Commendable performance

MAHB recorded strong earnings for 1H17, underpinned by strong passenger growth outlook and a slight recovery in Turkey. The stronger earnings performance was supported by robust passenger growth in the Malaysian operations, as airports in Malaysia registered a solid 13.9% yoy higher passenger movement during the 2Q17. Turkey operations are also turning around, with passenger movement rising 5.1% yoy to 7.8m passengers in 2Q17. We raise our DCF derived SOTP to RM9.10, after raising our long term growth assumptions. Upgrade to HOLD.

Higher revenue and profit in 2Q17, in line with passenger traffic growth

MAHB recorded a 2Q17 core net profit of RM66m (vs. 2Q16 RM11m) underpinned by revenue growth of 10.3% yoy in 2Q17. Revenue growth was bolstered by higher passenger growth (+11.6% yoy). Malaysian operations' top line grew 13.1% yoy, whilst the revenue from ISG increased by 0.8% yoy in 2Q17. In terms of segmental breakdown, aeronautical revenue grew by 9.7% yoy, while non-aeronautical revenue grew by 9.5% yoy on higher contribution from the retail segment.

Net profit increased by >100% yoy for 2Q17 – but below our expectations

For 1H17, revenue and net profit grew 8.7% and 385.6% respectively. MAHB's passenger growth for 1H17 increased by 12.2% yoy, supported by the booming tourism sector on the back of a weak Ringgit and lower airfares. Operating expenses increased by 6.6% yoy for 1H17 due to higher staff cost, user fees and maintenance costs. 1H17 results were nevertheless below our expectations (38.6% of our full year forecast) but in line with street. The variance against our forecast was due to higher operating expenses. We impute higher operating expenses for 2017-19E resulting in a 30%/13%/5% cut in our 2017E-19E EPS estimates. We expect passenger growth to remain strong for 2H17 and we project 8% total passenger movement growth for 2017E. *This note marks a transfer of coverage.*

Upgrade to HOLD with higher TP of RM9.10

We increase our 12M DCF-derived TP to RM9.10 from RM 6.30 as we take into consideration an increase in revenue from the non-aeronautical segment and a revision of PSC beyond FY2018E. We upgrade MAHB to **HOLD** from Sell. Downside risks include (i) unexpected events in Turkey that affects ISG and (ii) a sharp decrease in number of passengers in Malaysia. Upside risk: better-than-expected passenger growth in Turkey and Malaysia.

Earnings & Valuation Summary

FYE 31 Dec	2015A	2016A	2017E	2018E	2019E
Revenue (RMm)	3,870.2	4,172.8	4,562.5	5,191.5	5,903.8
EBITDA (RMm)	1,725.2	1,709.9	1,750.1	1,744.6	1,821.7
Pretax profit (RMm)	45.9	183.4	379.4	535.7	619.5
Net profit (RMm)	40.9	70.4	232.4	375.5	454.3
EPS (sen)	2.5	4.2	14.0	22.6	27.4
PER (x)	355.0	206.2	62.5	38.7	32.0
Core net profit (RMm)	(107.6)	71.2	232.4	375.5	454.3
Core EPS (sen)	(6.5)	4.3	14.0	22.6	27.4
Core EPS growth (%)	(192.4)	(166.2)	226.4	61.6	21.0
Core PER (x)	(134.9)	204.0	62.5	38.7	32.0
Net DPS (sen)	8.5	10.0	10.0	11.3	13.7
Dividend Yield (%)	1.0	1.1	1.1	1.3	1.6
EV/EBITDA (x)	15.0	11.3	10.9	10.8	10.2
Chg in EPS (%)			-30%	-13%	-5%
Affin/Consensus (x)			0.9	1.0	0.9

Source: Company, Affin Hwang estimates

Results Note

Malaysia Airports

MAHB MK
Sector: Transport & Logistics

RM8.75 @ 31 July 2017

HOLD (upgrade)

Upside: +4.0%

Price Target: RM9.10

Previous Target: RM6.30

Price Performance

	1M	3M	12M
Absolute	+2.2%	+15.1%	+47.1%
Rel to KLCI	+2.4%	+15.7%	+38.1%

Stock Data

Issued shares (m)	1,659.2
Mkt cap (RMm)/(US$m)	14,517.9/3,392.2
Avg daily vol - 6mth (m)	4.4
52-wk range (RM)	5.86-9.45
Est free float	44.0%
BV per share (RM)	4.67
P/BV (x)	1.87
Net cash/ (debt) (RMm)	(4,007.9)
ROE (2017E)	2.7%
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Khazanah Nasional	36.7%
EPF	9.9%
JPMORGAN CHASE & CO	2.2%

Source: Affin Hwang, Bloomberg

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Assumptions baked into our model

Expect passenger movement to increase by 8%

We are expecting full year total PAX movements for MAHB to increase by 8% yoy in 2017E, underpinned by (i) cheaper airfares amidst the ongoing price competition among airlines; (ii) weak Ringgit; (iii) higher tourist arrivals during SEA Games 2017 and (iv) relaxing of visa for Chinese tourists.

