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Malaysia Airports Holdings

Another Privatisation Rumour

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The Edge Weekly cited unidentified sources that AIRPORT could be privatised by its major shareholders before a stake sale to private equity firm Global Infrastructure Partners (GIP). We do not find the story convincing given the lack of details, particularly the absence of an indicative offer price. We maintain our forecasts, TP of RM9.00 and MARKET PERFORM call.

Taking AIRPORT private? The Edge Weekly cited sources that a plan is being hatched by a few substantial shareholders of AIRPORT to take it private. Specifically, it is understood that both sovereign wealth fund Khazanah Nasional Bhd and Employees Provident Fund (EPF) which owns 33.2% and 7% stake in AIRPORT, respectively, are expected to be instrumental in the privatisation. Thereafter, a 30% stake in AIRPORT will be sold to GIP, an infrastructure investment fund involved in equity and selected debt investments. This could be probably due to AIRPORT's shares not liquid enough for GIP to acquire a substantial stake in the former over a reasonable time frame. Key notable infrastructure assets of which GIP has equity stakes in are namely London Gatwick, Edinburgh Airport Limited and London City Airport. Nevertheless, the plan to have an external party to manage AIRPORT is not new. Back in Aug 2001, Ministry of Finance signed a memorandum of understanding with Schiphol on to allow the latter to acquire a strategic investment in AIRPORT. However, the deal was aborted.

We do not find the story convincing given the lack of details, particularly the absence of an indicative offer price.

For illustration purposes, assuming the AIRPORT privatisation is at RM10/share, the PER valuation works out to 25x and 18x our FY25F EPS and FY25 consensus EPS, respectively. This implies a discount of 26-47% compared to closest listed peer Airport of Thailand which trades at 34x FY25 consensus EPS. We believe the PER valuation discount to closest listed peer i.e. Airport of Thailand makes sense considering that Thailand's tourism revenue is 3x larger than Malaysia's. Note that based on FY25F PER of 24x, AIRPORT trades at discount to pre-Covid 3-year average historical 1-yr forward PER of 35x.

Outlook. We expect business and leisure air travel to continue to recover throughout FY24. According to our in-house projection, tourist arrivals in Malaysia are expected to jump 35% to 27m (consistent with Tourism Malaysia's projection to return to pre-pandemic levels) in FY24 from an estimated 20m a year ago (see Exhibit 2). A key driver is Chinese tourists that had historically contributed to an estimated 12% of total tourist arrivals in Malaysia. Furthermore, tourist arrivals is expected to be boosted by the 30-day visa-free regime for Chinese and Indian visitors to Malaysia starting from Dec 2023, and China allowing Malaysian inbound visitors 15 visa-free days between 1 Dec 2023 and 30 Nov 2024. This should underpin growth in AIRPORT's passenger throughput demand in 2024. We expect traffic trajectory to grow in subsequent months as airlines continue to re-activate more aircrafts to match increasing demand.

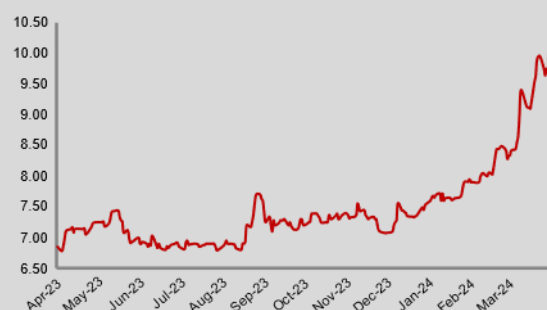
Forecasts. Maintained.

Valuations. We also maintain our TP of RM9.00 based on 22x FY25F 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's. There is no adjustment to TP based on ESG given a 3-star rating as appraised by us (see Page 4).

MARKET PERFORM ↔

Price : **RM10.00**
Target Price : **RM9.00** ↔

Share Price Performance



KLCI 1,555.25
YTD KLCI chg 6.9%
YTD stock price chg 35.9%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	MAHB MK
Market Cap (RM m)	16,685.5
Shares Outstanding	1,668.6
52-week range (H)	10.06
52-week range (L)	6.59
3-mth avg. daily vol.	3,909,734
Free Float	45%
Beta	1.2

Major Shareholders

Khazanah Nasional Bhd	33.2%
Employees Provident Fund Board	7.1%
KWAP	7.1%

Summary Earnings Table

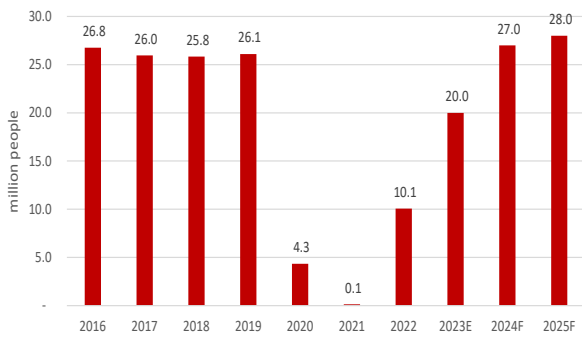
FYE Dec (RM m)	2023A	2024F	2025F
Turnover	4,914	5,331	5,920
PBT	506	790	903
Net Profit / Loss	543	592	677
Core NP / NL	443	592	677
Consensus NP/NL	-	758	936
Earnings Revision	-	-	-
Core EPS (sen)	26.7	35.7	40.8
Core EPS Growth (%)	(223.4)	33.7	14.3
NDPS (sen)	10.8	18.0	18.5
BV/Share (RM)	4.82	5.00	5.22
Core PER (x)	37.5	28.0	24.5
Net Gearing (x)	0.3	0.3	0.2
Dividend Yield (%)	1.1	1.8	1.9

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Investment case. 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). The recently announced tariff revision is positive to its earnings but may not be sufficient for it to fund more aggressive capex plans. Maintain **MARKET PERFORM**.

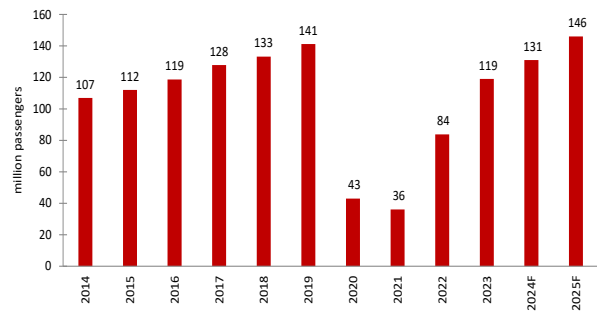
Risks to our call include: (i) endemic and pandemic occurrences, deterring air travel, (ii) unfavourable terms for airport operations, and (iii) risks associated with overseas operations.

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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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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