

Stock Market Review

MIA forecasts mild growth after extraordinary 2013



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On January 23, Malta International Airport plc issued a company announcement and concurrently held a press conference announcing the 2013 traffic results and the forecast for this year.

MIA's CEO Markus Klaushofer delivered a presentation to the media in the presence of the Minister for Tourism Karmenu Vella and the CEO of the Malta Tourism Authority, Josef Formosa Gauci.

MIA publishes its traffic results on a monthly basis and furthermore on December 27, the company also announced that the fourth millionth passenger in one year had passed through the terminal for the first time in MIA's history. Therefore, it was not surprising that Mr Klaushofer reported that passenger volumes in 2013 were at an all-time record with an increase of 10.5 per cent to 4.03 million passenger movements.

An interesting statistic is that record passenger movements were registered in each of the 12 months during the year. Naturally, summer remains the busiest period, with the figures for July to September accounting for 35.5 per cent of the total passenger traffic. However, MIA's CEO singled out the "outstanding results in October and November".

Mr Klaushofer explained that the huge efforts by the MTA and all stakeholders to extend the summer traffic also into the winter months are reaping the desired benefits. MIA's CEO added that in view of the very busy summer period which is possibly reaching saturation point, the key strategy for the industry should be to also market Malta as a winter destination. He pointed out that a number of initiatives are being embarked upon such as the heritage and cultural aspect of the island. In this respect, MIA's CEO remarked that a number of boutique hotels opening in Valletta in the coming years is very good news and will help to attract tourists especially in the shoulder months.

Passenger movements at MIA have been growing strongly in recent years. In fact, record movements were registered in five of the last six years. Following the 2008 record of 3.1 million passengers, traffic declined in 2009 in response to the start of the international financial crisis. However, growth accelerated since then as all stakeholders focused on various initiatives to attract more airlines. In fact, passenger movements climbed by 38 per cent since 2009.

A very important indicator highlighted by MIA's CEO is the seat load factor which shows the average occupancy of each airline using the Malta airport. The average seat load factor of 78.5 per cent in 2013 was slightly higher than the 2012 level. Mr Klaushofer remarked that

this high seat load factor is very good news for the airlines and this indicated that "Malta is an interesting destination".

The growth achieved in 2013 could therefore be attributed to the higher seat capacity. This rose by 10.2 per cent during the year to over 5.1 million seats on the back of the new routes by Ryanair and Lufthansa, and the addition of new airlines such as WizzAir, Monarch and airBaltic.

Mr Klaushofer praised Air Malta's six per cent growth in passenger numbers to 1.76 million. He remarked that this was very good news for MIA and for the country in general. Air Malta remained the largest carrier accounting for 43.7 per cent (2012: 45.5 per cent) of overall traffic. The low-cost carrier Ryanair registered an increase of 19.3 per cent to 1,104,510 passenger movements. The growth surpasses the estimates by Ryanair announced when they launched the three new routes as from March 2013. Ryanair now accounts for 27.4 per cent of passenger movements, up from 25.4 per cent in 2012. On the other hand, Easyjet registered a 1.9 per cent decline in passengers to 313,617 movements. Nonetheless, this low-cost airline still has a market share of 4.8 per cent (2012: 8.8 per cent).

Mr Klaushofer also stated that MIA's main markets for 2013 were the UK (28.6 per cent of market share), Italy (18.1 per cent) and Germany (14.4 per cent). The Italian market grew by 17.8 per cent, equivalent to an additional 110,000 passenger movements. Meanwhile, both the CEO of MIA and the Tourism Minister spoke at great length about the potential growth from Germany.

The minister explained that various specific initiatives are being considered to improve traffic from Germany. While analysing the geographical spread of passenger movements, Mr Klaushofer highlighted the growing market diversification and the resultant reduced dependency on the UK market which historically had been closer to the 40 per cent level.

After reviewing the detailed traffic statistics for MIA for 2013, the CEO proudly compared these to the data from the Airport Council International across different regions. MIA strongly outperformed passenger growth across the EU. During the 11-month period from January to November 2013, MIA registered an increase of

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10.7 per cent compared to a rise of a mere 0.8 per cent across the EU. A further analysis of those airports in MIA's category of less than five million passengers also revealed that MIA was the top performer during this period. Iceland's main airport, Keflavik International Airport, ranked in second place with an increase of 10 per cent. Meanwhile, various airports in Spain registered a decline in passenger traffic with Seville being the worst performer with a drop of 15 per cent.

This year, MIA is anticipating a 2.6 per cent growth in seat capacity to 5.3 million seats. The company had already announced that two new airlines will start operating to Malta in 2014. British Airways will be operating the London Gatwick route as from March 30. Mr Klaushofer explained that the return of British Airways is very important since the company's strategy also entails increasing the capacity of legacy carriers to stimulate business passenger traffic. The CEO added that such legacy carriers are also crucial to support Malta's growing financial services sector.

Another new carrier that will start flying to Malta is flyNiki which will operate the Vienna route. Mr Klaushofer indicated that the timing of the flights to and from Vienna are ideal for connections to other Eastern European countries. The success of this new route could instigate other carriers to initiate direct flights to Malta in the future from certain routes in Eastern Europe.

Moreover, another two airlines which are already operating other routes to Malta will increase their capacity this year. Transavia will start a route to Nantes and Vueling will operate to and from Rome.

Given the increased seat capacity, MIA is forecasting that passenger numbers this year will be two per cent higher than those registered in 2013 to yet another annual record of over 4.1 million passengers. Essentially this means that the forecasted average seat load factor for 2014 is of 77.4 per cent. This represents a marginal decline from the seat load factor for 2013 of 78.5 per cent.

This mild passenger growth forecast must be placed in the context of the extraordinary

growth in passenger traffic registered in 2013. Moreover, given the short lead times in the industry and hence the difficulty in anticipating passenger traffic flow, this forecast could vary as the year progresses. In fact, at the start of 2013, MIA had announced a forecast of +1.5 per cent for the year. This was then upgraded to +6.7 in July following the strong growth in the first half and the indications for the summer season. Towards the end of the year, MIA again upgraded its 2013 forecast to +6.9 per cent after the very strong summer traffic. The three-month period from July to September will continue to remain crucial to overall traffic flows for the airport. The double-digit also in the final quarter of the year led to an overall increase of 10.5 per cent.

Naturally, MIA shareholders anticipate that the strong increase in passenger traffic during 2013 will be reflected in the financial performance of the company. The annual financial statements which are usually announced in March should show another year of record profits for MIA. At the interim stage, pre-tax profits had climbed by 14 per cent to just over €8 million. However, the second half of the year is significantly more profitable given the higher number of passenger movements during the summer.

As a result, MIA's share price has been reflecting the positive movement in passenger flow. For the fourth consecutive year, in 2013 the equity again performed positively, this time with a rise of 20 per cent. The share price touched a new all-time high of €2.20 in mid-January, helping MIA's market cap reach almost €300 million.

At the time of the publication of the annual financial statements in March, shareholders will be eagerly awaiting the extent of the final dividend recommendation as well as news on any further strategic developments to help sustain the recent financial performance also in future years. MIA should highlight the consistent growth in the return on equity over the years which increased from 16.6 per cent in 2008 to 20.5 per cent in 2012. This should have improved once again in 2013 on the back of the expectations of another year of record profits.

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