

Air France-KLM : stowaway



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

### François Robardet

Representative of the employees and former employees shareholders PS and PNC

N°884, October 31, 2022

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## Monday's Press Review

### > Air France-KLM : stowaway

(source Les Echos) October 30 - **What a great flight! The tight formation of the operating profits of the three major European airlines in the third quarter is somewhat surprising, given their very different profiles:** 1.02 billion euros for Air France-KLM, 1.1 billion for Lufthansa and 1.2 billion for IAG. The expected landing of the annual results should not be very far from this pocket handkerchief, at "more than 900 million" expected by the Franco-Dutch group.

The trio will therefore have, roughly speaking, completed its year during the summer. The coincidence is not completely coincidental, since the head office revenue has also evolved in swarms (up 24.4% at AF-KLM, 23% at its competitors).

But **the real surprise lies in the participation of the company led by Ben Smith in this group flight.** As much as the dashboard lights over nine months (operating profit similar to 2019 with 20% less traffic), the reduction of debt leverage, from 11 to 1.6 times Ebitda, symbolizes this impressive go-around. But **the stock market does not want to give too much credit to this excellent piloting, which it knows also depends on macroeconomic weather.** It has separated this stowaway from the group (**-13.05% for the share on Friday, after the recent surge**) while keeping an eye on the hole of another 2.8 billion in the equity. Indeed, we should not let the weather turn sour...

If Air France-KLM is taking advantage of its liquidity (12.3 billion) and a clear

horizon to anticipate, in November, the repayment of one billion euros out of the 3.5 billion balance due under its state-guaranteed loan (PGE), it is because the hand extended by the state during the Covid-19 crisis is now closing on the trap of rising interest rates.

The scheme is in fact based on one of the interbank rates (the three-month Euribor). When the EMP was concluded in 2020, and then modified in 2021, this rate was then negative, and by convention, it was set at zero for the calculation of the banks' remuneration. Today, the rate is 1.6%, to which must be added the banks' margin (2.75%) and the State's guarantee commission (1%), i.e. a potential cost of 5.35% to date (bearing in mind that the rate is only payable in May of each year). **The EMP thus represents Air France-KLM's main exposure to variable rates, the majority of its debt being at fixed rates.**

**Time is working against Air France-KLM, which is also capitalizing the coupons due on the three tranches of hybrids resulting from the conversion of the €3 billion state loan in April 2021. These bear interest rates of 7%, 7.25% and 7.50%.** As of April 2025, the first tranche of one billion euros will increase to 8.50% if the group does not repay it. One year later, another one billion euro tranche will rise to 8%, and the last one in April 2027 to 8%.

**The company hopes to issue 1.2 billion euros of hybrids this year or next in order to fill its equity gap and strengthen its balance sheet.** An amount that represents more than a third of its current market capitalization.

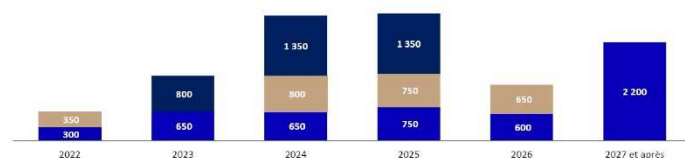
***My comment:** The good results that the Air France-KLM group recorded in the third quarter put it on a par with its main competitors.*

*But this does not mean that the Franco-Dutch group is out of the woods. The debt repayment deadlines between now and 2026 (3.5 billion euros for the EMP, 2.3 billion euros for the convertible bonds) are very important.*

#### Profil du remboursement de la dette au 30 septembre 2022

AIRFRANCE KLM GROUP

Profil du remboursement de la dette<sup>(1)</sup>  
En m€



##### Air France-KLM obligations senior

Octobre 2022 : AFKL 3,25% (250m€)  
 Janvier 2023 : AFKL 3,25% (750m€)  
 Mars 2024 : AFKL 0,125% (200m€)  
 Convertible : AFKL 3,25% (200m€) et AFKL 3,25% (200m€) en 2024  
 Octobre 24 : AFKL 3,25% (200m€) en 2024

##### Aide de l'État français\*

L'aide de l'État consiste en émission de prêts bancaires garantis par l'État français et remis de près de l'État français.  
 Le prêt de l'État français d'un montant de 3,0 milliards d'euros a été converti en quasi-fonds propres perpétuels en avril 2021.

