Skift AIRLINE WEEKLY.

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Earnings

Net result in USD; operating margin

November-January 2018 (3 months)

SAS: -$52m/-$36m*; -6%

October-December 2018 (3 months)

IAG: $435m/$581m*; 11%
Thai Airways: -$230m; -10%
Bangkok Airways: -$13m/-$27m*; -9%
Nok Air: -$20m; -19%
Vietnam Airlines: $24m; 1%
VietJet: $66m; 11%
AirAsia: -$110m/-$56m*; -10%
Gol: $153m/-$29m*; 4%
Air Mauritius: -$11m; -8%

July-December 2018 (6 months)

Air New Zealand: $122m; 6%

*net result excluding special items (op. margin figure also ex special items)

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No Calm in Vietnam

Vietnam's airlines are still growing, and still buying more planes

It was as good a time as any to announce new Boeing orders. President Trump was in town for a meeting with his North Korean counterpart last week. So VietJet, Vietnam's largest low-cost carrier, used the occasion to finalize a deal for 100 B737-MAXs first placed at last summer's Farnborough Airshow (where it incidentally ordered 50 A321-NEOs too). A full 80 of these MAXs will be MAX 10s, the largest of the MAX variants. The other 20 will be MAX 8s. VietJet now has (gulp) 200 MAXs on order, not to mention 116 A321-NEOs. Today, it flies just 70 planes.

VietJet's latest aircraft shopping spree underscores its immense ambitions. But it also reflects the rapid development of the entire Vietnamese airline sector, one whose ASK capacity this quarter will increase 17% y/y (Diio Mi). VietJet, to be sure, is not alone in its growth fervor. In fact, it wasn't even alone in ordering more planes last week. A new rival, Bamboo Airways, only bought 10 Boeing planes. But they were widebodies—B787-9s—making clear its intercontinental intentions. Although just getting started with A321-NEOs flying domestically, Bamboo will next attack East Asian markets like South Korea, Thailand, Korea, Singapore, Japan and Taiwan, before moving on to longhaul journeys to Australia, Europe and even North America.

Vietnam's largest airline is state-owned Vietnam Airlines, no slouch itself when it comes to ambition. It refrained from ordering any new planes last week. But it did sign a major information technology contract with the U.S. company Sabre—President Trump attended the signing ceremony. And don't think Vietnam Airlines isn't growing its fleet. On the widebody end, it already has 12 A350-900s and 11 B787-9s, jets it uses to serve Europe and Australia, as well as busy shorthaul routes within Asia, including the domestic Hanoi-Ho Chi Minh market, although not yet North America. CEO Duong Thi Tranh told Bloomberg last week that he's now evaluating larger B777-Xs and A350-1000s. Vietnam Airlines briefly looked at the A380 too but decided (wisely) that it was too big for its needs. It will, however, soon start taking B787-10s on lease from Air Lease Corp., which helped design its fleet plan. Bloomberg, meanwhile, separately reports that the carrier might soon announce a big order for B737-MAXs, having already started flying A321-NEOs.

In the interview with Bloomberg, Duong said Los Angeles or San Francisco would be the airline's first North American destination, catering to the 2m or so

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Verbulence

"We intend to transform AirAsia.com into a platform of choice for all to fulfill any travel needs. We believe that this platform has enormous potential and will generate a significant increase in revenue for the group."

—AirAsia founder and CEO Tony Fernandes

A Note From the New Editor:

In the time since Airline Weekly launched 15 years ago, the airline industry has undergone remarkable change, to an industry almost unrecognizable when we put out our first issue. Airlines have consolidated. Low-cost carriers started in regions that hadn't seen them before. The rise of the ultra-low-cost carrier. Low-cost longhaul. Oil prices spiked to record heights and fell again. Airframers launched game-changing, technologically advanced aircraft like the Boeing 787 and the Airbus A350 (and the A380). The industry globally roared to profitability. These are just some of the ways the industry has transformed since that first issue of Airline Weekly in June 2004.

And now we have a few changes of our own to announce. Skift acquired Airline Weekly last year, and our team has been hard at work integrating the technology and platforms behind the scenes. And one of the final phases of that integration has been naming a new editor. It is my privilege to be that editor.

We have more changes to come as we work to update the design, look and feel and the way Skift Airline Weekly is delivered, all while providing even more of the unmatched news and analysis you've come to depend on from Airline Weekly, and leveraging Skift's strong coverage of the industry.

And finally, I'd like to thank Seth Kaplan, Jason Cottrell, and Jay Shabat for their vision in creating and building Airline Weekly into the publication it is today. I'm proud to be an inheritor of that vision. I wish Seth and Jason well as they pursue new ventures, and I look forward to working with Jay to continue being a part of your week.

— Madhu Unnikrishnan

In the same way that **Delta** is now the undisputed profit leader among America's Big Three, **IAG** is now the undisputed profit leader among Europe's Big Three. It proved the point yet again in 2018, doing something few airlines anywhere in the world achieved: It produced an operating margin—13%—that was *unchanged* y/y. This was also up from 11% two years ago and 10% three years ago—in other words, a steadily upward trend during a period of escalating fuel prices. IAG's results in the final quarter of 2018 were just as impressive, highlighted by an 11% operating margin as revenues increased 12% y/y, while operating costs rose only 11%. Put another way, the group managed to *improve* its margins despite an 18% increase in fuel outlays. Success, furthermore, came despite a year of horrendous air traffic control disruptions, affecting **Vueling** and the Barcelona market disproportionately. On top of that, U.S. dollar strength, U.K. pound weakness and other forex trends stripped about $150m from annual profits. So how did IAG perform so well? Let's look airline by airline. **British Airways**, responsible for about 60% of the group's revenue, was its all-star performer. Thanks to strong premium transatlantic demand, BA's bread and butter, operating margin was an extraordinarily impressive 15% for all of 2018, and something almost as high for just Q4 (IAG doesn't give exact figures by airline for just the quarter). Except for Hong Kong, hit by overcapacity, Asia was also positive for BA. So were trends at London Gatwick, helped by aircraft densification, slots acquired from **Monarch** and new transatlantic routes like Las Vegas and Toronto. **Iberia** (about 20% of group revenues) was less profitable but profitable nonetheless, earning an 8% full-year operating margin and a few points less than that for Q4. Both figures marked y/y improvements. Iberia remains structurally challenged by heavy exposure to the difficult Latin America market, with most challenges concentrated in Brazil, Argentina and Venezuela. IAG said markets like Peru, Ecuador and Colombia did well, as did (with some more volatility throughout the year) Mexico and the Caribbean. Iberia also got a boost at home from Spanish government ticket subsidies to residents of the Canary and Balearic islands. **Vueling**, about 10% of group revenues, suffered from operational problems beyond its control but still matched Iberia's 8% operating margin for the year, although it underperformed its bigger brother for Q4. **Aer Lingus**, a bit smaller than Vueling in terms of revenues, saw Q4 margins decline to Iberia-like levels. But it remained IAG's most profitable airline for the full year, with an operating margin that was fractionally higher than even BA's 15%. The Irish airline is a transatlantic machine, achieving "fantastic success" with new markets like Philadelphia and Seattle, with more to come as A321-NEO LRs arrive. Aer Lingus has also applied to join the BA/Iberia joint venture with **American**. And lest you think it's a lowish-fare carrier wrestling in the mud with struggling LCCs like **Norwegian**, Aer Lingus in fact did extremely well with transatlantic premium demand, much of it booked directly with the airline, no less, implying no GDS fees and a greater ability to sell ancillary services. The Irish economy as it happens, is currently booming. Margins for **Level**, a low-cost unit flying longhaul from Barcelona and Paris and shorthaul from Vienna, weren't disclosed. Clearly, Level faces difficulty in markets like Buenos Aires and the Austrian capital, the latter overrun by LCC capacity. But the LCC will nevertheless persist with expansion, targeting Amsterdam next (see page eight). Norwegian nearly became an IAG subsidiary but rejected a takeover bid. For now, IAG says it isn't pursuing any other takeovers. It certainly is pursuing an aggressive distribution strategy, already getting 17% of all *indirect* sales (i.e., those via travel agents) using IATA's NDC-based APIs. (APIs are how computer systems at different companies talk to each other, in this case IAG's systems talking to agency and GDS systems.) BA and Iberia, meanwhile, have both begun offering basic economy fares on longhaul routes. Management downplays fears about Brexit. The group is getting contributions from its Avios loyalty plan, BA Holidays, cargo, the management of its New York JFK airport terminal and Iberia's maintenance division. There's more to come on the group's maintenance strategy. The North Atlantic JV with American is complemented by another with **Japan Airlines** and **Finnair** to Asia, another with **Qatar Airways** and soon still another with **LATAM** if regulators permit. BA (Charleston and Pittsburgh), Aer Lingus (Minneapolis and Montréal) and Level (New York and Santiago) are all adding transatlantic routes. Osaka and Islamabad are two other new BA routes. Expect more shorthaul expansion at London's Gatwick and City airports. Vueling, on the other hand, will ease growth this summer to ensure operational integrity. There is some threat of labor unrest at British Airways. And BA is clearly worried about the cost of Heathrow's new runway. But that's hardly stopping IAG from planning another 6% ASK growth this year, after growing 8% last quarter. These elevated levels of growth are helping to keep non-fuel unit costs in check. For longer-term growth, IAG is ordering more widebodies (see page 9). And most importantly, the group expects operating profits this year to be just as high as they were last year.

