

Air France-KLM takes the brunt of the Olympic Games and future tax increases



## 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)

# Air transport in France, Europe and the rest of the world

N°990, November 11, 2024

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I share the Air France-KLM group's raison d'être:

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

## ***Editorial: New formula!***

*Dear readers,*

*This week I'm experimenting with a new layout for the newsletter.*

*I've inverted the commentary and article content, to better suit your reading habits.*

*For each article, you will find successively :*

- . the article's title;*
- . its source;*
- . my commentary;*
- . finally, the article itself.*

*Don't hesitate to send me your comments. They're always welcome.*

*Happy reading*  
*François*

## Monday's letter

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### > Air France-KLM takes the brunt of the Olympic Games and future tax increases

(source Journal de l'Aviation) November 7, 2024

**My comment:** *The headlines in articles about Air France-KLM's quarterly results are very mixed. They testify to the difficulty of analyzing the situation of the Franco-Dutch group.*

*Les Echos: Air France-KLM made the most of the Olympic Games this summer*

*Déplacements pros: Air France-KLM: un été plus profitable que prévu*

*AFP: Affecté par les JO, le bénéficiaire d'Air France-KLM se contracte*

*Boursier: Air France KLM: décroche après les résultats*

*Tourmag: Air France - KLM: Chirac tax will impact operating income by €90 to €170 million*

*ANP (Dutch Press Agency): KLM: Third-quarter results underline need for financial and operational measures*

*The causes of the Air France-KLM group's lacklustre results are manifold.*

*Some are cyclical (the Paris Olympics).*

*Others are structural, mainly at KLM. Since the Covid-19 crisis, the Dutch airline has been unable to return to its previous levels.*

*This is due in part to the Dutch government's change of strategy, which has encouraged a reduction in the number of flights at Schiphol-Amsterdam.*

*For proof of this, we need only look at the operating margins of the Group's two main airlines.*

*Air France's is 13.2%, while KLM's is 11.1%. Prior to 2020, KLM generated a margin between 2% and 4% higher than Air France.*

*This situation is set to continue, even though KLM has launched a cost-cutting plan that could take effect in 2025.*

*For Air France, the increase in the solidarity tax will weigh heavily on the 2025 accounts. According to the deputies, this increase should only apply for one year.*

*Yes, but in the Transport Minister's speech (Monday November 11 on FranceInfo), there is a clear desire to make this tax permanent, along the lines of the Dutch model, by modulating it according to greenhouse gas emissions.*

*It's only a short step from there to a kerosene tax. Let's not forget that for several years now, the French government has been lobbying Brussels in this direction, on condition that it concerns all European airlines.*

### **Read the article:**

**Air France-KLM did not quite live up to its investors' expectations in the third quarter.** Despite a 3.7% increase in sales (to almost 9 billion euros), **the Group suffered** the (anticipated) impact of the Paris Olympic and Paralympic Games and **a sharp rise in KLM unit costs**, which forced it to launch a restructuring plan at the Dutch airline. The next few months look set to be no different, with costs set to continue to rise, driven by tax increases in both France and the Netherlands.

Third-quarter operating income came to 1.2 billion euros. Although it would have been stable without the effect of the Olympic Games, it was eroded by 160 million euros due to the sporting event, which led to a drop in both international and outbound traffic. At the same time, **costs rose by 3.4% at Group level, more than the 2% anticipated after** taking into account the effects of the annual negotiations and the bonus paid to Air France employees for good operational performance during the Games. **Costs soared at KLM (+8.4%) due to difficult operating conditions and a need for structural improvement, which is now the subject of a plan called Back on track. It aims to improve productivity by 5% by 2025**, reduce the impact of shortages of pilots, technicians and spare parts, and boost revenues by introducing new fee-based services and optimizing aircraft.

Additional costs are still anticipated for the fourth quarter, due to lower-than-expected capacity and higher maintenance costs linked mainly to component shortages. Bookings for the period are, however, quite satisfactory.

