Qantas Airways Limited (QAN)

BUY: A$6.29 (+23.3%)

Equity Research Department – Industrials

17th December 2020

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Basic Information as of 17 December 2020

Last Closed Price	A$5.10
12M Target Price:	A$6.29
+/- Potential	23.3%
Bloomberg Ticker:	QAN
GISC Sector:	Industrials
GISC Sub-Industry	Airlines

1 YR Price vs Relative Index

Blue (QAN), Red (ASX)

Company Description

Qantas Group (QAN) is Australia's national carrier, operating both international and domestic flights. In uses a dual brand strategy, Qantas Airlines offer a full-service premium flight, while Jetstar is a low-cost budget carrier offering a cheaper alternative to passengers. Qantas also transports air cargo and freight through its Qantas International subsidiary.

Key Financials

Market Cap	A$10.55B
Basic Shares O/S	1.89B
52-Wk High-Low	A$2.02 - $7.46
Fiscal Year End	30-Jun-2021

(A$m)	FY19A	FY20E	FY21E	FY22E
Revenue	17,966	14,257	6,705	13,797
Gr Rate (%)	*4.9*	*(20.6)*	*(53.0)*	*(105.7)*
NPI	840	-1,964	-486	262
EBIT margin %	*8.0*	*(6.9)*	*(10.2)*	*2.7*
ROE (%)	*27.9*	*(128.7)*	*(33.6)*	*14.3*
ROA (%)	*4.1*	*(9.8)*	*(3.1)*	*1.5*

Key Executives

Alan Joyce	Managing Director & Chief Executive Officer
Vanessa Hudson	Chief Financial Officer

We are initiating coverage of **Qantas Group, ("QAN" or "Company")** with a BUY rating and an **<u>A$6.29</u>** 12M price target.

Investment Thesis

- **Increasing demand for domestic travel over the next 12 months** driven by reopening of different industries and easing of interstate travel allows Qantas to increase in revenue growth in the next 12M.
- **QAN is better positioned to capture majority of Virgin Australia's market share due to its large fleet size**
  Qantas' existing presence in key profitable routes coupled with its large fleet size positions it better positioned than its peers to capture the market share.
- **QAN has a strong financial position and effective recovery plan compared to its peers**
  Qantas strong balance sheet and its swift and more importantly, effective recovery plan positions it ahead of its peers to better weather the current low-demand environment.

Catalysts

- **Increased growth from Qantas Loyalty programme –** QAN's diversified loyalty programme has unexpectedly benefitted from COVID-19 tailwinds due to increased adoption of digital payments and e-commerce. Strategic partnerships allow Qantas to capitalise on this growth.
- **Full domestic reopening of New South Wales and Queensland, and improving COVID-19 situation in Victoria –** New South Wales, Queensland and Victoria represents the most popular 3 locations for domestic travel. Two out of the three of them has seen significant improvement in their COVID-19 situation
- **Potential demand for air freight due to increased e-commerce –** Air freight recovery has been faster than expected because of explosive growth in e-commerce. If demand continues to increase at this pace, passenger planes being used as cargo planes could be a lucrative proposition.

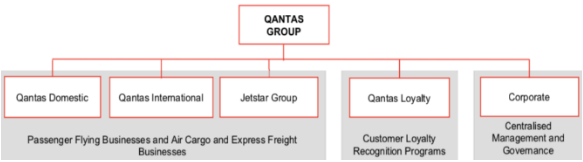
Valuations

Our 12M price target at the date of coverage is **A$6.29**, representing an upside of 23.3%. The target price was determined through a DCF model using the Gordon Growth Method which was further evaluated with Relative Valuation methods using EV/EBITDA and EV/Revenue multiples.

Investment Risks

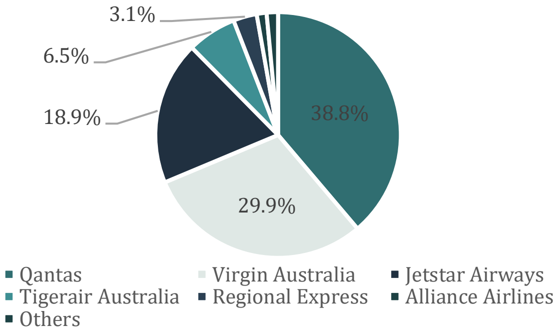
- **Recovery and comeback of Virgin Australia Airlines under Bain Capital buyout –** Bain Capital's buyout of the distressed Virgin Australia Airlines could result in a strong recovery by Virgin.
- **Potential slowing of domestic recovery –** Given QAN's large fleet and operating leases, a prolonged and extended recovery would negatively affect QAN's cashflow
- **Antitrust regulations –** Precautionary measures taken to avoid antitrust scrutiny on QAN would result in a drag in margins.

Figure 1: Qantas Group Segment Overview



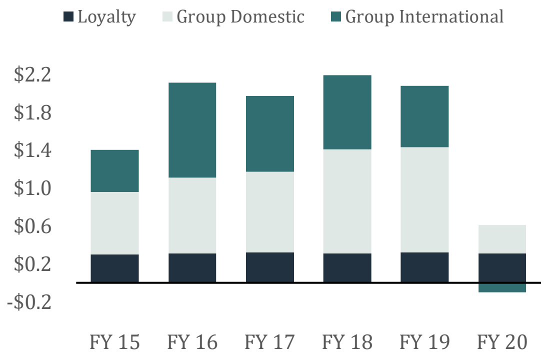
Source: Qantas Annual Report 2020

Figure 2: Airline Domestic Market Share



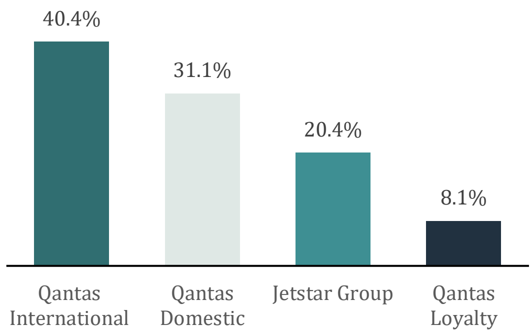
Source :Parliament of Australia

Figure 3: Qantas Operating Segment EBIT (A$B)



Source: Qantas Annual Report 2020

Figure 4: Qantas Revenue by Segment (%)



Source: Qantas Annual Report 2020

Company Overview

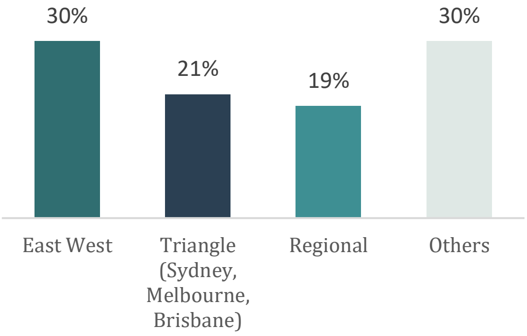
Qantas Group ("QAN") is the world's second oldest airline. It was founded in the Queensland outback in 1920 and has been in continuous operation since that date, longer than any other airline. Qantas is Australia's largest domestic and international airline. Its main business is the transportation of customers both domestically and internationally, using two complementary airline brands, namely Qantas Airlines and Jetstar, the former offering a more premium service, while the latter serves as a budget airline. Qantas Airline and Jetstar Airline cumulatively make up 68.7% of Australia's domestic airline market share. has operating segments namely: Qantas Domestic and Jetstar Domestic, offering domestic flights for consumers, Qantas International and Jetstar International which offer international flights, and Qantas Loyalty which generates revenue by selling loyalty points to partners e.g. banks and retailers. It has recently exited its minority stake in Jetstar Pacific to focus on its own operations.

QAN's main source of revenue comes from their passenger revenue from which represents more than ~85.0% of their total revenue. Other income drivers include their freight revenue, which is under their Qantas International segment, and their Qantas Loyalty programme. Qantas International segment represents 40.4% of FY20 total revenue followed by Qantas Domestic at 31.3%, Jetstar group at 20.4% and Qantas Loyalty at 8.1%. However, QAN has significantly lower operating margins compared to the other segments. Hence EBIT would be a better proxy of profitability. QAN's EBIT has been largely driven by domestic consumption, contributing on average ~50% of total EBIT, in the last 6 years. QAN in recent years has shifted its focus to the Australian domestic market in light of better margins for both the Qantas Domestic and Jetstar Domestic. QAN's dual brand strategy has seen success in Australia's domestic airline market, delivering improving EBIT growing at a CAGR of ~5% in the previous 5 years.

Qantas Domestic - Qantas Domestic is Australia's largest premium full-service airline, providing both Business Class and Economy class, carrying 16m passengers in FY20. Prior to COVID-19, the integrated airline consists brands such as Qantas and QantasLink which operated on average 4,500 flights per week. The COVID-19 pandemic and border closures within Australia had resulted in a capacity cut of 94% in passenger traffic in Q4 FY20. With the Australian government's support, the Qantas Domestic has maintained a minimum network to facilitate essential travel of over 150 weekly flights to all capital cities and regional destinations. Qantas Domestic serves all Australian capital cities, large metropolitan areas as well as many regional hubs throughout Australia, together with Jetstar Domestic. QantasLink and Network Aviation services have continued to see strong demand with customers shifting from Regular Public Transport ("RPT") i.e. scheduled flight, to chartered flights in Q4 FY20 due to rostering and social distancing considerations arising from COVID-19. The main routes for Qantas Domestic are the East-West, followed by the Triangle (consisting of Sydney, Melbourne and Brisbane) which represents 30% and 21% of total ASKs (Average Seat Kilometres).

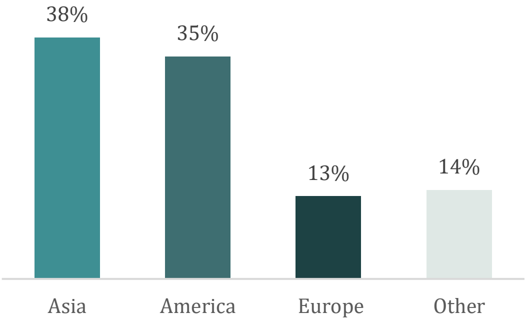
Qantas International - Qantas International provides premium full-service international flights between Australia and New Zealand, Asia,

Figure 5: Domestic Routes as % of ASKs



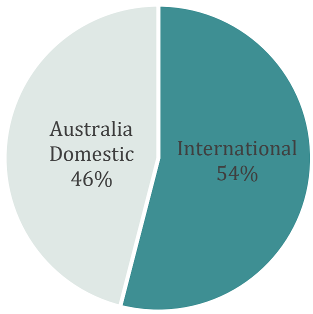
Source: Qantas Annual Report 2020

Figure 6: International Route as % of ASKs



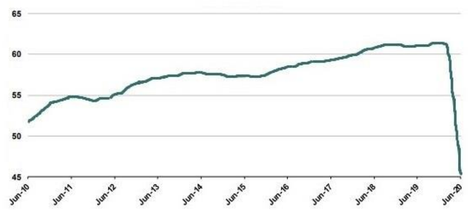
Source: Qantas Annual Report 2020

Figure 7: Jetstar Revenue Breakdown (%)



Source: Qantas Annual Report 2020

Figure 8: Australia Domestic RPT Passenger Traffic (M)



Source: Bureau of infrastructure and transport research economics

North and South America, Africa, and Europe. Prior to COVID-19, Qantas International operated more than 750 flights per week. With global borders being closed, it has largely resulted in the grounding of more than 90% of Qantas international fleet, operating only 29 repatriation flights in Q4 FY20 carrying nearly 3,400 passengers. minimum network to Los Angeles, Hong Kong, Auckland and London was maintained in Q4 FY20. Majority of flights were from Asia and America consisting 38% and 35% of ASKs respectively.

