

## Air transport

**HOLD: 12M TP @ 1.095**

### Valuation Summary (TTM)

Price (KWD)	1.021
PER TTM (x)	36.6
P/Book (x)	8.8
P/Sales (x)	1.1
EV/Sales (x)	2.3
EV/EBITDA (x)	13.4
Dividend Yield (%)	2.7
Free Float (%)	31%
Shares O/S (mn)	220
YTD Return (%)	-26%
Beta	0.6

	(mn)	KWd	USD
Market Cap		245	796
Total Assets		398	1,294
Price performance (%)	1M	3M	12M
Jazeera Airways	-27%	-23%	-37%
Boursa Kuwait All Share	3%	10%	-2%
Trading liquidity (,000)	1M	3M	6M
Avg daily turnover (KWD)	408,113	467,103	440,662
Avg Daily Volume (,000)	290	370	311
52 week	High	Low	CTL*
Price (KWD)	2.20	0.96	6.9

\* CTL is % change in CMP to 52wk low

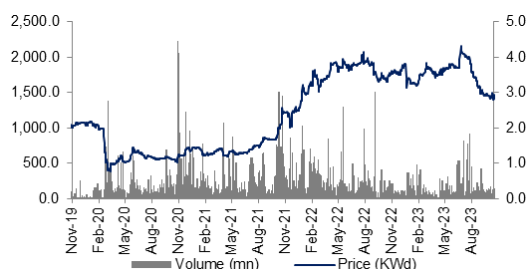
### Major shareholders

BOODAI GROUP	54.4%
Jassim Mohammed AL M	9.4%
Norges Bank	5.1%
Others	31.1%

### Other details

Exchange	Kuwait
Sector	Airlines
Index weight (%)	0.5%

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 – bad landing

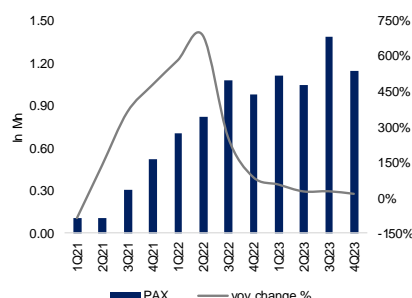
Jazeera Airways reported its 2023 revenue at KWD 198mn, an increase of 8.8% YoY and in line with our estimate of KWD 206mn. The full year revenue growth despite lower yield scenario was driven by the highest ever PAX volume of 4.7mn (+30% YoY) in the history of Jazeera. However, the 4Q23 revenue fell by 5% YoY to KWD 39mn due to the 20% YoY drop in yield which declined to KWD 31.8 from KWD 39.9 in 4Q22. For the full year the yield dropped by 17.4% to KWD 39.6 from KWD 47.9 in 2022, this was largely driven by the overcapacity scenario created by the entry of several international airlines. We feel Jazeera has aggressively tried to maintain its market share by competing on price causing the erosion in yield. It is however commendable to note that the airline has scored in its operational metrics. In 2023, the company maintained the load factor at 78.2% vs. 77% in 2022 and utilization levels grew by 4.6% YoY to 13.5hrs from 12.9hrs in 2022. Direct expenses for the year increased by 20% YoY, much higher than the revenue growth. This was led by the surge in aircraft fuel (+4% YoY), lease rentals (+125% YoY), passenger meals expenses (+40% YoY), aircraft maintenance cost (+33% YoY) and staff costs (+30% YoY). As a result, the gross margins in 2023 fell by 810bps YoY to 10.3% from 18.4% in the previous year. The fuel cost as a percentage of operating cost declined to 33% in 2023 from 38% in 2022 which is attributed to a successful fuel hedging mechanism in place. The operating margins declined by 850bps YoY to 6.7% in 2023, dragged lower by an increase in SG&A expenses which rose by 29% for the year, this was partially offset by a 61% surge in other operating income. Jazeera took up additional borrowings to the tune of KWD 32mn during the year to fund its capex relating to aircrafts and prepayments for engines. This led to the finance cost rising by 11.2% YoY in 2023 compared to the previous year. On the positive side, T5 revenue remained resilient and witnessed a strong growth in 2023 as PAX volumes hit a record high. T5 revenue grew by 24% to KWD 12.6mn and the net profit surged to KWD 9.6mn (+23% YoY). On a consolidated basis Jazeera reported a loss of KWD 7.1mn for the 4Q23 and a much lower than expected full year profit of KWD 6.1mn. The company has made payments for new aircrafts and an interim dividend which has reduced cash levels to KWD 34mn (vs KWD 52mn in 2022) due to which it has decided not to pay dividends for the year.

