

Air transport

BUY: 12M TP @ 1.50

Valuation Summary (TTM)

Price (KWD)	1.24
PER TTM (x)	21.6
P/Book (x)	7.4
P/Sales (x)	1.5
EV/Sales (x)	2.6
EV/EBITDA (x)	9
Dividend Yield (%)	5.3
Free Float (%)	31%
Shares O/S (mn)	220
YTD Return (%)	-30%
Beta	1.0

(mn)	KWD	USD
Market Cap	317	1,028
Total Assets	445	1,443

Price performance (%)	1M	3M	12M
Jazeera Airways	-10%	-34%	-25%
Boursa Kuwait All Share	-2%	-9%	-12%

Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (KWD)	340,781	427,842	522,915
Avg Daily Volume (,000)	215	265	292

52 week	High	Low	CTL*
Price (KWD)	2.20	1.32	0.1

* CTL is % change in CMP to 52wk low

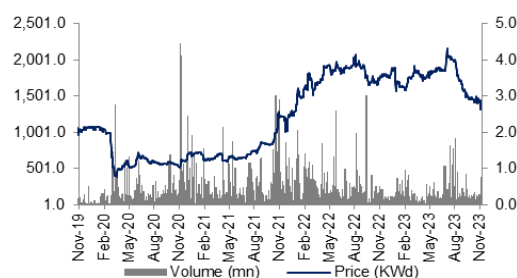
Major shareholders

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

Other details

Exchange	Kuwait
Sector	Airlines
Index weight (%)	0.8%

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 – yield slump drags profits

Jazeera reported 3Q23 revenue of KWD 61mn, a decline of 3.4% YoY and 12% lower than our forecast of KWD 69.5mn. The revenue declined despite highest ever quarterly passenger volume of 1.38mn during 3Q23 (+28% YoY). Rise in PAX volume also led to a marginal increase in the load factor to 80.3%. However, the stupendous PAX growth during the quarter was offset by a 26% decline in the 3Q23 PAX yield. PAX yield dropped to KWD 41.3 from KWD 55.5 in 3Q22 and KWD 44.7 in 2Q23. The management attributes the decrease in yield to the oversupply caused by the UAE carriers coupled with the stringent visa policies for the past two years. Yield has declined across the sector and globally post the spike witnessed post opening up in 2022. We expect normalization by the next quarter. During the 9M23, revenue increased by 13% YoY to KWD 158.9mn driven by 36% YoY surge in PAX volumes to 3.5mn and 3% YoY increase in the load factor to 79%. The company also reported a 5.3% YoY spike in the utilization levels from 13.1hrs in 9M22 to 13.8hrs in 9M23. Operating costs increased significantly during the quarter despite a lower contribution from fuel expenses. Additional staff, maintenance and lease rentals led to higher operating expenses in 3Q23. Operating margin declined to 14.6% in 3Q23 from 25.9% in 3Q22. Fuel cost as a percentage of operating cost decreased to 31% in 3Q23 from 40% in 3Q22 as a consequence of fuel hedging. During the quarter the scheduled delivery of an aircraft was delayed and Jazeera leased two aircrafts under wet lease arrangement to meet the summer demand which led to the incremental leasing cost. Finance cost surged by 8% YoY as a result of the higher interest rate scenario compared to the previous year. There was however no change in the borrowing levels. Net income for the quarter declined by 48% YoY to KWD 7mn, significantly lower than our estimate. 9M23 net income also decreased by 36% YoY to KWD 13.3mn in spite of the strong PAX volumes in 9M23. The silver lining however was the terminal (T5) operations. T5 witnessed a strong growth during the quarter with the PAX volume at 3.5mn. As a result, T5 revenue grew 24% YoY to KWD 4mn and net profit grew by 22% YoY to KWD 3.3mn in 3Q23, contributing 47% to the total group net income. We are optimistic on the PAX volumes and expect yields to bottom out around the current levels, hence we keep our revenue estimates for 2023e at KWD 210mn, but reduce our net profit forecast by 22% to 18.1mn considering the higher operating expenses and margin erosion. We retain our BUY rating and reduce our target price to KWD 1.5 /share.

