

The unpleasant Air France-KLM surprise



I Letter from François Robardet

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

(Raison d'être of the Air France-KLM group)

for employees and former employees

PS and PNC shareholders of Air France-KLM

N°972, July 8, 2024

If you do not see this page correctly, or if you want to read the English or Dutch versions, please contact us.

If you do not see this page correctly, or if you want to read the English or Dutch versions,

Als u deze pagina niet goed ziet, of als u de Engelse of Nederlandse versie wilt lezen,

[follow this link](#) , [it is here](#), [vindt u deze hier](#) 

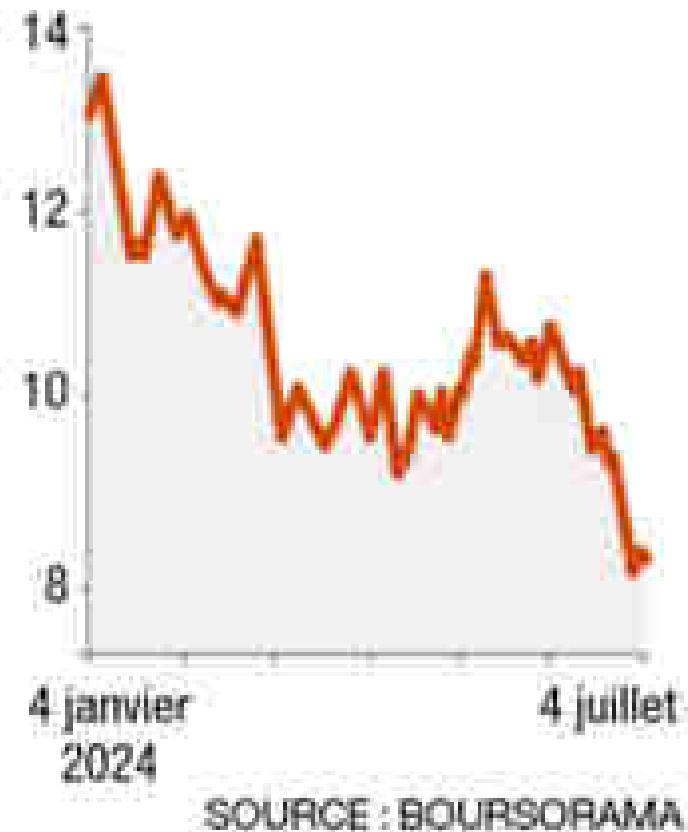
Monday's Press Review

> The unpleasant Air France-KLM surprise

(source L'Opinion) July 4, 2024 - Parisians aren't the only ones looking to avoid the capital in the run-up to the Olympic Games. **Air France-KLM air traffic to and from the City of Light for the June to August period is vanishing into thin air.** Grey zone or red zone, with or without QR code - many tourists prefer to take the alternative route rather than go through the red tape. For the airline, the **loss of revenue is estimated at between 160 and 180 million euros.**

Cours d'Air France-KLM

En euros



Even if the company can hope to win back some of this revenue at the end of the summer, thanks to a postponement effect, this is a nasty surprise. One more in a year that has been anything but Olympic for Air France-KLM shares. **The share price has fallen by 40% since January 1, including 22% in June alone.** Loss-making from October to March, mainly due to inflation in wage costs, the **Franco-Dutch group has never fared so badly on the stock market.**

The summer period is more conducive to financial performance, but the French political situation, in addition to the effect of the Olympic Games, cast a shadow over this vintage. The risk of strikes or riots should the Rassemblement National come to power cannot be ruled out. This would have a negative impact on the business of a group 28%-owned by the French state, with a notoriously erratic social climate. The political mortgage could also thwart Air France-KLM's ambitions for its Portuguese competitor TAP, which is in the process of being privatized.

My comment: After poor results in the first quarter of 2024, the Air France-KLM

group is likely to face a difficult summer, or even a lackluster year, particularly if the group is forced to reduce its offer due to problems with spare parts for its fleet.

The Group also has to repay 1.65 billion euros in bonds this year, and a similar amount next year. The group's net debt stood at 5 billion euros at the time of the last annual results announcement.

The absence of any prospect of a dividend payment, the negative impact of the Olympic Games, the possible reduction in supply and the debt repayment profile are all negative signals taken into account by investors concerning the company's stock.

> **Qatar Airways capitalizes on demand to post record results**

(source La Tribune) July 2, 2024 - **Record profits continue to roll in for the air transport industry, buoyed by strong demand** across the globe. Following in the footsteps of Air France-KLM, Singapore Airlines and Emirates in recent months, **Qatar Airways announced its best-ever financial results** on Tuesday. The Qatari airline has coped well with the departure of its long-serving CEO Akbar al Baker last autumn, posting record sales and profits for the 2023-2024 financial year.

