Friday 18 May 2007

Change of recommendation

Jet Airways India

Buy (from Hold)

Absolute performance
n/a
Short term (0-60 days)
Neutral
Market relative to region

Transportation
India

Price
Rs732.00
Target price
Rs900.00 (from Rs550.00)
Market capitalisation
Rs63.19bn (US$1.55bn)
Avg (12mth) daily turnover
Rs92.49m (US$2.07m)

Reuters	Bloomberg
JET.BO	JETIN IN

A change in the air

We estimate the domestic airline industry has run up losses of US$318m in FY07 on heavily discounted fares. We think this can't be sustained and so foresee rationalisation sooner rather than later. We upgrade Jet to Buy, with a revised target price of Rs900.

Key forecasts*

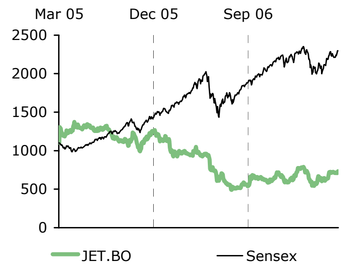
	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (Rsm)	43380.1	56937.3	71423.2	115025	155670
EBITDA (Rsm)	11984.4	9263.8	2496.8▼	9581.2	23540.9▲
Reported net profit (Rsm)	3919.9	4520.4	-348.3▼	1134.1▼	7050.6▲
Normalised net profit (Rsm)¹	3765.6	4523.1	-348.3	1134.1	7050.6
Normalised EPS (Rs)	32.8	39.4	-3.04▼	9.89▼	61.5▲
Dividend per share (Rs)	3.00	6.00	0.00	0.00	0.00
Dividend yield (%)	0.41	0.82	0.00	0.00	0.00
Normalised PE (x)	22.3	18.6	n/m▼	74.0▲	11.9▼
EV/EBITDA (x)	5.45	9.76	45.5	14.8	5.53
Price/book value (x)	4.18	3.64	3.70	2.01	1.73
ROIC (%)	20.9	14.3	-1.93	3.25	8.15

*Consolidated 1. Post-goodwill amortisation and pre-exceptional items
Accounting Standard: Local GAAP
Source: Company data, ABN AMRO forecasts

year to Mar, fully diluted

Price performance

	(1M)	(3M)	(12M)
Price (Rs)	637.3	723.0	911.3
Absolute %	14.9	1.2	-19.7
Rel market %	9.8	1.6	-36.0
Rel sector %	16.4	-1.1	-33.4



Stock borrowing: Difficult
Volatility (30-day): 35.77%
Volatility (6-month trend): ↑
52-week range: 937.00-475.10
Sensex: 14303.41
BBG AP Transport: 169.17

Source: ABN AMRO, Bloomberg

Domestic market - Something's got to give

We estimate the seating capacity of domestic airlines grew 34.3% in FY07, aiding passenger growth of 38.7% yoy to 35.3m. However, we think the strong growth was partly supported by heavily discounted fares. Clearly, such growth is unprofitable. We estimate the industry has incurred cash losses (not adjusted for sale and lease-back) of Rs13.4bn (US$318m) in FY07. The sheer size of the losses should push the industry towards rationalisation. For example, Deccan has incurred EBITDA losses of Rs10.8bn (US$256m) over the past eight quarters, which we believe may push it to a fresh round of funding. Any efforts to make Deccan's business self-sustaining are likely to have a positive impact on industry pricing. Over the past 24 months, Jet also has gone through the pain of discounted fares. The full fare to discounted seats ratio has reversed from 80:20 to 25:75. We believe any pricing improvement in the industry will benefit Jet Group.

International operations - FY08 should be the year of transition

In 3Q07, Jet's international operations achieved break-even. It plans to take on new destinations, given the scheduled delivery of wide-body aircraft over FY08-09. Management has been guiding that international routes take 12-18 months to achieve break-even. Consequently, we believe FY08 and FY09 will be years of transition for Jet. We estimate international operations will contribute nearly 50% to the airline's revenue by FY09, vs 11% in FY06.

Valued at Rs900/share, or 5.8x FY10F EV/EBITDAR

Our target price of Rs900 (previously Rs550) for Jet is based on 5.8x FY10F EV/EBITDAR. At our target, the stock would trade at 10.5x FY10F earnings. The ABN AMRO full-service carrier universe trades at 4.6x EV/EBITDAR and 10.5x PER on our three-year forward earnings forecasts. Our target price upgrade follows the increase in our FY09F earnings, reflecting increased contribution from Jet's international business from deployment of more aircraft and anticipated improvement in operating environment for the industry. Hence, we upgrade the stock to Buy, from Hold. The key risk to our forecast of an improving industry environment would be new investors in domestic airlines continuing to play for market share.

