

29 August 2018

# Malaysia Airports Holdings

## 1H18 Within Expectations

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**1H18 CNP of RM215.6m is in line with our/consensus full-year estimates at 54%/49%, respectively. A 5.0 sen dividend was declared, short of our full-year expectations of 14.0 sen. No changes to FY18/19E earnings. Maintain UP with unchanged TP of RM8.60 on PBV of 1.72x.**

**In line.** 1H18 CNP of RM215.6m came in within our/consensus forecasts accounting for 54%/49% of full-year estimates, respectively. A 5.0 sen dividend was declared as expected, below our full-year expectations of 14.0 sen. Note that we derived our CNP of RM215.6m after excluding the gains in disposal of GMR Male (RM28.2m) and GMR Hyderabad (RM258.4m).

**Result highlights.** 1H18 CNP of RM215.6m improved 120%, YoY backed by revenue growth (+8%) coupled with improvements in operating margins (+4ppt). The revenue growth is driven by encouraging passenger traffic growth, especially international traffic and lower staff cost, which subsequently improved its operating margin. **QoQ**, 2Q18 CNP was down by 50% attributable to several factors, i.e. (i) weaker revenue (-5%) arising from lower international traffic coupled with the adjustment in MARCS PSC, (ii) lower contribution from its retail and commercial revenue, and (iii) compression in operating margins (-4ppt) and spike in tax (+40%).

**Highlight** of the briefing would be the development over stake sale of ISG. However, management maintained their stance that they are still looking out for a strategic stake partner that could value-add to their Turkey business, i.e. extension of concession or enhance traffic growth with no commitment on timeline of the potential divestment.

**Outlook.** While AIRPORT's performance is commendable, we believe there is a lot more to be done given that management is working relentlessly to meet MAVCOM's QoS (Quality of Service) framework, which is expected to be rolled out in stages. To recap, management have planned CAPEX of RM600-700m over 2-3 years to upgrade their infrastructure to meet or exceed QoS requirement. That said, we are also anticipating the study on new PSC charges from MAVCOM which could be favourable or detrimental to AIRPORT's prospects.

**Earnings maintained.** Post results, no changes to our FY18-19E earnings.

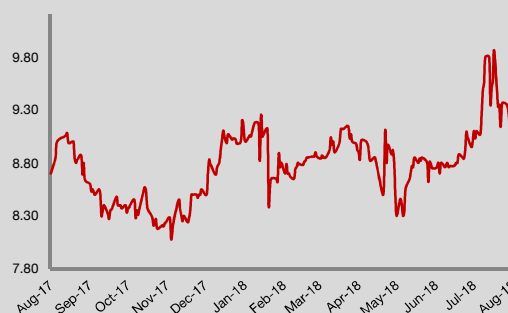
**Maintain UP with unchanged TP of RM8.60.** Our TP is based on unchanged PBV of 1.72x PBV pegged at +0.5SD to its 2-year average. We think our applied +0.5SD level is reasonable given the recovery of passenger traffic at Turkey on the back of ISG's terminal capacity expansion by 2H18. While we believe that there is great potential in AIRPORT, we do not see any near-term catalyst pending clarity and direction from MAVCOM on the on-going developments i.e. new PSC charges, and RAB model, which could potentially prompt us to upgrade our valuation and recommendation.

**Risks** to our call include: (i) higher-than-expected passenger growth, and (ii) sharp swing in forex MYR/EUR.

## UNDERPERFORM ↔

**Price :** RM9.30  
**Target Price :** RM8.60 ↔

### Share Price Performance



KLCI 1,826.90  
YTD KLCI chg 1.7%  
YTD stock price chg 5.8%

### Stock Information

Shariah Compliant No  
Bloomberg Ticker MAHB MK Equity  
Market Cap (RM m) 15,430.5  
Shares Outstanding 1,659.2  
52-week range (H) 9.98  
52-week range (L) 7.98  
3-mth avg daily vol: 4,604,818  
Free Float 53%  
Beta 0.9

### Major Shareholders

Khazanah Nasional Bhd 33.2%  
Employees Provident Fund Board 10.7%  
Blackrock Inc 3.4%

