

Flying higher

Traffic surge augurs well; PO raised to Rs600

We have raised our FY10-FY12 EBITDAR estimate by 2-3.5% on better visibility of continued strong traffic growth. Our thesis of turnaround of the Indian airline industry continues to play out. The focus on the low cost arm Jet Konnect and route rationalization have enabled Jet to post its strongest passenger growth in last 3 years. For the month of November, Jet Airways recorded a 33% growth in passenger traffic, in the domestic sector (industry growth 29.8%) and 19% in the international segment. For FY11, Jet is expected to show strong 15% passenger growth (earlier 14%) in the domestic sector. Maintaining our target multiple, our PO increases to Rs600 (from Rs504 earlier) implying 12% upside potential.

Yields expected to remain firm

Jet has seen +20% improvement in domestic yields in the ongoing quarter over the trough of the previous quarter. We expect yields to remain firm on the back of curtailed supply. We expect domestic yields to rise by 10% to Rs6.22/ RPK in FY11 (earlier 8.5%) and international yields to rise by 6% to Rs3.2/RPK in FY11 (earlier 5%).

Strong December should enable break even in Q3

Jet Airways is expected to post strong passenger growth numbers and yields in the month of December on the back of ongoing holiday season. This should enable Jet to breakeven for the first time in the last seven quarters.

Valuations remain attractive

Jet trades at 8.3x FY11E EV/EBITDAR, largely in line with comparable regional airlines. We value Jet at an early cycle multiple of 8.5x EV/EBITDAR FY11E (same as earlier), which is consistent with other regional airlines.

Estimates (Mar)

(Rs)	2008A	2009A	2010E	2011E	2012E
Net Income (Adjusted - mn)	(8,107)	(16,908)	(6,133)	3,093	6,112
EPS	-93.9	-195.9	-71.0	28.9	57.2
EPS Change (YoY)	-538.8%	-108.6%	63.7%	NM	97.6%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	-1072.4	-417.0	-69.4	35.0	54.0

Valuation (Mar)

	2008A	2009A	2010E	2011E	2012E
P/E	NM	NM	NM	18.5x	9.4x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	NM	17.30x	8.01x	7.00x
Free Cash Flow Yield*	-200.4%	-77.9%	-13.0%	8.1%	12.5%

* For full definitions of *iQmethod*SM measures, see page 5.


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Stock Data

Price	Rs535.15
Price Objective	Rs600.00
Date Established	21-Dec-2009
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs115.20-Rs606.00
Mrkt Val / Shares Out (mn)	US\$985 / 86.3
Average Daily Volume	1,778,516
BofAML Ticker / Exchange	JTAIF / BSE
Bloomberg / Reuters	JETIN IN / JET.BO
ROE (2010E)	-31.3%
Net Dbt to Eqty (Mar-2009A)	703.1%
Est. 5-Yr EPS / DPS Growth	5.0% / 5.0%
Free Float	20.0%

Key Changes

(Rs)	Previous	Current
Price Obj.	504	600
2010E EPS	-73.7	-71.0
2011E EPS	28.5	28.9
2012E EPS	56.9	57.2

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Refer to important disclosures on page 6 to 8. Analyst Certification on Page 4. Price Objective Basis/Risk on page 4.

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iQprofileSM Jet Airways

Key Income Statement Data (Mar)	2008A	2009A	2010E	2011E	2012E
(Rs Millions)					
Sales	102,456	130,778	126,398	144,185	155,509
Gross Profit	17,948	13,813	33,109	46,974	53,263
Sell General & Admin Expense	(11,137)	(12,041)	(12,515)	(14,091)	(16,464)
Operating Profit	(9,423)	(17,732)	(110)	12,289	15,476
Net Interest & Other Income	2,171	(2,703)	(1,544)	(7,315)	(6,369)
Associates	NA	NA	NA	NA	NA
Pretax Income	(7,253)	(20,436)	(1,655)	4,974	9,108
Tax (expense) / Benefit	1,577	32	(79)	(1,881)	(2,996)
Net Income (Adjusted)	(8,107)	(16,908)	(6,133)	3,093	6,112
Average Fully Diluted Shares Outstanding	86	86	86	107	107

