

Air France-KLM counts on Emmanuel Macron to push forward its bid for TAP Air Portugal



| Letter from François Robardet

Air transport in France, Europe and the rest of the world

N°1006, March 3, 2025

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> Air France-KLM counts on Emmanuel Macron to push forward its bid for TAP Air Portugal

(source Les Echos) February 27, 2025

My comment: *The big manoeuvres have been underway for several weeks now concerning TAP Air Portugal and Air Europa (see the article on Lufthansa below).*

The main European groups are waging a fierce battle to take over one of these two airlines, even though there are only three of them in the running. Unless an unexpected player, such as the Chinese group HNA (see my [letter n°1004](#)), upsets the balance.

However, this hypothesis seems unlikely, although the Portuguese government recently mentioned the interest of a dozen entities, including non-European companies and investment funds.

The conditions set by the Portuguese government should not pose any difficulties for Air France-KLM, which has already made similar acquisitions, including those of KLM and SAS, within a comparable framework.

Read the article:

As the process of privatizing TAP Air Portugal enters the home stretch, **Air France-KLM is counting on Emmanuel Macron's state visit to Lisbon on Wednesday and Thursday to push its bid forward.** According to our information, Air France-KLM CEO Benjamin Smith, along with other group executives, will be taking part in the presidential trip, which includes a formal sitting of parliament, as well as meetings with the President of the Republic, Marcelo Rebelo de Sousa, and his Prime Minister, Luis Montenegro, appointed last April.

This gave the French delegation the opportunity to plead Air France-KLM's case in the face of competing offers from the Lufthansa and IAG groups, **and to gain a better understanding of the Portuguese government's expectations.** This comes just as the government is preparing to relaunch the privatization of Portugal's national airline next month. The privatization process was launched in 2023 by the previous government, but interrupted by the early parliamentary elections in March 2024. The aim is to complete the operation by the end of the year or early 2026.

(...)

The buyer of TAP Air Portugal will have to commit to preserving the company's identity, its brand and its head office, as well as continuing to develop the Lisbon hub and its role as the main traffic hub between Brazil and Europe, with more than 2 million Brazilian passengers in 2024, out of a total of 16 million.

(...)

According to the Portuguese press, Luis Montenegro's center-right **government would nevertheless be willing to cede at least 49% of the airline's capital, as well as operational control.** This would not only ensure its future under the wing of one of Europe's three heavyweights in the sector, but also enable it to recover all or part of the state aid granted to TAP during the pandemic, totalling 1.2 billion euros.

These are all conditions that Air France-KLM would be prepared to meet in order to win the bid. The group, which has already sent two delegations to Lisbon,

in October and late January, has already said it is ready to acquire a majority or minority stake, depending on the authorities' decision. **Air France-KLM is also committed to preserving TAP Air Portugal's autonomy, citing the example of its successful marriage with KLM and, more recently, its partnership with SAS.** Nor does the group see any problem in keeping the Portuguese state in the capital, as it already has the French and Dutch states on board, as well as the Danish state at SAS.

Air France-KLM also emphasizes the complementary nature of its current network, which focuses on the Americas and Africa, and TAP Air Portugal's network in Brazil and part of Africa. The Air France-KLM group already provides a real air bridge between France and Portugal, with 200 flights a week, 45% market share (including 35% for Transavia) and almost 4.5 million passengers carried to and from Portugal in 2024 (up 25% on 2019).

Unlike the IAG group, owner of British Airways and Iberia, Air France-KLM is not suspected of wanting to undress the Lisbon hub in favor of Madrid. This fear has already prompted the president of the Portuguese travel agencies association to take a public stance against IAG's bid.

Reading the Portuguese press, however, Air France-KLM's bid seems to suffer from a number of handicaps. One of these is the lukewarm memory left by the privatization of Portugal's main airports to the Vinci group. The French group is regularly criticized for the saturation of Lisbon airport, which is sometimes chaotic. Air France-KLM is also one of TAP's main competitors in Brazil and Africa. All these difficulties could play into the hands of the Lufthansa group, even if the latter has yet to digest the acquisition of Italian carrier ITA Airways.

