Ryanair Results Point To A Better Year For Europe's Airlines In 2023

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As we move into the second month of the year, dust is beginning to settle on the rush of early predictions for the fortunes of the airline industry in 2023. After the first few weeks of trading and the start of earnings season, we now have some better clues as to how the year ahead may play out. Whilst we have seen recent failures of two smaller European airlines, the UK's Flybe and Norway's Flyr, Ryanair, as a bellwether for the industry, points to overall reasons for optimism.

Low cost airlines Ryanair, Wizz Air and easyJet see an optimistic summer (Photo by Sean ... [+] GETTY IMAGES

How will 2023 play out?

In Europe, the Ukraine war continues with no sign of an early ending. Household budgets are being squeezed by higher fuel bills and inflationary pressures. The UK economy looks weaker than its peers. There are many unknowns, but in survey after survey we see that people still want holidays and will prioritise them above other discretionary expenditures if they have the means available. In the US there has already been optimism from the major network carriers as to the outcome of the first quarter. United, for example, has indicated it expects profitability to be double analyst projections.

Ryanair, easyJet and Wizz Air optimism

Ryanair produced a €211 million ($229 million) profit in its third quarter to end December 2022. It is guiding for an annual profit of €1.3-1.4 billion ($1.41-$1.52 billion) for the year ending 31st March 2023. Robust demand for Easter and summer is reported whilst CEO Michael O'Leary sees higher fare levels (+14% in its Q3) and at this point, no sign of recession hitting customer demand to travel. The airline plans a strongly expanded summer programme and a larger fleet including over 80 more efficient Boeing 737 Max aircraft.

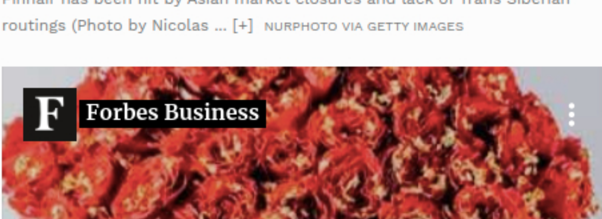
In forward commentary with their Q1 release, (October-December 2022) **easyJet** recorded a substantially reduced loss of £133 million ($164 million), down by £80 million ($98.5 million) whilst stating that fare levels and booking activity are strongly up for the coming summer period. They predict a return to annual profitability in the financial year to September 2023, something that Ryanair will already have achieved in their current financial year.

Wizz Air reported a third quarter loss of €155.5 million ($168.9 million) for the three months to December, in what has been a tough 2022-2023 financial year. This has been due primarily to a strategic decision, back in August 2021, not to hedge fuel. The strategy was reversed in autumn 2022 but will result in the current year closing with heavy losses. Nevertheless, Wizz Air has seen strong volume and revenue growth in recent months and now back on a level playing field with competitors regarding hedging, the airline is optimistic on the year ahead. Like Ryanair, significant aircraft deliveries are planned, an expanded summer programme will be operated and a return to annualised profitability is projected in the new financial year.

Strong North Atlantic traffic for European network groups

The network groups, **Air France KLM, IAG** and **Lufthansa** have all been seeing buoyant booking activity. Each benefits from strong exposure to the North Atlantic which is delivering not only exceptionally strong overall demand but specifically for premium cabins. This is not primarily due to the return of corporate business travel, but to what appears to be the emergence of a trend for increased premium leisure travel.

Finnair disadvantaged



Finnair has been hit by Asian market closures and lack of Trans Siberian routings (Photo by Nicolas ... [+] NURPHOTO VIA GETTY IMAGES

One European network carrier that has not had the same benefits from this trend is **Finnair** which, until the pandemic, pursued a highly successful strategy of offering fast connections between Europe and Asia via its northern Helsinki hub. It has suffered not only from Asian market closures but since early last year due to the withdrawal of Siberian overflights on which it depended for its speed advantage. It has had to truly reinvent itself with a complete shift in network strategy. It has smartly shifted focus to growth markets such as India and Asian points not dependent on the Siberian routing and has also established a strategic partnership with Qatar Airways linking Helsinki and Scandinavia to Qatar's Doha hub offering numerous connectivity opportunities.

Whilst its northern geography mitigates against it developing a significant North Atlantic presence, where viable it has increased its westbound focus with new North American gateways as part of its trans-Atlantic joint venture with **British Airways** and **American Airlines**. It has been able to recommence an increasing number of Asian destinations in recent months as several countries have opened up but the handicap of longer journey times still remains to many in the absence of Siberian routings.

China reopening

The recent and relativity surprising news of China massively reducing its travel restrictions could lead to a resurgence of Chinese travels into Europe. With Covid still at high levels in the country it does not come entirely risk free, however. Another important consideration is that the Siberian overflight ban affects European but not Chinese carriers, creating an adverse competitive imbalance for European operators as capacity is restored. The question is whether this is something which European governments will be keen to negotiate on in their diplomatic relations with China.

As the pace of reopening of Asia accelerates and especially the reopening of China, the European network groups can move back in the coming months closer to a full pack of long haul operations.

Tight Capacity Balance

Another factor working in favour of the network groups is that long haul capacity is, in many cases, not back to 2019 levels. This reflects the mass permanent withdrawal of sizable fleets of large wide bodied aircraft, particularly the **Boeing** 747 and **Airbus** A340. While new aircraft deliveries are coming through this is far from on a like for like basis either in total numbers or in terms of average aircraft size. Replacement long-haul aircraft from Boeing's 787 Dreamliner or Airbus's A350 families are typically smaller. Additionally due to delivery delays and supply chain issues the flow of new aircraft into airlines' fleets is proving to be lower than planned, this challenge applies to short haul airlines too including the LCC's. Having said that, Ryanair and Wizz Air are both growing their fleets this summer. Both are already well up in double digits over 2019 capacity and traffic levels. easyJet, by contrast, expects to come just short of 2019 capacity levels for summer but sees negligible change in fleet size. It's next significant jump in scale is in 2025.

The combination of constrained capacity and resurgent demand will likely keep pressure upward on ticket prices. Despite financial worries for consumers across European economies and expected continued high fuel prices, it appears likely that most airlines will be able to move forward on a return to strong profitability over the crucial summer period, feeding through to annual results.

Sustainability top of the agenda

Sustainability is not surprisingly climbing the European agenda and all major airlines are addressing this serious issue. My concern is whether the EU and European governments are willing to work adequately hand in hand with the industry to help it meet its need to decarbonise and to catalyse investment in the enormous capacity growth required in the production of sufficient sustainable aviation fuel (SAF) which is essential to the required transformation.

I believe there is cause for concern. The US government is taking a lead in incentivising SAF production. This has not yet happened in Europe. There is only talk of setting volume targets. That won't get the job done. We have also witnessed the Dutch government's desire to cut capacity at Amsterdam's Schiphol Airport hub to levels lower than before Covid. The French government has, as a quid pro quo for pandemic state aid to Air France, issued an edict that it cannot operate a number of point to point domestic flights where a high speed rail alternative is available. While thus currently only affects three routes, it is indicative of intent.

If European governments fail to recognize aviation for the critical economic enabler that it is and continue to adapt a stick rather than carrot approach then I fear the industry will face a growing number of battles this year and beyond which risk all the efforts that it is making to restore itself to health beyond the pandemic and against a challenging business backdrop.

Just like last year, 2023 is likely to spring a number of surprises on us. So far there are reasons for optimism but it's early days.