

HLIB Research

PP 9484/12/2012 (031413)

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BUY (from Hold)

Target Price: RM8.05

Previously: RM6.00

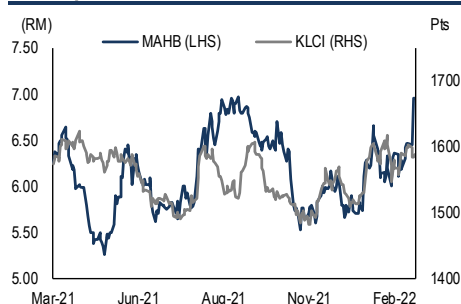
Current Price: RM6.95

Capital upside	15.8%
Dividend yield	0.00%
Expected total return	15.8%

Sector coverage: Aviation

Company description: MAHB provides management, maintenance, and operation of designated airports. It also operates duty-free and non-duty free stores as well as provides food and beverage outlets at the airports.

Share price



Stock information

Bloomberg ticker	MAHB MK
Bursa code	5014
Issued shares (m)	1,659
Market capitalisation (RM m)	11,531
3-mth average volume ('000)	1,346
SC Shariah compliant	No
F4GBM Index member	Yes
ESG rating	★★★

Major shareholders

Khazanah Nasional Bhd	33.2%
Employees Provident Fund	15.3%
Kumpulan Wang Persaraan	5.6%

Earnings summary

FYE (Dec)	FY21	FY22f	FY23f
PATMI - core (RM m)	(930)	(18)	596
EPS - core (sen)	(56.0)	(1.1)	35.9
P/E (x)	N.M.	N.M.	19.3

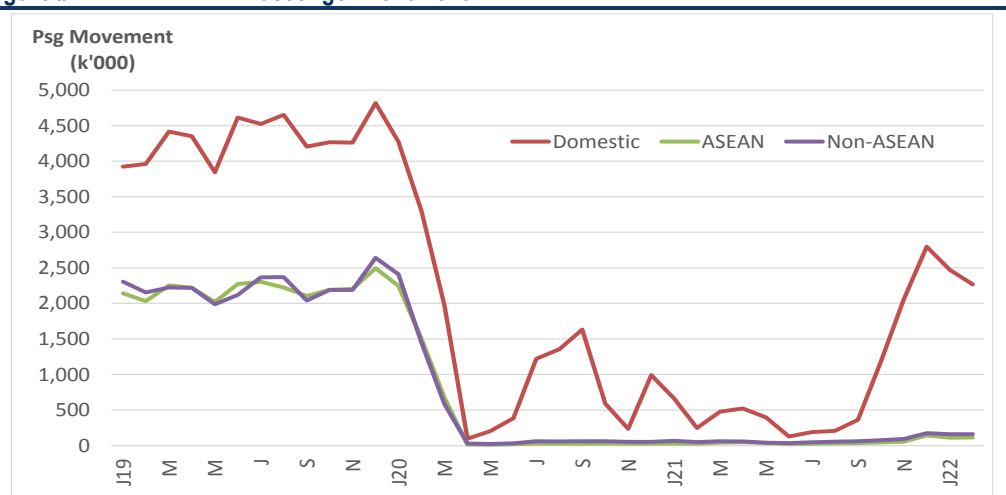
Malaysia Airports Holdings

All systems go for boarder reopening

Effective today, Malaysia will open its national borders to all travellers with minimal requirements, as Malaysia transitions into the endemic phase. Similarly, regional countries are also opening up their borders with similar policies. Airlines are planning towards reinstating their capacities back to pre-pandemic levels. MAHB is a major beneficiary of border reopening, leveraging on the anticipated strong recovery of air travel demand and coupled with gain from the lowered cost structure and commercial reset program implemented during the pandemic. We adjusted forecasts for FY22 to -RM17.8m (from -RM97.4m) and FY23 to +RM596.5m (from +RM463.6m). Upgrade to BUY with a higher TP: RM8.05 (from RM6.00) based on SOP.

