

Air France-KLM: 200 million euros in lost revenue due to the Olympic Games



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

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Monday's Press Review

> Air France-KLM disappointed by its 2nd quarter in an increasingly difficult environment

(source Journal de l'Aviation) July 25, 2024 - "It's been a **disappointing quarter**", "we had higher ambitions", lamented Steven Zaat, Air France-KLM's CFO. Indeed, not all indicators were up over the period, and the Group was forced to take further cost-cutting measures in the face of rising unit and fuel costs, falling cargo revenues and the impact of the Olympic and Paralympic Games (JOP) in France. **However**, moderates Steven Zaat, the **second quarter of 2024 remains one of the best in the group's history**.

Sales rose over the period by 4.3% to 4.3%. By contrast, EBITDA, operating income and net income all fell compared with the same period in 2023. **Net income reached €165 million (down €447 million), which was not enough to make up for the loss recorded in the first quarter.**

"**The second quarter of 2024 confirmed the emergence of an increasingly challenging environment for aviation**, with rising fuel prices and continued pressure on costs. Against this backdrop, KLM and Transavia posted a stable if lackluster performance, while Air France was impacted by exceptional events, notably the negative effect of the Olympic Games in June. The Group has already

taken strong measures to adapt to this situation, including a hiring freeze and additional cost reductions," commented Benjamin Smith, Group CEO.

Few details were given about these cost reductions, apart from the fact that they would be made wherever possible: IT, purchasing, marketing, discretionary costs and so on. **Transformation projects will be accelerated to simplify structures, reduce overheads and create new synergies. The hiring freeze concerns administrative and non-operational staff.** The Group expects unit costs to rise by 2% this year, at the top end of the range initially presented.

Investments in the fleet have been maintained, albeit "optimized". They should therefore be lower than the 3 billion euros initially forecast this year.

The increase in annual capacity will also be slowed down a little: it will be only 4% instead of the targeted 5%. On the subject of the Olympic Games, a revenue loss of 40 million euros has already been recorded for the second quarter, despite the fact that the event has a repellent effect on travelers. The impact on the third quarter is expected to be between 150 and 170 million euros.

My comment: *Air France-KLM is exposed to the same difficulties as its competitors:*

- *the increase in the price of jet fuel (it cost \$96 on average in the second quarter of 2023, \$105 in the second quarter of 2024, i.e. +10%),*

- *the integration of sustainable aviation fuels, which is gradually adding to the bill (for Air France-KLM, this represents +100 million euros for each 1% integration),*

- *the slowdown in travel demand. At the end of the COVID-19 pandemic, demand picked up more than expected, a way of making up for the years during which travel was de facto very limited. This phenomenon is known as "Revenge Travel".*

- *a significant number of aircraft grounded for lack of spare parts.*

For Air France-KLM, there was also the negative effect of the Olympic Games, estimated at 200 million euros for the year.

Faced with this situation, the airlines have adopted temporary measures, notably postponing non-urgent hiring.

They are also trying to pursue their cost-cutting strategy. However, this strategy is reaching its limits, and the new cost-cutting measures envisaged appear to be marginal.

To improve their balance sheets, they have one remaining lever: raise fares in the hope of not losing customers.

A risky gamble?

> Turkish Airlines: new Business class; free Wi-Fi for all passengers by the end of 2025

(source Air Journal) July 24, 2024 - Turkish Airlines this week unveiled its all-new Crystal Business Class suite at the Farnborough International Airshow 2024. It also promises free WiFi to all its passengers in 2025.

With the new Crystal Business Class suite, travelers will make their future journeys in style. The new suite is the first on Turkish Airlines to feature an adjustable suite door and a privacy panel for added privacy on board. The new Business Class seats offer a wide 23-inch seat width with extended foot space. **While most carriers use third-party manufacturers for their premium seats, the new seats were developed by Turkish Airlines subsidiary TCI Aircraft Interiors.**

(...)

The airline also announced that it would provide free Wi-Fi to all passengers by the end of 2025. **The airline has signed a memorandum of understanding with state-owned satellite company Turksat and its subsidiary TCI Aircraft Interiors to add broadband connectivity to its fleet.**

The new seats will be offered on the carrier's transcontinental flights. They will be installed on the airline's Airbus A350s on order, starting in 2026. The advanced seats will also be installed on its fleet of Boeing 777 aircraft.

