

When Air France-KLM still has to recapitalize



## I Letter from the Director of Air France-KLM

**François Robardet**

Representative of employees and former employees who are PS and PNC shareholders

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### *Monday's Press Review*

#### > **When Air France-KLM still has to recapitalize, Lufthansa finishes paying back German state aid**

(source La Tribune) November 13 - **Lufthansa** has just struck a major blow for its recovery. The German group **announced on 12 November that it had repaid all the sums paid to it by the German federal government to enable it to overcome the collapse of air transport in 2020**. The group is thus regaining its strategic freedom, particularly to carry out significant capital operations, and is distancing itself from Air France-KLM.

(...)

In June 2020, the Lufthansa group had obtained a package of aid and loans of up to 9 billion euros from the German federal government, via the Economic Stabilisation Fund (ESF). In the end, it will have used only 3.8 billion euros, thus cancelling out the remainder. This amount includes EUR 306 million invested by the ESF in the capital of Lufthansa, with a 20 % stake.

**To repay the state, Lufthansa has relied heavily on the opening of the capital markets with several corporate bond issues since the end of 2020:** €1 billion in November 2020 (plus €600 million in convertible bonds), €1.6 billion in February 2021, €1 billion in July and finally €1.5 billion a few days ago. To this must be added a capital increase of 2.2 billion euros in October, **making a total of nearly 8 billion euros raised in one year.**

Despite the crisis in the airline industry, the German group has been able to show itself to be attractive on the markets and attract capital. The rapid cost-cutting measures have contributed to this attractiveness since the end of 2020. **Lufthansa is currently claiming to have implemented cost reductions of around €2.5 billion annually, including the elimination of almost 30,000 positions.** The good performance of traffic this summer, with a generation of cash, has also helped to strengthen its positions.

This enabled it to repay 1 billion euros to the public bank KfW in February, then a first tranche of 1.5 billion to the ESF in October and finally 1 billion in November. That is 3.5 billion euros out of 3.8 billion. Of course, **this repayment of state aid does not allow the group to reduce its debt**, and the level of net debt remains high. It was around 9 billion euros at the end of September. But, as one analyst notes, **this transfer to the capital markets allows Lufthansa to have much more affordable rates than those of state support.** The latter were 4% in 2020 and 2021, and were expected to rise thereafter.

The final step in the German state's disengagement will be the sale by the ESF of its remaining stake in Lufthansa. The fund already divested 6% in August and now has until October 2023 to sell off the remaining 14%.

**With this repayment, Lufthansa also frees itself from the counterparts demanded by the German State and above all the European Commission.** Brussels forbade the group from carrying out any large-scale capital transactions until it had repaid 75% of the state money received. No operation is in sight in the short term, but Carsten Spohr had warned that movements could accelerate from 2022, once the "hibernation" period is over. The return of significant capacity next year will require airlines to burn cash again and thus open up opportunities.

Lufthansa will then be able to use the proceeds from these possible disposals to reduce its debt and prepare for new investments. **The German group is currently considering how to increase the value of its maintenance branch, Lufthansa Technik, either through a partial sale to a financial or industrial investor, or through a listing.**

The decision will be taken by the end of the year, with a view to an operation next year. **The group is also studying the sale of its catering subsidiary LSG and its business travel management platform Airplus.** According to one analyst, this could generate cash inflows of between two and three billion euros next year.

Lufthansa is thus putting some distance between itself and Air France-KLM. After having been both dependent on state aid during the crisis, the two groups are no longer on an equal footing. Despite a positive summer, the French group has still not repaid the state aid it received

and therefore remains limited in its room for manoeuvre. It has certainly reduced its debt by 3 billion euros since the beginning of the year, but this is mainly due to the capital increase largely supported by the French state and the conversion of the latter's direct loan into perpetual quasi-equity.

