midf RESEARCH

29 August 2018 | 2QFY18 Results Review

Malaysia Airports Holdings

Supported by higher passenger growth

***Downgrade to* NEUTRAL**

***Unchanged* Target Price (TP): RM9.88**

INVESTMENT HIGHLIGHTS

- **1HFY18 core earnings came in at RM243.3m**
- **Core PATAMI registered +91.0%yoy higher**
- **Driven by robust passenger growth**
- **Downgrade to NEUTRAL (pursuant to recent price run-up) with an unchanged TP of RM9.88**

Within expectation. MAHB's 1HFY18 net earnings (after excluding one-off gains) at RM243.3m came in within expectations. It accounted for 47.4% and 55.2% of ours and consensus' expectations respectively. Core earnings grew by +91.0%yoy, owing to the strong traffic flow in the international sector. For 2QFY18, the group recorded core earnings at RM85.5m, an increase of +29.5%yoy.

Higher international traffic growth. 1HFY18 revenue rose by +5.0%yoy. This was in-line with the +5.2%yoy weighted-average growth of passengers' traffic in both Malaysia and Turkey in the period. Overall international traffic grew +8.3%yoy, showing robust demand of this particular segment. This was buoyed by continuous increase in traffic flow, attributable to supportive visa policy and healthy tourism landscape. On domestic front, Eid Al-Fitr holidays, which coincided with the two weeks mid-term school break was the driver in 2QFY18. The improvement of passengers' traffic had positive impact to PSC and rental revenue which together constitutes 59.0% of 1HFY18 total revenue:-

1) The Passenger Service Charge (PSC) rate for international traffic is considerably higher compared to domestic traffic; hence a higher ratio of international traffic (at 53.3%) drove PSC revenue up +15.6%yoy for the Group.
2) Improvement in retail revenue led to positive rental reversion rates with rental revenue per m^2 rising from RM6.0k to RM6.1k, leading to +8.1%yoy increase in rental revenue.

Overall expenses inching down. While revenue improved, we were encouraged to see overall direct costs dropped by -4.4%yoy. This was a result of cost savings from direct labour (-4.3%yoy) and direct overheads (-6.5%yoy) in 1HFY18. Staff costs which represent the biggest chunk of opex were lower, amounting to RM300.2m. The -2.9%yoy decline was due to writeback of bonus provision of RM21.0mil.

RETURN STATS	
Price (28 August 2018)	RM9.30
Target Price	RM9.88
Expected Share Price Return	+6.2%
Expected Dividend Yield	+1.4%
Expected Total Return	+7.6%

STOCK INFO	
KLCI	1,826.90
Bursa / Bloomberg	5014 / MAHB MK
Board / Sector	Main / Trading Services
Syariah Compliant	No
Issued shares (mil)	1,659.2
Par Value (RM)	1.00
Market cap. (RM'm)	15,430.5
Price over NTA	1.87x
52-wk price Range	RM7.98– RM9.98
Beta (against KLCI)	0.88x
3-mth Avg Daily Vol	4.60m
3-mth Avg Daily Value	RM41.57m
Major Shareholders (%)	
Khazanah	33.2%
EPF	10.6%
Blackrock	3.4%

5.0sen dividend declared. The management declared an interim dividend of 5.0sen per share. It represents of 34% total core EPS in 1HFY18.

Maintain TP of RM9.88, but downgrade to NEUTRAL. While our optimism on the group's prospect remained intact, we take into account of the recent price run-up on the stock. At this juncture, we believe that all the positive have been priced in. Hence, with limited upside to the share price, we downgrade the stock to NEUTRAL (from BUY). Our valuation is based on our DCF assuming WACC of 7.8% and Beta of 1.1. Given the strong earnings results in 1HFY18, we opine that the current momentum of passengers' traffic will continue to provide a strong base for incremental revenue generation moving forward. This will be supported by accommodative visa policies in Malaysia, leaving positive impact to better inbound passengers' traffic.

