AMERICAN DIGS IN WITH VOW TO FIGHT DISCOUNTERS ON AIRFARES

News / Airlines, Finance

American Airlines Group Inc. reiterated a vow to keep matching discount rivals' ticket prices, extending the domestic fare wars that are sapping revenue.

"We know what we're doing and we're extremely comfortable in what we're doing," Chief Executive Officer Doug Parker said Friday on a conference call as analysts questioned the strategy. "We will need to compete on price on non-stop service. If any of our competitors are suggesting we've lost sight of this, they are incorrect."

Parker's pledge holds out the promise of lower airfares for consumers in certain cities -- and continued pressure on airline revenue. American's stock fell, bucking a rally across most of the U.S. industry, as investors looked past a record quarterly profit at the world's largest carrier.

The CEO's comments echoed a pledge he made in a Bloomberg News interview in May, when he said American wouldn't cede ground to low-fare challengers in its markets. Airfare battles in a handful of cities including Dallas and Chicago -- where American has hubs -- have helped erode revenue from each seat flown a mile, an industry benchmark, even as travel demand has remained strong.

"If we're going to fly head-to-head and compete non-stop to non-stop with any carrier around the globe, we are going to be competitive and match prices," President Scott Kirby said on the call.

Kirby also said American hopes to start offering new types of low-fare tickets next year. They would have "less frills due to the really cheap price," and would appeal to customers who might choose between American and so-called ultra-low cost airlines, Kirby said, while declining to provide details.

American slid 0.7 percent to US$45.67 at the close in New York, and Spirit Airlines Inc., a discount competitor in some cities, dropped 7.6 percent to US$39.79. The Bloomberg U.S. Airlines Index rose 1.6 percent to cap a third straight weekly advance.

Quarterly Results

Third-quarter earnings excluding some items were US$1.9 billion, or US$2.77 a share, American said in a statement. That exceeded the US$2.72 average of 15 estimates compiled by Bloomberg.

The results were buoyed by savings on jet kerosene, which cushioned the blow from the fare wars with domestic discounters and sagging demand in Latin America, American's top overseas market. The profit also made American the third U.S. carrier, after Delta Air Lines Inc. and Southwest Airlines Co., to top analysts' projections in the industry's busiest quarter.

American's board authorized a new US$2 billion share repurchase program to be completed by year-end 2016, raising the total amount for this year to US$6 billion. The airline bought back US$1.56 billion of stock in the third quarter.

"Investors have liked how aggressive they've been at buying back the stock recently," said Joe DeNardi, a Stifel Nicolaus & Co. analyst. American has returned US$2.7 billion to shareholders in the form of buybacks and dividends this year.

American doesn't lock in fuel-purchase prices in advance, and its average cost per gallon in the third quarter was only about 60 percent of what it paid a year earlier. Fuel remains the largest expense at some U.S. carriers, which means smaller bills can give CEOs room to cut fares and still post profits.

That's what happened last quarter.

Adjusted profit for the six biggest U.S. carriers probably totaled US$5.9 billion in the quarter, according to estimates compiled by Bloomberg.

At the same time, domestic coach fares averaged about 10 percent less than a year earlier, according to data compiled by Bloomberg, even as American and its largest peers contend with a U.S. Justice Department investigation into whether they colluded on pricing.

Discounting showed up as American's revenue slipped 3.9 percent to almost US$10.7 billion, narrowly missing analysts' estimates. Yield, or average fare per mile, tumbled 10 percent in American's main jet operations.

In Dallas, its largest hub, American competes against Southwest and Spirit Airlines Inc., and has acknowledged losing come customers on lower fares. All three also serve Orlando, Florida, where pricing competition has increased. The discounts haven't spread throughout U.S. markets.

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