

# Malaysia Airports (MAHB MK)

## As the saying goes, “This too shall pass”

### U/G to BUY with higher DCF-based TP of MYR6.86

The COVID-19 pandemic is ravaging Malaysia. Yet, our observation of other countries indicates to us that the accelerating COVID-19 vaccination rate in Malaysia will bring it under control soon. We widen our FY21E/FY22E net loss by c.MYR200m/c.MYR400m but raise our FY23E net profit by c.MYR200m. Utilising a lower WACC of 8.7% (9.1% previously), our DCF-based TP is raised to MYR6.86 from MYR5.98. With 21% upside potential, we upgrade MAHB to BUY from HOLD.

### FY21E likely to be another washout year...

We now gather that FY21E Malaysian passenger traffic figures will likely end up below that of FY20A due to the recent surge in new COVID-19 cases in Malaysia. Annualising 6M21 Malaysian domestic and international passenger traffic figures, FY21E Malaysian domestic and international passenger traffic will come in at only 9% and 2% of FY19A figures respectively. Yet, MAHB's Turkish operations fared better thanks to Turkey being relatively more advanced in its vaccination programme.

### ... but there are 3 reasons to stay hopeful

The United Kingdom, United States and India were all once derided for their poor response to the COVID-19 pandemic. But once COVID-19 vaccinations accelerated, they brought their COVID-19 pandemics under control and passenger traffic recovered. We posit the same for Malaysia. We are hopeful that:- (i) COVID-19 vaccinations are accelerating in Malaysia; (ii) COVID-19 vaccinations are accelerating in key markets; and (iii) no major Malaysian airline has failed yet.

### Lift long term earnings estimates

We widen our FY21E/FY22E net loss by c.MYR200m/c.MYR400m but raise our FY23E net profit by c.MYR200m. Our revised FY23E net profit is higher as we now expect Malaysian international passenger traffic to recover to 90% of pre-COVID-19 levels or 20ppts higher than before. This is again thanks to no major Malaysian airline having failed yet. Recent financing secured by **Malaysia Airlines (Not Listed)** and **AirAsia Group (AAGB MK, SELL, CP: MYR0.805, TP: MYR0.36)** have assuaged this fear.

FYE Dec (MYR m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	5,213	1,866	1,486	2,635	5,226
EBITDA	2,281	12	(130)	633	2,380
Core net profit	515	(774)	(1,317)	(850)	553
Core EPS (sen)	31.1	(46.6)	(79.4)	(51.2)	33.4
Core EPS growth (%)	34.4	nm	nm	nm	nm
Net DPS (sen)	15.0	0.0	0.0	0.0	16.0
Core P/E (x)	24.5	nm	nm	nm	16.9
P/BV (x)	1.5	1.4	1.6	1.9	1.8
Net dividend yield (%)	2.0	0.0	0.0	0.0	2.8
ROAE (%)	5.8	(15.2)	(20.4)	(15.9)	10.9
ROAA (%)	2.3	(3.6)	(6.7)	(4.5)	3.0
EV/EBITDA (x)	7.2	nm	nm	22.4	5.7
Net gearing (%) (incl perps)	38.7	46.5	57.4	79.0	66.4
Consensus net profit	-	-	(729)	162	439
MKE vs. Consensus (%)	-	-	(80.7)	(624.6)	25.9

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# BUY

[Prior:HOLD]

Share Price MYR 5.65  
12m Price Target MYR 6.86 (+21%)  
Previous Price Target MYR 5.98

### Company Description

Malaysia Airports Holdings Bhd. manages and operates airports in Malaysia and Turkey.

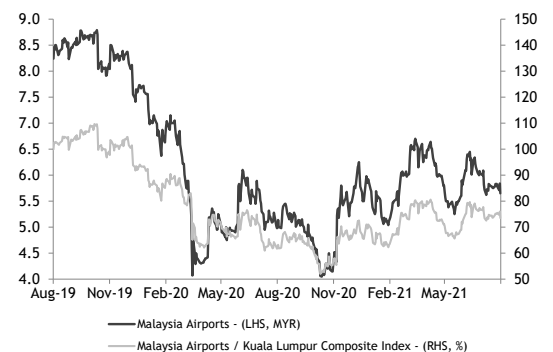
### Statistics

52w high/low (MYR) 6.70/4.05  
3m avg turnover (USDm) 2.2  
Free float (%) 39.8  
Issued shares (m) 1,659  
Market capitalisation MYR9.4B  
USD2.2B

### Major shareholders:

Khazanah Nasional Bhd. (Investment Compa) 33.2%  
Employees Provident Fund 15.1%  
Kumpulan Wang Persaraan 6.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(3)	13
Relative to index (%)	(4)	3	19

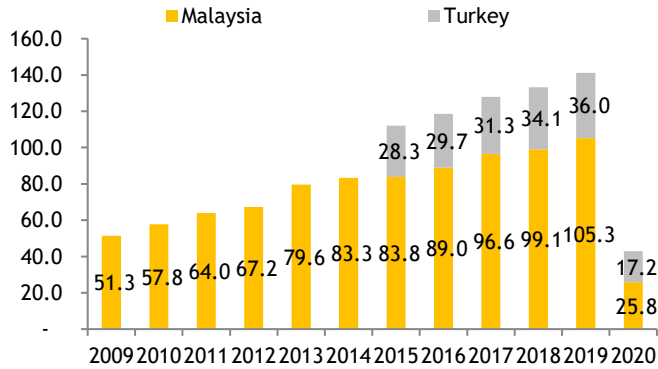
Source: FactSet

**ESG@MKE**  
Tear Sheet Insert

### Value Proposition

- MAHB manages and operates 39 of 42 airports in Malaysia, making it a virtual monopoly.
- KLIA is the only ASEAN airport that has three parallel runways
- 10,000 acre unutilised land bank adjacent to KLIA can be monetized via retail, commercial and leisure ventures.
- Also manages and operates Sabiha Gökçen Airport in Istanbul, Turkey, the fastest growing airport in Europe.
- Also owns 11% of Rajiv Gandhi International Airport in Hyderabad, India.

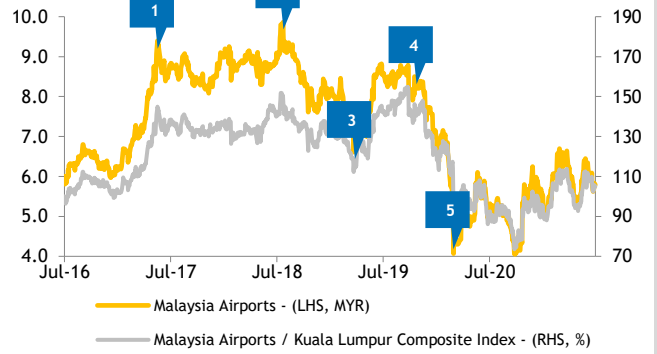
#### MAHB total passenger traffic (m)



Source: Company

### Price Drivers

#### Historical share price trend



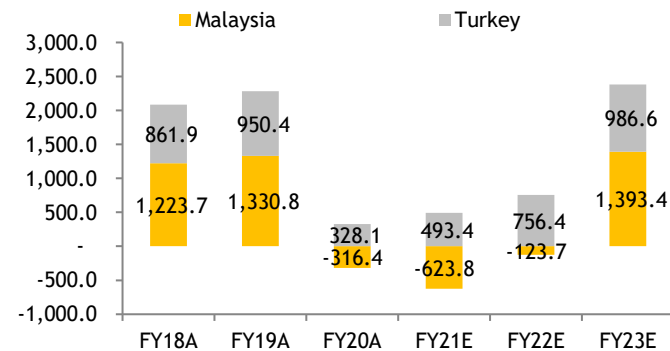
Source: Company, Maybank Kim Eng

- Share price rallied after reporting FY16 results which generated a net profit (FY15: net loss).
- Foreign investors excited by the prospect of higher returns from adopting a Regulated Asset Base framework.
- Foreign investors increasingly doubted that a Regulated Asset Base framework will be adopted.
- US FAA downgraded CAAM to Category 2 and Department Of Transport announced that MAVCOM will be disbanded.
- COVID-19 pandemic struck Malaysia. Mass domestic and international flights have not resumed.

### Financial Metrics

- In our view, key financial metric is EBITDA and not so much net profit.
- Cash capex and interest expense significantly lower than reported depreciation, amortisation and interest expense.
- Forecast FY21E LBITDA on lower passenger traffic due to full year effect of COVID-19 pandemic (FY20A: 9 months).
- Forecast post-FY21E LBITDA to narrow/EBITDA to recover on passenger traffic recovery driven by COVID-19 vaccinations.
- Net gearing (including perpetual sukuk) manageable at -50%.

