# Asia Pacific Aviation

## *Growth Dynamics & Competitive Challenges*

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**Singapore**
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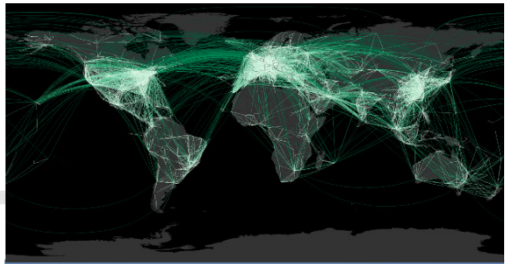
# Overview

- Delivering global mobility
- Asia Pacific Aviation
- Current business conditions
- Future growth drivers
- Evolving airline strategies

# Aviation: moving the world

- Air travel delivers global mobility
- Over 3 billion passengers
  - 9 million people flying per day
- Carries 35% by value of global trade
- Wider social and economic benefits
- Committed to sustainable growth
- Outstanding safety record





Source: ATAG Aviation Benefits Beyond Borders

# Global Aviation System

- Ongoing capital investment in fleets, airports and other services infrastructure
- Competition demands constant focus on productivity improvements and reducing unit costs
- Innovation in both services and business models
- Recruitment and training of skilled workforce
- Crisis management preparedness: maintaining resilience in complex systems

***Optimizing overall system efficiency, working with multiple stakeholders***

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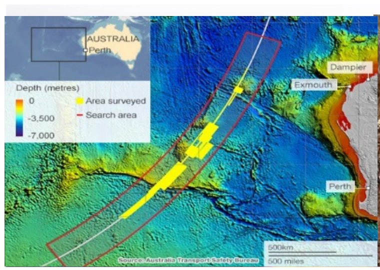
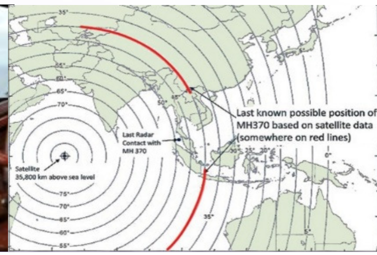
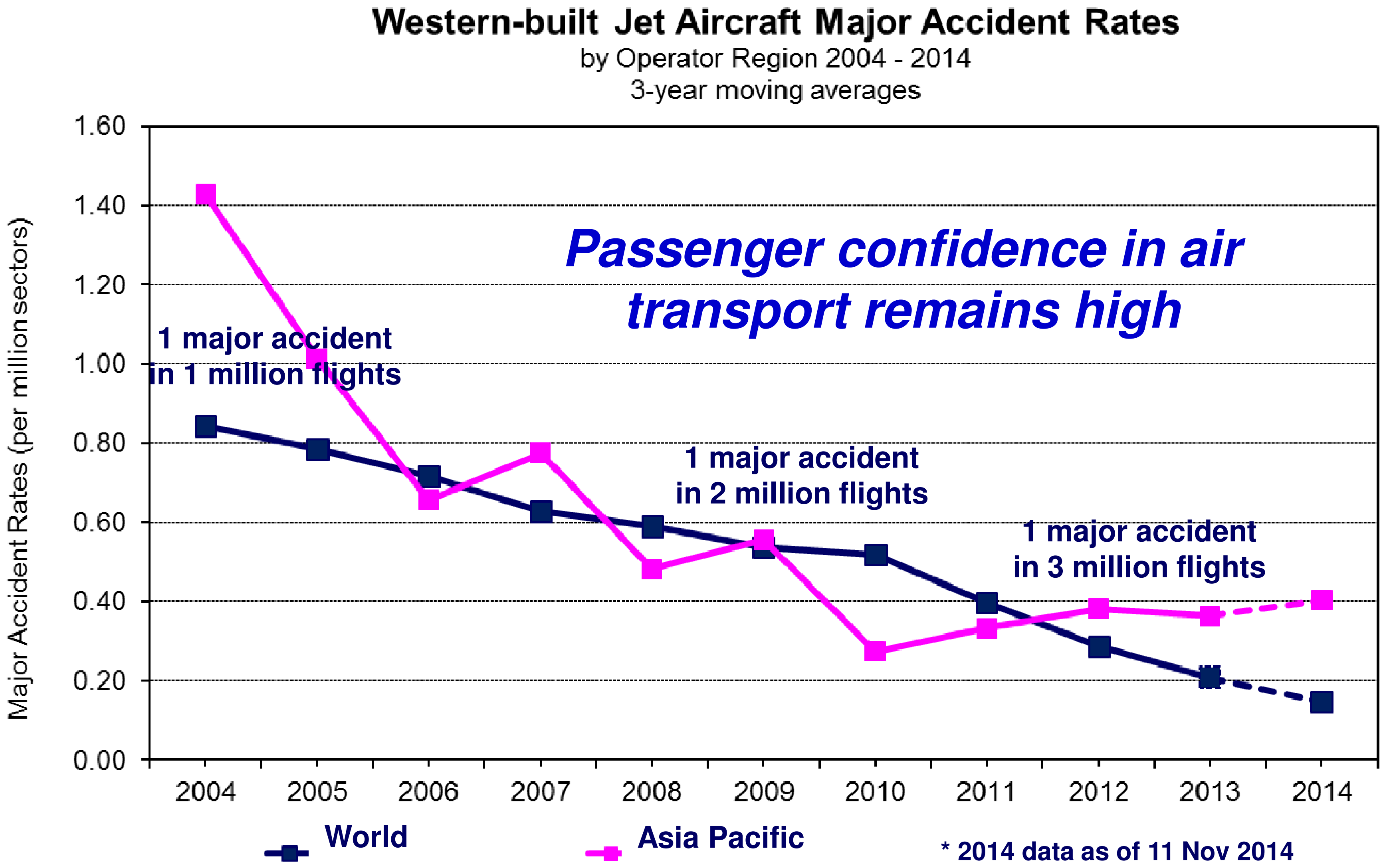
# Unprecedented tragedies

- Every loss brings human suffering
- Even though, flying is extraordinarily safe, and getting safer still
- Industry is delivering continuous improvements in aviation safety performance
- Asia Pacific safety performance in line with world standards