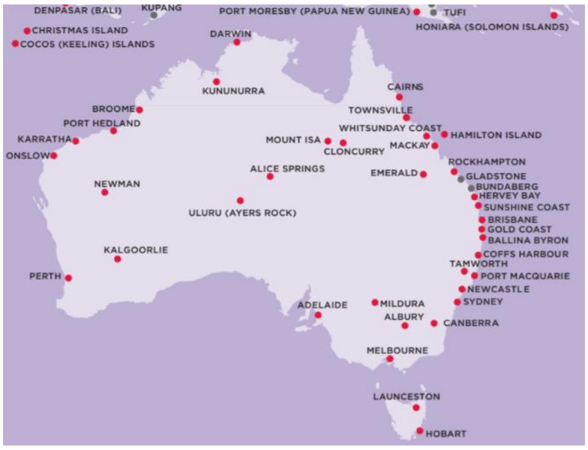
Qantas Freight, a subsidiary under QAN achieved record results in FY20. The reduction in passenger air travel volume has led to an increase in belly space volume, which allowed more cargo and freight to be carried, resulting in record revenues. QAN responded to growing consumer participation in e-Commerce through increased utilisation of its six dedicated freighters as well as wet-leased aircraft. Passenger A330 and 787 aircraft were also used to facilitate the export of Australian produce and import of medical supplies, resulting in increased revenues from Qantas Freight.

Jetstar Group - Jetstar is the Qantas Group's low-cost airline brand. It is a value-based, low fares network of airlines operating primarily in the leisure market segments. Jetstar Airways consists of both Domestic operations in Australia, as well as International operations. Jetstar also has holdings in Singapore-based Jetstar Asia, Vietnam based Jetstar Pacific and in Jetstar Japan. In the Q4 FY20, the closure of borders globally resulted in the grounding of Jetstar Airways' International fleet, with minimum connectivity across Australia. Their main markets are domestic and international flights to and from Australia and New Zealand, and across the Trans-Tasman route. Passenger revenue from Jetstar's domestic and international flights are split evenly with the former representing 54% passenger revenue, the latter representing 46%.

Qantas Loyalty - Qantas Loyalty's portfolio of brands and businesses spans across distinct but interrelated business segments supporting the core coalition loyalty program. Qantas Loyalty generates a margin on points transacted with external partners, with no transfer of profit between Qantas Group airlines and Qantas Loyalty. Partners pay Qantas Loyalty to issue Qantas Points when members purchase partner products or services. The partner benefits by attracting and retaining member spend. Members earn Qantas Points so they can redeem them for awards through the Loyalty Program. In FY20 membership reached 13.4m, more than half of Australia's total population. Qantas has also expanded into Qantas Insurance (previously Qantas Assure) and Qantas Money. Its primary target market is in Australia and New Zealand.

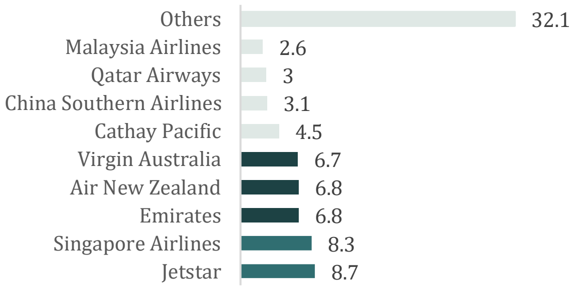
Qantas' Response to COVID-19 - Qantas has been quick to raise cash and cut costs in light of the COVID situation. It has raised A$1.75B on 7-year and 10-year debt between March to May to boost cash liquidity. It has cancelled its initial A$150m share repurchase program and has revoked its interim dividends. Currently QAN is sitting on A$4.6B of cash, inclusive of a A$1.0B undrawn credit facility and has a debt pile of A$4.7B. To reduce costs and increase costs savings, Qantas has acted swiftly and initiated a 3-year recovery plan which aims to target A$15.0B in cost savings through restructuring and right-sizing. It has completed its deferment of delivery of the three 787-9 and retired its remaining 747-400ER fleet early in line with its recovery plan. Qantas does not have any debt obligations due in FY20. Qantas has on average ~A$1B in debt commitments each year until FY23. As a result, management has shown confidence that cashflow and liquidity sufficient to tide QAN through the COVID-19 situation.

Figure 9: Virgin Australia's Domestic Destinations in 2019



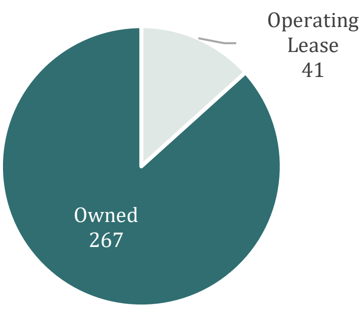
Source: Virgin Australia Annual Report 2019

Figure 10: Australia's International Flight Market Share(%)



Source: Tourism Research Australia

Figure 11: Total Passenger Fleet Breakdown



Source: Qantas Annual Report 2020

Industry Outlook

Muted Demand for International Travel

With the current pandemic, the International Air Transport Association ("IATA") predicts an overall profit margins to decline 15-30% YoY as compared to FY19 due to the travel restrictions in place. Since the peak of the COVID-19 pandemic in Q1 FY20, many countries have imposed travel restrictions in efforts to stop the spread of the virus. This has led to a 36% drop in Global Revenue per kilometre ("RPK") back in April 2020. With the unpredictability of the virus, many governments are struggling to handle the pandemic. This has created huge uncertainty with the reopening of full international travel, with some experts predicting it as late as FY23.

Talks among countries have been ongoing for the creation of travel bubbles, where travellers from countries inside the bubble will not have to go through the full COVID-19 quarantine period. However, travel bubble plans are still only in the development stage. Many countries are also expecting a vaccine to be developed before reopening their border to full international travel. With these uncertainties, we forecast that the demand for international will be muted until the international travel restrictions are lifted through travel bubbles or when a vaccine is developed.

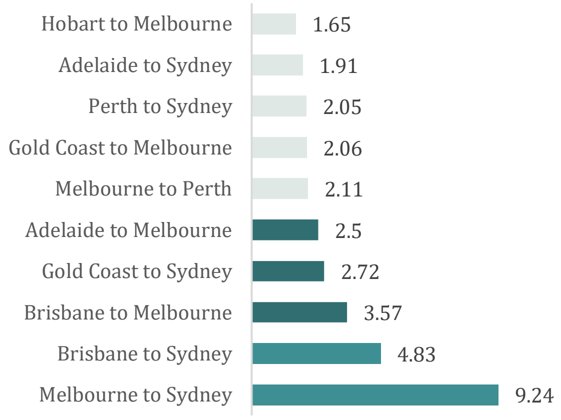
Competitive land of Airline Industry in Australia

Prior to COVID-19, QAN showed a duopoly of the airline industry in Australia with Qantas and Virgin being the two market share holders. Past figures from FY19 showed Qantas holding 37% of the domestic market while Virgin was at 32%. However, with the outbreak of COVID-19, both Qantas and Virgin announced a 60% and 90% reduction in their domestic capacity respectively. Virgin Airlines filed for bankruptcy in April 2020 with Tiger Airlines following suit in August 2020. This create a large gap in the market share especially in the domestic air travel.

The Australian government implemented measures to aid the aviation sector keep afloat which included temporary programs to subsidise the cost of operating a minimum domestic network. The government deployed A$198 under the Regional Airline Network Support program to provide support for air services to connect regional Australia to freight, medical testing supplies and essential personal. Under the Domestic Aviation Network Support, Qantas and Virgin received A$206m and A$112m respectively to maintain connectivity on the major domestic routes.

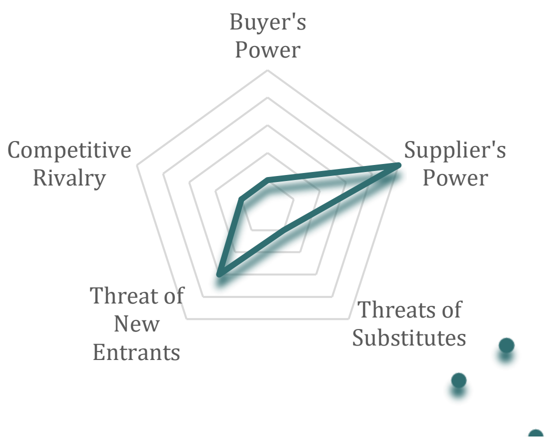
Smaller airlines such as REX and Alliance Airlines are enacting plans to expand their domestic operation in hopes of capturing part of the domestic market. Rex intends to enter the 'Golden Triangle' and is currently finalising their option for capital raising to help fund its entry into the domestic market by March 2021. The new competitors stand to threaten QAN's dominance of their domestic market.

Figure 12: Most popular domestic air travel routes in Australia in 2019, by passengers carried (million)



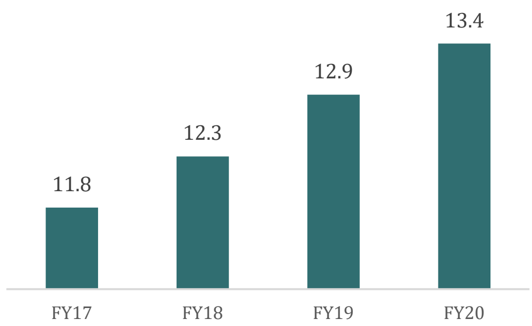
Source: Tourism Research Australia

Figure 13: Porter's 5 Forces



Source: NUS Investment Society Estimates

Figure 14: Strong Growth in Membership for Qantas' Loyalty Programme (%)



Source: NUS Investment Society Estimates

Rebounding Economic growth of major cities in Australia

Cities such as Sydney and Brisbane have seen an economic growth over the past 3 months as lockdown restrictions are easing up. The transition back to work and the gradual reopening of many industries have been the main factors contributing to this growth. With the main domestic flight routes occurring within the Sydney-Melbourne-Brisbane 'Golden Triangle' and the East to West Australia connection, we can expect that the demand for domestic travel will slowly recover. Australia's recovery and subsequent growth within the next 3 years, would allow demand to domestic demand for travel to increase along these main domestic routes.

Historically, the domestic aviation sector has seen strong growth year on year. Domestic RPKs have been increasing from A$67.9B in 2015 to A$71.3B in 2019. Total number of passengers flown have also experienced steady growth from 57.5m in 2015 to 71.9m in 2019. With a strong track record, many experts believe that Australia domestic market is set to reopen sooner and a full reopening as early as Q2 FY21.

Porter's Five Forces

Accounting for the changes taking place in Australia's domestic market, we analyse QAN's position as strong domestic player with significant market share in Australia and New Zealand.

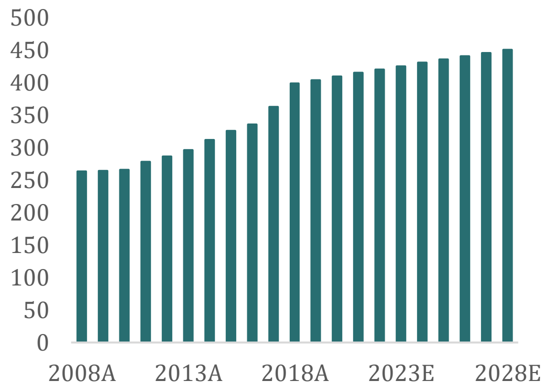
Competition within industry – Low

Prior to COVID-19, Virgin Australia Airlines and its wholly owned subsidiary Tiger Airways occupied 36.4% of Australia's domestic flight market. With their recent bankruptcy, the remaining larger players in the market are Regional Express ("Rex") and Alliance Airlines representing 3.1% and 1.5% of domestic market share. Regional Express and Alliance Airlines have significantly smaller fleets at 57 and 41 aircrafts respectively, compared to QAN with 314 aircraft. Both Regional Express and Alliance Airlines have ordered more aircraft to capture the market share due to Virgin Australia's exit from the market. However, we believe that QAN's larger and stronger balance sheet, coupled with its larger fleet size sheet, allows it to fill the vacuum better due to greater scalability compared to its competitors in the intermediate term. Hence, we see domestic competition within the industry to be low.

