AIRLINE weekly®
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Earnings

Net result in USD; net margin

January-December 2017 (12 months)

Etihad:	**-$1.5b*; -25%***

***Both figures above are net results. Both exclude special items. Etihad did not disclose operating margin. (This earnings box typically provides net profit or loss in USD and *operating* margin.)**

Inside this issue, page nine:
12-month global airline earnings scoreboard

He's Baaaack

Stop what you're doing. JetBlue founder David Neeleman wants to launch a new U.S. airline.

Every major U.S. airline is making money. The U.S. airline industry hasn't *lost* money in almost a decade. It has now earned double-digit operating margins for four straight years. So where are the aviation entrepreneurs enticed by this success? Where are all the new entrants?

Finally, one is coming. One that promises to make a big impact. One that's the brainchild, no less, of none other than David Neeleman.

Nearly a year ago, Neeleman denied reports that he was planning a new U.S. airline. That might have been true then, and in fact, the entity he had registered then, which partly fueled the speculation, does not appear to be the one involved now. Either way, his intentions now seem clear, according to a source familiar with his plans and corroborated by another source, and based on a presentation seen by *Airline Weekly*.

Because of consolidation, the U.S. airline industry is a case study in subtraction, not addition. Today, the U.S. has 11 major carriers (not counting regional providers). All 11 were around 10 years ago. And 10 of the 11 were around 20 years ago (in some cases sporting business models that have since changed). The one that wasn't yet around 20 years ago: JetBlue, which took flight in 2000, founded by the talented, then-40-year-old Neeleman—a man so talented that Southwest briefly viewed him as a possible heir to Herb Kelleher. JetBlue would later rid itself of Neeleman, just as Southwest previously did, but not before his New York-based creation achieved great success and staying power.

Neeleman doesn't stay quiet for long. After leaving Southwest, he helped create Canada's WestJet. And after leaving JetBlue, he founded Brazil's Azul. He's essentially in charge at TAP Air Portugal. And now he seems to be making a momentous return to the U.S.

Reached over the weekend by *Airline Weekly*, Neeleman declined to comment. According to the source and the presentation, he plans to launch a new airline that's for now called Moxy, armed with $100m in startup capital. Some of that money comes from Neeleman's own pockets. Some comes from former Air Canada CEO Robert Milton and former ILFC CEO Henri Courpron. With a war chest this substantial, Moxy helps ensure it can withstand a likely barrage of defensive measures from incumbents, including capacity and fare wars.

CONTINUED ON p. 12

Pushing Back: Inside This Issue

Will lightening strike again? Morris Air was a winner. So was WestJet. Ditto JetBlue and Azul. Can David Neeleman succeed again, this time with another U.S.-based startup targeting secondary airports? It's aiming for a 2020 launch.

Too bad it's not starting sooner. Because right now, the U.S. economy is red hot. Still, three more U.S. airlines downgraded their Q2 revenue forecasts, albeit mostly for micro not macro reasons—Alaska and Hawaiian lost business from a volcano, and JetBlue's RASM is down more than expected for a welcome reason: fewer canceled flights.

Few airlines have bigger problems than Abu Dhabi's Etihad. It disclosed a mammoth $1.5b net loss ex items for 2017. And that represented a substantial y/y *improvement*. The question on everyone's mind: Will Etihad and Emirates eventually merge?

No mergers for Air New Zealand—just a wealth of inbound tourism, a healthy home economy, benign labor relations…. It's all good enough to make ANZ an all-star, never mind its limited scale and geographic disadvantage. A tight partnership with Virgin Australia, however, never worked as planned, and Virgin itself will turn a new page as its longtime CEO prepares to exit.

Speaking of exits, Britain is due to leave the European Union next spring, to Ryanair's dismay. But the LCC—by far the world's most profitable airline in our current global ranking—plans a new London Southend base all the same.

It's the same old story at Air France, still trying to quell a union rebellion. And in just weeks, Airbus will own half of the CSeries program, a plane apparently getting a boost from none other than… David Neeleman.❍

Verbulence

> We remain open-minded about Norwegian. This is not a deal that we have to do, and we will certainly not get involved in a bidding war.
>
> —IAG CEO Willie Walsh

First, the good news: For Abu Dhabi's **Etihad**, 2017 was better than 2016. The bad news? It still lost $1.5b excluding special items, amounting to a negative 25% net margin. Although 100% government owned and not required by law to publicly disclose its finances, Etihad—like **Emirates** and more recently **Qatar Airways**—nevertheless publishes at least some headline figures each year. Etihad is a relatively young airline, having launched in 2003 following Abu Dhabi's financial withdrawal from Bahrain's **Gulf Air**. By its own account, the carrier earned its first full-year net profit in 2011, and then proceeded to profit for five straight years before a disastrous 2016. Were its profitable years buttressed by government subsidies or auxiliary businesses? Qatar Airways, after all, pockets profits from a subsidiary holding monopoly rights to sell alcohol in its home country. Well, the precise sources of Etihad's revenues and profits are unknown—it does own the Abu Dhabi airport, together with its ground handling and catering businesses. But suffice to say: Business was then decent enough to make Abu Dhabi comfortable with the airline's heavy spending and breakneck expansion. What changed in 2016? The impact of the fuel bust, for one thing, which badly dented the Abu Dhabi economy. But most importantly, Etihad was ultimately victimized by its own excesses. In 2013, it placed a massive order for up to 199 mostly widebody aircraft, including heavy metal like A380s and B777-Xs. It spent lavishly on marketing campaigns and passenger amenities. As late as 2015, its ASK capacity growth was 21%. And most catastrophically, it pursued a junkyard shopping spree, buying equity positions in a few small carriers of little consequence—**Air Serbia**, **Air Seychelles** and Switzerland's **Darwin Airline**—plus several large carriers with horrific finances: **Virgin Australia**, **Jet Airways**, **Alitalia** and **Air Berlin**. The only true success story it ever owned was **Aer Lingus**, but just a little and just briefly—it sold its 5% stake to **IAG** in 2015. By 2017, Alitalia and Air Berlin would both file for bankruptcy, ripping into Etihad's finances. These are now more sober times, for sure. The airline, under new management, is mopping up the mess by cutting routes to Dallas-Fort Worth, Entebbe, Jaipur, San Francisco, Tehran and Venice. It's also scaling back frequencies in markets like New York. Last year, passenger ASK growth was a mere 1%, with cargo capacity down 6%. Reuters reports Etihad might cancel or defer its B777-X orders. Yields did rise last year as a result of the efforts, and unit costs declined 7% despite $337m in additional fuel outlays. Things have stabilized enough to justify new routes to Baku and Barcelona. Excellent though its geographic position might be, Abu Dhabi is a much smaller local market than Dubai, and as such relies heavily on lowish-yield connecting traffic. An *Airline Weekly* analysis of IATA PaxIS data, for example, shows heavy revenue exposure to the London-Australia market that **Qantas** is now serving nonstop (to Perth, anyway) and the U.S.-India market now under attack by **Air France/KLM**, **Virgin Atlantic**, and **Delta**, working with Etihad's fair-weather friend Jet Airways. Etihad might ultimately wind up merging with Emirates if its future proves unsustainable. But management's chief mandate for now is avoiding more mega-losses—some losses are presumably acceptable given the airline's role in developing the city-state's tourism sector and providing good jobs for local Emiratis.

Alaska Airlines is the latest U.S. carrier with a souring view on second-quarter trends. In late April, the carrier told investors to expect a roughly 3% to 4% drop in y/y unit revenues. Well, now it speaks of a 4% to 5% drop. Why the long face? Because, for one, Mileage Plan award ticket bookings spiked beyond expectations after the cutover to a single post-merger reservation system—award travel is especially hurtful to RASM during peak periods because of displacement (accepting an award booking rather than a revenue booking) and dilution (accepting an award booking from a traveler who would have paid for his or her ticket if forced to do so). In addition, volcanic activity on Hawaii's Big Island hurt bookings to Kona.

As it contemplates any potential impact of **Moxy** (see cover story), **JetBlue** in the here and now said Q2 unit revenues will likely decline y/y between 2.5% at worst, or 0.5% most optimistically. It's no surprise to see a decline given the Easter shift. But adding to the downward momentum was a higher completion factor—that's a good thing but an arithmetic drag on the RASM equation: more ASMs in the denominator, similar revenue in the numerator. JetBlue also noted the presence of some co-brand incentive payments it received in the year-ago period. Through May of this year, ASM capacity and RPM traffic are both up by about 5% on 2% growth in actual flight departures.

