

Malaysia Airports (MAHB MK)

Recovery consolidating

BUY

Share Price	MYR 7.30
12m Price Target	MYR 7.96 (+10%)
Previous Price Target	MYR 7.96

Maintain BUY call and MYR7.96 DCF-TP

3Q23 results were within our expectations. The MYAirline fallout has been provided for and the third consultation paper relating to the new OA will hopefully be released next month. Going forward, MAHB hopes Malaysia pax traffic will return to FY19A levels or exceed it. We maintain our earnings estimates and DCF-TP which are premised on Malaysia domestic/international pax traffic hitting 100%/85% of FY19A levels. We continue to like MAHB as a 'slow and steady' post-COVID recovery play.

Results in-line with our expectations

3Q23 net profit of MYR80.3m brought 9M23 net profit to MYR212.5m which was within our expectations at 69% of our FY estimate. We expect a seasonally stronger 4Q23 to make up the remainder. As a secondary check, 9M23 revenue of MYR3.54b (+67% YoY) was also in-line at 76% of our FY estimate. No dividends were declared in the current quarter but we had expected this as they are traditionally declared in the 2Q and 4Q.

Other salient information and updates

The 3Q23 results would have been better but for the suspension of MYAirline's (Not Listed) operations which caused MAHB to provide for doubtful debts of MYR24.7m. On the new operating agreement (OA) with the Government of Malaysia, MAHB expects Malaysian Aviation Commission to release the third consultation paper relating to it by next month. If the new OA is approved, MAHB hopes to implement the new regulatory charges (i.e. PSCs, landing and parking charges) before mid-FY24E. After that, MAHB hopes to release more details on the new KLIA Aerotrain and baggage handling system and the expansion of Subang and Penang Airports.

Hopeful for the future; maintaining our estimates

MAHB hopes that Malaysia passenger (pax) traffic will return to FY19A levels or exceed it. Its top 5 local carriers (Malaysia Airlines, Malaysia AirAsia, AirAsia X, Batik Air Malaysia, firefly) plan to raise seat capacity by 24% in FY24E while the top 5 foreign carriers (Indonesia AirAsia, Singapore Airlines, Scoot, Cathay Pacific, Saudia) plan to raise seat capacity by 31% in FY24E. Our long term estimates are based on Malaysia domestic/international pax traffic hitting 100%/85% of FY19A levels.

FYE Dec (MYR m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	1,673	3,127	4,764	5,495	5,612
EBITDA	212	1,181	2,083	2,540	2,591
Core net profit	(824)	(406)	309	612	702
Core EPS (sen)	(49.7)	(24.5)	18.5	36.7	42.1
Core EPS growth (%)	nm	nm	nm	98.1	14.8
Net DPS (sen)	0.0	3.9	9.5	19.0	21.0
Core P/E (x)	nm	nm	39.4	19.9	17.3
P/BV (x)	1.6	1.7	1.8	1.8	1.7
Net dividend yield (%)	0.0	0.6	1.3	2.6	2.9
ROAE (%)	(12.3)	2.0	4.7	9.0	9.9
ROAA (%)	(4.1)	(2.1)	1.6	3.1	3.8
EV/EBITDA (x)	64.9	12.2	7.2	5.6	5.0
Net gearing (%) (incl perps)	52.2	46.3	34.7	23.8	8.6
Consensus net profit	-	-	437	689	832
MIBG vs. Consensus (%)	-	-	(29.3)	(11.2)	(15.6)

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Company Description

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

Statistics

52w high/low (MYR)	7.70/6.34
3m avg turnover (USDm)	4.2
Free float (%)	39.8
Issued shares (m)	1,669
Market capitalisation	MYR12.2B
	USD2.6B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	33.2%
Employees Provident Fund	14.8%
Kumpulan Wang Persaraan	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	0	1	16
Relative to index (%)	(0)	1	19

Source: FactSet

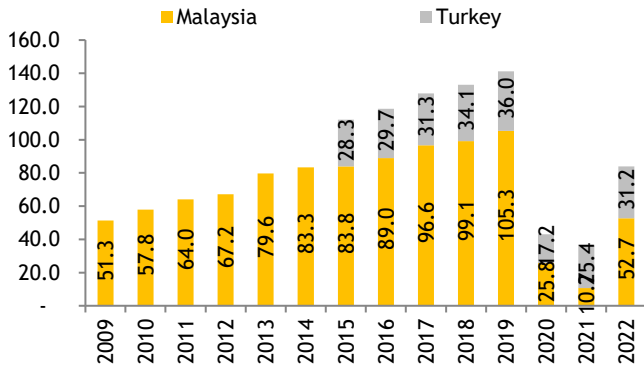
Other companies mentioned in this report:-