##### Autres dettes à long terme émises par AF et KLM : Principalement sécurisées par leurs actifs

*On the good news side, the high level of cash flow will enable the company to repay 1 billion euros of the PGE (Plan Garanti par l'État) in the next few days.*

*Following the announcement of the results, the Air France-KLM share price fell. You will find detailed explanations in the "Stock Market Press Review" section.*

## > **Air France-KLM reports Q3 results**

(source Dutch Press, translated with DeepL) October 28 - **The Dutch media have commented extensively on the results of Air France-KLM and KLM, highlighting the impact of Schiphol and the strong recovery despite this.** The group's revenues amounted to 8.1 billion euros, of which 3.2 billion came from KLM and Transavia. Air France (570 million euros) and KLM (443 million euros) recorded an operating profit, which translates into a group net result of 460 million euros. The group plans to further increase capacity in the fourth quarter. Many sources point out that **KLM has calculated the impact of the problems at Schiphol at 175 million euros. 30 million euros have been spent on passenger compensation, the rest on lost revenue.**

BNR asked Marjan Rintel, CEO of KLM, about the third quarter results. Marjan Rintel stated that she was satisfied with the last quarter and that the most important thing was that customers wanted to fly again and chose KLM, although KLM was not able to offer the service it wanted to offer. Regarding **Schiphol compensation**, Rintel said she is in discussion with the airport about the issues. **KLM plans to hire many more staff to help resolve the issues.**

Asked about the many challenges facing airlines, Ms. Rintel noted that demand for flights is very high, and that the reopenings in Asia are very good news. **On the subject of the group's and KLM's profits**, the journalist asked Ms. Rintel if "the French still thank you very much for being part of the group". **Ms. Rintel replied that she believes in a strong group with two strong airlines**, "so I believe in a strong Air France-KLM, a strong KLM and a strong Air France", **adding that she was very impressed by the French results.**

Asked about the "balance of power" within the group, Ms. Rintel said she does not believe in "power" and "egos," but in "cooperation," "which we do very well."

**My comment:** *The malfunctions observed at Schiphol airport have strongly impacted KLM, which has seen its activity decrease by more than 10%.*

*If this situation were to continue, KLM pilots have expressed their fears that a transfer of activity to France would take place.*

*It should be remembered that the distribution of long-haul activity between KLM and Air France is governed by an agreement (the Prod Balance) dating back to the creation of the Air France-KLM group and that it is still in force.*

*Before the health crisis, KLM's long-haul activity was close to the maximum provided for in the agreement.*

### > **Air France-KLM: record order for sustainable fuels**

(source Les Echos) October 25 - **After aircraft orders, this is Air France-KLM's biggest investment to reduce its CO2 emissions. The group finalized on Tuesday with the Finnish Neste and the American DG Fuel two of the largest contracts for the supply of sustainable fuels ever signed in the aviation sector** - 1.6 million tons in total, between 2023 and 2036, or more than 2 billion liters.

This will enable Air France, KLM and Transavia to move a few steps closer to the group's objective of using 10% sustainable fuels by 2030 and reducing its CO2 emissions by 30% by the same date. **In total, these 1.6 million tons of sustainable fuels, produced from cooking oil and animal fats, would prevent the addition of about 4.7 million tons of CO2 to the atmosphere.**

The total value of these two contracts is not stated, but it is in the billions of dollars, knowing that the cost of non-fossil fuels is three to four times that of traditional kerosene, whose price per ton is about 1,000 dollars.

(...)

And **unlike other announcements, this is not a medium-term purchase commitment. Neste's deliveries will begin next year** and continue each year until 2030. On the other hand, those of the American company DG Fuels, for an additional 600,000 tonnes, will only come at a later stage, for the period 2027-2036.

**Thanks to the Neste contract alone**, whose main production site in Rotterdam will double in size, Air France-KLM will be able to meet its immediate obligations. In France, Air France must already incorporate at least 1% of sustainable fuels. But future European regulations, currently being finalized, call for at least 2% by 2025 and 5% by 2030.

