COMPANY UPDATE

# Malaysia Airports Holdings (MAHB MK)

## PSC Revision Materialises But Marginal Earnings Accretion To MAHB

**We are positive on the new set of PSCs and landing and parking charges despite the marginal earnings impact, as it sets the path for the implementation of a cost-based framework in setting airport charges. We believe the market will turn its attention to the new OA which may shed more light on MAHB's upcoming expansion projects and the pertinent funding mechanism. We arrive at a higher target price of RM9.86 after incorporating the latest PSC revisions. Maintain BUY.**

### WHAT'S NEW

- **Unveiled new PSCs for RP1.** The Malaysia Aviation Commission (MAVCOM) has announced a new set of passenger service charges (PSC) for the regulatory period 1 (RP1) which will take effect from 1 Jun 24 to 31 Dec 26. Firstly, the international PSCs are now charged based on the departing airports instead of the destination (for which PSCs for passengers travelling to ASEAN and non-ASEAN destinations were previously RM35 and RM73 respectively). The PSC for international travel from Kuala Lumpur International Airport (KLIA) will be fixed at RM73 while the international PSC for passengers departing from KLIA2 and other airports will be RM50.

  Meanwhile, the PSC for domestic travel will be kept at RM11 for passengers departing from KLIA, KLI2 and all other airports. Surprisingly, MAVCOM also introduced the transfer PSC, which charges domestic transfer PSC of RM7 for all airports, international transfer PSC for RM42 for KLIA as well as international transfer PSC of RM29 for KLIA2 and other airports.

- **Marginal earnings accretion from PSC revisions.** Our back-of-the-envelope calculations suggest that the average blended PSC rates per pax have increased 10-11% to around RM32.0 (from RM28.90 previously), extrapolated from the total passenger volume in 2023. Despite the increase in average PSCs, we believe the earnings impacts would be minimal as the increase in PSC collections would be largely offset by the subsequent reduction in the marginal cost support sum (MARCS) compensation from the government. Recall that the existing operating agreement (OA) terms allow MAHB to receive the MARCS compensation from the government when the gazetted PSCs fall below the benchmark PSCs.

### KEY FINANCIALS

| Year to 31 Dec (RMm) | 2022 | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|---|
| Net turnover | 3,127 | 4,914 | 5,870 | 6,585 | 6,866 |
| EBITDA | 1,186 | 2,286 | 2,782 | 2,964 | 3,155 |
| Operating profit | 349 | 1,137 | 1,746 | 1,917 | 2,101 |
| Net profit (rep./act.) | 187 | 543 | 885 | 1,106 | 1,386 |
| Net profit (adj.) | (222) | 532 | 885 | 1,106 | 1,386 |
| EPS (sen) | (13.4) | 32.0 | 53.3 | 66.7 | 83.5 |
| PE (x) | n.m. | 27.0 | 16.2 | 13.0 | 10.4 |
| P/B (x) | 2.6 | 2.4 | 2.2 | 2.0 | 1.8 |
| EV/EBITDA (x) | 14.1 | 7.3 | 6.0 | 5.7 | 5.3 |
| Dividend yield (%) | 0.5 | 1.2 | 2.5 | 3.1 | 3.8 |
| Net margin (%) | 6.0 | 11.1 | 15.1 | 16.8 | 20.2 |
| Net debt/(cash) to equity (%) | 51.5 | 39.2 | 31.1 | 5.2 | (8.1) |
| Interest cover (x) | 6.1 | 3.4 | 4.5 | 5.9 | 10.0 |
| ROE (%) | 3.0 | 8.1 | 12.2 | 14.1 | 16.1 |
| Consensus net profit | - | - | 749 | 868 | 1,072 |
| UOBKH/Consensus (x) | - | - | 1.18 | 1.27 | 1.29 |

*Source: Malaysia Airports Holdings, Bloomberg, UOB Kay Hian*
*n.m. : not meaningful; negative P/E reflected as "n.m."*

## BUY
(Maintained)

| | |
|---|---|
| Share Price | RM8.65 |
| Target Price | RM9.86 |
| Upside | +13.9% |
| *(Previous TP* | *RM9.42)* |

### COMPANY DESCRIPTION

Malaysia Airports Holdings is an airport operator with operations in Malaysia and Turkiye.

