Tiger Airways Holdings Ltd

Ready to take-off after the turbulence; initiate at OW

Initiation
Overweight
TAHL.SI, TGR SP
Price: S$0.74
Price Target: S$0.90

- **Initiate at OW with Jun-13 PT of S$0.90:** Tiger Airways' (TGR) share price has rebounded by 19% and outperformed the market by 6% ytd, following its 62% decline and 45% underperformance in the past 12 months largely due to the negative impact of Tiger Australia's suspension and capacity indigestion in FY12E. Although the near-term outlook is challenging and current valuations look unattractive given TGR's low earnings base, we believe the expected earnings turnaround in FY13 and our c.108% pa net profit growth in FY14-15 has not been priced in. Our PT implies a 22% upside from the current share price.
- **Strong earnings turnaround expected:** With the normalization of Tiger Australia's operations and continued passenger/ancillary income growth, EBITDAR margins are likely to return to c.21% in FY13, similar to the FY10-11 level, after falling to c.5% in FY12, and rise to c.29% by FY15 with greater economies of scale. FY13-15E average c.4% ROA, c.18% ROE and c.7% ROCE are above the Asian airline sector. TGR benefits from the strong financial backing of majority shareholders Temasek and SIA.
- **Other positive drivers: 1)** New JVs SEAir (Philippines) and Mandala (Indonesia) could help drive Tiger's earnings growth and regional franchise in these fast-growing markets. There is upside risk to our forecasts if these JVs turn profitable earlier than expected. **2)** Move to Changi Airport T2 could help boost traffic feed given its closer operating proximity to a significantly larger critical mass of airlines. **3)** Potential collaboration with Scoot could drive synergies. A potential merger with Scoot or takeover by majority shareholder SIA is possible in the longer term, in our view.
- **Valuation, key risks:** Our Jun-13 PT of S$0.90 is based on 11x 12M fwd Adj. EV/EBITDAR, in line with TGR's historical average valuation since Tiger Australia's suspension and supported by the recovery of TGR's EBITDAR margin to 21% in FY13E and 29% by FY15E vs. 20% for sector peers. Key risks: 1) rising fuel prices; 2) Tiger Australia's recovery stalls; 3) weaker S$; 4) execution risks in SEAir and Mandala JVs; and 5) potential equity-raising to fund aircraft capex if sale & leaseback options become unattractive.

Singapore
Airlines

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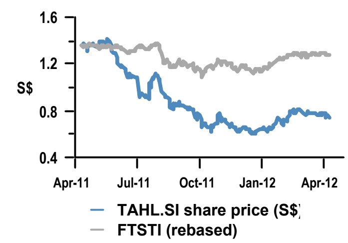
Price Performance



	YTD	1m	3m	12m
Abs	18.9%	-1.3%	18.0%	-43.6%
Rel	6.1%	-1.1%	7.9%	-38.5%

Tiger Airways Holdings Ltd (Reuters: TAHL.SI, Bloomberg: TGR SP)

S$ in mn, year-end Mar	FY11A	FY12E	FY13E	FY14E	FY15E
Revenue (S$ mn)	495	525	735	849	1,008
Net Profit (S$ mn)	40	-107	23	52	98
EPS (S$)	0.07	(0.13)	0.03	0.06	0.12
DPS (S$)	-	-	-	-	-
Revenue Growth (%)	28.0%	2.4%	40.1%	15.4%	18.5%
EPS Growth (%)	5.7%	NM	NM	129.2%	87.9%
ROCE	8.6%	-8.6%	3.7%	6.8%	11.3%
ROE	23.2%	-48.9%	8.9%	17.8%	26.7%
P/E	9.9	-5.6	26.5	11.6	6.2
P/BV	2.0	2.5	2.3	1.9	1.5
EV/EBITDA	16.3	-36.3	13.0	8.4	5.3
Div Yield (%)	-	-	-	-	-

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Shares O/S (mn)	820
Market Cap (S$ mn)	603
Market Cap ($ mn)	478
Price (S$)	0.74
Date Of Price	09 Apr 12
Free float (%)	52.0%
Avg daily volume (mn)	-
Avg daily value (S$ mn)	-
Avg daily value ($ mn)	-
FTSTI	2,986
Exchange Rate	1
Fiscal Year End	Mar

See page 22 for analyst certification and important disclosures, including non-US analyst disclosures.

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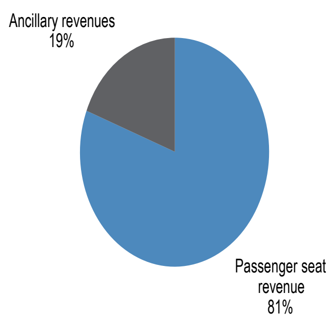
Company Description

- Tiger Airways has hubs in Singapore and Australia and operates passenger services with a total fleet of 34 aircraft. It also has a 33% stake in Mandala Airlines (Indonesia) and 32.5% stake in SEAir (Philippines).
- **Positive drivers:** (1) Ancillary revenue growth accelerates. (2) Tiger Australia is recovering with operations expected to return to pre-CASA suspension levels in 2H12. (3) Improved utilization after last year's capacity indigestion. (4) Traffic feed from other airlines following move to Changi airport terminal 2. (5) Potential tie-up with Scoot and potential takeover by Singapore Airlines.
- **Negative drivers:** (1) Aggressive fleet expansion plans. (2) Rising fuel prices. (3) High financial leverage and potential challenges in securing financing for aircraft deliveries at attractive interest rates. (4) Rising LCC competition. (5) Potential equity raising if sale & leaseback structures become unattractive.

2011 Revenue Breakdown



Source: Company data

EPS: J.P. Morgan vs Consensus

PHP	J. P. Morgan	Consensus
FY13E	0.03	0.01
FY14E	0.06	0.06
FY15E	0.12	0.09

Source: Bloomberg, J.P. Morgan estimates

P&L Sensitivity Metrics

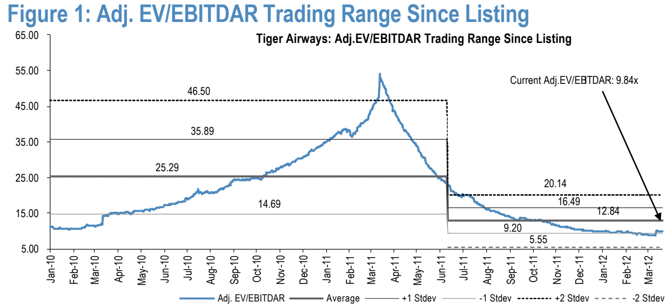
FY13E (Year to March)	EBITDA* impact (%)	EPS* impact (%)
Passengers carried growth assumption	+27%	+27%
Impact of each 1% rise	+4%	+29%
Average fare growth assumption	+10%	+10%
Impact of each 1% rise	+4%	+24%
Spot jet fuel price assumption	135	135
Impact of each $1/bbl rise (excludes MTM gains/losses)	-1%	-6%
SGD/USD assumption	1.25	1.25
Impact of each 1% appreciation in SGD	+1%	+5%

Source: J.P. Morgan estimates. *Large earnings sensitivity due to small earnings base

Price Target & Valuation Analysis

Our Jun-13 PT of S$0.90 is based on 11x 12M fwd Adj. EV/EBITDAR, in line with Tiger's historical average valuation since Tiger Australia's suspension and supported by the recovery of Tiger's EBITDAR margin to 21% in FY13E and 29% by FY15E vs. 20% for sector peers.

Figure 1: Adj. EV/EBITDAR Trading Range Since Listing



Source: Company data, Bloomberg, J.P. Morgan estimates.

Key risks are 1) rising fuel prices, 2) Tiger Australia's recovery stalls, 3) weaker S$, 4) execution risks in SEAir and Mandala JVs, and 5) potential equity-raising to fund aircraft capex if sale & leaseback options become unattractive.

Peer Group Valuation Comparison

Company Name	Rec	Stock Code	Price 9-Apr-12 (LC)	P/E 2012E (x)	P/E 2013E (x)	P/BV (x) 2012E (x)	P/BV (x) 2013E (x)	ROE 2012E (%)	ROE 2013E (%)
Cebu Air, Inc	OW	CEB PM	67.10	16.6	13.9	1.9	1.7	12.1%	12.8%
AirAsia	OW	AIRA MK	3.39	13.5	12.0	2.0	1.7	15.9%	15.3%
Tiger Airways	OW	TGR SP	0.74	26.5	11.6	2.3	1.9	8.9%	17.8%
Global LCCs average				**13.8**	**10.3**	**1.3**	**1.2**	**9.2%**	**11.5%**
Asian airlines average				**13.3**	**10.8**	**1.2**	**1.1**	**5.7%**	**9.3%**

Source: Bloomberg, J.P. Morgan estimates, forecasts for non-rated (NR) stocks are based on consensus estimates. Note: Tiger Airways valuations are for FY13E and FY14E given its March year end.

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Positive price drivers

A sharp earnings turnaround in FY13E

We expect TGR to turn profitable in FY13 with an EPS CAGR of 108% pa in FY13-15 following a year of losses due to the suspension of Tiger Australia and capacity indigestion in FY12E. This is mainly driven by continued passenger demand growth (+17% pa), improving average fares (+7%) and ancillary income per passenger (+6%).

Profitability should surpass that of peers

With the normalization of Tiger Australia's operations and continued passenger and ancillary income growth, EBITDAR margins will likely return to c.21% in FY13, similar to its profitability in FY10-11, after falling to c.5% in FY12, and rising to c.29% by FY15E with greater economies of scale. FY13-15E average c.4% ROA, c.18% ROE and c.7% ROCE are above those of the Asian airline sector average.

