

Ukraine: Airlines on the front line



I Letter from the Director of Air France-KLM

François Robardet

Representative of the employees and former employees shareholders PS and PNC

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Editorial

Dear Readers,

February is the month when airlines announce their annual results.

Air France-KLM will be the first to publish its 2021 results on Thursday 17 February.

This will be followed by IAG on February 25 and the Lufthansa Group on March 3.

Ryanair, which has a delayed fiscal year (from April to March), will publish its results in May.

EasyJet, which has a delayed fiscal year (from October to September), will publish its results in November.

François

Monday's Press Review

> Airlines on the front line of geopolitical tensions

(source Investir) February 14 - Convalescent after the travel restrictions imposed by the health crisis, **airlines were hit hard this Monday on the stock market by the exacerbation of tensions around Ukraine**, with the recent build-up of Russian troops on its borders. Kiev has recommended that airlines bypass the Black Sea due to the intensification of Russian maneuvers on its borders. **Geopolitical tensions have also contributed to push oil prices a little higher during the morning, which** translates into higher energy bills for companies.

(...)

Freight transport is affected as much as passenger transport. **The airlines also remember the crash of Malaysian Airlines flight MH17, shot down by a Russian-made missile over Ukraine in July 2014**, killing all 283 passengers and 15 crew members.

(...)

KLM, the Dutch division of Air France-KLM, announced the suspension of its flights to Kiev. This decision comes as the Dutch government has recommended its nationals to avoid traveling to the country. KLM and other airlines such as **Lufthansa** started last month to review their flight schedules to avoid their crews having to stay in the Ukrainian capital. The German company **announced on Saturday that it was monitoring the situation and considering the possibility of suspending its traffic to Ukraine.**

(...)

On the stock market, the European Stoxx 600 travel and leisure index was the biggest sectoral fall of the day, ahead of banks and technology. Among the airlines, **Air France-KLM dropped 8.4% at the lowest point of the morning, IAG, parent company of British Airways and Iberia, 8.7%, and Lufthansa 7.3%.** Wizz Air and Ryanair also lost ground, as did Aeroflot in Moscow. American airlines were not spared, with Delta Airlines and American Airlines losing around 2% in pre-market trading in New York.

My comment: *In this kind of situation, airline managers work in close collaboration with the supervisory authorities.*

If the Netherlands has already decided to suspend flights to Ukraine, France is leaving itself a few hours before taking a position.

> Spirit Airlines and Frontier Airlines merge to create the second largest U.S. low-cost airline behind Southwest

(source La Tribune) February - Crises often bring about consolidation, especially in the American sky. Following the example of the merger of Continental Airlines and United Airlines in 2010 or American Airlines and

US Airways in 2013, **Spirit Airlines and Frontier Airlines have announced their merger. The two low-cost airlines will create a low-cost champion in the United States**, which will be positioned directly at the fifth place of the American operators at the level of JetBlue Airways and Alaska Airlines, or even slightly ahead. However, it will still **lag far behind major groups such as Delta Airlines, United Airlines and American Airlines, as well as low-cost giant Southwest Airlines.**

Based on 2021 results, the future "combined company" represents a potential turnover of 5.3 billion dollars and a cash balance of about 2.4 billion (excluding transaction costs). **Synergy potential is estimated at USD 500 million per year, mainly through economies of scale and group purchasing.** This will be achieved once the merger is fully implemented, which will require one-time costs of up to \$400 million. Once combined, **the two airlines will offer a combined fleet of 283 aircraft, all Airbus A320 and A320 NEO** (re-engined medium-haul) **family aircraft.** With giant orders placed by Frontier Airlines - as part of the Indigo Partners consortium - and Spirit Airlines, the future group has a fleet plan to reach 493 aircraft by 2026.

(...)

Ultra-low-cost also relies on building a large point-to-point network to maximize the number of flights. And on this point, Frontier and Spirit have relatively complementary networks: the former will bring its network in the West and Midwest, while the latter will bring its Caribbean and Latin American destinations.

