

Malaysia Airports (MAHB MK)

All systems go for 2024

Maintain BUY with higher DCF-TP of MYR8.53 (+7%)

We remain bullish on MAHB. 4Q23 results may come in strong and foreign airlines are showing more interest in flying to Malaysia than before pre-COVID times. Moreover, PSCs in Malaysia will still be hiked by the historical 5-year cumulative CPI minus 0.1% on 11 Feb 2024 as stipulated under its current Operating Agreement (OA) with or without the new OA. We retain our earnings estimates and roll forward our valuation base year to end-FY24E from end-FY23E and raise our DCF-TP to MYR8.53 from MYR7.96.

4Q23 earnings may not be weaker QoQ

Historically, 4Q earnings tend to be weaker QoQ due to back loading of expenses like staff costs and maintenance towards year end. For 4Q23, we understand that this may no longer be the case as MAHB has provisioned for staff bonuses throughout the year offsetting Istanbul Sabiha Gokcen's potentially higher expenses QoQ on higher maintenance and security costs in tandem with higher pax traffic. We expect MAHB's 4Q23 core net profit to come in at MYR95m-MYR100m (3Q23: MYR80.3m; 9M23: MYR212.5m).

Encouraging inquiries from foreign airlines

Pax carried by foreign airlines into Malaysia have recovered to pre-COVID levels as at 3Q23 (Fig. 1). MAHB also stated that it has received inquiries for more airport slots from Chinese airlines since Malaysia waived visa requirements for Chinese visitors effective 1 Dec 2023. Recall also that major foreign airlines like Lufthansa, British Airway and Qantas, are due to return flying to Kuala Lumpur in 2H24. These are important as the PSC charged on foreign pax traffic in Malaysia is 5-7x that of the domestic one.

PSCs will be hiked on 11 Feb with or without new OA

As at press time, MAVCOM has not released its third consultation paper that is supposed to guide MAHB's new OA with the Government of Malaysia (GOM). Notwithstanding, MAHB stated that PSCs in Malaysia will still be hiked by the historical 5-year cumulative CPI minus 0.1% on 11 Feb 2024 as stipulated under its current OA. Our forecasts have imputed the new PSCs. If the new OA come into effect past 11 Feb 2024, the new aeronautical charges can be applied prospectively.

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	41.3	20.8	18.2
P/BV (x)	1.6	1.7	1.9	1.8	1.8
Net dividend yield (%)	0.0	0.6	1.2	2.5	2.7
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	7.5	5.8	5.2
Net gearing (%) (incl perps)	52.2	46.3	34.7	23.8	8.6
Consensus net profit	-	-	438	729	824
MIBG vs. Consensus (%)	-	-	(29.6)	(16.1)	(14.8)

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BUY

Share Price	MYR 7.64
12m Price Target	MYR 8.53 (+13%)
Previous Price Target	MYR 7.96

Company Description

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

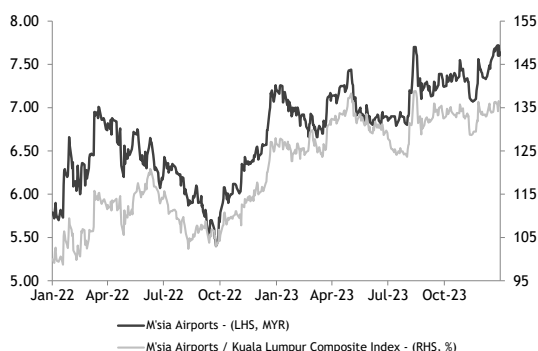
Statistics

52w high/low (MYR)	7.72/6.66
3m avg turnover (USDm)	5.0
Free float (%)	39.8
Issued shares (m)	1,669
Market capitalisation	MYR12.7B
	USD2.7B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	32.5%
Employees Provident Fund	14.7%
Kumpulan Wang Persaraan	6.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	5	5
Relative to index (%)	1	2	6

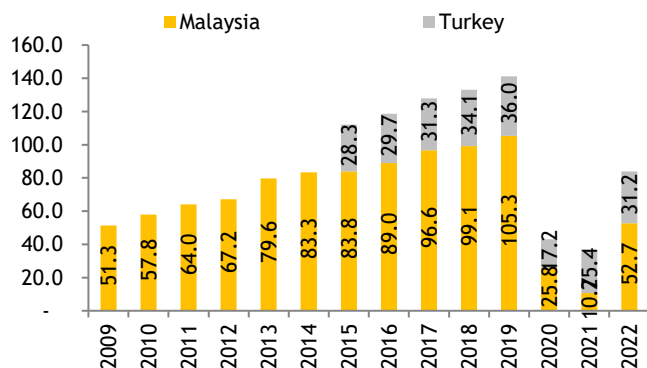
Source: FactSet

ESG@MAYBANK IBG
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 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)

