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Southwest Airlines posts first-quarter loss

Southwest Airlines Co. [LUV-N] reported a surprisingly large loss in the first quarter as traffic fell in what the CEO called the carrier's toughest revenue environment ever.

The company said Thursday it was freezing hiring and offering buyouts to employees to trim its work force.

Southwest still expects a key revenue measurement to fall again in the second quarter.

Southwest said it lost \$91-million (U.S.) in the first quarter, or 12 cents per share, including \$71-million due to the falling value of its fuel hedges.

Without the fuel-hedges item the airline would have lost \$20-million, or 3 cents per share, on \$2.36-billion in revenue. A year ago, the company earned \$43-million, or 6 cents per share, excluding special items.

Analysts, who usually exclude items from their forecasts, had expected Southwest to lose a penny per share on revenue of \$2.4-billion in the first quarter, according to a survey by Thomson Reuters.

Over the first three months of the year, Southwest's traffic fell 4 per cent, a smaller decline than at most other U.S. airlines. Traffic seemed to stabilize in March, when it declined only 0.4 per cent from March 2008.

The more-lucrative business travel remained weak, contributing to the loss at Dallas-based Southwest, which went 17 years without a losing quarter until last fall but now has posted three straight losing periods.

"Our first quarter 2009 financial results are disappointing but not surprising given the current economic environment," Chief Executive Gary C. Kelly said in a statement. "We face the toughest revenue environment in our history."

Mr. Kelly said the rapid weakening in traffic during the first quarter, particularly among business travellers, showed that Southwest is "not immune to the challenges the worldwide recession is having on air travel."

Revenue per available seat, a key measure of earning power in the airline industry, fell 2.9 per cent. Even with

Easter falling in the second quarter this year, the company said that based on booking trends it still expects another decline in so-called unit revenue for the second quarter.

To adjust, the company is planning to cut capital spending through 2010 by \$1.4-billion by delaying aircraft deliveries, retiring some planes sooner than scheduled and suspending plans to increase capacity.

Southwest told employees Thursday it would offer voluntary buyouts to reduce its work force. The company did not say how many jobs it wants to eliminate, and it did not detail the offers but said they applied to nearly all employees, who have until June 19 to accept.

The airline said it also froze hiring and froze pay for top officers and senior management.

Mr. Kelly said the airline was going ahead with already announced expansion plans, which include new services at New York's LaGuardia Airport and Boston's Logan Airport later this year.

Falling oil prices lowered Southwest's fuel bill by 16.2 per cent. The company's once-prized fuel hedges, which protected Southwest when oil prices were rising, again turned negative.

The company paid \$65-million to settle derivative contracts tied to energy in the first quarter. Southwest, however, is worried that oil prices will rise again, so it started to rebuild its hedges for this year and 2010.

For the second quarter, Southwest has contracts that would cap about 50 per cent of its fuel needs at the equivalent of \$66 a barrel for crude oil – still above current prices of around \$50 a barrel. The company hedged 40 per cent of its fuel needs for the rest of this year and 30 per cent for next year at even higher caps.

Southwest said the new hedges do not add new cash-collateral requirements.

In premarket trading Southwest shares lost 29 cents, or 3.8 per cent, at \$7.35.

Source: David Koenig, AP, business.theglobeandmail.com - 17th April 2009

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Comment:

"Southwest's position is particularly alarming given the positive signs emerging from the US market in recent weeks with predictions that some US majors will post profits this year - unthinkable 12 months ago"
- David Rushe

China Eastern Airlines cuts investment to curb losses

China Eastern Airlines has announced that it has slashed costs and investments by more than 800 million yuan in the last four months to offset huge losses last year.

The company said no jobs would be lost in the cost-cutting program, which ran from December till the end of March, said Li Jiang, a China Eastern public relations manager, on Thursday.

However, the company would encourage staff aged 57 or over to retire, but the details of the plan had yet to be finalized, said Li.

The airline would cut aircraft purchases to a maximum of 13 in 2009, at least 10 fewer than previously planned.