Air France-KLM took the opportunity of disclosing its results to quantify the impact of tax increases in France and at Schiphol. **The Dutch airport's decision to revalue its fares by 41% from April 2025 is expected to add between €65 and €110 million** to the Group's balance sheet. At the same time, the planned increase in the solidarity tax on airline tickets **in France** could raise Air France's level of taxation by 280 million euros. While **the company** has already implemented a fare increase, it acknowledges that it will not be able to pass on the full cost of the surcharge on its tickets: it expects **the increase in the TSBA to have a negative impact of between 90 and 170 million euros on its operating income in 2025.**

### > **Lufthansa posts record revenues but loses profitability**

(source La Tribune) October 29, 2024

***My comment:** The Lufthansa Group is in a delicate situation.*

*It is facing competition from Chinese airlines on Asian flights.*

*It is facing falling ticket prices in its key transatlantic market, against a backdrop of increased competition from Chinese and American rivals.*

*Its quarterly operating margin stood at 12.5% (12.2% for Air France-KLM), a low level for the summer period, when most airline profits are generated.*

*Within the German group, Lufthansa's operating margin is just 8.5%.*

#### **Read the article:**

**Lufthansa's third-quarter results leave a mixed impression.** The German group is coming off a record summer in terms of sales. At 10.7 billion euros, this was quite simply the best quarter in its history, even though it has still not recovered its pre-crisis traffic and capacity levels. Sales were up 5% on the same period last year. This was driven by growth in passenger numbers - with a smaller decline in unit revenues, thanks to good aircraft fill-ups after a complicated start to the year - and the good performance of its maintenance subsidiary, Lufthansa Technik.

(...)

However, **Lufthansa lost profitability**, as was the case at the start of the year. The Group has almost lost two points of adjusted operating margin compared with the summer of 2023, hit by rising costs, particularly personnel and maintenance

expenses. **Unit costs rose by 4.5%, while unit revenues fell by a further 2.7%.** "Aircraft delivery delays, punctuality problems at our German hubs and regulatory disadvantages are having an impact on our core brand. Lufthansa Airlines has therefore launched the 'Turnaround' program to address these internal and structural challenges," said Carsten Spohr.

Nevertheless, the German giant remains largely profitable, with a margin of 12.5% and adjusted operating profit of €1.3 billion (-9% vs. 2023). **Net income fell by the same proportion. However, it too remains largely positive, with earnings of nearly 1.1 billion euros. This is likely to further widen the gap with its eternal rival Air France-KLM.**

(...)

For the end of the year, Lufthansa confirms its ambition to generate adjusted operating income of between 1.4 and 1.8 billion euros. This means it is aiming for a traditionally complicated fourth quarter in the green. "Global demand remains intact, and bookings for the fourth quarter are also at a high level compared with the previous year, particularly in the upper classes," commented Carsten Spohr.

**Nevertheless, Lufthansa will not achieve the record year of last year,** which it was still dreaming of at the beginning of the year. As a reminder, after a disappointing first half, the Group revised its forecasts downwards in July. It was originally targeting an adjusted operating profit of 2.2 billion euros.

(...)

## > IAG: Quarterly profit exceeds expectations, optimistic for the rest of the year

(source Reuters) November 8, 2024

***My comment:** The IAG Group derives most of its earnings from its transatlantic business, which has been little affected by the geopolitical events of recent months.*

*Its operating margin is 21.6%.*

*Its share price has never been so high in the last four years.*

### Read the article:

**International Airlines Group (IAG)** reported a 15% rise in third-quarter operating profit on Friday, beating analysts' expectations, as the group expressed optimism about travel demand, while forecasting good financial performance for the rest of the year.

The owner of British Airways **posted an operating profit of 2 billion euros, well ahead of analysts' expectations,** who were expecting 1.78 billion euros in a

consensus provided by the group.

Thanks to higher ticket prices and lower fuel costs, the group was able to generate savings that offset the increase in payroll.

IAG, which also owns Iberia, Vueling and Aer Lingus, also announced a 350 million euro share buyback on Friday.

"Demand remains strong across all our airlines and we expect a good final quarter 2024 financially," CEO Luis Gallego said in a statement.

**IAG's outperformance contrasts with that of its competitors, such as Air France-KLM and Lufthansa, which struggled over the summer due to rising costs.**

(...)

