July 28, 2010

Jet Airways (JETAIR)

Rs 646

Rating matrix

Rating	:	**Add**
Target	:	Rs 690
Target Period	:	12 months
Potential Upside	:	7%

Key Financials

	FY09	FY10	FY11E	FY12E
Net Sales	13,077.8	11,876.4	13,952.2	15,806
EBITDA	-858.7	1062.3	1934.2	2,494.5
Net Profit	-961.4	-420.2	379.2	979.5

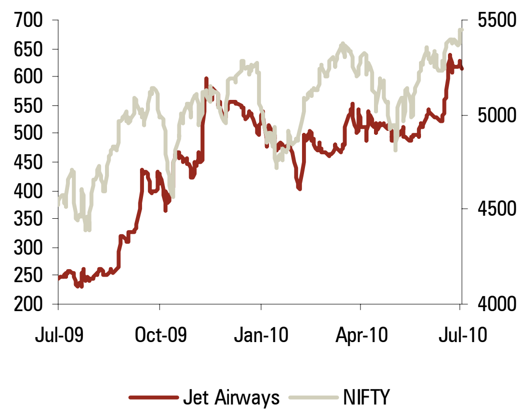
Valuation summary

	FY09	FY10	FY11E	FY12E
PE (x)	NA	NA	14.7	5.7
Target PE (x)	NA	NA	16.2	6.1
EV to EBITDA (x)	NA	18.5	10.1	7.9
Price to book (x)	2.5	3.0	2.5	1.5
RoNW (%)	-30.3	-21.1	19.3	41.3
RoCE (%)	-10.0	0.5	5.6	11.8

Stock data

Market Capitalisation	Rs 5,577 crore
Debt	Rs 14,819 crore
Cash	Rs 770 crore
EV	Rs 19,627 crore
52 week H/L	652/223
Equity capital	Rs 86.3 crore
Face value	Rs.10
MF Holding (%)	9.2
FII Holding (%)	6.4

Price movement



Analyst's name

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WHAT'S CHANGED...

PRICE TARGET .... Changed from Rs 540 to Rs 690

EPS (FY11E) .... Changed from Rs 24.0 to Rs 43.9

EPS (FY12E) .... Changed from Rs 65.6 to Rs113.5

RATING.. Unchanged

Improving macros propel demand growth...

Jet Airway's consolidated revenues for Q1FY11 were higher than our expectations. The company's revenues grew by 23.2% YoY (8% QoQ) to Rs 3,439.1 crore driven by an improvement in market share (19.1% in Q1FY11 vs. 16.5% in Q1FY10). The EBITDA margin improved 504 bps YoY to 12.2% during the quarter. On the other hand, interest cost of Rs 287.6 crore (11.2% YoY) was a burden on the company's net profit. However, the bottomline was boosted by a reversal of excess depreciation of Rs 53.9 crore due to a change in the depreciation method for flight simulators.

- **Strong domestic pax traffic drives load factors**

  In Q1FY11, Jet Airways' (standalone) load factors increased by 634 bps to 79.7% (vs. 73.4% in Q1FY10) driven by rising market share (19.1% vs. 16.5% in Q1FY10) and focus on budget travellers. During the quarter, Jet Airways' domestic pax traffic grew by 39.3% to 35.5 lakh passengers (vs. 25.6% YoY for the sector). As a result, standalone revenues grew by 23.6% YoY to Rs 2,965 crore even though yields declined by 1.9% YoY to Rs 3.53 due to the focus on all-economy service, Jet Airways Konnect.

- **Improved margin, depreciation reversal lead positive bottomline**

  During the quarter, Jet Airways' consolidated operating margin improved by 504 bps YoY to 12.2% driven by strong topline growth and lower lease expenses (decline of 4.4% YoY). However, interest costs increased by 11.2% YoY to Rs 287.6 crore leading to significant pressure on the bottomline. Further, the net profit of Rs 8.4 crore was boosted by excess depreciation reversal (Rs 53.9 crore in Q1FY11) due to a change in the depreciation method for flight simulators.

