

Jet Airways

Q3FY10/ Rating change

28 January 2010

Hold

Target Price: Rs448

CMP: Rs479*

Downside: 7%

*as on 27 January 2010

Seasonality drives profits

A seasonally strong quarter coupled with conscious cost cuts helped Jet Airways post Q3 profit of Rs1.06bn beating our estimate of Rs0.14bn. This performance partly nullifies its Q2 losses. We raise our profit estimates for FY10 and FY11 and introduce FY12 estimates. We upgrade the stock to Hold (earlier Sell) and raise our target price to Rs448 (earlier Rs331).

- **Result beats our estimates:** Q3 revenue fell 4.5% YoY vs our expectation of marginal growth. Yet, substantial cost cuts helped boost EBITDAR 1,290bp to 24.7%, surpassing our estimate of 19.9%. Jet registered a healthy 17.8% EBITDAR margin for 9MFY10.
- **Seasonal traffic surge boosts loads:** Jet's load factor improved 1,010bp YoY (950bp QoQ) to 78.2% during the quarter, aided by a surge in flying passengers. This enabled the airline swing its domestic EBITDAR margin from -14.3% in Q2 to 24.7% in Q3. The international segment was more stable reporting EBITDAR margin of 25.0%, despite the return of aircrafts after the expiry of wet leases.
- **Upgrade to Hold:** We introduce FY12 estimates with 20.6% YoY revenue growth and EBITDAR of 20.3%. We raise FY11E numbers and assume a marginal profit. The P/B valuation has thus been upgraded to 1.8x (earlier 1.5x) on a 1-year rolling forward basis, translating into a target price of Rs448. We upgrade the stock to Hold and await the outcome of its equity raising efforts.

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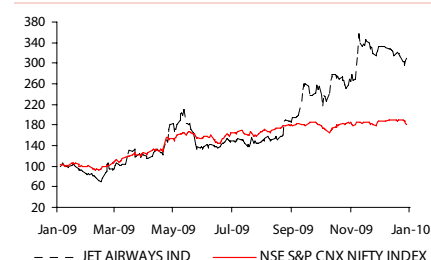
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Key Data

Bloomberg Code	JETIN IN
Reuters Code	JET.BO
Current Shares O/S (mn)	86.3
Diluted Shares O/S(mn)	86.3
Mkt Cap (Rsbn/USDmn)	41.4/892.5
52 Wk H / L (Rs)	606/115
Daily Vol. (3M NSE Avg.)	1,134,837
Face Value (Rs)	10

USD = Rs46.4

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Jet Airways	(13.7)	93.8	185.9
NIFTY	(6.3)	6.3	70.3

Source: Bloomberg, Centrum Research
*as on 27 January 2010

Y/E March (Rsmn)	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)	Q3FY10E	Variance (%)
Net sales	28,856	30,228	(4.5)	23,250	24.1	30,388	(5.0)
Employee costs	2,898	3,649		3,019		3,244	
% of sales	10.0	12.1		13.0		10.7	
Aircraft fuel expenses	8,879	10,940		7,800		9,526	
% of sales	30.8	36.2	(542) bp	33.5	(278) bp	31.3	
S&D expenses	2,924	2,910		2,508		2,800	
% of sales	10.1	9.6		10.8		9.2	
Other expenditure	7,019	9,152		7,464		8,778	
% of sales	24.3	30.3		32.1		28.9	
EBITDAR	7,137	3,578	99.5	2,459	190.3	6,039	18.2
EBITDAR Margin (%)	24.7	11.8	1,290 bp	10.6	1,416 bp	19.9	486 bp
Aircraft Lease Rentals	2,051	1,931		2,016		2,130	
% of sales	7.1	6.4		8.7		7.0	
EBITDA	5,085	1,647	208.8	443	1,049.1	3,909	30.1
EBITDA Margin (%)	17.6	5.4	1,218 bp	1.9	1,572 bp	12.9	476 bp
Depreciation and amortisation	2,438	2,488		2,359		2,334	
Interest	2,480	2,059		2,366		2,160	
EBT	168	(2,900)	NM	(4,282)	NM	(585)	NM
Other income	509	403		560		725	
PBT	677	(2,497)	NM	(3,722)	NM	141	-
Exceptional item (as reported)	(382)	-		345		-	
Provision for tax	1	(356)		(1,938)		-	
-effective tax rate	0.1	14.2		52.1		-	
PAT (adjusted)	1,058	(2,141)	NM	(2,129)	NM	141	-
NPM (%)	3.7	(7.1)	NM	(9.2)	NM	0.5	320 bp