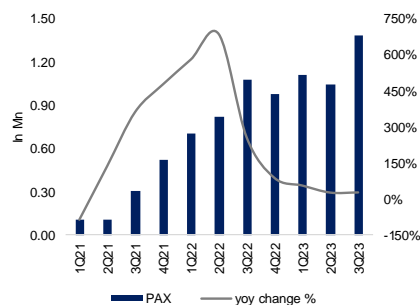
Top line growth evident with expansion in place: During the quarter, Jazeera added two Airbus A320 neo, operating a total fleet size of 22 aircrafts. It plans to add one more aircraft during 4Q23 and another aircraft by the end of January 2024. The company has planned for further expansion of T5 to accommodate around 6mn passengers. In 3Q23, the company serviced to a total of 63 destinations and increased its market share to 29.5% during the 9M23 vs 27.3% in 9M22.

Valuation and outlook: While the bottomline numbers were certainly dismal for the quarter, we believe the yields will gradually bottom out and improve in 2024. Jazeera is operationally a strong company and has significant market share to overcome the current phase. At current price the stock trades attractively at 15.1x 2023e PE and 5.3% dividend yield.

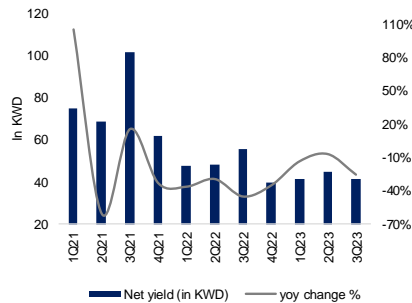
Key earnings call highlights:

- The seating capacity grew by 28% YoY to 1.72mn seats in 3Q23 from 1.35mn seats in 3Q22.
- During the quarter, Jazeera covered a total of 10,218 sectors from 7,986 sectors in the same period last year.
- During 9M23, Jazeera serviced 37% to GCC, 18.6% to Egypt, 17.6% to Indian subcontinent, 11.9% to Europe, 3.7% to Levant and the balance 10.9% to other regions.
- 97% of available space in T5 has been occupied and the terminal is running on full capacity.
- Management mentioned some progress in the T6 expansion plans, some of the approvals from the concerned authorities have been received.

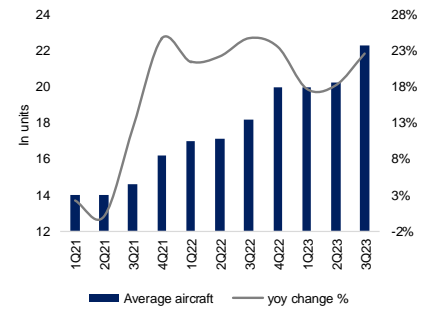
Record high PAX volumes in 3Q23



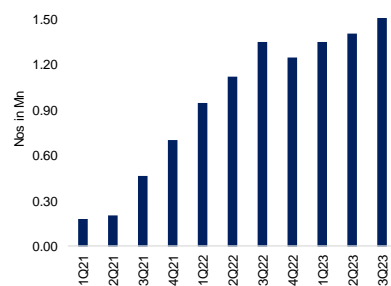
PAX yields decline on higher competition



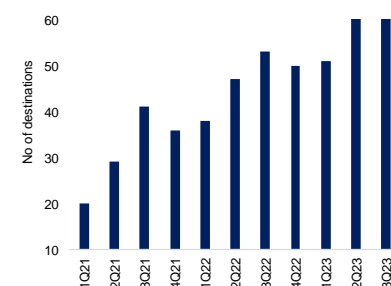
Addition of fleet size as per plan



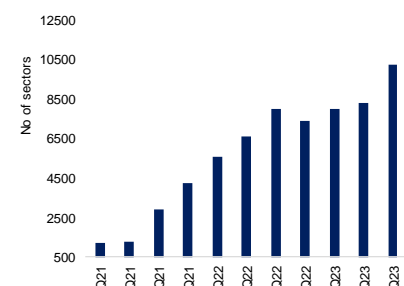
Seating capacity increases to highest level ever



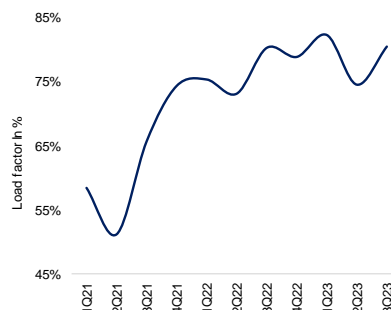
Destinations added based on demand



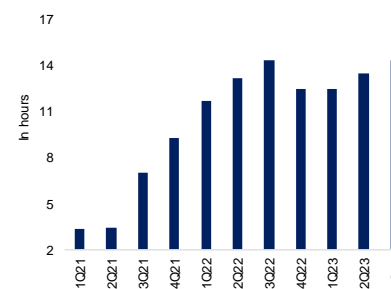
Sector portfolio rises with wider coverage