#### EBITDA (MYRm)



Source: Company (historical), Maybank Kim Eng (forecasts)

### Swing Factors

#### Upside

- Competition among domestic airlines - this will drive passenger traffic growth.
- Policy changes - visa requirements relaxations and tourist friendly events will drive passenger traffic growth.
- Regulated Asset Base framework - this guarantees a certain return for every MYR of capex invested.

#### Downside

- Exogenous events - SARS, MH370, MH17, AK8501, political unrest in Turkey and COVID-19 negatively impacted passenger traffic growth.
- Failure to meet KPIs - Marginal cost support sum (MARCS) contingent on service levels and productivity KPIs.
- Development capex - Greenfield/expansion capex may be invested without guarantees in returns.



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Risk Rating & Score <sup>1</sup>	20.0 (Low)
Score Momentum <sup>2</sup>	+0.2
Last Updated	30 Jun 2021
Controversy Score <sup>3</sup> (Updated: 3 Jun 2021)	2 - Quality & safety (customer) incidents

## Business Model & Industry Issues

- In our view, MAHB has stellar ESG credentials. Furthermore, it is transparent in reporting financial statements and airport statistics. Airport statistics are released every month.
- MAHB does not donate much to corporate responsibility programmes but we note that it maintains loss generating airports and short take-off and landing (STOL) ports to maintain much needed connectivity to rural and remote locations.
- A key risk has always been the Government Of Malaysia (GOM) compelling MAHB to construct new or expand airports which are not financially viable.
- That said, recent history alleviated our concerns as the construction of klia2 and expansion of Penang airport were financially viable. Another planned expansion of Penang airport has been delayed due to the COVID-19 pandemic.

## Material E issues

- MAHB is a signatory to the Aviation Industry Commitment to Action on Climate Change.
- KLIA achieved Airport Carbon Accreditation - Level 3 of 6 by Airports Council International.
- Has been using solar panels to generate electricity at KLIA since FY14 (FY20: 16,949 MWh).
- Commenced installing solar panels at Kota Kinabalu, Penang, Langkawi, Kuantan and Melaka airports.
- Recovered and recycled 0.4m kg or 8% of waste at KLIA in FY20 (FY19: 2.0m kg or 14%).
- Fuel/electricity/water consumption intensity per passenger in Malaysia double or tripled in FY20.
- Less recycling and higher fuel, electricity and water consumption intensity per passenger were due to COVID-19.
- The COVID-19 pandemic resulted in fewer passengers which were necessary for economies of scale.
- Operates 6,632 ha of oil palm planted area which is Malaysian Sustainable Palm Oil certified.

## Material S issues

- Manages 5 international airports, 16 domestic airports and 18 STOL ports in Malaysia.
- Pre-COVID-19, only 8 were profitable. They effectively subsidised airports/ STOL ports in rural/remote locations.
- Passengers departing STOL ports are also not charged passenger service charges.
- Employed 10,333 people globally in FY20. The male to female employee ratio was 66:34.
- In terms of total remuneration, ratio between female and male employees was 1:1.
- Employee retention rate was high at 92.9% in FY20 (FY19: 93.2%).
- Invested MYR9.1m to train and develop employees in FY20 (-28% YoY).
- As a result, average training hours per employee in FY20 stood at 13.0 hours (-19% YoY).
- Training hours were pared to minimise face to face contact and help prevent the spread of COVID-19.

## Key G metrics and issues

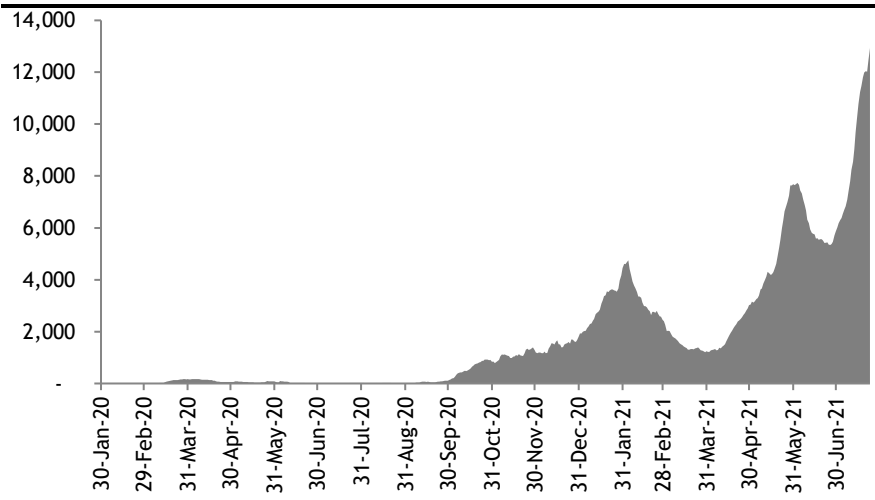
- BOD comprises 1 Non-Independent Non-Executive Director (NINED) Chairman, 4 NINEDs and 6 Independent Non-Executive Directors (INED).
- Major shareholders, Khazanah Nasional and Employees Provident Fund are represented by 1 NINED each.
- Share capital includes one MYR1 Special Rights Redeemable Preference Share (Special Share).
- The Special Share enables the GOM, through the Ministry Of Finance, to ensure that MAHB operations are consistent with GOM policies.
- The Special Shareholder is entitled to receive notices of meetings but not entitled to vote at such meetings.
- However, the Special Shareholder is entitled to attend and speak at such meetings.
- The Special Shareholder has the right to appoint not more than six directors at any time.
- Ministry Of Finance represented by Chairman and 1 NINED. Ministry Of Transport represented by 1 NINED.
- 4 of the 11 BOD members are women. Has a policy of ≥3 women BOD directors and 30% of BOD made up of women directors.
- FY20 directors' remuneration accounted grew 5% YoY although MAHB generated a loss in FY20.
- Ernst & Young PLT is the independent auditor. They have been appointed for >10 years.
- Occasionally fined by Malaysian Aviation Commission for failing to meet certain service quality levels.
- That said, these fines were minor at <MYR2m and did not materially impact earnings.
- Note that a major IT network failure disrupted operations at KLIA for four days in Aug 2019.
- Thus, an Board IT Oversight Committee was formed to review and advise on IT-related projects, strategies, cyber security risks and IT disaster recovery.
- Received ISO 37001:2016 Anti-Bribery Management System Certification for procurement processes.
- Was investigated by the Malaysia Anti-Corruption Commission (MACC) in 2021 but the MACC made no further enquiries to date.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

### FY21E likely to be another washout year...

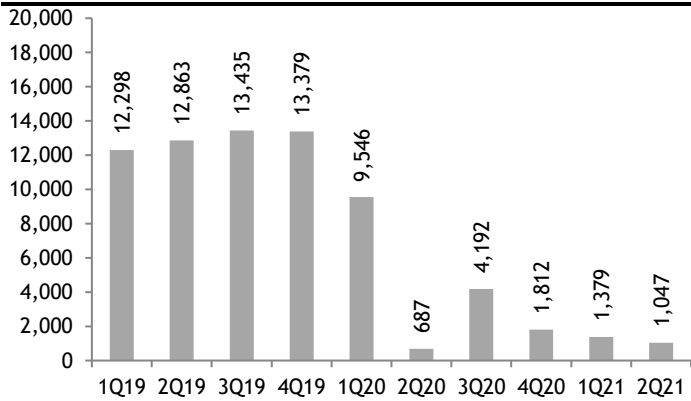
Due to the recent surge in new COVID-19 cases in Malaysia (Fig. 1) and the resulting Full Movement Control Order (FMCO) that followed, it appears to us that FY21E Malaysian passenger traffic figures will likely end up below that of FY20A. Recall that 1Q20 Malaysian passenger traffic figures were still respectable at least until the first Movement Control Order (MCO 1.0) took effect on 18 Mar 2020. If one were to annualise the 6M21 Malaysian domestic and international passenger traffic figures (Fig. 2 & 3), it appears to us that FY21E Malaysian domestic and international passenger traffic will come in at only 9% and 2% of FY19A or pre-COVID-19 figures respectively.

