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IAG: The most vibrant

Once again, the pronouncements at International Airlines Group's annual capital markets day at the beginning of November showed how the anglo-hispanic Group is outperforming its European peers. Unlike the other two major network carrier Groups in Europe, it had no need to dampen investor expectations, reinforced its target to achieve a €1.8bn operating profit and a return on capital in excess of 12% in 2015, and expected to be able to declare a sustainable dividend to shareholders next year.

IAG is benefiting from the relatively more vibrant British (and recovering Spanish) economies in contrast to the lacklustre performance in France and Germany. It also has seemingly successfully imposed its restructuring plans on Iberia, to the point where the Spanish carrier is expecting in 2014 to post its first operating profit for six years. As a late entrant in the game of consolidation mergers, its performance may also have as much to do with the Group structure (it could learn from errors in the mergers of Air France-KLM and the acquisitions by the Lufthansa Group). Also British Airways went through its major industrial reorganisation a decade ago, something that its peers are only now attempting.

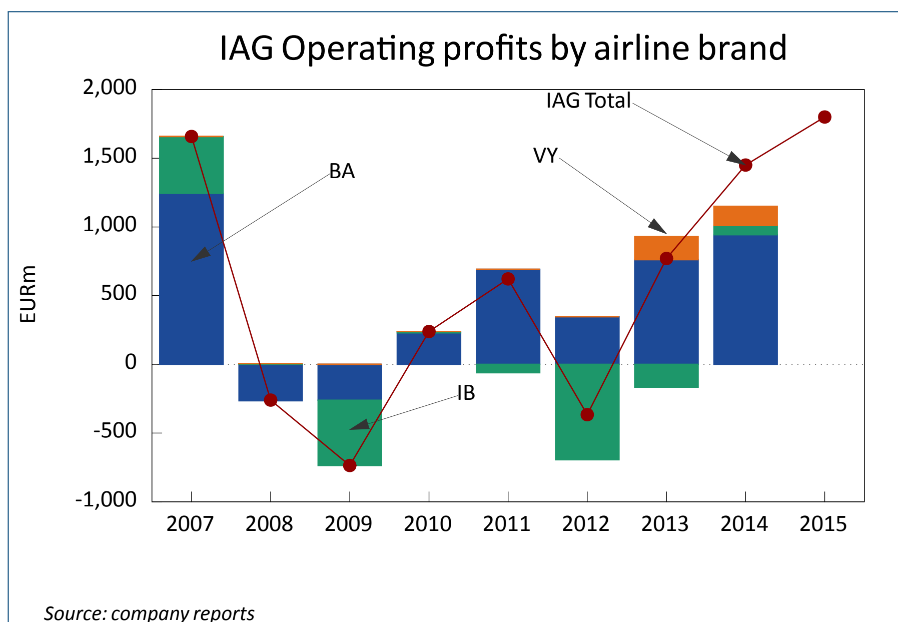
Group targets

During the presentations at the Capital Markets Day the management expressed optimism. It has raised its guidance for full year profitability in 2014, looking to an improvement in Group operating profit (before exceptional items) of between €550m and €600m to about €1.3bn. It also expressed confidence in its ability to meet (and presumably exceed) its 2015 operating profit target of €1.8bn. The improvements in results for 2015 are expected to come from: new fleet net savings; productivity improvements; completion of the Group's 2011-15 synergies programme; and profitable growth. It also stated that it could gain a further positive impact from the recent movements in the fuel price and foreign exchange rates.

The target €1.8bn operating target for 2015 would provide the Group with the approximate 10% margin and 12% RoIC that it needs to achieve a positive return against weighted average cost of capital (last achieved at the top of the last cycle in 2008). Beyond 2015 it is aiming to generate a return on invested capital of over 12% for the Group and each operating airline within the Group. It states that it will be able to do this through: pro-

This issue includes

	Page
IAG: Outlook for BA, IB & Vueling	1
Southwest Airlines: Returning to growth mode, keeping investors happy	8
China's ˝Big Three˝ trundle ahead	13
Fuel: Optimistic glow	17
Jet values and lease rates	19



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IAG Fleet Plans

Aircraft	2012	2013	2014	2015	Post 2015 Orders	Post 2015 Options
A330 / 340	33	29	31	32	8	
A350					26	42
A380		3	8	10	2	7
747	52	49	43	39		
767	14	12	7	4		
777	52	54	58	58		
787		4	8	13	29	18
A318	2	2	2	2		
Total long haul	153	153	157	158	65	55
A320 family	187	227	266	287	68	178
Other	40	39	35	27		15
Total short haul	227	266	301	314	68	193
Total fleet	**380**	**419**	**458**	**472**	**133**	**248**

Source: Company presentations

ductivity and other non-fuel related savings within the Group and through individual operating company initiatives; the net savings from renewing the fleet; and flexibility in growth. Importantly for the stockmarkets, the company gave clear direction that it will be able to declare a sustainable dividend (first for the Group, and first for BA since 2008).

At the Group's investor day this time last year IAG outlined that its strategic financial plan rested on four "planks":

- "Transform Spain" to bring Iberia back to profitability and a sustainable growth path;
- "Transform London" to improve performance at BA through increased and retained unit revenue performance and margins;
- Extracting further synergies from the combined Group; and
- Growth potential at BA and Vueling.

Each of the first two planks were expected to generate improvements in operating profits of around €300-400m while continuing synergy benefits and growth at BA and Vueling would add €190m and €200m respectively. With the raised guidance for operating profits of €1.3bn in the current year, the Group is over half way to its 2015 target. While it has not at this stage done anything about raising expectations for next year, the management did point out that it had increased its estimates of total revenue synergies in 2015 (by €100m to a total €700m) and that its plan was based on a fuel price of $950/tonne (currently c$760/tonne).

Beyond 2015 the management clearly stated a desire to maintain a 12%+ RoIC and double digit operating margins in all the airline operating companies. For Iberia this means continuing its restructuring plan and accruing the labour cost and efficiency measures in place, while at the same time generating growth by restoring long-haul routes from which had withdrawn. For BA it aims to reap deeper benefits from the acquisition of bmi and its joint venture partnerships.

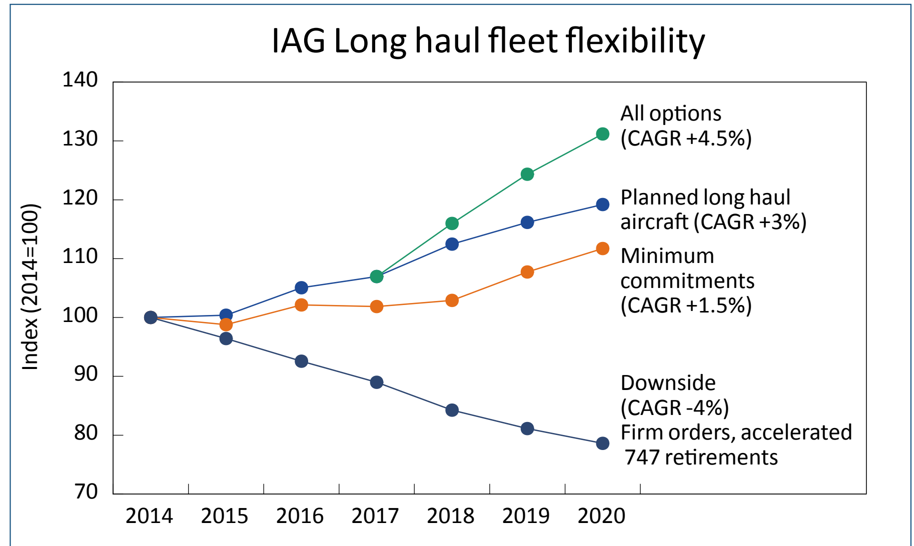
At the Group level it will be aiming to create additional synergies through its Avios common loyalty currency; a pooling of all cargo oper-

ations into a single brand, IAG Cargo, which it hopes will provide an engine for profitable growth in a troubled market; moving increasingly towards common purchasing; and a Group wide Business Services/IT platform.

Even including relatively high growth rates at Vueling, the Group appears to be planning only a 3-4% annual average increase in capacity between 2016 and 2020. The Group is assuming that yields remain flat over the period, while the fleet renewal programme (particularly at BA) is generating significant improvements in fuel efficiency. A large part of the anticipated earnings improvement up to 2020 seems to come from squeezing supplier costs

Fleet

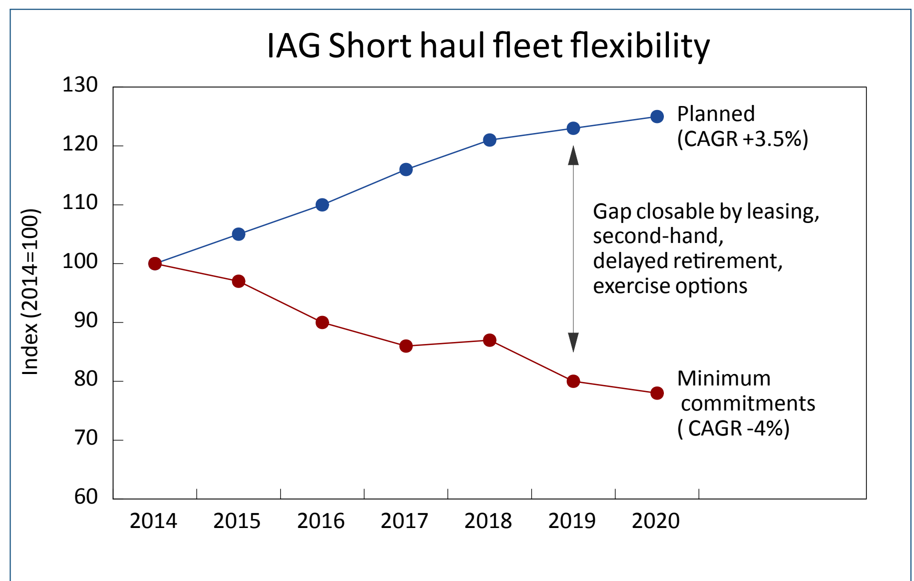
BA is gradually renewing its long-haul fleet. It now has eight A380s and eight 787s in service with another four and five respectively due to be delivered next year. These are being used to replace ageing 747s and 767s creating a modest increase in average long-haul gauge. In addition the A380 is freeing up slots at Heathrow as it allows for a reduction in frequency on the high density routes on which it is being used. At the same time BA is disposing of its 737 Classics (all should have left the fleet by the end of next year) as more A320s are delivered. Iberia meanwhile continues to take on new A330s on lease (as an interim measure until the A350 comes on stream) gradually replacing the older fuel-hungry A340s (although some of these are still required for the "hot-and-high" destinations in South America). The 133 aircraft on order for delivery between 2016 and 2022 are primarily to secure fleet replacement with modest growth; the additional 193 options over that period could generate long term growth of 5% per annum — but the Group has significant flexibility over the next decade on how much capacity to put into the system depending on market conditions.