Researched by
ABN AMRO Institutional Equities Team

www.abnamrobroking.co.in

Priced at close of business 18 May 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

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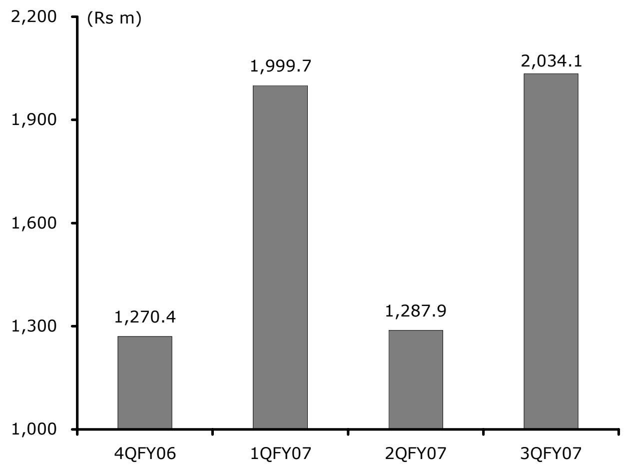
Something's got to give

We estimate India's airline industry has run up cash losses of US$318m in FY07 on heavily discounted fares. We don't think this is sustainable and rational pricing should follow sooner rather than later.

Domestic market – something's got to give

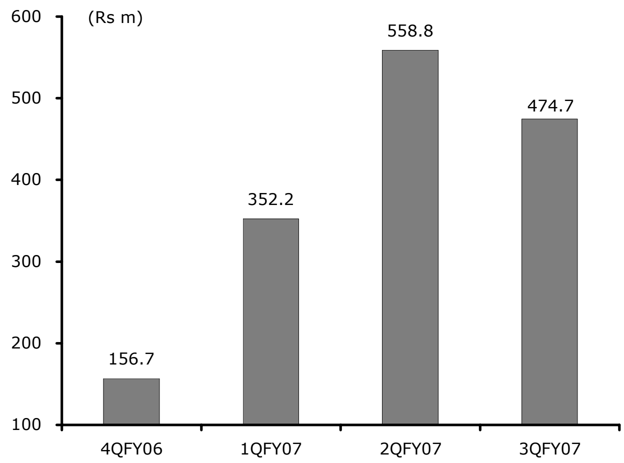
To ensure and sustain high load factors, low-cost carriers (LCCs) have relentlessly cut fares/yields despite rising costs. Consequently, the domestic airline industry is running losses. We estimate the industry is likely to incur cash losses (not adjusted for sale and lease back) of Rs13.4bn (US$318m) in FY07. We think the sheer size of losses should push the industry towards more rational fares/yields.

Chart 1 : Air Deccan – EBITDA losses



Source: Company data

Chart 2 : SpiceJet – EBITDA losses



Source: Company data

So can fares increase?

Jet's recent completion of the Air Sahara acquisition has been closely followed by media reports (*Economic Times*) about Kingfisher possibly acquiring a stake in Deccan Aviation. Deccan has incurred EBITDA losses of Rs10.3bn (US$245m) over the past eight quarters. The company raised Rs3.6bn (US$79m) through an IPO in June 2006 and another Rs4.5bn (US$100m) through the advance sale and lease-back of Airbus deliveries in September 2006. Consequently, we believe Deccan may require a fresh round of funding. We believe any consolidation or any other efforts to make Deccan self-sustaining should have a positive impact on industry pricing, as the airline has been a big discounter.

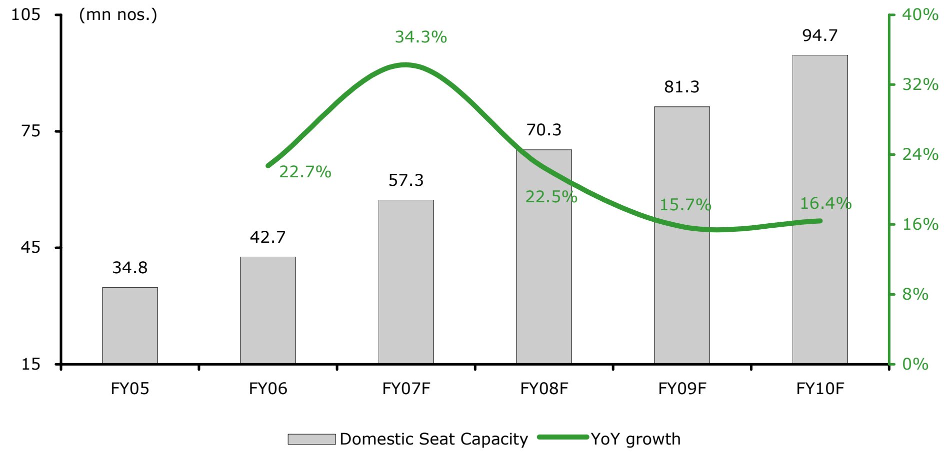
What could go wrong?

