E R A

QANTAS

Equity Research Association

Qantas Airways Limited (ASX: QAN)

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Research Analysts

Corey Guangzhen Jin
guangzhenj@student.unimelb.edu.au

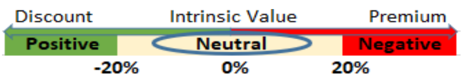
Jonathan Low Jun Yee
jonathanjuny@student.unimelb.edu.au

Simon Lim Yit Xiang
yitxiangl@student.unimelb.edu.au

Zherui Li
zheruil@student.unimelb.edu.au

Basic Information

Rating	Neutral
Price (06-May-2020)	$3.50
Market Cap	$5.22b
# shares outstanding	1.49b
52 weeks high/low	$2.03 - $7.46



Key Financials

	2018A	2019A	2020E	2021E	2022E
Revenue($m)	17128	17966	13593	15006	18820
% growth	*6.67%*	*4.89%*	*-24.34%*	*10.40%*	*25.41%*
EBITDA ($m)	3062	3115	1358	2055	3759
% margin	*17.88%*	*17.34%*	*9.99%*	*13.69%*	*19.97%*
Net Profit($m)	953	853	(409)	35	1188
% growth	*6.96%*	*-10.49%*	*-147.95%*	*108.58%*	*3286.33%*
EPS($)	0.544	0.546	-0.274	0.024	0.797
Dividend($)	0.17	0.25	0.00	0.00	0.27
P/E	5.48	6.12	-12.76	148.70	4.39
EV/EBITDA	3.64	3.58	8.20	5.42	2.96

Share price performance

Introduction

We initiate a coverage for Qantas in an objective manner. The estimates in our research are derived from our research framework which takes into account the domestic and international aviation industry conditions, competitive advantages, and past financial performance. The in-depth analysis of our research has also factored in management capabilities, catalysts, and possibilities for Qantas. We have also considered the impact of COVID-19 on Qantas and forecasted its future performance accordingly.

Highlights

- Current Situation (05/05 update): secured $1.6bn total debt funding in response to COVID-19, total short-term liquidity $3.5bn (inc. $1bn undrawn credit facility); currently operating around 5% of its pre-crisis domestic network and 1% international network on ASK basis; incurred hedging losses from large decline in oil prices and closed over-hedged position.
- Qantas maintains powerful competitiveness domestically, especially in the areas of high customer satisfaction, strong brand recognition, low operating costs, effective load management and dominant frequent flyer program, along with 58% market share.
- Qantas International remains a weakness of the group, being threatened by increasing price-based competition, and lack of advantages in operating cost and customer satisfaction. While Qantas' international foothold could be strengthened should Project Sunrise be successfully implemented.
- Qantas boasts strong foundational measures taken in response to the challenges faced by the industry in the future. These measures revolve around the four global forces that Qantas believes are likely to have the biggest impact on their operations.
- We predict a full capacity recovery by Jan 2021. While the lower demand and seat factor (down to 50%) in FY20 & FY21 are expected to dampen the profit margins. Post-COVID-19, Qantas is expected to strengthen the grip of domestic market share as Virgin enters administration but experience a fall in business travel demand due to the behavioural impact of COVID-19.
- The lower fuel cost and more efficient aircrafts are estimated to enhance profit margins by 3.4% from FY22 onwards (relative to FY19). We predict that an increase in gross Capex from 10.71% of revenue in FY19 to 14.22% in FY22 is necessary to replace several old models of aircrafts.

Valuations

We estimate the intrinsic value of Qantas to be **$4.24/share** through a DCF model. The current share price of $3.50 represents a **17.5% discount**. Currently trading at trailing P/E 6.12 and EV/EBITDA 3.58, Qantas' relative valuation is at appropriate level vs industry peers. Upon considering the valuation and all the factors discussed, we hold a **Neutral** outlook for Qantas.

Risks

- Inherent risks in the airline industry: volatility in fuel price and foreign exchange, increasing intensity of competition, exposure to the fluctuation of economy, irreducible risks arising from exogenous events.
- Direct impact of COVID-19: possibility of more prolonged crisis than expected, uncertainty of pace of recovery, significant labour surplus, increased debt load, uncertainty of further debt/equity raising.

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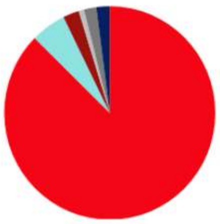
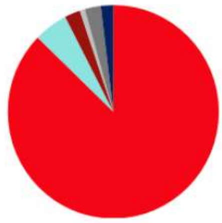
COMPANY OVERVIEW

Qantas Airways Limited (QAN) is the largest domestic and international airline of Australia. It mainly operates as two complementary airline brands, namely Qantas and Jetstar. The company has a strong dominance in the Australian domestic market and a presence in the international market. Qantas is also the third oldest airline in the world and a founder of Oneworld airline alliance, comprising of 13 member airlines. Qantas operates under various subsidiaries, namely QantasLink, Qantas Loyalty, Qantas Freight, Jetstar, Jetconnect etc.

Revenue Breakdown:

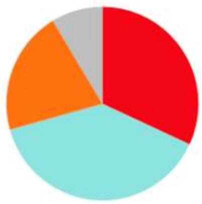


	FY19 $M	
Net passenger revenue	15,696	87%
Net freight revenue	971	5%
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	441	2%
Qantas Store and other redemption revenue	149	1%
Third Party services revenue	340	2%
Other income	369	2%
Revenue and other income	**17,966**	



	FY18 $M	
Net passenger revenue	14,944	87%
Net freight revenue	895	5%
Frequent Flyer marketing revenue and other Qantas Loyalty businesses	405	2%
Qantas Store and other redemption revenue	136	1%
Third Party services revenue	423	2%
Other income	325	2%
Revenue and other income	**17,128**	

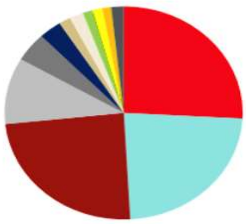
Segment revenue:



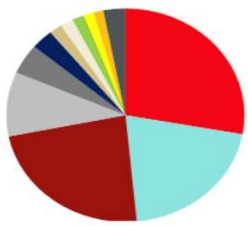
	FY19 $M	%
Qantas Domestic	6,106	32%
Qantas International[1]	7,425	39%
Jetstar Group	3,961	21%
Qantas Loyalty	1,654	9%

	FY18 $M	%
Qantas Domestic	5,945	33%
Qantas International[1]	6,925	38%
Jetstar Group	3,795	21%
Qantas Loyalty	1,519	8%

Expenditure Breakdown:



	FY19 $M	%
Manpower and staff related	4,268	26%
Fuel	3,846	23%
Aircraft operating variable	3,995	24%
Depreciation and amortisation	1,665	10%
Commissions and other selling costs	733	4%
Computer and communication	514	3%
Non-cancellable aircraft operating lease rentals	264	2%
Capacity hire	312	2%
Property	218	1%
Non-aircraft operating lease rentals	226	1%
Marketing and advertising	199	1%
Other	276	2%
Expenditure	**16,516**	



	FY18 $M	%
Manpower and staff related	4,291	28%
Fuel	3,232	21%
Aircraft operating variable	3,653	23%
Depreciation and amortisation	1,528	10%
Commissions and other selling costs	713	5%
Computer and communication	477	3%
Non-cancellable aircraft operating lease rentals	272	2%
Capacity hire	280	2%
Property	244	2%
Non-aircraft operating lease rentals	228	1%
Marketing and advertising	208	1%
Other	468	3%
Expenditure	**15,594**	

Source: Qantas Data Book 2019

STRATEGY

Qantas has successfully maintained their domestic market share throughout the years due to their strategic market targeting. Qantas targets business travellers and up-market passengers whereas Jetstar targets the low-cost markets. Qantas applies a focused differentiation strategy whereby they target a unique group of customers with differentiated products. This is mainly to generate a strong sense of customer loyalty by tailoring to the needs of the group. On the other hand, Jetstar applies a cost leadership strategy in which the objective is to become the lowest-cost producer in the industry. This complementary strategy ensures that all consumer needs are met, placing Qantas as a favourite in the Australian market.

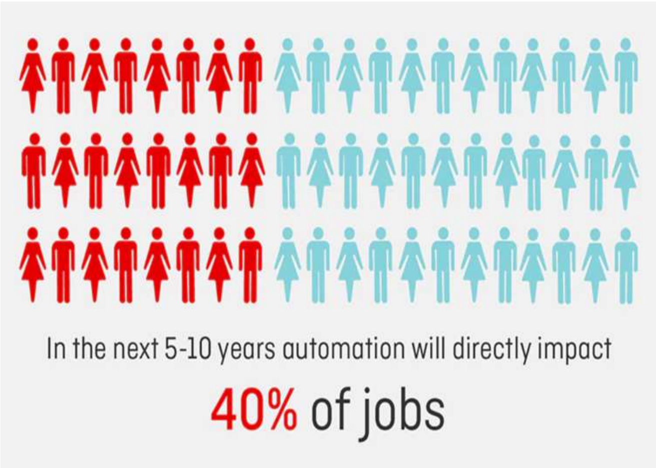
FOUR GLOBAL FORCES

Qantas has also identified four global forces that are likely to have a big impact on their organisation moving forward and has put in place foundational measures in response to those challenges.

Source: Qantas Group

Firstly, for airlines today, the dominant geopolitical trend is the rise of Asia. While the Asia-Pacific aviation market is already the world's biggest, by 2035, it is expected to be bigger than Europe and America combined. This growth is expected to continue at an increasing rate to 2060. To capitalise on the long-term growth in demand, Qantas is focusing 50% of its international network to Asia, growing capacity and expanding strategic partnerships like the joint venture with China Eastern. Qantas is also building strong trade ties with its freight business with Asia as well.

Secondly, the rise of digital connectivity and big data is reshaping the airline industry, from flight planning systems to customer service and distribution channels. With more profound changes to come, this digital revolution will require airlines to innovate rapidly and invest in new technologies. To respond to this, Qantas is using advanced analytics to increase fuel efficiency, investing in early technology that can leverage their global footprint, Project Sunrise etc.



The third global force is the shifting customer and workforce preferences. Future generations of customers and employees will expect more of businesses in terms of their values and social impact, as well as its products and services. In response to this, Qantas plans to continue to invest in the next generation by improving its apprenticeship programs and internship partnerships as well as establish formal relationships with Australian universities. Qantas' People Experience Strategy strives to redesign internal processes to make them more user-friendly, create better workplace environments and develop efficient training programs.

Lastly, climate change and resource scarcity are global challenges that demand a coordinated response from everyone alike. Qantas is playing an active role in that response by leading the way on sustainable aviation through their commitment to achieve net-zero emissions by 2050, while capping their net CO_2 emissions at 2020 levels. Qantas has been replacing older aircraft with more fuel-efficient alternatives as well as using innovative data analytics to quantify our impact and better identify opportunities to improve. They have also formed partnerships with regulators, manufacturers, and innovation leaders, from Airservices Australia to GE and Tesla, to drive industry transformation.

PROJECT SUNRISE

Qantas is pushing the limits of aviation through Project Sunrise. Project Sunrise aims to operate regular, non-stop commercial flights from the east coast of Australia (Brisbane, Sydney and Melbourne) to London and New York. Locations such as Paris, Cape Town, Frankfurt, and Rio de Janeiro have since joined that shortlist.

Source: Qantas Group

This will represent the world's first flight by a commercial airline direct from New York to Sydney and only the second time a commercial airline has flown direct from London to Sydney. For Project Sunrise, Qantas and Airbus are discussing a multi-billion-dollar order for up to 12 A350-1000s jets, which was due to take place by the end of March 2020, but the deadline has now been pushed back to as far as December 2020. This was due to Qantas' decision to focus on the more immediate and devastating impact of the coronavirus pandemic. In complement with Project Sunrise, Qantas also aims to raise the standards and expectations of aviation by "redefining" all four travel classes from tip to tail.