## > **Airline, Air France-KLM, IAG: the skies beyond**

(source Les Echos) November 11, 2024

**My comment:** *A comparison of the operating margins (in the third quarter of 2024) of the various European airline groups is edifying*

*. . 12.2% for Air France-KLM;*

*. 12.5% for the Lufthansa group (8.5% for Lufthansa)*

*. 21.6% for IAG.*

*All three groups face increasing competition from rivals in China and the USA.*

*On flights to North America, they can only fill economy class with substantial discounts, as US airlines have increased their presence in this market.*

*This is partly due to the fact that US airlines have reallocated capacity after reducing their flights to China in the face of competition.*

### **Read the article:**

Not every anniversary deserves a candle. **As the five-year anniversary of Covid-19 approaches, the "next world" of Europe's airline industry is looking more and more like the one before.**

**The UK's IAG and Ireland's Ryanair still form the two inverted poles - ex-monopoly and low-cost - of an undiminished power of attraction with travellers, which can also be seen on the stock market (respectively +51% in pounds and +20% in euros since January 1).**

**The other low-cost airline, EasyJet, seems to be prolonging its eternal**

**convalescence** (+6% since the start of the year), while the stock market tickets of Air France-KLM (-43%), Wizz Air (-31%) and Lufthansa (-22%) continue to resemble more than ever those of a rarely winning lottery.

Air France more profitable than KLM

The market has obviously changed a great deal, marked by double-digit increases in ticket prices, as have the airlines, which have reviewed their destinations and sources of profit from top to bottom.

Spearheading business travel, British Airways has only recovered two-thirds of its 2019 operating profit. **Air France has become more profitable than KLM, which can no longer rely on the efficiency of its Schiphol airport hub.**

But the old problem of cost drift (excluding fuel) is once again less soluble in a growth rate hampered by aircraft manufacturers' difficulties in delivering fleets.

### > [Emirates breaks records again](#)

(source Journal de l'Aviation) November 7, 2024

**My comment:** *Gulf airlines are on a roll.*

*On their platforms, they benefit from advantageous conditions. And like Asian airlines, they are not affected by airspace restrictions.*

**Read the article:**

**Emirates has published its results for the first half of 2024.** The group recorded sales of \$19.3 billion (+5%), driven by strong demand in the passenger and cargo sectors. **At \$2.8 billion, pre-tax net income broke the all-time record set in 2023.** After tax (Emirates corporate income tax is recorded for the first time this year), it came to 2.5 billion dollars. The group reports having carried 26.9 million passengers over the period and 1.2 million tonnes of freight.

### > [Ryanair: Profit down 18% in 1st half as fares fall](#)

(source Reuters) November 4, 2024

**My comment:** *Ryanair's half-hearted results deserve a closer look.*

*The low-cost airline reported a drop in ticket prices, whereas last year prices had risen sharply.*

*Customers flocked to Covid-19. This was known as "revenge travel".*

*It would appear that this phenomenon is running out of steam, with all European airlines recording a drop in demand.*

*Note: the concept of "revenge travel" was coined by McKinsey & Company. It refers to "tourists who have sought to reconnect, explore new destinations or return to their favorite spots, after being forced to cancel, abandon or radically alter their travel plans".*

### **Read the article:**

**Ryanair announced on Monday an after-tax profit just below analysts' forecasts for the six months to September, penalized by a 10% drop in ticket prices during the period when Europe's leading low-cost airline usually makes most of its profits.**

The Irish group, Europe's number one in terms of passengers carried, said however that the fall in ticket prices was moderating, and that average fares for the current quarter would be only "slightly lower" than for the same period last year.

**Ryanair's after-tax profit came in at €1.79 billion for the first half of its fiscal year**, slightly below the €1.8 billion consensus figure provided by the group, but **18% below the same period in 2023.**

"Future bookings suggest that demand in the third quarter is strong and that the price decline appears to be easing," said CEO Michael O'Leary in a statement, referring to the last three months of the year.

Michael O'Leary also indicated that Ryanair would reduce its traffic growth target for its next financial year, ending March 31, 2026, to 210 million passengers instead of the 215 million previously forecast, to take account of delays in Boeing deliveries.

(...)

**The airline's share price has fallen by 5.5% since the beginning of the year.**

(...)