- Funding but no discipline – Deccan may slip back to its old ways of heavy fare discounting if it receives funding. However, we think this may only delay the rationalisation.
- Entry of deep-pocketed industrial houses – Our talks with industry suggest several business houses are keen to enter aviation. If new investors continue to focus on market share, it could delay sector rationalisation.

- Aircraft deliveries – We estimate Indian seat capacity grew 34.3% in FY07, supporting another year of strong passenger growth, 38.7% to 35.3m. We think the strong growth was partly underpinned by heavily discounted fares, thus leading to higher capacity utilisation. Clearly, such growth is unprofitable and unsustainable. Consequently, airlines will need to keep a check on domestic fleet growth. Unlike telecoms, we think cheap fares are not a profitable/sustainable penetration strategy for the airline industry. We expect domestic passenger market growth to be supported by:

  1. domestic economic growth – business travel; and,
  2. growth in disposable income – leisure travel.

Chart 3 : India annual seat capacity trends



Source: DGCA, ABN AMRO forecasts

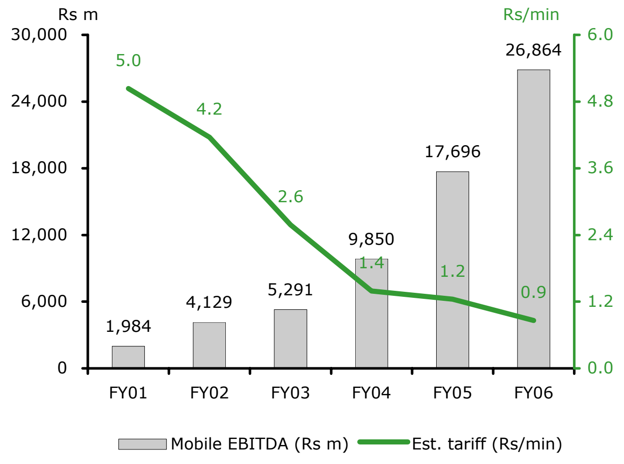
Airlines – it's no telecom

We were among the early believers that airlines could go the telecom way, in the sense that rapid growth in passenger traffic would result in strong industry profitability as loads increased even though fares declined. However, domestic airlines have incurred large losses in FY07. Airlines do not have the same operating leverage as telecoms, in our view, as the incremental operating cost for additional capacity (flight) does not decline.

During FY01-06, Bharati Airtel's (BHARTI IN, NR) mobile telephony tariffs (Rs/min) fell by as much as 83%. However, mobile EBITDA increased 13.5x over the same period. The profitability growth was driven by the twin levers of falling opex/minute and surging minutes of use (MoUs). The significant decline in opex/minute suggests the incremental cost of every additional MoU had a declining profile, which enabled mobile companies to slash tariffs and penetrate the market.

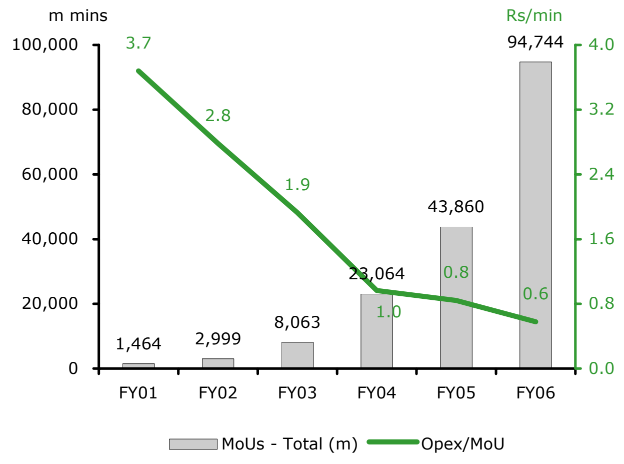
Meanwhile, Jet's yield (Rs/RPKM) increased during FY01-07, but 9M07 domestic EBITDAR declined substantially. This was due to a rise in operating costs, primarily jet fuel. But even if we exclude jet-fuel costs, the opex cost/traveled unit (RPKM) shows no decline. Airlines have a fixed cost/flight and fares cannot fall bellow levels that cover this cost.