(...)

Turkish Airlines, which is in the process of placing an order for Boeing aircraft, is not expected to announce anything at this year's Farnborough Airshow.

My comment: *Some thirty years ago, airlines offered seat-integrated telephones in Business and First class. Calls were billed at over 40 francs a minute!*

Today, in-flight wi-fi makes it possible to make these same calls at much lower prices, via Internet voice communication applications.

It seemed inevitable that high-speed wifi would become free on aircraft. This will soon be the case.

One question remains: will phone calls be allowed? The noise pollution involved is almost prohibitive.

Another point to underline in this article concerns partnerships for aircraft seats and telephony.

This national airline works with subsidiaries and a state-owned Turkish company.

This is part of Turkey's strategy to develop a powerful air transport group, backed by

the public authorities.

> **Iberia ready to sell 52% of Air Europa business**

(source Business travel) July 24, 2024 - **Iberia is ready to make concessions to convince Brussels to allow it to take over Air Europa...**

Iberia has said it is prepared to sell 52% of Air Europa's business. In 2023, according to Aena, Air Europa operated 103,279 flights, notes El Preferente. Thus, applying the 52% percentage, **Air Europa could sell 53,705 flights.**

Several airlines have put themselves forward as candidates, including Avianca, World2Fly and Iberojet for long-haul flights, and Binter, Ryanair and Volotea for European flights.

If we look in detail, the vast majority, i.e. 2/3 of Air Europa's flights, were operated on the domestic network, i.e. 72,052 flights versus 31,227 flights on the European network. At

52%, Air Europa would be prepared to cede 37,467 domestic flights to its competitors, and 16,238 international flights.

The European Commission is expected to give its response by August 20, 2024.

The takeover of Air Europa means that the airline will probably leave Skyteam to join Oneworld, the alliance of Iberia and British Airways.

(...)

This long saga began in 2019 when IAG unveiled its intention to acquire the Madrid-based carrier for 1 billion euros.

A much-changed aviation landscape due to the Covid-19 pandemic subsequently led to the purchase price being halved to just 500 million euros in January 2021.

Then, the Competition and Markets Authority subsequently launched an investigation into the proposed takeover and, in December 2021, IAG announced that discussions were at an advanced stage to terminate the agreement. A takeover that has been on the agenda again since 2023...

My comment: *Air Europa's purchase price was halved after the Covid-19 pandemic.*

If the European Commission accepts this reduction in traffic by more than half of Air Europa's offer, it will be interesting to see whether Iberia will adjust its offer downwards.

This could prompt a counter-offer from Lufthansa or Air France-KLM.

> **Corsair limits its partnership with the Republic of Congo**

(source Journal de l'Aviation) July 26, 2024 - **The Republic of Congo has decided to limit its partnership with Corsair to commercial and operational cooperation**

for the opening of a route between Paris and Brazzaville, a project that the French airline intends to bring to a successful conclusion.

The country wishes to concentrate on developing its own national airline on the domestic and regional network, and will continue to benefit from Corsair's support for this.

At the same time, **Corsair reports that its shareholders have already identified a new private shareholder from a French group.** The arrival of this new shareholder is not expected to alter the business plan presented to the European Commission. This plan, which was modified last September, is currently under review in Brussels.

***My comment:** Last December, the Republic of Congo appeared as a possible Corsair shareholder.*

**** first quote from Capital magazine *** there's another investor, and not the least, rather surprising: the Republic of Congo. A player in the air tourism industry explains: "This country wants to do away with Air France's monopoly on the Paris-Brazzaville route, which offers few flights and causes ticket prices to soar."*

He explains that a Paris-Brazzaville flight today costs twice as much (2,000 euros) as a Paris-Tokyo flight. Why is Congo ready to inject 15 million euros? Because the state doesn't have a national airline any more, and re-launching one would cost a lot more.

**** end of quote ****

On June 7, it was agreed that the Republic of Congo would become the main shareholder, but would not have a majority stake, despite the 15 million euros.

Its withdrawal is, as La Tribune writes, a cold shower for the airline.

It is also a very bad signal for the European Commission, which doubts Corsair's viability.

