

Malaysia Airports (MAHB MK)

HOLD

Share Price MYR 8.54
 12m Price Target MYR 8.91 (+7%)
 Previous Price Target MYR 8.91

Neutral on restructuring of aeronautical charges

Maintain HOLD call and DCF-TP of MYR8.91

In the lead up to the new Operating Agreement which MAHB believes is imminent, Malaysian Aviation Commission (MAVCOM) has restructured MAHB's aeronautical charges. We believe that the restructuring is earnings neutral. Going forward, MAVCOM will release another consultation paper that will guide the Regulated Asset Base (RAB) model MAHB will employ from 1 Jan 2027 onwards but we maintain our estimates, HOLD call and MYR8.91 DCF-TP as it is currently beyond our investment horizon.

Aeronautical charges to be restructured

From 1 Jun 2024, the Passenger Service Charge (PSC) rates that MAHB will be allowed to charge and receive in Malaysia will be restructured as per Fig. 1. They will be maintained until the end of Regulatory Period (RP) 1 which is 31 Dec 2026. Key to this restructuring is that transfer PSCs will be introduced for the first time. Landing and parking charges will also be raised by 6.8%/2.4%/2.4% on 1 Jun 2024/1 Jan 2025/1 Jan 2026 after a near 10-year hiatus.

Expect the restructuring to be earnings neutral

Coupled with 2019 transfer passenger traffic data (Fig. 2), our calculations reveal that our EPS estimates will be trimmed by only 1% p.a. Essentially, the aeronautical charges restructuring is neutral to our earnings estimates. Thus, we maintain our earnings estimates and MYR8.91 DCF-TP. On another note, MAHB stated that it will be allowed to employ another method to recover capex to expand Penang and Subang Airports during RP1 but we have not accounted for them yet as construction has yet to begin.

More details on RP2 to be revealed in good time

MAVCOM will publish a third consultation paper that will guide the RAB model MAHB will employ under RP 2 (from 1 Jan 2027 onwards). The key question is what return on capital (ROC) MAHB will be allowed to employ to determine any regulatory loss (as opposed to accounting loss; please click [here](#) for a refresher) MAHB may incur in RP1 that can be recovered during RP2 and ROC MAHB will be allowed to employ in RP2 to set aeronautical charges. MAVCOM had previously proposed 11.4%.

Company Description

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

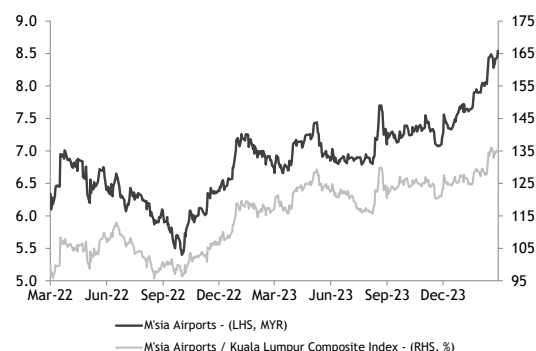
Statistics

52w high/low (MYR)	8.54/6.66
3m avg turnover (USDm)	4.7
Free float (%)	39.8
Issued shares (m)	1,669
Market capitalisation	MYR14.2B USD3.0B

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 (%)	8	19	26
Relative to index (%)	6	11	17

Source: FactSet

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	3,127	4,914	5,642	5,764	5,863
EBITDA	1,181	2,159	2,634	2,688	2,721
Core net profit	(406)	361	675	767	836
Core EPS (sen)	(24.5)	21.7	40.4	46.0	50.1
Core EPS growth (%)	nm	nm	86.8	13.6	9.0
Net DPS (sen)	3.9	10.8	20.0	23.0	25.0
Core P/E (x)	nm	34.0	21.1	18.6	17.0
P/BV (x)	1.7	1.8	1.9	1.8	1.7
Net dividend yield (%)	0.6	1.5	2.3	2.7	2.9
ROAE (%)	2.0	7.2	9.4	10.2	10.5
ROAA (%)	(2.1)	1.8	3.4	4.1	4.7
EV/EBITDA (x)	12.2	7.1	6.4	5.8	5.4
Net gearing (%) (incl perps)	46.3	36.0	28.7	12.2	2.4
Consensus net profit	-	-	723	829	1,000
MIBG vs. Consensus (%)	-	-	(6.6)	(7.5)	(16.4)