Tiger Australia is recovering

TGR has progressively grown its market share to c.6% on international routes at its Singapore hub which is a highly competitive market since its entry in 2004. It has also gathered a c.1% market share on Australian routes. With Virgin Australia moving away from the budget airline business model towards the corporate segment and Jetstar being occupied with its new LCC joint ventures in Japan and Hong Kong with Japan Airlines and China Eastern Airlines respectively, we believe this could provide TGR with a better opportunity of succeeding in growing Tiger Australia's operations.

Strong financial backing

TGR's financial position has been strengthened following its S$155MM rights issue last year. A key reason behind the failure of numerous low cost carriers in the past globally is the lack of capital. TGR benefits from the strong financial backing of majority shareholders Temasek Holdings and Singapore Airlines.

JVs in Indonesia and the Philippines will help boost growth

New joint ventures SEAir in the Philippines and Mandala in Indonesia could help drive Tiger's earnings growth and regional franchise in these fast-growing markets. We have not factored in any earnings contributions from the above JVs. There is upside risk to our earnings forecasts if these JVs turn profitable earlier than expected.

Move to Changi Airport Terminal 2 could help boost traffic feed

Tiger Singapore's move to Changi Airport T2 could help boost traffic feed given its closer operating proximity to a significantly larger critical mass of airlines in the three main airport terminals compared to Tiger Singapore's current Budget Terminal location which is not connected to the three main terminals. Potential collaboration with Scoot (which will also operate out of Changi airport terminal 2) could also drive synergies.

Merger/takeover possibility

A potential merger with Scoot or takeover by majority shareholder SIA is possible in the longer term, in our view. We believe that it is in Singapore Airlines' interest to increase its exposure to the faster-growing budget travel market, and it would make

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sense to merge 33%-owned TGR's operations with its new 100%-owned medium/long-haul low-cost carrier Scoot in the longer term.

Investment risks

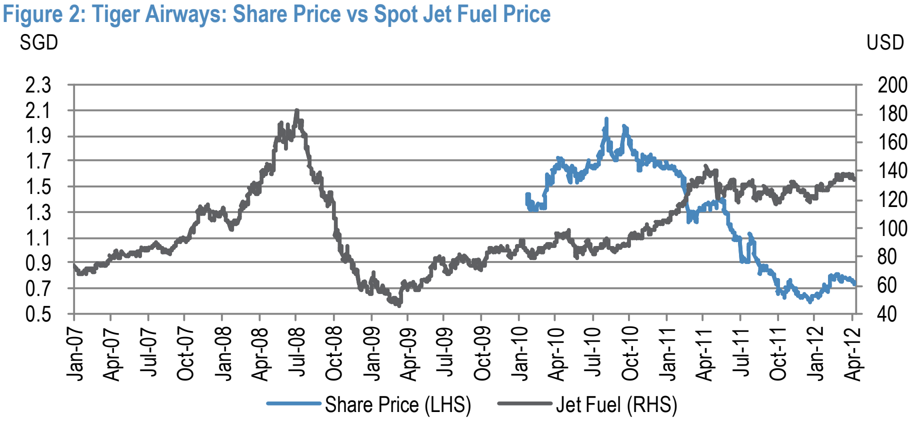
Volatile fuel prices

TGR's (like other LCCs') earnings are significantly more leveraged to volatile oil prices as fuel costs constituted c.39% of its FY11 total operating costs (and we expect this proportion to rise to c.44% on average in FY13-15E), higher than the c.35% average proportion for the incumbent carriers.

Unlike the full service carriers which carry long-haul and business traffic, it is more difficult for low-cost carriers such as TGR to pass on the higher fuel prices given that they serve a more price-sensitive short-haul market. It is also costly for LCCs to hedge given the high fuel price volatility and option premiums.

TGR has an active fuel hedging policy not too different from that of Singapore Airlines. We have assumed an average jet fuel price of US$135/bbl. Every US$1/bbl increase (decrease) in average jet fuel price would cut (raise) our FY13 net profit forecast by c.6% on a full year basis, ceteris paribus.

Figure 2: Tiger Airways: Share Price vs Spot Jet Fuel Price



Source: Bloomberg.

High financial leverage given aggressive aircraft orders

TGR has a total capital commitment of c.S$2.2B, largely related to its 36 new aircraft firm orders. We believe that a substantial portion will be structured as sale & leasebacks given the large funding requirements and need to reduce residual value risk following Airbus' recent introduction of the new A320neo aircraft model. Otherwise, TGR's net debt-equity could rise to c.4.4x if all the new aircraft deliveries are funded by debt on balance sheet, raising the need for further equity-raising.

Interest rate volatility

Every 1ppt increase (decrease) in average borrowing costs (from our assumption of c.1.5%) could cut (raise) our FY13E net profit forecast by c.27% on a full year basis. Interest rates could also be much higher if TGR fails to secure ECA-backed financing for future aircraft deliveries.

Foreign exchange rate risk

TGR is a net beneficiary (victim) of S$ appreciation (depreciation) given its large US dollar-denominated cost base and capital expenditure. We estimate that a 1% appreciation (depreciation) in the S$ will raise (cut) our FY13 net profit forecast by c.5% on a full year basis, ceteris paribus.

International expansion carries some uncertainties

We believe the execution risks of its international route expansion are high. Moreover, TGR's competitors on international routes are largely incumbent airlines that are either well-capitalized or government-owned and continue to have access to financing despite their weaker balance sheets. Other established low-cost carriers such as AirAsia, Cebu Air, Jetstar Asia, whose cost structures are lower/comparable, also have sizeable capacity expansion plans and compete directly with TGR on international routes. If the liberalization of intra-Asian traffic rights takes longer than expected, TGR's international expansion may be constrained and risks having too many aircraft and insufficient profitable routes to fly.

Potential equity raising

There is a possibility of another round of equity-raising, in our view, given TGR's huge capex plans which may be earnings dilutive. (Recall that Ryanair has done five equity issues since its IPO in FY97 and easyJet issued equity again in FY02 following its IPO in FY01.) If sale & leaseback options become unattractive, we believe there is a high probability that TGR will need to raise equity to fund the aircraft deliveries on balance sheet.

Valuation and share price analysis

TGR's share price has rebounded by 19% and outperformed the FTSTI by 6% ytd, following its 62% decline and 45% underperformance in 2011 largely due to the negative impact of Tiger Australia's suspension.

Although the near-term outlook is challenging and TGR's current valuations look unattractive given its low earnings base, we expect the positive share price momentum to continue, driven by the airline's earnings turnaround in FY13E (year to March) and our expectations of consensus earnings estimates upgrade and a c.108% pa net profit growth in FY14-15E.

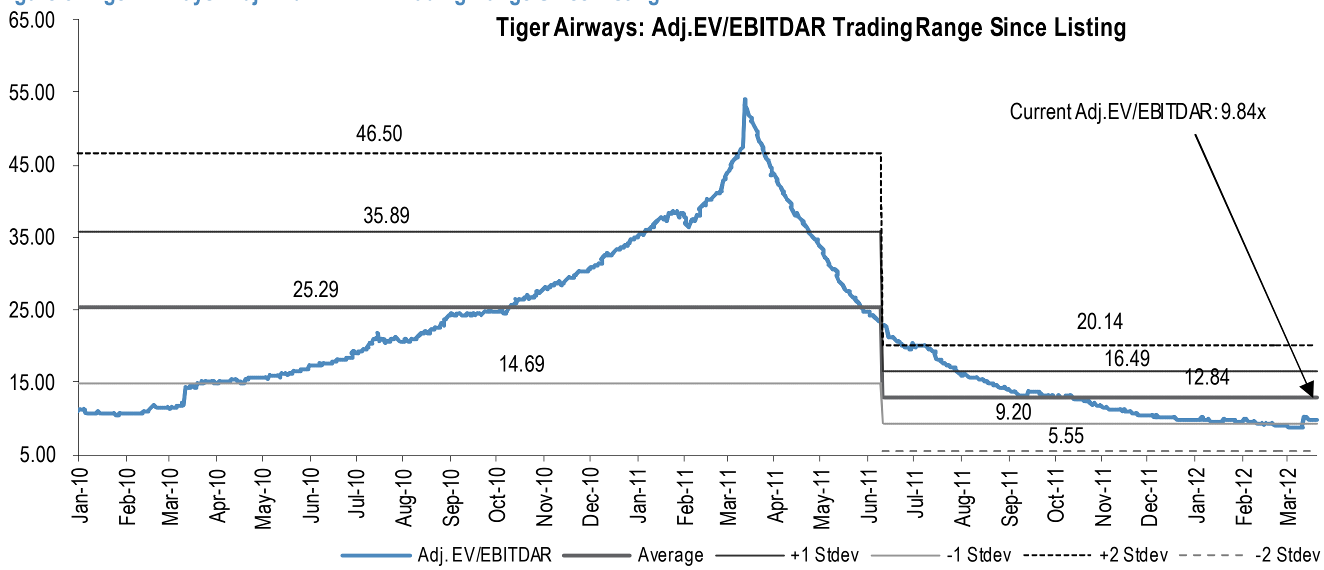
Our June-13 PT of S$0.90 is based on 11x 12M fwd Adj. EV/EBITDAR, in line with TGR's historical average valuation since the suspension of Tiger Australia's operations last year and supported by the recovery of Tiger Airways' EBITDAR margin to 21% in FY13E and 29% by FY15E vs. 20% for sector peers. Current valuations of 2.3x P/BV, 11x Adj. EV/EBITDAR and 27x P/E are supported by its higher profitability (9% ROE vs. 6% for the Asian airline sector).

