RABIA PARVEEN

RAIHA GARDEZI

MAHEEN TARIQ

MAHNOOR MALIK

FINANCIAL ANALYSIS

SUBMITTED TO

SYED HAROON RASHEED

HOD, FINANCE

PAKISTAN INTERNATIONAL AIRLINE

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Contents

EXECUTIVE SUMMARY

This report is based on the complete financial analysis of PIA. Report also includes economic and industry analysis of aviation industry in Pakistan. The report starts with a detailed information about the chosen company i.e. Pakistan International Airlines. There is a short history about this company. Then we have done the whole industrial analysis of airline industry. The Aviation industry in Pakistan is under developed. Ownership of Government in Pakistan Aviation industry is 80% while 20% is privately owned. And PIA is dominant over all these aviation companies because it is Government owned so it is publicly listed and it is also national flag carrier.

There are total 36 operational airports in the country. The transportation sector in Pakistan contributes 10% towards the GDP of the country. Hence this sector holds an important position in the economy of Pakistan. Air transportation industry is highly capital intensive and highly sensitive to business cycle. In Pakistan it is facing increasingly deregulated environment and hence highly competitive background.

Then, there is a company analysis. PIA operates a fleet of 24 aircrafts which cover 24 domestic and 38 international destinations across 27 countries. There are maps in the report that shows these routes.

In the economic analysis of PIA, first of all we have mentioned in detail the factors affecting the airline industry. Most important of which is fluctuating oil prices and poor law and order situations in the country. It is also becoming more and more difficult for Pakistani nationals to get visa because of increasing terrorism in Pakistan. Depreciation of rupee against dollar is another reason affecting Pakistan's airline industry. Pricing of tickets for domestic routes is decided by Government of Pakistan while for International routes are set by IATA.

There is a SWOT analysis of PIA which shows all its strengths, weaknesses, opportunities and threats faced by it. Passenger growth and revenue and cost composition of PIA is also shown in the report with the help of graphs. The most important threat is that of rising oil prices. In 2011 PIA suffered a great loss because oil prices rose to as high as $110/barrel. In 2012, it is expected to rise even further. Then there are some graphs showing national and international capacities. Capacity and utilization are also compared. Capacity is measured by load factor. Most of Pakistan's international capacity is deployed to Middle East. Overall capacity of both cargo and passengers is expected to grow in 2012.

PIA has a total of 18500 employees. Employee per plane ratio is 450 in PIA as compared to 225 in other airlines. This overstaffing is a major weakness of PIA. Still, market share of PIA is quite high in Pakistan as compared to other carriers because it has an advantage of being Government owned. Net loss is very high mainly because of high fuel prices and overstaffing. Total accumulated loss is very high which leads to negative equity. All other ratios are also analysed which are not good as compared to industry average. In financial analysis part, liquidity ratios, asset management ratios, debt management ratios and profitability ratios for the previous 5 years have been calculated and compared with the industry average.

At the end, we have given some recommendations to improve the system, processes and especially the financial position of PIA. It should try to achieve higher yield and capacity utilization. It should focus on profitable routes and take cost cutting measures. It is likely to face losses in the future as well so it needs to work very hard to regain its market share and profitability and overcome losses. It should make efficient use of resources and try to avoid mismanagement.

INTRODUCTION

Air transport is considered very important for a country because it helps in communication between other countries. PIA was founded by Government of Pakistan on 11th March 1955. PIA took over Orient Airways which was the first Muslim owned airline founded in Calcutta in 1946 by Mr. Isphahani by the instruction of our great leader M.A. Jinnah.Total number of employees is more than 18000. Their division is as follows.

Vision

PIA's vision is to be a world class airline exceeding customer expectations through dedicated employees, committed to excellence.

Mission

Employee teams will contribute towards making PIA a global airline of choice: Offering quality customer services and innovative products. Participating in global alliances. Using state-of-the-art technologies. Ensuring cost-effective measures in procurement and operations

Customer Expectations

Convenience, Caring, and Competitive Tariff

PIA’s core values are to deliver courteous service,Innovation,Cohesiveness,Integrity,Reliability,Safety to its passengers.

Current situation

Although the history of PIA has been quite lusturous, however the company has been seeing its downfall since almost two decades. The company is in a serious state of turmoil, corruption by management is deep seated along with inefficiencies in all of its departments. The following diagram shows the company’s profit/loss analysis for the past 30 years. It can be clearly seen that the company has faced huge losses in the 90s and has not been able to make any profits since 2004**. The company report of 2010 reported a loss of over Rs. 20 billion. Most of the revenue (51%) is earned from flights in Pakistan.**

1.

INDUSTRY ANALYSIS FOR THE AIR TRAVEL INDUSTRY

INTERNATIONAL PERSPECTIVE

Air travel is a multi-billion industry that is one of the most dynamic sectors in the business world. The profits of commercial airlines define the state of health of economic and business activity in a particular part of the world. The importance of international air travel with regards to commerce cannot be underestimated, since it links business people across the world, and is also a means of shipping cargo.

