

Air Transport

BUY: 12M TP @ 2.20

Valuation Summary (TTM)

Price (KWD)	1.96
PER TTM (x)	22.7
P/Book (x)	13.6
P/Sales (x)	2.1
EV/Sales (x)	2.6
EV/EBITDA (x)	10.0
Dividend Yield (%)	4.0
Free Float (%)	31.1%
Shares O/S (mn)	220
YTD Return (%)	3%
Beta	1.1

(mn)		KWd	USD
Market Cap		469	1,525
Total Assets		597	1,940
Price performance (%)	1M	3M	12M
Jazeera Airways Co KSCP	-8%	6%	2%
Boursa Kuwait All Share Pric	0%	3%	-7%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (KWD)	1,050,428	670,470	516,863
Avg Daily Volume (,000)	486	343	274
52 week	High	Low	CTL*
Price (KWD)	2.20	1.52	28.8

* CTL is % change in CMP to 52wk low

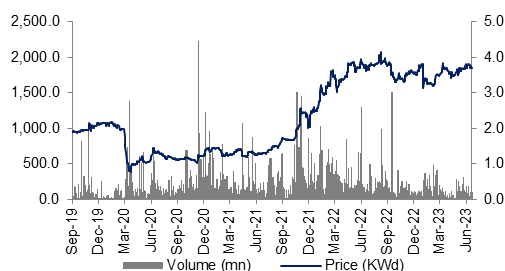
Major shareholders

BOODAI GROUP	54%
Jassim Mohammed AL M	9.4%
Norges Bank	5.1%
Others	31.1%

Other details

Exchange	Kuwait
Sector	Airlines
Index weight (%)	1.0%

Key ratios	2020	2021	2022
EPS (KWD)	-0.13	0.03	0.09
BVPS (KWD)	0.06	0.14	0.17
DPS (KWD)	0.00	0.03	0.08
Payout ratio (%)	0%	96%	88%



Jazeera Airways: PAX to sustain, yields to slump

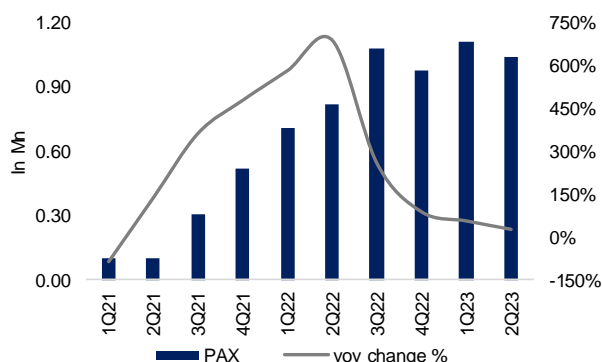
Jazeera Airways is a Kuwait based airline company which is unique in several ways. It is the only fully privately owned airlines in the region. It is also the only airline company in the world that manages a terminal along with its core operations. Both these businesses are successful and running profitably. The company has a passenger market share of 29.6% at the Kuwait international airport. The high market share is commendable considering that the airline has a small fleet size of only 22 aircrafts. This reflects the high operating efficiency of the company and superior utilization rates of the aircrafts. The year 2022 was a stupendous year for global airlines industry and Jazeera was also a beneficiary to the rapid increase in air traffic. Revenue had increased fourfold from the low of 2020, while it almost doubled from the peak of 2019. The growth in passenger traffic has continued into 2023 as well. Jazeera carried 40% more passengers in the 1H23 compared to the same period previous year. However, this has come at a cost of lower yield, which resulted in passenger revenue growing slower at 27% in 1H23 compared to 1H22. The declining trend in yield is expected to continue, as competition in Kuwait has risen significantly and international players are lowering ticket price to garner market share. While the management is aware of the declining yields, it has re-iterated that it will also take price cuts to gain/retain market share which will be a priority. T5 revenue contributed 6% of the overall revenue for the company and grew by 25% during the 1H23. The company opened two more gates in T5 and is currently running at 100% capacity. T5 contribution to profit is significant at 65% for the 1H23 and we are optimistic that it will continue to provide a cushion to the overall profits going forward. Total revenue for Jazeera during 1H23 was at KWD 97.8mn, which was a growth of 26% from the previous year. On a quarterly basis, 2Q23 revenue grew by 18% YoY on the back of a 27% growth in passenger traffic. One off gains in 1H22, which created a higher base, along with an increase in the finance cost during the period lead to lower net profit for 1H23. The net income at KWD 6.3mn, was lower by 15.1% from the same period in the previous year. We expect passenger growth to continue with the same momentum and we maintain our revenue estimates for the full year 2023. However, pressure on yields could affect profitability and hence we trim the net profit estimate by 4% for 2023. We had initiated coverage on the stock in May 2023 with a price target of KWD 2.20 per share. The stock has already reached our target and declined, we retain the same target price going forward based on the record passenger volume and sustainable T5 profits.