1. Malaysia Airlines (Not Listed)
2. Malaysia AirAsia (Not Listed)
3. AirAsia X (AAX MK, BUY, CP: MYR2.11, TP: MYR3.40)
4. Batik Air Malaysia (Not Listed)
5. Firefly (Not Listed)
6. Indonesia AirAsia (CMPP IJ, CP: IDR134, Not Rated)
7. Singapore Airlines (SIA SP, CP: SGD6.37, Not Rated)
8. Scoot (Not Listed)
9. Cathay Pacific (293 HK, CP: HKD7.87, Not Rated)
10. Saudia (Not Listed)

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 acres unutilised land bank adjacent to KLIA can be monetized via retail, commercial and leisure ventures.
- Also manages and operates Sabiha Gökçen Airport (ISG) 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)

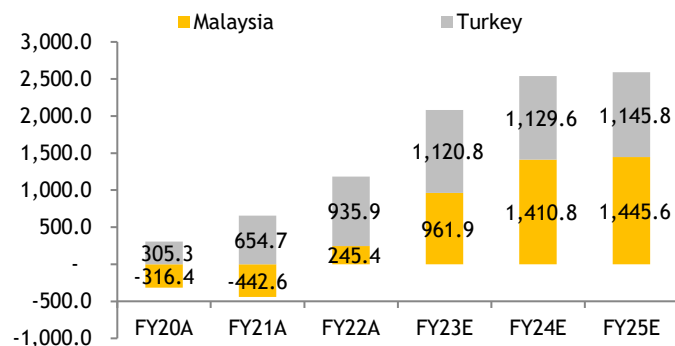


Source: Company

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 post-FY21 LBITDA to narrow/EBITDA to recover on passenger traffic recovery driven by COVID-19 vaccinations.
- More specifically, we forecast MAHB to return to net profitability in FY23E.
- Current net gearing (including perpetual sukuk) manageable at 35% as at end-3Q23.

EBITDA (MYRm)



Source: Company (historical), Maybank IBG Research (forecasts)

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

- 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. Borders were shut on 18 Mar 2020.
- Malaysia reopens international borders and axes pre-departure COVID-19 testing.
- MAHB reports first core net profit since the COVID-19 pandemic began.

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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Figure 1: Summary Results Table

