May 25, 2010

Jet Airways (JETAIR)

Rating matrix

Rating	:	**Add**
Target	:	Rs 540
Target Period	:	12 months
Potential Upside	:	10%

Annual performance

	FY09	FY10	FY11E	FY12E
Net Sales	13,078	11876	13852	15663
EBITDA	-859	1062	1244	1928
Net Profit	-961	-420	31	696

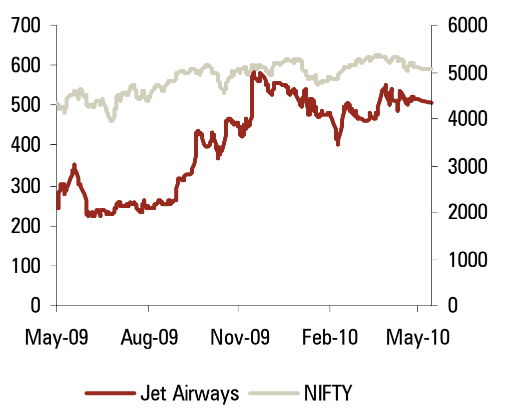
Valuation summary

	FY09	FY10	FY11E	FY12E
PE (x)	NA	NA	170.5	7.6
Target PE (x)	NA	NA	185.6	8.2
EV to EBITDA (x)	NA	16.9	14.2	9.2
Price to book (x)	1.9	2.0	1.9	1.5
RoNW (%)	-30.3	-23.9	1.2	23.7
RoCE (%)	-10.0	0.2	1.4	4.7

Stock data

Market Capitalisation	Rs 4221 crore
Debt (FY10)	Rs 14,200 crore
Cash (FY10)	Rs 770 crore
EV	Rs 17,651 crore
52 week H/L	606/210
Equity capital	Rs 86.33 Crore
Face value	Rs.10
MF Holding (%)	5.2
FII Holding (%)	6.7

Price movement (Stock vs. Nifty)



Analyst's name

Rashesh Shah
rashes.shah@icicisecurities.com

Rs 489

WHAT'S CHANGED...

PRICE TARGET .... Changed from Rs 444 to Rs 540
EPS (FY11E) .... Unchanged
EPS (FY12E) .... Unchanged
RATING...Changed from REDUCE to ADD

Shifting focus towards optimum utilisation...

Jet Airway's consolidated Q4FY10 net sales were marginally lower than expectations. It reported net sales of Rs 3,183 crore (grew 14.7% YoY and -3.6% QoQ) as against our expected net sales of Rs 3,428 crore. The lower growth was mainly due to decline in its market share (i.e. from 28.2% in Q3FY10 to 25.8% in Q4FY10) and partially due to seasonal impact. However, the company managed to improve its operating margin compared to last year through adoption of various cost control measures, focusing on optimum utilisation per aircraft, leasing out idle aircraft to other airlines, etc. For the quarter and full year, the company earned Rs 123.4 crore (down 25.4% YoY) and Rs 717.7 crore (up 292.6% YoY), respectively, through leasing of aircraft. With higher operating margins and booking of CENVAT credit, its consolidated net profit rose by 106% QoQ to Rs 224.8 crore. Jet recognised Rs 112.1 crore pertaining to CENVAT credit for the fiscal year 2010.

- **Shifting focus towards optimum utilisation of aircraft**

  The company has been shifting its focus from an increase in market share to maximising fleet utilisation. In Q4FY10, it was able to improve its available seat kilometres (ASKM) by 9% (domestic+ international) without addition of any fleets, to accommodate more passengers per flights. Hence, despite a marginal decline in revenue per RPKM (down 2% YoY), the company was able to clock a revenue growth of 14.7% YoY.

- **Rise in operating margin, CENVAT credit leads robust PAT growth**

  Operating margin (14.2%) for the quarter was higher than expectations (11.7%) due to adoption of cost control measures by the company and lower fuel costs. With a higher operating margin and booking of CENVAT credit on fuel bills, its net profit for the quarter increased by 106% QoQ to Rs 105.6 crore.

Valuation

At the CMP of Rs 489, the stock is trading at 14.2x and 9.2x its FY11E and FY12E EV/EBITDA, respectively. With the shifting of focus towards optimum fleet utilisation coupled with the growth in the passenger traffic, we value the stock at 9.5x FY12E EBITDA (i.e. at a premium to its global peers) and arrive at target price of Rs 540. We are upgrading our rating from REDUCE to **ADD**.