Key takeaways from the earnings call:

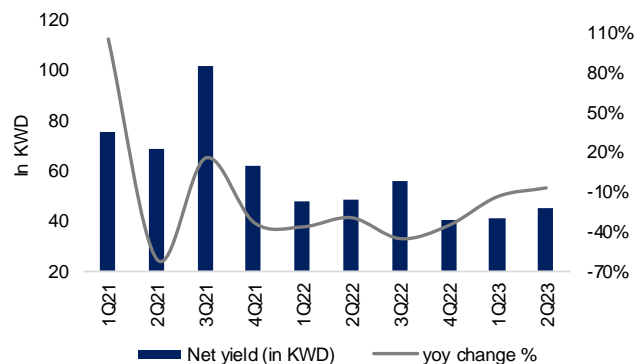
- Total fleet size of 22 aircrafts with 2 wet leases ending in Sept 2023. New aircraft to be leased in Sept 2023 and two more will join by end of the year.
- Market share a priority and decline in yields to be sharp over the six months
- T6 has progressed into the design stage and awaits nod from the government.
- Hiving off the terminal business is still not decided and will be discussed at a later stage.
- Derivative hedges are in the money and profits will be adjusted with the fuel costs

Record half year in terms of PAX volumes: During the quarter, the PAX count grew 27.4% to 1.04mn, while it grew 41% YoY in H123 to 2.1mn, mainly driven by the Haj season. Jazeera had the most active Haj season in its history with around 6 times increase from its usual Haj passenger count. The 2 Eids falling in the same quarter proved favorable for the company. This was the highest PAX carried in any six-month period. The higher growth in PAX can be attributed to the rise in fleet size, stable load factor, increasing aircraft utilization levels and expansion of the destination network. Jazeera has been able to maintain its market share above 29.1%, despite the rising competition in Kuwait air space. The load factor of the airline rose by 190bps to 74.4% in 2Q23 and increased by 400bps to 78.1% in 1H23. The company also maintained higher aircraft utilization levels with an average of 13.4hrs in 2Q23 and 13.5hrs for 1H23. The higher operating efficiency comes on the back of additional 2 A320 neo aircrafts being added to the fleet in April 2023. Currently Jazeera's fleet size stands at 22, with 20 owned aircraft and 2 on wet lease. The company is planning to add 3 more aircrafts to the total fleet by the end of 2023 or early 2024.

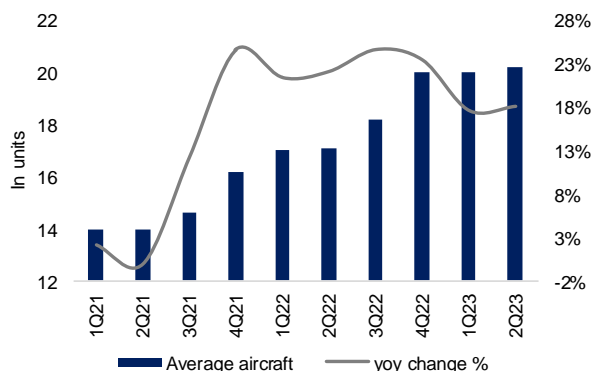
PAX growth normalising post a stupendous 2022