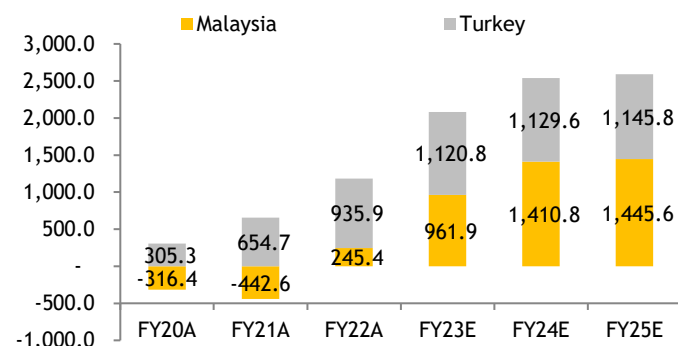


Source: Company

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.

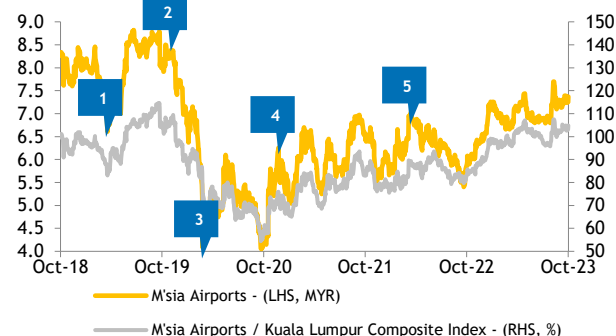
EBITDA (MYRm)



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

Price Drivers

Historical share price trend



Source: Company, Maybank IBG Research

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 ¹	21.3 (Medium)
Score Momentum ²	-0.2
Last Updated	7 Nov 2023
Controversy Score ³ (Updated: 30 Aug 2023)	1 - Business Ethics Incidents - Bribery and Corruption, Business Ethics

Business Model & Industry Issues

- In our view, MAHB has favourable 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.
- MAHB also scores above-average in our proprietary scoring methodology (see Pg. 4) with an overall score of 65/100 or 4 points higher than before.

Material E issues

- MAHB is a signatory to the Aviation Industry Commitment to Action on Climate Change.
- Thus, it strives to create a pathway to carbon neutral growth and a carbon-free future.
- KLIA achieved Airport Carbon Accreditation - Level 3 of 6 by Airports Council International.
- Has been using solar panels to generate electricity since FY14 (FY21: 19,122 MWh).
- Emissions, energy and water consumption intensity per passenger fell in FY22.
- Lower emissions, energy and water consumption intensity per passenger were due passenger traffic recovering.
- The COVID-19 pandemic had resulted in fewer passengers which were necessary for economies of scale.
- Operates 6,247.1 ha of oil palm planted area which is Malaysian Sustainable Palm Oil certified.

Material S issues

- Manages 5 international airports, 17 domestic airports and 17 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 9,660 people globally in FY22. The male to female employee ratio was 65%:35%.
- In terms of total remuneration, ratio between female and male employees was 1:1.
- Employee retention rate was high at 98% in FY22 (FY21: 94%).
- Average training hours per employee in FY22 stood at 31 hours (-12% YoY).
- This is because employees shifted their focus back to operations after borders reopened.

Key G metrics and issues

- BOD comprises 1 Non-Independent Non-Executive Director (NINED) Chairman, 4 NINEDs and 4 Independent Non-Executive Directors (INED).
- Major shareholders, Khazanah Nasional and Employees Provident Fund are represented by 1 NINED each. Ministry Of Finance represented by 1 NINED.
- Share capital includes one MYR1 Special Rights Redeemable Preference Share (Special Share).
- The Special Share enables the GOM 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 6 directors at any time.
- 4 of the 9 BOD members are women. Has a policy of ≥3 women directors and 30% of BOD made up of women.
- FY22 directors' remuneration was up 11% YoY (i.e. MYR4.3m) but justified as MAHB reported a profit.
- 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 4 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 in 2021 but no further action was taken.

¹**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. ²**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. ³**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).

