

Malaysia Airports (MAHB MK)

Climbing steadily

Maintain BUY call with higher TP of MYR7.17 (+2%)

Malaysian (MY) international passenger (pax) traffic is starting to improve. Curiously, Turkish (TR) domestic pax traffic is recovering slower than the international one. Yet, we are not complaining as the latter is much more profitable than the former. We narrow our FY22E net loss by 23%. While our FY23E and FY24E net profit are little changed for now, there could be upside from a new Operating Agreement which is due soon. Tweak DCF-based TP to MYR7.17 from MYR7.00. Maintain BUY.

MY international pax traffic starting to recover

4M22 MY total pax traffic hit 32% of 4M19 levels (domestic: 57% of 4M19 levels, international: 9% of 4M19 levels). While the 4M22 MY international pax traffic appears weak, Apr 2022 MY international pax traffic improved to 14% of Apr 2019 levels as Malaysia reopened its borders on 1 Apr 2022. With Apr 2022 being the fasting month and Malaysia axing pre- and post-flight COVID-19 testing on 1 May 2022, May 2022 MY international pax traffic ought to be even better.

TR pax traffic mix positive for group earnings

4M22 TR total pax traffic hit 77% of 4M19 levels (domestic: 63% of 4M19 levels, international: 100% of 4M19 levels). Curiously, TR international pax traffic is recovering faster than the domestic one. MAHB explained that its TR partner airlines prefer to use slots for international flights as there is more demand for them than domestic ones. In any case, this mix benefits MAHB greatly as the TR international PSC is 5-6x that of the domestic one.

Narrow FY22E net loss by 23%

As a result of the aforementioned, we:- (i) raise FY22E MY domestic pax traffic to 60% of FY19A levels (45% previously); (ii) maintain FY22E MY international pax traffic at 20% of FY19A levels pending May 2022 figures; (iii) cut FY22E TR domestic pax traffic to 75% of FY19A levels (100% previously); and (iv) raise FY22E TR international pax traffic to 100% of FY19A levels (75% previously). Net impact of the above is to narrow our FY22E net loss by 23%.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,866	1,673	2,820	4,865	5,105
EBITDA	(11)	212	815	2,261	2,386
Core net profit	(774)	(824)	(539)	508	591
Core EPS (sen)	(46.6)	(49.7)	(32.5)	30.6	35.6
Core EPS growth (%)	nm	nm	nm	nm	16.4
Net DPS (sen)	0.0	0.0	0.0	16.0	18.0
Core P/E (x)	nm	nm	nm	20.9	18.0
P/BV (x)	1.4	1.6	1.9	1.8	1.7
Net dividend yield (%)	0.0	0.0	0.0	2.5	2.8
ROAE (%)	(15.2)	(12.3)	(9.0)	8.7	9.7
ROAA (%)	(3.6)	(4.1)	(2.7)	2.6	3.1
EV/EBITDA (x)	nm	64.9	16.8	6.0	5.4
Net gearing (%) (incl perps)	46.5	52.2	44.5	41.2	31.0
Consensus net profit	-	-	(58)	477	597
MKE vs. Consensus (%)	-	-	(826.1)	6.6	(1.0)

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BUY

Share Price	MYR 6.41
12m Price Target	MYR 7.17 (+12%)
Previous Price Target	MYR 7.00

Company Description

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

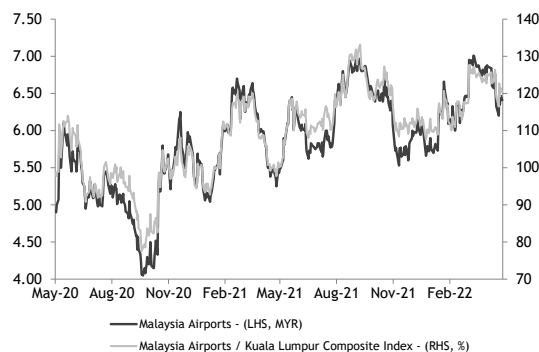
Statistics

52w high/low (MYR)	7.01/5.43
3m avg turnover (USDm)	2.8
Free float (%)	39.8
Issued shares (m)	1,659
Market capitalisation	MYR10.6B USD2.4B

Major shareholders:

Khazanah Nasional Bhd. (Investment Compa	33.2%
Employees Provident Fund	15.3%
Kumpulan Wang Persaraan	6.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	1	22
Relative to index (%)	(3)	3	23

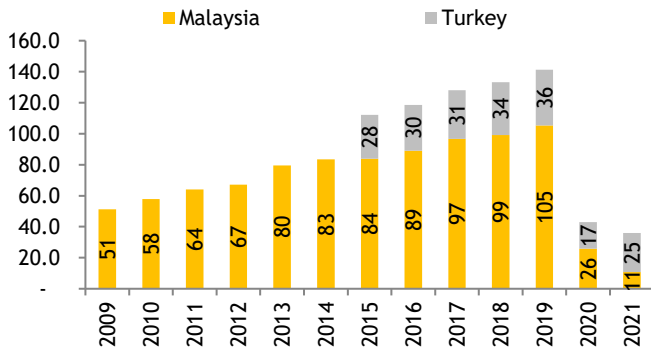
Source: FactSet

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 acre unutilised land bank adjacent to KLIA can be monetized via retail, commercial and leisure ventures.
- Also manages and operates Sabiha Gökçen Airport in Istanbul, Turkey, the fastest growing airport in Europe.
- Also owns 11% of Rajiv Gandhi International Airport in Hyderabad, India.

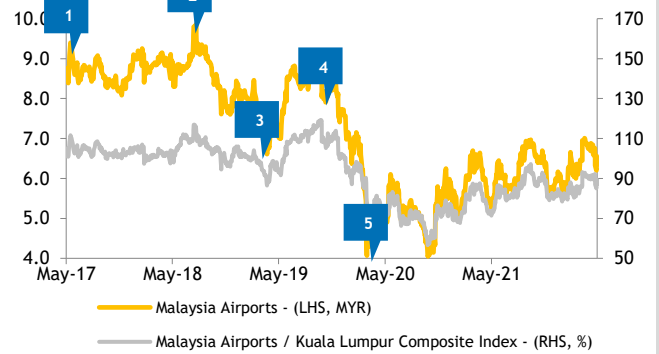
MAHB total passenger traffic (m)



Source: Company

Price Drivers

Historical share price trend



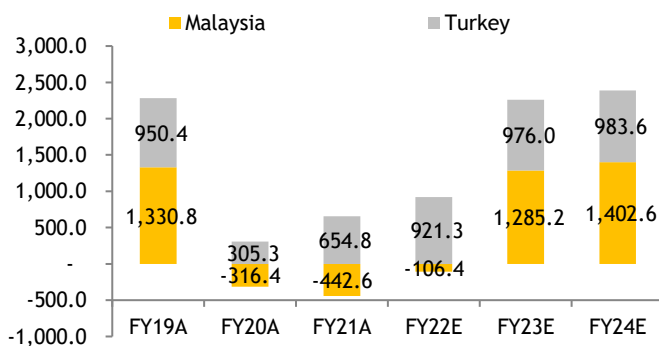
Source: Company, Maybank IBG Research

- Share price rallied after reporting FY16 results which generated a net profit (FY15: net loss).
- Foreign investors excited by the prospect of higher returns from adopting a Regulated Asset Base framework.
- Foreign investors increasingly doubted that a Regulated Asset Base framework will be adopted.
- US FAA downgraded CAAM to Category 2 and Department Of Transport announced that MAVCOM will be disbanded.
- COVID-19 pandemic struck Malaysia. Borders were shut on 18 Mar 2020.

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-FY21E 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 76%.

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 & Score ¹	20.1 (Medium)
Score Momentum ²	+0.2
Last Updated	6 Jul 2021
Controversy Score ³ (Updated: 2 Dec 2021)	2 - Customer incidents - Quality & safety

Business Model & Industry Issues

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

Material E issues

- MAHB is a signatory to the Aviation Industry Commitment to Action on Climate Change.
- 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: 17,399 MWh).
- Commenced installing solar panels at Kota Kinabalu and Langkawi airports.
- Recovered and recycled 6% of waste at KLIA in FY21 (FY20: 8%).
- Energy and water consumption intensity per passenger in Malaysia doubled in FY21.
- Less recycling and higher energy and water consumption intensity per passenger were due to COVID-19.
- The COVID-19 pandemic resulted in fewer passengers which were necessary for economies of scale.
- Operates 6,247.1 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 9,837 people globally in FY21. 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 93.9% in FY21 (FY20: 92.9%).
- Invested only MYR0.5m to train and develop Malaysian employees in FY21 (-82% YoY).
- Yet, average training hours per Malaysian employee in FY21 stood at 39 hours (+200% YoY).

