

Looking forward to flying low-cost again

Quick Note

KLIA2: Less than a week to go...

We attended a tour of KLIA2 organised jointly by MAHB (MAHB MK, Reduce) and WCT (WCTHG MK, Reduce), and came away impressed with the new terminal and associated retail offering. Our key conclusions from the visit:

- We believe it will be “all systems go” for KLIA2 on 2 May and we do not foresee any more delays. Airlines (including AirAsia) have already informed passengers about the shift of terminal and we expect complete handover from LCCT to KLIA2 by 9 May (when AirAsia group is scheduled to relocate). Barring some finishing touches and retail fitouts, the terminal is largely ready for business.
- KLIA2’s facilities are far better than LCCT’s, with better connectivity between the city and KLIA (ERL), aerobridges (which AirAsia has agreed to use), and more passenger comfort (eg, space, F&B options, shopping). However, due to the size of the terminal, we expect passengers (especially international) will still need to walk a considerable distance, which may lead to a rise in aircraft turnaround time from LCCT’s 20-25 min.
- MAHB’s and WCT’s combined retail space (32,500 sqm at Gateway@KLIA2 and 32,000 sqm at KLIA2 itself) should spur additional passenger spending on F&B, duty free, etc. Moreover, Gateway@KLIA2 can also serve as a mall to employees and meeters/greeters at the terminal.
- However, we continue to believe that for the first year or two, KLIA2 will be a drag on MAHB’s earnings, due to its high cost base and related finance costs. We expect profitability to improve once airlines put in more capacity, which we don’t expect soon, due to weaker tourism outlook and airline capacity rationalisation.
- For WCT, we think the Gateway@KLIA2 mall, of which it owns 70%, might not be able to offset the shrinking construction business in the near term.

Recap: KLIA2 by the numbers

- Terminal space of 257,000 sqm (4x the current space at LCCT) with a capacity to handle 45mn pax per year (3x LCCT’s capacity).
- 32,000 sqm earmarked for commercial (5x the retail space at LCCT).
- 68 boarding gates and eight remote stands.
- 4.0km runway with a 2.2km separation from Runway 2.
- Other notable features – aerobridges, a skybridge (first airport in Asia to have one), walkalators, fully automated baggage handling systems, shopping for both travellers and visitors, 6K covered multi-storey parking, tallest air traffic control tower in the world.

Recap: Gateway@KLIA2 by the numbers (70:30 owned by WCT:MAHB)

Gateway has a NLA of 32,500 sqm and serves as a transport hub for all arriving and departing passengers.

Global Markets Research

28 April 2014

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In pictures: KLIA2

Fig. 1: Flight Information Display System (FIDS) at Gateway



Source: Nomura research, MAHB and WCT Holdings

Fig. 2: Tune Hotel located near Gateway@KLIA2



Source: Nomura research, MAHB and WCT Holdings

Fig. 3: New ATC control tower



Source: Nomura research, MAHB and WCT Holdings

Fig. 4: FIDS at KLIA2



Source: Nomura research, MAHB and WCT Holdings

Fig. 5: Check-in counters at KLIA2



Source: Nomura research, MAHB and WCT Holdings

Fig. 6: KK Supermart – a retail offering at KLIA2



Source: Nomura research, MAHB and WCT Holdings

Fig. 7: Security check area at KLIA2

Source: Nomura research, MAHB and WCT Holdings

Fig. 8: Aerobridges as viewed from apron

Source: Nomura research, MAHB and WCT Holdings

Fig. 9: View of KLIA2 from third runway (15/33)

Source: Nomura research, MAHB and WCT Holdings

Fig. 10: Interior decor in KLIA2

Source: Nomura research, MAHB and WCT Holdings

Fig. 11: View of skybridge and control tower

Source: Nomura research, MAHB and WCT Holdings

Fig. 12: View from the skybridge

Source: Nomura research, MAHB and WCT Holdings

Appendix A-1

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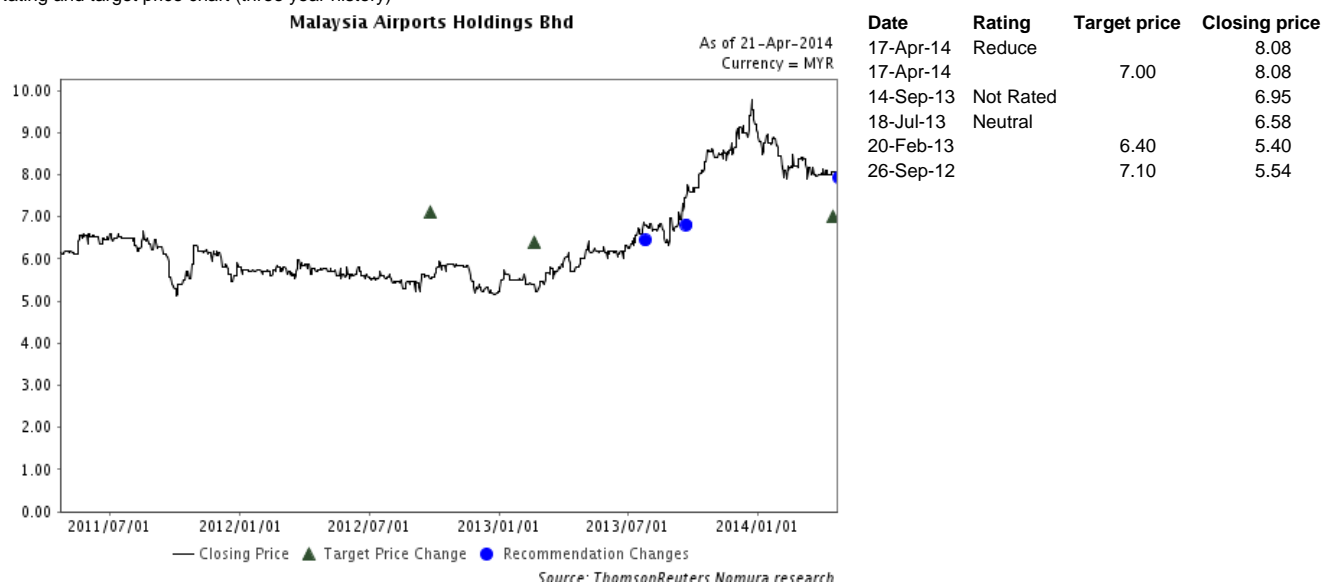
Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Malaysia Airports Holdings Bhd	MAHB MK	MYR 8.05	25-Apr-2014	Reduce	N/A	
WCT Holdings	WCTHG MK	MYR 2.26	25-Apr-2014	Reduce	N/A	

Malaysia Airports Holdings Bhd (MAHB MK)

MYR 8.05 (25-Apr-2014) Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



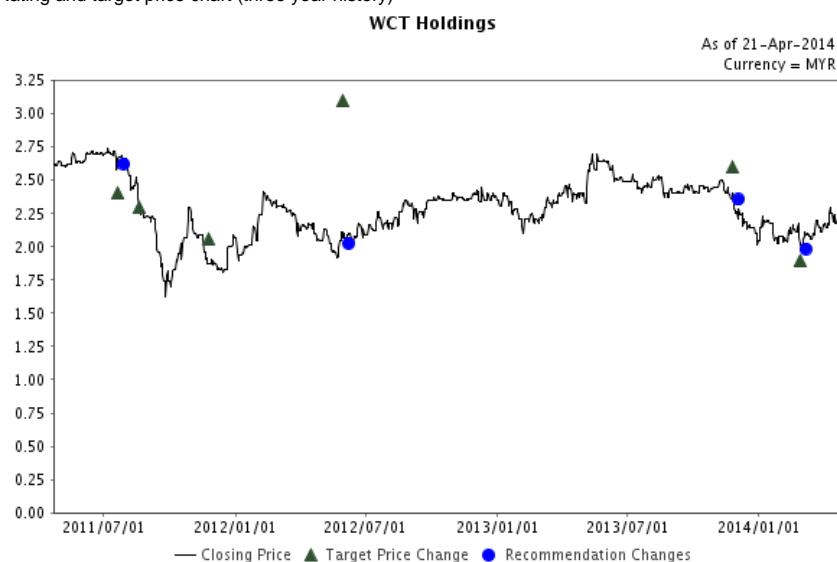
For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our target price of MYR7.00 is based on the sum of: 1) the discounted free cash flow to equity for domestic operations until February 2034 (cost of equity: 10%); 2) residual cash; 3) proceeds from the sale of Sepang International Circuit in 2019, discounted at a risk-free rate of 3.5%; 4) our fair value estimates of MAHB's stakes in three foreign airports (Delhi/Hyderabad: 1x book; Sabiha Gokcen: discounted FCFE at cost of equity of 15%); and 5) NPV of FCFE of KLIA2 IC at MAHB's 30% stake. NPV calculations are discounted to end-2014F. The benchmark index for the stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Upside risks to our view: 1) higher-than-expected traffic growth; 2) higher-than-expected LCC PSCs and 3) Malaysia airports concession extended by 25 years.

WCT Holdings (WCTHG MK)**MYR 2.26 (25-Apr-2014)** Reduce (Sector rating: N/A)

Rating and target price chart (three year history)



Source: ThomsonReuters, Nomura research

Date	Rating	Target price	Closing price
27-Feb-14	Reduce		2.03
27-Feb-14		1.90	2.03
25-Nov-13	Neutral		2.40
25-Nov-13		2.60	2.40
30-May-12	Buy		2.07
30-May-12		3.10	2.07
25-Nov-11		2.06	1.87
19-Aug-11		2.30	2.322
21-Jul-11	Reduce		2.67
21-Jul-11		2.41	2.67

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value WCT using a sum-of-the-parts (SOTP) methodology derived from 1) Construction segment valued at 8.5x PE CY14F 2) NAV of property segment at a 13.4% discount rate; 3) the NAV of investments in malls and hotels at 11% discount rate; 4) NAV of India expressways at 9.2% discount rate; and 5) NAV of KLIA2 IC at 9.4% discount rate. Our SOTP calculation implies a valuation of MYR2.0bn for WCT's businesses. To this we add cash from warrants (~MYR700mn) to arrive at our price target of MYR1.90/share. The benchmark index for this stock is MSCI Malaysia.

Risks that may impede the achievement of the target price Key upside risks to our view stems from 1) New project awards larger than our estimates: We currently build in MYR600mn of total new projects in FY14F/15F/16F each. In case WCT is able to secure projects exceeding our assumed value (like the Kwasa Damansara land civil works, with both having EPF as a major shareholder), there might be upside risk to the stock. 2) Higher-than-expected margins for construction and property development: We have cut our margin assumptions on cost and labour pressures in Malaysia and the Middle East. However, if these were to reverse, it could pose an upside risk. 3) Higher-than-expected property sales 4) Arbitration wins (e.g. the Meydan Racecourse arbitration).

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