Chart 4 : Bharati – EBITDA vs mobile tariffs



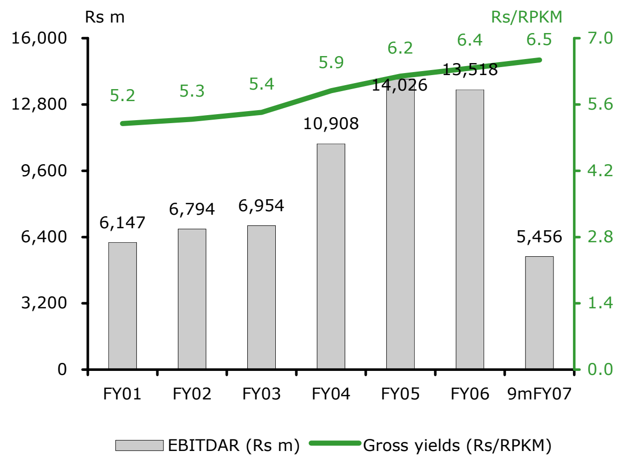
Source: Company data

Chart 5 : Bharati – MoUs vs opex/MoU



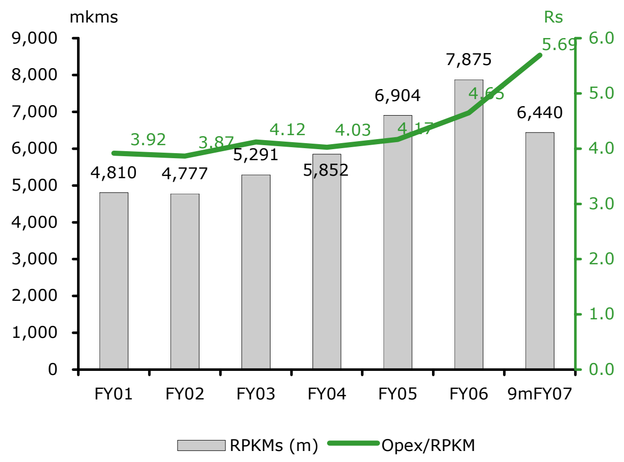
Source: Company data

Chart 6 : Jet – EBITDAR vs gross yields



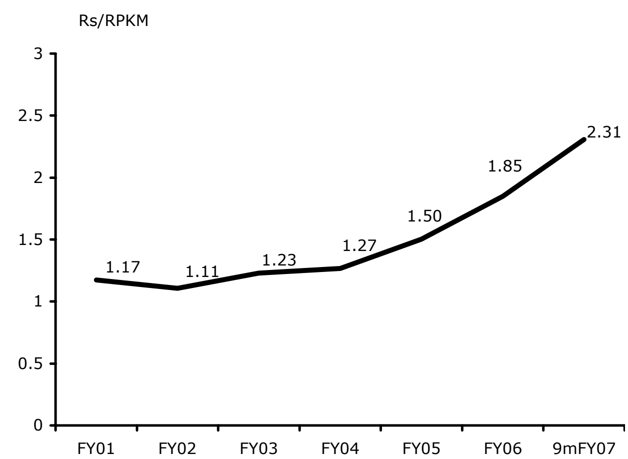
Source: Company data

Chart 7 : Jet – RPKMs vs opex/RPKM



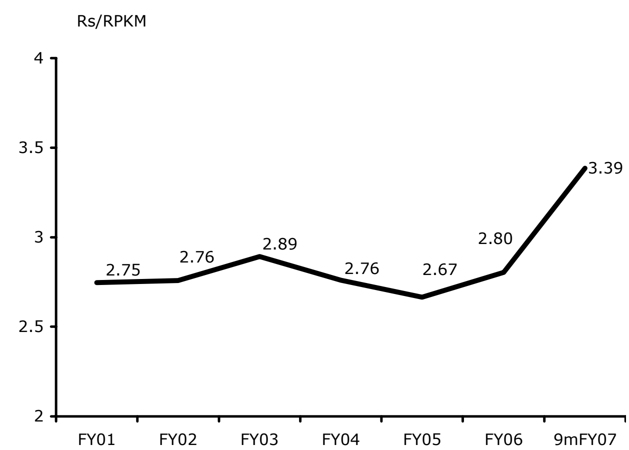
Source: Company data

Chart 8 : Jet - Oil cost/RPKMs



Source: Company data

Chart 9 : Jet - Op. cost ex. oil/RPKMs



Source: Company data

Value to accrue

We expect Jet's earnings to recover, as domestic industry pricing is likely to improve sooner rather than later. We estimate international operations will also start contributing from FY09F onwards.

