



# Managing your fuel price in a declining market

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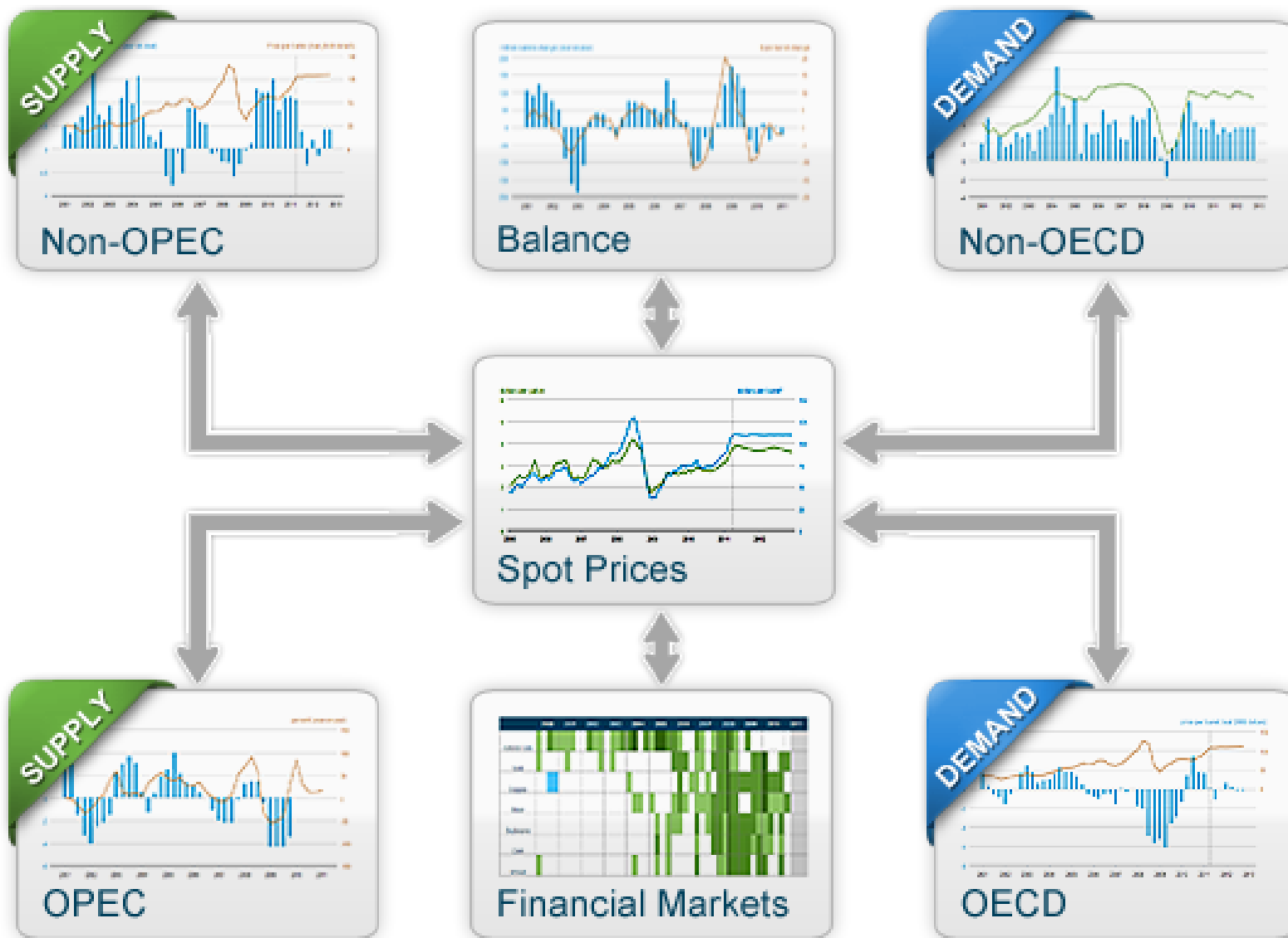
Oil price - brief summary and outlook

