29 July 2016

Securities

AFFIN HWANG CAPITAL

Outthink. Outperform.

Turkish drag

MAHB posted a turnaround in 2Q16 with a core net profit of RM10.5m, compared to the core net loss of RM101.6m in 2Q15. Revenue was boosted by higher contribution from airport operations, but ISG operations disappointed on moderated pax growth. The recent coup attempt and subsequent state of emergency declared in Turkey are likely to impact passenger movements, and could be a huge drag on MAHB earnings due to its high operating leverage. Maintain SELL with unchanged target price of RM5.50.

2Q16 core net profit a turnaround, but below expectations

The 2Q16 improvement was mainly driven by higher pax movements in both Malaysian and ISG operations. Conscious cost management also yielded better margins on lower overall staff costs, as MAHB kept a lid on its burgeoning workforce. However, 1H16 earnings missed both our and consensus estimates, dragged by moderated passenger growth in ISG, steep increase in depreciation costs and higher-than-expected tax rate.

Higher non-aeronautical revenue

Airport operations were boosted by higher non-aeronautical revenue on favourable rental and retail revenue from KLIA2, as the new terminal benefited from healthy footfalls and better occupancy rate. Higher passenger growth in 2Q also led to higher PSC contribution as MAHB benefited from recovery of international passengers movements (+3%), likely due to the return of Chinese tourists to Malaysia.

Margin improvement on lower staff costs

Normalised EBITDA margin expanded +6ppts yoy, bolstered by lower total operational costs (-3% yoy). Labour costs reduction accounted for most of the margin improvement. Staff costs fell 10% yoy mainly due to lower bonus provision but negated by overall wages increment. However, user fee was higher (+16% yoy), mainly due to improvement in airport operations revenue and higher user fee rate payable to the Government of Malaysia as stipulated in the Operating Agreements.

Maintain SELL with an unchanged target price of RM5.50

We maintain our estimates and our 12-month DCF-based target price of RM5.50 (WACC 6.7%; terminal growth rate 5.0%). We maintain **SELL** on MAHB as we remain wary on potential drag from ISG slowdown due to the turmoil at Turkey. Poor domestic sentiments could also affect domestic passenger movements. Risks to our recommendation include: (i) strong rebound in passenger traffic; and (ii) revision to PSC.

Earnings & Valuation Summary

FYE 31 Dec	2014	2015	2016E	2017E	2018E
Revenue (RMm)	3,343.7	3,871.0	3,251.0	3,415.7	3,734.3
EBITDA (RMm)	815.4	1,632.2	1,025.8	929.7	1,236.5
Pretax profit (RMm)	749.3	41.7	172.2	155.5	468.0
Net profit (RMm)	663.7	37.1	129.1	116.7	351.0
EPS (sen)	53.9	2.2	7.8	7.0	21.2
PER (x)	10.9	261.9	75.2	83.2	27.7
Core net profit (RMm)	120.4	-9.8	129.1	116.7	351.0
Core EPS (sen)	9.8	-0.6	7.8	7.0	21.2
Core EPS growth (%)	-69.9	-106.1	1,412.7	-9.7	200.9
Core PER (x)	59.9	nm	75.2	83.2	27.7
Net DPS (sen)	5.6	4.0	4.0	4.0	11.0
Dividend Yield (%)	1.0	0.7	0.7	0.7	1.9
EV/EBITDA (x)	14.1	9.3	14.4	15.6	11.4
Chg in EPS (%)			-	-	-
Affin/Consensus (x)			1.2	0.6	1.1

Source: Company, Affin Hwang estimates

Results Update

Malaysia Airports

MAHB MK

Sector: Transport & Logistics

RM5.85 @ 28 July 2016

SELL (maintain)

Downside: -6%

Price Target: RM5.50

Previous Target: RM5.50

Price Performance

	1M	3M	12M
Absolute	-7.7%	-11.4%	-0.7%
Rel to KLCI	-8.9%	-10.3%	-2.0%

Stock Data

Issued shares (m)	1,659.2
Mkt cap (RMm)/(US$m)	9,706/2,3947
Avg daily vol - 6mth (m)	1.3
52-wk range (RM)	4.22-6.97
Est free float	28.7%
BV per share (RM)	4.62
P/BV (x)	1.27
Net cash/ (debt) (RMm)	(4,791)
ROE (2016F)	1.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Khazanah Nasional	36.7%
EPF	12.2%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	2Q16	QoQ %chg	YoY % chg	1HFY16	YoY % chg	Comment
Revenue	997.6	(2.1)	6.1	2,017.1	11.1	Higher operational revenue boosted by higher pax movements
Op costs	594.4	2.8	(3.7)	1,172.9	0.6	
EBITDA	403.2	(8.6)	25.0	844.2	29.8	Margin improvement on lower staff costs and higher revenue
EBITDA margin (%)	*40.4*	*-2.8ppts*	*+6.1ppts*	*41.9*	*+6.0ppts*	
Depn and amort	(250.9)	0.5	21.0	(500.5)	21.3	Higher depreciation costs upon completion of KLIA2 and consolidation of ISG
EBIT	152.3	(20.4)	32.2	343.7	44.5	
EBIT margin (%)	*15.3*	*-3.5ppts*	*+3.0ppts*	*17.0*	*+3.9ppts*	
Int expense	(154.6)	(8.4)	(27.1)	(323.4)	(13.1)	Impacted by high interest expense following ISG acquisition
Int and other inc	15.6	37.7	(5.7)	26.9	(4.7)	
Inc from associates	5.3	32.4	>100	9.3	>100	
EI	(1.1)	nm	nm	(0.9)	nm	
Pretax profit	**17.5**	**(54.0)**	**872.9**	**55.6**	**35.3**	
Core pretax	18.6	(50.9)	nm	56.5	nm	
Tax	(8.9)	(58.9)	(59.1)	(30.6)	5.2	
Tax rate (%)	*50.9*	*-6.0ppts*	*nm*	*55.1*	*-15.7ppts*	Higher-than-expected tax rate
MI	0.8	57.0	>100	1.3	60.6	
Net profit	**9.4**	**(44.5)**	**nm**	**26.3**	**>100**	
EPS (sen)	0.6	(44.5)	nm	1.6	>100	
Core net profit	**10.5**	**(33.8)**	**nm**	**26.3**	**nm**	Commendable turnaround, but still below expectations

Source: Affin Hwang, Company data

Important Disclosures and Disclaimer

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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