CATHAY PACIFIC LOOKS TO CUT FUEL COSTS WITH NEW A350 PLANES

News / Airlines

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Cathay Pacific Airways Ltd., Asia's largest international airline by passengers, will soon start using Airbus Group SE's most fuel-efficient plane as it tries to trim costs in the face of mounting competition.

Cathay will receive 12 new A350 aircraft this year, with the first one due in May, Chief Executive Officer Ivan Chu said after a briefing Wednesday afternoon. Airbus says the A350 is 25 percent more efficient than comparable planes from its competitors, which will help Cathay trim expenses as it modernizes its fleet.

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Chu is trying to cut costs and increase productivity after Cathay's passenger yields slid 11 percent last year amid heightened competition from mainland Chinese airlines. The Hong Kong-based carrier reported Wednesday that 2015 profit nearly doubled as crude oil's decline to its lowest levels in more than a decade reduced costs and cheaper fares encouraged people to travel.

"If you want to lower cost and be more efficient, new airplanes are what you want," Cathay Chairman John Slosar said in a briefing Wednesday in Hong Kong.

Hedging Loss

Cathay shares were down 2.6 percent to HK$13.68 as of 9:41 a.m. Thursday and have fallen 16 percent in the past year, level with the decline in Hong Kong's benchmark Hang Seng Index. The company has a market value of HK$53.9 billion ($6.9 billion).

Cathay said Wednesday its net income rose 90.5 percent in 2015, primarily due to cheaper fuel -- though a loss of HK$8.74 billion on fuel hedges reduced those savings. The airline has hedged some of its fuel purchases into 2019 and will continue to hedge as a risk-management tool, Chu said at the briefing. Its mainland Chinese competitors have stopped fuel hedging, allowing them to benefit fully from cheaper fuel.

As part of its fleet renewal, Cathay has taken four Boeing Co. 747s and five Airbus A340s out of operation since the beginning of 2015 and plans to bring forward the retirement of three more 747-400s to this year from 2017. Cathay had 146 planes in its fleet at the end of last year and 70 more on order, including 48 A350s.

When oil prices are high, there's a strong motivation for Airbus and Boeing to come up with more fuel-efficient models such as the A350 and 787 to help airlines trim their fuel bills. Early customers for such models get hefty discounts from the manufacturers and can lock in years of reduced costs.

Following Suit

Cathay won't be among the first adopters of the A350: Qatar Airways has flown the plane for a while, as has Finnair, which has a deep reach into Asia. Singapore Airlines Ltd. received its first A350 earlier this month, with its initial flight to Amsterdam scheduled for May.

Cathay is already late to re-fleet, and the A350 won't give it a great advantage, said Will Horton, a Hong Kong-based analyst for the CAPA Centre for Aviation.

"The A350 brings lower unit costs but comes with acquisition costs and is not unique," Horton said. "Competitors will have more efficient aircraft too, if they don't already."

Passenger yield, or the money an airline earns from carrying travelers each kilometer, fell 11 percent last year to 59.6 Hong Kong cents, Cathay said. The company filled 85.7 percent of its seats in 2015, up 2.4 percentage points from the year before.

Protecting Yields

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"Moving forward, it will be important to know how they plan to protect yields," said Geoffrey Cheng, head of transportation and industrial research at BOCOM International in Hong Kong. "As a result of lower fuel prices the Hong Kong government has done away with fuel surcharges this year, so it’s about competition. How they structure their networks to protect their yields is probably more important."

Cathay’s capacity grew 5.9 percent last year and the airline hopes to raise it another 4 percent to 5 percent in 2016. It faces challenges from mainland Chinese carriers, including China Southern Airlines Co. and China Eastern Airlines Corp., that are offering more direct flights to the U.S. and Europe.

Capacity at Chinese airlines grew as much as 18 percent last year, helped by low fuel prices and the yuan’s strength against most Asian currencies, according to Bloomberg Intelligence analyst John Mathai.

Cathay’s growth may be limited until Hong Kong opens a third runway by 2023, enabling Asia’s busiest airport for international flights to handle 100 million passengers a year. Delays and congestion at the airport cost Cathay HK$1 billion last year, Slosar said in his remarks Wednesday. For the first time, transit passengers accounted for more than half of the airline’s total last year, Chu said in separate remarks Wednesday.

“Cathay has no room to grow because the Hong Kong airport is almost full,” said Mohshin Aziz, a Malayan Banking Bhd. analyst in Kuala Lumpur. “Until the third runway opens, Cathay will have to somehow find ways to increase efficiency to try to generate more growth.”

10 MARCH 2016

SOURCE: BLOOMBERG
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