Figure 1: 7D MA new COVID-19 cases - Malaysia



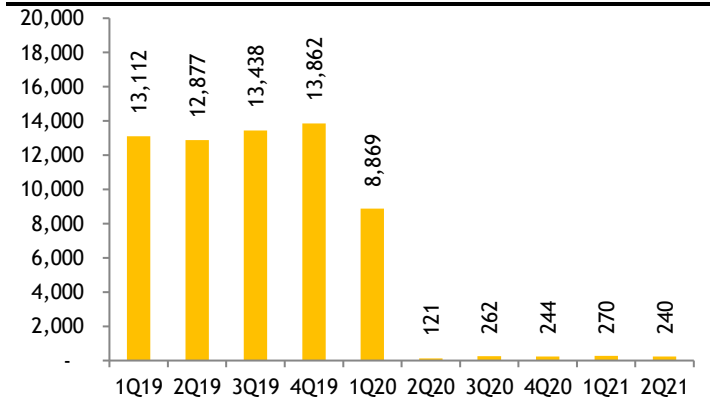
Source: Our World In Data

Figure 2: Domestic passenger traffic - Malaysia ('000)



Source: Company

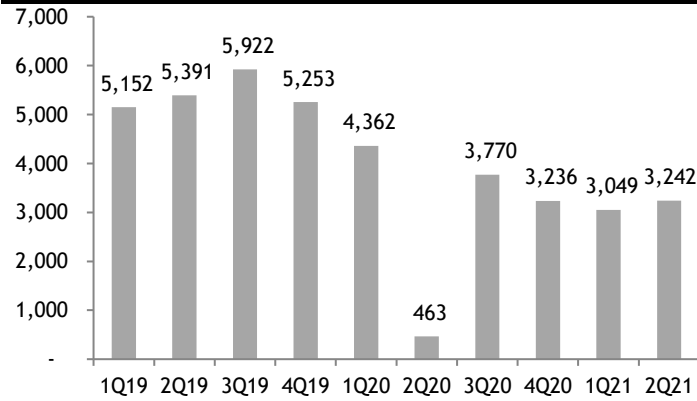
Figure 3: International passenger traffic - Malaysia ('000)



Source: Company

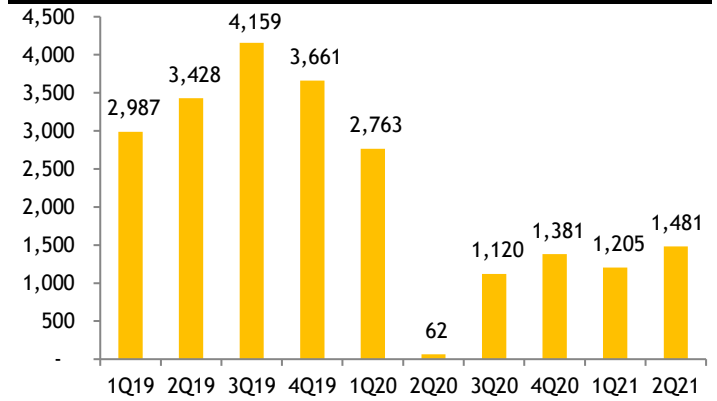
On the other hand, 6M21 Turkish domestic and international passenger traffic figures (Fig. 4 & 5) fared a lot better. In fact, Jun 2021 Turkish domestic and international passenger traffic even hit 84% and 53% of Jun 2019 or pre-COVID-19 figures respectively. On closer inspection, this relatively better performance by MAHB's Turkish operations is due to the fact that the COVID-19 pandemic has been better contained in Turkey as exhibited by a sharp deceleration in new COVID-19 cases there (Fig. 6). We next explore why Turkey has been relatively more successful than Malaysia in containing its COVID-19 pandemic.

Figure 4: Domestic passenger traffic - Turkey ('000)



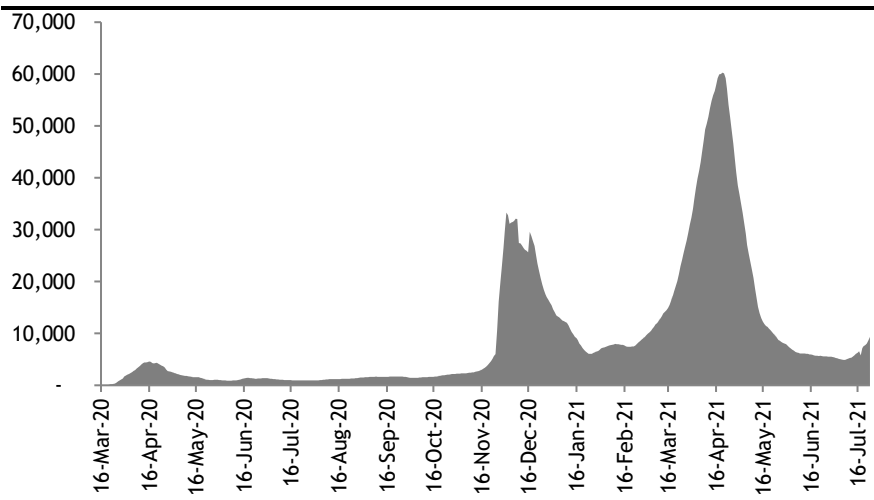
Source: Company

Figure 5: International passenger traffic - Turkey ('000)



Source: Company

Figure 6: 7D MA new COVID-19 cases - Turkey

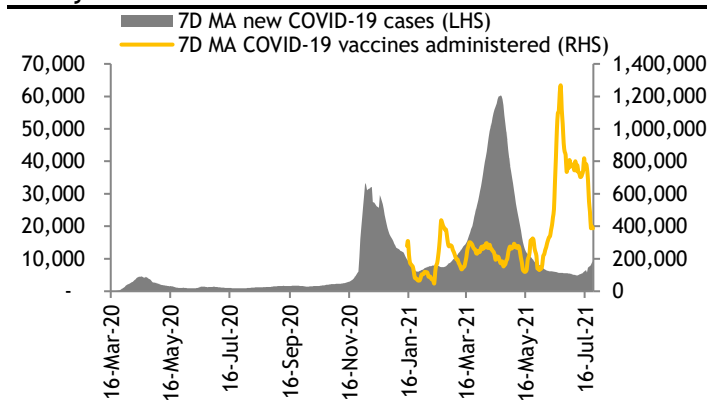


Source: Our World In Data

... but there are 3 reasons to stay hopeful

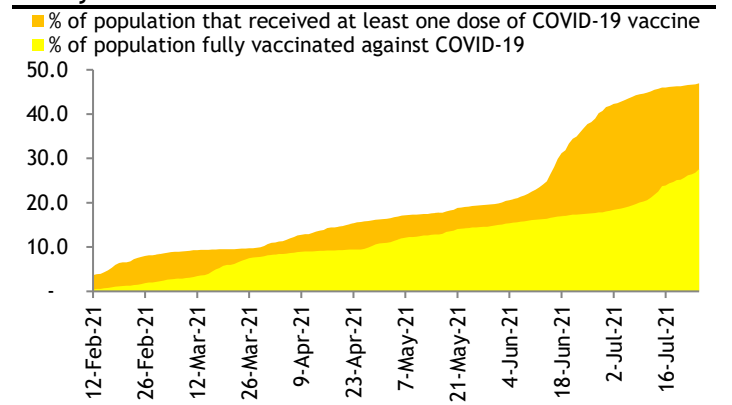
To be sure, Turkey has gone through multiple lockdowns not unlike Malaysia. That said, we notice that new COVID-19 cases there started to decelerate sharply after COVID-19 vaccinations accelerated in May 2021 (Fig. 7). To date, almost 50% of the Turkish population has received at least one dose of COVID-19 vaccine and 33% of the Turkish population has been fully vaccinated (Fig. 8). We next examine three countries that were once dubbed with the ignominious title of being the ‘COVID-19 capital of the world’. They are the United Kingdom, the United States and India.