We use adjusted EV/EBITDAR valuation as our primary valuation methodology to benchmark the airline against sector peers for a fairer comparison as it strips out differences in aircraft ownership structures, depreciation and tax policies. We use P/BV as our supporting valuation metric to as airline earnings are highly volatile and leveraged to small changes in traffic and yield assumptions which make P/E or DCF valuations less relevant and to factor in the associates and joint venture contributions which are not captured at the EBITDAR level.

We initiate coverage on TGR with an OW rating and PT of S$0.90, based on 11x adjusted EV/EBITDAR. Our PT implies a 12M fwd P/BV of 2.4x and P/E of 30x, and implies 22% upside potential from the current share price.

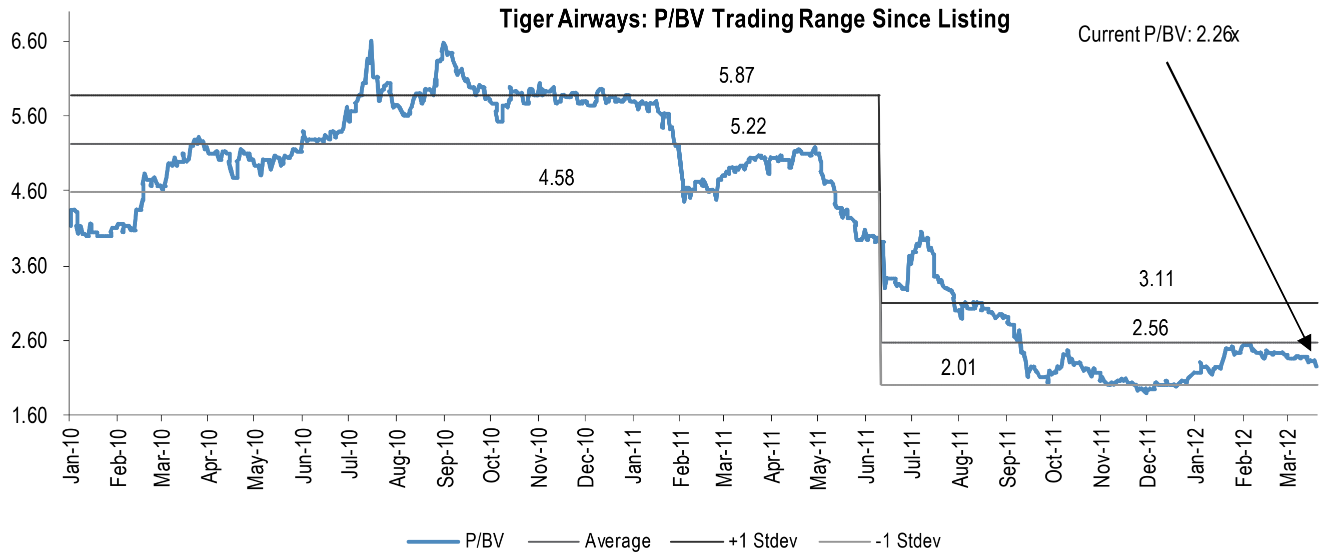
Downside risks to our PT and rating are 1) rising fuel prices, 2) Tiger Australia's recovery stalls, 3) weaker S$ given the company's large US$-denominated costs, capex and debt, 4) execution risks in SEAir and Mandala JVs, 5) potential equity-raising risks to fund aircraft capex if sale & leaseback options become unattractive, and 6) uncertainty until a new CEO takes over, although we do not expect a significant change in TGR's strategy even with the appointment of a new CEO.

Figure 3: Tiger Airways: Adj. EV/EBITDAR Trading Range Since Listing



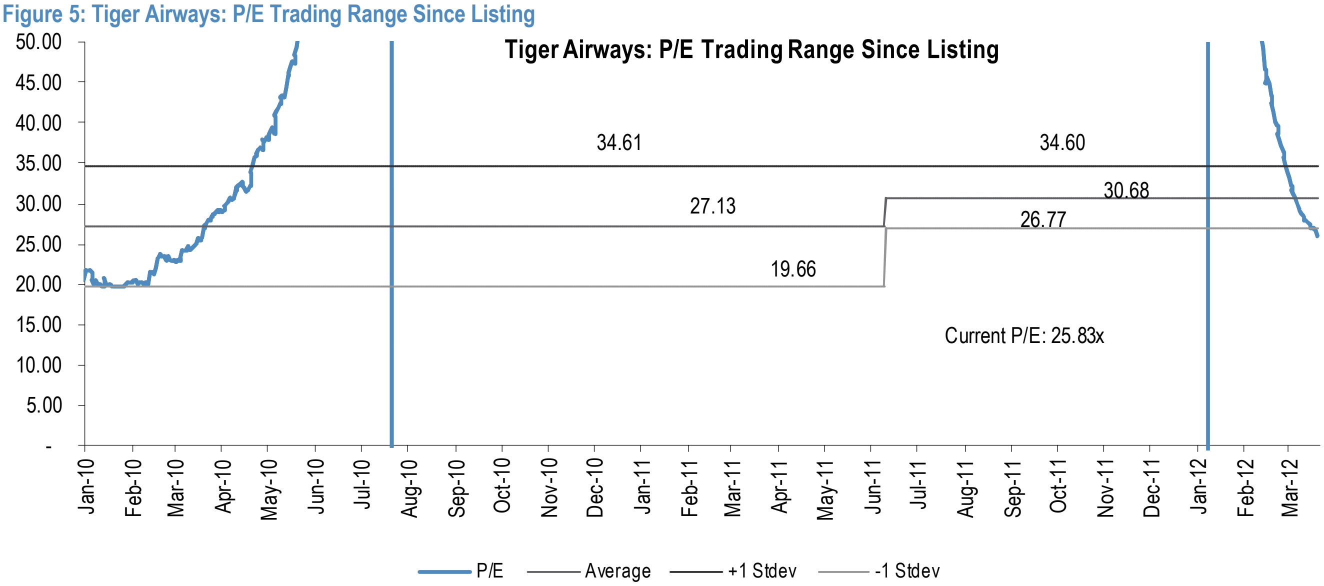
Source: Company reports, Bloomberg and J.P. Morgan estimates.

Figure 4: Tiger Airways: P/BV Trading Range Since Listing



Source: Company reports, Bloomberg and J.P. Morgan estimates.

Figure 5: Tiger Airways: P/E Trading Range Since Listing



Source: Company reports, Bloomberg and J.P. Morgan estimates.

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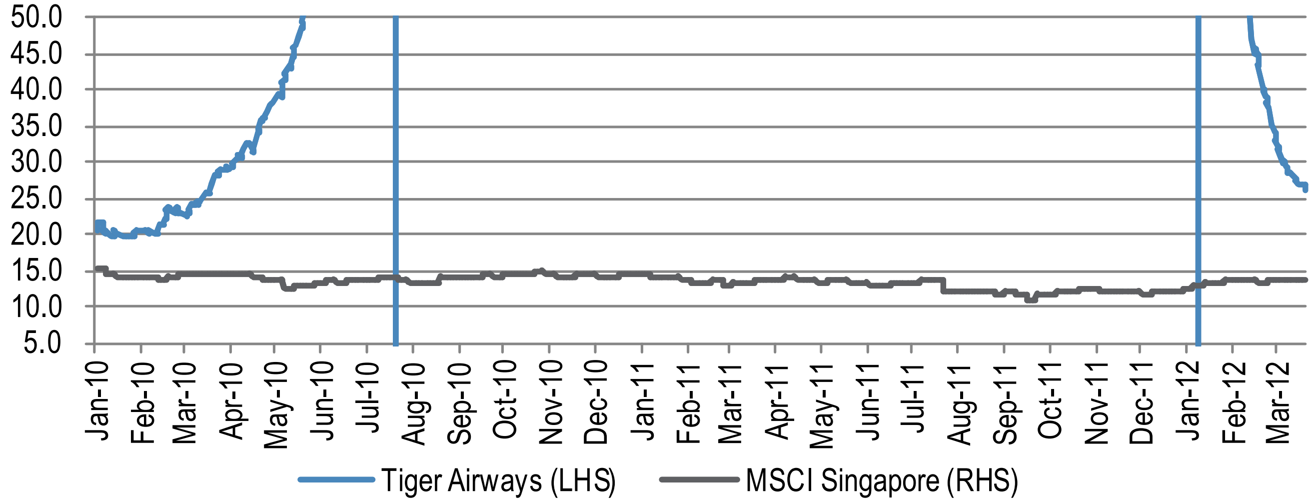
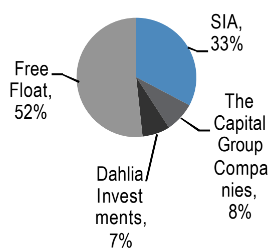
Figure 6: Tiger Airways: P/E vs Singapore Market P/E



Source: Bloomberg, company reports and J.P. Morgan estimates.

Figure 7: Tiger Airways: Shareholding Structure



Company analysis

Tiger Airways has hubs in Singapore and Australia and operates passenger services with a total fleet of 34 aircraft and 36 aircraft on order. It also has a 33% stake in Mandala Airlines (Indonesia) and 32.5% stake in SEAir (Philippines). Shareholding structure: Singapore Airlines (33%), Capital Group (8%), Temasek Holdings/Dahlia Investments (7%), public float (52%). Around 29% of TGR is owned by foreign investors.