**Valuation and outlook:** In what should have been a great year for the company based on the PAX growth and upcycle in the air traffic in the region, Jazeera appears to have nose-dived. We believe the biggest issue of over supply will have to be contained to see a revival in yield without which Jazeera will continue to suffer. The impact of the weak results is already reflected in the stock price and the value of the company has halved in six months. We are reducing our 2024 revenue and profit estimates based on the current results. While the management is positive of a recovery in the 1Q24, we are more conservative on our yield outlook for quarter and the full year. Our revenue estimate for 2024 stands at KWD 218mn (vs KWD 221mn) and profit is forecasted at KWD 11.3mn (vs KWD 22mn). We reduce our target price to KWD 1.095/share and recommend a HOLD rating to Jazeera

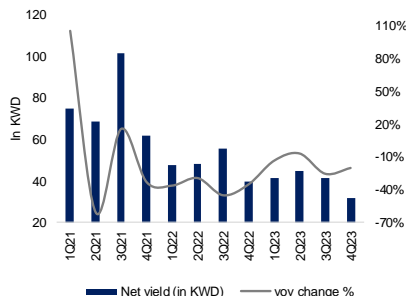
## Key earnings call highlights:

- The seating capacity grew by 28.7% YoY to 5.98mn seats in 2023 from 4.65mn seats in 2022.
- During the year, Jazeera covered a total of 35,482 sectors from 27,540 sectors in the same period last year.
- In 2023, Jazeera serviced 39% to GCC, 17% to Egypt, 18% to South Asia, 10% to Europe, 10% to Central Asia and the balance 6% to other regions.
- During the 4Q23, Jazeera added two Airbus A320neo, operating a total fleet size of 23 aircrafts. It plans to add one more aircraft in 1Q24 with no plan for wet leases during the summer, totaling its fleet size to 24. The company expects the fleet size to reach 35 aircrafts in the next five years with a load factor target of 80% over the next three years. Jazeera added 11 new destinations into the Russian Federation, Europe and the GCC travelling to a total of 64 destinations in 2023 and targets to reach more than 100 destinations in the next five years
- The management has reiterated that none of the expansion plans have been put on hold due to the current weak results and top line growth will continue.
- Regulatory approvals for T5 expansion is in the final stages and the management expects volumes to reach 6mn once it is complete.
- The management believes that the recent change in the government has resulted in some significant changes. The family visa applications for expats have been reopened and the business visas have been liberalized.
- The management highlighted that Jan and Feb have been better in terms of yields across all destinations and the positive impact will be felt in 1Q24.

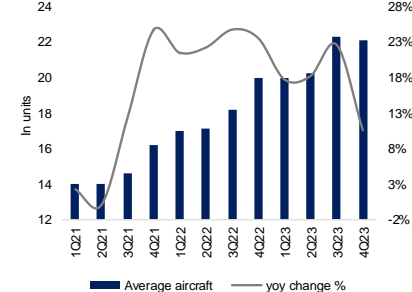
### Record high PAX volumes in 2023



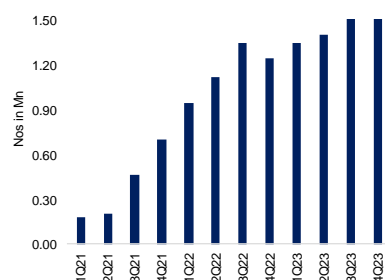
### PAX yields decline even further



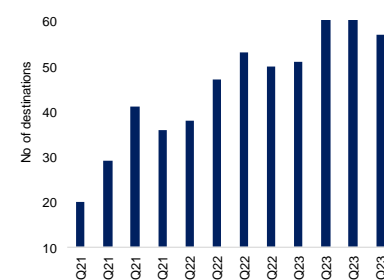
### Addition of fleet size to continue as per plan