SWOT ANALYSIS

Qantas Internal Environment

STRENGTH	WEAKNESSES
Global brand recognition	Subsidiary firms dependent on mainstream services
Strong performance of domestic business	High costs compared to other airlines
Strong partnership and alliance networks	Disputes related to industrial relations
Product diversity	Poor performance of international business
Strong corporate governance structure	
Supported by the government	
Frequent Flyer Programs	

Qantas External Environment

OPPORTUNITIES	THREATS
Project Sunrise	Competition based on pricing
Good geographical positioning in the Asia-Pacific region	Competition from other airlines
Expansions in loyalty and promotional programs	Industrial strikes
Increased operations of international routes - Asia	Increased oil and fuel prices
Improved marketing channels through social media	Global economic crisis
Partnership with Emirates	Epidemics and pandemics

MANAGEMENT

BOARD MEMBERS AND LEADERSHIP TEAM

Board Members Analysis and Other Workloads

Member	Position	Tenure (yrs)	Other Boards	Amount	Ownership (%)
Richard Goyder	Independent Chairman	1.7	Y	5	0.0089
Babara Ward	Independent Non-Executive Director	11.9	Y	2	0.0031
Paul Rayner	Independent Non-Executive Director	11.8	Y	3	0.2
Jacqualine Hey	Independent Non-Executive Director	6.8	Y	3	0.0026
Maxine Brenner	Independent Non-Executive Director	6.8	Y	4	0.0021
Todd Sampson	Independent Non-Executive Director	5.3	N	-	0.00096
Michael L'Estrange	Independent Non-Executive Director	4.2	N	-	0.001
Belinda Hutchinson	Independent Non-Executive Director	2.2	Y	3	0.0011
Antony Tyler	Independent Non-Executive Director	1.7	N	-	0.0036
Alan Joyce	CEO & Executive Director	11.6	Y	3	0.2
	Average Tenure	6.4			

Source: FY19 annual report

The board members have an average tenure of 6.4 years, which suggests Qantas do not often renew their board members. Board members would have a more in-depth understanding of the company as several remain on the board for up to 11 years. Besides, most board members are on around 3 other boards which suggest significant external workload.

Leadership Team Analysis

Member	Position	Tenure (yrs)
Alan Joyce	CEO & Executive Director	11.6
Andrew David	Chief Executive Officer of Qantas Domestic & Freight	5.3
Gareth Evans	Chief Executive Officer of Jetstar Group	2.8
Olivia Wirth	Chief Executive Officer of Qantas Loyalty	2.8
Tino La Spina	Chief Executive Officer of Qantas International	0.7
Vanessa Hudson	Chief Financial Officer	0.7
Stephenie Tully	Chief Customer Officer	0.8
Andrew Finch	General Counsel and Group Executive	7.6
Rob Marcolina	Group Executive	7.7
Andrew Parker	Group Executive	-
John Gissing	Group Executive	5.25
	Average Tenure	4.525

Source: FY19 annual report

With an average tenure of 4.5 years, the leadership team is relatively experienced in managing Qantas. Moreover, most members in the management have great experience managing airline companies in the past and have excellent track record. Mr David was Executive Director for Jetstar Japan, Chief Executive Officer of Tiger Airways Australia for eighteen months, and Chief Operating Officer of Virgin Australia for five and a half years while Mr. Evans has led the successful turnaround of Qantas' international operations and the arrival of Boeing 787-9 Dreamliners into the Qantas Fleet.

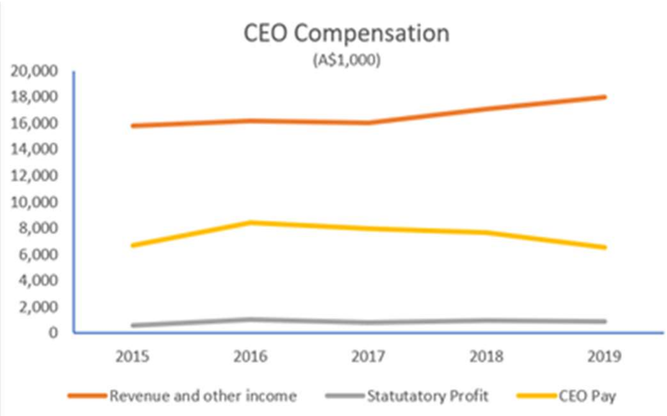
CEO

Alan Joyce, AC, BApplSc(Phy)(Math)(Hons), MSc(MgtSc), MA, FRAeS, FTSE, was appointed Chief Executive Officer on July 28, 2008 and Managing Director of Qantas in November 2008. He served as the Chief Executive Officer of Qantas Group at Qantas Frequent Flyer Limited and Jetset Travelworld Ltd since November 2012.

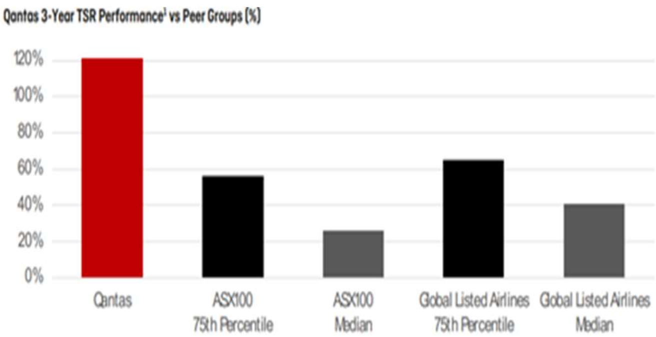
Mr Joyce was the Chief Executive Officer of Jetstar from 2003 to 2008. Before that, he spent over 15 years in leadership positions with Qantas, Ansett and Aer Lingus. At both Qantas and Ansett, he led the network planning, schedules planning and network strategy functions. Mr Joyce spent eight years at Aer Lingus, where he held roles in sales, marketing, IT, network planning, operations research, revenue management and fleet planning.

Mr Joyce is also a Director of the Business Council of Australia, a Member of the International Air Transport Association's Board of Governors, having served as Chairman from 2012 to 2013 and a Director of the Museum of Contemporary Art Australia. He is also a Director of a number of controlled entities of the Qantas Group.

Remuneration (FY19): $6.6m (Base Salary: $2.17m)



Joyce's staggering remuneration in FY19 has raised disapproval among his employees. In Oct 2019, Qantas' pilots voiced their disapproval of his pay, and it is not the first time this has occurred. Moreover, Australian Council of Superannuation Investors analysis showed Alan Joyce topped the ASX-100 CEOs with $23.87 million in realised pay in FY18. This huge remuneration includes growth in share price from rights vested apart from base salary and company's remuneration. However, Mr. Joyce's compensation aligns with profit and has been relatively constant in the past few years.



Contract Details	Alan Joyce[3]
Base Pay	$2,170,000
Pay Mix:	
STIP 'Target'[1]	100%
LTIP 'Target'[1,2]	185%

Source: FY15-19 annual reports

Qantas has achieved top quartile Total Shareholder Return (TSR) performance over multiple consecutive rolling 3-year periods, with the top quartile TSR performance being achieved off higher starting share prices. These achievements have been recognised via the share price appreciation over the past three years.

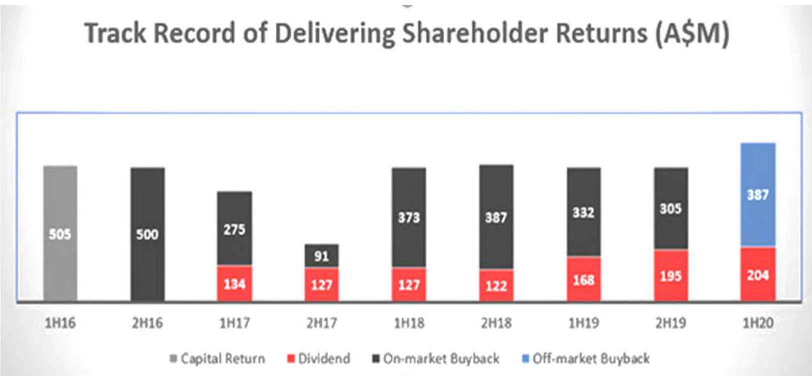
Next, we consider Mr. Joyce's pay in relation to Qantas' Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP). The target for FY19 was STIP up to 100% and LTIP up to 185% of base pay respectively. For the FY17-19 LTIP, the Qantas share price grew from $2.82 on 30 June 2016 to $5.40 on 30 June 2019, and together with dividends paid to shareholders delivered a TSR performance of +121%. This outstanding performance has led to Mr Joyce's lucrative remuneration.

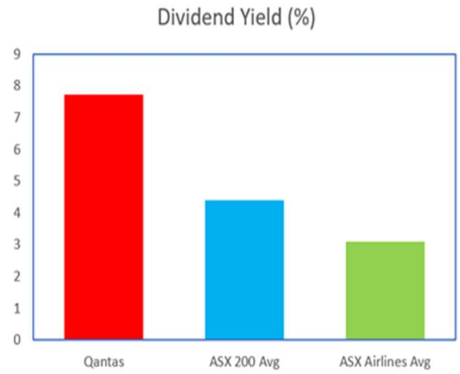
In light of COVID-19, Joyce has announced that he will be giving up his salary for the rest of the financial year. Other cost cutting measures undertaken by Qantas includes:

- Annual management bonuses set to zero for this financial year which ends on June 30.
- Qantas' senior group management executives and the board will take no fees.
- Freeze of all non-essential recruitment and consultancy work.
- Asking all Qantas and Jetstar employees to take paid or unpaid leave in light of reduced flying activity.

PAST DIVIDENDS AND BUYBACKS

Qantas has bought back around one-third of their total outstanding shares since 2015. According to our calculation, if the buyback prices were above A$6.6 it would likely destroy shareholders' value (excluding the impact of COVID-19 since this is unforeseeable during the buybacks). In FY19, net capital expenditure of $1.6 billion was invested and $1.0 billion was distributed to shareholders in 2018/19 through $363 million fully franked dividends and on-market share buybacks totalling $637 million. In August 2019, the Board declared a fully franked final dividend of 13 cents per ordinary share totalling $204 million and announced an off-market share buy-back of up to 79.7 million shares. The Qantas Group takes a disciplined approach to allocating capital with the aim to grow Invested Capital and return surplus capital to shareholders. The buyback prices are all below the pivot point of A$6.6, which makes it lucrative for investors.





Source: FY15-19 annual reports

Qantas started paying dividends in FY17 and dividend per share has been growing constantly since then (all 100% franked except in FY17). The last time Qantas paid dividends was in FY09. Ultimately, it is the strength of its business that generates a stable core for its operations and the successful transformation program that allows Qantas to resume paying its dividends. Moreover, dividend yield is at a high of 7.7%, as compared to the ASX200 average of 4.4% and ASX Airlines average of 3.1%. It makes Qantas a tempting investment for dividend-investing individuals. While we don't expect Qantas to pay any dividend for the remainder of 2020 and 2021 due to COVID-19, the dividend payout should return to normal levels when the business rebounds.

CSR

Source: CSRHub

According to CSRHub, Qantas has a rating of 84 in their approach to Corporate Social Responsibility. Qantas' ranking is considered high compared with 19040 other companies which have been measured in this research. Large spending on community, people and environment has led to Qantas being consistently rated highly in the past few years. High CSR rating enables Qantas to attract top talent and may enhance its business performance.

INDUSTRY DEVELOPMENT

PESTLE ANALYSIS OF DOMESTIC AIRLINE INDUSTRY

The political, economic, social, technological, environmental and legal factors (PESTLE) analysis is a framework or tool used to analyse and monitor the macro-environmental factors that may have a profound impact on an organisation's performance. This framework provides a broad view on opportunities and threats that surround an industry.

Political Factors

The role of the federal government in Australia is the most important factor that affects the working of organizations in the airline industry. Other factors may include taxation changes, foreign trade regulations, airfare and airline route regulations or changes in international trade agreements. In Australia, airlines cannot be no more than 49% foreign owned. This is to ensure that organizations in the airline industry remain Australia based and reap the benefits of bilateral agreements.

Economic Factors

These factors include exchange rates, unemployment rates, interest rates, inflation rates around the world and income per capita and ticket prices locally. With regards to the airline industry, the key factors affecting organizations are the fluctuations in oil prices from time to time. This factor is also sometimes affected by the global exchange rates. On top of that, airlines must cope with seasonality, competition from low-cost airlines, labour demands and rising operating and maintenance costs.

Social Factors

Social factors include changing cultures and demographics. These may be income distribution, lifestyle changes, consumerism and trends. Nowadays, with the emergence of newer generations, consumers of the airline industry have expected a much higher level of service. Hence, to meet this increasing demand, airline organizations must stabilize their costs. Additionally, more and more consumers have started using low-cost air travelling services and this has affected airlines offering premium services.

