

AVIATION

Maintain NEUTRAL

A strong start to the 2HCY23

KEY INVESTMENT HIGHLIGHTS

- Malaysia's passenger traffic recovered to 80% in Jul-23
- Overall passenger movements surpassed the 7.0m mark for the first time
- Passenger movements for the China sector recovered to 40% as at Jun-23
- Expecting an 85% recovery (domestic: 90%, international: 80%) in CY23
- Downgrade Capital A to NEUTRAL (TP: RM1.00) and maintain NEUTRAL on MAHB (TP: RM7.45)

Jul-23 passenger traffic. Airports in Malaysia showed a consistent rebound in passenger traffic at 7.39m pax in Jul-23, surpassing the 7.0m mark for the first time since the onset of the pandemic. This signifies an overall recovery of 80% (domestic: 85%, international: 75%) against 2019 levels. The recovery of both sectors was partly driven by local school holidays in late Jul-23, summer holidays and the return of Hajj pilgrims. Notably, regions such as Northeast Asia, the Middle East, Southeast Asia, Europe, and the Southwest Pacific posted growth ranging from +3.0%mom to +24.0%mom.

China's recovery. As reported by Malaysia Airports Holdings Berhad (MAHB), the passenger movements for the China sector have only recovered to 40% as of Jun-23. There are currently about 210 flights per week (61% of 2019 level), with the seat capacity filed standing at about 56% as of Aug-23. The latter is projected to reach 63% by year-end. It was reported that the slight disparity between seat capacity and the recovery of passenger movements arises from airlines opting to operate more narrow-body aircraft (refer to Chart 3).

Outlook. The recovery trend is set to continue in 2HCY23, driven by the reintroduction of more routes and an increase in flight frequencies. Furthermore, the presence of major alliance carriers is set to expand MAHB's market reach. Currently, 67 airlines (91% of 2019 level) are operational in Malaysia, and this number is expected to grow by +8.0% over the next two years. This expansion will be fueled by the reintroduction or launch of key airlines including British Airways and Qantas, as early as next year. Despite robust demand for air travel, with the average load factor reaching 76.1% in 1HCY23 and surpassing pre-Covid levels by +1.2%, the full recovery of seat capacity is not projected to materialise this year due to constraints in aircraft availability.

Maintain NEUTRAL. Our passenger traffic projections remain unchanged. The total passenger traffic in 7MCY23 accounted for 52% of our full-year estimate (domestic: 54%, international: 49%). We hold the view that the non-ASEAN sector still offers substantial growth for the latter half of CY23. Overall, we expect the passenger traffic to recover to 85% this year (domestic: 90%, international: 80%). In this report, we are downgrading **Capital A** to **NEUTRAL** (from BUY) due to the recent share price rally, while maintaining the TP at **RM1.00**. Potential positive deviations from our estimations include: (i) domestic airlines rebuilding their fleet and (ii) a quicker-than-expected return of Chinese tourists.

COMPANY IN FOCUS

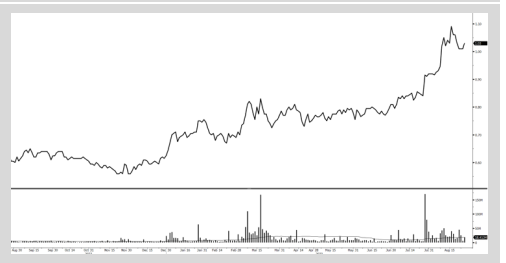
Capital A Berhad

Downgrade to **NEUTRAL** | TP: **RM1.00**

Price @ 25th August 2023: RM1.03

- 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 (%)

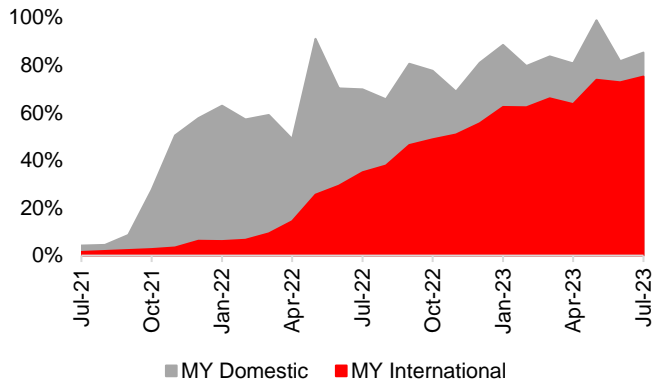
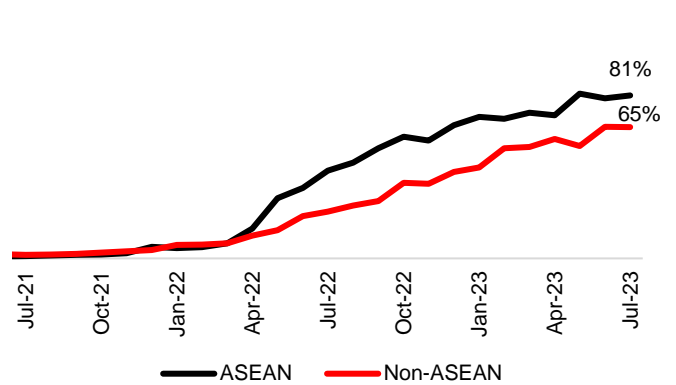
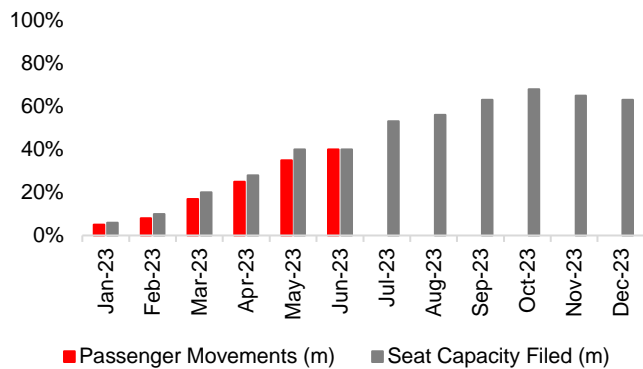


Chart 2: Recovery of ASEAN & Non-ASEAN Pax (%)



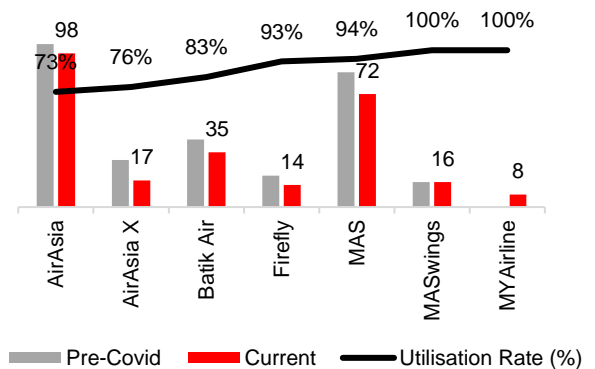
Source: MAHB, MIDFR

Chart 3: Recovery of the China Sector (%)



Source: MAHB, MIDFR

Chart 4: Fleet Size of Local Airlines as of Aug-23



Source: MAHB, MIDFR

Source: Planespotters.net, MIDFR

Table 1: Passenger Traffic Recovery 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	Neutral	1.03	1.00	33.7x	7.9x	n.a.	n.a.	n.a.	n.a.
MAHB	Neutral	7.20	7.45	33.4x	21.1x	4.8%	7.3%	1.4%	2.1%

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