Key Cash Flow Statement Data

Net Income	(5,676)	(20,404)	(1,733)	3,093	6,112
Depreciation & Amortization	8,018	9,075	9,574	8,139	7,914
Change in Working Capital	13,914	543	(8,178)	(6,807)	(2,972)
Deferred Taxation Charge	(1,708)	(773)	0	0	0
Other Adjustments, Net	846	0	0	0	(4,942)
Cash Flow from Operations	15,393	(11,559)	(337)	4,425	6,112
Capital Expenditure	(107,975)	(24,441)	(5,655)	(684)	(337)
(Acquisition) / Disposal of Investments	585	(896)	(121)	(136)	(152)
Other Cash Inflow / (Outflow)	NA	NA	17,500	NA	NA
Cash Flow from Investing	(107,390)	(25,337)	11,724	(820)	(489)
Shares Issue / (Repurchase)	26,625	0	0	206	0
Cost of Dividends Paid	(590)	0	0	0	0
Cash Flow from Financing	91,290	33,040	(17,331)	(6,605)	(8,565)
Free Cash Flow	(92,582)	(36,000)	(5,992)	3,740	5,775
Net Debt	117,627	154,486	146,117	135,655	125,382
Change in Net Debt	66,321	46,110	(8,369)	(10,462)	(5,331)

Key Balance Sheet Data

Property, Plant & Equipment	172,877	188,243	166,824	159,370	151,792
Other Non-Current Assets	104	1,000	1,121	1,257	1,409
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	8,551	13,945	8,000	5,000	7,000
Other Current Assets	28,827	30,760	30,799	35,089	39,114
Total Assets	210,359	233,948	206,744	200,715	199,314
Long-Term Debt	126,178	168,431	154,117	140,655	132,382
Other Non-Current Liabilities	1,602	0	0	0	0
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	41,070	43,546	35,407	32,890	33,943
Total Liabilities	168,850	211,977	189,524	173,545	166,324
Total Equity	41,509	21,971	17,220	27,171	32,990
Total Equity & Liabilities	210,359	233,948	206,744	200,715	199,314

iQmethodSM - Bus Performance*

Return On Capital Employed	-5.6%	-8.5%	0.4%	4.7%	6.4%
Return On Equity	-25.4%	-53.3%	-31.3%	13.9%	20.3%
Operating Margin	-9.2%	-13.6%	-0.1%	8.5%	10.0%
EBITDA Margin	-1.4%	-6.6%	7.5%	14.2%	15.0%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	NM	NM	NM	1.4x	1.0x
Asset Replacement Ratio	13.5x	2.7x	0.6x	0.1x	0x
Tax Rate (Reported)	21.7%	0.2%	NM	37.8%	32.9%
Net Debt-to-Equity Ratio	283.4%	703.1%	848.5%	499.3%	380.1%
Interest Cover	-1.8x	-2.2x	0x	1.3x	1.9x

Key Metrics

 * For full definitions of iQmethodSM measures, see page 5.

Company Description

Jet Airways is the largest domestic airline in India - offering a premium service product and dominating the business travel segment. The company's two-tier fare structure allows it to compete effectively with low-cost carriers (LLCs). It operates a relatively young fleet (average age 5 years, fleet size of 84 as of Q2FY09). It started international operations in April 2005, flying to destinations such as Singapore, Kuala Lumpur and London.

Investment Thesis

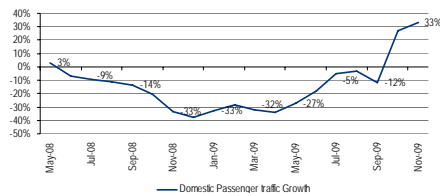
Jet Airways is one of India's leading airlines. We expect the company to return to profitability from FY11, driven by an increase in traffic as well as stability in yields. We believe that the stock is undervalued, and that a narrower discount to regional peers is warranted.

Stock Data

Price to Book Value 2.7x

Summary financial tables

Chart 1: Domestic Passenger Growth for Jet



Source: BofA Merrill Lynch Global research

Table 1: Jet Airways- Summary P&L (Consolidated)

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues	102,456	130,778	126,398	144,185	155,509
EBITDAR	6,811	1,772	20,594	32,883	36,799
EBITDAR margin	6.6%	1.4%	16.3%	22.8%	23.7%
Extraordinary income (pre-tax)	4,542	11,652	5,000	0	0
PBT	-8,115	-10,357	-1,655	4,974	9,108
Recurring PAT	-8,969	-18,481	-6,133	3,093	6,112
EPS (Rs/share)	-103.9	-214.1	-71.0	28.9	57.2

Source: BofA Merrill Lynch Global research

Table 2: Jet Airways- Summary Balance Sheet

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Shareholder's Funds	42,560	34,184	29,433	39,384	45,203
Total Debt	126,178	168,431	154,117	140,655	132,382
Fixed Assets	172,877	188,243	166,824	159,370	151,792
Net Current Assets	-3,692	1,159	3,392	7,199	12,171
Total Capital Employed	170,340	202,615	183,550	180,038	177,584
Net Debt (including capitalized lease)/ Equity	4.0	6.5	6.8	5.1	4.4
Interest Cover (EBITDAR/Interest expense +Lease rentals)	0.5	0.1	1.0	1.5	1.7

