



Stock Pitch

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Overview



QANTAS Airways Limited

Company Profile

QANTAS Airways Ltd, ASX: QAN



Information

Current price	\$3.55	Market cap	\$5.49B
52 week range	\$2.03 - \$7.46	Enterprise value	\$10.19B
P/E	6.67	Dividend yield	7.46%



- QANTAS is Australia's flagship carrier and is the largest Australian airline by fleet size, international flights and international destinations.
- The QANTAS group comprises of QANTAS Domestic, QANTAS International (incl. QANTAS Freight), Jetstar and QANTAS LOYALTY.
- Collectively, The QANTAS group controls 60% of the Domestic market share and 26% of the International market share (Aus)



Business: Pre COVID -19

The QANTAS Group : An overview

Dual brand strategy



Jetstar (Australia & New Zealand)
Jetstar Asia
Jetstar Japan
Jetstar Pacific

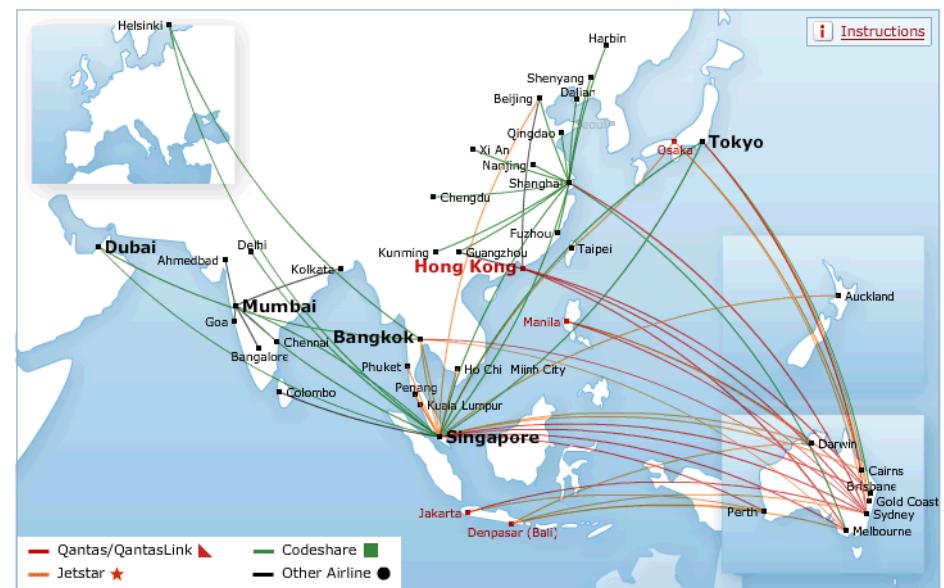


- Customers:** Targets business and premium leisure passengers (inbound & outbound)
- Product:** Qantas International offers passengers a premium network, product and service
- Member of Oneworld alliance and shares JV's with Emirates, China Eastern and American Airlines.
- Project Sunrise: An initiative to provide non-stop services to the Aus east-coast from New York and London (post 2022).
- Most exposed to fuel prices

Main markets

Route	Percentage of ASKs
Asia	39%
America	35%
Europe	13%
Other	13%
Total	100%

Asia-centric approach



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QANTAS Airways Limited

Qantas Domestic



- **Customers:** Targets domestic business and premium leisure passengers
- **Product:** Operates Qantaslink and Network Aviation which serves regional traffic in addition to its main airline network
- Frequent flyer program allows domestic passengers to earn miles
- Holds 61% domestic market share (together with Jetstar domestic)

FY19 Main Domestic Markets

Route	Percentage of ASKs
East West	31%
Triangle (Sydney, Melbourne, Brisbane)	21%
Regionals	22%
Other	26%
Total	100%



- **Customers:** Low-fare seeking leisure travellers
- **Product:** Low-cost model offers domestic and international passengers a value-based product with flexibility options
- Pan-Asia brand strength
- Operates in inbound and outbound price driven leisure segments

Main markets

Market	Passenger Distribution	Passenger Revenue
Australia Domestic	57%	55%
International ¹	43%	45%
Total	100%	100%