Technological Factors

Technological factors are ever evolving like the technology itself. The aviation industry is a step ahead in the matters of technology as it needs to be updated every day with the newest technology in the industry. Increased technological advancements can make airlines gain profits through offering enhanced services and cutting costs in other areas. For instance, passengers now prefer to book flights online and the improved technology of online check-in has increased efficiency tremendously. Failing to constantly evolve can result in loss of clients and being left behind by competitors.

Legal Factors

There are many laws devised for air travel and the safety and security of passengers. The players in the industry must follow all the rules and regulations that affect the customers as well as the employees. The airline companies are also expected to adhere to certain international legal norms as the airlines fly internationally. Any liability incurred by the company will be dealt with in adherence to the international law or the law of the land in which the injury has occurred. Laws relating to health are also followed by not allowing passengers to smoke on flights or by not allowing them to carry harmful substances onto the flight. Overall, legal factors affect the airline industry in a very strong manner as they are supposed to be adhered to strictly. According to AirlineRatings.com, Qantas has been named the world's safest airline since 2014.

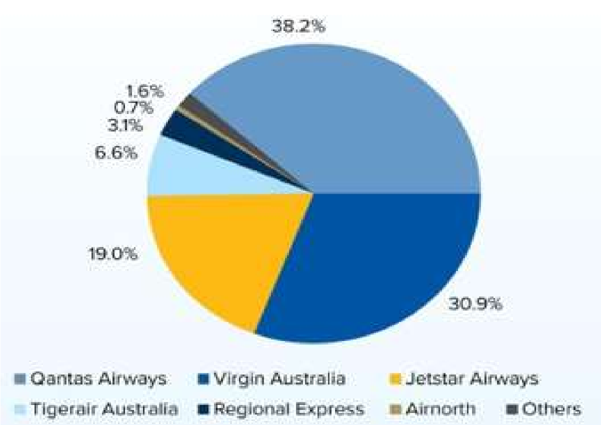
Environmental Factors

Environmental factors play an essential role in the airline industry as the regulatory boards and authorities with respect to aviation are very particular with the effectiveness of the environment. Fuel is a major expenditure in the industry and airlines are required to invest more in environmentally friendly and fuel-efficient aircraft to maintain reduced pollution levels. This process involves huge finances, but it is the fundamental step needed to be taken in order to combat climate change.

DOMESTIC MARKET

The two major players for the domestic airline industry are Qantas Airways Limited and Virgin Australia Holdings Limited ("Virgin" from here onwards). This industry mainly focuses on full-fare economy and business transport, low fare transport for passengers and other services. The industry keeps trending with a constant change in technology as it is a prerequisite for innovation and improvements to be implemented for safe and secure travel. The barriers to entry are high in the industry and the industry does not allow for new entrants easily into the industry. The competition levels are also high in the industry due to intense price competition, market share competition as well as flight frequency.

The industry has numerous trends affecting it like turbulent trading conditions over the past few years and the depreciation of the AUD leading to an increased demand in the domestic tourism sector. The other major player of the industry – Virgin Airlines has the next highest market share in the industry. In 2013-2014, both Qantas and Virgin airlines slashed their prices and cut jobs in order to take lead in the market share. Also, during this period, Virgin acquired Tiger Airways to compete against Qantas and its subsidiary, Jetstar. The industry's profitability increased in 2014-2015 as a result of the fall in fuel prices, however, this uptrend has been put to a halt due to most fleets expected to stay grounded till 2021.

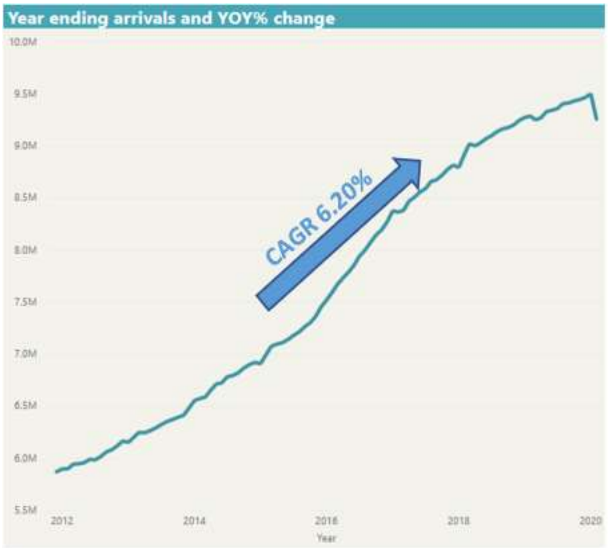


Source: CAPA

Qantas has a very strong position in the domestic airline industry. Qantas together with Jetstar hold approximately 58% of domestic market capacity share in FY19 and the rest is covered by Virgin, Tigerair, Regional Express etc. Although Qantas faced heavy competition from Virgin, it has been able to control a majority of its market share by adapting to the changes in the industry and industry trends accordingly. Likewise, Jetstar has performed very well although it faced extra competition from its rival Tiger Airways.

Our 5Y forecasted demand growth of Qantas Domestic and Jetstar post-COVID-19 is 2% ~ 2.5%p.a. The competitive environment appears to be in favour of Qantas in the domestic Australian airline market, given the uncertainty of Virgin and Qantas' ability to consistently generate high cash flow. Being the domestic market's duopoly, with the potential of being the monopoly depending on how Virgin's collapse plays out, we can't neglect the fact that there has been aggressive competition. Nonetheless, we are unable to identify any potential competitor that could threaten its strong foothold in the Australian market. The augmentation for greater competition could occur if Virgin successfully transfers its ownership to new investors with deep pockets, rising fuel prices, governance that encourages irrational competitive behaviour or entrance of new firms that could potentially undercut its price.

INTERNATIONAL MARKET



International Arrivals to Australia, Source: ABS

Qantas international capacity growth has been positive for the past few years, which outperformed its domestic markets due to the surge in tourists. The significant increase in desire for tourism is mainly driven by rapid increase in middle class and disposable income from developing Asian countries such as China and India. While a weak AUD helps to enhance international tourism demand, but it increases overseas expenses at the meantime. We forecast capacity growth (after the impact of COVID-19 is over) for the next few years to be as high as 5%. The catalyst for greater international growth would be the potential success of "Project Sunrise" initiative, more lucrative loyalty programs, increase in international routes specifically in the Asia region. Besides, the steep decline in world crude oil prices would potentially allow Qantas to improve on its profit margins when they resume flying.

However, due to the impact of Covid-19 where international travel restrictions have extended across most of 2020, Qantas' international revenue is projected to decline significantly over 2020-2021. As of now, there are no signs of international travel bans being lifted by the ScoMo governance. Also, keep a lookout for the potential trade war between China and Australia. Since a major part of tourists coming to Australia are from China, the trade war would be likely to dampen the recovery of Australian airlines industry due to the decrease in demands for international flights.

IMPACT OF COVID-19 ON THE INDUSTRY

VIRGIN AUSTRALIA VOLUNTARY ADMINISTRATION

Virgin falling into voluntary administration creates a huge uncertainty in Australia's aviation market. This is because Virgin's collapse suggests that Qantas might be the only airlines dominating the domestic market, giving it market power to raise prices. Virgin's ticket price is a huge determinant of Qantas' price as both firms constantly compete on ticket prices. When the major Australian airline Ansett collapsed in 2002, the industry-average fares were pushed significantly lower due to the entry of Virgin Blue into the Australian domestic airlines market. Being a duopoly market, Virgin's presence was essential in keeping the ticket prices of Qantas at bay.

Virgin is currently overseen by Deloitte on its voluntary administration due to its collapse under a debt pile of A$5.3 billion. Its failure to receive funding of A$1.4 billion from the Morrison government has led to Virgin's oxygen supply being completely cut off. This raises a question if the same scenario could arise with Qantas.

Looking into the rejection of A$1.4 billion bailout for Virgin, the Australian government expressed their preference for the airline to stay afloat. However, the bailout was ruled out as the government considered Virgin to have access to alternative avenues to raise funds. Before the collapse, 91% of Virgin was owned by investing entities with deep pockets. They include Etihad Airlines, Singapore Airlines, HNA Group, the Nanshan Group, and the Virgin Group.

In the case of Qantas, the Qantas Sale Act prevents it from restructuring and accessing international capital markets like Virgin. The restrictions prevent Qantas from being majority foreign owned (not more than 49%). Unlike Virgin, which was struggling even before the event of COVID-19, Qantas' fundamentals remain strong. This provides a higher chance for Qantas to receive a government bailout in the case of possible collapse. Besides, the advantage of being the dominant airline in the Australian domestic market is that investors are more likely to fund it as compared to its competitors. This is proven by the debt funding of A$1.05 billion secured by Qantas in March. At the time of writing, Qantas has secured another round of debt funding worth A$550 million.

If Virgin fails to soar, the duopoly Australian domestic airline market might turn into a monopoly by Qantas. Airfares will no doubt skyrocket in the event of this occurrence. Despite that, it would be great news for Qantas at the expense of the economy. As the CEO of Virgin said, Qantas could have a stranglehold of the market for a prolonged period.

EARLIER LIFT OF DOMESTIC TRAVEL BANS?

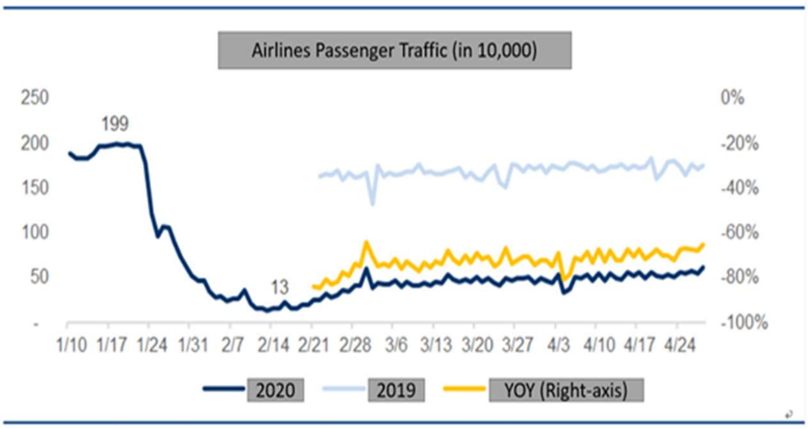
Throughout the coronavirus pandemic, the government has imposed restrictions on travelling. This has forced Qantas to shut down its operations and make huge losses. But they are now advertising flights out of Darwin, as well as more destinations for residents in Perth, following the flattening of the COVID-19 curve in recent weeks. Jetstar and Qantas have begun selling interstate flights from June leading to suggestions the government might lift domestic travel bans sooner than expected. Jetstar is selling flights out of Perth and Darwin to other major cities from June 1 while Qantas is selling flights from Perth to Sydney or Melbourne from June 1.

Northern Territory might be the first jurisdiction in Australia to return to a 'new normal' as the NT Government announced a multi-staged approach to lifting limitations on 30th April. All businesses including restaurants, bars, cafes and gyms will reopen over the next four weeks. The Territory had not had a new coronavirus case for 24 days and all, but three of its 28 cases had recovered.

Also note that the Prime Minister has flagged an extension to international travel restrictions and quarantine for travellers arriving back into Australia. However, this sign a possibility that Qantas' will resume operation soon.

RECOVERY IN CHINA VS AUSTRALIA

China was the first country to be affected by the spread of the coronavirus. Evidently, the second-largest aviation industry in the world had taken a severe hit. The impact rocked the Australia airlines market and the government has taken a similar approach to China by putting a travel ban in place. This has led to Qantas to announce suspension of 60% of domestic flights and all international flights in mid-March. However, in reality the Group is only operating at 13 percent of its domestic network and 6 percent internationally on a flying hour basis (including freights).



Source: Ministry of Transport of the People's Republic of China

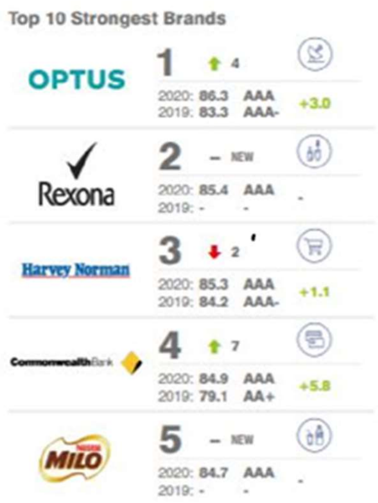
Since early April, China has been almost free of the virus and the travel bans have been lifted. At the end of April, the Chinese aviation companies have seen a sluggish recovery to daily flights of approximately 42% of the pre-crisis level. However, the Chinese aviation market shows positive news. With the China Eastern Airlines planning to resume 70%-80% of flights by June in the Coronavirus recovery push, there is certainly recovery, although it is very slow.