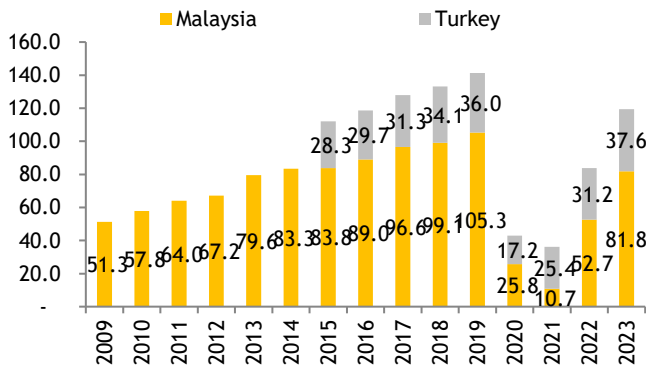
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 Tear Sheet Insert

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.
- Recently sold 11% of Rajiv Gandhi International Airport in Hyderabad, India.

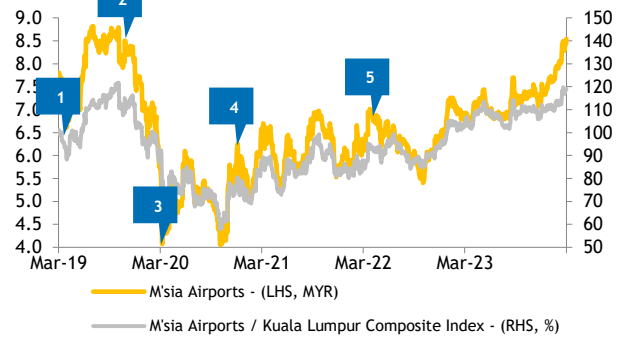
MAHB total passenger traffic (m)



Source: Company

Price Drivers

Historical share price trend



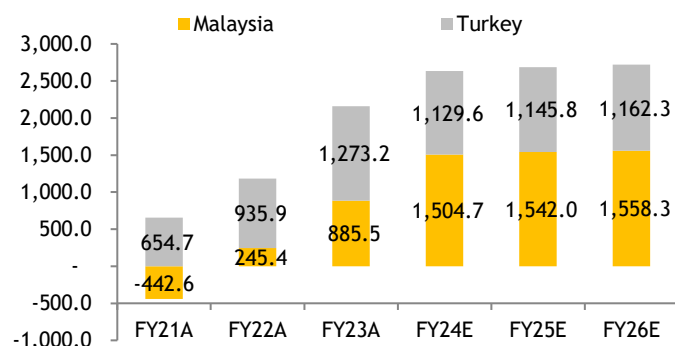
Source: Company, Maybank IBG Research

- 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.
- Pfizer and AstraZeneca announced that they developed effective COVID-19 vaccines.
- Malaysia reopens international borders and axes predeparture COVID-19 testing.

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.
- Forecast FY24E EBITDA to grow 22% YoY due to higher passenger traffic and scheduled PSC hikes in Feb 2024.
- Current net gearing (including perpetual sukuk) manageable at 36% as at end-4Q23.

EBITDA (MYRm)



Source: Company (historical), Maybank IBG Research (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 & Score¹	21.3 (Medium)
Score Momentum²	-0.2
Last Updated	7 Nov 2023
Controversy Score³ (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 and Ministry Of Transport represented by 1 NINED each.
- 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).

Figure 1: PSC structure in Malaysia (MYR)

	PSCs from 15 Feb 2024	PSCs from 1 Jun 2024 to 31 Dec 2026
KLIA1 - international	86	73
KLIA1 - domestic	12	11
KLIA1 - international transfer	N/A	42
KLIA1 - domestic transfer	N/A	7
KLIA2 - international	43	50
KLIA2 - domestic	9	11
KLIA2 - international transfer	N/A	29
KLIA2 - domestic transfer	N/A	7
Other airports - international	86	50
Other airports - domestic	12	11
Other airports - international transfer	N/A	29
Other airports - domestic transfer	N/A	7

Source: Malaysian Aviation Commission

Figure 2: Percentage of 2019 Malaysia passenger traffic accounted for by transfer passengers

	%
KLIA1 - international	22
KLIA1 - domestic	20
KLIA2 - international	20
KLIA2 - domestic	9
Other airports - international	10
Other airports - domestic	2

Source: Company

Other updates

- MAHB can claim 90% of any regulatory loss that it incurs during RP1 under the loss capitalisation mechanism.
- That said, MAHB will be able to claim 100% of any capex pre-approved by MAVCOM and in consultation with other stakeholders incurred during RP1.
- Regulatory losses and pre-approved capex will be added to the RAB on 1 Jan 2027 and will be manifested in higher aeronautical charges.