Qantas Loyalty supports the Qantas Ecosystem

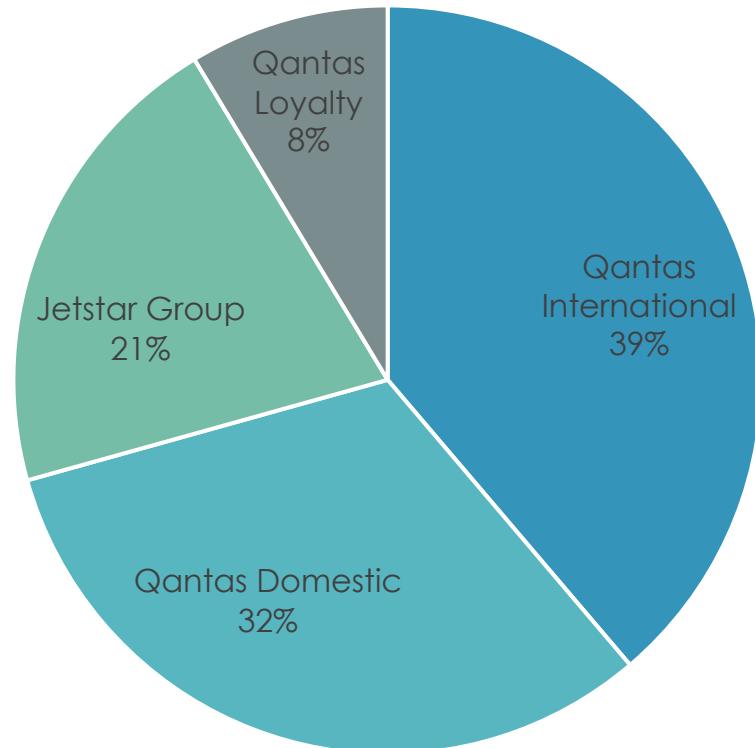


- Established as a separate segment in 2007
- Margin generated through points transacted with external partners
- Focuses on the Australia and New Zealand International loyalty markets



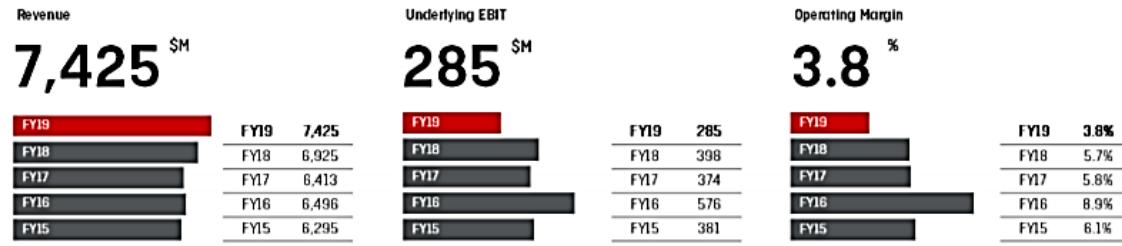
Revenue breakdown

Qantas Airways Limited Revenue



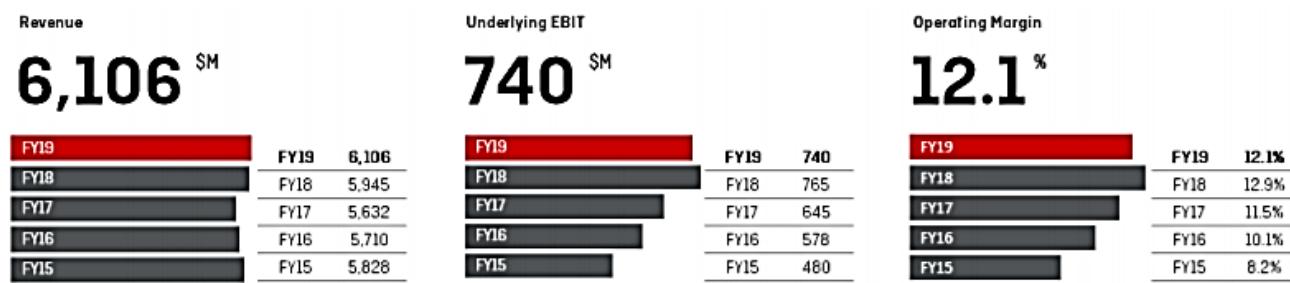
Key Metrics: Earnings driven by strong domestic foothold

