TOP-PERFORMING AIRLINES

Inflection Point

Airline rankings reveal conflicting trends in early stages of rebound

Adrian Schofield

The overall outlook appears to be brightening for the airline industry, raising hopes that a new upward cycle is beginning. But look below the surface, and a much more complex—and in some cases troubling—picture emerges.

Aviation Week's latest Top-Performing Airlines (TPA) study shows that an increasing number of carriers are in a healthier financial position as the latest downturn releases its grip. This change in momentum means many contrasting dynamics are at work, however. Some airlines that sank lowest are among the biggest improvers, while carriers from much-touted developing regions are generally struggling to exit the malaise. Small, niche carriers still have an advantage, but large airlines are starting to perform better. And fortunes are certainly mixed for the newly merged mega-carriers.

The annual TPA study is based primarily on financial results from the last full calendar year. Carriers are scored in six categories, and ranked by total score. In this year's analysis, the complex set of formulas used to calculate airline scores has been revamped to offer an even more nuanced assessment of airline performance. Prior-year scores have also been recalculated to reflect the new formulas.

This year's overall top performer is Allegiant Air, which also won in the small carrier division. Ryanair was the best of the large carriers, and Copa Airlines was the top mid-size company. The rankings only include publicly traded airlines. This means the large Middle Eastern carriers, for example, are omitted.

2013 TPA Council of Advisers

Michael J. Dyment
Managing Partner,
Nexa Capital Partners

George W. Hamlin
President,
Hamlin Transportation Consulting

Craig Jenks
President, New York-based
Airline/Aircraft Projects Inc.

Raymond E. Neidl
Aerospace Analyst/Consultant,
Nexa Capital Partners

Bryan Terry
Director, Transportation
and Logistics, PwC

Of the 71 airlines tracked in the TPA study, 35 improved their total score through the end of 2012. This also means that half were down, and the median score for most regions declined too. However, this is still much better than the previous TPA study, when only 15 carriers saw their scores improve. Enough evidence is emerging that the trend is upward, and this aligns with other industry economic assessments, which show 2012 as the bottom of the latest cycle.

All signs point to continuing improvement this year, according to the TPA Council of Advisers—a group of five leading airline analysts consulted by Aviation Week. They believe there is generally more upside for the industry at the moment. Improvements in financial health have so far been mainly based on structural reforms within the industry, so when global economic growth kicks in, the airlines should see further gains.

"On a macro basis things are definitely improving, although there are pockets that are slower to come to that point," says Bryan Terry of PwC.

Michael Dyment of Nexa Capital Partners believes the top of the current cycle is still in the future, so there is still upward movement to come. It is "just recently that U.S. carriers have been able to gain access again to Wall Street" investment, Dyment says. Carriers are obtaining unsecured financing at rates lower than they have seen for 20 years—partly due to improved cash flows, he notes.

Generally, executives are managing airlines "more like a business" than they have in the past, says Terry. This is reflected in sustained capacity discipline—particularly in the U.S. and Europe—and the ability of airlines to pass on oil price increases.

Although there is still some "irrational behavior" such as government ownership and failing carriers being propped up artificially, "the extent of financial responsibility is generally increasing in the airline industry," says Craig Jenks of New York-based Airline/Aircraft Projects.

Because of the restructuring of the airline industry in recent years, carriers can still be profitable if oil rises to $200 a barrel, says Nexa Capital's Raymond Neidl. However, the industry will obviously still be at the mercy of the broader economy. Down-cycles "won't be as disastrous as in the past, but this industry is still going to be cyclical," Neidl says.

The industry's profit cycle is closely aligned to the aircraft ordering cycle, says Jenks. Airlines veer from over-ordering aircraft to under-ordering during the course of what seems to be a capital equipment cycle. Prompted by the current low interest rates and high oil prices, airlines are "beginning to order quite a lot of equipment as [the industry] comes out of a trough."

Jenks notes that this is particularly evident in the Middle East, China and Southeast Asia. He says the industry is seeing "an early upturn in that capital growth cycle, although we're not yet at that danger point" of having excess orders.

While the overall trend is positive for the airline industry, one of the more notable subtexts is the continued weakness of carriers from some developing regions. The so-called BRIC nations—Brazil, Russia, India and China—are typically described as having huge economic growth potential, but the TPA results show their airlines are lagging.

Of the 10 airlines from these four countries that are in the TPA study, only two show slight positive growth in their scores. The remainder declined, some significantly.