One major potential long term synergistic benefit for the Group may come from fleet harmonisation across the airline operating companies. IAG's head of strategy Geoffrey Weston highlighted the opportunities they are pursuing to create a common aircraft specification for the fleet across the Group. The intention was to meet three main goals:

- Lowest cost — purchase and operating;
- Reduce capital intensity: lower long term maintenance costs and future modification costs while retaining the separate brand identities;
- Greatest flexibility: generate the ability to shift aircraft between airline brands within a minimum time and expense.

As an example the Group currently has some 259 A320s within the three carriers located at 26 separate bases. Each operating company has its own specification on a multi-



tude of items (and sometimes multiple specifications within a single operator's fleet) which include the design of the toilet doors, layout of the galleys, type of cabin flooring, cabin crew seat covers, position of emergency signs, design of taps, mirrors and other furniture in the toilets, and even the design specification of the cockpit windows, or the inclusion of a second jump seat in the cockpit. In all, there are some 400 choices across 250 categories for the specification of the cabin interior, avionics and systems and emergency equipment.

By harmonising the current fleet the Group is reducing the number of individual suppliers (and thereby increasing its buying power), reducing the weight of the aircraft by up to half a tonne (and generating up to €45,000 savings in reduced fuel-burn per aircraft per annum). The new specification will also cut the cost of each aircraft by €1m and have a longer-term positive impact on maintenance costs. The more important potential comes from the resulting ability to switch aircraft between brands easily and quickly (estimated to be around a week for switching between BA and the Spanish companies, or less than a week for a switch within Spain), divert new aircraft to a target operator more easily before delivery, and allows for maintenance in multiple sites.

IAG is dumping the old BA and IB legacy thinking for specifying new aircraft types, and seemingly getting rid of the old ideas of sub-fleet optimisation. For example, Iberia has confirmed the order for eight A330-200s due for delivery from December 2015. For the first time (also involving British Airways in the process) it worked on a philosophy of designing the aircraft's final specification starting from a zero base (maximum density and minimum weight) allowing brand differences only on a strong revenue case. The specification process apparently took a mere two months compared with a more usual 6-18 months historically.

Q3 Results

In the three months to end September 2014 the Group saw revenues up by 8.5% on the back of a 9% increase in passenger capacity, a slightly lower 8% growth in traffic, and a modest 0.4% increase in passenger unit revenues offset by an 8% drop in cargo revenues. In constant currency terms passenger unit revenues fell by 1%. Unit costs fell by 5.7% in constant currency terms, and by an impressive 4.5% excluding fuel. Group operating profits came in at €900m before exceptional items against €690m in the prior year period. Of this BA provided £484m (up by nearly 20% year on year), Iberia €162m (more than double that achieved in the prior year period, and on a similar adjusted operating margin to BA) while Vueling managed to generate €140m, similar to the previous year despite growing capacity by nearly 30% year on year.

For the nine months to end September total Group operating profits came in at €1.13bn up from €657m in the previous year. For the full year IAG expects to be able to produce operating profits of around €1.3bn.

Cargo

IAG merged the cargo operations of British Airways and Iberia shortly after the merger in 2011 as an independent Group business brand of IAG Cargo. The combined operation is one of the top ten airline cargo businesses in the world (excluding the integrators), has a combined turnover of over €1bn, around a 4% global market share of air freight and serves some 250 destinations world-wide.

In presenting its sales message it states that IAG Cargo:

- ✈ Offers more widebody capacity to the world's top 120 air freight destinations than any other carrier;
- ✈ By using a twice daily widebody airbridge to link London and Madrid it provides customers with unparalleled network linkage between Asia Pacific and Latin America;
- ✈ Offers more same day connections via the UK for small consignments to and from Europe than any other carrier;
- ✈ Offers more direct flights to key destinations in North America than any other airline, with an unrivalled 19 gateways in the US and over 47 flights per day;
- ✈ With over 18 destinations, it has more flights from Europe to Latin America than any other carrier.

Integration of the operation is virtually complete. It will end up as a single brand, with one product portfolio, one management team and sales team incentivised to optimise Group results, one network and one distribution channel. As one of the first large scale system integration projects within the IAG Group, always a big headache, it is producing a single revenue management system providing inventory controls across the entire network.

It is the only one of the top ten freight carriers *not* to operate its own full-freighter fleet. BA had hitherto (from 2002) wet-leased a handful of 747Fs from GSS. These had provided the cargo business with 13% of its capacity but accounted for 25% of costs. In May 2014, however, it cancelled the agreement and signed a cooperation with fellow **one**world member Qatar to provide competitive full-

freight lift through Doha (structurally to allow it preserve freight services to and from Hong Kong, which it described as the "jewel in the crown" of its freighter routes — and possibly the only one to make commercial sense). Cogently the company views the cargo market as inherently in a position of overcapacity and that from a corporate point of view it cannot justify the expenditure of capital on all-freight aircraft.

When it decided to get rid of the freighter fleet the management had been a little concerned that some customers would be upset. There is an argument that there are some types of cargo that will generate a yield premium for full freight operations — oversize cargo, dangerous goods and items forbidden for carriage on passenger aircraft. (This seems to be one of the reasons why Air France-KLM Cargo is retaining a few freighters — see *Aviation Strategy,* September 2014). However, IAG stated that the customer perception has been positive.

The resulting combined cargo entity appears to be an innovative operating model, somewhat removed from those operated by most of its competitors, and strongly focussed on value generation. Steve Gunning, CEO of IAG Cargo, presented a view of the various different business models adopted in the passenger airline business for air cargo operations (see table).

The simplest, and traditional, model (A) is where the passenger airline views cargo as purely peripheral to passenger operations but a "good idea" to gain the marginal dollar of revenue. Revenues are allocated to the cargo sales, but marginal costs are largely ignored. A more complicated model (B) — reflecting perhaps the set-up at IAG's main European competitors — attempts to provide a truer measure of the economic benefit. Here it assumes the costs directly attributable to operation of the cargo business, but also takes a share of Group overheads and a proportion of passenger aircraft operating costs, capital and overheads. Somewhat surprisingly, apparently neither of these two models take account of the marginal fuel burn related to the weight of the cargo on passenger aircraft. The IAG model in contrast does; but equally does not burden itself with the complexity of arguing with the passenger division an arbitrary charge for the passenger aircraft overheads.

IAG Cargo profitability model

	Model		
	"A"	"B"	IAG
Cargo revenues	✔	✔	✔
Direct costs			
Staff	∂	✔	✔
Supplier	∂	✔	✔
Overheads (cargo related)	∂	✔	✔
Fuel burn on pax aircraft	✘	✘	✔
Non-attributable cost allocation			
Overheads (non-cargo)	✘	✔	✘
Capacity charge for pax aircraft	✘	✔	✘

Note: ✔=yes; ✘=no; ∂=partial.

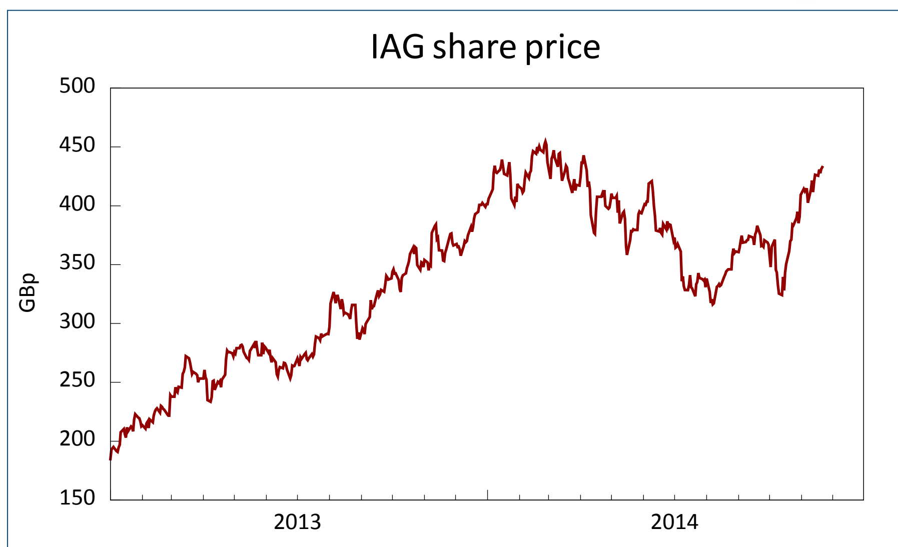
British Airways

The recovery at BA and its plans to "Transform London" appears well on track. CEO Keith Williams pointed out that the airline's strategic position at Heathrow has significantly changed to its advantage. Since 2010, BA and its **one**world partners have gained share at the airport — and not just because of the acquisition of bmi. Since 2010 it has seen compound annual growth of 7% in the number of passengers carried through the airport, while non-**one**world airlines have seen their share decline. The acquisition of bmi allowed it to boost its share of the slots at Europe's prime gateway from 42% to over 52%; and importantly provided it with the leeway to add long-haul routes without closing short-haul feeder services.