Hawaiian Airlines also revised its expectations for Q2. It's now less bullish than it was in late April, warning RASM could decline a bit. If not, it will rise at most 1.5%, not 3% as previously hoped. Hawaiian has a very specific reason for its revision: that Volcanic lava Alaska mentioned. As a result, domestic bookings to and from Hawaii's Big Island are down. On the cost side, trends will likewise be worse than expected due to an unscheduled A330 maintenance event, an interim labor deal related to Hawaiian's B787 order and higher fuel prices.

Canada's Transat, reporting its results for the February-to-April period, said earnings improved y/y despite some lingering impact from last fall's hurricanes, particularly in the Cuba market. During cold-weather months, Transat's big business is flying Canadians to sun spots like Florida and the Caribbean. Now that summer is here, attention shifts to the transatlantic market, where its in-house airline **Air Transat** faces tough competition from **Air Canada**, Air Canada's LCC **Rouge**, **WestJet** and lowish-cost European carriers including **Aer Lingus**, **Icelandair**, **Wow Air**, **Primera**, **TUI**'s **Corsair** and soon **IAG**'s **Level**. Transat did say demand *from* the U.K. to Canada is currently soft, and that fares in general are under pressure despite strong overall demand networkwide. A recent weakening of Canada's dollar is another concern, one reflective of a counterintuitive trend: Many oil-exporting countries are currently seeing their currencies *depreciate* even as oil prices rise. In any event, Air Transat is revitalizing its fleet with A321-NEO LRs—the A330s and antique A310s it currently flies are often too large. It also has a seasonal fleet swap agreement in place with **Thomas Cook**. And the carrier is looking to forge partnerships with other airlines. The company's overarching goal: protect its summertime profits and stop losing money in the winter.❍

Q3 Airport Growth Trends

Ranked by y/y growth in seat capacity among the world's top 100 airports overall (Source: Diio Mi)

Rank	Airport	y/y
Leaders (Top 20)		
1	Antalya AYT	42%
2	Bangalore BLR	28%
3	Moscow SVO	21%
4	Athens ATH	18%
5	São Paulo GRU	16%
6	Milan MXP	15%
7	Hanoi HAN	14%
8	Doha DOH	12%
9	Xiamen XMN	12%
10	Chongqing CKG	10%
11	Philadelphia PHL	10%
12	Bali DPS	10%
13	Bangkok DMK	10%
14	Berlin TXL	9%
15	Ho Chi Minh City SGN	9%
16	Nanjing NKG	9%
17	Changsha CSX	9%
18	Zhengzhou CGO	9%
19	Urumqi URC	9%
20	Madrid MAD	8%
Laggards (Bottom 20)		
Rank	**Airport**	**y/y**
81	Baltimore BWI	2%
82	Detroit DTW	2%
83	New York LGA	2%
84	Istanbul IST	2%
85	Mumbai BOM	2%
86	Kuala Lumpur KUL	1%
87	Sapporo CTS	1%
88	Phoenix PHX	1%
89	San Francisco SFO	1%
90	Charlotte CLT	1%
91	London LHR	0%
92	Fukuoka FUK	0%
93	Tokyo HND	0%
94	London LGW	0%
95	Jeddah JED	0%
96	Minneapolis MSP	0%
97	Manchester MAN	-1%
98	Miami MIA	-3%
99	Düsseldorf DUS	-6%
100	Moscow DME	-10%

AirWaves

Noteworthy Airline Coverage From Other Media

As busy as David Neeleman is, he last week spoke with the Cranky Flier blog about **TAP Air Portugal**. The carrier handles about a third of all traffic between Brazil and Europe, with more than half of passengers connecting beyond Portugal. TAP is now enthusiastically expanding to *North* America, apparently with San Francisco up next (see page eight). North American traffic to Lisbon, Neeleman said, tends to be more point to point, but a free stopover program is attracting more transfers. In September (about a year late due to engine issues), TAP will receive the world's first A330-NEO, a jet it plans to deploy on U.S. routes like New York JFK and Boston. Later, A321-NEO LRs will provide an additional growth platform. TAP has performed well since a consortium including Neeleman bought into the company three years ago. One reason: an inbound tourism boom.

United makes no secret that its mid-continent hubs—Houston, Denver and Chicago—are less profitable than those of its peers, adding that its coastal hubs, by contrast—Newark, San Francisco and Washington—*outperform* competing coastal hubs. Now its partner **Lufthansa** has a disclosure to share about the relative profitability of *its* hubs. In a Bloomberg interview, CEO Carsten Spohr says Munich has higher profit margins than Frankfurt, despite the latter being a bigger market with more scale. Why disclose such details? It was seemingly a message to Frankfurt's operator Fraport, with whom Lufthansa's relations are strained. The airline recently shifted some A380s form Frankfurt to Munich. And it complains openly about Fraport's courtship of LCCs like **Ryanair**, its airport staffing, its service quality and its fees. Lufthansa's productive relationship with Munich, by contrast, should be a template for the entire industry, says Spohr.

In another juicy reveal, **South African Airways** tells Skift its flights to New York and Washington make money. Not so for flights to Hong Kong, but they'll nevertheless continue in order to maintain SAA's presence in Asia.

Good news for Boeing and General Electric: *The Wall Street Journal* reports on a new Trump Administration effort to revive the U.S. Export-Import Bank. The agency, which guarantees loans offered to foreign buyers of U.S. products, has essentially been dormant for the past three years. In one case, Israel's **El Al** bought Rolls-Royce engines for its B787s, rather than GE engines, because only British export credit assistance was available.

Who We Are and How to Reach Us

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Airline Finance

- Just as **Delta** is consistently the most profitable global airline in the U.S., the same is true of **IAG** in Europe. IAG's annual shareholder meeting last week was thus a celebratory affair, in which the company's chairman and chief executives boasted of record earnings, with each of the carrier's airline brands producing its best-ever performance. **British Airways** is now focused on service and reliability improvements. **Aer Lingus** is developing faster than envisaged when IAG bought it. **Iberia** is in the second phase of its transformation plan. **Vueling** has recovered from severe operational challenges two summers ago (although it's still threatened by French air traffic controller strikes). And **Level** is already earning underlying profits with 90%-plus load factors and new service from Paris Orly starting next month. Consolidation remains high on IAG's agenda—it purchased **Monarch**'s Gatwick slots, nearly purchased **Air Berlin**'s **Niki** unit and acquired 5% of **Norwegian**. It might yet buy all of Norwegian but won't, CEO Willie Walsh insisted, get into a bidding war. "Consolidation," he added, "is a fundamental part of our DNA, and we will continue to look at opportunities that could make strategic and financial sense for the group." Pending a decision by Chilean regulators, IAG could soon launch a long-planned joint venture with **LATAM**, South America's largest airline. It's confident of securing all its flight rights once Britain leaves the European Union next spring. And it sees its unique corporate structure as a major competitive advantage, allowing each of its airline units to focus on their own markets and brands while benefiting from the group's purchasing power, loyalty program, back office resources, IT support and so on.

- **Norwegian** CFO Geir Karlsen, speaking on a company podcast, put a brave face on his company's struggles. He acknowledged its highly leveraged balance sheet, its poor operational reliability—especially on longhaul flights—and its frustration that higher oil prices are *not* strengthening the Norwegian krona, which is unusual given Norway's large oil exports. But an effort to get things back on track is well underway, starting with a decision to raise new equity for the first time since 2009. Norwegian is in the early stages of evaluating whether to sell its Rewards program. It might sell some older aircraft and future delivery positions—it still has more than 200 planes on order. It might put more incoming planes into its leasing arm. And importantly, it will stop growing so rapidly, with fewer new routes and an emphasis instead on adding frequencies to existing routes. Karlsen expects "very good profits" this summer, and says the airline plans more schedule changes than usual this winter.

- **Virgin Australia** will bid farewell to longtime CEO John Borghetti sometime before his contract expires at the beginning of 2020. Borghetti was hired in 2010, a year after he left **Qantas**, quickly setting Virgin on a path toward greater complexity. He added posh amenities in pursuit of business and government traffic. He purchased **Tigerair Australia**. And he developed the Velocity loyalty plan as a major profit center. But a viable intercontinental network never developed, with Virgin instead seeming to serve the needs of a host of partner airlines with Virgin equity stakes and even board seats—this left the kitchen with arguably too many cooks. **Singapore Airlines** and **Etihad** remain shareholders. China's HNA and Nanshan Groups joined them. **Air New Zealand** was at one point Virgin's largest shareholder before dumping all of its shares. Now it's even dumping Virgin as a joint venture partner. According to the U.A.E.'s *National*, Etihad is currently talking to Virgin about strengthening *their* joint venture. But Etihad also announced an end to its Perth service. All the while, Virgin continues to underperform financially. In 2017, while Qantas and Air New Zealand each earned 10% operating margins, Virgin's operating margin was 2%. A search for a new CEO is now underway.

