

# Malaysia Airports Holdings (MAHB MK)

Share Price: MYR8.08

MCap (USD): 3.4B

Malaysia

Target Price: MYR7.03 (-13%)

ADTV (USD): 7.1M

Aviation

# SELL

 (unchanged)

## 1Q14F: No surprises expected

- Expect 1Q14 core net profit of MYR115m, up 7.7% YoY.
- Concern over rising costs, in particular staff cost.
- Maintain SELL as MAHB is expensive relative to peers.

### What's New

The upcoming 1Q14 results, to be released on 24 Apr and analyst briefing, will likely focus on three key issues: 1) status of KLIA2 and its final project cost; 2) status of passenger service charge (PSC) that was due for an increase on 12 Feb; and 3) updates on the Sabiha Gökçen Airport acquisition.

### What's Our View

MAHB enjoyed a healthy passenger traffic growth of 18.4% YoY in 1Q14, which was slightly ahead of our 15% growth expectation for the quarter. However, we expect passenger traffic growth to moderate to 10%-12% for the rest of the year due to the flight MH370 incident that we expect to negatively impact short term demand and also the effect of a higher base in 2013 (+18.4% YoY).

Our concerns remained centred on KLIA2; will it match its budget of MYR4.0b and will it enjoy a higher PSC compared to the current rate at LCCT? We are also concern on rising costs as MAHB has struggled to contain operational cost for the past three quarters.

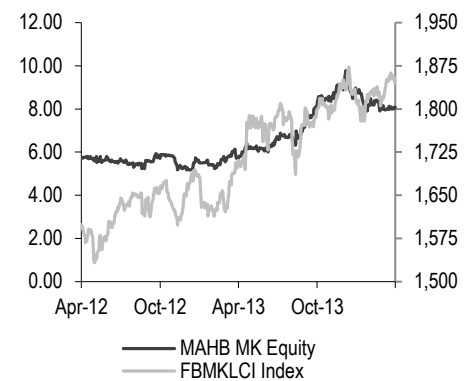
We keep our earnings forecasts, SELL recommendation and target price of MYR7.03 unchanged. The target price is based on 10.3x 2015 EV/EBITDA, which is a 10% premium to global peers to reward MAHB for its strong traffic growth potential. The stock is expensive with a high debt burden relative to its peer group.

FYE Dec (MYR m)	2012A	2013A	2014F	2015F	2016F
Revenue	3,548.1	4,134.0	3,848.3	3,274.2	3,492.1
EBITDA	929.8	899.6	1,087.9	1,309.0	1,405.8
Core net profit	444.9	362.0	390.6	461.1	603.8
Core EPS (sen)	37.5	29.4	28.8	34.0	44.5
Core EPS growth (%)	(3.4)	(21.7)	(1.9)	18.1	30.9
Net DPS (sen)	15.5	14.9	15.9	17.3	22.3
BVPS (MYR)	3.60	3.80	4.32	4.49	4.71
Core P/E (x)	24.5	25.8	25.5	23.8	18.2
EV/EBITDA (x)	12.8	14.9	13.9	11.3	10.1
Net dividend yield (%)	1.9	1.8	2.0	2.1	2.8
P/BV (x)	2.2	2.13	1.87	1.8	1.7
Net debt/equity (%)	0.53	0.74	0.70	0.62	0.51
ROAE (%)	11.3	8.0	7.4	7.7	9.7
ROAA (%)	5.5	3.7	3.4	3.6	4.7
Chg in net profit (%)	n.a.	n.a.	-	-	-

### Key Data

Shariah status	NO
52w high/low (MYR)	9.78/5.7
Free float (%)	33.2
Issued shares (m)	1,365
Market capitalization	MYR11.0B
Major shareholders:	
KHAZANAH NASIONAL	36.6%
EPF	13.0%
SKIM AMANAH SAHAM	11.1%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	1.0	(9.9)	41.8
Relative to country (%)	(0.6)	(11.4)	33.6

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	8	5	9
	Maybank	Consensus	% +/-
Target Price (MYR)	7.03	8.50	(17.3)
2013 Net Profit (MYR m)	391	427	(8.5)
2014 Net Profit (MYR m)	461	474	(2.8)