**While Lufthansa is no longer dependent on the German state and is now entirely financed on the markets, Air France-KLM will have to go through a new recapitalisation before it can hope to do the same.**

***My comment:** How did Lufthansa pay back the German state without making a profit?*

*The German airline essentially borrowed from investors via bond issues. Lufthansa was thus able to meet the requirements of the European Commission.*

*In its recent communication, the Air France-KLM group indicated that it wanted to proceed in a similar way. The General Meeting of the Franco-Dutch group voted (last May) on resolutions allowing this.*

### **> A new Air France engine maintenance centre will open at Orly at the end of 2023**

(source Les Echos) 12 November - Increased productivity in the processing of Air France engines and more innovative technologies. This is the ambition of Air France Industries for its future engine maintenance centre, which will be located on the Orly airport platform (Val-de-Marne). On Monday 8 November 2021, the foundation stone for the building, named "Single Roof MM 4.0", was laid.

(...)

**Instead of three separate workshops, "Single Roof MM 4.0" will bring together all the maintenance activities of Air France Industries.** According to the group, this regrouping will reduce engine processing time by 15%. On the new site, maintenance of new generation engines, reputed to emit less CO<sub>2</sub> and be quieter, will also be handled. In a press release, the company cites as an example the engine that powers Airbus' A220 aircraft.

(...)

**The engine maintenance activity currently represents 800 jobs.** And according to Grand-Orly Seine Bièvre, the **recruitment objectives of the future maintenance centre amount to 300 mechanics and managers over the first three years.** This is why the EFA has committed itself in a press release to supporting Air France Industries in

its need for training in the region. In addition, the company has already developed an inclusive engine maintenance training course with the CFA for aviation professions in Bonneuil-en-France (Val-d'Oise) and the Jérémy association. Jérémy offers training in airport professions to job seekers in the region.

For its new engine maintenance centre, Air France Industries has received funding from the State via France Relance and from the Île-de-France Region as part of its support for research and development projects. These envelopes amount to 800,000 euros and 1.2 million euros respectively. **In all, the operation will cost 30 million euros.** According to the company, **"Single Roof MM 4.0" should be delivered and operational by the end of 2023.**

***My comment:** With this new tool, AFI KLM E&M is in a position to win new markets for the GE90 (which powers the Boeing 777).*

*It will also be able to acquire maintenance capabilities for the Pratt & Whitney PW1500G (which powers its A220s) and the Trent XWB (which powers its A350s).*

*At the same time, it will continue to maintain the CFM56-5B engines at Orly, while work on A330 engines will remain with KLM E&M in Amsterdam.*

### > **Emirates Airlines: half-year loss of \$1.6 billion**

(AFP source) November 10 - **Emirates Airlines posted a loss of \$1.6 billion (1.4 billion euros)** in the **first half of the fiscal year** and remains in the red because of the pandemic, the Middle East's largest airline, based in Dubai, said in a statement.

In contrast, revenue rose 86 percent to \$5.9 billion in the same period, from April 1 to Sept. 30, it added in a statement Wednesday.

(...)

**In June, Emirates announced its first annual loss in more than three decades** after the coronavirus pandemic hit the airline industry hard. The carrier said at the time it had received \$3.1 billion (**2.7 billion euros**) in aid from its owner, the Dubai government, to help it survive the crisis.

### **Wizz Air says it relies on organic growth, but "is not blind".**

(Reuters source) Nov 14 - **Wizz Air Chief Executive Jozsef Varadi said** on Sunday **the Hungarian low-cost carrier was designed for organic growth**, but was not "blind".

"(Wizz) is a platform based on organic growth. I think what we are saying is that of course we are interested in consolidating the market and to some extent we can pay for this game; we can buy back slots at airports, for example," Varadi told Reuters.

"We keep an eye on the market in terms of trends and we will continue to do so. **We are not a Lufthansa, we are not an IAG. Those are forces that are consolidating, not us.** We are an organic company with a clearly defined business model, but we are not blind," he said after announcing an order for 102 jets in Dubai.

In September, EasyJet said it had rejected a takeover bid, choosing instead to raise \$1.7 billion from shareholders and go it alone. It declined to name its suitor, but a source familiar with the matter told Reuters it was Wizz Air.