- **American**, like **IAG**, held its annual shareholders meeting last week. CEO Doug Parker mostly reiterated his confidence in the airline's future thanks to industry changes and American's own efforts to improve labor relations, renew its fleet, upgrade passenger services and invest in technology. Parker said American is on track to hit the goals from its investor day event last year, including cost-cutting targets. He's particularly bullish on new gates American will get at Dallas-Fort Worth and Charlotte, probably its two most profitable hubs. On a less uplifting note, the airline did experience a major operational disruption last week when its regional subsidiary **PSA** briefly suspended operations due to a technical issue—Charlotte was particularly hard hit.

- The U.S. Federal Reserve raised its interest rate target by a quarter point, citing an economy "in great shape." Household spending, business investment, international demand, labor markets, housing markets and—yes—air travel spending are all booming, even with somewhat higher oil prices. Sound like 2006, just before the global financial crisis? Well, the U.S. banking system is far less leveraged now, and households are far less exposed to housing debt. But other risks lie lurking. The Fed says "concerns about trade policies are rising." Non-financial corporations carry elevated levels of debt. U.S. government debt is growing to enormous levels following tax cuts and spending hikes—such fiscal polices moreover might merely be caffeinating the economy in the short run. Europe and China show signs of slowing, and selected emerging markets like Argentina and Turkey reel in the face of rising dollar interest rates. The rollback of post-crisis lending regulations might re-inflate credit bubbles. Financing the retirement and health care of baby boomers is a longer-term fiscal time bomb. And so on. For now, though, it's all good, and plenty of economists think it will stay that way.

AirBuzz

Marketing, Price, Promotions & Alliances

- It's a loyalty arms race in Canada. **Air Canada**, remember, is launching its own in-house plan as it migrates away from Aeroplan. And now **WestJet** is teaming with Royal Bank of Canada (RBC) to create "Ampli." That's a new loyalty plan open to all Canadians, not just WestJet fliers, seemingly aimed at disaffected or confused Aeroplan members. Consumers can earn points with RBC and redeem them with WestJet, and vice versa. They can also redeem points with other participating Canadian retailers too. The WestJet-RBC relationship is a close one—the airline's CEO Ed Sims was a guest speaker at an RBC investor event last week, trumpeting the success of their co-branded credit card. Their new digital shopping platform should go live toward the end of this year. The RBC/WestJet news release announcing the new program said Ampli "will complement their existing proprietary loyalty offerings"—in other words, not replace WestJet Rewards.

- In other **WestJet** news, the airline placed a large order for airplane seats with the German manufacturer Recaro. Most interestingly, the order includes some business class seats for B737-MAXs, signaling the likelihood of a true North American-style shorthaul business class product, rather than the current European-style blocked middle seats and other perks. In May, the LCC unveiled its first-ever business class product, but exclusively for its incoming B787s designated for intercontinental use.

- The election results are in! Which election, you ask? The one in which Minneapolis-based **Sun Country** asked its employees to pick a new livery. The winner looks like an update, not a radical departure.

Evolution, not revolution

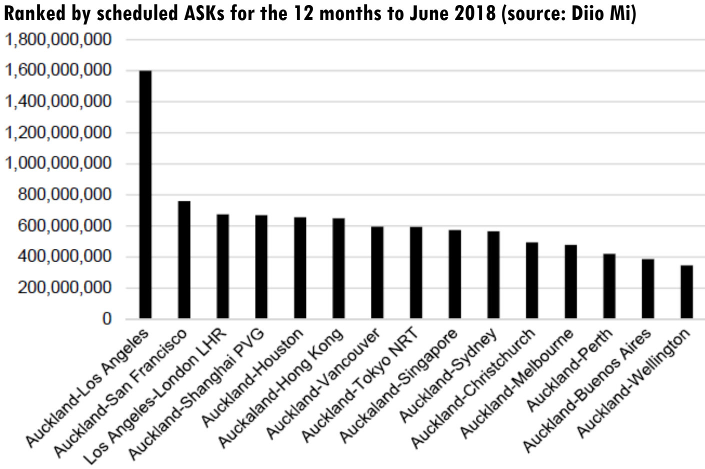
Switzerland, not Bali or Cancún

Air New Zealand opens up on the secrets to its unlikely success

- **Air New Zealand** is a rare species: a sub-scale, government-owned legacy airline with (in global terms) a badly-located hub, which nevertheless earns strong profits year in, year out. How is this possible? The airline provided some answers at a deep-dive investor day event it hosted last week.
- Underpinning ANZ's uncanny success is a consistently profitable domestic market, where it dominates the business and government travel market. This, in turn, underpins the outsized profitability of its Airpoints loyalty plan. Also critical to the carrier's prosperity: surging inbound tourism from around the world, including the world's two largest economies, the U.S. and China. ANZ also sports a competitive cost base, aided by network expansion, aircraft renewal and benign employee relations—the carrier hasn't suffered any strikes since 2012.
- Don't think success comes easy. As executives explain, competitive pressures were intense a year ago. And this fiscal year, although competition is easing in some markets, including China, other challenges—many operational in nature—are making life no less comfortable. First, fuel supplies in Auckland were disrupted by a pipeline break. Then: an unusual succession of bad weather events ascribed to climate change. And most frustratingly, ANZ happens to have Rolls-Royce engines on its B787s, in other words, engines that required unplanned inspections. Rather than just cancel flights like some other affected carriers, ANZ is working hard to source backup planes and crews from around the world, incurring additional costs, albeit with no expected material impact on earnings—it will presumably receive an undisclosed amount of compensation from Rolls-Royce.
- Rising fuel prices are of course another challenge, but there's a silver lining on that front: ANZ is better hedged than most of its international rivals, other than well-hedged **Qantas**, anyway. Most importantly, management says despite all of the disruptions, the fiscal year that ends this month has been another strong one, with profits still expected to be up y/y. The airline says its structural advantages—i.e., its domestic franchise and brand appeal—are only strengthening.
- Executives spent a lot of time discussing their big decision to end a joint venture with **Virgin Australia**, once a pillar of ANZ's trans-Tasman strategy. Why the break-up? For one, ANZ has invested heavily in its own Australian sales and marketing, thereby reducing its reliance on Virgin's sales network. Timing played a part, as the alliance was up for regulatory review. Importantly, trans-Tasman competitive dynamics changed markedly when **Emirates** decided to withdraw much of its capacity. In addition, ANZ's share of sales far outweighed its share of ASK capacity in the venture, suggesting it didn't need Virgin all that much, especially with A320 and -21 NEOs on the way, which will increase capacity. It didn't quite admit to disputes with Virgin's outgoing CEO John Borghetti (see page four). But it did admit to unhappiness with Virgin's product and reliability, which elicited some complaints from ANZ's own customers. ANZ says this situation was exacerbated when Virgin switched its New Zealand ground handler last year from ANZ to a third-party company. Besides, ANZ's new marketing partnership with Qantas, albeit far more limited in scope, provides all the Australian access its customers need, plus a better network of Australian airport lounges.
- There's more to the Virgin breakup. ANZ wasn't the only unhappy party. Management explained that tensions also rose as ANZ advanced a strategy of using Australia as a feeder market for its North and South America flights, which competed against Virgin's own transpacific flights. This strategy, furthermore, encouraged ANZ to deploy widebodies on some trans-Tasman routes to accommodate the connecting travelers; this was extra capacity Virgin wasn't happy to see.
- This sixth-freedom Australian strategy is a becoming a key enabler of longhaul growth for ANZ. Two transpacific routes in particular—Houston and Buenos Aires—are filled with connecting Australians. On its Buenos Aires route, more specifically, 40% of passengers are Australians, another 40% Brazilians and Argentinians and only 20% New Zealanders. ANZ's global geography isn't bad at all for these markets.
- Brazil is now high on its list of expansion opportunities. Later this year, it will open a route to Chicago, for which early bookings look good (its very first booking was from an Australian passenger). With help from a new origin-and-destination revenue management system—and from joint venture partner **United**—the Chicago route will provide access to the U.S. midwest and northeast, plus eastern Canada. Taipei is another new route launching later this year.
- In addition to United, ANZ shares revenues with **Air China**, **Cathay Pacific** and **Singapore Airlines**. It's working most closely with Singapore, with whom it sees further opportunities for cooperation.
- Later this year, ANZ will introduce its first A320/A321-NEOs, for use on trans-Tasman and Pacific island routes. It's contemplating whether the A321-NEOs might be useful for busy domestic routes too, like Auckland-Wellington at peak times.
- On the widebody front, ANZ has some big decisions to make. Its B777-200s and then -300s are approaching retirement age. The B777-X is one possible replacement. It could alternatively order more B787-9s, or even some B787-10s—these would be particularly useful for East Asian routes like Tokyo and Shanghai but lack the range to fly transpacifically. A350-1000s are another option and would be great for U.S. routes. ANZ will announce its decision in about a year from now.
- Interestingly, the airline is also seriously studying the use of electric aircraft on shorthaul regional routes sometime in the next decade, noting a rapid advancement in technology (see JetGreen, page six). Back on the longhaul stage, meanwhile, ANZ is contemplating ultra-long-range aircraft to perhaps serve distant cities like New York.
- Inside the aircraft, ANZ is studying different widebody configurations, contemplating how to maximize revenue from its different cabins. It recently began configuring long-range planes with more premium seating, reflecting a heightened focus on attracting premium leisure travelers. "We want to turn New Zealand into Switzerland," management said, "not Bali or Cancún."❍

