QANTAS EXPECTS “SIGNIFICANT IMPROVEMENT” IN 2015/16 FIRST HALF

News / Airlines

Qantas is expecting to deliver a bumper **2015/16** first half profit as the airline group benefits from lower fuel prices and its cost-cutting initiatives amid modest capacity growth in both the domestic and international market and a mixed Australian economy.

The positive outlook statement was provided to shareholders by Qantas chief executive Alan Joyce at the airline group’s annual general meeting in Perth on Friday.

“We expect a significant improvement in first half performance,” Joyce told shareholders at the company’s annual general meeting in Perth on Friday.

“Trading for the first three months of the financial year has improved relative to the prior period.”

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Qantas chief executive Alan Joyce. (Seth Jaworski)

Qantas reported net profit of $203 million in the first half of 2014/15, posting a return to profitability following a loss-making 2013/14 financial year.

In terms of the outlook, Qantas has maintained domestic capacity guidance of between zero and one per cent in the first half of 2015/16.

“We see mixed performance in the Australian economy as it transitions away from the peak of the mining boom,” Joyce said.

“Demand from the resources sector continues to taper, and we have adjusted capacity and our cost base in Queensland and WA to reflect that, which includes working closely with our mining sector customers to support their needs.

“Our expectation is that softness in the resources sector will continue and we have reduced our footprint accordingly.

“However, the Australian economy is not limited to what is happening in mining and resources. Other sectors of the economy are strengthening, including tourism, financial services, professional services, education, construction and infrastructure.”

Regarding overseas services, Joyce noted international competitor capacity growth had slowed to about two per cent in the current half with a lower Australian dollar.

“We expect that growth rate to stabilise at around four to five percent from the second half of financial year 2016 – in line with historical averages,” Joyce said, adding most of that growth was coming from markets such as China.

Qantas said in its traffic and capacity statistics for September, published on Friday prior to the start of the AGM, it expected a fuel bill of $1.76 billion in the first half of 2015/16, compared with $2.16 billion in the prior corresponding period.

For the full year, fuel was expected to fall within a range of $3.61 billion to $3.85 billion. This was down from an actual fuel bill of $3.9 billion in 2014/15 and lower than forecasts published in August of between $3.64 billion and $3.94 billion.

Joyce said Qantas expected to deliver about $450 million of cost reductions as part of its $2 billion transformation plan in 2015/16.

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Qantas chairman Leigh Clifford said the company today was a “more efficient, productive and focused business” earning strong customer satisfaction.

“There is positive momentum at the moment, and while Qantas operates in a tough and highly competitive market, our portfolio strategy, transformation program, and disciplined hedging approach are all designed to deal with volatility and make Qantas sustainably profitable,” Clifford said.

Shareholders have approved the airline’s proposed $505 million capital return.

Separately, Qantas said it planned to switch on its alliance with China Eastern on Australia-China routes from November 1, when it co-locates its operations at Shanghai Pudong Airport to the Terminal 1.

As part of the alliance, Qantas will have its QF airline code on 67 China Eastern-operated flights covering 18 destinations.

The Flying Kangaroo will also codeshare on China Eastern’s double-daily Sydney-Shanghai, daily Melbourne-Shanghai and Sydney-Nanjing-Beijing flights.

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