Threat of new entrants - Low

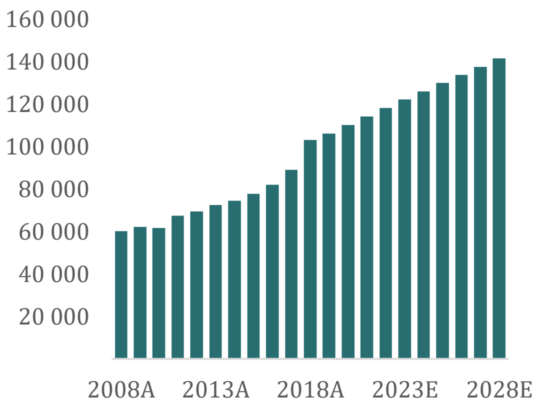
The Threat of new entrants is expected to be low due to the capital-intensive nature of the airline business resulting in high barriers to entry when entering the airline industry. Potential entrants into the domestic commercial airline market would be the existing charter airlines' foray into the commercial space. However, we believe that their ability to scale profitably would be poor due to significantly lower passenger capacity. Chartered airline mainly provide Fly-In-Fly-Out (FIFO) services to mining companies to transport their workers to and from their mines. Hence, such chartered aircraft usually have a passenger capacity of ~100 with an average fleet size of around 50 aircraft. In comparison, QAN has an average passenger capacity of 205 across their fleet of 308 passenger aircraft as of FY19. Hence, we believe that any potential entrants would not be a threat to QAN due to the poor scalability and would not be able penetrate the domestic market to the extent of threatening QAN in the intermediate to long term.

Figure 15: Number of Domestic Visitors per year (M)



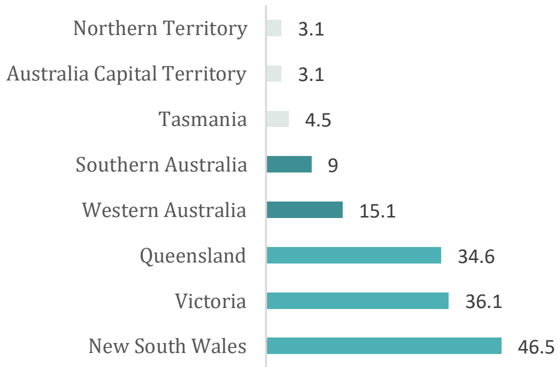
Source: Tourism Research Australia

Figure 16: Total Expenditure from Domestic Tourism (A$m)



Source: Tourism Research Australia

Figure 17: Domestic Tourism Travel Location by State (A$B)



Source: Tourism Research Australia

Threat of substitutes - Moderate

There is little threat of substitutes in the domestic market, for both premium and budget airlines as QAN's dual brand strategy has effectively targeted both market segments. However, Qantas faces competition from international carriers such as Singapore Airlines, Emirates and Air New Zealand. Currently Qantas and Jetstar occupy 26.1% of Australia's international flights and has previously seen fluctuations in its market share due to international competition. Additionally, consumer's shift from Qantas to Jetstar would also be detrimental to QAN due to the relatively lower margins Jetstar International has.

Bargaining power of customers – Low

In the domestic market we believe customers buying power would be low due to limited competition in the domestic market, as well as relatively high switching costs due to Qantas' Loyalty Program. With the exit of Virgin Australia and Tiger Airways, Qantas has been the de facto national carrier and main domestic airline choice. Additionally, Qantas' Loyalty programme due to its stickiness and widespread adoption, would disincentivise consumers from switching to other airlines. Hence consumers little choices and consequently low bargaining power

Bargaining power of suppliers - Low

Airbus and Boeing are the world's largest duopoly in aircraft manufacturing. QAN is equally exposed and susceptible to price changes in purchase and wet leases. QAN owns 87% of its passenger fleet, while 13% of its aircrafts under operating leases. However, management has highlighted that they would be reducing their CapEx, with regards to aircraft purchases. Hence, we do not see QAN being materially affected in the short to intermediate term as a result of the bargaining powers of suppliers Airbus and Boeing.

Investment Thesis

Thesis 1: Increasing demand for domestic travel over the next 12 months driven by reopening of different industries and easing of interstate travel.

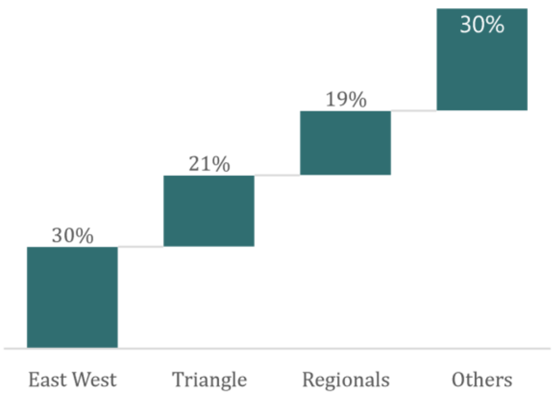
QAN is set to gain from this increase in domestic travel. With COVID-19 affecting many industries across Australia, the demand for domestic travel took a huge hit. However, it has slowly been recovering over the past few months. With domestic flights contributing to a large percentage of their revenue growth, QAN is well positioned to gain from the recovery of domestic travel.

We do acknowledge that international flights do make up a segment of the revenue, however according to IATA, the expectations for international flight demand is only set to grow slowly in 2022. With many of the major cities around the world still struggling to contain the COVID-19 pandemic, we do not expect the demand for international travel to pick drastically over the following 12-month period. Majority of QAN's international routes are to the major cities which also currently have high COVID-19 cases. Therefore, we are focusing on the growth of domestic demand in Australia as its demand is not dependent on other countries.

<u>Growth of Domestic Tourism in Q4 2020</u>

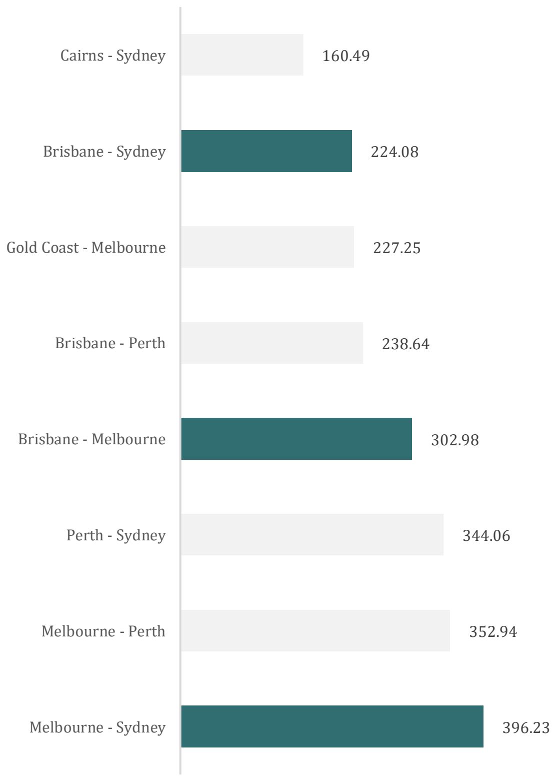
The tourism sector in Australia predict a spike for domestic tourism in Q4 FY20. As previous trends have shown a spike in Q4, being the holiday season in Australia. It is therefore expected that demand for

Figure 18: QAN's Main Domestic Markets as Percentage of ASKs in FY2019/20



Source: Qantas Databook, 2020

Figure 19: Average Monthly RPK for Top 8 Domestic Routes (2019 to Mar 2020)



Source: Data from Australia Department of Transport, 2020

tourism both internationally and domestically will increase. With outbound travel by Australian residents currently limited by the COVID-19 pandemic, there is a huge potential for Australians to redirect some of their tourism dollars within Australia. Recent surveys have shown that 53% of residents interviewed planned to take a domestic trip within the next 3 months and 80% within the next 12 months. Revenue from Domestic tourism during FY 19-20 amounted to A$155.6B in revenue.

The easing of interstate restrictions and the reopening of travel to Victoria adds to the increase of domestic tourism. With most of the domestic flight routes mainly involving East to West Australian flights and flights within the Golden Triangle, we forecast an increase in domestic tourism along these popular routes. The reopening of Victoria's borders, which is the second largest contributor to domestic tourism would also incentivise many Australians to travel interstate for holidays during the festive period. This in turn contributes to QAN's projected revenue growth in domestic flight earnings.

Reopening of the mining industry in Australia

COVID-19 hugely affected the mining industry in Australia. Miners who usually work in a 2-week rotation, depended on domestic flight to fly from the big cities where they live to the smaller remote areas for work (FIFO). These FIFO flights accounts to A$33m in FY19 for Australia's domestic flight travel. With the recovery roadmap set out by the Mineral Council of Australia and the government's easing of interstate travel, many more miners can return to work using FIFO. This in turn boosts the demand for domestic travel.

Thesis 2: Virgin Australia's restructuring poses a strong growth opportunity for Qantas in domestic air travel

Prior to bankruptcy, Virgin Australia and its low-cost carrier ("LCC") arm, Tigerair Australia, captured approximately 37% of the Australian domestic air travel market in 2019 with QAN (and its LCC arm, Jetstar) taking 56.9% of the market. Virgin Australia's recent bankruptcy has led a release of market share for other market players, including Qantas to capture. After being acquired by Bain Capital, Virgin Australia is set to exit several unprofitable routes and streamline its fleet into a mono-aircraft fleet of Boeing 737s to reduce maintenance costs brought with the complexity of operating large fleets.

In September, Virgin announced flights would be cut from Ayers Rock (Uluru), Albury, Tamworth, Hervey Bay, Mildura, Cloncurry and Tonga "for the foreseeable future". This was contrasted with Jetstar's resumption of service between Brisbane and Uluru. Virgin also announced that it would reduce its regional network to 20 domestic destinations in Australia from 40 destinations in 2019. This large reduction in regional flight supply would bring a tailwind for QAN which is already servicing these routes. In September, Qantas' CEO Alan Joyce said he expected that Qantas' domestic market share could rise to 70% from its pre-pandemic level of 60% as the market recovers as a result of Virgin's fleet downsize.

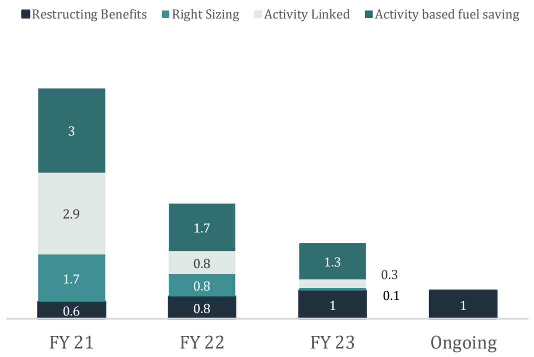
Furthermore, Virgin is set to restructure itself into a domestic LCC with a single 737-only fleet. In 15 October 2020, Bain Capital announced the change in CEO of Virgin Australia from Paul Scurrah to former Jetstar CEO Jayne Hrdlicka. This change suggests that Bain may be leveraging Ms Hrdlicka's past expertise in LCC to pivot Virgin away from a full-service airline into the LCC. The closure of Virgin's own LCC brand,

Figure 20: Aircraft Numbers by Type

Aircraft Type	FY20
A380-800	12
747-400	-
747-400ER	4
A330-200	18
A330-300	10
737-800NG	75
787-9	11
Total Qantas	130
717-200	20
Q200/Q300	19
Q400	31
F100	17
A323-200	4
Total QantasLink	91
Q300	-
A330-200	68
A321-200	8
787-8	11
Total Jetstar	87
737-300SF	4
737-400SF	1
767-300SF	1
Total Freight	6
Total Group	314

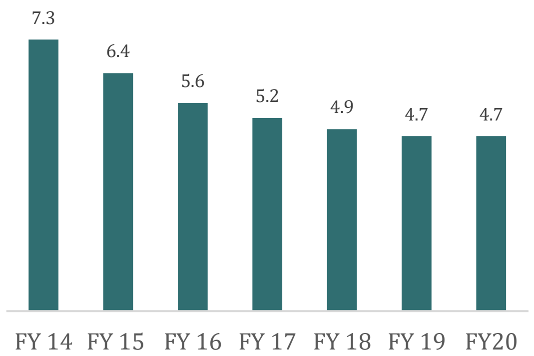
Source: Qantas Annual Report 2020

Figure 21: Three Year Plan Estimated A$15B of Cost Savings



Source: Qantas Annual Report 2020

Figure 22: Qantas' Net Debt Profile (A$B)



Source: Qantas Annual Report 2020

Tigerair, could further support this hypothesis. Once the pivoting is complete, Qantas would be the only full-service airline serving the Australian market. This allows QAN to capture more of the higher yielding corporate traffic, driving recurring revenue growth. Furthermore, it is expected that no new competitor would be able to challenge QAN's leadership in the premium segments for a long period of time considering Australia's policy of only domestic airlines could service domestic routes and the historical development of Virgin taking 11 years to convert itself from a pure LCC to a full service airline.