Qatar Airways earned \$22.2 billion in the fiscal year ending March 31. That's 6% more than the previous year, when the group had already set a record with the contribution of the 2022 Football World Cup.

This performance is largely due to the dynamism of travel demand: traffic grew by 26% to exceed 40 million passengers. That's almost 8 million more than before the crisis. Despite an improvement in load factors, **unit revenues declined slightly.**

The situation is less rosy on the cargo side, which is not without consequences for the Group, which operates a fleet of 28 Boeing 777 Freighters. Despite maintaining its market share, it was hit by the global downturn in this activity last year, recording a 26% drop in revenues.

However, this did not prevent Qatar Airways from improving its earnings before interest, taxes, depreciation and amortization (Ebitda). These exceeded 5 billion dollars, with a margin maintained above 23%. **This operational performance translated into financial success, with a record net profit of 1.7 billion dollars.**
(...)

My comment: *The aviation agreement between the European Union and Qatar has not yet fully entered into force due to an ongoing investigation into allegations of money laundering, corruption and participation in a criminal organization.*

This agreement is particularly unfavorable to European airlines.

Qatar Airways' financial results are impressive, but they would be even more so if Qatar had greater access to the European market.

> EU gives green light to Lufthansa's takeover of Italy's ITA Airways

(source Les Echos) July 3, 2024 - It's the epilogue to a long soap opera: on Wednesday, the **European Commission gave its conditional green light to the takeover of Italian carrier ITA Airways by Germany's Deutsche Lufthansa**, an operation closely watched by the entire air transport industry, attentive to the progress of market consolidation.

Lufthansa (Swiss, Austrian Airlines and Brussels Airlines) is acquiring a controlling interest (41%) in ITA, alongside the Italian government, **for 325 million euros, with an option to purchase the balance at a later date**. In this way, the German company intends to gain a foothold in one of Europe's largest and most competitive aviation markets.

This "deal" was no mean feat for the European regulator who, fearing a reduction in competition, opened an in-depth investigation lasting several months, brandishing the threat of a veto. The game that then played out behind the scenes saw several tense episodes. And before the "deal" could be concluded, **Lufthansa and the Italian government had to propose a package of "corrective measures" to allay the EU's fears**.

(...)

"We had to prevent passengers from paying more or seeing the number and quality of air transport services diminish on certain routes within and outside Italy," commented Margrethe Vestager, Vice-President of the European Commission. The package of remedies ensures that a sufficient level of competitive pressure remains on all affected routes".

Prime Minister Giorgia Meloni's government, meanwhile, will finally get rid of a loss-making asset, which should enable it to improve the country's finances.

"Today, we are finally bringing to a positive conclusion the interminable national carrier dossier that has been at the heart of public debate for 40 years," commented Italy's Minister of the Economy. Giancarlo Giorgetti acknowledged "a complicated, troubled and difficult path, but one that has been crowned with a great success for Italy, Germany and Europe. There will never again be any public support for this company. It's a thing of the past.

This is not the end of the story, however, as the Commission still has to approve the "appropriate beneficiaries of the corrective measures for each of the commitments" made - the implementation of which will be scrupulously monitored by an independent trustee -, she warned. Discussions will therefore continue over the coming weeks.

My comment: *This is only a green light in principle granted to Lufthansa. The approval process is not yet complete.*

The Italian Minister for the Economy is taking risks by asserting, as all his predecessors have done for 40 years, that the Italian airline will never again receive public aid.

> **Bordeaux airport fills Ryanair's void with new destinations**

(source Actu) July 2, 2024 - **With the announced closure of Ryanair's air base** from October 27, 2024, and the departure of the low-cost airline, Bordeaux airport is faced with the elimination of 39 routes from its tarmac, including 20 destinations. But as we all know, nature abhors a vacuum, and **other airlines have already positioned themselves to replace the abandoned routes, such as Transavia**, which announced on June 25 the opening of six new routes from Bordeaux (including five abandoned by the Irish airline).

(...)

This low-cost subsidiary of the Air France-KLM group has taken over "mature destinations" from Ryanair: Porto, Marseille, Marrakech, Seville and Agadir.

Similarly, Volotea has taken over Marrakech and Madrid

(...)

