CGSCIMB

Company Note

Airports | Malaysia | January 19, 2022

B-
Refinitiv ESG Combined Score

Malaysia

ADD *(no change)*

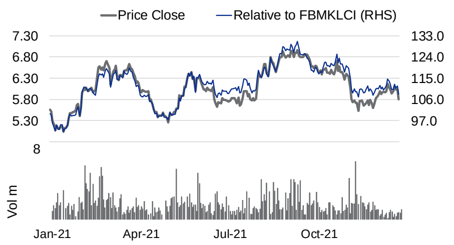
Consensus ratings*:	Buy 11	Hold 6	Sell 3

Current price:	RM5.80
Target price:	RM6.95
Previous target:	RM7.45
Up/downside:	19.8%
CGS-CIMB / Consensus:	5.3%
Reuters:	MAHB.KL
Bloomberg:	MAHB MK
Market cap:	US$2,301m
	RM9,623m
Average daily turnover:	US$1.85m
	RM7.76m
Current shares o/s:	1,659m
Free float:	39.5%

**Source: Bloomberg*

Key changes in this note

- FY21F core loss per share narrowed by 10% due to better-than-expected 4Q21F traffic volume in Malaysia.
- FY22F core loss per share widened 333% (from a low base), and FY23F core EPS reduced by 15%, as we cut Malaysia's international and ISG's domestic passenger traffic volume assumptions, particularly for 2022F as the Omicron variant has delayed reopening plans of many countries.



Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	0.2	-14.1	3.6
Relative (%)	-2.5	-10.6	8.8

Major shareholders	% held
Khazanah Nasional	36.7
Employees Provident Fund	12.0
Permodalan Nasional Berhad	11.8

Malaysia Airports Holdings

New airline may stimulate travel volumes

- Reiterate Add as the less-deadly Omicron variant may herald the endemic stage of Covid-19, while a new airline in Malaysia could stimulate travel.
- An impending revision to the Operating Agreement (OA) may also improve the structural profitability of MAHB.
- Our DCF-based TP is reduced to RM6.95, on downward revisions to our 2022F forecast for passenger traffic on account of Omicron disruptions.

Omicron to herald endemic stage of Covid-19?

Evidence is growing that the Omicron variant of the Covid-19 virus is less deadly than the Delta variant that raged through 2020, because Omicron is less adept at infecting and damaging the lungs, and because of higher vaccination coverage globally. A surge in Omicron infections around the world has not led to a similar surge in hospitalisation and deaths. As Omicron becomes better understood, we hope that border restrictions will gradually relax. For instance, Thailand is reportedly considering restarting its quarantine-free programme for vaccinated travellers, which was suspended on 22 Dec 2021 on Omicron fears. While we cannot predict the precise timing of border reopenings, the newsflow on Omicron is providing some hope, and MAHB remains a good recovery play.

New airline in Malaysia could trigger price competition

A new airline going by the name of MYAirline is currently in the process of starting up. It has recruited many individuals and negotiated the lease of two A320s with more to come. An airline starting up during the pandemic with a clean balance sheet and access to ultra-low-cost aircraft leases will likely ensure low operating costs and the ability to compete aggressively with incumbents for market share by offering sustainably low airfares. Meanwhile, AirAsia's fleet grew last year despite the pandemic by absorbing its affiliates' planes, and it will likely be eager to redeploy its fleet and retain its market share. MAS has renegotiated its aircraft lease rates and is in a good position to compete, while Malindo is also considering bringing back its jet planes from Indonesia if demand in Malaysia warrants their return. In short, we think that aggressive price competition will likely follow a surge in aircraft seat capacity in the post-pandemic period, which may stimulate passenger traffic volumes, with MAHB as the unequivocal winner.

The new OA could be a structural rerating catalyst

Other rerating catalysts for MAHB include the potential signing of the new OA with the government of Malaysia, which may result in an increase in aeronautical tariffs. The Aeropolis development may also have its lease period set at 99 years, freeing it from the constraints of the airport concession, which ends in 2069F. Meanwhile, ISG is negotiating for a deferral of the payment of its €115m concession fee due in Jan 2022F while negotiating for a permanent waiver of the €115m concession fee due in Jan 2021 that was previously deferred indefinitely. Downside risks: longer-than-expected closure of international borders due to governments' fears of Omicron or a future variant.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (RMm)	5,203	1,866	1,642	3,016	4,806
Operating EBITDA (RMm)	2,026	(164)	54	961	2,102
Net Profit (RMm)	537	(1,116)	(814)	(479)	317
Core EPS (RM)	0.42	(0.39)	(0.45)	(0.23)	0.27
Core EPS Growth	17%	(193%)	16%	(49%)	
FD Core P/E (x)	13.75	NA	NA	NA	21.39
DPS (RM)	0.15	0.00	0.00	0.00	0.10
Dividend Yield	2.59%	0.00%	0.00%	0.00%	1.65%
EV/EBITDA (x)	7.9	NA	330.8	19.0	8.4
P/FCFE (x)	12.2	97.3	NA	357.9	11.9
Net Gearing	68%	91%	115%	126%	115%
P/BV (x)	1.03	1.19	1.32	1.41	1.36
ROE	7.58%	(7.45%)	(9.77%)	(5.49%)	6.49%
% Change In Core EPS Estimates			10%	(333%)	(15%)
CGS-CIMB/Consensus EPS (x)			0.94	4.44	0.80

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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New Malaysian airline may trigger price competition and stimulate passenger volumes ➤

The economic and commercial regulator, Malaysian Aviation Commission (MAVCOM), on 22 December 2021, gave conditional approval to Z9 Elite Sdn Bhd for an air service licence (ASL), which is required to operate scheduled airline services in Malaysia, with the ASL valid for a 1-year period between 1 January and 31 December 2022. The new airline's name is MYAirline, and currently sits under MYAirline Sdn Bhd.

A casual search on LinkedIn shows the profile of several people that have already been recruited to work for MYAirline, as it seeks to begin operations. We understand from sources that MYAirline is currently in negotiations for new aircraft leases, having already signed leases for two Airbus A320s, the same type of narrowbody that AirAsia Group Bhd (AAGB MK, RM0.62, Reduce, TP: RM0.14) also operates.

According to The Edge, MYAirline Sdn Bhd has RM2m in paid-up share capital, and is controlled by Dato' Goh Hwan Hua, who owns in aggregate 98% of the airline via holding companies Zillion Wealth Bhd (88%) and Trillion Cove Holdings Bhd (10%), with the remaining 2% owned by Rayner Teo Kheng Hock, who had served as AirAsia's group head of sales and distribution between 2004 and 2020.

