ANALYSIS: WHAT DOES THE FUTURE HOLD FOR SINGAPORE AIRLINES IN THE US?

News /

Singapore Airlines is set to resume nonstop service to the United States, as it plans to relaunch service to Los Angeles and New York utilizing the newly launched Airbus A350-900ULR. Singapore Airlines will become the launch customer for the type with an order for seven aircraft, with up to 16 additional purchase options linked to the carrier's existing A350-900 order. The new extended-range aircraft from Airbus will allow Singapore Airlines to restart services to Los Angeles and New York after they were dropped in 2013 when the carrier's sub-fleet of Airbus A340-500 quad-jets was retired.

The new A350-900ULR solves the biggest problem with Singapore Airlines' previous attempts at nonstop service to the US, namely the high fuel burn of the A340-500. The fuel expenses of the A340-500, especially during oil spikes such as those from 2006-2008, and 2010-2011, made these ultra-long haul (ULH) routes economically untenable. Singapore Airlines could have elected to utilize the Boeing 777-200LR, which was released five years after the A340-500 and is 20% more

fuel efficient over similar ranges. But buying the 777-200LR would have necessitated adding a costly subfleet at a time when Singapore Airlines was heavily focused on simplification. The 777-200LR was also still not fuel efficient enough to make ULH services viable in any fuel environment, and would have quickly been obsoleted in long haul service by the Boeing 787 and Airbus A350.

The 777-8X was too much aircraft

A more realistic option was the Boeing 777-8X, the smaller of the re-engined Boeing 777X aircraft which serves as the spiritual successor to the 777-200LR while offering as much capacity as the present day 777-300ER. The 777-8X will be used for ULH missions by Emirates, Qatar Airways, and Etihad, and it is a more than the A350-900ULR. The 777-8X does not need to max out its fuel tanks to complete the 8,700 nautical mile (nm) flight from Singapore to Newark and it can carry more passengers than the A350-900ULR, increasing flight revenue potential. That revenue advantage is limited, however, because both aircraft offer similar cargo payloads. The 777-8 is a heavier airplane that will carry more weight across the distance interval, and because of the low density configuration (projected at 170 seat mix of premium economy and business), it is less economical with only marginal (15 business class or 30 premium economy) added revenue potential.

Finally, the ease of integrating the A350-900ULR into its fleet relative to the 777X made it a no brainer. At the end of the day, aggressive sales/discounting from Boeing were not enough to overcome inertia with the A350 at Singapore Airlines. With 63 A350s on order prior to the ULR purchase, it was easy for Singapore Airlines to use existing deposits and contracts for the new aircraft. And the A350-900ULR offers far more flexibility. If the new wave of ULH flights doesn't work out, the aircraft can easily be converted back into normal A350-900s and return to service in the broader fleet. In comparison, the 777-8X would have necessitated the creation of an expensive sublet or an added order of Boeing 777-9Xs as a direct replacement for the 777-300ERs currently in Singapore Airlines' fleet.

But such an order never made sense given the size of Singapore Airlines' A350 purchase (63, now 67 airframes) which includes full replacement of their 58-frame Boeing 777 fleet (including 26 777-300ERs). The carrier is centering its entire future fleet around the 787-10, A350, A380, and under that vision, if they need a direct replacement for the 777-300ER, they will simply add the A350-1000 to the fleet. For the moment, Singapore Airlines will focus on the 787-10 for regional routes. They currently have 30 of the type on order but we expect the order to approach 50 frames in the long run depending on how the 787s work out at low cost subsidiary Scoot. The A350-900s are earmarked for long haul and as mentioned the A350-1000 might make an appearance. That being said, with the new long range capabilities of A350-900ULR, the smaller plane is probably better for Singapore Airline's business model and premium focus. We also expect the A380 to play a continued role in Singapore Airlines' fleet, serving a mix of high volume long haul and regional routes. Singapore Airlines will order the A380neo if/when it is built, but the problem for Airbus is finding airlines other than Singapore Airlines and Emirates that feel that way.

The US market is of critical importance for Singapore Airlines

For much of modern history, the US has been an important market for Singapore Airlines, who began serving Los Angeles all the way back in 1973 with Boeing 747-200Bs. Over the years, Singapore Airlines built a strong one-stop operation for services to the US paired with the non-stops to LA and NYC in the early 2000s. But in recent years, the carrier has fallen behind Cathay Pacific and even Eva Air/China Airlines in premium traffic to East and Southeast Asia due to its lack of nonstop service. This has weakened the Singapore hub, which should be a natural powerhouse.

Singapore is naturally positioned with the right location, network, and frequency to be the definitive gateway for passengers flying between the US and Thailand, Vietnam, Malaysia, Singapore itself, and Indonesia. Singapore could also play a much larger role in serving the massive US-India market, and would especially appeal value conscious Indian and Indian American travelers. But Singapore Airlines loses out on this traffic today because their itineraries from key markets (LA, Bay Area, Seattle, NYC, Chicago, Washington DC, Dallas, and Houston) are two stop versus one stop on competitors.