Figure 7: 7D MA new COVID-19 cases and vaccinations - Turkey



Source: Our World In Data

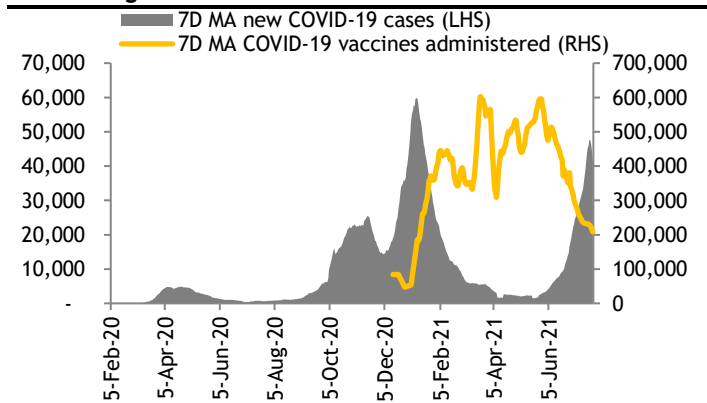
Figure 8: Share of population vaccinated against COVID-19 - Turkey



Source: Our World In Data

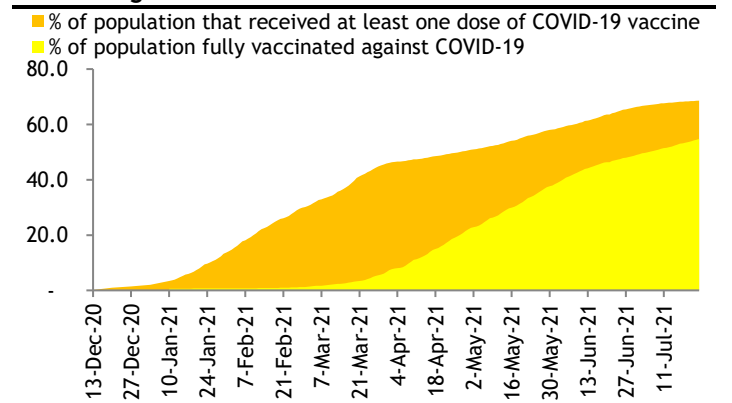
At first glance, the British experience appears paradoxical. New COVID-19 cases there started to decelerate sharply after COVID-19 vaccinations accelerated only to reaccelerate recently (Fig. 9) despite more than 50% of the British population having been fully vaccinated (Fig. 10). On closer inspection, the recent acceleration in new COVID-19 cases in the United Kingdom is due to the prevalence of the Delta variant which is more infectious. That said, new COVID-19 deaths and hospitalisations have remained low thanks to most of the British population having been fully vaccinated (Fig. 11). Thus, it should not come as a surprise that passenger traffic in the United Kingdom, as exemplified by Heathrow Airport, has been recovering gradually (Fig. 12).

Figure 9: 7D MA new COVID-19 cases and vaccinations - United Kingdom



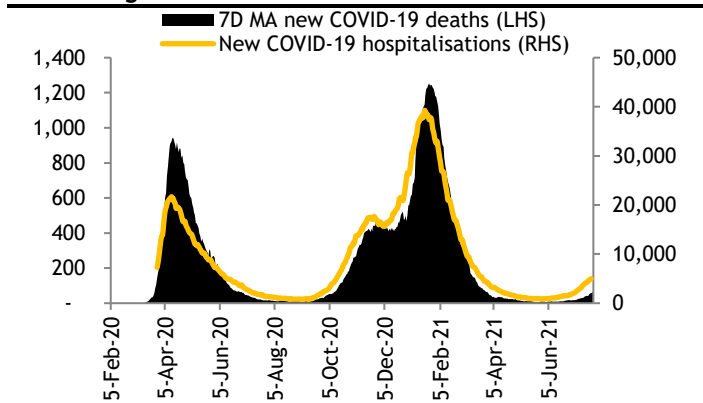
Source: Our World In Data

Figure 10: Share of population vaccinated against COVID-19 - United Kingdom



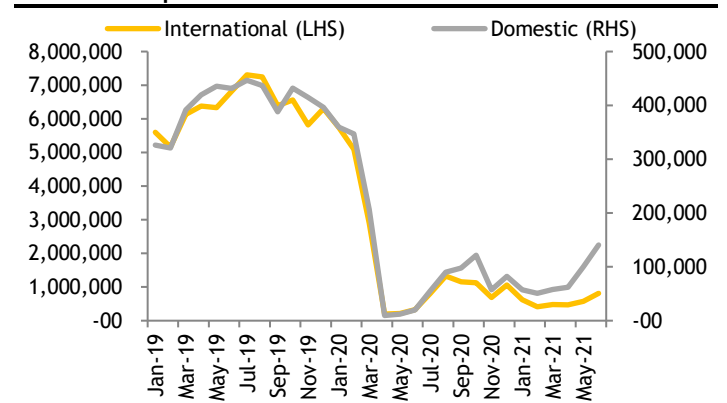
Source: Our World In Data

Figure 11: 7D MA new COVID-19 deaths & hospitalisations - United Kingdom



Source: Our World In Data

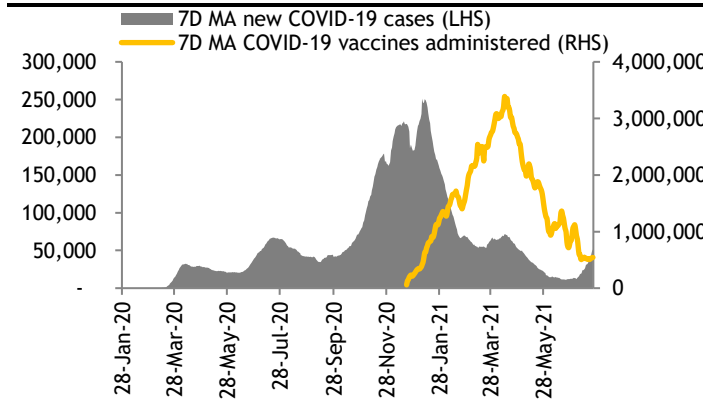
Figure 12: Domestic and international passenger traffic - Heathrow Airport



Source: Heathrow Airport

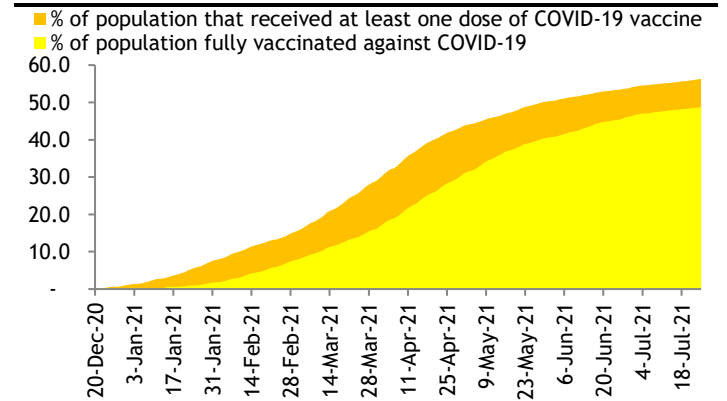
The American experience is a lot more straightforward. New COVID-19 cases there started to decelerate sharply after COVID-19 vaccinations accelerated (Fig. 13). To date, almost 50% of the American population has been fully vaccinated (Fig. 14). Thus, passenger traffic in the United States, as exemplified by its busiest airport, Hartsfield-Jackson Atlanta International Airport, has been recovering gradually (Fig. 15). In fact, its May 2021 domestic passenger traffic hit 73% of May 2019 or pre-COVID-19 levels.

Figure 13: 7D MA new COVID-19 cases and vaccinations - United States



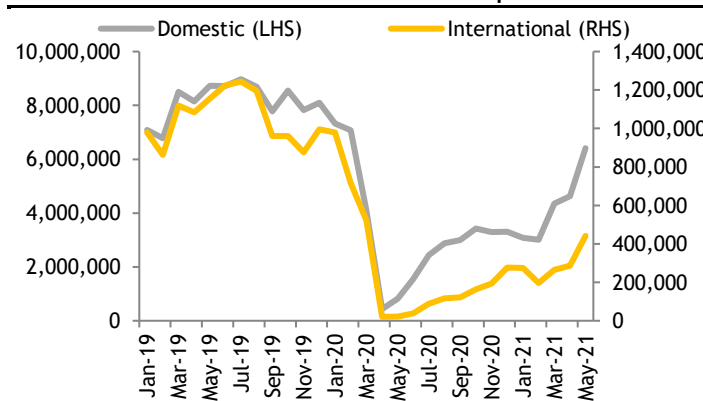
Source: Our World In Data

Figure 14: Share of population vaccinated against COVID-19 - United States



Source: Our World In Data

Figure 15: Domestic and international passenger traffic - Hartsfield-Jackson Atlanta International Airport