> **EasyJet wins a round against Ryanair**

(source Les Echos) July 24, 2024 - EasyJet outperforms yellow jersey Ryanair. Europe's second-largest low-cost airline posted a pre-tax profit of 280 million euros in the third quarter to the end of June, up 16% on the same period last year.

By contrast, its big Irish rival saw a 46% drop in pre-tax profit this quarter, according to results published by the company on Monday. **To avoid flying unfilled aircraft, Ryanair has been forced to cut ticket prices by** around 15% year-on-year. EasyJet, for its part, claims to be maintaining its fares, still generating an average of 69 euros per ticket sold.

This air pocket is not specific to Ryanair. Lufthansa, Air Canada, Delta and

Qatar Airways have also noticed a slump in customer numbers.

While airlines make most of their profits during the summer months, due to the vacation season, **this year consumers were less willing to spend on air tickets than last year.**

The UK's **easyJet, however, managed to hold its own, helped by its new business: the sale of turnkey holidays abroad.** This quarter, the group recorded pre-tax profits of £73 million (€86.9 million) on its tour operator business, easyJet Holidays. This represents a 33% increase on the third quarter of 2023. These good results enable easyJet to raise its annual forecast for this division.

(...)

The carrier also reports that it has sold 1.5 million more seats this summer than in the same period last year. "

We remain on track to achieve another record summer, bringing us closer to our medium-term objectives," enthused CEO Johan Lundgren, who will step down at the beginning of 2025. Following the announcement of these results, easyJet's share price jumped 5.3% on the London Stock Exchange in the early afternoon.

(...)

My comment: *The title of the article is misleading.*

While easyJet is growing faster than Ryanair, its quarterly earnings (280 million euros) still lag behind Ryanair's (360 million euros).

> **Aircraft manufacturers inundated with orders, but struggling to deliver**

(source Le Monde) July 22, 2024 - The International Paris Air Show opens its doors from Monday July 22 to Friday July 26 at Farnborough, just outside London in the UK. On the one hand, **aircraft order books are overflowing; on the other, manufacturers are struggling to maintain production rates, faced with a series of obstacles.** For this 2024 edition, the two major aircraft manufacturers, Airbus and Boeing, are expected to keep a low profile, concentrating on orders in hand and muting their traditional rivalry.

Nearly 75,000 trade visitors and some 1,200 exhibitors will cross paths over five days at London's South West Airport for this biennial show, one of the world's largest, which takes place at a time when **global air traffic is expected to reach 4.96 billion passengers in 2024, according to the International Air Transport Association - more than before the Covid-19 pandemic.**

A rosy outlook, but one that Boeing can hardly boast about. And with good reason: the American manufacturer is under fire from regulators for the poor quality and recurrent defects of its production. Added to this are repeated incidents involving several of its aircraft.

(...)

The relative discretion displayed by the American company at Farnborough will also be shared by Airbus. Contrary to its usual practice, the world's number one aerospace manufacturer did not unveil its 20-year forecasts, which are still on the rise. It merely detailed them in a discreet press release published on Monday July 15. It forecasts that the world's airlines will need 42,430 new commercial aircraft with more than 100 seats and cargo between now and 2043 - an increase of 3.9% on the 2042 projections published in 2023. **The global fleet could therefore double over the next twenty years**, with a total of 48,230 aircraft in 2043, compared with 24,260 by the end of 2023. And sales are expected to generate revenues of over \$8,000 billion (around €7,325 billion).

Asia-Pacific will account for a large share of the market, with 19,510 aircraft (including 9,520 for China) out of the 42,430 to be delivered between 2024 and 2043, according to Airbus. Europe is expected to order 8,050, and North America 7,100: **"China and India, and more generally Asia-Pacific as a whole, will fuel growth, further shifting the airline industry's center of gravity towards Asia,"** asserts the aircraft manufacturer.

Asia will undoubtedly continue to account for the lion's share of sales. Sales of medium-haul aircraft are expected to account for 75% of new aircraft, or 33,510 units. Airbus has a 60% market share in this segment, while Boeing has been in turmoil since the two accidents involving its 737 MAX in 2018 and 2019, which resulted in the deaths of a total of 346 passengers and crew.

(...)

But here's the thing: **sales may be soaring, but deliveries are sluggish and airlines are getting impatient, as aircraft manufacturers struggle to keep up with production rates.** While the order books of Airbus and Boeing have climbed by 18% over the past year, to almost 15,000 aircraft, deliveries have increased by only 11% in the meantime.