As the country that COVID-19 originated, we could expect Australian airlines industry to follow a similar recovery trend. With the potential lift of NT's travel ban, Qantas might be on track to recover in a more optimistic pace than previously expected, like the Chinese airlines industry due to multiple reasons:

- Qantas has a near monopoly in the domestic Australian airlines market.
- Having Jetstar as its budget airline, consumers would most likely turn to Qantas due to the shutdown which has a great impact on consumer's purchasing power.
- Its competitor Virgin remains in a very unfavourable position and not set to resume flying.

COMPETITIVE ADVANTAGES

BRAND RECOGNITION

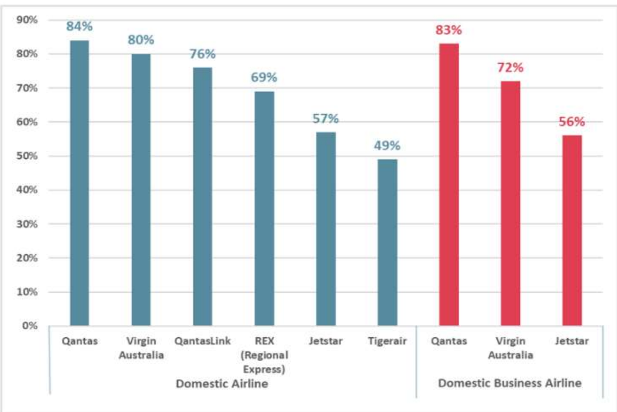


Source: BrandFinance

Qantas is constantly ranked among the top 10 strongest brands in Australia in many past years. According to Brand Finance 2020, Qantas managed to break into rank 6th among all the renowned brands in Australia, making airlines industry the second most reputable sector in Australia. In addition, Qantas has been consistently ranked among the top 10 strongest brands in Australia. Brand Finance's valuation considers Brand Strength, Brand Royalty Rate, Brand Revenues and Brand Value. This strong brand loyalty proves Qantas is deeply embedded in the roots and culture of Australian, making it yet another high barrier of entry for competitors after the duopoly nature of the airlines industry.

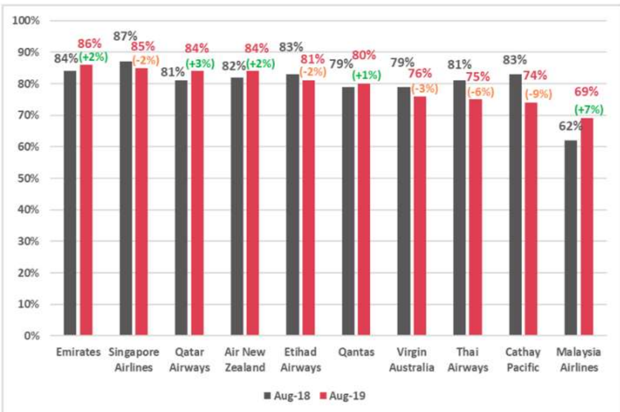
CUSTOMER SATISFACTION

Australian Customer Satisfaction - Domestic



Source: Roy Morgan (Jan 2020)

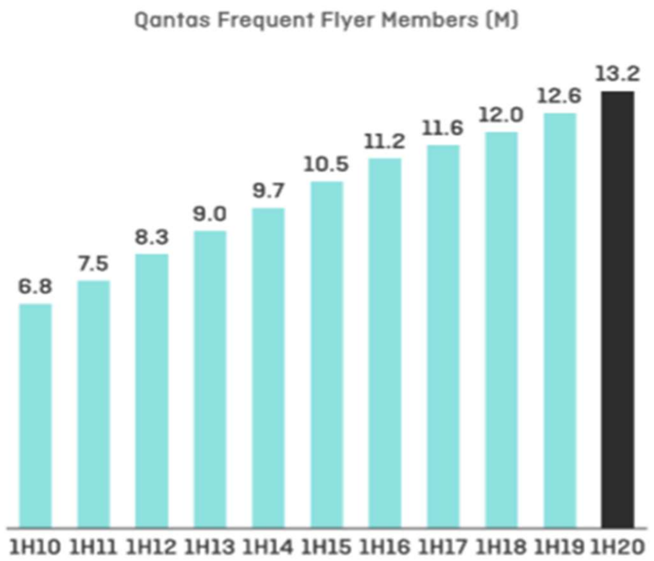
International Top 10



Source: Roy Morgan (Oct 2019)

Qantas recently achieved strong and increasing customer satisfaction advantage over Virgin in domestic flights, for both leisure and business passengers. Similarly, on the low-cost subsidiaries side, Jetstar significantly outperformed Tigerair in customer satisfaction. Historically, Qantas has also obtained six straight victories in the Annual Roy Morgan Customer Satisfaction awards in both categories, Domestic Airline and Domestic Business Airline Customer Satisfaction (2014-2019). Internationally, Qantas provided above average customer satisfaction, but a large gap persists between Qantas and top performers Emirates and Singapore Airlines.

FREQUENT FLYER PROGRAM

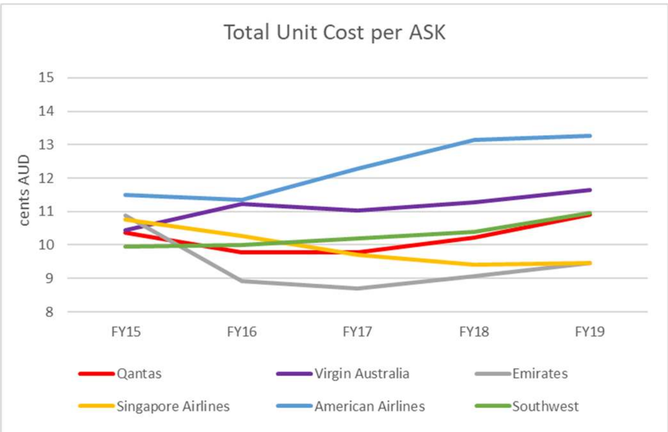


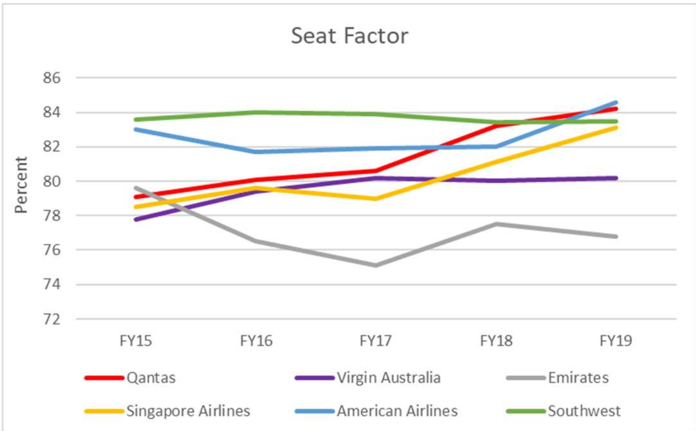
	Revenue (FY19)	EBIT(FY19)	No. of members	Revenue/member
Qantas	$1654m	$374m	13.2m	$128.22
Virgin Australia	$411m	$122.2m	10.1m	$41.94

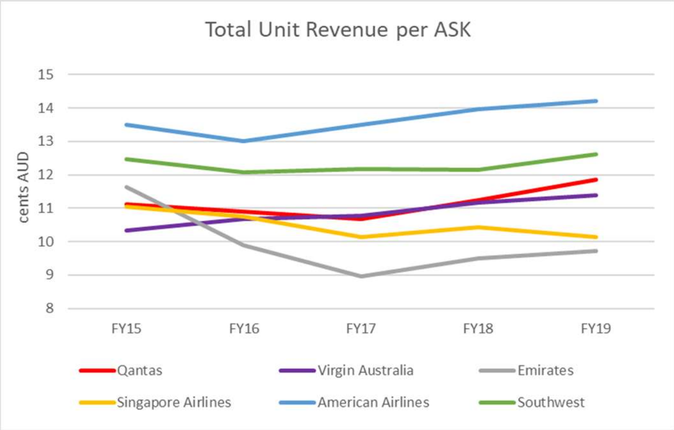
Source: 1H FY20 investor presentation, ERA estimates

Qantas Loyalty exhibits strong network effect, with 13.2 million members, more than half of Australian population is accumulating frequent flyer points (though some accounts may be inactive). Its broad network of partners spans across multiple industries such as retail, travel, banking, with further diversification into superannuation, loans and insurance. The larger network of Qantas Loyalty would appear much more valuable to customers, as reflected in its ability to generate 3× revenue per member compared to Virgin's Velocity Program. Over the past year, Qantas Loyalty has experienced 26% growth in Business Rewards membership, 38% growth in net persons insured, 10% growth in Travel Money card activations. Given Virgin is currently in administration, we expect Qantas Loyalty's domination to significantly strengthen.

LOAD AND COST MANAGEMENT







Top Left:
Calculated as total operating cost / ASK

Bottom Left:
Calculated as total revenue / ASK

Group results for all three figures, Southwest used as a benchmark only

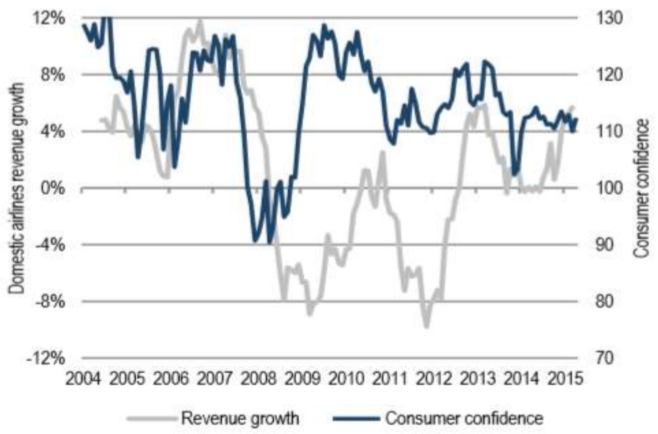
Source: FY15-19 annual reports, ERA estimates

Over the past five years, Qantas has significantly increased its seat factor by 5.1%, making it one of the most efficient airlines at load management amongst its competitors, which is one of the key success factors for the airline industry. Meanwhile, Qantas sustains a strong operating cost advantage over Virgin, but lacks competitiveness against Emirates. This means Emirates has much larger space to discount its airfares, while also being able to achieve higher customer satisfaction than Qantas, should they enter price-based competition. Though this risk is mostly mitigated as Qantas entered strategic partnership with Emirates. The low unit cost of Singapore Airlines is largely driven down by its low-cost subsidiary Scoot, also putting Jetstar's international routes under highly competitive pressure. Whist being able to maintain strong competitive advantage over Virgin domestically in almost all facets, Qantas' lack of competitiveness internationally is a significant weakness.