<u>Closure of Tigerair Brand a short-term boost for Jetstar</u>

The closure of the Tigerair brand and the routes it covers has left Jetstar as the biggest beneficiary, especially in capturing additional traffic within the highly lucrative Golden Triangle. Of the 21 routes operated by Tigerair in 2019, all of them were domestic. The most capacity was deployed on flights between MEL and SYD, one of the world's busiest air routes with more than 1.0m seats serviced by Tigerair in 2019 as compared to 1.2m by Jetstar. In addition, the closure of Tigerair's next 2 biggest routes of BNE-MEL and SYD-MEL opened more opportunities for Jetstar to expand their volumes as the domestic market improves. With Virgin still in the midst of transitioning into a LCC and the regional carriers like Rex and Alliance unable to expand into a national wide LCC in time, Jetstar and Qantas are likely able to capture its market share in the short term ahead of competitors as the travel market improves.

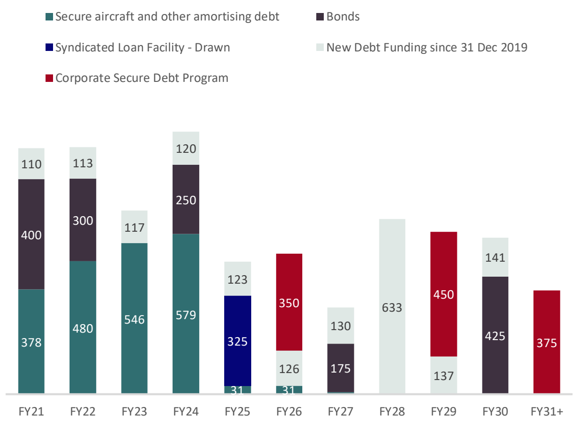
<u>Regional Express unable to fill Virgin and Tigerair's shoes</u>

Other regional airlines such as Rex are unlikely to be viable threat in competing with Qantas for the additional traffic from the downsizing of Virgin and Tigerair. There are some concerns that the next largest airline after Virgin, Rex could potentially compete for market share within the Golden Triangle market which it has previously avoided. Traditionally operating a city to rural network with a fleet of 60 Saab 340B planes, Rex purchased 8 737s from Virgin, of which, 5 would be used to serve the SYD-MEL route, showing its ambition to enter the Golden Triangle market. However, with its small cash holdings of A$11.2m as reflected in its FY20 annual report, it is unlikely that Rex would be able to expand rapidly to compete for the market leadership with Qantas.

Thesis 3: QAN has a superior financial position and an effective recovery plan compared to its peers

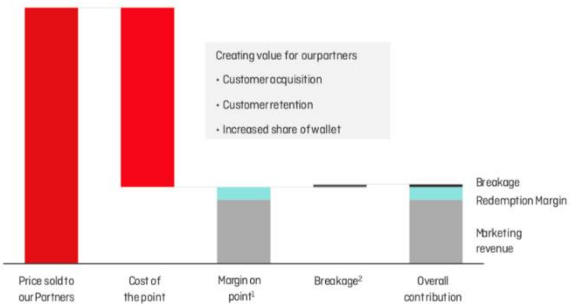
QAN's swift recovery plan and strong balance sheet positions the company well to weather and emerge from the COVID-19 situation stronger. QAN has maintained its debt well during the COVID-19 pandemic with a leverage of less than 2.5x net debt-to-EBITDA which is on the lower end of its guidance. It currently has A$4.6B in total liquidity to cover its A$4.7B net debt. Its FY20 cash flow is expected to be negative due to the one-off restructuring and right-sizing efforts as outline in its three-year A$15.0B recovery efforts. QAN expects to be sustainably free cash flow positive by FY22 or earlier due to A$8.2B of costs savings to be realized in early FY21. Additionally, their loyalty program provides the additional cash buffer needed for QAN to tide through the current low demand environment. These characteristics position QAN ahead of its peers to come out of the COVID-19 situation stronger.

Figure 23: Debt Maturity Profile from FY2021 and Beyond



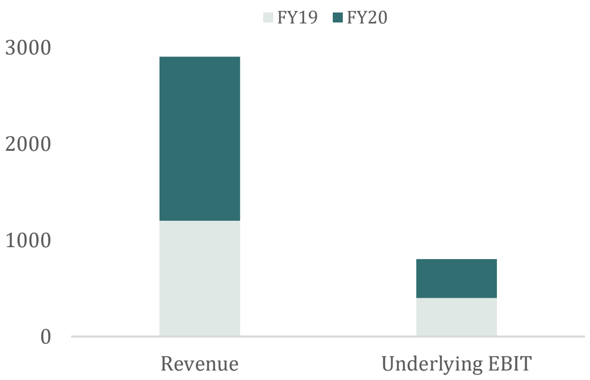
Source: Qantas Annual Report 2020

Figure 24: Core Loyalty Points Sales Margins



Source: Qantas Annual Report 2020

Figure 25: Qantas Loyalty Programme (FY19 – FY20)



Source: Qantas Annual Report 2020

<u>"Right Aircraft Right Route" initiative to result in lasting cost savings beyond COVID-19</u>

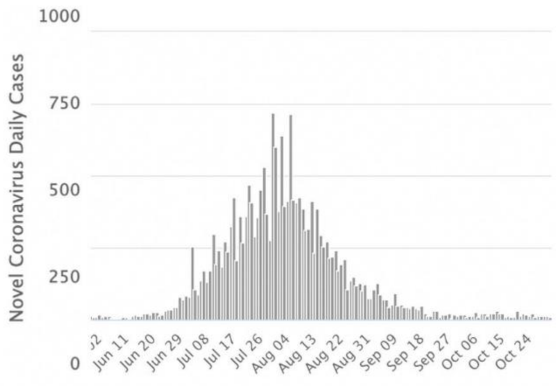
QAN's "Right Aircraft Right Route" recovery plan is successful and only feasible because of its characteristically larger fleet size compared to competitors. We believe that the market is under-pricing the additional cost savings as a result of fleet synergies. This characteristic and strategy of QAN would allow it to better weather the current low demand environment compared to its peers. The right-sizing recovery plan includes the implementation of new digital and contact centre operating models, which would allow for better optimized selection of aircraft for specific routes across their Qantas, QantasLink and Jetstar fleets. QAN could also allow passengers to co-share planes due to low passenger volumes, hence allowing greater number of passengers per flight. Given the current low demand environment, choosing the right aircraft to match the number of passenger and route distance would be extremely important to manage overhead costs. QAN has 17 different aircraft during this period across their 3 fleets, 6 of which are catered to domestic travel, compared to Tiger Airways with only 2 aircrafts in total. In contrast to their peers, this one-off upgrade initiative leverages on their bigger fleet size. Hence, the flexibility of choice to move A320s from Jetstar to the Network Aviation, which is QAN's regional subsidiary that carries miners across Australia, allows an QAN to schedule the lowest-cost flights, translating to cost savings of at least A$2.6B over the next three years, with A$1.7B to be recognized in FY21. Thus, the added flexibility of choice outweighs the costs of having a larger fleet, allowing them to better overcome the COVID-19 situation.

<u>Qantas Frequent Flyers Loyalty program forecasted to experience growth and provide cash buffer in the short term</u>

The success of QAN's loyalty program is the result of being the primary international carrier in Australia. With more than 500 various partners spanning across different industries, it provides an important source of diversified earnings and positive cash flow for QAN to ride out the COVID-19 pandemic. We believe that QAN's loyalty program will see the worst of COVID-19 in 2H FY20, and afterwards expect a strong recovery, with the retail business segment of Qantas Loyalty leading the rebound.

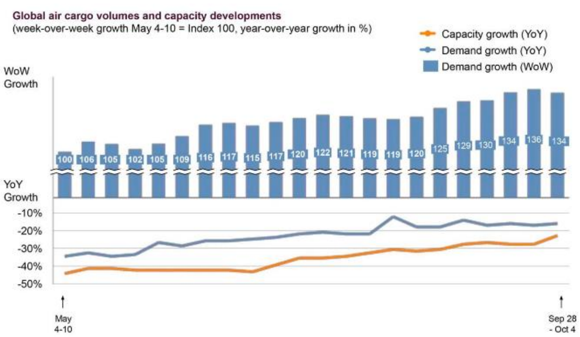
With more than half of the Australian population subscribing to the membership, Qantas' loyalty program has continued to see growth in the number of members to 13.4m from 12.9m, with improving margins even during the COVID-19 situation. Their loyalty program has seen surprises in earnings from its Qantas Wine, Qantas Shopping and Qantas Store i.,e. the retail segment of the programme. Qantas Loyalty is expected to contribute upwards of $340.0m in EBIT, ranging from 78% (1H 2020) to 25% (FY23 onwards) of EBIT as revenue from other segments improve. Additionally, strategic partnerships with Afterpay and Woolworths has seen success and growth during the COVID-19 period, the former being a widely used payments system, and the latter being Australia's largest grocer. The partnership with Afterpay has worked in QAN's favour with an increasing number of Australians adopting digital payments, translating to the collection of Qantas Points. Hence, Afterpay has to increase their purchase of Qantas Points in order to maintain their current their digital payment system. Similarly, Woolworths has increased their purchase of Qantas Points to reward their existing clients to continue to purchase their products online. We believe that the market is underestimating Qantas' Loyalty

Figure 26: Daily Number of New COVID-19 cases in Australia



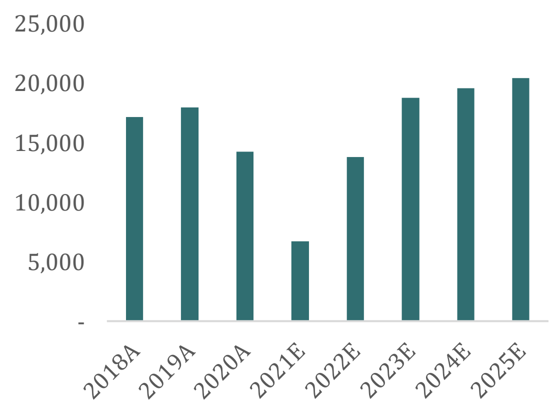
Source: Worldometer, 2020

Figure 27: Global Air Cargo Volumes



Source: CLIVE data service

Figure 28: Total Revenue Forecast (A$m)



Source: NUS Investment Society Estimates

programme due to sheer association with QAN's airline segments. QAN's loyalty programme is expected to provide about a third of their operating cashflows with the remainder supplemented by debt. In time to come, QAN's loyalty programme would be the cornerstones of QAN's recovery and would eventually grow large enough to rival their airline segments with higher margins.

