
Duty free	-167%	16%	17%		
Project & Repair	50%	90%	30%		
Hotel	28%	29%	32%		
Agriculture	65%	-5%	37%		
Türkiye (ISG and LGM)	75%	59%	66%		
PBT / (LBT)					
Airport services	(127.4)	(33.4)	(11.1)	(66.8)	(91.3)
Duty free	(35.3)	13.8	7.5	(46.1)	(121.1)
Project & Repair	13.6	34.8	10.7	(69.2)	(21.0)
Hotel	0.6	3.9	4.4	13.4	629.5
Agriculture	8.6	(1.6)	1.5	(194.7)	(82.9)
Türkiye (ISG and LGM)	6.6	554.7	60.9	(89.0)	824.1
Others	12.6	56.2	41.8	(25.6)	230.7
Adjustments	(29.8)	(183.3)	(52.5)	(71.4)	76.4
Total	(150.4)	445.2	63.3	(85.8)	(142.1)
PAT / (LAT)					
Airport services	(95.0)	(30.7)	(9.2)	(70.1)	(90.3)
Duty free	(27.0)	9.8	5.7	(42.1)	(121.1)
Project & Repair	11.1	34.8	8.8	(74.8)	(20.9)
Hotel	0.5	3.0	3.4	13.3	632.0
Agriculture	6.6	(1.5)	1.1	(173.3)	(83.1)
Overseas	7.8	460.0	46.5	(89.9)	498.8
Others	12.5	56.3	41.8	(25.8)	234.8
adjustments	(21.1)	(172.5)	(39.9)	(76.9)	88.7
Total	(104.8)	359.1	58.2	(83.8)	(155.5)

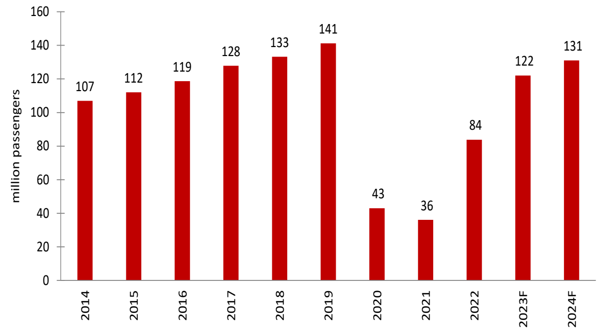
Source : Bursa Malaysia, company, Kenanga Research

Exhibit 1: Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

Exhibit 2: AIRPORT's Passenger Throughput*



*million passengers
Source: Kenanga Research, Company

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

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.***

Published by:

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