Company: **EFG Hermes Holding SAE**

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Moderator: **Nermeen Abdel Khalek**

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Operator: Good day, and welcome to the Jazeera Airways first quarter of 2019 Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Hatem Alaa. Please go ahead, sir.

Hatem Alaa: Hello, everyone. This is Hatem Alaa from EFG Hermes, and welcome to Jazeera Airways 1Q 2019 Results Conference Call. I'm pleased to have on the call today Rohit Ramachandran, the company CEO, and Krishnan Balakrishnan, the companies VP of Finance. I'll now hand over the call to Rohit for a quick presentation. That will be followed by a Q&A session. Rohit, please go ahead.

Rohit Ramachandran: Thank you very much, Hatem. Good afternoon, everyone. It gives me great pleasure to welcome you all to Jazeera Airways Earnings Conference Call for the first quarter of the year. As usual, we will go through the following format where we first cover the headline results, then we will cover some of the operational highlights of the quarter. We will briefly touch on the outlook for the rest of the year. And then my colleague, Krishnan, who heads our finance function will take over a financial review of the quarter. And, of course, towards the end, I'm open to answer any questions that you may have.

Now, you are aware that traditionally the first quarter's a relatively slow quarter for airlines, in general, and also has been the same with Jazeera in the past. However, given the strategic initiative that we've been working on since the beginning of 2017, about two years ago, and we've also kept you updated with what we are doing, the level of our business activity has steadily grown to more robust levels which is what you will see from our operational and financial highlights during the next few minutes. If I may direct your attention to slide number six, which are the headline results. And I hope you are following this call along with the presentation so that we can put things in context.

You will see in slide number six that Jazeera Airways posted another significant improvement in terms of passengers carried with 31% more passengers carried during the same quarter compared to 2018. In total, we carried 530,000 passengers during the quarter. This was largely driven by better utilisation of our fleet at almost 14 hours per day, where last year at the same time it was about 11.8 hours per aircraft per day. This is also the result of more stability within our network. And we focus on improving the fleet[?] factors on the routes with high demand by our passengers. And also, taking into account the seasonal factors which occurred at this time of the year. It's worth keeping in mind that this increase in passengers carried, resulted in a load factor of 76% which is more or less in line with the first quarter of last year but with significantly more capacity deployed. You will also notice that this increase in passengers carried was done with the addition of just one additional aircraft unit which means we went from eight aircraft during the same period last year to nine aircraft during the first quarter of this year. And just with one additional aircraft, we carried 31% more passengers.

The other important metric we track is the yield which is the average fare paid per passenger. And this came in at KWD 38, reflecting an increase of 7% over the same period last year, despite the first quarter being, generally, a period of low demand. As we've mentioned previously, we continue to focus our efforts on the yield improvement within the company, and this is going to be a key area focus moving forward as well.

Moving on to slide number seven. As a result of the commercial improvements, our revenue came in at 21.3 million which is up from 14.3 million in the same period last year, reflecting a growth of 48%. Further, we're happy to report that this quarter marks the return of Jazeera to profitability in the first quarter. This is for the first time since 2016. In the first quarter of 2019, we achieved an operating profit of KWD 2.4 million versus a loss of KWD 459,000 in the same period last year. Also, we posted a net profit of KWD 1.5 million as opposed to a net loss of KWD 321,000 in Q1 of 2018. This represents an improvement of KWD 2.9 million in terms of operational profit, and an improvement of KWD 1.9 million in terms of net profit. These earnings are the result of really deep focus when it comes to revenue and costs, and all the factors that drive revenue and costs; all the initiatives that we have taken over the last two years now bearing fruit.

If you were to move to slide number eight, you will see that our e-commerce initiatives continue to witness growth year on year, moving up by 17%, while ancillary revenue saw a very robust jump of 31% which was really quite critical for us as a low-cost carrier.