FY Dec (MYR m)	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Revenue	1,276.3	863.6	47.8	1,232.0	3.6	3,542.7	2,124.2	66.8
Operating expenses	(723.4)	(476.5)	51.8	(650.6)	11.2	(1,965.4)	(1,267.9)	55.0
EBITDA	552.9	387.1	42.8	581.4	(4.9)	1,577.3	856.3	84.2
Depreciation & amortisation	(301.2)	(215.9)	39.5	(271.0)	11.1	(808.3)	(558.0)	44.9
EBIT	251.7	171.3	47.0	310.4	(18.9)	769.0	298.4	157.8
Interest expense	(175.1)	(193.4)	(9.5)	(175.1)	(0.0)	(499.1)	(567.1)	(12.0)
Associates & JVs	10.5	3.0	249.9	(1.4)	N/M	14.3	8.2	75.2
Pre-tax profit	87.1	(19.1)	N/M	133.9	(35.0)	284.3	(260.6)	(209.1)
Tax	7.7	10.1	(24.2)	(31.4)	(124.4)	(28.8)	88.7	(132.5)
Perpetual sukuk	(14.5)	(14.5)	-	(14.3)	1.1	(43.0)	(43.0)	-
Net profit	80.3	(23.5)	(441.1)	88.2	(9.0)	212.5	(215.0)	(198.8)
Net profit ex EI	80.3	(23.5)	(441.1)	88.2	(9.0)	212.5	(215.0)	(198.8)
	3Q23	3Q22	+/- ppt	2Q23	+/- ppt	9M23	9M22	+/- ppt
<i>EBITDA margin (%)</i>	43.3	44.8	(1.5)	47.2	(3.9)	44.5	40.3	4.2
<i>Tax rate (%)</i>	(8.8)	52.8	(61.6)	23.4	(32.2)	10.1	34.0	(23.9)
Segmental Results Table								
FY Dec (MYR m)	3Q23	3Q22	% YoY	2Q23	% QoQ	9M23	9M22	% YoY
Revenue	1,276.3	863.6	47.8	1,232.0	3.6	3,542.7	2,124.2	66.8
Malaysia	790.4	497.9	58.7	805.6	(1.9)	2,253.0	1,174.2	91.9
- PSC	312.6	154.0	103.0	343.8	(9.1)	895.4	336.5	166.1
- Landing & parking	77.8	67.9	14.6	82.0	(5.1)	236.9	183.8	28.9
- Others aeronautical	14.7	9.5	54.7	13.9	5.8	40.9	22.8	79.4
- Retail	149.9	85.5	75.3	135.8	10.4	406.0	154.1	163.5
- Rental & royalties	130.8	91.8	42.5	131.4	(0.5)	371.5	228.7	62.4
- Car park	17.2	13.0	32.3	15.3	12.4	49.8	30.6	62.7
- Other non-aeronautical	13.6	16.4	(17.1)	12.7	7.1	39.6	40.7	(2.7)
- Hotel	26.5	18.8	41.0	25.3	4.7	75.4	48.0	57.1
- Agriculture & horticulture	7.8	9.3	(16.1)	7.8	-	22.6	39.2	(42.3)
- Project & repair maintenance	39.5	31.6	25.0	37.5	5.3	114.9	89.7	28.1
Turkey	485.9	365.7	32.9	426.4	14.0	1,289.7	950.0	35.8
- PSC & PSSC	248.9	188.1	32.3	210.8	18.1	642.0	480.4	33.6
- Others aeronautical	47.8	30.4	57.2	46.1	3.7	137.1	89.4	53.4
- Rental & royalties	170.8	133.1	28.3	151.7	12.6	456.3	339.5	34.4
- Car park	8.0	5.3	50.9	7.8	2.6	23.6	14.8	59.5
- Other non-aeronautical	4.2	4.3	(2.3)	4.1	2.4	13.3	15.0	(11.3)
- Hotel	6.1	4.6	32.6	5.9	3.4	17.3	11.0	57.3
Operating expenses	828.0	558.8	48.2	758.2	9.2	2,232.1	1,464.6	52.4
Malaysia	672.9	454.9	47.9	620.6	8.4	1,806.4	1,198.2	50.8
- Direct costs	161.9	109.7	47.6	159.3	1.6	457.1	269.0	69.9
- Staff costs	159.2	128.6	23.8	157.2	1.3	450.9	377.3	19.5
- Utilities & communications	121.4	77.5	56.6	104.2	16.5	311.0	220.0	41.4
- Maintenance	64.5	43.6	47.9	56.4	14.4	170.2	132.3	28.6
- User fee	99.1	61.5	61.1	100.5	(1.4)	281.1	140.5	100.1
- Others	66.8	34.0	96.5	43.0	55.3	136.1	59.1	130.3
Turkey	155.1	103.9	49.3	137.6	12.7	425.7	266.4	59.8
- Staff costs	23.6	12.4	90.3	10.9	116.5	51.5	34.9	47.6
- Utilities & communications	11.2	15.3	(26.8)	9.7	15.5	34.9	34.3	1.7
- Maintenance	23.0	16.7	37.7	21.8	5.5	67.4	44.8	50.4
- Others	97.3	59.5	63.5	95.2	2.2	271.9	152.4	78.4
EBITDA	552.9	387.1	42.8	581.4	(4.9)	1,577.3	856.3	84.2
Malaysia	202.6	109.8	84.5	272.4	(25.6)	668.3	141.6	372.0
Turkey	350.3	277.3	26.3	309.0	13.4	909.0	714.7	27.2

Source: Maybank IBG Research

Results analysis

- 3Q23 EBITDA was up 43% YoY largely due to Malaysia passenger traffic recovering 45% YoY (international: +94% YoY, domestic: +18% YoY) and Turkey passenger traffic recovering 20% YoY (international: +23% YoY, domestic: +18% YoY).
- 3Q23 EBITDA was down 5% QoQ even though Turkey passenger traffic grew 19% QoQ (international: +16% QoQ, domestic: +22% QoQ) due to non-recurrence of compensatory PSCs from FY22A accruing to MAHB in 2Q23 amounting to MYR62.4m and provision for doubtful debts relating to MYAirline amounting to MYR24.7m in 3Q23.
- 9M23 EBITDA was up 84% YoY largely due to Malaysia passenger traffic recovering 72% YoY (international: +198% YoY, domestic: +27% YoY) and Turkey passenger traffic recovering 23% YoY (international: +29% YoY, domestic: +16% YoY).