Source: Bloomberg; Maybank

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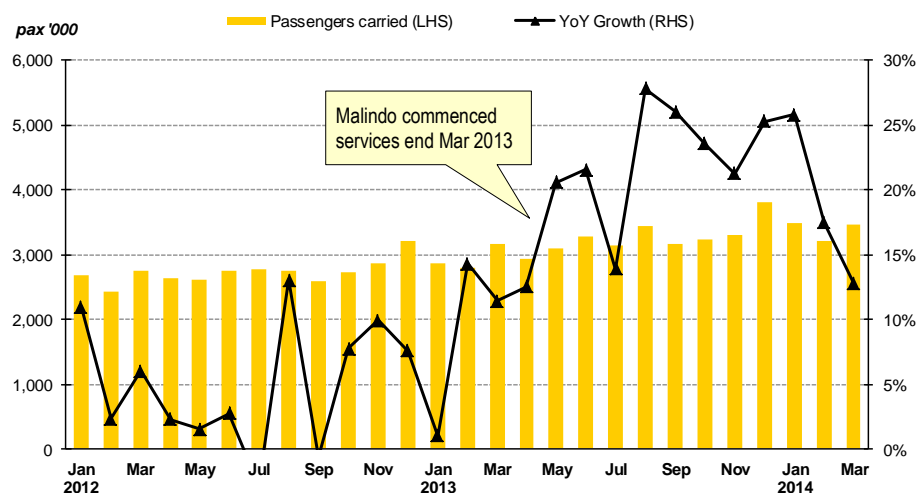
## Impressive traffic growth

International passengers grew by 15.0% YoY, while domestic passengers grew by 21.9% YoY in 1Q14. Collectively, MAHB recorded 18.4% more passengers YoY in 1Q14. This is impressive growth, and has far surpassed other regional airport powerhouses such as Hong Kong (+5.8% YoY), Singapore (+3.1% YoY) and Dubai (+13.4% YoY).

## But we expect growth to taper down post March

The graph below shows the total passenger traffic and YoY growth rates at MAHB since 2012. Passenger traffic recorded another high growth rate of 18.4% in 2013, but the momentum has tapered down from Mar 2014 to low teens. This was due to the high base effect, contributed by Malindo Air which launched its maiden services back in Mar 2013. Furthermore, the flight MH370 incident has negatively impacted on sentiments for air travel. We expect this situation to continue for 2-3 more months before a full recovery sometime in May-Jun 2014. For the full year 2014, we expect passenger traffic growth of 12% YoY.

MAHB monthly passenger traffic and YoY growth rates



Sources: Company, Maybank KE

## KLIA2 start date appears to be on 2 May

All indications are that KLIA2 will start operations on 2 May 2014. There are crucial hurdles yet to be at hand, such as the Certificate of Completion and Compliance and the nod of approval from the International Civil Aviation Organisation. Our earnings forecasts are premised on a later KLIA2 opening date of 1 Sep 2014, and if the 2 May start date materialises, we will raise our FY14 earnings by a small +1.2%.

More concerning is the final project cost for KLIA2. The latest budget is at MYR4.0b and the management is confident that they will meet it. We have imputed 10% higher cost in our financial model. Should the final project cost exceed MYR4.4b, it will drag the Company's earnings in its initial years and reduce our fair value.

### PSC increase, what is the story?

Based on the contractual operating agreement between the Government of Malaysia (GOM) and MAHB, the Company is able to raise PSC every five years under a defined formula of CPI minus 1%. Based on this, MAHB should have raised its PSC by 10% starting 12 Feb 2014. However, nothing was announced and passengers are still paying the old rate. The quantum of revenue is substantial, MYR14.5m for 1Q14 or MYR117.9m for FY2014. If there is no compensation by the GOM, this will reduce our FY14-16 earnings forecasts by 19.5%, 21.5% and 16.8% respectively.

MAHB has a provision under the operating agreement to net off the higher PSC revenue from the GOM's share of MAHB's revenue base. Technically speaking, we shouldn't be concern regarding this issue because of the contractual obligation. Nonetheless, we believe it is a concern of note as we don't know how the auditors will classify this in the accounts.

### Sabiha Gökçen Airport acquisition update/s

MAHB had successfully raised MYR980m via a private placement of new shares on 4 Mar 2014. The proceeds will be used to acquire a 40% additional stake in Sabiha Gökçen Airport; MAHB already owns 20%. MAHB has entered into an agreement to purchase the 40% Sabiha Gökçen stake from GMR Group of India for a total consideration of €225m. This deal is expected to be concluded by the end of 1H14. Our earnings and EPS forecasts have considered the additional 40% stake and MAHB's enlarged paid-up capital post the private placement.

**INCOME STATEMENT (MYR m)**

FY Dec	2013A	2014F	2015F	2016F
Revenue	4,134.0	3,848.3	3,274.2	3,492.1
EBITDA	899.6	1,087.9	1,309.0	1,405.8
Depreciation & Amortisation	(277.9)	(364.0)	(463.4)	(490.4)
<b>Operating Profit (EBIT)</b>	<b>621.8</b>	<b>723.9</b>	<b>845.6</b>	<b>915.3</b>
Interest (Exp)/Inc	(28.4)	(88.9)	(216.6)	(208.7)
Associates	(44.4)	(43.0)	(24.5)	51.4
One-offs	0.0	0.0	1.0	2.0
<b>Pre-Tax Profit</b>	<b>547.9</b>	<b>601.7</b>	<b>618.3</b>	<b>775.5</b>
Tax	(161.9)	(171.5)	(157.2)	(171.7)
Minority Interest	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>386.0</b>	<b>430.2</b>	<b>461.1</b>	<b>603.8</b>
<b>Recurring Net Profit</b>	<b>362.0</b>	<b>390.6</b>	<b>461.1</b>	<b>603.8</b>
Revenue Growth %	16.5%	-6.9%	-14.9%	6.7%
EBITDA Growth (%)	-3.2%	20.9%	20.3%	7.4%
EBIT Growth (%)	-12.2%	16.4%	16.8%	8.2%
Net Profit Growth (%)	-1.5%	11.5%	7.2%	30.9%
Recurring Net Profit Growth (%)	-18.6%	7.9%	18.1%	30.9%
Tax Rate %	29.6%	28.5%	25.4%	22.1%