Key G metrics and issues

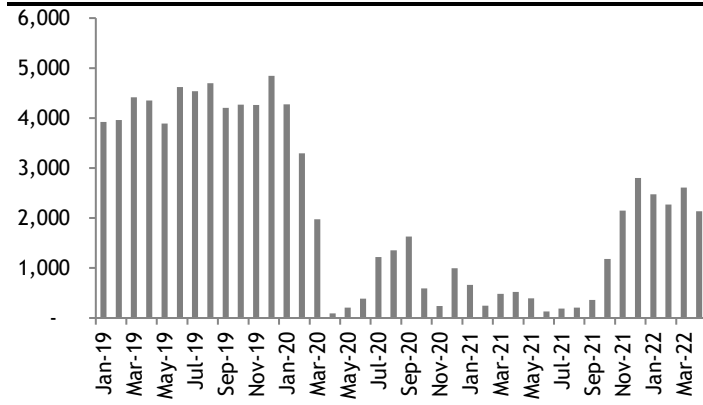
- BOD comprises 1 Non-Independent Non-Executive Director (NINED) Chairman, 1 Managing Director, 3 NINEDs and 6 Independent Non-Executive Directors (INED).
- Major shareholders, Khazanah Nasional and Employees Provident Fund are represented by 1 NINED each.
- Share capital includes one MYR1 Special Rights Redeemable Preference Share (Special Share).
- The Special Share enables the GOM 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.
- Ministry Of Finance represented by Chairman. Ministry Of Transport represented by 1 NINED.
- 5 of the 11 BOD members are women. Has a policy of ≥3 women directors and 30% of BOD made up of women.
- FY21 directors' remuneration was flat YoY (i.e. MYR3.9m) notwithstanding MAHB remaining loss-making in FY21.
- 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).

FY23E and FY24E net profit little changed for now

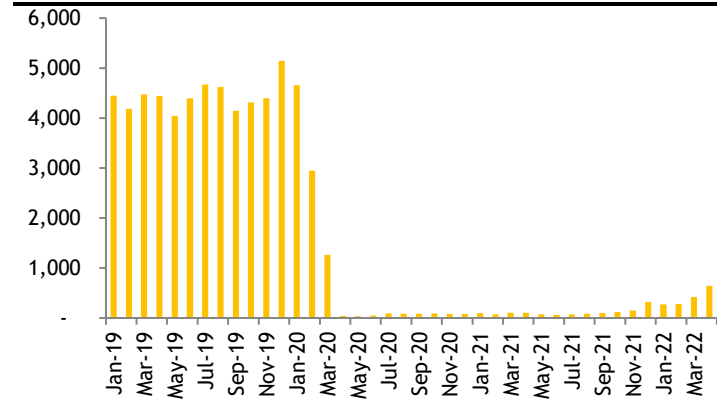
Narrower losses for FY22E aside, we maintain our FY23E/FY24E net profit which are based on MY domestic pax traffic, TR domestic and international pax traffic recovering to c.100% of FY19A levels and MY international pax traffic recovering to c.80% of FY19A levels for now. There could be more upside to net profit should MAHB secure a more favourable new Operating Agreement with the Government Of Malaysia, which is due for a review soon (2Q22 or 3Q22).