QANTAS INTERNATIONAL



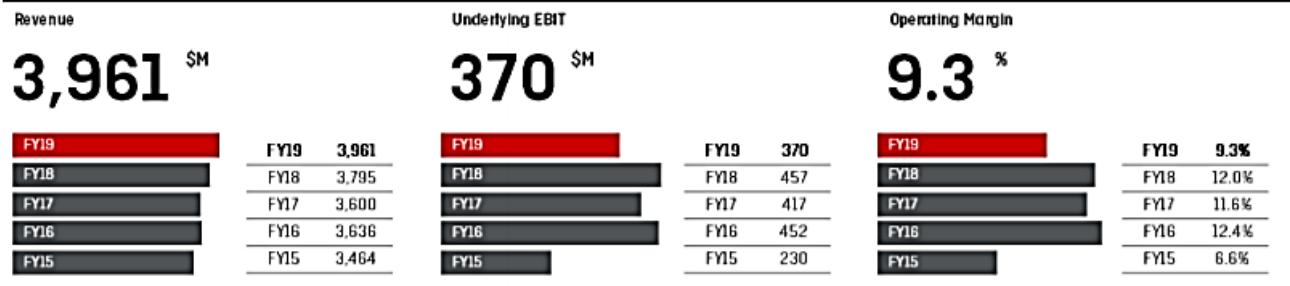
17% - International Passengers Market share (Aus)

QANTAS DOMESTIC



39% - Domestic Market Share

JETSTAR GROUP



9% - International Passengers Market Share

22% - Domestic Market Share



Business: Post COVID -19

Next steps for Qantas: A short-term outlook

- **International flights** suspended from late March
- **60% reduction in Domestic capacity**, with the focus on the reduction in flight frequency. Domestic connectivity between all Australian destinations will be maintained (with the exception of a few)
- **Majority of 30,000 staff to be stood down until at least end of May 2020.**
Qantas has introduced mechanisms allowing employees increased access to annual/long service leave. Qantas aim is to **preserve as many jobs as possible in the long term**
- The group is in a strong financial position but wages cost the group **\$4B annually** (24% of revenue).
- CEO's main focus is to **preserve its financial strength** and avoiding letting its cash burn



Industry

The International Airline Industry: Pan Australia/Asia



(International)



(International)

Industry Drivers

- Strong growth in Asian markets: 65% - 70% of all airline traffic expected to be in Asia region.
- Airline alliances - allowing exposure to a broader range of customers
- Consistent increase in passenger movements and number of flights into and out of Australia (48% increase forecasted to FY27)
- 'Flight shaming' pushes the industry to become more responsible for carbon emissions
- Introduction of long haul narrow body aircraft will disrupt airline distribution networks – Asian outbound routes (medium-haul)

Industry Drivers

- Population focused in large cities, separated by large distances
- Two airlines (Qantas/Jetstar and Virgin Airlines) control 98% of market share
- East-coast routes are some of the busiest in the world
- Market capacity relatively disciplined
- Stagnant growth in household incomes has curbed household spending and discretionary income

Domestic Statistics

	YE February 2019	YE February 2020	Growth
Total passengers carried	61.04 million	61.25 million	0.3 %
Revenue passenger kilometres	71.15 billion	71.36 billion	0.3 %
Available seats	77.30 million	77.47 million	0.2 %
Available seat kilometres	88.42 billion	88.22 billion	-0.2 %
Load factor	80.5 %	80.9 %	0.4*
Aircraft trips	629.5 (000s)	634.2 (000s)	0.7 %

Post COVID-19, the Domestic Industry will likely be the first to recover

Domestic Industry

- **Domestic interconnectivity** is essential due to geographical separation between major cities (e.g SYD-MEL)
- **Domestic routes** are likely to be the **centre of focus** in the short-term recovery plans
- Australian governments desire to **maintain competitiveness** in the airline industry

International industry

- International airline scene heavily dependant on the **progression of COVID-19**
- **Border restrictions** will limit the re-opening of international routes
- Countries ahead of the COVID-19 curve may be the first to open travel routes – benefits **AUS and NZ** who have stringent health regulations/protocols
- **COVID-19 vaccine** will accelerate the recovery of international operations

The background of the image shows a close-up view of an airplane's wing and engine at sunset. The wing is mostly blue, with the engine and its surroundings glowing with a vibrant red and orange hue, creating a strong visual metaphor for flight and competition.