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	Adj.EV/EBITDA R (x)
FY08	102,456	45.2	(1,629)	(1.6)	(6,997)	NM	(75.7)	(21.6)	(2.3)	(6.3)	32.1
FY09	130,779	27.6	(8,587)	(6.6)	(17,969)	NM	(111.4)	(46.8)	(5.7)	(4.3)	144.0
FY10E	118,632	(9.3)	10,898	9.2	(4,078)	NM	(47.2)	(12.5)	1.7	(10.1)	12.0
FY11E	136,187	14.8	14,015	10.3	12	(100.3)	0.1	0.0	0.7	3,371.9	10.1
FY12E	164,204	20.6	20,163	12.3	4,363	35,449.9	50.5	13.0	6.3	9.5	8.0

Source: Company, Centrum Research Estimate

Please refer to important disclosures/disclaimers in Appendix A

Estimates raised to factor in better operational performance

Despite a marginal drop in Jet's pax numbers for FY11E (standalone), we have assumed lower blended yields as Jet Konnect (low-cost carrier) would be comprising a larger share of Jet's flying passengers. We are impressed by the airline's significant cost reduction efforts and have raised EBITDAR margin estimate by 175bp to 19.9%. This results in our PAT estimate increasing to Rs340mn from Rs59mn earlier.

On a consolidated basis, our revenue estimate is cut lowered just 0.4% for FY11, while EBITDAR margin is raised 185bp to 19.4%. Consequently, we now estimate a profit of Rs12mn vs our earlier estimate of a loss at the PAT level.

Exhibit 1: Better margins forecast

Standalone Y/E March (Rsmn)	Revised Estimates		Earlier Estimates		% Revision	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenue Passengers('000s)	11,868	13,511	12,118	13,551	(2.1)	(0.3)
Operating Revenues	103,461	115,924	106,140	123,326	(2.5)	(6.0)
EBITDAR	19,864	22,505	17,324	22,439	14.7	0.3
EBITDAR Margin (%)	19.2	19.4	16.3	18.2	288 bps	122 bps
EBITDA	11,626	13,890	8,879	14,079	30.9	(1.3)
Adj. PAT	(3,246)	(329)	(5,780)	59	NM	NM
EPS (Rs)	(38)	(4)	(67)	0.7	NM	NM

Consolidated	Revised Estimates		Earlier Estimates		% Revision	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenue Passengers	15,228	17,497	15,512	17,567	(1.8)	(0.4)
Operating Revenues	118,632	134,984	121,750	142,174	(2.6)	(5.1)
EBITDAR	22,412	25,610	19,237	24,997	16.5	2.5
EBITDAR Margin (%)	18.9	19.0	15.8	17.6	309 bps	139 bps
EBITDA	10,898	13,163	7,734	12,749	40.9	3.2
Adj. PAT	(4,078)	(657)	(7,355)	(1,355)	NM	NM
EPS (Rs)	(47)	(8)	(85)	(16)	NM	NM

JetLite	Revised Estimates		Earlier Estimates		% Revision	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Revenue Passengers	3,360	3,986	3,394	4,016	(1.0)	(0.7)
Operating Revenues	15,170	19,060	15,610	18,848	(2.8)	1.1
EBITDAR	2,547	3,105	1,912	2,559	33.2	21.4
EBITDAR Margin (%)	16.8	16.3	12.3	13.6	454 bps	272 bps
EBITDA	(728)	(727)	(1,145)	(1,330)	NM	NM
Adj. PAT (Rsmn)	(831)	(328)	(1,576)	(1,413)	NM	NM

Source: Centrum Research Estimates

We have also introduced our FY12 estimates by assuming an increase in the average fleet size to 99 aircrafts (excluding Jetlite). Revenue thereby jumps 20.6% to Rs164.2bn. We also assume continuing operational improvements would result in an EBITDAR margin of 20.3%. We estimate that in FY12, Jet would have a much better and a profitable year, clocking a PAT of Rs4.36bn.