Now, let's move on to the operational highlights. This is also going to be of interest to you. If you move to slide number ten. Let's move into a more detailed discussion regarding our Jazeera Terminal T5. Our terminal also witnessed a very positive milestone during this quarter, returned into black from a financial perspective for the very first time. We are glad to announce that during this quarter, which we hope is the first of many, we report a positive net profit of KWD 96,000 k, despite the challenges that we shared with you previously. We are working relentlessly with the local authorities in order to finalise all the required licenses that will allow us to ramp up operations in the terminal especially on the retail front. We have been making very good progress especially during the month of April, in this regard. We're very hopeful of having a resolution of this matter pertaining to licenses, within the next six to eight weeks.During this quarter, all the 529,000 passengers that we carry seamlessly flew either from or via Jazeera terminal, and will continue to do so in the foreseeable future.

If you turn to slide number 11. Our market share on almost all the routes that we operate continue to maintain a healthy position. Utilising our nine airplanes, the new destinations introduced in 2018 are steadily maturing while we continue to pay special attention to the legacy bread and butter destinations that we've catered to for years. Collectively, these efforts resulted in the solid growth in the number of passengers we carried and that yield that we extract.

In slide number 12, you can see passengers to the newly introduced Indian sub-continent destinations capturing a growing percentage of the total passengers compared to the same period last year. This is because they've become more familiar with and comfortable with using Jazeera on these routes. Our focus on key markets like Egypt and the GCC remains strong, and we continue to evaluate more potential destinations with these markets which I will share with you when we talk about the outlook.

Let's do that now. If you look at slide number 14, we reiterate that our plan communicated to you earlier remains in place. We are planning six new destinations during the year with London, specifically receiving key emphasis given that Jazeera will be the first GCC based low-cost carrier to fly to London. We will start our service towards the end of June and it will be a daily operation, and we have now successfully acquired all the necessary slots at Gatwick Airport for this service.

Other new destinations include two airports in Turkey which include the Sabiha Gokcen airport, the second airport in Istanbul on the Asian side, and Bodrum, which is a hot favourite with Golf nationals for the summer. We'll also be flying to Kathmandu in Nepal, Karachi in Pakistan, a daily service to Dhaka in Bangladesh and the small airport called Al Ain which is in the Emirates of Abu Dhabi. Taken together, these routes will offer important additions to our network as they target different segments for both business and leisure.

Regarding our fleet, we will have three permanent additions to our fleet this year. All of them will be brand new A320 deals. Additionally, in order to cater for the summer peak, we have also contracted two short-term airplanes in the form of one wet lease and one dry lease that will allow us to further optimise the capacity that we deploy during peak season.

On the facilities front, we will continue to share with you the updates from the Jazeera terminal as it has now gone past the breakeven mark and in positive territory. We have a very optimistic view for the year as more and more of the retail space gets leased out. With this, I will conclude this section of my presentation and hand you over to our Vice President for Finance, Krishnan, for a detailed discussion of the financials.

Krishnan Balakrishnan: A very warm good afternoon to everyone. Thank you, Rohit. If I may please take you all to slide number 16. There are a few points which I would like to highlight on this slide. First is our capacity increase in terms of aircraft has only gone up by 12.5%, but thanks to the high improvement in the utilisation of the aircraft by 17%, our overall capacity in terms of fleet has increased to 32%.

If you look at the operating revenue, it has gone up y-o-y by 48.5%. 32% of that coming from the capacity itself, but the parallel 15-16% coming from the improvement in the yield and the improvement in the ancillary revenues. And these two are – have been – as already Rohit has detailed – have yielded us a much better implemented bottom line. So, in terms of expenses that you look at, the cost year-over-year has only gone up by 27.5%, whereas the capacity has gone up by 31.6%, which reflects that we are actually doing much better on the cost side as compared to the previous year; with the increase in the fleet and the utilisation of the aircraft, we are seeing economies of scale[?].

Additionally, the Terminal T5 has contributed at EBITDA level KWD 356, 000k which is a very good achievement. As we saw earlier in Rohit's presentation, the net profit after reconciliation[?] came to about a KWD 100,000.