Air New Zealand's Top Routes

Ranked by scheduled ASKs for the 12 months to June 2018 (source: Diio Mi)



Fleet Sheet

Aircraft Markets

- Effective July 1, Airbus will officially become a majority owner of the CSeries program. Its partnership with Bombardier comes as the plane starts to show momentum, with David Neeleman's **Moxy** providing the latest shot in the arm (see cover story). **Delta**, **Air Canada**, **Lufthansa**'s **Swiss** unit, **Korean Air** and **airBaltic** are other major customers, with **Aeroméxico**, **JetBlue** and **Spirit** among those contemplating an order. Airbus expects to help the plane's development in three key areas. One is its vast worldwide sales and marketing network. Another is its procurement and manufacturing efficiency—the plane will now be produced not just in Montréal but at the Airbus plant in Alabama too. And thirdly, Airbus provides a global customer support network. By all accounts, the CSeries—which comes in CS100 and CS300 variants—has excellent economics. Including Moxy's latest order, airlines and lessors seem to have ordered more than 450 units. The plane also poses a potential threat to Boeing's B737-MAX 7 product, which is slightly larger but (as a shrunken derivative) might have inferior economics. It's one reason, in fact, that Boeing is currently contemplating an alliance of its own with Bombardier's Brazilian rival Embraer, although no next-gen E-Jet is as large as the CS300. One other question for Airbus as it incorporates the CSeries into its product lineup: Will it stop offering A319-NEOs, which have similar challenges to those of the MAX 7? Separately, Airbus last week opened a fourth A320 production line in Hamburg. This will help it increase production to 60 per month by the middle of next year.
- **JetLines**, a Vancouver-based startup with an ultra-LCC business model, secured a lease from AerCap for two used A320s; they'll arrive in the first half of next year. The carrier also has a deal with Boeing for up to 21 B737-MAX 7s (five firm), but these won't begin arriving until 2023. JetLines, already a publicly-traded company, recently appointed former **Allegiant** executive Lukas Johnson as CEO, replacing former **AirTran** and **Sun Country** executive Stan Gadek. It originally hoped to launch this month but now targets a 2019 debut.

JetGreen

Environment, Conservation & Fuel

- Norway's airport operator Avinor wants to see electric aircraft take to its skies in just seven years. In an interview with Politico, CEO Dag Falk-Petersen says that after a couple years of internal study and meeting with aircraft manufacturers, he's convinced electric or hybrid-electric airliners are feasible, and Avinor wants to lead the charge. To accelerate things, Falk-Peterson envisions government subsidies and even mandates for electric aircraft to be used on certain shorthaul routes between small cities. So Norway wants electric planes. But will the market deliver? It's possible, as there is somewhat of an electric-aircraft arms race underway. The U.S. start-up Zunum, which has a partnership with Boeing and **JetBlue**, says its first planes will be 12-seaters with delivery starting in 2022. Airbus, Rolls-Royce and Siemens are working on a hybrid demonstration plane that they expect to start test flying in 2020. And another U.S. start-up, Wright Electric, is working with **easyJet** on a full-sized electric airliner that they say could be available in fewer than 10 years. Avinor, meanwhile, according to Politico, says it will present a plan in September.
- Will CORSIA allow airlines to receive emissions credits for using *fossil* fuels? According to a Reuters report last week, it's possible, even likely. Citing sources speaking on condition of anonymity and involved in the closed-door talks hammering out the rules for CORSIA—the Carbon Offset and Reduction Scheme for International Aviation—the report says fossil fuels could likely be included if they meet emissions criteria. The thinking seems to be: If a fossil fuel could be developed that offers a carbon improvement, shouldn't it get credit?

State of the Unions

Workforce Developments

- **Air France**'s new chairman presented a new proposal to unions but one that did *not* include any concessions on wages, the heart of the dispute. Without a board mandate to negotiate any further pay hikes, the airline instead offered modest improvements to work conditions, including a pledge to add more rest facilities for airport staff. It promised more dialogue too. The alliance of 10 unions involved in the conflict, however, reacted dismissingly, which likely means four more days of strikes (June 23 through June 26). In the meantime, Air France is currently interviewing candidates to succeed Jean-Marc Janaillac as CEO. It hopes to pick one sometime next month.
- **Ryanair** now recognizes the Unite union as the rightful negotiator for its U.K. flight attendants. Only a week earlier, it bestowed the same recognition for unions representing its Italian cabin crews. To be clear, these unions represent just attendants who are *directly* employed by Ryanair—the airline also staffs its planes with crews sourced from third-party employment agencies. The same is true for pilots. Management expects to announce more union recognition agreements in the coming weeks, for pilots and attendants in countries other than the U.K. and Italy. But it warned that progress is slower in some smaller countries where "minor issues (such as extra days off for union officials) are unnecessarily delaying agreements."
- Last month, **Air New Zealand** reached an unusually long **Air Canada**-like nine-year partnership deal with its unionized pilots. These are actually three separate contracts of three years each, with wage increases and other benefits that phase in over time. The airline said it's feeling less pressure from a pilot shortage than some other airlines elsewhere in the world, and less pressured than U.S. carriers, for example, to dramatically raise wages.
- There's been a breakthrough in pilot talks at **Brussels Airlines**. After meeting with union officials, the company made a new offer, which pilots can vote to approve or reject. It includes proposals in areas like pay, work schedules, pensions and so on. Pilots, remember, went on strike for two days last month, which prompted **Lufthansa**—which owns Brussels Airlines—to warn it won't get growth and investment if its costs get too high and earnings don't improve.

The Backend

Sales, Distribution, Tourism & Corporate Travel

- The Indian online travel agency Yatra, in its latest earnings presentation, spoke of y/y airline booking growth of close to 40%, fueled by a fast-growing economy and fast-growing airlines. Last year, 140m Indians traveled by air, up 17% from 2016. And during this year's Q1, the market grew 22%. Yatra sees enormous growth potential, if for no other reason than the 1,000-plus aircraft Indian airlines currently have on order—**IndiGo** alone has more than 450. Smaller regional markets are now seeing elevated growth, boosted by government subsidies. Citing KPMG, Yatra says India will soon be the world's fastest growing market for *corporate travel* (it says Indians often take their first trips for business, and then evolve into leisure travelers). As for the relevance of third-party travel agencies, Yatra says most travel search is now down on mobile devices, and most people don't want to download multiple airline apps to search for fares and flights. It used the example of an Indian traveler going to London, who can get there on many different airlines through many different hubs—nonstop, through the Gulf, through continental Europe… "You've got at least 350-odd options." One technology Yatra is working on: voice-enabled travel search.