The company had also suspended 29 investment projects with a total value of 3.15 billion yuan, including establishing a branch company in Tibet.

"There is little room in further cost cutting, but we will try to increase income by expanding our market share," said Li.

China Eastern would increase the frequency of profitable scheduled flights, to strive for a 40-percent market share in Shanghai and a 45-percent market share in Kunming.

The company reported a net loss of 13.9 billion yuan (2.04 billion U.S. dollars) in 2008, due to weak demand triggered by the economic downturn.

The losses included 6.4 billion yuan in funds to hedge against oil price rises last year.

The airline issued an annual report late Wednesday saying its performance was also hurt by natural disasters, including severe winter weather in south China in early 2008 and the May 12 earthquake.

Zeng Xu, an analyst with Shanghai-based Guojin Securities Co., told Xinhua the losses were in line with the market expectations, and some of the 6.4 billion yuan hedge fund could be offset in the future if "the fuel oil price keeps on rising."

The company reported 41.8 billion yuan of operating revenue, down 3.9 percent from that of the previous year.

The airline received a capital injection of 7 billion yuan of state aid last year.

"The airline would cut aircraft purchases to a maximum of 13 in 2009, at least 10 fewer than previously planned."

China Southern Airlines said in its 2008 annual report on Tuesday that it recorded a net loss of 4.8 billion yuan because of weak demand and higher fuel costs.

Although Air China has yet to issue its 2008 annual report, Guojin Securities predict the entire Chinese civil aviation industry would report losses totalling 30 billion yuan.

Source: Xinhua, english.people.com.cn - 16th April 2009

No quick take-off for Qantas recovery

Investors could have to wait at least 18 months before Qantas' earnings recover, amid suggestions that drastic steps to counter the downturn will not be enough to stem the impact of a slump in air fares.

Qantas has underlined the deepening crisis engulfing the aviation industry after it forecast a second-half loss, axed up to 1,750 jobs, grounded 10 aircraft and cut capacity across its network for the third time in a year.

It has also deferred delivery of its flagship A380 and 737-800 aircraft for at least a year.

Capacity on international routes into Australia is still growing about 8 per cent a year despite Qantas this week joining Singapore Airlines in reducing the number of flights. Airlines have had to slash air fares on occasions by more than a half to avoid a major fall in passengers.

Macquarie Equities believes Qantas' profit downgrade will delay a recovery in earnings until 2010-11 because of the continued weakness in forward bookings and the amount of fare discounting from competitors.

"Qantas' capacity reductions are likely to prove ineffective in stemming significant yield declines, unless its premium competitors follow suit," the broker said.

Macquarie believes Qantas will continue to struggle as long as premium traffic demand remains weak and other airlines maintain or expand their capacity into Australia.

Shares in Qantas slipped 5¢ to \$1.95 on Wednesday in a flat market, erasing a small bounce on Tuesday.

IBA's

Comment:

"Qantas will find it difficult to compete with the aggressive growth strategies of many Middle-Eastern operators should it continue to cut capacity"
- David Rushe

Royal Bank of Scotland analysts have downgraded their rating for Qantas to "sell" from "hold", arguing that the airline's drastic action did not mean the worst was over. "We think a profit in 2009-10 will be challenging, keeping pressure on Qantas' share price over the medium term," the analysts said.

Source: Matt O'Sullivan, businessday.com.au - 16th April 2009

FedEx to remove 14 jets from fleet amid weak economy

FedEx says it will permanently remove 14 jets from service as part of an overall plan to reduce capacity amid weak economic conditions.

The Memphis, Tennessee-based company will remove the jets, 10 Airbus A310s and four Boeing MD10s by May 31, along with some excess engines. It will take a \$180 million charge for the move. FedEx Corp expects to take delivery of newer, more fuel-efficient aircraft in fiscal year 2010, which begins June 1.

The package delivery company says it still has a "limited amount" of aircraft grounded because of overcapacity. It warned that more cutbacks will result in more charges.