Starting an airline during the pandemic will likely ensure very low operating costs, as aircraft lessors are eager for business and leasing rates are at very attractive levels. Also, it may not be difficult to recruit pilots and crew at reasonable wages, as many have been furloughed as a result of the pandemic. With low operating costs, MYAirline will be in a good position to offer sustainably low fares in order to promote itself and to gain market share.

AirAsia's fleet in Malaysia grew during the pandemic (from 96 at end-2020 to 105 at end-September 2021) after absorbing the now-closed AirAsia Japan's fleet and one of AirAsia X's A330s, and it is eager to resume flights in order to generate the cash needed to pay its liabilities. As such, we expect AirAsia to compete aggressively in the post-pandemic period with incumbent airlines like Malaysia Airlines (MAS), Malindo and Firefly, as well as with newcomers like MYAirline. MAS is also in position to compete having restructured its lease liabilities last year, while Malindo may bring back to Malaysia the jet planes it had transferred to Indonesia in 2020 if demand in Malaysia picks up sufficiently.

In short, we think that the long drought of passengers has made the incumbent airlines very thirsty for business, and they are likely to compete fiercely with each other for the incremental passenger by redeploying capacity quickly and by offering low promotional fares for an extended period of time. The presence of a new ultra-low-cost newcomer could make for even sharper competition. These conditions are ideal for airport operators like MAHB, as low ticket prices can effectively stimulate demand, and could help MAHB's passenger volumes to recover faster than what we have currently pencilled into our forecasts.

Separately, another conditional ASL was granted by MAVCOM, also on 22 December 2021, to SKS Airways Sdn Bhd for a period of 36 months from 1 January 2022 to 31 December 2024. The Edge reported that SKS Airways is wholly-owned by Johor-based SKS Group and founded by low-profile businessman Alan Sim See Kiong. SKS Airways aims to launch its first flight from Subang to Pangkor Island on 25 January 2022, with a fleet of DHC6 Twin Otter turboprop aircraft. While we do not expect SKS Airways to make much of an impact to MAHB, every bit helps.

New “gamechanger” Operating Agreement to be signed soon?

MAHB expects the new Operating Agreement (OA) to be finalised with the Malaysian government sometime in 2H22F. The OA is the agreement that sets out the terms and conditions of MAHB’s concession to operate 39 of Malaysia’s airports.

The current OA was signed in 2009 and was drafted with the intention of compensating MAHB as an airport operator but not as an airport infrastructure developer. This means that MAHB’s benchmark passenger service charge (PSC) tariffs are raised every five years at the rate of inflation while its landing and parking charges are raised only if the lowest rates at certain other countries are raised. There is no provision to raise aeronautical tariffs if and when MAHB develops new infrastructure; hence, MAHB’s aeronautical tariffs were not raised even after it commissioned the new klia2 complex in 2014. As such, ROEs will inevitably decline if and when MAHB undertakes new capex spending, as it did with Kuala Lumpur International Airport Terminal 2 (klia2).

We understand from MAHB that the terms of a new proposed OA have been agreed upon with the government and MAVCOM is currently conducting a review of the regulated aeronautical charges, expecting to conclude the review by 2Q22F and to finalise the new OA thereafter.

MAHB described the proposed new OA as a “gamechanger and catalyst” for itself. Although the terms of the new OA are not yet publicly known, we suspect that the new OA will make specific provisions for an increase in net aeronautical charges for MAHB if and when it undertakes new capex, with a view to fairly remunerate MAHB.

With MAHB’s aeronautical charges among the lowest in the region, there may also be scope for a near-term, one-off step-up in charges, in our view. If this materialises this year, it could be another rerating catalyst for MAHB.

Aeropolis lease period to be set at 99 years, no longer constrained by airport concession term

Another positive is with respect to the KLIA Aeropolis, which is the 8,500-acre land area surrounding KLIA and klia2. MAHB has already negotiated the terms of the new Development Agreement and Land Lease Agreement (DA-LA) that will permit future development of the Aeropolis to be on 99-year lease terms commencing from the date of the development, rather than to be constrained by the end of the current concession agreement in 2069F.

MAHB expects the Malaysian cabinet to approve in 1Q22F the change in the DA-LA to 99-year leases and, if this materialises, it will certainly help MAHB make progress on the development of the Aeropolis, including the setting up of new joint ventures with third-party specialists to develop its air cargo and logistics cluster, its aerospace cluster, and its Meetings, Incentives, Conferences & Exhibitions (MICE) and tourism cluster, particularly once the Covid-19 pandemic is firmly under control.

Ample liquidity from new debt issuance, deferred capex payments and delayed concession fee payments

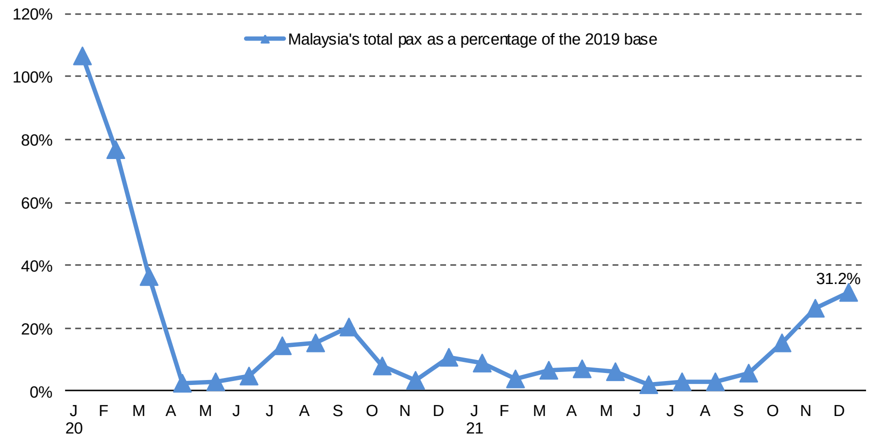
MAHB continues to keep a strong balance sheet, with Moody’s A3 and the Rating Agency of Malaysia’s AAA ratings maintained. On 30 December 2021, MAHB raised RM800m in new sukuk at a blended rate of 3.99%; previously it raised RM700m in new sukuk at a blended rate of 3.39% in November 2020. MAHB has continued access to RM7.3bn in undrawn credit lines and does not see a need to raise new equity, for now.

Furthermore, its capex for the replacement of the aerotrain at KLIA will be financed by the supplier/contractor involved in the project, with repayment structured over five years with interest; a similar model may be used for the upcoming replacement of the baggage handling system at KLIA and is intended to reduce MAHB's upfront capex spending.

Meanwhile, ISG is also negotiating for a deferral of the payment of its €115m concession fee due in January 2022 while negotiating for a permanent waiver of the €115m concession fee due in January 2021 that was previously deferred indefinitely.