Exhibit 2: Introduce FY12 estimates

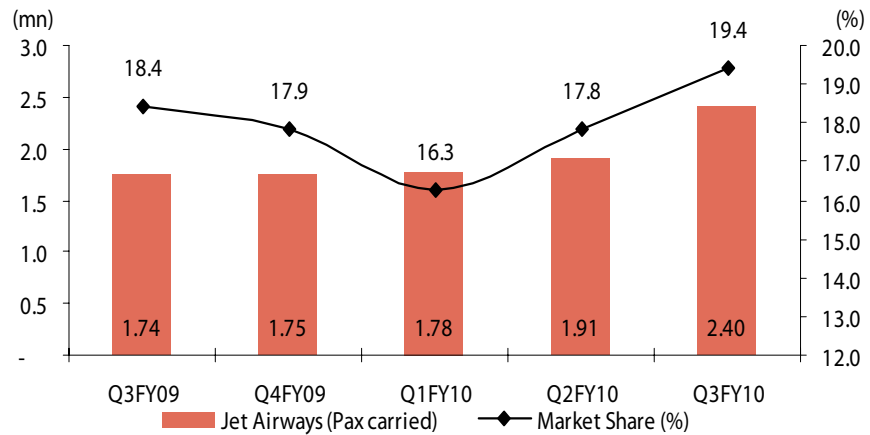
	FY12E		
	Consolidated	Jet	JetLite
Revenue Passengers	20,462	15,956	4,506
Operating Revenues (Rsmn)	164,204	143,124	21,080
EBITDAR (Rsmn)	33,283	30,004	3,279
EBITDAR Margin (%)	20.3	21.0	15.6
EBITDA (Rsmn)	20,163	20,850	(687)
Adj. PAT (Rsmn)	4,363	4,693	(331)
EPS (Rs)	50.5	54.4	(3.8)

Source: Centrum Research Estimates

Jet's pax market share rises

Jet regained lost market share with Jet Konnect services picking pace. Jet Konnect flew 65.4% of the 2.4mn passengers flown by the airline during Q3 with yields at around Rs3.5 per RPKM. At the end of Q3FY10, Jet's market share of 19.4% in the domestic market helped it fill its aircrafts better. We foresee it doing marginally lower fills, but with higher yields in the coming quarters. Jet is now the market leader once again in the domestic aviation space.

Exhibit 3: Jet flew more passengers and made market share gains too



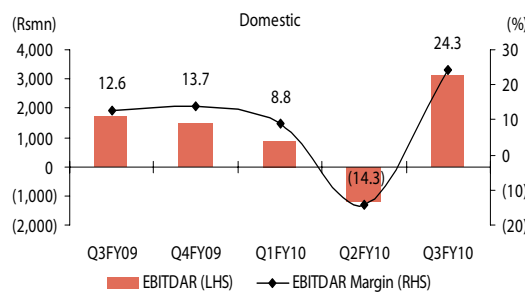
Source: DGCA, Centrum Research

Q3 margin are much healthier

Operating margin (EBITDAR) swung sharply up 3,861bps QoQ and almost doubled YoY to 24.3% in its domestic operations, aided by an all-round improvement in yields, reduction in costs (efforts of Jet Konnect bearing fruit) and higher load factors. These margins are now close to Jet's international operations EBITDAR margins. Together (domestic and international operations), the company on a standalone basis had a two-year best margin of 24.7%.

