Airlines from the Gulf vs. European majors:

Gulf airlines improve their handicaps

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Yan Derocles
+33 (0) 1 44 51 88 57 yderocles@oddo.fr
Olfa Taamallah
otaamallah@oddo.fr

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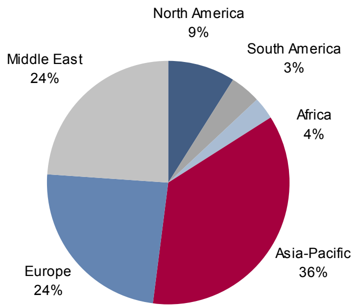
Challengers are already showing their mettle

An aggressive expansion strategy

Market share gains

- **Middle East currently accounts for 10.7% of international passenger traffic**
- To continue their expansion, **Gulf airlines have rapidly seized the opportunity offered to them by the « sixth freedom of the air** ».
- **To sustain their growth** over the medium term, **these airlines hold 14% of Airbus backlog and 11.2% of Boeing's**.
- **Leading clients** of the **A380and the A350 accounting for 45% and 42%** of the backlog. Equal important position at Boeing **with 27.8% of B777 and 15.7% of B787 backlogs**.

Geographic breakdown of deliveries of long-haul aircraft in value terms



Source: Flight global

Ranking of top ten countries in terms of demand for passenger aircraft (in number and value terms) over the 2009-2028 period

	Passenger aircraft demand		By US$ value (billions)	
1	United States	5,096	United States	450.3
2	China	3,272	China	439.5
3	United Kingdom	1,229	United Kingdom	154.0
4	Germany	1,175	India	141.5
5	India	1,093	Germany	141.4
6	Russia	1,004	Japan	114.2
7	Ireland	615	UAE	98.2
8	Australia	551	Russia	89.9
9	Japan	548	Singapore	79.3
10	Brazil	542	Australia	74.2

Source: Airbus

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The forces present

- 3 airlines have a predominant position in the market : **Emirates (Dubai), Etihad (Abu Dhabi) and Qatar Airways (Qatar)** → the three airlines **account for more than 25% of air traffic in the Middle-East.**
- **Emirates** is **among the leading players worldwide** in terms of international traffic.
- Over the last 10 years, **Emirates** has generated **average annual traffic of 22.4%.**
- In 2009, **Qatar Airways** was **ranked fourth best worldwide** for the quality of its services by Skytrax.

Key figures for Emirates, Etihad and Qatar Airways (financial year)

	Emirates Airline			Etihad Airways			Qatar Airways		
	2008	2009	Change (%)	2008	2009	Change (%)	2008	2009	Change (%)
Passenger Traffic	22 730 895	27 454 000	20.8	5 988 523	6 276 409	4.8	9 702 629	10 211 669	5.3
Fleet Size	127	142	11.8	42	52	23.8	64	72	12.5
No.of Destinations	99	102	3.0	56	75	33.9	77	89	15.6
Passenger Load Factor (PLF%)	76	78	3.0	75	74	-2.3	73	72	-1.4
Revenue Passenger km (RPK million)	101 762	126 273	24.1	24 159	27 805	15.1	36 203	40 409	11.6
Available Seat km (ASK million)	134 179	161 756	20.6	32 104	37 763	17.6	49 848	56 412	13.2
Cargo Carried (Tons)	1 408 300	1 580 000	12.2	30 8721	218 845	-29.1	401 683	458 248	14.1
Skytrax Ranking (Stars)	4	4		4	4		5	5	

