AIR NZ FORECASTS $400MLN FIRST HALF PRE-TAX PROFIT

News / Airlines

Air New Zealand expects to almost double **pre-tax profit** in the first half of 2015/16 as the airline benefits from lower fuel prices, a simplified fleet and a "buoyant" tourism market.

The Star Alliance carrier had guided the market to expect "significant earnings growth" in the current year at its 2014/15 results presentation in August and chairman Tony Carter told shareholders at Wednesday's annual general meeting in Auckland that view had "strengthened" after a strong start to 2015/16.

"We are very pleased with the first quarter performance of the 2016 financial year and the business is on target to exceed profit before tax of $400 million for the first half of this financial year," Carter said in prepared remarks.

"Looking ahead, the company is very well positioned with buoyant tourism to New Zealand, a lower current fuel price environment, an increasingly efficient fleet and a company with proven agility in responding to changing circumstances.

"As a consequence, we are confident of our ongoing strong performance in the coming years.

“The company is in the best shape it has ever been and ready to seize on the many opportunities in front of it.”

The forecast of NZ$400 million profit before tax excludes any contribution from its 26 per cent shareholding in Virgin Australia, suggesting the result for the six months to December 31 2015 could be even higher given Virgin is expected to be profitable and therefore make a positive contribution to Air NZ’s bottom line in 2015/16.

Air NZ reported normalised profit before tax of $216 million for the first half of 2014/15, which included a NZ$14 million loss from its 25 per cent stake in Virgin.

Air NZ has maintained capacity forecasts of 11 per cent growth in available seat kilometres (ASK) across its domestic and international network for the full 2015/16 year.

This included two new long-haul routes – Auckland-Houston and Auckland-Buenos Aires – starting in December, as well as eight per cent growth across its domestic network from additional frequencies to Auckland, Christchurch and Queenstown and the gradual phasing out of 19-seat Beech 1900D aircraft on regional routes, with the type due to be withdrawn by the end of 2016.

“Stronger commercial results will be achieved through growing and developing our markets through the use of our own fleet and network and in conjunction with alliances partners to expend our presence in the Pacific Rim,” Air NZ chief executive Christopher Luxon told shareholders in prepared remarks.

Air NZ chief executive Christopher Luxon. (Jordan Chong)

Luxon said demand in the domestic market was “filling the additional capacity already”, given the airline’s August traffic stats showed domestic revenue passenger kilometres rose 7.2 per cent compared with a 7.4 per cent increase in ASKs.

“We are very proud of our New Zealand domestic and regional network and will continue to operate a world class jet and turboprop network providing the best product for customers with the frequency, service, reliability, reputation and value to respond to any competition,” Luxon said.

Air NZ faces a fresh competitive threat on its home turf from December when Qantas’s low-cost unit Jetstar commences regional operations with a fleet of five Q300 turboprops, with Nelson, Napier, New Plymouth and Palmerston North, Auckland and Wellington the initial destinations.

Meanwhile, there was “modest” four per cent growth forecast for trans-Tasman, which is served in partnership with Virgin, and Pacific Islands routes.

“We will also see fleet simplification on the Tasman going forward as we replace the Boeing 767s with new Boeing 787-9s – providing additional capacity and giving our customers a greater inflight experience,” Luxon said.

“Our alliance with Virgin Australia is going from strength to strength and provides us with 51 per cent market share on the Tasman.”

Air NZ this month started offering premium economy for sale on its trans-Tasman, Bali and Pacific Islands services operated by Boeing 787-9, 777-200ER and 777-300ER fleet.

The company’s share price fell about 20 per cent from a closing high of NZ$2.99 at the end of May to a low of NZ$2.35 in mid-September, as some analysts expressed concerns about the impact of the new competition on regional routes.

However, Air NZ’s shares have recovered since then and closed Wednesday’s NZ trading session up 3.41 per cent at $2.58 in response to the positive outlook statement.

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