

COMPANY RESULTS

Malaysia Airports Holdings (MAHB MK)

3Q22: Losses Narrow Significantly; At A Tipping Point

MAHB further narrowed its net losses by 96% yoy on the back of resilient revenue growth (+167% yoy), with its Malaysian operations recording positive EBITDA following swift international patronage recovery. Moving forward, we expect MAHB to turn around its net losses in 4Q22 following better traffic volume from both its Malaysian and Turkish operations. We also like MAHB for its discounted valuations and event catalysts of formulating a new OA. Maintain BUY. Target price: RM7.52.

3Q22 RESULTS

	ISG&LGM		MAHB		MAHB Group	
Year to 31 Dec (RMm)	(RMm)	yoy (%)	(RMm)	yoy (%)	(RMm)	yoy (%)
Revenue, Net	369	109.1	498	238.6	863.6	167.0
- Aeronautical	219	111.5	232	363.0	450.0	193.5
- Non- Aeronautical	143	99.7	207	309.5	349.6	186.6
EBIT	139	304.1	5	102.7	143.4	196.7
EBIT Margin (%)	38	93.2	1	100.8	16.6	136.2
EBITDA	279	129.8	81	153.7	359.3	1,330.7
PBT	(2)	(97.2)	(17)	(91.9)	(19.1)	(93.4)
PBT Margin (%)	(1)	(98.7)	(3)	(97.6)	(2.2)	(97.5)
Net Profit	(4)	(95.2)	(5)	(96.4)	(9.0)	(96.0)

Source: Sunway, UOB Kay Hian

RESULTS

- Within expectations.** Malaysia Airports Holdings (MAHB) reported a stronger 3Q22 revenue of RM863.6m (+167% yoy, +21% qoq) with narrowing adjusted net losses of RM9m (-9% yoy, -84% qoq). 3Q22 net losses are broadly within our forecast, as we expect MAHB to turn around its losses in subsequent quarters following Malaysia's strong international traffic recovery after the reopening of borders.
- Malaysian operations registered improved bottom line, boosted by progressive passenger movement recovery.** In 3Q22, MAHB's Malaysian operations reported stronger aeronautical revenue (+25% qoq) and non-aeronautical revenue (+52% qoq) due to better passenger movement (3Q22: 15.0m vs 2Q22: 11.9m vs 3Q21: 1.1m). Non-aeronautical revenue also improved with higher royalties and commercial revenue. The stellar operations recovery has allowed MAHB to turn around its loss before taxation (LBT) to EBITDA of RM359.3m.

KEY FINANCIALS

Year to 31 Dec (RMm)	2020	2021	2022F	2023F	2024F
Net turnover	1,866	1,673	3,000	4,809	5,462
EBITDA	(698)	133	1,175	1,850	2,388
Operating profit	(1,670)	(464)	537	1,284	1,526
Net profit (rep./act.)	(1,116)	(767)	(39)	553	750
Net profit (adj.)	(1,640)	(791)	(63)	529	726
EPS (sen)	(97.4)	(47.7)	(3.8)	31.9	43.8
PE (x)	n.m.	n.m.	n.m.	19.6	14.3
P/B (x)	1.7	2.0	2.0	1.8	1.6
EV/EBITDA (x)	n.m.	101.5	11.5	7.3	5.7
Dividend yield (%)	0.0	0.0	0.0	1.8	2.1
Net margin (%)	(59.8)	(45.8)	(1.3)	11.5	13.7
Net debt/(cash) to equity (%)	51.7	59.6	50.2	34.0	18.5
Interest cover (x)	(1.2)	0.2	1.9	3.2	4.1
ROE (%)	n.a.	n.a.	n.a.	8.6	10.6
Consensus net profit	-	-	(189)	375	576
UOBKH/Consensus (x)	-	-	0.33	1.41	1.26

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

BUY

(Maintained)

Share Price	RM6.27
Target Price	RM7.52
Upside	+19.9%

COMPANY DESCRIPTION

Airport operator with exposure in Malaysia and the Middle East.

STOCK DATA

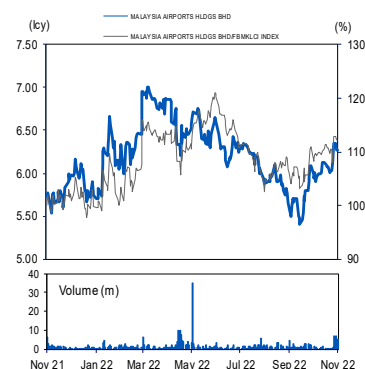
GICS sector	Industrials
Bloomberg ticker:	MAHB MK
Shares issued (m):	1,659.2
Market cap (RMm):	10,403.1
Market cap (US\$m):	2,306.9
3-mth avg daily t'over (US\$m):	1.9
Price Performance (%)	