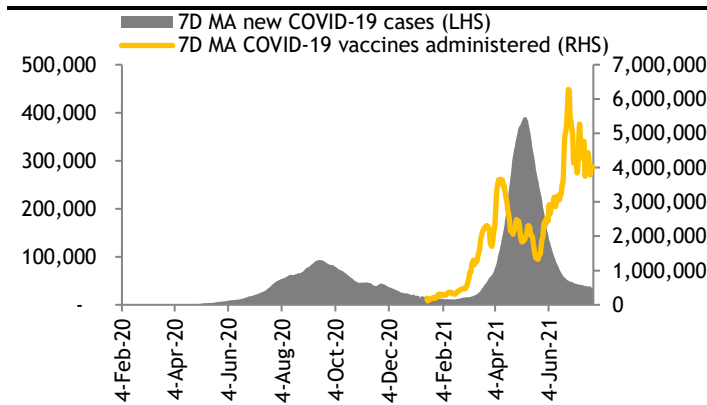


Source: Hartsfield-Jackson Atlanta International Airport



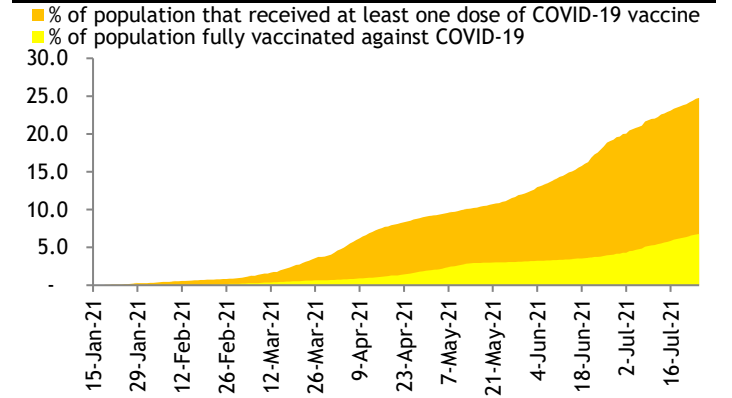
The Indian experience is an especially pertinent one given that it was less than 3 months ago when it was ravaged by the COVID-19 pandemic, making global headlines and even spawning the Delta variant. Again, new COVID-19 cases there started to decelerate sharply after COVID-19 vaccinations accelerated (Fig. 16). To date, only 8% of the Indian population has been fully vaccinated but a much higher 27% of the Indian population has received at least one dose of COVID-19 vaccine (Fig. 17). Passenger traffic in India plunged in May 2021 in the midst of its latest COVID-19 wave but has since started recovering gradually (Fig. 18).

Figure 16: 7D MA new COVID-19 cases and vaccinations - India



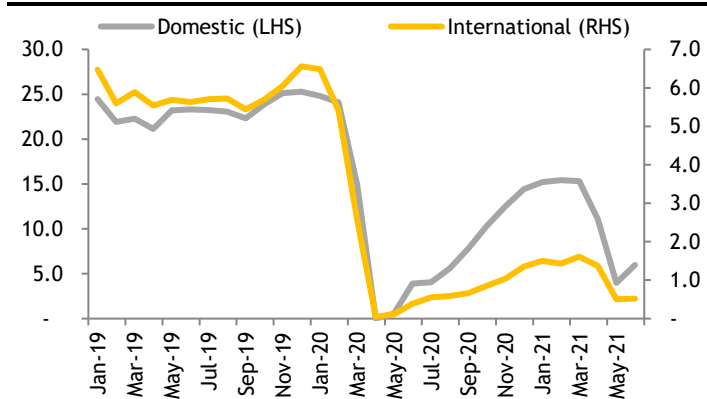
Source: Our World In Data

Figure 17: Share of population vaccinated against COVID-19 - India



Source: Our World In Data

Figure 18: Domestic and international passenger traffic - India



Source: Airports Authority Of India

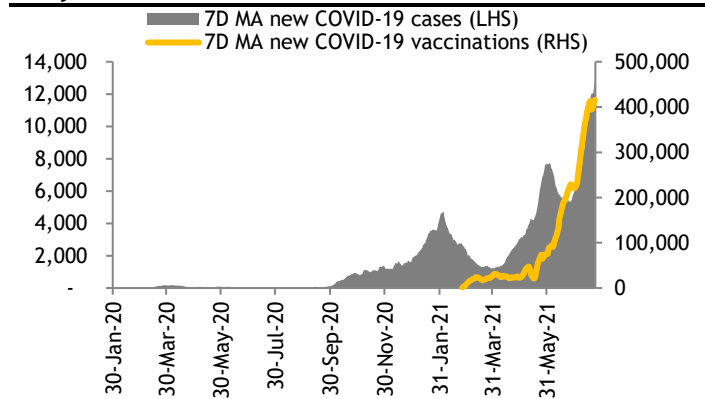
Notice that the 3 aforementioned countries (i.e. United Kingdom, United States and India) were all at one point in time derided for their poor response to the COVID-19 pandemic. But note that once COVID-19 vaccinations accelerated, they brought the COVID-19 pandemics in their countries under control. We posit the same for Malaysia. We acknowledge that there is some ‘perception deficit’ regarding Malaysia’s response to its COVID-19 pandemic but as COVID-19 vaccinations accelerate, new COVID-19 cases here ought to decelerate sharply going forward.



### COVID-19 vaccination rate is accelerating in Malaysia

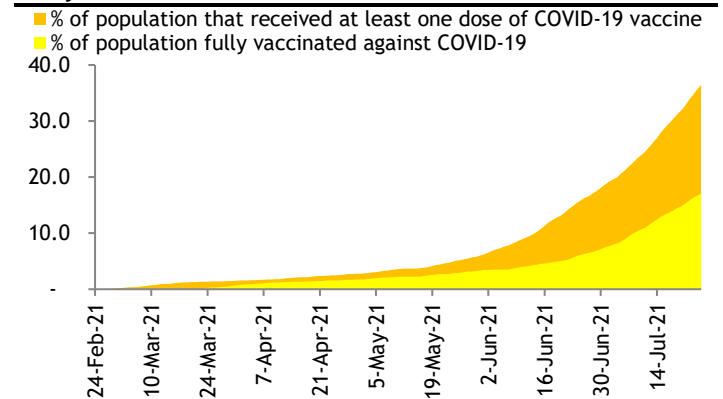
Daily COVID-19 vaccination rates in Malaysia have surged past 400k (Fig. 19) as it takes delivery of >15m vaccine doses and opens more vaccination hubs. To date, 22% of the Malaysian population has been fully vaccinated but a higher 45% of the Malaysian population has received at least one dose of COVID-19 vaccine (Fig. 20). As a result, Malaysia forecasts the number of new COVID-19 cases to decelerate to c.1,000 daily by Oct 2021 as it would be close to achieving, if not already, herd immunity by then. We hope that this will drive passenger traffic in Malaysia, especially domestic passenger traffic, to gradually recover.

**Figure 19: 7D MA new COVID-19 cases and vaccinations - Malaysia**



Source: Our World In Data

**Figure 20: Share of population vaccinated against COVID-19 - Malaysia**



Source: Our World In Data

### COVID-19 vaccination rate is accelerating in other key markets

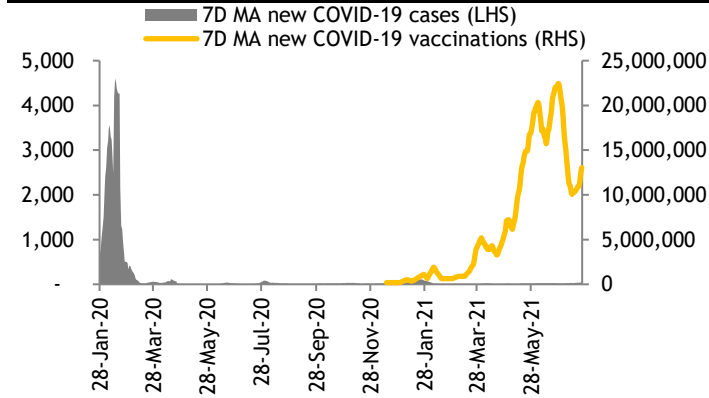
MAHB’s more lucrative Malaysian international passenger traffic will not recover meaningfully if the COVID-19 pandemic in its other key markets is not contained as Malaysia will likely bar its citizens from travelling there and/or those countries will bar its citizens from travelling to Malaysia. Yet, a cursory examination of Fig. 21 suggests that international passenger traffic to China and Singapore can resume relatively quickly if Malaysia brings the number of new COVID-19 cases under control thanks to COVID-19 vaccinations. China and Singapore have been relatively more successful in containing their COVID-19 pandemics (Fig. 22 & 23). They accounted for 21% of KLIA’s 2019 international passenger traffic.