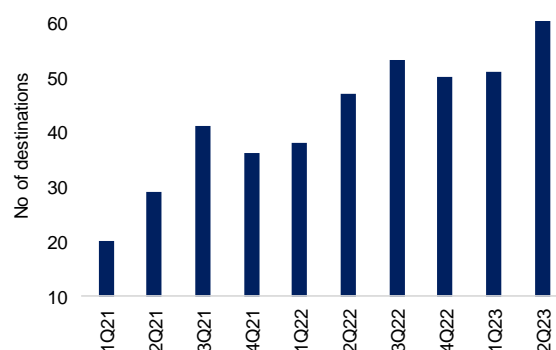
PAX yields a function of competition lower on YoY basis



Fleet size increases gradually to 22, 3 more by year end



15 new destinations added during 2Q23

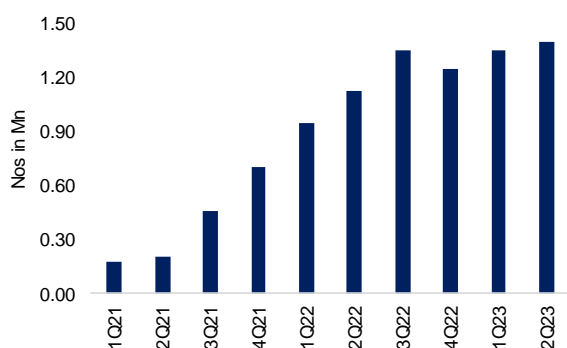


Source: Company reports, US Research

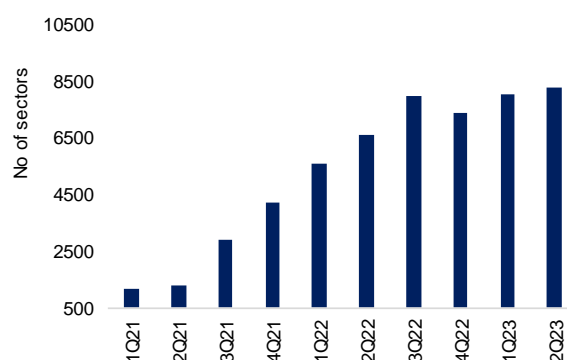
Jazeera's seating capacity grew 25% to 1.40mn seats in 2Q23. The company has placed an order for more than 2,000 light weight aircraft seats from a French manufacturer. These light weight seats are expected to save around 1.2 metric tons of weight per aircraft and will add 6 additional seats in all the aircrafts. The new type of seat will lead to a reduction in the jet fuel consumption and increase the passenger capacity thereby improving the operating efficiencies of the aircrafts.

The airlines added 19 new destinations over the last one year out of which 15 were added during this quarter. Currently passengers can fly to 66 destinations using Jazeera airways. With regard to its sector distribution, the company has covered 8,296 sectors in 2Q23, increasing by 25.5% YoY. During the 1H23, the company has witnessed a shift in its passenger's geographic distribution, with the share of the Indian subcontinent contribution increasing to 25.4% from 19% in 1H22. The share of Europe has reduced to 9.5% in 1H23 from 14.2% in 1H22, while passengers from GCC contributed 34.6% in 1H23 vs 39.1% in 1H22. Despite intense competition from international players, Jazeera witnessed increase in its market share to 29.6% in 1H23 from 28.1% in 1H22.

Seating capacity increased to 1.4mn



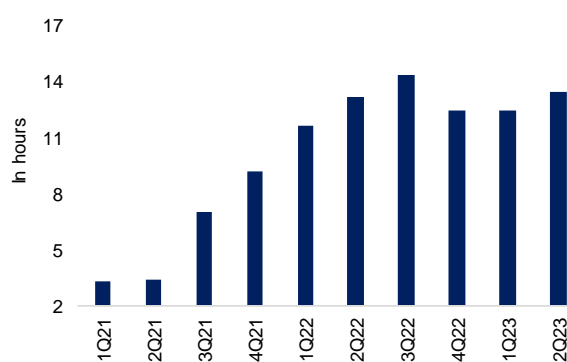
Sector portfolio rises with wider coverage



Load factor declines as new aircrafts added



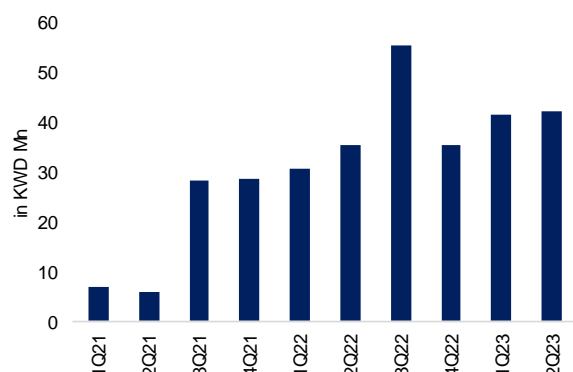
Aircraft utilisation levels remain at elevated levels



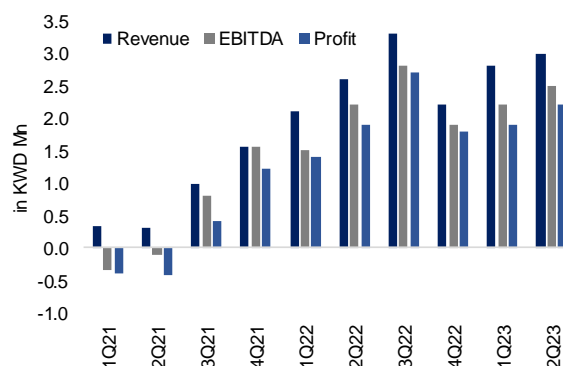
Source: Company reports, US Research

Revenue partially offset by lower yield: During the quarter, the airline industry across the world witnessed pressure on yields and in the case of Kuwait it was accentuated with international players entering the market. Revenue was impacted by a 7.1% decline in yield to KWD 44.7 from KWD 48.1 in 2Q22. The 1H23 yield was also lower by 10.5% to KWD 42.8 from KWD 47.8 in 1H22. The management during the earnings call re-iterated that competition has reached unsustainable levels and price wars may not continue in the long term. However, in the next 3-6 months there could be significant yield compression due to the oversupply scenario in Kuwait. To counter the stress on yield, the company is driving the seat factor and is focused to retain the market share. The passenger revenue grew by 27% in the 1H23 and 19.5% in 2Q23 compared to the same period the previous year.

PAX revenue rises at a slower pace vs volume



Terminal revenue and profit grow steadily

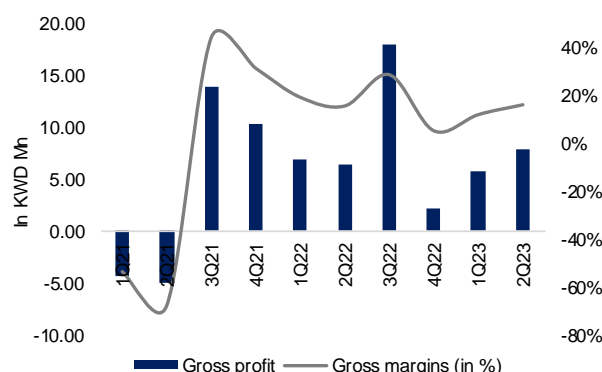


Source: Company reports, US Research

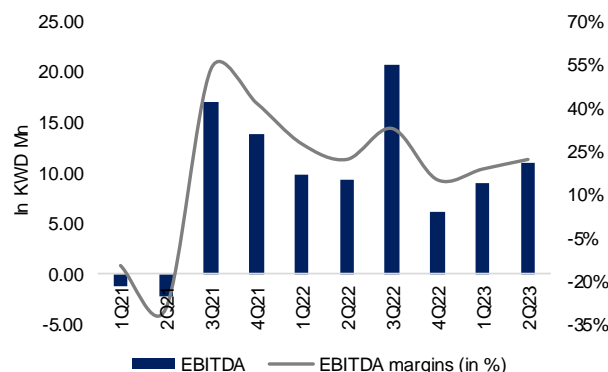
T5 contributes 65% to the profit: In 2Q23 the terminal (T5) operations remained strong with a revenue growth of 15.3% to KWD 3mn from KWD 2.6mn in 2Q22. During the 1H23 the terminal revenue grew 23% to KWD 5.8mn from KWD 4.7mn in 1H22. T5 accommodated 2.1mn passengers in the first half and has capacity to manage a total of 4.5mn in a year. In order to facilitate easier movement, the company added two new gates in 1H23. T5 EBITDA grew by 14% YoY to KWD 2.5mn in 2Q23 and by 27% YoY to KWD 4.7mn in 1H23. T5 operates at very high net margin of over 70% and it reported a net profit of KWD 2.2mn in 2Q23, with a growth of 15.7% YoY and KWD 4.3mn in 1H23 a growth of 30% YoY. T5's contribution has been significant to the company over the past couple of years. As of 1H23 this segment contributed to 6% of the revenue and 65% to the overall profit.

Operating costs hold steady no major impact on margins: Jazeera's gross profit grew by 22% to KWD 7.93mn in 2Q23 driven by low fuel costs. The fuel cost as a percentage of direct costs fell to 32% in 2Q23 from 40% in 2Q22, leading to an improvement in gross margins by 50bps on a YoY basis. EBITDA margins remained flat at the previous year levels of 22.1% and grew by 18% for the quarter compared to the same period in the previous year. Jazeera also booked some fuel hedging gains during the quarter which augured well in reducing the cost. The management has strived to lower its operating costs by bringing in efficiency and reducing lease rates. The management indicated that the average aircraft lease rate is expected to be reduced by at least 30% when new contracts are renewed. The increase in fleet size led to rise in overall lease from KWD 142mn in 2Q22 to KWD 151mn in 2Q23, this led to higher finance cost for the period. The total finance cost rose by 17.7% to reach KWD 3.5mn in 1H23. The cash balance of the company reduced to KWD 29mn in 2Q23 from KWD 52mn in FY22 as a result of advances paid for the purchase of aircraft, engines and inventory.

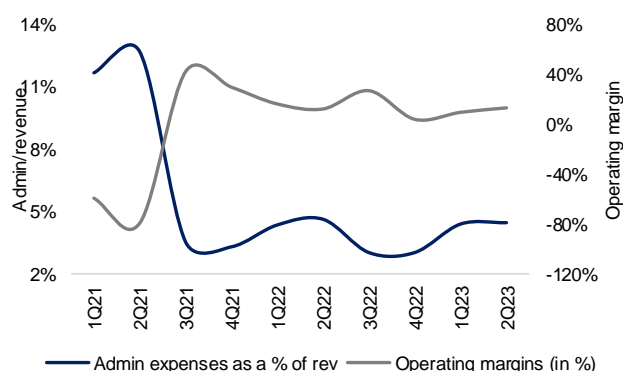
Gross margins hold steady on lower fuel costs



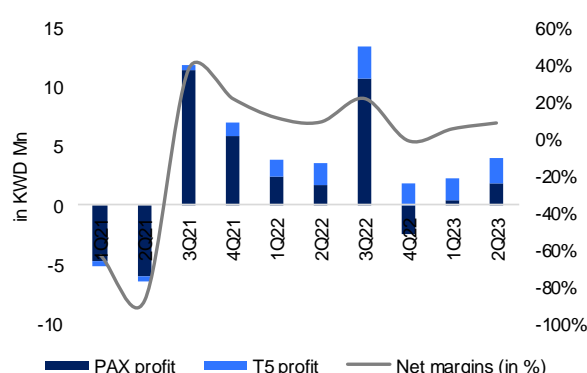
EBITDA increases in line with gross profits



Admin expenses hold steady despite expansion



Net profit increases on higher PAX volume + T5 profits



Source: Company reports, US Research

Bottom line declines on one off gains in 1H22 and finance costs: Net profit for the 1H23 declined by 15.1% compared to the same period the in the previous year. During 1Q23, the company had reported less than expected profit of KWD 2.3mn which resulted in the 1H23 profits being lower. Also a higher base was created in the 1H22 as the company had booked a net one-off gain of KWD 469k (gain from sale and lease back of engines to the tune of KWD 1.7mn and it also incurred a non-operating loss of KWD 1.2mn in the same period). Net profit was higher in 2Q23 by 11.6% YoY on the back of better pax and T5 revenues and stable margins.

Valuation and view: We are optimistic on the demand outlook for air traffic in the in Middle-east and as per IATA this is the second fastest growing region in the world next only to North America. The options for participating in this sector is limited to the two listed players in the GCC, Air Arabia and Jazeera Airways. Both companies have done extremely well in the past and we believe 2023 will be another record year in terms of revenue and profits. We retain our revenue estimates at KWD 208mn, considering the momentum in PAX traffic, while we trim the net profit forecast for 2023 by 4.1% to KWD 23.2mn on the basis of lower yield and rising finance cost. The company announced an interim dividend based on the 1H23 results of KWD 0.030 per share. We expect a 90% payout and full year dividend in the range of KWD 0.090-0.095 for 2023.

We had initiated coverage on the stock with a BUY rating in May 2023 with a target price of AED 2.20 per share. The target was achieved post initiation and the stock price has declined. Considering the positive sentiment surrounding the sector, we retain the target price which is higher by 12.5% from the current price. This along with the potential dividend yield of 5% will provide a total return of 17.5% from current levels. We retain our BUY recommendation on the stock.

Income statement (in KWD Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	103.7	41.4	80.4	182.1	208.5	222.6	259.8	293.5	328.6
Direct Costs	80.1	55.7	65.5	148.6	168.9	178.1	207.8	234.8	262.9
Gross Profit	23.6	-14.3	14.9	33.5	39.6	44.5	52.0	58.7	65.7
Other operating Income	0.5	0.3	0.9	1.0	1.0	1.1	1.3	1.5	1.6
Administrative and general expenses	6.9	6.4	4.1	6.7	9.4	8.9	10.4	11.7	13.1
EBIT	17.2	-20.4	11.7	27.8	31.3	36.7	42.9	48.4	54.2
EBITDA	29.6	-5.5	27.4	46.1	52.1	60.2	68.6	77.6	86.9
Finance costs	2.7	4.5	5.2	6.3	6.7	6.7	6.8	7.9	9.0
Other expenses/(income)	0.8	-1.5	0.9	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3
PBT	15.4	-26.4	7.4	21.0	24.4	29.8	35.9	40.3	45.0
Zakat	0.1	-	0.1	0.2	0.2	0.3	0.4	0.4	0.4
Contribution to KFAS	0.1	-	0.1	0.2	0.2	0.3	0.3	0.4	0.4
National Labour Support Tax (NLST)	0.2	-	0.2	0.5	0.6	0.7	0.9	1.0	1.1
PAT	14.9	-26.4	7.1	20.1	23.3	28.5	34.3	38.6	43.0