Late last month, **Air New Zealand** shared some unwelcome news: Revenue growth was starting to slow, enough for management to lower its profit forecast for the first half of calendar year 2019. Looking back on the last half of calendar 2018, however, ANZ enjoyed strong revenue trends, with profit margins dropping y/y due to adverse *cost* developments. Most important among these, unsurprisingly, was a 38% y/y spike in H2 fuel outlays, sending total operating costs up 15%. That's a lot for just 4% ASK capacity growth. And it's more than double the airline's revenue growth. Also contributing to the earnings decline: major operational disruptions tied to the Rolls-Royce engines on its B787s (other airlines similarly affected include **Norwegian**, **Virgin Atlantic**, **British Airways**, **LATAM**, **Ethiopian**, **Air Europa** and **Avianca**). ANZ still has two Dreamliners grounded due to the engine issue. And it doesn't foresee an end to the problem until September. But of greater concern is the sudden revenue softness, which started appearing in December and which stems from two market segments in particular: domestic leisure and inbound tourism. Those two are related, in that 20% to 25% of all ANZ domestic passengers originate overseas (some connecting and others just flying domestic segments while on vacation). Management describes a "shift in demand dynamics" that's probably structural—the elevated growth rates of recent years, it says, were bound to slow. Breaking its joint venture with **Virgin Australia**, executives seem to allude, has played some role in recent trans-Tasman softness. That said, the Tasman situation is still much better than it was before **Emirates** exited early last year. Virgin Australia, meanwhile—ANZ says with relish—seems to be "struggling big time." More generally, the demand environment is solid overall, and business travel remains as robust as ever. One route with particularly strong *premium* demand is Shanghai, offsetting some economy-class drop-off for China as a whole. Cargo is another area of strength. Reacting nevertheless to the softer revenue outlook, ANZ is cutting some capacity—to the Pacific Islands and to California, for example—leaving this half's expected ASK growth at the lower end of its original 4% to 6% guidance. Management is also reviewing its network, its fleet and its cost structure, with an update expected by the end of this month. With Virgin Australia now an ex-friend, close partnerships with **Singapore Airlines**, **United**, **Cathay Pacific** and **Air China** remain as alive and important as ever. ANZ is now doing some limited codesharing with **Qantas** too. And in the latest partnership development, ANZ is exploring a JV with **Air Canada**. Looking ahead, ANZ has a big fleet decision to make: What will replace its aging B777-200s in the 2023-2025 period? Expect an announcement this year, the obvious candidates being B787s and A350s. ANZ, meanwhile, is cultivating more sixth-freedom traffic through Auckland, targeting passengers flying between Australia and North America, most importantly. As for organic network growth, Taipei and Chicago are both new to ANZ's route map. The Chicago route, encouragingly, is generating lots of local traffic, as opposed to connecting traffic siphoned from ANZ's other U.S. gateways like San Francisco and Houston. Other priorities include targeted offers using data analytics, deployment of A321-NEOs across the Tasman, upgrading airport lounges and working with

tourism officials to stimulate off-peak travel. Naturally, the carrier will be watching fuel prices and exchange rates, following a half in which $12m in hedge gains were wiped out by the weak New Zealand dollar, which inflated fuel costs $32m. Recent fuel cost, forex and revenue headwinds aside, however, ANZ remains "fundamentally strong," supported by an investment-grade credit rating.

Ugh. The winters in Scandinavia. Poor **SAS** slugged through another rough off-peak season, with operating margin for the three months through January dropping to negative 6%—this compares to negative 3% in the same three months a year earlier, when fuel was cheaper and the Swedish krona was stronger. As a reminder, SAS began using the awkward November-to-October fiscal year in 2012. Looking back 12 months, through January, the airline was modestly profitable—operating margin was 5%, less than **Finnair**'s 6% for the almost-overlapping period. Along with fuel and forex setbacks, SAS faced higher costs for sales and distribution, plus elevated capacity growth in its markets (its own capacity growth was largely flat y/y). Nordic airlines, furthermore, are under heavy pressure to curtail their carbon emissions, with the added burden of a Swedish aviation tax that parliament moved to abolish but will remain in place nevertheless, in accordance with the prime minister's wishes. There was good news too, however, including unit revenue growth that helped total revenues increase 6% y/y, helping to offset a 10% rise in operating costs. Labor costs, for the record, increased 6% too. Without getting too excited, SAS is clearly hopeful of capacity cuts from **Norwegian** most importantly, which remains in terrible fiscal health. Eurobonus, the SAS loyalty plan, is crucial to the airline's business plan going forward. So are its two non-mainline flying platforms, namely its outsourced regional jet flying (now with 33 planes) and SAS Ireland, a lower-cost subsidiary with nine planes based at London Heathrow and Málaga. Transatlantically, SAS will experiment next year with A321-NEO LRs, leasing just three for now to try secondary markets like Gothenburg-New York, perhaps. The smallish planes could also be useful for adjusting to seasonal demand swings, deploying them in off-peak winters to Boston, for example. SAS also has lots of A320-NEOs on order for shorthaul, and its first A350 widebodies are due to start arriving next year. With a lot of U.K. business, Brexit is most definitely a concern. So is some weakness in shorthaul Mediterranean bookings for the upcoming summer, blamed on peoples' hopefulness for another warm and sunny Nordic summer like the one experienced last year. SAS is also mindful of geopolitical risk, never-ending cost pressures (notably in the maintenance area) and recent y/y traffic declines at Swedish airports. To improve operations, the airline will deploy more spare aircraft. To improve the workforce, it will institute a new stock-based incentive plan. And ASK capacity will grow just 2% to 3% this year. SAS still expects a positive operating profit this fiscal year but won't give more detailed guidance for now amid the many market uncertainties, Norwegian's destiny among them.

