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## **Fuel costs, political unrest, natural disasters hurt airline stocks**

Airline stocks have tumbled nearly 14 percent in the last five months as high oil prices have raised jet-fuel bills and air travel has been hurt by political turmoil and natural disasters.

The International Air Transport Association this week slashed its profit forecast for airlines worldwide this year by 54 percent, to \$4 billion from the \$8.6 billion it forecast in March. Industry profits will be down 78 percent from last year's \$18 billion, chiefly due to high fuel.

"That we are making any money at all in a year with this combination of unprecedented shocks is a result of a very fragile balance," IATA chief executive Giovanni Bisignani said.

The reasons are known: the tsunami and nuclear disaster in Japan, unrest in the Middle East and North Africa, and the sharp rise in oil prices.

Still, 2011 will not be another 2008 for airlines, when a surge in oil prices sent some carriers to near-bankruptcy.

It's a leaner industry. Airlines made lasting changes after the peak of \$147 a barrel for oil in the summer of 2008 and the financial collapse on Wall Street. They cut capacity with fewer seats and flights, improved their balance sheets, and added fees for checked bags, pillows, priority boarding and seats with extra legroom.

Also, there is less competition since Delta and Northwest merged, United and Continental merged, and Southwest Airline acquired AirTran.

"Industry fundamentals are broadly stronger than in the rising-fuel-price period of 2008," Soleil Securities analyst James Higgins said in a recent note. "Coming quarters will produce evidence that most carriers are stronger, have a greater ability to offset higher fuel prices, and represent better value than is expected."

Still, investors are skittish and airline shares, as a whole, are down 13.7 percent this year, while the Standard & Poor's 500 index is up 2.5 percent.

"We think some investors could be overreacting," Wolfe Trahan & Co. analyst Hunter Key said in a recent report.

Passenger-demand trends into the summer and beyond remain strong, based on "bullish and optimistic" comments by airline executives at a recent transportation conference, according to Key.

In Japan, the "situation appears to be stabilizing," Key wrote.

Rising jet-fuel prices are the main reason for weaker profits, with benchmark Brent crude expected to average \$110 a barrel during 2011, a 15 percent increase from the \$96 previously forecast.

At \$3 a gallon, U.S. airlines' jet-fuel bill will be \$54 billion in 2011, up from \$39 billion last year, a U.S. trade group said.

The fuel spike is substantially different from 2008's. While oil inventories are low, there is "substantial" spare capacity among the Organization of Petroleum Exporting Countries and refineries, which was not the case three years ago, IATA said. In addition, the monetary expansion that fuelled a surge in financial investments in commodities is ending, which will remove a major upward pressure on fuel prices.

"In 2001, we needed oil below \$25 a barrel to be profitable," Bisignani said. "Today, we are looking at a small profit with oil at \$110 per barrel." Fuel now accounts for 30 percent of airline costs, up from 13 percent in 2001.

Airlines have passed along higher fuel prices by raising fares. That's beginning to dissuade some from flying. The number of price-sensitive leisure travellers fell 3 percent to 4 percent in the last five months as travel costs were forced higher by fuel prices and, in Europe, by new passenger taxes, IATA said.

Traffic in May for the first airlines reporting - US Airways Group and IAG International Airlines Group, comprising British Airways and Iberia Airlines - was similar in strength to April, said Ray Neidl, analyst for the investment bank Maxim Group L.L.C.

"Both domestically and globally, demand and revenue trends remain very strong despite increased economic concerns," Neidl said in a client note. "We expect these results to continue at least through the busy summer period."

He said he assumed economic growth would slow in the second half of the year, oil prices would stabilize between \$90 and \$110, and airlines would continue to carefully manage seat capacity and planes in the air.

Although government data released last Friday showed the U.S.

## IBA's Comment:

"Airlines are much better equipped to deal with rising fuel prices than they were in 2008. However, as fuel prices are passed onto passengers, leading to fare increases, advance bookings are discouraged. This was a key issue for airlines which faced difficulties in 2008."

- David Rushe

economy wasn't growing as fast as had been expected, May passenger traffic for U.S. airlines did "not reflect a slowing," Avondale Partners analyst Bob McAdoo said in a note.

A barrel of oil in May cost \$9 less than in April. "With oil at these levels, we continue to forecast solid earnings for Delta, United Continental Holdings and US Airways," McAdoo wrote.