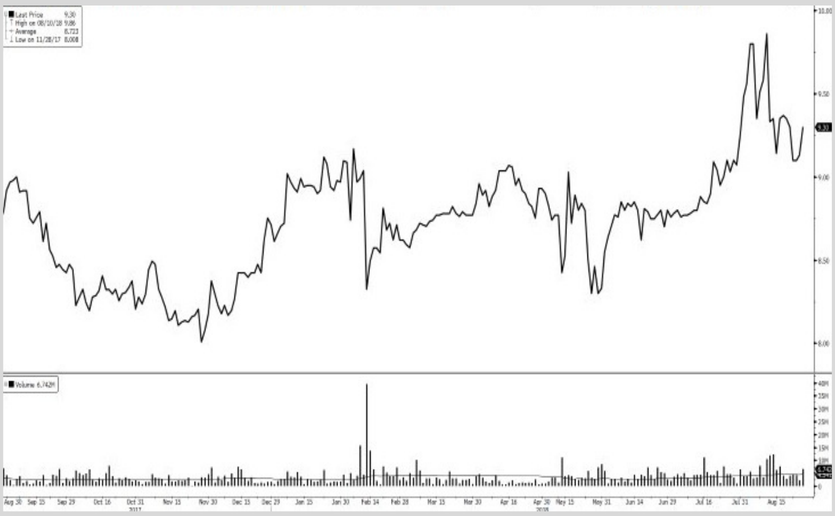
INVESTMENT STATISTICS

FYE Dec	FY14	FY15	FY16	FY17	FY18F	FY19F
Revenue* (RM' mn)	2,681.3	3,870.2	4,172.8	4,594.4	5,034.2	5,411.4
EBITDA (RM'mn)	861.4	1,679.1	1,709.9	1,910.9	2,270.0	2,381.0
EBIT (RM'mn)	1,291.6	777.5	857.4	1,030.0	1,095.6	1,116.4
Pretax Profit (RM' mn)	834.2	41.8	183.3	334.5	834.1	900.1
Net Profit (RM' mn)	748.2	45.2	73.1	236.5	512.8	594.7
Core Earnings* (RM'm)	67.5	(11.5)	77.5	236.5	512.8	594.7
EPS (sen)	30.8	(0.7)	4.7	14.3	30.9	35.8
EPS growth (%)	(7.4)	(102.2)	775.7	205.0	116.8	16.0
PER (x)	30.2	N/A	199.0	65.2	30.1	25.9
Net Dividend (sen)	14.0	8.5	10.0	13.0	13.0	13.0
Net Dividend Yield (%)	1.5	0.9	1.1	1.4	1.4	1.4

** Excluding the effect of IC12*

Source: Company, MIDFR

DAILY PRICE CHART



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Source: Bloomberg, MIDFR

2QFY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
FYE Dec	**2Q18**	**2Q17**	**1Q18**	**YoY**	**QoQ**	**6M18**	**6M17**	**YoY**
Revenue	**1,154.7**	**1,100.0**	**1,215.8**	**5.0%**	**-5.0%**	**2,370.5**	**2,193.6**	**8.1%**
Revenue (without IC12)	1,154.7	1,100.0	1,190.0	5.0%	-3.0%	2,370.5	2,193.6	8.1%
Operating expense	(647.6)	(635.1)	(347.9)	2.0%	86.2%	(995.5)	(1,231.2)	**-19.1%**
EBITDA	507.1	464.9	867.9	9.1%	-41.6%	1,375.0	962.3	42.9%
Depreciation & Amort.	(211.0)	(214.8)	(218.0)	-1.7%	-3.2%	(429.0)	(442.6)	-3.1%
EBIT	296.0	250.1	649.9	18.4%	-54.4%	946.0	519.7	82.0%
Finance cost	(181.2)	(163.9)	(179.7)	10.6%	0.8%	(360.9)	(338.3)	6.7%
Assoc & JV	10.8	6.1	2.5	76.6%	330.9%	13.3	10.9	21.8%
PBT	125.6	92.3	472.7	36.1%	-73.4%	598.4	192.2	211.3%
PATAMI	86.1	66.9	444.6	28.7%	-80.6%	530.7	128.9	311.6%
Core PATAMI	85.5	66.0	158.0	29.5%	-45.9%	243.3	127.4	91.0%

