

HOLD

Target Price
KWD 0.104

Jazeera Airways

Market Data

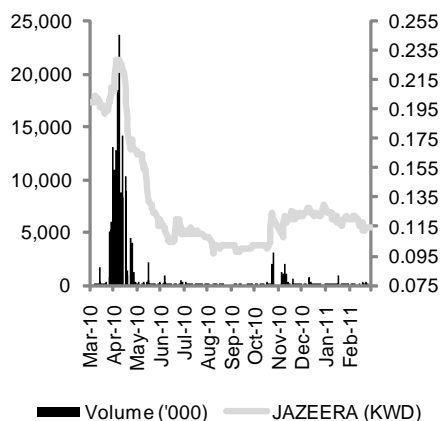
Bloomberg Code:	JAZEERA KK
Reuters Code:	JAZK KW
CMP (17 Mar 2011):	KWD 0.114
O/S (mn)	220.0
Market Cap (KWD mn):	25.1
Market Cap (USD mn):	86.5
P/E 2011e (x):	5.9
P/Bv 2011e (x):	1.3

Price Performance 1-Yr

High (KWD):	0.228
Low (KWD):	0.097
Average Volume: (000)	1,128.3

	1m	3m	12m
Absolute (%)	-5.0	-6.5	-44.1
Relative (%)	-0.8	1.6	-30.9

Price Volume Performance



Source: Zawya

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- Returned to profitability in 2H 2010
- Overcapacity in Kuwait is a major challenge
- Conservative fleet expansion strategy
- Cost containment and leasing business to boost earnings
- Rights issue should reduce leverage and strengthens the balance sheet

Net loss of KWD2.8mn in 2010

Jazeera Airways announced a net loss of KWD2.8mn for the fiscal year ended December 31, 2010 compared to a net loss of KWD8.2mn reported in 2009 and higher than our net loss estimate of KWD2mn for 2010. The company reported total revenues of KWD42.6mn for 2010, a y-o-y drop of 7%. Gross operating profit improved significantly to reach KWD5.3mn in 2010 compared to a loss of KWD5.4mn in 2009. Jazeera reported unusual restructuring expenses of KWD1.9mn in 2010.

Return to profitability sooner than expected

During 2H 2010, Jazeera returned to profitability after reporting losses in 1Q and 2Q 2010. Following the exit from Dubai hub, Jazeera took a hit in profitability which prompted the company to launch its Turnaround Plan during 2Q 2010. The Turnaround Plan focused on removing excess capacity, dropping loss making routes, and reducing workforce. Profitability in 2H 2010 was mainly driven by the improvement in operating performance, on the back of the company's cost containment strategy. EBITDA margin improved to 16.6% in 2010 compared to a negative 12.6% in 2009.

Conservative fleet expansion strategy

The biggest challenge facing Jazeera Airways is overcapacity in Kuwait; accordingly the company shrank its fleet, and dropped its loss making routes in 2010. Jazeera shrank its fleet from 6 to 11 aircrafts. According to the company's management, no expansion in the airline's fleet is expected in 2011; however, the company will focus on increasing its market share in Kuwait through targeting profitable routes, and increasing load factors. It also announced that it might add new potential routes such as Cairo, Egypt. Load factors increased to 66% in 2H 2010 compared to 59% in 2H 2009.

Vertical integration to boost revenues

Jazeera fully acquired Sahaab Aircraft Leasing Company during 1Q 2010. During 2010, Sahaab signed a leasing contract with U.S. airline Virgin valued at USD155mn, and placed an Airbus A320 aircraft on long-term lease with Sri-Lankan Airlines in a deal valued at more than USD20mn. Sahaab will provide access to global leasing markets, and will boost Jazeera's revenues in the future. We expect Jazeera to witness better performance in 2011.

Rights issue should reduce leverage

The company is planning to raise capital from KD22mn to KD42mn in 2011. This should reduce leverage and strengthens the company's balance sheet. Debt to Equity ratio shot up significantly from 1.4x in 2009 to 5.9x in 2010.

Valuation update

Owing to the current political turmoil in the region, we have added a 1% risk premium representing the political risk, resulting in a WACC of 10.6%. Consequently, we have downgraded our fair value per share from KWD0.135 to KWD0.104. At the market price of KWD0.114/share as on March 17, 2011, the stock is trading at a premium of 9.6% to the fair value. We therefore maintain our recommendation on Jazeera Airways at **HOLD**.