REVIEW OF FINANCIAL PERFORMANCE

HISTORICAL FLUCTUATIONS

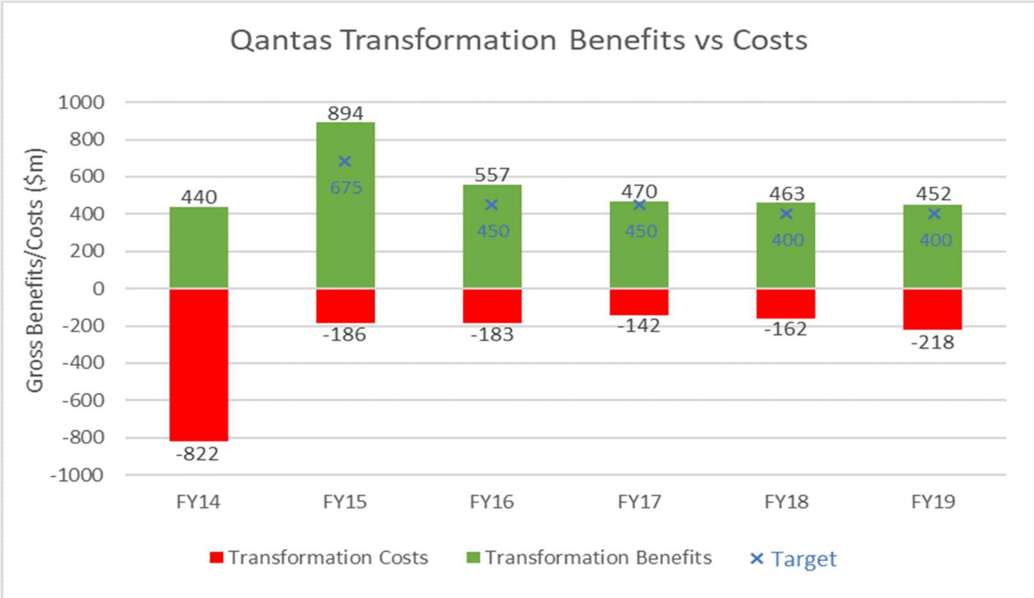
Source: Thomson Reuters Datastream, BITRE, Credit Suisse



Source: Thomson Reuters Datastream, BITRE, Credit Suisse

Looking into Qantas historical revenue growth, it exhibits cyclical characteristics, fluctuating in line with GDP growth and consumer confidence, but with much larger volatility. This is due to air travel being mostly non-essential activity, with approx. 50% of the of the passengers travel for personal leisure purposes, approx. 30% for other personal reasons and about 20% for business purposes. Though business travel may be more essential than personal travel, its demand can still be temporarily hampered in times of low business confidence or crisis such as coronavirus pandemic. However, doubts arise on whether COVID-19 will permanently change people's travel habits, especially whether the need for business travel will be significantly replaced with video conferencing. Aside from COVID-19, we still expect large volatility in Qantas' revenue during the long-term future due to various unforeseeable potential shocks to the economy.

TRANSFORMATION PROGRAM

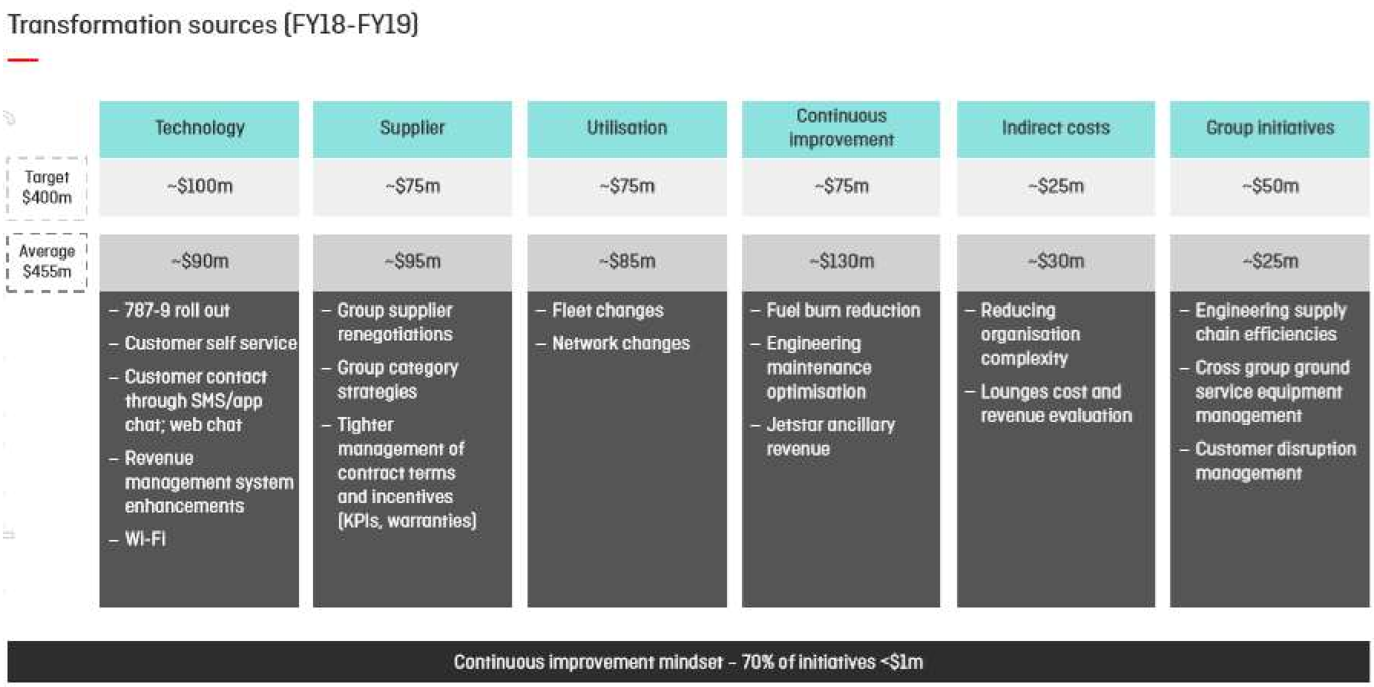


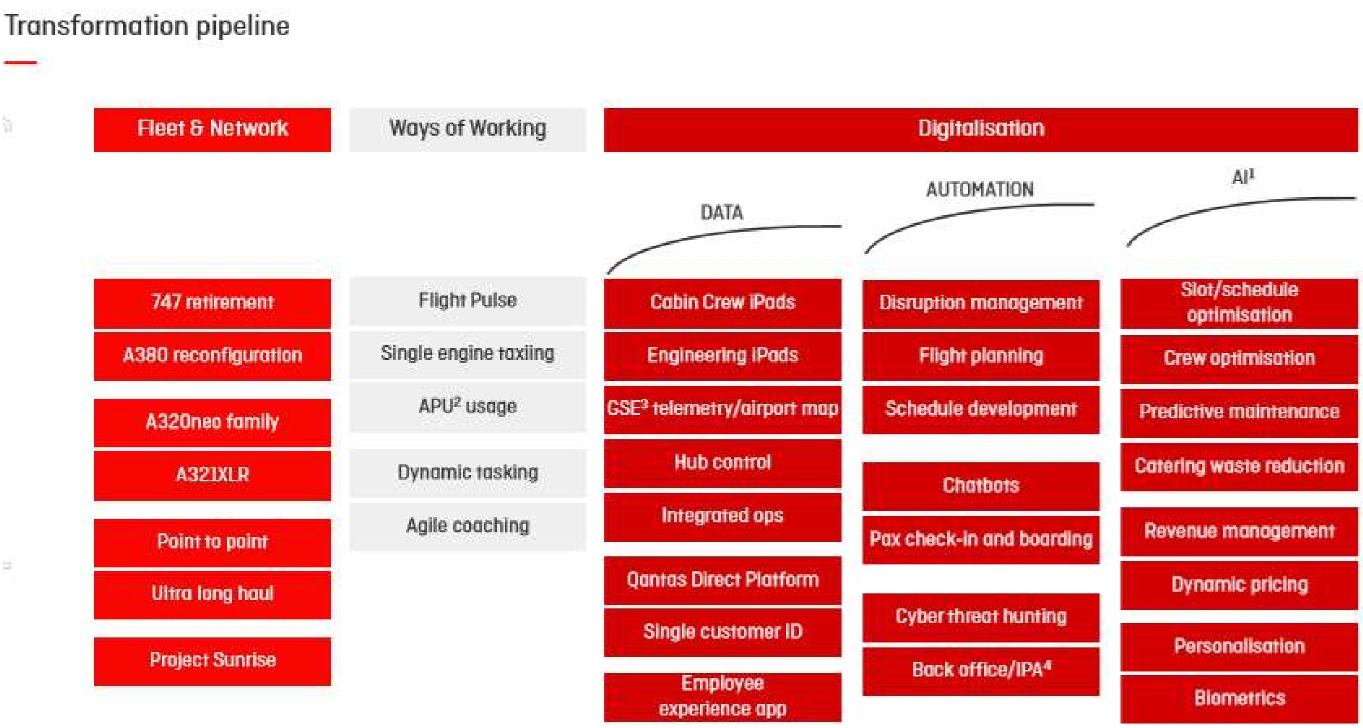
Source: FY14-19 annual reports

Qantas has initiated a significant Accelerated Transformation Program in Dec 2013, which the focus of cost reduction and improving efficiency, and aimed to deliver $2b benefits by FY17, the key transformation actions included:

- *accelerating cost reduction:* reduction of 5000FTE employees, contact centre consolidation, Jetstar Lowest Seat Cost program, fuel burn reduction program, introducing more fuel-efficient aircrafts (e.g. B787 Dreamliner), Avalon maintenance facility closure, aims 10% reduction in ex-fuel expenses
- *right-sizing fleet and network:* simplify 11 fleet types to 7, cabin reconfiguration (B747 & A330), accelerated retirement of non-reconfigured aircrafts (B747, B737-400, B767-300), network optimisation, increase fleet utilisation
- *focus on customer and revenue:* improve NPS score, global lounge upgrade program, maintain on-time performance at Qantas Domestic, broadening Qantas Loyalty, digital innovation such as mobile check-in
- *deleveraging Balance Sheet:* reduction of capital investment, focus on debt reduction >$1b and Debt/EBITDA<3.5 times

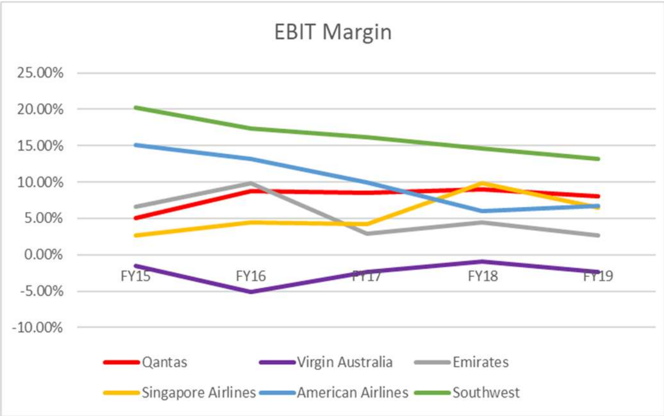
In FY14, an impairment charge of $2.56b was recognised for Qantas International fleet, which artificially boosts future statutory profit by $200m per year as less depreciation expense is required. Excluding the impairment, by FY17 Qantas management upheld its promise and delivered $2.13b accumulated transformation benefits, and also exceeded the targeted amount of transformation benefits each year, while most of the action specific targets were also achieved, highlighting the management's strong ability to execute the plans. From FY18 onwards, Qantas management plans ongoing transformation, with further focus on fuel and fleet efficiency improvements, along with an emphasis on technological innovation.