Competitive Advantage

Qantas dual based strategy is a key driver in its success

Stable earnings



Leading Dual Brand domestic position

- Sound market structure
- Successful Dual Brand strategy

Growing and diversified earnings



Uniquely advantaged

- ~13m members (50% population¹ penetration)
- 500+ partners

Improved earnings stability



Group International² a fit and sustainable business delivering ROIC > WACC³

- Dual brand strategy allows airlines to play to their strength in the segmented market – high barrier to entry
- Leveraging alliances and new fleet technology to prepare for industry change
- Successful loyalty business keeping customers in the Qantas eco-system



Pre COVID-19
Strategy

Qantas dual based strategy is a key driver in its success



Maximising leading domestic position through Dual Brand strategy

Aligning to customer segmentation and extensive collaboration between airlines – specific focus on capacity.

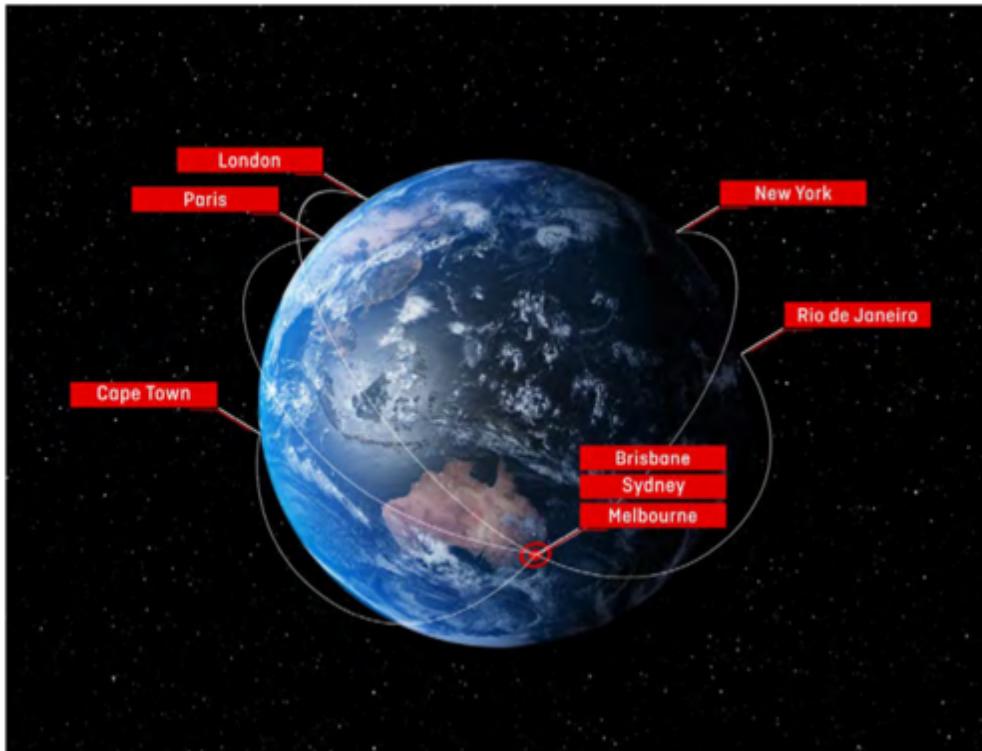


Aligning Qantas and Jetstar with Asia's growth

Utilising codeshares to extend reach and export dual-based know how and strategy to Asian International/Domestic markets



Project Sunrise: A gamechanger



Continues profit-maximising strategy

- Non-stop flying takes customers directly to where they want to go
- Increased proportion of premium seats reduces exposure to economy market
- Smaller gauge fleet increases flexibility in deployment and capacity management

