

# AVIATION

**Maintain NEUTRAL**

## Flight to recovery


### KEY INVESTMENT HIGHLIGHTS

- **Malaysia passenger traffic recovered to 86% in May-23**
- **The domestic sector's recovery was supported by festivities, public holidays and the LIMA exhibition**
- **International travels were driven by the Indonesia, South Korea, and China markets**
- **Malaysia's passenger traffic assumptions remain unchanged**
- **Maintain BUY on Capital A (TP: RM1.00) and NEUTRAL on MAHB (TP: RM7.45)**

**May-23 passenger traffic.** In May-23, Malaysia's passenger figures of 6.8m pax exceeded 80% of pre-pandemic levels for the first time. The overall traffic recovery reached an impressive 86% (domestic: 99%, international: 74%). The growth in international traffic was fueled by rising travel to Indonesia, South Korea, and China, while the domestic sector's recovery was driven by the extended Raya festive season, multiple public holidays, and the Langkawi International Maritime & Aerospace (LIMA) Exhibition. Additionally, the increased movement of Haj pilgrims from domestic airports to KLIA played a significant role, with this year's pilgrim quota raised to 31,600 (CY22: 14,306).

**Bridging the capacity gap.** Excluding seasonal influences, the full recovery of passenger traffic was hindered by a capacity gap mainly resulting from lower aircraft availability (Chart 4). While MYAirline sets its sights on tripling its fleet size this year, major local airlines do not have immediate intentions to aggressively rebuild its fleet as it focus on reactivating grounded aircraft and renewing its aging fleet. Therefore, the return of Malaysia AirAsia's (40% market share) entire aircraft fleet is a crucial factor in driving the recovery, with the airline having less than two months to achieve this target.

**Outlook.** Malaysia's total passenger traffic is expected to gather pace in 2HCY23. The non-ASEAN sector (Chart 2) holds considerable growth prospects as more routes are reinstated and flight frequencies increase. MAHB expects the China sector's seat capacity to reach at least 60% of the 2019 level by end-CY23, partly supported by the resumption of direct flights by China-based airlines. A relatively weaker MYR against USD poses near-term challenges for local airlines as it incurs substantial USD-denominated expenses, but our economists expect it to strengthen to USDMYR4.20 by year-end. Encouragingly, the jet fuel crack spread has stabilised within the USD10-15 per barrel range, and our internal forecast suggests stable crude oil prices for the remainder of the year. With the continued implementation of fuel surcharges, we anticipate effective management of any potential fluctuations in jet fuel prices.

**Maintain NEUTRAL.** No revisions were made to our passenger traffic assumptions. We expect a traffic recovery of 85% in CY23 (domestic: 90%, international: 80%). Potential upsides to our numbers are: (i) local airlines rebuilding their fleet and (ii) faster-than-expected return of Chinese tourists. 

### COMPANY IN FOCUS

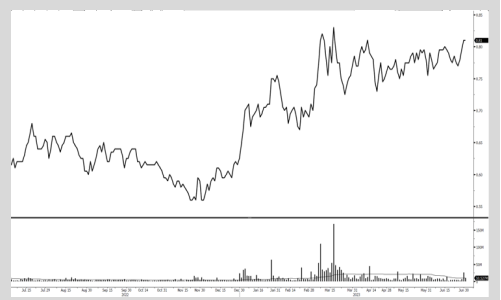
#### Capital A Berhad

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

Price @ 3<sup>rd</sup> July 2023: RM0.81

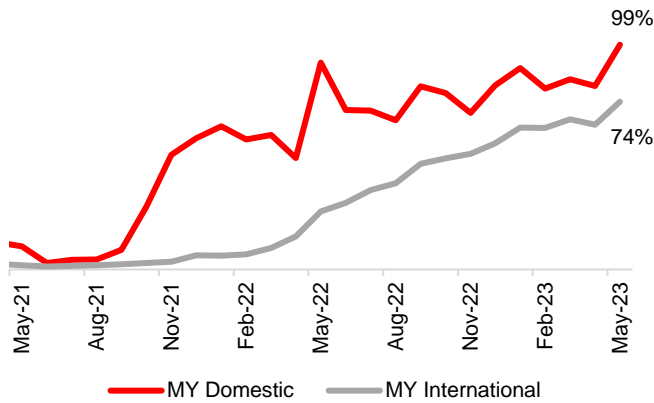
- The Group has returned to the black in 1QFY23.
- PN17 regularisation plan to be announced in Jul-23.
- The aviation group expects to reach full fleet utilisation in 3QFY23.