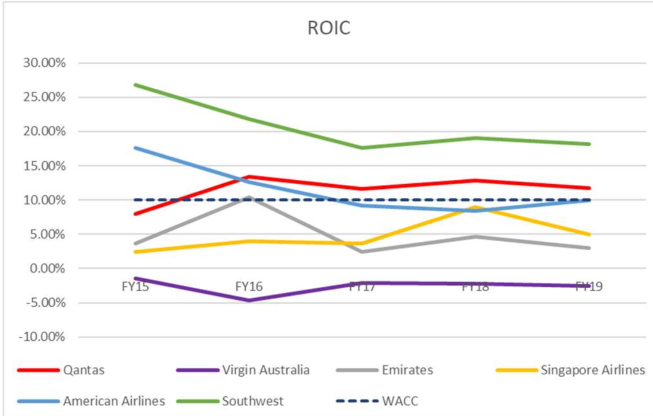




Source: FY19 investor presentation

FINANCIAL METRICS

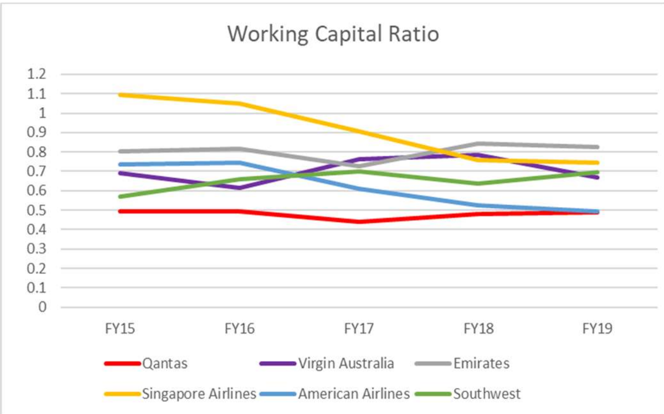


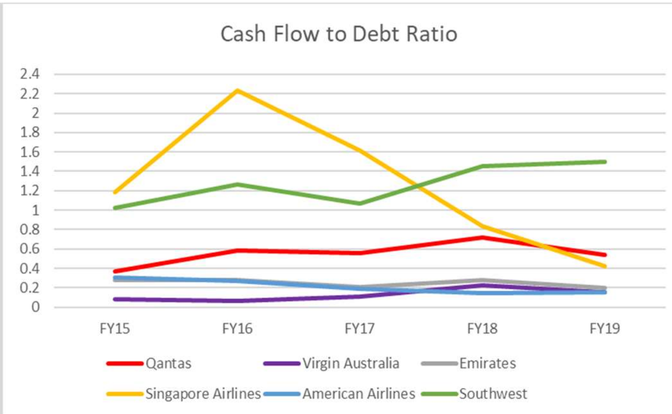


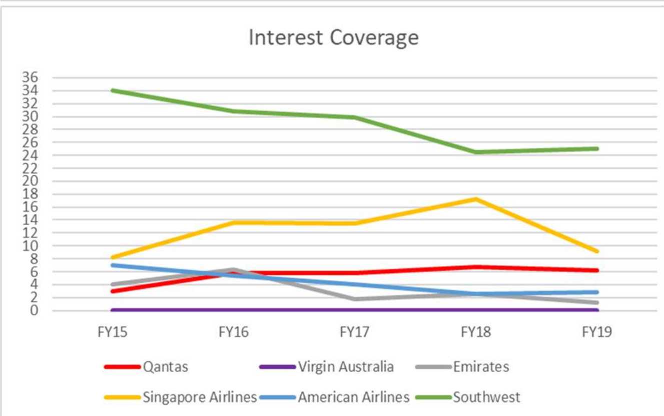
Source: FY15-19 annual reports, ERA estimates

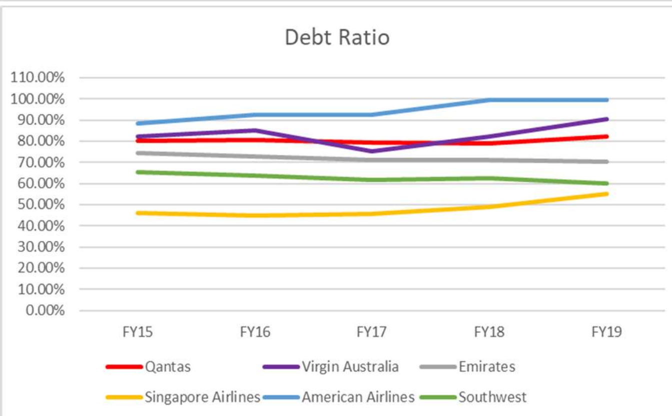
Calculated as EBIT(1-t)/avg (total asset - non-interest-bearing liabilities)

Examining the past five years, Qantas produced high EBIT margin amongst its peers, fluctuating around 8.5% after a large improvement from transformation since FY15. While a decline in EBIT margin of 0.89% over FY19 is largely attributable to higher fuel costs and weaker AUD. The net transformation benefits have not resulted in materially higher profitability from FY16 onwards, which was partially offset by worsening margins of Qantas International. Although the weakening AUD contributed positively to tourism demand from overseas, it increased overseas operating expenses relative to AUD, along with higher fuel costs and increasing price-based competitive pressure, which adversely impacted the profitability of Qantas International. Meanwhile, we evaluated after-tax ROIC of Qantas' peers, where Qantas has been one of the few airlines that added economic value for its shareholders by exceeding the WACC in the recent history, producing a moderate ROIC of 11.69% in FY19, behind Southwest's impressive 18.16%.



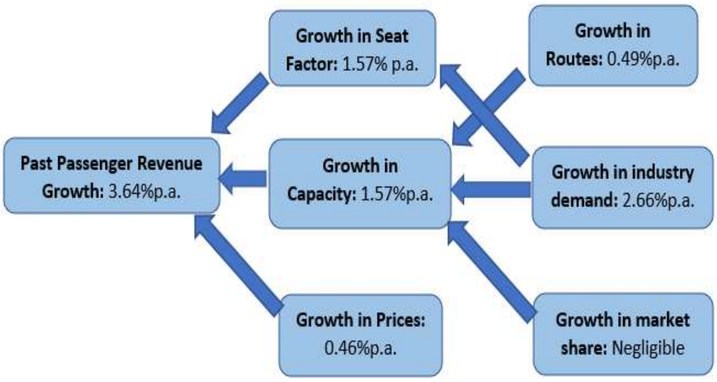






Source: FY15-19 annual reports, ERA estimates

Qantas maintained a high and stable Debt Ratio of approx. 80%, at end of FY19 36.3% of the liabilities are unearned revenue and only 32.8% of the liabilities are debt. Qantas also has much lower WCR than its peers, fluctuating around 0.5, with a large 50.3% of current liabilities being unearned revenue at end of FY19 (vs that of 39% for Virgin). While Qantas' Balance Sheet does not look appealing on paper, we do not think it is a major concern, it actually reflects a strong competitive advantage over Virgin. As those liabilities are composed of large proportion of unearned revenue, where cash from the flight tickets and sale of frequent flyer points to partners are received in advance, which typically do not require repayment, allowing Qantas to allocate most of these cash to repay debt, reduce interest expense and make capital investments. Qantas' ability to receive cash well in advance, along with effective management of debt post- transformation allowed it to produce a sound Cash Flow to Debt Ratio of 0.54 and Interest Coverage of 6.25×, ahead of most of its peers though less impressive as Southwest.



Source: FY15-19 annual reports, BITRE, ERA estimates

Qantas passenger revenue growth over the past five years was largely driven by relatively strong industry growth of 2.66%p.a. in number of passengers carried, along with a small of additional routes, together results in Qantas' growth in capacity and Seat Factor. The strong industry demand is partly driven by increase in middle class and disposable income from developing Asian countries such as China and India, with significant increase in desire for tourism.

VALUATIONS/ MODEL KEY ASSUMPTIONS

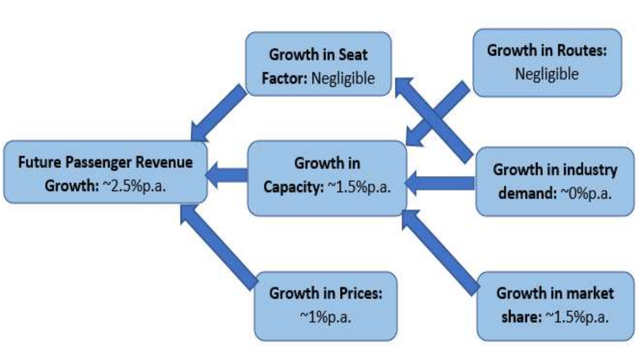
DIRECT IMPACT OF COVID-19

- Given the current declining number of new cases domestically, and the pace of airline industry recovery in China, we tentatively predict the airline industry will make full recovery 4 months after being free of coronavirus, while acknowledging that the development of the situation is highly uncertain. (See appendix for the detailed recovery predictions.) Currently operating at 13% capacity as per the most recent Qantas announcement, we expect Qantas to experience large decline in seat factor and decrease in prices, before full recovery in domestic business by Nov 2020. Since the pandemic is much more severe in Europe and the US, we predict full recovery of Qantas International by the start of 2021, with almost zero capacity to continue until Jun before gradual increase in the second half of this year.
- We tentatively incorporated a 40% reduction in wages for the final 3.5months of FY20, with executives and board members taking no salary for 3.5months and no bonuses for FY20 on top of that. For FY21, we accounted for a 30% reduction in wages and 15% reduction in wages for 2 months each, plus executives and board members taking no bonuses.
- Despite the lower seat factor, the non-fuel operating expenses for each flight are expected to be similar, by assuming a proportional decrease then adjusting for lower seat factor, we predicted an increase in its proportion to total passenger revenue, from 22.84% in FY19, to 23.35% and 23.29% in FY20 and FY21 respectively.

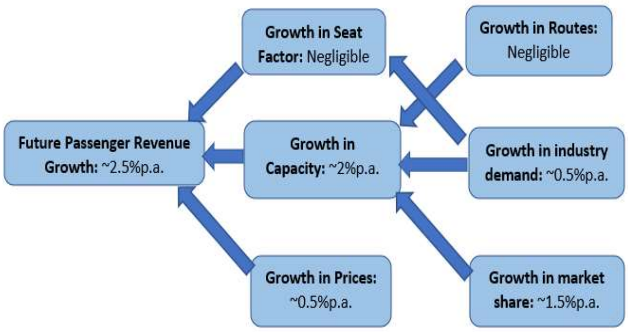
- Fuel costs are estimated based on company announcement of the expected $3.74b for FY20 and an 80% max participation in $10/bbl lower Brent price for FY21 (which is expected to be taken in full due to the much lower current oil price), both are then adjusted for lower capacity and seat factor.
- The Capex is expected to decrease from $1.92b in FY19 to $1.68b in FY20 due to the need to save cash during the pandemic and rebound to $2b in FY21 as revenue would be received in advance soon after recovery.
- The recently obtained $1.05b loan in March and $0.55b in May is accounted for in the model.

PREDICTED GROWTHS POST-COVID-19

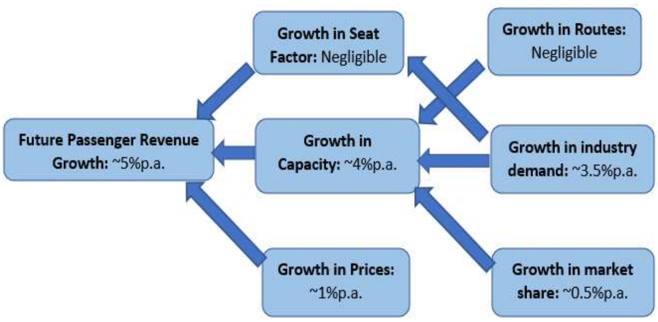
Qantas Domestic – Short Term



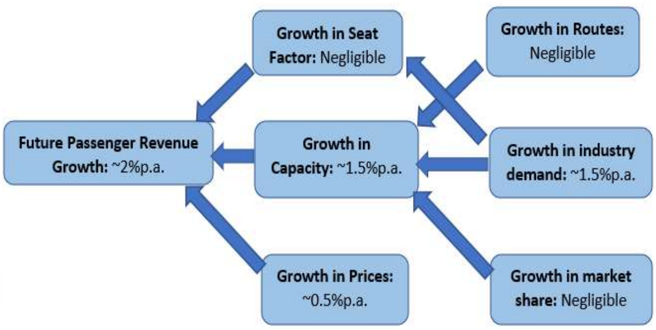
Jetstar – Short Term



Qantas International – Short Term



Qantas Group – Long Term



Source: ERA estimates

- For the foreseeable future, we predict no further growth in seat factor, as Qantas is already highly efficient in load management. We also do not account for growth from new routes, as the successful implementation of Project Sunrise remain uncertain, and number of routes cannot increase forever in the long-term.
- For the short-term post-COVID growth in domestic operations, we expect the market share of Qantas and Jetstar to increase by about 1.5%p.a. given the competitive advantages and Virgin's loss of reputation by entering administration while assuming its survival (as large number of potential buyers have expressed their interest). While the growth in domestic industry demand is predicted to be near 0, considering the likely reduction in business travel, potentially being replaced with more video conferencing. The airfares are expected to increase by about 1%p.a. partially due to inflation and lower competition. Overall, we predict the revenue growth of Qantas Domestic and Jetstar to be approx. 2.5%p.a. for the short-term post-COVID.
- The short-term post-COVID revenue growth in Qantas International is expected to remain strong at 5%p.a. as a result of strong tourism demand increasing at approx. 3.5%p.a. along with slight increase in market share approx. 0.5%p.a. and increase in prices approx. 1%p.a. from lower competition.