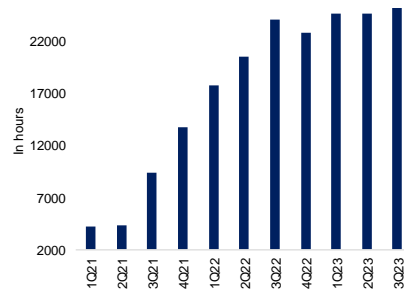
Load factor stabilising at peak levels of 80%



Aircraft utilisation levels remain at elevated levels



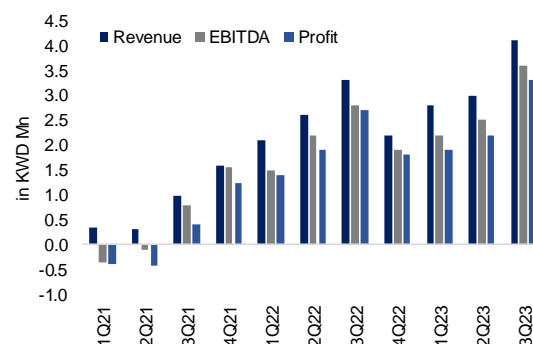
Block hours remains elevated



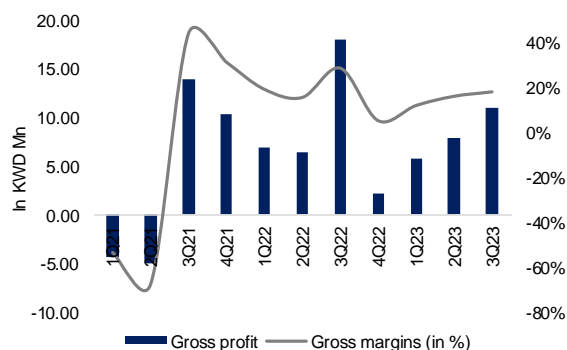
PAX revenue muted due to slump in yield



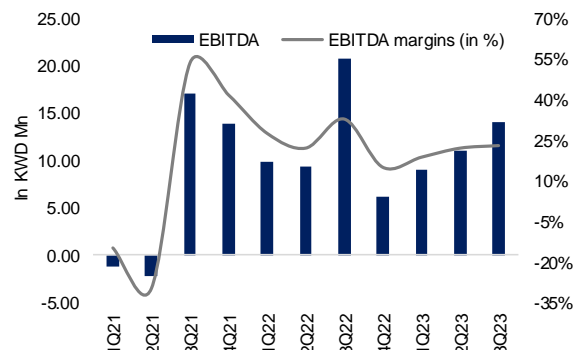
Terminal revenue and profit growth linear



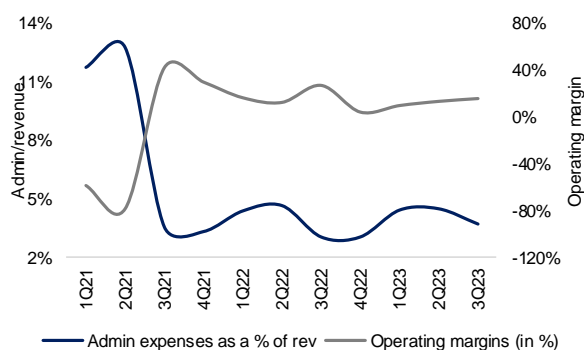
Gross margins lower YoY despite fuel price decline



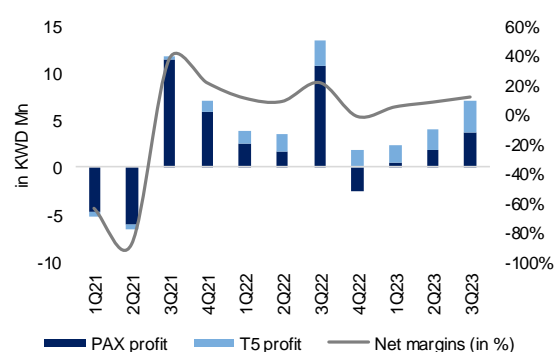
EBITDA increases in line with gross profits