Q4 is supposed to be peak season in Thailand. But you wouldn't know it from the brutal negative 10% operating margin reported by **Thai Airways**. That's all the more frustrating during a time when inbound tourism—the key market for all Thai carriers—was actually pretty healthy. A fatal Phuket ferry boat accident in July did have a major impact on Chinese demand, which lingered into Q4. But by December, overall visitor arrival arrivals were growing at a nearly 8% y/y pace, aided by a government policy to temporarily waive visa fees. Earlier in the year, a national election and World Cup distractions depressed demand. Yet for all of 2018, arrivals to Thailand grew 8% to an all-time high of 38m— 41m are expected this year. That's an environment in which Thai Airways should be able to prosper. But even for the full year, its results were dismal—a negative 3% operating margin, versus positive 4% a year earlier. What's going on? Start in the obvious place: fuel costs, which rocketed 25% y/y in Q4 on flat capacity. This sent total operating costs up 19%. And revenues? They grew a mere 2%. The problem here is not so much international flying, for which Q4 yields increased a bit. The problem was domestic flying, where yields plummeted 14%. **Thai AirAsia**, **Thai Lion Air**, **Bangkok Airways** and **Thai VietJet** are all flooding the domestic market with seats. Then there's **Nok Air**, which like Frankenstein became a creature its creator couldn't control—Thai still owns a stake in the LCC, but a diminished one. Thai is addressing the situation—and shorthaul competition more broadly—with **Thai Smile**, a wholly-owned subsidiary. But deficiencies run even deeper, and the airline's new management team knows it. It speaks of a "trap" created by aging aircraft, inconsistent service, a negative image, high costs, peak-season dependency and low ancillary revenues. Oh, and Thai is among the airlines affected by B787 Rolls-Royce engine issues. Yikes. Where to begin? The B787s are still a plus, as are new A350s. As Bloomberg reports, more aircraft orders could come soon. The company is selling non-core assets and developing more substantial cargo, maintenance and catering capabilities. With ICAO sanctions removed, it might re-start nonstops to the U.S. Finding a joint venture partner isn't easy, but Thai is codesharing with carriers like **Air China**'s **Shenzhen Airlines** unit and even rival **Bangkok Airways** at home. In 2021, Bangkok's main airport will get a new terminal. Another vexing challenge for Thai: managing its foreign currency. As a carrier dependent on foreign tourists, it gets only 40% of revenue in its local currency. The rest comes in euros, (10%), yen (8%), U.S. dollars (6%), Aussie dollars (5%) and so on. A kaleidoscope of currencies characterizes its balance sheet liabilities too. Separately, Nok Air itself reported a gruesome negative 19% Q4 operating margin, even as its slashed ASK capacity 17% y/y. Full-year margin was negative 17%.

Bangkok Airways, a 40-plane carrier with lots of codeshare partners, wasn't immune to Thailand's violently turbulent yield environment. But a suite of auxiliary businesses that benefit from tourism growth protected it from the red ink that its rivals experienced last year. Bangkok Airways did make money at the operating level in 2018—a 4% margin. It did, however, suffer a negative 9% operating margin in what was supposed to be the peak Q4. The airline suspended one route—Guangzhou to Samui, where it runs the airport—and introduced a new route from Chiang Mai to Hanoi. Once upon a time, it ordered A350s with dreams of flying to Europe. But it's today building business through codeshares, distribution deals like one it did with Expedia, marketing sponsorships abroad and by offering new payment methods, implementing the Amadeus Altéa res system and developing an aviation training school. In Q4, by the way, Bangkok Airways cut ASK capacity 1% y/y but still saw operating costs rise 7%. Revenues declined 2%. Last year, 53% of its ASKs were in the brutally competitive domestic market.

As discussed in detail in this week's cover story, Vietnam's two largest airlines released financial statements. And **VietJet** showed once again that it's much more profitable than its legacy rival **Vietnam Airlines**.

The accounting was even messier than usual for **AirAsia**, whose Q4 included lots of one-off charges related to the sale of its aircraft leasing portfolio. Removing these special items, but including allocated losses from its associate airlines in Thailand, India and Japan, the airline ended up with something close to a negative 10% operating margin. This still left it with a positive 5% operating margin for the full year. AirAsia said its losses last quarter were partly the result of aggressive capacity growth to win market share and secure airport slots in markets like the Philippines. All told, ASK capacity for all six of its country units combined rose 15% y/y (see chart). All units reported heavy losses last quarter. The general long-term trend for the group, though, is strong profitability in Malaysia and Thailand but troubles in Indonesia, the Philippines, India and Japan. Management, however, sees AirAsia as more than just an airline. Its vision is to create a platform for travel sales of all types, not unlike Expedia but with a huge database of its own traveling customers. Management does, of course, still have an airline to run, and will in fact open its sev-

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enth country venture in Vietnam later this year—plans for a venture in China fizzled. A key aspect of AirAsia's success is its relationship with Airbus and the favorable deals on aircraft it receives for placing such huge orders. It's now upgauging to A321-NEOs, useful for Asia's many slot-constrained airports. AirAsia is separately installing Wi-Fi on its planes, which helps its ancillary strategy. Cargo is becoming a more important contributor. To save money, the group is closing call centers and relying more on technologies like chatbots to serve customers. Frustratingly, relations with Malaysia's state-owned airport company are rotten, to put it kindly. The airline was also hit this year with disruptions like the closure of Boracay island in the Philippines, and natural disasters in Japan and Indonesia. Founder Tony Fernandes, a frequent cheerleader on Twitter, wrote that Q1 yields are improving, and that all of the group's ASEAN-based airline ventures will make money in 2019, with those in Japan and India set to reduce losses.

At first glance, **Gol** looked to have an amazingly strong Q4. But exclude $145m of "other" gains (from selling 13 B737-800s) and its operating margin was really just 4%, a sharp decline from 13% a year earlier. The Brazilian airline, a big believer in capacity restraint, expanded ASKs just 2% y/y last quarter. Yet with currency depreciation making a bad cost situation worse, fuel costs surged 37%. What's more, labor costs, including profit sharing, increased 21%. Revenues, while strong, rose just 10%. Gol did cut back on advertising, which lowered marketing expenses. But most aspects of the airline's cost base showed double-digit inflation. To be fair, the gains from its B737-NG sales are real, resulting in tangible profits. These profits reflect the strong prices these planes command in today's secondary market, well above the favorable prices Gol pays as one of Boeing's most important B737 customers worldwide. Gol, in fact, considers the management of its aircraft portfolio as almost a separate business activity, and one that was instrumental in shielding it from the worst of Brazil's downturn since 2016. But for those interested in just the airline business itself, Gol's 4% Q4 operating margin contributed to an 8% margin for all of 2018, down from 10% in 2017. This year and next, Gol will get a little more aggressive, with planned ASK expansion of 6% to 10%, or perhaps even more pending the fate of bankrupt **Avianca Brasil**, which for now is still flying. Importantly, Gol is seeing much stronger booking trends, building on a recovery that started around November. Before that, demand was burdened by a nationwide trucker strike that disrupted fuel supplies and by the October presidential election. Economic growth should accelerate to 2.5% this year. Gol is indeed winning business from **Avianca Brasil** as it struggles. Yields are rising with particular vigor for corporate travel, a segment in which Gol—never mind its LCC status—has the leading market share thanks to advantageous slots at key airports—Gol is Brazil's **easyJet**. That's the basis for management's great optimism for 2019, forecasting a 17% to 18% operating margin unassisted by aircraft sale gains. It expects something similar for 2020 too. Gol will continue to sell prior-generation B737s as MAXs arrive, but only one or two per quarter. The MAXs, for their part, are arriving at an accelerated pace, helping Gol lower unit costs and open new international markets to cities like Miami, Orlando, Quito, Cancún, Buenos Aires and Santiago. Interestingly, it says its Brasilia-Florida routes are filled with lots of people connecting from São Paulo's downtown Congonhas airport. One major Gol initiative is an attempt to buy back its Smiles loyalty plan, consistent with what **Air Canada**, **LATAM** and others are doing. The airline also expects unit cost benefits from increasing aircraft utilization. This year's summer peak, helpfully, is extended by the late occurrence of the Carnival holiday, which this year falls in March. Gol has important allies like **Delta** and **Air France/KLM**, both of which are shareholders. And it's actively hedging fuel, with about 60% of its 2019 needs covered at about $60 per barrel WTI.

