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Qantas Group HY20 Results CEO Speech

Qantas Airways Limited attaches the Qantas Group HY20 Results CEO Speech.

Yours faithfully,

Andrew Finch
Group General Counsel and Company Secretary

Authorised for release by Qantas' Board of Directors.

ASX/Media Release

HY20 RESULTS – CEO SPEECH

Sydney, 20 February 2020

Good morning and thank you for joining us, in the room and on the phone.

I'm joined by Vanessa Hudson, who has held numerous senior roles at Qantas after starting with us in finance, and is now our Group CFO.

I'm pleased to announce that the Qantas Group delivered another strong result in the first half of financial year twenty – and continued to deliver for all our stakeholders.

Our Underlying Profit was $771 million – down $4 million on last year.

But that was in the face of:

- $51 million in higher foreign exchange costs;
- a $68 million impact from unrest in Hong Kong and trade wars hitting international freight; and
- a $55 million increase in domestic airport overheads due to terminal sales.

So, despite more than $170 million in headwinds and cost-ups, our result was almost flat on the prior year and our earnings per share increased.

That shows the combined strength of the Group and the confidence we have in it – which is obviously important in the current climate.

SEGMENT OVERVIEW

And to that point, I'd like to talk briefly about how our key segments performed in the first half before explaining how we're managing some of the challenges emerging in the second half. Turning first to the biggest part of our business…

GROUP DOMESTIC

Group Domestic had another strong performance in the first half, though it was down slightly on last year's record – mainly because of the structural change to airport costs I mentioned earlier.

Qantas maintained its domestic market lead in corporate and premium leisure travel. It kept growing its share of travel by small-to-medium enterprises, and the resources sector also grew.

Jetstar continued to deliver low fares and grew its ancillary revenue – but it faced the added challenge of industrial action at one of its busiest times of year.

Let me pause at this point to say that our position on wages is crystal clear. We're offering 3 per cent a year, which is above inflation and above what most companies are offering.

No amount of industrial action will change our stance, because we can't afford to lose our discipline on costs. That would ultimately have a very negative impact on jobs, and the challenges facing all airlines right now underscores why.

GROUP INTERNATIONAL

Turning to Group International, which increased its overall profit in the half.

Qantas International delivered a very strong result, with earnings up almost 3 per cent.

It continues to benefit from ongoing fleet renewal, from 747-to-787. And from the ultra long haul routes made possible by the Dreamliner. Perth-London continued to outperform, and early signs for our new Brisbane-Chicago service are very positive.

We've made good progress on Project Sunrise – including three research flights direct to Sydney from New York and London. The customer reaction to those flights shows their potential.

We've chosen Airbus as the preferred aircraft supplier and we'll be making a final decision at the end of March.

Looking at Jetstar, its leisure routes to South East Asia performed well, but the stronger US dollar has weighed on budget leisure demand for services to Hawaii.

QANTAS LOYALTY

Qantas Loyalty had another record half year, with earnings up 12 per cent.

There were several reasons why, including contributions from new products like our own credit cards and insurances.

But overhauling the Frequent Flyer program had the biggest impact – because of how well the members responded. This was a $25 million investment and included 1 million more reward seats. We also cut fees.

Since then, we've seen almost 400,000 flights taken by members who hadn't redeemed any in the past 18 months. Proof that we've made it easier for people to put their points to good use.

INVESTING IN PEOPLE AND CUSTOMERS

Loyalty was one of several areas where we invested for customers in the half.

There's also the major upgrade of our A380 cabins.

Opening a new First lounge in Singapore.

Expanding our resident fares program to make air travel more affordable for regional communities.

Opening the Qantas Group Pilot Academy in Toowoomba.

And important progress towards our sustainability targets.

REWARDING SHAREHOLDERS

Our strong performance and cost discipline means we can keep rewarding shareholders.
In the first half we returned nearly $650 million through dividends and a significant buy-back.

Today, we're announcing a further return of up to $351 million – made up of an increased dividend and another off-market share buy-back that is expected to use all available franking credits.

LOOKING AHEAD

There are obviously some challenges facing us in the second half – but we're confident that we can manage that impact, as we have in the past.

Coronavirus has meant suspending our Sydney-Shanghai service until the end of May – possibly longer.

It's important to keep in mind that mainland China represents about 2 per cent of our total international network.

But we're seeing flow-on demand weakness on some other Asian routes – Hong Kong in particular, but also Singapore. And to a lesser extent, Japan.

In response, the Group is reducing capacity across Asia by 15 per cent, at least until the end of May.

I should stress that markets like the UK and US are unaffected – which is what we saw during SARS.

Domestically, only 8 per cent of our bookings are attached to an international trip – and the percentage from Asia is smaller again.

That said, we've seen some weakness in domestic demand emerge in February.

As a result, our Group Domestic capacity will reduce by just over 2 per cent in the second half.
We'll also cut Trans Tasman capacity by about 6 per cent.

We have a lot of flexibility in how we respond across the Group. We can extend these cuts, cut deeper if we need to, or add capacity back in. Maintaining our strategic position is also key.

We know demand into Asia – particularly, China – will rebound, and we'll be able to ramp up when it does.

In the meantime, we'll minimise the impact of reduced flying on our people by using annual leave – tapping into what is a significant balance across Qantas.

And we'll take advantage of having the equivalent of 18 aircraft on the ground by bringing forward maintenance.

When you combine the capacity action we're taking, with the drop in fuel price since Coronavirus escalated, we expect to mitigate the total impact on our bottom line to somewhere between $100 million and $150 million in the second half.

This is obviously an estimate on what is an evolving situation, and we'll give an update with our Q3 trading statement.

CONCLUSION

This is Qantas' centenary year.

And we've seen our fair share of challenges in that time.

Today, Qantas is extremely well positioned.

A leading domestic business in a stable market.

An international business carving out unique advantages in ultra long haul routes.

And a growing Loyalty business that offers diversity of earnings.

Can I finish by acknowledging our people, for the great work they do every day – but particularly, for the recent relief flights from Wuhan, and the flight from Tokyo that landed this morning.

It took literally thousands of hours to plan complex operations like these.

The crew were all volunteers – and they did us proud.

A great example of what we mean by The Spirit of Australia.

Thank you.

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