### STOCK DATA

| | |
|---|---|
| GICS sector | Industrials |
| Bloomberg ticker: | MAHB MK |
| Shares issued (m): | 1,668.6 |
| Market cap (RMm): | 14,433.0 |
| Market cap (US$m): | 3,080.0 |
| 3-mth avg daily t'over (US$m): | 4.7 |

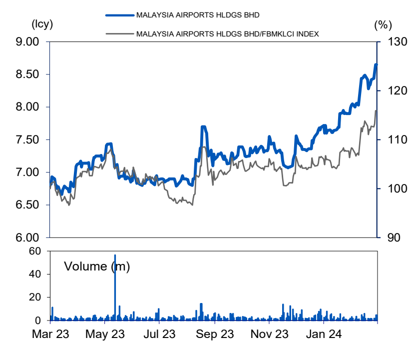
**Price Performance (%)**

52-week high/low RM8.65/RM6.66

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 9.5 | 19.3 | 21.8 | 28.3 | 17.5 |

| Major Shareholders | % |
|---|---|
| Khazanah Nasional Bhd | 33.2 |
| Kumpulan Wang Persaraan Diperbadankan | 7.0 |
| Employees Provident Fund | 6.8 |
| FY24 NAV/Share (RM) | 3.92 |
| FY24 Net Debt/Share (RM) | 1.41 |

### PRICE CHART




*Source: Bloomberg*

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That said, among the all the revised PSCs, only the gazetted PSCs for Kuala Lumpur International Airport 2 (KLIA2) are higher than benchmark rates, which thus translate into actual earnings impact. Effectively, for KLIA2, there is an increase of RM10/pax to ASEAN PSC revenue and a decrease of RM23/pax to non-ASEAN PSC revenue. Taking into consideration the changes in KLIA2's international PSC and the introduction of transfer PSC, we project the increase in 2024-26 revenue to be rather minimal at 1-2%. This sequentially lifts our 2024-26 earnings by 1-3% after factoring the additional user fees expenses (13-14% of PSC revenue) as well as the tax expense.

## STOCK IMPACT

- **Increase in landing and parking fees well within expectations.** Furthermore, **t**he landing and parking fees for RP1 are increased by 7.0%, 2.3%, and 2.4% in 2024, 2025, and 2026 respectively. This is within expectations given that MAVCOM had earlier revealed similar adjustment for inflation rates of 2-4% from 2022 to 2026. Note that our earlier forecasts had accounted for such increases in the landing and parking charges.

- **Implementation of RAB in RP2 still intact.** Meanwhile, we take comfort from MAVCOM's undeterred targets to kick off the implementation of the cost-based framework (CBF) in setting airport tariffs in the RP2 (2027-229). Recall that the CBF, also known as regulated asset base (RAB), would put in place a capex recovery mechanism which allows MAHB to earn a rate of return on concession assets (~11% based on previous consultation papers) through increases in higher aviation charges. We believe there might be more meaningful PSC hikes in RP2 once the CBF is implemented. That said, MAVCOM is expected to provide further clarity on the CBF in the third consultation paper later.

  Meanwhile, MAVCOM also maintained its earlier stance to compensate MAHB for the efficient losses in RP1 via the loss capitalisation mechanism (LCM). The efficient losses are computed based on the difference between: a) the theoretical revenue MAHB requires in RP1 to cover operating costs and necessary capex, and b) the actual revenue recorded in RP1. The LCM will thus allow MAHB to recover 90-100% of any efficient losses it incurs in RP1 over a 10-year period starting in RP2.

- **All eyes on new OA.** Following the conclusion of PSC revisions, we believe the market will now turn its attention to the new OA which may be concluded soon in the coming months. The new OA would shed more light on MAHB's upcoming expansion projects as well as the pertinent funding mechanism, both of which will significantly impact MAHB's financial condition. Also note that further clarity on upcoming projects and the subsequent capex requirement for MAHB play key roles in determining the aviation charges in RP2 once the CBF is implemented. Theoretically speaking, the more capex MAHB spends on airport expansions, the higher aviation charges it would be able to charge via higher returns on concession assets.