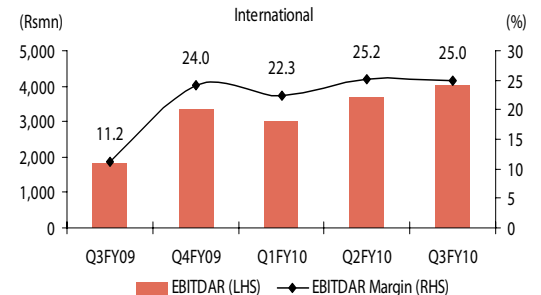
Also, JetLite's margins staged a recovery to register significant gains and ended the quarter at 18.9% EBITDAR. Its LCC peer like SpiceJet did commendably well, recording an EBITDAR of 31% in Q3. Jet hopes to eventually drive better profits in JetLite once it phases out its Canadian Regional Jets (CRJs).

Exhibit 4: EBITDAR swings sharply up



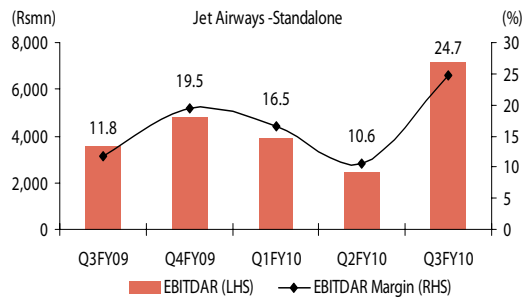
Source: Company, Centrum Estimate

Exhibit 5: International operations steadier



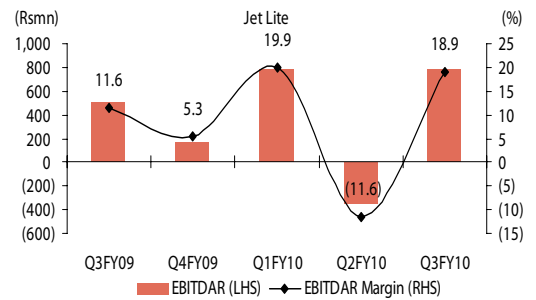
Source: Company, Centrum Estimate

Exhibit 6: Domestic operations show better margins



Source: Company, Centrum Estimate

Exhibit 7: Jetlite operations recover

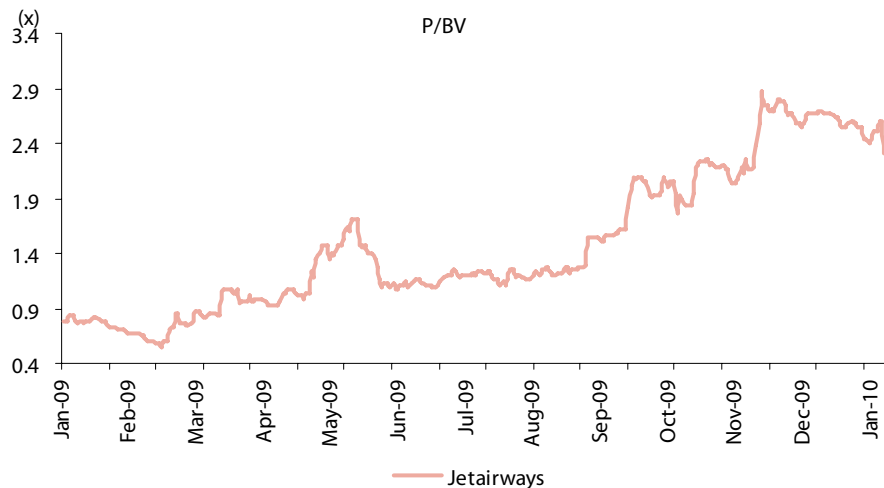


Source: Company, Centrum Estimate

P/BV corrects down expectedly; will settle at 1.8x

On a 1-year rolling forward basis, Jet trades at 2.3x P/BV and is marginally expensive. The airline intends to raise further funds to strengthen its balance-sheet that has prevailing Debt at 5.5x its equity. We await the outcome of this fund raising exercise and would take a cautious approach to any re-rating of the stock at this juncture even though we foresee profitable years ahead.