The Landing Strip

Airport Developments

- The latest monthly update from Airports Council International (ACI) shows worldwide airport traffic up another bullish 7% y/y during the first quarter. The airline industry, to put it plainly, is enjoying a great demand environment. Like other organizations, however, ACI worries about creeping U.S. protectionism, which threatens to disrupt global supply chains. One area of the world *not* experiencing bullish demand is the Middle East's Gulf region, for many years the fastest-growing region. Dubai's traffic last quarter was up just 1%, while volumes in Abu Dhabi and Doha each declined 11%. Kuwait as an exception, however, with exuberant 20% growth. Nearby Tel Aviv likewise saw 20% growth. And the revival of tourism to North Africa drove high levels of growth in markets like Egypt. In sub-Saharan Africa, Nigeria's largest market Lagos stood out with 19% growth, rebounding from contraction during the commodity bust. Frankfurt and Amsterdam led the way among Europe's mega-hubs, with 10% and 8% growth, respectively. Istanbul is an interesting case: Q1 traffic was up 22% even without much new capacity, as load factors spiked. China continues to grow at a brisk pace, and India even more so—Bangalore was a star with 33% traffic growth. Seoul Incheon was 10% busier with notable increases on Japanese routes. And in Latin America, Chile, Argentina and Peruvian markets all enjoyed double-digit airport traffic growth, while Guadalajara was a standout in Mexico—its volumes jumped 16%. Colombia's airports, though, hurt by **Avianca**'s pilot strike, were less busy this Q1 than last.
- As the great debate rages over London Heathrow's new runway, London Gatwick is pursuing its own $1.5b expansion. It won't involve any new runways, never mind that it currently has just one. But the airport's two terminals will see changes in the next five years, some of which will increase the airport's handling capacity. Gatwick, which welcomed 46m passengers last year, thinks that number will reach 53m in five years.
- At a J.P. Morgan investor conference in London, Fraport celebrated a spike in traffic this year at Frankfurt airport. Through May, passenger counts are up 9% y/y, thanks mostly to many new **Ryanair** routes, with help from a few **Wizz Air** and **easyJet** routes too. But this is energizing only shorthaul traffic. Intercontinental traffic through the first five months of 2018 is up just a lowly 3%. Fraport separately said it's adding more security lanes to address airline and passenger complaints. And work continues on a third terminal due to open in 2020.
- Elsewhere in the Fraport empire, traffic is growing by double-digits this year (10% to 11%) at its airports in Lima (Perú), St. Petersburg (Russia) and Greece (where it runs 14 regional airports). Growth is even more exuberant at Fraport's Antalya facility in Turkey (see chart on page three), where the return of Russian tourists, followed by a return of European tourists, has traffic up 29% this year. Slower growth in China has Xian traffic up just 7%. Fraport is now cutting fees at its Greek airports during the winter, hoping to reduce the market's seasonality. It's also recruiting airlines to its newly-acquired Brazilian airports in Fortaleza and Porto Alegre.
- The Australian city Adelaide announced a major expansion of its main airport terminal. Work should be competed in 2021. Since 2005, Adelaide's international traffic has almost tripled.
- Here's a fun fact from **British Airways**: In a test of biometric boarding at Los Angeles LAX, the carrier boarded 400 passengers on an A380 in just 22 minutes. That's half the usual time. With BA's biometric boarding, passengers don't need to present their boarding passes or passports. They just have to look into a camera, quickly proceeding to board after their identity is verified.
- **BA** mentioned the boarding development at its annual shareholders meeting, where it unsurprisingly also spoke about Heathrow's prospective third runway. It specifically expressed disappointment that the latest government policy statement (in BA's view) failed to address the need to keep costs and fees low.

Who's Flying Where

- When airlines apply for joint venture approvals, their No .1 argument to regulators is: Joint ventures help consumers by enabling more nonstop routes. **Delta**, for its part, is showing the argument has merit. The airline's newest route is Minneapolis-Seoul, one that's likely viable only because of a new joint venture with **Korean Air**. The route will launch sometime next year using refurbished B777-200ERs outfitted with all of Delta's latest onboard products, including Delta One suites and Delta's new longhaul premium economy product. Delta already serves Seoul from Detroit and Seattle, its top two Asian gateways, as well as from Atlanta. Minneapolis currently has flights to just one Asian city: Tokyo.
- Wait, **Delta**'s not done. Also next year, it will revive a Seattle-Osaka nonstop that it flew from 2010 through 2014. But it's also abandoning its Seattle-Hong Kong route, which launched just as Seattle-Osaka was ending. It will continue to serve Hong Kong via Seoul with **Korean Air**. In terms of operating costs, this is not a like-for-like trade: Seattle-Osaka—which can operate daily with just one fully depreciated B767-300ER—is a far lower-risk route than Seattle-Hong Kong, which requires more than one B777-200.
- **SAS** will still fly nonstop to Hong Kong. But instead of doing so from Stockholm, as it does now, the airline will fly there from Copenhagen. The switch takes effect this winter, motivated by new Hong Kong slot times it managed to obtain—SAS says it can only take advantage of them from Copenhagen for "operational reasons."
- Germany is **Ryanair**'s No. 1 growth market right now. But it's growing in the U.K. too despite vocal concerns about the impact of Britain leaving the European Union next year. Brexit be damned, the airline is opening its 14th U.K. base next year at London's Southend airport. The facility is owned by the Stobart Group, which signed a five-year cooperation deal with Ryanair. It means 13 new routes next spring, five of them to Spain, using three based aircraft. Along with running Southend, the Stobart Group operates a regional airline for **IAG**'s **Aer Lingus**, noting that it feeds about 10% of the airline's transatlantic traffic. Its other major partner is **Flybe**, which it recently considered buying. **easyJet** and Flybe currently dominate Southend airport, according to Diio Mi schedule data.
- Portugal's prime minister, visiting the San Francisco Bay area last week, told Brazil's *Diario de Noticias* the city would next year get a nonstop link to Lisbon courtesy of **TAP Air Portugal**. Separately seeming to corroborate the possibility, TAP's David Neeleman, in an interview published last week by the Cranky Flier blog (see page three), noted a large ethnic Portuguese population in the bay area. TAP will soon be the first airline to receive A330-NEOs, supporting a brisk overseas expansion that began when the airline was partly privatized in 2015. TAP investor David Neeleman, by the way, also invested in France's **Aigle Azur**.
- Dublin and Edinburgh are the latest European cities with nonstop air access to China. **Hainan Airlines** is now flying A330s twice per week from Beijing to Dublin via Edinburgh, and twice per week from Beijing to Edinburgh via Dublin. At the start of this decade, Hainan Airlines served three European cities: Berlin, Budapest and Brussels. This summer, together with its sister carriers **Beijing Capital** and **Tianjin Airlines**, Hainan will serve not just Dublin and Edinburgh but also London (Heathrow and Gatwick), Paris CDG, Rome FCO, Lisbon, Madrid, Manchester, Prague and Zurich. It's still in Berlin and Brussels too, but not Budapest.
- **China Southern** is likewise bullish on Europe. Its newest project is a London Heathrow nonstop from Sanya on Hainan island. Flights, running twice weekly, will originate at the airline's Guangzhou hub, which has its own China Southern London nonstops. Outbound Chinese tourism is the main purpose of Chinese airline flights to Europe, although in this case, Sanya itself is a tourism destination.
- We turn now to the U.S. market, where most airlines are growing slowly, with the exception of ultra-LCCs. *They* are growing rapidly, as evidenced by **Spirit**'s latest announcements. Most significantly, the carrier will greatly expand its already-large presence in Orlando, which isn't only the land of Mickey Mouse—it's also one of the fastest-growing metro areas in the country, with an increasingly relevant outbound market. Spirit will try to turn the city into a Caribbean gateway, much as it has done with Fort Lauderdale. This winter, it will open flights to Bogotá (Colombia), Cartagena (Colombia), Medellín (Colombia), Aguadilla (Puerto Rico), Santo Domingo (Dominican Republic), Panama City, Guatemala City, San Pedro Sula (Honduras), San José (Costa Rica), San Salvador (El Salvador) and St. Thomas (U.S. Virgin Islands). For good measure, Spirit will also connect Orlando to two new cities on its map: Asheville and Greensboro, which also get nonstops to Fort Lauderdale and Tampa. Both Asheville and Greensboro are in North Carolina, which (by the way) has twice as many people as South Carolina (10m people versus 5m).
- During this summer's peak third quarter, **Spirit**'s scheduled seat capacity will be up 16% y/y, according to Diio Mi schedule data. Well, **Frontier**'s will be up 18%. The brisk expansion includes an exuberant buildup in—where else?—North Carolina. More specifically, Frontier is growing from Raleigh-Durham, which will soon be one of its 10 busiest airports. The latest route additions are Phoenix, West Palm Beach, Fort Myers, Cancún, Punta Cana and (this last one new to Frontier's network) Montego Bay. All will start this winter. Frontier's other big expansion cities are Philadelphia, Austin and San Antonio. It earlier this month announced some new San Diego routes too. And it's showing up in smaller cities across the country, like Wichita, Boise, Grand Rapids and Spokane, to name a few. Keep in mind, though, that Frontier is constantly cutting routes too, including—as *Routes* reports—several from Cincinnati and Cleveland. In addition, it's actually growing more slowly than Spirit measured by ASMs rather than seats, because Spirit is adding longer-haul routes like Fort Lauderdale-Seattle and Orlando-Las Vegas.
- As Italy's new political leaders debate the fate of **Alitalia**, a wild card in its future is **Air Italy**. As **Meridiana**, the carrier didn't pose much of a threat. But under its new name and image, Air Italy is armed with money from **Qatar Airways**, which wants it to be Italy's new de facto national carrier. It's now present in both New York and Miami and will this fall open Mumbai and Delhi, thereby becoming a player in the North America-India sixth-freedom market. It's also starting Bangkok service this fall. Air Italy's largest market is still Olbia on its home island Sardinia in the Mediterranean. But Milan Malpensa is the focus of its intercontinental ambitions. Alitalia's main intercontinental hub is Rome Fiumicino.
- Kuala Lumpur is a three-horse town. Or more accurately, a three-airline town. There's **Malaysia Airlines**. There's the **AirAsia**/**AirAsia X** grouping. And then there's **Lion Air**-backed **Malindo Air**, which is also trying to drive more connecting traffic through Malaysia's capital. Last week it started flights to Melbourne, albeit with a stopover in Bali and thus doable with B737s. To be clear, Malindo is shrinking overall at both of Kuala Lumpur's airports, in fact, and at other Malaysian airports. This suggests Malindo is struggling, as one might expect from the smallest horse in a three-horse race.
- Uganda hopes to revive its long-defunct national airline, in a challenge to **Kenya Airways** and its LCC **JamboJet**. One reason for the revival of **Uganda Airways**: more airline capacity to accommodate a growing oil export sector.