Valuation

At the CMP of 646, the stock is trading at 10.1x and 7.9x its FY11E and FY12E EV/EBITDA, respectively. In our view, the current price is factoring the strong domestic macroeconomic growth and stable crude oil prices. As a result, we value the stock at 8.0x FY12E EV/EBITDA and arrive at a target price of Rs 690 (similar to the adjusted mean of its global peers). We maintain our **ADD** rating on the stock.

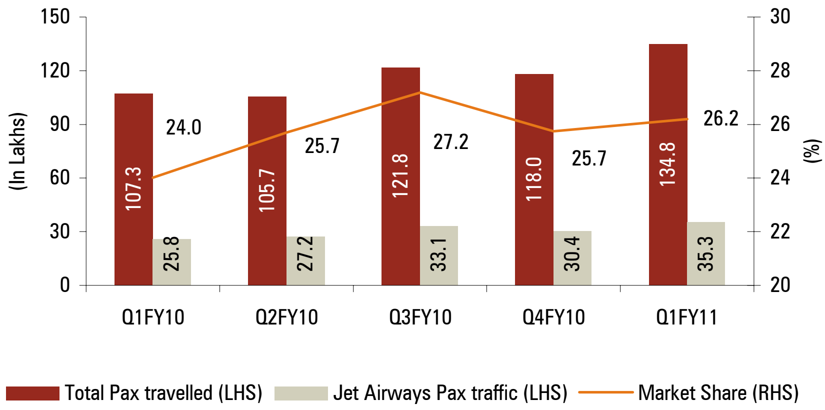
Exhibit 1: Financial Performance (Standalone)

Rs. Crore	Q1FY11	Q1FY10E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr.
Net Sales	3439.1	3077.8	2792.1	3183.4	23.2	8.0
EBITDA	420.6	129.6	200.7	442.6	109.6	-5.0
EBITDA Margin (%)	12.2	4.2	7.2	13.9	+504 bps	-167 bps
Depreciation	228.5	242.3	248.4	238.0	-8.0	-4.0
Interest	287.6	114.7	258.4	283.8	11.3	1.3
Reported Net Profit	8.4	-119.6	-223.0	224.9	LP	-96.3
Diluted EPS (Rs)	1.0	-13.8	-25.8	26.1	LP	-96.3

Source: Company, ICICIdirect.com Research

Improved domestic demand and network realignment resulted in an increased market share for Jet Airways in Q1FY11. Jet Airways' domestic market share increased to 26.2% YoY in Q1FY11 driven by robust pax-traffic growth of 39.3% YoY that was higher than the sector's pax traffic growth of 25.6% YoY

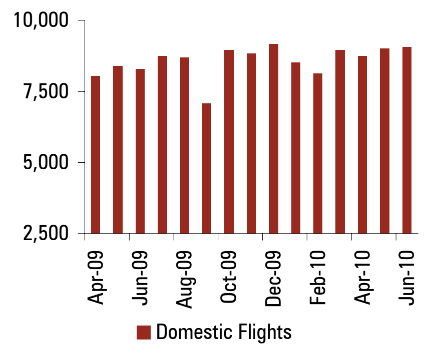
Exhibit 2: Trends in domestic market share (Jet + JetLite)



Source: DGCA, ICICIdirect.com Research

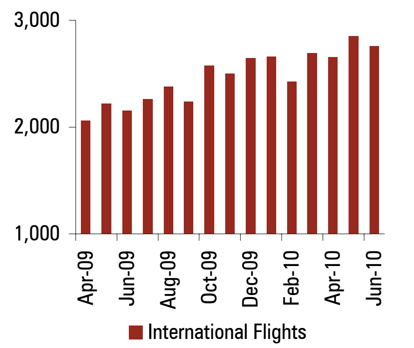
During Q1FY11, domestic flights increased by 7.8% YoY while international flights increased by 28.4% YoY. The significant rise in international flights was partly due to the introduction of new routes such as Mumbai-Johannesburg and network collaboration with other foreign airlines