# Safety Performance Trends



# Asia Pacific

- Diverse geographic region
- Home to 4 billion people
  - 55% of the world's population
- Generates 31% of global GDP
- Wide range of income levels
- Dynamic economies still driving global growth
- Aviation widely recognised as a key contributor to economic and social development
- Political diversity remains challenging: need for multilateral cooperation

*Source: World Bank & IMF 2013*

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# Aviation: benefits beyond borders


## Global

- Overall $2.4 trillion economic impact
- 58 million jobs supported by aviation
- If aviation were a country, it would rank #21 by GDP

## Asia Pacific

- $516 billion economic impact
- 24 million jobs

Source: ATAG www.aviationbenefits.org

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peach


バニラエア 初号機 塗装完了！！
2013年12月20日
の就航まで あと17日
Vanilla Air

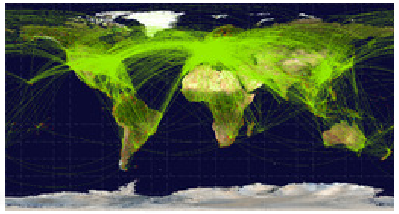
ANA



ANA

中国南方航空
CHINA SOUTHERN


# Asia Pacific Aviation



**US$163 billion revenue**

**US$2 billion net profit**

**1,012 million passengers**

**715 million domestic**

**297 million international**

**19 million tonnes of cargo**

**5,911 aircraft**

***Asia Pacific carriers overall market share:***

***31% of global passenger traffic***

***38% of global cargo traffic***

Data: 2013

Source: Combined AAPA + non-AAPA airlines GMT+5 to GMT+12

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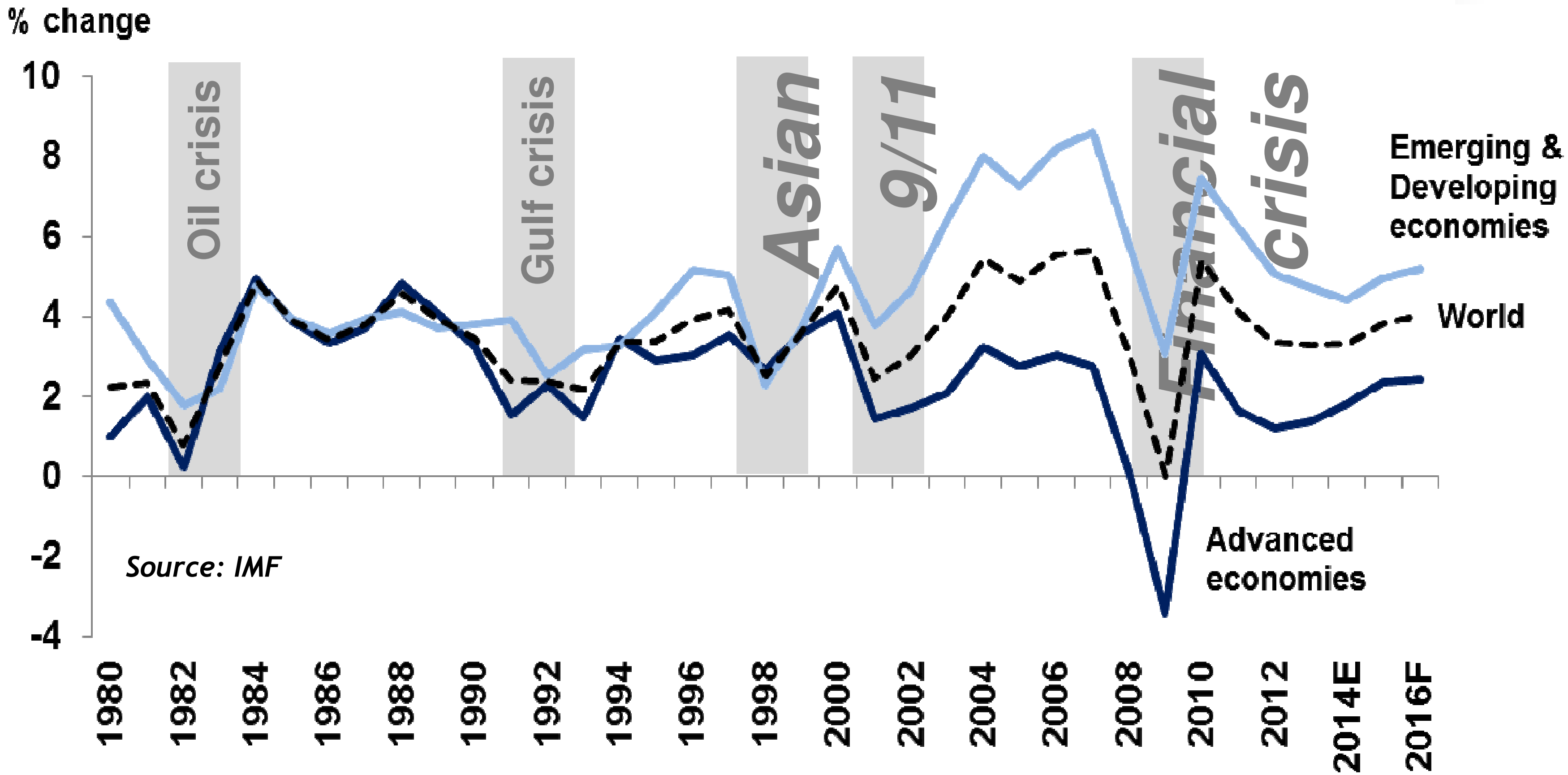
# Current Business Conditions

