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Korean Air to Rise on Fall of Japan Airlines

Korean Air, the nation's largest airliner, will likely emerge as a winner from the unprecedented worldwide economic slump in the Asia-Pacific region, on the back of a stronger won and the rapidly rebounding Korean economy, Daewoo Securities said Friday.

The airline firm is also expected to benefit from the imminent collapse of its Japanese rival, Japan Airlines, and other troubled Asian carriers, it said, adding the company will expand its passenger and cargo handling capacities to meet growing transport demand.

“Most Asian airline companies were hit hard by surging oil prices and the global economic downturn in 2008, and by the spread of the H1N1 flu virus in 2009. They posted huge losses for two consecutive years as people refrained from travelling. As a result, Japan's largest carrier, Japan Airlines, found itself in deep trouble, while other Asian airlines have been supported by their respective governments,” Daewoo Securities analyst Shin Min-seok said.

In December, Japan Airlines turned to the government for financial help after incurring large losses over the past few years. It has been placed under the state restructuring agency – the Enterprise Turnaround Initiative Corp. – but the government has decided not to provide fresh loans to the debt-ridden airline.

The company is widely expected to file for bankruptcy protection in the near future, causing large losses to creditors and shareholders.

Shin said the global airline industry will recover this year in line with the economic rebound and the easing of the flu epidemic, adding that Korean Air and Asiana Airlines will see their bottom lines improve significantly. “In particular, Korean Air will soon get new large-sized cargo and passenger airplanes, benefiting from a pickup in air travel. But other Asian air carriers will not be able to expand their transport capacity,” he said.

Shares of Korean Air closed at 60,200 won Friday, up 1,500 won or 2.56 percent from the previous trading day. Daewoo Securities expects its share price to go up to 74,000 won.

Shin also said the nation's second-largest air carrier, Asiana Airlines, will likely post an operating profit in the fourth quarter of 2009. "The company has and will benefit from improving economic conditions and the strengthening of the local currency as more Koreans travel overseas this year. Despite Kumho Asiana Group's trouble, it will likely see improved earnings down the road."

The securities firm expects shares of Asiana Airlines to reach 5,000 won. On Friday, it closed at 3,895 won, up 140 won or 3.73 percent from Thursday's close.

Source: Lee Hyo-sik, koreatimes.co.kr - 15th January 2010

Jet flies ahead in 2009 as Kingfisher loses ground; air traffic grows 7.8

Naresh Goyal-promoted Jet Airways has ended the year 2009 with a combined market share of 26.5% overtaking Kingfisher Airlines to emerge as the largest player in the domestic airline market. The carrier, which reported a 53% increase in domestic passengers during December, has increased its share from 24.3% in the beginning of the year (January to March quarter) of the year to 26.5% in the fourth quarter.

On the other hand, Kingfisher Airlines has seen its market share erode considerably over the last one year. The Vijay Mallya-promoted airline was the lead player in the market with a share of 27.2% in the first quarter of 2009. However, the airline ended the year with a 20.6% share in the fourth quarter.

According to aviation industry experts, the change in market positions of the two airlines is explained by the fact that for the first two quarters, Kingfisher had 70-80% of its capacity dedicated to its low-cost brand Kingfisher Red.

"After introducing Jet Konnect (its no-frills all economy brand) in May, it was only towards the third quarter when the airline

"airline traffic registered a growth of around 35% in December against the same period last year due to the high demand during the peak season"

moved almost two-thirds of its capacity to Konnect and that is when it gained market share,” said Kapil Kaul, CEO, Centre for Asia Pacific Aviation (CAPA). At the end of the third quarter, Jet had a market share of 25.5%, more than 22.9% recorded by Kingfisher.

Crisis-hit Air India has also marginally increased its share from 17% in the first quarter to 18.3% at the end of the fourth quarter.

According to the latest figures released by the directorate general of civil aviation (DGCA), airline traffic registered a growth of around 35% in December against the same period last year due to the high demand during the peak season.

Domestic airlines carried a total of 44.87 million passengers in December, with Jet and JetLite combined leading the pack with a market share of 26.2%, followed by Kingfisher and Air India.

In November, the airline traffic had grown by 30% on a year-on-year basis. In fact, the fourth quarter has been the best for the industry compared to all three quarters with a total of 125.33 million passengers. According to DGCA, 2009 saw a 7.86% growth in airline traffic, flying a total of 445.13 million passengers against 412.71 million in 2008.

Source: financialexpress.com - 14th January 2010

“2009 saw a 7.86% growth in airline traffic, flying a total of 445.13 million passengers against 412.71 million in 2008.”

China's civil aviation sector turns a profit

China's civil aviation industry moved out of negative figures and began to report overall profits in 2009. The black ink was partially due to the country's passenger growth rate, which was the highest in the world last year.

China's Civil Aviation Administration said on Thursday that aviation firms reported profits of more than 12 billion yuan in 2009, forcefully turning from 2008's losses of 26 billion yuan.

Profits of the country's airline companies stood at 7.4 billion yuan last year, compared with losses of 31 billion yuan in 2008.