It's not easy being an airline on an island in the middle of a vast ocean. Well, unless you're **Hawaii Airlines**, anyway. But if you're **Air Mauritius**, almost entirely dependent on foreign tourists, it's not uncommon to report results such as the negative 8% operating margin it revealed for last quarter. The competition is intense from Gulf carriers, European carriers and others, most with greater marketing might. And making matters worse, the airline's Q4 operating costs jumped 12% y/y, while revenues declined 1%. For the full year, Air Mauritius registered a disappointing negative 5% operating margin. ❍

AirAsia's Q4 Capacity
Growth by airline venture
(Source: company reports)

Country	Q4 ASKs	y/y
Malaysia	12.63b	9%
Thailand	6.46b	8%
Indonesia	2.87b	39%
India	2.41b	48%
Philippines	2.37b	23%
Japan	107m	138%
Group total	**26,848**	**15%**

JetGreen
Environment, Conservation & Fuel

- While CORSIA is indeed underway with the monitoring phase in effect since Jan. 1, some make-or-break details are still to be determined—details akin to whether the house will be made of bricks or straw. In a letter last week, environmentalists urged the ICAO Council to adopt stringent criteria for CORSIA's (Carbon Offsetting and Reduction Scheme for International Aviation) emissions credits, which are the building blocks of any offsetting plan. Dubious credits, environmentalists would argue, invite disaster—in this case having the illusion of carbon mitigation with little actual environmental benefit. The ICAO Council is expected to decide on the emissions credit criteria by March 15. Last week's letter, sent from the International Coalition for Sustainable Aviation—a group of NGOs including the Environmental Defense Fund (EDF), the WWF and the International Council on Clean Transportation—spells out measures and procedures to avoid the double-counting of credits or credits with little environmental benefit. In a statement, the EDF specifically called out the E.U. members of the ICAO Council, reminding them that the threat of re-applying the E.U.'s Emissions Trading System to intercontinental aviation remains the best leverage in shaping CORSIA. And if you're going to persuade Europeans of anything, a soccer analogy can't hurt. The EDF warned that without high standards, "ICAO could become the FIFA of the carbon markets."

- In the U.S., the Green New Deal (GND)—a transformational proposal to reduce U.S. greenhouse gasses that has been floated by some Democrats—caught the attention of A4A, the lobbying group for U.S. airlines. This wasn't too surprising, considering the proposal's calls for enough high-speed rail to effectively eliminate the U.S. domestic airline market. Speaking before the House Committee on Transportation & Infrastructure last week, Nancy Young, A4A's Vice President of Environmental Affairs, said the group "has a lot of concern about any plan where the rhetoric around it is saying that we're going to eliminate air travel." She added that the industry is "already motivated" and taking up a number of the measures suggested in the GND. Young listed the strides made by the industry in sustainable alternative fuels, operations and infrastructure and added that the industry is doing all that without government mandate. Separately, **Frontier** also clearly noticed the GND. The airline took a different tack, however, in its case referencing the proposal in a marketing message: "We've Got A Green New Deal For You! Save 75% on flights!"

Canada High

Air Canada just finished a great decade. But it promises an even better future.

- There was a lot to digest at **Air Canada**'s annual investor day event in Toronto last week. For starters, the airline updated its financial guidance, feeling ever more cheerful about the years ahead. It also announced three new intercontinental routes (see page eight). And it announced a 10-year marketing partnership with American Express that will, among other things, make Amex the airline's exclusive co-branded credit card partner in Canada.
- It's hard to miss the contrast: As **WestJet** struggles, Air Canada moves from strength to strength. After a self-described "lost decade" from 1999 through 2009, Canada's largest airline rose to prosperity with a long list of strategic triumphs. It successfully internationalized its network, cultivated U.S. sixth-freedom traffic, made peace with its unions, addressed its pension deficit, renewed and densified its widebody fleet, improved its customer offering, optimized its regional contracts and made a success out of **Rouge**, a low-cost unit now accounting for about 18% of the company's total capacity. The airline has recorded nine straight years of revenue growth and—more importantly—nine straight years of profits.
- But Air Canada's profits still lag those of its U.S. peers. One reason is poor performance during winters. The three new routes discussed on page eight are all winter-only routes, part of a counter-seasonal offensive to address this shortcoming.
- Air Canada is nearly done with its widebody renewal, but that doesn't mean it will stop adding new intercontinental routes. On the contrary, it sees Africa as a glaring blank spot on its route map from Toronto. From Vancouver, it sees opportunity to offer nonstops to the ASEAN region, which would incidentally peak in the winter. The airline says some of its best international routes are those that involve **Lufthansa** hubs in Europe, namely Frankfurt, Munich, Zurich, Brussels and even Geneva. Toronto-Vienna starts soon, with more potential to serve these joint venture hubs from other Canadian cities.
- Of course, if you're Air Canada, you don't need widebodies to serve Europe. You can use B737-MAXs now arriving. MAX routes under consideration include Montréal-Nantes and Halifax-Frankfurt. MAXs, meanwhile, are also proving useful for transcon and Hawaii flights.
- As helpful as the MAXs are, the airline is at least as excited about A220s due to start arriving in December, replacing E190s. A330s are getting cabin upgrades. Rouge is adding more narrowbodies to replace some outsourced regional jet flying. And the LCC's aging B767s will before long need replacement.
- Fleet renewal is one way to expand margins. Another is ancillary growth, including contributions from Air Canada Vacations (another important counter-seasonality tool) and cargo. To this add new fare products, including basic economy, which is now available even on transatlantic flights. A JV with **Air China** will start taking shape this year (Canada-China geopolitical tensions notwithstanding), as might another JV with **Air New Zealand**.
- Then there are the two giant pillars of Air Canada's crusade toward higher margins: a new loyalty plan and a new reservation system. Tied to both of these is improved access to data, increasingly crucial to revenue management and modeling customer behavior.
- As for the current demand outlook, management says the environment remains encouraging despite Canada's tepid economic growth.

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SkyMoney

Airline Finance

- Another week passes with the fate of **Jet Airways** still up in the air. What's not up in the air are a lot of its aircraft—more than 20—grounded because lessors still aren't getting paid. Jet and its part-owner **Etihad** issued a joint statement last week attempting to ease concerns about its viability, saying they're working toward finalization of a bank-led restructuring plan. Lenders, led by state-owned banks, agreed to convert debt to equity. But that doesn't provide enough cash relief—Jet is still struggling to pay suppliers, not to mention workers. Founder Naresh Goyal agreed to step aside, although he also apparently agreed to inject more capital. In addition, his son will take a seat on the airline's board. The prospect of Etihad adding more capital remains in play. Jet hopes to have its cash crunch addressed in the coming days and weeks.
- Airlines from all parts of the world experienced schedule disruptions after political tensions with India forced the brief closure of Pakistan's airspace. Some Indian airports were closed too. By the weekend, the tensions had cooled.
- More **Air France/KLM** drama? During the airline's Q4 earnings presentation, management conveyed a calming message: KLM's Pieter Elbers would stay, labor strife was no longer a threat and so on. Alas, the Dutch government introduced new theatrics last week, secretly amassing a 14% ownership stake in the airline, to the French government's consternation. This matches the similar stake held by France. Possible reasons for the move run from political considerations in advance of Dutch elections to genuine concern about air service from Amsterdam in the event new CEO Ben Smith, based in Paris, assumes too much control. All sides did, however, pledge to support Smith in his turnaround effort.
- In the separate case of **Alitalia**, meanwhile, which has major implications for **Air France/KLM**, rescue talks with **Delta** and **easyJet** continue. Delta, remember, owns 9% of Air France/KLM, and both airlines share revenues and costs with **Alitalia** on transatlantic flights.
- This should come as no surprise: **Cathay Pacific** held talks with the HNA Group, Bloomberg reports, about buying minority stakes in embattled **Hong Kong Airlines** and the LCC **HK Express**. Although a mere minority stake would limit Cathay's influence, the prospect of any influence over its chief local rivals is tantalizing. Ideally, Cathay would dismantle HKA's longhaul flying, use its shorthaul flying for traffic feed and position HK Express to serve as the LCC Cathay has never had. The situation at Hong Kong Airlines does seem to be getting dire—a *South China Morning Post* report this weekend said it might have to cut its fleet by more than a quarter to remain solvent.
- **Japan Airlines** gave an update on its "medium-term" management plan for the 2017-to-2020 period. At the most elemental level, JAL is looking to reassure the flying public after a series of alcohol-related incidents involving its pilots. More strategically, it's focused on preparing for expanded Tokyo airport capacity in advance of the Tokyo Olympics in Summer 2020. JAL hopes to carry 40m passengers that year, while increasing its network coverage to 500 cities worldwide with aid from current and future partnerships. Last week, it announced a new codeshare partnership with **Fiji Airways**. That quickly follows word of a new codeshare partnership with **Vistara**, firming JAL's presence in India. Other new partners are **VietJet** and Indonesia's **Garuda**. More important, meanwhile, are pending joint venture partnerships with **Hawaiian Airlines** and **China Eastern** (joining JVs already in place with **IAG**, **Finnair** and **American**). Another central tenet of JAL's business plan is formation of a new Tokyo Narita-based longhaul LCC, while retaining its **Jetstar Japan** JV with **Qantas** for shorthaul flying. Other items on its agenda include preparing for its first A350s this fall, bringing B787-8s to domestic routes, improving passenger services, developing auxiliary businesses (including maintenance) and targeting annual operating margins of at least 10%. Late this month, JAL will begin service to Seattle with support from **Alaska Airlines**. Next year, it will start flying to Bangalore.
- **Malaysia Airlines** said its losses narrowed in 2018 despite higher fuel prices, vexing forex volatility, stiff competition, industry overcapacity and crew shortages. Unit revenues during the year increased 2%, helped by more effective pricing. Total revenues grew too, by 1%. This quarter, Malaysia Airlines launched its A380 charter unit—marketed under the name "Amal"—on religious pilgrimage routes to Saudi Arabia. It's using former **Air Berlin** A330s on routes within Asia as new A350s take responsibility for key intercontinental routes, including London. Malaysia Airlines stopped disclosing its financial statements after it was nationalized following two disasters in 2014. Re-privatization remains a long-term goal, but not before the carrier finds a way to make money again.
- **Icelandair**'s parent company took controlling ownership of Cape Verde's national carrier **Cabo Verde Airlines**. It's more than just a passive investment. The Icelandair Group thinks it can develop the islands, located off the coast of Senegal, as an intercontinental connecting gateway. It's particularly well situated between Europe and Latin America and also positioned to carry traffic into and out of Africa, including passengers flying to or from North America. As an example, a journey between New York and Lagos is more than a thousand miles less flying through the Cape Verde islands than via a European hub like London.