# Global economic outlook remains mixed




***Developing economies slowing but still lead, US recovery continues, European weakness persists***

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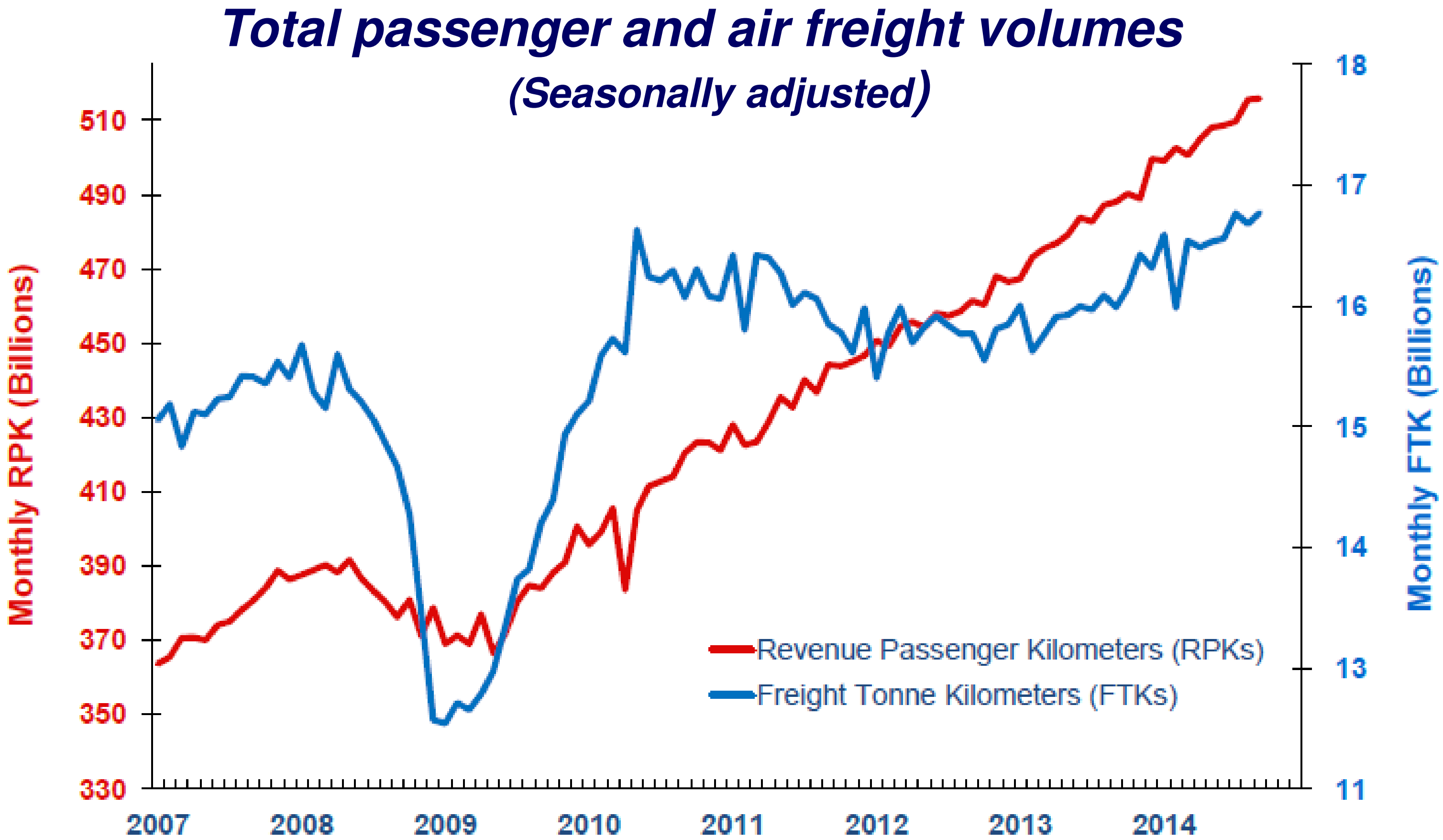
# Global passenger and cargo traffic




*Source: IATA*

- ***Robust growth in passenger travel***
- ***Air cargo market now recovering***

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# Premium and economy traffic


***Steeper decline in premium traffic took longer to recover***

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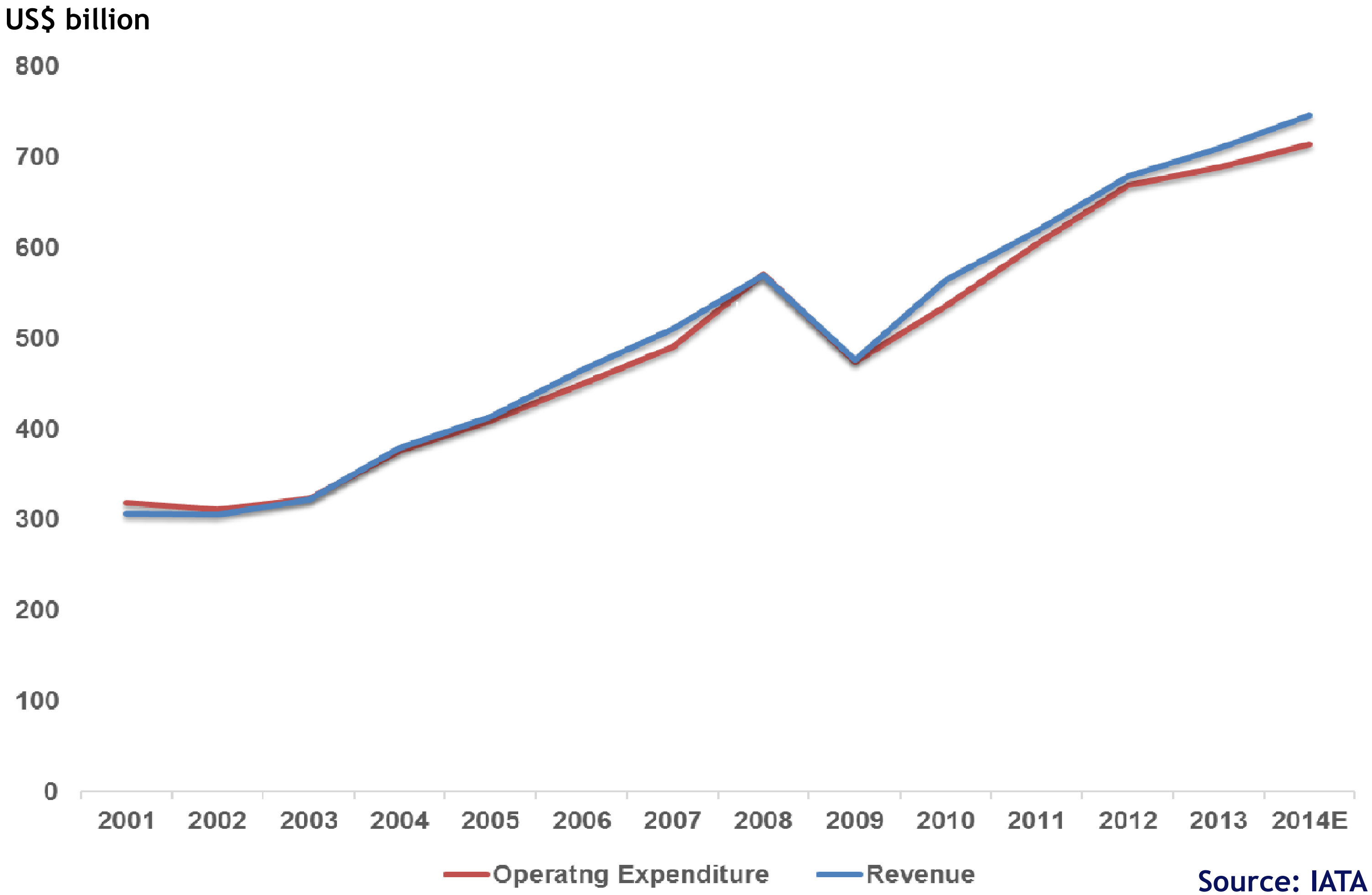
# Global Airline Revenues and Costs