**CASH FLOW (MYR m)**

FY Dec	2013A	2014F	2015F	2016F
Profit before taxation	547.9	601.7	618.3	775.5
Depreciation	277.9	364.0	463.4	490.4
Net interest	28.4	88.9	216.6	208.7
Working capital change	186.5	(109.0)	(139.5)	(26.7)
Cash tax paid	(161.9)	(171.5)	(157.2)	(171.7)
Others (incl'd excep items)	7.6	(53.8)	(206.0)	(277.7)
<b>Cash flow from operations</b>	<b>886.3</b>	<b>720.3</b>	<b>795.7</b>	<b>998.7</b>
Capex	83.8	(5,412.1)	(200.0)	(200.0)
Disposal/(purchase)	10.6	0.0	0.0	0.0
Others	(648.1)	3,351.7	0.0	0.0
<b>Cash flow from investing</b>	<b>(553.7)</b>	<b>(2,060.3)</b>	<b>(200.0)</b>	<b>(200.0)</b>
Debt raised/(repaid)	0.0	1,000.0	0.0	0.0
Equity raised/(repaid)	0.0	954.2	0.0	0.0
Dividends (paid)	(183.1)	(215.1)	(235.2)	(301.9)
Interest payments	(88.9)	(216.6)	(208.7)	(207.0)
Others	284.0	142.7	208.7	207.0
<b>Cash flow from financing</b>	<b>12.1</b>	<b>1,665.1</b>	<b>(235.2)</b>	<b>(301.9)</b>
Change in cash	(198.4)	325.0	360.6	496.8

**BALANCE SHEET (MYR m)**

FY Dec	2013A	2014F	2015F	2016F
Fixed Assets	323.7	5,683.9	5,706.8	5,719.8
Other LT Assets	9,163.5	5,558.8	5,204.4	4,991.7
Cash/ST Investments	345.4	670.4	1,031.0	1,527.8
Other Current Assets	679.9	803.2	845.9	894.6
<b>Total Assets</b>	<b>10,512.2</b>	<b>12,716.2</b>	<b>12,788.1</b>	<b>13,133.9</b>
ST Debt	200.0	200.0	200.0	450.0
Other Current Liabs	964.8	1,010.0	866.5	920.9
LT Debt	3,600.0	4,600.0	4,600.0	4,350.0
Other LT Liabilities	1,058.4	1,047.7	1,037.1	1,026.4
Minority Interest	0.0	0.0	0.0	0.0
Shareholders' Equity	4,689.3	5,858.5	6,084.5	6,386.4
<b>Total Liabs-Capital</b>	<b>10,512.2</b>	<b>12,716.2</b>	<b>12,788.1</b>	<b>13,133.9</b>
Share Capital (m)	1,232.4	1,355.7	1,355.7	1,355.7
Gross Debt/(Cash)	3,800.0	4,800.0	4,800.0	4,800.0
Net Debt/(Cash)	3,454.6	4,129.6	3,769.0	3,272.2
Working Capital	(139.5)	263.6	810.4	1,051.4

**RATES & RATIOS**

FY Dec	2013A	2014F	2015F	2016F
EBITDA Margin %	21.8%	28.3%	40.0%	40.3%
Op. Profit Margin %	15.0%	18.8%	25.8%	26.2%
Net Profit Margin %	9.3%	11.2%	14.1%	17.3%
ROE %	8.0%	7.4%	7.7%	9.7%
ROA %	3.7%	3.4%	3.6%	4.7%
Net Margin Ex. El %	8.8%	10.1%	14.1%	17.3%
Dividend Cover (x)	0.5	0.6	0.5	0.5
Interest Cover (x)	(21.9)	(8.1)	(3.9)	(4.4)
Asset Turnover (x)	0.4	0.3	0.3	0.3
Asset/Debt (x)	2.8	2.6	2.7	2.7
Debtors Turn (days)	0.0	0.0	0.0	0.0
Creditors Turn (days)	0.0	0.0	0.0	0.0
Inventory Turn (days)	0.0	0.0	0.0	0.0
Net Gearing %	73.67	70.49	61.94	51.24
Debt/ EBITDA (x)	4.2	4.4	3.7	3.4
Debt/ Market Cap (x)	0.3	0.4	0.4	0.4

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