Source: Companies

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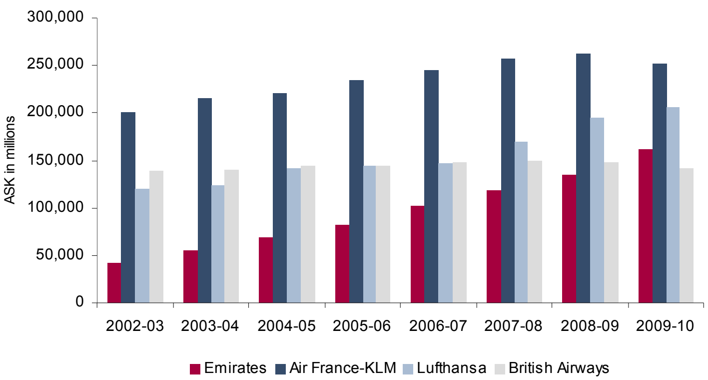
Rapid capacity development

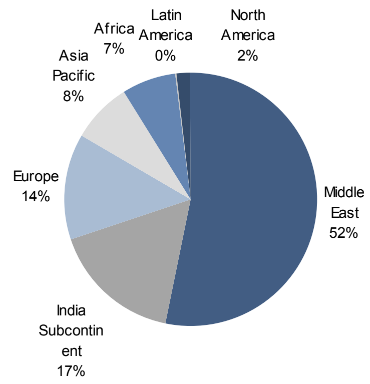
- **Trend in capacity offered** over the last 8 years shows that Emirates has developed more rapidly than its European counterparts : **CAGR of 21.5% vs. 4.1% for Lufthansa (lfl), 3.3% for Air France (lfl) and 0.7% for British Airways.**
- **Europe currently represents 12% of the traffic** of the Gulf's 3 principal operators
- Emirates serves close to 13 destinations in Europe (with 193 weekly frequencies), Etihad and Qatar Airways serve respectively 9 and 18 destinations (83 and 172 weekly frequencies)

Trend in capacity offered

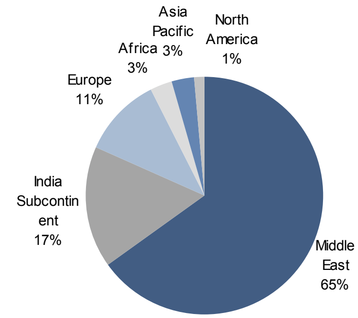


Source: Oddo Securities

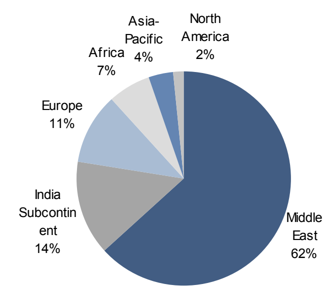
Emirates: breakdown of capacity offered by region



Etihad: capacity offered by region



Qatar Airways: capacity by region



Sources: Centre for Asia Pacific Aviation (week of 12 January 2009)

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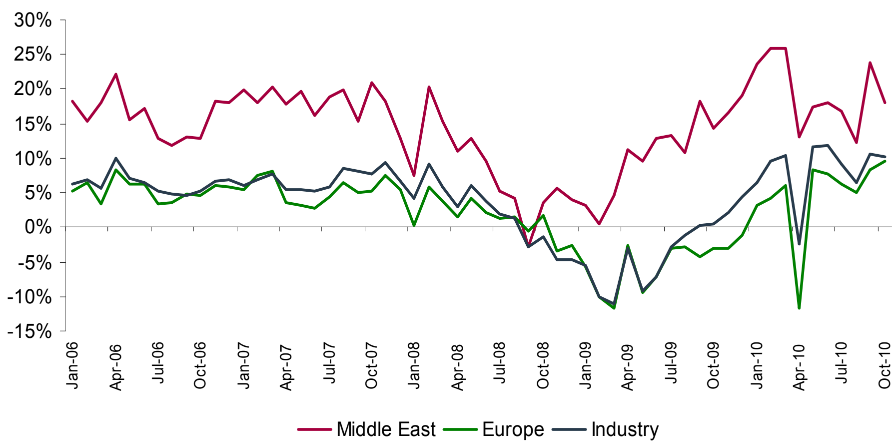
High growth forecast

