

Jazeera Airways – 2Q17 Review

TP: KWD 0.716 / share

Recommendation

BUY

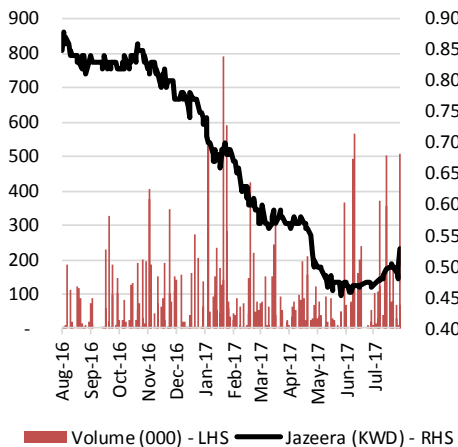
Bloomberg Ticker	JAZEERA KK
Current Market Price (KWD)	565.00
52wk High / Low (KWD)	880/376
12m Average Vol. (000)	87.7
Mkt. Cap. (USD/KWD bn)	0.374/113
Shares Outstanding (mn)	200.0
Free Float (%)	91%
3m Avg Daily Turnover (KWDmn)	46.7
6m Avg Daily Turnover (KWDmn)	43.3
PE 2017e (x)	11.2
PBv 2017e (x)	2.6
Dividend Yield '17e (%)	5.3%

Price Performance:

1 month (%)	20.21
3 month (%)	10.78
12 month (%)	(35.06)

Source: Bloomberg

Price Volume Chart



Source: Bloomberg

We upgrade our recommendation to **BUY** from **ACCUMULATE** on Jazeera Airways with a target price of KWD 0.716 per share. Our target price represents an upside of 26.6% to the latest closing price of KWD 0.565/share. The stock is currently trading at PE'17e of 11.2x and PB'17e of 2.6x. The stock is down on YTD and 12m basis by 26.6% and 35%, respectively.

Solid 2Q17 performance; better yields and higher passengers

Jazeera Airways was able to post a commendable performance during second quarter of 2017. Net income of the company rose by 15.5% YoY to KWD2.29mn compared to KWD1.98mn in 2Q16 and a loss of KWD0.95mn in 1Q17. Higher passenger's numbers and significant growth in yield played an active role in posting such figures. Passengers grew from 0.3mn in 2Q16 to 0.31mn in 2Q17 while yield witnessed a hike of 25% and 4.7% QoQ and YoY respectively during 2Q17. Increase in passenger numbers and better yield was a result of good bookings on the newly started route to Baku, Azerbaijan and Doha, Qatar. Aircraft utilization also improved by 6% during the period.

	2Q16	3Q16	4Q16	1Q17	2Q17	YoY	QoQ
Revenue	12,812,974	18,776,039	9,298,176	10,051,000	14,034,531	9.5%	39.6%
Operating Cost	(10,105,644)	(11,817,532)	(9,110,964)	(10,138,949)	(10,626,496)	5.2%	4.8%
Op Profit	2,707,330	6,958,507	187,212	(87,949)	3,408,035	25.9%	n/m
SGA	(895,307)	(934,578)	(879,024)	(943,232)	(1,180,722)	31.9%	25.2%
EBITDA	1,812,023	6,023,929	(691,812)	(1,031,181)	2,227,313	22.9%	n/m
Net Income	1,982,225	6,019,702	(1,174,453)	(947,705)	2,290,250	15.5%	n/m
Passenger	300,000	380,000	240,000	280,000	310,000	3.3%	10.7%
Yield	43.0	49.0	38.0	36.0	45.0	4.7%	25.0%

Source: Company Financials & U Capital Research

Because of hike in passengers and yield, revenue rose by 9.5% YoY and 39.6% QoQ to KWD14.0mn. Gross and net margins of the company also improved to 24.3% and 16.3% in 2Q17 compared to 21.1% and 15.5%, during 2Q16.