Source: IATA

***Low margins in a highly competitive market***

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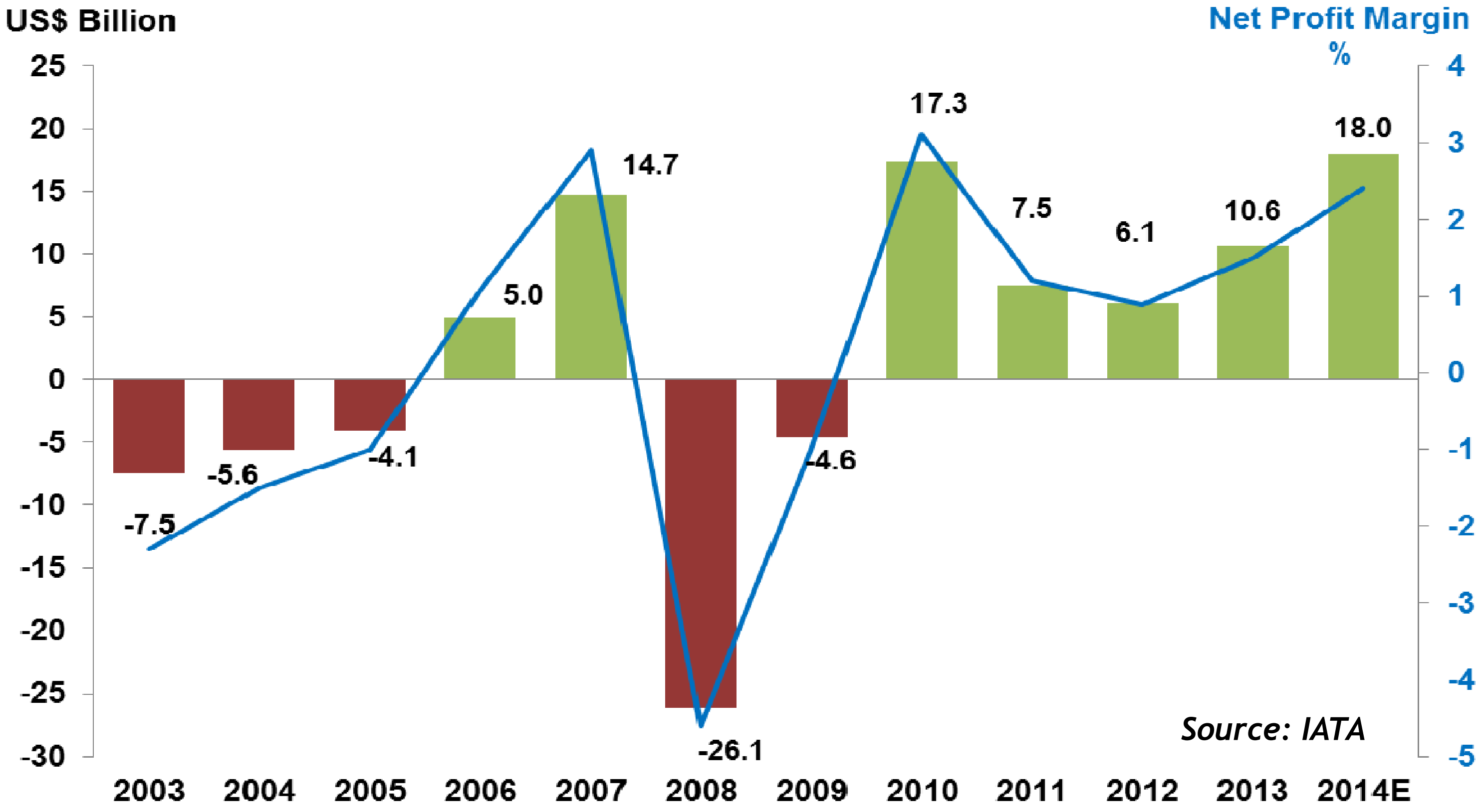
# Global airline industry profitability