## EARNINGS REVISION/RISK

- **We raise 2024-26 earnings forecasts by 1-3%,** mainly to account for the latest PSC rates.

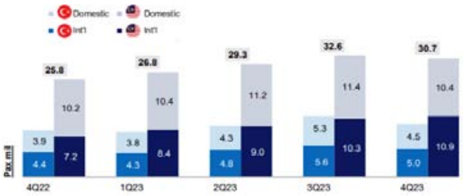
## VALUATION/RECOMMENDATION

- **Maintain BUY with a higher SOTP-based target price of RM9.86 (from RM9.42 previously),** upon factoring in the latest PSC revisions**.** Our target price implies a compelling 2024F EV/EBITDA of 8.0x which is at parity to its five-year average.

## ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

| |
|---|
| • **Environmental** |
| - Installation of solar PV systems which can generate >12,000MWh of energy per year, translating into a reduction of 8,700 tonnes of $CO_2$ emissions yearly. |
| • **Social** |
| - Zero retrenchments or salary cuts in 2020-21 despite being hit by COVID-19. |
| • **Governance** |
| - Comprehended and applied Malaysian Code on Corporate Governance. |

## PASSENGER THROUGHPUT TREND




*Source: MAHB, UOB Kay Hian*

## PAX TRAFFIC ASSUMPTIONS

| Traffic Forecasts (mil pax) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Malaysia | 81.9 | 100.0 | 107.5 | 110.7 |
| - International | 38.6 | 47.6 | 52.6 | 55.4 |
| - Domestic | 43.3 | 52.3 | 54.9 | 55.4 |
| - Recovery vs 2019 | *78%* | *95%* | *102%* | *105%* |
| SGIA | 37.6 | 39.4 | 41.4 | 43.5 |
| - International | 19.6 | 20.5 | 21.9 | 23.5 |
| - Domestic | 18.0 | 18.9 | 19.5 | 20.0 |
| - Recovery vs 2019 | *104%* | *110%* | *115%* | *121%* |

*Source: MAHB, UOB Kay Hian*

## BENCHMARK AND GAZZETED PSC RATES

| PSC (RM/pax) | Benchmark Rates | New Gazetted Rates |
|---|---|---|
| KLIA | | |
| - ASEAN | 80 | 73 |
| - Non-ASEAN | 80 | 73 |
| - Domestic | 11 | 11 |
| | | |
| KLIA2 | | |
| - ASEAN | 40 | 50 |
| - Non-ASEAN | 40 | 50 |
| - Domestic | 8 | 11 |
| | | |
| Other airports | | |
| - ASEAN | 80 | 50 |
| - Non-ASEAN | 80 | 50 |
| - Domestic | 11 | 11 |

| Transfer PSC (RM/pax) | Benchmark Rates | New Gazetted Rates |
|---|---|---|
| KLIA | | |
| - International | 0 | 42 |
| - Domestic | 0 | 7 |
| | | |
| KLIA2 | | |
| - International | 0 | 29 |
| - Domestic | 0 | 7 |
| | | |
| Other airports | | |
| - International | 0 | 29 |
| - Domestic | 0 | 7 |

*Source: MAHB*

## SOTP VALUATION

| Segment | Valuation (RMm) | Remarks |
|---|---|---|
| Malaysia | 15,406.5 | DCF at 8% WACC until 2069 |
| SGIA | 6,058.3 | DCF at 15% WACC until 2032 |
| Total Enterprise Value | 21,464.8 | |
| Minus: Total Debts | (5,020.6) | As of end-23 |
| Equity Value | 16,444.2 | |
| No. of Shares (mil) | 1,668.6 | |
| TP (RM) | 9.86 | |

*Source: UOB Kay Hian*

## PROFIT & LOSS

| Year to 31 Dec (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Net turnover | 4,914 | 5,870 | 6,585 | 6,866 |
| EBITDA | 2,286 | 2,782 | 2,964 | 3,155 |
| Deprec. & amort. | 1,148 | 1,036 | 1,047 | 1,055 |
| EBIT | 1,137 | 1,746 | 1,917 | 2,101 |
| Associate contributions | 35 | 32 | 39 | 39 |
| Net interest income/(expense) | (666) | (614) | (501) | (316) |
| Pre-tax profit | 506 | 1,164 | 1,456 | 1,823 |
| Tax | 37 | (279) | (349) | (438) |
| Minorities | 0 | 0 | 0 | 0 |
| Net profit | 543 | 885 | 1,106 | 1,386 |
| Net profit (adj.) | 532 | 885 | 1,106 | 1,386 |