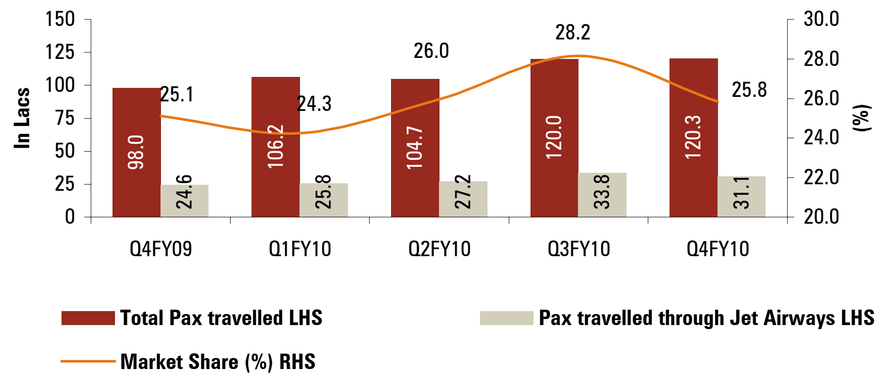
Exhibit 1: Performance Highlights (Consolidated)

Rs. Crore	Q4FY10	Q4FY10E	Q4FY09	Q3FY10	YoY Gr. (%)	QoQ Gr. (%)
Net Sales	3183.4	3428.4	2774.3	3302.0	14.7	-3.6
EBITDA	452.4	402.2	235.7	509.9	91.9	-11.3
EBITDA Margin (%)	14.2	11.7	8.5	15.4	+570 bps	-120 bps
Depreciation	238.0	244.1	246.3	245.9	-3.4	-3.2
Interest	283.7	182.4	260.7	258.9	8.8	9.6
Reported Net Profit	224.8	78.5	-78.3	109.4	LP	105.6
Diluted EPS (Rs)	26.0	9.1	-9.1	12.7	LP	105.6

Source: Company, ICICIdirect.com Research

Shifting of focus from increasing the market share to maximising fleet utilisation has resulted in a marginal improvement in the market share compared to the last year. However, on a quarterly basis, the same has declined sharply by 240 bps

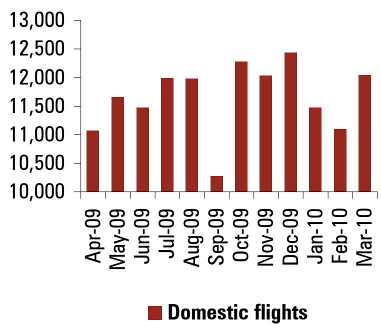
Exhibit 2: Quarterly trends in domestic market share (Jet + JetLite)



Source: Company, ICICIdirect.com Research

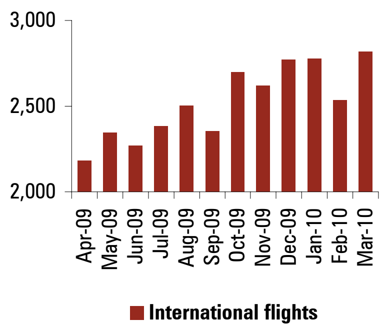
During Q4FY10, international flights grew by 22.2% YoY while domestic flights grew by 2.4% during the same period

Exhibit 3: Domestic flights



Source: Company, ICICIdirect.com, Research

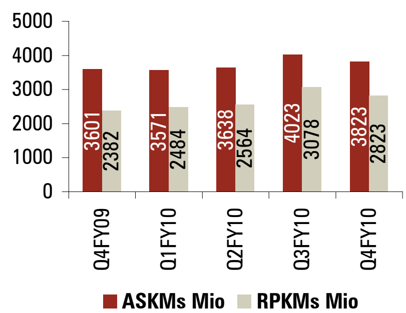
Exhibit 4: International flights



Source: Company, ICICIdirect.com, Research

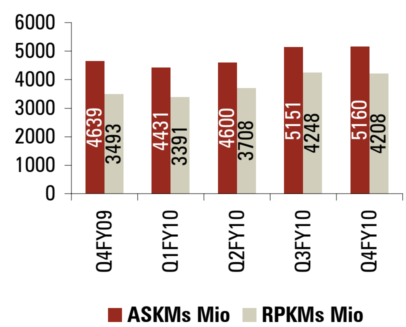
During Q4FY10, the domestic capacity of Jet Airways for Q4FY10 was higher by 11.6% compared to last year. This was due to introduction of JetKonnect services from May 2009 while the capacity of JetLite reduced by 3.8% YoY

