

# Financial results

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01/02/2000

## Forecasts dominate as airlines prepare the markets

January has seen a quiet start to 2000 in terms of airlines announcing financial results. So, to compensate, analysts have been busy forecasting.

In the US, there has been a consensus among industry analysts that 1999's last financial quarter will see a dip in profitability for all airlines. The reasons are both short and long term. Airlines saw a fall in demand at the year-end as consumer fears for the millennium bug fed into a general fall in air travel during the holiday period. Both factors combined to lower North American revenues by about \$350 million.

The main long-term factor which hit operating margins was the rise in oil costs. Jet fuel costs more than doubled during 1999 to 76.9 cents a gallon, and there has been mixed success between airlines in their respective hedging policies. Despite the year-on-year rise in fuel costs, industry specialists expect the price of oil to fall by the end of 2000, enabling resurgent profits.

The cost and revenue pressures have been borne out by individual airline's profit warnings. In mid-January, Continental and United issued a profits warning ahead of the release of its fourth-quarter results. The warning led to a sharp drop in (13.2%) in United's share price, and there may be short-term falls in North American airline stocks across the board as the airlines begin to publish the results of the last quarter of 1999.

North America's only results this month are from Canadian airline Royal Aviation. A satisfactory jump of 10% in revenues enabled the carrier to return to profitability. The improved revenues are even more impressive as the airline reduced frequencies by 6%, most notably on its Florida routes, sending load factors in the right direction. The airline also credited the consolidation in the Canadian market for creating a more favourable operating environment, as well as exchange rate efficiencies.

Competitor Great Lakes Aviation revealed operating statistics, although it did not publish financial results. The airline carried more passengers than in the same month in 1998, but revenue passenger miles fell as the average passenger trip length fell 11%, from 272 miles in 1998 to 243 miles in 1999.

Elsewhere, Swissair also warned of lower results, this time in its 1999 annual figures. Swissair did not elaborate on individual areas of operational weakness, but said that general market weakness would lead to lower profits than 1998, although the carrier is confident of remaining in the black. Analysts believe Swissair has been hit by overcapacity on the Atlantic and the political troubles in Kosovo, which have led to the cancellation of some Swissair flights.

Political uncertainty was also to blame for the worsening results of Lithuanian Airlines. Russia's conflict in Chechnya was blamed by the airline for creating a drop in business confidence in the region generally. Load factors fell below 50%.

Asian airlines are faring considerably better. Singapore Airlines is leading the way, with a 17% jump in the share price, taking the airline to a new high of \$20, before falling slightly, as investors signal their evident approval of the acquisition of 49% of Virgin Atlantic (see page 12).

Vietnam Airlines reports that it returned to profitability in 1999 after a 10% increase in turnover to \$480 million. Although the exact profit has not been disclosed, profit margin is substantial, says a banker close to the airline. Passenger volume was up 5.5% on totals for 1998, to more than 2.5 million. International passenger numbers rose 11% year-on-year. Ticket sales were up by a higher percentage (8%) than the total passenger increase, indicating that yields have also risen. Vietnam Airlines forecasts that passenger volumes will rise another 6.5% during 2000, while average passenger load factors were 76%, its highest figures so far.

The company is also understood to be making a saving of \$20 million a year by taking over the regular servicing and maintenance of its 767s and A320s itself, instead of contracting the work out to foreign companies.

Against a background of improved intra-Asian traffic, Vietnam Airlines says it plans to relaunch its Hanoi to Seoul route, which was suspended in 1996, and open new routes connecting Ho Chi Minh City to Cambodia's Siem Reap and Hanoi to Kunming in southern China. The state-

owned carrier also plans to develop a route linking Hanoi with Vientianne in Laos, and on to the Cambodian capital of Phnom Phen.

The banking source confirms reports that the government in Hanoi has still to give its approval to the airline's plans to spend another \$500 million on new aircraft.

In the competitive Taiwanese market, the good news for CAL is that the airline has shared equally with its main rival EVA Airways in the growth of the Taiwan market over the past 11 months. Both China Airlines and EVA Airways reported double-digit annual growth in their business revenues in the January-November period. CAL's sound performance comes in spite of the carrier's dubious safety record. CAL achieved NT\$4.692 billion in revenue in November, up 5.33% from a year ago, and the firm's total revenue in the January to November period showed a sharp increase of 17.97% compared with the same period a year ago, to reach NT\$55.524 billion.

EVA Airways netted business revenue of NT\$4.113 billion in November, up a more modest 13.4% from one year ago. The company's accumulated revenue for the first 11 months of the year expanded by 12.45% from a year earlier to reach NT\$43.716 billion. Both airlines attribute the sharp growth in their business revenues to the significant increase in cargo traffic.