The new generation aircraft now coming on stream are also helping: for example the introduction of the A380 on LHR-LAX has allowed it to move from three daily 747 flights to two daily A380s with a total reduction of 1% in the number of seats per day, but a richer seat mix (5% increase in premium, but 7% reduction in non-premium) and a total daily trip cost some 20% below the 747 operation. This releases a pair of slots for other long-haul.

At the same time it is focusing on optimising short-haul slot usage. In common with others it increasing seat density on the short-haul aircraft (and, surprisingly, after increasing the number of seats on board the A320s by 6% it has achieved improvements in customer satisfaction). The priority for short-haul is to develop the business network and feed the long-haul — but it is selectively targeting off-peak leisure routes to replace weak off-peak business flights.

After years of inefficient operations at its home airport, the recent moves are finally improving efficiency. Consolidating all operations into T5 and T3 has significantly helped crewing and ground handling. Withdrawal from T1 has allowed for a reduction in requirement for facilities at the airport — passenger lounges, offices, storage space and restrooms. With the introduction of pier T5C it has reduced the amount of remote stand services to below 5% of the to-



tal while all T3 services are now on pier. These have both helped aircraft utilisation, reducing the need for two aircraft for 2015 on a like-for-like basis. The completion of the T3-T5 baggage tunnel in 2015 will substantially improve transfers.

The company reiterated its target to achieve operating profits in 2015 of £1.3bn — on a 10% margin equivalent to the last peak in 2007/08.

Iberia

Two years ago Iberia was in a dire state — severely loss-making and haemorrhaging cash. At the investor day CEO Luis Gallego stated that they had achieved the turnaround plan put forward in 2012: to stop the operating cash burn, give Iberia a competitive cost base for long term growth (by initially cutting capacity by 15% and a 25% cut in staffing), and to fund the entire process out of its own resources. The company achieved a positive operating margin in the first nine months of 2014 and states that it will generate operating profits for the full year. It intends to get to the 10% IAG Group target by 2017.

Along with the reduction in workforce (70% completed by end 2014), the company has managed to put in place a structural change in working practices — with salary reductions, a new entrant B scale for flight crew, an increase in flying hours and greater flexibility in shifts and schedules. By 2015 it estimates that the average employee unit cost per ASK will have fallen by 25% compared with 2012; by 2020 will be 35% below that level.

The CEO's presentation referred to Iberia's strong position as a leader on routes between Europe and Latin America. Much of this relies on the historic, cultural links between Spain and its former colonies. In Europe Spain has the largest number of LatAm foreign residents (1.4m compared with the next largest, Italy, with around 0.3m). Spain is the second largest foreign direct investor in the region after the US. 25% of the turnover of Spanish quoted companies is generated in Latin America. Although relatively weak on routes to Brazil, it maintains an overwhelming position on routes to the hispanophone territories. Its total bookings to the region in the twelve months to September were 1.9m, of which 57% were direct compared with its nearest competitors, Air France (1.2m, 45% direct), TAP (1.2m , 48% direct), and Lufthansa (0.9m, 42% direct). It claims a market share of 17.6% (IB and BA combined would produce a market share of 23%, a little ahead of AF-KL combined of 20%).

Vueling

Alex Cruz, CEO of Vueling was a little sanguine. Vueling is the low-cost growth engine bought by IAG last year — it increased total capacity in 2014 by nearly 30%. As usual with such a high rate of expansion, profitability has been subdued — it is running with operating profitability little changed on last year. Moreover, Cruz pointed to an increasingly competitive environment in the sector in the next few years.

Ryanair and easyJet are returning to growth with their new aircraft delivery programmes kicking in soon, while norwegian after next year also resumes a high level of new aircraft deliveries in 2016. He presented figures estimating LCC carriers in Europe would grow by 5% next year but ramp up capacity by an average of 10% a year for the following three years. In addition, while Vueling was initially at the forefront of developing the LCC hybrid model, the other major players are also becoming more "sophisticated". The notable move is from Ryanair, adopting its more "cuddly" approach but also adding allocated seating, business fares, GDS distribution and so forth.

The company maintains three pillars of attack and defence: cost discipline, premium service, and flexibility. On a stage length adjusted basis it has a unit cost base similar to easyJet and norwegian (but still nearly double Ryanair or Wizz). Its premium service is more redolent of a redesigned legacy carrier than the traditional LCC moving up-market: a

(sort of) business-class product in the front four rows, with a dividing curtain, food and lounge access, network transfer at Barcelona and Rome; an FFP (connected with Avios); interline agreements (first with Qatar); code share agreements (one with BA signed in 2014); and on-board wi-fi.

As regards flexibility, while it plans to increase the fleet to 104 units next year and nearly 150 aircraft by 2020, it has significant opportunities to adjust deliveries and lease returns according to market developments. It adjusts to the inherent seasonality by leasing out aircraft in the winter season and wet leasing in in the peak summer (while planning heavy maintenance for the winter season).

It could be that IAG's acquisition of Vueling was an inspired competitive move: it enticed its two major competitors, AF-KL and LHAG, into thinking that an in-house low-cost carrier is a good idea. Their plans for capacity expansion are fraught with difficulties, and they will not compete directly with Vueling, which has established itself as the de facto flag-carrier of Catalonia, However, Ryanair has decided to attack head-to-head at Vueling's new bases, Brussels, Rome, etc, putting Vueling's ability to expand on a pan-European basis in doubt.

IAG

IAG is seemingly managing to live up to its promises to the capital markets to return to a value-enhancing level of profitability; what next? Group CEO Willie Walsh made a couple of intriguing comments: firstly, that the Group had established a senior executive succession plan (while almost in the same breath stating that this did not mean that he was planning to leave), and secondly that the IAG Group was a unique structure, uniquely designed to acquire and run different airline brands. The resultant question is: "which is the next acquisition?"

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Southwest Airlines: Returning to growth mode, keeping investors happy

AT its annual investor day on November 10, Southwest Airlines accomplished quite a feat: announcing plans for 6% ASM growth in 2015, while convincing the financial community that it would still be able to grow earnings, achieve 15%-plus RoIC and maintain its industry-leading shareholder reward programmes.

As a bonus, the 6% ASM growth will not add significantly to industry capacity, because half of it merely replaces other airlines' flying (American-US Airways slot divestitures and AirTran route conversions).

Southwest has been in a "no growth" mode since 2007, when it encountered financial challenges and saw its profit margins weaken. In the three years up to and including 2010, its ASMs fell by 1.2%. The acquisition of AirTran boosted Southwest's size by 30% between 2010 and 2012, but the past two years have again seen minimal ASM growth: 1.7% in 2013 and "less than 1%" in 2014.

This growth hiatus — and the associated willingness to match legacy carriers' fare increases — has brought about enormous benefits for Southwest and for the US airline industry.

It enabled Southwest to adjust its business model to the high oil-price environment, redefine its strategy, update its systems (which had been designed for an earlier era) and return to strong profitability. Notably, Southwest moved past the "one size fits all" approach, in particular to appeal more to the business customer. It added numerous new ancillary revenue streams. It took advantage of competitors' unbundling by adopting and heavily advertising a "Bags Fly Free" policy. It went through a multi-year process to develop the technology necessary to support the new activities.

At the industry level, Southwest's growth hiatus played a key role in bringing about a healthy domestic revenue environment. As America's leading LCC and largest domestic airline, Southwest controls pricing in the domestic market. No fare increase can stick unless Southwest matches it.

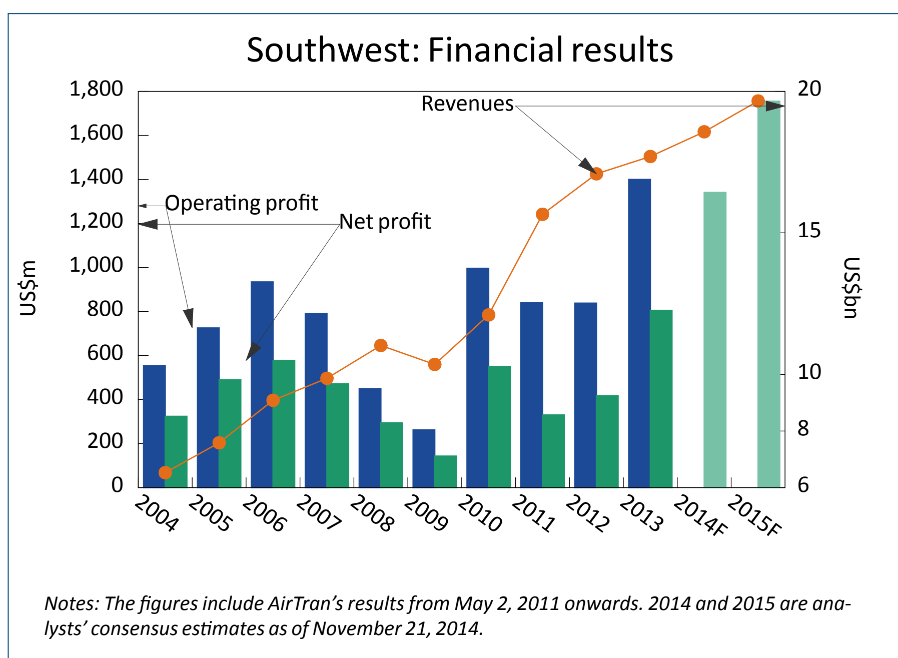
But it was clear all along that Southwest would begin growing again. It always said it would, once it has attained its financial targets. As an LCC it has growth in its DNA.