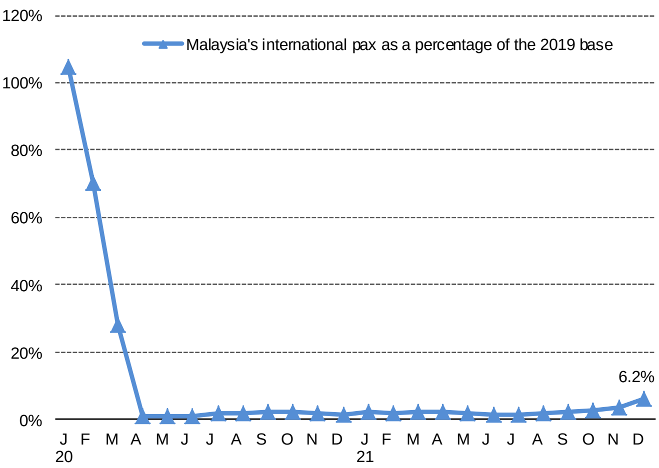
Malaysia's passenger traffic remains primarily domestic in nature

Figure 1: Malaysia's total air traffic passengers as a percentage of the 2019 base



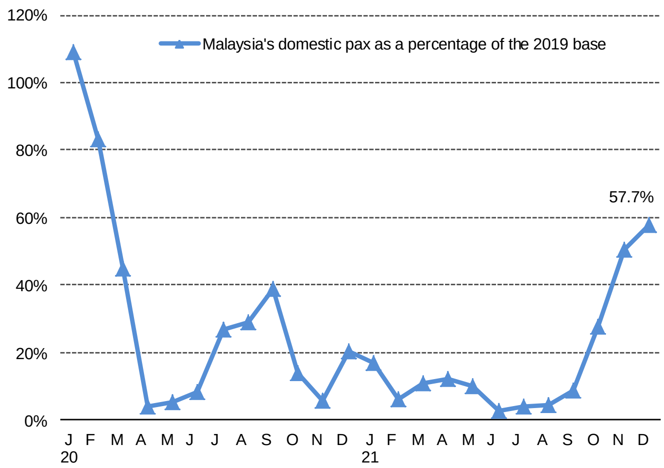
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Malaysia's international air traffic passengers as a percentage of the 2019 base



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Malaysia's domestic air traffic passengers as a percentage of the 2019 base



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

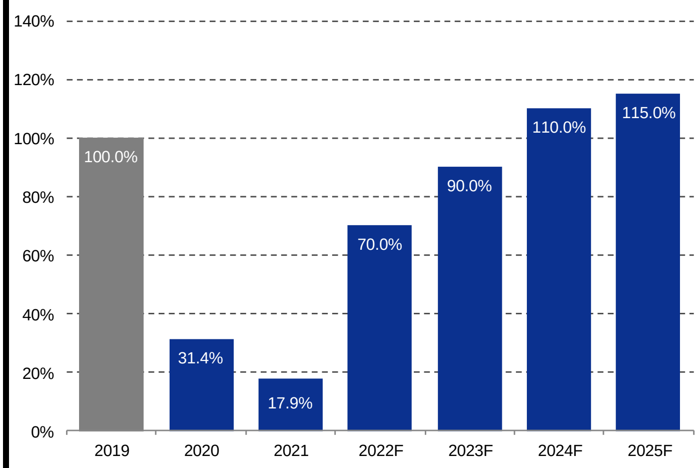
In December 2021, Malaysia's total passenger traffic has recovered to 31.2% of the 2019 base, with international traffic remaining lacklustre at 6.2%, but with domestic traffic staging a healthy recovery to the 57.7% level.

The creep-up in international passenger traffic was due to the lifting of the ban on international travel for Malaysians from 11 October 2021, permission for Muslim pilgrims to make the umrah pilgrimage to Saudi Arabia from 18 October (although suspended from 8 January 2022), the start of quarantine-free travel to Thailand for Malaysians from 1 November (although it was temporarily paused on 22 December), and the commencement of the Singapore-Kuala Lumpur Vaccinated Travel Lane (VTL) flights from 29 November onwards.

The steep recovery in domestic passenger traffic, meanwhile, was due to the lifting of the interstate travel ban from 11 October 2021, coupled with the year-end holidays.

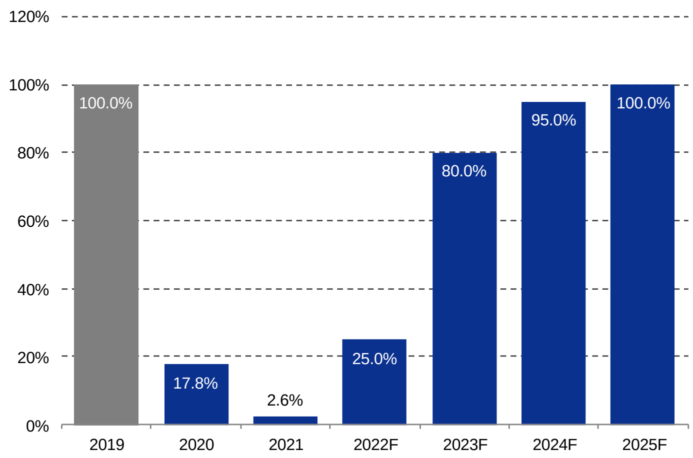
Passenger traffic forecasts: Malaysia

Figure 4: MAHB's domestic passenger traffic recovery as a percentage of the CY19 base (in Malaysia)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: MAHB's international passenger traffic recovery as a percentage of the CY19 base (in Malaysia)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 6: Medium-term estimates for MAHB passenger traffic (in Malaysia)

	Number of passengers			Yoy change		
	International	Domestic	Total	International	Domestic	Total
2019	53,286,000	51,975,000	105,261,000			
2020	9,496,349	16,334,000	25,830,349	-82.2%	-68.6%	-75.5%
2021	1,359,160	9,315,000	10,674,160	-85.7%	-43.0%	-58.7%
2022F	13,321,500	36,382,500	49,704,000	880.1%	290.6%	365.6%
2023F	42,628,800	46,777,500	89,406,300	220.0%	28.6%	79.9%
2024F	50,621,700	57,172,500	107,794,200	18.8%	22.2%	20.6%
2025F	53,286,000	59,771,250	113,057,250	5.3%	4.5%	4.9%

As a percentage of the 2019 base				*Proportion of total traffic*	
	International	Domestic	Total	International	Domestic
2019	100.0%	100.0%	100.0%	50.6%	49.4%
2020	17.8%	31.4%	24.5%	36.8%	63.2%
2021	2.6%	17.9%	10.1%	12.7%	87.3%
2022F	25.0%	70.0%	47.2%	26.8%	73.2%
2023F	80.0%	90.0%	84.9%	47.7%	52.3%
2024F	95.0%	110.0%	102.4%	47.0%	53.0%
2025F	100.0%	115.0%	107.4%	47.1%	52.9%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We retain our forecast for 2022F domestic traffic at 70% of the 2019 base, given the strength of domestic traffic recovery, and the government's pledge not to lockdown the economy again in view of the high vaccination rates.

