

Pakistan International Airlines Corp Ltd (PIAA)

Divestment of 51% stake approved by Privatization Commission

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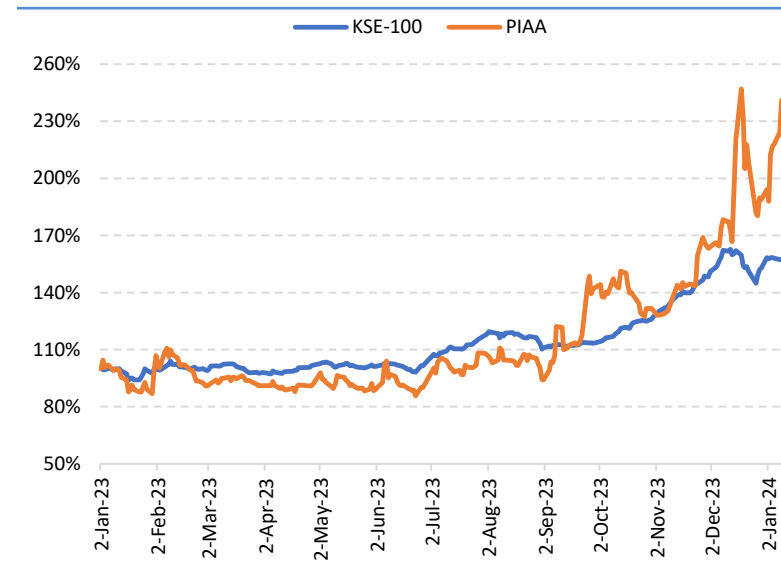
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Pakistan International Airlines Corp Ltd (PIAA)

Divestment of 51% stake approved by Privatization Commission

- As per news flow, the privatization Commission (PC) board endorsed a transaction plan to divest at least 51% of Pakistan International Airlines (PIAA) shares, following a balance sheet adjustment where approximately 75% of the PKR 825bn will be transferred to a new entity.
- The parked amount is proposed to be serviced from the proceeds of the privatisation and sale of the hotels and properties.
- This will subsequently be presented to the Cabinet Committee on privatization for a conclusive verdict, leading to the Federal Cabinet's endorsement. However, legal barriers, including the Pakistan Civil Aviation Authority Act and Air Service Agreements, prevent selling majority stakes to foreign entities.
- To navigate this, foreign buyers would need a local partner. The privatisation minister hinted at the potential for a government-to-government sale of PIA in recent discussions.
- The recommended legal separation by financial advisors for the divestment focuses on isolating the core aviation business and assets, with the initial objective being the divestment of core aviation services.
- Basic engineering services and international routes would be part of the core assets offered for sale to buyers.
- The non-core assets will be retained in a Holdco structure for subsequent divestment in separate structures and transactions.

Exhibit: Relative Performance Chart



Source (s): PSX, AHL Research

Pakistan International Airlines Corp Ltd (PIAA)

Brief History

- Pakistan International Airlines Corporation Limited (PIAA) has been involved in commercial air transportation, offering passenger, cargo and postal carriage services for more than 77 years, with the government possessing a controlling stake of 92%.
- PIAA has a fleet size of 30 aircraft (which include 12 Boeing 777, 11 Airbus A320, and 7 ATR).
- Furthermore, PIAA has a subsidiary PIA Investment Limited with a controlling stake of 100%, principal activity of which is to manage investment in projects related to development and operation of hotels, motels, and restaurants worldwide.
- PIA Investments Limited have subsidiaries such as Roosevelt Hotel Corporation N.V. (100% stake), RHC Operating LLC (100%), Minhal France S,a,r,l (100%), Minhal France B,V, (100%), PIA Hotels Limited (100%), PIA Aviation Limited (100%), Minhal France S.A (90% stake), and Avant Hotels (Pvt) Ltd (62.50%).
- In 1HCY23, the company posted a loss of PKR 64,049mn (LPS: PKR 12.24/share) compared to a loss of PKR 43,485mn (LPS: PKR 8.31/share) in SPLY. During 1HCY23, the company reported a gross profit of PKR 17,074mn against a gross loss of PKR 2,600mn amid higher passenger sales due to a jump price of tickets

Exhibit: Subsidiaries of PIA Investments Limited

Subsidiaries	Stake
Roosevelt Hotel Corporation N.V.	100%
RHC Operating LLC	100%
Minhal France S,a,r,l	100%
Minhal France B,V,	100%
PIA Hotels Limited	100%
PIA Aviation Limited	100%
Minhal France S.A	90%
Avant Hotels (Pvt) Ltd	63%

Source (s): Company Accounts, AHL Research

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PIAA's Subsidiaries Valuations

- **Roosevelt Hotel:** The hotel's valuation was carried out by an independent third-party appraiser "HVS Consulting and Valuation", which determined the value of the land after excluding exit, closing, and demolition costs to USD 562mn as of Dec'19 (PKR 158bn) (Please see the table on the right side). We have undertaken a sensitivity related to the sale of subsidiary at 1.25x, 1.50x, and 1.75x of the recent valuations.
- **Minhal France S.A:** Valuation of Scribe Hotel was carried out by an independent appraiser in Dec'22., which came out USD 304mn (PKR 86bn). The valuation incorporates the value of lands, buildings, furniture, and equipment. We have conducted a sensitivity about scenarios of selling of subsidiary at 1.25x, 1.50x, and 1.75x of the recent valuations.
- In case the Govt. opts to sell both subsidiaries, the cash could be used to pay off PIAA's debt. In addition to this, the company could opt for restructuring and also add a new aircraft fleet.

Exhibit: HVS' Evaluation of Roosevelt Hotel as of Dec'19

	USDmn
HVS' Evaluation	637
Exit, closing, and demolition costs	
Demolition costs	41
Pension withdrawal	17
Severance	11
Contract terminations	4
Lease terminations	1
Net Value	562

Source (s): Company Financials, AHL Research

Exhibit: Sensitivity Analysis of PIAA's Subsidiaries Valuations

Subsidiaries	Expected Value							
	Base Case		Scenario 1: Selling at 1.25x		Scenario 2: Selling at 1.50x		Scenario 3: Selling at 1.75x	
	USD mn	PKR bn	USD mn	PKR bn	USD mn	PKR bn	USD mn	PKR bn
Minhal France S.A.	304	86	380	107	456	129	533	150
Roosevelt Hotel	562	158	703	198	844	238	984	277
Total	867	244	1,083	305	1,300	366	1,517	427

Source (s): Company Financials, AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Dec 2024 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

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Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks: The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

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