Valuation

Figure 2: MAHB DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Malaysia	11,181.0	6.70	WACC: 9.0%, g: 1%
Turkey	4,670.2	2.80	WACC: 9.0%, g: 1%
Investments	1,070.5	0.64	End-FY23E
Net debt	(3,647.0)	(2.19)	End-FY23E
Equity value	13,274.6	7.96	

Source: Maybank IBG Research

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	79.9	39.4	19.9	17.3
Core P/E (x)	nm	nm	39.4	19.9	17.3
P/BV (x)	1.6	1.7	1.8	1.8	1.7
P/NTA (x)	(1.1)	(1.3)	(1.7)	(1.9)	(2.3)
Net dividend yield (%)	0.0	0.6	1.3	2.6	2.9
FCF yield (%)	1.2	3.1	9.2	10.5	10.3
EV/EBITDA (x)	64.9	12.2	7.2	5.6	5.0
EV/EBIT (x)	nm	42.0	14.4	10.2	9.2

INCOME STATEMENT (MYR m)

Revenue	1,673.0	3,127.0	4,763.5	5,494.8	5,612.3
EBITDA	212.1	1,181.4	2,082.7	2,540.3	2,591.3
Depreciation	(614.7)	(837.2)	(1,044.1)	(1,154.3)	(1,177.4)
EBIT	(402.5)	344.2	1,038.6	1,386.0	1,414.0
Net interest income / (exp)	(626.0)	(724.5)	(598.0)	(555.0)	(468.4)
Associates & JV	(12.5)	29.0	34.7	41.4	42.3
Exceptionals	0.0	535.9	0.0	0.0	0.0
Pretax profit	(1,040.9)	184.6	475.3	872.5	987.8
Income tax	274.5	2.6	(109.1)	(203.2)	(228.1)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	(57.5)	(57.5)	(57.5)	(57.5)	(57.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(823.9)	129.7	308.8	611.8	702.2
Core net profit	(823.9)	(406.2)	308.8	611.8	702.2

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,583.2	1,529.6	2,055.0	1,902.3	1,513.8
Accounts receivable	394.8	536.0	889.7	1,026.3	1,048.2
Inventory	116.3	97.7	155.2	179.0	182.8
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	432.5	418.3	418.3	418.3	418.3
Intangible assets	15,215.4	14,579.7	13,985.6	13,281.3	12,553.9
Investment in Associates & JVs	222.0	251.0	285.7	327.1	369.4
Other assets	2,198.4	2,037.7	2,037.7	2,037.7	1,628.6
Total assets	20,162.6	19,450.0	19,827.1	19,171.9	17,715.0
ST interest bearing debt	1,765.1	730.8	914.3	508.5	29.3
Accounts payable	1,349.0	1,579.9	2,176.8	2,399.1	2,453.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	3,601.9	4,240.7	3,789.9	3,281.4	2,197.5
Other liabilities	6,194.0	5,472.0	5,313.0	5,055.0	4,755.0
Total Liabilities	12,910.1	12,023.7	12,193.7	11,243.8	9,435.1
Shareholders Equity	6,254.7	6,428.5	6,635.5	6,930.3	7,282.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,254.7	6,428.5	6,635.5	6,930.3	7,282.1
Perpetual securities	997.8	997.8	997.8	997.8	997.8
Total liabilities and equity	20,162.6	19,450.0	19,827.1	19,171.9	17,715.0

CASH FLOW (MYR m)