Table 1: Tiger Airways: Management Summary

Name	Designation	Profile
Chin Yau Seng*	Interim CEO	Mr. Chin Yau Seng was appointed to the Board as an Executive Director & CEO on 4th July, 2011. Prior to joining the company as Executive Director, Mr. Chin was divisional Vice President cabin crew operations, Singapore Airlines. Mr. Chin has held various appointments in Singapore Airlines since 1995. He holds a Master of Science degree in Operational Research and a Bachelor of Science (Hons) degree in Accounting and Finance, both from The London School of Economics & Political Science.
China Sak Hin	Chief Financial Officer	Mr. Chin is the CFO of the Company and is responsible for the financial management, control and reporting, risk and treasury management and procurement, financing and leasing, revenue management, investor relations, and strategic planning of the Company. He is also a director of Tiger Airways Singapore and Tiger Airways Australia. He has close to 30 years experience in airline sector spanning from 23 years in SIA, 2 years in SIAEC and the rest in Tiger Airways. Mr. Chin graduated with a Bachelor of Accountancy (Hons.) from the National University of Singapore in 1982 and has been a certified public accountant of the Institute of Certified Public Accountants of Singapore since 1993.
Soh Keng Taan	Chief Information Officer	Mr. Soh is Chief Information Officer responsible for the Group IT/IS and corporate marketing function. Mr. Soh graduated with a Bachelor of Science in Computer Science and Information Systems from the National University of Singapore in 1990.
Rebecca Tan-Loke Won Moi	Chief Human Resource Officer	Ms. Rebecca joined the Company as Chief Human Resource Officer on 1st June, 2010 with responsibility for the Group's human resource function. Most recently, she was the senior vice president, human resource of Singapore Airport Terminals Services Limited from August 2005 to December 2009. Rebecca graduated with a Bachelor of Business in Business Administration from Royal Melbourne Institute of Technology, Australia in 1995. She also holds a Diploma in Personnel Management from National Productivity Board and a Diploma in Management Studies from Singapore Institute of Management.
Angela Chan Mui Chin	General Counsel	Ms. Chan joined the Company as General Counsel in January 2011 and leads the Group legal function. Ms. Chan is also the Company Secretary of the Company and Tiger Airways Singapore. Ms. Chan graduated with a law degree from the National University of Singapore and was also subsequently awarded a Graduate Diploma in Business Administration from the National University of Singapore. She is an advocate and solicitor of the Supreme Court of Singapore as well as West Malaysia, in addition to being admitted to the New York State bar.
Stewart Andrew Adams	Managing Director Tiger Airways Singapore	Mr. Adams joined Tiger Airways Singapore as Managing Director on 10th Jan, 2011. Mr. Adams is also a director of Tiger Airways Singapore since 28th Jan, 2011. Mr. Adams has extensive aviation experience having held various managerial positions throughout his 34 years spent within the airline industry.
Anthony Alfred Peter (Tony) Davis	Chief Executive Officer Tiger Airways Australia	Mr. Anthony Alfred Peter (Tony) Davis is Chief Executive Officer of Tiger Airways Australia. He was appointed to the board of directors of Tiger Airways Singapore in 2005 and was appointed to the Board on 1 February 2007. Mr. Davis is also a director of Tiger Airways Singapore and Tiger Airways Australia. He has over 25 years' of experience in the airline industry. Mr. Davis was awarded a National Certifi cate in Business and Finance by the Business & Technician Education Council in the United Kingdom and in 1992 was awarded a Postgraduate Diploma in Business Administration by Lancaster University in the United Kingdom. Mr. Davis is a Fellow of the Royal Aeronautical Society.
Michael Robert Vickers Coltman	Director of Business Development	Mr. Coltman joined Tiger Airways Australia in Sep 2009 as Director of Operations, overseeing the addition of aircraft, expansion of the route network, and improvements to on-time performance. Mr. Coltman has over 14 years of experience in low cost airline management. Mr. Coltman holds a BA (English) from Kenyon College (1987) and an MBA (International Business) from New York University (1997).
Captain Christopher John Ward	Director Philippines	Captain Christopher Ward joined Tiger Airways Singapore in April, 2005 and is responsible for developing the relationship with SEAIR in the Philippines. Captain Ward has over 29 years of aviation experience and has held various management and training roles, including chief pilot of British Airways' franchise partner, Maersk Air.

Source: Company reports. *Mr. Chin Yau Seng is Tiger Airways' interim CEO. He will be returning to SIA and the replacement is expected to be announced in the next 4 months.

SWOT analysis

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Strengths

- **8-year track record and fairly well-established franchise at the Singapore hub** – Tiger Airways has progressively grown its market share to c.6% on international routes at its Singapore hub which is a highly competitive market since its entry in 2004.
- **Lean and competitive cost structure** – Tiger Airways has a low and highly competitive cost structure notwithstanding its small size versus other regional LCCs.
- **Strong financial backing** – Tiger Airways is backed by majority shareholders Singapore Airlines and Temasek Holdings.

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Weaknesses

- **Aggressive aircraft orders–** Tiger Airways' 36 A320 aircraft order represents a doubling of its Group fleet in the next five years. The resultant capital commitment is substantial at c.S$2.2B.
- **Lack of lucrative domestic market –** Tiger Airways does not have the benefit of a lucrative domestic home market unlike AirAsia and Cebu Air. Plans to grow such a domestic market were affected by Tiger Australia's temporary suspension last year. However, Tiger Australia is recovering with operations expected to return to pre-CASA suspension levels in 2H12.
- **Still in search of a new CEO –** The search for a new CEO presents some uncertainty near term although we do not expect the appointment of the new CEO to significantly affect Tiger Airways' strategic direction.

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Opportunities

- **LCC market penetration in Asia remains low –** We are bullish on the budget air travel market in Asia longer term and Tiger Airways is well-positioned given its growing network and lean cost structure.
- **New JVs in Indonesia and Philippines provide new avenues of growth –** Budget air traffic growth prospects are strong in Indonesia and Philippines. Tiger Airways' new JVs with Mandala and SEAir provide exposure to these faster-growing markets.
- **Potential M&A –** We believe it would make sense for Singapore Airlines to raise its exposure on the faster-growing low-cost carrier market and merge Scoot with Tiger Airways in the longer term.

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Threats

- **High and rising jet fuel prices–** Fuel costs constitute c.44% of total operating costs. Further increases will erode margins.
- **Industry oversupply –** We expect the Asian airline sector to suffer from oversupply this year which could put pressure on load factors and fares, reducing the airlines' ability to pass on the higher fuel costs. However, demand-supply growth will likely be more balanced from FY13E.
- **Rising competition from the formation of new LCCs –** More low-cost carriers are forming, particularly in the North Asian region, which could hinder Tiger Airways' expansion and put further pressure on industry fares.

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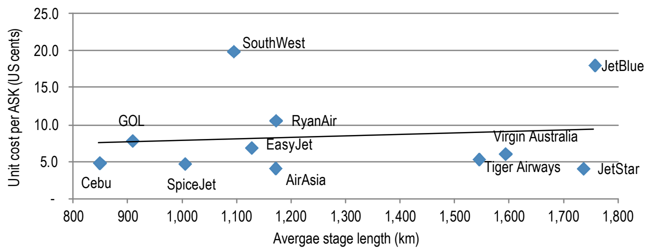
Benchmarking TGR versus peers – TGR ranks above average

- **Unit cost**

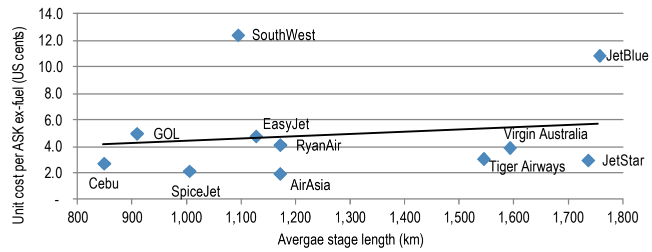
TGR's unit cost and unit cost ex-fuel are below the average of its global low-cost carriers' peers which is commendable considering the small size of its operations. However, adjusted for its longer average stage length (i.e. flying distance), TGR's unit costs are higher than those of Cebu Air and AirAsia, mainly due to its higher labor cost base in Singapore/Australia versus Philippines/Malaysia, limited economies of scale and more conservative accounting policies.