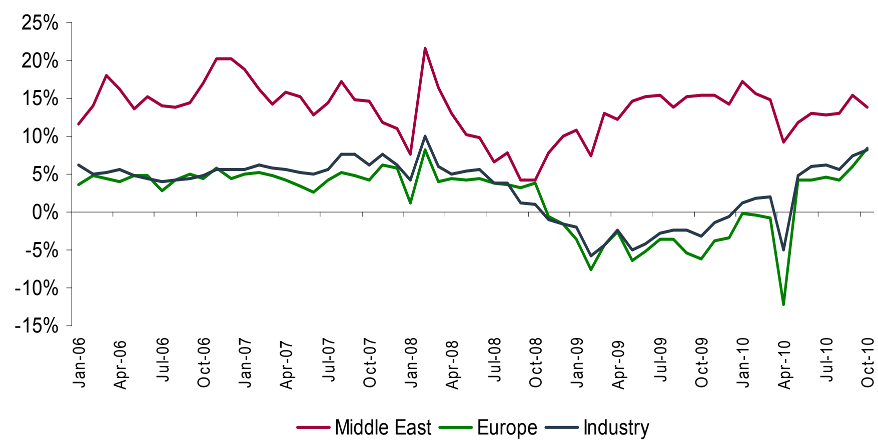
- According to **IATA**, middle eastern carriers continue to post the **most robust growth in capacity** (**13.7% in October and 13.2% YTD**) and in **traffic (18% in October and 18.6% YTD). Traffic growth** estimated at **19.5% for 2010**.
- The **ICAO** estimates that the Middle East **will post robust growth out to 2012** (**15.5% for 2010, 12% for 2011 and 11.5% for 2012**).
- **Over the 2010-2029 period**, **Boeing** estimates that the **traffic between the Middle East and Asia** is likely to increase at **an annual pace of 7.5%**. **Europe-Middle East traffic** is likely to increase at **an annual clip of 6% →potential of growth in connection traffic.**
- **Airbus** estimates **the next 20-year growth** for the region **at 6.8% per annum** (vs. 5.9% est. in 2009).

Monthly trend in traffic in the Middle East vs. Europe and the industry worldwide



Source: IATA

Monthly trend capacity in the Middle East vs. Europe and worldwide industry



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Reasons underpinning this success

- **Hubs located at the crossroads of routes to Europe, Africa, Australia and Asia** and proximity of markets the size of India and China (a mere of two-and-a-half hour flight) → Gulf airlines **take advantage of the shift to the East** as the centre of world trade.
- **Fleets are far younger** than the ones operated by major European competitors (**3.6 years for Etihad, 4.6 for Qatar Airways and 6.2 for Emirates**)
- **Gulf airlines invest in long-haul aircraft** enabling them to provide **non-stop links between their respective hubs in the world's major cities**
- Gulf airlines enjoy **diverse financing sources** and have **access to export credits.**

Fleet age of Middle-Eastern airlines vs. European majors

Airlines	Country	Fleet Age
Emirates	UAE	6.2
Qatar Airways	Qatar	4.6
Etihad Airways	UAE	3.6
Gulf Air	Bahrain	7.7
Middle East Airlines	Lebanon	3.7
Saudi Arabian Airlines	Saudi Arabia	12.1
Syrian Arab Airlines	Syria	10
Kuwait Airways	Kuwait	15.8
Air France-KLM	France	9.5
Lufthansa	Germany	13
British Airways	UK	12.4