- We expect fuel costs to equate to approx. 18.62% of revenue in the short-term post-COVID, as a result of lower oil prices (Brent prices approx. US$65/bbl in 2019, and current futures quotes for 2022-24 range from US$40-50/bbl) and is estimated based on the assumption of US$55/bbl post-COVID when fuel demand recovers.
- We predicted a significant increase in gross Capex short-term post-COVID, up to 14.22% of revenue in FY22 vs 10.71% in FY19, due to Qantas' and QantasLink's relatively old fleet ages of 12.3years and 17.3years respectively. Particularly, many B737-300/400, B747, A330-300, B717 and Fokker aircrafts are expected to be retired and replaced with more efficient new aircrafts over the next few years. While we predict Qantas to nearly double its software expenditures by FY24 given the future focus on technological innovation. The proportion of gross Capex is expected to reduce to approx. 12.93% for the long-term to sustain the fleet size and age.

Source: International Air Transport Association (IATA)

- In the long-term, we predict a 2%p.a. growth, arising from 1.5%p.a. increase number of passengers, and 0.5%p.a. increase in prices (where the effect of inflation driving up aircraft prices, wages and taxes are expected to weakly dominate the effect of technology and fuel efficiency improvements). Before COVID-19 IATA projected 4.7%p.a. increase in number of passengers in APAC region for the next 20 years. We think this estimate is mainly driven up by rapid increase in tourism demand in developing countries such as China and India, so it should be lower for a developed country like Australia, and it could be too optimistic given the impacts of COVID-19 on people's future behaviours. Meanwhile, ABS projected a medium scenario population growth of 1.1%p.a. in Australia for the next 50 years, effectively acting as the lower bound for the long-term growth rate.

Note: See appendix for the model and other assumptions

MODEL RESULTS

	Historical Data			Projection				
	2017	2018	2019	2020	2021	2022	2023	2024
EBIT	1,370	1,534	1,450	(360)	306	1,959	2,075	2,100
less: EBIT*tax	(411)	(460)	(435)	108	(92)	(588)	(622)	(630)
add: non-cash charges	1,455	1,560	1,472	1,589	1,613	1,854	1,945	2,019
less: net Capex	(2,046)	(2,201)	(1,651)	(1,647)	(1,953)	(2,626)	(2,536)	(2,558)
less: increase in working capital	396	182	632	(292)	345	449	238	197
FCFF	764	615	1,468	(602)	219	1,048	1,099	1,128
PV (respective years)				(547)	181	788	751	701
Terminal Value	14387							
PV (Terminal Value)	8933							
EV	10806							
less: net debt	(4,478)							
less: minority interest	(3)							
Equity Value ($m)	**6325**							
number of shares (m)	1491							
FV share price ($)	**4.24**							

Source: FY17-19 annual reports, ERA estimates

- Our projection indicates approx. 24.3% and 16.5% decrease in revenue for FY20 and FY21 respectively relative to FY19. The statutory net profit is predicted to be -$409m for FY20 and near zero for FY21, before returning to approx. $1.2b from FY22 onwards with full recovery.
- We used 10% WACC, 2% terminal growth rate, and obtained a fair equity value of $6.32b, which corresponds to a fair value share price of $4.24/share. The current share price of $3.50 represents a 17.5% discount to intrinsic value.

RELATIVE VALUATION

	P/E	P/B	EV/EBITDA
Qantas	**6.12**	**1.52**	**3.58**
Virgin Australia	N/A	1.17	20.56
Singapore Airlines	7.22	0.37	5.08
American Airlines	2.38	N/A	6.87
Southwest	6.77	1.58	3.57
United	2.33	0.61	4.03
Delta Air	2.91	0.90	3.53
China Eastern	14.20	0.62	3.10
China Air	15.84	1.00	4.05
Cathay Pacific	21.22	0.57	6.41
Lufthansa	3.20	0.38	2.37
Comparable Average	**8.45**	**0.80**	**4.33**

Source: FY19 annual reports, ERA estimates, comp avg EV/EBITDA excludes Virgin Australia

Qantas P/E 6.12 and EV/EBITDA 3.58 are both lower than comparable average, seemingly indicating a relative under-valuation, but the average of P/E is significantly driven up by Asian airlines, likely due to China's effective control of coronavirus. The exclusion of Asian airlines from the list would see Qantas' being over-valued by P/E, where the average P/E drops to 4.13. The P/B also deserves some attention as some airlines do face the risk of bankruptcy under COVID-19, where Qantas' P/B 1.52 is relatively over-valued, but this is justifiable by Qantas' very low risk of bankruptcy. Meanwhile, both Qantas and Southwest have similar levels of P/E, P/B and EV/EBITDA, which makes Qantas' valuation less attractive given Southwest's significantly better EBIT margin, ROIC and stronger financial position. Overall, Qantas' relative valuation appear moderate due to its above average P/E (exc. Asian airlines), below average EV/EBITDA, and the stronger performing Southwest being sold at similar levels of relative valuation.

RISKS

INHERENT RISKS IN THE AIRLINE INDUSTRY

as the industry is subject to various inherent risks, Qantas is inevitably exposed to specific risks that potentially impact its future performance. These include: volatility in fuel price and foreign exchange, increasing intensity of competition, exposure to the fluctuation of economy, climate change and irreducible risks arising from exogenous events.

VOLATILITY IN FUEL PRICE

Crude oil prices (US$ per barrel) 10-year historical chart. Source: Macrotrends

The cyclical nature of fuel price has been a typical and crucial risk to the industry. However, exposure to the noticeably increased volatility (fluctuation) of fuel price is difficult to manage as profit margins can easily shrink and erode when fuel price soars and is maintained at high level over a long period. It is expected that Qantas' profit will not be heavily hit by any potential increase in fuel costs as Qantas extensively makes use of hedging to reduce uncertainty in fuel cost prediction. (As stated in FY19 annual report, fuel price for the reminder of FY20 is 100 percent hedged).

But volatility of fuel price is still an irreducible risk as hedging strategies do not fully compensate the vulnerability of profit to the rise of fuel costs. The $614 million increase in fuel cost in FY19, accompanied by a further impact of foreign exchange on net non-fuel expenditure, significantly contributed to the drop in recorded profit of FY19. While hedging losses can be expected if there is a huge unexpected drop of oil consumption and price.

INCREASE IN COMPETITIVE INTENSITY **(INTERNATIONAL):**

While maintaining a market-leading position domestically and strong competitive advantage over its major domestic competitor Virgin, Qantas is exposed to a highly competitive international aviation market due to Australia's liberal aviation policy. Despite being able to effectively manage its debts through cash received in advance and its frequent flyer program, and remaining focused on strategic partnerships, Qantas's lack of competitiveness against its international competitors in many other facets may impact its market position in future competition.

DIRECT IMPACT OF COVID-19

The significant drop in travel demand and government restrictions resulted from the worldwide Coronavirus outbreak forces Qantas and Jetstar to make large and deep cuts to their flight schedules. The dramatic impact on its revenue and its almost halted flight services has led Qantas exposed to specific risks that may worsen if the crisis prolongs.

LIQUIDITY

Qantas short-term liquidity (as at May 4, 2020) stands at $3.5b, after a further $0.55b raised in debt funding. The recently obtained loan has moved Qantas Group's net debt level from the lower end to the middle of its target range (currently \$5.8b, target range \$5.2b-\$6.5b). Although having secured enough short-term liquidity to survive more than 12 months (with an expected net cash burn rate of \$40m per week), significant labour surplus, flight cut and increased debt load inevitably poses pressure on Qantas Group's cash balance.

UNCERTAINTIES

This unprecedented pandemic also brings significant uncertainty regarding how long it will last, which also results in large uncertainty of the pace of airline industry's recovery. Even if the virus disappears soon, Qantas' capacity recovery remains unclear, as it also depends on the impacts of the pandemic on people's travelling habits. As mentioned before, business travel demand will likely be dampened post-COVID, but other potential behavioural impacts remain indeterminate. We also cannot rule out the distant possibility of very prolonged pandemic, forcing Qantas to seek significantly more debt, adding to interest and repayments burdens, or to raise equity that could dilute existing shareholders' ownership.

DISCLAIMER

APPENDIX

CONSOLIDATED INCOME STATEMENT ($m)	Historical Data			Projection					Notes on Projection Assumptions
Revenue and Other Income by Segments	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	
Qantas Domestic	5632	5945	6106	4763	5403	6259	6415	6543	increase in market share due to VAH entering administration, but offset by decrease in business travel demand post-covid
growth g (%)		5.56%	2.71%	-22.00%	13.45%	15.83%	2.50%	2.00%	total passenger revenue growth expected to be ~3%p.a. post-covid from growth decomposition above, domestic lower than this
Qanats International	6413	6925	7425	5099	5469	7945	8421	8758	international flights to recover later than domestic flights due to greater covid19 severity overseas
growth g (%)		7.98%	7.22%	-31.33%	7.26%	45.28%	6.00%	4.00%	greater growth in international flights than domestic in general, due to increasing tourists, also shown by greater past growth
Jetstar Group	3600	3795	3961	3090	3482	4080	4182	4286	similar to Qantas domestic
growth g (%)		5.42%	4.37%	-22.00%	12.70%	17.17%	2.50%	2.50%	
				Direct Impact by COVID 19	% Capacity Recovery: 82%	% Capacity Recovery: 100%			
Qantas Loyalty	1505	1519	1654	1500	1600	1728	1832	1905	
growth g (%)		0.93%	8.89%	-9%	7%	8%	6%	4%	faster growth than passenger revenue, but slower than past growth as 13.2m (4.76%yoy) members are already reached
Corporate	16	18	4	10	10	10	10	10	assumed constant at 10, negligible to total revenues
Unallocated/Eliminations	(1109)	(1074)	(1184)	(868)	(958)	(1201)	(1252)	(1290)	a fixed proportion of total gross segment revenues
(as a proportion of total segment revenues)	6.46%	5.90%	6.18%	6%	6%	6%	6%	6%	
Total Revenue	**16057**	**17128**	**17966**	**13593**	**15006**	**18820**	**19608**	**20213**	
Expenses									
Manpower and staff-related	4033	4291	4268	3756	4022	4516	4719	4908	similar but slightly higher growth rate to revenue growth from 2023 onwards, due to Qantas ongoing workplace disputes
growth g (%)		6.40%	-0.54%	-11.99%	7.07%	12.28%	4.50%	4.00%	
Aircraft operating variable	3039	3653	3995	3024	3343	4114	4279	4407	a fixed proportion of flight revenue from 2022 onwards
(as proportion of flight segments' revenue)	19.42%	21.92%	22.84%	23.35%	23.29%	22.50%	22.50%	22.50%	
Fuel	3436	3232	3846	2875	2867	3403	3540	3646	limited participation to lower fuel prices in 2020&2021 due to hedges, Brent price approx $65/bbl in 2019, current futures quotes
(as proportion of flight segments' revenue)	21.96%	19.39%	21.99%	22.20%	19.97%	18.62%	18.62%	18.62%	2022-24 range from $40-$50bbl, expect further increase from higher demand post-covid, assume $55/bbl 2022 onwards
Depreciation and amortisation	1382	1528	1665	1719	1749	1800	1868	1937	D&A, Capex Schedule, conservatively evaluated using fixed depreciation rate for each asset category
growth g (%) (rate of increase decreases overtime)		10.56%	8.97%	3.23%	1.75%	2.90%	3.81%	3.67%	
Other variable costs	934	1201	1244	952	1050	1317	1373	1415	assume a fixed proportion of total revenue
(as proportion of total revenue)	5.82%	7.01%	6.92%	7%	7%	7%	7%	7%	
Other fixed costs	1387	1351	1328	1368	1409	1451	1495	1540	assume constant growth rate independent of revenue
growth g (%) (Assumed independent of revenue changes)		-2.60%	-1.70%	3%	3%	3%	3%	3%	
Non-cancellable aircraft operating lease rentals	356	272	264	260	260	260	260	260	
Share of net profit of investments accounted for under the equity me	7	(15)	(22)	0	0	0	0	0	negligible, approx 0 in the long-term
Other Non-Cash Charges/Adjustments	113	81	(72)	0	0	0	0	0	
Total Expenses	**14687**	**15594**	**16516**	**13954**	**14700**	**16861**	**17534**	**18112**	
Profit before tax and net finance costs	**1370**	**1534**	**1450**	**(360)**	**306**	**1959**	**2075**	**2100**	
Finance income	47	48	46	44	47	50	49	48	effective interest rate assumed constant 2% of cash
Finance costs	(232)	(230)	(235)	(268)	(303)	(311)	(323)	(332)	effective interest rate assumed constant 4.5% of interest bearing liabilities
Net finance costs	(185)	(182)	(189)	(224)	(256)	(261)	(273)	(284)	
Profit before tax	**1265**	**1352**	**1181**	**(584)**	**50**	**1698**	**1801**	**1816**	
Income tax expense	(374)	(399)	(328)	175	(15)	(509)	(540)	(545)	
Statutory profit for the year	**891**	**953**	**853**	**(409)**	**35**	**1188**	**1261**	**1271**	