Q4 Results… So Far

Ranked by operating margin (ex special items), among carriers that have reported

- Those that *haven't* yet announced include Lufthansa, LATAM, Turkish Airlines, Aeroflot, Aegean, Azul, Philippine Airlines, Cebu Pacific, El Al and airlines from greater China.
- Keep in mind the seasonal considerations of looking at only one quarter. No. 34 Ryanair is, more importantly, often No. 1 on an annualized basis

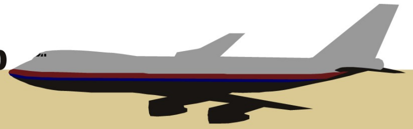
Rank	Airline	Operating margin	Rank	Airline	Operating margin
1	Spirit	16%	22	SpiceJet	2%
2	Allegiant	15%	23	Jeju Air	2%
3	Southwest	14%	24	Finnair	1%
4	Japan Airlines	13%	25	Korean Air	1%
5	JetBlue	11%	26	Vietnam Airlines	1%
6	IAG	11%	27	Aeromexico	1%
7	VietJet	11%	28	Air France/KLM	1%
8	Hawaiian	10%	29	Wizz Air	0%
9	Delta	10%	30	IndiGo	-1%
10	All Nippon	10%	31	Asiana	-1%
11	United	9%	32	Air Arabia	-4%
12	Copa	9%	33	SAS (Nov.-Jan.)	-6%
13	Singapore Airlines	9%	34	Ryanair	-7%
14	Avianca	8%	35	Jet Airways	-8%
15	American	7%	36	Air Mauritius	-8%
16	Alaska	7%	37	Bangkok Air	-9%
17	Volaris	4%	38	Thai Airways	-10%
18	WestJet	4%	39	Jin Air	-11%
19	Gol	4%	40	Norwegian	-18%
20	Air Canada	3%	41	Nok Air	-19%
21	AirAsia X	2%	42	Icelandair	-23%

AirBuzz

Marketing, Price, Promotions & Alliances

- ViaSat, an inflight Wi-Fi provider, used its latest earnings call to trumpet the value its airline customers are seeing. True, it admits, only a relatively small fraction of passengers actually use inflight Wi-Fi when asked to pay for it. Yet just *offering* "high-quality" Wi-Fi has a meaningful impact on which airlines consumers choose. **JetBlue** and **Qantas** are two ViaSat customers that offer the service free, leveraging partnerships with companies eager for access to a captive audience of passengers—JetBlue's big partner is Amazon. **American**, which does charge for Wi-Fi, has its own new partnership with Apple Music. ViaSat says that's highly desirable content that American doesn't have to expensively source from distributors like Global Eagle. ViaSat and American are currently experimenting with live-streaming events—ViaSat mentioned a recent concert by Willie Nelson.
- To all the airlines it's loved before. That's how Gogo feels as it loses customers. Gogo once loved **American**, in fact, before the carrier switched a lot of its business (more than 500 planes worth) to ViaSat. Last month, Gogo customers **United** and **Aeroméxico** signed expanded contracts with ViaSat. Issues with reliability have plagued Gogo, one being technical trouble during times of de-icing, a "demon" finally defeated just recently. To be clear, Gogo remains the world's largest provider of inflight connectivity, with a who's-who of eminent airline customers, from **Delta** to **IAG** to **Cathay Pacific**, to name just a few. It feels the inflight connectivity market remains largely underpenetrated. It will soon start equipping planes with its technology right at the Boeing and Airbus factories. Usage rates are growing. And interestingly, it reports that some airlines are switching back to a setup in which Gogo, rather than the airline, controls the Wi-Fi pricing—this is a more lucrative arrangement for Gogo, which collects a fixed monthly fee from the airline.
- Japan's **All Nippon** unveiled a series of inflight service upgrades, including expanded dining options and improvements to sleep-related items like pillows and comforters. ANA is also improving its wireless onboard entertainment options on domestic flights, including more free content. It now has 100 domestic planes equipped with Wi-Fi.

The Landing Strip



Airport Developments

- London Heathrow and its major airlines reached what the airport called a "landmark" deal on fees and charges. It basically extends the current arrangement through 2021, removing the need to come up with a regulatory settlement brokered by the U.K. Civil Aviation Authority (CAA). **British Airways** and other airlines remain concerned about paying higher fees to fund Heathrow's third runway, with no love lost for the airport's owners—it called them "bandits." For the first time, Heathrow will offer financial incentives to carriers that grow their traffic, noting that its airlines collectively operate with load factors below IATA's global average. BA, although happy with the incentive scheme, disputed that latter point.
- This is no laughing AENA. The Spanish airport firm again expressed concern about weakness in inbound traffic from the U.K., owing to Brexit uncertainty and pound depreciation. The Turkey/North Africa recovery, meanwhile, means an end to the bounce Spain was getting from tourists shying away from those markets. AENA did say the U.K. market showed signs of improvement last quarter, persisting into early 2019. But the big test is the peak summer season, for which it's still too early to assess. AENA also runs London Luton airport, whose traffic rose 5% last year. Traffic for all of Spain rose 6%.
- Just as Spanish airports worry about weakness in the U.K. market, Mexican airports worry about weakness in the U.S. market. ASUR, the company that runs Cancún most importantly, spoke in its Q4 earnings call of a general softness in U.S. arrivals that's expected to continue through 2019. The Cancún market in particular, aside from security concerns, was hurt by a seaweed infestation that affected its beaches. What saved the day was domestic traffic, which for all of ASUR's Mexican airports rose 11% last year, such that total traffic rose 7%. ASUR also runs San Juan airport in Puerto Rico, where international tourism still hasn't recovered from Hurricane Maria, and probably won't before autumn, ASUR says. In the 12 months leading up to the hurricane, San Juan welcomed 9.4m passengers. The figure during the most recent 12 months? 8.4m. A disruption of a different sort affected ASUR's Colombian airports, most importantly Medellín—they were affected by **Avianca**'s late 2017 pilot strike.

