OMAN BANK BACKS GULF CARRIERS

News / Finance



Oman Arab Bank (OAB) has initiated coverage of the GCC aviation sector and put a buy recommendation on Air Arabia and an accumulate recommendation on Jazeera Airways, backing the budget airlines' growth potential.

Regional air traffic activity is on the rise. According to Iata, passenger demand for Middle East carriers in January had the strongest year-on-year growth at 10.9 per cent, helped by ongoing network and fleet expansion. Capacity rose by 12.9 per cent and load factor dipped by 1.4 percentage points to 77.8 per cent.

The Omani bank has a target price of Dh1.62 for Air Arabia and 0.98 Kuwaiti dinars for Jazeera Airways.

Air Arabia shares closed 0.8 per cent down at Dh1.22 yesterday, while Jazeera Airways shares ended 2.2 per cent lower at 0.87 Kuwaiti dinars.

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OAB said its recommendation for both airlines is based on “the cost structure, expansion plans, geographical presence within a country/countries, market share in the country/countries it operates in … and operational efficiency".

Air Arabia is the Middle East and North Africa’s first and largest low-cost airline. The UAE carrier flies to 116 destinations across Mena, Asia and Europe. It operates from five different hubs across the region.

Air Arabia’s fleet size is expected to increase to 47 by 2017, as the airline will add six aircraft in 2016-17.

The airline carried 7.6 million passengers in 2015 and OAB expects this number to grow to 7.8 million in 2016, and to 8.6 million in 2019.

In February, Air Arabia reported a 13 per cent drop in its fourth-quarter net profit. The only publicly listed airline in the UAE made a net profit of Dh59 million in the three months to December 31, compared with a profit of Dh68m over the same period in 2014.

Additionally, Air Arabia is paying a lucrative dividend yield of 7.3 per cent for 2016, OAB said. It is listed on the DFM and is included in the FTSE Nasdaq Dubai, FTSE Emerging Markets and Bloomberg GCC 200 indexes.

Meanwhile, Kuwait’s Jazeera Airways flies to 20 destinations in Mena with a leased fleet of seven jets. Towards the end of 2014, the airline wound up its leasing subsidiary Sahaab Aircraft to focus on its airline business. It sold Sahaab’s fleet of 15 jets for US$507m.

Last year, Jazeera flew 1.2 million passengers and it is anticipated to increase this number to 1.27 million by 2019, OAB said.

The bank expects revenue and net income to grow at a compound annual growth rate of 2.5 and 1.2 per cent, respectively, during the 2015 to 2020 period.

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