Valued at 5.8x FY10F EV/EBITDAR - Rs900/share

We expect Jet's earnings to recover over the next 36 months, on the back of the anticipated recovery in the domestic pricing environment and stabilisation of international operations from FY09-10. Our target price of Rs900 is based on 5.8x FY10F EV/EBITDAR. At our target, the stock would trade at 10.5x FY10F earnings. The ABN AMRO full-service carrier universe trades at 4.6x EV/EBITDAR and 10.5x PER on our three-year forward earnings forecasts. Considering a sharp turnaround in EBITDAR between FY07F and FY10F, with an estimated 60% CAGR, we value the company at a premium to the ABN AMRO universe. We see potential improvement in the operating environment over the next 12 months and the company should further benefit from the scheduled delivery of wide-body fleet over the next 18 months.

Table 1 : Jet Airways – Valuation

(Rs m)	FY10F
EV /EBITDAR @ 5.8x FY10F	218,112
PV of operating lease	69,116
Net debt	45,917
Equity value	103,079
No of shares (m)	114.7
Per share equity value (Rs)	**899**

Source: ABN AMRO forecasts

Table 2 : Valuation comparison

				EV/EBITDAR			PER			P/B		
	Bloomberg	Currency	Yr-end	1yr-fwd	2yr-fwd	3yr-fwd	1yr-fwd	2yr-fwd	3yr-fwd	1yr-fwd	2yr-fwd	3yr-fwd
Air France/KLM	AF FP	EUR	Mar	5.39	4.93	4.52	12.97	12.31	12.03	1.09	0.98	na
British Airways	BAY LN	GBP	Mar	6.76	4.84	4.90	12.23	8.82	9.85	1.92	1.56	1.19
Deutsche Lufthansa	LHA GR	EUR	Dec	5.73	4.65	4.34	14.26	11.71	11.00	1.82	1.62	1.45
SAS AB	SAS SS	SEK	Dec	6.79	5.88	5.21	11.92	8.20	6.71	1.82	1.62	1.45
Qantas Airways Limited	QAN AU	AUD	Jun	4.30	4.01	3.89	13.49	11.57	11.31	1.68	1.62	1.59
Singapore Airlines*	SIA SP	SGD	Mar				13.69	13.03	10.86	1.51	1.40	1.34
Cathay Pacific Airways*	293 HK	HKD	Dec				14.53	11.67	10.90	1.62	1.50	1.41
China Eastern Airlines	670 HK	HKD	Dec	9.02	7.59					5.43	6.78	na
China Southern Airlines	1055 HK	HKD	Dec	7.31	6.54		29.56	61.61		1.76	1.71	na
Air China	601111 CH	CNY	Dec	6.42	4.63		17.69	10.11		2.21	1.53	na
Jet Airways	JETIN IN	INR	Mar	12.20	6.50	5.29	72.80	11.70	8.10	2.00	1.70	1.40
Avg.				**7.10**	**5.51**	**4.69**	**21.31**	**16.07**	**10.09**	**2.08**	**2.00**	**1.41**

*Source: ABN AMRO forecasts, *Bloomberg consensus*

Risks and concerns

Crude oil prices. We assume jet fuel prices will be steady at US$76/bbl (Brent oil – US$64/bbl) through FY09. Any further increases without corresponding price hikes would impact our estimates. We estimate a US$1/bbl change in the oil price would change our FY09 consolidated earnings forecast by 7.1%.

Forex. We expect any significant rupee depreciation to impact Jet's consolidated earnings. We estimate every 1% change in Rs/US$ would impact FY09F consolidated earnings by 8.5%.

Subsidiary, Jet Lite. We expect Jet's management to successfully turn around Jet Lite's operations. Failure to do so would impact consolidated profits.

Economic growth. Loads and yields are dependent on the demand environment. Any slowdown in global and/or domestic economic growth should hurt the airline sector, including Jet.

Key assumptions and sensitivities

Table 3 : Jet Airways - Key assumptions

	FY06	FY07F	FY08F	FY09F
INR/US$	44.3	45.2	42.5	41.6
Jet fuel (US$/bbl)	69.0	76.6	76.0	76.0
RPKMs - mKms	9,576	12,228	21,840	31,708
ASKMs - mKms	13,292	17,673	31,820	45,192
Passenger load factor (%)	72.0%	69.2%	68.6%	70.2%
Avg. no. of aircrafts	48.7	56.7	90.3	105.6