### Share Price Chart

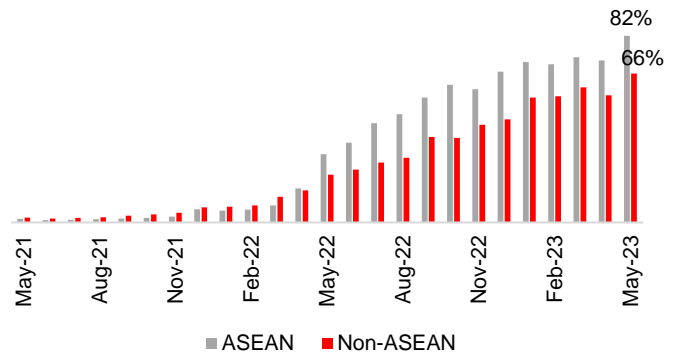


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**Chart 1: Recovery of Passenger Traffic (%)**

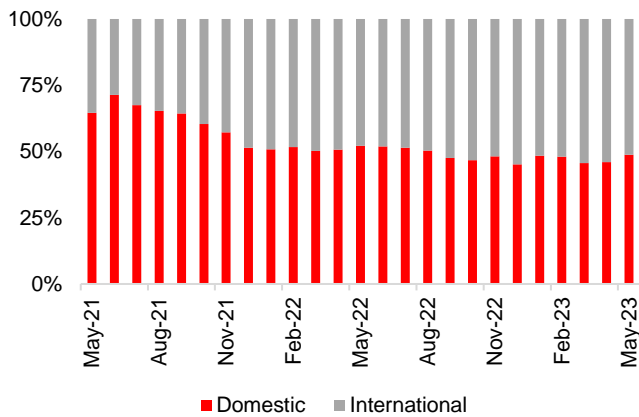


**Chart 2: Recovery of ASEAN & Non-ASEAN Pax (%)**



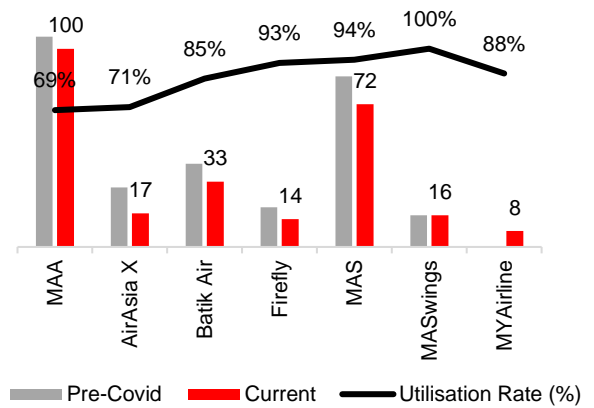
Source: MAHB, MIDFR

**Chart 3: Passenger Mix (%)**



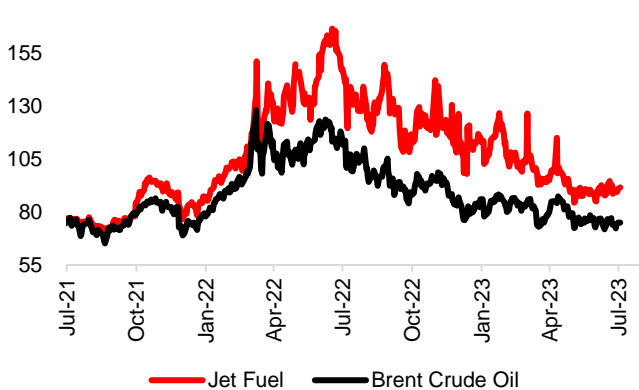
Source: MAHB, MIDFR

**Chart 4: Fleet Size of Local Airlines**



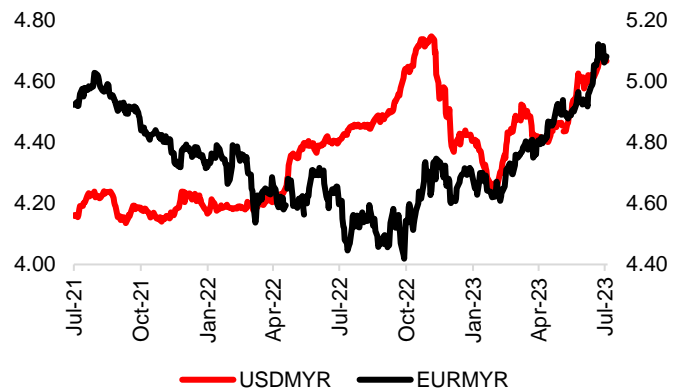
Source: MAHB, MIDFR

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



Source: Planespotters.net, MIDFR

**Chart 6: USDMYR & EURMYR Exchange Rates**



Source: Bloomberg, MIDFR

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
<b>Total</b>	<b>10,723</b>	<b>52,550</b>	<b>89,663</b>	<b>109,185</b>	<b>112,343</b>

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%
<b>Total</b>	<b>10%</b>	<b>50%</b>	<b>85%</b>	<b>104%</b>	<b>107%</b>

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	0.81	1.00	n.a.	6.2x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	6.90	7.45	31.8x	20.1x	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