

AVIATION

Maintain NEUTRAL

76% traffic recovery in 1HCY23


KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 77% in Jun-23 and 76% in 1HCY23**
- **The monthly international passenger movements surpassed the 3.0m mark for the first time**
- **The average load factor in 1HCY23 surpassed 1HCY19 level by +1.2%**
- **Malaysia’s passenger traffic assumptions remain unchanged**
- **Maintain BUY on Capital A (TP: RM1.00) and NEUTRAL on MAHB (TP: RM7.45)**

Jun-23 passenger traffic. In Jun-23, Malaysia’s total passenger traffic reached a new post-Covid peak of 6.98m pax, representing a recovery of 77% compared to Jun-19 levels (domestic: 82%, international: 73%). Notably, international passenger movements surpassed the 3.0m mark for the first time, totalling 3.20m pax, while the average daily passengers reached a record high of 106,000. The domestic sector’s rebound remained robust, maintaining its recovery at above 80% for the seventh consecutive month, with an average daily passenger count of over 125,000, slightly higher than May-23.

1HCY23 performance overview. Passenger movements in Malaysia in 1HCY23 reached a total of 38.9m pax or equivalent to a 76% recovery (domestic: 85%, international: 67%). The revival of 45 airlines and the introduction of 2 new airlines during said period contributed significantly to the airlines’ total seat capacity recovery, reaching 75% at 50.5m (1HCY19: 67.3m). Throughout the first half of CY23, airlines consistently achieved higher average load factors each month (except for Ramadhan), with the average load factor in 1HCY23 reaching 76.1%, surpassing the 1HCY19 level by +1.2%.

Improving seat capacity. More routes are being reinstated, and flight frequencies are increasing gradually as labour shortages at other airports are being addressed. Full recovery is not yet in sight due to the gap in seat capacity, stemming from lower aircraft availability compared to levels seen in CY19. Major local airlines seem to not have any immediate plans to aggressively rebuild their fleet. Malaysia AirAsia (MAA) remains dedicated to fully reactive its grounded fleet in 3QCY23, while Malaysia Airlines (MAS) is expected to receive the first of its 25 new Boeing 737 MAX 8 aircraft in Aug-23. The new additions are intended to replace the aging fleet rather than expanding it.

Maintain NEUTRAL. No revisions were made to our passenger traffic assumptions. The total passenger traffic in 1HCY23 accounted for 43% of our full-year projection (domestic: 46%, international: 41%). We believe the non-ASEAN sector (Chart 2) still presents significant growth prospects in 2HCY23. To reiterate, we expect a traffic recovery of 85% in CY23 (domestic: 90%, international: 80%). Potential upsides to our numbers are: (i) local airlines rebuilding its fleet and (ii) faster-than-expected return of Chinese tourists. 

COMPANY IN FOCUS

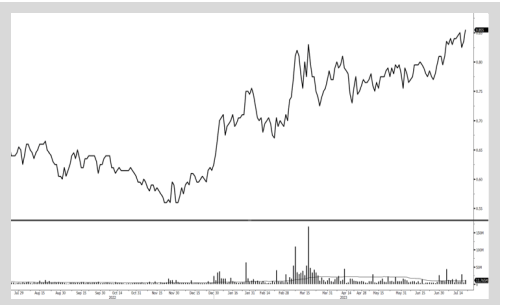
Capital A Berhad

Maintain **BUY** | Unchanged TP: **RM1.00**

Price @ 21st July 2023: RM0.86

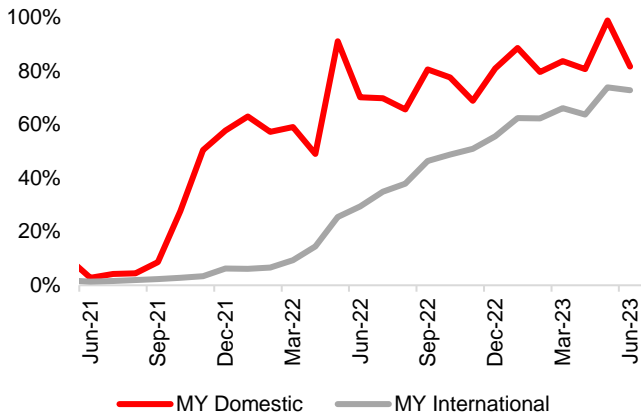
- The Group has returned to the black in 1QFY23.
- PN17 regularisation plan to be announced in 3QCY23.
- The aviation group expects to reach full fleet utilisation in 3QFY23.

Share Price Chart



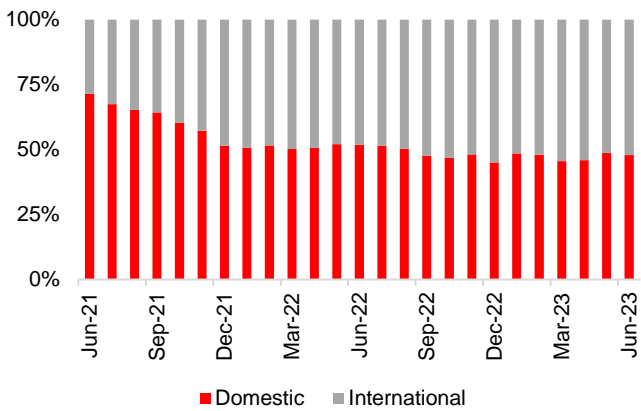
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Chart 1: Recovery of Passenger Traffic (%)