> **Air Canada signs major equipment contract with AFI KLM E&M for its Boeing 787 fleet**

(source Le Journal de l'Aviation) February 25, 2025

My comment: This success for AFI KLM E&M gives me the opportunity to remind you that every maintenance contract involves significant investment.

This can range from stocking spare parts to building a maintenance workshop close to the customer.

This is the price we have to pay to offer a responsive, high-quality service.

Read the article:

Air France Industries KLM Engineering & Maintenance (AFI KLM E&M) and Air Canada have signed a 10-year equipment support contract for 58 Boeing 787 aircraft in the Canadian airline's fleet. This is the first major equipment maintenance contract signed between the two airline groups. The MRO division of the Air France-KLM group specifies that it will position a new stock of dedicated parts in Toronto to support Air Canada's operations.

Air Canada currently has 39 Dreamliners (31 787-9s and 8 787-8s) in its fleet, a number that will rise to 58 aircraft by 2029, notably with the arrival of 18 787-10s. The Canadian airline also has options for a further 12 Boeing 787s. Half of its long-haul fleet will then be made up of Dreamliners.

"This groundbreaking contract with Air Canada reflects our shared vision of innovation and excellence in aviation. We are honored to be able to offer robust equipment support to Air Canada's expanding fleet. This collaboration leverages the strengths of both airlines and sets a new standard for industrial partnerships. We look forward to a decade of mutual growth and success," said Mathieu Essenberg, Executive Vice President, KLM Engineering & Maintenance.

Air Canada has already used the services of the Air France-KLM group's MRO division, in particular for GE90 (777) and CFM56 (A320 & A340 family) engines, the APS5000 APU (787) and airframe-related events.

> **TSBA: will airlines follow Transavia's lead?**

(source L'Écho touristique) February 26, 2025

My comment: Air France has explained why, unlike Transavia, it has decided not to apply a retroactive increase.

"In view of its international network with bookings in many currencies and with multiple means of payment, the large proportion of customers booking via travel agencies, and the risk of disruption at airports, Air France will not charge its customers the difference between the amount paid at the time of booking and the amount actually due" (source AFP).

In so doing, Air France will bear an additional burden of several tens of millions of euros, despite the fact that "the failure to allow sufficient time between the adoption

of the Finance Law and the entry into force of the tax increase" is the responsibility of the government.

Read the article:

An unpleasant surprise for nearly 800,000 **Transavia** passengers: the Air France-KLM group's low-cost airline **will be charging them a surcharge on tickets already purchased, to take account of the increase in taxation of air transport in France.** "Customers in possession of a ticket purchased before October 28, 2024 and after December 7, 2024, for travel from March 3, 2025, will shortly receive an e-mail to regularize payment," according to a Transavia press release. As a reminder, as of March 1^{er}, the solidarity tax on airline tickets (TSBA) increases to 7.4 euros from the previous 2.63 euros for flights within or to Europe, and doubles to 15 euros for extra-European destinations.

Unlike its low-cost subsidiary, Air France has indicated that it will not apply such a retroactive increase. **"In view of its international network, with bookings in numerous currencies and with multiple means of payment, the large proportion of customers booking via travel agencies, and the risk of disruption at airports, Air France will not charge its customers the difference between the amount paid at the time of booking and the amount actually due,"** the French airline said in a statement sent to the press.

For its part, Corsair "will also not claim the excess tax from customers who have already purchased their tickets from the company", the French carrier's management informed L'Echo touristique.

The same applies to British low-cost carrier easyJet, which states that it will only apply the solidarity tax to tickets purchased from March 1, 2025, the date on which the tax increase comes into force.

For its part, the management of the Dubreuil group airlines (French Bee and Air Caraïbes) declined to reveal its strategy at this stage, or to comment on the TSBA issue.

"Each player in the sector is making its own decisions on how to pass on the tax increase on airline tickets", commented **the Fédération nationale de l'aviation et de ses métiers (FNAM)**, which represents the French airline industry. The federation **recalled that it "had been careful to alert the government and Parliament to the difficulties created, for airlines and passengers alike, by the failure to establish a sufficient timeframe between the adoption of the Finance Act and the entry into force of the tax increase"**. "For the record, the period

recommended by international bodies" such as the International Civil Aviation Organization and IATA, "is between three and six months", says the FNAM.