Battle of Profitability

Airlines in the world are struggling hard to win the battle of profitability in the business but the time and climate appears to be against them. Since the last decade, the cost of flying aero planes have literally 'flown up' due to rocketing fuel prices, post 9/11 security arrangements, global recession and political turmoil. Financially speaking, the airlines that continued to suffer heavy losses during 2011 are likely to continue landing and taking off at business-slippery runways during their flight operations of 2012.

Industry Outlook 2012

IATA has revised its industry outlook for the year 2012 that shows that profitability will be weaker than 2011. "The biggest risk facing airline profitability over the next year is the economic turmoil that would result from a failure of governments to resolve the Eurozone sovereign debt crisis. Such an outcome could lead to losses of over $8 billion—the largest since the 2008 financial crisis," said Tony Tyler, IATA's Director General and CEO.

The Eurozone crisis puts severe downside risk on the 2012 outlook as illustrated by the recently published economic outlook. In a worst case scenario, should the Eurozone crisis evolve into a full-blown banking crises and European recession, IATA estimates that the global aviation industry could suffer losses exceeding $8 billion in 2012. "The global forecast for 2011 is unchanged at $6.9 billion. But regional differences have widened, reflecting the very different economic environments facing airlines in different parts of the world. And the overall margin of 1.2% tells you just how difficult the battle for profitability in this business is," said Tyler.

ANALYSIS OF THE PAKISTAN AIR TRAVEL INDUSTRY

In Pakistan the transportation and communication sector holds more than 10% share in GDP (Gross Domestic Production). The aviation industry can affect the other sector of the economy, e.g. the International Trade, tourism and socio-economic condition of the country. The **Pakistan** aviation industry was started up when Orient Airways merged with Pakistan International Airlines Corporation (PIAC) to become the national flag carrier of Pakistan called Pakistan International Airline (PIA). PIA remained the only operator for many years after its creation, but soon private airlines arrived at the scene to compete with the national flag carrier as conditions of the country stabilized.

Historically Pakistan International Airline dominates the major portion of aviation industry. The state owned PIAC establish in 1955 to conduct the domestic as well international operations. It enjoys the monopoly until the deregulation of aviation industry.

It was not early nineties there was a major growth in the Pakistani aviation market with four new private airlines launching operations. The airline did very well to compete with the well established flag carrier, PIA which was controlled by the government. However, this was not to last as the UN placed economic sanctions on Pakistan that caused the airline market to suffer. It caused two of the four airlines to file for bankruptcy and liquidate their assets. The airline industry remained quite stable with PIA developing a strong hold on the international and domestic market for many years. It was not until the early 21st century that the industry started to pick up again that allowed the entry of a new carrier in the market, AirBlue which launched operations with new state of the art aircraft. As of August 2007, the aviation market is developing and allowing more services and facilities to be inaugurated as well as the development of a brand new airport to be built for the capital at Fateh Jang.

Deregulation

In 1993 Civil aviation Authority has open the aviation sector for private investor in order to boost the healthy competition for better traveling services at low price fares. As a result many private companies make induction in to industry. Most of them have left the arena due to heavy taxes of CAA, which would not sustain the cost structure of their companies. Hajvery, Safe and Raji, wrapped up their operations years ago leaving the market open to the remaining operators, the national flag carrier Pakistan International Airlines (PIA) and private Shaheen Air International and Aero Asia.

New Entrance

A private company, Aero Asia, besides PIA is operating on international routes. The Gulf sector is another important and lucrative sector for airlines. Aero Asia is operating in this sector. The European especially U.K and North American destination are another profit making routes, PIA has made Investment of billion of rupees for acquiring the state of the art aircrafts for operations in north American sectors. International routes are major area of competition for upcoming airlines. The CAA policy regarding the international routes are very open but require the minimum standards to be met before operating on international routes and must have experience of domestic operations before going to be international. Recently two new private airlines, AirBlue and Royal Airlines have started their flight operations. The AirBlue is struggling to capture the share of domestic routes mainly the Karachi-Lahore-Islamabad sector. While Royal Air line is operating cargo flights and successfully operated on Karachi-Dubai sector. Royal Airline is chain of international airlines and has been registered in Pakistan. It has acquired the license for cargo transportation and has planned to conduct domestic operations for passengers also. The second new airline AirBlue has conducted the operation on Karachi-Lahore-Islamabad sector and is in stage of capturing the domestic market by offering compatible fares. AirBlue have offered discount on early booking and introduce the E-ticketing for the first time in the history of Pakistan. The major focus of AirBlue is on customer comfort, it have trained its employee in foreign countries in line with providing the maximum customer satisfaction. The airline's management has claimed that they would provide in flight entertainment not offered by other airlines. Another land mark of AirBlue airline is innovative e-ticketing technology, through web base technology customer can make reservation on-line 24 hours a days and 7 Days a week. The convenience of air travel reservation by new system will enhance the customer satisfaction, and new innovative technologies would encourage other operators to introduce similar technologies for its survival in the market. Another private airline SafeAir is going to start its operation soon in Pakistan, the company incorporated in Pakistan in 1999, but cancelled its operation soon, due to unpaid taxes of CAA, later on some foreign group have invested in order to re launched their operation.