**My comment:** *The statement by the CEO of Wizz Air sounds like a renunciation of any plans to buy an airline, be it easyJet or another low-cost airline.*

*Perhaps such a project is incompatible with the objectives assigned to Jozsef Varadi last July.*

*If he succeeds, among other things, in raising the share price to £120 (it was at £48.25 when the announcement was made), he will receive a bonus of up to £100 million (€120 million)! No comment ...*

## > **Airbus: Indigo Partners orders 255 A321 aircraft**

(stock market source) November 15 - At the Dubai Airshow, **Indigo Partners portfolio airlines Wizz Air (Hungary), Frontier (US), Volaris (Mexico) and JetSMART (Chile, Argentina) announced a firm order from Airbus for 255 A321neo family aircraft as part of the Indigo Partners deal.**

The aircraft ordered are a mix of A321neos and A321XLRs. They will be delivered to airlines as follows:

- Wizz Air: 102 aircraft (75 A321neo + 27 A321XLR)
- Frontier: 91 aircraft (A321neo)
- Volaris: 39 aircraft (A321neo)
- JetSMART: 23 aircraft (21 A321neo + 2 A321XLR)

In addition to this order, Volaris and JetSMART will convert 38 A320neo aircraft into A321neo.

This order brings the total number of A320 Family aircraft ordered by Indigo partner airlines to 1,145.

The A321neo incorporates new generation engines and Sharklets,

offering more than 25% fuel and CO2 savings, as well as a 50% noise reduction.

The A321XLR version offers a range extension to 4,700 nm. The flight time of the A321XLR can be up to 11 hours.

(...)

The negotiated amount of the order is not specified.

**Indigo Partners LLC is a private equity fund based in Phoenix, Arizona. It is focused on global investments in air transport.**

***My comment:** Indigo Partners is the second largest shareholder, with 7.7% of the capital, of the ultra low-cost airline Wizz Air.*

*The other main shareholders are two of the three largest pension fund managers in the world.*

*The A321XLR order could enable Wizz Air Abu Dhabi, a subsidiary of Wizz Air based in the United Arab Emirates, to serve Asia and Africa. Its General Manager, Jozsef Varadi, had mentioned this opportunity last April.*

## **> Aeronautics industry learns first lessons from the crisis at Dubai show**

(source Les Echos) November 14 - **The Dubai Air Show**, which opened its doors this Sunday until November 18 (...) - the first since the beginning of the pandemic - **marks the entry into the post-crisis world. A world in the continuity of the previous one**, (...) but also, with some significant changes.

The latest edition of the Airbus 20-year market outlook study, unveiled on the eve of the show, illustrates this change in continuity. Overall, these forecasts have not changed radically. **Airbus still expects 39,000 deliveries of new aircraft with more than 100 seats by 2040**

(compared to 39,213 expected in the 2019 edition), all models and aircraft manufacturers combined, with a high proportion of single-aisle medium-haul aircraft of the A320 and A220 type unchanged (29,700). According to Airbus commercial director Christian Scherer, the Covid crisis has certainly caused the world air transport industry to lose two years of growth. But traffic could return to its 2019 level as early as 2023. And in the **long term, air transport could still count on a growth rate of about 4% per year**, as before the crisis, which would allow world air traffic to exceed, as expected, 8 billion passengers around 2040.

However, while the crisis has not called into question the development

of air transport, a few notable changes are emerging in the background. The first concerns the share of aircraft deliveries intended to replace older aircraft. In the Airbus study, this has risen from 35% in 2019 to 40%, or some 15,250 aircraft out of the 39,000 planned.

(...)

**Despite the financial difficulties, most airlines have not cancelled their orders** - some have even started ordering again - showing their willingness to modernise their fleets without waiting for growth to return.

(...)

**" Until now, this desire to renew was driven by fuel prices, but environmental concerns have now been added,"** explains Christian Scherer. Today, only 13% of the world's fleet is made up of new generation aircraft. These new generation aircraft can reduce fuel consumption - and therefore CO2 emissions - by 25%," he points out. This increased focus on efficiency also explains **another new development: the rise of the mid-range aircraft market segment**, which straddles the gap between medium and long-haul aircraft. The **most successful example is the Airbus A321 XLR**, which will enter service between 2023 and 2024. **This new, longer-range version of Airbus' largest single-aisle aircraft will be capable of operating both medium-haul and transatlantic routes.**

**"The A321 XLR will change the game,"** says Airbus. Until now, to launch a long-haul route, it was necessary to take a long-haul wide-body aircraft even if the traffic did not really justify it. With the A321, airlines will be able to develop long-haul routes from regional cities without having to go through major hubs.

