02 October 2012 | Sector Update

Aviation Sector

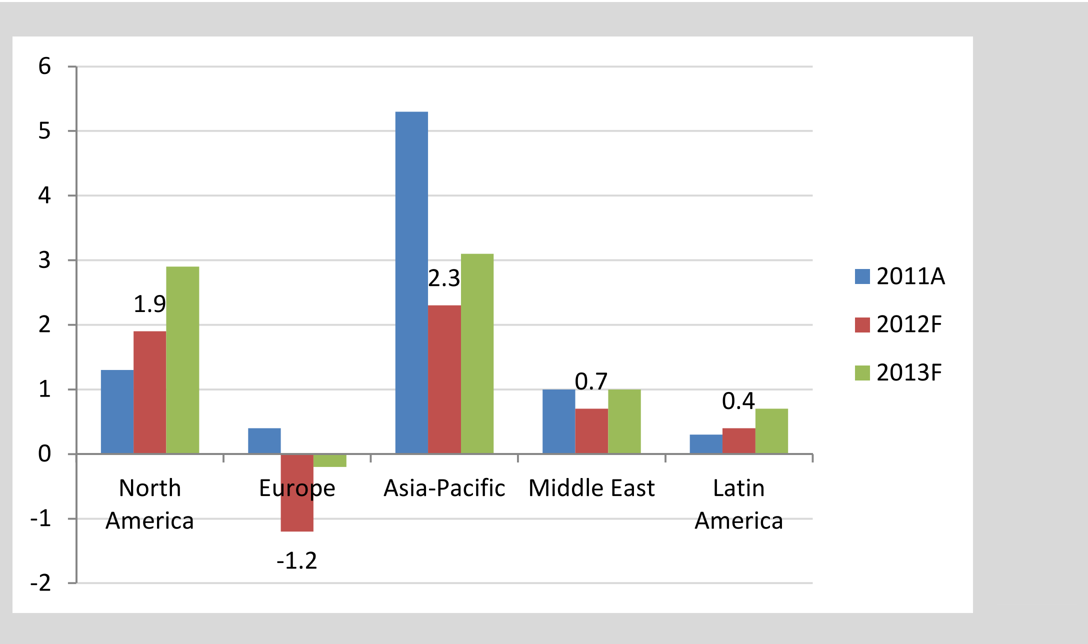
IATA revised upward FY12 profits

***Maintain* NEUTRAL**

HIGHLIGHTS

- **Global airlines profits adjusted upward to USD4.1b**. International Airport Transport Association (IATA) revised upward its FY12 profit forecast for global airline industry to USD4.1b from previous forecast of USD3.0b. The improved earnings estimate is due to the reduced risk in Eurozone crisis and slight easing of crude oil price. Despite the slower growth in global economic, Asia Pacific region is projected to earn higher by USD300m to USD2.3b, driven by +10%yoy growth from China's domestic market. IATA raised the profit forecast for North American region to USD1.9b from USD1.3b previously following extensive cost restructuring.
- **Moderately improved outlook for next year**. IATA forecasts that airline industry profit will reach USD7.5b in 2013, on the back of: (i) slightly faster industry growth, (ii) slightly lower oil prices and (iii) improvement on capacity utilization. However, IATA also believes that other risk factors may moderate the recovery of airlines industry, including : (i) possibility that the US may hit fiscal cliff in 2013, (ii) worsening economic conditions in Europe and (iii) slower than expected global economic growth. IATA forecasts Brent crude oil to ease to USD105pb in 2013 from USD110pb in 2012, attributed by higher production of OPEC countries and the ramping up domestic oil production in North America.

Figure 1: Net Profit across Global Regions, USD'b



Source: IATA, MIDFR

- **Airlines consolidation in passenger segment producing positive outcome**. As evident from 2Q12 result, the load factor and daily aircraft utilization for the sector was maintained above 79% and 11.2 hours (see figure 2); allowing fare yield to improve and alleviating the burden of high fuel cost. The impending tie-up between Oneworld Alliance and MAS is viewed as an industry-wide trend of airline consolidation in order to save operating cost and generate higher revenue from increased business volumes. The cargo market is showing little sign of improvement amid the slowing down of global trade activities. IATA expects the cargo segment to pick up in 2013, which will favorably impact Asia Pacific airlines in particular where it contributes the larger share of revenues.

Figure 2: Passenger Load Factor and Aircraft Utilisation

Source: IATA, MIDFR

RECOMMENDATIONS

MAS (Maintain NEUTRAL, TP: RM1.16)

- Record number of nominations for new committee members in MAS's Employee Union (MASEU) election may indicate stronger team of staff union which deals in employee's welfare. The uncertainty surrounding the election of new committee member is likely to make it difficult for MAS to reorganize its staff strength. Nevertheless, we opine that the business turnaround execution is running smoothly given the successful replacement of old aircraft, which will further save its fuel costs.
- MAS considers to re-introduce LCC operations for Firefly, which was halted after the share swap with AirAsia. MAS will need to turn around its FSU business before effectively compete with other LCC players like AirAsia and new airlines, Malindo. We reiterate our NEUTRAL stance on MAS with unchanged TP of RM1.16.

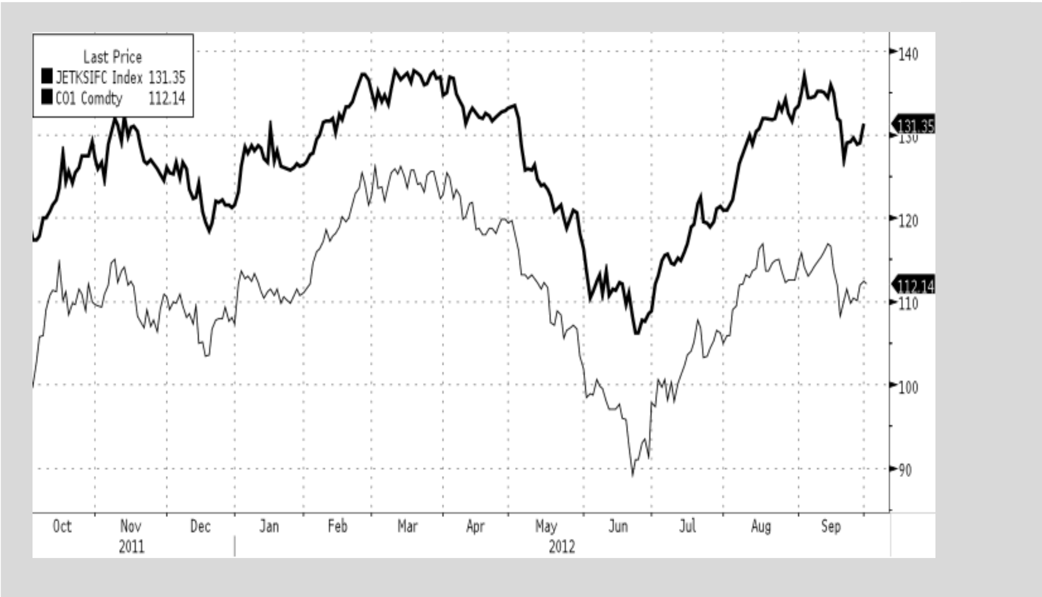
AirAsia (Maintain BUY, TP: RM3.84)

- AirAsia share price fell to this year's lowest of RM2.84 (as at 26 September 2012) after the announcement of Malindo Airways, a new LCC in Malaysia, which is slated to start operation in May 2013. There is no doubt that Malindo Airways will impact AirAsia's fare yield and profitability. However, we believe that AirAsia will weather the increased competition given that it has a comparatively larger fleet and stronger brand presence.
- In view of the impact from lower fare yield, we revised downwards our core earnings estimate by -6.0% for FY13. This lead to a reduction in our target price to RM3.84 from RM4.18 previously. Our revised target price is derived by pegging core EPS13 to 12x PER. Nevertheless, we still maintain our BUY recommendations on AirAsia, in line with regional air travel booming and easing of fuel price.

MAHB (Maintain BUY, TP: RM6.72)

- MAHB announced that there will be 10 LCCs to operate in the new KLIA2, which is scheduled to be operational in May 2013. We view positively towards this latest development as it will bring in higher traffic from the increased airlines services. Hence, we reaffirm our BUY recommendation with unchanged target price of RM6.72.

Figure 3: S'pore Jet Kerosene Spot Price (JETKSIFC) and Brent crude oil (CO1), USD/b



Source: Bloomberg, MIDFR

Figure 4: Aviation Stocks under Coverage

Stocks	Recom.	Last Price (RM)	Target Price	EPS (sen)		P/E (x)		Div Yield (%)		52 week price	
				FY12	FY13	FY12	FY13	FY12	FY13	High (RM)	Low (RM)
MAS	NEUTRAL	0.995	1.16	-19.3	-5.2	n.m.	n.m.	0.0	0.0	1.74	0.995
AirAsia	BUY	3.05	3.84	68.7	32.0	4.4	9.53	1.7	3.4	4.00	2.81
MAHB	BUY	5.56	6.72	30.7	38.0	18.1	14.6	2.8	3.4	6.48	4.50

Source: Bloomberg, MIDFR

DAILY PRICE CHART

MAS

AirAsia

MAHB

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise*by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall*by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.