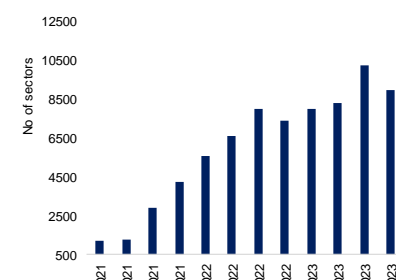
### Seating remains at highest levels



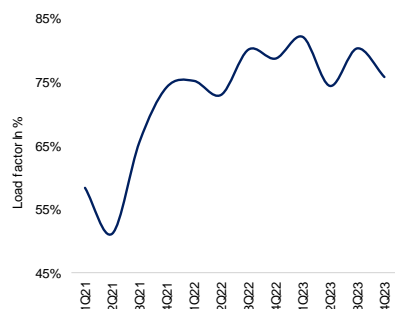
### Overall 22 destinations added in 2023



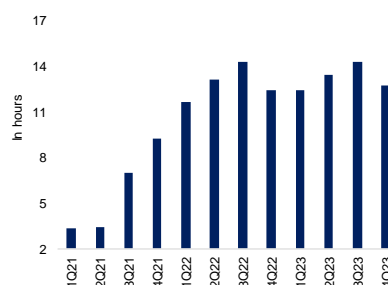
### Sector portfolio higher than previous year



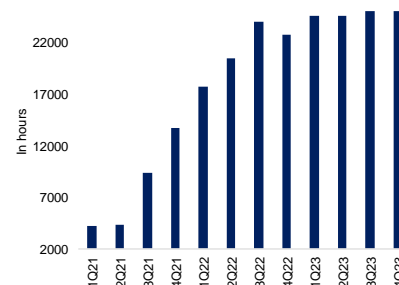
### Load factor stabilising at peak levels of 78%



### Aircraft utilisation levels at elevated levels



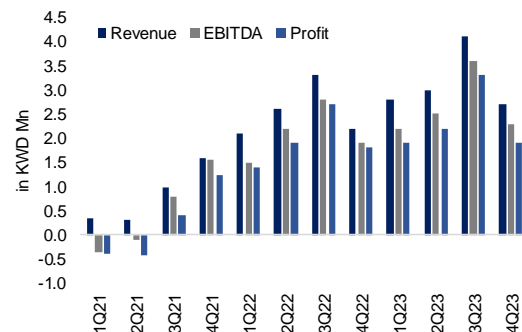
### Block hours high on rising utilisation



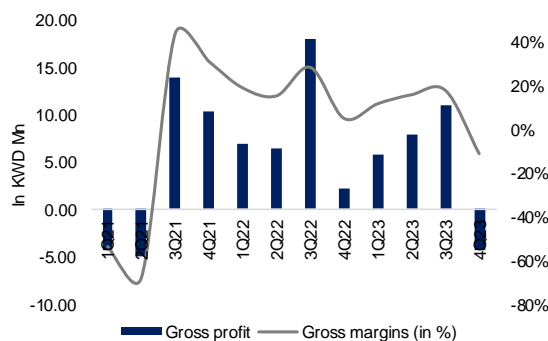
### PAX revenue muted due to slump in yield



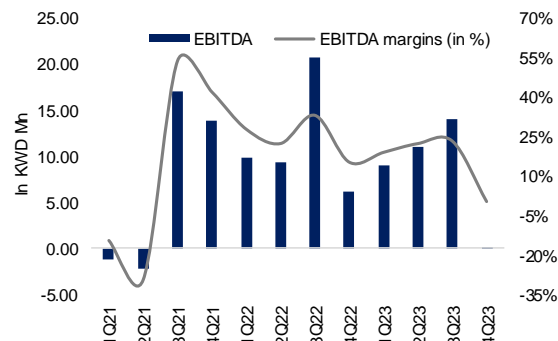
### Terminal revenue and profit growth higher YoY