Source: Linda Loyd, philly.com - 10<sup>th</sup> June 2011

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## Qatar Airways to expand freight fleet with 35% stake in Cargolux

Qatar Airways on Wednesday said it had entered into a strategic equity and commercial partnership with Cargolux with a 35 per cent stake in Europe's leading cargo airline.

The accord will give Qatar Airways a greater foothold in the growing freight business, offering synergies with the cargo operator which has a global reach from its Luxembourg hub.

Akbar Al Baker, Qatar Airways Chief Executive Officer, said that the agreement was the first major step by Qatar Airways towards substantially expanding its cargo operations and a great opportunity to capitalise on a rapid growth business.

"We seek to fuel our growth plans by further developing our air freight business as a major part of our overall product offering and develop Qatar as a leading global cargo hub and one of the major players in the international freight market by 2015," said Al Baker.

He also said that with the combined freighter fleets of both airlines, together with plans by Qatar Airways to convert some of its Airbus A330 passenger aircraft into cargo planes, the carrier will become a formidable force in the global cargo business.

"We look forward to strengthening our Doha hub with greater freighter operations that will see Cargolux in the not too distant future serve Doha, to create synergies with Qatar Airways Cargo and our freight business on Qatar Airways' passenger flights," Al Baker added.

Doha-based Qatar Airways Cargo provides freight services to more than 100 destinations using the cargo space available on

"We seek to fuel our growth plans by further developing our air freight business as a major part of our overall product offering and develop Qatar as a leading global cargo hub" - Akbar Al Baker

Qatar Airways passenger aircraft. In addition, the carrier operates dedicated freighters to over 30 destinations on the airline's international route map.

Qatar Airways operates a mixed fleet of 98 passenger, cargo and corporate aircraft. Its freighter fleet comprises five aircraft – three Airbus A300-600s and two Boeing 777s flying across six continents.

The carrier has a further four Boeing 777 freighters due to join its fleet over the next few years.

Cargolux operates a fleet of 16 Boeing 747 freighters flying to more than 90 destinations.

It will be the launch customer of Boeing's next generation wide body 747-8 freighters with 13 of the type on order.

"We have identified numerous synergies owing to the complementary nature of our businesses that will enable us to develop scale and reach and strengthen our respective hubs in Luxembourg and Doha," said Frank Reimen, Cargolux President and CEO.

Both airline companies said that the implementation of the cooperation plan will result in high customer satisfaction, enhance competitiveness through improved returns and benefit the Luxembourg and Doha economies overall through extra trucking and handling tonnage and the creation of new jobs. By 2013, Qatar Airways plans to serve over 120 key destinations with a modern fleet of more than 120 aircraft.

Qatar Airways has ordered 80 Airbus A350s, 24 Airbus A320-family aircraft, 60 Boeing 787s and 37 Boeing 777s, with deliveries of the latter having started in November 2007.

The airline is a customer of the twin-deck Airbus A380 superjumbo with five on order and scheduled for delivery from 2012, by which time the New Doha International Airport is scheduled to open.

Source: Rohma Sadaqat, gulfnews.com - 9<sup>th</sup> June 2011

## IBA's Comment:

"The 777F has shown itself to be a nice fit between 767/A300 lift and that of the 747F. Orders have built up this year to a total of 11 with more on the horizon. The freighter is benefitting from its association with other 777 models and Boeing is right to hold off offering a conversion program."  
- David Rushe

## MAS expected to benefit from oneworld membership

Malaysia Airlines' (MAS) move to join the third largest global airline group, oneworld, marks a significant development for the carrier at a time when global carriers are hoping to extend their reach to tap the growth in Asia Pacific.

This should bode well for the national carrier in terms of traffic numbers and income in the longer term.

On Monday, MAS announced that it was unanimously elected as a designated member of oneworld and its Managing Director, Tengku Datuk Azmil Zahrudin, said "the time is right for us to join a global alliance and oneworld is clearly the best option for us."

In one swoop, MAS passengers will gain access to the alliance's global network which covers almost 950 destinations in 150 countries. MAS Enrich frequent flyer members will be able to earn and redeem rewards on oneworld's carriers and vice versa.