## BALANCE SHEET

| Year to 31 Dec (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Fixed assets | 603 | 660 | 752 | 802 |
| Other LT assets | 16,542 | 16,154 | 15,847 | 15,575 |
| Cash/ST investment | 1,845 | 1,658 | 1,981 | 2,659 |
| Other current assets | 1,464 | 1,603 | 1,792 | 1,902 |
| Total assets | 20,455 | 20,075 | 20,372 | 20,938 |
| ST debt | 1,249 | 1,001 | 602 | 483 |
| Other current liabilities | 2,663 | 2,454 | 2,878 | 2,950 |
| LT debt | 3,338 | 3,002 | 1,805 | 1,449 |
| Other LT liabilities | 5,205 | 5,087 | 5,892 | 6,030 |
| Shareholders' equity | 7,002 | 7,533 | 8,197 | 9,028 |
| Minority interest | 0 | 0 | 0 | 0 |
| Total liabilities & equity | 20,455 | 20,075 | 20,372 | 20,938 |

## CASH FLOW

| Year to 31 Dec (RMm) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Operating | 1,679 | 1,894 | 3,468 | 2,693 |
| Pre-tax profit | 506 | 1,164 | 1,456 | 1,823 |
| Tax | (81) | (279) | (349) | (438) |
| Deprec. & amort. | 1,148 | 1,036 | 1,047 | 1,055 |
| Associates | (35) | (32) | (39) | (39) |
| Working capital changes | (345) | (522) | 932 | 68 |
| Other operating cashflows | 486 | 527 | 423 | 224 |
| Investing | (287) | (562) | (668) | (683) |
| Capex (growth) | (310) | (649) | (745) | (776) |
| Proceeds from sale of assets | 0 | 0 | 0 | 0 |
| Others | 22 | 87 | 78 | 93 |
| Financing | (1,268) | (1,519) | (2,477) | (1,332) |
| Dividend payments | (8) | (354) | (443) | (554) |
| Proceeds from borrowings | (405) | (584) | (1,596) | (475) |
| Others/interest paid | (855) | (581) | (439) | (302) |
| Net cash inflow (outflow) | 124 | (188) | 323 | 678 |
| Beginning cash & cash equivalent | 1,530 | 1,845 | 1,658 | 1,981 |
| Changes due to forex impact | 191 | 0 | 0 | 0 |
| Ending cash & cash equivalent | 1,845 | 1,658 | 1,981 | 2,659 |

## KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 46.5 | 47.4 | 45.0 | 46.0 |
| Pre-tax margin | 10.3 | 19.8 | 22.1 | 26.6 |
| Net margin | 11.1 | 15.1 | 16.8 | 20.2 |
| ROA | 2.7 | 4.4 | 5.5 | 6.7 |
| ROE | 8.1 | 12.2 | 14.1 | 16.1 |
| | | | | |
| Growth | | | | |
| Turnover | 57.2 | 19.5 | 12.2 | 4.3 |
| EBITDA | 92.7 | 21.7 | 6.6 | 6.5 |
| Pre-tax profit | 174.1 | 130.0 | 25.0 | 25.2 |
| Net profit | 190.2 | 62.9 | 25.0 | 25.2 |
| Net profit (adj.) | n.a. | 66.4 | 25.0 | 25.2 |
| EPS | n.a. | 66.4 | 25.0 | 25.2 |
| | | | | |
| Leverage | | | | |
| Debt to total capital | 36.4 | 31.9 | 20.7 | 16.2 |
| Debt to equity | 79.8 | 66.4 | 41.5 | 32.5 |
| Net debt/(cash) to equity | 39.2 | 31.1 | 5.2 | (8.1) |
| Interest cover (x) | 3.4 | 4.5 | 5.9 | 10.0 |

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