Southwest characteristically moves cautiously and is a very fiscally responsible company that takes financial targets and shareholder returns seriously, so there are no real concerns about its growth plans. But growth could make Southwest less inclined to participate in industry fare increases, which would be an industry negative in the longer term.

But it is nice that Southwest has found a way to allay near-term concerns. First, the 6% ASM growth is "low risk", because it will be achieved through increased aircraft utilisation and seat density. Second, much of the growth focuses on longer-haul markets, and the anticipated 3% increase in average stage length will help in the carrier's unit cost reduction efforts. Third, the new routes are generally in higher-fare markets, which will have a favourable impact on Southwest's unit revenues.

Historic year

This is a good time for Southwest to step up growth, because 2014



Notes: The figures include AirTran's results from May 2, 2011 onwards. 2014 and 2015 are analysts' consensus estimates as of November 21, 2014.

Southwest: Aircraft delivery schedule

	737NG†				737Max‡			
	Orders		Options	Extra	Orders		Options	
	700s	800s		700s	MAX 7s	MAX 8s	MAX 7s	Total
2014		33		22				**55✤**
2015		19		14			-	**33**
2016	31		10	4				**45**
2017	15		12			14		**41**
2018	10		12			13		**35**
2019					15	10		**25**
2020					14	22		**36**
2021					1	33	18	**52**
2022						30	19	**49**
2023						24	23	**47**
2024						24	23	**47**
2025							36	**36**
2026							36	**36**
2027							36	**36**
Total	**56**	**52**	**34**	**40**	**30**	**170**	**191**	**573**

Notes: † Southwest has flexibility to substitute 737-800s for 737-700 firm orders. ‡ Southwest has flexibility to substitute MAX 7s for MAX 8 firm orders beginning in 2019. ✤As of Sept 30, Southwest had taken delivery of 25 737-800s and 11 737-700s this year.

has witnessed three important milestones: launch of international service, the full repeal of the Wright Amendment, and the completion of the bulk of the AirTran integration.

Southwest became an international carrier on July 1, when it took over services operated by AirTran to Aruba, Jamaica, the Bahamas and two points in Mexico (Los Cabos and Cancun). The addition of Punta Cana (Dominican Republic) and Mexico City this month (November) completed the AirTran-to-Southwest international conversion.

It was a culmination of three years' efforts by Southwest to upgrade its reservations systems to handle international flights (it opted for Amadeus), learn from AirTran's international experience and best practices, and convert aircraft and train employees. The international transition took so long because Southwest found itself tackling "by far the largest technology project that we ever had".

This year's main highlight, however, was the full expiration on October 13 of the unusual 1979 piece of legislation known as the Wright Amendment, which limited non-stop flights from Southwest's home base at Dallas Love Field to destinations within Texas and four contiguous states plus, since 2005, Missouri. It was the culmination of an eight-year process to relax the restrictions, stipulated by a reform act passed by Congress in 2006.

Southwest is now free to fly to any US destination from Love Field. It jumped at the opportunity, introducing new nonstop flights to some 17 destinations from there in October-November. The flights are performing "extraordinarily well", with load factors exceeding 90%.

Love Field is closer to the downtown area than DFW. Since the recent completion of a major modernisation and expansion project, it has one of the best passenger terminals in the US and is still very cost-effective. It is slot/gate-constrained, meaning that there will not be significant competitor inroads. Virgin America is now at Love Field (having been permitted to acquire the two gates American had to give up), but otherwise it is all a huge long-term positive for Southwest and a big negative for American at DFW.

The third major milestone of 2014 for Southwest is the virtual completion of the AirTran integration, following the May 2011 acquisition and somewhat challenging initial year. According to Southwest executives, around 75% of the aircraft and crews will have transitioned from AirTran to Southwest by year-end. This would seem to pave the way for the retirement of the AirTran brand in early 2015.

In addition to those three milestones, Southwest was lucky to get an opportunity earlier this year to enter and build a substantial presence at Washington Reagan National (DCA), thanks to the American-US Airways slot divestitures. CEO Gary Kelly noted at the investor day that in an ordinary year that alone would have been a big deal.

To commemorate a special year and signal the expanded US footprint and new international capabilities (while the original 1971 purpose of providing "friendly, reliable and low-cost air travel" remains intact), Southwest recently unveiled a new "Heart" livery, branding and logo. It is being rolled out "in a cost-neutral manner", during the normal maintenance cycle or out of the discretionary marketing budget.

Delivering on 2011 initiatives

The strategic initiatives that Southwest embarked on in 2011 have deliv-

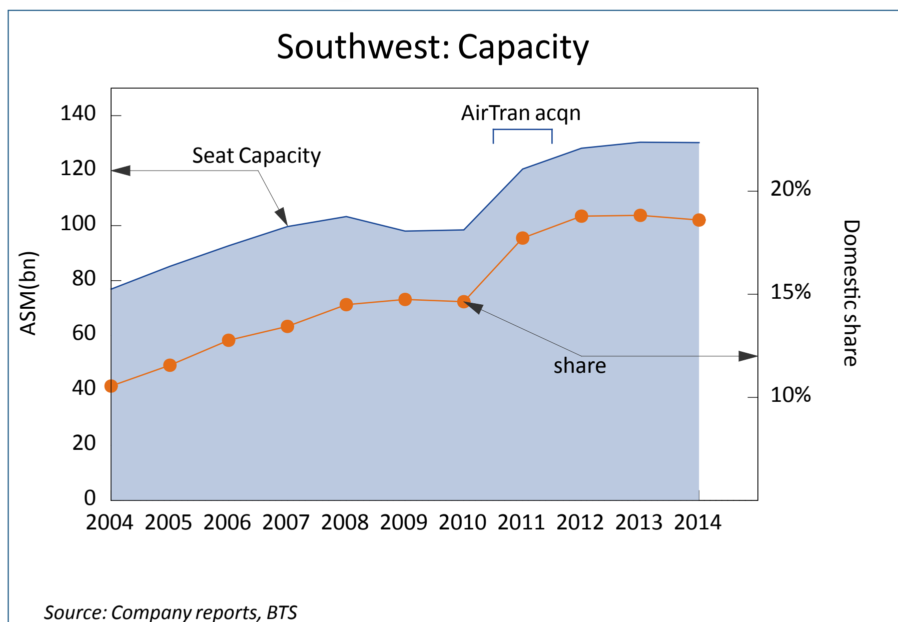
ered significant value. The AirTran acquisition has brought in $2.6bn in revenue and produced $400m in annual net synergies. It has been a significant contributor to RoIC and has helped lift Southwest's stock to a lifetime high.

Thanks to AirTran, Southwest gained access to Atlanta, DCA, near-international markets and more LGA slots. In total, AirTran brought in 21 new cities (including seven international), expanding Southwest's network from 72 to 93 cities. CEO Gary Kelly said that it "essentially accelerated the completion of our route system for the 48 states into a two or three-year time period".

AirTran has brought in 52 737-700s (as of year-end 2014) and 88 717s. Southwest quickly decided that it did not want to keep the 717s and it secured a deal to sublease those aircraft to Delta over a 30-month period starting in the second half of 2013. Southwest expects to have delivered 52 717s to Delta by year-end, at which point the type will be retired from Southwest service.

Southwest estimates that its fleet modernisation and upgauging programmes will contribute $500m to EBIT in 2014 and $700m in 2015. The fleet decisions have come in waves. In 2010 Southwest decided to accelerate the retirement of its 737 Classics in favour of more fuel-efficient 737NGs. In December 2011 it placed a launch order for 150 737MAXs for delivery from 2017; the $19bn deal also included 58 additional 737NGs. Then Southwest decided to dispose of the 717s and to retrofit its entire 737-700 fleet with an extra row of seats. Deliveries of the larger 737-800 began in the spring of 2012.

In other words, Southwest is sticking to a single fleet type, is modernising its fleet quite aggressively, and its average seat capacity is increasing substantially. It all adds up to significant cost savings, as well as revenue benefits.



Source: Company reports, BTS

Another major strategic initiative, the all-new "Rapid Rewards" FFP, has generated $600m incremental revenue since it was launched in March 2011. The management described it as a "phenomenal success".

The strategic initiatives that have facilitated international service (including a new reservation system) are expected to lead to "hundreds of millions" of incremental revenue.