Reopening of borders. Effective today (1 Apr), Malaysia's national borders will be reopened to all. Fully vaccinated travellers will need to undertake pre-departure negative PCR/RTK test (within 48 hours of departure to Malaysia) and on-arrival RTK test (within 24 hours arrival in Malaysia) under a certified professional. Unvaccinated travellers will be subjected to a 5-day quarantine. Non-Malaysians (except for Singaporean) must purchase travel insurance coverage of minimum USD20k. Travellers are also required to download and activate the MySejahtera application. Similarly, regional ASEAN countries are also relaxing their requirements and reopening their national borders. Despite the still high number of cases, governments are treating Covid-19 as endemic – given the less severe Omicron variant with manageable impact on healthcare system – as a reopening strategy to allow economic recovery. Airlines are planning towards reinstating their international capacities back to pre-pandemic levels. MAHB will be a key beneficiary from the reopening of borders. We have seen domestic demand recover strongly back to 60% of pre-pandemic levels since gradual domestic relaxation in Oct 2021.

Figure #1 MAHB Passenger Movement



MAHB

Improved Malaysia operation. Since the pandemic in 2020, MAHB's management has taken the opportunity to reset the airports operation. Various costs containment measures were implemented with core cost reduction of -32.9% in FY21 (vs. FY19) and management would remain cautious on opex in FY22. Management guided potential costs saving >RM50m annually under Cooling Energy Supply JV with TNB (effective Jul 2021). The commercial reset program (ongoing and implemented since FY20) is set to reap fruition with the expected increase in passenger movement and new airport shopping experiences. The program reconfigures the mix of shops (acclaimed right size, right brand, right balance, right location and higher yields) and increases overall retail space by c.10%.

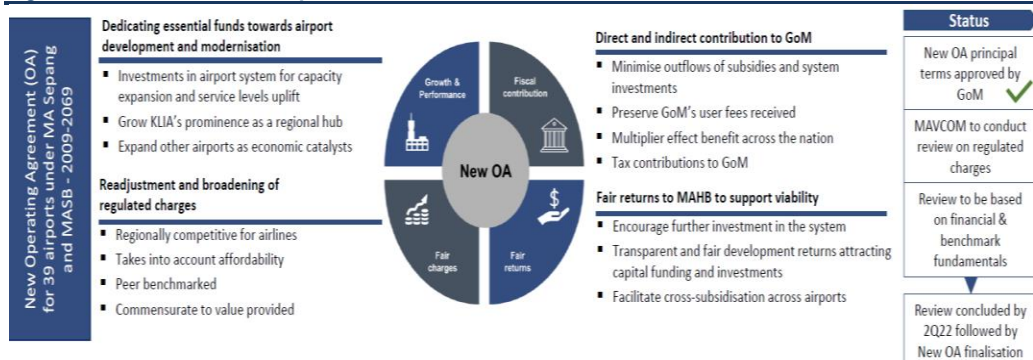
Figure #2 Commercial reset



MAHB

New OA update. The new Operating Agreement (OA) has been continuously dragged – now expected to conclude by mid-2022. The government has already given heads-up approval to the principal terms of the new OA. There will be new terms to reconfigure airports development capex via a more robust and sustainable range of funding models in order to deliver the investments required. The funding models will also determine up-front the fair returns to MAHB and the government.

