

MALAYSIA AIRPORTS HOLDINGS BERHAD

- Date/ Time : 24 April 2019 (Wednesday) at 10 a.m.
- Address : Board Room
Malaysia Airports Corporate Office
Persiaran Korporat KLIA
64000 KLIA, Sepang
Selangor Malaysia
- Agenda : Briefing by Director or Senior Management of MAHB on the financials and operations (30 minutes)
: Questions and answer session
- Representatives from MAHB :
1. Tan Sri Datuk Zainun binti Ali
2. Datuk Siti Zauyah binti Md Desa
3. Datuk Seri Michael Yam Kong Choy
4. Tuan Haji Rosli bin Abdullah
5. Datuk Azailiza binti Mohd Ahad
6. Hajjah Jamilah binti Dato' Hashim
7. Datuk Zalekha binti Hassan
8. YM Raja Azmi Raja Nazuddin
9. Pn. Azni binti Ariffin
10. En. Ahmad Rizal Omar
11. En. Azman Shah Mohamed
12. En. Mohammad Nazli Abdul Aziz
13. En. Mohamad Suhaimi Abdul Mubin
14. Mr. Lee Ai Vin
15. Pn. Nasrein Fazal Sultan
- Representatives from IIC :
1. Tuan Syed Hamadah Othman
2. Pn Lya Rahman
3. Encik Husaini Hussin
4. Dato' Dr. Suzana Idayu Wati Osman
5. Mr Devanesan Evanson
6. Mr Gerald Ambrose
7. Pn Suhana Dewi Selamat
8. Pn Siti Safinah Salleh
9. En Ismail Zakaria
10. En Azhar Abdul Latif
11. Mr Andrew Seah Saik Weng
12. Thilshath Mohiadeen Abd Kader

13. En Rizal Mohamed Ali
14. Pn Zahia Afiqah Zamri
15. Pn Aida Ahmad Sabaruddin
16. Dr. Esmā Nizam Abdul Samad
17. Pn Noraida Maria Mohd Hatta
18. Pn Zerina Begum Abdullah
19. Cik Elsa Atira Norizamshah
20. En Izzat Mohd Salihuddin

Introduction

Tuan Syed Hamadah Othman gave a brief background of IIC, being a platform to represent the common interest of institutional investors in Malaysia and influence good corporate governance culture in their investee companies, particularly public listed companies. Tuan Syed reiterated on the Malaysian Code for Institutional Investors, its objectives, IIC's commitments to promote integrity and ESG as some of its members particularly the GLICs members have an obligation to the Government.

Tuan Syed further explained that to enhance corporate governance in the capital market, the IIC undertakes engagements with public listed companies via purposeful dialogue on the oversight of strategy, performance, governance, relations with stakeholders and the management of risk.

Tuan Syed also noted that MAHB is the 1st impression of Malaysia to all visitors and MAHB has created a job eco-system, impact on tourism and having a strategic role of providing connectivity. IIC acknowledge that MAHB constantly faces challenges when balancing its commercial and strategic objectives.

Issues Discussed

1. MAHB Chairman Tan Sri Datuk Zainun binti Ali welcomed the opportunity to meet the representatives of IIC and introduced the senior representatives of MAHB who were present to provide explanation to the queries by the IIC members. This was followed by a brief presentation on the Company's business and operations. The meeting was attended by the Board members and Management of MAHB which included the Nomination and Remuneration Committee Chair, Audit Chair, Board Risk Chair, and Board Procurement Chair.
2. The Group CEO, Raja Azmi, gave a briefing on the Company's current operations and future prospects. MAHB's core business is the management, operation, maintenance and development of airports. Malaysia Airports draws its revenue from aeronautical operations—aircraft landing and parking fees, passenger service charges and other airline charges—and commercial activities from airport-related services such as duty-free shops and other retail outlets, hotel operations and commercial leasing.

Business strategy

3. Raja Azmi gave an overview of MAHB's strategic objectives, which is dependent on the regulation and work on by the Master Planner, RAS and QAS. He touched on the regulatory impact of the business strategy and business model, MAHB's Strategy house chart, passengers' statistics as well as the Aeropolis concept and business plan. He mentioned that MAHB main strategy includes: 1) Air charges and logistics; 2) Aerospace and aviation; 3) MICE and Leisure. Raja Azmi reminded that the strategy has a long gestation period.

Subang airport

4. Raja Azmi shared with the meeting on Subang regeneration which will involve initiatives to increase capacity, development of business aviation hub, building an aerospace eco-system such as MRO, refurbish, repair etc.

