

Pakistan International Airlines Corp Ltd

Scheme of arrangement to bifurcate PIAA

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AHL Research

D: +92 21 32462589

UAN: +92 21 111 245 111, Ext: 322

F: +92 21 32420742

E: research@arifhabibltd.com



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- Extra Ordinary General Meeting of PIAA is scheduled on 20th Apr'24, as per its notice to PSX, where the members of the company are expected to approve corporate restructuring/reorganization of the company including the bifurcation/separation of the business into two segments; i) Core Undertaking (PIA), and ii) Non-Core Undertaking (Holdco).
- We have released an update regarding the divestment of stake in PIAA on 11th Jan'24. Please see full report here ([Divestment of 51% stake approved by Privatization Commission](#)).
- The company shared Scheme of Arrangement with the board of directors on 25th Mar'24 where PIA Holding Company Limited ("Holdco"), and the Board of Directors of the PIA have decided to enter into an arrangement with Holdco for the corporate restructuring / reorganization of the PIA and Holdco. The board of directors approved the Scheme of Arrangement on 28th Mar'24.
- The non-core undertaking (hospitality, investments, real estate and others) will be transformed into the PIA Holding Company Limited (Holdco) by shifting the assets, business, rights, properties, investments, liabilities, benefits, powers, contracts, authorizations, obligations, etc. Whereas, PIA will retain the core undertaking (aviation business).
- To protect the existing shareholders, their equity holding in PIAA will be void and replaced with fresh shares issued in Holdco as per the same percentage.
- The notice further states that the rearrangement of assets and liabilities via Scheme will not alter the valuation of shares held by current shareholders of PIA, given all the company's assets and liabilities along with subsidiaries will continue to be under the umbrella of Holdco as a part of the scheme.

Exhibit: PIA's balance sheet before and after bifurcation

| As of Sep'23 (PKR in mn) | Before | After | |
|---------------------------------|------------------|------------------|----------------------|
| | Total PIA | Core Undertaking | Non-core Undertaking |
| Property, plant & equipment | 100,213 | 92,622 | 7,592 |
| Investment properties | 2,933 | 601 | 2,332 |
| Long term investments | 4,538 | - | 4,538 |
| Long term loan to subsidiaries | 3,920 | - | 3,920 |
| Long term deposits | 5,992 | 5,992 | - |
| Stores and spares | 3,931 | 3,777 | 154 |
| Trade debts | 25,950 | 22,355 | 3,595 |
| Advances, deposits, prepayments | 19,476 | 16,831 | 2,644 |
| Cash and bank balances | 4,485 | 4,393 | 93 |
| Total Assets | 171,438 | 146,571 | 24,867 |
| Long term financing | 394,762 | 15,637 | 379,125 |
| Lease liabilities | 30,031 | 30,031 | - |
| Employees liabilities | 65,987 | 27,269 | 38,718 |
| Contingent Liabilities | 8,211 | 8,211 | - |
| Trade and Other payables | 266,607 | 121,031 | 145,575 |
| Accrued interest | 65,194 | 95 | 65,100 |
| Total liabilities | 830,792 | 202,274 | 628,518 |
| Net Equity | (659,354) | (55,704) | (603,650) |

Source (s): Company Accounts, AHL Research

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- The restructuring of PIA operations is being undertaken to ensure financial stability. To maintain operations, a hefty capital expenditure will also be required in the next 5 years.
- The scheme will help the government to restructure PIA and it will operate as a subsidiary of Holdco.
- With this, the Govt. through the privatization process will be able to bring in a strategic partner, to whom the shareholding of PIA will be sold off.

Scheme of Arrangement Details

- Before bifurcation, the total assets were PKR 171bn as of Sep'23. Post split, the Core Undertaking and Non-Core undertaking total assets will be PKR 147bn and PKR 25bn, respectively.
- Similarly, out of the total liabilities of PKR 831bn as of Sep'23, PKR 629bn shall be parked in non-core. The remaining total liabilities of PKR 202bn will be allotted to core undertaking.
- Currently, net equity of the PIA is PKR -659bn while post scheme of arrangement, the core undertaking's net equity will be PKR -56bn, while remaining PKR -604bn will be transferred to Holdco.
- It is pertinent to note that after approval by the company on bifurcation, the Scheme will then be subject to the sanction by the Securities and Exchange Commission of Pakistan (SECP).

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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)

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- Market risk
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- Exchange Rate (Currency) Risk

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