Jenks says the issues for China, India and Brazil are similar. Economic

Continued on page 44

TOP 10 OVERALL RANKING BY TOTAL SCORE

RANK	COMPANY	TOTAL SCORE
1	Allegiant Travel Co.	75
2	Regional Express Holdings	69
3	AirAsia	68
4	Copa Holdings	68
5	WestJet Airlines	64
6	Spirit Airlines	64
7	Ryanair Holdings	62
8	EasyJet	62
9	All Nippon Airways	61
10	Alaska Air Group	60

Source: TPA Study

Tap the icon in the digital edition of *AW&ST* for a breakdown of the Top 10 large airlines' scores in this year's TPA study, or go to AviationWeek.com/tpalarge

Ryanair was the highest scoring of the large carriers in the TPA rankings, and seventh overall.

KEITH GASKELL

ALL NIPPON AIRWAYS


JOEPRIESAVIATION.NET

Rank: *2nd, revenues greater than $6 billion*
Sales (12 months through Dec. 2012): *$18.1 billion*

All Nippon Airways can claim to be the best of the major full-service carriers in the TPA rankings. In last year's study, which used a different methodology, ANA was the only one in the large-airline category to increase its score. In the latest TPA findings, it is the top-ranked major airline that is not a low-cost carrier. Additionally, it is the only one of the Top 10 airlines overall that has revenue greater than $10 billion, and the only one of the Top 18 with revenue greater than $15 billion. The carrier ranks highly in liquidity and earnings performance scores, but really shines in the business model performance measure, where it has the best score of any large airline. ANA is an exception to the trend of smaller carriers outperforming the giants.

RANK	COMPANY	12 MONTHS ENDING	REVENUE ($ millions)	TOTAL SCORE
	REVENUES GREATER THAN $6 BILLION			
1	**RYANAIR HOLDINGS**	Dec. '12	$6,356	62
2	All Nippon Airways	Dec. '12	18,084	61
3	Singapore Airlines	Dec. '12	12,177	55
4	Turk Hava Yollari	Dec. '12	8,317	51
5	Air China	Dec. '12	15,787	51
6	Deutsche Lufthansa	Dec. '12	39,248	49
7	Aeroflot Russian Airlines	Dec. '12	8,138	48
8	Qantas Airways	Dec. '12	16,348	47
9	Southwest Airlines	Dec. '12	17,088	45
10	US Airways Group	Dec. '12	13,831	45
11	Cathay Pacific Airways	Dec. '12	12,822	43
12	China Southern Airlines	Dec. '12	15,845	42
13	Thai Airways	Dec. '12	6,718	41
14	Air Canada	Dec. '12	12,117	41
15	China Eastern Airlines	Dec. '12	13,847	40
16	Delta Air Lines	Dec. '12	36,670	40
17	United Continental Holdings	Dec. '12	37,152	37
18	Air France-KLM	Dec. '12	33,376	35
19	Latam Airlines Group	Dec. '12	9,771	35
20	AMR Corp	Dec. '12	24,855	35
21	Korean Air Lines	Dec. '12	11,959	35
22	International Airlines Group	Dec. '12	23,539	34
23	SAS	Jan. '13	6,290	31
	REVENUES $2-6 BILLION			
1	**COPA HOLDINGS**	Dec. '12	$2,249	68
2	WestJet Airlines	Dec. '12	3,427	64
3	EasyJet	Sep. '12	5,991	62
4	Alaska Air Group	Dec. '12	4,657	60
5	Air New Zealand	Dec. '12	3,738	52
6	Hainan Airlines	Dec. '12	4,596	51
7	Garuda Indonesia	Dec. '12	3,473	47
8	EVA Airways	Dec. '12	4,101	45
9	Grupo Aeromexico	Dec. '12	3,040	45
10	China Airlines	Dec. '12	4,898	44
11	SkyWest	Dec. '12	3,534	43
12	Avianca Holdings	Dec. '12	4,328	42
13	Republic Airways	Dec. '12	2,811	42
14	Finnair	Dec. '12	3,190	42
15	JetBlue Airways	Dec. '12	4,982	41
16	Norwegian Air Shuttle	Dec. '12	2,237	41
17	Transat A.T.	Oct. '12	3,720	41
18	Virgin Australia	Dec. '12	4,160	40
19	El Al Israel Airlines	Dec. '12	2,016	33
20	Air Berlin	Dec. '12	5,611	30
21	Malaysian Airline System	Dec. '12	4,301	29
22	Asiana Airlines	Dec. '12	5,536	27
23	Jet Airways (India)	Mar. '12	3,282	25
24	GOL	Dec. '12	4,096	17