> Lufthansa appears to be a candidate for the acquisition of 25% of Air Europa

(source LCE) February 26, 2025

My comment: Following the abandonment of Iberia (an IAG subsidiary), Lufthansa and Air France-KLM remain the main groups interested.

According to the Spanish press, Air France-KLM's proposal is inferior to that of Lufthansa.

We should not forget the interest shown by the Chinese group HNA (see my letter n°1004). But it would be surprising if it were to win. European regulations prohibit a non-European investor from controlling more than 50% of a European airline.

According to the Spanish press, Air Europa plans to finalize its shareholder structure this week.

Read the article:

Lufthansa appears to be the main candidate to take over 25% of Air Europa's capital, for a sum of around 240 million euros. Sources quoted by El Confidencial state that the two companies have signed a "wet lease" agreement, so that the former can verify the operation of Hidalgo's airline.

According to El Confidencial, **the German company has signed a wet lease, "including aircraft, crew, maintenance and insurance, between Brussels and New York", as a pilot test to evaluate the Spanish company's performance on long-haul flights before finalizing a possible entry into its shareholder structure.**

The Hidalgos, who own 80% of Air Europa, had planned to sell 20% of the company, but increased this to 25% in order to raise 240 million euros and use the money to pay off half the loan from the State Industrial Property Company (SEPI), as the airline has to repay a 235 million euro loan taken out during the pandemic in 2026.

Lufthansa, which is advised by Goldman Sachs, has promised Air Europa to facilitate negotiations with Boeing for the delivery of ten 787 Dreamliners, which

would boost the Spanish airline's operational capacity, explains the business newspaper.

(...)

According to El Confidencial's sources, **the Hildago-based airline expects to receive non-binding offers this week for the sale of a quarter of its capital.**

> IAG raises the bar in Europe with record results in 2024

(source Les Echos) February 28, 2025

My comment: *The IAG Group's results are impressive. The group's three main airlines (British Airways, Iberia and Vueling) are reporting operating margins in excess of 11%.*

IAG shareholders are all smiles.

As a reminder, the largest shareholder is Qatar Airways, with 25.98% of the capital. As a result, it will receive nearly 110 million euros in dividends.

This puts it well ahead of the second and third shareholders, who each hold just 3.14% of IAG's capital.

Read the article:

Once again this year, IAG will be the benchmark to reach, or at least try to approach, for European air transport. On Friday, the parent company of British Airways, Iberia, Vueling, Aer Lingus and Level unveiled 2024 results that far exceeded expectations, **with sales up 9% to 32.1 billion euros, and operating income before exceptional items up 26.7% to 4.44 billion euros.**

This represents an operating margin of 13.8% (compared with 11.9% in 2023), **making IAG the most profitable of the three major European airline groups, ahead of Lufthansa and Air France-KLM**, although the latter have yet to publish their annual results. **Only Turkish Airlines can compete.** In the case of Air France-KLM, which will publish its figures on March 6, the analysts' consensus forecasts at best an operating profit of 1.574 billion on sales of 31.552 billion, representing a margin of 4.98%.

Against this backdrop, **IAG is looking after its shareholders, with dividends and a new share buyback plan worth one billion euros by 2025.** This explains the 130% rise in IAG's share price over the past 12 months, compared with the 35% fall in AF-KLM's share price in 2024.

Like its main competitors, **IAG is continuing to capitalize on traffic growth, particularly between the United States and Europe**, a growing premium market, still-cheap oil, **and fleet modernization**, with larger, more efficient aircraft that reduce per-seat costs. Added to this, as for Air France-KLM and Lufthansa, is the growing contribution of the frequent flyer program, which will become the third largest source of profits in 2024, with earnings of 495 million euros. All these factors are set to continue into 2025, according to IAG's not very detailed forecasts.

However, **IAG's main strength remains British Airways and its dominant position at London Heathrow, the main hub for air traffic between North America and Europe**, with a 45% market share. The British airline alone generated 45% of Group revenues in 2024 and 46% of operating income, for 37.8% of passenger traffic (46.16 million out of a total of 122 million). **It is also the Group's most profitable, with a margin of 14.2%**, in line with its premium positioning, which the Group's CEO, Spaniard Luis Gallego, aims to increase to 15%.