***Profitability improving but margins remain very thin … around $6 per passenger !***

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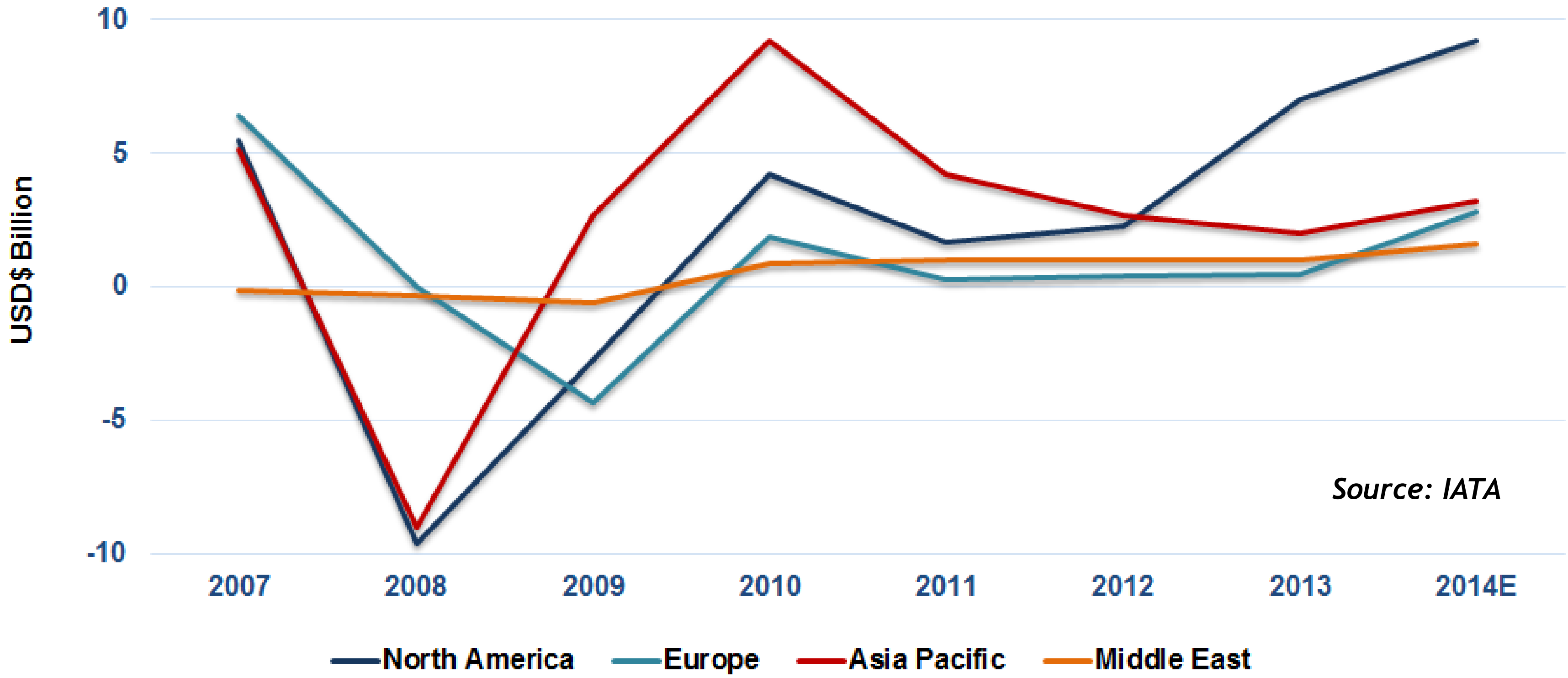
# Airline profitability by region




***Resurgence of restructured US carriers now generating significant profits***

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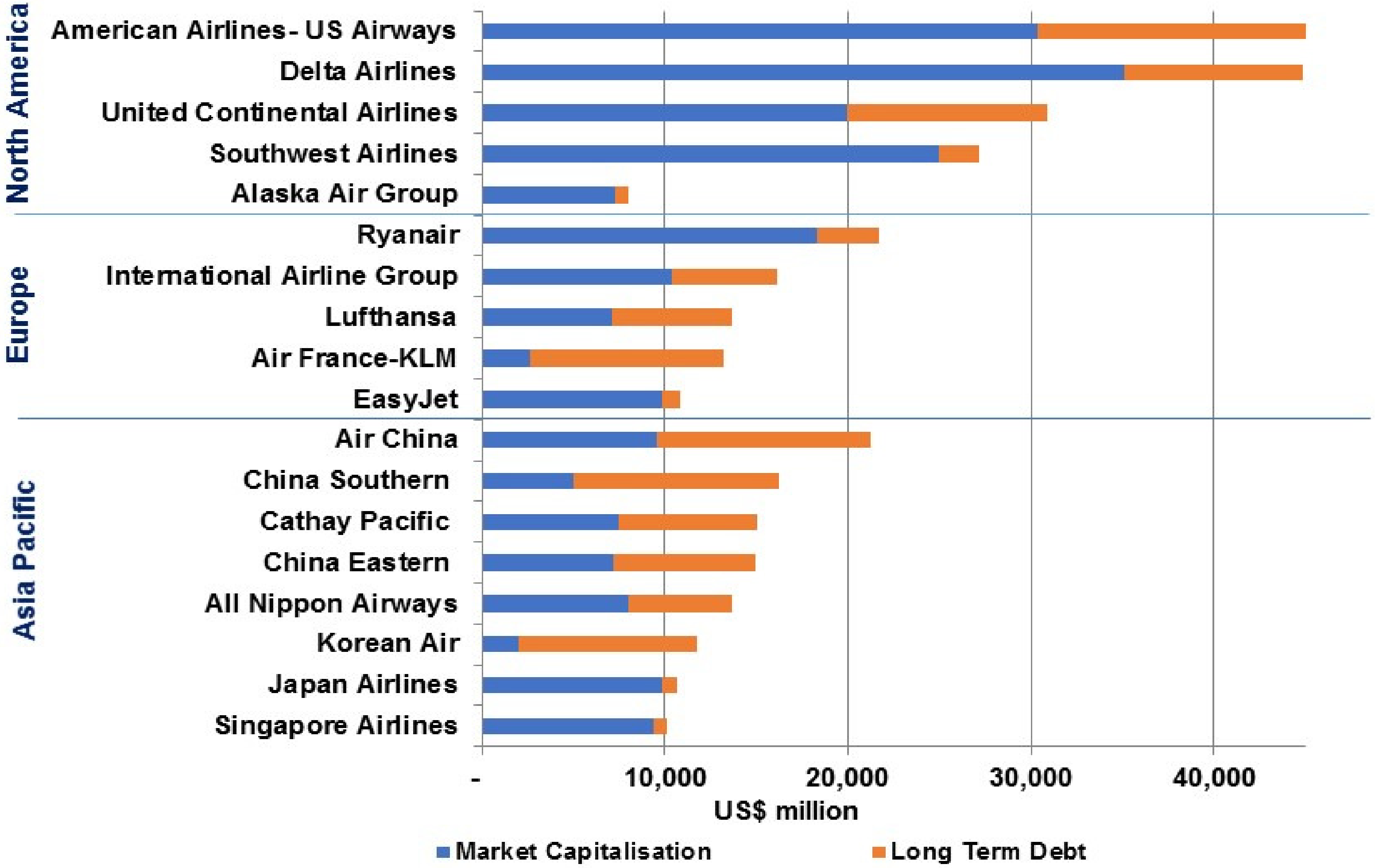
# Airline enterprise values by region




