

Qantas says profits not enough to cover cost of planes

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ELEANOR HALL: Qantas has reported a \$250 million profit just a week after announcing plans to lay off 1,000 workers.

That's left unions representing Qantas workers irate that a profitable company is sacking so many staff.

But both Qantas and financial analysts say the airline does have to change drastically to cover the soaring costs of new aircraft.

Business reporter Michael Janda explains.

MICHAEL JANDA: Qantas has doubled its profit since last year. The airline reported a net profit after tax of \$250 million despite natural disasters wiping \$224 million from its result.

Qantas posted an underlying before-tax profit of more than \$550 million which is up almost 50 per cent.

The Pilots Association's vice-president Captain Richard Woodward says the result sits uncomfortably with last week's announcement of 1,000 job losses.

RICHARD WOODWARD: All our members are very concerned that a company that makes more than half a billion dollars before tax is getting rid of 1,000 frontline workers.

We'd need to be convinced that the company is in as much trouble as Alan Joyce is saying.

Images



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MICHAEL JANDA: But while half a billion dollars may sound like a lot, Qantas chief executive Alan Joyce says the airline's profit is well short of where it needs to be to justify the investment from its shareholders.

ALAN JOYCE: To put it in context, you know, we're a \$15 billion business and we're making \$550 million. I know that's a lot of money in a lot of people's books but for a \$15 billion business that represents less than a 4 per cent return.

So our shareholders and other investors would be better putting the money in the bank because that doesn't give you sufficient returns.

And also we have \$2.5 billion roughly for the last year and this year that we are spending on fleet and the best analogy I've been using - it's like taking your own private financing and saying you've got \$500 coming in and then you've got this burden of \$2,500 in terms of your mortgage or your rent.

You know eventually if your cash flow doesn't cover the fleet that you're acquiring that you either have to stop ordering the aircraft or you get your profitability up to be able to fund the aircraft.

MICHAEL JANDA: And fund manager Roger Montgomery agrees that Qantas currently doesn't offer anywhere near a competitive investment return.

ROGER MONTGOMERY: You're basing the cost of running the planes on how much you paid for them 20 years ago.

The new planes that Alan Joyce is referring to are significantly more expensive but the profit and loss statement doesn't account for that additional expense to replace those planes.

The real profit that Qantas makes, its economic profit, would be much, much lower than its reported accounting profit, in fact it would be a significant loss.

So Alan Joyce is absolutely right.

MICHAEL JANDA: Years of poor returns have seen the airline's share price slump from above \$2 when it was privatised in the mid-1990s to lows of \$1.42 during the financial crisis and again in recent weeks.

The airline hit highs above \$6 when a private equity consortium launched an \$11 billion takeover attempt just before the financial crisis.

And Roger Montgomery says the current lows in the share price have seen rumours in the market that Qantas may be the target of a much lower offer than the previous buy-out bid.

ROGER MONTGOMERY: With the share price trading below the value of its assets in a liquidation, provided there was a way around the Qantas Sale Act - and a remember a takeover bid has previously been made for Qantas at over \$5 - so if there was a way around the Qantas Sale Act and I suspect there is, and a hub could be launched in Asia, then a discount to net tangible assets - it might be just enough to tempt them to make a bid for the company.

MICHAEL JANDA: But Alan Joyce says the airline has not received any offers.

ALAN JOYCE: We've not formally or informally been approached by any private equity about a takeover bid so we can only regard it as just market speculation.

MICHAEL JANDA: The Federal Government declined to answer questions on whether it had heard talk of a potential Qantas takeover bid. But it has been on the front foot saying it would strictly enforce the majority Australian ownership provisions in the Qantas Sale Act.

ELEANOR HALL: Michael Janda reporting.