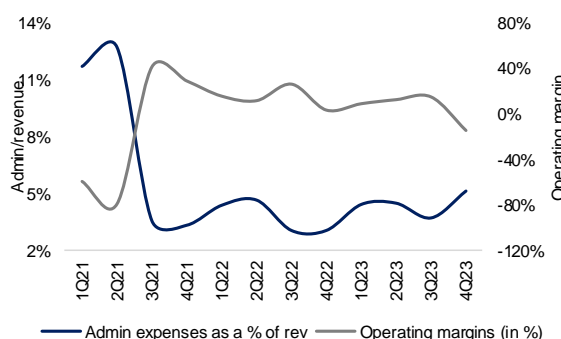
### Loss at gross level in 4Q23



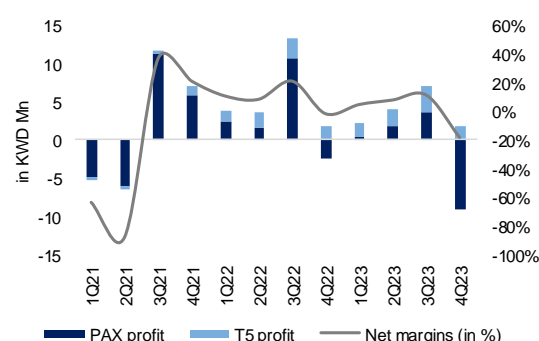
### EBITDA follows gross profit trends



### Admin rising on higher air traffic



### T5 profit contribution partially offset losses



Income statement (in KWD Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Revenue	41.4	80.4	182.1	198.1	217.7	232.7	257.8	292.6
Direct Costs	55.7	65.5	148.6	177.7	190.5	202.5	223.0	251.7
<b>Gross Profit</b>	<b>-14.3</b>	<b>14.9</b>	<b>33.5</b>	<b>20.3</b>	<b>27.2</b>	<b>30.3</b>	<b>34.8</b>	<b>41.0</b>
Other operating Income	0.3	0.9	1.0	1.6	1.1	1.2	1.3	1.5
Administrative and general expenses	6.4	4.1	6.7	8.6	9.4	10.0	11.1	12.6
<b>EBIT</b>	<b>-20.4</b>	<b>11.7</b>	<b>27.8</b>	<b>13.3</b>	<b>18.9</b>	<b>21.4</b>	<b>25.0</b>	<b>29.8</b>
<b>EBITDA</b>	<b>-5.5</b>	<b>27.4</b>	<b>46.1</b>	<b>34.2</b>	<b>42.0</b>	<b>46.7</b>	<b>53.8</b>	<b>62.2</b>
Finance costs	4.5	5.2	6.3	7.0	7.2	7.1	8.1	9.2
Other expenses/(income)	-1.5	0.9	-0.5	0.1	0.1	0.1	0.1	0.1
<b>PBT</b>	<b>-26.4</b>	<b>7.4</b>	<b>21.0</b>	<b>6.4</b>	<b>11.9</b>	<b>14.4</b>	<b>17.0</b>	<b>20.8</b>
Zakat	-	0.1	0.2	0.1	0.1	0.1	0.2	0.2
Contribution to KFAS	-	0.1	0.2	0.1	0.1	0.1	0.2	0.2
National Labour Support Tax (NLST)	-	0.2	0.5	0.2	0.3	0.4	0.4	0.5
<b>PAT</b>	<b>-26.4</b>	<b>7.1</b>	<b>20.1</b>	<b>6.1</b>	<b>11.3</b>	<b>13.7</b>	<b>16.2</b>	<b>19.9</b>