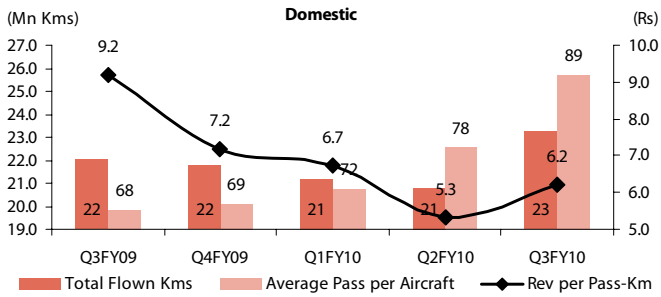
Exhibit 8: P/BV had surged ahead, correction will build in



Source: Bloomberg, Centrum Research

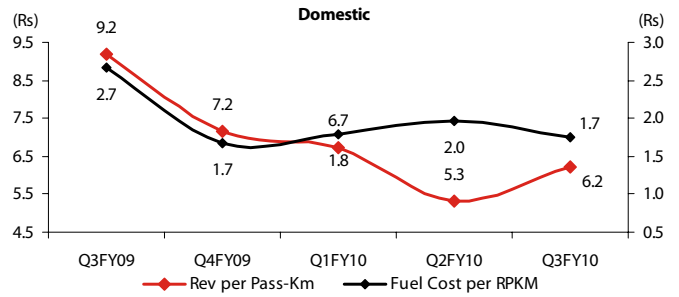
As our FY11 estimates have been raised to reflect a marginal profit, we upgrade the P/B valuation to 1.8x (earlier 1.5x) on a 1-year rolling forward basis for the target price. This now works to Rs448. We upgrade Jet to Hold and await the outcome of its equity raising efforts for any further upgrade.