For the third quarter, we expect the airline to post a net income of KWD 5.9mn. Third quarter as always is the best quarter for the airline industry. Same would stand for Jazeera Airways as well. As per management of Jazeera, the airline is fully booked for the route to Baku for the next two months while because of severance of ties by some of the GCC nations with Qatar, the launch of direct flight to Doha, Qatar would result in good yield for the airline.

Dedicated terminal to come online by 1Q18

Jazeera Airways dedicated terminal is expected to come online in 1Q18 and the work on the terminal is progressing very swiftly. The airline received approval for the terminal back in 2016 at a project value of KWD14mn (USD46.3mn), and its total construction timeframe was 15 months. The terminal is part of the airline's 'Next Big Thing' series of value boosting projects and initiatives tasked with creating a better travel experience on ground and in the air. Other initiatives include a remote check-in facility, in-flight broadband internet, a business class lounge, and long-haul flights.

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We expect, once this terminal comes online, the airline would experience good influx of passengers. The airline will also witness hike in its ancillary revenue because of duty free and food/beverage shops on the terminal.

The airline is still open and looking for tying up with an international player to go long haul. Jazeera currently only has short haul regional operations and tying up with the right carrier would give it exposure to the more lucrative long-haul market.

Oil Price Sensitivity to Jazeera's net income

Jazeera's performance and is very sensitive to oil price. The table below shows the variation in income of Jazeera to oil price and exchange rate.

2017 Net Profit Sensitivity to Oil Price (KWD 000)

		Oil Price (USD/ bbl)				
		28	38	48	58	68
Ex. Rate	0.274	16,090	13,701	11,312	8,923	6,534
	0.289	15,725	13,203	10,681	8,160	5,638
	0.304	15,360	12,706	10,051	7,396	4,742
	0.320	14,995	12,208	9,420	6,633	3,846
	0.335	14,630	11,710	8,790	5,870	2,950

TP offers an upside of 26.6% to CMP of KWD0.565/share

Our target price is based on blended methodology of Discounted cash flow method (80% weight) and a Peer-group P/E valuation (20% weight). Our TP offers an upside of 26.6% compared to the current market price. The airline is trading at an attractive P'17e and PB'17e multiple of 11.2x and 2.6x, respectively.

		Growth Rate (%)				
		1.0%	2.0%	2.5%	4.0%	5.0%
WACC (%)	7.5%	0.767	0.846	0.897	1.139	1.459
	8.5%	0.699	0.756	0.791	0.945	1.120
	9.5%	0.647	0.690	0.716	0.821	0.931
	10.5%	0.606	0.639	0.659	0.735	0.810
	11.5%	0.573	0.599	0.614	0.672	0.725

		Cost of Equity (%)				
		7.0%	8.0%	9.5%	10.0%	11.0%
Cost of Debt (%)	-1.0%	0.974	0.844	0.716	0.687	0.637
	0.0%	0.974	0.844	0.716	0.687	0.637
	1.0%	0.974	0.844	0.716	0.687	0.637
	2.0%	0.974	0.844	0.716	0.687	0.637
	3.0%	0.974	0.844	0.716	0.687	0.637