**Figure 21: 2019 KUL top 10 country movements**

Country	2019 passenger traffic (m)	% of total
Indonesia	8.3	18.5%
China	5.1	11.4%
Thailand	4.2	9.4%
Singapore	4.2	9.4%
India	3.3	7.4%
Australia	2.6	5.8%
Vietnam	2.1	4.7%
Hong Kong	1.5	3.3%
Japan	1.4	3.1%
South Korea	1.0	2.2%
<b>Total</b>	<b>33.7</b>	<b>75.1%</b>

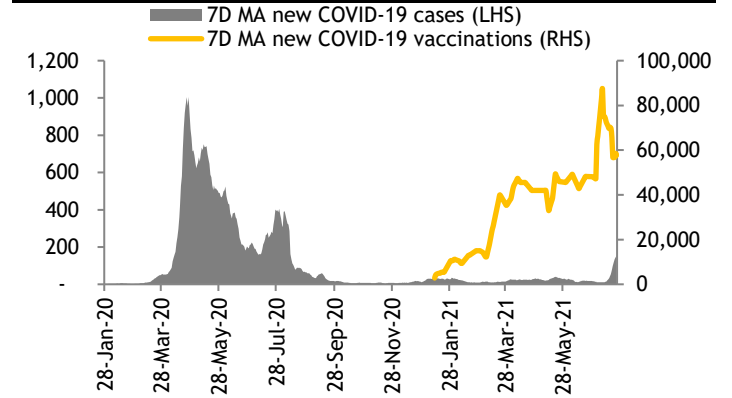
Source: Company

Figure 22: 7D MA new COVID-19 cases and vaccinations - China



Source: Our World In Data

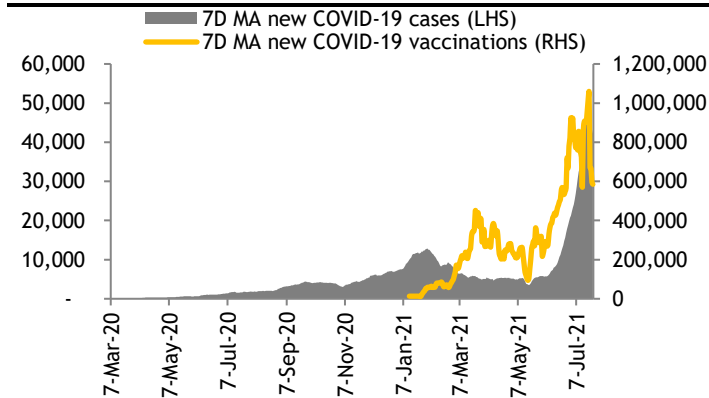
Figure 23: 7D MA new COVID-19 cases and vaccinations - Singapore



Source: Our World In Data

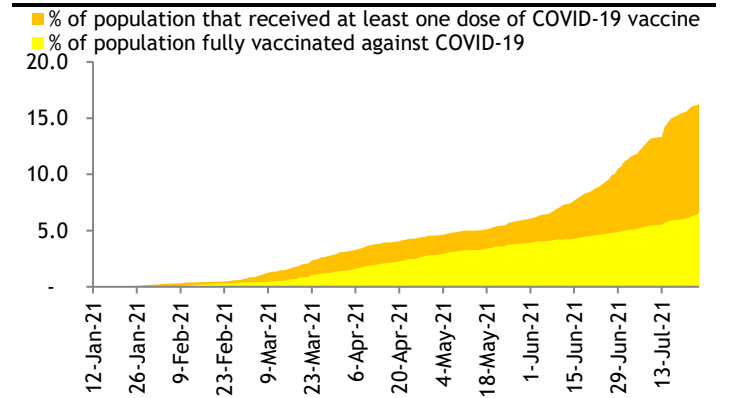
Like Malaysia, Indonesia and Thailand are battling a new COVID-19 wave. That said, we note that their COVID-19 vaccinations have also been accelerating in the last two months (Fig. 24 & 26). Less than 10% of both countries' populations have been fully vaccinated and less than 20% of both countries' populations have received at least one dose of COVID-19 vaccine (Fig. 25 & 27). While we opine that both countries' target to fully vaccinate 70% of their population by end-FY21E may seem ambitious, we do not see why those targets cannot be met by mid-FY22E. Indonesia and Thailand accounted for 28% of KLIA's 2019 international passenger traffic.

Figure 24: 7D MA new COVID-19 cases and vaccinations - Indonesia



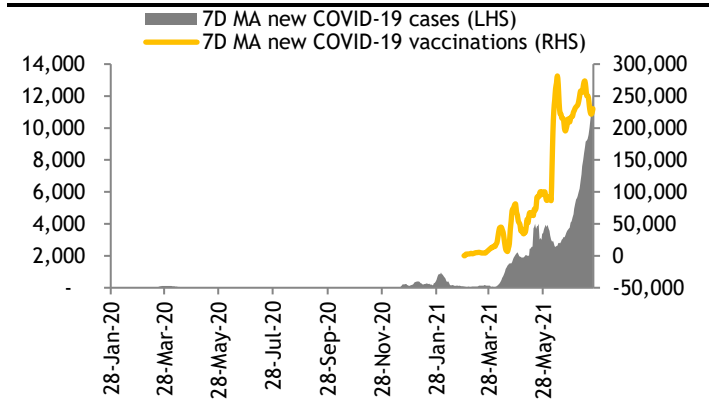
Source: Our World In Data

Figure 25: Share of population vaccinated against COVID-19 - Indonesia



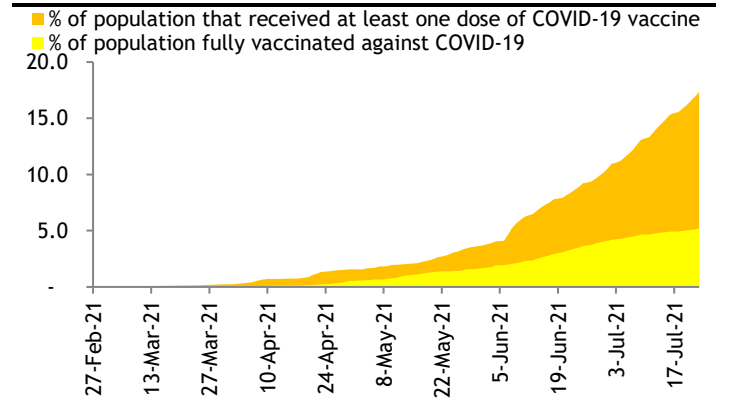
Source: Our World In Data

Figure 26: 7D MA new COVID-19 cases and vaccinations - Thailand



Source: Our World In Data

Figure 27: Share of population vaccinated against COVID-19 - Thailand



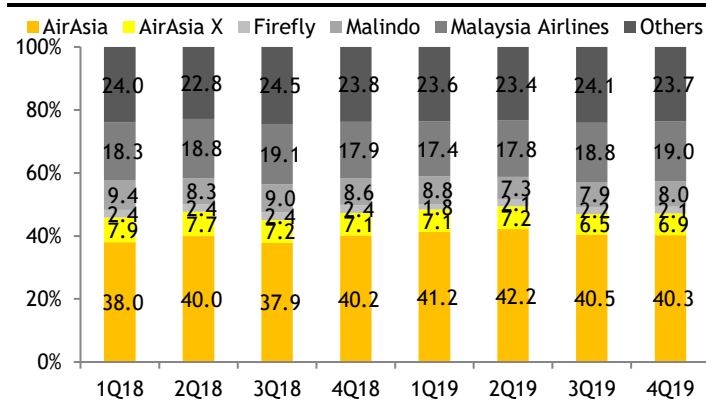
Source: Our World In Data

By mid-FY22E, countries that account for at least half of MAHB’s Malaysian international passenger traffic pre-COVID-19 ought to have achieved herd immunity. We hope that this will drive MAHB’s Malaysian international passenger traffic to gradually recover. This is very important to MAHB’s earnings as not only is the Passenger Service Charge for Malaysian international passengers 5-7x higher than domestic ones, international passengers are also allowed to buy duty free products while domestic ones are not.

**MAHB’s key Malaysian partner airlines appear set to fly another day**

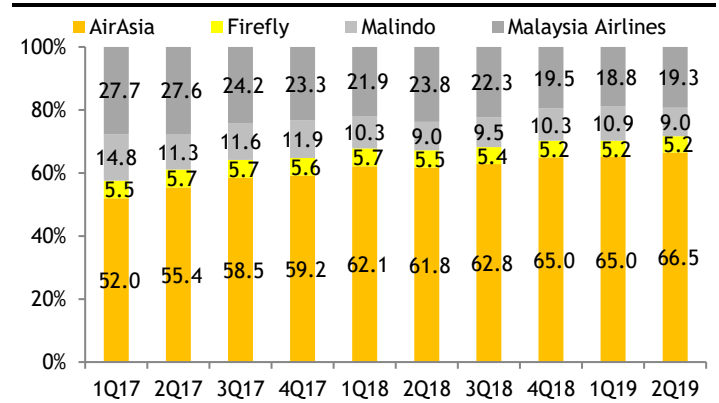
All of our aforementioned analyses will come to naught if any major Malaysian airline were to fail. Fewer passengers would be able to travel even if they wanted to due to less capacity. That said, we are encouraged that no major Malaysian airline has failed yet despite the COVID-19 pandemic having lasted for more than a year already. In Mar 2021, **Khazanah Nasional (Not Listed)** stated that it is committed to injecting up to MYR3.6b into **Malaysia Airlines (Not Listed)** over the next five years. Last month, **AirAsia Group (AAGB MK, SELL, CP: MYR0.805, TP: MYR0.36)** announced that it will raise at least MYR615.9m via rights issue ([link](#)). At a cash burn rate of MYR29m/mth, the proceeds are enough for AAGB to last ≥21 months.