Qantas will sponsor MAS' entry into oneworld and MAS will only start flying as part of oneworld late next year as the process to become a member takes 18 months.

More importantly, carriers like British Airways and Qantas that left Malaysia a decade ago and which are members of oneworld are trying to get a slice of the action in South-East Asia. They now see MAS as an airline that can give them access to the region.

Qantas Chief Executive Officer Alan Joyce confirmed this, saying that the arrival of MAS into the oneworld alliance offered Qantas opportunities to expand its presence in South-East Asia.

"We are very keen to talk on how we can cooperate and get into the Malaysian market and other South-East Asian markets. It is the fastest growing region and we want to increase our market share there," Joyce told reporters at the 67th International Air Transport Association AGM in Singapore on Monday.

He added that Qantas would remain committed to growing its base in Singapore via Jetstar, saying that "we still will have a big operation in Singapore."

MAS will be the 15th member of oneworld. Other than British Airways and Qantas, the other members are Cathay Pacific, Royal Jordanian, American Airlines, Japan Airlines, Finnair, LAN

"We are very keen to talk on how we can cooperate and get into the Malaysian market and other South-East Asian markets. It is the fastest growing region and we want to increase our market share there"  
- Alan Joyce

Argentina, Malev Hungarian, Iberia, Mexicana, and S7 Airlines. India's Kingfisher and AirBerlin will be members after their 18-month process period.

The biggest global airline alliance is StarAlliance in which Singapore Airlines is a member. The other alliance is Skyteam.

Azmil hoped MAS' entry into oneworld would encourage carriers already part of the alliance to fly to Kuala Lumpur. For now MAS has code-share agreements with Cathay Pacific and Royal Jordanian.

"As a company we are highly focused on quality service. We are immensely proud to have been invited to join the highest quality alliance with the best airline partners offering a global network that best complements our own," Azmil added.

MAS also has a longstanding relationship with KLM, including code shares to Australia and Amsterdam. Azmil said the deal with oneworld would not preclude MAS from maintaining its relationships with KLM but there would be a review of its network and its preference was to have further code-share agreements with oneworld members.

Source: B.K. Sidhu & Cecilia Kok, thestar.com.my - 7<sup>th</sup> June 2011

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## Bombardier sells three more smaller CSeries planes to unidentified customer

Bombardier has signed up an early customer for its new CSeries aircraft after winning an order for three smaller planes from an unidentified established airline for US\$186 million.

The manufacturer's fifth CSeries customer also has options for three more planes. The contract's list value would increase to US\$385 million if those options are exercised.

Deliveries of the CS100 aircraft, which is slated to enter into service at the end of 2013, will start in 2014.

The world's third-largest aircraft manufacturer ended a 15-month CSeries order drought last week when a Swedish leasing company ordered 10 planes.

Braathens Leasing Ltd, a member of Braathens Aviation of Sweden, ordered five CSeries 100 and five CSeries 300 planes and took options for an additional 10 jets.

### IBA's Comment:

"It offers serious competition to the A319 and larger regional jets but this has yet to be realised in terms of sales."

- David Rushe

With the latest deal, Bombardier has firm orders for 103 CSeries planes – 41 CS100s and 62 CS300s. The other customers are Republic Airways, Deutsche Lufthansa and Lease Corporation International.

Charles Fuller, Bombardier's senior vice-president commercial aircraft sales, said the recent orders confirm the CSeries "widebody-style comfort, exceptional performance capabilities, low cash operating costs and environmental credentials."

The 110- to 149-seat aircraft will be made of composite materials and use a Pratt & Whitney engine that are designed to save 20 per cent fuel and emit lower greenhouse gases.

Source: winniepegfreepress.com - 7<sup>th</sup> June 2011

"The contract's list value would increase to US\$385 million if those options are exercised."

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## More planes on the cards as Emirates expands

Emirates Airline is weighing a plan to buy more wide-body jets from Boeing and Airbus as it seeks to expand its global network.

"We are once again reviewing our fleet," Tim Clark, the Emirates president, said on Monday on the sidelines of the airline industry's annual gathering in Singapore.

"We have identified opportunities outside the fleet growth plan that we have."

The additional aircraft would be bought incrementally, rather than in one big order, to help "squeeze a little bit more out of the operation".