Figure 8: Global Low-Cost Carriers Unit Cost Comparison



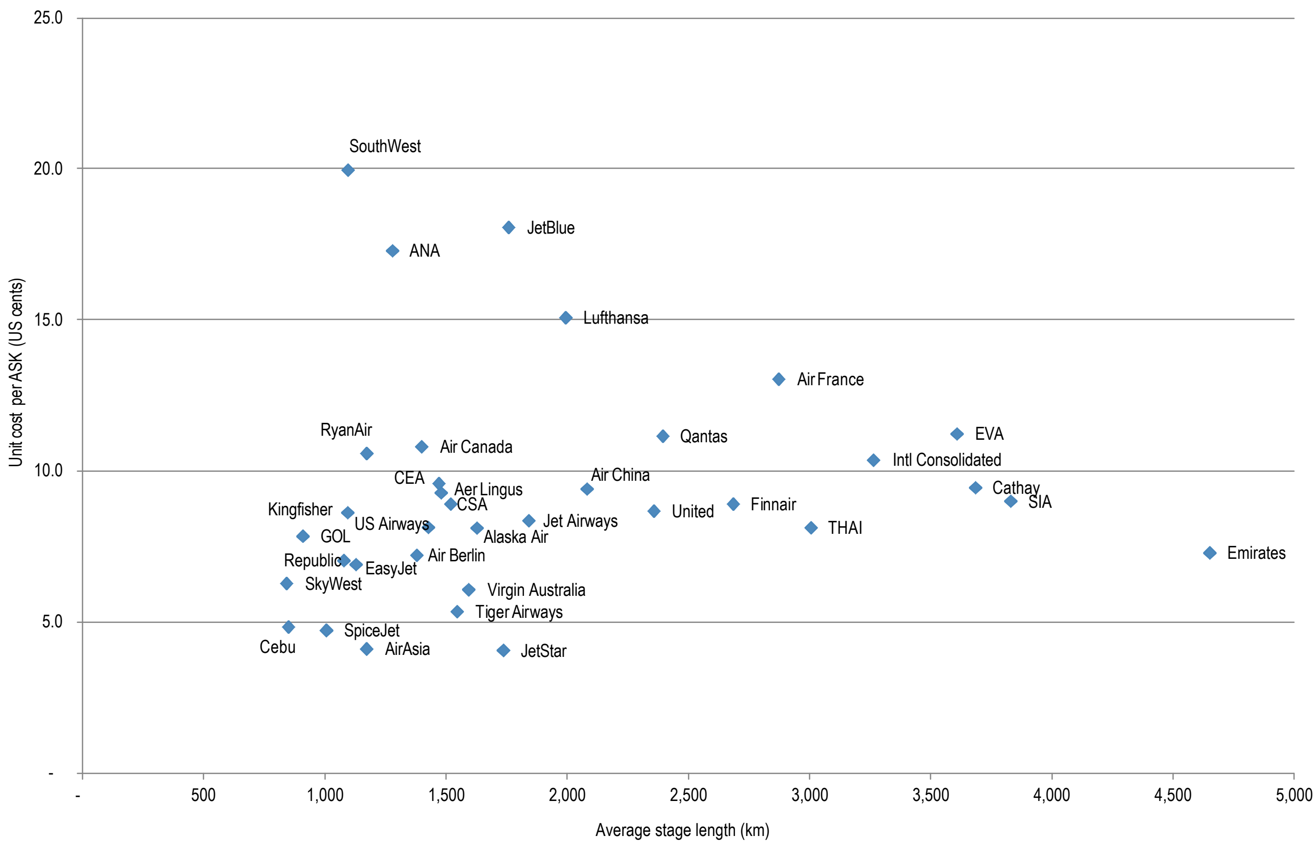
Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 9: Global Low-Cost Carriers Unit Cost Ex-Fuel Comparison



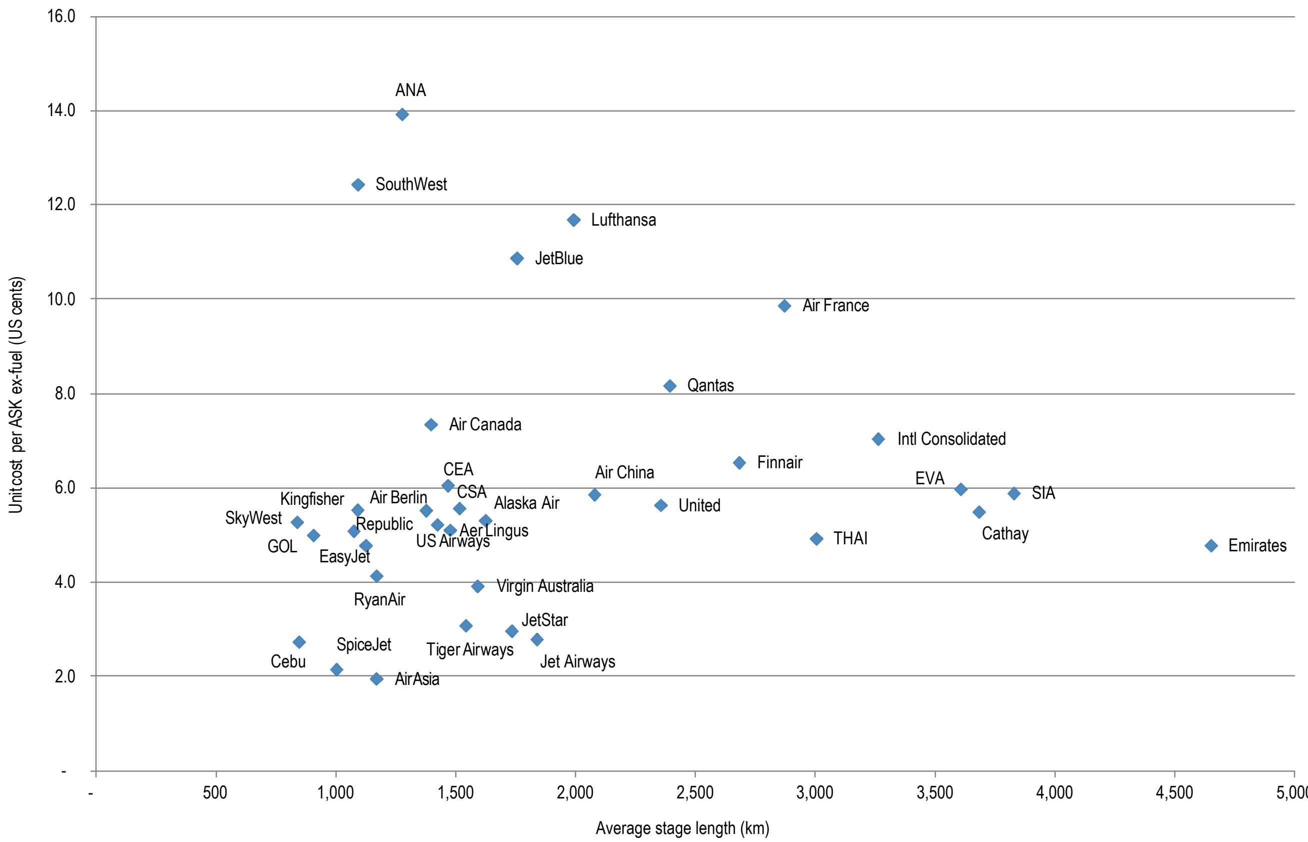
Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 10: Global Airline Sector Unit Cost Comparison



Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 11: Global Airline Sector Unit Cost Ex-Fuel Comparison



Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

- **Average fare**

TGR's average fares are lower than global and Asian sector peers', likely reflecting its weaker pricing power. However, a compensating factor is that TGR derives a greater ancillary income per passenger than AirAsia and Cebu Air. Ancillary income amounts to c.19% of TGR's total revenue versus c.17% for AirAsia and c.13% for Cebu Air.

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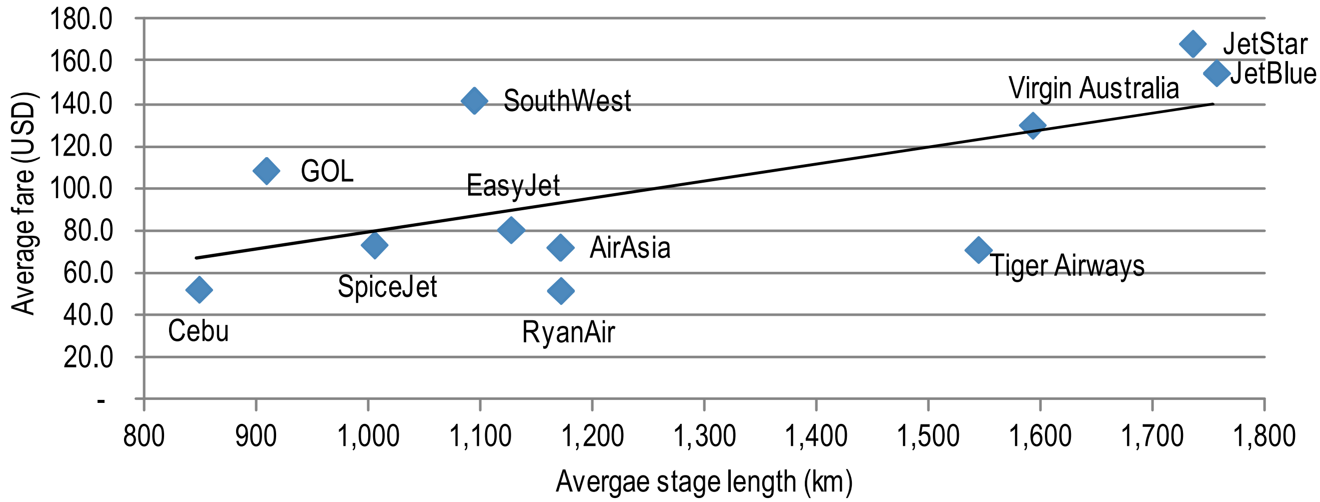
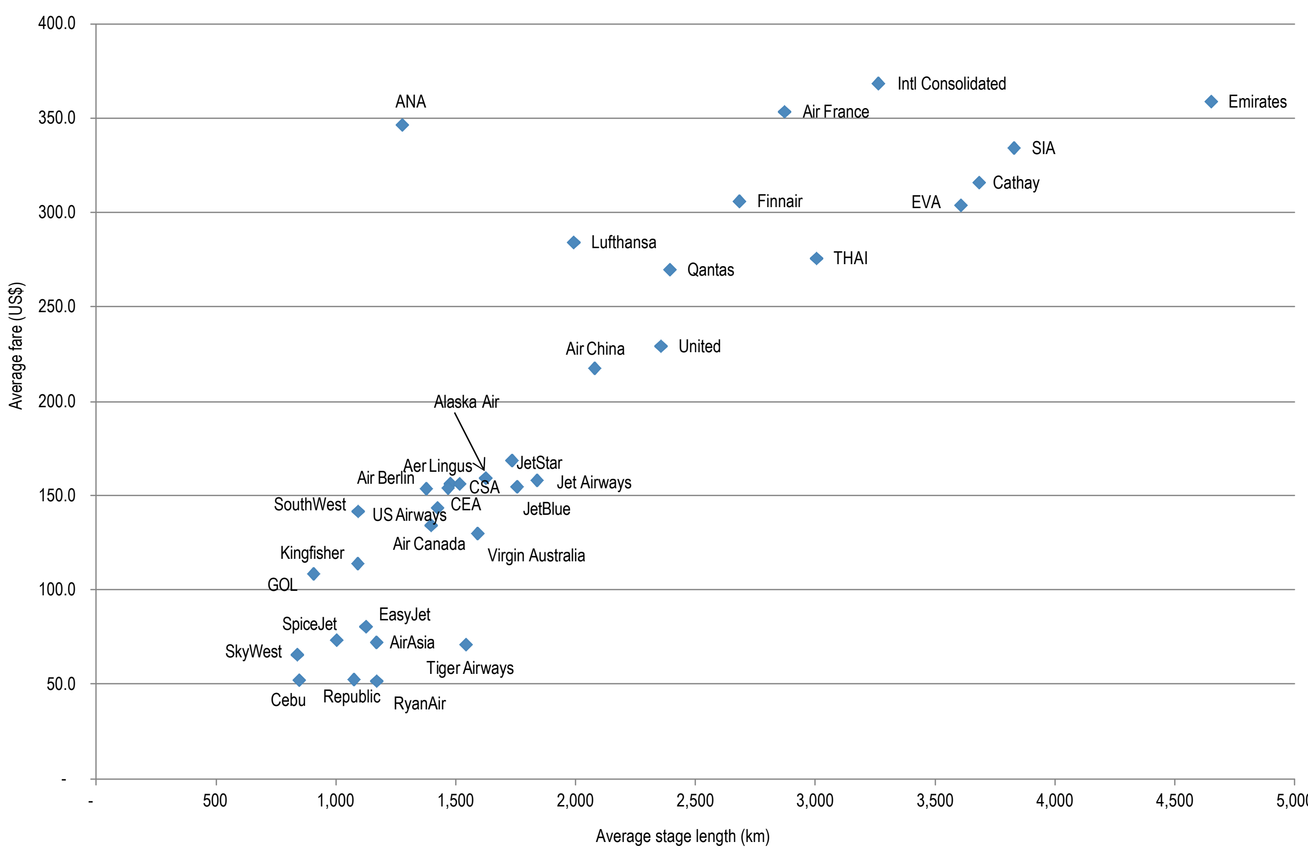
Figure 12: Global Low-Cost Carriers' Average Fare Comparison