Financial Statements

(KWD mn)	2014	2015	2016	2017e	2018e	2019e
Income Statement						
Revenue	62.5	58.6	52.8	54.9	58.1	60.5
Cost of sales	(44.9)	(41.2)	(39.9)	(42.2)	(44.5)	(45.8)
Gross profit	17.6	17.5	12.9	12.7	13.7	14.7
SG&A	(3.8)	(3.4)	(3.5)	(3.8)	(4.0)	(4.1)
EBITDA	13.8	14.0	9.4	8.9	9.7	10.7
Net financial charges	(0.7)	(0.3)	(0.0)	-	-	-
Other income / expenses	(16.0)	2.3	1.9	1.4	1.5	1.7
Profit before taxation	(2.9)	16.0	11.3	10.3	11.3	12.4
Income tax	-	(0.6)	(0.5)	(0.3)	(0.3)	(0.3)
Net profit	(2.9)	15.4	10.8	10.1	11.0	12.1
Balance Sheet						
Total Fixed Assets	2.0	5.1	5.6	6.6	7.0	7.3
Advance for Maintenance	7.3	8.7	10.4	11.5	12.6	13.9
Aircraft Lease Deposits	2.6	3.0	2.5	2.7	3.0	3.3
Goodwill	-	-	-	-	-	-
Total Non-Current Assets	11.9	16.8	18.5	20.8	22.7	24.5
Inventories	0.2	0.2	0.2	0.2	0.2	0.3
Trade & Other Receivables	2.2	1.6	5.5	1.6	1.7	1.8
Asset Classified as Held for Sale	148.5	-	-	-	-	-
Cash & Deposits	64.8	30.9	29.4	39.7	43.4	48.1
Total Current Assets	215.7	32.7	35.2	41.6	45.4	50.2
Total Assets	227.6	49.5	53.7	62.4	68.0	74.6
Provision for Staff Indemnity	2.4	2.7	2.5	2.5	2.6	2.8
Long term Debt	-	-	-	-	-	-
Other long term liabilities	-	1.7	1.2	1.2	1.2	1.3
Long Term Liabilities	2.4	4.4	3.7	3.7	3.9	4.0
Short term debt	116.6	-	-	-	-	-
Deferred income	6.3	5.2	3.5	4.9	5.2	5.4
Trade & Other Payables	34.8	8.3	9.6	9.8	10.0	10.2
Short Term Liabilities	157.7	13.5	13.1	14.7	15.2	15.6
Paid-up Capital	42.0	20.0	20.0	20.0	20.0	20.0
Legal Reserve	4.5	1.6	2.7	3.8	4.9	6.1
Retained Earnings	20.0	7.6	14.2	20.2	24.1	28.9
Forex Reserve	1.0	2.4	-	-	-	-
Total Equity	67.5	31.6	37.0	44.0	49.0	55.0
Minority Interest	0.0	-	-	-	-	-
Total liabilities & Equity	227.6	49.5	53.7	62.4	68.0	74.6
Cash Flow Statement						
Cash flow from operating activities	23.4	16.7	5.2	15.2	11.2	12.2
Cash flow from investing activities	(11.1)	134.8	(1.2)	(1.9)	(1.5)	(1.4)
Cash flow from financing activities	6.8	(174.6)	(3.0)	(3.0)	(6.0)	(6.0)
Net cash at end of period	64.8	30.9	29.4	39.7	43.4	48.1
Ratio Analysis						
EBIT Margin	21.3%	23.1%	16.6%	14.9%	15.3%	16.2%
Net Profit Margin	-4.6%	26.2%	20.5%	18.3%	18.9%	19.9%
ROA	-1.3%	31.1%	20.1%	16.1%	16.1%	16.2%
ROE	-4.3%	48.7%	29.2%	22.8%	22.4%	21.9%
Market price (KWD)	0.916	0.900	0.770	0.565	0.565	0.565
Market Cap (KWD mn)	183.2	180.0	154.0	113.0	113.0	113.0
EPS (KWD)	(0.014)	0.077	0.054	0.050	0.055	0.060
Book Value per Share (KWD)	0.337	0.158	0.185	0.220	0.245	0.275
PE (x)	n/m	11.7	14.3	11.2	10.3	9.4
PBv (x)	2.7	5.7	4.2	2.6	2.3	2.1

Source: Company Filings & U Capital Research

* Market price for 2017 and subsequent years as per closing prices on August 06, 2017

Recommendation

BUY	Greater than 20%
ACCUMULATE	Between +10% and +20%
HOLD	Between +10% and -10%
REDUCE	Between -10% and -20%
SELL	Lower than -20%