### **> On the brink of collapse, Spirit Aerosystems doubts its ability to survive**

(source Journal de l'Aviation) November 8, 2024

**My comment:** *The situation at Spirit Aerosystems is worrying, not so much for the company as for its two main customers, Airbus and Boeing.*

*At the end of June 2024, the two manufacturers decided to take over the parts of Spirit Aerosystems*



*' business that concerned them.*

*They will undoubtedly be involved in their supplier's turnaround.*

*A brief reminder (source: the official Spirit AeroSystems website)*

*Spirit AeroSystems is one of the world's leading manufacturers of aerostructures for commercial aircraft, defense platforms and business/regional jets. With expertise in advanced aluminum and composite manufacturing solutions, the company's main products include fuselages, integrated wings and wing components, pylons and nacelles.*

*On June 30, 2024, the Company entered into an agreement and plan of merger with The Boeing Company (the "Merger Agreement"). Upon completion of the merger, subject to the terms and conditions of the Merger Agreement, the Company would become a wholly-owned subsidiary of Boeing.*

*The transaction is expected to close in mid-2025, subject to completion of the divestiture of certain parts of Spirit's business related to the performance by Spirit and its subsidiaries of their obligations under their supply agreements with Airbus SE and other closing conditions, including approval of the Merger Agreement by Spirit's shareholders and receipt of regulatory approvals.*

### **Read the article:**

**Spirit Aerosystems finds itself in the same downward spiral as Boeing.** After reporting further substantial losses in the third quarter, the American equipment manufacturer sees no light at the end of the tunnel of its difficulties, **and announces that "there is substantial doubt as to the company's ability to continue as a going concern"**. The reduction in production rates at Boeing since the beginning of the year is taking its toll, but it is only amplifying a general lack of profitability observed in several programs.

Spirit Aerosystems explains that its net losses for the first nine months of the year exceeded \$1.5 billion. This follows three more years of losses in 2021, 2022 and 2023 - between \$540 and \$616 million each year. At present, the industrialist's debt stands at \$4.4 billion. At the same time, the company's cash position has grown: it stood at \$217 million on September 26, compared with \$823 million on December 31, 2023. "The company will need additional liquidity to pursue its activities over the next 12 months", she notes.

**The reduction in production rates on the 737 program and Boeing's new quality policy are the first causes cited to explain this alarming situation.**

The aircraft manufacturer's decision "to no longer accept deliveries of products requiring out-of-sequence assembly or additional quality work" since March has

led to a considerable rise in inventories, which increase costs, and lower revenues. Furthermore, Spirit had prepared its production lines for an increase in production rates in 2024 and beyond. However, this has not happened, as production rates on the 737 program have been frozen by the FAA. The machinists' strike at Boeing has also led to a suspension of production on the 767 and 777 programs, and therefore a suspension of equipment deliveries, and Spirit has reached the limit of its storage capacities on these two programs. Although the crisis has just ended, it will take several weeks for deliveries to return to normal.

**But it's not just the Boeing contracts that are in question. Spirit Aerosystems had also been in negotiations with Airbus since 2023 concerning price adjustments on the A220 and A350 programs, which it was unable to make profitable.** With the prospect of Airbus acquiring its activities on these two programs, in parallel with Boeing's acquisition of the bulk of its activities, the strategic discussions shifted to other issues.

The manufacturer explains that it "continued to experience delays and higher-than-expected costs in these production and delivery processes in the third quarter, and expects a certain level of higher costs to continue in the future". Against this background, Spirit Aerosystems has drawn up a plan to improve its liquidity. It is in talks with Boeing to obtain a third advance of funds to support the business (the first two totalled \$465 million), is attempting to modify the repayment schedules of certain advances, to obtain new ones, is planning disposals, layoffs... "However, there is no guarantee that these plans or strategies will sufficiently improve our cash requirements or that we will achieve the expected benefits."

## > **Safran to invest over €1 billion in its Leap engine maintenance network**

(source AGEFI) October 29, 2024

***My comment:** For several years, aircraft manufacturers and their customers have been putting pressure on engine suppliers to lower their prices.*

*As a result, these engine suppliers (including Safran and Rolls Royce) are expanding their maintenance services, a source of substantial profits.*

*As a result, they are competing with airlines and their subsidiaries (AFI KLM E&M and Lufthansa Technik), which are finding it increasingly difficult to obtain maintenance contracts for their own engines.*

**Read the article:**

Aircraft engine and equipment manufacturer **Safran announced Tuesday the**

**launch of an investment plan worth more than €1 billion to expand its global maintenance and repair (MRO) network for Leap engines.**

"This massive plan aims to increase the overall capacity of Safran's MRO network to support the ramp-up of Leap service activities over the next few years," the group said in a statement.