Exhibit 3: Domestic flights



Source: Company, DGCA, ICICIdirect.com, Research

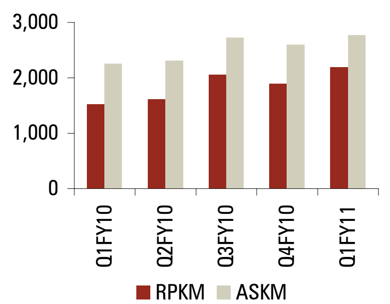
Exhibit 4: International flights



Source: Company, DGCA, ICICIdirect.com, Research

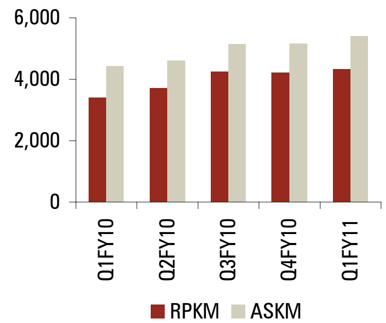
In Q1FY11, Jet Airways was successful in improving its utilisation levels. On a standalone basis, aircraft utilisation increased to 11.2 in Q1FY11 as compared to 10.3 in Q1FY10. However, JetLite's utilisation level declined slightly to 8.2 in Q1FY11 vs. 8.3 in Q1FY10

Exhibit 5: Domestic demand supply matrix



Source: Company, ICICIdirect.com, Research

Exhibit 6: International demand supply matrix



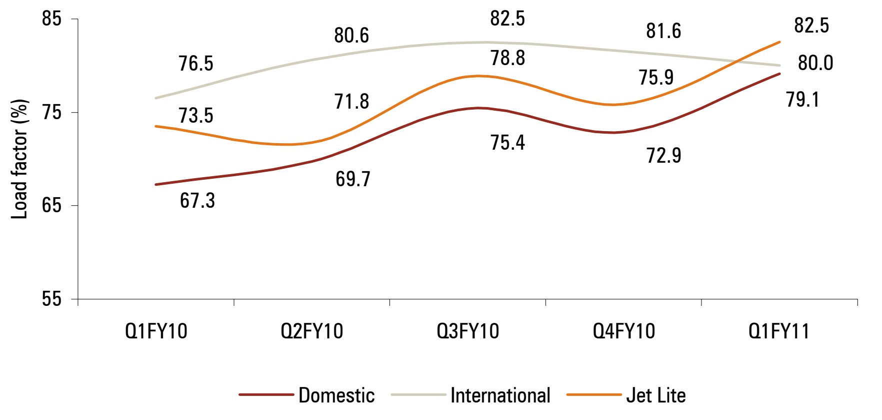
Source: Company, ICICIdirect.com, Research

The introduction of all-economy service, Jet Airways Konnect, higher utilisation of fleets and code-sharing agreements (United Airlines and Gulf Air) has helped Jet Airways to tap the resurgence in air-traffic demand. During Q1FY11, the domestic pax-traffic grew by 39.3% YoY (higher than sector's pax traffic growth of 25.6% YoY) while JetLite's pax traffic grew by 29.1% YoY. On the other hand, international pax-traffic witnessed a growth of 32.1% YoY as compared to 12.5% YoY in Q1FY09.

During Q1FY11, Jet Airways' domestic capacity, as measured by ASKM, was higher by 22.8% YoY while the international capacity grew by 21.8% YoY as compared to the last year. The increase in international capacity was primarily driven by introduction of new routes such as Mumbai-Johannesburg in April 2010

During Q1FY11, Jet Airways' domestic load factor jumped to 79.1% as compared to 67.3% last year while the international load factor remained high at 80% due to strong demand for international routes

Exhibit 7: Trend in average load factors (Jet + JetLite)