(...) The

total transaction value is \$6.6 billion including the assumption of net debt and operating lease liabilities.

(...)

The board of directors (...) will be chaired by William Franke, the current chairman of Frontier but also managing director of Indigo Partners, the airline's parent company.

Indigo Partners already has a common history with Spirit, a pioneer of the ultra-low-cost model. The investment fund held a stake in the company between 2006 and 2013, before selling it to become involved in Frontier (which it owns nearly 83%). William Franke was already at the helm at the time, and served as Spirit's president for those seven years.

Made famous by its huge bulk orders for several airlines, **Indigo Partners is also involved in Jetsmart (Chile), Volaris (Mexico) and Wizz Air (Hungary).** *cost synergies, forget revenue synergies,*

My comment: Indigo Partner is a US-based private equity firm

specializing in the creation and development of ultra-low-cost airlines.

Indigo Partner has the financial resources to actively participate in the consolidation of airlines on all continents. Based in Eastern Europe with Wizz Air, it could be tempted by the acquisition of a low-cost airline based further west.

> **Green light from Rome for the privatization of the new Alitalia**

(source AFP) February 11 - After many attempts by Rome to get rid of Alitalia, which has plunged the public accounts, the **government of Mario Draghi opened the way on Friday to the privatization of the young company born from its ashes, ITA Airways.**

The shipping giant MSC and its ally Lufthansa were the first to show interest in January, two years after the German company's aborted plan to take over Alitalia.

The government has presented to the Council of Ministers "a decree allowing to start the process of finding partners for ITA Airways", with a view to a "public offer or a direct sale", announced the Minister of Economy Daniele Franco.

Rome has decided to open the sale process to all potential buyers, without granting MSC and Lufthansa the "90-day period of exclusivity" they had requested.

"We foresee that, in a first phase, the government will keep a minority share and not a controlling share, which can be sold later," Franco said.

(...)

ITA Airways is not its only target, MSC having proposed in December to the French group Bolloré to buy its logistics activities in Africa.

(...)

The market share of its ancestor Alitalia on international routes to and from Italy was limited to 7.7% in 2020, far behind Ryanair (29.5%), Easyjet and Lufthansa.

(...)

My comment: *At this point, the most important information to remember is that the sales process is open to all candidates, without exclusivity.*

> **EU: Will IAG have to get rid of British Airways?**

(source Air Journal) February 11 - **The affair is making a lot of noise across the Channel**, where the British national airline had formed in 2011 - before the Brexit in January 2020 - the International Airlines

Group (IAG), which now includes, alongside British Airways, the "always European" Iberia, Aer Lingus, Vueling and Level (and the Avios frequent flyer program). **After a post-Brexit suspension of discussions on who controls IAG**, officially based in Madrid, **the last twelve months have not led to any solution. The European Union stipulates that any operator must be "owned and controlled" by an EU-based company (with at least 50% of the capital); however, Qatar is now a 25.1% shareholder in IAG, which according to some would further reduce the group's European shareholding (estimated at between 30 and 40%). According**

to an HSBC analyst interviewed in The Telegraph, **some EU member states** - including France and Germany - are **insisting that the rules be reapplied**, while others such as Spain and Ireland, as well as Hungary, are in favour of changing the rules. "National interests are omnipresent in the airline industry, which is often the seat of mercantilist politics. The commercial interest of Air France-KLM and Lufthansa would undoubtedly be supported by adding new strategic challenges to IAG," said analyst Andrew Lobbenberg.

IAG responded to the controversy in a statement issued by City am: stating that the group "complies with European ownership laws, as its board has a majority of independent non-executive directors from the EU," it **said that "as reported in December 2020, our European airlines' remedial action plans have been approved by national regulators in Spain and Ireland**, who have confirmed that they comply with EU ownership and control rules. They have been in place since January 1, 2021".