COPA HOLDINGS


JOEPRIESAVIATION.NET

Rank: *1st, revenues of $2-6 billion*
2012 sales: *$2.2 billion*

Copa has been one of the perennial high-scorers in the TPA small-airline category, although it was often overshadowed by other stellar performers in this group. This year, its revenues increased enough to lift it into the medium-sized airline category, where it was comfortably the top-scorer. This was all the more remarkable considering that Copa's score actually declined, as it was affected by the malaise that influenced all the Latin American carriers in the TPA rankings. However, Copa's fundamental strengths remain, and its dip is likely to be temporary. It has a geographical advantage with its hub being ideally placed to connect North and Latin America, and it has the right fleet and business plan to exploit this niche.

RANK	COMPANY	12 MONTHS ENDING	REVENUE ($ millions)	TOTAL SCORE
	REVENUES $250 MILLION-2 BILLION			
1	**ALLEGIANT TRAVEL CO.**	Dec. '12	$909	75
2	Regional Express Holdings	Dec. '12	275	69
3	AirAsia	Dec. '12	1,617	68
4	Spirit Airlines	Dec. '12	1,318	64
5	Air Arabia	Dec. '12	801	59
6	Cebu Air	Dec. '12	916	56
7	Icelandair Group	Dec. '12	896	54
8	Vueling Airlines	Dec. '12	1,421	52
9	Aer Lingus	Dec. '12	1,813	51
10	Chorus-Jazz Air	Dec. '12	1,710	50
11	Kenya Airways	Mar. '12	1,300	44
12	Shandong Airlines	Dec. '12	1,764	42
13	Hawaiian Holdings	Dec. '12	1,962	42
14	Comair	Dec. '12	554	39
15	Flybe Group	Sep. '12	974	39
16	Aegean Airlines	Dec. '12	857	39
17	Transasia Airways	Dec. '12	343	37
18	Tiger Airways Holdings	Dec. '12	634	37
19	Air Mauritius	Dec. '12	597	32
20	TunisAir	Jun. '12	789	31
21	PAL Holdings	Dec. '12	1,756	23
22	SpiceJet	Mar. '12	821	9
23	Pakistan International Airlines	Sep. '12	1,374	8
24	Meridiana Fly	Oct. '12	822	1

NOTES:
Publicly traded airlines only. Scores range from 1 to a maximum value of 99.
The methodology for these rankings can be found on page 47.

Aviation Week Intelligence Network subscribers can go to: **AviationWeek.com/awin/TPA** *for expanded rankings tables that break out each airline's scores in the six categories. Extensive data pages for each carrier can also be accessed, as well as additional analysis and tables. These include a universal rankings list, full year-on-year score change list and five-year average score rankings.*

REGIONAL EXPRESS HOLDINGS


KEITH GASKELL

Rank: *2nd, revenues of $250 million-$2 billion*
Sales (12 months through Dec. 2012): *$275 million*

Australia's Regional Express (Rex) always punches well above its weight in the TPA rankings, and this year is no exception. It comes in second overall, and is the top-scoring Asia-Pacific airline this year. While carriers worldwide struggle to make regional air service profitable, Rex demonstrates what can be achieved through strong management. With the highest business model performance score of any airline this year, Rex also rated highly in the financial health and liquidity metrics. The carrier is the smallest—by annual revenue—of any carrier in the TPA analysis, which reinforces a recurring theme of the TPA study that an airline's financial success is not proportional to its scale.

WESTJET AIRLINES


JOEPRIESAVIATION.NET

Rank: *2nd, revenues of $2-6 billion*
2012 sales: *$3.4 billion*

WestJet has been one of the standouts in North America in recent years. In this year's study, the Canadian low-cost carrier was fifth overall and second in its region, behind only Allegiant. This proves that it not only performs well relative to Air Canada in its local market, but also compared to the larger airlines over the border. WestJet has just reported its 32nd consecutive profitable quarter, and consistently achieves double-digit return on invested capital—something of a rarity among airlines in the region. The most notable feature of its TPA score is the liquidity metric, where it is rated with the highest possible score of 99. The carrier will be hoping the launch of its Encore regional subsidiary will further boost its performance.

