

Joyce makes flying visit

Australian Broadcasting Corporation

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Broadcast: 12/08/2010

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Qantas CEO Alan Joyce joins Lateline Business live to discuss a tough year that included Eyjafjallajokull.

Transcript

TICKY FULLERTON, PRESENTER: I'm joined live in the studio now by Qantas' chief executive.

Alan Joyce, welcome to Lateline Business.

ALAN JOYCE, CEO, QANTAS: Thanks, Ticky.

TICKY FULLERTON: I guess it's not surprising with financial crises and volcanoes that Jetstar was your star performer with an EBIT of \$130 million compared to Qantas's 67?

ALAN JOYCE: We had a few star performers, Jetstar and Frequent Flyers. Both of them have done very well.

TICKY FULLERTON: Mm. I guess looking at these two different brands that you've got, though, Qantas and Jetstar, would it be a fair question to ask whether the growth of the group going forward is all about a smaller Qantas and a larger Jetstar? Or does that depend on where we are in the cycle?

ALAN JOYCE: Well it does and I think if you look at the history of what we see happening, Qantas is doing very well at the moment. In the past we've seen Jetstar do well and we've seen the frequent flyer program have an exceptional year.

TICKY FULLERTON: Let me ask you about the frequent flyer program because I find that an extraordinary result - \$328 million. It's still high even if you take account of the accounting changes.

What is driving that membership which grew what, 1.4 million to 7.4 million?

ALAN JOYCE: Yeah, it's been an exceptional year for frequent flyer. The 1.4 million growth - 22 per cent growth - in membership has happened with the Woolworths deal.

Woolworths has done really well for us.

TICKY FULLERTON: You talk about Qantas - the company Qantas, the airline Qantas - being very much on the rise now. Its leverage of course comes in good times and you were talking today about better times in terms of premium cabin demand.

That seems very surprising given we've still got problems in Europe and the US?

ALAN JOYCE: Well what we've seen with Qantas is that the premium demand in the last quarter shows that the business market was coming back.

We saw that the premium market on our international operations gave yield improvement of 12 per cent year on year. That yield improvement was the result of an improvement in mix.

The business market is clearly coming back there.

On the domestic markets we saw Qantas dramatically improve as well. In the first half of the year, Jetstar was the shining star. It was producing all the profits on the domestic routes. In the second half of the year we saw the Qantas business operation in the domestic market dramatically improve and Qantas became the biggest returning in the domestic market.

So what's great about Qantas is we have this really good portfolio of assets. The portfolio of assets works really well in different times. In the tough times of the GFC when the premium traffic wasn't travelling, Jetstar was doing exceptionally well and Frequent Flyers was doing well.

What we're seeing now happening is that that business market is coming back in Qantas and Qantas is performing and is dramatically improving.

TICKY FULLERTON: You said today if present conditions continue the first half underlying profit before tax for fiscal 2011 may be materially stronger than the first half of fiscal year 2010.

I guess all the analysts are doing a lot of drilling down tonight, but are these expectations justified? How much of a springboard have you seen, say, in the last couple of months in terms of international yield growth?

ALAN JOYCE: We've seen a big improvement. There's been a couple of factors that have taken place.

As the business traffic has come back, the business traffic has come back in nearly all of our major markets. It's primarily driven in the Australian market. That yield improvement is occurring in nearly every route group.

The business market improvement has resulted in Qantas's yields internationally up that 12 per cent. Domestically we're seeing our yield premium against Virgin return to pre-GFC levels.

TICKY FULLERTON: And this trend is continuing in the recent couple of months too?

ALAN JOYCE: This trend is continuing and we believe it will continue into this year.

TICKY FULLERTON: Can I take you back to Jetstar for a moment because the domestic market you've mentioned is very competitive.

Would it be too cheeky to ask you if there's a bit of transfer pricing here in order to get market share? A bit of shifting of costs onto other parts of the groups like baggage handling and that sort of thing?

ALAN JOYCE: No, there's no cross subsidisation of any of the segments that we have in the group.

We do manage the group as a group of individual assets. They are all independent. Jetstar has the ability to go out and purchase services independently from Qantas so there's absolutely no cross subsidisation in anything we do.

TICKY FULLERTON: Your big challenge going forward is obviously how you manage capital expenditure.

ALAN JOYCE: Yeah.

TICKY FULLERTON: That's a huge program. I assume that quite a lot of that will be off balance sheet in terms of leasing deals with, well not Alco but whoever the leasing companies are now?

ALAN JOYCE: Well, we do have a big capital expenditure over the next few years but that's renewing of our fleet.

Our fleet program has \$2.6 billion in capital expenditure this year and a similar number in the following year.

We have a fleet that we need to renew. An A380 as an example costs us over \$300 million. That's a big investment in customer service for Qantas.

We've seen the customer service ratings of Qantas improve dramatically. We've had some of the highest ratings in customer service in our history and that's because we are investing in the customer - new air lounges, new airport facilities and that's showing us good returns for the future.

TICKY FULLERTON: And briefly, one of the reasons that you've cited for not paying a dividend this time round is for capital expenditure. But no dividend for over a year now - those long-suffering mums and dads. Is Roger Montgomery right that this isn't a retail stock?

ALAN JOYCE: Well I think you know the Qantas payout ratio over the years has been very high. So when there's the ability for us to return to the shareholders we do that.

I think what we're saying is that we're being prudent and the board has said it's being prudent in the current environment and that they will resume the paying of dividends. They're committed to doing that.

But that the timing and the quantum depends on the trading environment that we're operating in. It depends on what the market conditions look like. It depends on, very importantly, us maintaining our investment credit rating.

So it will happen, it's just making sure that we do it at the right time.

Alan Joyce, thank you so much for coming and joining us.

ALAN JOYCE: Thanks, Ticky. Thank you very much.