Global Earnings Scoreboard: Most Recent 12 Months Reported

April 2017 through March 2018 for most (Source: *AW* analysis of company reports)
Operating margin is the best way to compare airlines of different sizes in different geographies

By revenues (in m)		By net profit (in m)		By operating margin		By net margin	
American	$42,984	Delta	$3,532	**Ryanair**	**23%**	Ryanair	20%
Delta	$41,851	IAG	$2,742	**Hawaiian**	**18%**	Air Arabia	18%
Lufthansa	$41,636	Lufthansa	$2,608	**Copa**	**18%**	Copa	15%
United	$38,348	American	$2,448	**Allegiant**	**17%**	Jazeera	15%
Air France/KLM	$30,354	Southwest	$2,173	**Southwest**	**16%**	Wizz Air	14%
Emirates	$27,904	United	$2,066	**Frontier**	**16%**	Cebu Pacific	12%
IAG	$27,032	Ryanair	$1,684	**Alaska**	**15%**	VietJet	12%
Southwest	$21,233	Japan Airlines	$1,217	**Wizz Air**	**15%**	Hawaiian	11%
China Southern	$19,761	Emirates	$1,121	**Cebu Pacific**	**14%**	Allegiant	11%
Air China	$18,746	Air China	$1,053	**Spirit**	**14%**	Frontier	11%
All Nippon	$17,802	Qantas	$983	**Chorus**	**14%**	Southwest	10%
China Eastern	$15,719	Air France/KLM	$952	**JetBlue**	**14%**	IAG	10%
Air Canada	$13,087	Air Canada	$927	**Delta**	**14%**	Japan Airlines	10%
Qantas	$12,730	All Nippon	$892	**VietJet**	**14%**	IndiGo	10%
Cathay Pacific	$12,495	China Southern	$842	**Jazeera**	**14%**	Jeju Air	9%
Japan Airlines	$12,489	Turkish Airlines	$731	**IAG**	**13%**	Chorus	9%
Turkish Airlines	$11,741	Alaska	$711	**Juneyao**	**13%**	Alaska	9%
Singapore Airlines	$11,636	easyJet	$627	**Air Arabia**	**13%**	easyJet	9%
Korean Air	$10,948	Hainan Airlines	$604	**Japan Airlines**	**13%**	Spring Airlines	9%
Aeroflot	$10,471	Singapore Airlines	$603	**SkyWest**	**12%**	Delta	8%
LATAM	$10,417	JetBlue	$580	**Gol**	**12%**	Air New Zealand	8%
Hainan Airlines	$9,410	Copa	$400	**Azul**	**12%**	Juneyao	8%
Ryanair	$8,365	IndiGo	$348	**AirAsia**	**11%**	Spirit	8%
Alaska	$8,016	Wizz Air	$318	**Jeju Air**	**11%**	JetBlue	8%
easyJet	$7,214	Air New Zealand	$306	**easyJet**	**11%**	Qantas	8%
JetBlue	$7,165	Hawaiian	$301	**IndiGo**	**11%**	AirAsia	7%
Thai Airways	$5,924	LATAM	$301	**American**	**11%**	SpiceJet	7%
Asiana	$5,735	Korean Air	$296	**Comair/Kulula**	**11%**	Air Canada	7%
EVA Air	$5,621	China Eastern	$290	**Qantas**	**10%**	VivaAerobus	7%
China Airlines	$5,343	EVA Air	$283	**Air New Zealand**	**10%**	Hainan Airlines	6%
SAS	$5,142	AirAsia	$276	**United**	**10%**	Lufthansa	6%
Avianca	$4,542	SAS	$237	**Aegean**	**9%**	SkyWest	6%
Garuda	$4,252	Spirit	$225	**Pegasus**	**9%**	Azul	6%
Norwegian	$4,027	VietJet	$224	**WestJet**	**9%**	Turkish Airlines	6%
Virgin Australia	$4,009	Avianca	$221	**Turkish Airlines**	**9%**	Pegasus	6%
Jet Airways	$3,838	WestJet	$215	**Air Canada**	**8%**	Gol	6%
AirAsia	$3,836	China Airlines	$209	**All Nippon**	**8%**	WestJet	6%
Air New Zealand	$3,753	Frontier	$204	**Lufthansa**	**8%**	American	6%
Vietnam Airlines	$3,646	Gol	$204	**LATAM**	**8%**	Air China	6%
WestJet	$3,593	SkyWest	$201	**Spring Airlines**	**8%**	Aegean	6%
IndiGo	$3,570	Air Arabia	$183	**Air China**	**8%**	United	5%
Aeromexico	$3,434	Juneyao	$179	**Korean Air**	**8%**	Singapore Airlines	5%
Gol	$3,387	Allegiant	$170	**Avianca**	**7%**	EVA Air	5%
SkyWest	$3,222	Cebu Pacific	$169	**VivaAerobus**	**7%**	All Nippon	5%
Finnair	$3,133	Azul	$157	**Finnair**	**7%**	Avianca	5%
Spirit	$2,760	Asiana	$154	**SpiceJet**	**7%**	Comair/Kulula	5%
Hawaiian	$2,747	Spring Airlines	$150	**SAS**	**6%**	Sun Country	5%
Copa	$2,626	Finnair	$147	**China Airlines**	**6%**	Finnair	5%
Philippine Airlines	$2,619	Vietnam Airlines	$117	**EVA Air**	**6%**	SAS	5%
Azul	$2,528	Thai Airways	$115	**Hainan Airlines**	**6%**	China Southern	4%
Wizz Air	$2,283	Chorus	$98	**Air France/KLM**	**6%**	Emirates	4%
Juneyao	$2,191	Pegasus	$94	**Singapore Airlines**	**6%**	China Airlines	4%
El Al	$2,143	Jeju Air	$87	**Emirates**	**5%**	Vietnam Airlines	3%
Frontier	$1,915	SpiceJet	$87	**Sun Country**	**5%**	Air France/KLM	3%
VietJet	$1,859	Aegean	$74	**Asiana**	**5%**	Air Mauritius	3%
Spring Airlines	$1,761	Aeromexico	$43	**Bangkok Air**	**4%**	LATAM	3%
Allegiant	$1,553	Virgin Australia	$42	**Thai Airways**	**4%**	Korean Air	3%
Pegasus	$1,553	Icelandair	$38	**Air Mauritius**	**4%**	Asiana	3%
Icelandair	$1,463	VivaAerobus	$30	**Vietnam Airlines**	**4%**	Icelandair	3%
Cebu Pacific	$1,368	Jazeera	$30	**China Southern**	**4%**	AirAsia X	2%
Volaris	$1,353	Sun Country	$28	**Aeromexico**	**4%**	Thai Airways	2%
Aegean	$1,333	AirAsia X	$26	**AirAsia X**	**3%**	China Eastern	2%
SpiceJet	$1,209	Comair/Kulula	$23	**Icelandair**	**3%**	Aeromexico	1%
Interjet	$1,201	Air Mauritius	$18	**China Eastern**	**2%**	Virgin Australia	1%
AirAsia X	$1,118	Volaris	$2	**Virgin Australia**	**2%**	Volaris	0%
Chorus	$1,083	Cathay Pacific	($8)	**Garuda**	**1%**	Cathay Pacific	0%
Air Arabia	$1,037	El Al	($8)	**Interjet**	**1%**	El Al	0%
Jeju Air	$961	Interjet	($12)	**El Al**	**0%**	Garuda	-1%
Bangkok Air	$818	Bangkok Air	($16)	**Jet Airways**	**0%**	Interjet	-1%
Sun Country	$589	Garuda	($34)	**Volaris**	**0%**	Jet Airways	-1%
Air Mauritius	$580	Jet Airways	($53)	**Philippine Airlines**	**-1%**	Bangkok Air	-2%
Comair/Kulula	$469	Nok Air	($95)	**Cathay Pacific**	**-2%**	Aeroflot	-4%
VivaAerobus	$450	Philippine Airlines	($120)	**Aeroflot**	**-2%**	Philippine Airlines	-5%
Nok Air	$448	Norwegian	($344)	**Norwegian**	**-8%**	Norwegian	-9%
Jazeera	$203	Aeroflot	($433)	**Nok Air**	**-12%**	Nok Air	-21%