**The group will still have to find other suppliers to reach its objective of integrating up to 10% of sustainable fuels by 2030.** The two contracts together account for only three of that 10%. And while Neste plans to increase its production of aviation fuels from 1.5 million metric tons in 2023 to 2.2 million metric tons in 2026, **the Finnish specialist will not be able to meet the needs of European airlines on its own. Especially since, unlike its U.S. competitors, Neste will not use palm oil or agricultural products that could be used in food production.**

***My comment:** Here is an agreement that answers the questions of some of the airline's detractors.*

*The Air France-KLM Group already has at its disposal the means to fulfill its obligations to use sustainable fuel until 2025.*

*Note the last sentence of the article: in the United States, sustainable fuel is produced from biomass that can be used for human consumption.*

*There is a need for a global directive to regulate the use of biomass in the production of sustainable aviation fuels. This is within the remit of ICAO, the International Civil Aviation Organization (part of the United Nations).*

### > **Air France KLM: an interest for TAP?**

(source Boursier) October 28 - In the midst of its recovery, Air France KLM is thirsty for expansion. Despite a still substantial debt, the Franco-Dutch carrier has its eye on TAP.

**The group is "very familiar with the Iberian peninsula" and TAP could be "another option", said Ben Smith at the** quarterly results presentation conference. Air France KLM would "definitely commit on a formal basis" if there was an opportunity, the executive said when asked about interest in the Portuguese flag carrier.

Before the summer, TAP said a new investor would put it on a firmer footing as it continues its restructuring program amid rising fuel costs and growing geopolitical uncertainty. (...)

**The final decision will rest with the Portuguese state, which is now the sole owner of the company.**

**My comment:** *The airline TAP is well established on the South Atlantic market, a market where the IAG group (British Airways and Iberia) is the leader ahead of the Air France-KLM group.*

*If TAP were to join the Air France-KLM group, the new entity would be ahead of the IAG group on this network.*

#### **Last minute (1):**

*The Italian Ministry of the Economy said Monday that it would not extend the exclusivity period opened for discussions with the U.S. private equity fund Certares, associated with the Air France-KLM and Delta Airlines groups for the takeover of ITA Airways, the former Italian airline. Discussions may resume with other investors. Lufthansa had applied earlier this year with the cruise group MSC.*

**Last minute (2):** *announcements are being made on Monday.*

*easyJet jumped by more than 5% in London on rumors of a takeover. According to the 'Times', IAG, which has more than 13 billion euros in cash, has its eye on the low-cost airline as well as on TAP, the Portuguese national carrier.*

## > **Lufthansa forms joint venture with Frankfurt airport operator**

(source Business Traveler, translated with DeepL) Oct. 25 - **Lufthansa and Fraport, the operator of Frankfurt Airport, have formed a new joint venture to improve products and services at the airport's Terminal 1.**

The companies said the goal of the "Fra-Alliance" is to achieve "improved processes and product offerings for flights" while "boosting the airport's competitiveness."

**The venture will address areas such as business development and operations, customer experience, infrastructure, intermodality and sustainability.**

Early benefits include providing real-time updates of wait times at security checkpoints in the Lufthansa app. Passengers can now take these times into account when planning their trip.

Passenger flows have also been analyzed and optimized in order to "significantly reduce transfer times" for about one million passengers per year. This will be achieved by eliminating "unnecessary and redundant" security checks.

(...)

**My comment:** *Joint ventures between an airline and an airport already exist in several countries.*

*In the United States the practice is common, resulting in long-term (99-year) leases of gates to airlines.*

*In the Gulf States, integration is more advanced, with airlines and their main airports being part of the same group.*

*In Germany, where the European Commission is more sensitive to competition issues than elsewhere, Lufthansa already has such an agreement in Munich.*

*Lufthansa's merger with Fraport is surprising, however. Until now, relations between the two companies have been very strained. Lufthansa favored Munich while Fraport gave Ryanair tax breaks to compete with Lufthansa.*

*Ryanair's decision to leave Fraport at the end of the discount period may have had something to do with Fraport's reversal.*

*Note: thanks to the Air France-KLM strategy team for their information, which I have largely used.*

## > Lufthansa back in the black thanks to a recovery in passenger flights

(source AFP) October 27 - The European leader in air transport, German **Lufthansa, has posted a third quarter net profit of 809 million euros**, after a loss last year, benefiting from a strong recovery in air traffic.

(...)

The group is driven by the return of demand for leisure and business passengers, put at a standstill by the pandemic, while the cargo branch, which has carried the activity lately, has achieved a "record" result, according to Lufthansa.