### Summary Earnings Table

FYE Dec (RM m)	2017A	2018E	2019E
Turnover	4,652	4,803	4,966
EBITDA	1,910	2,246	2,418
PBT	335	616	694
<b>Net Profit (NP)</b>	<b>180</b>	<b>402</b>	<b>480</b>
<b>Core NP</b>	<b>180</b>	<b>402</b>	<b>480</b>
Consensus (CNP)	266	441	574
Earnings Revision	n.a.	n.a.	n.a.
Core EPS (sen)	10.8	24.3	28.9
Core EPS grow. (%)	n.m.	123%	19%
NDPS (sen)	12	14	15
BV/Share (RM)	4.65	5.00	5.14
Core PER (x)	86	38	32
Net Gearing (x)	0.5	0.4	0.4
Dividend Yield (%)	1.3%	1.5%	1.6%

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<b>Result Highlights</b>								
<b>FYE Dec (RM'm)</b>	<b>2Q18</b>	<b>1Q18</b>	<b>QoQ</b>	<b>2Q17</b>	<b>YoY</b>	<b>1H18</b>	<b>1H17</b>	<b>YoY</b>
<b>Turnover</b>	<b>1,154.7</b>	<b>1,215.8</b>	<b>-5%</b>	<b>1,100.0</b>	<b>5%</b>	<b>2,370.5</b>	<b>2,193.3</b>	<b>8%</b>
EBITDA	507.1	581.3	-13%	460.0	10%	1,088.4	960.4	13%
Depreciation	-211.0	-218.0	-3%	-214.8	-2%	-429.0	-442.6	-3%
<b>EBIT</b>	<b>296.0</b>	<b>363.3</b>	<b>-19%</b>	<b>245.2</b>	<b>21%</b>	<b>659.4</b>	<b>517.8</b>	<b>27%</b>
Interest inc/(exp)	-181.2	-179.7	1%	-165.1	10%	-360.9	-339.6	6%
Associates/JV	10.8	2.5	331%	6.1	77%	13.3	10.9	22%
Exceptional items	0.0	286.6	-100%	0.0	n.m.	286.6	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Pretax profit</b>	<b>125.6</b>	<b>472.7</b>	<b>-73%</b>	<b>86.2</b>	<b>46%</b>	<b>598.3</b>	<b>189.1</b>	<b>216%</b>
Taxation	-39.5	-28.1	40%	-24.3	62%	-67.6	-61.9	9%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
<b>Profit after tax</b>	<b>86.1</b>	<b>444.6</b>	<b>-81%</b>	<b>61.9</b>	<b>39%</b>	<b>530.7</b>	<b>127.2</b>	<b>317%</b>
Minority interest	-14.3	-14.2	1%	-13.9	3%	-28.5	-29.1	-2%
<b>PATAMI</b>	<b>71.8</b>	<b>430.4</b>	<b>-83%</b>	<b>47.9</b>	<b>50%</b>	<b>502.2</b>	<b>98.0</b>	<b>412%</b>
<b>Core PATAMI</b>	<b>71.8</b>	<b>143.8</b>	<b>-50%</b>	<b>47.9</b>	<b>50%</b>	<b>215.6</b>	<b>98.0</b>	<b>120%</b>
DPS (sen)	5.0	0.0		5.0		5.0	5.0	
EBIT margin	26%	30%		22%		28%	24%	
Pretax margin	11%	39%		8%		25%	9%	
NP margin	11%	39%		8%		25%	9%	
CNP margin	6%	12%		4%		9%	4%	
EPS (sen)	4.3	25.9		1.1		30.3	5.9	
Core EPS(sen)	4.3	8.7		0.8		13.0	5.9	
BV/share (RM)	5.4	5.5		1.4		5.4	5.3	
Net gearing (x)	0.4	0.4		1.0		0.4	0.5	
Effective tax	31%	6%		28%		11%	33%	

Source: Company, Kenanga Research

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### Peer Comparison - Airport