Figure 1: Malaysian domestic passenger traffic ('000)



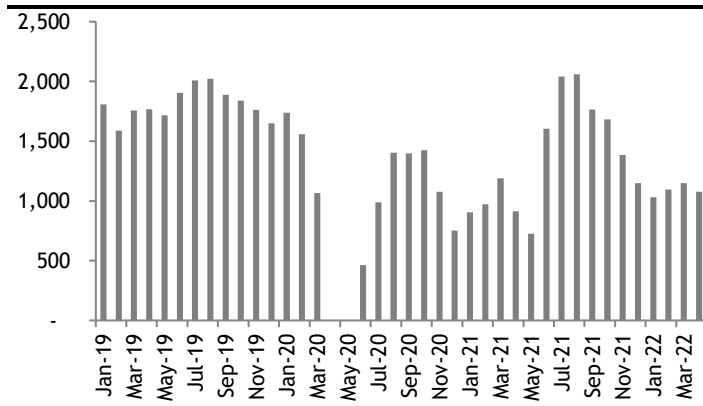
Source: Company

Figure 2: Malaysian international passenger traffic ('000)



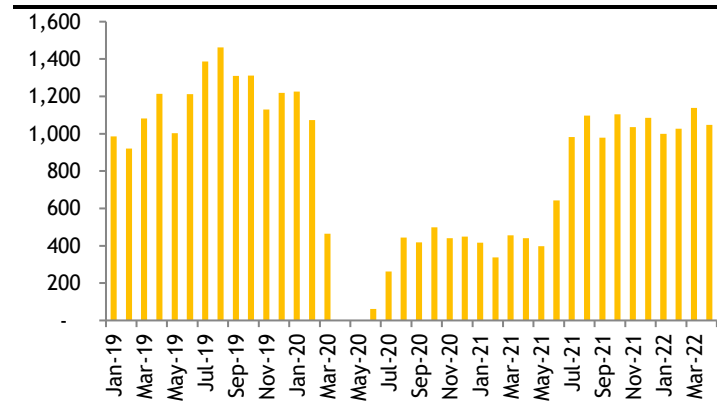
Source: Company

Figure 3: Turkish domestic passenger traffic ('000)



Source: Company

Figure 4: Turkish international passenger traffic ('000)



Source: Company

Figure 5: Major assumptions and estimates

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Revised						
MYS - domestic pax traffic (m)	52.0	16.3	9.4	31.2	52.0	53.0
YoY chg	9.7%	-68.7%	-42.4%	233.1%	66.7%	2.0%
MYS - international pax traffic (m)	53.3	9.5	1.4	10.7	42.6	43.5
YoY chg	3.0%	-82.2%	-85.7%	683.6%	300.0%	2.0%
TUR - domestic pax traffic (m)	21.7	11.9	16.4	16.3	21.7	22.2
YoY chg	-3.0%	-45.3%	38.0%	-0.6%	33.3%	2.0%
TUR - international pax traffic (m)	14.2	5.3	9.0	14.2	14.2	14.5
YoY chg	22.0%	-62.5%	68.1%	58.7%	0.0%	2.0%
Group EBITDA (MYRm)	2,281.2	-11.0	212.1	814.9	2,261.2	2,386.2
Group net profit (MYRm)	515.2	-773.7	-823.9	-539.0	508.1	591.5
Previous						
MYS - domestic pax traffic (m)	52.0	16.3	9.4	23.4	52.0	53.0
YoY chg	9.7%	-68.7%	-42.4%	149.8%	122.2%	2.0%
MYS - international pax traffic (m)	53.3	9.5	1.4	10.7	42.6	43.5
YoY chg	3.0%	-82.2%	-85.7%	683.6%	300.0%	2.0%
TUR - domestic pax traffic (m)	21.7	11.9	16.4	21.7	22.2	22.6
YoY chg	-3.0%	-45.3%	38.0%	32.6%	2.0%	2.0%
TUR - international pax traffic (m)	14.2	5.3	9.0	10.7	14.2	14.5
YoY chg	22.0%	-62.5%	68.1%	19.0%	33.3%	2.0%
Group EBITDA (MYRm)	2,281.2	-11.0	212.1	632.7	2,280.4	2,407.3
Group net profit (MYRm)	515.2	-773.7	-823.9	-704.0	507.6	590.5

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

Figure 6: End-FY22E DCF-based valuation

	Value MYRm	Value/sh MYR	Comments
Malaysia	10,800.5	6.51	WACC: 8.6%, g: 1%
Turkey	4,529.7	2.73	WACC: 8.6%, g: 1%
Investments	548.0	0.33	End-FY22E
Net debt (includes perpetual sukuk)	(3,987.1)	(2.40)	End-FY22E
Equity value	11,891.1	7.17	