Catalysts

Increased growth from Qantas Loyalty program

QAN has seen successful diversification of its Qantas Loyalty programme by collaborating with various partners. Two notable partners which are potential catalysts for growth would be the Afterpay and Woolworths partnership with Qantas Loyalty. Afterpay is a fast-growing payments system in Australia and New Zealand which has seen added growth during the COVID-19 pandemic. Woolworths is Australia's biggest grocer and has seen an uptick of groceries purchases in view of COVID-19 lockdowns. QAN and Woolworths have also recently revamped their loyalty partnership scheme with a more generous conversion rate of members who use their supermarket spending to gain airline points which has a 60% margin on external points. QAN’s loyalty programme leverages on COVID-19 tailwinds of e-commerce and digital payments, which are sticky in nature, would be an added boon to QAN.

Full domestic reopening of New South Wales and Queensland, and improvement of Victoria's COVID-19 Situation

New South Wales (“NSW”), Victoria and Queensland are the three most popular locations for domestic travel. The Melbourne to Sydney flight alone i.e. Victoria to NSW accounted for 28% of all passenger flights in 2019. NSW and Queensland have seen the relaxing of COVID-19 measures and have seen some form of interstate travel. These two states are the closest to resume domestic travel albeit at reduced activity levels. Interstate travel between Brisbane and Sydney represents 35% of total passengers carried, representing an avenue for stronger recovery moving forward. Despite Victoria's latest increase in precautionary levels from "Stage 3" to "Stage 4", daily new cases in Victoria are currently averaging at 15 cases a day which is comparatively low. We foresee the resumption of travel activity in Victoria albeit at lower levels, to resume by Q1 FY21.

Potential demand for air freight due to increased e-commerce

Airfreight capacity has seen gradual recovery since the initial COVID-19 lockdowns. Chargeable weight transported has seen improvements in preparation of peak season in Q4 FY20. COVID-19 has hastened the growth of e-commerce and as a result, air freight has to keep up with e-commerce demand. Case in point, Qantas Freight has achieved its highest EBIT from its air freight in due to increased aircraft belly space as a result of less passengers, thereby carrying more cargo. The restricted capacity coupled with increased demand has pushed up load factors resulting in higher prices for buyers. Holiday demand for airfreight is expected to increase as cargo yields remain at historically elevated levels, providing QAN with an opportunity to utilise their grounded fleet. This allows QAN to boon to capitalise on their large fleet on the incoming peak season.

Figure 29: Details of Qantas' 3-year Recovery Plan

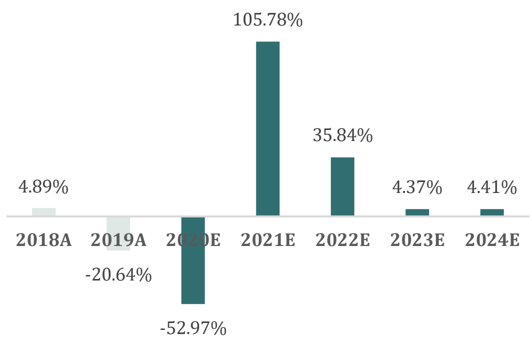
Key area of focus	Target Metrics	Timeframe
Cost Savings	Restructuring benefits of $0.6b in FY21, $0.8b in FY22, $1b by FY23	FY23
	6,000 FTE reduction	FY21
	Group Unit Cost (ex-fuel and depreciation) 10% less than FY20	FY23
Deleverage the Balance Sheet	Gross debt reduction of $1.75b	FY23
	Net debt/ EBITDA <2.5 times	FY22
Cash Flow	Sustainable positive net free cash flow	FY22 onwards
	Flying activity is contribution positive (RASK-Variable cost/ASK >0)	From FY21
	Capex for FY21 <$0.7b	FY21
Fleet Management	Defer deliveries of A321neos and 787-9 aircraft	Jun-20
	Retire 6 x 747s; 12 x A380s in long term storage	Dec-20
Customer and Brand	Maintain Customer Advocacy (NPS) premium to domestic competitor	Ongoing
	Maintain brand and reputation	Ongoing
Qantas Loyalty	Return to double digit growth	FY22
Employee Engagement	Employee sentiment	Ongoing

Source: Qantas Annual Report 2020

Figure 30: Qantas FY2024 Target

Source: Qantas Annual Report 2020

Figure 31: Revenue Growth Projections



Source: NUS Investment Society Estimates

Figure 32: WACC Build-up

WACC	5.51%
Cost of Equity	
Risk Free Rate	0.98%
Equity Risk Premium	5.23%
Beta	1.08
Cost of Equity	6.63%
Cost of Debt	
Pre-Tax Cost of Debt	4.90%
Tax Rate	28.84%
After-Tax Cost of Debt	3.49%

Source: NUS Investment Society Estimates

Financial Analysis

	Historical			Forecasted				
FINANCIAL RATIOS	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Profitability								
Gross Margin	50.9%	45.2%	40.7%	29.4%	42.2%	45.3%	45.5%	45.7%
EBITDA Margin	17.9%	19.1%	7.5%	17.5%	17.5%	17.5%	17.7%	17.9%
EBIT Margin	9.0%	8.0%	-6.9%	-10.2%	2.7%	5.8%	6.1%	6.5%
Profit Margin	5.6%	4.7%	-13.8%	-10.8%	0.1%	2.8%	3.1%	3.3%
ROA	5.1%	4.1%	-9.8%	-4.5%	0.1%	2.6%	2.8%	3.0%
ROE	24.1%	27.9%	-128.7%	-59.5%	1.3%	25.5%	21.4%	18.6%
Liquidity and Solvency								
Current Ratio	0.48	0.46	0.60	0.27	0.40	0.57	0.56	0.60
Quick Ratio	0.43	0.42	0.56	0.25	0.36	0.53	0.52	0.56
Debt/Equity Ratio	0.80	1.50	3.82	4.08	3.01	2.00	1.45	1.11
Shareholder Returns								
Earnings per Share	0.61	0.53	-1.05	-0.39	0.01	0.28	0.32	0.37

Overview

The chart above reveals Qantas' financial condition prospects in the 5-year period following its recovery from the COVID-19 pandemic, highlighting our assumptions. Due to the impact of COVID-19 lockdowns which hurt international and Australian interstate air travel, we expect a relatively difficult recovery for FY21 and FY22. However, with weaker competition in the domestic air travel market forecasted for the near future, we expect Qantas' airline business could turn profitable by FY23 to reflect the successful implementation of the management's 3-year recovery plan.

Profitability Ratios

Reflecting the short-term headwinds posed by the COVID-19 pandemic, QAN's EBIT and profit margins declined sharply in FY19/20. However, from FY20/21 onwards, QAN would experience improving EBIT and profit margins as the air travel market recovers and its cost-saving plan kicks in. It is expected that QAN would be able to reverse its trajectory out of the negative margin range by FY22/23. This reflects QAN's quick recovery from the COVID-19 pandemic which decimated the airline industry.

Furthermore, by grounding more than 100 aircraft, rapidly putting people on no-pay-leave and laying off 6,000 full time staff in FY19/20, Qantas has been able to sustain its EBITDA margins in FY20/21. In fact, CEO Alan Joyce took no salary from April to July 2020 before returning to 65% of his base salary in August. Despite stronger revenue growth and cost cutting measures from FY21/22 onwards, the subsequent stagnant EBITDA margins could be attributable to the higher costs incurred in converting more aircrafts into operational status to meet the higher air travel demand.

Liquidity and Solvency Ratios

QAN's quick and current ratios dipped in FY20/21 as revenue plummeted. However, with the firm taking more long-term debt to reduce short term liabilities while cutting operational costs, we observe that its liquidity ratios improve quickly. Some of the short-term liabilities were repaid using long term debt and freshly raised equity. In September 2020, QAN managed to raise A$500m through 10-year bonds which came after A$1.3B institutional placement in June. These new sources of liquidity add further support to its current revolving credit facility of A$1B undrawn, allowing QAN to tide through weaker air travel demand. While its D/E ratio shot up rapidly as QAN sought to shore its financial position, our projections show that it is able to reduce its leverage position in accordance to its debt maturity schedule as the air travel market recovers in the next 5 years. This is in line with Qantas' objective in maintaining an optimal debt structure of a target net debt range of A$4.5B to A$5.6B.

Figure 33: DCF and Gordon Growth Method

Model Output	Gordon Growth
Present Value of Cumulative FCFF	3,092
Present Value of Terminal Value	12,054.26
Implied Enterprise Value	15,146
Terminal Value as % of Implied Enterprise Value	80%
Less: Debt	(5,825)
Plus: Cash	3,520
Less: Minority Interest	(3)
Less: Preferred Shares	-
Implied Equity Value	12,838
Implied Share Price	6.89
% Upside/Downside	**21.7%**

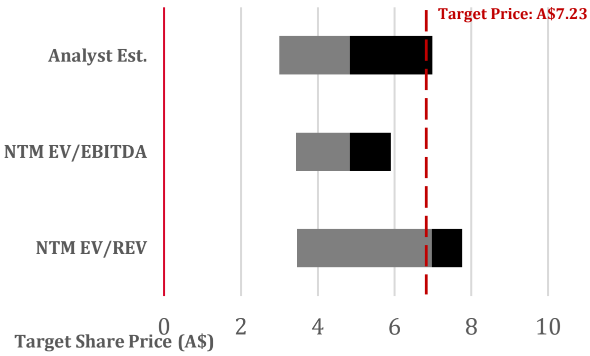
Source: NUS Investment Society Estimates

Figure 34: Sensitivity Table

Implied Share Price		Perpetual Growth Rate					
		0%	0.5%	1.0%	1.5%	2.0%	2.5%
WACC	4.0%	8.06	9.19	10.70	12.82	15.99	21.28
	4.5%	7.05	7.92	9.03	10.52	12.59	15.71
	5.0%	6.25	6.93	7.78	8.88	10.34	12.38
	5.5%	5.60	6.15	6.82	7.66	8.73	10.16
	6.0%	5.07	5.51	6.05	6.71	7.53	8.59
	6.5%	4.61	4.99	5.43	5.95	6.60	7.41

Source: NUS Investment Society Estimates

Figure 35: Football Field Blended Price Target



Source: NUS Investment Society Estimates

Figure 36: Football Field Blended Price Target

Methodology	Weightage	Implied Price
DCF (GGM)	50%	A$7.23
EV/EBITDA	25%	A$3.71
EV/REV	25%	A$6.98
Blended Price	A$6.29	
Current Price	A$5.10	
Upside	23.28%	

Source: NUS Investment Society Estimates

Valuation

Valuation Price Target: **A$6.29 (+23.3%)** as of 21 December 2020.

DCF Model

A Discounted Cash Flow model (with a 5-year forecast period) was used to estimate the intrinsic value of QAN's share price. Despite the historical trend of share buybacks, we assumed that there would no further share buybacks and dividend pay-outs during the forecasted periods for QAN to conserve cash.

We modelled revenue based on the 4 main revenue-generating segments of QAN's domestic business - Australia, Qantas International, QAN's low-cost carrier arm Jetstar as well as its loyalty partnership business. On expenses and costs, its cost-saving operations are expected to take effect and improve the margins which have been depressed by the extreme conditions caused by the COVID-19 situation.

The DCF model was built from the assumption that QAN would outperform management's guidance in terms of higher revenue from capturing a bigger share of Australia's domestic air travel market. The model draws on QAN's historical performance and its 3-year recovery plan. The Gordon Growth method was used to obtain a target price of A$7.23.

Revenue projections

Our revenue projections were based on the outlook of a strong recovery in the Australian domestic air travel market by FY21 given that the easing of interstate restrictions will result in the reopening of key travel routes between NSW and Queensland. We referenced Fitch Ratings' projections of the recovery of Australia's domestic air travel market and a stronger market position by Qantas in the upcoming years.