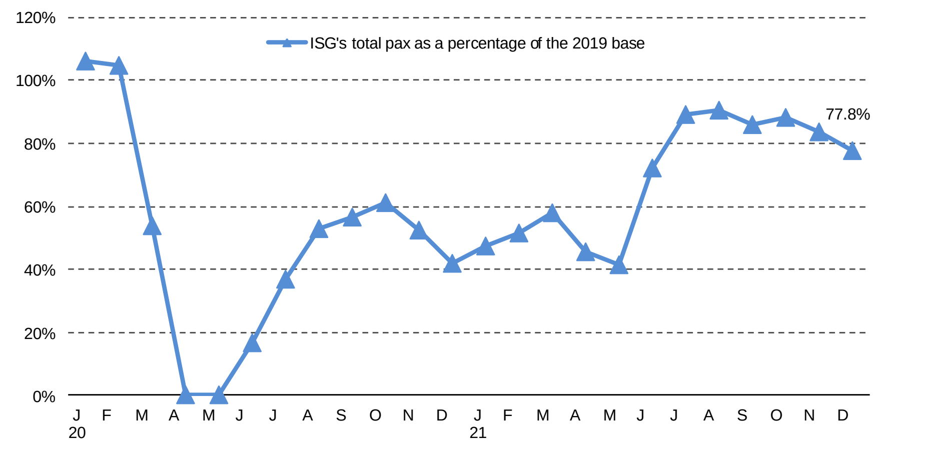
However, we have cut our Malaysia international passenger traffic forecasts for 2022F from 21.3m (40% of the 2019 base) to 13.3m (25% of the 2019 base), given that governments remain very cautious about reopening their international borders given the ongoing Omicron wave. Last year, the Malaysian government had said that it planned to reopen Malaysia's international borders to foreigners from 1 January 2022, but ultimately delayed the reopening date to an unspecified future date, due to an abundance of caution. On 23 December 2021, Malaysia and Singapore announced a freeze on additional sales of Vaccinated Travel Lane (VTL) flight tickets, for flights arriving between 23 December 2021 and 20 January 2022, with VTL arrivals post 21 January 2022 capped at 50% of original limits subject to a future review. Malaysia's earlier plan to establish VTL links with other ASEAN countries have also stalled. Malaysia also prohibited further umrah pilgrimages to Saudi Arabia for Malaysian pilgrims from 8 January 2022, as a number of returnees from Saudi Arabia had brought the Omicron variant back home with them.

Meanwhile, Thailand had permitted Malaysians (among other nationalities) to travel into Thailand without quarantine from 1 November 2021, but suspended this from 22 December 2021, although it is currently mulling a resumption of the quarantine-free scheme. Japan banned foreign arrivals from 30 November 2021 due to the Omicron outbreak, and has extended the ban until 28 February 2022. Hong Kong and China also remain steadfast in their zero-Covid strategies.

We continue to monitor developments as they unfold, but the current situation suggests that the international passenger volume recovery at Malaysia's airports in 2022F may be pushed towards later in the year.

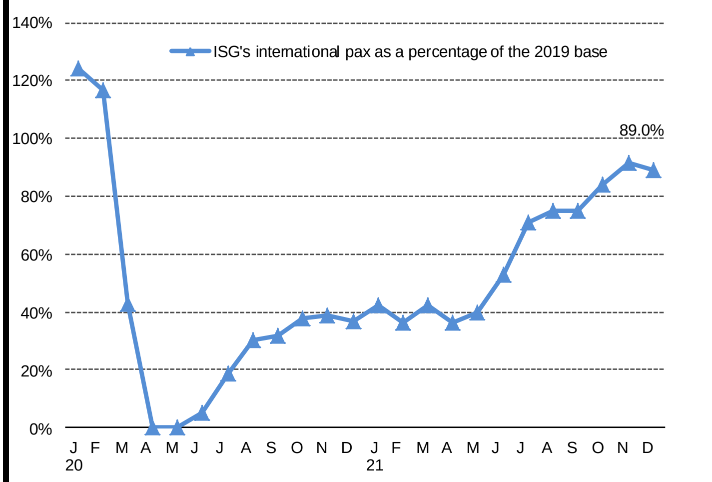
ISG passenger traffic: strong international rebound, weakening domestic trend

Figure 7: ISG's total air traffic passengers as a percentage of the 2019 base



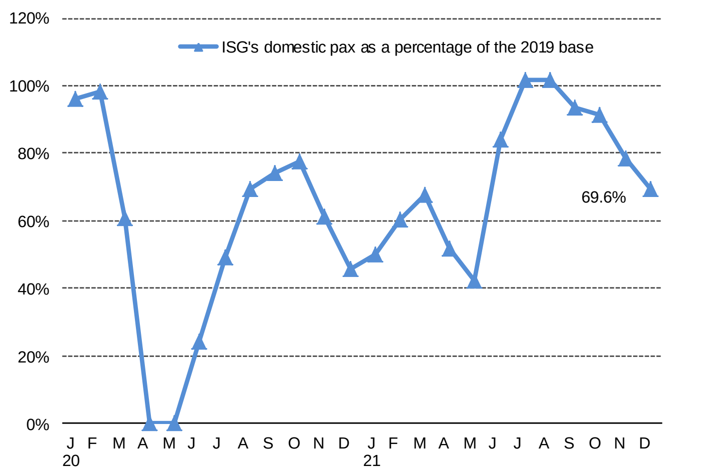
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: ISG's international air traffic passengers as a percentage of the 2019 base



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: ISG's domestic air traffic passengers as a percentage of the 2019 base



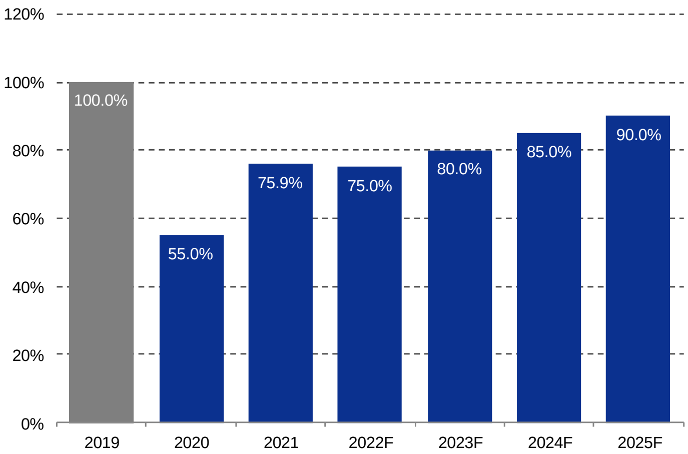
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

The Istanbul Sabiha Gokcen (ISG) airport in Turkey has seen a strong rebound in international passenger volumes, due to Turkey's open borders and mutual acceptance between Turkey and Europe of their respective vaccination certificates. In the month of December 2021, international traffic amounted to 89% of the pre-pandemic level i.e. December 2019, which is an almost full recovery.