Hedging tools and corporate fuel risk

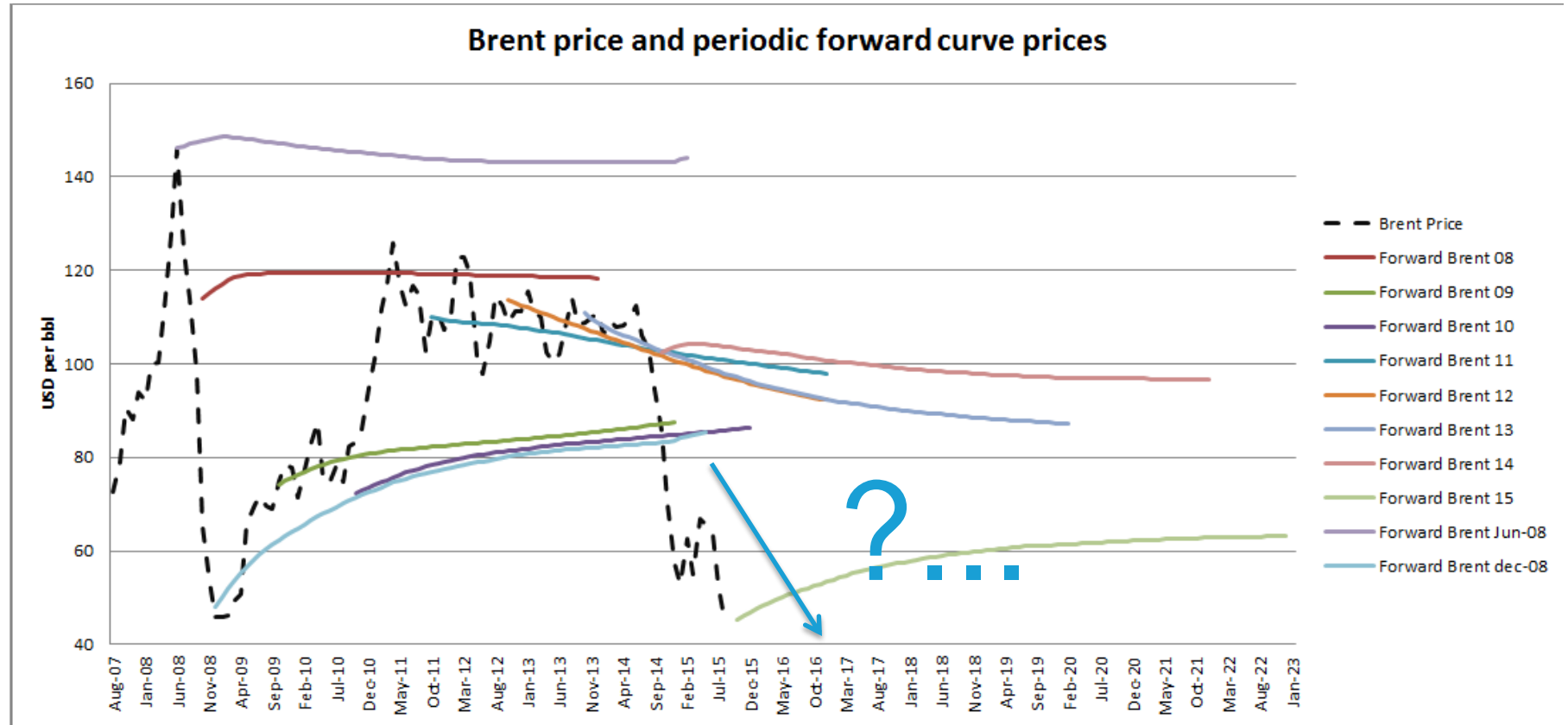
Airline reported hedging losses & prudent savings!

Conclusions

# Crude Oil Price Drivers



# Brent Crude Prices and Forward Prices



Source: Bloomberg (Past Performance)

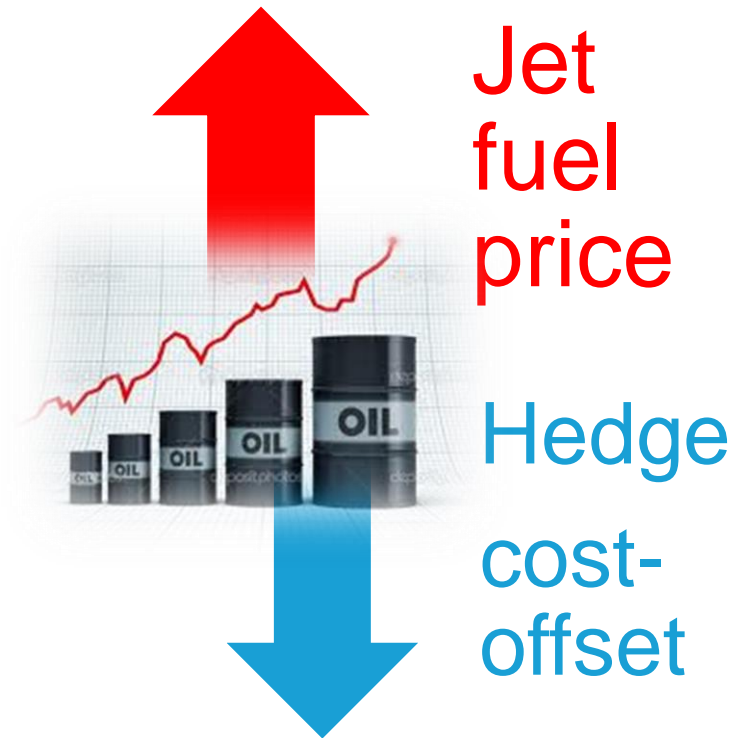
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‘Contractual investment to reduce the risk of adverse price movements in jet cost, by establishing a known future cost now’