International business

5. Raja Azmi gave an overview of MAHB's international assets/ business which included the Istanbul airport (Istanbul Sabiha Gokcen - ISG) and airport maintenance in Doha and Hyderabad. Raja Azmi mentioned that the strategy for MAHB's international business include to grow ISG by building a 2nd runway and upgrading the existing airport terminal; and also to invest more in other viable assets/ business and where possible to export MAHB's expertise for example in Doha.
6. Raja Azmi updated the meeting that ISG is currently in the black. ISG remains competitive even with the opening of the new Ataturk Airport due to competitive pricing, as Ataturk is further away. The company however expects an aggressive marketing moving forward when the airport (ISG) is completed to recoup its capex.

Regulatory environment

7. Raja Azmi briefly touched on the current airport regulatory framework where airports are under the purview of Malaysian Aviation Commission (MAVCOM). Raja Azmi mentioned that the current issue concerns the Regulated Asset Base (RAB) and the imposition of the Quality of Standards (QOS) performance-penalty system.
8. RAB allows the company's capital expenditure to be recovered, rather than just operating expenditure. Whereas the QAS framework results (which is either pass/fail) will involve penalty being imposed to the company (may be to a tune of RM70m ~ 5% of RM1.4b).

Airport charges

9. Raja Azmi briefed the meeting that MAHB is among the lowest in the region in terms of charges (no. 48 on 50 airports assessed) and that MAHB's income is based on a Diversified Revenue with the EBITDA driven by passenger growth.

Corporate Governance

10. Puan Lya Rahman questioned on the part of strengthening the procurement process, the whistle blowing policy and setting up an Integrity Unit. Lya queried on its effectiveness and how having a MACC officer leading the Integrity Unit, would help MAHB. Datuk Azailiza (Chair of Whistleblowing Committee) briefed the meeting on the assessment done on why the earlier whistleblowing was not working. The concerns were mainly on 1) confidentiality; 2) penalization.
11. Datuk Azailiza briefed the meeting that in 2017, MAHB had 10 complaints and all were grievances-related. However, in 2018, 30 complaints were received, and they were related to integrity and conflicts matters. This indicated improvements and MAHB expects this to increase further in 2019. MAHB is encouraged by the increase in cases reported as it reflects faith in whistleblowing process. On the staff at the Integrity Unit, the staff is an ex-MACC and not a current MACC officer. Raja Azmi also reiterated that he acknowledges that MACC officer may not be right person ultimately but MAHB must be ready for s17A by June 2020. MAHB places great emphasis on integrity; prevention, detection and surveillance.
12. Pn Lya also queried on board diversity, as 40% of board composition at MAHB is from the government or former government officials, which may not be dynamic. Pn Lya queried on Special Shareholders rights, and how are nominations done (by government)? Pn Lya questioned whether the Board is looking for more commercial / international experience in its composition. Raja Azmi clarified that Ministry of Finance has the right to appoint MAHB's Chairman. Government wants to retain this because of security reasons as airport is the point of entry and secondly the assets are owned by government. Additionally, government also wish to retain the right to appoint the CEO and 5 other Directors, although the Board will nominate the candidate(s) for Special Shareholders endorsement. This will be done through a nomination process. Special Nominee states it is their role to persuade Special Shareholders to reduce representation and increase independence and diversity. There is currently six (6) independent directors and the furthermore the Special Directors can't vote.
13. Pn Lya sought clarification from MAHB on the issue of succession planning particularly the CFO. Raja Azmi clarified that the CFO role was being by performed by the CEO before and currently Ahmad Rizal Omar is the acting CFO. Candidate search is currently ongoing and maybe another 2 months but the priority is getting it right. A succession planning will be done by MAHB.

MAHB and Air Asia

14. Pn Lya also questioned about the current status between MAHB and Air Asia. She sought for an update on the future with Air Asia and the handling of the current issue(s). Tan Sri Datuk Zainun highlighted that MAHB has no issue with other airlines except Air Asia and the issue here concerns payables from Air Asia which has remained unresolved. Tan Sri Datuk Zainun said MAHB will not tolerate with such issue any further.