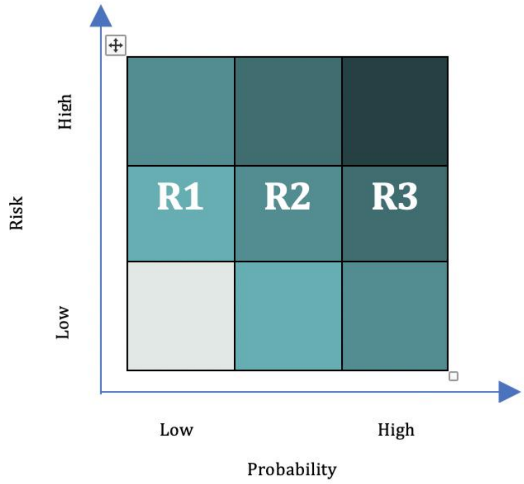
In line with the recovering the domestic market as well as long term tailwinds such as domestic tourism and FIFO flights, we based our projections on Fitch Ratings' forecast of a full recovery in Australia's domestic air travel in FY21/22. The post-recovery period would be driven by long term growth rate of domestic air travel. More critically, we forecast a steady increase in QAN's market share in the domestic air travel market from 55% to around 65% by end of FY24/25. This is in line to our thesis of a weakening Virgin Group and absence of a strong regional airline to take Virgin's place.

However, we expect continued headwinds for international air travel for FY21 and FY22 with continued virus transmissions and ongoing government lockdowns. While the recent vaccine development has provided a more positive outlook, logistical and distribution challenges cast uncertainty on the pace of recovery of international air travel. Furthermore, global competitors such as Singapore Airlines and Air New Zealand remain key threats to QAN's market share in international air travel.

CAPEX

As outlined in its 3-year recovery plan, we projected a decline in CAPEX spending to A$700m by FY20/21 which is nearly half of Qantas' historical figures. We expect that this goal is achievable with more than

Figure 37: Investment Risks Matrix



Source: NUS Investment Society Estimates

100 planes grounded and the international travel demand remaining weak.

Weighted Average Cost of Capital (WACC)

We used the CAPM Model to determine Qantas' Cost of Equity. Risk-free rate of 0.94% based on the Australian government 10-year bond yield. According to Professor Aswath Damodaran's estimates, an equity market risk premium of 5.23% was used. A levered beta of 1.08 was selected from the Yahoo Finance. Incorporating these values into the CAPM model, we arrived at our cost of equity of 6.59%. Using a corporate tax rate of 28.8%, QAN's after-tax Cost of Debt was found to be 3.49% based on its interest expense and interest-bearing debt.

Terminal growth

To compute the terminal value of QAN using the Gordon Growth Method, we adopted a perpetual growth rate of 1.0% which is lower than Australia's long-term GDP growth of 2.0% as estimated by the Economists Intelligence Unit (EIU). We find that given that Australia's airline industry has already reached its maturity, it would be less likely to grow as quickly as the wider Australian economy which is dependent on trade and its natural resources industry.

Relative valuation

We compared the +1FY EV/EBITDA, EV/Revenue and P/E multiples of QAN with its peer comparable companies that have both substantial international and domestic air routes: Delta Airlines, Ryanair Holdings, Air China Limited, United Airlines, China Eastern Airlines, Deutsche Lufthansa and Korean Airlines. Given that no other Australian regional airlines match QAN's fleet size and route coverage in Australia, they are not chosen as directly comparable companies. For instance, notable regional carrier Rex (REX.AX) has only a market capitalisation of 206m compared to Qantas' 10.5B capitalisation.
QAN is currently trading slightly below the median for EV/EBITDA and EV/Revenue. We believe that the street's valuation of QAN is too pessimistic considering the growing potential in the domestic air travel market. Using a 50/50 weightage split between EV/Revenue and EV/EBITDA, we would obtain an implied price of A$5.35 from relative valuation, suggesting that QAN is currently slightly undervalued.

Blended Price Target

Applying a 50/50 weightage split between our DCF and Relative Valuation approaches, we arrived an implied share price of A$6.29 which represents a 23.3% upside, affirming our BUY recommendation.

Investment Risks

Risk 1: Recovery and comeback of Virgin Australia Airlines under Bain Capital buyout

Private equity firm Bain Capital has bought out Virgin Australia Airlines as it went into voluntary administration. Virgin previously had been unprofitable for the past 7 years in attempts to transform itself from a low-cost carrier to a full-service rivalling QAN. Under Bain's administration, it had decided to remove its LCC Tigerair Australia to focus on its core domestic and short-haul international Boeing 737 operator. It will focus on more regional services while operating a smaller fleet of Boeing 737, competing with QAN's Jetstar LCC. Virgin expects to have between 30 to 60 Boeing 737 by FY21 depending on demand recovery. Hence Virgin's would be smaller than it originally was, competing only in the budget airline component. Hence the investment risk of Virgin's resurgence would be low and endemic in the mid to long term.

Risk 2: Potential slowing of domestic flight recovery

Australia has seen its daily new COVID-19 cases drop significantly, averaging at 25 new cases a day. Certain parts of Australia have reopened their border for domestic flights, being able to enter without being subjected to quarantine measures. The three main locations for domestic travel are NSW, Victoria and Queensland, together representing 77% of all domestic travel revenue. NSW is gradually lifting its lockdown restrictions, however, still requires quarantining measure prior to entering NSW. Victoria recently upgraded from Stage 3 to Stage 4 restrictions as a result of an increase in COVID-19 cases. Hence, we do not foresee improvement in domestic flight situation for Victoria in the short-term. Queensland has relaxed their interstate travel and has seen a gradual pick up in travel. For these three states, COVID-19 recovery would be crucial for the rebound and hence the rise of a 3rd wave of COVID-19 cases in these states would threaten the resumption of domestic travel in the intermediate term.

Risk 3: Antitrust Regulation

Since January 2020 the Australian Competition & Consumer Commission ("ACCC") has received a number of complaints made by market participants alleging anti-competitive conduct in the industry, in issues such as capacity dumping and predatory pricing. Due to the current uncertainty, QAN has not been explicitly called out. However, we foresee a potential drag in revenues and margins in the long term due to circumvention measures QAN will undertake.

Capacity dumping occurs where capacity is increased beyond expected demand, leading to hoarding of airport slots. At crowded 'level 3' slot constrained airports, where demand exceeds capacity, slots are allocated on a historical precedence basis, that is, if an airline regularly utilises a slot, they can retain that slot in the future. Due to airport curfew and spatial limitations, several airports are slot constrained. Sydney Airport in particular, one of Australia's busiest airports and one which plays a pivotal role in the Australian domestic air travel network, is significantly slot constrained. Hence, QAN size may be probed with anti-competitive practices due to the nature of their fleet size. As a result, measures taken to circumvent such as the release of constrained slots in key airports would result in drag on its margins in the intermediate to long run.

Disclaimer

Appendix:
Pro Forma Financial Statements
Financial Projections

Figures in '000,000 AUD	Historical 2018A	2019A	2020A	Forecasted 2021E	2022E	2023E	2024E	2025E
Revenue	17,128	17,966	14,257	6,705	13,926	18,948	19,781	20,658
Revenue Growth		4.9%	-20.6%	-53.0%	107.7%	36.1%	4.4%	4.4%
Gross Profit	8,715	8,114	5,797	3,823	7,941	10,805	11,280	11,780
Operating Income	1,534	1,435	(981)	(358)	550	1,272	1,394	1,531
Pretax Income	1,352	1,192	(2,708)	(1,014)	39	754	876	988
Net Income	953	840	(1,964)	(721)	28	537	623	703
Cost Build								
Aircraft operating costs	(3,653)	(4,010)	(3,520)	(1,527)	(3,172)	(4,316)	(4,506)	(4,706)
% of Revenue	21.3%	22.3%	24.7%	22.8%	22.8%	22.8%	22.8%	22.8%
Fuel	(3,232)	(3,846)	(2,895)	(1,354)	(2,812)	(3,826)	(3,995)	(4,172)
% of Revenue	18.9%	21.4%	20.3%	20.2%	20.2%	20.2%	20.2%	20.2%
SG&A	(4,291)	(4,268)	(3,646)	(1,636)	(3,398)	(4,624)	(4,787)	(4,958)
% of Revenue	25.1%	23.8%	25.6%	24.4%	24.4%	24.4%	24.2%	24.0%
Impairment of Assets	-	39	(1,456)					
% of Revenue	0.0%	-0.2%	10.2%					
Other Operating Expenses	(2,890)	(2,411)	(3,132)	(1,015)	(2,109)	(2,870)	(2,996)	(3,129)
% of Revenue	16.9%	13.4%	22.0%	15.1%	15.1%	15.1%	15.1%	15.1%
Dividend Payout	(363)	(363)	(204)	-	-	-	-	-
% of Net Income	38.1%	43.2%	-10.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Income Tax Expense	(399)	(352)	744	292	(11)	(218)	(253)	(285)
Effective Tax Rate	29.5%	29.5%	27.5%	28.8%	28.8%	28.8%	28.8%	28.8%
Net Working Capital								
Account Receivable	715	885	320	305	634	862	900	940
As % of Revenue	4.2%	4.9%	2.2%	4.6%	4.6%	4.6%	4.6%	4.6%
Inventory	351	364	306	139	289	394	411	429
As % of Aircraft operating costs	9.6%	9.1%	8.7%	9.1%	9.1%	9.1%	9.1%	9.1%
Prepaid Expenses	121	156	121	53	111	151	156	162
As % of SG&A	2.8%	3.7%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%
Other ST Assets	757	626	685	284	590	803	838	875
As % of Revenue	4.4%	3.5%	4.8%	4.2%	4.2%	4.2%	4.2%	4.2%
Accounts Payable & Accurals	851	951	1,451	611	933	1,269	1,325	1,384
As % of Aircraft operating costs	23.3%	23.7%	41.2%	40.0%	29.4%	29.4%	29.4%	29.4%
Unearned Revenue	4,018	4,414	2,784	1,510	3,136	4,267	4,454	4,652
As % of Revenue	23.5%	24.6%	19.5%	22.5%	22.5%	22.5%	22.5%	22.5%
Other ST Liabilities	2,436	3,043	3,201	1,509	2,489	3,386	3,535	3,692
As % of Revenue	14.2%	16.9%	22.5%	22.5%	17.9%	17.9%	17.9%	17.9%
Net Working Capital	(5,361)	(6,377)	(6,004)	(2,847)	(4,933)	(6,713)	(7,009)	(7,321)
Increase in NWC				3,157	(2,086)	(1,779)	(296)	(312)
Equity								
Repurchase of Equity	913	735	448	-	-	-	-	-
As % of Net Income	95.8%	87.5%	-22.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Treasury Stock	115	152	51	51	51	51	51	51
Share Count	1,571	1,571	1,864	1,864	1,864	1,864	1,864	1,864
Proceeds from Share Issuance				349	-	-	-	-
Share Capital	2,508	1,871	3,104	3,453	3,453	3,453	3,453	3,453
Increase of Share Capital			11.2%	11.2%	0.0%	0.0%	0.0%	0.0%