In addition to replacing Ryanair, **Bordeaux airport is targeting new destinations.**

Discussions are currently underway with Finnair and SAS to develop **Scandinavia**, where strong commercial potential has been identified. "

We're also trying to develop **Egypt**, which is quite fashionable. We're also looking at the Middle East. Tel Aviv was a destination we were actively looking at, but we dropped it given the current economic climate. In the years to come, we'd like to offer **Dubai or Doha**," says Cyrielle Clément.

Also, the commercial success of the route to Montreal has given ideas to Bordeaux airport, which is dreaming of a direct route to **New York**. There's very strong demand in both directions," notes the manager. Americans are very fond of Bordeaux and our wine. There's little doubt they'll come."

Airbus' delivery delays on a model of aircraft ideally suited to this kind of route mean that we're having to wait and see. In the same spirit, **Shanghai** is one of the routes being studied for the next three to four years.

From July 2, Shanghai Airlines will open a route between the Chinese city and Marseille. Bordeaux airport will be closely monitoring the commercial launch. "After that, things evolve. We adapt very quickly. It all depends on geopolitics, pandemics, economic ups and downs... The current elections can have a big influence too, for example."

My comment: Airports seek to open and maintain the most lucrative air routes. This can be achieved through airport fees generated by high passenger numbers, or through revenues from duty-free stores.

Stores pay a percentage of their sales to airports in exchange for the right to sell in

terminals. This percentage can be as high as 40%. The average purchase varies according to nationality, and is particularly high among the Chinese, at around €150.

This is undoubtedly what encouraged the opening this summer of a route between Marseille and Shanghai, following the inauguration in 2019 of a direct flight between Nice and Beijing.

If this phenomenon were to become widespread, it would deprive the major air hubs of a significant flow of passengers, resulting in a loss of revenue for the major national airlines.

> Norwegian Air warns, stock plunges

(source Boursier) July 4, 2024 - A new message of caution in European skies. Norwegian Air this morning lowered its earnings forecast for 2024 due to weaker demand in the second quarter, a higher-than-expected wage settlement for pilots, delays in Boeing aircraft deliveries and exchange-rate headwinds.

As a result, the Scandinavian group now expects annual Ebit of between 2.5 and 3.2 billion crowns, compared with 2.5 to 3.2 billion crowns previously. The previous forecasts did not include any contribution from Wideroe, the regional carrier acquired in January, but have been taken into account in the new guidance. Norwegian shares fell by over 16% in Oslo.

My comment: Read the commentary on the following article.

> TourMaG Should we be worried about Norse Atlantic Airways?

(source Journal) July 2, 2024 - Low-cost has revolutionized short- and medium-haul travel.

After completely reshuffling the deck and enabling millions of Europeans to go on vacation at low cost, various initiatives have been launched on much longer routes.

With the exception of JetBlue and French bee, **these projects have often been flops.**

The biggest failure was Norwegian, which was forced to close its transatlantic routes and **put its French subsidiary into liquidation.** Norwegian did, however, set an example, with Norse Atlantic Airways.

This airline was launched in February 2021 by the co-founder and former CEO of Norwegian Air Shuttle, Bjorn Kjos. It has taken over the codes, fares and slots left vacant by its predecessor.

"Just profitable in the last quarter for the first time in its short existence, Norse will nevertheless have lost money by 2023," announced our airline specialist Christophe Hardin in a previous article.

These losses should have given way to a profitable 2024. Except that, after more than 6 months of activity this year, **the company finds itself in short-term difficulty.**

(...)

Norse: "a negative impact on liquidity and cash flow in the short term"

(...)

Except that **the absence of new money could have consequences for the carrier's future, and fairly quickly.**

(...)

Its share price fell from \$8 at its IPO in September 2021 to \$0.37 on July 3, its lowest level (...)

)

Norse: a business model in question?

Norse's business model is based on long-haul scheduled flights in the summer, with the reduction in the network in winter offset by charter flights and aircraft rental.

(...)

All this information calls into question the relevance of the model, even if JetBlue or French bee have succeeded.

According to OAG, low-cost airlines accounted for just 5.3% of frequencies this summer, on 7,300 flights between North America and Western Europe. "The long-term

success of long-haul low-cost services is still a question, and their fragile market share makes them vulnerable to competitive pressures when market demand weakens and oil prices harden.

(...)

My comment: There are several reasons why it's easier to make a low-cost airline profitable on short-haul flights than on long-haul flights.

Firstly, low-cost airlines operate more flights per day than traditional airlines (up to eight daily flights for Ryanair, for example), which means they can carry more passengers and optimize the use of their aircraft.

Conversely, long-haul airlines, whether scheduled or low-cost, operate a similar number of flights per month, thus limiting opportunities for profitability.