Last year, 230 million passengers took flight in China,

representing an increase of over 19 percent from 2008. It was the fastest growth in any sky.

Infrastructure was also a big part of 2009, with six new airports built, bringing the total number of airports in China to 166.

The Civil Aviation Administration credited the positive numbers to the recovery of the domestic economy, government subsidies, and cost saving measures taken by airlines themselves.

Looking to 2010, the Administration showed it is optimistic about the industry's prospects.

Li Jiaxiang, Director, Civil Aviation Administration of China, said, "In the first half of 2010, I believe that international passenger boardings will increase faster than domestic boardings. We are encouraging airlines to expand in the international market and raise global competitiveness. And we are expecting to see a even higher growth rate this year than last year."

The administration said it will continue the strict approval process on the launch of new carriers. It will also invest more on international services and is planning to add transport capacity on international routes this year.

Source: CCTV.com - 14th January 2010

IBA's

Comment:

"Manufacturers look to China for further orders to cater for increased domestic and international travel. Airbus and Boeing have 865 outstanding orders from Chinese carriers." - David Rushe

Estonia does not support creation of a common Baltic airline

Estonian economy minister Juhan Parts's efforts to save Estonian Air as a national aviation company received a setback as the Lithuanian government decided not to establish a new national carrier to replace the bankrupt FlyLAL, Eesti Päevaleht/LETA writes. Estonian aviation institutions consider the establishment of a common airline for the Baltic States impossible and even harmful.

Estonian Air, which has departures only from Tallinn, will find it tougher to compete with the fast-growing airBaltic on the Baltic aviation market as it now makes direct flights from all

Baltic capitals. airBaltic has in a year opened three new routes in Estonia: from Tallinn to Lappeenranta and Turku and from Tartu to Riga.

“The differences between the economies of the Baltic states are too big which is why no one would create a common aviation firm here,” said Estonian Air council chairman Olev Schults. “With airBaltic, there would be a conflict of interests since the Latvians would be interested primarily in transporting passengers to the Riga airport, not in opening direct flights from Tallinn.”

Estonian Economy Ministry considers helping Estonian Air back on its feet the priority in increasing the flow of tourists and number of direct flights. It considers creation of a common aviation firm with neighbours a theoretical possibility. “The idea of the Lithuanians about the Baltic States’ aviation company is known to us but it is not on the agenda,” said economy ministry aviation department deputy head Allan Mäll.

Estonian economy ministry has launched talks with SAS over buying back SAS’s stake in Estonian Air.

Source: Juhan Tere, baltic-course.com - 12th January 2010

“The differences between the economies of the Baltic states are too big which is why no one would create a common aviation firm here”

- Olev Schults

Boeing loses two orders for new freighter

A major aircraft leasing company, Guggenheim Aviation Partners, has cancelled its order for two new 747-8 Freighter aircraft.

The cancellation late last year reduces Boeing’s backlog for the next-generation 747 to 108 aircraft.

The leasing company, based in Chicago and New York, still has two 747-8Fs on order from Boeing.

The airborne freight business has declined with the slowdown in the global economy, and the availability of older freighters mothballed by other carriers makes leasing a new freighter a riskier proposition.

The 747-8 is the latest version of the 40-year-old jumbo jet. Boeing is stretching the plane’s fuselage, installing improved

IBA’s

Comment:

“The 747-8F is still in a unique position to secure further orders when the freighter market recovers.”

- David Rushe

wings and cockpits, and equipping the planes with versions of the same fuel-sipping engines the Boeing 787 Dreamliner uses.

The first two examples of the 747-8 have rolled out of Boeing's Everett assembly plant. They are expected to fly for the first time later this month.

Source: John Gillie, theolympian.com- 12th January 2010

Jetstar, AirAsia form 'world first' budget airline alliance 'to cut 15,600 jobs'

Jetstar and AirAsia unveiled plans on Wednesday to slash costs and ticket prices by pooling some resources, taking the first step in an alliance that could transform the Asian budget market.

Jetstar chief executive Bruce Buchanan said the non-equity arrangement, which he described as a world first between low-cost airlines, was expected to save hundreds of millions of dollars in costs.

"By getting together and focusing on areas where we can actually reduce costs we think it is a really exciting opportunity," Buchanan told reporters, calling the deal an "important first step".

"We have identified... many hundreds of millions of dollars of cost saving opportunities, and we think that is an exciting opportunity for us as we launch this partnership going forward."

Jetstar, a subsidiary of Australian flag-carrier Qantas, will share parts and ground and passenger handling services with Malaysia's AirAsia, which is Asia's biggest budget airline.

They will also investigate jointly procuring new aircraft, cooperate on buying engineering and maintenance supplies and will carry each other's passengers stranded by breakdowns and other disruptions.

Qantas chief Alan Joyce said the deal would give both airlines an edge in the competitive Asian market.

"Jetstar and AirAsia offer unmatched reach in the Asia-Pacific region, with more routes and lower fares than their main

"They will also investigate jointly procuring new aircraft, cooperate on buying engineering and maintenance supplies"

competitors, and this new alliance will enable them to maximise that scale," he said.