The Backend

Sales, Distribution, Tourism & Corporate Travel

- Amadeus reported its Q3 financial results, using the occasion to underscore its commitment to evolving its GDS platform to be able to sell all relevant travel content, whether sourced from the old-school Edifact standard or the next-gen NDC standard airlines are championing. As a European company with the leading European GDS, Amadeus is uncomfortably dealing with airlines like **Lufthansa**, **IAG** and **Air France/KLM**, with their aggressive push away from traditional ATPCO/Edifact-based distribution. Its western European GDS bookings, in fact, hurt also by airline bankruptcies, declined 7% last year. On the hand, Amadeus saw healthy booking growth from North American and Asian travel agencies. And globally, GDS bookings are still growing—they rose 3% industry-wide last year. This was, however, down from almost 5% growth in 2017. During just the final quarter of 2018, moreover, global GDS bookings grew just 1%. Developments are more benign for Amadeus in the software solutions market. Its most important product, the Altéa reservation system and related tools, is now in place at **Southwest**, **Japan Airlines** and **Malaysia Airlines**, to name a few recent customers. **Philippine Airlines** and **Bangkok Airways** are recent converts. And most significantly, Amadeus is installing it for **Air Canada**. The IT firm also owns the Navitaire New Skies reservation system, itself winning new customers like **Volaris Costa Rica** and India's **Go Air**.
- **United** extended its distribution agreement with the Travelport GDS through 2021. As expected, their arrangement involves commitments to advance the cause of NDC-style distribution—that is, to help **United** market its offerings more dynamically through travel agencies.
- NDC isn't the only IATA-based distribution crusade. Another is "One Order," a messaging standard designed to modernize records of people's travel itineraries. The current reliance on personal name record (PNRs) has limitations—limitations that One Order addresses by combining passenger information from multiple companies and systems (i.e., airlines, GDSs, travel agencies and ground handlers) into one single record. In a sign of progress, Sabre said last week that its reservation system software (SabreSonic) is now certified by IATA as capable of handling One Order.

Who's Flying Where

- For a time, **Air Canada** was the world's fastest growing intercontinental airline, an unlikely distinction for an airline that was almost bankrupt at the start of this decade. In the summer of 2016, for example, its ASK growth on routes exceeding 3,000 miles was a whopping 30%, according to Diio Mi schedule data. As recently as last summer, it launched 25 new intercontinental routes (yes, 25, and all of them "quite profitable"). Things have since cooled, but not enough to give the carrier's press release writers a rest. They were busy again last week, pronouncing the debut of Air Canada service to New Zealand, along with two new routes to South America. For three and a half months starting in December, the airline will fly four times a week from Vancouver to Auckland with B787-9s, generating connecting traffic from points throughout North America, and with help on the other end from a planned joint venture with **Air Zealand**. From its Toronto hub, meanwhile, Air Canada **Rouge** will add service to Quito, three times a week with B767s between December and May. Montréal gets a new intercontinental route as well, to São Paulo with Dreamliners three times a week from mid-December through March. The Brazilian city, by the way, is Air Canada's 12th new international destination from Montréal since 2017. To emphasize again: All three of these new routes are winter assignments, reflecting an effort to address one of Air Canada's most nagging frustrations: its inability to earn decent off-peak margins.
- It was supposed to be a secret, at least for another few weeks. But in response to an analyst's inquiry, **IAG** chief Willie Walsh revealed that **Level** will soon fly from Amsterdam, with three aircraft based at Schiphol airport. Walsh said he wants to spread Level across more European markets, in part to gain brand familiarity. The details—what planes exactly, and where from Amsterdam they'll fly—will be unveiled in the coming weeks.
- America's capital will get new links to the Middle East. Last week, **Egyptair** announced new Washington Dulles service from its Cairo hub, planning thrice-weekly flights starting in June. The airline will use newly-arriving B787-9s outfitted with lie-flat business class seats. It will also get help from fellow Star Alliance member **United**, which operates a Dulles hub. United itself, remember, will start its own new Middle Eastern flights from Dulles in May, in its case flying to Tel Aviv. Prior to 2017, United connected Dulles with Dubai, Kuwait and Bahrain too.
- **Air France**'s LCC **Transavia France**, an important defensive tool against **easyJet**, grew seat capacity 20% last year. And it's growing seat capacity roughly 20% this year too. Fourteen new routes are already lined up for 2019—six from its Paris Orly base, six from its Nantes base and two from its Lyon base. With five new planes this year, Transavia France is approaching its 40-plane limit, as governed by Air France's pilot agreement. Management would like to increase the cap. As for the original Transavia, based in the Netherlands, it's still a bit larger than its French counterpart but growing more slowly.
- Might **American** fly to Africa and India? Its network planning chief Vasu Raja tells Brian Sumers of Skift that as more B787s arrive, these regions will indeed be on the radar. American flew to Delhi once before, from 2005 through 2012. But that didn't work, Vasu explains, for three major reasons: 1) B777-200s were too large, 2) American's inflight product wasn't good enough to compete and 3) poor schedule times made it difficult to make connections. He also added that Chicago might not have been its best India gateway—Philadelphia would likely work better, a smaller market, yes, but also one where American can generate more domestic connecting traffic. A final point is that today, American has much greater visibility on Indian and African markets thanks to data-sharing with JV partner **British Airways**, a major player in both regions. Speaking of being a major player, American is certainly one in Latin America, and in Europe too. But that's about it, with limited scope in Asia, the important exception being Tokyo. **United**, for the record, flies to both Delhi and Mumbai from Newark (although nowhere in Africa). **Delta** serves Lagos, Johannesburg, Dakar and Accra in Africa, from New York JFK and/or Atlanta. And it will soon restart flights to Mumbai.
- **Ryanair** plans to grow 6% from its home country Ireland next winter. The schedule features a new daily Dublin route to Milan Malpensa, plus a new weekly Knock route to Tenerife in the Canary Islands. All told, Ryanair will fly 119 routes from Ireland next winter, 82 from Dublin, 14 from Cork, 12 from Shannon, seven from Knock and four from Kerry. Schedules are now bookable through March 2020.
- From Portugal, meanwhile, **Ryanair** plans to offer 106 routes next winter, including 15 new ones. Eight of these 15 are from Porto (the city that will soon welcome **Emirates**). Four are from Lisbon. And the final three are from Faro. Ryanair also flies to two destinations—Ponta Delgada and Terceira—in the Portuguese Azores.
- **AirAsia X** boosted its Japan presence with the launch last week of new Kuala Lumpur flights to Fukuoka. A330-300 flights operate four times per week. The longhaul LCC already flies to Tokyo Haneda, Osaka Kansai and Sapporo. **AirAsia Japan** itself, part of the shorthaul AirAsia Group, flies from Nagoya.
- It's a **JetBlue** network announcement! But don't get too excited: It doesn't involve London or anything exotically transoceanic. That could be coming. But last week's news was just a drive to further enhance its Boston presence, with more frequencies to Washington and the New York area. Other routes will get more frequencies too. Speaking at a CECP investor forum last week, CEO Robin Hayes noted that 80% of JetBlue's passengers are flying for leisure, and only 15% are connecting.
- China's **Juneyao**, a privately-held full-service airline based in Shanghai, apparently has London in its sights. Now armed with B787-9s, Juneyao is launching its first intercontinental route this summer, to Helsinki. Next, as *Business Traveler* reports, it wants to enter the U.K. capital, as well as Cairo in Egypt and Vladivostok in Russia.
- Once bombastic and now eerily quiet, **Etihad**'s route planners made themselves heard last week, if just barely. The commercially disgraced carrier has two new seasonal routes—to Alexandria and Salalah—scheduled for July and August. Do you miss the days of earlier this decade, when an ebullient Etihad was seemingly announcing a new intercontinental route every week?
- Elsewhere in the Gulf region, Saudi Arabia's **Flynas**, now competing against **Saudia**'s LCC **Flyadeal**, unveiled six new summer destinations: Vienna, Baku, Tbilisi, Sarajevo, Batumi and Trabzon. Much as Europeans fly south to escape the winter cold, many Saudis fly north to escape the summer heat.