Secondly, low-cost carriers often prefer secondary airports, which are less expensive than major hubs. This cost-cutting strategy is not always possible for long-haul airlines like Norse Atlantic, which mainly serve major US cities.

Also, for long-haul low-cost airlines, cost savings are mainly concentrated on personnel costs, which limits the scope for expense reductions. .

Lastly, the introduction of Sustainable Aviation Fuels (S.A.F.) entails additional costs, which have a greater impact on low-cost airlines because they have less room for maneuver than scheduled airlines.

> Fatal crashes of two 737 max planes: Boeing to plead guilty

(source BFM Business) July 1, 2024 - A storm in the making for Boeing? According to CNBC, the **US Department of Justice (DoJ) plans to ask the manufacturer to plead guilty for the fatal 737 Max accidents.** These two crashes, which took place in 2018 and 2019, resulted in the deaths of 346 people.

(...)

Last May, the DoJ notified a federal judge in a letter that Boeing had failed to comply with certain conditions of an agreement that would have saved it from criminal prosecution for these two accidents.

On January 7, 2021, Boeing signed a \$2.5 billion settlement with the US authorities. Under the terms of this agreement, Boeing admitted to committing fraud (by misleading the regulators who had approved the 737 Max), **in exchange for the Justice Department dropping some of the charges brought** against it since the two fatal accidents.

"Boeing is liable to prosecution" in this case, announced the Justice Department. "We believe that we have honored the terms of this agreement," Boeing responded, saying it was ready to "respond" to the case, which is being handled by a federal judge in Texas.

The federal authorities "have determined that Boeing has violated its obligations" under the agreement "by failing to plan, implement and enforce a program" to comply with U.S. laws "throughout its operations", the Department's letter said.

Victims' families want a trial

The authorities in fact re-examined the agreement after the in-flight loss of a cap door on a new Alaska Airlines 737 Max on January 5, triggering a new safety and quality control crisis at Boeing.

In addition to an additional fine of around \$247 million, **this guilty plea could have adverse commercial consequences for the manufacturer as a federal contractor. Boeing is a major subcontractor to the Pentagon and NASA.**

But this option does not seem to satisfy the families of the victims, who were hoping for a proper **criminal trial.** In such a case, **Boeing would face a much larger fine: \$24.8 billion, and its liability would be confirmed.**

"The scandalous underlying aspect of this agreement is that it does not recognize that Boeing's crime killed 346 people", denounces Paul Cassell, one of the lawyers for the victims' families, quoted by the AP agency. "Boeing will not be held

responsible for this, and they will not admit that it happened."

However, according to the families, DoJ prosecutors have stated that if Boeing rejects the guilty plea offer, the Department of Justice will request a trial in the case.

My comment: *Boeing finds itself in a delicate situation regarding the offer to plead guilty, whatever its decision.*

Accepting a guilty plea could result in the loss of federal contracts, causing a significant loss of revenue for the aircraft manufacturer.

On the other hand, refusing to plead guilty and going to trial would mean that the \$2.5 billion paid to avoid trial would have been paid in vain. What's more, Boeing would face a maximum fine of \$24.8 billion.

To put this in perspective, at the beginning of 2024, Boeing declared that it had \$16.0 billion in cash and marketable securities investments, with available credit lines of \$10 billion.

A fine of this magnitude would therefore put Boeing in serious financial difficulty.

The temptation to plead guilty is therefore strong. If Boeing chooses this option, it is the families of the victims who would suffer most.

> **Poland: construction of a mega-airport in Warsaw demonstrates the "hypocrisy" of environmentalists**

((source Euractiv) June 27, 2024 - Environmental objections to the construction of a new air transit hub **in Warsaw** are "hypocrisy" according to project manager Marcin Horała, who claims that similar projects in Western Europe are not subject to the same scrutiny.

Known as the Solidarity Transport Hub (or **CPK** by its Polish acronym), **the new airport infrastructure is set to become the main air transit hub for Central and Eastern Europe** when it opens in summer 2028.

Completion of the project is expected to boost the Polish economy and make it a more attractive destination for businesses, according to the project's promoters.

At a cost of some 8 billion euros, the **CPK** platform is **considered the largest infrastructure construction project currently underway in Europe.**

The mega-airport will be linked to the surrounding cities by high-speed trains and a road network, with the aim of making it the main departure point for some 180 million inhabitants of Central and Eastern Europe.

The hub will absorb most of the commercial traffic from Warsaw's other two airports,

Chopin and Modlin, whose role in Poland's air connectivity will be reduced.
(...)

Critics have questioned the expansion of air transport infrastructure, one of the most carbon-intensive modes of transport, in the midst of the climate crisis.

