

# Shaheen Air International Limited

Chairman: Mr. Kashif Sehbai; Chief Executive: Mr. Ehsan Khalid Sehbai

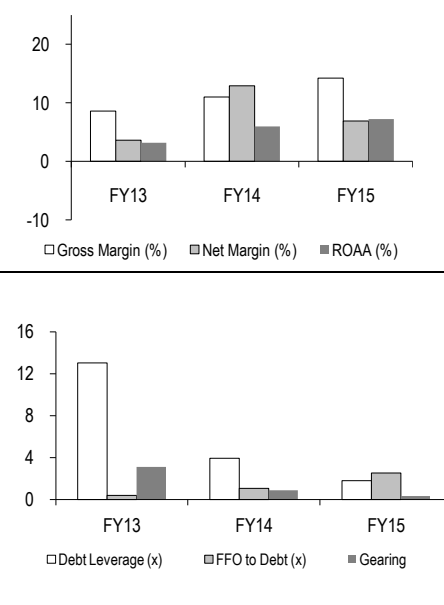
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Category	Latest	Previous
TFC	A* <i>Jan 23, '14</i>	N/A
Outlook	Stable <i>Jan 23, '14</i>	N/A

\*preliminary

## Key Financial Trends



(Rs. million)	FY13 Actual	FY14 Proj.	FY15 Proj.
Net Sales	22,708	37,146	74,996
Net Profit	827	1,983	4,740
Equity (Excl. surplus)	634	2,050	5,394
Equity (Incl surplus)	2,036	3,424	6,254
Total Debt	2,133	3,364	2,479
Gearing (x)	3.1	0.98	0.4
FFO	969	2,947	6,358
FFO/Total Debt (%)	45%	88%	256%
Number of Aircrafts	14	25	33
Lease Charges	4b	8.3b	10.1b

## Rating Rationale

The aviation sector is characterized by soft barriers to entry (availability of lease financing), vulnerability to economic downturns and high adjusted leverage & cost structure (fixed, variable and regulatory costs). While profit margins tend to be low, cash flows tend to be relatively stronger with high level of depreciation and amortization for airlines that purchase aircrafts. Given these inherent characteristics, the airline industry is generally considered to pose high business risk.

The airline industry in developed countries is characterized by stiff competition, with nominal growth in air traffic projected while relatively healthier growth is anticipated in developing economies and emerging markets, going forward. As per independent estimates, air traffic in Pakistan is projected to witness healthy growth which supports the prospects of growing revenues for airlines. Shaheen Air International Limited (SAI) has been operating for the last 20 years; the institution is undergoing a transition phase whereby it is expanding its fleet of aircraft that are acquired on operating lease and looking to further expand the scale of its operations. Noteworthy growth in revenues has been observed in FY13 and HYFY14; with improved margins on the back of better fuel efficiency, this has translated into healthy profits and cash flows. Given the material difference in fleet age of domestic and international airline operators; fuel cost is significantly higher for local airlines. With the replacement of fleet of Boeing 737-200 having fleet age identical to local industry average, margins and cash flows of the company have showcased improvement in FY13.

The company plans to issue a TFC/Sukuk to the tune of Rs. 2.5b. The rating draws support from the proposed structure of the TFC as per which first exclusive charge will be created over the receivables from the Saudi Arabian route in favor of the trustee to be appointed for this purpose. Given historical trends, the volatility in business volumes on these routes may not be significant. Moreover, for the third consecutive year, the company has received quota for Hajj operations. Risk factors include seat factor, continuity of Hajj quota from the government and ability to pass on cost increase, mainly in fuel prices, to customers. These factors will remain important for adequate debt service coverage and will be tracked vis-a-vis projections. Given that lease contracts cannot be terminated, flexibility in terms of cost adjustment is limited.

Besides down payment for lease of new aircrafts, proceeds from the TFC/Sukuk issue are planned to be utilized for working capital financing and repayment of bridge loan obtained for leasing aircrafts. Principal repayments commence after one year and are structured in 16 stepped-up instalments. Payments to the TFC/Sukuk holders shall be made from collection of revenues from the Saudi Arabia routes. In case of any shortfall, the cash collection agent would have irrevocable instructions to divert cash flows from Oman & Kuwait routes to Saudi Arabia collection account. SAI will be required to seek consent of the Trustee prior to creation of any charge on the cash flows from Oman and Kuwait routes.

The priority of payment from the receivables collections is to TFC/Sukuk holders first. From the proceeds of the TFC issue, the trustee will set aside Rs. 195m up front in the Debt Service Reserve Account (DSRA), which may be invested in risk free government securities. One month before the due date of each installment, the DSRA would start accumulating the upcoming installment such that the DSRA has the Rs. 195m initially set aside and the upcoming installment in full, 2 days prior to the payment date. Collection agent would have irrevocable instructions from the company for the accumulation of cash in DSRA. The proposed TFC/Sukuk will also be secured by a charge on the fixed assets of the company, including the grounded aircraft and related parts and the hangar.

With the addition of 2 routes to the KSA sector, number of flights per week is projected to increase. The company is projecting cash surplus after operations & management expenses and principal repayments from KSA sector during the tenor of TFC/Sukuk. Sensitizing for lower than projected flights, seat factor and ticket prices in the range of 2-3%, the company has a small deficit during certain years. The model is most sensitive to fuel price changes if the same could not be passed on to the passengers in a timely manner. Outstanding debt level will decline as the company retires its TFC. However, on including lease payments, adjusted debt level only declines slightly as new aircrafts will be leased by the company over time.

Current fleet of 18 aircrafts comprises 9 B737-400, 6 A 320s and 3 A 330s. Fleet size is projected to increase to 25 by FY15 with the company planning to operate on additional new routes. These have been selected on the basis of historical & expected traffic flows and with the intent to capture significant regional traffic through interline arrangements and through a hub network at Karachi. Based on expanding fleet and new routes where SAI plans to operate, the company is poised for growth.

## Overview of the Institution

SAIL was incorporated in Pakistan on March 7, 1991, as an unlisted public company. The principal activity of the company is to provide air transport services as a scheduled airline. Over 99% of the shares of SAIL are held by Mr. Ehsan Khalid Sehbai. The financial statements for FY13 have been audited by Haider Shamsi & Co. KPMG Taseer Hadi & Co. have been appointed as external auditors for FY14 JCR-VIS