One solution for IAG would be to found a new company in the EU that would take on the European operations of British Airways, and keep only the long-haul from London airports on British soil, for example. We are not there yet, but the air nationalism sometimes observed within groups (Air France v KLM for example) has not finished making news on the Old Continent as well as in the UK.

My comment: *The shareholders of a company are generally grouped into two categories.*

On the one hand, there are the long-term investors, clearly identified. For Air France-KLM, for example, these are the two French and Dutch governments, Delta Air Lines, China Eastern (and even the employees).

On the other hand, the shareholders with so-called free-floating capital. Floating capital shares regularly change ownership.

The shareholders express their views during the votes at the General Meeting. Very often, free float shareholders are not present at General

Meetings, leaving the decision-making power to long-term investors.

What is the composition of IAG's shareholder base?

The latest annual report published by IAG in February 2021 stated, "Qatar Airways, a Middle Eastern airline headquartered in Doha, has been IAG's largest shareholder since 2016, holding, as of the date of this report, 25.1% of the company's share capital."

Further on, the report stated, "

The Company's significant shareholders as of December 31, 2020, calculated based on the Company's share capital as of the date of this report and excluding positions in financial instruments, are:

Qatar Airways 25.14

Invesco Limited 1.327%

Lansdowne Partners International Limited 1.255%

Allan & Gill Gray Foundation 1.100%."

IAG must demonstrate that its shareholders resident in the European Union have more than 50% of the capital.

For the moment, there is doubt. With its 25%, Qatar Airways, which has considerable weight, is able to influence all of IAG's strategic decisions.

> Volotea to double its capacity in France by 2022

(source Air & Cosmos) Feb. 9 - **Spanish low-cost carrier Volotea has announced that it will operate a historic expansion in France during 2022** with a total of 5.5 million seats offered for sale, **up 99% from 2021 and 54% from 2019.**

The carrier plans to open two additional bases in France.

(...)

In June 2021, Volotea had more than 1,400 employees, including 401 in France. By the end of 2022, it plans to increase its workforce to 1,600 employees. The opening of two new bases in France will reinforce this dynamic with 60 new direct jobs and approximately 300 indirect jobs.

(...)

The company has a fleet of 35 aircraft (20 Airbus A319 and 15 Airbus A320).

(...)

My comment: *The air traffic recovery is showing its face. The airlines are preparing to be able to gain market share.*

But the airlines will have to have enough planes. The big winners could be the aircraft rental companies.

> **Hydrogen aircraft: Airbus does not rule out making its own engines**

(source Air & Cosmos) February 12 - The **president of Airbus**, Guillaume Faury, has just thrown a stone into the pond during an interview with the newspaper "Welt am Sonntag". The president of the Airbus group **said that the aircraft manufacturer could produce its own engines for its future hydrogen-powered aircraft.** "This is something we could essentially do ourselves," said Guillaume Faury. "We have the skills for that," he added, referring to a possible "change in strategy."

Hydrogen propulsion offers so many technological breakthroughs that it could well turn the tables and upset the established positions of engine manufacturers: GE Aviation, Safran, Pratt & Whitney and Rolls-Royce. Engine manufacturers who may seem to be dragging their feet in the face of the technological roadmap leading to hydrogen propulsion. This lack of enthusiasm is cleverly dressed up as reason: long-haul aircraft will require the use of sustainable aviation fuels for some time to come.



My comment: *Will there ever be a commercial hydrogen aircraft?*

Let's trust our engineers, they have met much greater technological challenges.

The real question, unanswered to date, is: when will these hydrogen aircraft be available?

> **China cuts itself off from the world to block Omicron**

(source Les Echos) February 9 - **Air France announced the news on its Chinese Weibo account: flights AF198 Paris-Shanghai on February 17 and 24 are cancelled.** Air Canada announced the suspension of its flight AC025 Vancouver-Shanghai for the next two weeks. The same announcements were made by Russian Airlines, Turkish Airlines, Iran Mahan Airlines, China Eastern Airlines and Sichuan Airlines for flights to the Chinese cities of Guangzhou and Chengdu.