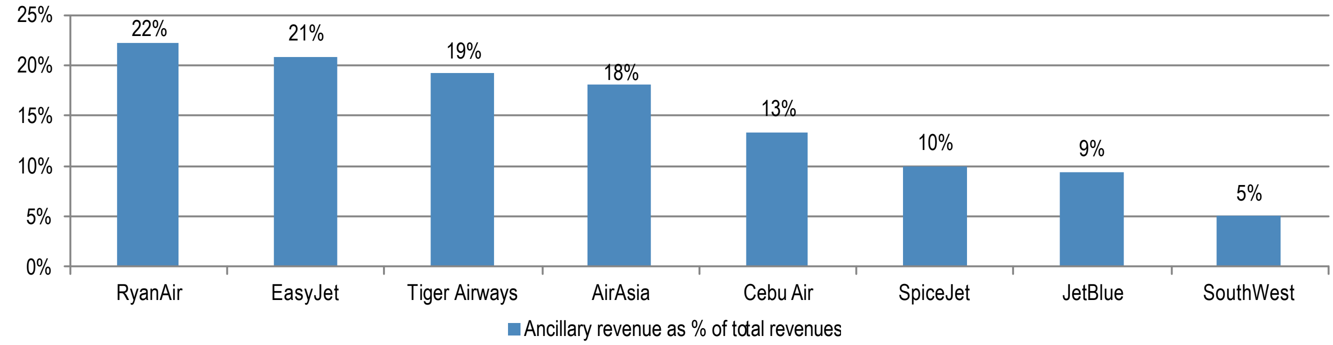
Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 13: Global Airline Sector Average Fare Comparison



Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 14: Ancillary Revenue as % of Total Revenue

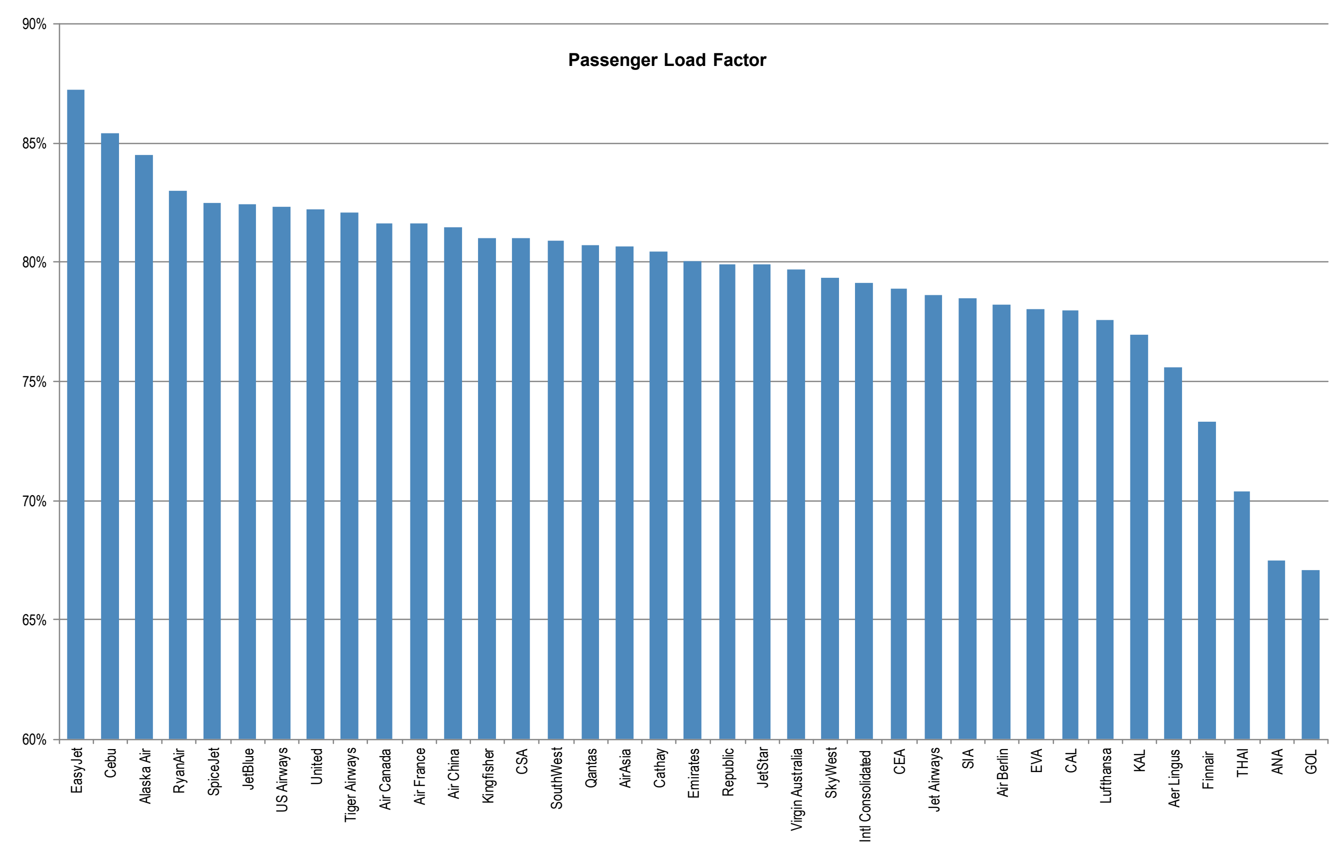


Source: Company reports, J.P. Morgan. *Based on latest reported half yearly/annual data.

- **Passenger load factor**

TGR's passenger load factor ranks above the global sector average although it has come down lately to c.76% due to the capacity indigestion following Tiger Australia's suspension and limited operations. We expect TGR's load factors to rebound to c.82% in FY13E following the return of Australia's operations to pre-CASA suspension levels.