**This investment plan will result in the construction of 120,000 square meters of additional industrial space, and will be accompanied by the recruitment of more than 4,000 people worldwide.**

In France, Safran will extend its Villaroche and Saint-Quentin-en-Yvelines maintenance sites, in 2025 and 2026 respectively. The company also intends to create a turbine blade repair site in Rennes.

The Leap engine is produced by CFM International, a joint venture equally owned by Safran of France and GE Aerospace of the US. The Leap engine entered service in 2016, and today powers "the majority of the Airbus A320neo, Boeing 737 Max and Comac C919 new-generation single-aisle aircraft families, representing nearly 4,000 aircraft in service", said Safran.

(...)

This major investment plan comes against a backdrop of persistent tensions in the aerospace supply chain.

(

...)

## **Stock market press review**

**> Air France-KLM: for Morgan Stanley, the Air France-KLM share is still too expensive compared with its competitors**

(source BFM Bourse) November 5, 2024

**My comment:** *Morgan Stanley's opinion was published before the announcement of Air France-KLM's quarterly results. It says it all.*

**Read the article:**

**The US bank has downgraded its opinion on the stock to "underweight"** from "in-line weighting" previously, judging that the share is still too high **on the basis of expected operating profit**. It also expects the company to burn more than €1 billion in cash over the next two years.

Air France-KLM is again suffering on the stock market this year, penalized by price pressures, logistical problems and the repulsive effect that the Olympic Games have had on Paris as a tourist destination. The share price has fallen to

all-time lows, and has lost 35% since the start of the year.

For Morgan Stanley, the stock is likely to fall even further. The American bank lowered its recommendation to "underweight" on the stock on Tuesday, equivalent to selling in its nomenclature, compared with "in-line weighting" previously. The company also adjusted its price target to 7.10 euros from 9.40 euros. At Monday's closing price of 8.894 euros, this target implies a share price decline of more than 20% over the next twelve months.

(...)

**Morgan Stanley explains that the Franco-Dutch company's positioning is unfavorable.** "Air France-KLM is one of the carriers most exposed in our coverage to Asia-Pacific-Caribbean (APAC), the Middle East-Africa region and business travel demand, all of which remain stagnant. **There are positives for business travel in regions such as the Atlantic, but we think IAG is a better bet to play this recovery,** and comments from management teams in other regions continue to highlight the challenges," develops Morgan Stanley.

(...)

With its share price down 35% over 2024, Air France-KLM is certainly not expensive on the stock market, given its track record. Morgan Stanley calculates a multiple of 8.5 times expected operating profit in 2025, compared with a historical median of 9.6. But the group headed by Ben Smith remains much more expensive than its competitors, which, on the same basis, are trading at 7 times expected operating profit for Lufthansa, and 4.7 times for IAG.

"We note that differences in accounting methods may weigh on the margin comparison of Air France-KLM versus IAG, but even the most conservative adjustment for this implies that **Air France-KLM trades at 6.2 times, or still 33% more than IAG in 2025. We don't think this premium is justified, given that both carriers offer similar growth, but that Air France-KLM has much lower margins**", explains Morgan Stanley.

(...)

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

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

**Air France-KLM shares** closed at **7.78 euros** on Friday November 8. Over the week, it is **down sharply (-11.69%)**.

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 10.66 euros** (it was 15.0 euros at the beginning of January 2023). The highest price target is 17.50 euros, the lowest 7.10 euros.

**I only take into account analysts' opinions after July 1, 2023.**

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

***My comment:*** Air France-KLM's quarterly results have investors worried. Higher-than-expected costs and KLM's situation explain the decline, more than the announcement of the solidarity tax increase.

> **Fuel price trends this** week

**The price of a barrel of Jet Fuel in Europe is down (-\$3) to \$89.** It was \$94 at the end of June 2023, and \$79 before the outbreak of war in Ukraine.

**Brent** (North Sea)  
**oil is up (\$1) to \$74**  
**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 comment:*** Oil remains virtually stable this week.

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

The Partners for the Future, 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.

To read my latest letters, [click here](#)

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## **| François Robardet**

**I represented current and former Air France-KLM employees.  
You can find me on my twitter  
account @FrRobardet and on LinkedIn.**

This letter deals with the airline industry worldwide and topics related to Air France-KLM shareholding.

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