

24 October 2018 | Corporate Update

Malaysia Airports Holdings Berhad

Moving towards a higher level of transparency

Maintain BUY

Unchanged Target Price(TP): RM9.88

INVESTMENT HIGHLIGHTS

- **RAB framework is proposed to take effect by 3QFY19**
- **Possible differentiation of charges according to airport grouping**
- **Transparency and accountability of airport operators will be elevated through the RAB framework**
- **Maintain BUY with an unchanged TP of RM9.88 per share**

RAB framework remains the key factor. The Malaysian Aviation Commission (MAVCOM) released a consultation paper laying out draft proposals for the level of aeronautical charges expected in 2019. The crux of the draft proposal is the Regulated Asset Base (RAB) framework which provides a direct link between capital investment and the level of charges. The framework also emphasises a “user-pay principle” instead of burdening tax payers, some of whom may not be air travellers.

Main components of RAB framework. MAVCOM will first assess the Business Plan and Capital investment submitted by MAHB while considering components such as; (i) the regulated asset base; (ii) operating costs; and (iii) non-regulated revenues. The required regulated revenue yield per passenger from PSC, landing fees and parking charges will subsequently be calculated. In essence, the RAB is premised on assets used for the provision of aeronautical related services that include commercial activities under a single till regime. Meanwhile, assets for ancillary operations and those held overseas are excluded from the RAB.

Potential grouping of airports to differentiate charges. Currently, tariffs are standardised for all airports in Malaysia. With a RAB framework in place, an airport operator can determine the structure and charges as long as it meets the cap designated by MAVCOM. Therefore, there is an option for airport operators to set tariffs at a national level or via groupings based on size or level of facilities and services; or geographic locations.

Price control preferred by MAVCOM. To control charges moving forward from mid-2019 to 2022, MAVCOM has considered the price control mechanism over the revenue control and hybrid control. The price control has the advantage of being simple to understand and the traffic forecasts should be the responsibility for airport operators such as MAHB to manage.

RETURN STATS	
Price (23 Oct 2018)	RM8.45
Target Price	RM9.88
Expected Share Price Return	+16.9%
Expected Dividend Yield	+1.5%
Expected Total Return	+18.4%

STOCK INFO	
KLCI	1,697.60
Bursa / Bloomberg	5014 / MAHB MK
Board / Sector	Main/ Trading Services
Syariah Compliant	No
Issued shares (mil)	1,659.19
Market cap. (RM'm)	14,020.17
Price over NA	1.75
52-wk price Range	RM7.98- RM9.98
Beta (against KLCI)	0.90
3-mth Avg Daily Vol	3.79m
3-mth Avg Daily Value	RM34.7m
Major Shareholders (%)	
Khazanah Nasional	33.21
EPF	10.66
Blackrock	3.39

Our view. We view that the proposed RAB framework as positive as it will elevate the level of transparency on aeronautical charges and accountability of airport operators. It will also ensure that MAHB will be remunerated for the development of its assets. Based on preliminary analysis, we estimated that MAHB have undercharged its PSC, landing and parking fees previously. This is based on comparing the historical FY17 financial, on an actual basis and the price cap should the RAB be implemented in FY17. Furthermore, MAHB would have to undergo an institutionalised consultation process for capex planning, requiring inputs from all stakeholders. As such, a push for efficiency exists as only efficient costs would be considered under the RAB framework.

Earnings forecast. We make no changes to our earnings forecasts for now as the RAB is at proposal stage.

Maintain BUY with unchanged TP of RM9.88 per share. Although we are positive on the RAB framework, it is still in progress. Hence, we premise our BUY call on the expectation of continuing strong tourist arrivals. The expected headwinds from rising fuel prices will be muted as MAHB has minimal exposure to changes in fuel price.

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)	27.4	N/A	180.8	59.3	27.3	23.6
Net Dividend (sen)	14.0	8.5	10.0	13.0	13.0	13.0
Net Dividend Yield (%)	1.7	1.0	1.2	1.5	1.5	1.5

Source: Bloomberg, MIDFR

DAILY PRICE CHART



Source: Bloomberg, 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.