(...)

**Lufthansa has achieved an operating profit (EBIT) of 1.1 billion euros in the quarter**, a performance multiplied by four compared to the same period of 2021.

The airline group confirms the increase in its targets announced at the beginning of the month and expects an adjusted operating profit exceeding 1 billion euros in 2022, compared to at least 500 million previously expected.

(...)

***This performance was achieved despite the increase in the cost of jet fuel***, fueled by the generalized surge in energy prices since the outbreak of the war in Ukraine.

(...)

But **the increase in the price of airline tickets for consumers has made it possible to offset this increase in costs**, according to Lufthansa.

(...)

***My comment: By the end of the year, the Lufthansa Group (which includes Lufthansa, Swiss, Austrian, Brussels Airlines) will have repaid all public debts incurred during the health crisis.***

## > IAG: net profit of 853 million euros in the third quarter

(Air Journal source) Oct. 29 - **IAG** (International Airlines Group) reported a **net profit of €853 million** (compared with a loss of €574 million a year earlier) **and a current operating profit of €1.21 billion in the third quarter of 2022.**

Its revenue of €7.33 billion for the third quarter of 2022 was 0.9% higher than in 2019, even though its capacity was only 81% of pre-pandemic levels.

(...)

Group CEO Luis Gallego said (...) "**while demand remains strong, we are aware of the uncertainties in the economic outlook and the continued pressure on**

households".

(...)

**My comment:** IAG, like Lufthansa, made pre-announcements in mid-October. The two airline groups had indicated that they were aiming for a quarterly operating result twice as high as expected.

These announcements led to a surge in the share prices of the main European airlines, including Air France-KLM.

## Stock market press review

### > Why does Air France KLM plunge despite an excellent quarter?

(source Boursier) October 28 - Despite a near-record quarter, **Air France-KLM plunged more than 15% to 1.34 euros at the end of the week in Paris.**

Investors are concerned about the impact of the inflationary spiral on demand and the persistent disruptions at KLM's Amsterdam Schiphol hub. **Some are also pointing to the slight downward revision of capacity for the last three months of the year as the company plans to operate 85% of its pre-pandemic capacity in the fourth quarter, compared to a previous plan of 85% to 90%.** For the first quarter of 2023, however, the ramp-up is expected to continue with capacity expected to be around 90% of 2019 levels.

The group's business "is distinguished by its transformation to improve labor efficiency and margin, but we expect cost headwinds to build through 2023," says Conroy Gaynor, an analyst at Bloomberg Intelligence. **"The company has very real operational issues and growth constraints for KLM at Amsterdam Schiphol."**

Stifel ('sell'), meanwhile, remains skeptical of Air France KLM's medium-term margin ambitions and target of positive annual FCF (free cash flow) by 2023. Although the company is doing well operationally, the broker continues to believe that in light of deteriorating market fundamentals next year, **the still significant equity deficit of 2.8 billion euros does not offer a comfortable balance sheet position.** In line with its sector view, the broker expects a tougher demand and cost environment next year for European airlines.

**Citi ('buy') is more optimistic.** The bank says the airline posted operating profit 24% above consensus, thanks to better-than-expected revenue due to strong pricing, **with yields up and "good" cost control despite the disruption.** It sees the consensus revising its estimates upward.

**Bernstein ('underperform')** also points out that operating profit was well ahead of



consensus thanks to strongly improved yields and pent-up demand driving higher revenues, with high operating leverage on the bottom line. The broker **called the results "all the more impressive" as the group was hit by summer disruptions.**

Asked about the share price drop in a press conference, the carrier's boss **Ben Smith said investors had not yet fully understood the structural benefits of cost cuts, especially in the French domestic market**, which was historically "the most loss-making part of our business." CFO Steven Zaat, meanwhile, said the stock was falling, but so were other peers, with some investors "taking profits" after recent gains.

***My comment:*** Investors look at several indicators to evaluate companies: results of course, but also debt, free cash flow and equity among others.