52-week high/low RM7.01/RM5.40

1mth	3mth	6mth	1yr	YTD
3.1	5.6	(2.9)	8.1	4.8

Major Shareholders	%
Khazanah Nasional Bhd	33.2
Kumpulan Wang Simpanan Pekerja	15.7
Kumpulan Wang Persaraan Diperbadankan	6.1
FY22 NAV/Share (RM)	3.13
FY22 Net Debt/Share (RM)	1.87

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Losses on Turkish operations narrowed further on higher international throughput.** MAHB's Turkey operations further narrowed its net losses (-84% qoq) in tandem with improving EBITDA (+22% qoq), mainly reflecting an impressive 0.5x rise in international pax throughput and recovery of overall passenger traffic volume (3Q22: 9.0m vs 2Q22: 7.4m).
- **Generated operating cash flow surplus of RM614m in 3Q22.** Meanwhile, cash and equivalents stood at RM3.8b, of which 42% was held by Turkish subsidiary Istanbul Sabiha Gökçen International Airport (ISG).

STOCK IMPACT

- **Commendable 3Q22 air traffic statistics lifted earnings.** MAHB recorded 24m total passenger movements in 3Q22, which is the highest quarterly passenger movement since the start of the pandemic and reached 64.9% of 3Q19. Meanwhile, Sep 22 passenger movement of 8.2m was the best month since the onset of the pandemic, reaching 71% of pre-pandemic's volume. This impressive set of air traffic statistics was within our expectations, lifted by short and medium haul routes connectivity improvement, introduction of new MYAirline, school and public holidays in Malaysia as well as further regional easing of travel protocols. We retain our view that 4Q22-2023 will continue to see optimistic recovery, lifted by better recovery paces in flight activities and more passenger capacity reactivation.
- **China's potential borders relaxation remains as a strong re-rating catalyst.** While China's international arrival has been lacklustre due to the government's zero-COVID policy enforcement, we think that China's eventual borders relaxation remains as a strong re-rating catalyst for MAHB to further restore its pre-pandemic earnings dynamic. To recap, China visitors historically made up about 11-12% of Malaysia's pre-pandemic tourist arrival in 2018-19. While we expect China to loosen its travel restrictions from 4Q22-1Q23 onwards, MAHB will benefit immensely from the pent-up demand.
- **Formulation of new OA remains as a major re-rating catalyst.** To note, MAHB has received authorities' approval on the new operating agreement's (OA) principal terms and the finalisation is expected to be concluded by 1Q23. We expect the new OA to have more favourable terms such as adjustment of airports' passenger service charge (PSC) which is well below the regional benchmark rate. Based on our sensitivity analysis, a RM1 increase to MAHB's current blended PSC of about RM45 will potentially increase 2% of its 2023 EBITDA.
- **Discounted valuation offers palatable upside, potentially turning around net losses in 3Q22.** With the strong recovery of passenger traffic from both its Malaysian and Turkish operations, we expect MAHB to turn around its net losses in 3Q22. We also estimate that MAHB's earnings will recover to close to 2019 levels as early as 2023. Furthermore, the company is also currently trading at attractive valuations of 7.6x 2023 EV/EBITDA, well below its pre-pandemic five-year mean of 10x EV/EBITDA.

EARNINGS REVISION/RISK

- **None.**

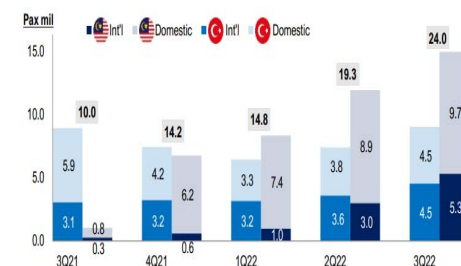
VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of RM7.52**, based on SOTP valuation and valuing MAHB's Malaysian operations at 10x 2023 EBITDA (mean). In a blue-sky scenario where PSC is revised upwards by 4-5% in the new OA and passenger traffic returns to pre-pandemic levels, our 2023 target price could be as high as RM8.28.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> • Environmental <ul style="list-style-type: none"> - Installation of solar PV systems which can generate >12,000MWh of energy per year, translating into a reduction of 8,700 tonnes of CO2 emissions yearly. • Social <ul style="list-style-type: none"> - Zero retrenchments or salary cuts in 2020 despite being badly hit by COVID-19. • Governance <ul style="list-style-type: none"> - Comprehended and applied Malaysian Code on Corporate Governance.