Admin expenses hold steady despite expansion



T5 contribution to bottomline increases to 47%



Income statement (in KWD Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Revenue	41.4	80.4	182.1	210.6	221.3	240.8	266.7	293.4
Direct Costs	55.7	65.5	148.6	176.9	182.6	197.5	216.1	237.7
Gross Profit	-14.3	14.9	33.5	33.7	38.7	43.3	50.7	55.7
Other operating Income	0.3	0.9	1.0	1.3	1.1	1.2	1.3	1.5
Administrative and general expenses	6.4	4.1	6.7	9.0	10.0	10.8	12.0	13.2
EBIT	-20.4	11.7	27.8	26.0	29.9	33.7	40.0	44.0
EBITDA	-5.5	27.4	46.1	46.1	53.3	59.4	69.2	76.7
Finance costs	4.5	5.2	6.3	7.0	6.7	6.8	7.9	9.0
Other expenses/(income)	-1.5	0.9	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1
PBT	-26.4	7.4	21.0	18.9	23.1	26.9	32.1	34.9
Zakat	-	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Contribution to KFAS	-	0.1	0.2	0.2	0.2	0.2	0.3	0.3
National Labour Support Tax (NLST)	-	0.2	0.5	0.5	0.6	0.7	0.8	0.9
PAT	-26.4	7.1	20.1	18.1	22.1	25.7	30.7	33.4

Balance sheet (in KWD Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Property, plant and equipment	20.5	21.2	44.2	47.3	49.9	52.4	78.8	104.2
Right-of-use assets	93.8	126.2	145.1	156.9	165.8	167.6	171.9	173.9
Other non current assets	2.7	3.3	9.1	6.9	6.9	6.9	6.9	6.9
Total non-current assets	117.0	150.7	198.4	211.1	222.6	226.9	257.7	285.0
Current inventories	0.4	1.2	2.4	4.0	4.5	4.9	5.4	5.9
Security deposits	1.3	1.3	0.3	0.3	0.3	0.3	0.3	0.3
Trade and other current receivables	24.3	21.9	18.7	22.1	23.2	25.3	28.0	30.8
Cash and bank balances	19.7	50.1	52.3	36.6	34.2	36.0	47.4	58.5
Total current assets	45.7	74.5	73.7	63.1	62.3	66.5	81.1	95.6
TOTAL ASSETS	162.6	225.2	272.1	274.2	284.9	293.4	338.8	380.6
Share capital	20.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
Reserves	-1.0	0.7	2.8	2.8	2.8	2.8	2.8	2.8
Retained earnings	-7.0	7.3	11.7	12.2	19.8	25.6	33.1	38.9
Total equity	12.0	30.1	36.5	37.0	44.6	50.4	58.0	63.8
Post employment benefits	2.5	2.3	2.9	4.0	4.5	4.9	5.4	5.9
Murabaha payables	6.1	5.3	4.4	4.0	3.0	2.5	2.0	1.5
Other non current liabilities	100.9	126.8	152.8	157.9	160.1	162.1	189.3	216.4
Total non-current liabilities	109.6	134.4	160.2	165.9	167.6	169.5	196.7	223.9
Maintenance payables	6.7	11.2	7.5	5.0	5.0	5.0	5.0	5.0
Current lease liabilities	16.0	20.7	22.5	24.4	24.6	24.9	29.1	33.5
Trade and other current payables	12.8	21.6	29.2	36.8	38.0	38.5	44.9	49.4
Other current liabilities	5.6	7.2	16.2	5.0	5.0	5.0	5.0	5.0
Total current liabilities	41.1	60.7	75.4	71.2	72.6	73.5	84.1	92.9
Total liabilities	150.6	195.1	235.6	237.1	240.2	242.9	280.8	316.8
Total equity and liabilities	162.6	225.2	272.1	274.2	284.9	293.4	338.8	380.6

Cash Flow (in KWD Mn)	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Cash from operations	-4.9	44.9	61.1	40.3	53.9	57.9	76.0	80.4
Investing cash flow	5.3	-27.7	-5.1	-5.0	-5.0	-5.0	-30.0	-30.0
Financing cash flow	-1.8	-8.9	-37.8	-45.9	-47.2	-52.1	-51.5	-57.1
Change in cash	15.1	47.0	40.9	7.0	15.2	15.3	25.9	42.5
Beginning cash	4.6	3.1	11.4	29.6	19.1	20.7	21.5	16.0
Ending cash	19.7	50.1	52.3	36.6	34.2	36.0	47.4	58.5




