AIR FRANCE-KLM IS LOOKING WEAKER HEADED INTO 2016

News / Airlines

Air France-KLM Group, ranked as Europe’s biggest airline since its formation in 2004, is teetering toward an exit from the industry’s top tier after a year in which efforts to slash costs foundered on union opposition.

While figures due next week are likely to confirm the Franco-Dutch company as the No. 1 regional operator by traffic, a multiple of passengers and kilometers flown that’s viewed as an industry standard, the number masks a mounting crisis: by a host of other measures, the carrier looks distinctly second rate.

Shares of Air France-KLM fell 12 percent last year as Chief Executive Officer Alexandre De Juniac’s restructuring faltered. It trails Germany’s Deutsche Lufthansa AG, the European No. 2 by traffic, in revenue, is dwarfed by British Airways parent IAG SA, the No. 3, in value, and has had four years of losses.

Air France-KLM’s market capitalization of 2.3 billion euros ($2.5 billion) is less than a third of the 7 billion-euro worth of Lufthansa, whose stock rose 5.3 percent in 2015 despite labor woes, and barely one-seventh that of IAG, valued at 12.1 billion pounds ($18 billion) after a 26 percent share surge.

De Juniac faces many of the same challenges as Lufthansa CEO Carsten Spohrand Willie Walsh of IAG, as discount carriers including by Ryanair Holdings Plc, Europe's most valuable airline after a 50 percent share jump in 2015, attack the short- haul market and Mideast raiders led by Dubai-based Emirates divert lucrative inter-continental passengers through their Persian Gulf hubs.

What marks the Paris-based carrier out are higher labor costs at its French arm and a perennial incapacity among top management to overcome workplace opposition, compounded by interventions from the French state — which owns a 15.88 percent stake — whenever the leadership digs in and disputes drag on.

“Walsh, first at British Airways, then at Iberia, has confronted these issues,” said Jonathan Wober, an analyst at the CAPA Centre for Aviation in London. “Spohr hasn't quite done it, but he's tough and is trying his hardest.”

By contrast, De Juniac's latest push on costs was stymied amid union clashes that culminated in managers fleeing a meeting with their clothes in tatters.

Analysts estimate, on average, that Air France-KLM — which declined to comment for this article — lost 88 million euros in 2015, compared with net income of 1.38 billion euros at Lufthansa and 1.55 billion euros at IAG, as International Consolidated Airlines Group SA is known.

The French carrier already trails 20 percent behind Lufthansa in sales, which totaled 25 billion euros in 2014, compared with 30 million euros at the German carrier. IAG was 5 billion euros back, but has since bought Aer Lingus Holdings Plc, with 1.6 billion euros of revenue, and expanded discount arm Vueling.

Lufthansa, profitable in eight of the past 10 years, is No. 1 by passengers, carrying 100 million in the first 11 months, versus 83 million at Air France-KLM, including discount airline Transavia, which De Juniac wants to expand.

Hobbled by a weak balance sheet, Air France-KLM watched from the sidelines as Lufthansa added the Swiss, Austrian and Belgian national airlines and British Airways formed IAG through its deal for Spanish flag carrier Iberia. Walsh has also bought British Midland to cement BA's dominance at London Heathrow, Europe's top airport, taken full ownership of Vueling, and purchased Aer Lingus.

IAG already has limited short-haul exposure after a decision to pare the European network mainly to feeder flights, as well as the strongest position in a North Atlantic market ranked the world's biggest for business travel and an alliance with Qatar Airways that's boosted access to Asia.

The importance of Paris as a global destination should forestall a collapse at Air France-KLM, though De Juniac has said the fleet and network will be shrunk to only the strongest routes if a pilot productivity deal isn't sealed this month.

Yan Derocles, an analyst at Oddo Securities in Paris, suggests the company may even follow a similar path to Italy's Alitalia SpA, now 49 percent owned by Etihad Airways of Abu Dhabi after years of failed turnaround attempts.

“The French state may just decide it’s no longer worth bothering, and the airline will have to link up with another, stronger carrier,” he said.

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