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AVIATION

CATHAY TARGETS HK$4b IN SAVINGS OVER THREE YEARS

Figure revealed by finance boss of major shareholder Air China, who calls the plan feasible with this year's target set at HK$2 billion

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Cathay Pacific Airways, one of Asia's biggest international airlines, is seeking HK$4 billion in savings over the next three years, with HK$2 billion targeted for this year, a major shareholder has disclosed.

In the first cost-saving target made public, Air China, which has a 30 per cent stake in Hong Kong's flag carrier, backed Cathay Pacific to turn the business around. Analysts also welcomed the target, but one questioned whether it could be achieved.

Until yesterday's disclosure by Air China, Cathay had declined to put a figure on its planned cuts.

The airline started a three-year restructuring exercise, the biggest shake-up in 20 years, after it lost HK$575 million last year.

Part of the plan already announced would see management jobs cut, a pay freeze for managers, all non-critical recruitment halted and a 30 per cent cut in staff costs at its headquarters.

Cathay Pacific earned HK$92.7 billion last year, but expenses came in at HK$93.2 billion, leading to the loss.

The savings target, excluding fuel and hedging costs, amounts to 4.3 per cent of last year's outgoings.

Xiao Feng, Air China's chief financial officer and a non-executive director on the Cathay board, yesterday told analysts on a conference call: "It's a feasible cost-restructuring plan. It will contribute to HK$4 billion in savings in the next three years and HK$2 billion this year.

"Cathay Pacific has a very clear-cut strategy to counter different competitors in different markets in terms of its plan on its aircraft fleet and products. I am confident about Cathay Pacific's prospects."

> **Provided it can save that amount it could at least break even this year**
>
> GEOFFREY CHENG, ANALYST

A recording of the call was provided by a source who requested anonymity.

Swire Pacific is the largest shareholder in Cathay Pacific, with a 45 per cent stake.

A financial assessment of just the airline – excluding subsidiaries and affiliates such as its catering and holiday arms – showed losses were significantly worse than the company overall, at HK$3.3 billion.

Cathay Pacific declined to comment.

"The cost savings would certainly be a step in the right direction," Greg Waldron, the Asia managing editor of Flight Global, said.

Geoffrey Cheng, head of transportation and industrial research at Bank of Communications International Holdings, said the savings target was tough to achieve but if successful the airline could break even this year.

"I think it's a tall order. It's possible but it's not easy. Provided it can save that amount, including on hedging, it could at least break even this year.

"The problem with the comment by Air China's chief financial officer is we have no idea where they want to trim," Cheng said.

He said just savings from staff costs – HK$19.7 billion last year – "could be tricky". The airline is expected to add 1,300 cabin crew this year, while cutting management and headquarters costs.

Savings could come from reducing repair and maintenance costs and depreciation on taking delivery of new aircraft while retiring old ones.

On the fuel cost side, Cheng estimated that hedging charges would come down from HK$8 billion to around HK$5 billion to HK$6 billion. Cathay will benefit from the resumption of a cargo fuel surcharge in April, recouping some fuel costs. Fuel charges were HK$27.9 billion last year.

However, the airline will be hit with rising landing charges at the city's airport. The charges cost the airline HK$14.9 billion last year.

The airline flies 65 Boeing 777-300 planes, each of which has a maximum take-off weight of 351 tonnes. That means one plane is currently charged HK$24,977 to land in Hong Kong. From September that charge will rise 8.8 per cent to HK$27,644.