State of the Unions

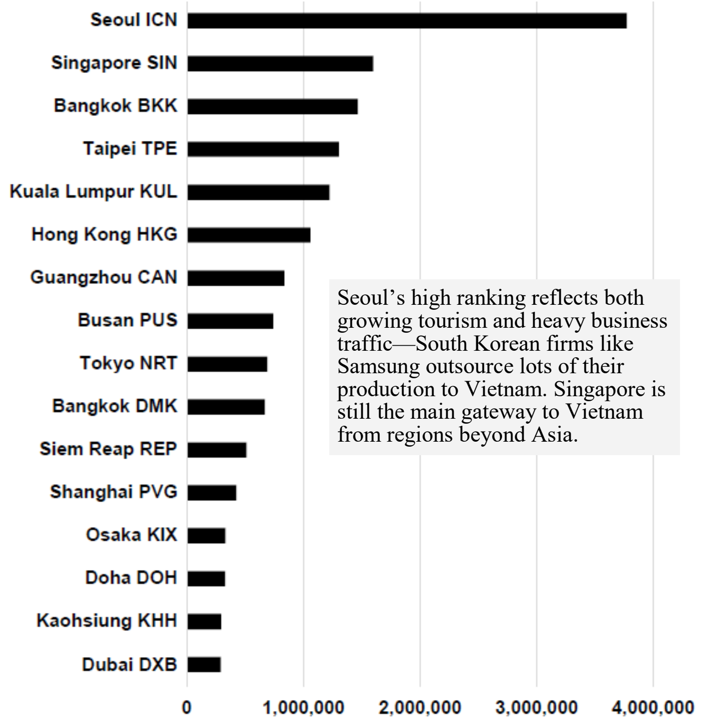
Workforce Developments

- It's a still a bad situation operationally at **Southwest**. The airline, clearly frustrated by what it believes is an illegal work slowdown by mechanics, sued their union. It's not the first time Southwest has sued the AMFA union, the bitterness reflecting six years of contract talks. Both sides agree on big pay hikes. But as rejection of an earlier contract proposal showed, tension persists over the issue of outsourcing.

Fleet Sheet
Aircraft Markets

- Boeing was thrilled to announce that its slow-selling B777-X, critical to its long-term future, has a new customer. **IAG** will fly it off the lot starting in 2022. The owner of **British Airways**, which needs big widebodies at capacity-constrained London Heathrow, will take at least 18 B777-9s, and perhaps as many as 42 if it exercises all options. They'll replace BA's remaining B747s plus some B777-200s that are starting to reach the end of their useful life. The B777-9s will feature 325 seats across four cabins. BA is also replacing some of its B747s with A350-1000s and still has a big decision to make on what will replace the bulk of its B777-200s—it has nearly 50 of them (**Air New Zealand** is another airline that's starting to look for B777-200 replacements). The new next-gen B777s, by the way, have a range of more than 8,000 miles.
- **Delta** unambiguously wants B797s. That's the takeaway form a *Puget Sound Business Journal* report, which highlights the airline's many B757s and B767s that need replacing—the B797 is the likely would-be name of the new widebody Boeing is contemplating. Delta and Boeing aren't exactly the best of friends—the carrier has given almost all of its recent business to Airbus, ordering A350s, A330-NEOs, A320-NEOs and A220s.
- **China Airlines** and **EVA Air** are bracing themselves for an ambitious new startup called **StarLux**. How ambitious? It's said to be on the verge of a 17-unit A350 order, including both -900s and -1000s.
- Airbus has another new A220 customer. It's a small one: **Air Vanuatu** of the South Pacific, which ordered two A220-100s and two A220-300s. The airline currently operates B737s and ATRs, with plans to use the new birds for markets like Vanuatu-Melbourne.

Vietnam's Top Int'l Markets
Ranked by seats scheduled for the 12 months to March (source: Diio Mi)



Around the World

A Look at the World's Airlines, Including End-of-Week Equity Prices

Airline	Share Price	Change from last week	Change from last year	Comment
American	34.64	-2%	-35%	If awarded Tokyo Haneda slots for DFW route, it would use B777-200s; Las Vegas B787-8s
Delta	48.96	-5%	-8%	Now flying Seattle-Tokyo NRT route with A350s; putting new A220s on Seattle-San Jose
United	86.92	-3%	29%	Construction underway on major new maintenance facility at Los Angeles LAX
Southwest	54.34	1%	-6%	Was the only U.S. airline stock that rose last week. Why? Berkshire Hathaway takeover rumors
Alaska	61.31	-2%	-3%	Starting to roll out refreshed cabins on ex-Virgin Airbus planes, featuring high-speed Wi-Fi
JetBlue	16.93	-2%	-20%	Began its new Fort Lauderdale to Guayaquil, Ecuador, service last week; using A320s
Hawaiian	29.62	-6%	-15%	Japan's Skymark, backed by All Nippon, to run charter flights to Saipan, not far from Guam
Spirit	56.61	-6%	35%	By the end of June, will have launched seven new Orlando MCO routes in just six months
Frontier	(not publicly traded)			Austin airport, one of its major growth markets, opens new gates; handled 16m pax last year
Allegiant	131.27	-7%	-20%	Minneapolis-based Sun Country to fly from Austin and Fort Myers to Gulfport-Biloxi, Miss.
SkyWest	52.89	-5%	-3%	Will begin Denver service to South Dakota's capital Pierre for United (subsidized by DOT)
Air Canada	34.00	3%	26%	Will start using B787s on its Toronto-Honolulu route next winter (mid-Dec. through April)
WestJet	21.00	0%	-17%	Busiest U.S. airports by seats in past 12 mo.: Las Vegas, L.A., NY LGA, Phoenix (Diio Mi)
Aeroméxico	20.11	-6%	-28%	Mexico contemplating train link to Cancún airport; would run throughout Yucatan peninsula
Volaris	16.47	2%	4%	Boasts of overtaking Aeroméxico last year as Mexico's largest domestic airline by pax
LATAM	9.75	-1%	-24%	Can take full control of its Brazilian unit following foreign ownership relaxation
Gol	13.93	-6%	20%	Claims it will be (by April) the first airline in world with high-speed Wi-Fi on all flights
Azul	28.95	-4%	-4%	Gol says it has just two maintenance workers in Miami; relies on partner Delta for staffing
Copa	86.36	-3%	-36%	IAG says Brazilian market seems to have bottomed out, with recent improvements evident
Avianca	4.89	5%	-44%	New regional unit now flying with ATRs; targeting Bogotá routes like Villavicencio, Ibagué
Emirates	(not publicly traded)			Will attend Saudi Airshow in Riyadh this month; still plans to showcase its A380s
Air Arabia	0.95	2%	-27%	Omani LCC Salaam Air announces three new routes from Muscat, two more from Salalah
Turkish Airlines	13.97	-1%	-25%	New Marrakech flight, originally scheduled to launch this month, will now start next month
Kenya Airways	6.06	-19%	-58%	Many Kenyan politicians not taking kindly to airline's effort to take control of Nairobi airport
South African Air.	(not publicly traded)			Rival Comair, a BA franchisee, receives first of eight B737-MAX 8s; adorned in BA livery
Jet Airways	233	-1%	-69%	Indian elections likely to start next month, with prime minister Modi seeking another term
IndiGo	1121	1%	-16%	Reportedly looking at flying new routes to China, Myanmar, Saudi Arabia and Vietnam
Crude oil futures (WTI, for delivery next month; source New York Mercantile exchange)	$56	-3%	-9%	U.S. economy (GDP) grew 2.6% y/y in Q4, with positive contributions from consumer spending, business investment, exports and federal government spending. On the other hand, areas of negative contributions were housing, imports and local/state government spending.