FedEx Corp recently laid off 1,000 salaried employees as part of a \$1 billion cost-reduction plan that it announced last month.

The latest cuts come on top of about 900 layoffs at the company's FedEx Freight unit in February.

FedEx executives said in March, when they reported a steep drop in fiscal third-quarter profit, that they might cut additional jobs. At the time, they said they planned to reduce expenses by about \$1bn during the coming fiscal year, mostly from the company's Express unit.

In addition to job cuts, the company said it planned to reduce network capacity in its Express and Freight segments, cut back work hours and expand its compensation reductions to non-US workers, where allowed.

However, the company's operations in the region will not be affected by most of the cost cutting measures, according to

"It warned that more cutbacks will result in more charges."

Hamdi Osman, FedEx Senior Vice-President of the Middle East, Indian Subcontinent and Africa.

"Until now, there has not been any necessity to trim jobs in this region. We continue to grow ahead of the other regions and the policies we have adopted for our regional operations have proved productive and have prepared us for any challenges in the industry," said Osman.

Meanwhile, FedEx Express, a subsidiary of FedEx Corp, has announced an expansion of its customer services with the launch of FedEx International Economy service in India.

It stated that FedEx International Economy was "an economical, day-definite, customs-cleared, door-to-door service that features a transit time typically two business days longer than premium FedEx International Priority service, which is designed for more time-sensitive shipments".

FedEx noted that FedEx International Economy was specially designed for customers with less urgent shipments of individual packages under 68kg but which required reliability.

"We believe there is a clear demand for a service that lies between our premium International Priority express service and air cargo," said Jacques Creeten, Vice-President India, FedEx Express.

Source: zawya.com - 15th April 2009

IBA's

Comment:

"FedEx has 15 Boeing 777-200LRF aircraft on orders. It will be interesting to see if these orders are fulfilled given the weakening cargo market"
- David Rushe

American adds to fleet

Bucking the trend of U.S. air carriers storing planes in the desert while riding out the global recession, American Airlines on Monday introduced the first of 76 new Boeing planes to fly on dozens of routes passing through Chicago's O'Hare International Airport.

The move to invest in an uncertain future is what American officials called their "fleet renewal plan," slowly replacing older planes with new, more efficient models that sport passenger-friendly amenities such as articulated seats, more onboard storage space and a planned in-flight Internet service as part of upgrades to entertainment systems.

The strategy involves speeding up orders for Boeing 737-800

planes, as well as entering a separate deal with Boeing Co. to acquire 42 of the 787-9 Dreamliner planes, with the option to purchase up to 58 more 787 jets.

The acquisition of 76 of the 737-800s through early 2011 represents a doubling of that airplane model flown by Fort Worth-based American. All the new planes will be based at O'Hare, officials said.

The planes, outfitted with new seats offering more knee room, larger overhead storage bins and electrical plug-in ports in every row, carry a price tag of about \$75 million each, although American negotiated a lower undisclosed price, said Dan Garton, the carrier's executive vice president of marketing.

"These planes represent an investment that we expect to reap dividends for all of our major stakeholders," Garton said during a ceremony Monday in the American terminal at O'Hare.

Despite the recession and problems in the capital markets, American secured financing to cover most of the 737-800 deliveries, Garton said.

Seventy-seven 737-800s that American has operated since about 2001 will continue to be based at Dallas-Fort Worth International Airport, officials said.

American intends eventually to retire its aging McDonnell Douglas MD-80 jets, which gulp 35 percent more fuel than the 737-800 and also are much noisier.

Source: Jon Hilkevitch, sun-sentinel.com - 14th April 2009

"Despite the recession and problems in the capital markets, American secured financing to cover most of the 737-800 deliveries"



IBA Group News

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

Conference Dates

16th -17th April - Export-Import Bank Annual Conference, Washington, D.C. - Owen Geach will be attending
20th - 21st April - 29th Annual New York Airfinance Conference, New York- Owen Geach will be attending
13th - 14th May - 14th Annual Aero-Engine Leasing, Trading & Finance Conference, Dublin - David Rushe will be speaking

Airfinance Journal and *Euromoney Seminars* present the 3rd Annual AirLaw Conference, 18th & 19th May 2009, Hyatt Regency - The Churchill, London.