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	42.77	-1%	-12%	Ops woes at regional unit PSA persisted into Sunday, with flights halted at Charlotte
Delta	55.18	2%	6%	NY Yankees baseball exec downplays anger after multiple ops disruptions on team charters
United	73.89	6%	-4%	Int'l premium economy product—Premium Plus—rolling out this month, earlier than expected
Southwest	52.18	3%	-13%	In 2017, California's GDP grew 3.0%; Texas 2.6%, Florida 2.2%, New York state 1.1%
Alaska	63.04	1%	-29%	More California dreaming: starting San Diego-Spokane with E175s in October
JetBlue	19.19	2%	-16%	Back to pre-hurricane capacity in Puerto Rico, where it's the largest airline
Hawaiian	37.95	-2%	-18%	Submits Japan Airlines JV application to U.S., Japanese regulators; seeks antitrust immunity
Spirit	39.61	7%	-25%	Asheville and Greensboro will be the 66th and 67th destinations in its growing network
Frontier	(not publicly traded)			Colorado economy grew 3.6% in 2017, second fastest in U.S. behind Wash. state's 4.4%
Allegiant	149.45	0%	4%	Executives coming and going; latest arrival is a newly-appointed chief information officer
SkyWest	57.20	2%	56%	Latest U.S. regional to throw money at new hires: UA/DL partner GoJet offers $56k bonus
Air Canada	23.19	0%	35%	ULCC Flair entered three markets last week: Calgary, Victoria and Halifax
WestJet	19.22	-3%	-14%	Swoop, its new ultra-LCC, obtains operating certificate; plans launch this week
Aeroméxico	24.00	3%	-37%	If only Mexico's low-margin airlines were as successful as its football/soccer team
Volaris	11.17	2%	-56%	Adding domestic routes form Mexico City, Bajío, Tijuana; VivaAerobus with new routes too
LATAM	10.13	7%	1%	Norwegian still developing Argentine domestic plans; has local gov't deal to serve Córdoba
Gol	6.17	-6%	41%	Homebody: Domestic capacity accounts for about 88% of its total ASKs
Azul	18.46	-2%	-9%	Traffic (RPKs) and capacity (ASKs) both up 14% y/y in May; boosted by new int'l routes
Copa	100.03	-1%	-11%	Increasing frequencies to Curaçao, Montego Bay, Mendoza, Recife, Fort Lauderdale, Tampa
Avianca	7.27	-4%	9%	Teaming with Canada's CAE to build new pilot training center in Bogotá
Emirates	(not publicly traded)			Generates $28b in annual revenues, compared to $11b for Qatar Airways and $6b for Etihad
Air Arabia	1.13	0%	9%	Nile Air, a privately-owned Egyptian airline, signs codeshare pact with Turkey's Pegasus
Turkish Airlines	12.86	-5%	77%	Considering order for B777-Xs, its chairman tells the U.A.E.'s *National*
Kenya Airways	11.50	20%	102%	RwandAir CEO, speaking to IATA in Sydney, calls for African airlines to cooperate more
South African Air.	(not publicly traded)			Downsizing its Air Chefs catering unit; will lay off 118 workers to save money
Jet Airways	385	-3%	-29%	Newest AirAsia India destination is Amritsar, with daily nonstops from Bangalore
IndiGo	1226	4%	2%	Tuticorin in Tamil Nadu state among its new secondary cities served with ATRs
Crude oil futures (WTI, for delivery next month; source New York Mercantile exchange)	$65	-1%	45%	President Trump tweets: "Oil prices are too high, OPEC is at it again. Not good!"

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

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
Lufthansa	23.10	0%	24%	Ver.di union, speaking for all Eurowings work groups, says airline is understaffed
Air France/KLM	7.01	3%	-36%	On top of its own labor problems, French air controller strikes disrupting peak season travel
IAG	714	3%	21%	Group carried 105m pax in 2017, less than Lufthansa's 130m but more than AF/KLM's 99m
SAS	18.33	1%	-1%	Hiring Ireland's CityJet, a former Air France subsidiary, to operate more regional routes
Alitalia	(not publicly traded)			Spain's economy has grown more than twice as much as Italy's since 1990 (*Washington Post*)
Finnair	10.14	0%	75%	ASK capacity through May up 19% y/y; Asia ASKs up 27%, boosted by new Nanjing route
Virgin Atlantic	(not publicly traded)			LOT Polish, growing rapidly since restructuring, to start Warsaw E190 route to London City
easyJet	1755	2%	29%	Ready to serve London Heathrow and cut fares there if and when new runway is built
Ryanair	16.06	0%	-13%	Stobart hoping to make London Southend a solution to the city's airport capacity problem
Norwegian	248.8	2%	12%	Still frustrated by inability to secure Russian overflight rights; stunting its plans for Asia
Wizz Air	3647	6%	59%	New Vienna base now up and running; Wizz, Laudamotion making life tough for Austrian
Aegean	8.91	1%	13%	Cyprus-based Cobalt Air, launched in 2016, now offering 23 destinations incl. five in Greece
Aeroflot	140.50	-2%	-20%	Moscow SVO pax up 13% y/y in first 4 months of this year; Moscow DME down 2% (ACI)
Japan Airlines	4294	1%	25%	Hopes to get regulatory approval for Hawaiian JV by year end; aims for JV launch in Q2'19
All Nippon	4450	1%	14%	First B787-10 due to arrive in March 2019, about the same time as new A380s should arrive
Korean Air	32000	1%	-13%	EastarJet, an LCC, now running Seoul flights to Vladivostok; its first route to Russia
Cathay Pacific	13.58	0%	10%	First A350-1000 arrives from Toulouse this week; seven more will arrive before year end
Air China	9.69	0%	25%	Air New Zealand says it would like to offer another Shanghai frequency but can't get slots
China Eastern	6.81	2%	52%	Will step up cooperation with SkyTeam partner Aeroméxico; codesharing begins October
China Southern	8.77	2%	35%	Introduced seven new planes in May: B787-9 (1), B737-MAX (1), B737-800 (3), A321 (2)
Singapore Airlines	11.19	-2%	12%	First ultra-long-range A350 to arrive in September; Newark nonstop to launch in October
Malaysia Airlines	(not publicly traded)			Says second half of this year will be more challenging than the first half, with fuel prices up
AirAsia	3.20	0%	-2%	Launching Kota Kinabalu-Bangkok DMK route in August; hopes for tourism both directions
Thai Airways	15.40	-3%	-25%	Thailand's economy grew at its fastest pace in five years last quarter; GDP up almost 5% y/y
Vietnam Airlines	35200	-5%	57%	Startup Bamboo Airways eyes launch this year; will avoid congested Hanoi, HCMC airports
Cebu Pacific	84.50	-3%	-16%	Upgauging to A321-NEOs essential to its growth plans from Manila, where the airport is full
Qantas	6.46	0%	17%	Seeks new external revenue opportunities by leveraging data and marketing capabilities
Virgin Australia	0.23	5%	28%	Australia's economy grew 3% y/y in Q1, ahead of expectations as mining exports rose
Air New Zealand	3.05	3%	0%	Just over three quarters of its employees unionized; airline currently has four unions

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

He's Baaaack: Stop what you're doing. JetBlue founder David Neeleman wants to launch a new U.S. airline.