Exhibit 5: Domestic demand supply matrix



Source: Company, ICICIdirect.com, Research

Exhibit 6: International demand supply matrix



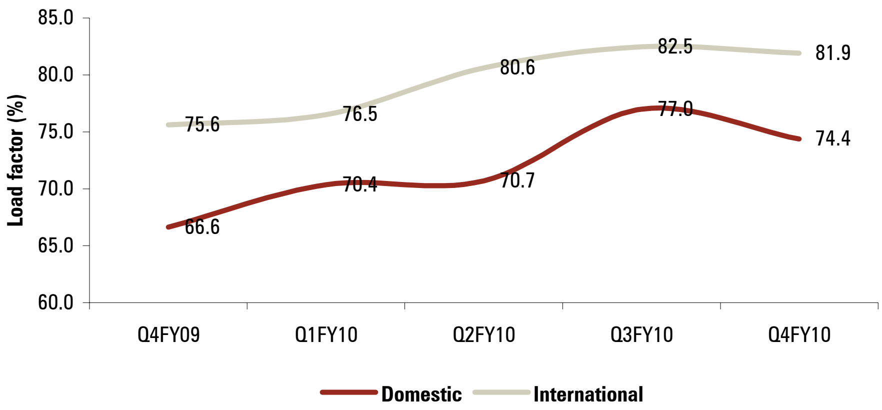
Source: Company, ICICIdirect.com, Research

During Q4FY10, the domestic capacity of Jet Airways was higher by 11.6% compared to last year. This was due to introduction of JetKonnect services from May 2009 while the domestic capacity of JetLite services reduced by 3.8% due to route rationalisation activity carried out by the company. Overall, the total supply as measured by ASKM of Jet Airways for domestic operations grew by 6.2% YoY.

On the other hand, ASKM of international operations grew by 11.2% on account of robust demand.

Load factors of domestic operations witnessed higher improvement from Q2FY10 onwards led by improvement in the economic outlook while load factors for international operations continued to remain over 80% despite an 11.2% rise in available seat kilometre (ASKM) compared to last year

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

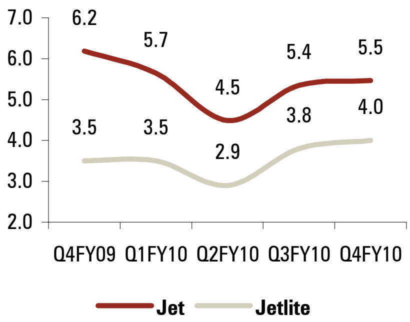


Source: Company, ICICIdirect.com Research

Domestic yields witnessed good traction post Q2FY10 due to an up-tick in demand. However, overall domestic yield declined marginally by 2.2% compared to last year

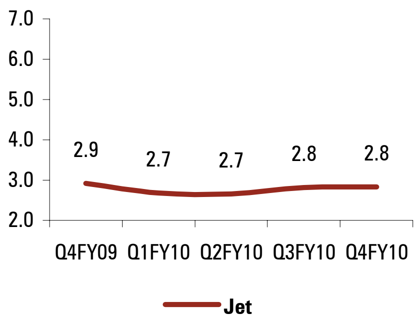
Yields for international services continued to remain more or less stable for the whole year due to strong demand in this segment despite an increase in ASKM by 11.2% YoY

Exhibit 8: Yields per RPKM (Domestic)



Source: Company, ICICIdirect.com, Research

Exhibit 9: Yields per RPKM (International)



Source: Company, ICICIdirect.com, Research

Despite witnessing better traction of yields in the domestic market, the overall blended yield per revenue passenger kilometre (RPKM) declined marginally from Rs 3.90 to Rs 3.65 due to higher proportion of international operations.

Exhibit 10: Standalone financial summary (Excluding JetLite) - Domestic vs. International

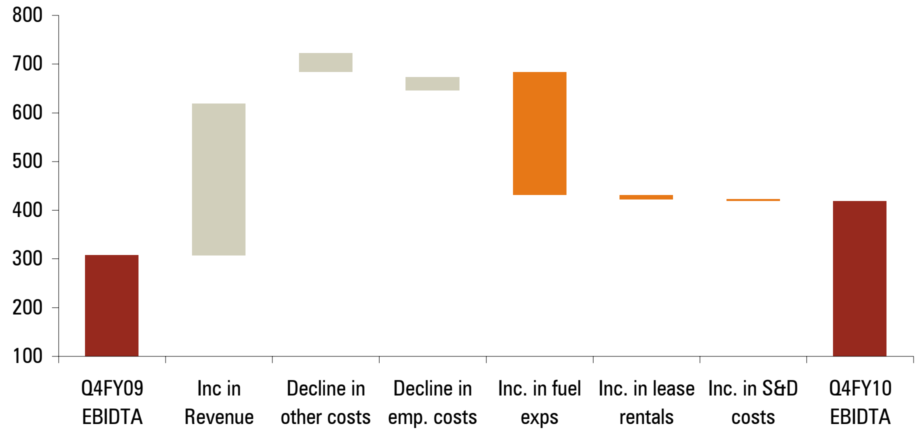
Particulars	Domestic			International		
	Q4FY10	Q4FY09	YoY Gr. (%)	Q4FY10	Q4FY09	YoY Gr. (%)
Net Sales	1162.4	1081.5	7.5	1615.5	1384.1	16.7
EBITDA	148.6	45.7	225.2	270.7	261.4	3.6
EBITDA Margin (%)	12.8	4.2	+860 bps	16.8	18.9	-210 bps
PBT	55.6	112.2	-50.4	3.0	27.3	-89.0