Up Coming Scenario

Recently many developments have taken place, India has open the air corridor for Pakistani airline, development of new port like Gawadar & Sialkot the rising cost of fuel and heavy taxes of CAA. In all these threats and opportunities the new and existing airline are going to operate and compete with each other not solely on price base but on the basis of services standards. Things, however, have started to pick up, the PIA has started operation to India and Far East, and the foreign carriers who closed their Pakistan operations are back. Now the question arises that how new airlines would captured the market, before that three airlines were sharing domestic market among themselves. PIA were dominating the market by 75% and rest were enjoyed by Aero Asia and Shaheen Airline, in prevailing conditions the new entrance would either gain the share from currently operating airlines or create new customer base or combination of both. Let's see how they survive in cut throat competition.

PIA current scenario

Amid the no-win situation prevailing in the industry, PIA's failure to return to profitability is no surprise. National flag carrier of the country, Pakistan International Airlines (PIA), keeps bleeding heavy losses for the current fiscal year. The accumulative losses for the company have reached a staggering Rs. 100 billion as the airlines keeps sinking towards a point of no return. In a recent meeting of the National Assembly Standing Committee on Defence, it was revealed that the national flag carrier is leaking out heavy losses on continuous basis. The Committee was told that PIA needs Rs 58 billion bailout package which included Rs 45 billion for debt services while Rs 13 billion for immediate liabilities payment. According to sources, the government has concluded that the prevailing crisis in the national carrier is because of ‘mismanagement’ and ‘bad governance’ and not financial shortcomings. The government turned down an Rs20 billion immediate bailout package requested by the management to help it come out of a ‘financial crisis’.

“The government does not have the capacity to provide cash support. We can help them in loan restructuring but they will have to meet performance indicators,” Finance Secretary Dr Waqar Masood Khan said. The most interesting contradiction in PIA as an organization is that it has an average manpower of 450 employees per aero plane as compared to 225 in the other airlines. The recruitment criterion is more political than professional and the employees union is more powerful than their bosses. The precedent of sacking of its top official at the demand of the union is ample evidence that this is a workforce that has a de’facto authority to hire and fire its own boss.

Year 2010 did not bring any significant improvement in the financial performance of PIA. The problems of the past years recurred and compounded to give the company a higher net loss for the year i.e. Rs.20 billion. The company is in a dire situation to salvage itself from further crises. A brief recap of year 2009 reveals that during the year, the company experienced a series of financial, operational and marketing problems. In the early part of the year, imposition of operating restrictions by EU caused considerable disruption in the PIA schedule as well as significant curtailment in capacity. The airline could not remain immune to ever-increasing competition due to an over supplied capacity environment including entry of new operators in certain key markets. PIA managed to increase the yields despite competition. However, this improvement was offset by reduced level of traffic. PIA s revenues, thus, remained static for the year. The cash position of the company remained under strain throughout the year and was managed by short/medium term borrowings from the market based on GoP guarantees. PIA has devised a 5 year revival plan (2010-2014) which is targeted towards making it profitable by the year 2014. PIA management took several initiatives to drive down the cost and increase the revenue in the wake of a difficult business environment. However, the efforts made did not yield the desired results though it helped to reduce the quantum of operational losses. Despite its financial difficulties, the airline remained on track on its fleet modernization plan and by December 2010, the average age of PIA s fleet was reduced to 13 years.

Inventory Turnover (days	15. 68	17. 19	16. 61	14. 89	17. 91
Days Sales Outstanding	29. 34	31. 26	25. 60	23. 56	30. 79
Operating Cycle	45. 02	48. 45	42. 21	38. 45	48. 70
Total Asset Turnover	0. 88	0. 66	0. 59	0. 64	0. 59

The current ratio has remained low for the few past years.It fell down from .45 in 2006 to .25 in 2010.Decrease in CA as well as increase in CL both acount for this.Despite its continuous tries, PIA only managed to convert some of its debt into equity and hence the liabilities remaind high in CY2010.turnover also increased from 17.19 in 2006 to 18.25 in 2010 which was only a slight increase due to increase in sales which was outrun by the increase in inventory.Days Sales outstanding also increased from 31.26 in 2006 to 36.21 in CY2010 which clearly shows that debtors take it longer to pay the company which leaves it with lesser funds eventually.

The operating cycle has also increased slightly from 48.45 in 2006 to 49.12 in CY2010 which is also not a good indicator for the company.The main reason is increase in operating expenses

TA Turnover,went up slightly high from 0.66 CY2006 to 0.85 in CY 2010which is a good sign for the company as it means that its generating enough sales given its total assets.

Amongst the Debt Management ratios, the debt ratio has increased drastically from 1 in CY2006 and kept it up uptil 1.56 in CY2010.PIA has been burdened by huge amounts of dent which has kept increasing over the past few years.Currently its cumulative dent totals upto Rs. 110 bilion which is certainly not a good sign.Therefore,it vigorously tries to convert that dent into equity but only succeeds partially.Whereas the TIE ratio has remained negetive ober the past years being -.69 in CY2010 which tells that operating income is quite low to meet the interest costs.Looking at the profitability ratios, GP margin also decreased from 16.85 in CY2009 to 13.92 in CY2010 which is due to increase in cost of goods sold due to inefficient operations and heavy use of debt.

