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HD **Qantas looks to terminal sell-off and frequent-flyer float as Joyce sharpens knife**

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QANTAS is said to be close to selling its Brisbane airport terminal to raise about $150 million as part of its cost-cutting program aimed at restoring the airline to profitability.

Talks to complete the sale and lease back of its Melbourne terminal, which would raise about $250m, are also well advanced, but little progress is being made in Sydney. Airline chief executive Alan Joyce will detail just how he is going to save $2 billion when he unveils on February 27 a forecast loss of up to $300m for the last half year.

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Final decisions are still to be made on any asset sales. Indeed, next month's release is more of an update rather than a definitive statement on exactly what will happen to the frequent-flyer division and other assets.

The moves come in a domestic market that is still flat.

A lower Australian dollar helps Qantas, but a lower fuel price would help even more when you consider the airline spends $4.5bn on fuel a year; and a 10 per cent cut would save $450m.

Rival Virgin Australia is expected to slow capacity growth to about 1 per cent this half, which will help Qantas, but the local market still has excess capacity and zero growth prospects.

Qantas has appointed bankers to assess a float of 30-40 per cent of the frequent-flyer division. Such a move would serve to raise cash to help pay for accelerated redundancies and other parts of the business-transformation process.

Citibank and Macquarie have the job of assessing the float option.

Next month's update comes against a background in which Joyce has banged the drum around Canberra detailing the airline's plight and bemoaning the clear benefits afforded to Virgin thanks to its ownership structure.

Running Qantas is a juggling act. The chief executive must serve many masters, and while it is OK to cry poor to Canberra and the unions, at the same time staff morale, brand value and the company's investors must be satisfied.

That is what Joyce will be trying to manage next month when, for the first time, he details the $2bn in costs to be cut over the next three years. This is the equivalent of the costs taken out by American Airlines when it filed for Chapter 11 bankruptcy in 2011.

That airline joined with US Airways and has just reported a combined $US1.9bn ($2.16bn) in profit for last year, excluding $US2.5bn in bankruptcy charges.

Over the past four years, Joyce

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has taken out 19 per cent of costs, or about $2bn.

The relatively muted response to decisions such as the transfer of 747 maintenance offshore highlights the advantages of transparency and telling the market just how bad things are. The flip side is the impact this is having on the **brand**, staff and sales.

A partial sale of the highly profitable frequent-flyer division, by either a float or trade sale, will have to be considered in the context of some analysts valuing the division as high as $3bn, against a market value for Qantas now of more than $2.6bn.

Providing the airline can maintain control of a majority of the division, it will also be able to keep its cashflow and other benefits.

Its partner sponsors would have to be comfortable with the move, but in theory, if the division was to be valued by the market at $3bn, then the see-through value of Qantas should increase.

A sale of the freight operation, as speculated elsewhere, won't happen for the simple reason that the **company** has already **sold** its major freight **business**, Star Track, to joint-venture partner Australia Post, and all that is left essentially is the underbelly of the aircraft.

While talks with Brisbane and Melbourne airports are well advanced, the deal on the table at Sydney is not attracting much interest.

The cost-cutting program has been widespread, including items such as its Mascot campus, which has been whittled down from nine buildings to five in a renovation saving about $9m.

The Jetstar operations are also under review, but to put the international division into context, the total investment is roughly the cost of one A380, or about $300m.

Qantas mainline owns 12 A380s.

The **company** is looking at Jetstar International, but would be reluctant to pull the pin given the Singapore arm is holding its own, the **Hong Kong** arm is being backed by **China** Eastern and the minority-owned Japanese operation is being backed by JAL and is widely lauded for its growth opportunities. Breaking even is one thing, earning a decent return is another, and the question for Joyce is whether Qantas can afford to maintain its expansion plans in the middle of its present crisis.

Canberra is mulling a range of alternatives, including a potential standby credit facility along the lines of that enjoyed by the big banks after the global financial crisis, which Qantas would need to pay for and would hopefully not be used, but would help with the rating agencies.

The repeal of the Qantas sale act will not help the airline tomorrow, but will give it more flexibility when you consider conditions such as having to maintain a ``majority of operations'' in Australia.

The **company** also has some room to move when you consider that it owns 50 aircraft with no debt, which could be refinanced in a sale and lease-back type arrangement.

Talk but no action

ANZ Australia boss Phil Chronican is well into a review of all his products in the wake of the remediation efforts reported here last week.

So far the comprehensive review is yet to uncover similar problems.

Joe Hockey broke **bread** with the senior Westpac brass, including chief Gail Kelly, at a lunch yesterday to learn their view on the economy, the financial services inquiry and the likely progress of the Sydney Swans Australian rules football team this year.

From the big end of town, the word was that boardrooms are starting to talk deals and spending, but have not actually put words into action as yet.

Given that is how everyone is looking at the world, the upside is that at least deals are being talked about, but the downside is people are still sitting on their hands.

Fahour's mailstrom

AUSTRALIA Post's Ahmed Fahour is working on the hope that if the Australian Competition & Consumer Commission approves the 10c increase in stamp prices, his losses will be cut by about $100m on the 3.3 **billion** letters posted every year. Trouble is, that number is falling each year so the price increase, if approved, will probably just mean he matches last year's $212m loss from his so-called reserved-post **business**.

The price increase comes on the back of a 100 per cent hike in cash costs, which is crippling parts of its retail network. Fahour has smartly opted to freeze prices for pensioners, who also happen to be the best supporters of mail.

The rapid decline in the letter **business** is well documented and each reduction means economies of scale disappear.

That explains why Fahour has pushed hard on his parcel **business** where Australia Post has the market leadership.

Five years ago, on average, every mailbox got two letters. Today that has fallen to just 1.5 letters, while over the past decade posties have gone from putting a letter in every home on their round to just 66 per cent of homes nowadays.

Fahour has just returned from his annual trip to the US to take part in the Australian-American leadership dialogue at Stanford University in California's Silicon Valley.

This year's trip included site visits to LinkedIn and Google to see just how the digital world is moving.

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