QANTAS POSTS BUMPER PROFIT AS INTERNATIONAL NETWORK SOARS

News / Airlines, Finance

Qantas chief executive Alan Joyce has delivered a bumper 2015/16 first half profit, with the Flying Kangaroo's international operations "going gangbusters" as the lower currency fuels demand for travel into Australia and alliance partners funnel passengers onto a domestic network that is also reporting strong profit growth.

The airline group reported statutory net profit after tax for the six months to December 31 2015 of $688 million, more than three times the $203 million in the prior corresponding half.

Revenue rose five per cent to $8.46 billion, Qantas's first half results released on Tuesday showed.

While the reduced fuel bill – Qantas paid $448 million less in the 2015/16 first half compared with the the prior year – had played a part, Qantas chief executive Alan Joyce noted not all airlines were benefitting to the same magnitude as Qantas.

Rather, Joyce said the overall result was driven by the airline's cost reduction program, which yielded $261 million in savings in the half, bringing to $1.36 million the total savings achieved as part of the airline's $2 billion transformation program.

This was best illustrated when Qantas's results were compared with the Virgin half-year figures announced on February 11, Joyce said.

"If you look at it against our major domestic competitor here, Qantas, three times the size, made 11 times the profitability and 140 times the operating cash flow. There is something more going on than just fuel," Joyce told reporters at the airline's Mascot headquarters on Tuesday.

Underlying profit before tax, which excludes one-off items and the airline regarded as the best indication of financial performance, came in at $921 million, up from $367 million in the prior corresponding period.

It was the highest first half underlying result in Qantas's history and at the top end of company guidance issued in December of a result between $875 million and $925 million. It was also a little above the consensus estimates of financial analysts.

Qantas International going gangbusters

Qantas International was a star performer in the half, with underlying earnings before interest and tax (EBIT) surging to $270 million, compared with $59 million in the prior corresponding period.

Joyce said it was best result for Qantas International since the global financial crisis, "probably close if not the best that it's had in its history", with operating margins increasing seven percentage points to 9.1 per cent in the half.

"Considering the position Qantas International was in just a few years ago, this turnaround is remarkable," Joyce said.

Qantas commenced new services to Tokyo (from Brisbane), San Francisco (from Sydney) and added additional flights to existing ports during the six months to December 31, resulting in a 6.5 per cent increase in capacity measured by available seat kilometres (ASK).

Those extra seats and additional services, achieved through a five per cent increas in fleet utilisation, were more than absorbed by the market, with revenue passenger kilometres up 7.6 per cent in the half, resulting in load factors rising 0.9 percentage points to 83.3 per cent.

"We are seeing the new routes that we're adding across the board performing above expectations," Joyce said, adding that San Francisco was performing ahead of the airline's expectations while services to Tokyo were "going gangbusters".

"The reason why it's working is the transformation that's gone through international getting its cost base right, the Aussie dollar where it is, and the fuel price helping has made a lot of these routes very profitable for us.

To help meet the expected inbound demand, Qantas announced on Tuesday it would maintain its Boeing 747-400/400ER fleet at 11 aircraft in the period ahead, reversing a previous decision to retire two of the jumbos by the end of 2015/16. The company also announced it expected to hire 170 new pilots over the next three years, its first significant recruitment of pilots since 2009. During this time, the airline is bringing the first of eight Boeing 787-9 Dreamliners into the fleet.

Qantas's domestic network lifted underlying EBIT by 70 per cent to $387 million, compared with $227 million previously, and achieved double-digit operating margins at 12.9 per cent.

While the resources sector remained weak – Joyce said Qantas expected a $50 million drop in revenue due to the weakness in the mining-related markets – the financial services and government sectors were healthy.

Qantas said it would continue to shift capacity out of WA and Queensland, including the use of smaller aircraft in those states.

To that end, the airline is shifting two Boeing 737-800s currently flying in Western Australia onto international routes, such as a new year-round three times a week Brisbane-Christchurch offering and increased frequencies on Perth-Singapore, with three Fokker 100s to join the fleet operating intra-WA services.

And its partnerships with the likes of American, China Eastern and Emirates are also giving Qantas Domestic a boost, with Joyce noting Chinese visitors to Australia typically took two or three domestic flights while in the country.

“There’s going to be a 50 per cent growth in capacity coming from China into Australia in the second half,” Joyce said. “We see that strength enhance our Shanghai service and our Hong Kong services.”

Qantas chief executive Alan Joyce and chief financial officer Tino La Spina with pilots at the airline’s Mascot headquarters. (Jordan Chong)

Jetstar posts record result

The Jetstar group of airlines – comprising Jetstar Australia and New Zealand, Singapore-based Jetstar Asia, Jetstar Pacific in Vietnam and Jetstar Japan – reported underlying EBIT of $262 million, up $181 million from the prior corresponding period.

It was a record result for the low-cost airline group and the third biggest contribution to underlying earnings, behind Qantas Domestic and International.

“To show you just how good Jetstar’s performance was, this half year profit is bigger than its best ever full year result,” Joyce said.

While Qantas does not break out the financial results of the separate Jetstar airlines, the company did say revenue in Jetstar’s Australian domestic operations grew 10 per cent in the half “amid strong low fares demand”.

However, there was a $23 million impact from the disruptions to Bali flights due to the volcanicash cloud.

And Jetstar’s Asian ventures were “collectively profitable in the first half, compared to a loss in the prior comparative period”, Qantas said, with Jetstar Japan posting its first half year profit amid improved fleet utilisation and expansion onto international routes.

While Qantas did not provide financial guidance for the rest of 2015/16, the company did outline some capacity forecasts.

The airline group said it expected to grow capacity in the Australian domestic market about two per cent in the 2015/16 second half.

Qantas’s international operations was tipped to grow capacity nine per cent, while Jetstar’s overseas flying from Australia is likely to increase by 12 per cent to take into account the transition from the Airbus A330-200 to the Boeing 787-8.

While no dividend was declared, the Qantas board has approved a share buy-back of up to $500 million due to start in March.

The share buy-back comes on top of Qantas’s $505 million capital return to shareholders in 2015.

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