

Jet Airways

CMP: Rs820
Neutral
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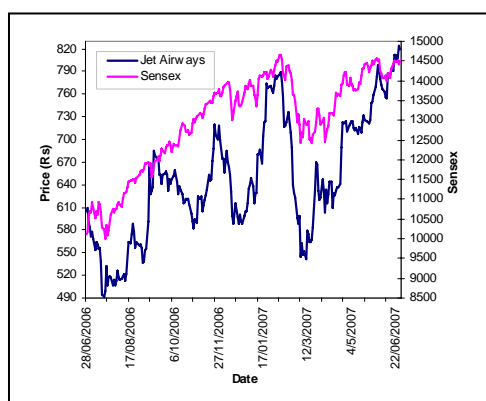
Q4FY2007 Result Update

Sector	Aviation
Market Cap (Rs cr)	7,079
Beta	0.86
52 WK High / Low	837/ 475
Avg Daily Volume	145372
Face Value (Rs)	10
BSE Sensex	14,505
Nifty	4,282
BSE Code	532617
NSE Code	JETAIRWAYS
Reuters Code	JET.BO
Bloomberg Code	JETIN IN

Shareholding Pattern (%)

Promoters	80.0
MF/Banks/Indian FIs	6.2
FII/ NRIs/ OCBs	10.2
Indian Public	3.6

Share Price Vs Sensex



Performance Highlights

- Top-line increased 23% yoy:** Jet Airways' operating revenue yoy increased by 23% to Rs1,978cr (Rs1,606cr) for Q4FY2007. EBIDTAR margin expanded by 404bp to 23% (18%) on the back of better international operations and lower aircraft maintenance costs and administration costs. Net Profit declined 58% yoy to Rs88cr (Rs208cr), but Profit less Other Income came in at Rs77cr vis-a-vis a loss of Rs137cr in the corresponding period of the previous year. System-wide ASKMs at 4,679mn (3,906mn) witnessed a growth of 20% for the quarter. The load factor was also higher by 56bp at 72.6% (72.0%) and yields increased by 15% to Rs6,445 (Rs5,623).
- Domestic operations:** Domestic operations accounted for 76% (87%) of revenue. Topline increased by 8% to Rs1,509cr (Rs1,393cr). EBIDTAR Margin expanded 220bp to 24.1% (21.9%) although employee cost increased by 31% on account of higher staff costs. ASKMs increased marginally by 1% as a result of lower capacity addition in domestic operations. The load factor declined by 350bp to 70.3% (73.8%) whereas yields rose by 5% to Rs5,455 (Rs5,194).
- International operations:** International operations contribution to overall topline increased to 24% (13%) which is in-line with the company's strategy. Improvement in the quarter was witnessed as a result of better international operations where EBIDTAR margin improved 20.5% vis-à-vis 1.1% yoy on the back of improved yields and higher load factor. Yields increased 17% to Rs15,118 (Rs12,982) and the load factors substantially improved by 10.1% to 76.6% (66.5%). ASKMs increased 78% to 1,694mn (949mn) which was on account of growing scale of international operations.

Exhibit 1: Key Financials (Standalone)

Y/ E March (Rs cr)	FY2006	FY2007	FY2008E	FY2009E
Net Sales	5,646	7,058	10,617	14,429
% chg	30.1	25.0	50.4	35.9
EBIDTAR	1,363	1,008	1,714	2,827
EBIDTAR Margin (%)	24.1	14.3	16.1	19.6
EBIDTA	929	362	1,015	2,065
EBIDTA Margin (%)	16.4	5.1	9.6	14.3
Net Profit/ (Loss)	452	28	164	714
EPS (Rs)	52.4	3.2	19.0	82.8
P/E (x)	15.7	253.4	43.1	9.9
P/CEPS (x)	7.2	15.5	8.5	4.4
P/BV (x)	3.1	3.1	2.9	2.3
EV/Sales (x)	1.7	1.6	1.4	1.2
EV/EBITDAR (x)	7.2	11.2	8.8	6.1

Source: Company; Angel Research

FY2007 performance highlights

For FY2007, revenue grew 25% to Rs7,058cr (Rs5,646cr). EBIDTAR decreased 26% to Rs1,008cr (Rs1,363cr) on back of lower margins in domestic operations. Margins fell on account of decline in load factor to 70.2% from 73.7% and higher operating costs. Fuel cost for the year rose by 45%. Net Profit came in at Rs28cr (Rs452cr).

- **Domestic Operations:** Topline increased 15% to Rs5,700 (Rs4,968cr). This was seen as a result of an increase in ASKMs by 13.8% to 12,155mn (10,683mn) and improvement in yields by 2.5% to Rs5,295 (Rs5,165). EBIDTAR margins were under pressure during the year due to the competitive scenario and higher costs which led to a decrease in EBIDTAR margin to 16% (27%).
- **International Operations:** International operations recorded a loss of Rs183cr in the first half of FY2007, broke-even in the third quarter and finally achieved profitability in the fourth quarter. Revenue rose 100% to Rs1,357cr (Rs678cr). EBIDTAR margin expanded to 7.2% (1.6%) on the back of higher ASKMs, which increased 112% to 5,543mn (2,617mn), better load factor at 68% (65%) and higher yields which moved up 15% to Rs14,476 (Rs12,616). However, the increase in costs led to a loss of Rs191cr (Rs171cr).