Airbus customers have to wait an average of seven years (i.e. not before 2030) for delivery. The reason: subcontractor chains, hard hit by the health crisis and affected by recruitment difficulties, are struggling to keep pace. As proof of its worries, Airbus has postponed by a year its target of 75 medium-haul aircraft rolling off the assembly line every month. Originally scheduled for 2026, this production rate is not expected to be reached before 2027.

Boeing is suffering from the same problems as its European competitor. For many months, it has been beset by production and quality problems on its three commercial aircraft (737, 787 and 777), which have led to several investigations. The group, which expects to know the name of its future boss - to replace Dave Calhoun - by the end of 2024, is not planning to ramp up production until these problems have been resolved. All the more so as the company is also faced with the threat of a strike by its workers if current wage negotiations fail to produce a satisfactory result.

(...)

My comment: Current demand for aircraft is very strong, but aircraft manufacturers are struggling to meet it due to persistent difficulties, such as a shortage of spare parts, and understaffed subcontractors.

Aircraft manufacturers therefore find themselves in the paradoxical situation of being unable to accept too many orders.

How long will this situation last? The 2026 or 2027 hypothesis holds sway.

In a forthcoming letter, I'll be taking a closer look at the UN's demographic forecasts, which could influence the evolution of air fleets over the coming decades.

A first example: China's population could be halved by 2100.

> Airlines urge governments to save ailing green kerosene industry

(source Reuters, translated with DeepL) July 24, 2024 - A British initiative to promote green kerosene will need to be taken up worldwide - and expanded - if the technology is to have any chance of delivering on its promise of radically cleaner flights, airline executives warned at the Farnborough Air Show.

Last week, **Britain's new Labour government announced its intention to introduce a price guarantee for Sustainable Aviation Fuel (SAF) to encourage producers to open more plants and build the infrastructure needed to increase production of the fuel.**

Twenty years after airlines committed to switching to biofuels, SAF accounts for just 0.2% of the jet fuel market. The aviation industry claims that this share will have to rise to 65% by 2050 if it is to achieve "net zero" carbon emissions by then.

For years, airlines and SAF producers have been locked in a crippling blame game. Airlines say they want more green fuel, while SAF producers say they can't produce more until airlines agree to pay the market price. FAS currently costs up to five times more than traditional kerosene.

Julie Kitcher, Head of Sustainability at Airbus, said that **stronger investment plans and bolder funding from across the sector would help drive the industry forward and stimulate supply.**

Political support, such as the UK scheme or Singapore's SAF tax, can ease the cost burden on airlines, if constructively designed, Kitcher and other executives said.

(...)

Yet **airlines deplore a shortage of SAF despite mandates and incentives**, arguing that producers, particularly highly profitable oil companies, are not producing

enough.

"If we don't reduce the price of SAF, flights will be much more expensive," Luis Gallego, CEO of IAG, owner of British Airways, told a roundtable at the air show, after welcoming the UK's decision.

(...)

At the air show, airlines and manufacturers said that the next generation of more energy-efficient aircraft would cut emissions.

But many environmentalists believe that the industry's growth is fundamentally incompatible with sustainable development.

(...)

Even with revenue security, much more investment would be needed for the aviation sector to meet its targets, Virgin Atlantic CEO Shai Weiss told Reuters.

"This mechanism alone is not enough," he said.

Earlier this month, Shell announced that it was suspending construction of an SAF facility in Rotterdam, which alarmed environmentalists.

Even with stronger government support, it would still take years to build new plants, let alone start producing sufficient quantities of SAF.

Airline executives said the UK's decision was a step in the right direction, but that it was up **to legislators to do more, not airlines.**

"We know that decarbonization will be very expensive. It will cost trillions," said IAG's Gallego.

The executives point to the narrow profit margins in the aviation sector, which leave little room for investment in sustainable development.

"This is where the government needs to step up fuel production so we can use it," said Ghaith al-Ghaith, CEO of flydubai.

My comment: *The issue of sustainable aviation fuels is turning into a dialogue of the deaf between stakeholders:*

- airlines, whose financial margins are too low to invest on a large scale in the production of these fuels,

- major oil groups are reluctant to invest in a new activity with uncertain and unprofitable outlets

- European governments are reluctant to invest considerable sums in a much-criticized sector.

