

AVIATION

Maintain NEUTRAL

2QCY24 Earnings Wrap


KEY INVESTMENT HIGHLIGHTS

- **2QCY24 results consistent with expectations**
- **Challenges faced by airlines may push back Malaysia's full passenger traffic recovery**
- **Malaysia's passenger traffic forecast revised to 94% recovery for CY24**
- **Strong demand keeps airlines' load factor above pre-COVID levels**
- **Accept Offer for MAHB (Offer Price: RM11.00) and Maintain BUY on Capital A (TP: RM1.06)**

A steady set of results for 2QFY24. The recently concluded 2QFY24 saw **Capital A (BUY, TP: RM1.06)** and **MAHB (Accept Offer, TP: RM11.00)** performing per our forecasts. Capital A's 1HFY24 results were supported by a robust load factor and higher realised yields. Meanwhile, passenger throughput recovery in 1HCY24 picked up momentum for MAHB. Overall passenger traffic, including operations in Malaysia and Turkiye (ISG), reached 95% of pre-pandemic levels. This recovery was largely fueled by a +63% rise in international traffic at ISG compared to 2019.

The full recovery of passenger traffic is a question of when, not if. We expect that a full recovery in passenger traffic in Malaysia may be delayed due to recent challenges faced by some airlines, including delays in aircraft deliveries and shortages of parts and labour (refer to Table 1). In 1HCY24, total seat capacity recovery hit 85%, with the average load factor rising to 79% (3.4 percentage points above 1HCY19). A quick review of Jul-24 passenger traffic numbers revealed a strong 92% recovery, fueled by the international sector, which has been outperforming the domestic sector since Nov-23. Supporting this recovery is the return and introduction of foreign airlines, bringing the total number of airlines serving Malaysia to 71 (FY19: 69 airlines), with 5 more expected in 2HCY24.

Capital A sees an improving operating environment. In 2HCY24, Capital A plans to reactivate 15 more aircraft and expects 8 new deliveries, boosting its operational fleet from 82% in 2QCY24. Its airlines (excluding Cambodia) recovered 79% of their seat capacity during the recent quarter, with a strong average load factor of 90%. The Group has guided that passenger traffic is expected to recover to 89% in 3QCY24, supported by an 82% seat capacity recovery. Moreover, the high yield environment presents additional upside, with the average fare rising to RM239 in 1HFY24 – +34% above pre-COVID levels – as demand continues to surpass capacity recovery. Strengthening USDMYR is also advantageous, as nearly half of aviation operating costs are in USD. We estimate that a 5% change in our USDMYR assumption impacts FY24E earnings by 10%.

Maintain NEUTRAL. Capital A (BUY, TP: RM1.06) remains our top sector pick, as its aviation business has been less affected by recent disruptions in the sector. Its fleet was not significantly cut during the pandemic, allowing it to focus on expansion and creating an opportunity to capitalise on the capacity gaps left by its competitors. On a separate note, the Group is in the final stages and on track to complete its PN17 regularisation plan by 4QCY24. 

COMPANY IN FOCUS

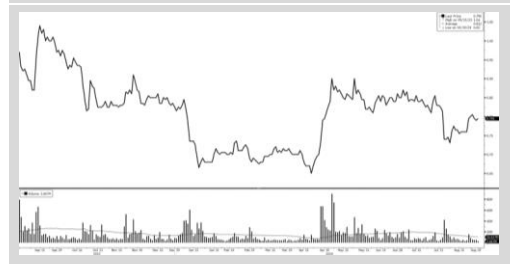
Capital A Berhad

Maintain **BUY** | TP: **RM1.06**

Price @ 12th September 2024: RM0.76

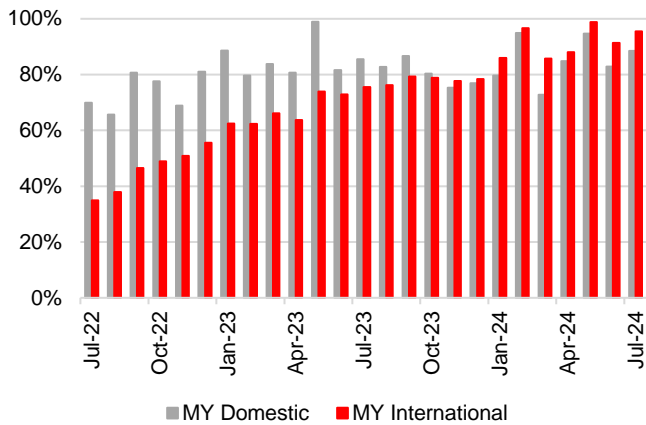
- Aims to have 195 aircraft in operations by end-FY24 (+17 aircraft from 2QFY24).
- The Group expects to reach 82% of its pre-Covid capacity by 3QFY24.
- It also expects to maintain a robust 90% load factor.