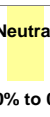


Ratio Analysis	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Per Share								
EPS (KWD)	-0.132	0.032	0.091	0.082	0.100	0.117	0.139	0.152
BVPS (KWD)	0.060	0.137	0.166	0.168	0.203	0.229	0.264	0.290
DPS (KWD)	-	0.032	0.080	0.066	0.090	0.105	0.125	0.137
FCF per share (KWD)	0.002	0.078	0.255	0.160	0.222	0.240	0.209	0.229
Valuation								
Market Cap (KWD ,Mn)	143	266	418	273	273	273	273	273
EV (KWD, Mn)	240	359	528	403	406	406	422	439
EBITDA (KWD, Mn)	-5	27	46	46	53	59	69	77
P/E (x)	-5.4	37.6	20.8	15.1	12.4	10.6	8.9	8.2
EV/EBITDA (x)	-43.8	13.1	11.5	8.7	7.6	6.8	6.1	5.7
Price/Book (x)	11.9	8.8	11.4	7.4	6.1	5.4	4.7	4.3
Dividend Yield (%)	0.0%	2.6%	4.2%	5.3%	7.3%	8.5%	10.1%	11.0%
Price to sales (x)	3.5	3.3	2.3	1.3	1.2	1.1	1.0	0.9
EV to sales (x)	5.8	4.5	2.9	1.9	1.8	1.7	1.6	1.5
Liquidity								
Cash Ratio (x)	0.48	0.82	0.69	0.51	0.47	0.49	0.56	0.63
Current Ratio (x)	1.11	1.23	0.98	0.89	0.86	0.91	0.96	1.03
Quick Ratio (x)	1.10	1.21	0.95	0.83	0.80	0.84	0.90	0.96
Returns Ratio								
ROA (%)	-16.2%	3.1%	7.4%	6.6%	7.7%	8.8%	9.0%	8.8%
ROE (%)	-220.4%	23.5%	55.0%	48.9%	49.5%	50.9%	52.9%	52.3%
ROCE (%)	-21.7%	4.3%	10.2%	8.9%	10.4%	11.7%	12.0%	11.6%
Cash Cycle								
Inventory turnover (x)	145.6	54.7	61.2	43.9	40.7	40.5	40.0	40.0
Accounts Payable turnover (x)	4.4	3.0	5.1	4.8	4.8	5.1	4.8	4.8
Receivables turnover (x)	1.7	3.7	9.7	9.5	9.5	9.5	9.5	9.5
Inventory days	2.5	6.7	6.0	8.3	9.0	9.0	9.1	9.1
Payable Days	83.9	120.4	71.7	75.9	75.9	71.2	75.9	75.9
Receivables days	214.4	99.5	37.5	38.3	38.3	38.3	38.3	38.3
Cash Cycle	133.0	-14.2	-28.3	-29.3	-28.6	-23.8	-28.5	-28.5
Profitability Ratio								
Net Margins (%)	-63.8%	8.8%	11.0%	8.6%	10.0%	10.7%	11.5%	11.4%
EBITDA Margins (%)	-13.3%	34.1%	25.3%	21.9%	24.1%	24.7%	25.9%	26.2%
PBT Margins (%)	-63.8%	9.2%	11.5%	9.0%	10.4%	11.2%	12.0%	11.9%
EBIT Margins (%)	-49.3%	14.6%	15.3%	12.4%	13.5%	14.0%	15.0%	15.0%
Effective Tax Rate (%)	0.0%	4.4%	4.5%	4.4%	4.4%	4.4%	4.4%	4.4%
Leverage								
Total Debt (KWD ,Mn)	117	143	162	166	167	169	196	225
Net Debt (KWD ,Mn)	97	93	110	130	133	133	149	166
Debt/Capital (x)	5.9	6.5	7.4	7.6	7.6	7.7	8.9	10.2
Debt/Total Assets (x)	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Debt/Equity (x)	9.8	4.8	4.4	4.5	3.8	3.3	3.4	3.5

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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 This recommendation used for stocks which does not form part of Coverage Universe

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