Source: Airfleets

Stage length in an A380 non-stop from Dubai

Source: Airbus

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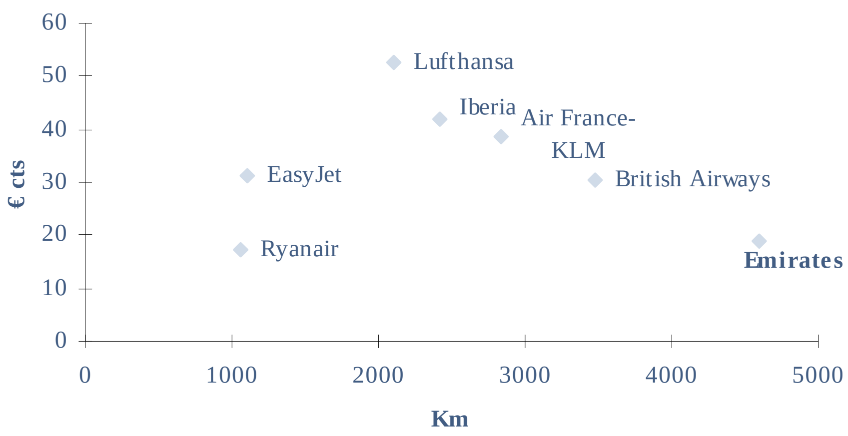
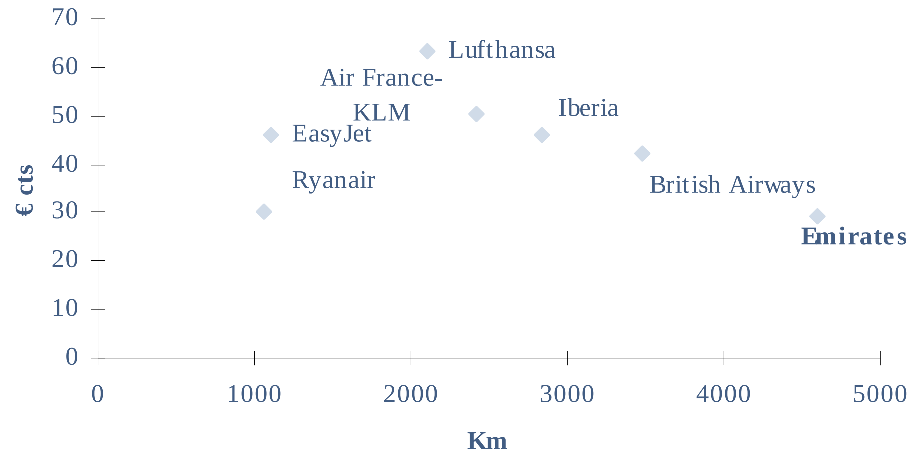
Reasons underpinning this success

- **Operating costs are a major competitive advantage :** over the past ten years, **Emirates** has generated an **operating margin of 10.6%** on average vs. **2.7% for the four European majors**. **Only Ryanair** generated a higher operating **margin at 21.1%.**
- **In 2009,** we estimate **Emirates' competitive advantage at close to 50% vs. European majors.**
- **In 2009,** Emirates **unit payroll costs averaged 60% less than those of standard European airlines, with fuel costs 30% lower and unit ownership costs 40% lower.**

Comparison of unit costs, excluding fuel



Comparison of unit revenues



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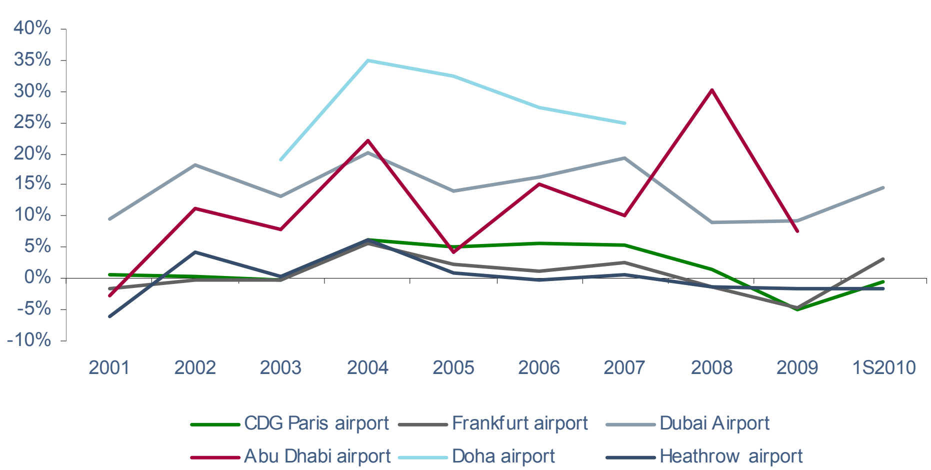
Reasons underpinning this success