PPE Build

Depreciation Schedule								
CAPEX	2,003	1,691	1,144	700.0	1,393	2,274	2,769	2,479
CAPEX as % of Revenue	11.7%	9.4%	8.0%	10.4%	10.0%	12.0%	14.0%	12.0%
Accumulated Depreciation	(14,683)	(14,751)	(14,506)	(16,036)	(17,920)	(19,959)	(22,062)	(24,226)
PPE								
Land	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0
Buildings	289.0	289.0	288.0	288.0	288.0	288.0	288.0	288.0
Leasehold Improvements	1,392.0	1,052.0	1,082.0	1,103.9	1,147.5	1,218.7	1,305.3	1,382.9
Plant and equipment	1,511.0	1,493.0	1,437.0	1,470.7	1,537.8	1,647.4	1,780.8	1,900.3
Aircraft and engines	22,054.0	22,989.0	21,728.0	22,203.1	23,148.4	24,691.7	26,571.4	28,254.0
Aircraft spare parts	909.0	872.0	886.0	923.6	998.3	1,120.3	1,269.0	1,402.0
Aircraft deposits	665.0	783.0	762.0	893.7	1,155.6	1,583.2	2,104.1	2,570.3
Total PPE	**26,869**	**27,527**	**26,232**	**26,932**	**28,325**	**30,598**	**33,368**	**35,847**
Acquisition								
Land	-	-	-	0.0	0.0	0.0	0.0	0.0
Buildings	-	-	-	0.0	0.0	0.0	0.0	0.0
Leasehold Improvements	39.0	37.0	74.0	21.9	43.6	71.2	86.7	77.6
Plant and equipment	82.0	107.0	55.0	33.7	67.1	109.6	133.4	119.4
Aircraft and engines	1,311.0	1,114.0	982.0	475.1	945.2	1,543.3	1,879.7	1,682.6
Aircraft spare parts	108.0	86.0	76.0	37.6	74.7	122.0	148.6	133.0
Aircraft deposits	310.0	380.0	254.0	131.7	261.9	427.7	520.9	466.2
Total CAPEX	**1,850**	**1,724**	**1,441**	**700**	**1,393**	**2,274**	**2,769**	**2,479**
Acquisitions as % of CAPEX				Average CAPEX into PPE				
Land	0.0%	0.0%	0.0%	0.0%				
Buildings	0.0%	0.0%	0.0%	0.0%				
Leasehold Improvements	2.1%	2.1%	5.1%	3.1%				
Plant and equipment	4.4%	6.2%	3.8%	4.8%				
Aircraft and engines	70.9%	64.6%	68.1%	67.9%				
Aircraft spare parts	5.8%	5.0%	5.3%	5.4%				
Aircraft deposits	16.8%	22.0%	17.6%	18.8%				
Depreciation Expense								
Buildings				0.0	4.0	4.0	4.0	4.0
Leasehold Improvements				1.1	36.2	37.6	38.3	37.9
Plant and equipment				1.7	68.4	70.5	71.7	71.0
Aircraft and engines				19.0	4.5	7.3	8.9	8.0
Aircraft spare parts				8.8	17.5	28.5	34.7	31.1
Sum				31	130	148	158	152

Useful Lives (Years)	
Buildings	40
Leasehold Improvements	20
Plant and equipment	20
Aircraft and engines	25
Aircraft spare parts	15

Depreciation Adj from impairment of Aircraft				114	114	114	114	114
Repayment to Right-of-Use Assets	-	(324)	(432)	(162)	(337)	(458)	(478)	(499)
Depreciation as % of Revenue		1.8%	3.0%	2.4%	2.4%	2.4%	2.4%	2.4%
Depreciation to PPE	(1,528)	(1,672)	(1,613)	(1,530)	(1,547)	(1,581)	(1,625)	(1,664)
Total Depreciation Expense	(1,528)	(1,996)	(2,045)	(1,692)	(1,884)	(2,039)	(2,104)	(2,163)
Intangible Assets								
Total Intangible Assets	1,113	1,225	1,050	1,037	1,108	1,178	1,248	1,319
Additions on Intangible assets	229	279	191	150.0	233.0	233.0	233.0	233.0
Impairment	-	-	(170)					
Annual Amortization Expense	(127)	(164)	(197)	(162.7)	(162.7)	(162.7)	(162.7)	(162.7)
Right of use Assets								
Addition to Right-of-use Assets	-	295	453	162	336	457	477	498
Additions as % of Revenue	0.0%	1.6%	3.2%	2.4%	2.4%	2.4%	2.4%	2.4%
Interest element of Right-of-use Assets	-	96	101	42	87	118	123	128
Interest as % of Revenue	0.0%	0.5%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%
Other LT Liabilities	3,927	2,683	3,053	2,682	2,751	3,744	3,908	4,082
As % of Revenue	22.9%	14.9%	21.4%	40.0%	19.8%	19.8%	19.8%	19.8%
Increase in Other LT Liabilities				(371)	70	992	165	173
Total Depreciation and Amortization Expense				(1,855)	(2,046)	(2,202)	(2,266)	(2,326)

Cash Holdings and Cashflow Drivers

Cash at Year End	1,694	2,157	3,520	734	1,524	2,830	2,872	3,354
Mean Cash Balance		1,926	2,839	2,839	2,127	1,129	2,177	2,851
Interest Income	48	47	33	51	38	20	39	51
% Interest on Cash Holdings		2.4%	1.2%	1.8%	1.8%	1.8%	1.8%	1.8%
Cash & Non-Cash Adj for Cashflow stateme	223	70	2,134	56	116	158	164	169
% of SG&A	5.20%	1.64%	58.53%	3.4%	3.4%	3.4%	3.4%	3.4%
Foreign Exchange Rate Adjustments	3	12	(2)	3	6	8	8	9
% of Revenue	0.02%	0.07%	-0.01%	0.04%	0.04%	0.04%	0.04%	0.04%

Debt Schedule

Long Term Debt	Principal	Interest	Weighted Average Interest Rate
Secured Bank Loans	1,742	Undisclosed	Undisclosed
Unsecured Bank Loans	320	Undisclosed	Undisclosed
Secured Other Loans	2,615	Undisclosed	Undisclosed
Unsecured Other Loans	1,148	Undisclosed	Undisclosed
Total Long Term Debt	5,825		

	Historical			Forecasted				
Figures in '000,000 AUD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E

Interest Repayment Schedule

Interest Paid (LT Debt)				(318)	(247)	(190)	(192)	(199)
Principal Repayment (LT Debt)				(883)	(880)	(637)	(922)	(479)
Benchmark Interest Rate:	2.49%	1.86%	0.83%	0.50%	0.50%	1.00%	1.00%	1.00%
Interest Rate on Interest-Bearing Liabilities	6.00%	5.50%	4.90%	4.57%	4.57%	5.07%	5.07%	5.07%
Interest Rate Spread:	3.51%	3.64%	4.07%	4.07%	4.07%	4.07%	4.07%	4.07%

ST & LT Debt

Cash & Cash Equivalents	1,694	2,157	3,520					
Cash as % of Revenue	9.9%	12.0%	24.7%					
Minimum Target Cash Balance				734	1,525	2,074	2,166	2,262
Minimum Target Cash Balance as & of Revenue				10.9%	10.9%	10.9%	10.9%	10.9%
Short Term Debt (Bank Loans & Revolver)								
Beginning Balance				868	2,125	1,405	-	-
Additions				2,125	1,405	-	-	-
Repayment				(868)	(2,125)	(1,405)	-	-
Ending Balance	295	610	868	2,125	1,405	-	-	-
Cash Available at End of Year (Excl ST Debt)				(523)	2,244	4,237	2,874	3,355
Minimum cash desired				734	1,525	2,074	2,166	2,262
Cash Surplus (Deficit) for ST Debt Repayment				(1,257)	720	2,162	708	1,093
Interest Rate on ST Debt				2.5%	2.5%	2.5%	2.5%	2.5%
Interest Paid				(22)	(53)	(35)	-	-
Long Term Debt								
Beginning Balance		3,165	4,527	5,825	4,942	4,062	4,062	4,062
Additions				-	-	637	922	479
Repayments			-	(883)	(880)	(637)	(922)	(479)
Ending Balance	3,165	4,527	5,825	4,942	4,062	4,062	4,062	4,062
New LT Debt Additions								
Balance				-	-	637	1,559	2,038
Interest Expense on New Debt				-	-	(32)	(79)	(103)
Total Interest Expense	(230)	(233)	(203)	(340)	(300)	(258)	(271)	(303)

Revenue model

Figures in '000,000 AUD	Historical 2018A	2019A	2020A	Forecasted 2021E	2022E	2023E	2024E	2025E
Australia Domestic Air Travel Market								
Market Size	15,244	15,636	11,395	6,837	13,674	15,725	16,140	16,565
Market Size Growth y-o-y		2.6%	-27.1%	-40.0%	100.0%	15.0%	2.6%	2.6%
Qantas Domestic Revenue	**5,945**	**6,098**	**4,672**	2,872	6,017	7,076	7,263	7,454
QD Market Share	39.0%	39.0%	41.0%	42.0%	44.0%	45.0%	45.0%	45.0%
Jetstar Domestic Revenue	**2,087**	**2,179**	**1,623**	1,094	2,461	3,460	3,551	3,644
JSD Market Share	13.7%	13.9%	14.2%	16.0%	18.0%	22.0%	22.0%	22.0%
Australia International Air Travel Market								
Market Size	40,735	43,647	35,747	14,299	27,168	43,468	46,413	49,557
Market Size Growth y-o-y		7.1%	-18.1%	-60.0%	90.0%	60.0%	6.8%	6.8%
Qantas International Revenue	**6,925**	**7,420**	**6,077**	1,716	3,803	6,086	6,498	6,938
QI Market Share	17.0%	17.0%	17.0%	12.0%	14.0%	14.0%	14.0%	14.0%
Jetstar International Revenue	**1,708**	**1,782**	**1,383**	500	1,100	1,760	1,879	2,006
JSI Market Share	4.2%	4.1%	3.9%	3.5%	4.0%	4.0%	4.0%	4.0%
Miscellaneous (Loyalty, Eliminations etc)								
Miscellaneous Revenue	**463**	**487**	**502**	523	544	567	590	615
Growth y-o-y		5.18%	3.08%	4.1%	4.1%	4.1%	4.1%	4.1%
Total Revenue	**17,128**	**17,966**	**14,257**	**6,705**	**13,926**	**18,948**	**19,781**	**20,658**
Revenue Growth		4.89%	-20.64%	-52.97%	107.70%	36.07%	4.39%	4.43%

Income Statement

Figures in '000,000 AUD	Historical 2018A	2019A	2020A	Forecasted 2021E	2022E	2023E	2024E	2025E
Income Statement								
Revenues	17,128	17,966	14,257	6,705	13,926	18,948	19,781	20,658
Aircraft operating costs	(3,653)	(4,010)	(3,520)	(1,527)	(3,172)	(4,316)	(4,506)	(4,706)
Fuel	(3,232)	(3,846)	(2,895)	(1,354)	(2,812)	(3,826)	(3,995)	(4,172)
Less: Depreciation & Amortization	(1,528)	(1,996)	(2,045)	(1,855)	(2,046)	(2,202)	(2,266)	(2,326)
Gross Profit	**8,715**	**8,114**	**5,797**	**1,969**	**5,895**	**8,603**	**9,014**	**9,455**
SG&A	(4,291)	(4,268)	(3,646)	(1,636)	(3,398)	(4,624)	(4,787)	(4,958)
Other Operating Expenses	(2,890)	(2,411)	(3,132)	(1,015)	(2,109)	(2,870)	(2,996)	(3,129)
Operating Income	**1,534**	**1,435**	**(981)**	**(683)**	**387**	**1,109**	**1,231**	**1,368**
Impairment of Assets	-	39	(1,456)	-	-	-	-	-
Interest Expense	(230)	(233)	(203)	(340)	(300)	(258)	(271)	(303)
Interest Income	48	47	33	51	38	20	39	51
Interest Element of the Operating Lease Paymer	-	(96)	(101)	(42)	(87)	(118)	(123)	(128)
Net Interest	(182)	(282)	(271)	(331)	(348)	(355)	(355)	(379)
Pretax Income (Loss)	**1,352**	**1,192**	**(2,708)**	**(1,014)**	**39**	**754**	**876**	**988**
Pretax Income, IFRS	**1,352**	**1,192**	**(2,708)**	**(1,014)**	**39**	**754**	**876**	**988**
Income Tax Benefit (Expense)	(399)	(352)	744	292	(11)	(218)	(253)	(285)
Net Income Inc. MI	**953**	**840**	**(1,964)**	(721)	28	537	623	703
Minority Interest	-	-	-					
Net Income	**953**	**840**	**(1,964)**	**(721)**	**28**	**537**	**623**	**703**