British Airways' premium character is set to become even more pronounced over the next few years, with an 8 billion euro investment plan that includes the renovation of the cabins of its Airbus A380s, with the installation of a new "First Suite" at the front by the end of 2025.

Nevertheless, the Group's other airlines posted more than respectable performances. This is particularly true of **Iberia (11.5% operating margin** on sales of 7.542 billion euros), whose Madrid-Barajas hub is to the South American market what Heathrow is to the North American market, with a market share of 30%. This role is set to grow even stronger this year, with the arrival in the Iberia fleet of the first Airbus A321 XLRs, capable of non-stop service to new secondary destinations in the United States. Iberia and Aer Lingus have already taken delivery of 3 of these aircraft, and expect ten more by 2025.

Vueling also performed well in the medium-haul market. The Barcelona-based low-cost subsidiary **generated a 12.3% margin last year**, on sales of 3.261 billion euros. **Aer Lingus**, the latest addition to the group, also **posted an 8.6% margin** on sales of 2.376 billion euros, using Dublin airport as an alternative gateway to the US market (with the possibility of completing US police formalities in Dublin).

As for the "fifth element", the long-haul low-cost carrier Level, which had not met with the expected success in France and now operates mainly from Barcelona, its results are not detailed, but its traffic increased by 20.7% in 2024, to 846,000 passengers.

> Airbus A220 has its worst year ever

(source La Presse Canada) January 9, 2025

My comment: Pratt & Whitney engines powering A220s, as well as some A320s, A321s and Embraers, are suffering from a defect linked to a metal powder used in the manufacture of high-pressure turbine disks, leading to failures.

Nearly a thousand aircraft are affected, and repair times can reach a year due to a lack of spare parts.

In the meantime, airlines are leasing aircraft, a cost borne by Pratt & Whitney. Some even go so far as to dismantle the engines of leased aircraft and reinstall them on their own fleets, thus guaranteeing the same cabin comfort for their passengers.

The question is: does Pratt & Whitney have the financial resources to cover these indemnities?

In the longer term, this situation could drive up engine prices, especially for A220 customers who have no alternative.

Unlike the A320 and A321, which can be powered by CFM International LEAP engines, the A220 is powered exclusively by Pratt & Whitney engines.

Read the article:

Let's face it, **the market has its doubts about the engines**," acknowledged Benoît de Saint-Exupéry, Pratt & Whitney's Vice President of Commercial Aircraft Sales, on Wednesday, when asked by La Presse. **Pratt & Whitney** is expected to improve engine durability. This explains why 2024 was less vigorous than expected."

Christian Scherer, CEO of the Commercial Aircraft Division, was one of the speakers at the presentation of the European multinational's order and delivery figures. Overall, Airbus won 826 net orders and delivered 766 aircraft.

The last 12 months have been turbulent in terms of sales for the Bombardier-developed aircraft, which received an additional CAD 410 million [€270 million] from the Quebec government last July.

It won only 17 new orders. At the same time, Airbus cancelled a contract for 14 aircraft with the Russian company Ilyushin, and recorded a further 12 cancellations. The result on net orders was therefore negative.

This is in stark contrast to the harvest of the last two years, which has been close to 250 orders.

It's the premature wear of certain Pratt & Whitney engine parts that keeps A220s grounded for long periods. The aircraft is not the only one in this situation. Airbus A320neo and A321LR models, as well as Embraer E2s, are also affected.

As a result, A220 customers such as airBaltic, JetBlue, Air Canada and Delta Airlines cannot rely on their aircraft. **According to aviation data firm Cirium, around 35% of A220s delivered by Airbus are currently grounded.**

Mr. de Saint-Exupéry also said he expected demand to slow after two years of "very strong" sales of the Mirabel and Mobile, Alabama-built aircraft.

Aviation expert and lecturer at McGill University, John Gradek believes there's **another factor weighing in the balance. With 516 aircraft still to be delivered, and the production rate still far from cruising speed, the lead times are still too long for carriers who decide to order the aircraft**, says the specialist. This is hurting sales, he believes.

It's going to take up to seven years to deliver them," says Gradek. There are potential customers who don't like it. You can wait three or four years, but after that, it's a long time."

(...)

Any delay is likely to have consequences for Quebec taxpayers, who have so far injected more than 2 billion [Canadian dollars, or 1.3 billion euros] into this program developed by Bombardier.