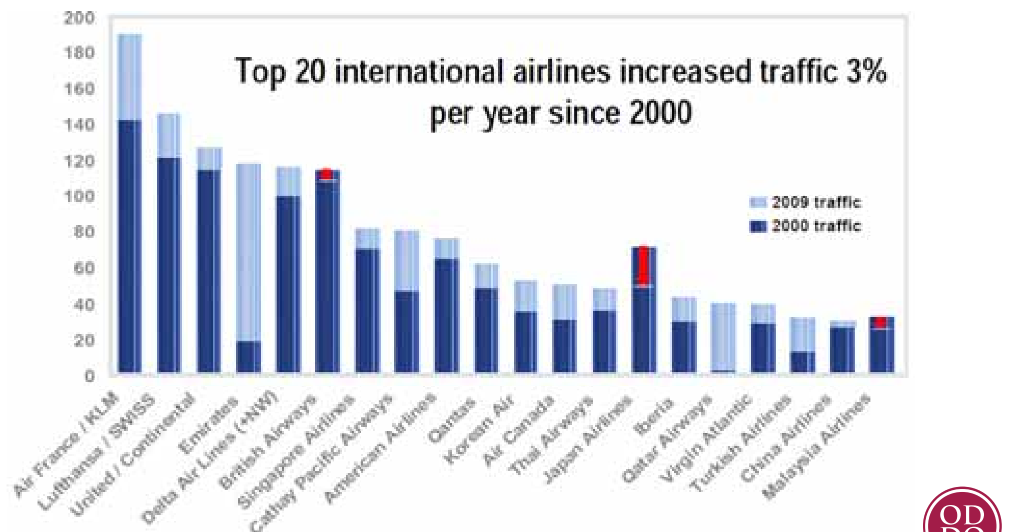
- **Profitability targets** are sometimes **a secondary concern** and the development of aviation **is a deliberate strategic direction.**
- **Investments** by the Gulf States in the civil aviation sector has been estimated **at more than $200bn out to 2020** (just under $120bn due to be spent in the UAE alone on new aircraft) .
- **Massive investment in airport infrastructure : double digit growth in passenger traffic** (2000-2009 CAGR of **14.3%** for Dubai airport and **11.4%** for Abu Dhabi Airport), **almost $20bn target investments for airport and airport infrastructure in the UAE**, same scale announced in Saudi Arabia by 2020.
- **Dubai International Airport** is ranked 15th in terms of passenger traffic and **4th in terms of in terms of international passenger traffic** in 2009.

Comparing passenger traffic growth



Source: respective airports

Comparing passenger traffic growth



The anticipated growth for Gulf-based airlines poses major risks for European players

Seven major risks identified…

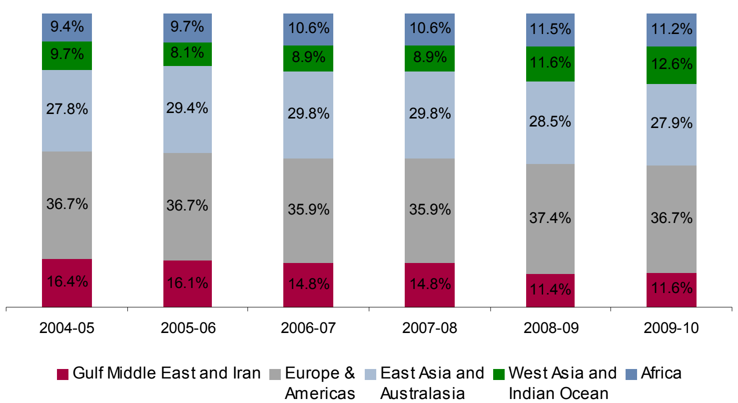
1. **Creation of an emerging player in the freight segment :** in less than 10 years, **Dubai** has become the **8th airport platform for air freight** (vs. 25th in 2001) **ahead of Frankfurt, London Heathrow and Amsterdam and is just 6% below Paris CDG.**
2. **Offensive on upmarket niche leisure markets :** a number of Gulf airlines are positioned on the leisure premium segment such as the Seychelles and Australia
3. **A diversion of medium-term growth on the Europe-Asia market** : Gulf carriers are now accentuating their positioning in Asia-Pacific, India and Africa → **the risk for European airlines lies in the reduction of the rate of growth in traffic** originating from these regions.