Jetstar, operating 60 aircraft, is the world's largest long-haul budget carrier, while AirAsia leads the Asian low-cost market with 85 planes servicing more than 60 destinations.

Analysts said the two were moving to dominate the growing Asian budget sector and were likely to announce further joint ventures.

"Certainly the teaming of two of Asia's leading low-cost carriers suggests that there will be some move to really dominate this region over the longer term," Derek Sadubin, chief operating officer of the Centre for Asia Pacific Aviation, told AFP.

"We expect that the agreement could flourish over time to include revenue-generating agreements and potential joint ventures in a range of other areas."

IG Markets analyst Ben Potter said Jetstar and AirAsia were "thinking outside the box" to stay ahead of the competition.

"In an extremely competitive environment where airlines have been under constant pressures from a number of different forces, this world first alliance is very positive indeed," he said.

"The Asia-Pacific region is one of the biggest growth markets in aviation, so any ways to further reduce costs and offer more competitive fares will benefit both shareholders and customers."

Source: aljazeera.net - 11th January 2010

IBA's

Comment:

"Unlike in Asia, there is little cooperation among US and European LCCs.

This may change over the coming years as carriers may look to consolidate to reduce cost bases and drive up yields." - David Rushe



NEWSWATCH

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IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, www.ibagroup.com

Conference Dates

19th - 21st January 2010 - 12th Annual European Airfinance Conference, Dublin - Phil Seymour & Owen Geach will be speaking & David Rushe attending

23rd - 26th March 2010 - The 24th Annual Commercial Aviation Geneva Forum, Geneva - Owen Geach will be speaking and hosting several panels

Publications - 2010 Editions

Please contact ross.elliott@ibagroup.com for more information.

Aircraft Values Book	Published in February & August 2010	£650 per year
Lease Rate Digest	Published in February & August 2010	£375 per year
Engine Values Book	Published in April 2010	£650 per year
Maintenance Cost Journal	Published Quarterly	£175 per year

Phil Seymour's Notes on the Week

Happy New Decade,

I hope you have all enjoyed some rest.

We have had another major incident that will impact us all - the attempted detonation of a pair of explosive chemical underpants on Christmas Day. The prospect of increased security checks, longer queues and of course increased associated costs will re-appear at a time when they will be least welcome. Freighter traffic is showing some improvement so let us hope it is the start of a robust recovery.

IBA has moved offices - we are now sat in the town of Leatherhead, mid way between Gatwick and Heathrow Airports. It is a pleasant market town so please take time to visit us in our prestigious workplace.

I was asked about the origins of the name "Leatherhead", which I think was a mischievous attempt to draw me into the combination of human anatomy and day to day materials. Well it looks as though it is derived from the ancient Celtic phrase Llwyd-rhyd = "grey ford". This is an association with the nearby River Mole and a crossing that was set up all those years ago. It does not say much for the cleanliness of the river at the time. Leatherhead appears in Domesday Book of 1086 as Leret.

This proves that our towns are named after events from the past, so coming back to the Christmas Day attempted bombing - I suspect there will be a small town somewhere in the world that will be called "Semtexbutt" in years to come.

Phil

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Highlights

- Global cooling
- Economic optimism
- Weak US \$

Helpful Links

www.wfscorp.com
World Fuel Services corporate site - The Choice for Complete Fuel Management

www.eia.doe.gov
Official Energy Statistics from U.S. Government

www.nymex.com
New York Mercantile Exchange-current market and historical values

www.ncdc.noaa.gov
NOAA site for active weather updates and hurricane news

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Executive Summary

The first week of the new year has brought sharply higher oil prices as a result of frigid winter weather across much of the northern hemisphere. Also pressuring petroleum prices are higher equity prices, a persistently weak US dollar and positive economic signals. Benchmark WTI crude prices (prompt futures month) approached \$83/bbl this week before pulling back a bit.

Fundamental Factors

- ▶ A severe cold snapped has gripped much of the globe including the U.S., Europe and China. Extremely cold temperatures and snowy weather have dramatically increased the demand for heating fuels such as heating oil and natural gas. The increase in consumption and low refinery production rates are expected to help reduce excess distillate inventories that have weighed on oil markets for the past year and a half.
- ▶ The weekly oil inventory report from the US Energy Information Administration (EIA), lagged by one week, showed moderate builds in crude and product inventories. Refinery use fell .4% to 79.9% of operable capacity.

Macroeconomic Factors

- ▶ The U.S. Labor Department reported higher-than-expected job losses in December while the November figures were revised to show that the U.S. economy actually added jobs for the first time in two years. The unemployment rate remains at 10%.

Geopolitical Factors

- ▶ Oil markets are closely watching a pricing dispute between Russia and Belarus, with concerns about a possible shut-off by Transneft, as well as growing tensions between the West and Iran.

Weather Factors

- ▶ The National Weather Service is predicting below-normal temperatures for the eastern U.S., including the northeastern home heating oil market, for the next 8-14 days.