By agreeing to reinject CAD 410 million [or 270 million euros] in July, Quebec was able to postpone until 2035 the moment when Airbus would buy back its stake in the A220. The longer the profits are withheld, the greater the risk that the sum obtained by the State will be reduced.

Stock market press review

> Air France-KLM : Towards a share price recovery?

(source: Bloomberg) February 25, 2025

My comment: Next Thursday, Air France-KLM will publish its annual results for 2024.

They will be closely scrutinized by investors, who are hoping for a clear improvement on 2023.

Read the article:

Air France shares had a particularly difficult year in 2024, marked by a sharp contraction in profitability and a significant deterioration in its balance sheet in 2023 and 2024, despite rising sales. Weakened by higher operating costs and an uncertain economic environment, **the company saw its share price plummet to an all-time low of €7**. Since mid-January, however, the stock has staged a **spectacular comeback, recording a rebound of over 25%**.

(...)

Daily chart of Air France share price since May 2024



Source: IG chart

However, the sustainability of the rebound will depend above all on management's ability to restore the Group's profitability and reassure the markets of its financial strength. **The financial results for the fourth quarter of 2024, to be published on March 6, will therefore be crucial for the share's short-term performance. Forecasts, too, will be closely watched.** Analysts anticipate a strong earnings recovery in 2025, with an estimated 93% rise in net income thanks to better cost management, capacity optimization and fare increases.

Nevertheless, the airline industry continues to face major structural challenges. Volatile oil prices, the energy transition requiring massive investment, and growing competitive pressure from low-cost airlines are all factors that could put the brakes on Air France-KLM's recovery.

To convince investors over the long term, the company will need to demonstrate its ability to capitalize on the upturn in traffic while consolidating

its balance sheet. If future quarterly results confirm this positive trajectory, the stock could continue its recovery and gradually regain the market's confidence.

End of press review

> Air share price trend

Air France-KLM shares closed at **8.806 euros** on Friday February 28. Over the week, it is **up (+3.53%)**.

It was 13.60 euros on January 1, 2024, 8.23 euros on July 1, 2024, 7.604 euros on January 1, 2025.

The analysts' 12-month average (consensus) for AF-KLM shares is 9.23 euros (it was 17.50 euros at the beginning of January 2024). The highest price target is 12.50 euros, the lowest 6.45 euros.

I only take into account analysts' opinions after July 1, 2023.

You can find [details of the analyst consensus](#) on my blog.

My comment: *After hitting an all-time low in mid-January, Air France-KLM's share price has recovered by 22%.*

Nevertheless, it remains extremely low.

Investors have high expectations for the 2024 annual results, due to be published on Thursday March 6.

> Fuel price trends this

The price of a barrel of Jet Fuel in Europe is down -\$4 to \$90. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is down -\$1 to \$73 per barrel.

From mid-February 2022 to the end of July 2022, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$75 and \$99.

My comment: *Over the past two months, oil prices have shown little change. It is at a two-year low.*

The price of jet fuel had bottomed out at \$85 in mid-December. For the past three weeks, it has been stable at around \$95, a fair price for airlines.

> Corporate Mutual Funds

When you invest in one of Air France's FCPE funds, you obtain shares in these funds. You do not hold shares directly.

It's the supervisory boards, which you elected in July 2021 for a five-year term, that manage the funds and make the decisions.

The Partners for the Future, Aeroactions, Majoractions and Concorde funds only hold Air France shares.

The Horizon Épargne Actions (HEA), Horizon Épargne Mixte (HEM) and Horizon Épargne Taux (HET) funds manage portfolios of various equities.

My comment: *If you'd like to find out more about how the various Air France FCPEs are managed, please visit the [Air France-KLM Employee Share Ownership section of my website](#).*

Details

This information does not constitute a solicitation to buy or sell Air France-KLM shares.

You can react to this press review or send me any information or thoughts that will help me to keep you better informed.

By return, you can ask me any questions you may have about the Air France-KLM group or employee share ownership...

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| François Robardet

At the forefront of more responsible European aviation, we bring people together to build the world of tomorrow.

(Air France-KLM's raison d'être)

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You can find me on my twitter account @FrRobardet and on
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