Quantitative Parameters (Score: 63)						
	Particulars	Unit	2020	2021	2022	CHANGI (FY3/22)
E	Scope 1 emissions - MY	tCO2e	N/A	1,858	N/A	773
	Scope 2 emissions - MY	tCO2e	N/A	146,876	N/A	106,154
	Total	tCO2e	N/A	148,734	N/A	106,927
	Scope 3 emissions - MY	tCO2e	N/A	310,141	N/A	475,487
	Total	tCO2e	N/A	458,875	N/A	582,414
	Scope 1 & 2 emissions intensity - MY	kgCO2e/pass	N/A	13.9	N/A	20.6
	Energy consumption intensity	kwh/pass	11.1	11.8	5.6	50.0
	Water consumption intensity	m3/pass	0.2	0.2	0.1	0.2
	Waste generated intensity	kg/pass	0.3	0.4	0.1	0.6
	Recycling rate	%	22.7%	26.4%	37.1%	9.0%
S	Solar energy generated - MY	MWh	16,949	17,399	19,122	N/A
	% of women in workforce	%	34.2%	35.0%	35.0%	36.4%
	% of women in managerial roles	%	30.5%	N/A	N/A	N/A
	% of local suppliers	%	90%	97%	95%	N/A
	Airport Service Quality Score - KUL & LGK	score	4.8	5.0	5.0	5.0
	Lost time injury frequency rate - MY	rate	0.32	0.22	0.18	N/A
	Employee attrition rate	%	8.1%	6.3%	7.8%	13.7%
G	Employee training per employee	hours	12	36	31	25
	Board salary as % of revenue	%	0.2%	0.2%	0.1%	N/A
	Independent directors on the Board (tenure <10 years)	%	54.5%	54.5%	45.5%	92.3%
	% of profits returned to shareholders	%	0.0%	0.0%	50.0%	N/A
	Female directors on the Board	%	36.4%	45.5%	54.5%	23.1%

Qualitative Parameters (Score: 83)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes. MAHB has a Sustainability Policy and Framework. It also has a Sustainability Unit that reports to the Senior General Manager, Strategy that in turn, reports to the Management Executive Committee.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Yes. This is especially so going forward as it crafts its Environmental Master Plan 2.0 that will set ESG targets for the next 4-5 years.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Not yet but plans to adopt TCFD framework for ESG reporting gradually going forward to coincide with its Environmental Master Plan 2.0.</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>Yes but only for Malaysia. Has no mechanism to capture Scope 3 emissions at Istanbul Sabiha Gokcen. Parameters captured are staff commuting, ground operations, passengers commuting and waste to landfill.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Upgraded district cooling plant at KUL, replacing conventional bulbs with LED bulbs throughout all airports, installing solar panels on more and more airports and installed rainwater harvesting system at KUL.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes. MAHB will disclose more in its Environmental Master Plan 2.0 which will be made available in 2023.</i>

Target (Score: 50)		
Particulars	Target	Achieved
Carbon neutral and net zero	By 2050	N/A
Greenhouse gas reduction by 2025-2030	N/A	N/A
Impact		
NA		
Overall Score: 65		
As per our ESG matrix, Malaysia Airports Holdings (MAHB MK) has an overall score of 65.		

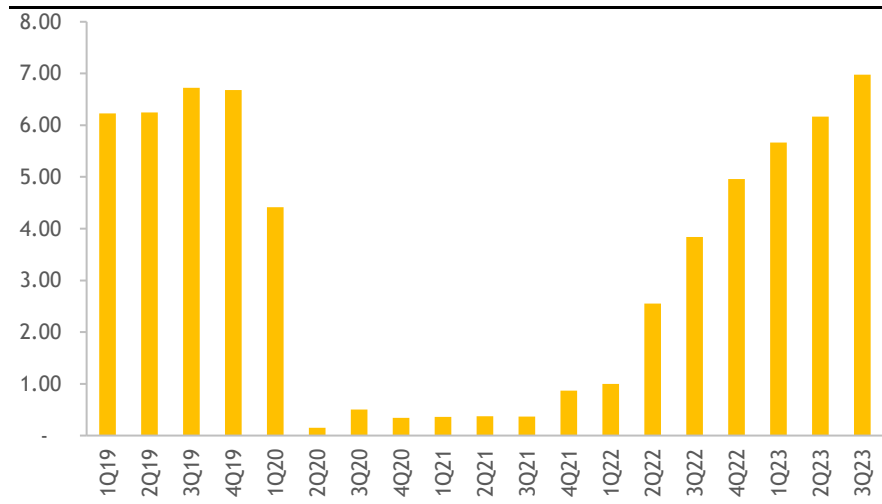
ESG score	Weights	Scores	Final Score
Quantitative	50%	63	32
Qualitative	25%	83	21
Target	25%	50	13
Total			65