Some stocks traded on multiple exchanges; not intended for trading purposes

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Airline	Share Price	Change from last week	Change from last year	Comment
Lufthansa	22.94	-2%	-14%	Eurowings finds its U.S. flying threatened by DOT proposal targeting wet-leased flights
Air France/KLM	11.45	-2%	17%	At some point needs to order MAXs or NEOs for Air France, KLM and the two Transavias
IAG	603	-7%	-2%	Level's new Amsterdam flights will reportedly be shorthaul only; taking slots from Vueling
SAS	23.16	-2%	9%	Expects to have an all-Airbus fleet by 2023 as NEOs replace CEOs; currently 47% Airbus
Alitalia	(not publicly traded)			Reportedly at issue in Delta/easyJet talks are prospective layoffs; unions thus playing a role
Finnair	8.19	0%	-30%	Now offering more than 100 weekly flights to Asia from its well-placed Helsinki hub
Virgin Atlantic	(not publicly traded)			Expedia again highlights airline booking softness into and out of U.K.; attributes it to Brexit
easyJet	1256	-3%	-20%	New route to Tel Aviv: 3x/weekly flights from Nantes in France will commence in April
Ryanair	12.72	6%	-21%	Welcomes Irish court ruling saying no EU261 compensation required for airline strikes
Norwegian	56.9	4%	-67%	Wizz Air to launch new route to Norway in May: Gdansk to Bodø, catering to migrant traffic
Wizz Air	3039	-5%	-14%	Both its Warsaw and Krakow bases in Poland will feature only A321s—no more A320s
Aegean	8.07	2%	-10%	Boasts of creating more than 1,000 new jobs since 2013, even as Greek economy struggled
Aeroflot	96.76	-3%	-36%	Already published Q4 results under Russian accounting standards; announces IFRS data Mon.
Japan Airlines	4028	-1%	-4%	Long term, it aims to fill at least half of its international flights with foreigners
All Nippon	4114	0%	-3%	It too wants more business abroad; this requires investment in overseas marketing and distro.
Korean Air	36800	1%	13%	Association of Asia Pacific Airlines (AAPA) notes worrisome decline in Jan. cargo demand
Cathay Pacific	13.18	-3%	0%	Beijing trying to develop "Greater Bay Area," i.e., Hong Kong, Shenzhen, Guangzhou, Macao
Air China	8.50	-4%	-27%	Star partner Ethiopian tells *Xinhua* it still sees more growth opportunities in China
China Eastern	5.12	-5%	-20%	More specifically, Ethiopian eyeing passenger flights to Hangzhou and Dalian
China Southern	6.48	2%	-35%	LCC Spring Airlines to use Airbus Skywise data platform to help improve ops/maintenance
Singapore Airlines	9.86	-3%	-10%	Singapore Changi airport welcomed just shy of 66m pax last year, a record (up 6% vs. 2017)
Malaysia Airlines	(not publicly traded)			Malaysia Airports notes Penang's airport is "really, really" congested
AirAsia	2.74	-12%	-37%	Kuala Lumpur KUL has more room to expand but not much; studying expansion options
Thai Airways	12.60	-7%	-16%	Bloomberg report says it's looking to order up to 38 new planes; still lacks MAXs or NEOs
Vietnam Airlines	40500	4%	-29%	Still owns stake in Cambodia Angkor Air, which flies three A320/21s and three ATRs
Cebu Pacific	81.00	-6%	-19%	Philippine Airlines, which carried 16m pax in 2018, targets 17m this year (*Business World*)
Qantas	5.66	-2%	0%	Earned larger 2018 op. profit from loyalty biz ($271m) than entire mainline int'l biz ($201m)
Virgin Australia	0.20	0%	-13%	Extends outsourced flying contract with Alliance, allaying fears following Qantas investment
Air New Zealand	2.40	-6%	-21%	Has just one widebody (B787-9) still left to deliver; still has lots of NEOs and ATRs to come

Some stocks traded on multiple exchanges; not intended for trading purposes.

No Calm in Vietnam: Vietnam's airlines are still growing, and still buying more planes

CONTINUED FROM p. 12

Vietnamese-Americans living in the U.S. He'd like to see more American tourists visit Vietnam too. Safety officials at America's FAA just cleared Vietnam's carriers to serve the U.S., but Vietnam Airlines is in no rush. It's skeptical that flying to California can be profitable right now—the market needs more time to develop. Cargo, though, an important revenue contributor at Vietnam Airlines, would help.

That aside, Duong aims for Vietnam Airlines to be the ASEAN region's No. 2 carrier behind Singapore Airlines. It's now closely allied with Japan's All Nippon, a 9% shareholder. It has a joint venture with Air France, building on Franco-Vietnamese colonial ties. It has a separate joint venture with Qantas operating a domestic LCC called Jetstar Pacific. It's seeing business traffic rise as companies move production from China to Vietnam. And Vietnam's government plans to bring its ownership stake down to 51%.

But is Vietnam Airlines a profitable company? Yes, but barely. Its just-published accounting statements for the fourth quarter show a $24m net profit and a 1% operating margin, up from slightly below break-even in the same period a year earlier. Revenues grew 12% y/y, just outpacing an 11% increase in operating costs. Revenue growth was greater for the entirety of 2018: 16%. But operating costs also grew 16%, such that operating margin failed to improve beyond a lowly 2%. For an airline still in an early development stage, however, small profits can be a hopeful sign.

And VietJet? Is it profitable? Yes, and much more so than Vietnam Airlines. Its Q4 income statement shows an impressive 11% operating margin, supporting an identical 11% margin for all of 2018. Officially, VietJet reported a 7% y/y *decline* in Q4 revenues. But there's no way that reflects the true reality given ASK capacity growth of 27%. Indeed, buried deep in its accounts are itemized revenue lines for just passenger tickets, which showed 41% growth, and ancillary revenues, up 61%. Combine these two and underlying revenue growth was 46%—that figure, in turn, was inflated somewhat by currency movements.

This makes VietJet one of the fastest growing airlines in the world, topping $2b in revenue last year—it's not even eight years old. Unlike its new rival Bamboo, it's sticking with just narrowbodies for now, expanding from Vietnam to points throughout East Asia and, soon, Australia. It also has a joint venture in Thailand and leases some planes (with crews) to other airlines. It's forming marketing relationships with other airlines too, including Japan Airlines and Qatar Airways. During the coming five years, VietJet plans to grow its fleet by about 30% annually, aiming for 242 planes by 2023. Again, it has just 70 today. Of these prospective 242, almost half (116) are envisioned for affiliates outside Vietnam, including Thai VietJet and perhaps some other new ventures.

Overcapacity is indeed a risk for Vietnam's airlines. But so is undercapacity—in the realm of airport infrastructure, that is.

If all this ambition seems a bit much, keep in mind that three of the top 15 most populous countries in the world are in the ASEAN region—Indonesia, the Philippines and, yes, Vietnam, with nearly 100m people. In the past few years, Vietnam's economy has averaged almost 6% growth annually. The country's airline traffic, between 2012 and 2017, increased at a compound annual growth rate of—get this—29%. China's figure was 12%. Growth in inbound tourism to Vietnam during the same period was 9%. Just like Volaris in Mexico, VietJet targets land travelers (bus and rail), like those journeying some 35 hours between Hanoi and Ho Chi Minh City. Unlike China, Vietnam does not have a high-speed rail network, and won't anytime soon.

VietJet is inspired by AirAsia's success. The Malaysia-based LCC placed a winning bet on massive aircraft orders, securing favorable prices that proved an important competitive advantage. For the gamble to pay off of course, AirAsia's traffic had to grow voraciously, which it did thanks to expanding wealth, price-led demand stimulation, market deregulation and share gains from legacy carriers like Malaysia Airlines. Lion Air made a similar bet, underpinned by Indonesia's huge population.

VietJet's Evolving Fleet Plan

(Source: company reports)
Next question: Will it order widebodies?

Aircraft	2017	2018	2019	2020
A320-CEO	25	23	23	0
A321-CEO	26	35	41	42
A321-NEO	1	6	10	22
B737-MAX	0	0	4	28
Total fleet	**52**	**64**	**78**	**92**

But even in a fast-growth demand environment, too many planes can spell overcapacity. The ASEAN airline sector is no stranger to that threat, perhaps most evident right now in the domestic Thai market. Bamboo's entrance presents new competitive threats for Vietnam Airlines and VietJet. And Bamboo won't be the only new entrant. Right behind it is none other than AirAsia, with plans to launch a Vietnamese JV later this year. The AirAsia group is already Vietnam's largest foreign airline group, followed by Korean Air and China Southern.

Overcapacity is indeed a risk for Vietnam's airlines. But so is *under*capacity—in the realm of airport infrastructure, that is. The busiest airport, in Ho Chi Minh City, is now handling 30% more traffic than its designers intended, according to government aviation officials. The city is building a new airport, but it won't open until 2025. Hanoi's situation isn't much better. No wonder why airlines are upgauging their fleets to the largest narrowbodies available, like the A321-NEO and the B737-MAX 10.

As it happens, many carriers, domestic and foreign alike, are increasingly interested in flying to secondary cities with fast-growing tourist appeal. Danang is the biggest market among these. A smaller resort market, Van Dong, just opened a new airport funded with private sector investment. Along with capacity shortages, unfortunately, are labor shortages, particularly for pilots—this is an even greater challenge for Vietnam's airlines.

But it's not a challenge curtailing their uber-ambitious expansion plans yet. Nor, as they made clear last week, is it stopping them from ordering more planes.❍

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