Asia Pacific Aviation

Growth Dynamics & Competitive Challenges

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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
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

Western-built Jet Aircraft Major Accident Rates
by Operator Region 2004 - 2014
3-year moving averages

Passenger confidence in air transport remains high

1 major accident in 1 million flights
1 major accident in 2 million flights
1 major accident in 3 million flights

* 2014 data as of 11 Nov 2014

World
Asia Pacific

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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

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
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
Developing economies slowing but still lead, US recovery continues, European weakness persists
Global passenger and cargo traffic

Total passenger and air freight volumes
(Seasonally adjusted)

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

Source: IATA
Premium and economy traffic

*International passengers by seat class*

Steeper decline in premium traffic took longer to recover
Global Airline Revenues and Costs

Source: IATA

Low margins in a highly competitive market
Profitability improving but margins remain very thin ... around $6 per passenger!
Airline profitability by region

Source: IATA

Resurgence of restructured US carriers now generating significant profits

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Airline enterprise values by region

North America
- American Airlines - US Airways
- Delta Airlines
- United Continental Airlines
- Southwest Airlines
- Alaska Air Group

Europe
- Ryanair
- International Airline Group
- Lufthansa
- Air France-KLM
- EasyJet

Asia Pacific
- Air China
- China Southern
- Cathay Pacific
- China Eastern
- All Nippon Airways
- Korean Air
- Japan Airlines
- Singapore Airlines

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

Source: US EIA
Airfares adjust to changes in fuel costs

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

Source: US EIA, IATA
Future Growth
Growing numbers of middle class consumers

Asian consumers are driving changes in global trade patterns

* Source: Kharas and Gertz, Airbus
  ** Household with daily expenditures between $10 and $100 per person (at PPP)
Asia Pacific leads world traffic growth

Overall market grows x 2.5 by 2033
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
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

Source: Amadeus 2013
Asia: customer service leadership

- 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
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
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
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