Source: BofA Merrill Lynch Global research

Table 3: Jet Airways Domestic Business- Summary P&L

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues	65,001	55,811	53,421	57,678	63,450
EBITDAR	5,918	1,456	5,508	13,516	15,061
EBITDAR margin	10.3%	2.7%	11.6%	23.6%	23.9%
PBT	2,358	1,951	-1,418	1,418	3,340

Source: BofA Merrill Lynch Global research

Table 4: Jet Airways International Business- Summary P&L

(Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Total Revenues	30,507	62,057	64,536	71,491	76,110
EBITDAR	1,592	3,233	14,156	17,358	19,000
EBITDAR margin	5.2%	5.4%	22.2%	24.5%	25.2%
PBT	-5,791	-6,646	2,075	4,853	6,647

Source: BofA Merrill Lynch Global research

Price objective basis & risk

Jet Airways (JTAIF)

Our PO of Rs600 is based on 8.5x FY11E EV/EBITDAR. We value the stock on an early cycle multiple which is consistent with regional airlines. At our PO, the stock would trade at 2.2x P/BV, largely in line with regional peers. Downside risks to our price objective: Rising fuel costs and increase in competition. Upside risks would be a decline in fuel prices and faster than expected economic recovery.

Analyst Certification

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	Eicher Motors	XEICF	EIM IN	S.Arun
	Jet Airways	JTAIF	JETIN IN	Anand Kumar
	M & M	MAHMF	MM IN	S.Arun
	M & M -G	MAHMF	MHID LI	S.Arun
	Maruti Suzuki India	MUDGF	MSIL IN	S.Arun
	SpiceJet Ltd	MDLFF	SJET IN	Anand Kumar
	Tata Motors Ltd.	TTM	TTM US	S.Arun
	Tata Motors Ltd.	TENJF	TTMT IN	S.Arun
	TVS Motor	XFKMF	TVSL IN	S.Arun
NEUTRAL				
	Hero Honda	HRHDF	HH IN	S.Arun

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India - Autos Coverage Cluster

Investment rating	Company	BofAML ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	Ashok Leyland	XDBVF	AL IN	S.Arun
RVW				
	Bharat Forge	XUUVF	BHFC IN	S.Arun

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

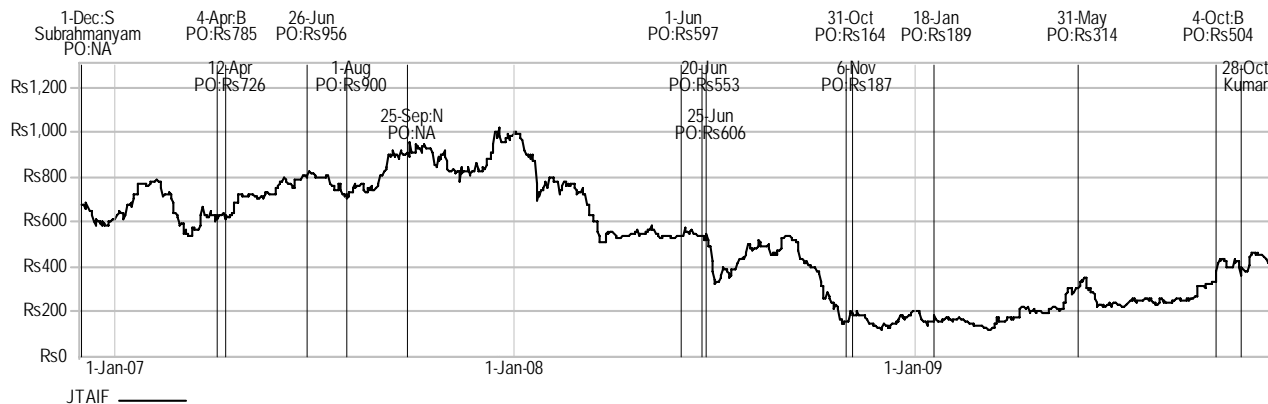
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JTAIF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

*Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of November 30, 2009 or such later date as indicated.

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Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	80	56.74%	Buy	42	55.26%
Neutral	28	19.86%	Neutral	13	46.43%
Sell	33	23.40%	Sell	11	36.67%

Investment Rating Distribution: Global Group (as of 12 Nov 2009)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1629	50.37%	Buy	842	57.51%
Neutral	821	25.39%	Neutral	455	62.33%
Sell	784	24.24%	Sell	357	49.31%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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