PM on sales remained negative over the past 5 years increasing by 1.64% being 3.64% in 2009 & 5.28% in 2010.

Due to the conversion of its debt into equity, PIA’s ROE has remained very high over the past years being 112% 76% ,11% and 7% in 2007-8-9-10 respectively which shows that stockholders may expect to earn a return on their money.

EPS however, has remaind consistently negative over the past 5 years going down from -2.72% in 2009 to -8.39% in 2010 decreasin by 6% from 2009 to 2010. Average Market Price of the company over the past 5 years has been Rs. 11.6 in 06, 7.74 in 07,11. 3 in 08, 3. 17 in 09 and 3. 40 in 10.

PIA s loss after tax increased from Rs 12 billion in 2006 to Rs 20 billion in 2010. The main reason was the increase in the oil prices . In the previous year, PIA was plagued by losses due to foreign exchange losses resulting from the depreciation of currency. In the 9M09, foreign exchange losses have been reduced by Rs 17.5 billion, while the financial charges have increased by Rs 1.3 billion.

Passenger traffic has decreased with global recession and domestic downturn along with increased competition in difficult times. The main areas like passenger tariff, freight business and MRO business incresed by 4%,Rs. 60 million and Rs.145 million. However, this was made up by improvement in other segments like Excess baggage, mail and charter revenue segments.

PIA needs to improve its services and reduce costs, as the fuel expense s downward trend was thwarted by an increase of Rs 5.5 billion in the non-fuel expenses. While economic downturn persists, passenger traffic shall be a difficult target to achieve, however, cost cutting measures need to be priority of this organization plagued with so many problems. Having said that, this target also seems to be unattaintable in the current set-up.

In CY08, the total turnover of the company stood at Rs 89.2 billion (CY07: Rs 70.5 billion), representing a 27% increase. The passenger revenue is the driver behind this increase. Considering the huge amount of cost of services and operating expenses this increase is marginal and does not cover the expenses. Cost of services amounted to Rs 85.6 billion (CY07: Rs 66.6 billion) - an increase of 29%. Consequently the gross profit showed a decline of 7% and stood at Rs 3.64 billion (CY07: Rs 3.92 billion). The composition of revenue is as follows:

Overall, the profitability of the company has declined to a disturbing level over the past 5 years. The major culprit has been the fuel prices. In CY10, the crude oil prices had escalated to Rs 115/barrel, resulting in huge losses for the company. The distribution costs have increased by 21%. This year the company made a huge foreign exchange loss of 20% (CY09: 1%) due to rapid depreciation of the national currency.

The gross profit margin ratio has declined from 6.04% in CY09 to 4.08% in CY08 due to decline in gross profit by 7% and increase in total turnover by 27%. The profit margin has declined from negative 19.01% in CY07 to negative 40.22% in CY08. The company has incurred a huge net loss of Rs 35.8 billion causing this steep decline in profitability. The return on assets have declined from negative 11.28% in CY07 to negative 25.69% in CY08. The return on equity has declined from 112.56% in CY07 to 76.83% in CY08. The ROE shows a dip for CY06 because in this year the equity slumped down by 99% from Rs 10.44 billion in CY06 to Rs 138 million in CY07. Since then the decline in equity has been higher than in net losses, illustrating the reason behind positive ROE in CY07 and CY08.

As for the liquidity of PIA, the corporation has faced a declining trend over the past couple of years. This can be primarily attributed to a sharp rise in the current liabilities of the company over the years. Mainly, current liabilities have increased in the form of greater long-term financing and short-term borrowing. The greater long-term borrowing had been facilitated for the purchase of three Boeing 777 and three ATR aircraft. In CY08, the current liabilities have increased by 38% while the current assets have increased by 13%. The current liabilities composition shows that short-term borrowings mainly triggered rise in current liabilities as these rose by 68%.

The current maturity of financial lease was the second significant attribute, registering an increase of 54%. The current maturity of TFC has declined to nil balance. Yet the liquidity of the company has worsened. The current ratio stands at 0.21 in CY08 as against 0.25 in CY07. The advances have increased by 136% due to advances extended to Civil Aviation Authority to the amount of Rs 1.43 million (CY07: nil advances). The increased short-term borrowings had to be undertaken due to fuel price-led operating loss. In 2005, the cash reserves of the corporation also declined significantly, but in 2006, the overall current assets increased relative to the previous year. In CY08, the cash reserves have again dipped down by 60%.

As far as asset management of the company is concerned, inventory turnover (days) has shown an erratic trend, decreasing drastically in 2004 then rising in 2005 and 2006. The ratio has decreased in 2007 though only marginally. In CY08, the inventory turnover is 15 days. Days sales outstanding (DSO) has declined recently after remaining at a higher side previously. In CY08, it was 24 days. The overall operating cycle has declined lately from 42 to 38 days. An obvious rise in the days sales outstanding from 2003-2006 indicates that the creditors to the corporation have not been paying off their debts on time, thus placing the PIA at crossroads as far as asset management is concerned.