Similarly, domestic passenger volumes rebounded quickly to peak at 102% of the pre-pandemic level in July and August 2021. However, domestic travel weakened rapidly to just 69.6% of the pre-pandemic level in December, likely caused by the economic problems in Turkey, where the sharp depreciation of the Turkish lira (€1 appreciated 69% from ₺11.08 on 31 October 2021 to ₺18.72 on 19 December 2021; the current rate stands at ₺15.48) caused inflation in Turkey to surge to 21% in November and 36% in December 2021.

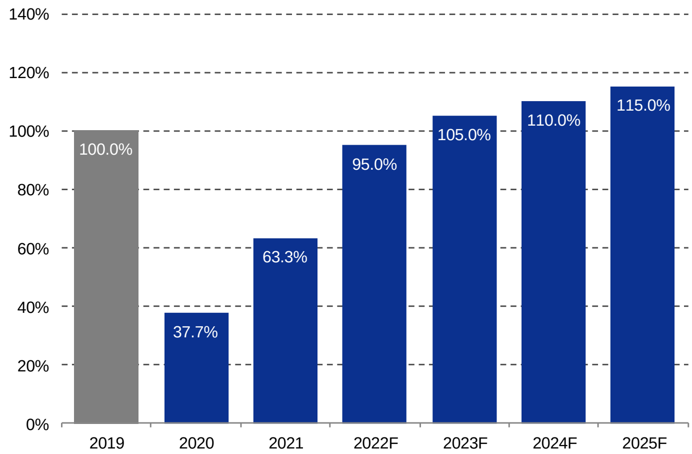
Passenger traffic forecasts: Istanbul Sabiha Gokcen (ISG)

Figure 10: ISG's domestic passenger traffic recovery as a percentage of the CY19 base



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: ISG's international passenger traffic recovery as a percentage of the CY19 base



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Medium-term estimates for ISG passenger traffic

	Number of passengers			Yoy change		
	International	Domestic	Total	International	Domestic	Total
2019	14,159,000	21,579,000	35,738,000			
2020	5,335,900	11,870,060	17,205,960	-62.3%	-45.0%	-51.9%
2021	8,969,000	16,370,000	25,339,000	68.1%	37.9%	47.3%
2022F	13,451,050	16,184,250	29,635,300	50.0%	-1.1%	17.0%
2023F	14,866,950	17,263,200	32,130,150	10.5%	6.7%	8.4%
2024F	15,574,900	18,342,150	33,917,050	4.8%	6.3%	5.6%
2025F	16,282,850	19,421,100	35,703,950	4.5%	5.9%	5.3%
As a percentage of the 2019 base				*Proportion of total traffic*		
	International	Domestic	Total	International	Domestic	
2019	100.0%	100.0%	100.0%	39.6%	60.4%	
2020	37.7%	55.0%	48.1%	31.0%	69.0%	
2021	63.3%	75.9%	70.9%	35.4%	64.6%	
2022F	95.0%	75.0%	82.9%	45.4%	54.6%	
2023F	105.0%	80.0%	89.9%	46.3%	53.7%	
2024F	110.0%	85.0%	94.9%	45.9%	54.1%	
2025F	115.0%	90.0%	99.9%	45.6%	54.4%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

As a result of the downward trend in the past four months of domestic travel volumes at ISG as a percentage of pre-pandemic levels, we reduce our forecast for domestic passengers in 2022F from 22.7m (representing 105% of the 2019 base) to 16.2m (75% of the 2019 base). Our domestic passenger volume estimates for 2023-25F, in terms of the percentage against 2019 level, have also been reduced by 30% pts each year from our previous estimates.

Valuation and recommendation

We reiterate our Add recommendation on MAHB. While the Omicron wave has temporarily delayed Malaysia's international border reopening, the strong recovery in Malaysian domestic traffic is very encouraging and passenger traffic at Turkey's ISG has also picked up soundly. Once the Omicron wave passes or once governments assess Omicron to be less dangerous than the Delta variant, the pace of border reopening in Asia may pick up again.

In the meantime, MAHB has good balance sheet strength and targets to put in place structural improvements to its business model in Malaysia in the form of a new OA and new DA-LA in 2022F that may help it become more profitable in the years ahead.

Furthermore, the planned start of MYAirline could stimulate travel demand as the airline competes with incumbents to gain market share, which may result in the airline industry offering very low and affordable air fares.

Figure 13: Discounted cashflow valuation (RM m)

	End-2022F	End-2022F
	RM m	RM/share
Malaysia - PV of cashflows to equity (2023F-2034F)	4,326	
Malaysia - PV of cashflows to equity (2035F-2069F)	3,908	
DCF value of Malaysia business (RM m)	**8,234**	
Add: Cash balance - End-2022F (RM m)	910	
DCF value of Malaysia business (RM m)	**9,143**	5.51
ISG - PV of cashflows to equity (2023F-2032F) (€ m)	180	
Add: Cash balance (ISG) - End-2022F (€ m)	321	
DCF value of Turkey business (€ m)	**501**	
RM:€1	4.75	
DCF value of 100% of ISG (RM m)	**2,381**	1.43
Total DCF value of the MAHB group (RM m)	**11,524**	6.95
Less: SOP discount	0	
Revised DCF value of the MAHB group (RM m)	**11,524**	6.95
No of shares (m)	1,659	
Target price (RM/share)	**6.95**	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Cost of equity assumptions - CGS-CIMB

	Malaysia	Turkey
Risk Free Rate (%)	3.60%	8.00%
Market Risk Premium (%)	6.00%	18.60%
Beta (x)	1.20	1.20
Cost of equity (%)	10.80%	30.32%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

We reduce our DCF-based target price from RM7.45 to RM6.95, as we factor in:

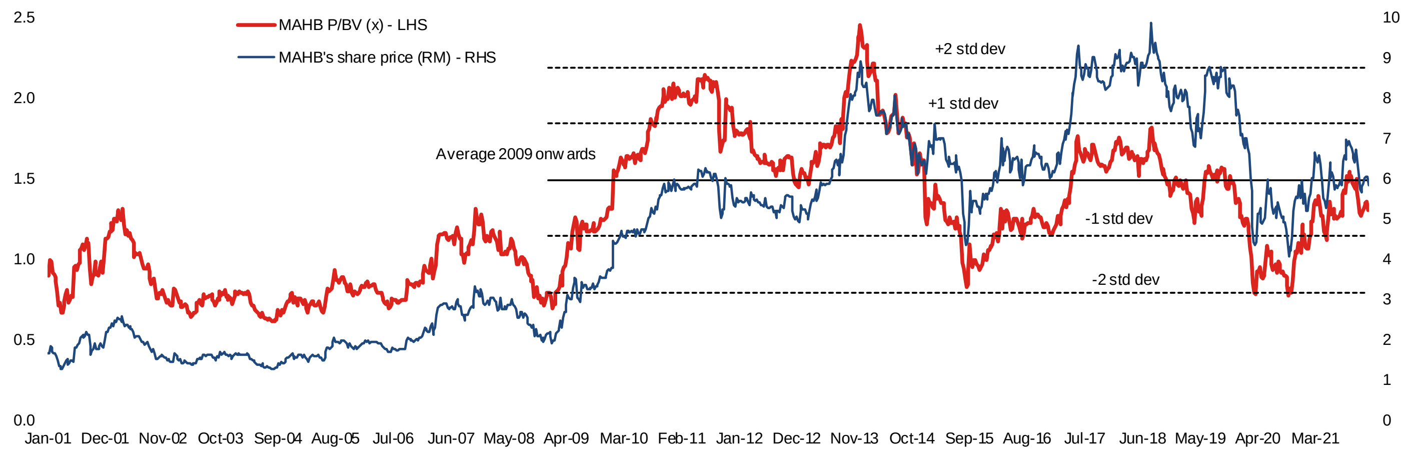
- An increase in the cost of equity (Ke) assumption for Malaysia from 10.5% to 10.8%, on account of a higher risk-free rate assumption of 3.6% (vs. 3.3% previously);
- An increase on the Ke assumption for ISG from 25.5% to 30.32%, as we lift the risk-free rate from 7.78% to 8%, raise the market risk premium from 14.77% to 18.60%; and
- A reduction in the group core earnings forecasts for FY22-23F, which will be explained in more detail below, but partially offset by
- An assumed postponement of half of ISG's 2022F concession fee payment to 2030F.

Potential rerating catalysts for MAHB include a faster-than-expected recovery in international passenger traffic sometime during CY22F once the Omicron wave passes and if governments loosen border controls, improved terms for the new

Operating Agreement with the government of Malaysia, a new entrant to the Malaysian aviation scene that could stimulate traffic, and a possible waiver of ISG's January 2021 concession fee payable and possible deferment of the January 2022 concession fee.

Downside risks include the potential for governments around the world to keep their international borders shut for a considerable period of time on concerns over the highly-infections Omicron variant, despite rising vaccination rates, and for the cost of international travel to remain expensive due to the various Covid-19 testing, insurance, and quarantine requirements.

Figure 15: MAHB historical P/BV chart - trading bands from 2009 onwards (post the February 2009 signing of the revised Operating Agreement)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Segmental earnings breakdown and earnings revision

Figure 16: MAHB group profit and loss summary (RM m)

Year end 31 Dec (RM m)	2017	2018	2019	2020	2021F	2022F	2023F
Operational revenue	**4,594.3**	**4,786.1**	**5,213.0**	**1,866.3**	**1,641.9**	**3,016.4**	**4,806.2**
- Malaysia	3,566.8	3,697.6	3,921.5	1,316.6	736.1	1,853.3	3,552.2
- Turkey	1,027.5	1,088.5	1,291.5	549.7	905.8	1,163.1	1,254.0
Operating EBITDA (RM m)	**1,680.8**	**1,836.5**	**2,026.4**	**-164.5**	**54.3**	**961.2**	**2,101.8**
- Malaysia	930.2	1,003.5	1,097.9	-478.9	-593.9	106.5	1,179.8
- Turkey	750.7	832.9	928.4	314.5	648.2	854.7	922.0
EBIT (RM m)	**991.2**	**1,146.1**	**1,285.2**	**-678.1**	**-446.3**	**32.9**	**1,113.3**
- Malaysia	578.3	626.0	681.9	-787.5	-708.4	-434.9	584.3
- Turkey	413.0	520.1	603.2	109.5	262.1	467.8	529.0
EBIT margin	*21.6%*	*23.9%*	*24.7%*	*-36.3%*	*-27.2%*	*1.1%*	*23.2%*
- Malaysia	*16.2%*	*16.9%*	*17.4%*	*-59.8%*	*-96.2%*	*-23.5%*	*16.4%*
- Turkey	*40.2%*	*47.8%*	*46.7%*	*19.9%*	*28.9%*	*40.2%*	*42.2%*
PBT before exceptionals (RM m)	**548.0**	**710.9**	**879.7**	**-1,138.6**	**-957.8**	**-488.6**	**638.3**
- Malaysia	623.3	702.9	739.4	-782.6	-744.9	-494.8	544.9
- Turkey	-75.3	8.0	140.1	-355.9	-212.9	6.1	93.3
Core PBT margin	*11.9%*	*14.9%*	*16.9%*	*-61.0%*	*-58.3%*	*-16.2%*	*13.3%*
- Malaysia	*17.5%*	*19.0%*	*18.9%*	*-59.4%*	*-101.2%*	*-26.7%*	*15.3%*
- Turkey	*-7.3%*	*0.7%*	*10.8%*	*-64.7%*	*-23.5%*	*0.5%*	*7.4%*
Core net profit (RM m)	**392.5**	**600.1**	**699.9**	**-648.6**	**-751.7**	**-386.5**	**450.0**
- Malaysia	400.7	555.0	531.5	-313.4	-548.6	-406.9	356.6
- Turkey	-8.2	45.1	168.4	-335.2	-203.1	20.5	93.3

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 17: Earnings revision

RM m	2020A	2021F			2022F			2023F		
		Old	New	chg	Old	New	chg	Old	New	chg
Revenue	1,866	1,560	1,642	5%	3,483	3,016	-13%	4,951	4,806	-3%
EBITDA	(164)	(18)	54	409%	1,283	961	-25%	2,205	2,102	-5%
Reported PBT	(1,664)	(1,163)	(1,078)	7%	(330)	(639)	-93%	542	448	-17%
Core pretax profit	(1,196)	(1,101)	(1,015)	8%	(238)	(546)	-130%	722	635	-12%
Reported net profit	(1,116)	(899)	(814)	9%	(182)	(479)	-164%	398	317	-20%
Reported EPS	(0.67)	(0.54)	(0.49)	9%	(0.11)	(0.29)	-164%	0.24	0.19	-20%
Core net profit	(649)	(837)	(752)	10%	(89)	(386)	-333%	531	450	-15%
Core EPS	(0.39)	(0.50)	(0.45)	10%	(0.05)	(0.23)	-333%	0.32	0.27	-15%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

We have reduced MAHB's core net loss estimate for FY21F by 10% due to better-than-expected 4Q21F traffic volume in Malaysia.