If you may please move on to slide number 17, the balance sheet has shown a steady and improved growth year-over-year. What's happening is, of course, a major change which has picked in from this particular quarter, that is the implementation of IFRS-16 under which we have to show all the operating leases, also as a financed lease. So, in the next slide, I will show you what is the impact of this particular implementation.

So, if I may take you to slide number 19. On the balance sheet side, the current assets have increased by about KWD 5 million, and this is primarily because of the cash profits generated by the airline as well as the T5 of our – roughly about KWD 2 million. Then, additionally, we had the payables which has also increased by about KWD 2 million because we have negotiated the various aircrafts lessors to replace the cash maintenance reversed they are holding with bank guarantees. As a result, we do not have to block our cash with them. We have also increased the forward sales from the customers by about KWD 0.5 million. Subsequent to 31st March position which we have reported here, I am quite happy to also inform you that the receivables which were quite high as of December, and we have discussed this on the previous call, and which remains at a similar level as of December of KWD 15 million, have subsequently been realised to the extent already of KWD 11 million in the month of April by way of cash and by way of credits from previous parties. So, you will see a remarkable change in the position of receivables during quarter two.

The impact of the IFRS-16 implementation was that we had to reduce our retail earnings to the tune of KWD 5.7 million. And this is however going to be recovered over the lease term until it ends. And we've already seen an improvement in the profit of Q1 by KWD 46,000 as a result of this particular implementation. That's all from my side. If there are any questions, we are quite open to them right now.

Operator: Thank you. If you would like to ask a question on today's conference, please signal by pressing star one on your telephone keypad. That's star one to ask a question. We will pause for one moment to allow everyone to signal. And we can now take our first question. Please state your name before posing your question.

Ayushi Saraswat: Ayushi [inaudible] from RocSearch. Hello, can you hear me?

Hatem Alaa: Yes, madam. Good afternoon. Please go ahead.

Ayushi Saraswat: So, my first question is, what is the current occupancy at land-side level? And, are there any regulatory issues going on with respect to that?

Secondly, has there been any impact on the Indian routes due to the closure of the Pakistan airspace? And lastly, what is the possible impact on competitive routes from grounding of Boeing 787?

Rohit Ramachandran: Right. Let me take your three questions in order. First, we have retail space available air-side and land-side. In the air-side, we have practically leased out an excess of 90% of the available retail space which includes the duty-free, the SMB outlets, and so on. On the land-side, we are approximately today at about 50% and we hope by the end of the year we will be close to the 80% lease out mark.

Now, regarding the operation to India. We operate through five routes in India, of which the closure of over-flying airspace over Pakistan has effected the routes to Delhi and Ahmedabad.

Both routes are still operational, but it just means that it is longer than what it was before where we have to take a more southernly route which avoids the airspace of Pakistan and then go back up North again. This is closely under review. We expect that sooner or later in the weeks ahead this airspace should be open. But at the moment, we are operating all our routes as planned. It's just taking slightly longer.

Your third question was regarding the grounding of the 737 MAX airplane. As you know, Jazeera does not operate the 737 MAX, but there are some other airlines on a few routes that we operate where we compete with airlines who used to operate this aircraft. The grounding of this aircraft has had no material impact on the marketplace on the routes that we operate. On a handful of routes, maybe two or three routes, the withdrawal of this aircraft type has seen a slight increase in fares in the market, which is net positive for Jazeera, but no significant impact. I hope that answers your question.

Ayushi Sarawat: Okay. Thank you so much.

Rohit Ramachandran: Most welcome.

Operator: We can now take our next question. Please state your name. Please unmute your line.

Zeeshan Bagwanr: Hello. Am I audible?

Rohit Ramachandran: Good afternoon. Yes.

Zeeshan Bagwan: Hello.

Rohit Ramachandran: Yes, good afternoon. How are you?

Zeeshan Bagwan: Hi. I'm good. My name is Zeeshan. So, I had a couple of questions. Firstly, I wanted to understand the key trends that you're seeing in the quarter gone by as well for the upcoming quarter, in different geographies, mainly South-East Asia and your other European regions in respect to the yield that you are seeing. So, can you give us some understanding on how yields are shaping up?

Rohit Ramachandran: Sure. I will go with the assumption that you meant South-Asia because we don't really operate to South-East Asia. We currently operate to India five routes and one route into Pakistan. The yields on all those routes are strong and I'm happy to report that all the routes that we operate into South-Asia are fully profitable, which means not only do they need direct operating costs but also its share of the fixed costs. The only route we currently operate into Europe is, arguably, Istanbul which straddles both Asia and Europe, and the route is extremely healthy. The only problem we have is we don't have enough capacity to take advantage of that. So, as you can see, we're already running our aircraft close to 15 hours per aircraft per day which is one of the highest in the industry. We would love to operate to more points in Turkey, including Istanbul. And as and when we get new aircraft to our fleet, as mentioned in my presentation earlier, we'll be adding frequencies to the second airport in Istanbul and also to Bodrum. The yields to Istanbul are also strong.

Generally speaking, the market out of Kuwait is strong. The tendency of Kuwaiti nationals is that they love to travel, and the yields have been improving steadily since the middle of last year. There's more rationality in the market and I think the shock of the increase in oil prices have meant that airlines in general are adopting a more logical pricing policy.

Zeeshan Bagwan: Okay. And in terms of the passenger volumes, giving the rise in crude prices that we have seen and the improvement in yields, have you seen any pressure on the volumes?

Rohit Ramachandran: No. And the evidence of that is, if you look at both the 31% increase in passengers that we have carried, with just one additional aircraft compared to last year, and the fact that we're still maintaining a 76% load factor despite having added all this capacity, shows that our sales and distribution networks is working very well. Having said that, my goal is to have our fleet factor closer to the 80% mark, and that's one of the objectives for the entire commercial organisation within Jazeera.

Zeeshan Bagwan: Okay. Okay, one last question which I had on the yield field factor was, is it a temporary phenomenon that we are seeing because of the fiasco around Jet Airways that is being going around in India? So, like, is it the benefit out of that which you are seeing in the improvement in yields or is it sustainable?

Rohit Ramachandran: If you monitor our webcast, and our investor calls starting from Q3 of last year, you will see a steady improvement in yields from the end of last summer up to today and, I'm glad to say, continuing. The reason for this is, on one hand, there's a more rational approach to pricing; and, secondly, we have gone after less price-sensitive segments which help us to drive higher yield where passengers are not affected with those slightly higher prices.

The impact of the Jet Airways situation is negligible for two reasons. One, the grounding of airplanes have only started in the last two or three weeks, and Q1 was essentially before all of that happened. And two, the only routes that Jet Airways used to operate to Kuwait one from Bombay which means that the vast majority of our – the rest of the network really had no relation with any operation from Jet Airways.

Zeeshan Bagwan: Okay, understood. Thank you for the clarification. That is from my side.

Rohit Ramachandran: You are most welcome.

Operator: Again, if you would like to ask a question, please press star one. There are no further questions on the line at this time. Oh, I beg your pardon. We have one or two more. Just bear with us. Please state your name.

Robin Thomas: Hello.

Rohit Ramachandran: Hi, good afternoon.

Robin Thomas: My name is Robin Thomas. I'm calling from QIC. Thank you so much for doing this, and congratulations on the great numbers. I just have one additional question to ask with regards to the fuel cost because we've seen a significant increase in the oil price lately. What is the management doing to mitigate those costs going ahead?

Rohit Ramachandran: Thank you, Robin. And thank you for your good wishes. Fuel price has been increasing slowly but steadily for the last four months. From the lows of around 15, it is, today, at $74 per barrel, Brent. Now, we have a number of factors that we take into account when we look at the impact of higher fuel price; one, because we have a relatively short booking cycle compared to most of our competitors, which means the travel pattern is such that people book closer to the date of the flight rather than well in advance, we actually have the ability to re-price rather than be stuck with having a lot of forward sales at low prices. That's in and of itself a kind of a natural hedge.