Financial targets achieved

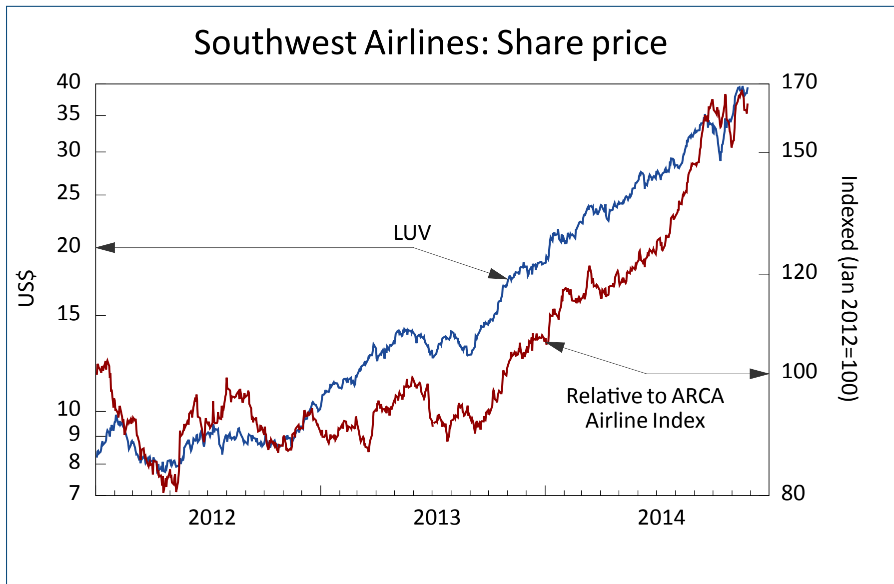
Southwest has an impeccable financial record, with 42 consecutive years of profitability under its belt (including 2014), but until very recently it was not meeting its financial targets. But the strategic initiatives seem to have done the trick. Southwest earned a 19% pretax RoIC in the 12 months ended September 2014 — up from 10.6% a year earlier and well ahead of the airline's 15% target. It also far exceeded Southwest's 7-8% weighted average cost of capital. On an after-tax basis, the RoIC was 12%.

Southwest also achieved a promising 13.5% operating margin in the third quarter, despite the route conversions still taking place. For 2014, Southwest is now poised to report its first annual double-digit operating margin since 2006.

Notably, the strategic milestones and financial momentum have helped lift Southwest's share price, which had stagnated for almost a decade. The shares have more than doubled this year, vastly outperforming the Amex Arca Airline Index (XAL), which has risen by 33%.

Despite the tougher years, Southwest has retained a strong balance sheet. It had an ample $3.7bn in cash as of September 30, plus a fully available $1bn credit line. Its lease-adjusted leverage is only 35%. It is the only US airline with investment-grade credit ratings from all three main agencies.

Southwest has also led the industry in returning capital to shareholders. Since 2011 it has returned $2.2bn, or over 50% of its free cash flow, in the form of dividends and stock repurchases. Southwest expects to return "at least 50%" of its 2015 FCF to shareholders.



Based on the current outlook, and even without the benefit of lower fuel costs, Southwest expects to grow its earnings and margins in 2015. It expects to match this year's pretax RoIC in the 20% range.

The executives mentioned four primary objectives for 2015: take advantage of "high-quality growth opportunities"; continue the revenue momentum; strive to be a low-cost leader; and maintain a superior financial position.

One negative development in recent years has been that Southwest has lost some of its cost advantage. However, according to the investor day presentation, on a stage-length adjusted basis Southwest's all-in CASM is still about 30% lower than the network carriers' and 8% lower than that of the US low-cost carriers as a group. Only the two ULCCs (Allegiant and Spirit) have lower adjusted CASM than Southwest.

That is still impressive, given Southwest's mature cost structure and industry-leading wages. Southwest has highly efficient operations, low distribution costs and great cost controls, and it is highly motivated to maintain its competitive advantage. The executives made it clear that Southwest will work hard to become the low-cost leader again.

The completion of the AirTran integration will offer an opportunity to improve aircraft utilisation in 2015, because this year AirTran aircraft have been underutilised due to the conversion process. Of course, continued fleet modernisation, upgauging and increasing average stage length will significantly help in the unit cost reduction efforts.

Southwest expects its ex-fuel CASM to decline by 1-2% in 2015. But that does not include incremental labour costs from new contracts. The carrier is currently in negotiations with most of its unions. JP Morgan analysts have modelled $275m of incremental labour costs for next year, which would mean ex-fuel CASM increasing by 1.3%.

Growth plans

Southwest's near-term domestic growth efforts focus on Dallas Love Field. The executives described the initial ramp-up in October-November as the most aggressive expansion in the carrier's history. After the addition of two more cities in January, Southwest will be operating to 17 new nonstop long-haul destinations from its home base.

Dallas Love Field will account for around half of the 6% ASM growth projected for 2015. Because of significant pent-up demand and higher yields in those markets, the services are expected to become profitable quickly.

Growth in some of the nation's best business markets resulting from the American-US Airways slot acquisitions will account for a third of the ASM increase. The new slots will boost Southwest's operations to 33 daily roundtrips at LGA and 44 at DCA, making it the market share leader in the greater Washington area.

The rest of next year's ASM growth will come from international expansion. Following this year's Caribbean and Mexico services, Southwest plans to add its first route to Central America (also the first route that is not ex-AirTran) in March 2015: Baltimore-San Jose (Costa Rica). Southwest has also applied to serve Puerto Vallarta (Mexico) from June, and it may add two more international destinations later in the year.

Southwest is very late with the Caribbean/Mexico expansion. Other North American LCCs began venturing to those areas a decade or so ago and have benefited enormously from that strategy. JetBlue has said that the routes require minimal investment, become profitable quickly and are recession-resistant because of the VFR traffic. Having such routes is also important to FFP members and employees. The strong Southwest brand is likely to be just as highly regarded internationally as in the domestic market.

But Southwest intends to move at its characteristic measured pace. The

executives talk about growing in the international markets "very modestly and gradually", to "make sure that we understand what we're doing before we get ahead of ourselves". It will obviously all be low-frequency operations.

Southwest's current planning assumption is that, for the next several years after 2015, its domestic growth rate would still be higher than its international growth rate. Domestic ASM growth would be in the low-single digits, with international growth adding to it slightly.

Southwest's fleet growth, which has been flat since around 2010, will continue to be essentially flat through the end of 2015. This means that the 6% ASM growth in 2015 will be produced at a minimal cost — through higher aircraft utilisation and increased seat gauge.

Southwest will not be able to operate international flights from Dallas Love Field, because the Wright Amendment's international nonstop restrictions continue to apply. It is not clear at this stage if those restrictions could ever be lifted.

But Southwest is building an international terminal at Houston Hobby (HOU), which is expected to open in the fourth quarter of 2015. The airline already operates extensive domestic service out of HOU and plans to use it as a launching pad for new international expansion. The new terminal will have five gates, with an estimated capacity of 25 daily departures, though Southwest is talking about "just a handful of flights initially". Houston, with its sizable Latin population and large local market, will make an excellent gateway to Latin America for Southwest.

Even as they are moving cautiously, Southwest's executives seem enthusiastic about the near-international growth opportunities. Kelly said that the most difficult thing was how to prioritise them. On a map showing the 737's or the 737MAX's range from North America, Kelly sees about 50 potential dots that Southwest could add, to grow it network to almost 150 cities.

At this point the chances of Southwest venturing to the transatlantic market in any foreseeable time horizon seem practically zero. Southwest is more determined than ever to stick to a single fleet type.

By Heini Nuutinen
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Aviation Strategy

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China's "Big Three" trundle ahead

CHINA'S Big Three — Air China, China Southern and China Eastern — have faced tough market conditions over the last 24 months, and all of them have seen profits fall despite rising revenue. However, all three airlines are still in profit, and with a virtual oligopoly of the huge domestic market the future for the Big Three remains secure.

In relative terms, it has a been tricky couple of years for the Chinese economy; according to the World Bank its GDP growth "slowed" to 7.7% in each of 2012 and 2013 (compared with 10.4% in 2010 and 9.3% in 2011) — though of course that's a growth figure that western economies can only dream about.

More significantly, China is still well on course to become the largest economy on the world over the next few years (though in absolute terms and not in GDP per capita). In parallel, it will also become the world's single largest domestic aviation market. According to Airbus, domestic passengers will grow by an average 7.1% per annum over the next 20 years (see chart below), and "by 2033 the Chinese domestic market will be more than 60% larger in terms of passenger than today's largest market — the US". Boeing is only slightly less bullish, forecasting passengers carried domestically will rise at an CAGR of 6.6% over the 20 year period to 2033.

So far much of that domestic traffic has been concentrated on routes along and to the prosperous east of the country, in a strip from Beijing through Shanghai and down to Hong Kong and Guangzhou, but analysts see a lot of growth coming from point-to-point routes into the centre and west of China. Cities that many in the west have barely heard of — such as Zhumadian, with a population of 8.2m, or Nanchong, with 7.2m — offer immense potential for new routes, many believe.

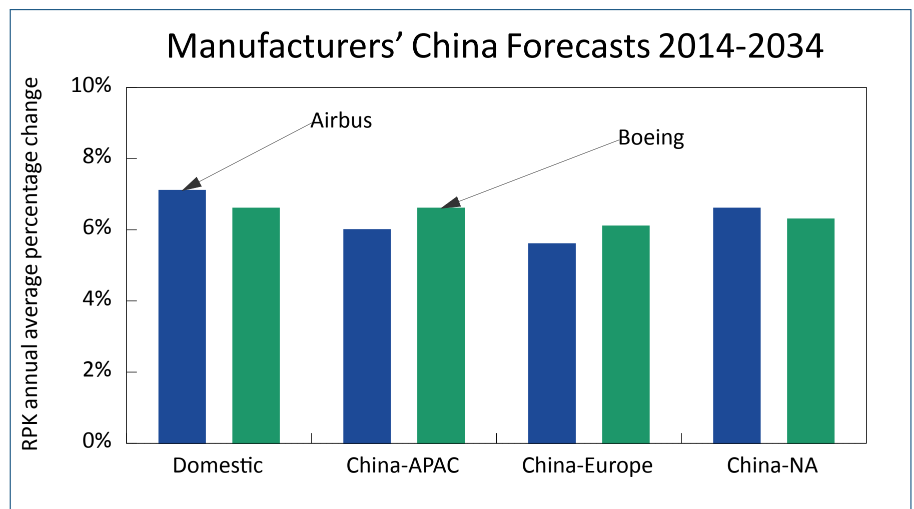
The government, of course, is encouraging aviation development — though often at a pace that seems glacial by western standards. Huge investment in airport infrastructure (though there are at least 30 major Chinese cities without airports) is now being accompanied by gradual reductions in airport fees and some easing of strict governmental regulations, and that is encouraging LCCs and other independent airlines to compete.