Pretax profit	(1,040.9)	184.6	475.3	872.5	987.8
Depreciation & amortisation	614.7	837.2	1,044.1	1,154.3	1,177.4
Adj net interest (income)/exp	567.6	135.5	551.8	508.8	422.2
Change in working capital	94.3	(0.1)	161.9	38.0	4.4
Cash taxes paid	(9.1)	(45.8)	(90.7)	(178.6)	(221.6)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	262.0	1,039.9	2,107.8	2,353.5	2,328.0
Capex	(139.4)	(139.9)	(450.0)	(450.0)	(450.0)
Free cash flow	122.5	335.2	1,120.7	1,276.8	1,251.3
Dividends paid	0.0	0.0	(101.8)	(317.0)	(350.4)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	704.6	(516.9)	(267.4)	(914.3)	(1,563.1)
Perpetual securities distribution	(57.5)	(57.5)	(57.5)	(57.5)	(57.5)
Other invest/financing cash flow	(160.9)	(407.3)	(705.8)	(767.3)	(295.4)
Effect of exch rate changes	0.8	28.2	0.0	0.0	0.0
Net cash flow	609.6	(53.6)	525.4	(152.7)	(388.5)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	(10.4)	86.9	52.3	15.4	2.1
EBITDA growth	nm	456.9	76.3	22.0	2.0
EBIT growth	nm	nm	201.7	33.5	2.0
Pretax growth	nm	nm	157.5	83.6	13.2
Reported net profit growth	nm	nm	138.1	98.1	14.8
Core net profit growth	nm	nm	nm	98.1	14.8
Profitability ratios (%)					
EBITDA margin	12.7	37.8	43.7	46.2	46.2
EBIT margin	nm	11.0	21.8	25.2	25.2
Pretax profit margin	nm	5.9	10.0	15.9	17.6
Payout ratio	0.0	50.0	51.3	51.8	49.9
DuPont analysis					
Net profit margin (%)	nm	4.1	6.5	11.1	12.5
Revenue/Assets (x)	0.1	0.2	0.2	0.3	0.3
Assets/Equity (x)	3.2	3.0	3.0	2.8	2.4
ROAE (%)	(12.3)	2.0	4.7	9.0	9.9
ROAA (%)	(4.1)	(2.1)	1.6	3.1	3.8
Liquidity & Efficiency					
Cash conversion cycle	(195.1)	(197.6)	(181.4)	(195.7)	(201.0)
Days receivable outstanding	99.9	53.6	53.9	62.8	66.5
Days inventory outstanding	34.5	19.8	17.0	20.4	21.6
Days payables outstanding	329.5	271.0	252.2	278.8	289.1
Dividend cover (x)	nm	2.0	1.9	1.9	2.0
Current ratio (x)	0.9	0.9	0.9	1.0	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.7	1.9
Net gearing (%) (incl perps)	52.2	46.3	34.7	23.8	8.6
Net gearing (%) (excl. perps)	60.5	53.5	39.9	27.2	9.8
Net interest cover (x)	na	0.5	1.7	2.5	3.0
Debt/EBITDA (x)	nm	4.2	2.3	1.5	0.9
Capex/revenue (%)	8.3	4.5	9.4	8.2	8.0
Net debt/ (net cash)	3,783.8	3,441.9	2,649.2	1,887.6	712.9

Source: Company; Maybank IBG Research

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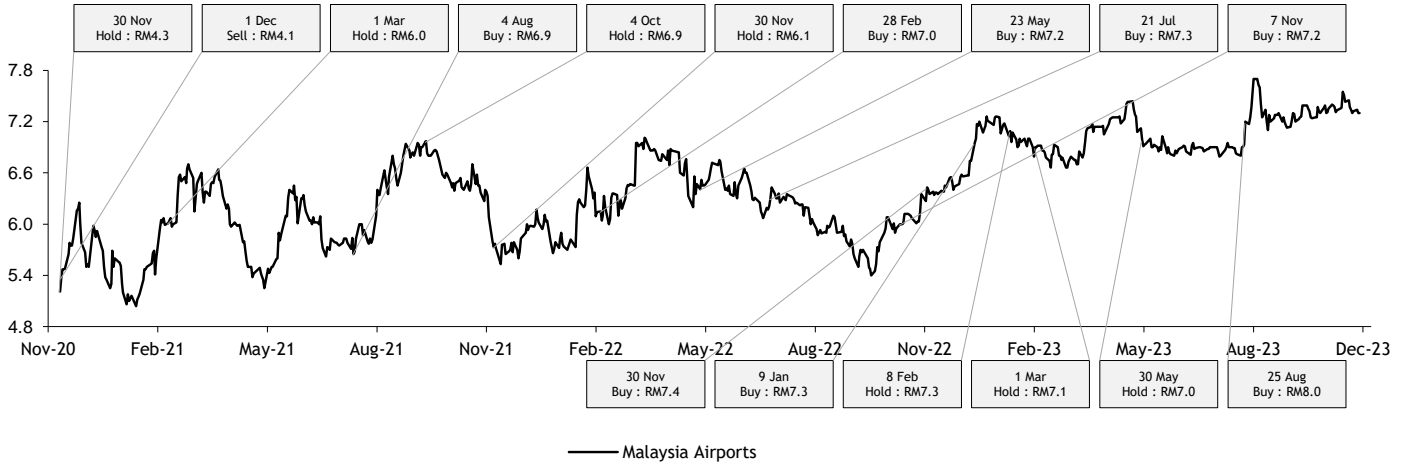
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