Deutsche Bank
Markets Research

North America
United States
Industrials
Airlines

Periodical

The View (from 35,000 feet)

Date
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Weekly views & valuations

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Upcoming events

DB Aircraft Finance & Leasing Conference
September 2 – 3, 2014
DB Airline 1x1 Conference
September 4, 2014
DB GEMS 1x1 Conference
September 3 – 5, 2014

Allegiant purchases new and currently on lease Airbus aircraft

Allegiant announced earlier this month that the company is purchasing 14 additional Airbus A320 family aircraft. The first of these aircraft will be inducted in to the company's fleet in 2015, the second in 2016, and the remaining 12 in 2018. The 12 aircraft delivering in 2018 are currently on lease to a European carrier, but will be purchased by Allegiant at the end of this month. Consequently, the company expects to book $30 million in annual rental income beginning at the deal's close and will assume $142 million of secured debt. Additionally, Allegiant plans to purchase eight aircraft it had previously entered into lease agreements for, two of which the company is currently operating, with the remaining six to be delivered in late 2014 through 2015. As such, Allegiant raised its 2014 CAPEX guidance to $315 million from its previous range of $75 to $85 million and introduced 2015 CAPEX guidance of $220 million. The company plans to finance these purchases via cash and debt financing, including $300 million of unsecured debt the company raised last week (due in 2019 with a 5.5% coupon). Management indicated that Allegiant will continue to be active in the used Airbus market and "hope to add more aircraft...during 2016 and 2017".

Recent speech by Richard Anderson highlights some of the issues with Open Skies agreements

Earlier in the week, Delta's CEO Richard Anderson presented at the Aero Club in Washington, D.C. and highlighted some of the industry's concerns/challenges which could ultimately undermine the sector's recent financial success. He stated that the lack of a well-defined US aviation policy is a major concern especially since airlines are one of the country's largest contributors to the economy (third after energy and agriculture in terms of GDP contribution). Another challenge highlighted by Anderson relates to the enforcement of Open Skies agreements in which the US government per the official policy statement "must ensure that competition is fair and the playing field is level by eliminating marketplace distortions such as government subsidies." We are of the view that this could become a much bigger issue sooner than people realize given recent press reports that some beneficiaries of US Open Skies agreements have access to sizeable, interest free, government loans (or have benefited from significant debt forgiveness by their government stakeholders). More often than not, these funds are then used to procure aircraft that are placed in markets, which, in many cases, are already well-supplied. Furthermore, Anderson stated that our own government has exacerbated the situation by giving the competition a boost via lower interest costs on aircraft financings guaranteed by the US Export-Import Bank. This negatively impacts US airline profitability and employment.

American making progress on the labor integration front

American recently reached tentative, three year, labor deals with the Int'l Association of Machinists (IAM) covering three separate work groups (primarily 11,000 mechanics and airport ground agents) at US Airways. If approved, then the company can start negotiations on a joint contract covering 30,000 employees which includes 19,000 American employees represented by the Transport Workers Union (TWU). Thus far, unions for the pilots, flight attendants, and service agents have started the process with the National Mediation Board to determine which union will represent them.