*For the three airline groups Air France-KLM, IAG and Lufthansa, the picture is clear.*

*. The Lufthansa Group is the only one to be well placed on each of the indicators.*

*. The IAG group suffers from higher debt (13 billion) than its competitors Lufthansa (9 billion) and Air France-KLM (8 billion).*

*. Air France-KLM's equity (negative -2.8 billion) is much lower than Lufthansa's (9.2 billion) and IAG's (1.8 billion at end June).*

*For this reason, in addition to those mentioned in the article, Air France-KLM is still less valued than its European competitors, which is reflected in the recent evolution of its share price.*

*If we refer to October 13, considered as the day of the first precise indications on the results of IAG and LH, the price evolution (as of October 28) is +4% (AF-KLM), +11% (Lufthansa), +13% (IAG).*

## **Bonus Article**

### **> Tourism, a cash machine for France**

(source Le Figaro) October 26 - After being hit by the Covid, tourism has regained its dynamism since the spring, and is becoming increasingly important to the French economy. **According to Alliance France Tourisme, travel should contribute 4.3 billion euros to the balance of payments in the third quarter, after a good first (3 billion) and second quarter (4.5 billion).** And this while the

overall balance of payments deficit is widening. Public opinion and public authorities often underestimate the weight of tourism in the French economy," says Dominique Marcel, president of Alliance France Tourisme, an association that brings together leaders in the sector (Accor, ADP Group, Louvre Hotel, Compagnie des Alpes, Areas ...). **In addition to representing 8% of GDP, travel contributes very positively to our current account balance**

.

2022 was an exceptional year, due in large part to the post-Covid catch-up. Activity has better than recovered to 2019 levels. Despite the absence of Asian and Russian clients, the sector has performed unexpectedly well. The French, who have remained in large numbers in France, have helped to revive the machine. Moreover, **tourist revenues were boosted by record arrivals of European tourists and the massive return of Americans** - all the more willing to spend because of the strong dollar. In total, during the summer of 2022, foreign visitors spent 7% more than during the summer of 2019, according to Insee.

**Both French and foreigners accepted significantly higher prices, both in hotels and restaurants.** The turnover of accommodation and restaurants increased by nearly 14% in July 2022, compared to July 2019, again according to Insee. After scares caused by the fuel shortage, the All Saints' Day vacations are looking good.

"Let's not fall asleep under the pretext that 2022 was a very good year," says Dominique Marcel. It is wrong to believe that there are no more problems. **Despite efforts** (increase in minimum wages, reduction of work on Sundays and daytime cuts ...), **staff is lacking, forcing many establishments to limit their activity** (closing one evening of the week, meals limited to one service ...). Added to this is the decline in purchasing power, which could lead to a drop in spending, soaring energy prices and the repayment of PGEs, which could weigh on investment capacity. **"In this context**, it is more necessary than ever to build a national strategy with all stakeholders, professionals and public authorities," insists Dominique Marcel. According to Alliance France Tourisme, tourism requires a global approach (accommodation, transport, quality of service, security, cleanliness, etc.). **"We need to give ourselves the means to maintain France's competitiveness in tourism in the next five to ten years,"** the professional insists. And this is all the more important as competition from other countries is increasing.

***My comment:*** *Is it necessary to remind you that France is one of the first tourist destinations in the world, even the first?*

*And that most tourists arrive by plane?*

*What would happen if French air transport were to decline?*

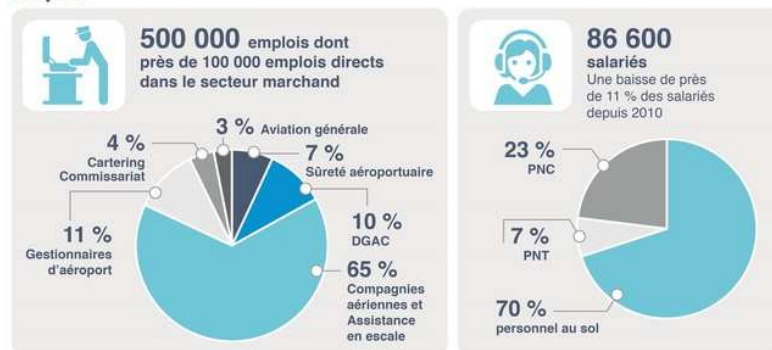
A study published in 2015 by the Observatoire des métiers de l'aérien showed that in France, the air transport sector accounts for 100,000 direct jobs and generates 400,000 indirect jobs (catering, transport, associated services).

The challenge of decarbonizing air transport therefore goes far beyond preserving jobs in the aeronautics industry.