All these cancellations are the latest in a long series ordered by the Civil Aviation Administration of China (CAAC). The reason? The discovery of Covid-19 positive cases among passengers on previous flights.

Since June 2020, the Chinese authorities have implemented a system of sanctions against airlines (Chinese or foreign) when they carry passengers detected positive for Covid-19 upon arrival in China or during their quarantine. In this case, the carrier is sanctioned by cancelling incoming flights to China or by limiting load factors (to 40 or 50%), depending on the number of positive cases. In the case of Air France, seven passengers tested positive upon arrival in Shanghai on January 28. The sanction was immediate.

With the appearance of the Omicron variant in China, the Lunar New Year vacations (February 1) and the Beijing Olympic Games, the Chinese authorities have increased the number of sanctions under this so-called "circuit breaker"

mechanism. This recent wave of flight cancellations reduces an already considerably reduced list for incoming air traffic to China, with only 200 international flights per week, or 2% of the pre-pandemic level. Since the summer of 2020, only 6 scheduled flights are authorized by China to connect with France (3 for Air France, 3 for Chinese airlines), compared to more than 100 before the pandemic.

(...)

France is also taking similar measures against Chinese airlines, "in retaliation for the sanctions imposed on Air France, deemed incompatible with the provisions of the bilateral agreement on air services".

The situation is unprecedented since the beginning of the epidemic two years ago. At the time of the emergence of the virus in Wuhan, many

companies decided to suspend their flights to China, to the great displeasure of Beijing, which strongly condemned these cancellations. Today, it is China that is postponing international flights for fear of the return of the epidemic. China, which has largely contained the epidemic on its soil, is practicing a zero-case policy and is hunting down so-called "imported" cases. **The resumption of international traffic is not expected before 2024/2025, the Chinese authorities have already announced.**

Stock market press review

> AIR FRANCE-KLM: The downward trend may resume

(source Boursorama) February 7 - The MACD is negative and below its signal line. This configuration worsens the outlook on the stock. The RSI does not yet indicate an oversold condition, so **a further decline is technically possible.**

> AIR FRANCE-KLM: The movement remains bullish

(source Boursorama) February 11 - (...) We can see that **the upside potential (...) is not exhausted.** A correction is likely in the short term.

My comment: *I sometimes receive requests for advice on buying or selling Air France-KLM shares.*

My answer is always the same: I am not allowed to answer them, because I have access to confidential information that could influence my judgment. That would be insider trading.

The two excerpts from the above articles also illustrate the difficulty of making predictions.

The first article mentions the possibility that the share price will continue to fall.

The result of the next three days: a rise of almost 10%.

The second article predicts a rise in the share price.

Over the next three days, the share price fell by almost 7%.

If there was only one piece of advice to remember when buying a company's stock, it would be to only invest money that you are willing to lose.

End of the press review

> Advice for employees and former employees who are shareholders

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

To avoid forgetting to change your contact information 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 organizations.

Keep all the documents related to your Air France-KLM shares in one place: all the letters you receive from the different managers, Natixis, Société Générale, 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 **4.202 euros** on Monday 14 February. **It is up +2.41%**.

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



Evolution of the Air France-KLM share price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

The analysts' average (consensus) for AF-KLM shares is 3.46 euros. The highest price target is 5.50 euros, the lowest 1.30 euros.

You can find the details of the analyst 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 up again this week by \$3 to \$96.

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. It exceeded this record again last week, with the crisis in Kazakhstan and then Ukraine explaining the rise.



Evolution of the oil price over five years. The sharp drop corresponds to the beginning of the Covid-19 epidemic.

This information is not intended to be 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 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.

To find the last press reviews of Monday, it is [here](#)

If you like this press review, please pass it on.

New readers will be able to receive it by [giving me](#) the email address of their choice.

| François Robardet

Director of Air France-KLM representing the employees and former employees shareholders of PNC and PS.

You can find me on my twitter account @FrRobardet

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

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