

22 February 2018 | 4QFY17 Results Review

## Malaysia Airports Holdings

*Strong 2017 despite missed earnings*

**Maintain BUY**

**Adjusted Target Price (TP): RM9.80**  
**From (RM9.98)**

### INVESTMENT HIGHLIGHTS

- MAHB recorded RM236.5 core PATAMI for FY17
- Stark improvement from last year
- Increase in international traffic, a positive
- Maintain BUY with an adjusted TP of RM9.80

**Missed expectation.** MAHB's FY17 net earnings missed expectations despite growing by more than threefold to RM236.5m (>+100%yoy). It accounted for 71.0% and 83.0% of ours and consensus' expectations respectively. For 4QFY17, net earnings were lower at RM27.9m vs. RM36.8m in the same period last year which was due to one-off provision in the staff expenses.

**Can be considered a solid year for MAHB.** Despite falling short of estimates, the group's FY17 performance showed strong improvement. We note that earnings expansion was due to the solid growth in revenue, where it grew +11.5%yoy. PSC which represents 72% of FY17 aeronautical revenue grew by +16.6%yoy, as a result from strong passenger growth. Recall, the group's FY17 passenger growth was up by +7.8%yoy. Meanwhile, retail segments grew double digit at +15.4%yoy, backed by the encouraging growth of international traffic in Malaysia.

**International traffic outpaced domestic passengers.** International traffic growth in Malaysia had outpaced the domestic, where it advanced +14.1%yoy. Consequently, international passengers now account 51.2% of total traffic (vs FY16:48.7%). In our view, the expansion of this particular traveller segment will augur positively with the prospect of retail and rental earnings, as MAHB continues to develop its land bank to cater the growth of these high value passengers. As of FY17, we have seen retail and rental segments contributed positively to the group's earnings, where it cumulatively grew by +15.4%yoy and +9.1%yoy.


**Increase in expenses.** Overall expenses were up by +14.8%yoy, where almost 75.0% was comprised of operational costs. Majority of the costs were incurred for staff expenses, attributable to annual salary increment of 3-6% and higher bonus provisions. Moving forward, we are not too concern on this as historical opex showed an annual average growth of +9.0-14.0%yoy. We believe with the average of 3-year historical EBITDA growth of ~+40.0%, this will more than offset the cost increase.

RETURN STATS	
Price (21 Feb 2018)	RM8.89
Target Price	RM9.80
Expected Share Price Return	+10.2%
Expected Dividend Yield	+1.5%
<b>Expected Total Return</b>	<b>+11.7%</b>

STOCK INFO	
KLCI	1,858.17
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)	14,750.2
Price over NTA	1.87x
52-wk price Range	RM6.35– RM9.45
Beta (against KLCI)	1.31x
3-mth Avg Daily Vol	3.88m
3-mth Avg Daily Value	RM33.77m
Major Shareholders (%)	
Khazanah	33.2%
EPF	11.0%
JP Morgan	2.2%

**On CAPEX expansion.** Management guided that the group's CAPEX will likely see a notable jump in the near term. This is due to implementation of several measures placed by MAVCOM to increase the standard of the airport service. The new rulings will see MAHB to take more proactive steps to improve the current services. While the initial impact was perceived as detrimental to MAHB, increasing the cost of maintenance, compliance and development CAPEX, we believe that the new rulings set a clearer standard for airport operator which will increase the "feel good" factor for the airport. We believe that this will drive spending at the airports. Consequently, we recall that management has projected 30% increase in CAPEX for the next three years which may amount to an absolute figure of RM500-600m of CAPEX in FY18. Assuming a straight-line depreciation (until the end of concession period), this could increase annual depreciation by ~+6.3%yoy.

**Earnings revised downward.** Given the results came in below our expectation, we adjust our earnings forecast downward for FY18 and FY19 by -22.6% and -14.8% respectively. This adjustment is also taking into account the higher planned CAPEX spending for the next two to three years.

**Maintain BUY with adjusted TP of RM9.80 (from RM9.98)** based on our DCF assuming WACC of 7.8% and Beta of 1.1. We are adjusting downwards our TP as we take into account the CAPEX spending. However, we continue like MAHB as a proxy to Malaysia's resilient inbound/outbound travel industry being the largest airport operator in Malaysia. Positive drivers for MAHB includes 1) the expansion of international passengers traffic in Malaysia and 2) capacity expansion and entries of foreign airlines, catering to long-term structural demand of air travel. Hence, we maintain our BUY call for MAHB. 

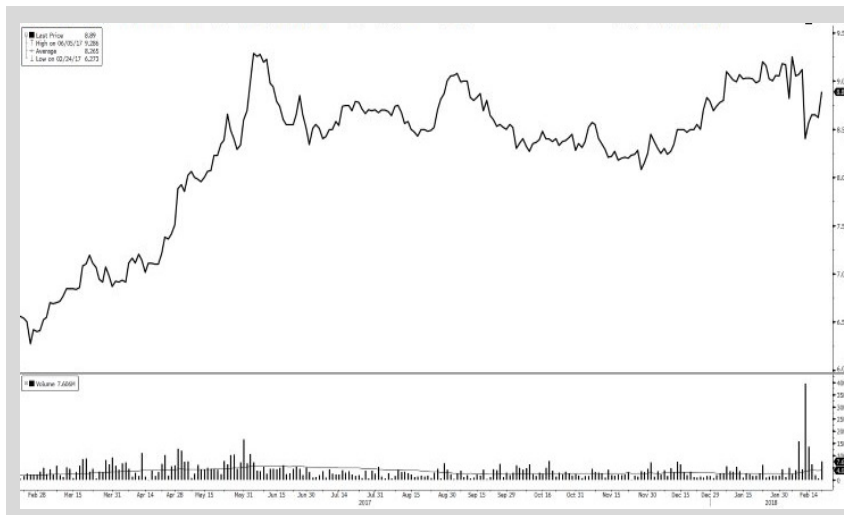
## INVESTMENT STATISTICS

FYE Dec	FY15	FY16	FY17	FY18F	FY19F
Revenue* (RM' mn)	3,870.2	4,172.8	4,594.4	5,034.2	5,411.4
EBITDA (RM'mn)	1,679.1	1,709.9	1,910.9	2,008.8	2,310.1
EBIT (RM'mn)	777.5	857.4	1,030.0	935.3	1,005.4
Pretax Profit (RM' mn)	41.8	183.3	334.5	734.1	789.1
Net Profit (RM' mn)	45.2	73.1	236.5	412.8	483.7
Core Earnings* (RM'm)	(11.5)	77.5	236.5	412.8	483.7
EPS (sen)	(0.7)	4.7	14.3	24.9	29.2
EPS growth (%)	(102.2)	775.7	205.0	74.5	17.2
PER (x)	N/A	191.1	62.6	35.9	30.6
Net Dividend (sen)	8.5	10.0	13.0	13.0	13.0
Net Dividend Yield (%)	1.0	1.1	1.5	1.5	1.5

\* Excluding the effect of IC12

Source: Company, MIDFR

## DAILY PRICE CHART



Danial Razak  
 muhammad.danial@midf.com.my  
 03-2173 8396

Source: Bloomberg, MIDFR

## 4QFY17 RESULTS SUMMARY

All in RM'm unless stated otherwise	Quarterly Results					Cumulative		
FYE Dec	4Q17	4Q16	3Q17	YoY	QoQ	12M17	12M16	YoY
<b>Revenue</b>	<b>1,246.8</b>	<b>1,080.0</b>	<b>1,212.0</b>	<b>15.4%</b>	<b>2.9%</b>	<b>4,652.3</b>	<b>4,172.8</b>	<b>11.5%</b>
Revenue (without IC12)	1,246.8	1,080.0	1,212.0	15.4%	2.9%	4,652.3	4,172.8	11.5%
Operating expense	(695.9)	(707.4)	(695.9)	-1.6%	0.0%	(2,683.6)	(2,462.9)	9.0%
EBITDA	432.4	372.6	516.1	16.1%	-16.2%	1,910.9	1,709.9	11.8%
Depreciation & Amort.	(192.8)	(94.5)	(245.4)	103.9%	-21.5%	(880.8)	(852.5)	3.3%
EBIT	239.7	278.1	270.7	-13.8%	-11.5%	1,030.0	857.4	20.1%
Finance cost	(193.4)	(195.4)	(184.5)	-1.0%	4.8%	(716.2)	(689.8)	3.8%
Assoc & JV	5.2	2.0	4.5	167.9%	16.3%	20.6	15.7	31.1%
PBT	51.5	84.6	90.8	-39.1%	-43.2%	334.5	183.3	82.4%
PATAMI	27.9	33.3	79.7	-16.4%	-65.1%	236.5	69.9	238.4%
Core PATAMI	27.9	36.8	81.1	-24.1%	-65.6%	236.5	77.5	205.0%

