

HISTORY LESSON

The region's carriers are once again grappling with an economic slowdown, but are they better prepared than four years ago?

ANDREW DOYLE / SINGAPORE

The onset of Asia's financial crisis in mid-1997 exploded the myth that the prospect of seemingly inexorable underlying traffic growth could insulate the region's major airlines from the effects of recession.

There is no doubt that the carriers that bore the brunt of that upheaval are entering the latest downturn in better shape, but it may be too early to judge whether or not any long-term lessons have been learned.

A lingering consequence of the crisis has been that demand for new aircraft has failed to pick up significantly since a mood of cautious optimism returned to the Asian market in early 1999. The immediate health of the bottom line continues to take precedence over the drive for market share. This would seem to indicate that Asia's airlines have become more adept at avoiding the kind of exuberant over-ordering that brought many of the region's carriers to their knees during the recent crisis.

Asian carriers remain affected by the strong dollar, which tends to drive down demand for international travel and push up costs, while fuel prices, in US dollar terms, are far higher than they were in 1997. Cargo traffic in the region began to fall sharply last October, and in some parts passenger numbers began to fall in January.

According to Jardine Fleming airline analyst Peter Negline, most Asian airlines have taken steps to ensure that they can handle the fallout from any downfall. "It is true that the sector is a lot stronger," Negline says, adding that the downturn "does not at this point look as though it is going to be as bad" as the last one. The region's airlines in general have achieved "very strong revenue growth" over the two years since the financial crisis receded, and he describes 1999's performance as "good" and last year's as "excellent".

The Association of Asia Pacific Airlines

(AAPA) says its member carriers saw passenger traffic rise by more than 10% in 2000 – a growth rate stronger than during the run up to the last financial crisis.

"The best answer is to look at the results," says AAPA director general Richard Stirland, noting the impressive results recently delivered by Japan Airlines and All Nippon Airways despite a sluggish Japanese economy. Japan's cargo market has gone into decline but passenger traffic seems to be holding up for the time being.

Negline cautions that seat capacity growth is steepening again which "some people see as a concern". Asian carriers increased available seats by 2.3% in 2000, and forecast that the increase for 2001 will be nearly double at 4.1%.

In contrast, available freight capacity was up 10.6% in 2000 in terms of tonnage but will increase by a more modest 7.3% this year, Negline believes, in the face of falling demand.

Currency issues

The strong dollar remains a concern, though many Asian currencies not pegged to the dollar are worth less, relative to the US currency, than they were before the crisis. "Hopefully currencies will depreciate at a moderate rate," says Negline.

According to Negline, Asian airlines have changed their behaviour. While they remain keenly competitive, they have ceased to engage in "mindless chasing of market share at any price" until "there was no more demand to create".

HSBC analyst Mark Webb is impressed by Cathay's efforts to cut costs and believes that Qantas is also in good shape. "Qantas has done a continually good job, and Cathay has done a good job cost-cutting and outsourcing," he says.

Negline agrees that Cathay Pacific "really has taken some very hard medicine



and got itself into excellent shape".

Singapore Airlines (SIA), generally regarded as a bellwether among Asian airlines, saw its financial performance suffer markedly during the half year to March, mainly due to softening in cargo demand and high fuel prices. Operating profit during the period was 14.6% lower than the same period a year ago.

"Cargo was the first to show signs of weakness with the slowdown of the global economy," says SIA deputy chairman and chief executive (CEO) Cheong Choong Kong. He says the airline's full year result was, however, "credible, especially compared with those that some of our competitors have announced".

SIA sees continuing problems ahead for cargo but is optimistic that passenger yields will hold up, subject to economic developments in the USA and elsewhere.

But some industry observers believe that SIA has simply benefited from the weakness of the Singapore dollar against the US dollar, which increased its overseas sales revenues but reduced a large proportion of its Singapore dollar-denominated costs. It also benefited from neither being exposed to foreign debt nor having any domestic flight operations.

One industry source points out that SIA achieved only a modest 9% return on assets at group level in the year to March despite having achieved a record profit, and continues to suffer from the unusual problem of being "over capitalised".

Regional rivals – such as Malaysia Airlines (MAS), Thai Airways International