*Market capitalisation as of 6 November 2014*
*Source: AAPA Estimates*

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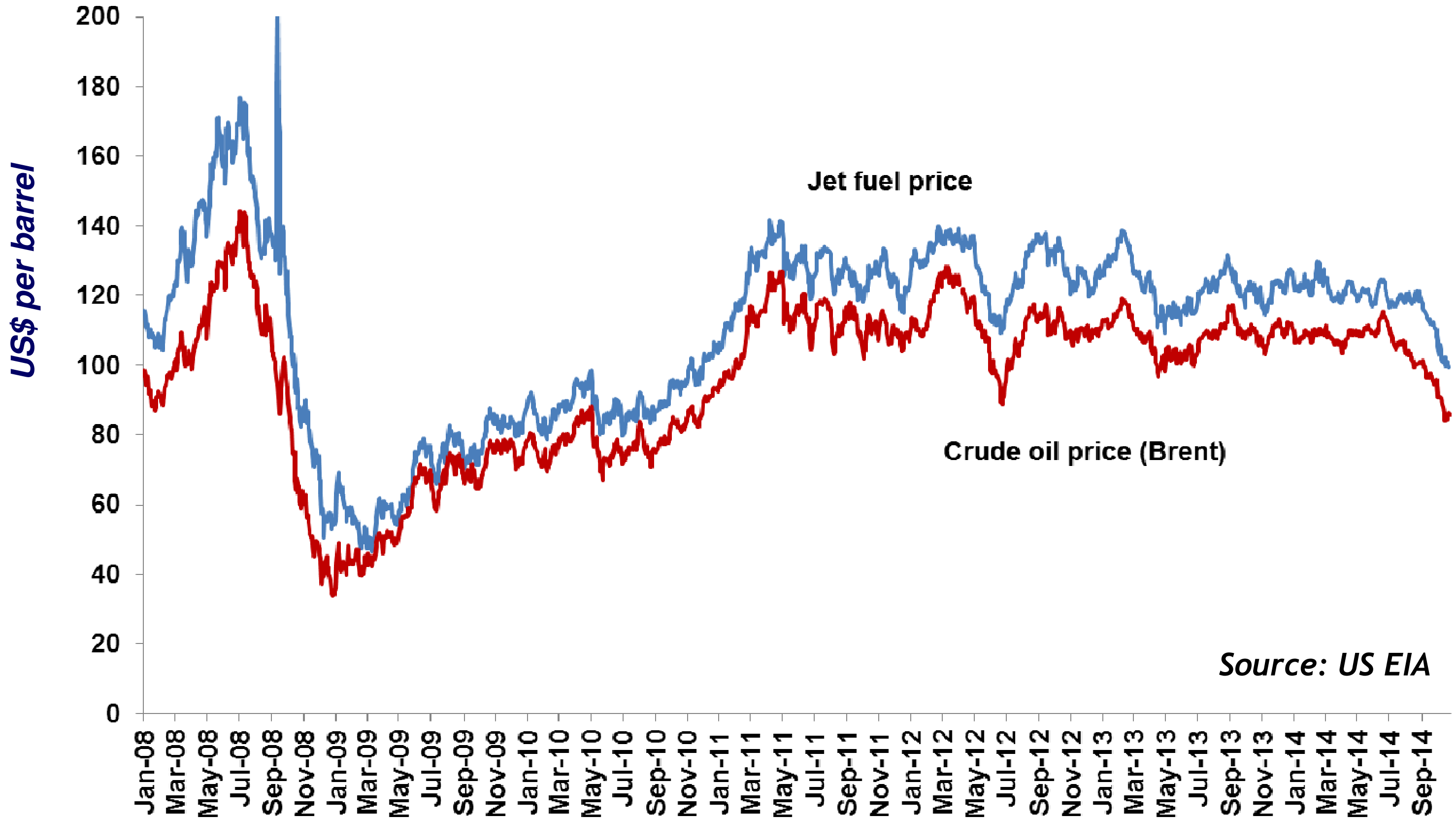
# Oil prices - entering a downtrend?




***Average jet fuel price $123 per barrel before recent price declines***

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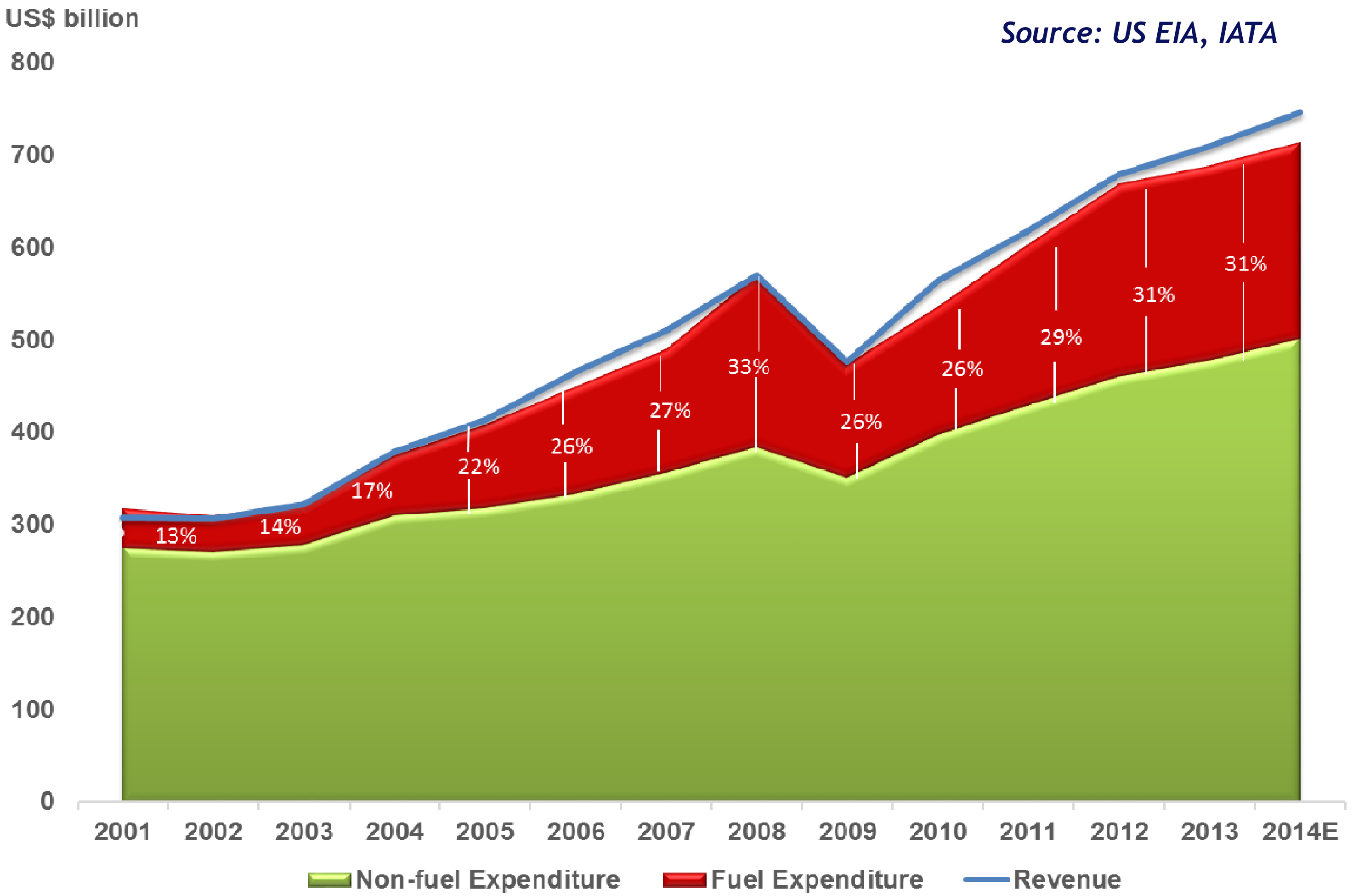
# Airfares adjust to changes in fuel costs