FY22F core net loss has been widened from RM89m to RM386m, and FY23F core net profit reduced by 15%, as we reduce Malaysia's international passenger volume and ISG's domestic passenger volume assumptions, for reasons explained above.

ESG in a nutshell

Refinitiv ESG Scores

B-	A+	B-	C	B+	C
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score

RAM Sustainability assigned the MAHB group an overall gold rating, the highest of three available ratings, with gold ratings for the Social and Governance spheres but a silver rating for the Environment sphere. The latter was on account of MAHB reporting carbon emissions and waste management metrics for KLIA only, with the relevant information for its other non-KLIA airports in Malaysia and ISG not measured or reported. MAHB is also a constituent of the FTSE4Good Bursa Malaysia Index. We expect MAHB to improve its carbon disclosures in the years ahead.

Keep your eye on

MAHB has done well to improve the user experience at the airports it operates in Malaysia, and KLIA was ranked among the top 10 airports of the world based on Airports Council International's Airport Service Quality (ASQ) rankings for airports with capacity of more than 40m pax p.a., achieving a score of 4.98 out of a possible 5.00 in 2020 vs. a score of 4.76 in 2019 (ranked 17th). In 2Q21, KLIA achieved a perfect ASQ score of 5.00 and was ranked the top airport globally in its category. Since 2019, MAHB had renovated its airport restrooms to address passenger complaints.

Implications

In order to protect the health and safety of passengers during the Covid-19 pandemic, MAHB spent RM15m in 2020 at its airports, including introducing a contactless experience for airport users in 2020 via the introduction of the Single Token Journey initiative and facial recognition technology (part of MAHB's Airports 4.0 digitalisation initiatives). MAHB has also started using ultraviolet light to sanitise arriving baggage, handrails, escalators, walkalators and restrooms at its airports.

ESG highlights

MAHB did not furlough its employees in 2020 despite the full blow of the Covid-19 pandemic, with departures due to natural attrition and non-performance. There were no salary cuts either. In 2020, MAHB assisted its commercial airport tenants and airline customers by deferring rental payments with a 6-month moratorium (which later resulted in a 100% rental rebate for six months), extending credit terms and extending the tenure of tenancy contracts.

Implications

MAHB's assistance towards its employees and customers came despite its own financial difficulties. MAHB recognises that helping its business partners is a win-win situation that will ultimately help it to thrive over the long run as these airport tenants stand a better chance of surviving into the post-pandemic era. MAHB's employees have declined from 10,200 strong at the start of 2020 to 9,400 strong presently due to retirements and resignations.

Trends

MAHB is a signatory to the Aviation Industry Commitment to Action on Climate Change, where it will strive to pursue carbon-neutral growth. MAHB's target is to achieve carbon neutrality at the KLIA complex by 2030F and to achieve the same for its other airports in Malaysia by 2050F. No carbon emissions target has been set for ISG as yet.

MAHB disclosed its Scope 1 and Scope 2 carbon emissions for KLIA from 2015 to 2018 under the Airports Council International's Airport Carbon Accreditation methodology. KLIA's carbon emissions data for 2019 or 2020 were not disclosed, purportedly because it had not yet been audited and because MAHB had chosen to forgo the audit in order to save costs during the pandemic, according to the company.

Carbon emissions data for Malaysian airports (apart from KLIA) and for ISG were not disclosed because measurement has not commenced; MAHB will strive to improve its disclosures in the future.

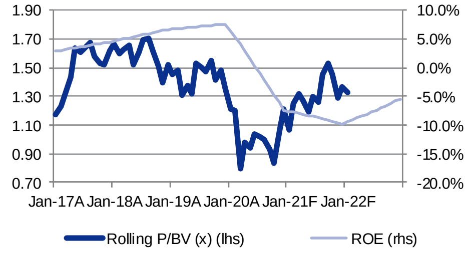
Implications

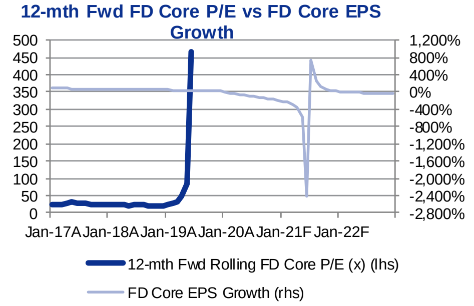
MAHB targets to reduce KLIA's absolute 2015 carbon emissions by at least 50% by 2030F. This means that carbon intensity at KLIA is targeted to fall by 2030F by more than 50%, assuming pax traffic also grows. Based on MAHB's disclosures, KLIA reduced its carbon intensity by 30% between 2015 and 2018; carbon intensity likely fell yoy in 2019 but then likely rose significantly in 2020 due to the 79% yoy fall in pax numbers and the inability of KLIA to reduce its energy consumption by much as the airport complex still needed to be operated, cooled and lit.

Airport emission reductions will have to be achieved operationally as MAHB does not plan to buy carbon credits. Residual emissions will be addressed by MAHB through investment in carbon removal and storage. The phases and pathways towards carbon neutrality for KLIA were set out in MAHB's 2019 Sustainability Report but were no longer mentioned in detail in the 2020 report, as MAHB had to urgently address the financial impact of the Covid-19 pandemic.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	**5,203**	**1,866**	**1,642**	**3,016**	**4,806**
Gross Profit	**2,017**	**(164)**	**54**	**961**	**2,102**
Operating EBITDA	**2,026**	**(164)**	**54**	**961**	**2,102**
Depreciation And Amortisation	(741)	(514)	(501)	(928)	(989)
Operating EBIT	**1,285**	**(678)**	**(446)**	**33**	**1,113**
Financial Income/(Expense)	(662)	(599)	(605)	(613)	(581)
Pretax Income/(Loss) from Assoc.	35	(12)	0	0	0
Non-Operating Income/(Expense)	222	150	93	92	106
Profit Before Tax (pre-EI)	**880**	**(1,139)**	**(958)**	**(489)**	**638**
Exceptional Items	(221)	(525)	(120)	(150)	(190)
Pre-tax Profit	**659**	**(1,664)**	**(1,078)**	**(639)**	**448**
Taxation	(122)	547	264	160	(131)
Exceptional Income - post-tax					
Profit After Tax	**537**	**(1,116)**	**(814)**	**(479)**	**317**
Minority Interests	0	0	0	0	0
Preferred Dividends	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**537**	**(1,116)**	**(814)**	**(479)**	**317**
Recurring Net Profit	700	(649)	(752)	(386)	450
Fully Diluted Recurring Net Profit	**700**	**(649)**	**(752)**	**(386)**	**450**