Balance sheet (in KWD Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	20.8	20.5	21.2	44.2	47.0	49.6	52.1	78.6	103.9
Right-of-use assets	82.7	93.8	126.2	145.1	156.4	165.3	167.1	171.5	173.4
Other non current assets	14.7	2.7	3.3	9.1	6.9	6.9	6.9	6.9	6.9
Total non-current assets	118.2	117.0	150.7	198.4	210.3	221.8	226.1	256.9	284.2
Current inventories	0.3	0.4	1.2	2.4	4.2	4.0	4.7	5.3	5.9
Security deposits	1.2	1.3	1.3	0.3	0.3	0.3	0.3	0.3	0.3
Trade and other current receivables	23.2	24.3	21.9	18.7	21.9	23.4	27.3	30.8	34.5
Cash and bank balances	23.8	19.7	50.1	52.3	40.2	38.5	45.8	59.4	74.3
Total current assets	48.5	45.7	74.5	73.7	66.7	66.2	78.1	95.8	115.0
TOTAL ASSETS	166.7	162.6	225.2	272.1	277.0	288.1	304.2	352.8	399.2
Share capital	20.0	20.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Reserves	6.7	-1.0	0.7	2.8	2.8	2.8	2.8	2.8	2.8
Retained earnings	13.6	-7.0	7.3	11.7	17.4	24.9	33.5	41.2	49.5
Total equity	40.2	12.0	30.1	36.5	42.2	49.7	58.4	66.1	74.4
Post employment benefits	2.5	2.5	2.3	2.9	4.2	4.0	4.7	5.3	5.9
Murabaha payables	-	6.1	5.3	4.4	4.0	3.0	2.5	2.0	1.5
Other non current liabilities	85.5	100.9	126.8	152.8	157.0	159.6	163.2	191.4	219.2
Total non-current liabilities	87.9	109.6	134.4	160.2	165.2	166.6	170.4	198.7	226.7
Maintenance payables	3.6	6.7	11.2	7.5	5.0	5.0	5.0	5.0	5.0
Current lease liabilities	12.0	16.0	20.7	22.5	24.4	24.6	24.9	29.1	33.5
Trade and other current payables	18.1	12.8	21.6	29.2	35.1	37.0	40.5	48.8	54.7
Other current liabilities	4.7	5.6	7.2	16.2	5.0	5.0	5.0	5.0	5.0
Total current liabilities	38.5	41.1	60.7	75.4	69.5	71.7	75.5	88.0	98.2
Total liabilities	126.4	150.6	195.1	235.6	234.7	238.3	245.8	286.7	324.8
Total equity and liabilities	166.7	162.6	225.2	272.1	277.0	288.1	304.2	352.8	399.2

Cash Flow (in KWD Mn)	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	36.1	-4.9	44.9	61.1	43.9	61.3	69.3	86.2	91.6
Investing cash flow	-18.9	5.3	-27.7	-5.1	-5.0	-5.0	-5.0	-30.0	-30.0
Financing cash flow	-19.1	-1.8	-8.9	-37.8	-45.5	-53.7	-57.9	-59.2	-64.2
Change in cash	17.3	15.1	47.0	40.9	10.6	15.5	20.2	27.4	45.2
Beginning cash	6.5	4.6	3.1	11.4	29.6	23.0	25.6	32.1	29.1
Ending cash	23.8	19.7	50.1	52.3	40.2	38.5	45.8	59.4	74.3

