EMIRATES AND ETIHAD CAUSE TURBULENCE FOR SINGAPORE AIR PROFITS

News / Airlines

Singapore Airlines, South East Asia's biggest carrier, reported profit that lagged behind analyst estimates as competiton for premium travellers was eroded by the UAE's biggest carriers and losses from fuel-hedging countered gains from carrying more passengers during the Lunar New Year holiday season.

Net income was S$224.7 million (Dh602.3m) in the fiscal fourth-quarter ended March, compared with S$39.6m a year earlier, the carrier said in a statement to the Singapore stock exchange after trading hours today. Analysts estimated Singapore Air to report a profit of S$249.2m. Sales also missed estimates.

Singapore Air and other Asian carriers such as Cathay Pacific Airways have been hurt by the sudden plunge in crude oil prices that have left them holding hedges made when the commodity was more expensive. The Singapore Air chief executive Goh Choon Phong has ordered more than US$10 billion of new aircraft as he faces competition from AirAsia for coach-class passengers and from Emirates and Etihad Airways for premium travellers.

“The group is contending with a challenging operating environment in key markets, caused in part by weak economic activity and relatively rapid growth in capacity, evidenced by increasing promotional fare activity," Singapore Air said.

Booking in the current quarter “are tracking positively against seat capacity," the carrier added.

Sales in the fourth quarter were S$3.71bn, lagging behind the S$3.97bn analyst estimate.

Oil prices that have more than halved in the past two years have helped reduce costs for most airlines, which count spending on fuel as their single-biggest expense. Brent crude traded at $47.87 a barrel Thursday, compared with $116.61 in August 2013.

Singapore Air shares fell 0.2 per cent to close at S$11.63 before the earnings announcement in Singapore. The stock has gained 3.8 per cent this year, compared with a 4.8 per cent decline in the benchmark Straits Times Index.

Singapore Air has sacrificed yields, a measure of average fares paid by customers, to fill more seats amid competition from Middle East carriers, according to the Malayan Banking analyst Mohshin Aziz. The carrier had no choice but to discount “heavily" to counter rivals’ fare cuts, he said.

Yields, or the revenue earned from a passenger for flying a kilometre, was 10.6 Singapore cents in the fourth quarter, dropping from 11.4 cents a year earlier.

The parent airline carried 4.65 million passengers in the quarter, 2.9 per cent more than 4.45 million a year earlier. It filled 78.5 per cent of seats in the three-month period, compared with 76.1 per cent a year ago.

Singapore Air has been looking to build alliances abroad as part of a multi-hub strategy. It partnered with India’s Tata Group to start Vistara in January 2015 and owns about 23 per cent of Virgin Australia. The company’s Scoot unit also teamed up with Nok Airlines of Thailand to set up NokScoot.

Singapore Air started flying its two Airbus 253-seat A350 aircraft to Amsterdam from May 9. The carrier will receive the ultra long-range version of the plane in 2018 for services to New York, which will become the world’s longest non-stop flight.

Singapore Air – the only Asian carrier to fly the Concorde and the first in the world to fly the A380 superjumbo – needs new passengers to stem a slide in earnings. Operating peaked eight years ago and sales reached a high in the year ended March 2009 as the global financial crisis crimped premium travel.

The carrier is counting on cabin comforts to lure higher-end passengers used to its fully flat beds as well as more price-conscious customers.

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