The new nonstop will reverse this trend, strengthening connectivity while giving Singapore Airlines clear dominance over the lucrative origin and destination traffic between Singapore and the US due to strong customer preference for nonstop flights. The competition from US carriers for this traffic at present is marginally viable against Singapore Airlines but it will fall apart in the face of nonstop flights. United Airlines flies to Singapore daily with 777-200ERs from Tokyo Narita and Hong Kong, flights which are admittedly fed by multiple daily United flights from its hubs. Delta flies a daily Boeing 767-300ER from Tokyo Narita, a hub that is steadily being dismantled in favor of Seattle. And beyond this meager competitive presence, there aren't many prospects. Delta could fly a Boeing 777-200LR between Seattle and Singapore, but Seattle hub revenue is weak and Delta is already struggling to make its existing service to Hong Kong work. United could also operate the route with a Boeing 787-9 from San Francisco, but the aircraft would be payload restricted over that distance (without a sub-fleet with lower density configuration), and the configuration of United's existing 787-9 fleet is sub-optimal for ULH services and the dynamics of the Singapore market.

San Francisco is probably next after NYC and LA

Singapore Airlines has already announced service to Los Angeles and New York City beginning in 2018. For the NYC metro, people assume that the carrier will choose Newark because that's what it chose to do previously. But it's not immediately clear that New York JFK isn't a better bet, as evidenced by the fact that Singapore Airlines retained its one-step light from JFK even after withdrawing from Newark. NYC premium traffic does prefer JFK (weakly), in part because it offers a superior premium cabin ground experience versus Terminal B at Newark. Singapore Airline's ties with Star Alliance partner United Airlines are also more frayed and that could play into a decision to focus on JFK.

A more interesting problem is what to do with the carrier's existing one-stop US flights. The current New York JFK flight via Frankfurt is a daily A380, but once there's a nonstop, the reduction in premium cabin demand will probably force a downgrade to a daily Boeing 777-300ER. Los Angeles is currently served with a daily A380 via Tokyo Narita, but once again, premium traffic migration to the nonstop will likely push this route towards a daily 777-300ER. Beyond LA and New York City, we project San Francisco to be the next US city to receive nonstop service from Singapore Airlines. San Francisco is currently served with two separate daily 777-300ERs via Seoul and Hong Kong. One of these is likely to be dropped once Singapore Airlines adds nonstop San Francisco, and the slight edge should go to Seoul, which is a more competitive market with 3

home carriers versus 2 at Hong Kong. The last onestop route is Houston – Moscow (Domoededovo) – Singapore, which is currently served by a daily 777-300ER. Its fate is entirely dependent on the oil market + Russia. If oil prices stay down and Russia's geopolitical/economic situation metastasizes, then this flight will probably be cut in frequency if not outright eliminated. But if by 2018 the oil industry recovers, then IAH-SIN is a prime candidate for a nonstop due to the premium cabin demand.

But for starters, you're looking at daily flights to the Bay Area, NYC, and LA on a fleet of seven aircraft, which allows for the necessary one spare aircraft built into the operation. Where Singapore Airlines goes after that is a bit more up in the air. Additional services would have to come from firm order conversions or exercising options, so the financial justification would have to be very solid. The other markets that could be on Singapore Airlines' radar include Houston (as previously mentioned), Chicago O'Hare, Seattle, Dallas Fort Worth, and Washington Dulles. Houston is contingent on oil prices, but if the industry picks up, Singapore Airlines will be there with a nonstop. Chicago O'Hare has been a target for the carrier for several years and it makes a lot of sense. It's a large O&D market to Southeast Asia (~150 PDEW once nonstop stimulation comes into play), with a Star Alliance hub for feed and a good market of affluent South Asians to push onto connections.

Seattle is an interesting market with good premium demand due to the tech industry, but the overall size is not enormous and a big constraint in Seattle is uncertainty over Delta's plans there (and the knock off effects on pricing). Dallas Fort Worth is a large ethnic market, but its international service is a bit overheated (even the big Middle East players are straggling a tad) and the O&D to Southeast Asia skews towards low yield volume (not Singapore Airlines' market). Washington Dulles has good demand and plenty of wealth, but it would be a very long flight to a market smaller and less premium than NYC. This route could, however work by the mid 2020s if the DC area continues to boom. Overall, these are our projections for where Singapore Airlines will go next in order of likelihood. Note that the highest ranked item on this list, we project to have just a 50% chance of occurring and downwards from there:

1. New nonstop to Chicago O'Hare
2. Additional frequency to Los Angeles
3. New nonstop to Houston
4. Additional frequency to NYC
5. New nonstop to Washington Dulles
6. New nonstop to Seattle
7. New nonstop to Dallas Fort Worth

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