In China, Hainan Airlines also has good news. The airline has indicated that it expects a sharp rise in 1999 net profits to Rmb148 million (\$17.9 million) from Rmb100.6 million in 1998. The airline reported that a jump in revenues, because of operational expansion, coupled with a lessening of the fierce domestic competition seen in the year before, are the key factors in its growth.

Airline equity performance							
Common stock	Currency	Stock exchange	Price month ago	Current price	% change	Year high	Year low
Air Canada	C\$	Toronto	11.15	10.1	-9.42	13	5.75
Air New Zealand ?A?	NZ\$	Auckland	2.41	2.24	-7.05	3.25	2.24
All Nippon Airways	Yen	Tokyo	307	298	-2.93	417	280
AMR Corp	US\$	NYSE	67.5	60.5	-10.37	74.31	52.81
Austrian Airlines	ASch	Vienna	17.74	19.29	8.74	32.7	17.74
Boeing	US\$	NYSE	38.31	44	14.85	47.63	33.38
British Aerospace	UK£	LSE	422.25	350	-17.11	493.5	343
Braathens SAFE	NKr	Oslo	35.4	34	-3.95	37.5	27
Canadian Air Corp	C\$	Toronto	1.85	1.8	-2.7	2.39	1.44
Cathay Pacific	HK\$	Hong Kong	14.5	13.9	-4.14	16.8	7.55
Comair Holdings	US\$	NYSE	23.31	23.44	0.54	28.67	15.75
Delta Air Lines	US\$	NYSE	48.63	50	2.83	71.56	46.19
Finnair	Fmk	Helsinki	4.5	4.59	2	5.4	4.05
Japan Airlines	Yen	Tokyo	328	314	-4.27	478	289
KLM Royal Dutch AL	NLF	Amsterdam	27.04	25.25	-6.62	30.91	21.74
Lufthansa	DM	Frankfurt	24.85	22.5	-6.62	30.19	21.74
Malaysia Airlines	M\$	KLSE	3.32	4.46	34.34	5.9	1.48

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Northwest Airlines	US\$	NYSE	22.06	22	-0.28	35.06	21.19
Qantas	A\$	Sydney	3.84	3.86	0.57	5.28	3.29
SAirGroup	SFr	Zurich	285.6	285.6	0	285.6	285.6
SAS	SKr	Stockholm	77.5	77.5	0	86	68
Singapore Airlines	S\$	Singapore	16.8	19.6	16.67	20.6	6.75
Southwest Airlines	US\$	NYSE	15.63	16.19	3.6	23.42	14.63
Thai Airways Int'l	Bt	Bangkok	55	54.5	-0.91	80	44.75
UAL Corp	US\$	NYSE	75	65.13	-13.17	84.06	58.31
Data correct at January 17, 2000							
Source: Primark Datastream							

Ratings watch ? senior unsecured debt			
Company	Moody's Ratings	Standard & Poor's	
		Ratings	Outlook
Air Canada	Ba3(CW=+)	BB*	N
Alaska Air Group	Ba2	BB+**	
Alaska Airlines	Baa3	BB+**	S
America West Airlines	B1	B	P
AMR Corp	Baa2	BBB-	S
American Airlines	Baa1	BBB-	S
British Airways	A2	A-	N
Continental Airlines	Ba2	BB-	S
Delta Air Lines	Baa3	BBB-	S
Japan Airlines	Baa3	BB	S
Northwest Airlines Inc	Baa2	BB**	N
NWA Corp	B1	BB	N
Qantas Airways	Baa1	BBB+	S
Southwest Airlines	A3	A-	P
Trans World Airlines	Caa1	CC	S
UAL Corp	Ba1	BB+**	P
United Air Lines	Baa3	BB+	P
US Airways Group	Caa2	B+**	S
US Airways Inc	B3	B	S

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Note: Information is correct at January 17, 2000, N = Negative S = Stable P = Positive D = Developing CW+ = Credit Watch possible upgrade CW- = Credit Watch possible downgrade Senior Unsecured Shelf.

\* ilssuer rating \*\*Foreign currency

Company	Revenues (\$ mil)	% change	Net profit (\$ mil)	Previous period	Period
Aeroflot	245.1	-63	-9	-0.5	9M99
CAL	152.1	5.3			Nov-99
Domodedovo Airlines	45.9	280	0.14	-2.73	9M99
EVA Airways	133.3	13.4			Nov-99
Lithuanian Airlines	50	-9	-2.25	-0.9	FY99
Royal Aviation	156.8	10.1	1.49	-2.96	2Q2000
SIA			577	468.3	9M99
Vietnam Airlines	485	5	11.5*		FY99
Virgin Express	232	11.9			3Q99

FY = annual results. HY = half-year results. Q = quarterly results. 9M = 9 months

Local currencies are converted to \$ at January 2000 exchange rates. \*Pre-tax

Source: company reports

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