***Any benefit from lower fuel prices is similarly passed on to consumers***

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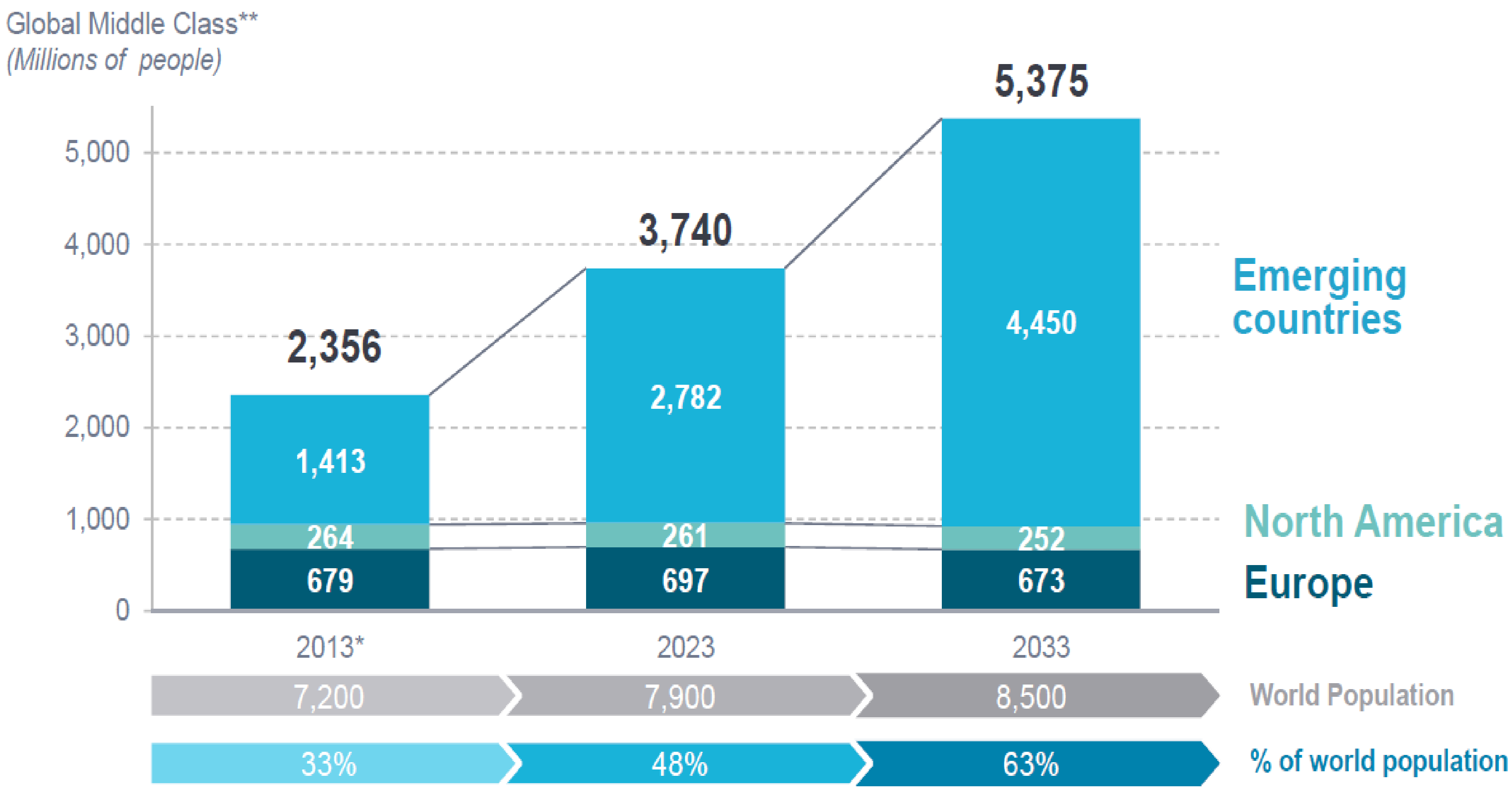
# Future Growth