Financial Statements

	(KWD 000)	2008	2009	2010	2011e	2012e	2013e	2014e
Income Statement	Net Sales Revenue	48,705	46,009	42,563	48,175	53,939	59,750	65,238
	Cost of Sales	(42,951)	(51,498)	(37,283)	(38,156)	(42,181)	(46,553)	(50,706)
	Gross Profit	5,754	(5,489)	5,280	10,019	11,759	13,197	14,531
	General & Administrative Expense	(4,347)	(4,427)	(4,303)	(4,489)	(4,972)	(5,384)	(5,621)
	Operating Profit	1,407	(9,915)	977	5,530	6,787	7,813	8,911
	Finance Costs	(2,838)	(1,727)	(4,832)	(4,421)	(4,579)	(4,676)	(4,254)
	Gain on Sale of Fixed Assets	5,564	-	-	-	-	-	-
	Restructuring Expenses	-	-	(1,878)	-	-	-	-
	Foreign Currency (loss)/gain	(1,134)	631	1,900	1,995	2,095	2,137	2,179
	Other Income	1,448	2,808	1,029	1,156	1,079	1,195	1,305
	Net Profit	4,448	(8,204)	(2,805)	4,261	5,381	6,468	8,141
Balance Sheet	Cash and Bank Balance	2,591	3,312	7,909	6,328	4,499	4,310	3,947
	Trade and Other Receivables	1,762	1,932	1,639	1,686	1,888	1,792	1,957
	Inventories	146	162	201	241	270	299	326
	Due from a Related Party (Current)	5,125	12,879	-	-	-	-	-
	Non Current Assets Classified as Held for Sale	22,737	-	-	-	-	-	-
	Goodwill	-	-	3,443	3,443	3,443	3,443	3,443
	Due from a related party (Non-Current)	-	28,558	-	-	-	-	-
	Deposits	2,314	-	692	692	692	692	692
	Property and equipment (net)	38,380	26,895	159,305	162,469	165,790	169,668	173,821
	Total Assets	73,054	73,738	173,189	174,859	176,582	180,204	184,187
	Term Loans	19,210	15,145	78,807	75,230	86,515	77,863	69,298
	Due to Banks	12,147	12,337	12,584	10,204	11,224	11,449	11,563
	Deferred Revenue	5,735	8,781	8,711	9,157	11,178	12,569	13,691
	Trade and Other Payables	7,622	13,759	14,323	15,416	19,418	21,510	23,486
	Deferred Purchase Consideration	-	-	25,970	25,970	-	-	-
	Lease Maintenance Provision	158	3,532	5,162	6,194	8,052	8,455	8,878
	Due to a Related Party	-	-	9,839	10,085	11,800	12,980	13,110
	Others	457	663	2,356	2,906	3,317	3,832	4,475
	Paid -up Capital	19,999	21,999	22,000	22,000	22,000	22,000	22,000
	Reserves	801	801	801	1,015	1,284	1,607	2,014
Equity Transaction Costs	(46)	(46)	(46)	(46)	(46)	(46)	(45)	
Retained Earnings	6,970	(3,233)	(6,038)	(1,990)	3,122	9,267	17,000	
Foreign Currency Translation Reserve	-	-	(1,282)	(1,282)	(1,282)	(1,282)	(1,282)	
Total Shareholders Equity	27,725	19,521	15,436	19,697	25,078	31,546	39,687	
Total Equity & Liability	73,054	73,738	173,189	174,859	176,582	180,204	184,187	
Cash Flow	Cash Flow from Operating Activities	4,161	10,557	7,586	17,075	23,650	21,533	22,599
	Cash Flow from Investing Activities	15,549	(6,151)	(12,106)	(8,523)	(8,949)	(9,799)	(10,387)
	Cash Flow from Financing Activities	(20,125)	(5,010)	7,969	(10,132)	(16,530)	(11,923)	(12,574)
	Change in Cash	(415)	(604)	3,449	(1,580)	(1,829)	(190)	(362)
	Net Cash at End	2,549	1,982	5,643	4,063	2,234	2,044	1,682
Ratio Analysis	Current Ratio (x)	0.8	0.9	0.1	0.1	0.1	0.1	0.1
	Gross Profit Margin	11.8%	-11.9%	12.4%	20.8%	21.8%	22.1%	22.3%
	EBITDA Margin	6.5%	-12.6%	16.6%	20.9%	21.1%	21.4%	21.9%
	EBITDAR Margin	7.4%	2.6%	18.4%	22.7%	22.9%	23.2%	23.6%
	Operating Margin	6.3%	-15.4%	4.7%	13.9%	14.6%	15.1%	15.7%
	Net Profit Margin	9.1%	-17.8%	-6.6%	8.8%	10.0%	10.8%	12.5%
	Return on Average Assets	5.7%	-11.2%	-2.3%	2.4%	3.1%	3.6%	4.5%
	Return on Average Equity	17.4%	-34.7%	-16.0%	24.3%	24.0%	22.8%	22.9%
	Debt/Equity (x)	1.1	1.4	5.9	4.3	3.9	2.8	2.0
	EV/EBITDAR (x)	8.0	20.0	10.7	7.2	7.6	6.1	5.0
	EPS (Fils)	22.2	(37.3)	(12.7)	19.4	24.5	29.4	37.0
	Book Value Per Share (Fils)	139	89	70	90	114	143	180
	Market Price (Fils) *	341	190	124	114	114	114	114
	Market Capitalization (KD mn)	68.2	41.8	27.3	25.1	25.1	25.1	25.1
	P/E Ratio (x)	15.3	NEG	NEG	5.9	4.7	3.9	3.1
P/BV Ratio (x)	2.5	2.1	1.8	1.3	1.0	0.8	0.6	

Source: Company Reports & Global Research

* Market price for 2011 and subsequent years as per closing prices on March 17, 2011

Disclosure

The following is a comprehensive list of disclosures which may or may not apply to all our researches. Only the relevant disclosures which apply to this particular research has been mentioned in the table below under the heading of disclosure.

Disclosure Checklist

Company	Recommendation	Bloomberg Ticker	Reuters Ticker	Price	Disclosure
Jazeera Airways	HOLD	JAZEERA KK	JAZK KW	KWD 0.114	1,10

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