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	nm	nm	nm	20.9	18.0
Core P/E (x)	nm	nm	nm	20.9	18.0
P/BV (x)	1.4	1.6	1.9	1.8	1.7
P/NTA (x)	(1.1)	(1.1)	(1.2)	(1.3)	(1.4)
Net dividend yield (%)	0.0	0.0	0.0	2.5	2.8
FCF yield (%)	nm	1.3	3.5	5.6	10.6
EV/EBITDA (x)	nm	64.9	16.8	6.0	5.4
EV/EBIT (x)	nm	nm	nm	10.0	8.9
INCOME STATEMENT (MYR m)					
Revenue	1,866.3	1,673.0	2,819.7	4,865.0	5,105.1
EBITDA	(11.0)	212.1	814.9	2,261.2	2,386.2
Depreciation	(609.8)	(614.7)	(796.7)	(907.8)	(925.9)
EBIT	(620.7)	(402.5)	18.2	1,353.5	1,460.3
Net interest income / (exp)	(631.2)	(626.0)	(647.7)	(665.6)	(628.5)
Associates & JV	(11.6)	(12.5)	11.1	34.7	35.4
Exceptionals	(500.4)	0.0	0.0	0.0	0.0
Pretax profit	(1,763.9)	(1,040.9)	(618.4)	722.6	867.2
Income tax	647.7	274.5	136.9	(157.0)	(218.2)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	(57.7)	(57.5)	(57.5)	(57.5)	(57.5)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(1,173.9)	(823.9)	(539.0)	508.1	591.5
Core net profit	(773.7)	(823.9)	(539.0)	508.1	591.5
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	973.7	1,583.2	2,146.3	1,998.0	1,731.8
Accounts receivable	533.8	394.8	596.0	908.6	953.5
Inventory	163.7	116.3	143.9	158.5	166.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	436.5	432.5	432.5	432.5	432.5
Intangible assets	15,891.3	15,215.4	14,768.7	14,310.9	13,835.0
Investment in Associates & JVs	215.2	222.0	233.1	267.8	303.2
Other assets	2,064.8	2,198.4	1,492.8	1,492.8	1,492.8
Total assets	20,278.9	20,162.6	19,813.2	19,569.1	18,915.0
ST interest bearing debt	125.7	1,765.1	271.4	882.6	0.0
Accounts payable	1,325.0	1,349.0	1,415.0	1,271.2	1,327.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	4,612.9	3,601.9	4,864.2	3,981.6	3,981.6
Other liabilities	6,116.0	6,194.0	6,549.0	6,478.0	6,357.0
Total Liabilities	12,179.6	12,910.1	13,099.7	12,613.0	11,666.1
Shareholders Equity	7,101.5	6,254.7	5,715.7	5,958.3	6,251.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	7,101.5	6,254.7	5,715.7	5,958.3	6,251.1
Perpetual securities	997.8	997.8	997.8	997.8	997.8
Total liabilities and equity	20,278.9	20,162.6	19,813.2	19,569.1	18,915.0
CASH FLOW (MYR m)					
Pretax profit	(1,763.9)	(1,040.9)	(618.4)	722.6	867.2
Depreciation & amortisation	609.8	614.7	796.7	907.8	925.9
Adj net interest (income)/exp	589.1	567.6	602.2	620.0	583.0
Change in working capital	(26.8)	103.4	(156.2)	(527.8)	(21.2)
Cash taxes paid	(57.1)	(9.1)	107.9	(101.9)	(202.3)
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Cash flow from operations	(67.3)	271.1	721.1	1,586.1	2,117.2
Capex	(189.7)	(139.4)	(350.0)	(450.0)	(450.0)
Free cash flow	(774.6)	131.7	371.1	595.5	1,126.6
Dividends paid	(165.9)	0.0	0.0	(265.5)	(298.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(497.1)	704.6	(231.5)	(271.4)	(882.6)
Perpetual securities distribution	(57.5)	(57.5)	(57.5)	(57.5)	(57.5)
Other invest/financing cash flow	392.9	(170.0)	512.4	(721.9)	(694.7)
Effect of exch rate changes	105.2	0.8	0.0	0.0	0.0
Net cash flow	(479.5)	609.6	594.5	(180.2)	(266.3)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(64.2)	(10.4)	68.5	72.5	4.9
EBITDA growth	nm	nm	284.1	177.5	5.5
EBIT growth	nm	nm	nm	7,347.5	7.9
Pretax growth	nm	nm	nm	nm	20.0
Reported net profit growth	nm	nm	nm	nm	16.4
Core net profit growth	nm	nm	nm	nm	16.4
Profitability ratios (%)					
EBITDA margin	nm	12.7	28.9	46.5	46.7
EBIT margin	nm	nm	0.6	27.8	28.6
Pretax profit margin	nm	nm	nm	14.9	17.0
Payout ratio	0.0	0.0	0.0	52.2	50.5
DuPont analysis					
Net profit margin (%)	nm	nm	nm	10.4	11.6
Revenue/Assets (x)	0.1	0.1	0.1	0.2	0.3
Assets/Equity (x)	2.9	3.2	3.5	3.3	3.0
ROAE (%)	(15.2)	(12.3)	(9.0)	8.7	9.7
ROAA (%)	(3.6)	(4.1)	(2.7)	2.6	3.1
Liquidity & Efficiency					
Cash conversion cycle	(86.9)	(195.1)	(161.6)	(109.1)	(84.9)
Days receivable outstanding	145.4	99.9	63.3	55.7	65.7
Days inventory outstanding	32.0	34.5	23.4	20.9	21.5
Days payables outstanding	264.3	329.5	248.2	185.7	172.0
Dividend cover (x)	nm	nm	nm	1.9	2.0
Current ratio (x)	1.6	0.9	1.3	1.1	1.5
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.5	1.6	1.6
Net gearing (%) (incl perps)	46.5	52.2	44.5	41.2	31.0
Net gearing (%) (excl. perps)	53.0	60.5	52.3	48.1	36.0
Net interest cover (x)	na	na	0.0	2.0	2.3
Debt/EBITDA (x)	nm	nm	6.3	2.2	1.7
Capex/revenue (%)	10.2	8.3	12.4	9.2	8.8
Net debt/ (net cash)	3,764.9	3,783.8	2,989.2	2,866.1	2,249.8