15. Gerald queried on how much of the KLIA2 is attributed to Air Asia to which Raja Azmi replied 85% of the total tariff. Dato Seri Michael Yam highlighted the meeting that Air Asia negotiation for waivers and concessions is because Air Asia contribute 90% of the passenger market share for KLIA2. Dato Seri Micheal reiterated that the charges are gazette and 70% of charges is from foreign passengers anyways. Air Asia cannot decide unilaterally on the concession, or seek reduction from MAHB. It is the prerogative of the Ministry of Transport (MOT) or MAVCOM.
16. Datuk Azailiza also highlighted that Air Asia disputed the RM75 airport charges and agreed on payment of RM50 levy to MAHB, which they have collected. But even that RM50 has not been paid to MAHB. Raja Azmi highlighted that reducing the charges from RM75 to RM50, and knowing that 73% passengers are foreigners, they are actually subsidizing the foreigners and not the locals. Mr Devanesan reiterated that should MAHB had waived the Air Asia charges, then IIC would have held MAHB accountable as MAHB has an obligation to their shareholders and not give concessions to Air Asia.

Role as an operator-cum-developer

17. En Ismail queried on the reason for MAHB elevating their role from being an operator to becoming an operator-cum-developer. Raja Azmi replied that the airport capacity is topping out soon. Rather than allowing this taking place, MAHB needs to invest especially in absence of government support in such development. So RAB allows MAHB to recover capex via RAB. Dato' Seri Michael also clarified that however, the funding has to be off-balance sheet. MAHB uses land as equity then fund based on that. This allows MAHB to develop without being a full-scale developer (retain operator model). This was how the idea of the KLIA Aeropolis came about with airport concession of 69 year operating lease. MAHB is also looking to carve out 40% of the 100 sq km land bank surrounding KLIA under the current Operating Agreement (OA) and for the land to be granted a lease of 99 years. A longer lease period would benefit KLIA Aeropolis as tenants like Japan's Mitsui Fudosan Co Ltd would want a longer tenure to recover their capex.
18. En Ismail questioned about where is MAHB in the operating matrix as compared to its international operators. Raja Azmi replied that based on ASQ, in our band, MAHB is in the same band as Changi and Mumbai Airport, and MAHB is currently number 14 and aspire to be better. Under Skyrax, MAHB is number 4. Raja Azmi informed the meeting that the matrix are granular although some MAHB needs to improve more than others.

Quality of Service (QAS) scheme

19. Dato' Dr Suzana sought explanation about the QAS and the penalty treatment. Raja Azmi mentioned that the QAS results will be released in November and December 2019. MAHB had passed almost everything except its toilet. This could translate to about RM100k+ penalty, however, MAHB is currently in a dialogue with MAVCOM on this.

Share price movement

20. Dato Dr Suzana enquired about the sudden drop of MAHB share price which saw an 11% intraday reduction and closing of almost 5% loss due to the delayed expansion and RAB, which could have been managed with proper communication. Raja Azmi responded that managing the corporate communication can be a challenge as there could be an accumulation of reasons for the share price drop including MAHB's the possible exclusion from the index. Raja Azmi cited Kulim and Penang airport news as an example which was beyond MAHB's control when the media was getting news or updates from the ministers. Raja Azmi recognises that much would depend on MAHB's ongoing negotiations with the government to review the current operating agreement (OA). Under the OA, the government is responsible for all capital expenditure (capex) for any airport expansion or development, while MAHB takes care of the maintenance expenses of the 39 airports in the country it manages.
21. Gerald also added that the Penang airport capacity is 6.5 million but it is currently operating at 7.8 million. But RAB has not been done, so MAHB can't expand. Raja Azmi agreed that it may not be straightforward to expand. Dato' Seri Michael mentioned that the expansion of the terminal has already been awarded and government allows MAHB to set-off against passenger charges or RAB. Gerald asks when and how will this be worked out, Raja Azmi replied it will be set-off through the OA and subsequently followed by the RAB. Raja Azmi added that stolports (such as Penang airport) is purely a CSR initiative by MAHB and as such MAHB must be looking at the viability angle to justify and decline government's proposal.

GHIL and ISG

22. Dato' Dr Suzana sought an update on the sale of the Hyderabad airport and proposed sale of ISG. Raja Azmi disclosed that the Hyderabad airport tender closing period has expired and the rest was inside information and MAHB could not disclose at the moment. On ISG Istanbul airport, MAHB would require a strong case and suitor to sell the airport as ISG now is in the black. And on the question by Dato' Dr Suzana on the target of Airport Carbon Accreditation (ACA) to be maintained at level 3 for Q2 2019, Raja Azmi replied that MAHB is currently on track to achieve this.
23. Mr Devanesan questioned why has MAHB has been removed from Top 30 in the index, which is a universal concern. Raja Azmi replied that MAHB is not out of the index just yet and the concern may not materialize.
24. There being no other matters, the engagement was concluded at 12:00pm.

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