PASSENGER TRAFFIC MOVEMENT SNAPSHOT



Source: MAHB

PAX TRAFFIC ASSUMPTIONS

----- Pax traffic assumption (as a % of 2019) -----				
Malaysia	2019	2021	2022E	2023E
International	53234	3%	34%	84%
Domestic	51855	9%	72%	91%

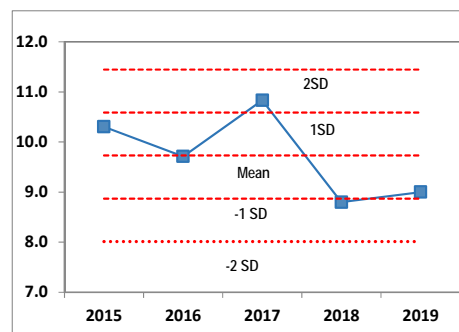
Source: UOB Kay Hian

CURRENT PSC RATE

PSC for Malaysia	Benchmark (RM/pax)	Gazetted Rates (RM/pax)
International (Non-ASEAN)		
KLIA & other airports	80.00	73.00
klia2	40.00	73.00
International (ASEAN)		
KLIA & other airports	80.00	35.00
klia2	40.00	35.00
BIMP-EAGA, IMT-GT & Secondary (Note 1)	32.00	35.00
Domestic		
KLIA & other airports	11.00	11.00
Klia2	8.00	11.00

Source: MAHB

PRE-PANDEMIC EV/EBITDA



Source: UOB Kay Hian

SOTP VALUATION

(RMm)	2023
Malaysian Operations 2023 EBITDA	1,280
EV/EBITDA (x)	10.2
Enterprise value	13,035
Net debt	-2,780
ISG Fair value	1,875
(WACC: 9.0%)	
Equity Value	12,478
No. of Shares (m)	1,659
Equity Value (RM)	7.52

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Net turnover	1,673	3,000	4,809	5,462
EBITDA	133	1,175	1,850	2,388
Deprec. & amort.	597	638	567	862
EBIT	(464)	537	1,284	1,526
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	(13)	(16)	(20)	(24)
Net interest income/(expense)	(565)	(606)	(581)	(576)
Pre-tax profit	(1,041)	(85)	683	926
Tax	275	45	(130)	(176)
Minorities	0	0	0	0
Net profit	(767)	(39)	553	750
Net profit (adj.)	(791)	(63)	529	726

BALANCE SHEET

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Fixed assets	494	428	376	426
Other LT assets	16,854	16,401	15,790	16,190
Cash/ST investment	1,583	479	1,054	1,717
Other current assets	1,231	917	1,183	1,270
Total assets	20,163	18,049	18,404	18,803
ST debt	1,746	1,746	1,746	1,746
Other current liabilities	1,393	1,197	1,497	1,697
LT debt	3,566	1,844	1,597	1,350
Other LT liabilities	6,205	6,073	5,845	5,565
Shareholders' equity	6,255	6,192	6,721	7,447
Minority interest	0	0	0	0
Total liabilities & equity	20,163	18,049	18,404	18,803

CASH FLOW

Year to 31 Dec (RMm)	2021	2022F	2023F	2024F
Operating	271	1,115	2,184	2,471
Pre-tax profit	(1,041)	(85)	683	926
Tax	(9)	105	48	29
Deprec. & amort.	615	570	837	940
Working capital changes	103	(82)	34	0
Other operating cashflows	603	606	581	576
Investing	(134)	(112)	(373)	(450)
Capex (growth)	(139)	(312)	(373)	(450)
Investments	(19)	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	25	200	0	0
Financing	471	(2,107)	(1,235)	(1,358)
Dividend payments	0	0	0	0
Issue of shares	0	0	0	0
Proceeds from borrowings	797	0	0	0
Loan repayment	(61)	(1,722)	(247)	(247)
Others/interest paid	(265)	(384)	(988)	(1,111)
Net cash inflow (outflow)	609	(1,104)	575	663
Beginning cash & cash equivalent	974	1,583	479	1,054
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	1,583	479	1,054	1,717

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	8.0	39.2	38.5	43.7
Pre-tax margin	(62.3)	(2.8)	14.2	16.9
Net margin	(45.8)	(1.3)	11.5	13.7
ROA	n.a.	n.a.	3.0	4.0
ROE	n.a.	n.a.	8.6	10.6
Growth				
Turnover	(10.4)	79.3	60.3	13.6
EBITDA	n.a.	782.3	57.5	29.1
Pre-tax profit	n.a.	n.a.	n.a.	35.5
Net profit	n.a.	n.a.	n.a.	35.5
Net profit (adj.)	n.a.	n.a.	n.a.	37.1
EPS	n.a.	n.a.	n.a.	37.1
Leverage				
Debt to total capital	42.3	33.3	30.2	26.8
Debt to equity	100.9	74.1	64.6	55.0
Net debt/(cash) to equity	59.6	50.2	34.0	18.5
Interest cover (x)	0.2	1.9	3.2	4.1

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