Share Price Chart



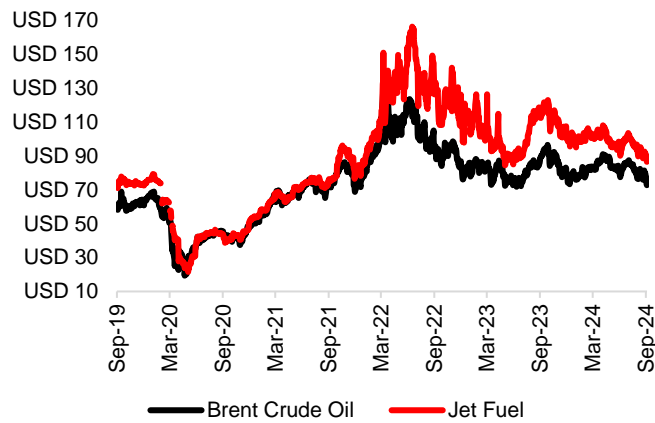
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Chart 1: Recovery of Passenger Traffic (%)



Source: MAHB, MIDFR

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



Source: Bloomberg, MIDFR

Table 1: Passenger Traffic Assumptions (Recovery/Growth vs. 2019 levels)

Sector	Old 2024E	New 2024E	Old 2025F	New 2025F	Old 2026F	New 2026F
MY International	102%	97%	105%	102%	108%	105%
ASEAN	105%	100%	108%	105%	110%	107%
Non-ASEAN	100%	95%	103%	100%	105%	102%
MY Domestic	102%	90%	107%	105%	109%	107%
Total MY	102%	94%	106%	104%	108%	106%
TY International	140%	150%	145%	145%	148%	148%
TY Domestic	102%	110%	105%	105%	107%	107%
Total TY	117%	126%	121%	121%	123%	123%

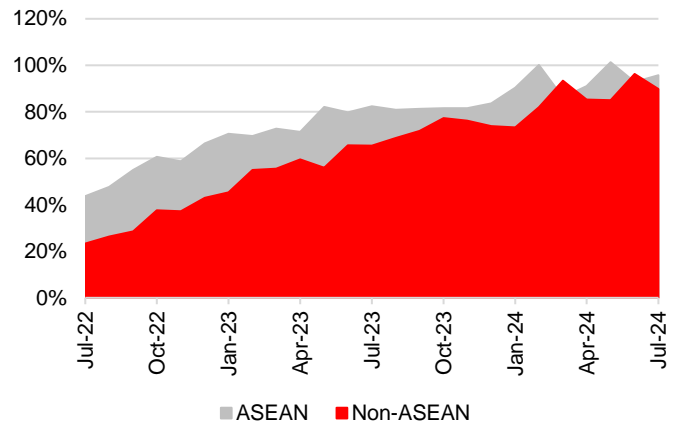
Source: MAHB, MIDFR

SECTOR VALUATION MATRIX

Company	Rating	Last Price	TP	PER		ROE		Dividend Yield	
		RM	RM	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Capital A	Buy	0.76	1.06	5.7x	4.7x	-	-	-	-
MAHB	Accept Offer	10.28	11.00	24.0x	21.0x	8.6%	9.4%	1.8%	2.1%

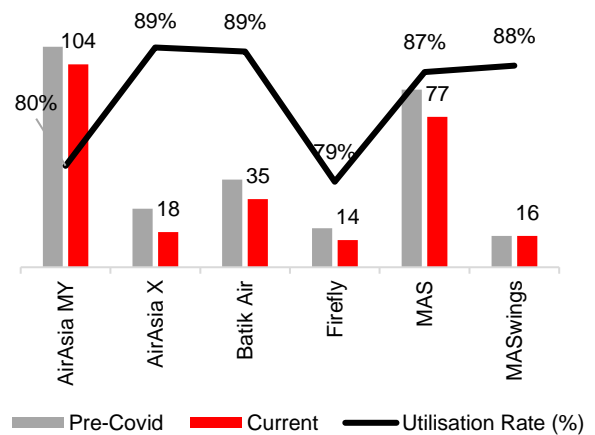
Source: MIDFR

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



Source: MAHB, MIDFR

Chart 4: Latest Fleet Size of Local Airlines



Source: Planespotters.net, 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