The total turnover of the company has been rising over the years, increasing by 20.5%, 11% and 10% respectively over the years 2004, 2005 and 2006. In fact if we are to measure PIA performance by isolating the abnormal impact of fuel price increases, then the airline, using the 2004 fuel price level, would ve posted a profit of Rs 3.3 billion in 2005 and another profit of Rs 0.8 billion in 2006. Hence, we can say that the overall turnover performance of the company has been commendable. The total asset turnover ratio for CY08 is 0.64 (CY07: 0.59). This is due to higher increase in revenue (27%) vis-a-vis total assets (18%).

As far as debt management by the company is concerned, PIA has had a very highly leveraged financial structure. Its debt to assets ratio has been generally very high, above 0.82 in all the five years under consideration. This shows a highly unstable financial base, with most of the financing achieved through leveraging and a minimal equity base. Liabilities against assets subject to finance lease, all of this, mainly to finance the purchase of three Boeing 77 aircraft and three ATR aircraft. In CY08, the debt to asset ratio has further worsened to 1.23 from 1.09 in CY07. Long-term debt to equity has increased from -6.52 in CY07 to -2.15 in CY08. The debt to equity ratio has increased from -10.69 in CY07 to -3.69 in CY08. At 2006 the debt to equity ratios peaked as equity fell substantially by 99%. Since 2007, the equity is negative. This puts the company in a precarious situation, as it is dependent on borrowing only. The credit risk and the default risk, in the event of net losses, are high.

Times interest earned (TIE) for the company has been generally low, being below 2.00 for the last three years of 2004, 2005 and 2006 and then became negative in 2007and 2008. This is primarily because of high financial costs for the corporation over the years in the wake of greater dependency on debt financing. Finance cost has increased to Rs 8.35 billion in CY08, primarily due to additional borrowing for the purchase of three additional Boeing 777s and three ATR aircraft as mentioned before. Short-term borrowings also increased due to fuel price led operating losses and consequently, overall financial costs increased despite declining operating profits. Moreover, increase in interest rates in the country also contributed to the increased financing cost. Consequently, the effect of rising financial costs, combined with a disturbingly fast decline in operating profits contributed to a quite low TIE. This indicates that the company needs to manage its marketing, distribution and administrative expenses well to achieve higher operating margins, and also needs to cut down on its borrowing to keep its financial costs under control.

The market price of PIA shares has been facing a steady decline, rising only marginally in CY07. This should ring alarm bells for the company as it indicates a declining market value for the corporation with reduced investor confidence. Further, the book value of the company has also been falling. The effect of a rise in equity has been mitigated by the rising number of weighted average number of outstanding shares. The EPS of the company is also very discouraging, decreasing to a negative level in last three years owing to the high level of losses as discussed earlier. The investor expectations have hit rock bottom. PIA needs radical business restructuring to come out of the crisis.

The EPS has touched an all time low of negative Rs 17.79 per share. The share price is Rs 3.17 per share (CY07: Rs 11.3 per share). Overall, PIA has been facing a severe financial crisis in terms of profitability, asset and debt management, as well as liquidity and needs to bring up its financial results to a more positive level. Heightened fuel prices and financial costs are a severe setback for the company and it needs to manage its distribution, administrative and marketing costs well in order to show better margins in the later years.

Industry analyze

Consistently profitable airlines

Singapore airlines, Southwest airlines, Midway Express, Cathay airlines, Virgin Atlantes and American airlines have maintained a consistent high profit share in the airline industry. The only major problems faced by the industry are those of unions.

Airline industry Goals

1. Public service (service to customer)
2. Return to investors
3. Country strategies resources

The airline industry plays a crucial part in the betterment of its country. They provide public service to the customer, by providing them with the opportunity of traveling by air, which has numerous individual advantages to the customers. Secondly they give high returns to the investors. And the demand of air transport will always prevail so there is very little investment risk. And lastly contribute in increasing countries strategies resources. Trade is made more convenient and fast. More human resource can be imported.

However its freedom to compete in the international market is limited due to the restrictions imposed by the government.

Major problems faced by the industry

1990-1993

There has always been a high demand for air travel but due to a number of factors listed below the industry faced a setback.

- The Gulf War.
- The general decline in the world economy.
- Aircraft fuel price increases.
- Wages, work rules and work patterns (as the economy in general declined).
- Bankruptcy airlines (due to the loss generated from increased oil price).
- Excess capacity.
- A very capital intensive business(the investments made by the shareholder were not rewarding enough)

Airline profitability

Profitability= (yield*load factor)-cost

in order to set a standard mean of comparison the profitability of airline industry is calculated by the above mentioned formula, where

Cost, calculated as total operating expenses divided by available seat miles (ASM).**Yield**, calculated as total operating revenues divided by the number of revenue passenger miles (RPM).**Load Factor**, calculated as the ratio between RPMs and ASMs, which measures capacity utilization.Before September 11, 2010, the global industry was showing a net profit on international services of around **$1 billion**. Which has increased dramatically since 2001(it had a net loss of $3billion that year)

Industry averages 2011

Revenue passenger miles (RPM's)	7.9%
Available seat miles (ASM's)	7.1%
Passenger load factor (LF)	0.7%
Passenger yield	7.3%
Passenger unit revenue (PRASM)	8%
Wages, salaries & benefits	27.9%
Cash flow from operations (million)	$9089
GAAP income/loss	$304

Project airline industry average for 2012 industry revenues at a record $141 billion.