Continued from page 41

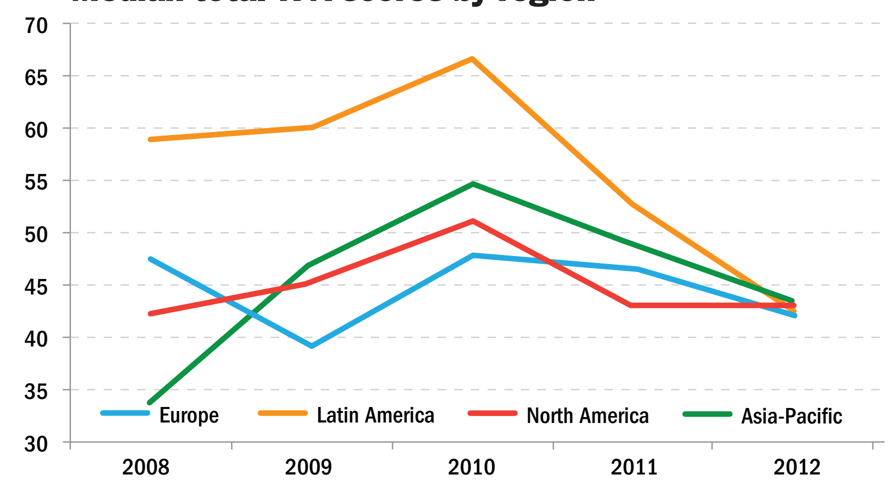
growth has been slower than expected—although China's is still robust—and there has been a high rate of airline capacity growth in all three.

The BRIC airlines are particularly focused on their very large domestic markets, says Jenks. This makes it more difficult to transfer capacity to international routes when their domestic economies slow. India, China and Brazil do not have strong global long-haul airline brands, or strong long-haul hubs, he says. For airlines in these countries, their "international route capacity is inferior to the inbound routes and branding of foreign competitors."

Another feature of the TPA results is that some of the most troubled carriers in previous years are now among the most improved, says Jenks. For example, Thai Airways, American Airlines, Malaysia Airlines, Finnair and Air Berlin are among the top improvers in their categories.

In some ways, "this is what you'd expect in an early upturn environment," Jenks says. But it also demonstrates that "nothing focuses the mind like a near-death experience." TPA Project Manager and aviation analyst Michael Lowry emphasizes that all these carriers had a lot of scope to make gains since they had such low scores. But they have also "executed significant restructuring programs and succeeded."

Median total TPA scores by region



Source: TPA Study

A trend that is no surprise in a strengthening industry environment is improved performance of the larger carriers—particularly the U.S. legacy airlines. This is in contrast to last year's TPA analysis, where the woeful performance of the large-carrier category was a notable feature. Although the scoring formula has been revised since then, only one of the airlines in this category saw its score increase in last year's study.

But despite this relative improvement of the majors, it is still the smaller niche carriers that are the star performers of the TPA rankings. Four of the Top Six airlines overall are from the small category, and eight of the Top 15. "Small is still better, but the gap is starting to close," Neidl says.

As in previous years' TPA studies, the successful smaller airlines occupy lucrative niches and are at an optimal point in their growth cycles.

George Hamlin of Hamlin Transportation Consulting observes that despite the better performance of the large carriers, there are still only three represented in the Top 15. It is the "small carriers that are reinvigorating the industry," he says. A closely related dynamic is the preponderance of comparatively new airlines at the top end of the table, Hamlin says. Only two of the Top 10, and five of the Top 20, were in existence before 1970.

Another trend is that many of the "true" low-cost carriers—including Spirit Airlines, EasyJet, Southwest Airlines and JetBlue Airways—saw score declines. Hamlin, however, cautions against overestimating this effect, since LCCs are still very well represented in the Top 10.

Rather than linking LCC performance to the cycle, Hamlin says the LCC declines in the U.S. and Europe represent a "rebalancing," and that "history is still being written as to how the balance between the LCCs and legacies" will evolve.

One of the main features of the global airline industry in recent years has been the number of mergers and acquisitions among leading carriers. However, the TPA results show that the jury is still very much out on how successful the wave of consolidation has been.

On one hand, there are carriers like Delta Air Lines and Lufthansa that appear to have digested their mergers/acquisitions, and their performances went up this year. Delta has logged an increased score in four of the past six years.

