

RATING REPORT

Shaheen Air International (SAI)

REPORT DATE:

August 09, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating	Previous Rating
Entity	BB+/B	BBB/A-3
Rating Date	August 06, 2018	June 07, 2018
Rating Outlook	Negative	Negative
Outlook Date	August 06, 2018	June 07, 2018

COMPANY INFORMATION

Incorporated in 1991	External auditors: KPMG Taseer Hadi& Co.
Public Unlisted Company	Chairman of the Board: Mr. Kashif Mahmud Sehbai
Key Shareholders: - Mr. Ehsan Khalid Sehbai – 99.99%	Chief Executive Officer: Mr. Ehsan Khalid Sehbai

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2016)
<http://www.jcrvis.com.pk/kc-meth.aspx>

Shaheen Air International (SAI)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Shaheen Air International (SAI) is a public limited company incorporated in March 1991 in Pakistan under the Companies Ordinance, 1984. The company provides air transport (both passenger and cargo) services as a scheduled airline. The financial statements for FY17 were audited by KPMG Taseer Hadi & Company.</p> <p>The management team of the company is spearheaded by Mr. Ehsan Khalid Sehbai who became the CEO in 2013. His contribution to the company revolves around strategic fleet management through purchase of modernized aircrafts replacing outdated ones coupled with reinvigoration of SAI's technological infrastructure.</p>	<p>Aviation Sector Global Airline Business Confidence Index (January'2018) reveal a positive outlook for air travel supported by healthy demand growth on both freight and passenger traffic. IATA forecasts global air passengers to register a 20-yr CAGR of 3.8% per annum, and intra Pakistan air traffic to grow at a CAGR of 9.9% over the next 20 years. Total passenger traffic (domestic and international) in Pakistan has grown at a CAGR of 7% over the past five years with number of passengers reported at 18m during FY17 (FY12: 12.6m). Growth in international passenger traffic with a CAGR of 9% over the last five years has outpaced domestic passenger traffic with a CAGR of 2%.</p> <p>JCR-VIS's assessment of the aviation sector in Pakistan is characterized by low barriers to entry (lease financing), vulnerability to economic downturns, increasing regulatory requirements and high leverage and cost structure posing high business risk. In the backdrop of expected new entrants over the next 18 months and rising fuel prices, competitive pressures are expected to intensify going forward.</p> <p>Market Position SAI is the second largest domestic airline in Pakistan having a market share of 16% (FY16: 24%) and 11% (FY16: 9%) in domestic and international passenger traffic, respectively during FY17. While market share has witnessed recovery in FY17 in international passenger traffic, market share in domestic passenger traffic has witnessed a significant decline over the last two years. This is partly attributable to greater focus towards international routes where margins tend to be higher. The Government of Kingdom of Saudi Arabia (KSA) allocated a hajj quota of 179,210 pilgrims (2016: 143,368) to Pakistan during 2017 whereby SAI's share increased to 27% (2016: 23%) catering to 48,495 (2016: 32,981) passengers. Hajj sales contributed around one-tenth of the company's total revenue during FY17. The management plans to further increase their market share in hajj operations, going forward.</p> <p>Financial Analysis Revision in ratings incorporates suspension in SAI's domestic operations on account of dispute over payment of arrears totaling over Rs. 1.5billion. After incurring a sizeable loss in FY17, trend in losses have persisted in FY18. The management recently leased out few of its planes inducted last year on wet lease in order to reduce the financial burden. With suspension of domestic and select international operations, operating losses would persist weakening the liquidity profile and capitalization indicators. JCR-VIS will also continue to monitor level of borrowings mobilized and its impact on profitability and capitalization indicators.</p>

Shaheen Air International (SAI)**Appendix I**

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>			
Fixed Assets	FY15	FY16	FY17
Fixed Assets	1,336	1,380	2,808
Long term Investments	-	45	45
Trade Debts	1,029	1,101	1,280
Cash & Bank Balances	1,915	398	402
Total Assets	10,073	9,825	12,763
Trade and Other Payables	4,792	4,007	7,419
Long Term Debt	-	39	790
Short Term Debt	832	529	1,403
Total Equity	2,740	3,467	2,225
<u>INCOME STATEMENT</u>			
Net Sales	34,096	32,039	33,518
Gross Profit	3,190	3,033	635
Operating Profit	1,840	1,365	(1,323)
Profit After Tax	1,024	727	(1,242)
<u>RATIO ANALYSIS</u>			
Gross Margin (%)	9.4%	9.5%	1.9%
Net Working Capital	1,157	1,407	(1,548)
Trade debts/Sales	3%	3%	4%
FFO to Total Debt (%)	75%	189%	-52%
FFO to Long Term Debt (%)	NA	2785%	-143%
Debt Servicing Coverage Ratio (x)	NA	21.5	(9.9)
ROAA (%)	10%	7%	-11%
ROAE (%)	37%	23%	-44%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Shaheen Air International				
Sector	Air Transport				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	06/08/2018	BB+	B	Negative	Downgrade
	07/06/2018	BBB	A-3	Negative	Downgrade
	01/03/2018	A-	A-2	Negative	Maintain
23/09/2016	A-	A-2	Stable	Initial	
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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