Emirates currently operates 153 aircraft and is expanding at a rapid clip, carrying 31.4 million passengers for the financial year ending on March 31, a growth of 14.5 per cent from the previous year.

The airline and its subsidiary companies earned US\$1.5bn (Dh5.5bn) for the financial year.

The airline is looking at buying more Boeing 777-300ERs, long-haul, wide-body jets that form the backbone of its current fleet and are used on routes including the US west coast and points in Asia.

It will also look at ordering more Airbus A350s, a new wide-body jet being developed using lightweight composite materials. The A350 is scheduled to enter the market around 2014.

"The additional aircraft would be bought incrementally, rather than in one big order"

"The aircraft in frame would be more ERs [extended ranges], possibly some more A350s," he said.

Emirates has 90 Airbus A380 superjumbos on order, and Mr Clark said the airline "would like to buy more" but was unable to do so because of infrastructure constraints at Dubai International Airport.

"We just can't fit it in," he said.

The carrier aims to decide by the time of the Dubai Airshow, scheduled for November, whether to order more aircraft. It currently has 200 on order.

Emirates, based in Dubai, is the largest of the Gulf's three long-haul carriers - the others are Qatar Airways and Etihad Airways - which are redrawing the global aviation map by building up hubs to carry transfer traffic between Asia, Europe, Africa and the Americas.

Their success has triggered accusations of protectionism from some European and Canadian airlines. But this week, the International Air Transport Association (IATA) called on these carriers to stop trying to block the expansion of their Gulf rivals.

With its expansion plans, Emirates will grow to 250 aircraft by 2020 and link virtually any two major cities in the world via its Dubai hub.

The airline hopes to do this by pushing Boeing and Airbus to extend the range of jets such as the A380 and 777, allowing them to reach cities such as Los Angeles from Dubai at full capacity.

Emirates needs an improved version of the 777-300ER between 2017 and 2019 to replace the ones it received in 2005, Mr Clark said.

"We are pushing Boeing to get on with the job," he said.

Airbus designed the A380 superjumbo to fly for 14 hours, but Emirates is pushing the manufacturer to reduce the weight of the jet and extend its range for service between Dubai and the US west coast. Emirates plans to open A380 services to San Francisco next year and to Los Angeles later.

Source: Ivan Gale, [thenational.ae](http://thenational.ae) - 7<sup>th</sup> June 2011

"Emirates needs an improved version of the 777-300ER between 2017 and 2019 to replace the ones it received in 2005"



## IBA Group News

Press Releases & Presentations can be viewed in the News & Views section of our website, [www.ibagroup.com](http://www.ibagroup.com)

### Conference Dates

8<sup>th</sup> - 10<sup>th</sup> June 2011 - 9<sup>th</sup> Annual China Airfinance Conference, Beijing - Phil Seymour and Owen Geach will be attending, Phil Seymour is speaking

### SMi Masterclass Series 2011

IBA will be running and participating in the following Aviation Masterclass Series in 2011, in Central London:

18<sup>th</sup> July - Continuing Airworthiness - <http://www.smi-online.co.uk/training/overview.asp?is=1&ref=3798>

19<sup>th</sup> July - Continuing Military Airworthiness - <http://www.smi-online.co.uk/training/overview.asp?is=1&ref=3800>

For further information, please contact Owen Geach at [owen.geach@ibagroup.com](mailto:owen.geach@ibagroup.com)

### SMi Inaugural Conference - Future MRO & Ageing Aircraft 2011

24<sup>th</sup> & 25<sup>th</sup> October 2011, Holiday Inn Bloomsbury, London

Topics include Global Fleet Maintenance Strategies, Fleet Life Extension vs Renewals & Component life management

For further details please visit [www.smi-online.co.uk](http://www.smi-online.co.uk)

## Publications - 2011 Editions

Please contact [marketing@ibagroup.com](mailto:marketing@ibagroup.com) for more information.

Aircraft Values Book	Published in February 2011 & August 2011	£660 per year
Lease Rate Digest	Published in February 2011 & August 2011	£360 per year
Engine Values Book	Published in April 2011	£650 per year
Maintenance Cost Journal	Published Quarterly	£200 per year

## Phil Seymour's Notes on the Week

I am in Beijing at the euromoney conference and such is the demand for my services I will provide a more detailed set of notes next week!

Phil

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