Source: Company data, ABN AMRO forecasts

Table 4 : Jet Airways - Sensitivities

FY09F EPS - Rs61.5	% change
1% change in INR/US$	8.5%
1% change in domestic PLF	11.0%
1% change in int. PLF	6.0%
1% change in domestic gross yields	7.6%
1% change in int. gross yields	4.3%
US$1/bbl change in oil price	7.1%
Rs1/litre change in ATF prices	17.8%

Source: ABN AMRO forecasts

Table 5 : Revised earnings estimates

Year to 31 March	FY07F	FY08F	FY09F
EPS (Rs)			
Revised	(3.04)	9.89	61.49
Previous	30.28	45.44	36.79
% change	-110.0%	-78.2%	67.1%
Consensus	(18.20)	13.11	26.10
ABN vs consensus	**-83.3%**	**-24.5%**	**135.6%**

Source: ABN AMRO forecasts

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JET AIRWAYS INDIA: KEY FINANCIAL DATA

Income statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	43380.1	56937.3	71423.2	115025	155670
Cost of sales	-29253	-43169	-62431	-96887	-123210
Operating costs	-2142.4	-4504.5	-6495.7	-8556.6	-8919.1
EBITDA	**11984.4**	**9263.8**	**2496.8**	**9581.2**	**23540.9**
DDA & Impairment (ex gw)	-4570.0	-4064.1	-4055.1	-5827.1	-8176.2
EBITA	**7414.4**	**5199.7**	**-1558.3**	**3754.1**	**15364.7**
Goodwill (amort/impaired)	n/a	n/a	n/a	n/a	n/a
EBIT	**7414.4**	**5199.7**	**-1558.3**	**3754.1**	**15364.7**
Net interest	-2536.9	-2416.0	-2639.6	-4799.7	-6396.1
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	7.10	0.00	0.00	0.00	0.00
Exceptionals (pre-tax)	154.3	-2.70	0.00	0.00	0.00
Other pre-tax items	789.5	4441.6	3849.5	3224.5	1600.0
Reported PTP	**5821.3**	**7222.6**	**-348.3**	**2178.9**	**10568.6**
Taxation	-1901.4	-2702.2	0.00	-1044.8	-3518.0
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	0.00	0.00	0.00	0.00	0.00
Reported net profit	**3919.9**	**4520.4**	**-348.3**	**1134.1**	**7050.6**
Normalised Items Excl. GW	154.3	-2.70	0.00	0.00	0.00
Normalised net profit	**3765.6**	**4523.1**	**-348.3**	**1134.1**	**7050.6**

Source: Company data, ABN AMRO forecasts *year to Mar*

Balance sheet

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	28199.7	22914.8	5107.0	23141.7	42873.9
Other current assets	8201.6	19732.8	21328.5	27697.2	33261.1
Tangible fixed assets	26406.5	47881.5	56410.2	113429	114306
Intang assets (incl gw)	0.00	0.00	0.00	7895.0	7676.6
Oth non-curr assets	0.00	0.00	16300.0	0.00	0.00
Total assets	**62807.8**	**90529.1**	**99145.7**	**172163**	**198117**
Short term debt (2)	637.5	8798.8	8798.8	9998.8	9998.8
Trade & oth current liab	10471.8	14116.9	17792.7	24636.9	34616.1
Long term debt (3)	26307.3	41348.0	46637.1	92154.8	99850.1
Oth non-current liab	5289.6	3206.6	3206.6	3636.6	5084.6
Total liabilities	**42706.2**	**67470.3**	**76435.2**	**130427**	**149550**
Total equity (incl min)	20101.6	23058.8	22710.5	41735.6	48567.8
Total liab & sh equity	**62807.8**	**90529.1**	**99145.7**	**172163**	**198117**
Net debt (2+3-1)	2086.2	27232.0	50328.8	79011.8	66975.1

Source: Company data, ABN AMRO forecasts *year ended Mar*

Cash flow statement

Rsm	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	11984.4	9263.8	2496.8	9581.2	23540.9
Change in working capital	2316.1	-7886.1	2080.2	1680.1	4415.3
Net interest (pd) / rec	-2536.9	-2416.0	-2639.6	-4799.7	-6396.1
Taxes paid	-460.4	-1444.1	0.00	-614.8	-2070.0
Other oper cash items	789.5	4441.6	3849.5	3224.5	1600.0
Cash flow from ops (1)	**12092.7**	**1959.2**	**5786.9**	**9071.3**	**21090.1**
Capex (2)	-499.5	-18036	-12584	-53550	-9053.4
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	-16300	0.00	0.00
Cash flow from invest (3)	**-499.5**	**-18036**	**-28884**	**-53550**	**-9053.4**
Incr / (decr) in equity	142.5	0.00	0.00	283.3	0.00
Incr / (decr) in debt	-1814.0	19860.9	5289.1	45517.7	7695.4
Ordinary dividend paid	-295.3	-590.7	0.00	0.00	0.00
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	14141.8	0.00	0.00	16712.7	0.00
Cash flow from fin (5)	**12175.0**	**19270.2**	**5289.1**	**62513.7**	**7695.4**
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	**23768.2**	**3193.2**	**-17808**	**18034.7**	**19732.1**
Equity FCF (1+2+4)	11593.2	-16077	-6796.9	-44479	12036.7

