

FINANCIAL REVIEW

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HD **Qantas coy on frequent flyer float**
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Qantas Airways has not yet made a final decision on whether to shelve a partial float of its \$2.5 **billion** frequent flyer division, the airline said.

The Australian Financial Review on Thursday reported the management team would next week tell the board it did not want to pursue the **sale** of a minority **stake** in the business and that the decision was expected to be supported by the board.

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In a statement to the ASX in response to the article, Qantas said it was "often the subject of speculation" – particularly in the **lead**-up to its results, which are due out on August 28.

"We have an established position of not commenting on that speculation," Qantas said. "A decision on Qantas Loyalty has not been made."

Qantas, advised by Macquarie Capital and Citi, has been considering a spin-off of its valuable loyalty division for the past nine months.

The frequent flyer program, which has more than 10 **million** members, was expected to be the airline's highest-earning division in the 2013-14 financial year. Qantas has bolstered the program's offering over the past year with its Qantas Cash multicurrency debit card, the new Aquire program for small and medium enterprises and a new golf program and online shopping mall.

UBS estimated Qantas Loyalty will report earnings before interest and tax of \$272 **million** for the 2013-14 financial year, which compares with a \$533 **million** EBIT loss for Qantas International, a \$60 **million** loss for Qantas Domestic and a \$60 **million** profit for Jetstar. Analysts sceptical

Most analysts have been sceptical that a float of about 30 to 40 per cent of the loyalty division would be positive for the airline in the longer term, even if it led to a near-term share price bump.

CIMB analyst Mark Williams said he continued to advocate for the retention of the business, given its importance to Qantas's overall customer proposition.

Qantas Loyalty also represents a more predictable earnings stream than the other divisions. Using the proceeds of a **sale** to reduce debt would be unlikely to cut the airline's interest bill by an amount equal or more than the hit to earnings from the **sale**.

Qantas is forecast to report a full-year pre-tax loss of \$750 **million**, but the bottom line figure could exceed \$1 **billion** due to write-downs and one-off charges associated with its transformation program.

The **company** is due to update the market on its transformation program, which involves cutting \$2 **billion** of costs and 5000 jobs over three years, alongside its results release. Of the total cost cuts, about \$1 **billion** is expected to come from its ailing international division, but only about \$200 **million** of those cuts have been detailed to date.

Qantas will also provide an update on its structural review, which has canvassed the **sale** of a **stake** in Qantas Loyalty, a split of its domestic and international divisions and the **sale** of part of Jetstar.

A split of the domestic and international divisions might allow Qantas to attract investment from a foreign airline, such as Emirates or **China** Southern.

Qantas chief financial officer Gareth Evans this month said the airline was a "fan of consolidation" but said it might take a long time for an actual deal to eventuate.

CO qntas : Qantas Airways Ltd

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