

Aviation

Good Business, Marred by Corporate Issues

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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, which is consistent with Tourism Malaysia's projection of 16.1m tourist arrivals in Malaysia this year, up 60% from 10.1m in CY22. We expect air travel to return to pre-pandemic levels in CY24. We see sustained recovery in passenger throughput at AIRPORT (MP; TP: RM7.00) and passengers carried at CAPITALA (MP; TP: RM0.84). 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 underpin passenger throughput growth in CY23. We expect business and leisure air travel to continue to recover throughout CY23 and 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 had historically contributed to an estimated 12% of total tourist arrivals in Malaysia. In 2024, we project tourist arrivals to climb further by 24% to 20m, compared to the pre-pandemic level of 26m.

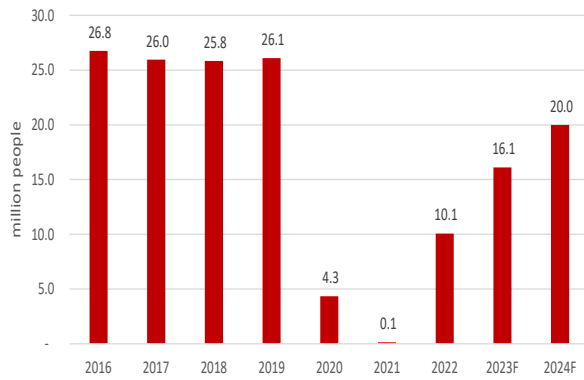
AIRPORT's passenger throughput continues to recover. This should underpin growth in AIRPORT's passenger throughput demand in 2023. Amplifying traffic growth trajectory is aircraft movements that are pointing towards increased medium and long-haul flights to Perth, Sydney and Auckland, Southeast Asia and South Asia destinations. 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 has increased its flight frequency to Tokyo from November 2022. AirAsia Group meanwhile is focusing on its medium-haul operations by increasing its Malaysia AirAsia X flights to 44 weekly across 10 routes from November 2022.

Further volume improvement for CAPITALA in CY23. Looking farther into CY23, we project CAPITALA's system-wide revenue seat km (RPK) to grow 79% to 43b in FY23, after recovering by 20b to 24b in FY22. CAPITALA expects its passenger demand to continue to rise moving farther into 2023, judging from the encouraging load factors recorded at 159 international routes. The group has reactivated 157 aircrafts in 1QCY23 with plans in place to reallocate aircrafts to operating countries that has stronger demand. By end of 2023, the group is targeting to have all its 215 aircrafts deployed to cater for the rising demand. Its digital segment is expected to remain loss-making. 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 2023 as it adds new international lanes and delivery hubs. BigPay has also launched its digital lending platform to provide new loan products.

Pegging airport tariffs to CPI may not be sufficient to raise enough funds 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.

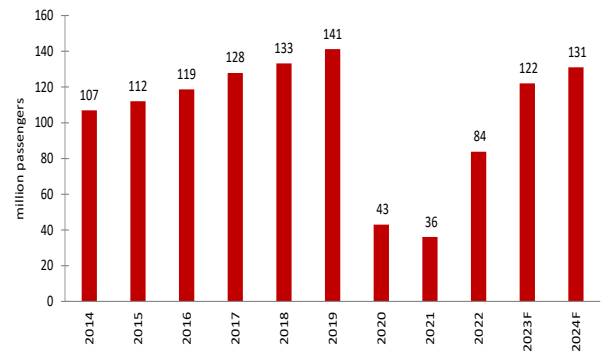
CAPITALA's regularisation plans to exit PN17 in the works. The group plans to announce the details of its PN17 regularisation plan somewhere in 3QCY23. While we continue to like CAPITALA for being a beneficiary of the recovery in air travel as the pandemic comes to an end, we are mindful of it still 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

10 July 2023

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	MP	0.830	0.840	1.2%	3,460	Y	12/2023	4.8	5.5	-93.5%	14.1%	17.2	15.0	NM	NM	0.0	0.0%
MALAYSIA AIRPORTS HOLDINGS BHD	MP	6.84	7.00	2.3%	11,413	Y	12/2023	28.4	32.0	31.4%	12.5%	24.1	21.4	1.5	6.2%	13.0	1.9%

Source: Kenanga Research

10 July 2023

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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