Source: Company; Maybank IBG Research

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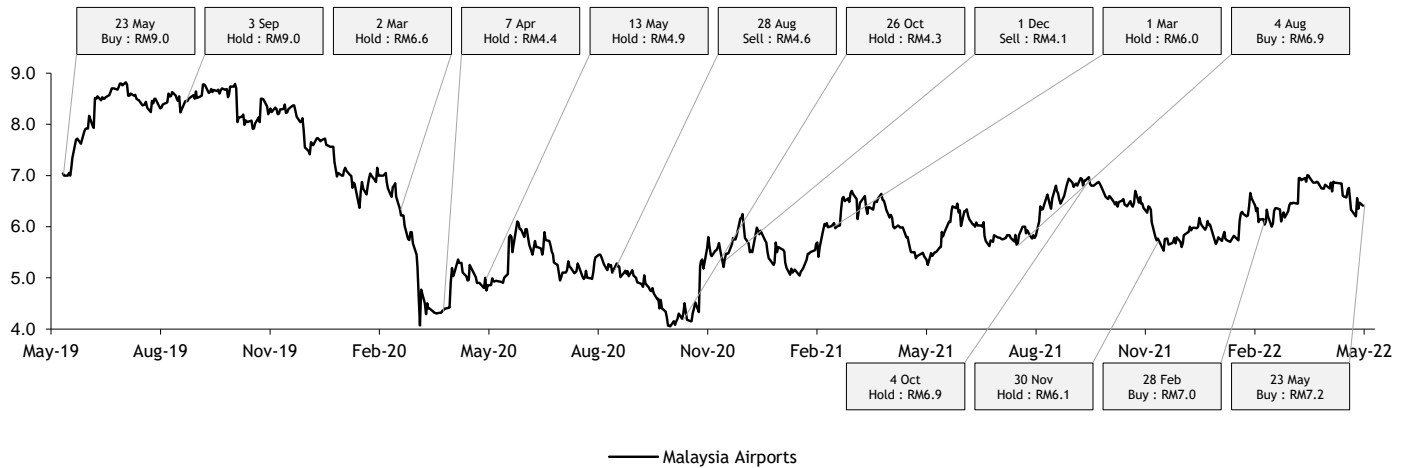
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