Ratios comparison 2010

Liquidity ratio average

Current ratio=current asset /current liabilities
=2.5
PIA
The ratio from 2006 to 2010 are 0.45, 0.25, 0.21, 0.25, 0.25, we can analyze that the PIA ratios are significantly below the industry averages.

Asset management

Total asset turn over= sales/total asset
=99090/134686
=0.736
=73.6%
The ratio for 2006 to 2010 are respectilvly 0.66, 0.59, 0.64,0.59, 0.85 show that they have been lower than the industry average of 73.6% till 2009, but that of 2010 was higher (.85) than the industry average which was because sales have been higher than the previous years and assets have remained more or less the same.

Debt management

Debt to asset ratio =40750/144420
= 0.282

The debt ratio of the company remained 1, 1.09,1.23,1.13,1.56 from the year 2006 to 2010 respectively which shows that the company is highly leveraged and has huge borrowings.

EBITDA coverage =12.4%
This ratio for the company for the past 5 years was 15.02, 14.45, 26.12, 46.10,42 % from 2006 to 2010 which also shows the highly leveraged condition of the company.

Profitability

Profit margin on sales =2227/9909
=22.5%

Pm on sales for the years from 2006 to 2010 have been the following -6.89, -18,-19.01,-40.22.-6.16,-19.33 wich is significantly below from the averages of the industry , this is because the company has been incurring losses from the past years.

ROA=2227/144402
ROA =1.5%
on sales for the years from 2006 to 2010 have been the following -12,-11.28,-25.69,-3.64,-5.28 shows that the ratio shad been significantly below the average but as the years passed the ratio continued to improve due to efficancency on the asset management of pia.

BEP =9089/144402
=6.3%
BEP on sales for the years from 2006 to 2010 have been the following 1.3,1.1,1.5,2.5,2.9 show that they have been below the industry average but are positive.

ROE=2227/7561
=29.4%
ROE on sales for the years from 2006 to 2010 have been the following -9230,112.56,76.83,11.67,7.12 show that in 2006 they have been negative but then increased dramativally in 2007, after that it continued to decrease till 2010.

FUTURE OUTLOOK

Looking at the current financial position of the company, the future financial performance of the company seems dismal. It has performed poorly in all areas from profitability, debt management, liquidity which has eventually affected investor expectations. PIA, being a government entity, has a recurrent set of operating expenses in the form of high wages and salaries, employee perks, keeping up of uneconomical aircraft and having an economically irrational route plan. In 2007. PIA grappled with high fuel prices and high interest rates in the tight monetary situation of the country.

In 2010, PIA faces challenge of economic recession. People have generally faced a significant lowering of their disposable incomes. The company is right now at the brink of a major downturn and crisis. A highly qualified and efficient management is required to take the right decisions to get the company out of the turmoil. Presently, PIA is expanding its network. Non-stop flights between New York and Pakistan have been started, biweekly flights have been started from Pakistan to Leeds/Bradford, Sialkot airport has weekly flights to Dubai, Abu Dhabi and Muscat, 2 weekly flights from Istanbul to Amsterdam have been arranged, frequency of trips between Karachi and Sialkot were increased and more changes were done. This will help PIA to customize its service and attract more customers due to time availability. Due to its marketing efforts, PIA was able to increase its market share from 49.8% in 2007 to 50.1% in 2008.

Recommendations and suggestions:

- Needed better functioning of human resource and administration department
- Management is needed to perform it responsibility professionally. Reducingcosts and trying to achieve more market share by combining the organization.
- Marketing department must deliver in order to create a strong figure for theorganization. It must be responsible for creating more sales and getting moremarket share. Providing awareness about the good characteristics of theorganization. Getting information on related field and report to the topofficials.
- Coping with fuel rising prices in a way as most successful airlines are doing
- Modernizing the airline's fleet is badly needed as well proper maintenance of the fleet is required.
- Must take advantage of the increment in the air transportation especiallytowards Middle East countries and India.
- Better and modern functioning of training and development department
- Need for accountability.

Appendix

SWOT Analysis of Pakistan International Airlines:

Strengths:

• Domestic and International Reputation
• Direct flights from small cities to foreign destinations
• Organized distribution channels• Product Quality on domestic sector

Weaknesses:

• Centralized decision making
• Aging Fleet
• Ground services (lack of staff, improper management)
• Less technologically advanced as compared to foreign airlines
• High charges as compared to other airlines
• Weak financial position.

Opportunities:

• New product innovations
•
Improving quality by new techniques and resources
• 2007-2011 great increase in world air transportation

Threats:

• Unstable Government policies
• Inflation
• Increasing competition
• Increasing fuel prices.

Regional Performance

In its sector wise analysis of IATA, the global airline industry is imminently having losses. However, Asia Pacific and Middle East regions will remain profitable although the ratio is likely to fall as compared to 2011. North America is the only region with improved profitability on the cards. African carriers are still expected to break-even.