CONSOLIDATED BALANCE SHEET ($m)	Historical Data			Projection					Notes on Projection Assumptions
CURRENT ASSETS	2017	2018	2019	2020	2021	2022	2023	2024	
Cash and cash equivalents	1775	1694	2157	2204	2327	2484	2467	2402	cash flow statement
Receivables	784	840	1101	750	828	1038	1082	1115	fixed %Revenue
Other financial assets	100	474	334	297	413	442	458	471	fixed %Asset, except for 2020 due to hedging losses from lower oil price
Inventories	351	351	364	277	306	383	400	412	fixed %Revenue
Assets classified as held for sale	12	118	1	0	0	0	0	0	negligible, not expected in the long-term
Other	97	161	236	195	202	216	223	230	fixed %Asset
Total current assets	**3119**	**3638**	**4193**	**3723**	**4075**	**4563**	**4629**	**4629**	
NON-CURRENT ASSETS									
Receivables	123	110	77	73	80	101	105	108	fixed %Revenue
Other financial assets	43	112	184	108	150	161	166	171	fixed %Asset, except for 2020 due to hedging losses from lower oil price
Investments accounted for under the equity method	214	222	272	240	240	240	240	240	
Property, plant and equipment	12253	12851	12977	12825	12931	13597	14089	14511	D&A, Capex Schedule
Intangible assets	1025	1113	1225	1285	1360	1488	1633	1795	D&A, Capex Schedule
Other	444	601	449	520	537	574	594	611	fixed %Asset
Total non-current assets	**14102**	**15009**	**15184**	**15051**	**15299**	**16161**	**16827**	**17437**	
Total assets	**17221**	**18647**	**19377**	**18774**	**19374**	**20724**	**21456**	**22066**	
CURRENT LIABILITIES									
Payables	2008	2220	2470	1815	2004	2513	2619	2699	fixed %Revenue
Revenue received in advance	3744	4018	4315	4260	4468	4655	4798	4918	fixed %Revenue next period from 2021 onwards, no significant change for 2020 as cancelled flights remain as credit
Interest-bearing liabilities	433	404	635	779	790	826	854	879	fixed %non-current asset
Other financial liabilities	69	34	89	60	62	66	69	71	fixed %Asset
Provisions	841	853	954	954	954	954	954	954	
Income tax liabilities	–	7	113	0	0	0	0	0	negligible, not expected in the long-term
Liabilities classified as held for sale	–	64	–	0	0	0	0	0	negligible, not expected in the long-term
Total current liabilities	**7095**	**7600**	**8576**	**7869**	**8278**	**9014**	**9293**	**9521**	
NON-CURRENT LIABILITIES									
Revenue received in advance	1424	1446	1466	1503	1562	1628	1678	1720	fixed %Revenue next period from 2021 onwards, no significant change for 2020 as cancelled flights remain as credit
Interest-bearing liabilities	4405	4344	4589	5902	5976	6231	6428	6608	fixed %non-current asset, plus additional $1.6b debt taken for covid-19 in 2020
Other financial liabilities	56	25	48	36	37	40	41	42	fixed %Asset
Provisions	348	367	415	508	454	569	593	611	fixed %Revenue
Deferred tax liabilities	353	910	847	847	847	847	847	847	
Total non-current liabilities	**6586**	**7092**	**7365**	**8796**	**8876**	**9314**	**9587**	**9828**	
Total liabilities	**13681**	**14692**	**15941**	**16665**	**17153**	**18329**	**18880**	**19350**	
Net assets	**3540**	**3955**	**3436**	**2109**	**2221**	**2396**	**2576**	**2716**	
Total equity	**3540**	**3,955**	**3436**	**2109**	**2221**	**2396**	**2576**	**2716**	

CONSOLIDATED CASH FLOW STATEMENT ($m)	Historical Data			Projection					Notes on Projection Assumptions
CASH FLOWS FROM OPERATING ACTIVITIES	2017	2018	2019	2020	2021	2022	2023	2024	
Statutory profit for the year	853	953	891	(409)	35	1188	1261	1271	
Adjusted for:									
Depreciation and amortisation	1,382	1,528	1,665	1719	1749	1800	1868	1937	
Share-based payments	67	64	49	0	2	68	72	73	fixed proportion to positive net profit
Inventory write-off	14								negligible, approx 0 in the long-term
Amortisation of deferred financing fees and lease benefits	19	16	14	15	15	15	15	15	
Net gain on disposal of controlled entity		(12)	(39)						
Net gain on disposal of property, plant and equipment	(11)	(5)	(174)						
Net gain on disposal/reversal of impairment of associate			(43)						
Net (gains)/losses on investments	(18)								negligible, approx 0 in the long-term
Share of net (profit) of investments accounted for under the equity m	7	(15)	(22)						
Discount rate changes impact on provisions		2	92						
Other items	(12)	24	8						
Hedging-related activities		16	(89)	(145)	(158)	(39)	(21)	(18)	
Dividends received from investments accounted for under the equity	7	6	11	0	5	10	11	12	
Changes in other items:									
– Receivables	(3)	(51)	(177)	355	(86)	(231)	(48)	(37)	
– Inventories	(29)	(66)	(55)	37	(79)	(128)	(66)	(62)	
– Other assets	56	(107)	52	42	(6)	(14)	(8)	(6)	
– Payables	59	267	203	(655)	189	509	105	81	
– Revenue received in advance	123	356	384	42	327	313	254	222	
– Provisions	(136)	31	20	0	0	0	0	0	
– Deferred tax assets/liabilities and tax provision	326	406	205	(113)	0	0	0	0	
Net cash from operating activities	**2,704**	**3,413**	**2,807**	**888**	**1993**	**3491**	**3444**	**3488**	
CASH FLOWS FROM INVESTING ACTIVITIES									
Payments for property, plant and equipment and intangible assets	(1,368)	(1,959)	(1,944)	(1,682)	(2,003)	(2,676)	(2,591)	(2,613)	
Interest paid and capitalised on qualifying assets	(45)	(44)	(42)						
Payments for investments held at fair value	(16)	(2)	(60)						
Proceeds from disposal of property, plant and equipment	34	17	333	35	50	50	55	55	
Proceeds from disposal of a controlled entity		17	139						
Proceeds from disposal of shares in associate			11						
Net cash used in investing activities (exc. aircraft operating lease ref	(1,395)	(1,971)	(1,563)	(1,647)	(1,953)	(2,626)	(2,536)	(2,558)	
Aircraft operating lease refinancing	(651)	(230)	(88)	0	0	0	0	0	further buying of aircrafts out of operating lease is not expected
Net cash used in investing activities	**(2,046)**	**(2,201)**	**(1,651)**	**(1,647)**	**(1,953)**	**(2,626)**	**(2,536)**	**(2,558)**	
CASH FLOWS FROM FINANCING ACTIVITIES									
Payments for share buy-back	(368)	(751)	(637)	(443)	0	(600)	(650)	(650)	no payout in 2020&2021, Qantas typically conducts more buyback than dividends, full payout ~70-120%
Payments for treasury shares	(198)	(162)	(98)	(5)	0	0	0	0	
Proceeds from borrowings	419	668	1,137	2,400	1,038	1,286	1,252	1,262	assume continuous refinancing and repayments to match the amount of interest-bearing liabilities
Repayments of borrowings	(453)	(802)	(744)	(942)	(954)	(995)	(1,027)	(1,056)	
Net Reciepts for aircraft security deposits and hedges-related to deb	8								
Dividends paid to shareholders	(261)	(249)	(363)	(204)	0	(400)	(500)	(550)	no payout in 2020&2021, Qantas typically conducts more buyback than dividends, full payout ~70-120%
Dividends paid to non-controlling interests	(3)								
Net cash used in financing activities	**(854)**	**(1,296)**	**(705)**	**806**	**84**	**(709)**	**(925)**	**(994)**	
Net increase/(decrease) in cash and cash equivalents held	(196)	(84)	451	47	123	157	(17)	(65)	
Cash and cash equivalents at the beginning of the year	1,980	1,775	1,694	2,157	2,204	2,327	2,484	2,467	
Effects of exchange rate changes on cash and cash equivalents	(9)	3	12	0	0	0	0	0	negligible, approx 0 in the long-term
Cash and cash equivalents at the end of the year	**1,775**	**1,694**	**2,157**	**2204**	**2327**	**2484**	**2467**	**2402**	

D&A, Capex Schedule ($m)	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Total Revenue	16,057	17,128	17,966	13,593	15,006	18,820	19,608	20,213
Beginning PPE		12253	12851	12977	12825	12931	13597	14089
Beginning Software		699	757	826	886	961	1089	1234
Capex breakup:								
software		200	240	252	290	362	398	438
Land and buildings		3	0	4	4	4	4	4
Leasehold Improvements		39	37	31	41	57	69	72
Plant and Equipment		95	115	92	106	143	137	136
Aircrafts, Engines and parts		1904	1532	1302	1563	2110	1983	1963
total gross Capex		**2241**	**1924**	**1682**	**2003**	**2676**	**2591**	**2613**
% of total revenue		13.08%	10.71%	12.37%	13.35%	14.22%	13.22%	12.93%
Depreciation breakup:								
Land and buildings		(3)	(4)	(4)	(4)	(4)	(4)	(4)
Leasehold Improvements		(50)	(41)	(39)	(39)	(39)	(40)	(41)
Plant and Equipment		(76)	(61)	(77)	(79)	(82)	(86)	(89)
Aircrafts, Engines and parts		(1272)	(1395)	(1416)	(1430)	(1461)	(1508)	(1553)
Total Depreciation		**(1401)**	**(1501)**	**(1536)**	**(1552)**	**(1587)**	**(1638)**	**(1688)**
Amortisation		**(127)**	**(164)**	**(182)**	**(197)**	**(213)**	**(230)**	**(249)**
Disposal and other adjustments of PPE		(42)	(57)	(46)	(55)	(60)	(63)	(65)
Disposal and other adjustments of software		(15)	(7)	(9)	(18)	(22)	(24)	(26)
Ending PPE		**12851**	**12977**	**12825**	**12931**	**13597**	**14089**	**14511**
Ending Software		**757**	**826**	**886**	**961**	**1089**	**1234**	**1396**
At historical cost:								
Land and buildings	385	344	338	338	338	338	338	338
depreciation rate %		*0.82%*	*1.17%*	*1.18%*	*1.18%*	*1.18%*	*1.18%*	*1.18%*
Leasehold Improvements	1413	1392	1078	1079	1085	1108	1136	1166
depreciation rate %		*3.57%*	*3.32%*	*3.60%*	*3.60%*	*3.60%*	*3.60%*	*3.60%*
Plant and Equipment	1563	1511	1540	1577	1623	1701	1768	1828
depreciation rate %		*4.94%*	*4.00%*	*4.95%*	*4.95%*	*4.95%*	*4.95%*	*4.95%*
Aircrafts, Engines and parts	21827	23622	24111	24313	24576	25385	26168	26932
depreciation rate %		*5.60%*	*5.85%*	*5.85%*	*5.85%*	*5.85%*	*5.85%*	*5.85%*
software	1523	1681	1907	2059	2219	2401	2600	2818
depreciation rate %		*7.93%*	*9.14%*	*9.20%*	*9.20%*	*9.20%*	*9.20%*	*9.20%*

Predicted Pace of Recovery

		mid-Mar to 06/2020	07/2020	08/2020	09/2020	10/2020	11/2020	12/2020	01/2021
Qantas Domestic	capacity	13%	40%	70%	80%	90%	100%	100%	100%
	seat factor	50%	65%	70%	75%	77%	78%	78%	78%
Jetstar	capacity	13%	40%	70%	80%	90%	100%	100%	100%
	seat factor	55%	70%	75%	80%	83%	86%	86%	86%
Qantas International	capacity	6%	20%	30%	40%	60%	80%	90%	100%
	seat factor	45%	60%	65%	70%	75%	80%	84%	86%