Cash Flow

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	2,026	(164)	54	961	2,102
Cash Flow from Invt. & Assoc.					
Change In Working Capital	36	(24)	(111)	(123)	(146)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	381	329	151	149	163
Net Interest (Paid)/Received	(526)	(455)	(662)	(671)	(638)
Tax Paid	(92)	(57)	(6)	(5)	(5)
Cashflow From Operations	**1,825**	**(372)**	**(575)**	**312**	**1,475**
Capex	(490)	(190)	(399)	(564)	(920)
Disposals Of FAs/subsidiaries	(387)	1,047	0	0	0
Acq. Of Subsidiaries/investments	47	49	0	0	0
Other Investing Cashflow	0	0	0	0	0
Cash Flow From Investing	**(829)**	**906**	**(399)**	**(564)**	**(920)**
Debt Raised/(repaid)	(205)	(436)	451	280	255
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased	0	0	0	0	0
Dividends Paid	(232)	(166)	0	0	(56)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(438)**	**(601)**	**451**	**280**	**199**
Total Cash Generated	558	(67)	(523)	27	755
Free Cashflow To Equity	**790**	**99**	**(523)**	**27**	**810**
Free Cashflow To Firm	**1,522**	**989**	**(312)**	**418**	**1,193**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	3,209	1,694	1,565	1,422	1,992
Total Debtors	675	395	347	638	1,017
Inventories	170	164	164	164	164
Total Other Current Assets	347	170	170	170	170
Total Current Assets	**4,401**	**2,422**	**2,246**	**2,394**	**3,342**
Fixed Assets	455	434	434	434	434
Total Investments	333	328	328	328	328
Intangible Assets	16,063	15,894	15,673	15,158	14,900
Total Other Non-Current Assets	931	1,200	1,470	1,634	1,509
Total Non-current Assets	**17,782**	**17,856**	**17,905**	**17,555**	**17,171**
Short-term Debt	1,247	94	2,221	1,245	2,394
Current Portion of Long-Term Debt	525	0	562	562	656
Total Creditors	329	728	569	736	969
Other Current Liabilities	1,188	656	656	656	656
Total Current Liabilities	**3,289**	**1,478**	**4,008**	**3,200**	**4,675**
Total Long-term Debt	3,686	4,550	2,875	4,130	3,236
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,882	6,151	5,983	5,813	5,534
Total Non-current Liabilities	**9,568**	**10,702**	**8,858**	**9,943**	**8,770**
Total Provisions	0	0	0	0	0
Total Liabilities	**12,857**	**12,180**	**12,865**	**13,142**	**13,445**
Shareholders' Equity	9,325	8,099	7,285	6,806	7,068
Minority Interests	0	0	0	0	0
Total Equity	**9,325**	**8,099**	**7,285**	**6,806**	**7,068**

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	7.2%	(64.1%)	(12.0%)	83.7%	59.3%
Operating EBITDA Growth	10%	(108%)	N/A	1670%	119%
Operating EBITDA Margin	38.9%	(8.8%)	3.3%	31.9%	43.7%
Net Cash Per Share (RM)	(3.81)	(4.44)	(5.03)	(5.18)	(4.88)
BVPS (RM)	5.62	4.88	4.39	4.10	4.26
Gross Interest Cover	1.85	(1.08)	(0.70)	0.05	1.79
Effective Tax Rate	18.5%	0.0%	0.0%	0.0%	29.2%
Net Dividend Payout Ratio	28.3%	NA	NA	NA	24.9%
Accounts Receivables Days	44.6	104.9	82.5	59.6	62.9
Inventory Days	17.05	30.05	37.63	29.07	22.09
Accounts Payables Days	36.8	95.2	149.0	115.9	115.1
ROIC (%)	5.42%	(2.97%)	(1.98%)	0.14%	4.97%
ROCE (%)	6.94%	(3.60%)	(2.39%)	0.40%	6.79%
Return On Average Assets	6.19%	(3.25%)	(2.49%)	(0.14%)	5.31%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Malaysia - Total pax	105.3	25.8	10.7	49.7	89.4
Malaysia - Domestic pax	52.0	16.3	9.3	36.4	46.8
Malaysia - International pax	53.3	9.5	1.4	13.3	42.6
Turkey - Total pax	36.0	17.2	25.3	29.6	32.1
Turkey - Domestic pax	21.7	11.9	16.4	16.2	17.3
Turkey - International pax	14.2	5.3	9.0	13.5	14.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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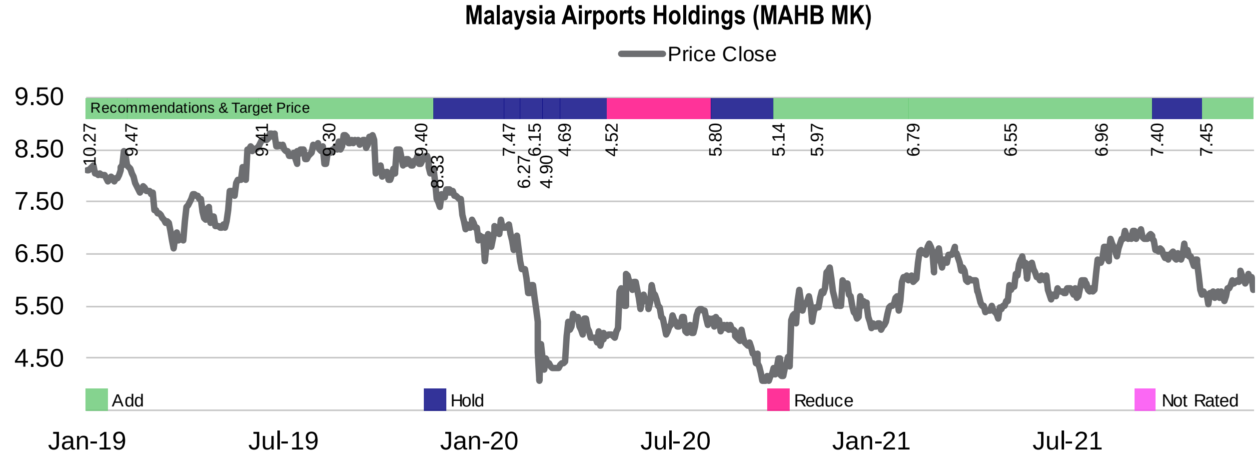
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.