Dubai airport's worldwide positioning in the freight segment

Year	Ranking	Total cargo traffic	Yoy ch. in %
2009	8	1 927 520	5.6%
2008	11	1 824 992	9.4%
2007	13	1 668 505	11.0%
2006	17	1 503 697	14.4%
2005	18	1 314 906	12.5%
2004	18	1 169 286	22.2%
2003	19	956 795	21.9%
2002	21	784 997	24.2%
2001	25	632 224	

Sources: ACI, Oddo Securities

Geographic breakdown of sales at Emirates



Source: Emirates annual reports

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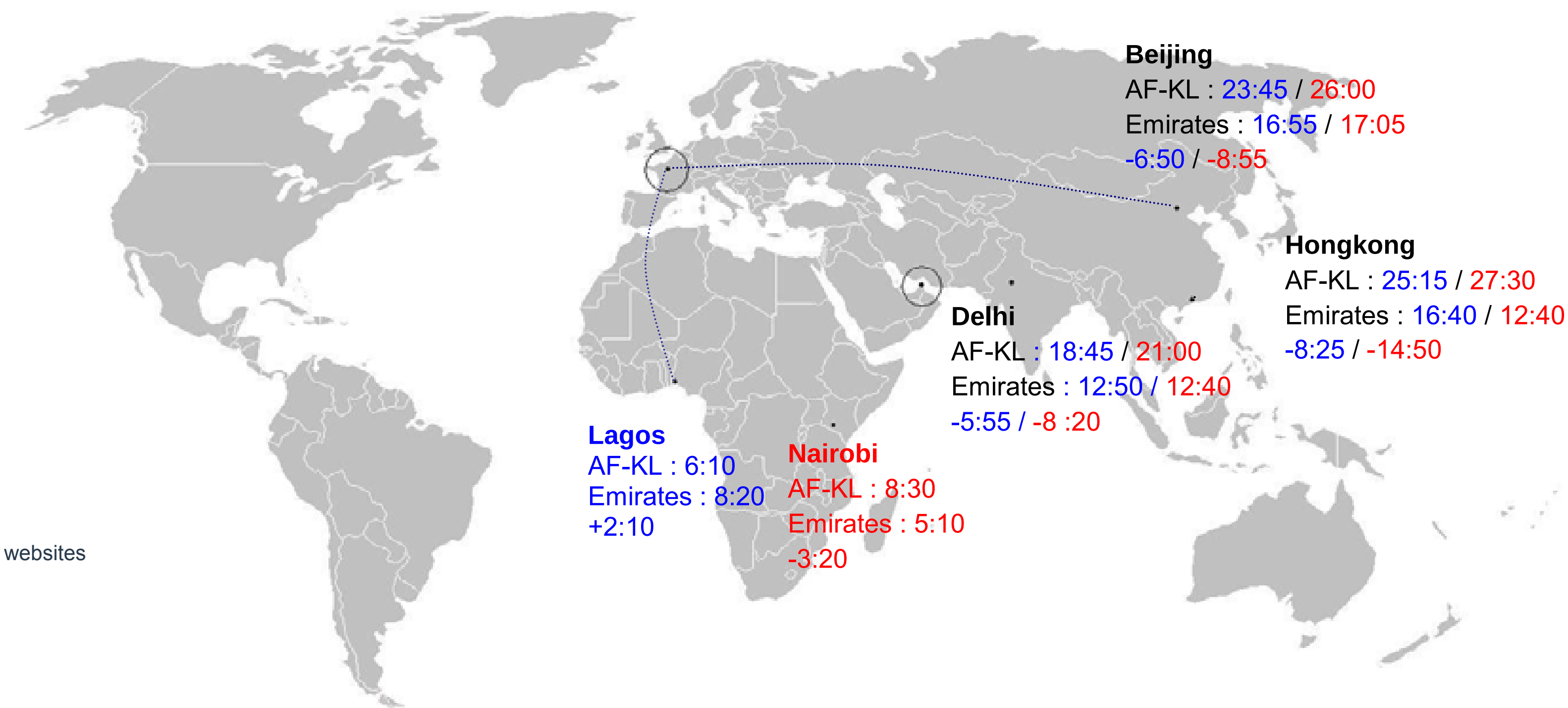
Seven major risks identified…