Environmental NGOs have called on Europe to halt investment in airports and redirect it towards lower-emission modes of transport.

The European Commission has backed programs to encourage travellers to switch to rail, a relatively more environmentally-friendly mode of transport, while **the European Investment Bank (EIB)**, the European Union's financing arm, is **considering ending investment in airport expansion**.

However, **such an approach would be unfair to Central and Eastern European countries, which have had less time to develop their transport infrastructure than Western member states**, Horała explained to EURACTIV.

(...)

The creation of an international hub in the Polish capital will also mean that passengers from Eastern Europe will no longer have to take polluting short-haul flights to Western European airports to catch a long-haul flight, Horała argued.

The construction of the CPK hub would also include "state-of-the-art technologies", making the airport greener than those built in the past, he claimed. "It is always more difficult to renovate or modernize existing infrastructure than to plan and design it from the outset using environmentally friendly technologies," said Horała.

(...)

My comment: *The European Commission advocates strong intermodality between high-speed rail and air in Europe. In the medium term, this strategy will reduce the number of short-haul flights within Europe. The new airport project in Poland is part of this logic, as a hub mainly supplied by high-speed trains.*

This raises two important points:

1- Bringing passengers wishing to take long-haul flights by train should, in theory, at least partially satisfy environmental NGOs. However, this is not the case. Most NGOs believe that the only way to reduce CO2 emissions from air transport is to limit long-haul traffic.

2- To justify the new airport, the project leader points to the backwardness of airport infrastructure development in Eastern Europe, a backwardness that penalizes the citizens of this region.

This argument is often used worldwide to justify the development of air transport in

less-served regions.

This debate goes to the heart of the issue of decarbonizing air transport.

At a time when experts believe that it will be difficult to produce enough sustainable aviation fuels for today's fleets, how can we envisage putting more and more aircraft into service over the next 25 years?

Stock market press review

> Air France-KLM: price target lowered by Oddo BHF

(source CercleFinance) July 3, 2024 - **Oddo BHF** reiterates its 'underperform' opinion on Air France-KLM and **lowers its price target from 9.5 to 8.5 euros**, to reflect its new estimates and the research firm's updated parameters.

Following a warning issued by the Franco-Dutch airline earlier this week, the analyst models an adjusted EBIT of 482 million euros (-34.2%) on second-quarter sales of 8.1 billion.

In our view, **getting CASK back under control is a prerequisite for a return to the stock**", warns Oddo BHF, for whom Air France-KLM is still trading on unattractive multiples compared with its major peers Lufthansa and IAG.

My comment: *Over the past ten days, several analysts have revised their Air France-KLM share price targets downwards: Oddo, Barclay, Stifel, BNP, Deutsche Bank.*

The lack of cost control (CASK = Cost Available Seat Kilometer) is highlighted by Oddo.

For more details, read our previous newsletter article "Air France-KLM loses altitude, due to political uncertainty in France".

End of press review

> Air France-KLM share price trend

Air France-KLM shares closed at **8.358 euros** on Friday June 21. It is **up slightly this week (+1.58%)**.

It was 12.53 euros on January 2, 2023, and 17.77 euros on June 19, 2023.

The average (consensus) 12-month analyst price for AF-KLM shares is 13.79

euros, down one euro in ten days (it was 15.0 euros at the beginning of January 2023). The highest price target is 23.00 euros, the lowest 8 euros. I only take into account analysts' opinions subsequent to the May 2022 capital increase.

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

My comment: *The Air France-KLM share price had regularly exceeded 10 euros for a month and a half. It has now fallen by 22% in one month.*

Analysts' average (consensus) 12-month forecast for AF-KLM shares is 13.79 euros, down one euro in ten days.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is up +\$3 to \$109. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **up \$1 to \$87 a 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 new comment: *Since the beginning of the year, the price of a barrel of oil has been relatively stable. It fluctuates between \$80 and \$90.*

The price of a barrel of Jet Fuel in Europe is falling steadily, from \$120 to \$100.

The spread between Jet Fuel in Europe and Brent crude oil has followed the same trajectory as Jet Fuel, approaching its pre-Ukraine level.

> **FCPE management**

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 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...

See you soon.

For the latest Monday press reviews, [click here](#).

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

New readers can receive it by [sending me](#) an email address of their choice.

| François Robardet

Represented Air France-KLM's employee and former employee PS and PNC 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 linked to Air France-KLM shareholding.

If you no longer wish to receive this press review, [unsubscribe](#)

If you wish to change the address at which you receive this press review, please [send](#) me [your new email address](#)

. To contact me: [message for François Robardet](#).

11,598 people receive this live press review