Number two, we have now one, and, by the end of this year, four A320 Neos. These Neos deliver on average an 18% fuel savings compared to the average conventional A320s. This is after our analysis, and not just the manufacturer's promise. This is a second way in which it forms a natural hedge against this fuel increase in price.

Thirdly, for the last six months, we have a dedicated committee from within our management and our Board that is closely evaluating other risk management options available to us, including a hedge of some sort. So far, the size and scale of our operations, in our view, did not justify the costs and complexity that a hedge would bring. So, this is something that we evaluate on a monthly basis. And at the appropriate time, if we feel it's necessary, we will look at other risk management avenues open to us.

Robin Thomas: Okay, thank you. And just one more follow-up question. How do you source your fuel, currently? And, do you get any sort of subsidy from the government?

Rohit Ramachandran: That's a good question. Currently, we have the majority of our fuel uplifted from our home base, approximately, 65-70% which is from the home base. And about 30% of our fuel is uplifted at the out stations that we operate to. We do enjoy some discounts. I would call them volume-based discounts from our fueler at our home base.

Robin Thomas: Okay. Thank you.

Rohit Ramachandran: Most welcome.

Operator: Next question. Please state your name.

Divye Arora: Hi. This is Divye from Daman Investments. Just a follow-up question, again, on the yields. So, what we have seen is that the fuel price on the average was around $63 – sorry, the Brent price last quarter. And this quarter, if it's about around $72-73, then – the point on Neos is well taken that they are more efficient, but do you think it will – because you have increased the yields for you to maintain the profitability – what have you seen in April in general; have you been able to increase the ticket prices further? And how has the competition responded to higher fuel prices of late in the last one month? That's number one.

Number two, if you can give some clarity on the recent news which we saw in terms of the court interfering linked to the hit – to the military balloon. So, what do you expect in terms of the court case or in terms of the indemnity from it? Thank you.

Rohit Ramachandran: Sure. Let me tackle your first question regarding the yields and whether it keeps pace with the increase in fuel price. The answer to that is yes. It may not always be directly proportional or perfectly elastic, but whenever there is a significant increase in fuel price, we certainly implement a surcharge on our pricing, and most other well-run carriers do the same. If anything, I will say, April, our performance is as good if not better than the average of Q1. And I'm also quite pleased with the way May and June are shaping up.

Now, regarding your second question on the recent release in the media about the court action regarding the balloon. This is actually very straight-forward. You are aware of the case where two years ago on approach to Kuwait, one of the Jazeera aircraft under instructions from air traffic control had to hold over the airport. During this hold, as a combination of many factors, this aircraft frayed into the border zone between a military area and the civilian area and clipped the cable was connected it to a balloon operated by the military. The aircraft then subsequently came down to make a safe landing. The most recent report suggested that the Ministry of Defence would be claiming an outlandish number of $300 million from Jazeera. We have received no formal legal information to this effect. And I'm not too concerned for three reasons.

Number one, we haven't received anything formal regarding the quantum of the claim. In this regard, the court actually has been very fair. They have actually appointed an expert to gauge the damages on the Ministry of Defence side and also on Jazeera side, because we also suffered damage because of this balloon.

Secondly, the numbers just don't stack up because 300 million is more than the cost of an A380 airbus. And this balloon was more than 20 years old. Then obviously depreciation – in fact, I believe it's obsolete. The manufacturer doesn't even make it anymore. And so, when the real valuation is done, I suspect the number will be far, far smaller.

And three, and most important, we are fully covered by a variety of insurances including those that cover incidents of this nature. We're covered up to $700 million. So, I'm not too concerned about this case having any material impact from a financial perspective. I hope that answers your question.

Divye Arora: Yes, thank you. That's it.

Rohit Ramachandran: If there's nothing else, I look forward to speaking with all of you during our second quarter earnings call. I hand you back, now, to Hatem at EFG Hermes. Thank you very much.

Hatem Alaa: Thank you, Rohit, and thank you, everyone, for dialling in.

Operator: Thank you. That concludes today's conference. Thank you for your participation, ladies and gentlemen. You may now disconnect.