Airline X - Consumer Hedge:

- ‘Short’ jet, need to buy
- So agree a price now for future jet expenditure – the ‘Hedge’

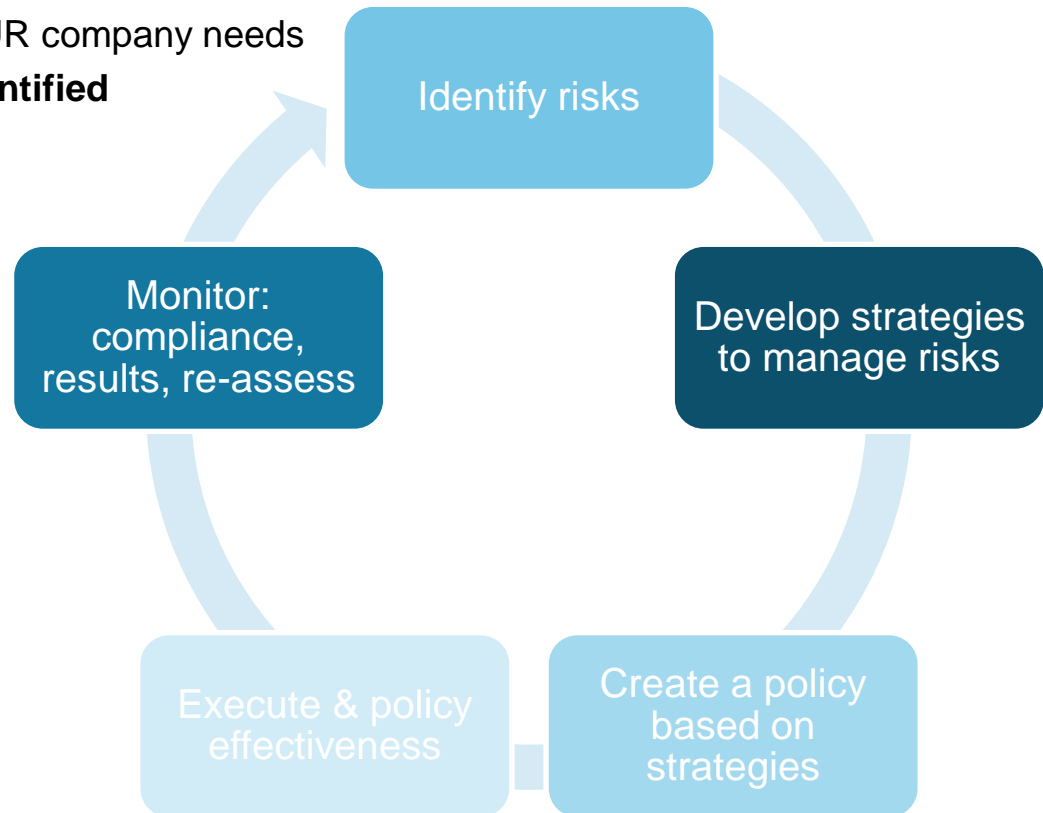


# Designing YOUR corporate jet fuel hedging program – critical it's customised!



Key hedge program decision/processes

- **Identifying YOUR risk**
- Method of price risk control to suit YOUR company needs
- **Tenor of hedging related to risks identified**
- **Hedging tools mechanism/payout**
- Create Policy and execute
- Monitor and Re-evaluate policy



# Identify Risk - Cash Generation/Seat Sales Analysis



Days Out	% of Sales Booked, Actual Data
0-30	54.9%
30-60	23.0%
60-90	10.2%
>90	11.9%