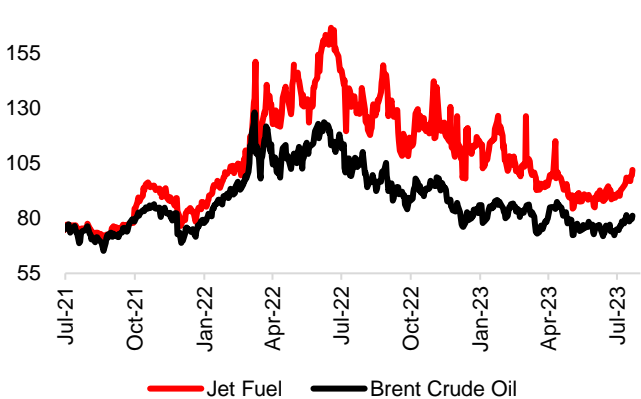
Source: MAHB, MIDFR

Chart 3: Passenger Mix (%)



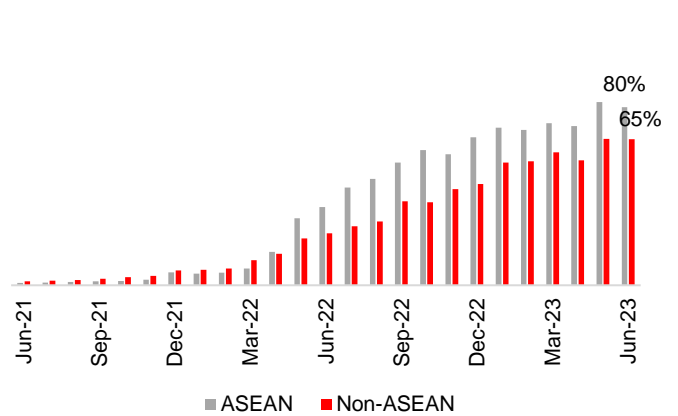
Source: MAHB, MIDFR

Chart 5: Crude Oil vs. Jet Fuel Prices (USD/barrel)



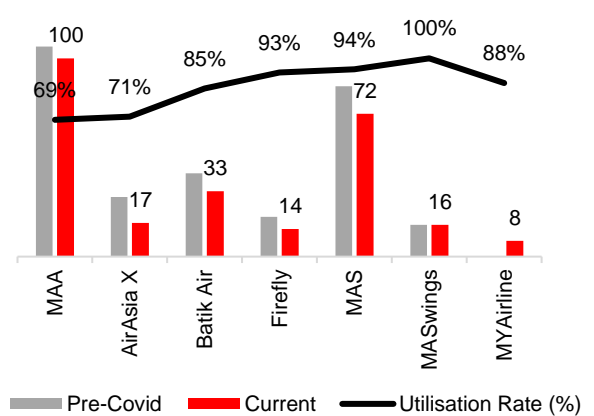
Source: Bloomberg, MIDFR

Chart 2: Recovery of ASEAN & Non-ASEAN Pax (%)



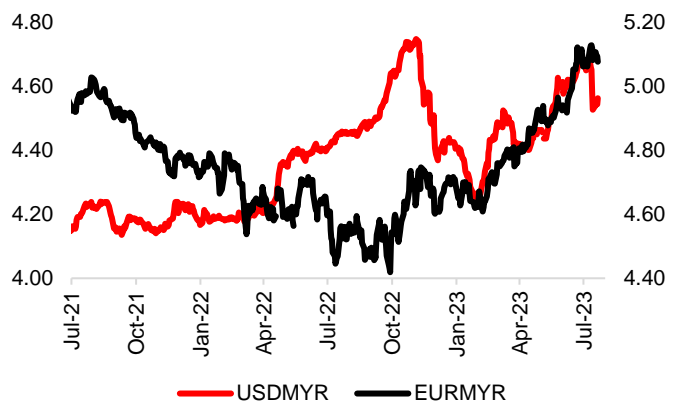
Source: MAHB, MIDFR

Chart 4: Fleet Size of Local Airlines as at Jul-23



Source: Planespotters.net, MIDFR

Chart 6: USDMYR & EURMYR Exchange Rates



Source: Bloomberg, MIDFR

Table 1: MAHB MY Passenger Traffic Assumptions ('000)

Sector	2021A	2022A	2023E	2024F	2025F
Domestic	9,363	36,095	46,779	54,576	56,135
International	1,360	16,455	42,884	54,610	56,208
ASEAN	538	9,642	22,253	27,817	28,611
Non-ASEAN	822	6,813	20,631	26,793	27,597
Total	10,723	52,550	89,663	109,185	112,343

Source: MAHB, MIDFR

Table 2: Recovery/Growth as a % of 2019 level (%)

Sector	2021A	2022A	2023E	2024F	2025F
Domestic	18%	69%	90%	105%	108%
International	3%	31%	80%	102%	105%
ASEAN	2%	36%	84%	105%	108%
Non-ASEAN	3%	25%	77%	100%	103%
Total	10%	50%	85%	104%	107%

Source: MAHB, MIDFR

SECTOR VALUATION MATRIX

Company	Rating	Share Price	TP	PER		ROE		Dividend Yield	
		RM	RM	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Capital A	Buy	0.86	1.00	n.a.	6.6x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	6.85	7.45	31.6x	20.0x	4.8%	7.3%	1.5%	2.2%

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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology