

## Malta International Airport p.l.c.



### Update to Price Target and Investment Stance:

Following the publication of the financial performance for the first 9-months of Malta International Airport plc (“MIA” or “the Company”), we have revised our estimates in-line with MIA’s performance, which outperformed expectations. We maintain our Hold recommendation, with an upgraded price target of €7.64 from our previous target of €7.18.

The Company’s passenger growth forecasts for FY 2019 was of 5.8% on an annual basis and up to October 2019, passenger movements increased by 6.7% on a comparative basis. Correspondingly, revenue for the first 9-months increased by 9.2%, which is more than double than that previously forecasted by management (growth of 4.1%).

Consequently, we revised our profitability forecast for FY 2019 to €33.1 million from our previous forecast of €31.9 million, and enhanced the profitability forecasts of subsequent years in our valuation, leading to a revision of our price target.

Our valuation in terms of the masterplan remains unchanged and the increased investment of Ryanair in Malta, through Malta Air should positively influence MIA, thus we maintain our 3% terminal growth. Consequently, we are of the opinion that the current price captures the foreseeable future growth both in terms of passengers and real estate.

Upside risk to our price target includes growth above expectations resulting from Ryanair’s substantial investment, which includes a total of 10 aircraft based in Malta within 3 years time, up from 6 aircraft currently in operation. Downside risk includes the UK market, which represents the largest tourism market for Malta, and negative repercussions due to Brexit.

### Company update following issuance of 2019 9-months results:

Malta International Airport plc’s (“MIA” or “the Company”) principal activities are the development, operation and management of Malta International Airport. Moreover, the Company, through its fully owned subsidiaries, is involved in the management and development of real estate for commercial use on the land adjacent to the airport.

Recently MIA has launched its new winter flight schedule for the period 2019-2020. It consists of four new routes, coupled with several flight extensions from Summer to Winter. New routes include Paphos (Cyprus), Trieste (Italy) and Santiago de Compostela (Spain). The fourth new route will be launched in November.

For the first 6-months ending June 2019, the Company proposed and paid a net dividend of €0.03 per share, which aggregated with the final net dividend paid for 2018 amounting to €0.09 per share, results

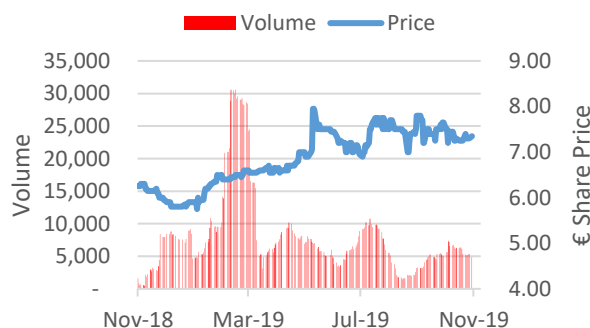
**Stock Rating**  
Price target (1Yr)

**Hold**  
€7.64

<b>Country</b>	Malta
<b>Industry</b>	Air Transport / Real Estate
<b>Ticker</b>	MIA
<b>Price (as at 11/11/2019)</b>	€7.35
<b>Price Target (1-Year)</b>	↑€7.64 - previous PT €7.18
<b>Upside / (downside) to PT</b>	3.9%
<b>12 month f'cash dividend</b>	€0.13
<b>12 month TSR</b>	5.7%
<b>Market Cap</b>	€994.5 million
<b>Shares Outstanding</b>	135.3 million
<b>Free Float</b>	29.9%
<b>Net Dividend Yield</b>	1.6%
<b>Current P/E *</b>	30.7x
<b>Forward P/E **</b>	30.0x
* Based on the last twelve months (LTM) as of June 2019	
** CC estimates	

**Exchange** Malta Stock Exchange (MSE)  
**52-week range** €5.75 - €7.95

### Price and Volume Movement (20 day moving average)



Source: Bloomberg

### Market Research



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in a total net dividend of €0.12 per share for the LTM 2019. This is equal to the total net dividend distributed for financial year 2018.

## Valuation

Our one-year price target is €7.64. The price target is calculated using a Free Cash Flow to Equity model with a cost of equity of 7.3% and a terminal growth rate of 3%. We have substantiated our target using the Price Earnings (P/E) model with a P/E ratio of 30x. The cost of equity caters for the monopolistic position that MIA benefits from.

MIA Financials	FY 2017	FY 2018	LTM 2019 <sup>1</sup>	2019F <sup>2</sup>	2020P	2021P
	€	€	€	€	€	€
Revenue	82,369,154	92,191,719	98,676,135	100,661,757	107,525,382	113,748,208
Staff Costs	(8,045,386)	(9,747,167)	(10,583,233)	(10,720,000)	(11,288,928)	(11,884,819)
Other operating Expenses	(25,750,264)	(28,014,126)	(28,161,521)	(30,701,836)	(32,687,716)	(34,124,462)
<b>EBITDA</b>	<b>48,573,504</b>	<b>54,430,426</b>	<b>59,931,381</b>	<b>59,239,921</b>	<b>63,548,738</b>	<b>67,738,926</b>
Depreciation & Amortisation	(7,410,628)	(7,384,403)	(8,443,577)	(8,037,500)	(8,573,523)	(8,787,933)
<b>EBIT</b>	<b>41,162,876</b>	<b>47,046,023</b>	<b>51,487,804</b>	<b>51,202,421</b>	<b>54,975,214</b>	<b>58,950,994</b>
Deferred Income	208,765	208,765	208,765	208,765	208,765	208,765
Investment income	4,406	(7,021)	20,414	30,000	30,000	30,000
Finance Costs	(3,808,536)	(148,915)	(1,528,005)	-	-	-
<b>Profit Before Tax</b>	<b>37,567,511</b>	<b>47,098,852</b>	<b>50,188,978</b>	<b>51,441,186</b>	<b>55,213,979</b>	<b>59,189,759</b>
Income tax expense	(13,417,031)	(16,763,212)	(17,847,045)	(18,324,327)	(19,668,267)	(21,084,515)
<b>Profit Available to Ordinary Equity holders</b>	<b>24,150,480</b>	<b>30,335,640</b>	<b>32,341,933</b>	<b>33,116,859</b>	<b>35,545,712</b>	<b>38,105,243</b>
Earnings Per Share	0.178	0.224	0.239	0.245	0.263	0.282
Normalised Profit after tax	26,955,230 <sup>3</sup>	30,335,640	32,341,933	33,116,859	35,545,712	38,105,243
Normalised Earnings Per Share	0.199	0.224	0.239	0.245	0.263	0.282

Ratio Analysis:	FY 2017	FY 2018	LTM 2019	2019F	2020P	2021P
Revenue Growth (YoY)	12.7%	11.9%	7.0%	9.2%	6.8%	5.8%
EBITDA Margin	59.0%	59.0%	60.7%	58.9%	59.1%	59.6%
Net Margin (Normalised Profit)	32.7%	32.9%	32.8%	32.9%	33.1%	33.5%
Dividend Payout Ratio	56.0%	53.5%	50.2%	54.0%	54.0%	54.0%

Source: Audited Financial Statements and CC Estimates

## Aviation Market Overview

As reported in the 'European Tourism - Trends & Prospects Q2/2019', demand for European tourism is expected to maintain an upward trajectory over 2019, albeit growth is expected to taper down amidst political and trade tensions that are disrupting the global economy. This is substantiated with a slower tourism growth as experienced by all European reporting destinations up to Q2/2019.

Nevertheless, a vast majority of European destinations continued to enjoy growth amongst weakening European economic activity. This is clearly seen in the local aviation sector, whereby despite the lower growth, tourism to date has exceed MIA's expectations.

In the Eurozone, solid domestic demand supports growth, while persistent downside risks continue to weigh on long-term development prospects. Following a solid performance in 2018 (+6%), international tourist arrivals to Europe are projected to grow 3.6% in 2019, a rate more in line with the annual historical average (2008-18). Europe's tourist arrivals growth is expected to taper down further to 2.8% in 2020.

<sup>1</sup> LTM 2019 is calculated by adding the first 9-months results of 2019 to the audited results of financial year 2018, less the comparative 9-months of 2018.

<sup>2</sup> Our forecasted figures do not take into account the implications brought about by the adoption of IFRS 16, where most leases have been capitalised as from 1 January 2019.

<sup>3</sup> In 2017, MIA incurred a one-off early repayment fee on its outstanding loans amounting to €2.78 million, in addition to a one-off charge to the lease payments reflecting the effect of a recalibration of prior years' passenger movements amounting to €1.54 million.

## Investment Thesis Variables

FY2019 Estimates	Management Guidance	Calamatta Cuschieri Estimates
Passengers	7,200,000	7,300,000
Revenue	€96,000,000	€100,700,000
EBITDA	€59,000,000	€59,200,000
Net Profit	€31,000,000	€33,100,000

Source: Company Announcements and CC Estimates

- **Revenue** - Following MIA's publication of the first 9-months financials, which exceed expectations, we increased our passengers forecast for 2019 to 7.3 million from our previous target of 7.1 million passengers. This positively affected the revenue for FY 2019 and subsequent years, with an anticipated revenue of €100.7 million for FY 2019, an increase of €2.9 million from our previous report. This growth is substantiated by the LTM 2019 results, whereby total revenue generated amounted to €98.7 million.

In line with the increase in passenger movements, we adjusted the revenue from the retail and property segment upwards by €0.8 million from our previous report. Given that no additional information was issued in respect of the masterplan, our assumptions remain the same.

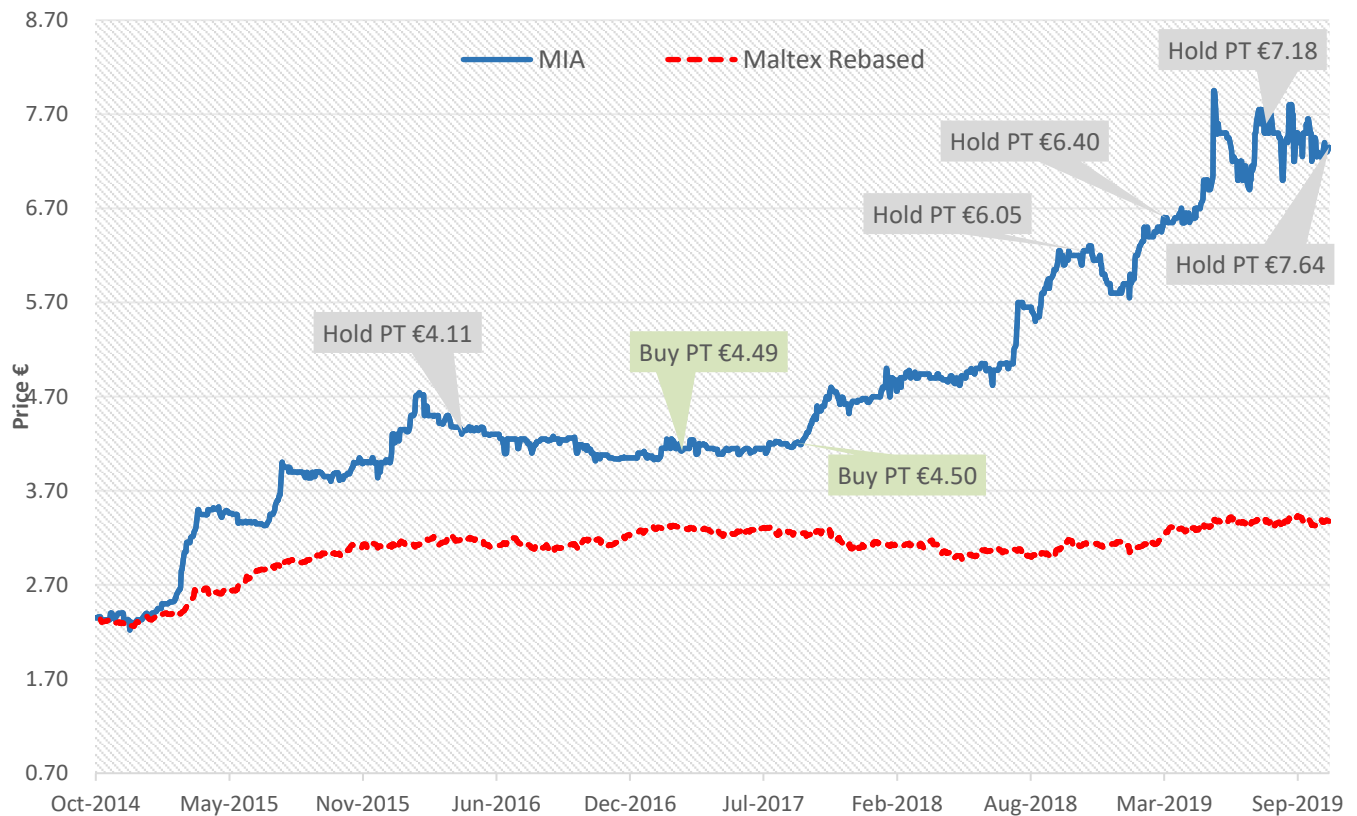
- **EBITDA** - In the LTM 2019, EBITDA increased to €59.9 million, an increase of €5.5 million from FY 2018. Likewise, the EBITDA margin improved to 60.7% from 59.0%. It is pertinent to note that as a result of adopting IFRS 16 as from 1 Jan 2019, the Company capitalised its leases resulting in an operating expenses saving of €1.1 million up to June 2019. Given that, we are not adjusting our valuation for the implications of IFRS 16, due to the limited information presented in interim financials, our forecasted EBITDA for FY 2019 is of €59.2 million, with an EBITDA margin of 58.9%. Our lower EBITDA forecast is compensated by a lower depreciation charge and a lower finance cost for FY 2019. Thus, the combined effect on our profitability forecast of MIA is nil.
- **Net Profit and Earnings per Share (EPS)** - Based on the improved outlook for FY 2019 in terms of passenger traffic growth, we improved our profitability forecast for FY 2019 to €33.1 million from our previous projection of €31.9 million. This translates to an improved net margin of 32.9% (previously 32.6%).

The LTM 2019 results demonstrate a continued growth in profitability with an increase of 6.6% when compared to FY 2018, where EPS for the LTM 2019 was €0.239 (FY 2018: €0.224). We expect MIA to further improve its profitability by 2.4% in FY 2019, when compared to the LTM 2019, with an EPS of €0.245.

- **Dividends** - After considering the capital expenditure requirements of both a recurring nature as well as the implementation of the master plan, we estimate that MIA should be in a strong position to continue to distribute around 54% of its net profit in the foreseeable future. This is in-line with the payout ratio of the last two years, where in 2018 the payout ratio stood at 53.5% and in 2017 the payout ratio stood at 56.0%. For the LTM 2019, the dividend payout ratio stood at 50.2%. MIA's management has a conservative approach towards financing its growth. Management prefer to retain excess liquidity to be able to finance its capital projects, which substantiates the 54% payout ratio.

### Historical 1-Year Price Target

Reference	Date	Price	Price Target	Analyst	Recommendation
MIA	12.11.2019	€7.35	€7.64	Simon Psaila and Rowen Bonello	Hold
MIA	09.08.2019	€7.50	€7.18	Simon Psaila and Rowen Bonello	Hold
MIA	12.03.2019	€6.60	€6.40	Simon Psaila and Rowen Bonello	Hold
MIA	09.11.2018	€6.25	€6.05	Simon Psaila and Rowen Bonello	Hold
MIA	04.09.2017	€4.20	€4.50	Simon Psaila	Buy
MIA	17.03.2017	€4.125	€4.49	Simon Psaila	Buy
MIA	22.04.2016	€4.33	€4.11	Simon Psaila	Hold



Source: Bloomberg

## Glossary and Definitions

<b>Income Statement</b>	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
<b>Profitability Ratios</b>	
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at the statement of financial position date.
<b>Dividends Ratios</b>	
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
<b>Cash Flow Statement</b>	
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
<b>Balance Sheet</b>	
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
<b>Financial Strength Ratios</b>	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets. Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 1 Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

## Explanation of Equity Research Ratings

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**Buy:** Based on a current 12- month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

## Disclaimer

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