Balance sheet (in KWD Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Property, plant and equipment	20.5	21.2	44.2	75.2	76.9	78.4	103.8	128.2
Right-of-use assets	93.8	126.2	145.1	140.0	150.2	153.4	159.2	162.4
Other non current assets	2.7	3.3	9.1	9.9	5.9	5.9	5.9	5.9
<b>Total non-current assets</b>	<b>117.0</b>	<b>150.7</b>	<b>198.4</b>	<b>225.1</b>	<b>233.1</b>	<b>237.7</b>	<b>268.9</b>	<b>296.6</b>
Current inventories	0.4	1.2	2.4	4.3	4.2	4.5	5.0	5.7
Security deposits	1.3	1.3	0.3	0.2	0.2	0.2	0.2	0.2
Trade and other current receivables	24.3	21.9	18.7	23.9	22.9	24.4	27.1	30.7
Cash and bank balances	19.7	50.1	52.3	32.9	30.9	33.0	35.6	42.5
<b>Total current assets</b>	<b>45.7</b>	<b>74.5</b>	<b>73.7</b>	<b>61.3</b>	<b>58.2</b>	<b>62.2</b>	<b>67.9</b>	<b>79.1</b>
<b>TOTAL ASSETS</b>	<b>162.6</b>	<b>225.2</b>	<b>272.1</b>	<b>286.4</b>	<b>291.3</b>	<b>299.9</b>	<b>336.8</b>	<b>375.7</b>
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	3.5	3.5	3.5	3.5	3.5
Retained earnings	-7.0	7.3	11.7	0.0	11.4	16.9	21.7	24.7
<b>Total equity</b>	<b>12.0</b>	<b>30.1</b>	<b>36.5</b>	<b>25.5</b>	<b>36.8</b>	<b>42.3</b>	<b>47.2</b>	<b>50.2</b>
Post employment benefits	2.5	2.3	2.9	3.9	4.2	4.5	5.0	5.7
Murabaha payables	6.1	5.3	4.4	28.5	26.0	23.5	21.0	18.5
Other non current liabilities	100.9	126.8	152.8	148.6	150.8	153.4	179.1	206.5
<b>Total non-current liabilities</b>	<b>109.6</b>	<b>134.4</b>	<b>160.2</b>	<b>181.0</b>	<b>181.0</b>	<b>181.4</b>	<b>205.0</b>	<b>230.7</b>
Maintenance payables	6.7	11.2	7.5	8.4	5.0	5.0	5.0	5.0
Current lease liabilities	16.0	20.7	22.5	25.1	22.8	23.1	27.2	31.5
Trade and other current payables	12.8	21.6	29.2	29.8	39.6	42.1	46.4	52.3
Other current liabilities	5.6	7.2	16.2	16.6	6.0	6.0	6.0	6.0
<b>Total current liabilities</b>	<b>41.1</b>	<b>60.7</b>	<b>75.4</b>	<b>79.9</b>	<b>73.5</b>	<b>76.2</b>	<b>84.6</b>	<b>94.8</b>
<b>Total liabilities</b>	<b>150.6</b>	<b>195.1</b>	<b>235.6</b>	<b>260.9</b>	<b>254.4</b>	<b>257.6</b>	<b>289.6</b>	<b>325.5</b>
<b>Total equity and liabilities</b>	<b>162.6</b>	<b>225.2</b>	<b>272.1</b>	<b>286.4</b>	<b>291.3</b>	<b>299.9</b>	<b>336.8</b>	<b>375.7</b>

Cash Flow (in KWD Mn)	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Cash from operations	-4.9	44.9	61.1	26.6	41.1	48.9	57.6	67.4
Investing cash flow	5.3	-27.7	-5.1	-14.7	-5.0	-5.0	-30.0	-30.0
Financing cash flow	-1.8	-8.9	-37.8	-18.0	-34.7	-34.6	-38.9	-43.0
Change in cash	15.1	47.0	40.9	3.3	7.5	8.2	1.5	19.7
Beginning cash	4.6	3.1	11.4	29.6	23.5	24.8	34.1	22.8
<b>Ending cash</b>	<b>19.7</b>	<b>50.1</b>	<b>52.3</b>	<b>32.9</b>	<b>30.9</b>	<b>33.0</b>	<b>35.6</b>	<b>42.5</b>