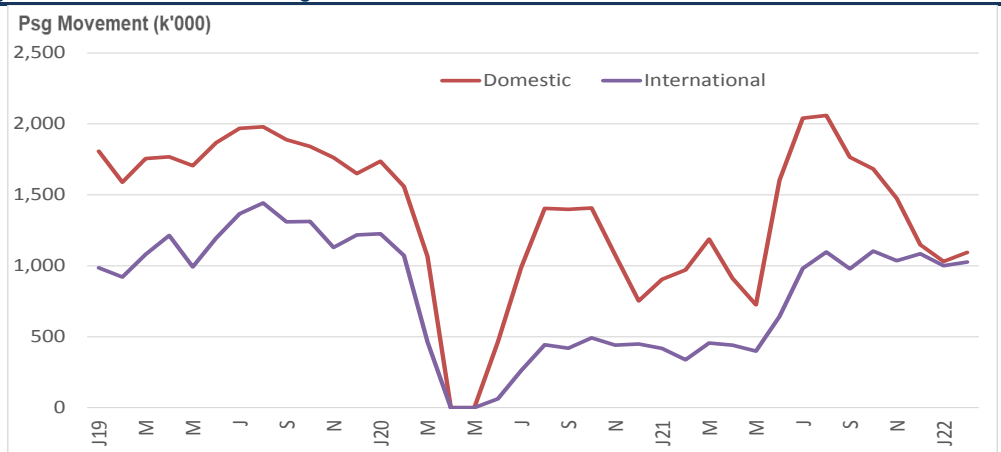
Figure #3 New OA update



MAHB

Improved ISGA operations. Similarly, ISGA has also undergone cost control exercises during the pandemic, with core costing dropping -14.9% in FY21 (vs. FY19). Nevertheless, ISGA has seen a very strong passenger movement rebound towards 2HFY21 (achieved average 80-85% of pre-pandemic level) as Turkey opened up its national borders and allowed tourism. The newly contracted duty-free operator Dufry (since 4QFY20) is expected to provide stronger earnings upside to ISGA leveraging onto continued passenger recovery in FY22, given Dufry's strong branding and extensive experiences with operations in over 60 countries. Nevertheless, the ongoing Russia-Ukraine conflict may affect Turkey's tourism in the near term.

Figure #4 ISGA Passenger Movement



MAHB

Historical trading. Prior to the pandemic, MAHB's share price was trading at a range of RM8.00 to RM8.50/share (see Figure #5). With the improving operating environment and the implemented reset programs, we believe MAHB would stage profitability reprieve back to pre-pandemic levels by end-2022/early-2023. We take note that MAHB is now weaker balance sheet wise, with higher net gearing level of 74.8% at end FY21 (vs 40.7% at end FY19) as management shored up liquidity and restructured loan repayments with reported losses during the pandemic in FY20-21. Nevertheless, we deem the net gearing level is still manageable and expect MAHB to reduce its net gearing back to 43.8% by end FY24.

Figure #5 MAHB historical share price movement



MAHB

Forecast. We have adjusted our assumptions on Malaysia passenger movement in FY22-23 to 68.2m (+543.4% YoY) and 98.0m (+43.8% YoY) respectively (from 67.4m and 97.2m) and ISGA to 35.7m (+40.3% YoY) and 39.1m (+9.5% YoY) respectively from (35.9m and 37.7m). We now forecast FY22 to record lower losses of -RM17.8m (from -RM94.1m) and FY23 to turnaround with profit of RM596.5m (from RM463.6m).

Upgrade to BUY, TP: RM8.05. We upgrade our recommendation on MAHB to BUY (from Hold) with a higher TP: RM8.05 (from TP: RM6.00) based on SOP, given the improved operational outlook and alongside being an apt proxy to the boarder reopening.

Figure #6 MAHB sum-of-parts valuation

Division	Stakes (%)	Value (RMm)	RM/Share	Basis
MAHB	100	11,226.9	6.77	DCF based on 10.0% Equity Return
ISGA	100	1,225.5	0.74	DCF based on 14.0% Equity Return
LGM	100	203.0	0.12	8x PE 2023
New Delhi	11	500.0	0.30	Disposal price
Associates/JVs	Various	222.0	0.13	1x PB 2022
Total		13,377.4	8.05	
No of Shares		1,659.19		End of FY21
Target Price			8.05	

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Figure #7 Financial forecast summary

FYE Dec (RM m)	FY19	FY20	FY21	FY22f	FY23f
Revenue	5,213	1,866	1,673	3,711	4,990
EBITDA	2,253	88	97	1,443	2,297
EBIT	1,284	(431)	(546)	633	1,326
PBT	687	(1,058)	(1,112)	43	740
PAT	537	(819)	(872)	40	654
PATMI – Core	479	(876)	(930)	(18)	596
PATMI – Reported	480	(1,174)	(824)	(18)	596
HLIB/ Consensus (%) – Core PATMI				-88.1%	49.3%
Core EPS (sen)	28.9	(52.8)	(56.0)	(1.1)	35.9
P/E (x)	24.1	N.M.	N.M.	N.M.	19.3
EV/EBITDA (x)	6.2	171.8	156.8	10.3	6.2
DPS (sen)	15.0	0.0	0.0	0.0	8.0
Yield (%)	2.2%	0.0%	0.0%	0.0%	1.2%
BVPS (RM/share)	4.4	3.7	3.2	3.2	3.5
P/B (x)	1.6	1.9	2.2	2.2	2.0
ROE (%)	6.6%	-13.0%	-16.4%	-0.3%	10.8%
Net Gearing (%)	40.7%	65.0%	74.8%	68.4%	55.6%

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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