Exhibit 9: Yield improves 17% QoQ



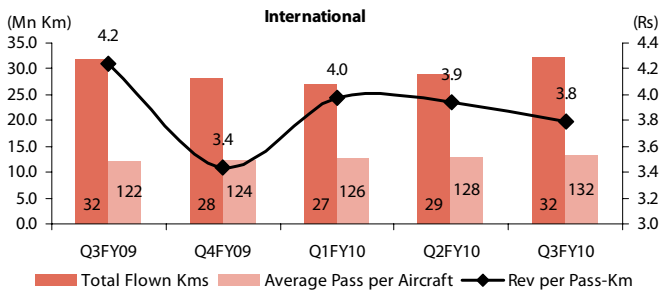
Source: Company, Centrum Research

Exhibit 10: Yield rises while fuel cost drops



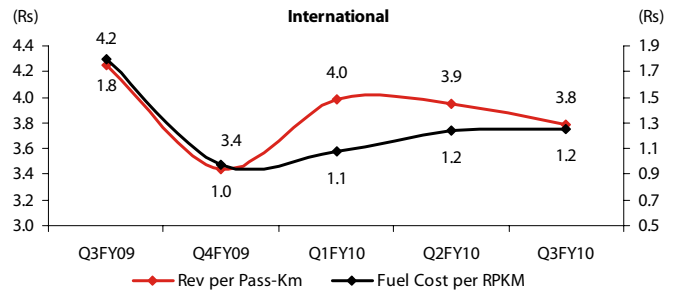
Source: Company, Centrum Research

Exhibit 11: Improved aircraft fills on decline in yields



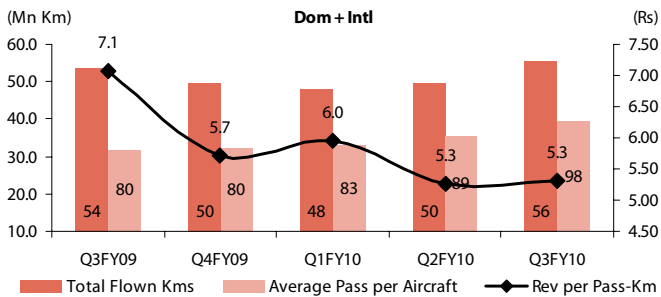
Source: Company, Centrum Research

Exhibit 12: Yields down but fuel costs static



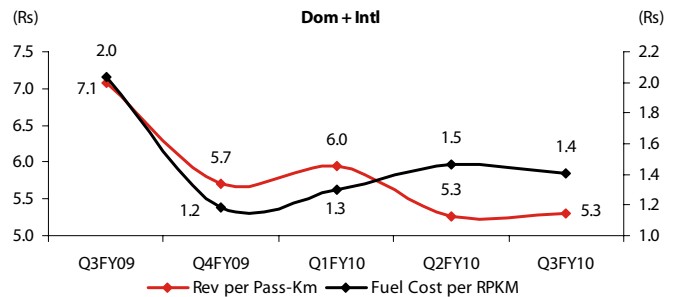
Source: Company, Centrum Research

Exhibit 13: Rising aircraft fill brings profitability



Source: Company, Centrum Research

Exhibit 14: Revenue cost gap widens



Source: Company, Centrum Research

Financials - Consolidated

Exhibit 15: Income Statement

Y/E Mar (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Revenue Pax	14.7	14.5	15.2	17.5	20.5
% Growth	37.3	(1.4)	4.9	14.9	16.9
Net Sales	102,456	130,779	118,632	136,187	164,204
% Growth	45.2	27.6	(9.3)	14.8	20.6
Aircraft Fuel Expenses	40,700	58,535	37,321	45,453	56,678
Personnel	13,888	15,843	13,698	14,525	16,802
Sell & distribution exps	11,137	12,041	11,494	12,432	14,607
Other Exp.	30,144	42,519	33,706	37,315	42,834
EBITDAR	6,587	1,841	22,412	26,462	33,283
EBITDAR Margin (%)	6.4	1.4	18.9	19.4	20.3
Aircraft Lease Rentals	8,216	10,428	11,514	12,447	13,119
EBITDA	(1,629)	(8,587)	10,898	14,015	20,163
EBITDA Margin (%)	(1.6)	(6.6)	9.2	10.3	12.3
Depn. & Amortn	8,018	9,021	9,815	9,797	11,195
EBIT	(9,647)	(17,608)	1,083	4,218	8,968
Interest Expenses	5,225	8,022	9,723	8,833	8,633
EBT	(14,872)	(25,631)	(8,640)	(4,615)	335
Other Income	6,757	3,710	3,283	4,697	4,989
Extraord. (Income)/Exp.	0	(11,651)	0	0	0
PBT	(8,115)	(10,270)	(5,356)	82	5,324
Tax-Total	(1,576)	(656)	(1,279)	70	961
Tax Rate (%) - Total	19.4	6.4	23.9	85.0	18.1
Reported PAT	(6,539)	(9,614)	(4,078)	12	4,363
Extraord. items -Adj.	459	8,354	-	-	-
Adjusted PAT	(6,997)	(17,969)	(4,078)	12	4,363
PAT Margin	(6.8)	(13.7)	(3.4)	0.0	2.7
% Growth	NM	NM	NM	NM	35449.9