**This is food for thought for Boeing, which was wondering before the crisis about the market prospects for a new "mid-range" aircraft** and which has not abandoned the idea of launching a new model once the crisis is over. "Today, we know that the market does exist.

**Another major lesson of this crisis is the new importance of air freight.** With the fall in passenger traffic, cargo traffic, which was previously considered a simple complement to the business, has become a lifeline for many airlines. And despite the upturn in traffic, demand for air freight remains strong at high rates. Hence the market forecasts revised sharply upwards by Airbus, which expects demand for 3,000 cargo aircraft by 2040, i.e. a third more than before the crisis. It also explains the new projects of Airbus and Boeing for this market of cargo planes. **The European aircraft manufacturer, which has not been very active until now, was the first to announce a cargo version of the A350 last summer.** "We are very satisfied with the market's response to this announcement," says Christian Scherer, who could sign a first order at the Dubai air show.

**For its part, Boeing has been promising its customers a cargo version of the 777X, which was expected to be launched at the Dubai air show. This will probably not be the case, as** the American aircraft manufacturer has apparently not yet finalized discussions with the first potential customers, including Emirates and Qatar Airways. But in the meantime, Boeing has already increased production of the classic 777 freighters, taking some fifty orders since the crisis began.

***My comment:*** In 2018, the world's fleet of passenger and cargo aircraft was 23,000.

*If, as Airbus expects, it doubles by 2040, the fuel savings induced by the use of less kerosene-guzzling engines will not be enough to meet the CO2 emission reduction targets.*

*Airlines will have to find other ways to reduce their carbon footprint.*

*For European airlines, which are not expected to see their fleets increase dramatically, the use of biofuels could be a solution, if they were available in sufficient quantities.*

*The issue will be more complex in Asia and Africa. With their fleets expected to grow dramatically, Asian and African airlines will have to find additional ways to reduce their carbon footprint.*

## ***End of the press review***

### **> Advice for employees and former employees who are shareholders**

You will find on my [navigaction](#) site the modalities of access to the sites of the managers.

To avoid forgetting to change your contact details each time you change your postal address, **I advise you to enter a personal e-mail address.** It will be used for all correspondence with the management bodies.

Keep all the documents relating to your Air France-KLM shares in one place: all the letters you receive from the various managers, Natixis, Société Générale, and your personal financial institution if you bought your shares through it.



## > **My comments on the Air France-KLM share price trend**

**Air France-KLM shares** closed at **4.231 euros** on Monday 15 November. **It is down sharply this week by -8.76%. It has lost half of what it had gained in the previous two weeks (following the announcement of better than expected quarterly results, it had risen by 19.5%).**

Before the coronavirus epidemic, Air France-KLM shares were at 9.93 euros.

**The average (consensus) analyst price for AF-KLM shares is 3.29 euros.** The highest price target is 5.5 euros, the lowest 1 euro. You can find the details of the analysts' consensus on my blog. I do not take into account the opinions of analysts prior to the beginning of the health crisis.

**Brent crude oil (North Sea) is down significantly this week by \$3 to \$81.**

At the end of October 2020, it was at a low of \$37.

**At \$86 on October 25, Brent had reached a level not seen since 2014,** supported by supply disruptions and underlying demand. Natural gas prices continue to rise to their highest level in at least seven years. Investors seem to feel that hydrocarbon producers have cut back too much during the pandemic so that demand pressure is unbalancing the market.

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

You can react to this press review or send me any information or thoughts that will help me better carry out my duties as a director of the Air France-KLM group.

**You can ask me, by return, any question relating to the Air France-KLM group or to employee share ownership...**

See you soon.

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**| François Robardet**

**Director of Air France-KLM representing employees and former employees who are PNC and PS shareholders.  
You can find me on my twitter account @FrRobardet**

When I was elected, I received the support of the CFDT and the UNPNC. This press review deals with subjects related to the Air France-KLM shareholding.

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