Ratio Analysis	2020	2021	2022	2023	2024e	2025e	2026e	2027e
<b>Per Share</b>								
EPS (KWD)	-0.132	0.032	0.091	0.028	0.052	0.062	0.074	0.090
BVPS (KWD)	0.060	0.137	0.166	0.116	0.167	0.192	0.215	0.228
DPS (KWD)	-	0.032	0.080	-	-	0.037	0.052	0.077
FCF per share (KWD)	0.002	0.078	0.255	0.054	0.164	0.200	0.125	0.170
<b>Valuation</b>								
Market Cap (KWD ,Mn)	143	266	418	306	225	225	225	225
EV (KWD, Mn)	240	359	528	458	373	370	392	411
EBITDA (KWD, Mn)	-5	27	46	34	42	47	54	62
P/E (x)	-5.4	37.6	20.8	49.9	19.8	16.3	13.8	11.3
EV/EBITDA (x)	-43.8	13.1	11.5	13.4	8.9	7.9	7.3	6.6
Price/Book (x)	11.9	8.8	11.4	12.0	6.1	5.3	4.8	4.5
Dividend Yield (%)	0.0%	2.6%	4.2%	0.0%	0.0%	3.7%	5.1%	7.5%
Price to sales (x)	3.5	3.3	2.3	1.5	1.0	1.0	0.9	0.8
EV to sales (x)	5.8	4.5	2.9	2.3	1.7	1.6	1.5	1.4
<b>Liquidity</b>								
Cash Ratio (x)	0.48	0.82	0.69	0.41	0.42	0.43	0.42	0.45
Current Ratio (x)	1.11	1.23	0.98	0.77	0.79	0.82	0.80	0.83
Quick Ratio (x)	1.10	1.21	0.95	0.71	0.74	0.76	0.74	0.77
<b>Returns Ratio</b>								
ROA (%)	-16.2%	3.1%	7.4%	2.1%	3.9%	4.6%	4.8%	5.3%
ROE (%)	-220.4%	23.5%	55.0%	24.0%	30.8%	32.5%	34.4%	39.6%
ROCE (%)	-21.7%	4.3%	10.2%	3.0%	5.2%	6.1%	6.4%	7.1%
<b>Cash Cycle</b>								
Inventory turnover (x)	145.6	54.7	61.2	41.1	45.2	45.0	44.7	44.4
Accounts Payable turnover (x)	4.4	3.0	5.1	6.0	4.8	4.8	4.8	4.8
Receivables turnover (x)	1.7	3.7	9.7	8.3	9.5	9.5	9.5	9.5
Inventory days	3	7	6	9	8	8	8	8
Payable Days	84	120	72	61	76	76	76	76
Receivables days	214	100	37	44	38	38	38	38
Cash Cycle	133	-14	-28	-8	-30	-29	-29	-29
<b>Profitability Ratio</b>								
Net Margins (%)	-63.8%	8.8%	11.0%	3.1%	5.2%	5.9%	6.3%	6.8%
EBITDA Margins (%)	-13.3%	34.1%	25.3%	17.2%	19.3%	20.1%	20.9%	21.3%
PBT Margins (%)	-63.8%	9.2%	11.5%	3.3%	5.5%	6.2%	6.6%	7.1%
EBIT Margins (%)	-49.3%	14.6%	15.3%	6.7%	8.7%	9.2%	9.7%	10.2%
Effective Tax Rate (%)	0.0%	4.4%	4.5%	4.9%	4.4%	4.4%	4.4%	4.4%
<b>Leverage</b>								
Total Debt (KWD ,Mn)	117	143	162	186	179	178	203	229
Net Debt (KWD ,Mn)	97	93	110	153	148	145	168	187
Debt/Capital (x)	5.9	6.5	7.4	8.4	8.1	8.1	9.2	10.4
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	7.3	4.9	4.2	4.3	4.6

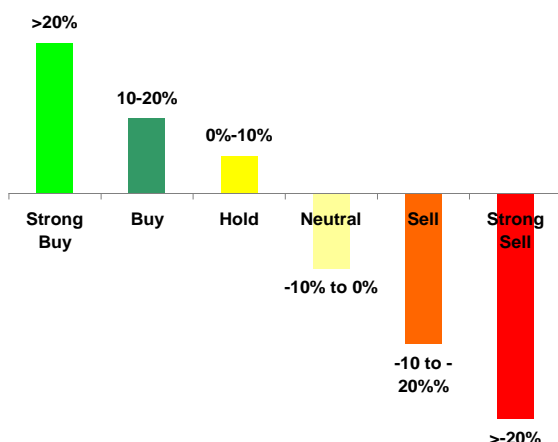
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## Rating Criteria and Definitions

### Rating



### Rating Definitions

<b>Strong Buy</b>	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%
<b>Buy</b>	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%
<b>Hold</b>	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%
<b>Neutral</b>	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%
<b>Sell</b>	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%
<b>Strong Sell</b>	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%
<b>Not rated</b>	This recommendation used for stocks which does not form part of Coverage Universe

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