But others are not yet enjoying the same lift. In the large category, three of the most dramatic score declines were Latam, International Airlines Group, and United Airlines—all of which have recently completed mergers.

The more recent mergers are obviously at a disadvantage when compared to linkups that are more mature. "It takes a minimum of two years for a successful merger, and in some cases longer," Neidl says.

However, execution is still a variable factor. The relative TPA ranks show that "mergers can be done right, but if they are not executed to perfection, they can be problematic," says Hamlin.

Jenks notes that macroeconomic issues also come into play. For example, British Airways "saw a pot of gold at the end of the rainbow" with its merger with Iberia, but "at the other end of the rainbow was Spain" and its struggling economy.

Likewise, the LAN-TAM merger has coincided with an economic slump in Brazil, TAM's home market. Lowry points out that while "the economics [of the deal] were spot on, the timing was lousy."

The advisers stress that some of the link-ups are not yet true mergers. Air France-KLM and IAG, for example, have not integrated some crucial parts of their operations, meaning that they miss some of the advantages of mergers.

As with previous TPA studies, airline fortunes vary widely by region. When the carriers are grouped geographically, most regions saw a decline in median scores—although the drop was shallower. North America was an exception, with the previous decline leveling off in 2012.

North America also provides the highest-ranked carrier overall. Allegiant's gain of 4.2 points was enough to move it above other perennial strong performers.

Allegiant considers itself more of a travel company than an airline, and it has a business model like no other carrier in its region. It relies more heavily than its peers on ancillary revenue, from holiday packages and inflight services. It buys used rather than new aircraft, and operates older types—mainly MD-80s. Allegiant's network is predominantly aimed at connecting small markets to holiday destinations, with relatively low frequency.

Other carriers also target ancillary revenue, but they have not succeeded to the degree Allegiant has. Neidl says that while airlines can replicate some elements of what Allegiant is doing, the business model itself would not work for anyone else—especially the larger airlines. Allegiant is the ultimate example of a small airline finding a niche that works and exploiting it, Hamlin says.

Southwest has typically been the highest-ranked of the U.S. major carriers, but it has slipped again and it was almost overtaken by US Airways. The legacy network carriers generally fared well, with all seeing a score increase apart from United.

Neidl says United's recent performance has been relatively disappointing. However, the advisers agree that the airline has the strongest assets and

TOP 10, NORTH AMERICA

RANK	COMPANY	TOTAL SCORE
1	Allegiant Travel Co.	75
2	WestJet Airlines	64
3	Spirit Airlines	64
4	Alaska Air Group	60
5	Chorus-Jazz Air	50
6	Southwest Airlines	45
7	US Airways Group	45
8	SkyWest	43
9	Republic Airways	42
10	Hawaiian Holdings	42

Source: TPA Study

TOP 5, LATIN AMERICA

RANK	COMPANY	TOTAL SCORE
1	Copa Holdings	68
2	Grupo Aeromexico	45
3	Avianca Holdings	42
4	Latam Airlines Group	35
5	GOL	17

Source: TPA Study

TOP 10, EUROPE

RANK	COMPANY	TOTAL SCORE
1	Ryanair Holdings	62
2	EasyJet	62
3	IcelandAir Group	54
4	Vueling Airlines	52
5	Turk Hava Yollari	51
6	Aer Lingus	51
7	Deutsche Lufthansa	49
8	Aeroflot Russian Airlines	48
9	Finnair	42
10	Norwegian Air Shuttle	41

Source: TPA Study

US Airways had the highest score of the major U.S. legacy carriers, which generally saw a resurgence in their TPA scores.

JAY SELMAN

network, so it has the potential to be the best of the U.S. carriers.

In Canada, WestJet continues to rise, and is second in the mid-sized category of carriers and in the Top Five overall. Air Canada, however, is much farther back, and the advisers say it is being pressured on all sides—by WestJet domestically, and foreign carriers in international markets.

Latin American airlines overall did not fare well in the TPA rankings. All five of the carriers from this region included in the study saw their scores fall, mostly by large margins. Despite this, Copa was still the top-ranked airline in the mid-sized group and fourth overall.

The main problem is that Brazil's economic woes are dragging down many carriers. Overcapacity is also a factor, as rapid airline growth outstrips demand.

This region is "down but not out," Neidl says. "This will still be a growth region and it is going to be very important for airlines." Copa remains strong, and Latam will be a powerful player when it has moved beyond the integration process.