Lines in bold can be derived from the immediately preceding lines. *year to Mar*
Source: Company data, ABN AMRO forecasts

JET AIRWAYS INDIA: PERFORMANCE AND VALUATION

Standard ratios	Jet Airways					Qantas Airways			British Airways		
Performance	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**	**FY07F**	**FY08F**	**FY09F**	**FY08F**	**FY09F**	**FY10F**
Sales growth (%)	25.8	31.3	25.4	61.0	35.3	10.8	6.76	5.56	5.44	0.18	n/a
EBITDA growth (%)	40.5	-22.7	-73.0	283.7	145.7	26.0	7.14	2.29	28.3	-5.57	n/a
EBIT growth (%)	117.0	-29.9	-41.1	55.7	309.3	42.6	20.9	5.82	60.2	-14.4	n/a
Normalised EPS growth (%)	130.9	20.1	-42.2	50.0	521.7	41.3	16.5	2.32	38.7	-10.5	n/a
EBITDA margin (%)	27.6	16.3	3.50	8.33	15.1	17.4	17.4	16.9	18.4	17.3	n/a
EBIT margin (%)	17.1	9.13	-2.18	3.26	9.87	7.77	8.80	8.82	10.4	8.91	n/a
Net profit margin (%)	8.68	7.94	-0.49	0.99	4.53	5.09	5.68	5.68	7.17	6.41	n/a
Return on avg assets (%)	0.00	7.99	1.48	3.17	6.09	4.27	5.01	5.04	5.60	4.88	n/a
Return on avg equity (%)	0.00	21.0	-1.52	3.52	15.6	12.5	14.2	14.2	22.5	17.3	n/a
ROIC (%)	20.9	14.3	-1.93	3.25	8.15	8.46	10.8	11.6	9.05	7.63	n/a
ROIC - WACC (%)	-13.5	1.95	-16.2	-8.69	-4.54	-0.85	1.48	2.26	1.22	-0.21	n/a
					year to Mar			*year to Jun*			*year to Mar*
Valuation											
EV/sales (x)	1.50	1.59	1.59	1.24	0.84	0.84	0.75	0.75	0.75	0.73	n/a
EV/EBITDA (x)	5.45	9.76	45.5	14.8	5.53	4.84	4.32	4.45	4.10	4.19	n/a
EV/EBITDA @ tgt price (x)	6.66	11.3	51.3	16.4	6.15	5.02	4.49	4.61	3.60	3.66	n/a
EV/EBIT (x)	8.80	17.4	n/m	37.9	8.47	10.8	8.56	8.52	7.23	8.15	n/a
EV/invested capital (x)	2.70	1.69	1.49	1.14	1.08	1.38	1.34	1.27	0.92	0.87	n/a
Price/book value (x)	4.18	3.64	3.70	2.01	1.73	1.68	1.62	1.59	1.73	1.53	n/a
Equity FCF yield (%)	13.8	-19.2	-8.10	-53.0	14.3	8.93	7.76	-3.21	9.25	7.93	n/a
Normalised PE (x)	22.3	18.6	n/m	74.0	11.9	13.5	11.6	11.3	9.00	10.1	n/a
Norm PE @tgt price (x)	27.4	22.8	n/m	91.0	14.6	14.1	12.1	11.8	7.72	8.62	n/a
Dividend yield (%)	0.41	0.82	0.00	0.00	0.00	5.17	4.98	5.17	1.99	2.99	n/a
					year to Mar			*year to Jun*			*year to Mar*

Per share data	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**
Tot adj dil sh, ave (m)	114.7	114.7	114.7	114.7	114.7
Reported EPS (INR)	34.2	39.4	-3.04	9.89	61.5
Normalised EPS (INR)	32.8	39.4	-3.04	9.89	61.5
Dividend per share (INR)	3.00	6.00	0.00	0.00	0.00
Equity FCF per share (INR)	101.1	-140.2	-59.3	-387.9	105.0
Book value per sh (INR)	175.3	201.1	198.1	364.0	423.6
					year to Mar

