

# AVIATION

**Maintain NEUTRAL**

## Recovery holds strong


### KEY INVESTMENT HIGHLIGHTS

- **Malaysia's passenger traffic recovered to 79% in Aug-23**
- **For the first time, the non-ASEAN sector achieved a recovery rate that exceeds 70%**
- **The average daily passenger movements in Aug-23 reached a peak of nearly 240,000**
- **Anticipates a +4.0% growth in passenger traffic against 2019 levels for CY24**
- **Maintain NEUTRAL on Capital A (TP: RM0.90) and MAHB (TP: RM7.45)**

**Aug-23 passenger traffic.** In Aug-23, Malaysian airports saw over 7.0m passengers (7.4m) for the second month in a row, with airline seat capacity reaching 78.6% of pre-pandemic levels. This reflects a recovery of 79% (domestic: 83%, international: 76%). The average daily passenger movements in Aug-23 reached a peak of nearly 240,000, marking the highest for the year. This surge was influenced by factors such as the six state elections in mid-August, an extra public holiday that followed the elections, increased seat capacity and National Day aligning with school holidays.

**Ongoing seat capacity expansion.** International passenger numbers consistently exceeded 3.5m pax for two consecutive months, and the non-ASEAN sector has achieved a milestone by surpassing the 70% recovery mark. The Northeast Asia region has seen additional seat deployments, and previously suspended pre-pandemic routes have been restored. Notably, Super Air Jet, a new airline, has introduced daily flights to Lombok and Surabaya. In response to strong demand, airlines are prepared to restore routes, introduce new services, and boost flight frequencies. This aligns with the continued strength of the average total load factor, which is nearing the 80% mark.

**Outlook.** The elevated USDMYR exchange rate may present a short-term hurdle for local airlines due to their substantial USD expenses, yet they may benefit from a high-yield airfare environment facilitated by dynamic pricing and the use of fuel surcharges to manage crude oil price fluctuations. As we approach the peak season in 4QCY23, traffic numbers are expected to continue rising, driven by year-end holidays, and offering room for the non-ASEAN sector to make up ground. This growth will also be bolstered by Malaysia AirAsia's (MAA) gradual full fleet reactivation, slated to be completed in Dec-23.

**Maintain NEUTRAL.** Our passenger traffic projections remain unchanged, tracking well with the total passenger traffic in 8MCY23 at 60% of our full-year estimate. To reiterate, we expect a recovery of 85% (domestic: 90%, international: 80%) this year. Our initial forecast for CY24 anticipates a +4.0% growth in passenger traffic compared to 2019 levels, driven by (i) local airlines expanding their fleets, (ii) the return of foreign airlines (new and existing), and (iii) a gradual resurgence of Chinese tourists. 

### COMPANY IN FOCUS

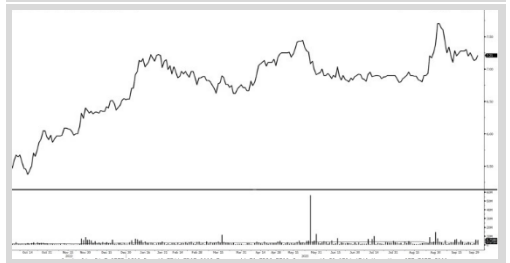
#### Malaysia Airports Holdings Berhad

Maintain **NEUTRAL** | TP: **RM7.45**

Price @ 3<sup>rd</sup> October 2023: RM7.21

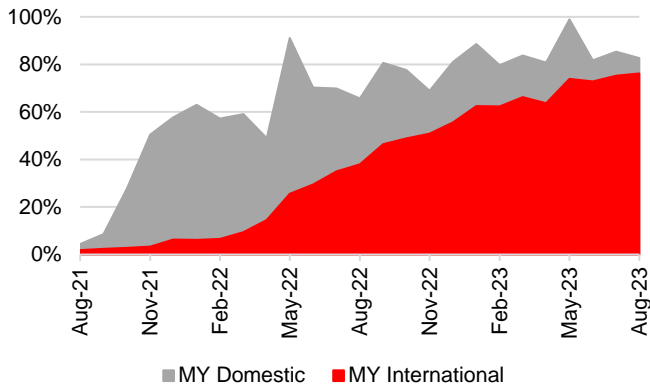
- Potential upside from the strong international traffic at Istanbul SGIA.
- New operating agreement (OA 2023) to be finalised in 4QCY23.
- Expected to achieve profitability in FY23.

### Share Price Chart

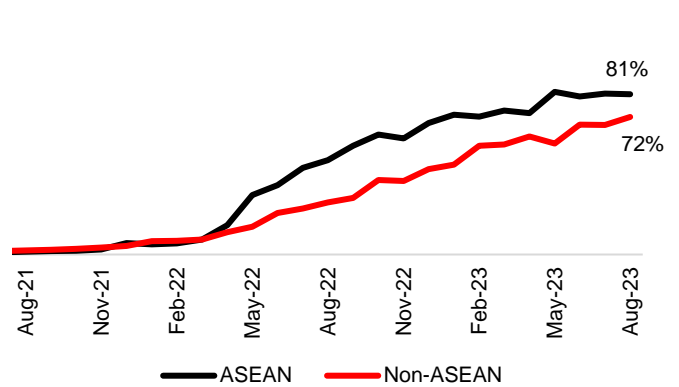


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**Chart 1: Recovery of Passenger Traffic (%)**

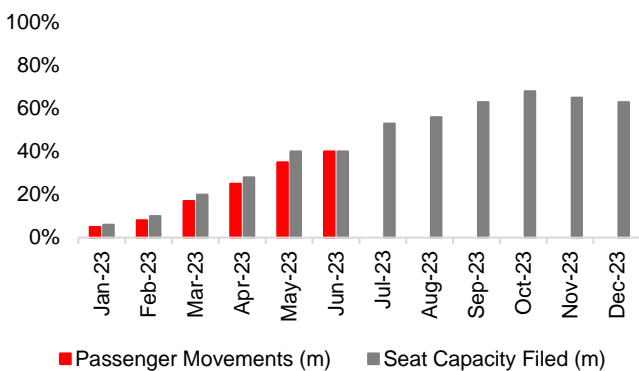


**Chart 2: Recovery of ASEAN & Non-ASEAN Pax (%)**



Source: MAHB, MIDFR

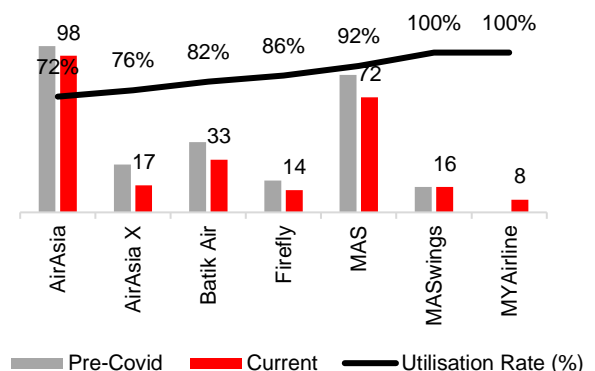
**Chart 3: Recovery of the China Sector (%)**



Source: MAHB, MIDFR

Source: MAHB, MIDFR

**Chart 4: Fleet Size of Local Airlines as of Sep-23**



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%
<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	NEUTRAL	0.96	0.90	-	9.0x	-	-	-	-
MAHB	NEUTRAL	7.21	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