

22 November 2018 | 3QFY18 Results Review

## Malaysia Airports Holdings Berhad

*Supported by higher passenger growth*

**Maintain BUY**

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

### INVESTMENT HIGHLIGHTS

- **9MFY18 normalised earnings broadly in-line with our expectation**
- **Normalised PATAMI registered a +96.7%yoy jump**
- **Driven by robust passenger growth**
- **Maintain BUY with unchanged TP of RM9.88 per share**

**Broadly in-line within expectations.** MAHB's 9MFY18 normalised earnings (after excluding one-off gains) at RM411.3m (+96.7%yoy) came in broadly within expectation, accounted for 80.2% of our estimates. The growth in normalised earnings was mainly attributable to the strong traffic flow in the international sector. For 3QFY18, the group recorded normalised earnings of RM168.1m, an increase of +109.7%yoy.

**Higher international traffic growth.** 9MFY18 revenue rose by +5.7%yoy. This was in-line with the +4.5%yoy weighted-average growth of passengers' traffic in both Malaysia and Turkey in the period. Overall international traffic grew +6.9%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, we noted that the travel demand in September was underpinned by the slew of public holidays i.e., Yang di-Pertuan Agong's Birthday, Malaysia Day, and Awal Muharram. The improvement of passengers' traffic had positive impact to PSC and rental revenue which together constitutes 60.6% of 9MFY18 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 52.4%) drove PSC revenue up +3.8%yoy for the Group.
- 2) Improvement in retail revenue led to positive rental reversion rates with rental revenue per m<sup>2</sup> rising from RM8.8k to RM9.7k, leading to +5.9%yoy increase in rental revenue.

**Overall expenses inching down.** While revenue improved, we were encouraged to see overall direct costs dropped by -5.5%yoy for 9MFY18, marking its second consecutive drop in the past 3 quarters of FY18. This was a result of cost savings from direct labour (-2.9%yoy) and direct overheads (-8.8%yoy) in 1HFY18. Staff costs which represent the biggest chunk of opex were lower, amounting to RM471.8m. The -3.2%yoy decline was due to writeback of bonus provision of RM21.0mil which was offset against salary increment.

RETURN STATS	
Price (21 <sup>st</sup> Nov 2018)	RM7.80
Target Price	RM9.88
Expected Share Price Return	+26.7%
Expected Dividend Yield	+1.7%
<b>Expected Total Return</b>	<b>+28.4%</b>

STOCK INFO	
KLCI	1,695.37
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)	12,941.70
Price over NTA	1.61
52-wk price Range	RM7.26-RM9.98
Beta (against KLCI)	0.88
3-mth Avg Daily Vol	2.94m
3-mth Avg Daily Value	RM25.4m

Major Shareholders (%)	
Khazanah	33.2
EPF	10.6
Blackrock	3.4

**Updates on regulatory matters.** Negotiations for the operating agreement is expected to be finalised in the next two to three months while the Regulated Asset Base (RAB) framework is scheduled to come into effect by mid-2019. Another matter on hand is the proposed Airport REIT which is currently being studied by the government. The major change arising from the proposed Airport REIT would be the change of party that MAHB pays the user fees to; from the government to the REIT.

**Maintain BUY with unchanged TP of RM9.88 per share.** Our valuation is based on our DCF assuming WACC of 7.8% and Beta of 1.1. Given the strong earnings results in 9MFY18, 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. Although the departure levy will come into effect mid-next year, sensitivity towards the increase in passenger charges has been low in the past and will be offset by higher travelling demand, translating into better aeronautical revenue. In regards to the looming risks from rising fuel prices, MAHB has minimal exposure to changes in fuel price driven by its strong mix of domestic and international passengers that will be the strongest in the fourth quarter. Such grounds have constituted to our BUY call on MAHB with a TP of RM9.88 per share.



## 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)	25.3	N/A	166.9	54.7	25.2	21.8
Net Dividend (sen)	14.0	8.5	10.0	13.0	13.0	13.0
Net Dividend Yield (%)	1.8	1.1	1.3	1.7	1.7	1.7