Balance Sheet

Balance Sheet	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Assets								
Cash, Cash Equivalents & STI	1,694	2,157	3,520	734	1,524	2,830	2,872	3,354
Cash & Cash Equivalents	1,694	2,157	3,520					
ST Investments	-	-	-					
Accounts Receivable	715	885	320	305	634	862	900	940
Inventory	351	364	306	139	289	394	411	429
Prepaid Expenses	121	156	121	53	111	151	156	162
Other ST Assets	757	626	685	284	590	803	838	875
Total Current Assets	**3,638**	**4,188**	**4,952**	**1,515**	**3,148**	**5,040**	**5,178**	**5,760**
Net PPE	12,186	12,776	11,726	10,896	10,405	10,639	11,305	11,621
PPE	26,869	27,527	26,232	26,932	28,325	30,598	33,368	35,847
Accumulated Depreciation	(14,683)	(14,751)	(14,506)	(16,036)	(17,920)	(19,959)	(22,062)	(24,226)
LT Investments	222	313	163	163	163	163	163	163
Right-of-Use Assets from Operating Leases	-	1,419	1,440	1,602	1,937	2,394	2,870	3,368
Other LT Assets	2,601	1,839	1,745	1,732	1,803	1,873	1,943	2,014
Total Intangible Assets	1,113	1,225	1,050	1,037	1,108	1,178	1,248	1,319
Misc LT Assets	1,488	614	695	695	695	695	695	695
Total Non-Current Assets	**15,009**	**16,347**	**15,074**	**14,393**	**14,308**	**15,069**	**16,282**	**17,166**
TOTAL ASSETS	**18,647**	**20,535**	**20,026**	**15,908**	**17,455**	**20,109**	**21,459**	**22,926**
Liabilities								
Account Payables & Accruals	851	951	1,451	611	933	1,269	1,325	1,384
Unearned Revenue	4,018	4,414	2,784	1,510	3,136	4,267	4,454	4,652
Short Term Debt	295	610	868	2,125	1,405	-	-	-
Other ST Liabilities	2,436	3,043	3,201	1,509	2,489	3,386	3,535	3,692
Total Current Liabilities	**7,600**	**9,018**	**8,304**	**5,754**	**7,963**	**8,922**	**9,314**	**9,727**
LT Debt	3,165	4,527	5,825	4,942	4,062	4,062	4,062	4,062
Operating Lease Liabilities	-	1,293	1,318	1,318	1,317	1,315	1,314	1,312
Other LT Liabilities	3,927	2,683	3,053	2,682	2,751	3,744	3,908	4,082
Total Non-Current Liabilities	**7,092**	**8,503**	**10,196**	**8,941**	**8,130**	**9,121**	**9,284**	**9,456**
Total Liabilities	**14,692**	**17,521**	**18,500**	**14,696**	**16,093**	**18,043**	**18,599**	**19,183**
Shareholder's Equity								
Share Capital	2,508	1,871	3,104	3,453	3,453	3,453	3,453	3,453
Treasury Stock	(115)	(152)	(51)	(51)	(51)	(51)	(51)	(51)
Retained Earnings	1,080	1,181	(1,357)	(2,078)	(2,050)	(1,513)	(890)	(187)
Other Equity	479	111	(173)	(114)	8	174	346	524
Minority Interest	3	3	3	3	3	3	3	3
Total Equity	**3,955**	**3,014**	**1,526**	**1,213**	**1,363**	**2,066**	**2,861**	**3,743**
TOTAL LIABILITIES AND EQUITY	18,647	20,535	20,026	15,908	17,455	20,109	21,459	22,926
Balance Check	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*	*Ok*

Cashflow Statement

Statement of Cashflows								
Operating Activities								
Net Income	953	840	(1,964)	(721)	28	537	623	703
Add: Cash and Non-Cash Adjustments	223	70	2,134	56	116	158	164	169
Add: Changes in Working Capital	836	422	(935)	(3,157)	2,086	1,779	296	312
Changes in Inventory								
Changes in Accounts Receivable								
Changes in Prepaid Expenses								
Changes in other ST Assets								
Changes in Unearned Revenues								
Changes in Accounts Payable								
Changes in other ST Liabilities								
Add: Depreciation & Amortization	1,401	1,832	1,848	1,693	2,046	2,202	2,266	2,326
Cash from Operating Activities	**3,413**	**3,164**	**1,083**	**(2,129)**	**4,277**	**4,676**	**3,349**	**3,511**
Investing Activities								
Change in Other LT Investments	303	172	201	-	-	-	-	-
Additions in Intangible Assets	88	112	(175)	(150)	(233)	(233)	(233)	(233)
CAPEX	(2,003)	(1,691)	(1,144)	(700)	(1,393)	(2,274)	(2,769)	(2,479)
Additions to Right-of-Use Assets	-	(295)	(453)	(162)	(336)	(457)	(477)	(498)
Net Cash from Acq & Div	17	139	-	-	-	-	-	-
Cash from Investing Activities	**(1,595)**	**(1,563)**	**(1,571)**	**(1,012)**	**(1,961)**	**(2,963)**	**(3,479)**	**(3,210)**
Financing Activities								
Dividends Paid	(363)	(363)	(204)	-	-	-	-	-
Increase (Repayment) of LT Liabilities	-	-	-	(371)	70	992	165	173
Increase in Operating Lease Liabilties	-	295	453	162	336	457	477	498
Repayment of Operating Lease Liabilities	-	(368)	(367)	(162)	(337)	(458)	(478)	(499)
Net Debt Additions (Repayment)	(134)	21	1,077	374	(1,600)	(1,405)	-	-
ST Debt Proceeds				2,125	1,405	-	-	-
ST Debt Repayments				(868)	(2,125)	(1,405)	-	-
Net LT Debt Additions (Repayment)				(883)	(880)	-	-	-
Proceeds from Issuance of Common Stock	-	-	1,342	349	-	-	-	-
Repurchase of Equity	(913)	(735)	(448)	-	-	-	-	-
Cash from Financing Activities	**(1,410)**	**(1,150)**	**1,853**	**352**	**(1,531)**	**(414)**	**163**	**172**
Foreign Exchange Rate Adjustments	3	12	(2)	3	6	8	8	9
Net Change in Cash	411	463	1,363	(2,786)	790	1,307	42	482

Discounted Cashflow Analysis

WACC Calculation

Total Debt (AUD '000,000)	5,825
Market Capitalisation (AUD '000,000)	10,550.2
Debt as proportion of current capital structure	35.6%
Equity as proportion of current capital structure	64.4%
WACC	5.51%

Cost of Equity

Risk Free Rate	0.98%
Equity Risk Premium	5.23%
Beta	1.08
Cost of Equity	6.63%

Cost of Debt

Pre-Tax Cost of Debt	4.90%
Tax Rate	28.8%
After-Tax Cost of Debt	3.49%

Model Assumptions

Terminal Growth Rate	1.0%
Effective Tax Rate	29%
Discount Rate	5.51%
Valuation date	1/16/2021
Current Share Price	5.66
Basic Shares Outstanding ('000,000)	1,864.00

Model Output

	Gordon Growth
Present Value of Cumulative FCFF	2,535
Present Value of Terminal Value	13,241.76
Implied Enterprise Value	15,777
Terminal Value as % of Implied Enterprise Value	84%
Less: Debt	(5,825)
Plus: Cash	3,520
Less: Minority Interest	(3)
Less: Preferred Shares	-
Implied Equity Value	13,469
Implied Share Price	7.23
% Upside/Downside	**27.7%**

Free Cash Flow Calculation

	Historical			Forecasted				
Figures in '000,000 USD	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue	17,128	17,966	14,257	6,705	13,926	18,948	19,781	20,658
% Growth		4.9%	-20.6%	-53.0%	107.7%	36.1%	4.4%	4.4%
EBIT	1,534	1,435	-981	-683	387	1,109	1,231	1,368
% Growth		-6.5%	-168.4%	-30.4%	-156.7%	186.4%	11.0%	11.1%
Margin %	9.0%	8.0%	-6.9%	-10.2%	2.8%	5.9%	6.2%	6.6%
Tax	(399)	(352)	744	292	(11)	(218)	(253)	(285)
Tax Rate %	29.5%	29.5%	27.5%	28.8%	28.8%	28.8%	28.8%	28.8%
Tax-Adjusted EBIT	1,135	1,083	-237	-391	376	892	978	1,083
Add: Depreciation and Amortisation	1,401	1,832	1,848	1,693	2,046	2,202	2,266	2,326
% of Revenue	8.2%	10.2%	13.0%	25.2%	14.7%	11.6%	11.5%	11.3%
EBITDA	2,935	3,267	867	1,010	2,434	3,311	3,497	3,694
Less: CAPEX	(2,003)	(1,691)	(1,144)	(700)	(1,393)	(2,274)	(2,769)	(2,479)
% of Revenue	11.7%	9.4%	8.0%	10.4%	10.0%	12.0%	14.0%	12.0%
Less: Change in Net Working Capital	(836)	(422)	935	3,157	(2,086)	(1,779)	(296)	(312)
% of Revenue	-4.9%	-2.3%	6.6%	47.1%	-15.0%	-9.4%	-1.5%	-1.5%
Unlevered FCFF	-303	802	1,402	3,759	-1,056	-959	179	618
% Growth		-364.7%	74.8%	168.1%	-128.1%	-9.2%	-118.7%	244.9%
Period				2020	2021	2022	2023	2024
Year Frac				0.04	0.96	1.96	2.96	3.96
Discount Factor				1.00	0.95	0.90	0.85	0.81
Present Value of Unlevered FCFF				3,750	-1,003	-864	153	499

Terminal Value Calculation

Gordon Growth Method

Perpetual Growth Rate	1.0%
Country GDP Growth Rate Estimate	2.0%
Terminal Year FCFF	617.63
Terminal Value	13,828.85
Present Value of Terminal Value	13,241.76

Sensitivity Analysis

Implied Share Price

		Perpetual Growth Rate					
		0%	0.5%	1.0%	1.5%	2.0%	2.5%
WACC	4.0%	8.13	9.32	10.91	13.13	16.46	22.02
	4.5%	7.22	8.14	9.34	10.93	13.15	16.49
	5.0%	6.49	7.23	8.16	9.35	10.94	13.17
	5.5%	5.89	6.50	7.24	8.17	9.37	10.96
	6.0%	5.39	5.90	6.51	7.26	8.19	9.39
	6.5%	4.98	5.41	5.92	6.53	7.27	8.21

Relative Valuation Analysis

Relative Valuation

Company Name	MC USDb	+1FY P/E	+1FY EV/REV	+1FY EV/EBITDA
Ryanair Holdings plc	15.50	-26.22	3.16	4.61
Air China Limited	13.06	-94.71	2.42	10.22
United Airlines	9.85	-3.18	1.35	42.19
China Southern Airlines Company Lim	11.34	-15.05	2.27	11.45
China Eastern Airlines Company Limit	9.74	-12.85	2.74	11.06
Deutsche Lufthansa AG	5.13	-3.33	0.56	15.68
Air New Zealand Limited	1.05	-7.00	1.17	7.44
Korean Air Lines Co. Ltd	3.08	-9.02	2.30	8.41

Screening Criteria: Major airlines with both international and regional routes

	+1FY P/E	+1FY EV/REV	+1FY EV/EBITDA
Min	-94.71	0.56	4.61
25th Percentile	-17.84	1.31	8.17
Median	-10.94	2.29	10.64
75th Percentile	-6.08	2.50	12.51
90th Percentile	-3.29	2.87	23.63
Max	-3.18	3.16	42.19

Relative Valuation (P/E)	
Median 2020 P/E	-10.94
2020 EPS	
Implied Share Value	

Relative Valuation (EV/EBITDA)	
Median 2020/21 EV / EBITDA	10.64
2019/20 EBITDA	867.00
Implied Enterprise Value	9,224.88
Less: Debt	(5,825.00)
Add: Cash	3,520.00
Implied Equity Value	6,919.88
Share Count	1,864.00
Implied Share Value	**3.71**

Relative Valuation (EV/REV)	
Median 2020/21 EV / REV	2.29
2019/20 Revenue	6,704.56
Implied Enterprise Value	15,319.92
Less: Debt	(5,825.00)
Add: Cash	3,520.00
Implied Equity Value	13,014.92
Share Count	1,864.00
Implied Share Value	**6.98**