

## Comair's after tax profitability leaves room for improvement

Comair has announced continued profitability for the interim period leading up to December 2013. Revenue grew by 23% to R2.96 billion (2012: R2.41 billion) and headline earnings per share grew to 34.3 cents (2012: 16.4 cents). Cash generation was strong, resulting in a healthy cash balance of R695 million.

Comair's increase in revenue was mainly due to the 15% increase in capacity arising from the replacement of its Boeing 737-300s with the larger, more fuel efficient 737-800s, and by the increase in ticket prices driven by the weakening of the rand. The exchange rate resulted in a 14% escalation in the fuel price relative to the comparative period and also adversely affected US dollar-based maintenance costs. By December 2013, the jet fuel price had reached a new high, 225% up on its previous stable level of R4 per litre in 2010.

Comair's CEO, Erik Venter, said that the domestic passenger market continued to show year-on-year shrinkage of around 5%. "The continued devaluation of the rand has driven the rand price of fuel and dollar-based technical services to record levels, and we don't foresee growth in market volumes as ticket prices will remain at these levels to recover escalating costs. We also don't anticipate any near-term recovery in local consumer spending."

### Greater capacity in the domestic market

Venter said that the additional capacity provided by Comair's fleet upgrade programme, as well as similar increases introduced by the state-owned airlines, has resulted in greater capacity in the domestic market compared to the time period in 2012 prior to the exit of privately owned competitors. This has had a negative effect on seat occupancy levels, which has kept competitive pressure on ticket pricing. The entry of further airlines into the market is expected to exacerbate the overcapacity.

"Despite this overcapacity our new aircraft remain the best solution to the rising fuel price. Better revenue per flight and an improved customer proposition, along with technology-driven operating processes will ensure that we maintain a healthy lead over the profitability of our competitors."

Venter cautioned that Comair's current after-tax profit margin of 5% leaves scope for further improvement in profitability. "However, we remain well placed for the 2014 financial year despite a further 12% increase in the fuel price since December, driven mainly by the depreciation of the rand. Our travel business, flight training facility, catering business and airport lounges also show opportunities for further growth."

During the period Comair continued with pre-delivery payments towards its next four new Boeing 737-800s, which are due

to be delivered in late 2015 and 2016. The first four were introduced into the kulula fleet towards the end of 2012, and in September 2013 Comair introduced its first Boeing 737-800 into its British Airways fleet.

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