In Europe, the strongest performers are still the large LCCs Ryanair and EasyJet. However, the most notable improvements in this region have come from some of the smaller airlines. In many cases they are rebounding from serious slumps, thanks to restructuring efforts.

Of the majors, Lufthansa is trending upward as it absorbs airline acquisitions. Turkish Airlines is also up, and its recent expansion appears to be bearing fruit.

The other two majors, however, have slipped further into the doldrums, as their mergers—which are somewhat limited in scope—have not produced enough benefits to offset Europe's shaky economic climate. The LCCs have also been causing the majors headaches in short-haul markets, leading them to reconsider their approaches to regional and short-haul networks, Jenks says.

The European majors are also much more vulnerable to the big Middle Eastern carriers, which are taking larger shares of long-haul traffic. The legacy airlines have been hurting on the cargo side too, thanks to the competition from the integrated cargo carriers and the Middle Eastern airlines, and the global downturn in the cargo market. In contrast to a relatively optimistic outlook for the U.S. majors, the large European airlines face "some inherent structural difficulties," says Terry.

The Asia-Pacific region is seeing a wide range of trends, as befits such a vast and diverse area. Some LCCs such as AirAsia continue to perform strongly. But the large Asian airlines have not shown the strength they have in past TPA studies.

As well as the familiar culprits of global economic weakness and new competition from LCCs and other long-haul connecting carriers, Asian airlines are even more exposed to the cargo slump than their European peers.

China's slowing economic growth has also been a major factor. The Chinese carriers generally saw their scores decline in the TPA study, and other Asian airlines that are heavily reliant on Chinese routes also took a hit.

Rapid fleet expansion and over-reliance on domestic traffic have become problematic for Chinese airlines due to cooling demand. However, Terry points out that although it is not meeting expectations, growth is going on in China. It is still an "under-served market with tremendous upside," he says. Because of this, the large number of aircraft orders by Chinese carriers is rational in the long term.

Of the airlines that use nearby hubs to connect traffic to China, the slowdown is a cautionary lesson. "It is good to have exposure to China, but that does not mean that your future should depend on it," Jenks says. "If you are a really good long-haul hub operator, you have a portfolio of thousands of geographically diversified connecting markets, so if some are weak, this can be offset by other strong ones."

Singapore Airlines (SIA) is one such carrier, and it is consistently ranked among the best large airlines. Hamlin says that with SIA "we continue to see excellent execution of a quality product." However, regarding its low-cost subsidiary Scoot, the advisers believe the jury is still out on whether it can succeed.

Cathay Pacific, meanwhile, has yet again declined. One adviser describes Cathay as being "squeezed on a lot of fronts, but its brand is what is [keeping] it up."

All Nippon Airways (ANA) is once again a strong performer. Its overall ranking of ninth makes it the top major airline that is not a low-cost carrier.

Jenks says ANA is seeing gains from its revenue-sharing agreements with partner airlines on European and U.S. routes, which began in mid-to-late 2011. Its results are also helped by the 2012 bounce-back from the demand slump related to the 2011 earthquake and tsunami. Going forward, ANA should start to see efficiency gains from its growing Boeing 787 fleet. Increased slot availability at the Tokyo airports is also providing a boost.

Of course, most of the above also applies to Japan Airlines. JAL was not included in this year's rankings—not enough data was available since the carrier was relisted in September, following its emergence from bankruptcy. However, early data indicate that JAL would have scored very highly. There is "room for both [Japanese carriers] to do well," says Terry.

TOP 10, ASIA-PACIFIC

RANK	COMPANY	TOTAL SCORE
1	Regional Express Holdings	69
2	AirAsia	68
3	All Nippon Airways	61
4	Cebu Air	56
5	Singapore Airlines	55
6	Air New Zealand	52
7	Hainan Airlines	51
8	Air China	51
9	Qantas Airways	47
10	Garuda Indonesia	47

Source: TPA Study

BEST FIVE-YEAR AVERAGE SCORE (2008-12)

RANK	COMPANY	TOTAL SCORE
1	Allegiant Travel Co.	74
2	Regional Express Holdings	70
3	Copa Holdings	68
4	Air Arabia	65
5	AirAsia	64
6	Singapore Airlines	60
7	Ryanair Holdings	59
8	WestJet Airlines	58
9	All Nippon Airways	57
10	Hainan Airlines	56

Source: TPA Study