#### Activité 2015



#### Emploi



## End of the press review

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

Air France-KLM shares closed at 1.332 euros on Monday 31 October. It is down sharply this week by -10.93%.

After having risen by 15% in the last two weeks, benefiting from positive announcements from US and European airlines, it has lost 11% in two days after the announcement of quarterly results below expectations.

The volumes traded on Friday 28 October, the day of the results announcements, covered more than 2% of the capital. A level rarely reached.

The average (consensus) analyst price for AF-KLM shares is 1.53 euros. The

highest price target is 2.00 euros, the lowest 0.85 euros. I only take into account analysts' opinions after the May 2022 capital increase.

You can find the details of the analysts' consensus on my blog.

> **My comment on the evolution of fuel prices**

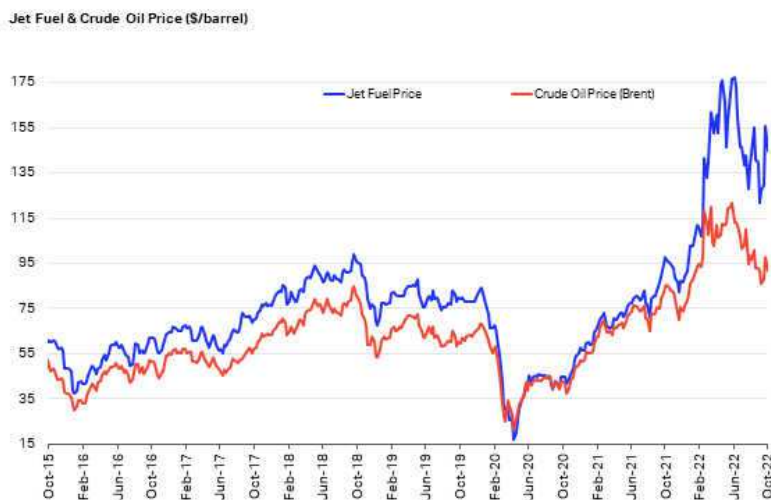
**The gap between oil and jet fuel prices has never been wider.**

**The price of jet fuel in Europe is down this week by -\$8 to \$135 per barrel.** After peaking at \$182 in June 2022, it was down to \$132 in early August. It was at \$79 a little over a year ago.

**Brent crude oil (North Sea) is up slightly this week by +\$2 to \$95** From mid-February to the end of July, it was yo-yoing between \$100 and \$120. Since then, it has oscillated between \$85 and \$99. At the beginning of March, Brent reached \$132, close to its record of \$150 (in 2008).

Fears that the economy will be in recession by the end of 2022 led to a drop in fuel prices. Then the announcement by OPEC+ to reduce oil production brought prices back up.

**Since the beginning of the war in Ukraine, there is no longer any correlation between the price of a barrel of Brent oil and the price of a barrel of Jet Fuel.** This is very clear on the graph below, which covers the period June 2015 - October 2022.



Source: S&P Global, Refinitiv Eikon

*Jet fuel price per barrel by region (source IATA) as of October 7, 2022*

## Fuel Price Analysis

The jet fuel price ended last week up 19.8% at \$155.8/bbl:

7 October 2022	Share in World Index	cts/gal	\$/bbl	\$/mt	Index Value 2000 = 100	vs. 1 week ago	vs. 1 month ago	vs. 1 yr ago
Jet Fuel Price	100%	370.89	155.77	1230.14	425.83	19.8%	11.7%	64.7%
Asia & Oceania	22%	311.35	130.77	1033.05	373.63	14.9%	0.9%	-40.9%
Europe & CIS	28%	358.54	150.59	1188.13	405.73	22.9%	5.8%	59.2%
Middle East & Africa	7%	325.10	136.54	1078.09	407.75	18.9%	4.0%	-47.9%
North America	39%	420.12	176.45	1393.96	469.09	20.1%	22.6%	84.4%
Latin & Central America	4%	388.10	163.00	1287.73	451.54	20.1%	12.2%	68.4%

## Good to know

### > 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.

### > Management of employee investment funds

When you invest money in one of the Air France FCPE funds, you get shares in these funds. You do not hold shares directly.

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

The 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 stocks.

***My comment:*** If you would like more information on the management of the various Air France FCPEs, please consult [my website navigation, section Air France-KLM employee shareholding](#).

## **Details**

**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**

**Alternate Nicolas Foretz, PNC**



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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