Name	Local Currency	Last Price	Market Cap	Shariah Compliant	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div.Yld . (%)	Target	Rating
						1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)		
<b>AVIATION UNDER COVERAGE</b>																			
AIRASIA GROUP BHD	MYR	3.45	11,529.8	N	12/2018	-6.1%	9.8%	-9.3%	8.1%	7.0	7.7	7.1	1.3	1.3	19.1%	26.1%	4.80	OP	
MALAYSIA AIRPORTS HLDGS BHD	MYR	9.86	16,359.6	N	12/2018	3.2%	3.4%	123.3%	19.4%	91.0	40.7	34.1	2.1	2.0	5.0%	1.4%	8.60	UP	
<b>Simple Average</b>						<b>-1.4%</b>	<b>6.6%</b>	<b>57.0%</b>	<b>13.7%</b>	<b>49.0</b>	<b>24.2</b>	<b>20.6</b>	<b>1.7</b>	<b>1.6</b>	<b>12.1%</b>	<b>13.8%</b>			
<b>CONSENSUS NUMBERS</b>																			
AIRPORTS OF THAILAND PCL	THB	65.50	935,713.4	N	09/2018	12.5%	9.1%	22.8%	10.8%	45.2	36.8	33.3	6.8	6.4	18.4%	1.4%	74.29	NEUTRAL	
AUCKLAND INTL AIRPORT LTD	NZD	6.90	8,297.8	N	06/2019	8.4%	6.7%	-57.7%	2.9%	12.8	30.2	29.3	1.5	1.6	5.0%	3.4%	6.74	SELL	
BEIJING CAPITAL INTL AIRPO-H	HKD	9.20	39,844.2	N	12/2018	15.6%	-5.6%	21.8%	-19.8%	15.3	12.6	15.7	1.6	1.4	13.8%	3.3%	10.28	NEUTRAL	
FLUGHAFEN WIEN AG	EUR	32.25	2,709.0	N	12/2018	6.4%	2.2%	22.9%	5.1%	23.6	19.2	18.3	2.5	2.3	12.1%	2.5%	35.52	NEUTRAL	
FLUGHAFEN ZURICH AG-REG	CHF	207.40	6,367.6	N	12/2018	8.5%	3.3%	-0.9%	5.4%	22.3	22.5	21.4	2.8	2.6	11.6%	3.2%	238.00	NEUTRAL	
GRUPO AEROPORT DEL PACIFIC-B	MXN	177.28	99,454.1	N	12/2018	9.2%	4.7%	8.3%	9.3%	21.4	19.7	18.1	6.0	5.7	25.0%	4.0%	206.13	BUY	
GRUPO AEROPORT DEL SURESTE-B	MXN	341.18	102,354.0	N	12/2018	14.9%	15.4%	-16.4%	10.1%	17.5	21.0	19.1	4.0	3.7	16.7%	2.2%	367.74	NEUTRAL	
GRUPO AEROPORTUARIO DEL CENT	MXN	118.18	46,535.9	N	12/2018	5.3%	3.2%	21.3%	9.5%	21.9	18.0	16.5	7.2	6.5	34.4%	4.0%	122.51	BUY	
GUANGZHOU BAIYUN INTERNATI-A	CNY	13.74	28,432.5	N	12/2018	23.1%	4.8%	-6.5%	-9.1%	17.8	19.1	21.0	1.7	1.7	9.4%	1.8%	14.63	BUY	
JAPAN AIRPORT TERMINAL CO	JPY	5,500.00	464,620.8	N	03/2019	22.1%	3.6%	107.2%	-57.0%	39.5	19.0	44.3	2.6	2.5	22.1%	0.8%	6,826.00	BUY	
KOBENHAVNS LUFTHAVNE	DKK	5,740.00	45,047.9	N	12/2018	N.A.	N.A.	N.A.	N.A.	35.0	N.A.	N.A.	15.8	N.A.	N.A.	N.A.	N.A.	N.A.	
MALAYSIA AIRPORTS HLDGS BHD	MYR	9.86	16,359.6	N	12/2018	8.7%	9.3%	153.3%	25.0%	91.4	36.1	28.9	1.9	1.7	6.0%	1.9%	9.83	BUY	
SYDNEY AIRPORT TAV HAVALIMANLARI HOLDING AS	AUD	7.15	16,110.5	N	12/2018	7.6%	6.3%	11.6%	11.4%	46.1	41.3	37.0	47.3	74.0	90.3%	5.3%	7.59	NEUTRAL	
	TRY	29.16	10,593.3	N	12/2018	37.6%	-8.4%	90.7%	-2.1%	14.7	7.7	7.9	2.2	1.8	24.2%	6.6%	31.67	BUY	

\*Peers are denominated in their respective local currencies

Source: Kenanga Research

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**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%  
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%  
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%  
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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