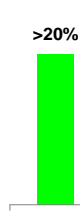





Ratio Analysis	2019	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share									
EPS (KWD)	0.075	-0.132	0.032	0.091	0.106	0.129	0.156	0.175	0.195
BVPS (KWD)	0.201	0.060	0.137	0.166	0.192	0.226	0.265	0.300	0.338
DPS (KWD)	-	-	0.032	0.080	0.095	0.117	0.140	0.158	0.176
FCF per share (KWD)	0.086	0.002	0.078	0.255	0.177	0.256	0.292	0.256	0.280
Valuation									
Market Cap (KWD ,Mn)	215.2	143.0	266.0	418.0	430.1	430.1	430.1	430.1	430.1
EV (KWD, Mn)	280.4	240.5	358.9	527.9	556.4	558.9	553.1	567.0	580.6
EBITDA (KWD, Mn)	29.6	-5.5	27.4	46.1	52.1	60.2	68.6	77.6	86.9
P/E (x)	14.40	-5.42	37.57	20.81	18.46	15.10	12.55	11.16	10.00
EV/EBITDA (x)	9.46	-43.77	13.10	11.45	10.68	9.28	8.07	7.30	6.68
Price/Book (x)	5.35	11.94	8.84	11.44	10.19	8.65	7.37	6.51	5.78
Dividend Yield (%)	0.0%	0.0%	2.6%	4.2%	4.9%	6.0%	7.2%	8.1%	9.0%
Price to sales (x)	2.08	3.46	3.31	2.30	2.06	1.93	1.66	1.47	1.31
EV to sales (x)	2.70	5.81	4.46	2.90	2.67	2.51	2.13	1.93	1.77
Liquidity									
Cash Ratio (x)	0.62	0.48	0.82	0.69	0.58	0.54	0.61	0.68	0.76
Current Ratio (x)	1.26	1.11	1.23	0.98	0.96	0.92	1.03	1.09	1.17
Quick Ratio (x)	1.25	1.10	1.21	0.95	0.90	0.87	0.97	1.03	1.11
Returns Ratio									
ROA (%)	9.0%	-16.2%	3.1%	7.4%	8.4%	9.9%	11.3%	10.9%	10.8%
ROE (%)	37.1%	-220.4%	23.5%	55.0%	55.2%	57.3%	58.7%	58.3%	57.8%
ROCE (%)	11.7%	-21.7%	4.3%	10.2%	11.2%	13.2%	15.0%	14.6%	14.3%
Cash Cycle									
Inventory turnover (x)	256.14	145.61	54.72	61.25	40.00	44.44	44.44	44.44	44.44
Accounts Payable turnover (x)	4.42	4.35	3.03	5.09	4.81	4.81	5.13	4.81	4.81
Receivables turnover (x)	4.46	1.70	3.67	9.74	9.52	9.52	9.52	9.52	9.52
Inventory days	1.43	2.51	6.67	5.96	9.13	8.21	8.21	8.21	8.21
Payable Days	82.57	83.87	120.38	71.71	75.92	75.92	71.18	75.92	75.92
Receivables days	81.82	214.39	99.51	37.47	38.33	38.33	38.33	38.33	38.33
Cash Cycle	0.67	133.03	-14.20	-28.28	-28.47	-29.38	-24.64	-29.38	-29.38
Profitability Ratio									
Net Margins (%)	14.4%	-63.8%	8.8%	11.0%	11.2%	12.8%	13.2%	13.1%	13.1%
EBITDA Margins (%)	28.6%	-13.3%	34.1%	25.3%	25.0%	27.0%	26.4%	26.5%	26.5%
PBT Margins (%)	14.9%	-63.8%	9.2%	11.5%	11.7%	13.4%	13.8%	13.7%	13.7%
EBIT Margins (%)	16.6%	-49.3%	14.6%	15.3%	15.0%	16.5%	16.5%	16.5%	16.5%
Effective Tax Rate (%)	3.0%	0.0%	4.4%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%
Leverage									
Total Debt (KWD ,Mn)	89.0	117.1	142.9	162.1	166.5	167.3	168.8	196.3	224.8
Net Debt (KWD ,Mn)	65.2	97.5	92.9	109.9	126.3	128.8	123.0	136.9	150.5
Debt/Capital (x)	4.45	5.86	6.50	7.37	7.57	7.61	7.67	8.92	10.22
Debt/Total Assets (x)	0.53	0.72	0.63	0.60	0.60	0.58	0.55	0.56	0.56
Debt/Equity (x)	2.21	9.78	4.75	4.44	3.94	3.36	2.89	2.97	3.02

Key contacts

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Rating Criteria and Definitions

Rating	Rating Definitions
 Strong Buy	Strong Buy This recommendation is used for stocks whose current market price offers a deep discount to our 12-Month target price and has an upside potential in excess of 20%
 Buy	Buy This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 10% to 20%
 Hold	Hold This recommendation is used for stocks whose current market price offers a discount to our 12-Month target price and has an upside potential between 0% to 10%
 Neutral	Neutral This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between 0% to -10%
 Sell	Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential between -10% to -20%
 Strong Sell	Strong Sell This recommendation is used for stocks whose current market price offers a premium to our 12-Month target price and has a downside side potential in excess of 20%
Not rated	Not rated This recommendation used for stocks which does not form part of Coverage Universe

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