4. Emergence of an African hub : the risk of a transformation by a Gulf airline of an international African airport of a significant scale into a real African hub, **thereby capturing part of the premium clientele based in Africa**, **notably for Air France and Lufthansa.**

Comparative Time Travel : Traffic Between Africa and Asia



Sources: Airlines websites

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Seven major risks identified…

5. Market share losses in the premium segment and notably on North American and Asian destinations: in 2009, the **Middle East** represented **12.1% of premium traffic worldwide** and **11% of premium revenues** (respectively 10.3% and 8.6% in June 2010) (IATA).

6. A more intense bilateral cooperation with an Asian or US player can generate additional leverage for Gulf airlines and therefore increase the degree of risk for European Airlines.

7. Given the size of the « domestic » market, the overpopulation is clear and **the link-up between the eight players will streamline the market and strengthen the remaining players.**

Recap of European airlines' exposure to risks

	Air France-KLM	Alitalia	British Airways	Iberia	Lufthansa	Finnair	SAS
Creation of an emerging player in the freight segment	- - -	-	- -	-	- - -		
Emergence of an African hub	- - -	- -	-		- - -		
Attacks from upmarket leisure market players	- -	- -	- -	-	- -	-	-
Attracting a share of the forecast growth in the Europe-Asia market	- -	-	- -	-	- -	- -	- -
Market share losses in the premium segment	- -	-	- -	-	- -	-	-
Potential alliance between non-aligned players	-	-	-	-	-	-	-
Sector consolidation in the Gulf	-	-	-	-	-	-	-

Source: Oddo Securities

Risk is greatest for Lufthansa and Air France-KLM

But safeguards exist…

- **Lufthansa and Air France-KLM are theoretically the most vulnerable** due their hub-focused organization and weighting of cargo (respectively 11.6% and 8.7% of total sales) but also their high presence in Africa**.**
- **In our view, Lufthansa is the most at risk** due to the decentralized German market (Frankfurt , Munich, Dusseldorf and now Berlin as potential entry points) and a more liberal and conciliatory attitude of German government until recently, which lowered the barriers to entry.

However, there are a number of factors to suggest that **competition from Gulf-based airlines vs. European majors should be put into perspective:**

- ➢ **Lobbying is working at last…at least in the short term** : recent talks show a clear change in direction notably in Germany; **in the medium term, the UAE still holds certain cards to overcome this protectionist movement** (they may threaten the Europeans with cancelling the order for 118 A350 and switching to Boeing)
- ➢ **Replacement vs. growth..** : the fact that Gulf companies are keen to keep a young fleet will oblige them to use some of the future deliveries to replace their oldest aircraft → **the growth in capacity, which averaged 20% annually over the 10 past years**, should therefore **be closer to 10% over the next decade.**
- ➢ Although Europe represents about 12% of traffic for the main **Gulf players,** their **investment are now mainly turned towards Asia.**
- ➢ **Improvement in the €/$ exchange rate** (+5% since the beginning of the year) since the UAE dirham is pegged to the dollar.