Interview: Qantas eyes new-gen growth

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The Covid-19 pandemic has shown the resiliency of aircraft as assets that perform strongly through the cycles and that lenders are willing to finance even in the worst of circumstances.

Though banking system stress, inflation and potential recession challenges have increased market uncertainty in recent times, carriers with strong balance sheets and flexibility in sources of financing are showing strong recovery signs in the wake of the Covid-19 era.

In an exclusive interview with *Airfinance Journal*, Qantas Group treasurer Greg Manning said the company is heavily focused on aircraft ownership and long-term capital structure, leveraging the investment case for aircraft assets over the cycles.

“It’s a good asset class to fund against,” Manning says. “Its mobile, people know that they can get their asset back if they need to and there are strong secondary markets for almost all aircraft types.”

This ties into Qantas’ focus on long term-capital structure: “On average we use our aircraft for a bit over two decades and so we want those aircraft to be part of the capital structure for that period of time,” he explains.

“That means we have a combination of mid-life and new aircraft being funded. We also look at unencumbered new aircraft as a good source of liquidity if we go through an external shock and need to boost cash.”

He says the carrier looks to optimise the capital structure for new and used aircraft and keep a number of new aircraft on the balance sheet that it can access should the cycle turn.

“Ownership gives us operational flexibility as well as good economics. We are in a bit of a privileged position with that investment grade rating behind us – people can see the strong credit profile as well as the solid asset risk.

“If you have a strong balance sheet and are looking to hold the asset for most if not all of its useful life, ownership makes sense, especially for carriers like us,” Manning continues.

The sale and leaseback market remains competitive and challenging to make the economics work, Manning says, but adds that Qantas won’t rule it out in the future.

“We won’t go straight away into sale and leaseback, we will look at all markets available to us,” Manning says.

He reflects on aircraft financing avenues during the Covid-19 pandemic, noting that diversity of funding and access to multiple markets was critical for bolstering liquidity.

“Being active in Jolco markets, secured and unsecured markets and mid-life aircraft markets is important so that lenders are familiar with you, and you can access pockets of liquidity as they come available.

“Leasing still holds value and it doesn’t mean we won’t ever turn to that market. If we need the aircraft and we don’t have them on order with manufacturers, we would go to the lessors to fill that gap if necessary,” he says.

“With the new aircraft technology available today, we believe there is also the opportunity to work with some lessors to create a new paradigm where a leasing structure may work for those airlines expecting to hold their aircraft this long – not just the current 6, 8, 10, 12-year structures that seem to be all that can be considered today.”

Market sources indicated to *Airfinance Journal* earlier this year that the carrier is looking to finance its final three Boeing 787-9 widebody aircraft in the Japanese operating lease with call option (Jolco) space.

Qantas had previously financed smaller 787-8 aircraft for group subsidiary Jetstar in the Jolco market.

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Also, the Australian mainline carrier has tapped Jolco investor funds for various 737-800 narrowbody deliveries between 2012-14, *Airfinance Journal*'s Deal Tracker shows.

The majority of Qantas Group's previous Jolco financings were arranged and underwritten by banks including CA-CIB, DBS and MUFG, Deal Tracker shows.

Cost of cash

Against the backdrop of rising interest rates, Manning explains that the carrying costs of cash is less impactful than coupon increases when refinancing in the current environment.

"We're conscious that our net debt position is very low at the moment – like other carriers we've held a lot of cash through Covid and we now have more cash than floating rate debt at the moment, so rising interest rates is actually positive for us in terms of funding costs," he continues.

"Where interest rates are right now, if we want to pay down gross debt with surplus cash now and then possibly need to go to the funding markets in a year or two, the coupon will be two or three times what it was on the debt we just paid off and much more than the cost of carrying cash."

Qantas' debt maturity profile, with a slight spike in 2024, is "less about next year still being modest but relatively high, and more about every other year being low."

"We did a lot of work pre-Covid in spreading out our maturity profile. The flatter the debt maturity profile you have, the better you will cope with the different cycles that aviation goes through and avoid being stuck with a peak at the wrong time."

Qantas expects some financings next year, with an A$250 million ($165 million) unsecured bond maturing next year.

"We can be opportunistic about that, either paying it off with cash or refinancing it but we'd probably only do the latter if the tenor was there and wait for a better long-term rate."

For other secured financing coming up next year, paying that off unencumbers the assets which plays into Qantas' view on developing a long-term capital structure, Manning explains.

Project Winton

Qantas has selected the Airbus A220 and A320neo families as the preferred aircraft for the long-term renewal of its domestic narrowbody fleet.

The purchase, announced in 2021 and dubbed 'Project Winton', represents the largest aircraft order in Australian aviation history.

The firm commitment for 40 aircraft – 20 A321XLRs (extra long-range) and 20 A220 aircraft.

Qantas will also have a further 94 purchase right options on aircraft over a 10-plus year delivery window as its existing Boeing 737-800s and 717s are gradually phased out.

This order combines with the existing firm order of 109 A320s for Jetstar into a single Qantas Group narrowbody order of 299 aircraft, half of which are firm orders and half are purchase right options.

Part of this new deal includes combining these two orders so that the Qantas Group can draw down on a total of 299 deliveries across both the A320 and A220 families as needed over the next decade and beyond for Qantas, QantasLink and Jetstar.

Recently the airline added a further nine A220 aircraft to last year's order for 20 aircraft by exercising existing options (as part of the 299 order), which demonstrates confidence the airline has in the outlook and what the A220 will bring to the domestic market.

Qantas expects to receive its first A220towards the end of the year. On average the airline expects to receive one new aircraft every three weeks for the next few years.

Placing a large aircraft order earlier in the pandemic put Qantas towards the front of the queue for new aircraft deliveries, mitigating to some degree production constraints facing the industry today.

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"It's undeniable that there are supply chain issues affecting both new aircraft as well as for MROs bringing aircraft back from hibernation.

"That early mover advantage means that, regardless of whether the supply chain is moving timing to the right, we're still sitting at the front of the queue whenever they come… we're happy with the timing of that and the slots that we got," Manning says.

Airfinance Journal's Fleet Tracker shows that the Qantas mainline fleet consists of 75 737-800s, with in average age of approximately 15 years.

Its low-cost subsidiary Jetstar has relied on the operating lease market for A320s. It operates a fleet of nearly 70 A320-family aircraft, with around 30 leased from lessors including SMBC Aviation Capital, BOC Aviation, Macquarie Airfinance, Avolon and Aercap.

In late July last year, Jetstar Airways received its maiden A321LR from an order placed by Qantas Group.

Delivery of a further eight A321LRs are scheduled through July 2023, with nine more A321LRs expected to be delivered by around mid-2024. A further 20 A321XLR aircraft will arrive between 2024 and 2029, providing an even longer range of narrowbody flying.

Alongside the narrowbody order, in 2022 Qantas purchased Airbus A350-1000 aircraft as part of long-term project to launch non-stop flights from Sydney and Melbourne to London and New York.

The Australian national carrier has placed an order for 12 Rolls-Royce Trent XWB-97-equipped A350-1000s with deliveries to begin around the end of 2025 and be completed by mid 2028.

The Pacific region is expected to take delivery of 920 new aircraft over the next 20 years, generated by an average growth in passenger traffic in the region of 3.2% per annum, according to Airbus' most recent Global Market Forecast.

The forecast for new aircraft includes around 750 single-aisle aircraft like the A220 and A320 families and around 170 widebodies including the A330neo and A350. Around 55% of this demand will be for growth and 45% will be to replace aircraft currently in service, according to the OEM.

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