

# AVIATION

**Maintain NEUTRAL**

## Pre-pandemic ratio restored


### KEY INVESTMENT HIGHLIGHTS

- **Malaysia's passenger traffic recovered to 80% in Oct-23**
- **China's Golden Week contributed to a +33.0% increase in passenger movements for the week**
- **Equal international and domestic contributions to passenger movements**
- **Anticipates a +4.0% growth in passenger traffic against 2019 levels by end-CY24**
- **Maintain NEUTRAL on Capital A (TP: RM0.90) and MAHB (TP: RM7.45)**

**Oct-23 passenger traffic.** Malaysia's passenger movements are steadily recovering as airlines address fleet shortages caused by supply chain and maintenance, repair, and overhaul (MRO) challenges. MAHB's local airports saw 6.8m passenger movements in Oct-23, marking an 80% recovery (domestic: 80%, international: 79%). The equal contribution of 50% from both the international and domestic sectors to total passenger movements indicates a return to the pre-pandemic ratio.

**Revival of the international sector.** International seat capacity grew by +3.3%yoy in Oct-23, with a load factor of 74.9% (+0.2%mom). Northeast Asia experienced the highest growth in passenger movements at +12.2%mom. Despite incomplete recovery, China's Golden Week (October 1-7, 2023) contributed to a +33.0% increase in passenger movements compared to the same period in Sep-23. Notably, Japan, Pakistan, Taiwan, and Turkey recorded the highest passenger movements in Oct-23. Meanwhile, the domestic sector achieved the second-highest average load factor to date at 81.5%, despite airlines offering seat capacity at 69% of pre-pandemic levels. This was partially attributed to the recent suspension of MyAirline.

**Outlook.** The anticipated reciprocal visa-free entry agreement between China and Malaysia, effective December 1, 2023, is expected to boost traffic in this sector, contingent on a simultaneous increase in seat capacity between the two countries, which is presently at about 50% of pre-Covid levels. Furthermore, Malaysia has also decided to unilaterally extend a similar arrangement to India and the Middle East. Additionally, traffic numbers in 4QCY23 will receive additional support from the gradual full fleet reactivation of Malaysia AirAsia (MAA), scheduled for completion in Dec-23.

**Maintain NEUTRAL.** Our passenger traffic projections remain unchanged, aligning well at 75% of our full-year estimate in 10MCY23, with an anticipated stronger performance in Dec-23. Our expectation is an 85% recovery this year (domestic: 90%, international: 80%). We maintain **NEUTRAL** on the aviation sector with NEUTRAL calls on both **MAHB (TP: RM7.45)** and **Capital A (TP: RM0.90)**. However, there is an upside bias for the former, attributed to the strong international traffic at Istanbul SGIA and the anticipated full recovery of commercial revenue in FY24F. 

### COMPANY IN FOCUS

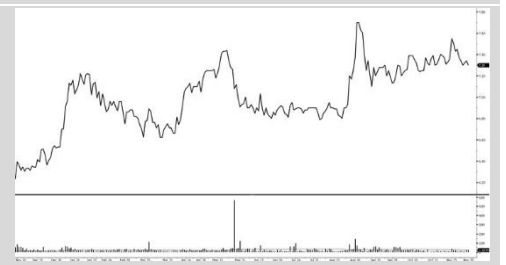
#### Malaysia Airports Holdings Berhad

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

Price @ 28<sup>th</sup> November 2023: RM7.30

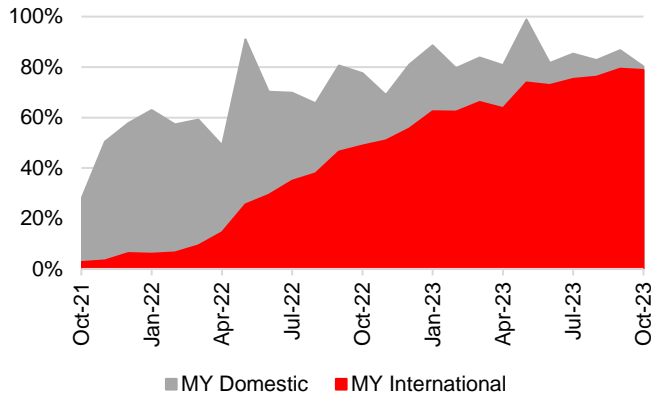
- Potential upside from the strong international traffic at Istanbul SGIA.
- Waivers and discounts for tenants are expected to end in FY24F.
- New operating agreement (OA 2023) to be finalised in 4QCY23.
- Expected to achieve profitability in FY23.

### Share Price Chart



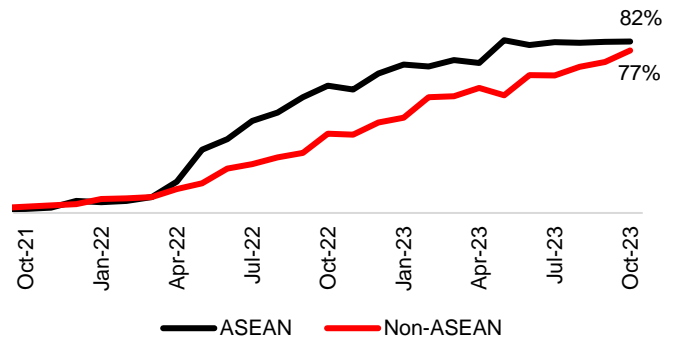
**MIDF Research Team**  
midf@research.com.my

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



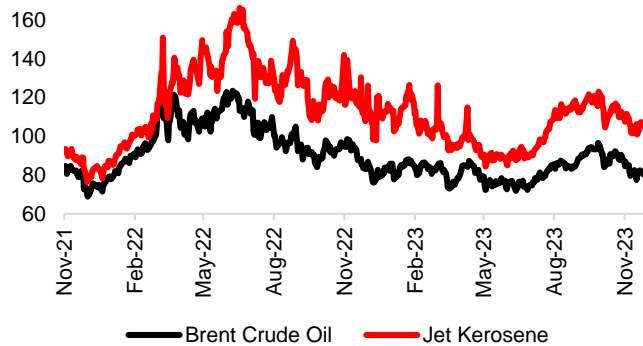
Source: MAHB, MIDFR

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



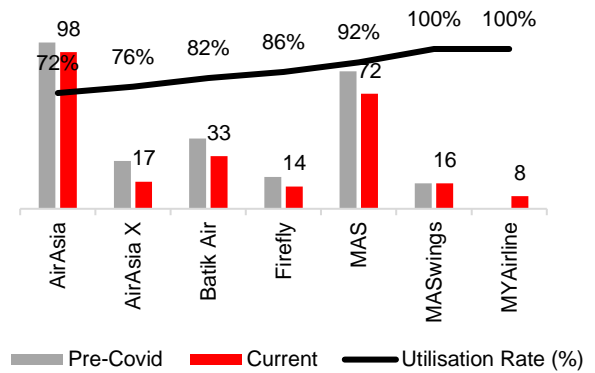
Source: MAHB, MIDFR

**Chart 3: Brent Crude Oil vs. Jet Kerosene (USD)**



Source: Bloomberg, MIDFR

**Chart 4: Fleet Size of Local Airlines as of Nov-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	0.91	0.90	-	8.5x	-	-	-	-
MAHB	Neutral	7.30	7.45	34.2x	21.6x	4.8%	7.3%	1.4%	2.0%

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