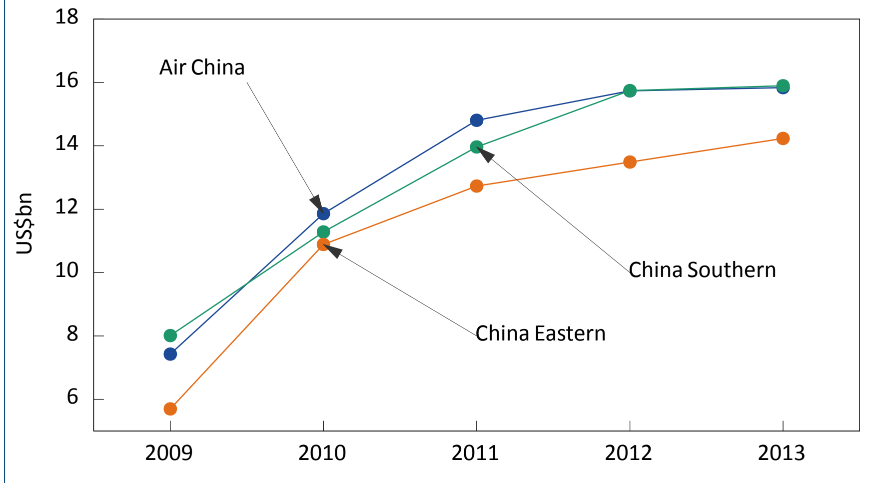
However, the reality on the ground is that it is still China's Big Three airlines — Air China, China Southern and China Eastern — that are best placed to exploit Chinese passenger growth, particularly domestically. Over the last three years and despite rising revenue all the Big Three have seen their profits fall (see graphs on pages 14 and 15), but they are profitable nonetheless and, once the depreciation of the remnimbi is excluded, all three are performing better through full 2014. Over the next few pages *Aviation Strategy* takes a look at each of these carriers in turn.

Air China

China's flag carrier is based in Beijing and its 39,500 employees (of which 25,300 work at the mainline Air China) operate more than 300 routes to 162 destinations in 32 countries, comprising 106 domestic cities and 56 international ones.

For the first nine months of 2014 Air China reported a 77% rise in revenue to RMB78.9bn (US$12.8bn), although operating profit was down 35% to RMB3.4bn ($0.6bn) and net profit fell 23% to RMB3.4bn ($0.6bn) — though this was largely to foreign exchange losses; the remnimbi has depreciated significantly against the US Dollar over the last few years, and exchange losses "cost" Air China





RMB2.3bn ($0.4bn) in the January to September period.

Air China has consistently had the best results of the Big Three over the last few years, and that's due largely to the fact that it is the flag carrier, which generates large amounts of tangible and intangible benefits — from a dominant position at Beijing airport, to enjoying substantial government travel in and out of Beijing, to being merged with stronger domestic airlines than its Big Three rivals under the government-mandated aviation industry consolidation plan.

And as can be seen in the chart (one the next page), it has higher international traffic than China Eastern or China Southern, with Air China's international RPKs as a proportion of all RPKs being 31% in the first three-quarters of 2014 (compared with 27% at China Eastern and 21% at China Southern).

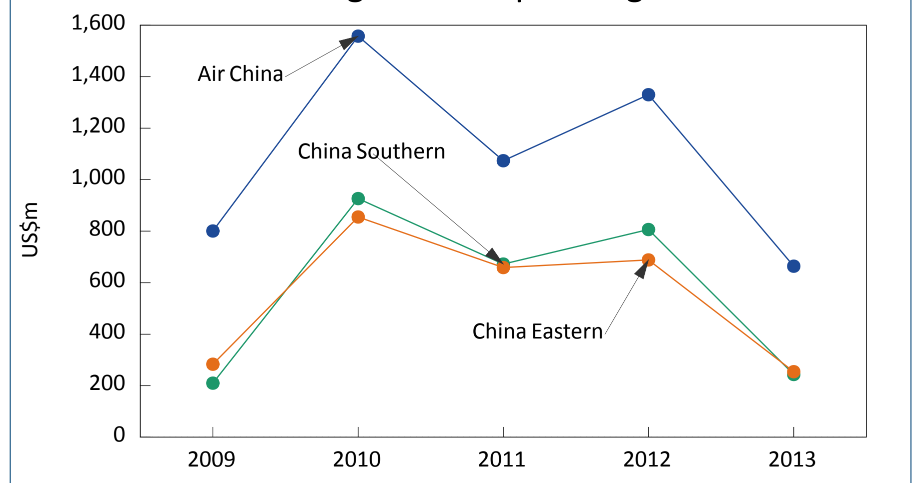
Altogether the Air China mainline has a fleet of 316 aircraft (of which 40% are owned), which is the smallest mainline fleet among the Big Three. It comprises 119 737s, 113 A320s, 49 A330s, 30 777s and five 747s. They have an average age of six and a half years, with narrowbodies having the youngest profile and widebodies the oldest (the 747s, for example, have an average age of more than 18 years). On firm order at the mainline are 66 aircraft, comprising 15 787s, 12 737-800s, four 747-8s, 10 A350-900s, five A330-330s and 20 Comac C919s.

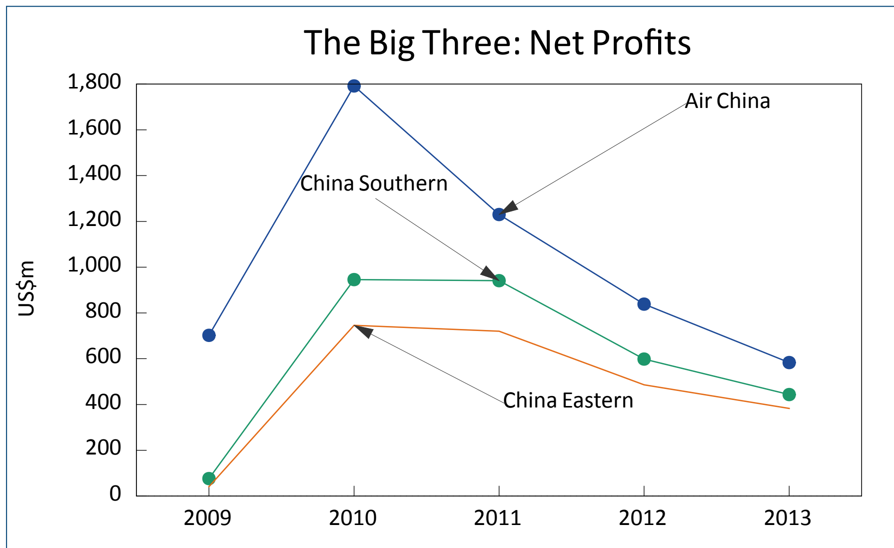
The order for 20 C919s was forced on Air China (and each of the other Big Three airlines) by the government; it is highly unlikely any of these airlines would have chosen the model given a free choice. The first of an order for five 747-8s arrived in late September (the rest will be delivered by the end of 2015), while the 787s will start delivery from late 2015 onwards. If subsidiaries such as Air China Cargo, Shenzhen Airlines and Air Macao are included, the Air China group fleet comprises 500 aircraft.

Strategically the focus for the next 18 months or so is to concentrate on maintaining its strong position in Beijing and building up operations at Chengdu and Shanghai. Air China's domestic and international network connects largely at its key Beijing hub, which accounted for 2.5m transfer passengers in the first half of 2014 (following a 17.3% rise in connecting flights at the airport) and provided RMB2.7bn ($0.4bn) of revenue in the six month period (and half of all transfer traffic at Air China in the January-June period).

But the flag carrier is also expanding operations at other airports too, most notably at Shanghai (from where it has launched a route to Munich, bringing its European routes there up to four), and Chengdu (where its transfer passenger topped 0.25m in the first half of 2014). Internationally the priority is to open more routes to North American and Europe, and the airline is increasingly using 777-300ERs on these sectors.

Air China is also increasing co-operation with its strategic partner, Cathay Pacific Airways (in which it





has a 29.9% stake, while Cathay has a 20.1% stake in Air China) in everything from joint purchasing to maintenance.

China Southern

Guangzhou-based China Southern employs around 80,000 and its route network serves more than 190 destinations in 35 countries, of which 125 are domestic. Its primary hub is Guangzhou, but it has also built up significant services at Beijing (in competition against Air China of course) as well as Chongqing (in the south-west of China) and Ürümqi (in the north-east), the last two of which are domestic hubs.

It is by far the leading domestic airline in China, with 77% of its RPKs in January to September 2014 coming from domestic traffic (compared with 69% at China Eastern and 65% at Air China over the same period).