**Figure 28: Total market share by passengers**



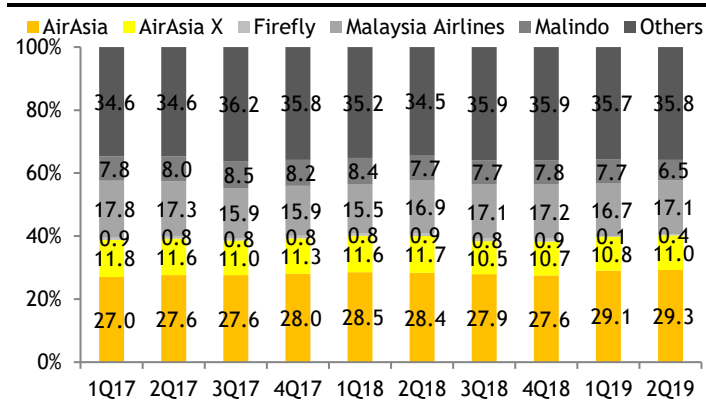
Source: Malaysian Aviation Commission

**Figure 29: Domestic market share by passengers**



Source: Malaysian Aviation Commission

**Figure 30: International market share by passengers**



Source: Malaysian Aviation Commission

The survival of Malaysia Airlines (including Firefly) and AAGB are crucial to MAHB. Pre-COVID-19, they accounted for >60% total market share by passengers. For pre-COVID-19 domestic routes, they accounted for >90% market share by passengers. For pre-COVID-19 international routes, they accounted for >45% market share by passengers. At this juncture, we cannot say that we are certain about the eventual fate of **Malindo Air (Not Listed)** and **AirAsia X (AAX MK, CP: MYR0.07, Not Rated)**. That said, we note that their pre-COVID-19 total market share by passengers is not large at 14-16%. For pre-COVID-19 domestic routes, they accounted for 9-11% market share by passengers (AAX does not fly domestic routes). For pre-COVID-19 international routes, they accounted for 18-20% market share by passengers.

## Lift long term earnings estimates

Since MAHB's Turkish operations are tracking within our expectations, most of our earnings revisions relate to its Malaysian operation. To recap, we expect Turkish domestic passenger traffic to hit 75%/100%/102% of pre-COVID-19 levels in FY21E/FY22E/FY23E and Turkish international passenger traffic to hit 50%/75%/100% in FY21E/FY22E/FY23E. To date, we have not come across any evidence to suggest that our aforementioned expectations will not be met.

Coming back to MAHB's Malaysian operations, we expect Malaysian domestic passenger traffic to hit 10%/45%/100% of pre-COVID-19 levels in FY21E/FY22E/FY23E (50%/75%/100% previously) and Malaysian international passenger traffic to hit 2%/25%/90% of pre-COVID-19 levels (10%/40%/70% previously). We also narrow our depreciation and amortisation forecasts by 27-28% p.a. after consulting management. That said, they have little bearing on our DCF-based valuation as depreciation and amortisation are non-cash items.

**Figure 31: Major assumptions and estimates**

	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revised</b>					
MYS - domestic passenger traffic (m)	52.0	16.3	5.2	23.4	52.0
YoY chg	9.7%	-68.7%	-68.0%	350.0%	122.2%
MYS - international passenger traffic (m)	53.3	9.5	1.1	13.3	48.0
YoY chg	3.0%	-82.2%	-88.8%	1150.0%	260.0%
Depreciation & amortisation	941.6	609.8	473.7	758.0	961.7
Group net profit (MYRm)	515.2	-773.7	-1,317.3	-849.9	553.5
<b>Previous</b>					
MYS - domestic passenger traffic (m)	52.0	16.3	26.0	39.0	52.0
YoY chg	9.7%	-68.7%	59.8%	50.0%	33.3%
MYS - international passenger traffic (m)	53.3	9.5	5.3	21.3	37.3
YoY chg	3.0%	-82.2%	-43.9%	300.0%	75.0%
Depreciation & amortisation	941.6	609.8	657.8	1,037.8	1,327.7
Group net profit (MYRm)	515.2	-773.7	-1,098.1	-436.7	324.8

Source: Company (historical), Maybank Kim Eng (forecasts)

- **Malaysian domestic passenger traffic** - For FY21E, we annualise 6M21 Malaysian domestic passenger traffic figures. For FY22E, we forecast it to recover to 45% of pre-COVID-19 levels. Recall that mass interstate travel resumed for the first time since MCO 1.0 on 10 Jun 2020. Malaysian domestic passenger traffic hit a high of 1.6m in Sep 20 or 40% of pre-COVID-19 levels. We do not think our revised FY22E forecast is aggressive given that Malaysia is expected to achieve herd immunity by 4Q21. For FY23E, we continue to forecast it to recover to 100% of pre-COVID-19 levels as Malaysians confidently travel by air again. In our view, some Malaysians will still have misgivings about air travel in FY22E as the COVID-19 pandemic will still be fresh in their minds then.
- **Malaysian international passenger traffic** - For FY21E, we annualise 6M21 Malaysian international passenger traffic figures. For FY22E, we forecast it to recover to 25% of pre-COVID-19 levels. We assume that air travel between Malaysia, Singapore and China will resume in 1H22 (Singapore and China accounted for 21% of KLIA's 2019 international passenger traffic) and air travel between Malaysia, Indonesia and Thailand will resume in 2H22 (Indonesia and Thailand accounted for 28% of KLIA's 2019 international passenger traffic). Note that KLIA has historically accounted for c.85% of Malaysian international passenger traffic. For FY23E, we forecast it to recover to 90% of pre-COVID-19 levels as confidence in air travel resume.

Net impact of the above is to widen our FY21E net loss by c.MYR200m, widen our FY22E net loss by c.MYR400m but raise our FY23E net profit by c.MYR200m. The major reason why our revised FY23E net profit is higher than our previous forecast is because we now expect Malaysian international passenger traffic to recover to 90% of pre-COVID-19 levels or 20ppts higher than previously. Our renewed confidence, again, stems from the fact that no major Malaysian airline has failed yet (see page 11).

That said, we think it wise not to assume that Malaysian international passenger traffic will recover to 100% of pre-COVID-19 levels to account for the fact that incumbents will likely cut capacity to manage fares and profitability. For example, AAGB stated in its 1Q21 results presentation deck that it will return 7 aircraft or 3% of its ASEAN fleet to lessors by the end of this year ([link](#)) and Malaysia Airlines is putting 6 A380-800s or 7% of its fleet up for sale ([link](#)).

## Upgrade to BUY with higher DCF-based TP of MYR6.86

In addition to our higher FY23E net profit estimate, we also utilise a lower WACC of 8.7% to discount MAHB's future FCF. Our previous WACC of 9.1% is based on equity: debt ratio of 67%:33%, cost of equity of 11.8% premised on beta of 1.2x and post-tax cost of debt of 3.8%. The previous beta we ascribed of 1.2x is 0.1x higher than MAHB's 5-year average to account for any potential setbacks to its earnings recovery (e.g. shortage of COVID-19 vaccines, COVID-19 mutations rendering vaccines ineffective).

Now that we have observed a clear relationship between more COVID-19 vaccinations leading to fewer new COVID-19 cases and passenger traffic recoveries, we now ascribe MAHB's 5-year average beta of 1.1x to derive cost of equity of 11.1%. Employing unchanged equity: debt ratio of 67%:33% and post-tax cost of debt of 3.8%, the WACC we utilise is trimmed to 8.7% from 9.1%. All in all, our DCF-based TP is raised to MYR6.86 from MYR5.98. With 21% upside potential, we upgrade MAHB to BUY from HOLD.

Key catalysts to watch out for are:-

- fewer new COVID-19 cases in Malaysia;
- resumption of mass interstate travel in Malaysia; and
- resumption of mass international travel in Malaysia.