Key Initiatives

Jet Airways currently operates a fleet of 62 aircraft and plies over 340 daily flights to 50 destinations. The international routes that the company currently caters to includes London, Heathrow in U.K, Singapore, Kuala Lumpur in Malaysia, Colombo in Sri Lanka, Bangkok in Thailand and Kathmandu in Nepal. The airline plans to extend its international operations to North America, Europe, Africa and Asia going ahead with the induction of wide-body aircraft.

- The company expanded its network with the introduction of new routes like Ahmedabad – London, three times a week.
- The company will launch the Mumbai – Newark flight via Brussels in August, Delhi – Toronto (via Brussels) and Mumbai – San Francisco (via Shanghai) in October.

Aircraft funding requirement

Jet Airways is looking at raising finance for the funding requirements of aircraft acquisition through a Rights issue (\$400mn). Although details are still awaited, any equity dilution will impact our Earnings' estimate.

Jetlite update

Jet Airways has taken possession and control of Air Sahara (renamed Jetlite). Jetlite would fly as a value carrier. Jetlite would have a complete transition over to a new business model by October 2007. Jetlite would clock yields at a discount of 15-20% to FSCs. The company would be able to reduce costs on the back of synergies in staff, airport infrastructure, inventories and benefits arising from route rationalisation. Jet Airways is expected to incur costs of around Rs200cr on the Jetlite turn-around.

Outlook and Valuation

The last quarter turned out to be the most profitable quarter for the company. Jet witnessed increased contribution from its international operations to 24% during Q4FY2007, which is in line with its strategy targeting 50% contribution from its international operations by FY2010.

Recent consolidation in the industry is a positive, which we believe will lead to rationalisation of fares and improved operating performance. Going ahead, the company would be increasing capacity in its international operations adding new aircraft. However, profitability in FY2008 would witness pressure since a new route takes 12-18 months to mature.

We believe Jet Airways with its enhanced focus on international operations would see better times going ahead. The company's expansion plan is as per schedule which targets having 97 aircraft by March 2009. Overall, we expect Jet Airways to deliver EBIDTAR margins of 16% in FY2008 and 20% in FY2009. Going ahead, we expect the company to improve its performance sequentially. On a standalone basis, the stock trades at 6.1x FY2009E EV/EBIDTAR, which we believe is fair valuation. Nevertheless, any delay in Jetlite's expected turnaround could impact the company's consolidated performance. **We remain Neutral on the stock.**

Exhibit 2: Q4FY2007 Performance

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	%chg	FY2007	FY2006	%chg
Revenue	1,978.3	1,605.9	23.2	7057.78	5645.83	25.0
Expenditure	1,518.3	1,317.6	15.2	6049.9	4283.31	41.2
EBIDTAR	460.0	288.4	59.5	1,007.9	1,362.5	(26.0)
<i>EBIDTAR Margin (%)</i>	23.3	18.0		14.3	24.1	
Aircraft Lease Rentals	175.3	122.1	43.6	645.8	433.99	48.8
EBIDTA	284.7	166.3	71.2	362.1	928.5	(61.0)
<i>EBIDTA Margin (%)</i>	14.4	10.4		5.1	16.4	
Interest	53.0	63.0	(15.8)	240.15	241.6	(0.6)
Depreciation	120.9	106.0	14.0	414.1	406.41	1.9
Other Income	10.8	344.3	(96.9)	343.53	441.74	(22.2)
Profit /(Loss) Before Tax	121.6	341.5	(64.4)	51.4	722.3	(92.9)
Tax	33.4	133.8	(75.0)	23.4	270.2	(91.3)
Net Profit /(Loss)	88.2	207.7	(57.5)	27.9	452.0	(93.8)
Adj PAT - exclgd OI	77.4	(136.6)		(315.6)	10.3	

Source: Company, Angel Research

Exhibit 3: Operating Performance

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	%chg	FY2007	FY2006	%chg
Period end Fleet Size	62.0	53.0	17.0	62.0	53.0	17.0
Aircraft Utilisation	10.7	11.0	(2.7)	11.0	10.2	7.8
Number of Departures	29,776	28,659	3.9	119,369	104,833	13.9
Block Hours	57,915	52,304	10.7	227,149	183,543	23.8
ASKMs (mn)	4,679	3,906	19.8	17,698	13,300	33.1
RPKMs (mn)	3,396	2,813	20.7	12,307	9,576	28.5
Passenger Load Factor (%)	72.6	72.0		69.5	72.0	
Break-even Load Factor (%)	67.1	67.2		71.4	65.2	
Revenue Passenger (mn)	2.71	2.67	1.5	10.73	9.56	12.3
Avg. Gross Revenue/pax* (Rs)	6,445	5,623	14.6	6,002	5,509	8.9

Source: Company, Angel Research; * Passenger



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