

OPERATIONAL REVIEW

OPERATIONAL REVIEW

NON-AERONAUTICAL BUSINESS

The two main components of the Group's non-aeronautical business are first, rental and royalties derived from leasing out airport space for commercial use, and secondly, retail sales of duty free and non-dutiable goods by our subsidiary, Malaysia Airports (Niaga) Sdn Bhd which is better known by its brand name, Eraman. The Group's strategy in this business segment has been centred on the revitalisation of first, commercial offerings and spaces at airports under the on-going Commercial Reset, and secondly, the Eraman brand and outlets.



KEY PRIORITIES

Rental and royalties

- Boost operational occupancy of commercial spaces
- Revitalise essential commercial offerings
- Leverage on strong partnerships

Retail sales of duty free and non-dutiable goods

- Eraman brand and outlet revitalisation
- Brand experience and partnerships
- Digitalisation

Revitalisation Efforts Yield Results Aided By Strong Recovery In Air Traffic

In 2023, Group-wide non-aeronautical revenues grew 57.1% YoY to RM1,894.9 million. Revenues from rental and royalties stood at RM1,143.5 million, a YoY increase of 41.7%. Notably, retail sales of duty free and non-dutiable goods by Eraman contributed revenues of RM571.1 million, 117.6% higher than the previous year.

This is underpinned by the acceleration of operational occupancy of the commercial spaces at the airports which

stood at 81% by the end of 2023 compared to 55% in Q1 2023, and higher turnover aided by the strong recovery in passenger movements, in particular international passengers in 2023. The return of tourists from Mainland China was also a driver for revenues in this segment.

Rental and royalties at SAW grew 29.3% YoY with a total revenue contribution of RM622.5 million. This includes revenue generated from SAW's duty free business of RM371.3 million which is 27.2% higher YoY. In addition to continued efforts by Dufry, the world's largest duty free airport operator which operates the travel retail offerings at SAW, the growth in international passengers at SAW was also a key driving factor.

RENTAL AND ROYALTIES

Boost operational occupancy of commercial spaces

During the year, Group worked alongside tenants to complete the necessary preparatory work to enable them to begin operating at the premises in the shortest possible timeframe. This included workflow improvements to reduce the lead time for the tender process by using an online tender process, 'E-Procure'. A 'Fit In-Fit Out' team was also formed to assist tenants with the renovation of the premises and to enable the various stages of the fit out works to progress smoothly.

In addition, the opening of the outlets was also timed to match the pace of recovery in air traffic at the respective airports to balance between the potential sales volume for tenants and the availability of commercial offerings such as retail, food and beverage and other services to passengers. We were pleased that tenants were prepared to begin operations prior to passenger volumes reaching the threshold of 50% of the pre-pandemic passenger volume in 2019. For example, the success of the beachheads initiated by Costa Coffee and The Refinery at KUL Terminal 2 had motivated other tenants to follow suit.

By the end of 2023, 88% of the lettable commercial space at the airports had been leased out. The Group achieved an operational occupancy rate 81%, surpassing the pre-pandemic level of 79% in 2019.

Revitalise essential commercial offerings

Malaysia Airports also revitalised its essential commercial offerings, namely retail and food and beverage (F&B).

In terms of retail offerings, the Group has recruited new retail brands to heighten the airport shopping experience. Retail brands that opened new stores KUL Terminal 1 include fresh new concepts from Polo Ralph Lauren, Michael Kors, Bulgari, Tory

OPERATIONAL REVIEW

Burch, TUMI, Sunglass Hut, Kashkha and Gold City featuring enhanced store facades for improved shopping experience and ambience. At other airports in Malaysia, we witnessed the opening of Lego, Royal Selangor, Bath & Body Works and Victoria's Secret at PEN and Habib Jewels at LGK.

'Sense of Malaysia' concept stores also expanded across five international airports in Malaysia including KUL Terminal 2, BKI, KCH, LGK and PEN to showcase the richness of Malaysian culture and heritage through gifts, souvenirs, handicraft and local delicacies.

F&B also took centre stage at the airports with international and local operators opening new outlets. KUL Terminal 1 welcomed exciting new tenants which included international brands Jamie Oliver's Pizzeria, Taco Bell, Illy Café, Hard Rock Café, and local champions such as Jibby Chow, Serai, Flight Club Signature and Kitchen by OpenHouse. Existing tenants such as Burger King, Noodles Signature, Starbucks and O'Briens also presented refreshed new looks at the terminal.

KUL Terminal 2 was also a hive of activity with the launch of new outlets, namely Din by Din Tai Fung, The Refinery, KREATE, Ahh-Yumm, Taste of India, Jollibee, Subway, The Coffee Bean & Tea Leaf and Starbucks. At other airports in Malaysia, BKI's new outlets were McDonald's, Starbucks and Dunkin' Donuts, while Subway and Noodles opened at TWU.

All in all, passengers will find at our airports a host of options for 'retail therapy' and a delicious spread of local and international food and drinks that will delight their tastebuds.