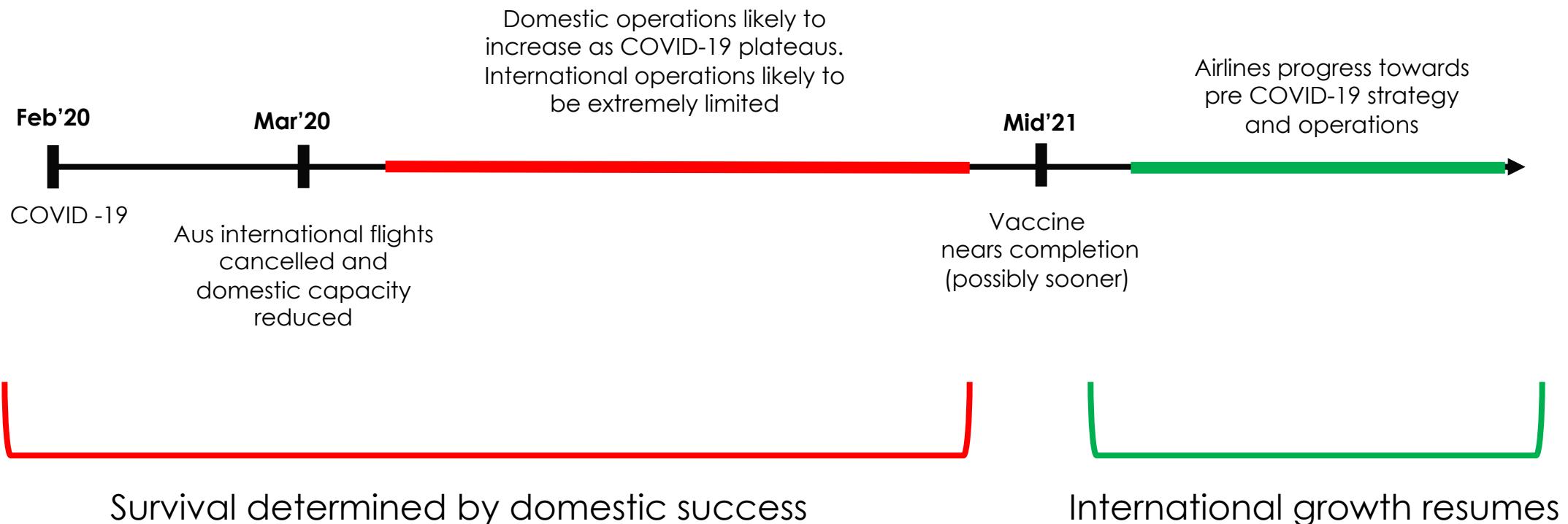
Reinforcing our competitive advantage

- Customer demand proven for non-stop service (London-Perth has highest NPS in the network)
- Yield premium versus one-stop flying (London-Perth premium yields over 30% higher than one-stop)
- Qantas better-positioned to operate versus competitors (traffic rights and fleet scale)

Investment Thesis



Timeline: Short term survival necessary for future gains



Qantas is well-positioned to survive and succeed in short-term



Factors determining Domestic success



Well-established domestic operations



Brand reputation



Strong market share



Strong financial position



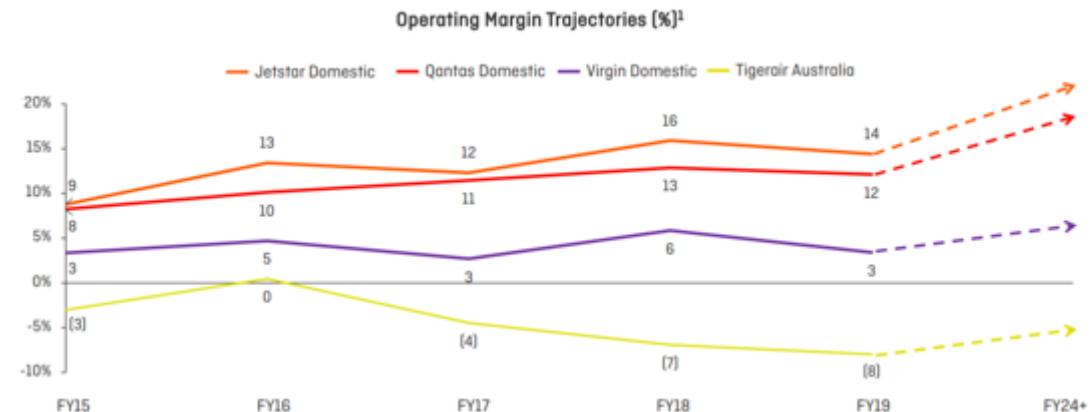
Govt interest to protect



Qantas strong domestic presence a driving factor

61%
Market Share

Dual brand strategy



Leading business proposition

- Best frequency and schedule, including peak and super-peak hours
- Strongest domestic and international connectivity
- Most resource sector services in Western Australia and Queensland