Source: Company, Centrum Research Estimate

Exhibit 16: Balance Sheet

Y/E Mar (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
SOURCES OF FUNDS					
Capital	863	863	863	863	863
Reserves & Surplus	41,697	33,321	30,074	30,415	35,108
Shareholders' Funds	42,560	34,184	30,938	31,278	35,971
Secured Loans	17,530	50,364	45,009	42,009	42,509
Unsecured Loans	104,523	115,976	114,677	110,177	103,077
Total Loan Funds	122,053	166,340	159,686	152,186	145,586
Def.Pay for Jetlite inv.	4,125	2,750	1,375	0	0
Deferred Tax Liabi. - Net	1,602	-	(1,391)	(1,322)	(1,322)
Total	170,340	203,274	190,607	182,142	180,235
APPLICATION OF FUNDS					
Gross Block	166,687	188,450	192,262	197,992	214,229
Accumulated Dep.	(25,560)	(25,502)	(33,636)	(43,335)	(54,419)
Capital WIP	13,026	6,571	2,895	2,934	2,975
Net Fixed Assets	154,153	169,519	161,521	157,590	162,785
Investments	104	1,000	864	1,223	779
Goodwill	18,724	18,724	18,724	18,724	18,724
Inventories	6,044	6,963	6,868	8,062	9,652
Sundry Debtors	13,990	8,075	8,720	10,445	15,784
Cash & Bank Balances	9,584	14,662	11,709	11,053	11,053
Loans and Advances	11,921	13,243	12,783	11,952	14,926
Total Current Assets, Loans	41,538	42,943	40,079	41,513	51,415
Current Liabilities	43,005	38,917	40,917	47,423	63,762
Provisions	2,225	2,208	2,708	2,858	3,408
Total Current Liab. & Prov.	45,230	41,125	43,626	50,281	67,170
Net Current Assets	(3,692)	1,818	(3,547)	(8,768)	(15,755)
Miscellaneous Expend.	1,052	12,213	13,044	13,372	13,703
Total assets	170,340	203,274	190,607	182,142	180,235

Source: Company, Centrum Research Estimate

Exhibit 17: Cash Flow

Y/E Mar (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Net cash from operations	8,534	(28,352)	1,794	9,650	17,445
Net cash from investment	(75,532)	(10,857)	1,907	(2,805)	(10,845)
Net CF from financing	65,615	44,287	(6,654)	(7,500)	(6,600)
Net cash increase/(dec)	(1,383)	5,078	(2,953)	(655)	(0)

Source: Company, Centrum Research Estimate

Exhibit 18: Key Ratios

Y/E Mar	FY08	FY09	FY10E	FY11E	FY12E
O/s Shares	86.3	86.3	86.3	86.3	86.3
Fully Diluted Shares	86.3	86.3	86.3	86.3	86.3
Per share (Rs)					
Basic EPS	(75.7)	(111.4)	(47.2)	0.1	50.5
Fully diluted EPS	(75.7)	(111.4)	(47.2)	0.1	50.5
Book value	480.8	254.5	207.3	207.4	257.9
Valuation					
P/E	(6.3)	(4.3)	(10.1)	3,371.9	9.5
P/BV	1.0	1.9	2.3	2.3	1.9
EV/EBITDAR	32.1	144.0	12.0	10.1	8.0
Mcap/Flown Km (Rs)	189.4	156.9	160.0	143.0	131.4
Margin Ratio (%)					
EBITDAR Margin	6.4	1.4	18.9	19.4	20.3
EBITDA Margin	(1.6)	(6.6)	9.2	10.3	12.3
PAT Margin	(6.8)	(13.7)	(3.4)	0.0	2.7
Return Ratio (%)					
ROCE	(2.3)	(5.7)	1.7	0.7	6.3
ROE	(21.6)	(46.8)	(12.5)	0.0	13.0
Other Ratios					
Debt-equity (x)	3.0	7.7	9.0	8.5	6.5
Liquidity ratio (x)	0.9	1.0	0.9	0.8	0.8
Dividend Payout (%)	-	-	-	-	-
Asset TO (x)	0.7	0.8	0.7	0.9	1.0
WC Turnover (days)	(15.3)	5.8	(12.5)	(27.3)	(40.2)

Source: Company, Centrum Research Estimate

Exhibit 19: Assumptions

Y/E March	FY08	FY09	FY10E	FY11E	FY12E
Jet Airways					
Departures	167,099	174,776	171,440	190,395	204,898
Revenue Passengers (mn)	14.7	14.5	15.2	17.5	20.5
Block hours	344,055	389,279	380,510	426,123	464,389
RPKMS (mn)					
Jet Airways	16,914	21,447	22,427	24,878	29,562
JetLite	4,009	3,856	3,803	4,699	5,312
ASKMS (mn)	-	-	-	-	-
Jet Airways	24,448.0	31,654.0	28,945.9	31,711.5	38,031.0
JetLite	5,664	5,705	5,441	6,437	7,179
Load Factor (%)	69.5	67.7	76.3	77.5	77.1

Source: Company, Centrum Research Estimate

Appendix A

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