**Figure 32: End-FY21E DCF-based valuation**

	Value MYRm	Value/sh MYR	Comments
Malaysia	11,810.0	7.12	WACC: 8.7%, g: 1%
Turkey	3,985.8	2.40	WACC: 8.7%, g: 1%
Investments	482.9	0.29	End-FY21E
Net debt (includes perpetual sukuk)	(4,890.5)	(2.95)	End-FY21E
<b>Equity value</b>	<b>11,388.2</b>	<b>6.86</b>	

Source: Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Metrics</b>					
P/E (reported) (x)	27.8	nm	nm	nm	16.9
Core P/E (x)	24.5	nm	nm	nm	16.9
P/BV (x)	1.5	1.4	1.6	1.9	1.8
P/NTA (x)	(1.6)	(1.1)	(0.9)	(0.9)	(1.0)
Net dividend yield (%)	2.0	0.0	0.0	0.0	2.8
FCF yield (%)	8.7	nm	nm	nm	11.7
EV/EBITDA (x)	7.2	nm	nm	22.4	5.7
EV/EBIT (x)	12.2	nm	nm	nm	9.6
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	5,213.1	1,866.3	1,485.6	2,635.3	5,225.8
EBITDA	2,281.2	11.8	(130.4)	632.7	2,380.0
Depreciation	(941.6)	(609.8)	(473.7)	(758.0)	(961.7)
EBIT	1,339.6	(597.9)	(604.1)	(125.3)	1,418.3
Net interest income / (exp)	(679.5)	(654.0)	(643.8)	(678.5)	(665.6)
Associates & JV	34.7	(11.6)	(11.6)	11.6	34.7
Exceptionals	(35.7)	(500.4)	0.0	0.0	0.0
Pretax profit	659.2	(1,763.9)	(1,259.6)	(792.2)	787.4
Income tax	(122.1)	647.7	0.0	0.0	(176.3)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	(57.5)	(57.7)	(57.7)	(57.7)	(57.7)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	479.5	(1,173.9)	(1,317.3)	(849.9)	553.5
Core net profit	515.2	(773.7)	(1,317.3)	(849.9)	553.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	1,453.1	973.7	765.0	219.7	498.6
Accounts receivable	973.7	533.8	424.9	623.0	976.0
Inventory	169.8	163.7	130.3	158.5	170.2
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	455.0	433.7	433.7	433.7	433.7
Intangible assets	16,062.6	15,894.1	15,770.4	15,362.4	14,750.7
Investment in Associates & JVs	231.2	215.2	203.6	215.1	249.8
Other assets	2,837.2	2,064.8	1,344.3	1,344.3	1,344.3
<b>Total assets</b>	<b>22,182.7</b>	<b>20,278.9</b>	<b>19,072.1</b>	<b>18,356.6</b>	<b>18,423.3</b>
ST interest bearing debt	1,284.3	125.7	(246.3)	278.2	896.4
Accounts payable	1,431.4	1,325.0	1,154.6	1,204.3	1,389.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3,781.3	4,612.9	4,904.0	4,625.9	3,729.5
Other liabilities	6,360.0	6,116.0	6,478.0	6,316.0	6,188.0
<b>Total Liabilities</b>	<b>12,857.3</b>	<b>12,179.6</b>	<b>12,290.0</b>	<b>12,424.4</b>	<b>12,203.1</b>
Shareholders Equity	8,327.5	7,101.5	5,784.3	4,934.3	5,222.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>8,327.5</b>	<b>7,101.5</b>	<b>5,784.3</b>	<b>4,934.3</b>	<b>5,222.4</b>
Perpetual securities	997.8	997.8	997.8	997.8	997.8
<b>Total liabilities and equity</b>	<b>22,182.7</b>	<b>20,278.9</b>	<b>19,072.1</b>	<b>18,356.6</b>	<b>18,423.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	659.2	(1,763.9)	(1,259.6)	(792.2)	787.4
Depreciation & amortisation	941.6	609.8	473.7	758.0	961.7
Adj net interest (income)/exp	695.4	664.0	624.9	659.6	646.7
Change in working capital	43.9	(24.1)	(64.9)	(213.4)	(216.5)
Cash taxes paid	(98.6)	(57.1)	(14.1)	0.0	(130.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	2,124.7	(67.3)	(228.4)	400.4	2,014.3
Capex	(489.9)	(189.7)	(350.0)	(350.0)	(350.0)
Free cash flow	1,095.4	(774.6)	(578.4)	(516.5)	1,097.3
Dividends paid	(232.3)	(165.9)	0.0	0.0	(265.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(223.3)	(497.1)	(80.9)	246.3	(278.2)
Perpetual securities distribution	(57.3)	(57.5)	(57.7)	(57.7)	(57.7)
Other invest/financing cash flow	(1,107.7)	392.9	508.3	(784.4)	(784.2)
Effect of exch rate changes	(11.6)	105.2	0.0	0.0	0.0
Net cash flow	2.7	(479.5)	(208.6)	(545.3)	278.8



FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	7.4	(64.2)	(20.4)	77.4	98.3
EBITDA growth	9.4	(99.5)	nm	nm	276.2
EBIT growth	11.8	nm	nm	nm	nm
Pretax growth	(15.6)	nm	nm	nm	nm
Reported net profit growth	(28.4)	nm	nm	nm	nm
Core net profit growth	34.4	nm	nm	nm	nm
<b>Profitability ratios (%)</b>					
EBITDA margin	43.8	0.6	nm	24.0	45.5
EBIT margin	25.7	nm	nm	nm	27.1
Pretax profit margin	12.6	nm	nm	nm	15.1
Payout ratio	51.9	0.0	0.0	0.0	48.0
<b>DuPont analysis</b>					
Net profit margin (%)	9.2	nm	nm	nm	10.6
Revenue/Assets (x)	0.2	0.1	0.1	0.1	0.3
Assets/Equity (x)	2.7	2.9	3.3	3.7	3.5
ROAE (%)	5.8	(15.2)	(20.4)	(15.9)	10.9
ROAA (%)	2.3	(3.6)	(6.7)	(4.5)	3.0
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	(74.8)	(89.8)	(127.3)	(114.5)	(88.2)
Days receivable outstanding	77.9	145.4	116.2	71.6	55.1
Days inventory outstanding	18.3	32.4	32.7	26.0	20.8
Days payables outstanding	171.0	267.5	276.2	212.0	164.1
Dividend cover (x)	1.9	nm	nm	nm	2.1
Current ratio (x)	1.3	1.6	0.9	0.5	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.7	1.6	1.5	1.5
Net gearing (%) (incl perps)	38.7	46.5	57.4	79.0	66.4
Net gearing (%) (excl. perps)	43.4	53.0	67.3	94.9	79.0
Net interest cover (x)	2.0	na	na	na	2.1
Debt/EBITDA (x)	2.2	nm	nm	7.8	1.9
Capex/revenue (%)	9.4	10.2	23.6	13.3	6.7
Net debt/ (net cash)	3,612.4	3,764.9	3,892.7	4,684.3	4,127.3

Source: Company; Maybank

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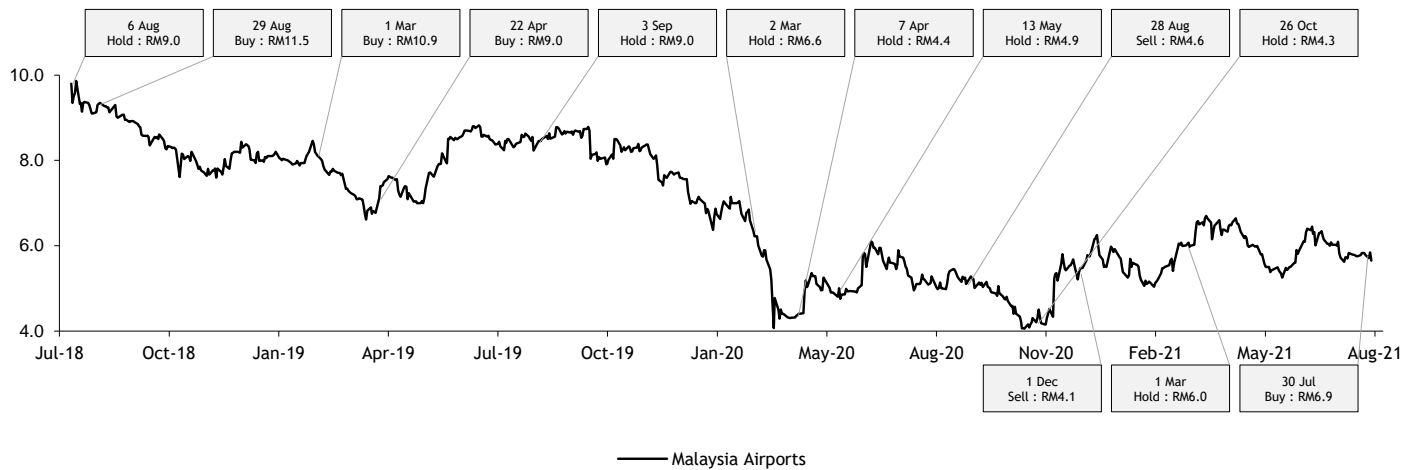
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