\* Excluding the effect of IC12

Source: Company, MIDFR

## DAILY PRICE CHART



Adam Mohamed Rahim  
adam.mrahim@midf.com.my  
03-2772 1686

Source: Bloomberg, MIDFR

## 3QFY18 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
FYE Dec	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
<b>Revenue</b>	<b>1,229.5</b>	<b>1,211.9</b>	<b>1,154.7</b>	<b>1.5%</b>	<b>6.5%</b>	<b>3,600.0</b>	<b>3,405.2</b>	<b>5.7%</b>
Revenue (without IC12)	1,229.5	1,211.9	1,112.3	1.5%	10.5%	3,600.0	3,405.2	5.7%
Operating expense	(639.7)	(694.6)	(647.6)	-7.9%	-1.2%	(1,635.2)	(1,927.5)	-15.2%
EBITDA	589.8	517.3	507.1	14.0%	16.3%	1,964.8	1,477.7	33.0%
Depreciation & Amort.	(225.1)	(245.4)	(211.0)	-8.3%	6.7%	(654.1)	(688.1)	-4.9%
EBIT	364.7	271.9	296.0	34.2%	23.2%	1,310.7	789.7	66.0%
Finance cost	(213.7)	(184.0)	(181.2)	16.1%	17.9%	(574.6)	(523.6)	9.7%
Assoc & JV	3.7	4.5	10.8	-16.9%	-65.2%	17.0	15.4	10.5%
PBT	154.8	92.4	125.6	67.6%	23.2%	753.1	281.4	167.6%
PATAMI	168.5	80.9	86.1	108.2%	95.7%	699.2	207.5	237.0%
Core PATAMI	168.1	80.2	85.5	109.7%	96.6%	411.3	209.1	96.7%

Source: Company, MIDFR

## MAHB: BREAKDOWN IN REVENUE AND EXPENSES

FYE Dec	Quarterly Results					Cumulative		
RM'm	3Q18	3Q17	2Q18	YoY	QoQ	9M18	9M17	YoY
<b>Aeronautical revenue</b>	<b>632.4</b>	<b>605.0</b>	<b>538.3</b>	<b>4.5%</b>	<b>17.5%</b>	<b>1,759.1</b>	<b>1,672.8</b>	<b>5.2%</b>
-PSC & PSSC	501.0	493.3	465.8	1.6%	7.6%	1,375.7	1,325.6	3.8%
-Landing & Parking	102.8	97.7	105.0	5.2%	-2.1%	299.3	285.8	4.7%
-MARCS	0.0	0.0		#DIV/0!	n.a.	46.6	42.6	9.4%
-Airlines incentives	(17.2)	(31.4)	(26.8)	-45.2%	NA	(44.0)	(65.2)	-32.5%
-Others	45.7	45.4	40.9	0.7%	11.7%	128.1	126.6	1.2%
<b>Non-aeronautical rev</b>	<b>523.0</b>	<b>531.2</b>	<b>506.8</b>	<b>-1.5%</b>	<b>3.2%</b>	<b>1,558.7</b>	<b>1,512.2</b>	<b>3.1%</b>
-Retail	198.9	210.6	199.1	-5.6%	-0.1%	615.1	623.5	-1.3%
-Rental	283.2	277.4	264.5	2.1%	7.1%	807.4	762.5	5.9%
-Others	40.9	43.3	43.2	-5.5%	-5.3%	136.2	126.2	7.9%
<b>Non-airport Operations</b>	<b>74.2</b>	<b>76.0</b>	<b>67.3</b>	<b>-2.4%</b>	<b>10.3%</b>	<b>214.2</b>	<b>220.5</b>	<b>-2.9%</b>
Hotel	24.7	27.3	22.6	-9.5%	9.3%	73.4	76.0	-3.4%
Agri	9.3	10.3	7.5	-9.7%	24.0%	24.6	28.7	-14.3%
Project & repair n maintenance	40.1	38.1	37.1	5.2%	8.1%	116.1	115.6	0.4%
<b>Expenses breakdown:</b>	<b>(714.8)</b>	<b>(744.4)</b>	<b>(661.9)</b>	<b>-4.0%</b>	<b>8.0%</b>	<b>(2,040.7)</b>	<b>(2,084.2)</b>	<b>-2.1%</b>
Direct Costs	(176.1)	(191.0)	(175.1)	-7.8%	0.6%	(536.7)	(568.1)	-5.5%
Direct materials	(106.3)	(116.5)	(106.0)	-8.8%	0.3%	(330.9)	(349.9)	-5.4%
Direct labour	(40.0)	(40.1)	(34.0)	-0.2%	17.6%	(111.2)	(114.5)	-2.9%
Direct overheads	(29.8)	(34.4)	(35.1)	-13.4%	-15.1%	(94.6)	(103.7)	-8.8%
Operating Costs	(538.7)	(553.4)	(486.8)	-2.7%	10.7%	(1,504.0)	(1,516.1)	-0.8%
Staff costs	(171.6)	(178.2)	(137.9)	-3.7%	24.4%	(471.8)	(487.3)	-3.2%
Utilities & comm.	(97.7)	(93.2)	(94.3)	4.8%	3.6%	(278.0)	(258.1)	7.7%
Maintenance	(86.0)	(89.6)	(83.7)	-4.0%	2.7%	(244.4)	(249.0)	-1.8%
User fee	(102.8)	(98.1)	(98.8)	4.8%	4.0%	(307.5)	(286.9)	7.2%
Others	(80.5)	(94.3)	(72.1)	-14.6%	11.7%	(202.2)	(235.1)	-14.0%

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 <i>rise</i> 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 <i>fall</i> 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.