Solvency	**FY05A**	**FY06A**	**FY07F**	**FY08F**	**FY09F**
Net debt to equity (%)	10.4	118.1	221.6	189.3	137.9
Net debt to tot ass (%)	3.32	30.1	50.8	45.9	33.8
Net debt to EBITDA	0.17	2.94	20.2	8.25	2.85
Current ratio (x)	3.28	1.86	0.99	1.47	1.71
Operating CF int cov (x)	5.95	2.41	3.19	3.02	4.62
Dividend cover (x)	14.5	8.73	0.00	0.00	0.00
					year to Mar

Priced as follows: JET.BO - Rs732.00; QAN.AX - A$5.22; BAY.L - £5.01
Source: Company data, ABN AMRO forecasts

JET AIRWAYS INDIA: VALUATION METHODOLOGY

(Rs m)	FY10F
EV /EBITDAR @ 5.5x FY10F	218,112.68
PV of operating lease	69,116.47
Net debt	45,916.96
Equity value	103,079.24
No of shares (m)	114.7
Per share equity value (Rs)	898.69

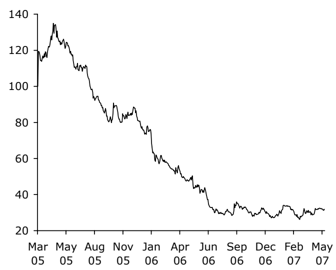
Source: ABN AMRO forecasts

Jet Airways India

Company description — Buy

Jet Airways India began operations in 1993 with a fleet of four Boeing 737-300 aircraft. Since then, the company has met its objective of becoming the country's preferred domestic airline, with 28% market share. Jet's fleet has grown to 64 aircraft and the network's domestic destinations have increased from 12 to 44, while it the company now flies to six international destinations. The number of daily flights has risen from 24 to more than 340. While expanding its operations, Jet has not compromised on fleet age (4.6 years) or service reliability, making it the preferred choice for business travel, in our view. The company has tie-ups with British Airways, Air France-KLM and Northwest Airlines for frequent-flyer programmes. Jet is planning to expand its international network and has placed a firm order for 20 wide-bodied aircraft.

Price relative to country



Strategic analysis — Average SWOT company score: 3

Strengths — 4
Strong brand equity, especially in lucrative business-travel segment. Focuses on high-quality, reliable service. Employer of choice in the industry, in our opinion.

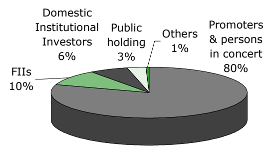
Weaknesses — 3
Historically has operated in oligopolistic environment with weak competition. International operations will test the company's competitive strength.

Opportunities — 4
We estimate the domestic passenger market will grow 31% pa over FY04-07. Further, with the change in the country's aviation policy, Jet recently commenced operations to international destinations.

Threats — 2
With high industry growth rates, new competition has been attracted to the sector. Competitive pressure is set to increase. High oil prices also pose a threat to operations.

Scoring range is 1-5 (high score is good)

Shareholding pattern



Source: BSE India

Market data

Headquarters
S.M. Centre, Andheri-Kurla Road, Andheri E, Mumbai 400059, India

Website
www.jetairways.com

Shares in issue
86.3m

Freefloat
20%

Majority shareholders
Tail Winds Ltd. (80%), FIIs (14%), Public (2%)

India

Country view — Neutral

The market looks expensive, but we believe it will remain supportive when regional funds seek a domestically-driven home with continuing robust earnings growth. The ABN AMRO Indian PMI suggests the economy is still powering ahead despite the global headwinds, thanks to its domestically-oriented economic structure. At the sector level, we still like autos, software and construction-related stocks.

The country view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.

Country rel to Asia Pacific

Competitive position — Average competitive score: 2-

Supplier power — 1-
There are only two suppliers of large commercial jets; therefore, the bargaining power lies with the suppliers.

Barriers to entry — 1+
Capital, logistics and technically intensive business. Close coordination with government entities. Very sensitive to global economic trends.

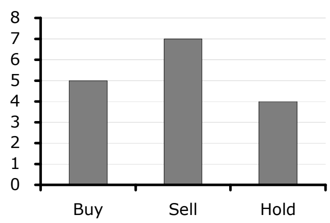
Customer power — 2-
Weak in the domestic market. There are only three full-service carriers. Moderate in international sectors.

Substitute products — 4+
Railways are the dominant mode of transport in the country but losing market share in the lucrative premium segment. Airlines are the dominant transport mode for international travel.

Rivalry — 2-
Limited in the domestic market but we expect it to increase with new entrants. We also expect international routes to see greater competition as incumbents increase frequency.

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse

Broker recommendations



Source: Bloomberg