Valuation

Figure 3: MAHB DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Malaysia	12,242.5	7.34	WACC: 9.0%, g: 1%
Turkey	4,715.1	2.83	WACC: 9.0%, g: 1%
Investments	1,297.8	0.78	End-FY24E
Net debt	(3,392.4)	(2.03)	End-FY24E
Equity value	14,863.0	8.91	

Source: Maybank IBG Research

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
P/E (reported) (x)	79.9	24.3	21.1	18.6	17.0
Core P/E (x)	nm	34.0	21.1	18.6	17.0
P/BV (x)	1.7	1.8	1.9	1.8	1.7
P/NTA (x)	(1.3)	(1.6)	(2.2)	(2.6)	(3.3)
Net dividend yield (%)	0.6	1.5	2.3	2.7	2.9
FCF yield (%)	3.1	6.8	6.9	9.2	9.3
EV/EBITDA (x)	12.2	7.1	6.4	5.8	5.4
EV/EBIT (x)	42.0	15.1	11.5	10.4	9.7

INCOME STATEMENT (MYR m)

Revenue	3,127.0	4,914.2	5,642.3	5,764.0	5,863.1
EBITDA	1,181.4	2,158.7	2,634.2	2,687.8	2,720.6
Depreciation	(837.2)	(1,148.2)	(1,171.1)	(1,194.5)	(1,218.4)
EBIT	344.2	1,010.4	1,463.1	1,493.3	1,502.2
Net interest income / (exp)	(724.5)	(664.5)	(550.1)	(463.5)	(386.1)
Associates & JV	29.0	35.1	42.6	43.4	44.3
Exceptionals	535.9	125.1	0.0	0.0	0.0
Pretax profit	184.6	506.1	955.6	1,073.2	1,160.3
Income tax	2.6	37.1	(223.2)	(248.6)	(267.0)
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	129.7	485.7	674.9	767.1	835.8
Core net profit	(406.2)	360.6	674.9	767.1	835.8

BALANCE SHEET (MYR m)

Cash & Short Term Investments	1,529.6	1,845.1	1,305.7	1,074.7	1,413.2
Accounts receivable	536.0	789.1	906.1	925.6	941.5
Inventory	97.7	127.4	146.2	149.4	152.0
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	418.3	462.0	462.0	462.0	462.0
Intangible assets	14,579.7	14,662.7	13,941.6	13,197.1	12,428.7
Investment in Associates & JVs	251.0	268.8	311.3	354.8	399.0
Other assets	2,037.7	2,299.9	2,299.9	1,781.3	1,781.3
Total assets	19,450.0	20,455.0	19,372.8	17,944.8	17,577.7
ST interest bearing debt	730.8	1,280.2	1,560.3	505.7	30.7
Accounts payable	1,579.9	1,963.3	2,143.3	2,191.8	2,239.1
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,240.7	3,442.4	2,139.9	1,634.2	1,603.5
Other liabilities	5,472.0	5,769.0	5,188.0	4,888.0	4,561.0
Total Liabilities	12,023.7	12,454.8	11,031.5	9,220.1	8,434.4
Shareholders Equity	6,428.5	7,002.3	7,343.5	7,726.8	8,145.5
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	6,428.5	7,002.3	7,343.5	7,726.8	8,145.5
Perpetual securities	997.8	997.8	997.8	997.8	997.8
Total liabilities and equity	19,450.0	20,455.0	19,372.8	17,944.8	17,577.7

CASH FLOW (MYR m)

Pretax profit	184.6	506.1	955.6	1,073.2	1,160.3
Depreciation & amortisation	837.2	1,148.2	1,171.1	1,194.5	1,218.4
Adj net interest (income)/exp	135.5	613.5	483.4	396.8	319.5
Change in working capital	(0.1)	(345.1)	(294.2)	2.0	4.9
Cash taxes paid	(45.8)	(80.7)	(207.3)	(242.0)	(262.2)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	1,039.9	1,679.3	2,066.1	2,381.1	2,396.6
Capex	(139.9)	(309.7)	(450.0)	(450.0)	(450.0)
Free cash flow	335.2	835.9	989.5	1,304.5	1,320.0
Dividends paid	0.0	(8.1)	(333.7)	(383.8)	(417.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(516.9)	(454.1)	(1,022.4)	(1,560.3)	(505.7)
Perpetual securities distribution	(57.5)	(57.5)	(57.5)	(57.5)	(57.5)
Other invest/financing cash flow	(407.3)	(725.6)	(742.0)	(160.6)	(627.7)
Effect of exch rate changes	28.2	191.2	0.0	0.0	0.0
Net cash flow	(53.6)	315.5	(539.4)	(231.0)	338.6