Integrated Dual Brand strategy and management

- Joint views of demand
- Alignment to customer segmentation
- Extensive collaboration

Maintenance of financial position is key in short-term

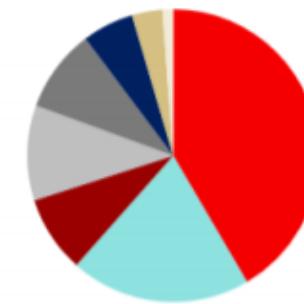
Net debt below target threshold



Relatively strong cash position

- \$2.2B cash position, undrawn facilities of \$1B
- 51% of total fleet is unencumbered
- Borrowed \$1B against its 787-9s

Aircraft operating variables: \$4B p.a



	FY19
Route navigation and landing fees	42%
Maintenance (including materials and labour)	20%
Passenger expenses	9%
Airmeals	11%
Ground handling	9%
Crew expenses	6%
Airport security charges	3%
Other sundry AOV related expenses	1%

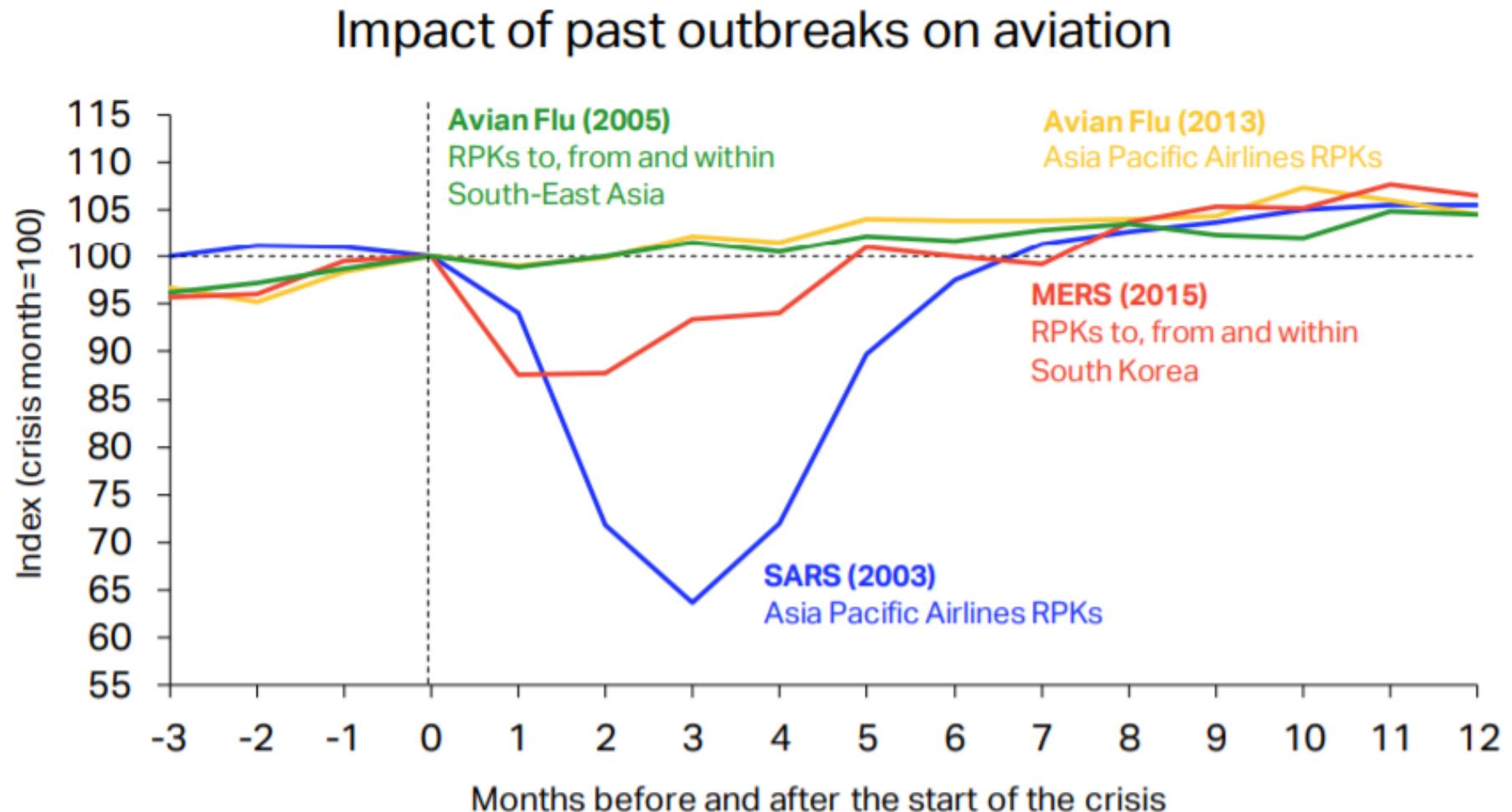
- Wages represent nearly a quarter of Qantas' revenue – driving factor behind employee stand-down
- Cash taskforce established