Leverage on strong partnerships

To deliver best in class services to passengers, Malaysia Airports has also cemented partnerships with world-class operators in the airport space. For example partnerships with globally renowned travel dining operators such as SSP and HMSHost have enabled the F&B offerings at the airports to be refreshed.

In addition, to respond to the growing demand for rest and recharge services, Malaysia Airports is future-proofing its lounge strategy. In this regard, the Group focuses on host airline lounges while securing renowned lounge operators such as SSP and Plaza Premium Group to operate lounges for other airlines, alliances and passengers. Leveraging on

their vast experience in managing over 270 airport lounges globally, these operators provide an elevated customer experience for travellers at our airports in Malaysia. For example, at KUL Terminal 1 there are currently six lounge options which include the inaugural Plaza Premium First and TFS Travel Club Lounge & Bar lounges in Malaysia.

We were also pleased to welcome the Kepler Transit Hotel to KUL Terminal 1 in 2023, Kepler's first sleeping pod facility outside of its home country, Türkiye. Currently, Kepler also operates a transit hotel at the international transit area at SAW.



At SAW, the Group is building on the success of its existing F&B and travel retail partnerships. A key milestone was the extension by HMSHost of its 22 F&B outlets at SAW from 2026 until 2032 ensuring the passengers continue to enjoy the holistic dining options together with technological solutions such as pre-ordering, order kiosks and other innovations. Alongside the extension of HMSHost's presence at SAW, the global travel specialists will also introduce four additional stores, which blend global and local flavours and designs to create a sense of place to enhance the passenger experience at the airport.

OPERATIONAL REVIEW

RETAIL SALES OF DUTY FREE AND NON-DUTIABLE GOODS

Eraman brand and outlet revitalisation

Under the on-going Eraman reset plan, the brand and its outlets have undergone a revitalisation programme. In 2023, the revitalisation effort saw the opening of new Duty Free emporiums at KUL Terminal 1's Satellite Building featuring a totally revamped concept design, and a wide range of products from local and international brands both new and familiar. The outlet contributed revenue of RM118.0 million in 2023.

To further raise the retail profile of the airports, Eraman is set to undergo a new retail transformation of its flagship emporium at the Contact Pier of KUL Terminal 1 that is expected to be completed by Q3 2024. It aims to elevate the travel retail experience and enhance customers' satisfaction with a refreshed walk-through concept design and will boast new product offerings and renowned brand choices.

Eraman's brand and outlet revitalisation was also responsible for generating higher revenues at other airports in Malaysia. For example the new chocolate store which opened at the International Departure area of PEN was well patronised by passengers making their final purchases before their flights, generating additional revenue of over RM4.0 million for Eraman in 2023.

Eraman's F&B segment was also expanded with new Burger King outlets opening at both KUL Terminal 1 and Terminal 2. We also introduced our new in-house brand, Singgah, a local kopitiam (coffee shop) concept café at the Contact Pier Domestic, KUL Terminal 1, which resonates with local and international travellers alike.

Brand experience and partnerships

To maximise Eraman's reach and engagement, the Group implemented focused and thematic promotions aligned with key objectives to drive sales, build brand loyalty and strengthen customer engagement and connectivity.

Specific targeted promotions to drive sales, capitalise on market opportunities were initiated in 2023, building on the foundational building blocks that had previously put in place such as the Eraman Privilege Card.

In addition, Eraman also put in place key strategic initiatives in 2023 to drive sales through impactful collaborations with leading local and international financial institutions such as UOB, Maybank and Mastercard. Leveraging on these partnerships, Eraman successfully tapped into their premium card regional databases, offering preferential incentives to their customers to boost sales revenue and foster brand loyalty. Thematic campaigns for festive seasons and special events such as Christmas, National Day, and birthday promotions further augmented Eraman's prominent brand presence in the travel retail industry.

The Group also expanded its partnership with Plaza Premium Group by leveraging on Plaza Premium's loyalty programme 'Smart Traveller' to make available selected Eraman duty free and duty paid products for points redemption by Smart Traveller members.

These strategic partnerships have been pivotal in boosting sales for Eraman in 2023.

Digitalisation

Improvements to the back office processes from digitalisation initiatives had also led to efficiencies in operations and the reduction of errors. In particular, the activation of an electronic system to manage end-to-end sourcing and purchasing shortened the time required for the issuance of purchase orders resulting in better management of our stock of goods. Coupled with the online daily sales reporting dashboard for the Management, the digitalisation efforts also improved our ability to scale up our operations to match the recovery in passenger traffic.

The use of digital solutions also extended to the outlets. For example at Eraman's main outlets, self-service checkout, self ordering kiosks and cashless payments are solutions which leverage on the use of technology. In addition, the expansion of Eraman's products for sale on the Group's shopMYairports digital application enables passengers to buy online and pick up their purchases at the airport under the app's Click & Collect option.

These digitalisation initiatives improved both the customer experience and back office management which contributed to Eraman's revenues growing more than double that of 2022, namely by 117.6% YoY.