Source: Company, ICICIdirect.com Research

The operating margin for domestic operations improved by 860 bps YoY to 12.8% on account of route rationalisation and adoption of other cost control measures. On the other hand, despite achieving a load factor of over 80% for international operations, the operating margin in this segment declined due to the negative impact of wide bodied aircraft on ground, which the company expects to lease out by May end. This excess capacity has resulted in a loss of Rs 53.2 crore for the quarter.

Standalone operating profits for the quarter grew by 36.4% YoY mainly on account of a rise in the operating income and reduction in employee and other costs

Exhibit 11: Movement in operating profit (Standalone)



Source: Company, ICICIdirect.com Research

- Revenues for the quarter grew by 12.6% on account of higher seat factors led by buoyancy in the demand. Apart from this, the company also earned lease income from subleasing of aircraft to other airlines. Currently, there are four aircraft, which are leased out for the whole year at a rate of US$1.4 million per month while another three will be leased out for 10 months of the year
- The company managed to reduce its employee costs by 8% YoY to Rs 306.4 crore. On a standalone basis, it declined by 15% YoY. Average headcount for Q4FY10 was 12,060 as against 13,483 last year
- Fuel costs increase of 42.4% YoY was mainly on account of an increase in fuel rate (Rs 40.2 per litre for Q4FY10). This was higher by 35% YoY and 2% QoQ

Capex plans

As stated by the management, the company has postponed most of their orders. The new aircraft which gets delivered are only starting in fiscal 2012-13. The aircraft, which the company has leased out currently to Turkish and Thai airlines, are the aircraft that will come back in the next few years. This will be deployed for the new international businesses. So, in terms of incremental capital requirement for funding aircraft, it is negligible for the next 12 to 18 months.

Other key developments

- The company is in talks with leading real estate developers to jointly develop its 2.5 acre plot at the Bandra Kurla complex. We expect Jet Airways to receive around Rs 450 crore compensation; 2.5 lakh sq ft built-up space and 10% profit in the new development through this deal. These proceeds, in turn, would be used to ease off its mounting debt burden. The negotiations are on in full swing as the company intends to conclude the deal in the next couple of months

- The next hearing for the Jet-Sahara case is slated to come up in the first week of July

ICICIdirect.com coverage universe

Jet Airways					Sales (Rs Crore)	Sales Gr. (%)	EPS (Rs)	EPS Gr. (%)	PE (x)	*EV/E (x)	RoNW (%)	RoCE (%)
				FY09	13077.9	27.0	-111.4	NA	NA	-20.6	-30.3	-10.0
Idirect Code	JETAIR	CMP	489	**FY10**	12121.4	-7.3	-53.6	NA	NA	17.4	-23.9	0.2
		Target	540	**FY11E**	13851.9	14.3	2.9	NA	168.0	14.2	1.2	1.4
Mcap (Rs crore)	4,221.5	Upside (%)	10.4%	**FY12E**	15663.2	13.1	65.6	NA	7.5	9.2	23.7	4.7
Spicejet					**Sales (Rs Crore)**	**Sales Gr. (%)**	**EPS (Rs)**	**EPS Gr. (%)**	**PE (x)**	***EV/E (x)**	**RoNW (%)**	**RoCE (%)**
				FY09	1689.4	30.5	-14.0	NA	NA	-4.1	NA	NA
Idirect Code	MODLUF	CMP	54	**FY10E**	2202.0	30.3	4.4	LP	12.4	23.3	NA	62.6
		Target	74	**FY11E**	2681.3	21.8	8.0	83.1	6.8	8.0	296.8	71.0
Mcap (Rs crore)	1,647.0	Upside (%)	37.0%	**FY12E**	3215.8	19.9	10.6	33.0	5.1	5.1	132.7	54.7

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;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
7th Floor, Akruti Centre Point,
MIDC Main Road, Marol Naka,
Andheri (East)
Mumbai – 400 093

research@icicidirect.com

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