As per our ESG assessment, MAHB has an established framework and internal policies but needs to make headway in capturing emissions for more airports and setting tangible mid/long term targets. MAHB's overall ESG score is 65, which makes its ESG rating slightly above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Maintain estimates but raise DCF-TP to MYR8.53 (+7%)

We maintain our earnings estimates which are premised on Malaysia international pax traffic stabilising at 85% of 2019 levels (Nov 2019: 78%) in FY24E and PSCs in Malaysia being hiked by 13% on 11 Feb 2024. Seeing that we are more comfortable with our FY24E estimates, we roll forward our valuation base year to end-FY24E from end-FY23E to raise our DCF-TP to MYR8.53 from MYR7.96. Again, there could be more upside should the new OA with the GOM result in better-than-expected terms for MAHB.

Figure 1: Number of passengers carried by foreign carriers to Malaysia (m)



Source: MAVCOM

Figure 2: MAHB DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Malaysia	11,299.7	6.77	WACC: 9.0%, g: 1%
Turkey	4,712.5	2.82	WACC: 9.0%, g: 1%
Investments	1,111.9	0.67	End-FY24E
Net debt	(2,885.4)	(1.73)	End-FY24E
Equity value	14,238.6	8.53	

Source: Maybank IBG Research

Appendix I

Methodology of our proprietary ESG scoring methodology.

We evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters, to derive the score of each of the three parameters.

The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	nm	79.9	41.3	20.8	18.2
Core P/E (x)	nm	nm	41.3	20.8	18.2
P/BV (x)	1.6	1.7	1.9	1.8	1.8
P/NTA (x)	(1.1)	(1.3)	(1.7)	(2.0)	(2.4)
Net dividend yield (%)	0.0	0.6	1.2	2.5	2.7
FCF yield (%)	1.2	3.1	8.8	10.0	9.8
EV/EBITDA (x)	64.9	12.2	7.5	5.8	5.2
EV/EBIT (x)	nm	42.0	15.0	10.7	9.6

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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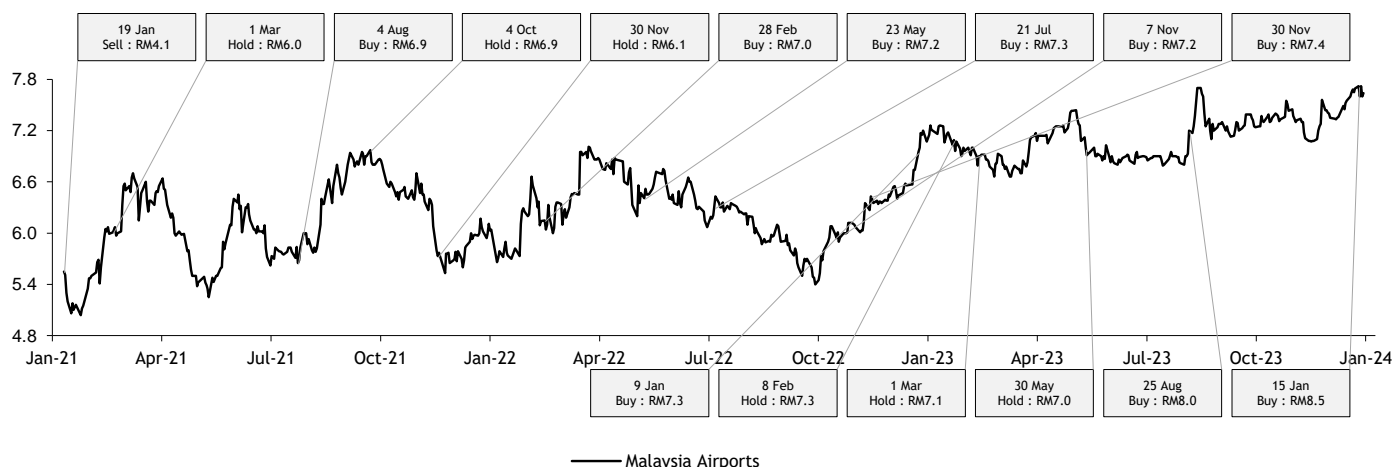
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