As the aviation market is changing faster than ever before, making the correct legal decision and being aware of upcoming regulatory changes can be the difference between success and failure.

This timely conference will bring in-house legal counsels representing airlines, manufacturers, lessors, ECAs, insurers and financiers together with lawyers and regulators to discuss the key issues affecting the aviation industry in today's rapidly evolving market.

To register, please email your details to Karina Katysheva at kkatysheva@euromoneyplc.com

Dan Whiffen Joins IBA Group

IBA is pleased to announce another addition to its Asset Management and Technical team. Dan Whiffen joins IBA as Technical Manager. Dan benefits from 20 years of experience in the aviation industry, with an emphasis on corporate and business jets. CAA and FAA licensed, he has worked in spares/maintenance planning and running maintenance inputs, as well as on projects pertaining to part M subpart G and ARC extensions. Dan can be contacted at dan.whiffen@ibagroup.com

Phil Seymour's Notes on the Week

Aviation news is too depressing to mention in this week's notes. Fewer passengers, lower yields continue... So that's it, I have had enough - it's good news only from now on.

Of course, one person's loss may be another person's gain - so three English football clubs in the European Champions League Semi Finals leaves me with a very warm feeling; however I have probably upset the rest of Europe by pointing out the supremacy of English football.

On the subject of football, you may remember that back in the seventies Arsenal had a prolific player called Charlie George - he scored the winner against Liverpool in the 1971 FA Cup final. Well we now have our own version in the Seymour family - Charlie George was born to our youngest daughter Zoe and her other half Tom George (she is 22, just in case you had thought a youngest daughter of mine was only 12 yrs old). That's the seventh grandchild for myself and Jane. Hopefully Charlie will soon have a passport and will start booking flights to increase airline profits.

Yours Sincerely,

Phil Seymour, Managing Director, IBA - phil.seymour@ibagroup.com

Publications - 2009 Editions

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

Aircraft Values Book	Published in February & August 2009	£650 per year
Lease Rate Digest	Published in February & August 2009	£375 per year
Engine Values Book	Published in April 2009	£650 per year
Maintenance Cost Journal	Published Quarterly	£175 per year

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Highlights

- Oil, equity prices volatile
- G20 stimulus
- Crude, unleaded inventories rise
- Dismal jobs data

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

Oil prices whipped around violently this week as traders tried to discern a variety of factors including higher equity prices, fresh economic data, news coming out of the G20 meeting and weekly oil inventory statistics. At time of this report, benchmark NYMEX WTI crude oil is trading at about \$52.00 per barrel.

Macroeconomic and Fundamental Factors

- Global equity markets and oil markets moved generally higher as a result of the Group of 20 summit in London. The group reached broad agreements to pump hundreds of billions of dollars into the International Monetary Fund/trade finance and to spend \$5 trillion in world economies by end of 2010.
- Gold prices fell as stock prices rose this week as investment flows left the traditional safe haven commodity. The April gold futures contract is currently at \$907/ounce.
- The US Labor Department reported continuing job losses in March, bringing total job declines over 5 million and the unemployment rate to 8.5% - a 25 year high.
- The weekly inventory report from the EIA showed higher inventory levels in crude oil and gasoline. Distillate fuel stocks were basically flat. US refinery utilization fell .3% to 81.7% of operable capacity.
- OPEC appears to continue to be adhering to its pledge to cut oil output. Oil Movements, a firm that tracks oil tanker activities, expects that OPEC deliveries in April will drop by a million barrels per day – the lowest level in nearly six years. This output rate implies a 80% compliance rate with announced cuts.

Weather

- Despite the calendar, winter seems to be reluctant to leave with temperatures expected to be below-normal for most of the US for the next 6-10 days.

US Gulf Coast Spot Prices