Higher earnings from non-aeronautical revenue

Management is planning to increase the revenue from non-aeronautical revenue by (i) increasing average rental by approximately 5% per annum and (ii) increase earnings from Eraman Duty Free. We expect higher Chinese tourists' arrivals to boost the earnings of Eraman; hence, we expect earnings from retail and F&B segment to increase by 2% in 2017E and 4% between FY2018-19E (vs. our previous assumptions of 2% for FY2018-19E).

Higher operating expenses

MAHB recorded higher operating expenses of RM1,251m for 1H17, an increase of 6.6% from 1H16. Operating expenses grew slower than revenue due to the high fixed cost proportion. Nonetheless, we impute an increase of 4% for staff costs and an increase of 7% for maintenance cost.

Revision of PSC charges

We also take into consideration that MAVCOM will likely increase PSC rates every 5 years (3% growth every 5 years instead of 1% growth) Currently, PSC in Malaysia remains among the lowest regionally and globally. According to management, MAVCOM will take into consideration the rates in other airports around the region and globally to determine the PSC rates in the future.

Fig 1: WACC assumptions

	Malaysia operations	Turkey operations
Risk free rate (Rf)	4.0%	10.9%
Market return (Rm)	10.0%	17.0%
Equity risk premium (ERP)	6.0%	6.1%
Beta	1.00	0.90
Cost of equity (Ke)	10.0%	18.4%
Proportion of debt financing	39.1%	39.1%
After-tax cost of debt (Kd)	3.6%	3.5%
Weighted average cost of capital (WACC)	7.5%	12.6%

Source: Affin Hwang estimates

Fig 2: Target price calculation

EV of Malaysia operations	15,236.3
EV of Turkey operations	4,359.2
Sum of PV of FCF (RMm)	19,595.4
Enterprise value (RMm)	19,595.4
Equity value (RMm)	15,094.6
Equity value per share (RM)	9.10

Source: Affin Hwang estimates and forecasts

Fig 3: Results Comparison

FYE Dec (RMm)	2QFY17	QoQ % chg	YoY % chg	1H17	YoY % chg	Comments
Revenue	1,100.0	0.6	10.3	2,193.6	8.7	2Q revenue up 10.3% yoy to RM1,100m. Both revenue from Malaysia and ISG increased by 13.1% yoy and 0.8% respectively. In terms of segmental breakdown, non-aeronautical revenue increased by 9.5% yoy to RM489m. This is largely due to higher passenger growth, which has resulted in higher retail and rental revenues. Aeronautical revenue also increased by 9.7% yoy to RM541. The higher revenue is due to higher PSC, owing to higher passenger growth.
Op costs	(635.9)	3.4	7.0	(1,250.8)	6.6	Increase in costs is mainly due to higher user fees (+15.2%), staff cost (+3.7%) and repair and maintenance (+7.8%) for 1H17.
EBITDA	464.1	(3.1)	15.1	942.8	11.7	2Q EBITDA increased by 15.1% yoy, mainly attributable to higher revenue growth.
EBITDA margin (%)	*42.2*	*(1.6)*	*1.8*	*43.0*	*1.1*	
Depn and amort	(214.8)	(5.7)	(14.4)	(442.6)	(11.6)	Depreciation fell, largely due to the extension of the operating period from 25 years (ending FY2034) to an additional 35 years (ending 2069).
EBIT	249.3	(0.6)	63.7	500.2	45.5	
EBIT margin (%)	*22.7*	*(0.3)*	*7.4*	*22.8*	*5.8*	
Int expense	(173.2)	(0.7)	12.0	(347.7)	7.5	
Int and other inc	9.3	(52.5)	(40.1)	28.9	7.8	
Inc from associates	6.1	27.2	15.0	10.9	17.0	
EI	0.8	(189.1)	(172.3)	(0.1)	(89.2)	
Pretax profit	92.3	(7.6)	427.2	192.2	245.0	Pretax profit rose >100% yoy, primarily due to higher revenue and lower depreciation charges.
Tax	-25.8	(30.1)	189.1	(62.7)	104.7	
Tax rate (%)	*27.9*	*(9.0)*	*(23.0)*	*32.6*	*(22.3)*	
MI	-0.4	(60.5)	(150.8)	(1.4)	(209.7)	
Net profit	66.1	6.6	605.2	128.1	385.6	
EPS (sen)	4.0	6.6	605.2	7.7	385.6	
Core net profit	65.3	3.9	524.5	128.2	370.2	Core earnings are below our expectations. We expect MAHB's earnings to remain at this level for 2H17, driven by strong passenger growth.

Source: Affin Hwang, Company data

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

This report is printed and published by:
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