\ Figure 15: Passenger Load Factor Comparison

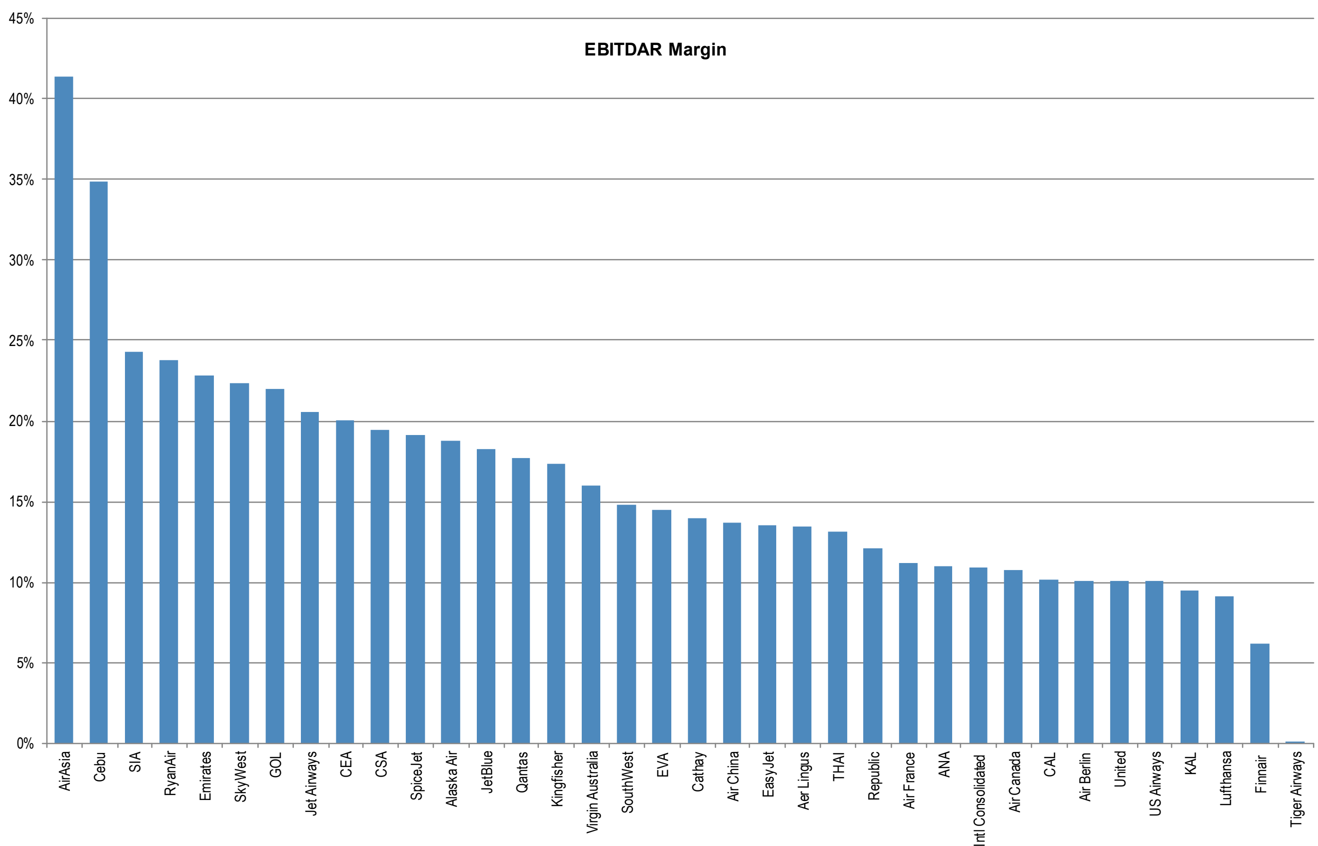


Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

- **EBITDAR margin and EBITDAR/Total assets**

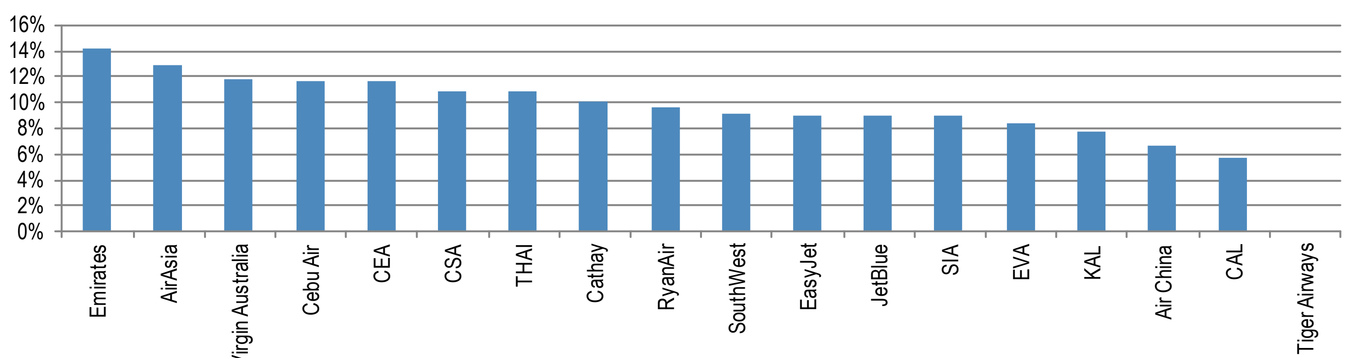
TGR ranks poorly on an EBITDAR and EBITDAR/Total assets basis versus sector peers as it turned to losses due to the negative impact of Tiger Australia's suspension. However, we expect its EBITDAR margin to rebound to c.21% and EBITDAR/Total assets of c.9% in FY13E, slightly ahead of sector peers. Every US$100 of assets (including the capitalized aircraft operating leases) would generate c.US$9 of EBITDAR for Tiger Airways in FY13E.

Figure 16: EBITDAR Margin Comparison



Source: Company reports, J.P. Morgan. *Based on last reported half yearly or full year report.

Figure 17: EBITDAR/Total Assets Comparison

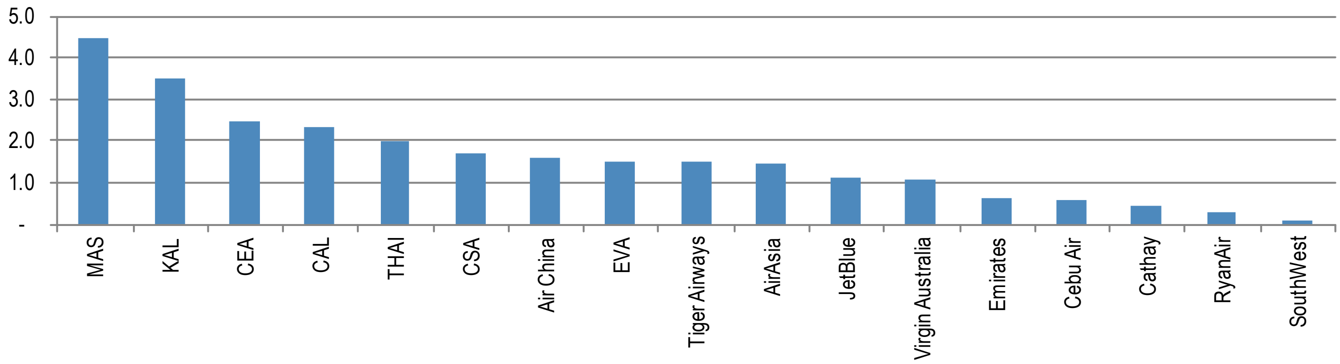


Source: Company reports, J.P. Morgan. *Based on latest reported half yearly/annual data.

- **Gearing**

TGR's net debt-equity is slightly below global peers. We expect its net debt-equity to rise to c.2.3x in FY13E due to rising aircraft capex but fall to c.1.1x by the end of FY15E.

Figure 18: Net Debt-Equity Comparison



Source: Company reports, J.P. Morgan. *Based on latest reported data. Note that Singapore Airlines does not appear in this chart as it is in a net cash position.

TGR is still one of the smallest low-cost carriers globally in terms of passengers carried, revenue and aircraft fleet size.

Table 2: Summary of the Global Low-Cost Carriers and Asian Incumbent Airlines' Passenger Revenue, Number of Passengers Carried and Aircraft Fleet Size

	Passenger revenue (US$MM)	Passengers carried ('000)	Number of Aircraft
Air China	12,920	59,392	432
AirAsia	1,300	17,987	100
CAL	2,752	NA	68
CEA	10,588	68,725	377
Cebu Air, Inc.	547	10,461	37
CSA	12,608	80,677	444
CX	8,712	27,581	164
EasyJet	4,389	54,500	197
Emirates	11,276	31,422	130
EVA	2,025	6,663	56
GOL	2,035	33,741	110
Jet Airways	2,320	14,667	87
JetBlue	4,081	26,370	160
JetStar	2,588	16,549	71
KAL	13,080	NA	141
MAS	11,540	13,301	96
RyanAir	3,751	72,063	272
SIA	7,578	16,647	137
Southwest	14,735	103,974	698
SpiceJet	632	8,610	23
THAI	5,074	18,398	84
Tiger Airways	371	5,968	34
Virgin Australia	3,237	18,600	93

Source: Company reports, J.P. Morgan. *Based on last reported financial year.

Financial analysis

We forecast a S$107MM net loss in FY12 (year to March), mainly due to the impact of the suspension of Tiger Australia's operations, capacity indigestion on Tiger Singapore's routes and higher fuel costs. However, we expect TGR to turn around with a net profit of S$23MM in FY13, rising 108% per annum to S$98MM by FY15E. This is mainly driven by a 17% growth in passengers carried, 7% growth in average fares and 6% growth in ancillary revenue per passenger in FY13-15E. Unit cost per ASK will likely rise 2% pa, mainly due to higher fuel costs (+15%), aircraft rental expenses (+31%) and depreciation charges (+24%).

Profit & loss briefs

- We expect revenue to grow at a CAGR of 24% in FY13-15E, mainly driven by a 17% growth in passengers carried per annum to 8.9MM by FY15E.
- We have assumed an average passenger load factor of 82% in FY13-15E, in line with TGR's historical average PLF in the past five years excluding the capacity indigestion period in FY12 due to Tiger Australia's suspension.
- We see ancillary revenue to grow fairly in line with passenger revenue (+24% pa) in FY13-15E. FY15E revenue breakdown: passenger 83%, ancillary 17%.
- Fuel costs will likely rise 23% y/y in FY13E, mainly due to higher fuel prices based on our assumption of an average jet fuel price of US$135/bbl (before into-plane premium). We expect unit cost per ASK to rise c.2% pa in the next four years, mainly driven by higher fuel costs (+15%), aircraft rental expenses (+31%) and depreciation charges (+24%). Fuel costs will likely rise in line with TGR's capacity expansion based on our US$135/bbl average jet fuel price for FY14-15E.

