CHINESE AVIATION SECTOR FLIES INTO 2016 ON RECORD PROFITS

News / Airlines

China's aviation industry is coming to the end of its most profitable year in history and is headed for a 2016 that will see more new airlines formed and new international routes added as the sector stands out as a bright spot in the mainland's slowing economy.

The industry turned in a total profit of 54.8 billion yuan (HK$65.7 billion) in the first 11 months of the year, up 76.2 per cent year on year, according to the Civil Aviation Administration of China's annual work meeting late last week. Low oil prices have helped the industry save on its biggest single cost and further stimulate demand with lower ticket prices, despite the yuan's sharp devaluation in the second half eating into airlines' bottom lines.

The top aviation regulator said passenger traffic had grown by an average of 10.4 per cent a year for the past five years, with the industry's accumulated total profit for the five years reaching 180 billion yuan – more than triple the amount in the previous five years. China's commercial fleet has

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grown by

1,047 planes to 2,645 planes in the past five years, while the number of airlines increased from 45 to 54.

Several start-up airlines formed this year are expected to start flying in 2016, including Colourful Guizhou Airlines, Hongtu Air and Guilin Air, which were ushered in by the CAAC's lifting of a seven-year-long moratorium on airline licence applications in 2013. As the licence review process lasts two years, more new names are expected to hit the market next year.

Industry insiders say "several dozen" companies are queuing up for air transport licence applications, and that the number of aircraft leasing companies is also ballooning, as both the outlook for the industry and a "prestige effect" associated with being in the plane business are drawing more companies into the sector.

"Aircraft leasing is the crown jewel in leasing now. There are a lot of leasing companies with their core business not in aircraft but want to branch out by doing just one or two plane deals for the sake of wooing investors," said Zhao Mingfeng, chief operating officer at SkyCO International Financial Leasing, a newly formed aircraft lessor partly owned by the Guangdong Airport Group.

Wu Zhixiang, chief executive of Tongcheng, an online travel agency that counts Ctrip and Tencent as its biggest external shareholders, said at a press briefing earlier this month that it was also planning to venture into air transport by forming its own airline, though he did not give a timeline for the plan.

Although the mainland economy is expected to grow by less than 7 per cent next year, the slowest growth in three decades, international travel by China's middle class is just taking off and is expected to contribute more profit, and not just revenue, for mainland airlines next year.

In its 2016 global airline sector outlook, Credit Suisse identified the continuation of the "Chinese outbound juggernaut" as the No 1 growth driver for Asia-Pacific airlines and the "strongest source of growth" for the Australian tourism industry.

"Market access [is] a greater driver of PRC travel demand than economic growth," its analysts wrote in the report. "The removal of barriers that include visa processing time and onerous border controls, together with the induction of demand that growing destinational choices and frequencies provide, are – we believe – more important in driving demand than economic growth that owes its size to foreign investment and infrastructure development."

Bocom analyst Geoffrey Cheng said an increasing number of fund managers were turning to the airline sector for its growth potential at a time when the mainland economy was slowing down, while UBS analyst Eric Lin said supply and demand in China's aviation industry would improve in 2016, with expected low fuel prices making the industry attractive.

The CAAC said it would encourage airlines to further develop their international business by negotiating more international traffic rights, while also encouraging the growth of regional airlines and the general aviation industry in China.

It said the industry's target in 2016 would be to transport 485 million people, up 10.7 per cent compared with 2015, and 6.8 million tonnes of cargo, up 8.3 per cent.

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SOURCE: SOUTH CHINA MORNING POST
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