Note:

NGOs have long fuelled aviation-bashing by advocating a reduction in air travel.

However, they have recently adjusted their position. They acknowledge the airlines'

commitment to reduce their net emissions by 30% by 2030.

But they add that if these targets are not met, airlines will have to reduce the number of flights.

This is understandable, provided that all the world's airlines comply.

Stock market press review

> Here's why EasyJet and IAG share prices are falling

(source MSN) July 23, 2024 - **Shares in airlines listed on the London Stock Exchange (LSE) plummeted this week.** Shares in International Consolidated Airline (IAG) and easyJet collapsed to their lowest levels in weeks. IAG entered a technical correction, dropping 12% from this year's high. It is now at its lowest level since June 2.

Meanwhile, **easyJet's share price fell to 425 pence, its lowest level since November 2023.** Unlike IAG, easyJet has entered a bear market, falling more than 24% from this year's high. Shares in other airlines such as Wizz Air and Ryanair have also fallen.

The main reason why these shares have collapsed is that **several airlines have published poor financial results** as the earnings season gets underway.

Delta Air Lines, the largest U.S. airline, **reported** second-quarter **earnings of \$1.31 billion, down 29% on the** same period in 2023. Its earnings per share of \$2.36 were worse than expected

(...)

easyJet and IAG share prices continued their downward trend after Ryanair, the sector's largest regional carrier, announced weak financial results. Its load factor fell slightly to 94% in the first quarter.

(...)

Like Delta, the company warned that its summer bookings were relatively weaker than expected, which explains why the stock fell by 11% on Monday. Ryanair nonetheless expects its business to maintain its momentum as airlines continue to use Pratt & Whitney engines in their A320s. (..

.) As a

result, **IAG and easyJet share prices plunged as investors expect them to be hit too.** EasyJet, in particular, is exposed to the challenges of the Airbus A320, which could affect its business this year.

The most recent results showed easyJet making a loss of £320 million in the first half [October 2023 to March 2024]. It expects its next results, due on Wednesday this

week, to show that revenues increased in the last quarter. It expects to make a pre-tax profit of over £1 billion.

IAG may be more insulated from the woes of Delta and Ryanair due to its reliance on business and transatlantic travel, which have performed well in recent months. IAG will publish its next financial results on August 2.

My comment: *A reminder. Last February, following the presentation of the 2023 annual results, the headline of the Les Echos article was:*

Air France-KLM Group achieves best-ever financial results in 2023. But the euphoria of the summer is over, and the fourth-quarter figures show a clear downturn. A return to earth is in sight.

It seems that the journalist was right, but the return to earth concerns most airlines.

Business forecasts for the second half of 2024 do not inspire optimism.

End of press review

> **Air France-KLM share price trend**

Air France-KLM shares closed at **8.332 euros** on Friday July 26. It is **up this week (+1.93%)**.

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

The analysts' 12-month average (consensus) 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: *Air France-KLM's share price is flirting with its all-time low.*

Mixed results from competitors had led to a fall in the share price. The announcement of Air France-KLM's half-year results, which were also mixed, paradoxically boosted the share price.

The average (consensus) 12-month analyst price for AF-KLM shares is 12.91 euros, down 1.8 euros in one month.

It is impossible to compare companies on the basis of their share price. Capitalization (the total value of outstanding shares) is a more relevant indicator.

Here are the capitalizations (as of July 29) of a few airlines:

- Air France-KLM: 2.2 billion euros
- easyJet: 4.2 billion euros
- Lufthansa: 7.1 billion euros
- IAG: 9.8 billion euros
- Ryanair: 16.7 billion euros
- Delta Air Lines: 26.3 billion euros

A few benchmarks:

- when Delta Air Lines and China Eastern acquired a stake in Air France-KLM in 2018, the group's capitalization was 3.75 billion euros. -
- when CMA CGM took a 9% stake in 2022 (for an investment of around 400 million euros), the group's capitalization was 4.4 billion euros.

> **Fuel price trends this** week

The price of a barrel of Jet Fuel in Europe is down \$3 to \$100. It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

Brent crude oil (North Sea) is **down \$2 to \$81 per barrel.**

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

My 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.

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| 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.

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