- We expect EBITDAR margins to rebound to 21% in FY13E, similar to TGR's profitability in FY10 and FY11 (after falling to 5% in FY12), and rising to 29% by FY15E, mainly helped by continued ancillary revenue growth which is a higher margin segment and greater economies of scale as TGR expands its operations.
- Net profit will likely rise by 108% per annum in FY14-15E to S$98MM by FY15E. We have not factored in any profit contribution from TGR's new joint ventures with SEAir and Mandala in Philippines and Indonesia which could provide an upside surprise should they turn profitable earlier than expected.

Balance sheet briefs

- We expect TGR to generate ROA of 4%, ROE of 18% and ROCE of 7% on average in FY13-15E, all above industry average levels.
- We expect fixed assets to rise by 9% p.a. in FY13-15E as TGR plans to take delivery of more A320s. TGR has 36 aircraft on order for delivery until the end of calendar year 2015.
- Total capital commitments (for the 36 aircraft on firm order) amount to c.S$2.2B. We expect a substantial portion to be structured as sale & leasebacks given the substantial funding requirements and the need to reduce residual value risk with Airbus' recent introduction of the A320 neo model. ECA-backed financing is also an option.
- Net debt-equity will likely fall from c.2.2x in FY12E to c.1.1x by the end of FY15E. However, net debt-equity with the capitalization of aircraft operating leases will likely remain fairly high at c.3.6x by the end of FY15E from c.4.0x in FY12E.

Cash flow briefs

- We expect TGR to generate positive operating cash flow from FY13E (vs. negative opCF of c.S$63MM in FY12E), with opCF rising c.23% pa in FY13-15E.
- This should help fund part of its c.S$164MM (mostly aircraft related) average capex per annum in FY13-15E.
- We expect TGR to turn free cash flow positive from FY14E.
- We believe that TGR is unlikely to pay out any dividends in the next three years given its fleet expansion plans.
- TGR raised S$155MM following its rights issue in FY12.

Earnings sensitivity to changes in key assumptions

TGR's earnings are highly sensitive to small changes in key drivers such as passenger demand, average fares and jet fuel prices.

Table 3: Earnings Sensitivity to Key Assumptions in FY13E (Year to March)

Key drivers	Base case assumption	Change in assumption	Impact on FY13E net profit
Passengers carried growth	+27%	+/-1ppt	+/-29%
Average fare growth	+10%	+/-1%	+/-24%
Passenger load factor	82.0%	+1/-ppt	+/-36%
Ancillary revenue growth	+40%	+/-1ppt	+/-6%
Average spot jet fuel price (US$/bbl)	135.0	+/-US$1/bbl	-/+6%
Group unit cost per ASK excluding fuel (% chg)	-6%	+/-1ppt	-/+17%
Average effective interest cost	1.5%	+/-1ppt	-/+27%
S$/US$ exchange rate	1.3	Depreciates (Appreciates) 1% vs USD	-/+5%
Effective tax rate (excluding deferred tax adjustments)	18.0%	+/-1ppt	-/+1%

Source: J.P. Morgan estimates. *High earnings sensitivity due to small profit base.

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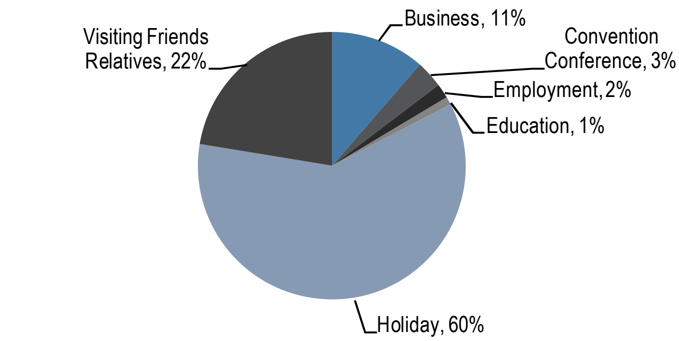
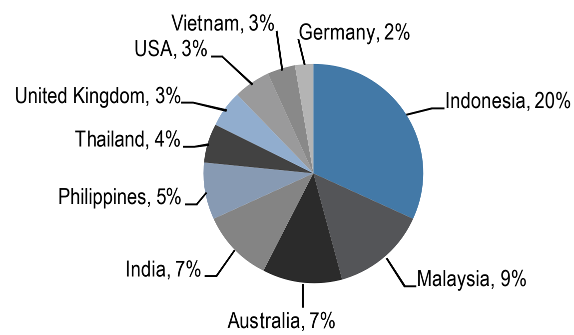
Appendix

Figure 19: Outbound Australia Traffic: Purpose Of Travel



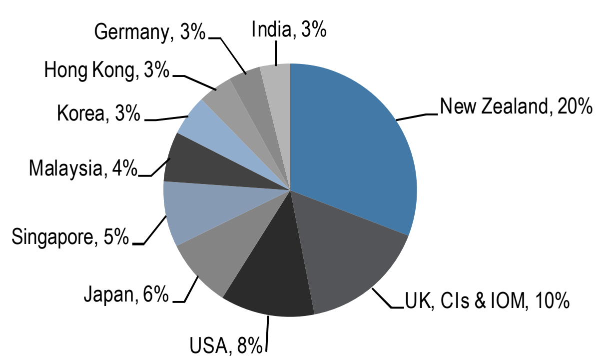
Source: CEIC database and J.P. Morgan estimates. *assuming that travelers that did not state their travel purpose are equally split among the various segments.

Figure 20: Top 10 Visitor Arrivals By Country Of Origin - Singapore



Source: CEIC database.

Figure 21: Top 10 Visitor Arrivals By Country Of Origin - Australia



Source: CEIC database.

Tiger Airways Holdings Ltd: Summary of Financials

Income Statement

S$ in millions, year end Mar	FY11	FY12E	FY13E	FY14E	FY15E
Revenues	495	525	735	849	1,008
% change Y/Y	28.0%	2.4%	40.1%	15.4%	18.5%
EBITDA	60	-32	96	144	207
% change Y/Y	109.4%	NM	NM	49.7%	44.4%
EBIT	47	-72	37	74	131
% change Y/Y	68.6%	NM	NM	102.1%	76.7%
EBIT Margin	7.6%	-11.3%	4.1%	7.2%	10.7%
Net Interest	-3	-8	-9	-9	-9
Earnings before tax	57	-97	28	65	122
% change Y/Y	186.4%	NM	NM	135.0%	88.0%
Tax	-17	-10	-5	-13	-24
as % of EBT	30.0%	10.0%	18.0%	20.0%	20.0%
Net income (reported)	40	-107	23	52	98
% change Y/Y	41.5%	NM	NM	129.3%	88.0%
Shares outstanding	539	820	820	820	820
EPS (reported)	0.07	(0.13)	0.03	0.06	0.12
% change Y/Y	5.7%	NM	NM	129.2%	87.9%

Cash flow statement

S$ in millions, year end Mar	FY11	FY12E	FY13E	FY14E	FY15E
EBIT	47	-72	37	74	131
Depr. & amortization	13	40	59	69	76
Change in working capital	24	5	81	44	60
Taxes	-	-10	-5	-13	-24
Cash flow from operations	81	-63	163	165	234
Capex	-433	-277	-246	-123	-123
Disposal/(purchase)	0	276	491	369	307
Net Interest	-3	-8	-9	-9	-9
Free cash flow	-352	-339	-83	42	112
Equity raised/(repaid)	-	156	0	0	0
Debt raised/(repaid)	329	150	100	0	0
Other	-	-	-	-	-
Dividends paid	0	0	0	0	0
Beginning cash	207	196	162	179	221
Ending cash	196	162	179	221	333
DPS	-	-	-	-	-

Balance sheet

S$ in millions, year end Mar	FY11	FY12E	FY13E	FY14E	FY15E
Cash and cash equivalents	196	162	179	221	333
Accounts receivable	4	4	5	6	7
Inventories	0	0	0	0	0
Others	33	33	33	33	33
Current assets	232	199	217	260	373
LT investments	0	0	0	0	0
Net fixed assets	740	977	1,164	1,217	1,264
Total Assets	1,001	1,204	1,409	1,505	1,665
Liabilities					
Short-term loans	167	167	167	167	167
Payables	110	112	157	181	215
Others	113	115	153	173	201
Total current liabilities	390	395	477	521	583
Long-term debt	374	524	624	624	624
Other liabilities	43	43	43	43	43
Total Liabilities	806	961	1,143	1,188	1,249
Shareholders' equity	195	243	266	318	416
BVPS	0.36	0.30	0.32	0.39	0.51

Ratio Analysis

S$ in millions, year end Mar	FY11	FY12E	FY13E	FY14E	FY15E
EBITDA margin	9.6%	-5.0%	10.7%	13.9%	17.0%
Operating margin	7.6%	(11.3%)	4.1%	7.2%	10.7%
Net margin	6.4%	-16.8%	2.5%	5.1%	8.0%
Sales per share growth	(4.4%)	(32.7%)	40.0%	15.4%	18.5%
Sales growth	28.0%	2.4%	40.1%	15.4%	18.5%
Net profit growth	41.5%	NM	NM	129.3%	88.0%
EPS growth	5.7%	NM	NM	129.2%	87.9%
Interest coverage (x)	18.72	4.20	10.67	15.87	23.90
Net debt to equity	177.2%	217.5%	230.1%	179.2%	110.1%
Sales/assets	0.78	0.58	0.68	0.71	0.77
Assets/equity	5.14	4.95	5.30	4.74	4.01
ROE	23.2%	(48.9%)	8.9%	17.8%	26.7%
ROCE	8.6%	-8.6%	3.7%	6.8%	11.3%

Source: Company reports and J.P. Morgan estimates.

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Tiger Airways Holdings Ltd (TAHL.SI, TGR SP) Price Chart

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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