# Growing numbers of middle class consumers




Source: Kharas and Gertz, Airbus
* EOY 2013

** Households with daily expenditures between $10 and $100 per person (at PPP)

***Asian consumers are driving changes in global trade patterns***

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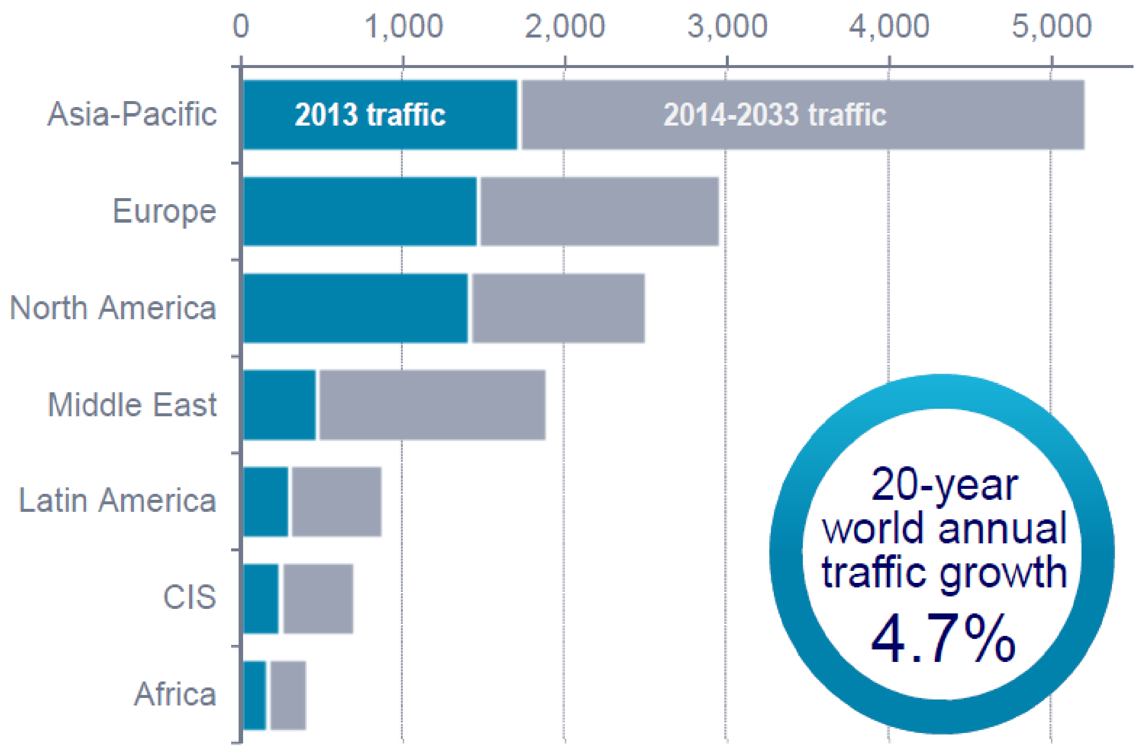
# Asia Pacific leads world traffic growth

RPK traffic by airline domicile (billions)




| | % of 2013 world RPK | 20-year growth | % of 2033 world RPK |
|---|---|---|---|
| Asia-Pacific | 30% | 5.7% | 36% |
| Europe | 25% | 3.6% | 20% |
| North America | 24% | 2.9% | 17% |
| Middle East | 8% | 7.1% | 13% |
| Latin America | 5% | 5.4% | 6% |
| CIS | 4% | 5.4% | 5% |
| Africa | 3% | 4.7% | 3% |

Source: Airbus GMF 2014

***Overall market grows x 2.5 by 2033***

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# Infrastructure

- Aviation infrastructure must keep pace with rapid traffic growth
- Chronic congestion and delays already evident in some areas
- Greater focus on operating efficiency, productivity and cost-effectiveness
- Government responsibility to coordinate planning and long term investment required
- Industry ready to play its part

***Infrastructure is a shared responsibility & critically important***

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# Evolving Airline Strategies

# Competitive dimensions for airlines

- Revenue enhancement
  - Tailoring products to markets
  - Investing in premium products and services
  - Active yield management
  - Multiple brand strategies
  - Alliances

- Improving cost competitiveness
  - Asset utilisation
  - Fuel efficiency
  - Labour productivity

- Value chain improvement
  - Partnering with service providers

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# Competition in Asia

- **Asian regional traffic concentrated on major trunk routes**
  - **Asia has 7 of the world's top 10 busiest routes**
  - **85% of traffic on routes of 100,000 pax p.a.**
  - **Intensely competitive Asian marketplace**
    - **75% of routes served by at least three airlines**
    - **27% of routes served by at least five airlines**
    - **Compare Europe, 45% of routes served by just one or two airlines**
- ***Evolving full service, hybrid and budget carriers***

***Dynamic business models and service innovation***

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*Source: Amadeus 2013*

# Asia: customer service leadership

5 STAR AIRLINE SKYTRAX

- Asian carriers are global leaders in service quality with world-class premium product offerings
- Premium cabins generate 27% of total international passenger revenue
- Continuous innovation in seat comfort, cabin ambience, inflight entertainment, food and beverage, cabin crew, customer service
- Investing in products, people and partnerships

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# Impact of LCCs in global aviation market

- LCCs carry 25% share of passenger numbers worldwide
  - US 24%
  - Europe 30%
  - Asia 23%
- LCCs focus on short haul routes and minimal service account for less than 15% of total industry revenues
  - Industry average fare stage $207 for 1,850 km
  - LCC average fare stage $108 for 1,000 km
- LCCs exploring strategies to serve longer haul markets and other business segments
- Increasing overlap, convergence and hybridisation

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# Evolving Airline Strategies

- Full Service Network Carriers
  - Still investing heavily in premium services
  - Streamlining short haul operations
  - Establishing LCC subsidiaries and associates
- Point-to-Point LCCs
  - Initially focused on domestic short-haul
  - Expanding into international and longer-haul markets
  - Experimenting with codeshares, connections, adding customer service
- Further signs of convergence
  - Long-haul requires wide body aircraft, cargo operations, two-class passenger configurations, and network feed
  - Development of hybrid partnerships and new ventures
- Consumers decide what represents best value

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# *Responding to challenges, positioning for further growth*

# Closing Thoughts

- **Aviation is at the heart of global economic development**
- **Overall prospects for long term growth remain bright but infrastructure planning is a shared challenge**
- **Asian airlines are pressing ahead with both customer service and business model innovation**
- **Airline business strategies are evolving to respond to changes in market demand and consumer preferences**
- **Asian airlines play an increasingly influential role in the development of global aviation**
- **Business challenges of managing complexity in a hyper-competitive market**
- **Globalised competition reshaping the industry**

***Shared confidence and optimism about the future***

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