Europe

European carriers are by far in the most challenging position. Higher passenger taxes and weak home market economies have limited profitability in Europe. The region's carriers are forecast to generate a collective profit of just $1.0 billion, down from the previously forecast $1.4 billion. Low profitability has been despite European airlines being one of the fastest growing regions in terms of traffic this year.

America

North American carriers are in a much more benign environment. They have seen yield and load factor improvements as a result of tight capacity management, which has improved profitability to $2.0 billion (up from the previously forecast $1.5 billion). The US economy has also grown at a faster pace than

Europe. This gives the region the strongest EBIT margin of 3.2%. None-the-less, the bankruptcy filing of American Airlines indicates that the region faces intense competitive challenges as well. In a similar pattern Latin American profits will see a downgrade to $200 million (from the previously forecast $600 million). Performance has been mixed across the region with much of the downgrade due to the impact of intense competition and falling load factors on Brazil's domestic market.

Asia Pacific

Asia Pacific carriers also saw stronger though varied trading conditions. Japan's domestic market still has not fully recovered from the March earthquake and tsunami, and load factors remain under pressure. By contrast airlines have improved load factors and profitability on China's expanding domestic market. We have upgraded our forecast for the region by $800 million to a $3.3 billion profit. This is the largest absolute profit among the regions.

Middle East

Middle East carriers are expected to see profits of $400 million (down from the previously forecast $800 million) as high fuel costs squeezed profit margins on the more price sensitive long-haul traffic connecting over Middle Eastern hubs.

Africa

African carriers are still expected to break-even. New trade lanes with Asia are developing and markets within the continent are reflecting the improvement in economic development in many African economies. However, competition has been fierce and the region's airlines have struggled to keep load factors at profitable levels.

Cost cutting

After decades of frenzied competition and staggering losses, domestic airlines have taken a more sober approach to the business of flying, with their first priority simply making money. And so the fancy fuselages and lively paint have gone the way of free meals, pillows and checked bags. The color of choice these days is sensible white. White does not fade as fast in the sun and requires fewer touchups. And without the added flash of color, less paint is needed, making planes lighter and saving fuel. "There used to be romance in air travel," said Steve Cone, a marketing expert who helped create the first frequent-flier programs. "The airlines were run by dreamers, creative types and entrepreneurs. "They've been replaced by penny-pinchers who don't think about the real estate outside of the plane." The staid designs reflect the current state of the industry. Unlike in their heyday in the 1970s, the airlines today have little reason to stand out.

Quality Services

Air traveling is still a luxury keeping in view the socio economic conditions of the people of Pakistan. So prices of tickets do not matter for the upper class due inelastic demand. In this scenario quality services can play vital role in attracting the customer base. Different loyalty programs offered by airlines are part of their strategy to retain its customers. The private airlines like AirBlue have focus on passenger comfort. They have outsourced catering to offer exquisite cuisine to its customers. The call centers have been established to guide their customers 24 hours a day. In coming year the basis of competition would be how airlines deliver services that offer value for money.

The breakdown of employees

Captains / Pilots / Co - Pilots	538
Aircraft Engineers	697
Flight Engineers	90
Airhostesses	1055
Flight Stewards	978
Others	15,028
Total Number of Employees	18,386

PIA's vision and mission is as follows

Structure and Departments

PIA is divided into following departments.

1. Flight operations
2. capacity checking
3. flight scheduling
4. procurement and finance
5. recruitment and training
6. manual section
7. operations dispatch
8. routes section
9. permission section
10. cabinet of chief pilot
11. statistic cell
12. safety and standard

chief engineering

Time of Reckoning

Joe Sherkey, an airline industry analyst wrote an article titled 'Airlines Are Retrenching, and Alternatives Are Slim'. "The coming year will be a time of reckoning in business travel, as airlines reduce service at many airports and prospects fade for practical alternatives to flying, including the long-term promises of high-speed rail. Consider the new realities of air travel. Competition is decreasing, fares are rising and airlines are adjusting routes (and charging extra fees) in ruthless calculations to extract the greatest possible revenue per mile flown", he wrote in the article.

Capacity Reduction Strategy

Michael Boyd, the president of the consulting company Boyd Group International, sums up the phenomenon succinctly. "The cost of flying airplanes across the sky has eclipsed the ability to support it at many communities," he said in a recent forecast. In 2012, he predicts, airlines will accelerate the mothballing of smaller 50-seat jets, the workhorses for connecting service between many midsize airports, and even some big ones. Many airlines will continue shrinking overall capacity and trimming domestic routes in 2012. During the first quarter of the New Year, American will "ground some planes and resize our network," the company's chief executive, Thomas W. Horton, recently told employees. In addition, John P. Heimlich, the chief economist of the trade group Airlines for America, said, "Capacity reduction is one of the steps the industry is taking to preserve profitability."

Key Factors of Downgrade

Demand: Passenger demand is expected to grow by 4.0% (down from previously forecast 4.6%), while cargo is expected to show flat growth (down from the previously forecast 4.2% expansion).