Source: Company, MIDFR

MAHB: BREAKDOWN IN REVENUE AND EXPENSES

FYE Dec	Quarterly Results					Cumulative		
RM'm	**2Q18**	**2Q17**	**1Q18**	**YoY**	**QoQ**	**6M18**	**6M17**	**YoY**
Aeronautical revenue	**538.3**	**541.0**	**588.4**	**-0.5%**	**-8.5%**	**1,126.7**	**1,067.8**	**5.5%**
-PSC & PSSC	465.8	386.5	408.9	20.5%	13.9%	874.7	756.6	15.6%
-Landing & Parking	105.0	93.9	91.5	11.8%	14.8%	196.5	188.6	4.2%
-MARCS		34.5	46.6	-100.0%	-100.0%		77.1	NA
-Airlines incentives	(26.8)	(17.8)	0.0	50.6%	NA	(26.8)	(35.6)	-24.7%
-Others	40.9	43.9	41.5	-6.8%	-1.4%	82.4	81.1	1.6%
Non-aeronautical rev	**506.8**	**489.1**	**528.9**	**3.6%**	**-4.2%**	**1,035.7**	**981.0**	**5.6%**
-Retail	199.1	208.2	217.1	-4.4%	-8.3%	416.2	412.9	0.8%
-Rental	264.5	238.1	259.7	11.1%	1.8%	524.2	485.1	8.1%
-Others	43.2	42.8	52.1	0.9%	-17.1%	95.3	82.9	15.0%
Non-airport Operations	**67.3**	**69.8**	**72.7**	**-3.6%**	**-7.4%**	**140.0**	**144.8**	**-3.3%**
Hotel	22.6	23.7	26.1	-4.6%	-13.4%	48.7	48.7	0.0%
Agri	7.5	8.2	7.8	-8.5%	-3.8%	15.3	18.7	-18.2%
Project & repair n maintenance	**37.1**	37.9	38.9	-2.1%	-4.6%	76.0	77.4	-1.8%
Expenses breakdown:	**(661.9)**	**(688.6)**	**(664.0)**	**-3.9%**	**-0.3%**	**(1,325.9)**	**(1,339.8)**	**-1.0%**
Direct Costs	(175.1)	(192.4)	(185.5)	-9.0%	-5.6%	(360.6)	(377.1)	-4.4%
Direct materials	(106.0)	(117.2)	(118.6)	-9.6%	-10.6%	(224.6)	(233.4)	-3.8%
Direct labour	(34.0)	(36.3)	(37.2)	-6.3%	-8.6%	(71.2)	(74.4)	-4.3%
Direct overheads	(35.1)	(38.9)	(29.7)	-9.8%	18.2%	(64.8)	(69.3)	-6.5%
Operating Costs	(486.8)	(496.2)	(478.5)	-1.9%	1.7%	(965.3)	(962.7)	0.3%
Staff costs	(137.9)	(163.6)	(162.3)	-15.7%	-15.0%	(300.2)	(309.1)	-2.9%
Utilities & comm.	(94.3)	(82.5)	(86.0)	14.3%	9.7%	(180.3)	(164.9)	9.3%
Maintenance	(83.7)	(80.5)	(74.7)	4.0%	12.0%	(158.4)	(159.4)	-0.6%
User free	(98.8)	(94.5)	(105.9)	4.6%	-6.7%	(204.7)	(188.8)	8.4%
Others	(72.1)	(75.1)	(49.6)	-4.0%	45.4%	(121.7)	(140.5)	-13.4%

Source: Company, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.