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	86.9	57.2	14.8	2.2	1.7
EBITDA growth	456.9	82.7	22.0	2.0	1.2
EBIT growth	nm	193.6	44.8	2.1	0.6
Pretax growth	nm	174.1	88.8	12.3	8.1
Reported net profit growth	nm	274.5	39.0	13.6	9.0
Core net profit growth	nm	nm	87.2	13.6	9.0
Profitability ratios (%)					
EBITDA margin	37.8	43.9	46.7	46.6	46.4
EBIT margin	11.0	20.6	25.9	25.9	25.6
Pretax profit margin	5.9	10.3	16.9	18.6	19.8
Payout ratio	50.0	37.0	49.4	50.0	49.9
DuPont analysis					
Net profit margin (%)	4.1	9.9	12.0	13.3	14.3
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	3.0	2.9	2.6	2.3	2.2
ROAE (%)	2.0	7.2	9.4	10.2	10.5
ROAA (%)	(2.1)	1.8	3.4	4.1	4.7
Liquidity & Efficiency					
Cash conversion cycle	(197.6)	(168.2)	(175.3)	(179.2)	(179.2)
Days receivable outstanding	53.6	48.5	54.1	57.2	57.3
Days inventory outstanding	19.8	14.7	16.4	17.3	17.3
Days payables outstanding	271.0	231.5	245.7	253.7	253.8
Dividend cover (x)	2.0	2.7	2.0	2.0	2.0
Current ratio (x)	0.9	0.8	0.7	0.6	0.9
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.8	1.9	2.1
Net gearing (%) (incl perps)	46.3	36.0	28.7	12.2	2.4
Net gearing (%) (excl. perps)	53.5	41.1	32.6	13.8	2.7
Net interest cover (x)	0.5	1.5	2.7	3.2	3.9
Debt/EBITDA (x)	4.2	2.2	1.4	0.8	0.6
Capex/revenue (%)	4.5	6.3	8.0	7.8	7.7
Net debt/ (net cash)	3,441.9	2,877.5	2,394.5	1,065.2	221.0

Source: Company; Maybank IBG Research

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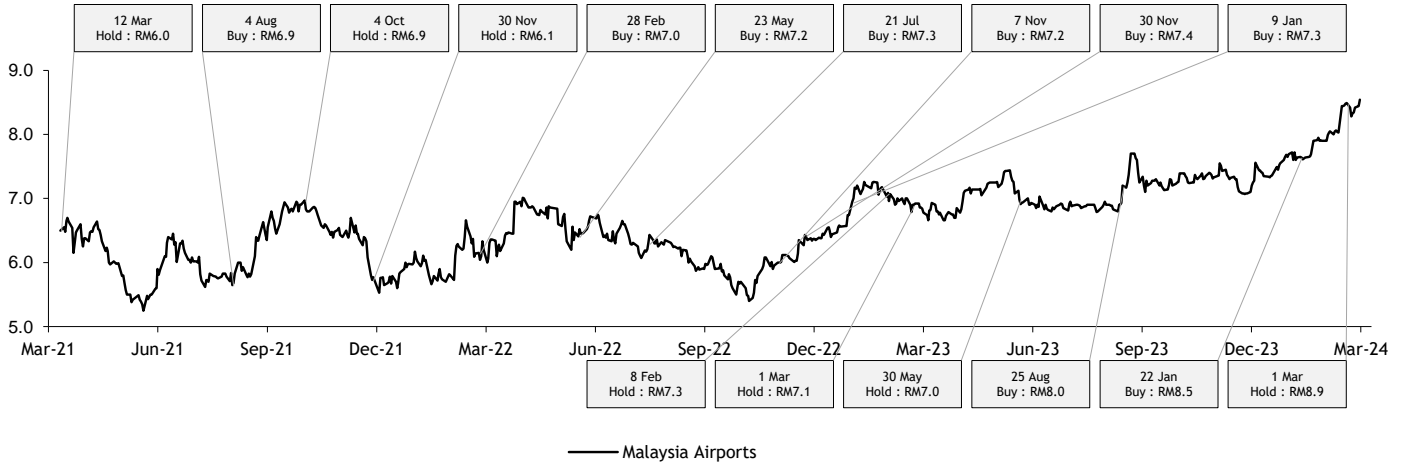
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