Source: Company, MIDFR

## MAHB: BREAKDOWN IN REVENUE AND EXPENSES

FYE Dec	Quarterly Results					Cumulative		
	4Q17	4Q16	3Q17	YoY	QoQ	12M17	12M16	YoY
<b>RM'm</b>								
<b>Aeronautical revenue</b>	<b>580.8</b>	<b>534.1</b>	<b>605.0</b>	<b>8.7%</b>	<b>-4.0%</b>	<b>2,253.6</b>	<b>2,062.5</b>	<b>9.3%</b>
-PSC & PSSC	420.8	361.9	443.2	16.3%	-5.0%	1,620.6	1,389.8	16.6%
-Landing & Parking	99.9	97.5	97.2	2.4%	2.7%	385.7	369.5	4.4%
-MARCS	42.1	52.0	48.8	-19.0%	-13.7%	168.0	203.4	-17.4%
-Airlines incentives	(23.8)	(18.9)	(29.6)	26.1%	-19.5%	(89.0)	(71.3)	24.9%
-Others	41.9	41.6	45.3	0.8%	-7.4%	168.3	171.1	-1.6%
<b>Non-aeronautical rev</b>	<b>531.1</b>	<b>480.8</b>	<b>531.2</b>	<b>10.5%</b>	<b>0.0%</b>	<b>2,043.2</b>	<b>1,850.2</b>	<b>10.4%</b>
-Retail	230.2	207.0	210.6	11.2%	9.3%	853.7	740.0	15.4%
-Rental	262.1	222.3	277.5	17.9%	-5.6%	1,024.7	939.2	9.1%
-Others	38.7	51.5	43.3	-24.9%	-10.7%	164.9	171.0	-3.6%
<b>Non-airport Operations</b>	<b>77.0</b>	<b>64.9</b>	<b>75.7</b>	<b>18.7%</b>	<b>1.7%</b>	<b>297.6</b>	<b>260.0</b>	<b>14.5%</b>
Hotel	24.7	26.7	27.3	-7.5%	-9.5%	103.2	92.9	11.1%
Agri	10.2	11.1	10.3	-8.1%	-1.0%	39.2	34.3	14.3%
Project & repair n maintenance	39.7	27.1	38.1	46.5%	4.2%	155.2	132.8	16.9%
<b>Expenses breakdown:</b>	<b>(837.8)</b>	<b>(771.5)</b>	<b>(744.4)</b>	<b>8.6%</b>	<b>12.5%</b>	<b>(3,082.0)</b>	<b>(2,683.6)</b>	<b>14.8%</b>
Direct Costs	(224.0)	(203.8)	(191.0)	9.9%	17.3%	(792.1)	(723.3)	9.5%
Direct materials	(133.4)	(121.7)	(116.5)	9.6%	14.5%	(483.3)	(430.1)	12.4%
Direct labour	(45.6)	(41.7)	(40.1)	9.4%	13.7%	(160.1)	(155.7)	2.8%
Direct overheads	(45.1)	(40.4)	(34.4)	11.6%	31.1%	(148.8)	(137.5)	8.2%
Operating Costs	(613.8)	(567.7)	(553.4)	8.1%	10.9%	(2,289.9)	(1,960.3)	16.8%
Staff costs	(221.1)	(179.3)	(178.2)	23.3%	24.1%	(707.4)	(628.8)	12.5%
Utilities & comm.	(81.3)	(90.5)	(93.2)	-10.2%	-12.8%	(339.4)	(351.1)	-3.3%
Maintenance	(103.5)	(115.4)	(89.6)	-10.3%	15.5%	(352.5)	(343.2)	2.7%
User free	(104.9)	(112.4)	(98.1)	-6.7%	6.9%	(391.8)	(362.4)	8.1%
Others	(104.0)	(70.1)	(94.3)	48.4%	10.3%	(498.8)	(274.8)	81.5%

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### 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.