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But what exactly does Moxy plan to do? According to the presentation, the startup sees big opportunity in smallish airports, detecting consumer frustration with increasingly congested mega-hubs in regions like the U.S. northeast and west coast. Consolidation, it says, has reduced options while creating a "comfortable oligopoly" of carriers with high fares and higher-than-ever profits. In the past four years, Moxy's argument goes, U.S. airlines earned $72b in profits. And in the decade from 2007 through 2017, the U.S. economy grew 34%, but the number of domestic airline seats didn't grow at all. At smaller airports in smaller markets, seat counts shrunk, in some cases sharply.

Are fares really so high? Well, in inflation-adjusted terms, they remain near their all-time lows. And after (true enough) years of suffering, some smaller airports have more recently seen their air service grow impressively (see *Airline Weekly*'s May 14 cover story, "Small of Fame.") That said, U.S. airline profits, even if down a bit during the past couple of years, indeed remain near their all-time highs. As Amazon's Jeff Bezos would say to the incumbents: "Your margin is my opportunity."

With big hubs getting more crowded, Moxy says journeys are becoming less comfortable and more time consuming. Its promise? To "get you there twice as fast for half the price."

Half the price? Making money with low fares, of course, requires low costs. And Moxy's plan for keeping its unit costs low includes, for starters, flying from cheaper airports charging lower fees, similar to what Ryanair does in Europe or what Southwest once exclusively did in the U.S. (Ryanair, following Southwest's lead, has more recently entered some primary airports.) Using secondary airports, furthermore, should make Moxy a more reliable airline, enabling it to avoid the delays typical at big airports—this will help save money too. The new airline will schedule its flight crews to minimize costly overnight stays. It won't sell connecting itineraries—just point to point—joining only Allegiant, among notable U.S. airlines, in this regard. Planes won't have seatback screens. Moxy will rely heavily on digital self-service passenger tools, thereby reducing labor costs. Most distribution will be online. And as important as any other factor—in a country where the second-youngest airline will be 20 years old when Moxy hopes to launch in 2020—the new airline will have an all-junior workforce and won't be burdened with legacy costs and contracts. JetBlue surged to near-instant profitability by producing, at far lower costs than its then-bloated legacy competitors, an offering people actually preferred over then-tattered legacy products.

Just as importantly, and also of broader significance for global aircraft markets: Moxy is betting big on the CSeries. It has secured orders for 60 CS300s, with plans to take the first in early 2020 and all 60 by the end of 2024. (We'll see when Bombardier next updates its published order book, probably in early July, whether these are all net new orders for the program, or whether any came from another CSeries customer.) That would be a rapid ramp-up, ensuring quick capture of scale efficiencies—one of the deterrents against other new entrants has probably been a lack of capital to achieve sufficient scale in an industry where the smallest notable incumbents have about 100 aircraft. The CS300, Neeleman seems to believe, has precisely the right economics for point-to-point nonstops from secondary airports. And given Bombardier's struggle to sell it, Moxy surely got a good deal. Neeleman's reputation and track record just as surely helped its negotiating leverage. This becomes even more relevant as Airbus steps in as a CSeries backer and marketer—Neeleman made JetBlue one of the world's largest Airbus customers and followed with big Azul and TAP Air Portugal Airbus orders.

Moxy seems keen on secondary airports in the country's biggest metro areas like Boston, New York, Washington, Chicago, San Francisco and Los Angeles. Providence, outside Boston, features prominently as an example in Moxy's presentation. On a map of prospective routes, it shows Providence flights to Allegiant-like airports in Florida (i.e., Orlando Sanford and St. Petersburg) and California (i.e., Oakland, San Jose, Contra Costa, Orange County, Burbank, Ontario and McClellan-Palomar, north of San Diego). Other dots from Providence include Phoenix Mesa, Rocky Mountain Airport near Denver, Concord near Charlotte, Fort Worth's Meacham Airport and Burke Lakefront Airport in Cleveland. Aside from Providence, other northeast region airports of interest to Moxy include Baltimore, Trenton, Stewart (halfway between New York City and Albany) and Republic Airport in eastern Long Island.

Moxy also shows maps with extensive California, Florida and northeast service from Gary, Indiana, south of Chicago. Also shown as future potential destinations: sub-hub markets like Milwaukee, Oklahoma City, Albuquerque, Little Rock and Nashville. Moxy says many of these cities are today inaccessible to large numbers of Americans unless they connect through a big hub. Indeed, these are the types of cities that lost so much air service in the past decade: Southwest has 42% fewer scheduled seats at Providence today than it had there a decade ago, according to Diio Mi schedule data. Similarly, it's dramatically smaller at airports like Little Rock, Jacksonville, Richmond and Tulsa.

Moxy notes the CS300's ability to fly not just transcontinentally, which seems to be a big part of its plan, but also transatlantically from places like Providence—a range map from there shows not only Ireland but also the U.K. and most of France and Spain within reach, using a less dense configuration for longer-haul markets. Moxy separately reminds investors that Azul struck gold by recognizing Campinas as a more convenient, operationally-smoother alternative airport for São Paulo. It hopes to hit similar jackpots at alternative airports in the U.S.

Moxy will have a somewhat unbundled product, but it won't be an ultra-low-cost carrier. It'll tout amenities like free Wi-Fi, short security lines, uncongested terminals and five-abreast seating that minimizes the chance of sitting in a middle seat—and if you get one, it'll be a generous 19 inches wide. Other airlines, Moxy says, have driven up load factors by six points in the past 10 years while reducing seat size and legroom. Moxy envisions as many as four classes of service, including lie-flat first-class seats for longhaul routes—the CS300s look likely to be configured with between 120 and 145 seats.

Moxy is now in the advanced stages of recruiting a CEO, CFO and other top executives. Trey Urbahn, a longtime Neeleman co-conspirator at JetBlue, Azul and TAP, looks likely to have a prominent role. (Urbahn couldn't immediately be reached for comment.)

Naturally, other U.S. airlines will take notice as they learn of Neeleman's grand plans, and as further details of those plans are publicized. JetBlue could be rather exposed, with a heavy presence in the northeast, Florida and transcon markets. Southwest too could be vulnerable, as could Allegiant and others at smallish airports. The U.S. Big Three could lose some small-city connecting traffic, although for perspective, years will pass before Moxy accounts for even 1% of domestic U.S. capacity. It's hardly a threat, in other words, to destroy industry profitability. Moxy, meanwhile, thinks rivals won't have the right airplanes to challenge the CS300s in smaller markets, especially as their upgauging strategies leave them with a preponderance of larger narrowbodies like B737 MAX 8s and A321-NEOs.

But do travelers really want to fly from secondary airports? Southwest's migration from airports like Providence to big-city airports like Boston suggests the opposite might be true. Don't forget: Southwest has more than 500 B737-700s, with nearly identical capacity to that of the CS300, and it certainly doesn't have an ingrained bias against secondary airports. On the contrary, it slashed capacity at Providence only reluctantly, in favor of a Boston buildup, after missing an earlier opportunity (which JetBlue grabbed) to establish a commanding presence in Boston. With some millennials ditching their cars and moving into city centers, moreover, fewer people might be tempted by alternative airports, with their cheap or free parking. Moxy, of course, won't have the lure of a powerful loyalty plan. It presumably won't have a big portfolio of international partners—few foreign airlines fly to U.S. secondary airports. And it won't have the benefit of competing against legacy incumbents as sickly as those JetBlue attacked in its early days.

Maybe not. And there's no guarantee Moxy will even get off the ground. But David Neeleman's record of succeeding in the face of skeptics is legendary, dating back to his days at Morris Air. JetBlue was a success. WestJet was a success. Azul is becoming a success. And Moxy? In another few years, the industry will have the answer. ❍