# QANTAS' RETURN TO PROFIT AFTER RESTRUCTURING

Alan Joyce

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After posting a record AU$2.84 billion (US$2.7 billion) annual loss, Qantas Airways Ltd, Australia's biggest airline carrier, jumped the most in a year by August 2014, forecasting a return to profit, in the six months to December 2014 due to an oversupply of seats subsiding and a AU$2 billion cost-cutting programme. The prospect of renewed profits buoyed CEO Alan Joyce as he cut 5,000 jobs amid a market share war that drove down ticket prices. He decided against selling part of Qantas' loyalty programme, its most profitable division, and turned the loss-making international unit into a separate operating company.

Qantas' shares then rose almost seven per cent, taking the gain in 2014 to 26%. It was the best performer on the S & P/AS x 200 index then. Net losses for year ended 30 June 2014 were A$2.84 billion, driven by A$2.56 billion of writedowns to the company's fleet, as a result of the new structure. Joyce told the media that the picture would improve in the next six months due to the AU$300 million of benefits from its cost-cutting program; reduced depreciation costs due to the fleet writedown were expected to save about AU$200 million a year.

However, Oliver Lamb, a director of Pacific Aviation Consulting, Sydney said, "Qantas has got to turn around profits in three areas and that's not easy." Joyce stated, "It has absolutely been the most challenging environment that we've faced, and the results have been confronting. This business will get back to profitability subject to factors beyond our control."

Since the carrier lost both its investment-grade credit ratings over 2013, a record first–half loss in February 2014 prompted Joyce to take a paycut, sell or delay delivery of 50 planes and lobby the Australian government to remove foreign-ownership restrictions. The 5,000 job cuts represented more than one in seven of the company's workers at the time. The new holding structure for Qantas international division would allow it to attract external investment and participate in partnership opportunities.

This 94-year old airline which posted net profit of 18 consecutive years after it was part privatised in 1993, will also be cutting spending on planes and other capital expenditure to AU$1.5 billion over the next two years. Australia's international passenger traffic rose by 20% over the past five years to 32 million in the 12 months ended May 2014, and 2.4% in the first half of the 2015 financial year. Domestic market capacity growth was expected to be around one per cent. That was the potential turning point for the stock.

On 24th August 2016, it was announced that Australia's biggest airline, Qantas Airways, will resume paying dividends after a seven-year hiatus following a AU$1.03 billion full-year net profit after tax, up 80% on the prior year and the best in its 95-year history. The airline has returned more than AU$1 billion to shareholders in the past year through share buybacks and the board has declared it will pay more than A$500 million through a 7 cents per share dividend on October 12 2016 and a further on-market share buy-back of up to AU$366 million, subject to shareholders approval.

Shareholders aren't the only ones enjoying the bonanza – the company is also paying a one-off cash bonus of AU$3,000 to almost 25,000 non-executive employees providing they're covered by the 18-month pay freeze introduced under the transformation programme. Revenue for the year ended June 30 grew two per cent to AU$16.2 billion, in line with analysts' expectations. The profit increase follows lower fuel expenses, which are now 40% below that of a decade ago, and faster-than-expected returns from restructuring.

Fuel hedging saw the group generate AU$664 million in benefits from lower fuel prices compared to the previous year while the transformation programme begun in 2014 has delivered AU$1.66 billion in cost savings and revenue benefits, including AU$557 million in the past year. The company now expects to realise AU$2.16 billion in savings and revenue benefits by June 2017.

Joyce said the restructuring had made the airline more agile and created a platform for future investment. "This is a true team performance, which shows that our strategy is the right one for the tough markets we're operating in and the long-term opportunities we see ahead of us." All divisions reported record results, with total underlying earnings before interest and tax in the domestic market, for both Qantas and Jetstar, at a record AU$820 million, up from AU$191 million, and total underlying EBIT for the international division of AU$722 million, up AU$374 million.

The turnaround has helped Qantas's cash position with AU$2.8 billion of operating cash flow, up 38%, available for the share dividends, debt repayment, and further capital expenditure. In the past year Qantas has announced new investment in eight Boeing 787-9 Dreamliners for Qantas International and the first Dreamliner flight will be open for sale before Christmas. It is also in the final stages of considering options for extending wi-fi on regional and international flights and is talking to Cricket Australia about live-streaming cricket matches this summer on aircraft involved in the wi-fi trial.

Jetstar's underlying EBIT was AU$452 million, up 97%. It didn't break down the result for Jetstar International, which includes its New Zealand operations, though it was said there was a strong improvement in earnings with unit cost reductions and strong growth in core markets. It did provide some performance metrics for Jetstar New Zealand, which competes with Air New Zealand on regional routes. Passenger numbers rose to 2.1 million, up 21%, while revenue per passenger kilometres is up 15%. Qantas didn't provide guidance for the next financial year though it indicated a further AU$450 million in transformation benefits were expected in the coming year and capital expenditure will likely be around AU$1.5 billion.

The airline's result for the fiscal year through June is a 57% boost over last year's profit of AU$557 million. Qantas, like many airlines, also benefited from cheaper jet fuel, thanks to falling oil prices across the globe. Qantas, like many airlines, also benefited from cheaper jet fuel, thanks to falling oil prices across the globe. "Transformation has made us a more agile business, created value for our shareholders and given us a platform to invest for the future," Joyce said. "Qantas is stronger than ever, but we're also determined to keep changing and adapting so that we can succeed no matter what environment we're in."