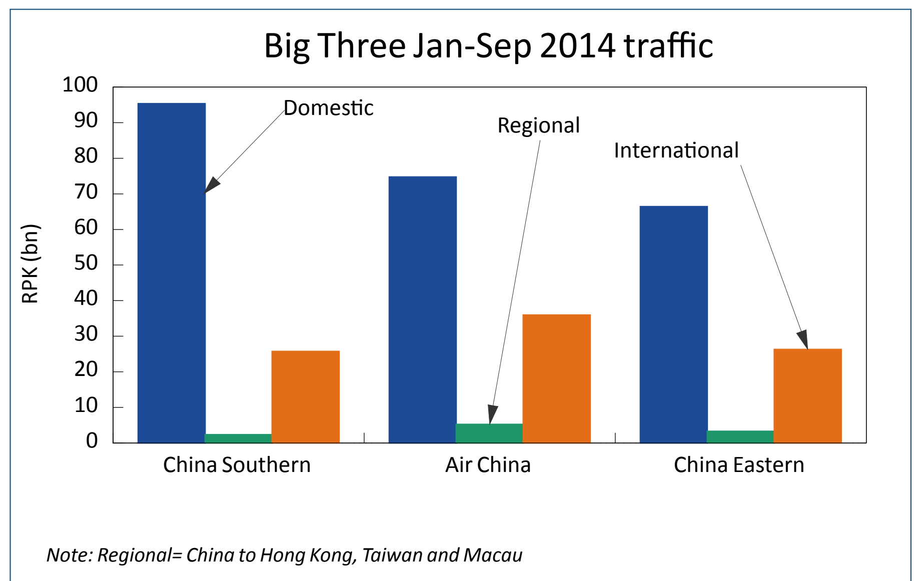
In the first three-quarters of 2014 China Southern's revenue rose 9.9% to RMB81.8bn ($13.3bn), although operating profit fell RMB2.9bn in January-September 2013 to RMB772m ($125m) in the first three-quarters of 2014. At the net level there was a similar reduction, with China Southern posting a net profit of RMB1.8bn ($0.3bn) in 1Q-3Q 2014 compared with RMB3.1bn in the same period of 2013 — and again this was largely due to a huge exchange loss in the first nine months of 2014, thanks to the depreciation of the remnimbi. The airline also says that it facing "increasing pressure due to the drop in the Chinese economic growth rate and slower consumption growth, as well as relative over capacity in the airline industry and increasing competition from high speed rail".

Nevertheless, China Southern is optimistic about its prospects thanks to "the background of deepening aviation reform, the improvement of living standards in China and the development of the country's tourism industry".

Operationally the focus is on making its network more efficient, and specifically improving transit between domestic and international flights at its hub operations. In the first six months of 2014 international transit passengers totalled 1.1m, up 5% year-on-year, and 225,000 of those were sixth freedom passengers (up 6.8% year-on-year). Altogether transit passengers generated RMB0.8bn ($130m) for China southern in the first six months of 2014, some 6.5% up on January-June 2013.

Whether at a mainline or group level, China Southern has the largest fleet of any Big Three carrier. The mainline operates a fleet of 471 aircraft (of which 41% are owned), comprising 226 A320s, 155 737s, 30 A330s, 13 757s, 12 777s, 10 787s, five A380s and 20 EMB 190LRs. Including subsidiaries, the China Southern group has a fleet of 589 aircraft.

On order at the mainline are 54 aircraft: six 777-300ERs, four 777Fs, two 737-800s, 10 A330-300s, six



Note: Regional= China to Hong Kong, Taiwan and Macau

A320ceos, six A321ceos, and 20 Comac C919s.

China Southern is the only Chinese carrier to operate A380s (the first of which it received in 2011), although it has struggled to find suitable routes for the equipment. They have been used primarily on domestic trunk routes such as Beijing–Hong Kong and Beijing–Guangzhou, but these have racked up substantial losses.

The obvious solution — to operate the model on international routes — is also problematical, as the government forbids airlines from competing against other Chinese carriers internationally, which essentially rules out virtually all potential routes out of Beijing. China Southern entered into talks with Air China on joint operations of the A380 out of the capital, but they came to nothing and so unless government regulations change (a situation that Air China is unlikely to want), then China Southern can only use the model on routes out of Guangzhou, such as to Los Angeles — and this service has been reported to be heavily loss-making too.

China Eastern

Based at Shanghai (at both Hongqiao and Pudong airports) and with secondary domestic hubs at Kunming and Xi'an, China Eastern has 68,500 employees and operates to 121 destinations, with around 44 of those outside of China.

During January to September this year China Eastern saw a 2.4% rise in revenue to RMB68.7bn ($11.1bn), though — as with the other Big Three airlines — profits were hit drastically by the depreciation of the renminbi against the dollar. Exchange rate losses helped turn a RMB1.8bn operating profit in 1Q-3Q 2013 into a RMB1bn ($162m) operating loss in the same period of 2014, while the net profit fell from RMB3.4bn to RMB2.1bn ($340m) in the same nine month period year-on-year.

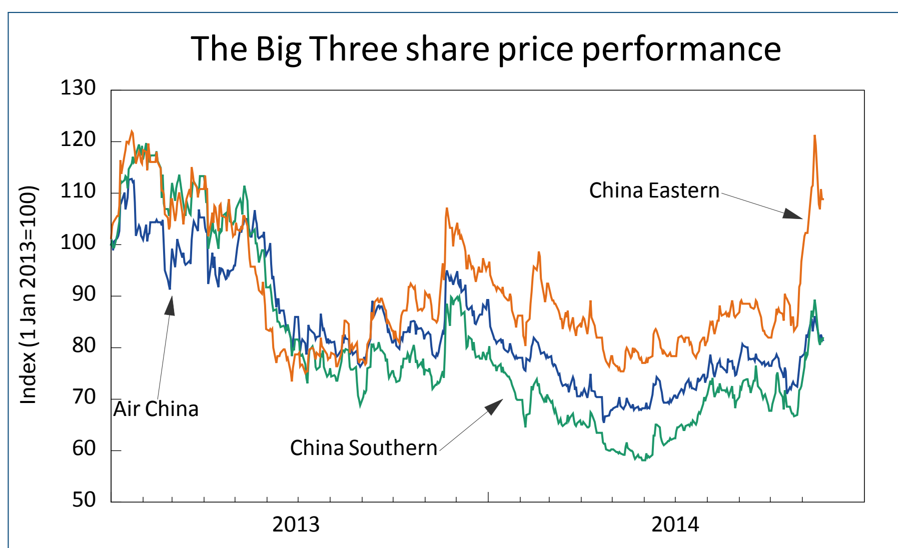
China Eastern's mainline fleet comprises 374 aircraft (of which two-thirds are owned or under finance lease) — 216 A320s, 104 737s, 37 A330s, 10 ERJ 145s, five A340s and two 777s. At a group level the fleet rises to 471 aircraft. The mainline order book totals 104: 40 737-800s, 18 777-300ERs, nine A320ceos, eight A330s, seven A321ceos, two A319ceos and 20 Comac C919s. China Eastern received the first of 20 Boeing 777-300ERs on order this September, and these will become the mainstay of the long-haul fleet as they are delivered.

In revenue and profit terms, China Eastern is the smallest of the Big Three, and that's largely a function of being "stuck in the middle" — as one analyst puts it — strategically: it has neither the international dominance of Air China nor the domestic strength of China Southern.

In the face of increasing competition from the other Big Three airlines (and other carriers), China Eastern is endeavouring to maintain its grip on its hub airports, though this is far from easy — in the first half of 2014 China Eastern's market share at its hub airports were 49% at Shanghai Hongqiao, 38% at Shanghai Pudong, 43% at Kunming and 30% at Xi'an.

Interestingly China Eastern converted one of its wholly-owned subsidiaries — China United Airlines, into a low-cost airline company in July 2014. Based at Beijing's Nanyuan airport, the airline was launched in 1986 as a civil transport offshoot of the People's Liberation Army, and today (as an LCC) operates a fleet of 30 A319s, 737-700s and 737-800s to 20 domestic destinations, some of which are military (and hence low fee) airports. The progress of this LCC "trial" is being followed by Chine Eastern's group management.

Its other strategic imperative is increasing the benefits it receives from SkyTeam; China Eastern became the last of China's Big Three to commit to a global alliance when it joined SkyTeam in 2011. The alliance also has China Southern as a member, which has led to inevitable and (as yet) unfounded speculation about a merger between the two giant carriers at some time in the future.



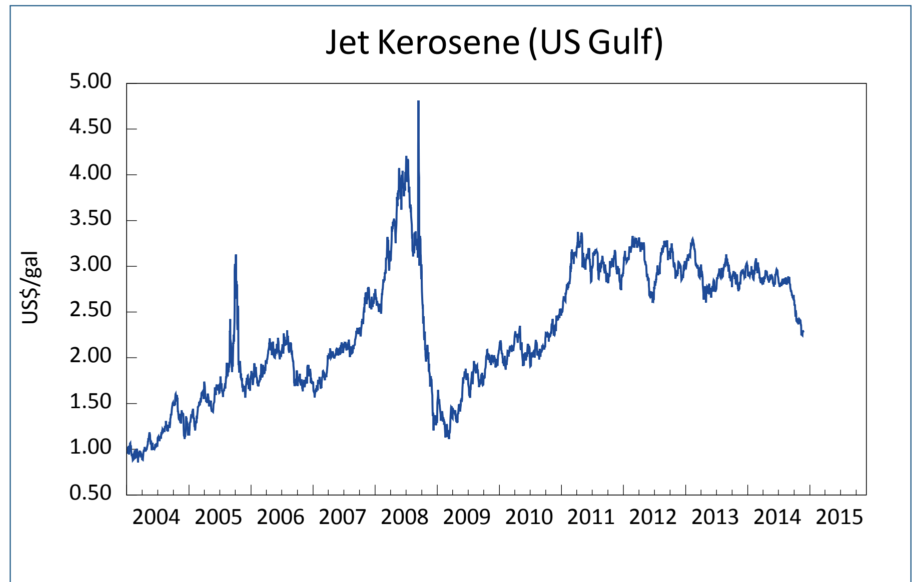
Fuel: Optimistic glow

HAVING got used to the idea of oil prices well above $100/bbl it comes as a bit of a shock when the spot price of the commodity falls by 50% as it has done in the past six months. A short term bonanza? Or signs of something more serious?