Main costs

Government relief will provide some support to aviation industry

- \$715m relief package introduced in March to help support the sector
- Government will waive fuel excise, service charges and regional security fees
- PM Morrison states that public funding for airlines will be industry focused – not favouring a specific airline
- Virgin Australia has requested a \$1.4B bailout by government. Qantas issued a statement requesting for \$4.2B loan should Virgin Australia bailout be approved
- Virgin Australia has operated at a statutory loss for last 6 years and recently had its credit rating downgraded
- Customers calling for dual support to protect competitiveness

Historically, the Aviation industry rebounds after 8-12 months





Risks

Risks are recognized and have active response plans

Risks

COVID-19 doesn't slow down

Mitigation/Comments

- The likelihood of COVID-19 surging on is low. The nature of viruses is to plateau as more people recover and community transmission rates decrease. However, if the COVID-19 pandemic continues to progress, then airlines will find it very difficult to stay afloat, and there are virtually no mitigation strategies. It is important to note that Australia needs a domestic airline and the Aus government will not allow the aviation industry to fail.
- Maintaining a strong financial position with a specific focus on liquidity will determine the successfulness of Qantas in the current climate. The group has a relatively stable cash position and is not leveraged as high as its domestic and international competitors. The airline has added extra liquidity on the back of its aircraft and stood down employees temporarily in an attempt to change to a variable-focused cost structure.
- This will highly impact Qantas' partnership based international business model. However, assuming a domestic-centric approach by Qantas, this risk is not important until COVID-19 begins to subside.

Cessation of international alliances and codeshares



Financial Statements

Qantas Airways Ltd

Financial statements

Consolidated Income Statement

For the year ended 30 June 2019

	Notes	2019 \$M	2018 (restated) ¹ \$M
REVENUE AND OTHER INCOME			
Net passenger revenue		15,696	14,944
Net freight revenue		971	895
Other revenue and income	2(B)	1,299	1,289
Revenue and other income		17,966	17,128
EXPENDITURE			
Manpower and staff-related		4,268	4,291
Aircraft operating variable		3,995	3,653
Fuel		3,846	3,232
Depreciation and amortisation		1,665	1,528
Non-cancellable aircraft operating lease rentals		264	272
Share of net profit of investments accounted for under the equity method		(22)	(15)
Other	3	2,500	2,633
Expenditure		16,516	15,594
Statutory profit before income tax expense and net finance costs		1,450	1,534
Finance income	4	47	48
Finance costs	4	(232)	(230)
Net finance costs	4	(185)	(182)
Statutory profit before income tax expense		1,265	1,352
Income tax expense	5	(374)	(399)
Statutory profit for the year		891	953
Attributable to:			
Members of Qantas		891	953
Non-controlling interests		-	-
Statutory profit for the year		891	953
EARNINGS PER SHARE ATTRIBUTABLE TO MEMBERS OF QANTAS			
Basic earnings per share (cents)	6(D)	54.6	54.4
Diluted earnings per share (cents)	6(D)	54.4	54.0

¹ The Group adopted AASB 15 *Revenue from Contracts with Customers* effective 1 July 2017 using the full retrospective method of adoption. The comparative period presented above has been restated.