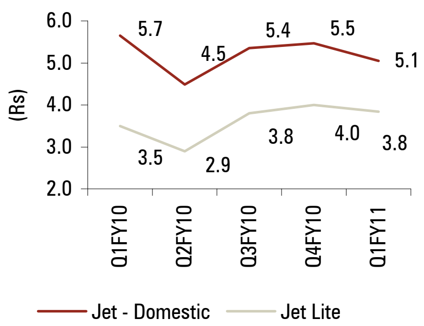


Source: Company, ICICIdirect.com Research

Domestic yields failed to keep up the momentum gained during the last two quarters. The yields for Jet Airways (standalone) declined by 10.6% YoY in Q1FY11

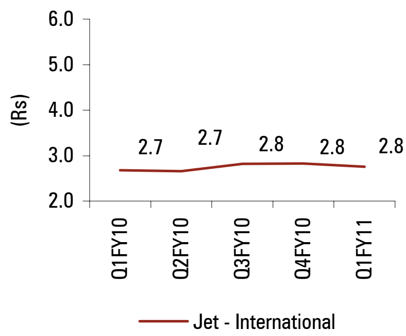
Yields for international services remained stable despite capacity growth of 21.8% reported in Q1FY11

Exhibit 8: Yields per RPKM (domestic)



Source: Company, ICICIdirect.com, Research

Exhibit 9: Yields per RPKM (international)



Source: Company, ICICIdirect.com, Research

In Q1FY11, the overall blended yield of Jet Airways declined by 1.9% primarily due to significant de-growth witnessed in the domestic yield (de-growth of 10.6% YoY). The delay in premium traffic demand in the domestic market and management's focus on gaining market share (with the help of all-economy service, Jet Airways Konnect) had primarily contributed to the sluggish growth in the yields

Exhibit 10: Standalone financial summary (Excluding JetLite)

Particulars	Domestic			International		
	Q1FY11	Q1FY10	YoY Gr. (%)	Q1FY11	Q1FY10	YoY Gr. (%)
Net Sales	1,294	1,049	23.4	1,671	1,349	23.8
EBITDA	143	6	2134.4	259	202	28.1
EBITDA Margin (%)	11.1	0.6	NA	15.5	15.0	51 bps
PBT	22	-148	NM	-19	-77	NM

Source: Company, ICICIdirect.com, Research

During the quarter, the operating margin in domestic operations improved to 11.1% on account of strong topline growth, higher load factor and increased operational efficiency. However, the margin in the international segment remained subdued due to the negative impact of grounded aircraft. The company suffered a loss of Rs 39.1 crore on grounded wide-bodied aircraft in Q1FY11. Further, the airline also had to suffer a loss of Rs 33.4 crore due to volcanic ash impact during April 2010.

ICICIdirect.com Coverage Universe (Aviation)

Jet Airways					Sales (Rs Cr)	Sales Gr. (%)	EPS (Rs)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)
				FY09	13077.9	27.0	-111.4	NA	-22.9	-30.3	-10.0
Idirect Code	JETAIR	**CMP**	646	**FY10**	11876.4	-9.2	-48.7	NA	18.5	-21.1	0.5
		Target	690	**FY11E**	13952.2	17.5	43.9	14.7	10.1	19.3	5.6
Mcap (Rs .Cr)	5,576.9	**Upside (%)**	6.8%	**FY12E**	15805.9	13.3	113.5	5.7	7.9	41.3	11.8
Spicejet					**Sales (Rs Cr)**	**Sales Gr. (%)**	**EPS (Rs)**	**PE (x)**	***EV/E (x)**	**RoNW (%)**	**RoCE (%)**
				FY09	1689.4	30.5	-14.6	NA	-5.9	NA	NA
Idirect Code	MODLUF	**CMP**	56	**FY10**	2181.0	29.1	1.6	35.4	33.6	NA	62.6
		Target	72	**FY11E**	2681.3	22.9	5.9	9.5	11.5	126.8	59.6
Mcap (Rs.Cr)	2,406.4	**Upside (%)**	28.6%	**FY12E**	3215.8	19.9	7.8	7.2	7.4	91.5	46.1

EV/E = EV/EBITDA

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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