In the recent OPEC meeting in Vienna the oil producers' cartel agreed not (or failed to agree) to reduce oil production to shore up the price on the world's markets. At the same time, the US announced a further increase in crude inventories, as its fracking ventures allow it to move further towards self-sufficiency as the world's largest consumer of crude oil. The conspiracy theory is that OPEC is allowing a softening in the oil price in order to undermine the economics of fracking, but the member states recognise that they cannot exert much influence on long-term extraction trends.

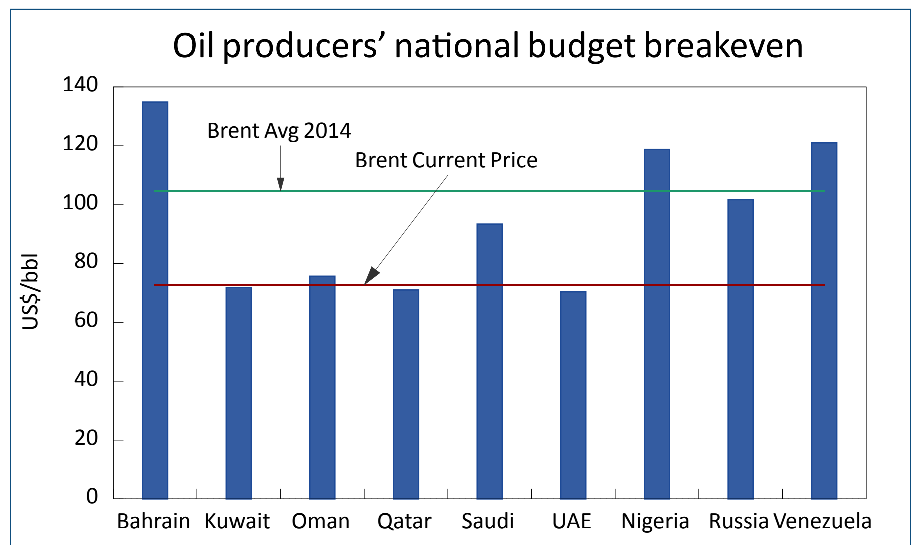
Oil analysts are now suggesting that the crude price could stabilise at around $60/bbl, a level last seen in 2006, clearly enhancing GDP growth in consuming countries, by 0.5 to 1.5 percentage points. For the airline industry, this would imply a Jet A price of around $2/US gallon, depending on local cracking margins, whereas most airlines had been until recently planning on about $3/gallon.

Using IATA's fuel calculator, the global fuel bill should be reduced by about $9bn on an annualised basis compared to the 2013 level. As IATA's net profit forecast for 2014 was $18bn, this development would appear to be a major boost to the industry.



Yet one idea being promulgated within the financial community — particularly in the US — suggests that lower oil prices could be negative for airlines. The argument appears to be that the lower the oil price the more likely that airlines would increase capacity and therefore undermine the capacity discipline that the consolidated US industry is enjoying.

This outlook seems unlikely. Both network and low cost carriers in North America and, to a large extent, Europe have based their recent strategies on restrained capacity growth with the primary aim of pushing up unit revenues. This in



turn has translated into higher profitability and, for most major airlines, substantial increases in stockmarket valuations. The decline in fuel prices will be seen as a further opportunity to boost profitability (unless hedging policies have backfired). Also, there is even less chance that increased profitability will provoke labour disputes in the US — ALPA over the past 2-3 years has negotiated agreements whereby approximately 15% of salaries vary according to airline profitability,

However, the situation may be somewhat different in Asia and South America. There, the emergent low-cost carriers are still in the stage of expanding their networks and the lower fuel price might well be used as an opportunity for attempting to gain market share.

The oil price decline could be regarded as negative for the Gulf-located Super-Connectors (and beneficial for the Euro-Majors). But this development may be a vindication of their national strategies: moving away from dependence on carbon extraction from depleting oil fields to building economies based on services, tourism and transport.

At the current Brent crude price of $71, a recent study by Deutsche Bank estimates that most of the world's major oil producers will have a national budget deficit (see chart). But Emirates will not be affected as Dubai has limited oil production and the airline is commercially and successfully run; THY will benefit from lower fuel prices; Qatar and Abu Dhabi have immense gas reserves as well as financial security, so it is difficult to see their airlines being directly impacted. (What happens when Etihad's investments unravel is another story).

How will the new fuel price impact aircraft values? As Paul Leighton of AVAC, the leading aircraft appraiser, notes, "operators cannot make long term fleet planning decisions based on short-term oil price fluctuations". While lower fuel prices in the past have tended to raise demand for older jets relative to modern, fuel-efficient types, this equation no longer quite works. Many countries have formal or informal age limits on the age of aircraft that can be imported or leased; 15 years in African and Asian countries, in Russia and former USSR states, a 10 year limit. AVAC raises the possibility that "middle-aged" aircraft — 10 year old A320s, 737s, 767s and A330s might benefit.

As for operating lease rates, which according to the consensus opinion at the October ISTAT conference have peaked (see next pages for current rates) the oil price decline implies a high plateau rather than a decline — as oil prices reduce inflationary pressures, in turn moderating interest rates which then feed into operating lease rates.

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For further information please contact:
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Jet values and lease rates

THE following tables reflect the current values (not "fair market") and lease rates for narrowbody and widebody jets. Figures are provided by The Aircraft Value Analysis Company (see following page for contact details) and are not based exclusively on recent market transactions but more generally reflect AVAC's opinion of the worth of the aircraft. In assessing current values, AVAC bases its calculations on many factors such as number of type in service, number on order and backlog, projected life span, build standard, specification etc.

Lease rates are calculated independently of values and are all market based.

Jet Values

RJ VALUES

		years old		
	NEW	5	10	20
CRJ 900	28.3	20.7		
CRJ 1000	30.0	23.0		
CRJ300-ER	35.7			

		years old		
	NEW	5	10	20
Emb 175	27.3	19.6	12	
Emb195	32.7	24.3		
S100-95	21.8	16.7		

NARROWBODY VALUES

		years old		
	NEW	5	10	20
A318		17.8	9.7	
A319 (HGW)		21.7	16.6	
A320-200 (IGW)		26.4	20.7	9.5
A320NEO	49.6			
A321-200 (LGW,Sharklets)	49.9			
A321NEO	58			

		years old		
	NEW	5	10	20
717-200			6.1	
737-300 (LGW)				2
737-400 (LGW)				1.7
737-500 (LGW)				1.6
737-600 (LGW)			10.0	
737-700 (LGW,Winglets)	36.8	22.2	17.2	
737-700 (HGW,Winglets)	37.7	24.0	19.0	
737-800 (LGW,Winglets)	46.4	29.9	22.8	
737-800(HGW,Winglets)	47.8	31.5	24.0	
737-900ER	49.0	32.9		
757-300 (LGW)			13.4	
MD-88				1.0

WIDEBODY VALUES

		years old		
	NEW	5	10	20
A300B4-600 (IGW)				5.2
A310-300 (IGW)				4.0
A330-300 (IGW)			33.6	12.1
A340-300 ER			23.3	
A350-900	137.3			
A350-1000	177.6			
A380-800 (LGW)	210.8	160.3		
A380-800 (HGW)	221.6			

		years old		
	NEW	5	10	20
747-400 (PW 4000)			23.4	13.6
747-800	165.7	136.8		
767-300ER(HGW, Winglets)		41.3	33.2	17.2
777-200ER		68.2	49.6	
777-300ER	165.8	132.6	99.3	
787-800	114.9			
787-900	129.8			
MD-11P				7.6

Source AVAC. Notes: As at end-October 2014, lease rates assessed separately from values.

Jet Lease Rates

RJ LEASE RATES (US$000s)

	years old					years old			
	NEW	5	10	20		NEW	5	10	20
CRJ 900	223	180			Emb 175	222	179	132	
CRJ 1000	245	207			Emb195	273	228		
CRJ300-ER	290								
					S100-95	183	162		

NARROWBODY LEASE RATES (US$000s)

	years old					years old			
	NEW	5	10	20		NEW	5	10	20
A318		152	103		717-200			93	
A319 (HGW)		200	160		737-300 (LGW)				45
A320-200 (IGW)		240	212	121	737-400 (LGW)				30
A320NEO	400				737-500 (LGW)				27
A321-200 (LGW,Sharklets)	423				737-600 (LGW)			77	
A321NEO	498				737-700 (LGW,Winglets)	303	200	162	
					737-700 (HGW,Winglets)	311	215	177	
					737-800 (LGW,Winglets)	352	264	218	
					737-800(HGW,Winglets)	362	273	226	
					737-900ER	390	282		
					757-300 (LGW)			134	
					MD-88				39

WIDEBODY LEASE RATES (US$000s)

	years old					years old			
	NEW	5	10	20		NEW	5	10	20
A300B4-600 (IGW)				82	747-400 (PW 4000)			244	159
A310-300 (IGW)				89	747-800	1,458	1,213		
A330-300 (IGW)			367	173	767-300ER(HGW, Winglets)		368	359	258
A340-300 ER			315		777-200ER		672	553	
A350-900	1,128				777-300ER	1,600	1,312	1,020	
A350-1000	1,693				787-800	881			
A380-800 (LGW)	1,726	1,363			787-900	1,050			
A380-800 (HGW)	1,824				MD-11P				118

Source AVAC. Notes: As assessed at end-October 2014, mid-range values for all types

AIRCRAFT AND ASSET VALUATIONS

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