Consolidated Balance Sheet

For the year ended 30 June 2019

		2019 \$M	2018 (restated) ¹ \$M
CURRENT ASSETS			
Cash and cash equivalents	15(A)	2,157	1,694
Receivables	8	1101	840
Other financial assets	20(C)	334	474
Inventories		364	351
Assets classified as held for sale	9	1	118
Other	13	236	161
Total current assets		4,193	3,638
NON-CURRENT ASSETS			
Receivables	8	77	110
Other financial assets	20(B), (C)	184	112
Investments accounted for under the equity method		272	222
Property, plant and equipment	10	12,977	12,851
Intangible assets	11	1,225	1,113
Other	13	449	601
Total non-current assets		15,184	15,009
Total assets		19,377	18,647
CURRENT LIABILITIES			
Payables		2,470	2,220
Revenue received in advance	14	4,315	4,018
Interest-bearing liabilities	15(B)	635	404
Other financial liabilities	20(C)	89	34
Provisions	16	954	853
Income tax liabilities	5(D)	113	7
Liabilities classified as held for sale	9	-	64
Total current liabilities		8,576	7,600
NON-CURRENT LIABILITIES			
Revenue received in advance	14	1,466	1,446
Interest-bearing liabilities	15(B)	4,589	4,344
Other financial liabilities	20(C)	48	25
Provisions	16	415	367
Deferred tax liabilities	12	847	910
Total non-current liabilities		7,365	7,092
Total liabilities		15,941	14,692
Net assets		3,436	3,955
EQUITY			
Issued capital	17(A)	1,871	2,508
Treasury shares	17(B)	(152)	(115)
Reserves	29(0)	111	479
Retained earnings		1,603	1,080
Equity attributable to members of Qantas		3,433	3,952
Non-controlling interests		3	3
Total equity		3,436	3,955

Qantas Airways Limited

Financial statements

Consolidated Cash Flow Statement

For the year ended 30 June 2019

	Notes	2019 \$M	2018 (restated) ^b \$M
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		19,050	18,107
Cash payments to suppliers and employees (excluding cash payments to employees for redundancies and related costs and discretionary bonus payments to non-executive employees)		(15,876)	(14,461)
Cash generated from operations		3,174	3,646
Cash payments to employees for redundancies and related costs		(58)	(42)
Discretionary bonus payments to non-executive employees		(25)	(74)
Interest received		41	41
Interest paid		(168)	(161)
Dividends received from investments accounted for under the equity method		11	6
Australian income taxes paid		(156)	–
Foreign income taxes paid		(12)	(3)
Net cash from operating activities	21(A)	2,807	3,413
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment and intangible assets		(1,944)	(1,959)
Interest paid and capitalised on qualifying assets	4	(42)	(44)
Payments for investments held at fair value		(60)	(2)
Proceeds from disposal of property, plant and equipment		333	17
Proceeds from disposal of a controlled entity		139	17
Proceeds from disposal of shares in associate		11	–
Net cash used in investing activities (excluding aircraft operating lease refinancing)		(1,563)	(1,971)
Aircraft operating lease refinancing		(88)	(230)
Net cash used in investing activities		(1,651)	(2,201)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments for share buy-back		(637)	(751)
Payments for treasury shares		(98)	(162)
Proceeds from borrowings		1,137	668
Repayments of borrowings		(744)	(802)
Dividends paid to shareholders		(363)	(249)
Net cash used in financing activities		(705)	(1,296)
Net increase/(decrease) in cash and cash equivalents held		451	(84)
Cash and cash equivalents at the beginning of the year		1,694	1,775
Effects of exchange rate changes on cash and cash equivalents		12	3
Cash and cash equivalents at the end of the year	15(A)	2,157	1,694

The QANTAS Group : An overview



(International)

- Targets business and premium leisure passengers (outbound)
- Primary international market is Asia, followed closely by America and then Europe
- Member of Oneworld alliance and has alliances with Emirates, China Eastern and AA.



(Domestic)

- Targets business and premium leisure passengers domestically
- Operates Qantaslink and Network Aviation which serves regional traffic
- Frequent flyer program allows domestic passengers to earn miles



- The group's low-cost, value based and low-fares network. Targets leisure locations (pan Asia)
- Operates internationally and domestically (recently closed regional NZ ops)
- Main market is domestic and international traffic to and from Australia