Yields:

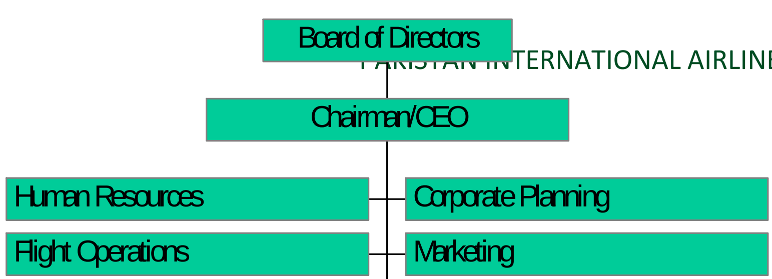
Passenger and cargo yields are expected to remain flat in 2012. While this is unchanged for cargo, passenger yields were previously forecast to grow by 1.7%.

Fuel:

Fuel costs are relatively unchanged from the previous forecast at $198 billion. That is based on oil at $99 per barrel (against a previous forecast of $100 per barrel).

Revenues and Costs:

Industry revenues are expected to grow by 3.7% to $618 billion. This will be outstripped by cost increases of 4.5% to $609 billion.



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PIA financial analysis

	FY05	FY06	FY07
INCOME STATEMENT			
Turnover	64,074,470,000	70,587,146,000	70,480,734,000
Gross Profit	5,133,634,000	704,929,000	3,924,239,000
Operating Profit	-1,759,442,000	-7,648,148,000	-5,935,076,000
Profit Before Tax	-4,513,236,000	-13,215,157,000	-13,070,921,000
Net Profit	-4,411,657,000	-12,763,420,000	-13,398,706,000
BALANCE SHEET			
Total Equity	10,446,298,000	138,288,000	-11,903,558,000
Current Liabilities	21,237,101,000	41,025,290,000	52,049,542,000
Non-current Liabilities	41,214,104,000	65,728,191,000	77,655,550,000
Current Assets	12,770,243,000	18,353,435,000	13,251,331,000
Non-current Assets	60,127,260,000	88,538,334,000	105,522,243,000
LIQUIDITY			
Current Ratio CA/CL	0.60	0.45	0.25
ASSET MANAGEMENT			
Inventory Turnover (days)	15. 68	17. 19	16. 61
Days Sales Outstanding	29. 34	31. 26	25. 60
Operating Cycle	45. 02	48. 45	42. 21
Total Asset Turnover	0.88	0.66	0.59
DEBT MANAGEMENT RATIOS			
Debt ratio	0. 86	1. 00	1. 09
TIE ratio	0. 63	1. 60	-0. 83
Debt to Equity Ratio	5. 98	771. 96	-10. 90
PROFITABILITY RATIOS			
Gross Profit Margin	8.01%	1.00%	5.57%
PM on sales	-6. 89%	-18. 08%	-19. 01%
ROA	-6. 00%	-12. 00%	-11. 28%

ROE	-42. 00%	-9230. 00%	112. 56%
EPS	-2.55	-6.8	-6.61

FY08	FY09	FY10
89,201,257,000	94,563,765,000	107,531,590,000
3,639,290,000	15,934,338,000	18,710,000,090,000
-31,377,642,000	-4,064,996,000	720,080,000
-39,729,290,000	-13,308,764,000	-18,234,456,000
-35,880,157,000	-5,822,431,000	-20,785,120,000
-46,701,927,000	-49,054,745,000	-55,366,929
71,707,905,000	68,817,616,000	91,140,144
100,471,189,000	111,968,404,000	125,318,151
15,039,282,000	16,880,558,000	22,912,156
124,630,585,000	143,132,620,000	159,238,665
0.21	0.25	0.25
14. 89	17. 91	18.25
23. 56	30. 79	36.21
38. 45	48. 70	49.12
0.64	0.59	0.85
1. 23	1. 13	1.56
-3. 76	-0. 44	-0.69
-3. 69	-3. 69	
4.08%	16.85%	13.92
-40. 22%	-6. 16%	-19.33
-25. 69%	-3. 64%	-5.28%

76. 83%	11. 87%		7.12%
	-17.79	-2.72	-8.39

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Consolidated **Balance Sheet**

as at December 31, 2010

	Note	2010	2009	20
			Rupees in '000	
			Restated	Rest
ASSETS				
NON CURRENT ASSETS				
Fixed assets				
- Property, plant and equipment	5	146,169,547	175,560,209	157,82
- Intangibles	6	2,856,378	2,826,422	2,67
		149,025,925	178,386,631	160,50
Long-term investments	7	141,144	89,981	13
Receivable from Centre Hotel	8	648,116	636,064	59
Long-term loans and advances	9	14,107	12,051	
Long-term deposits and prepayments	10	9,409,373	8,791,561	7,90
		159,238,665	187,916,288	169,15

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Tools | Sign | Comment

08	2010	2009	2008
	US$ in '000		
tated		Restated	Restated
28,476	1,703,608	2,085,039	2,000,362
75,492	33,291	33,568	33,910
03,968	1,736,899	2,118,607	2,034,272
37,425	1,645	1,069	1,742
96,027	7,554	7,554	7,554
7,629	164	143	97
07,505	109,666	104,413	100,222
52,554	1,855,928	2,231,786	2,143,887

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