<i>Days Out</i>	<i>% of Sales Booked Assumed</i>
<i>0-30</i>	<i>50%</i>
<i>30-60</i>	<i>20.0%</i>
<i>60-90</i>	<i>10.0%</i>
<i>&gt;90</i>	<i>10% or less</i>

# Usual Hedge Tools: Fixed Price



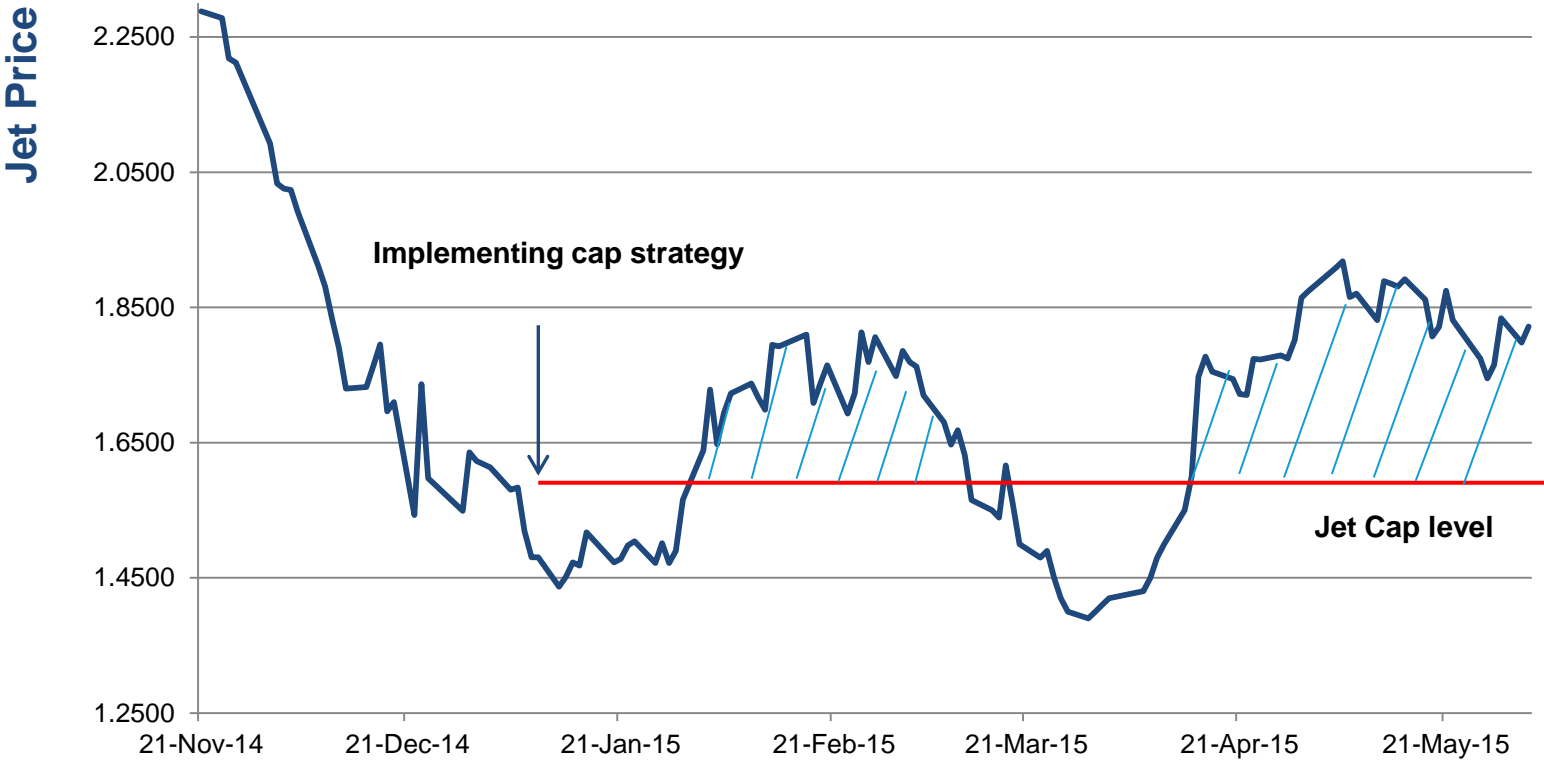
## Platts Jet Prices [USD/MT]



Past Performance



# Less Common Insurance Tools: Maximum fuel price

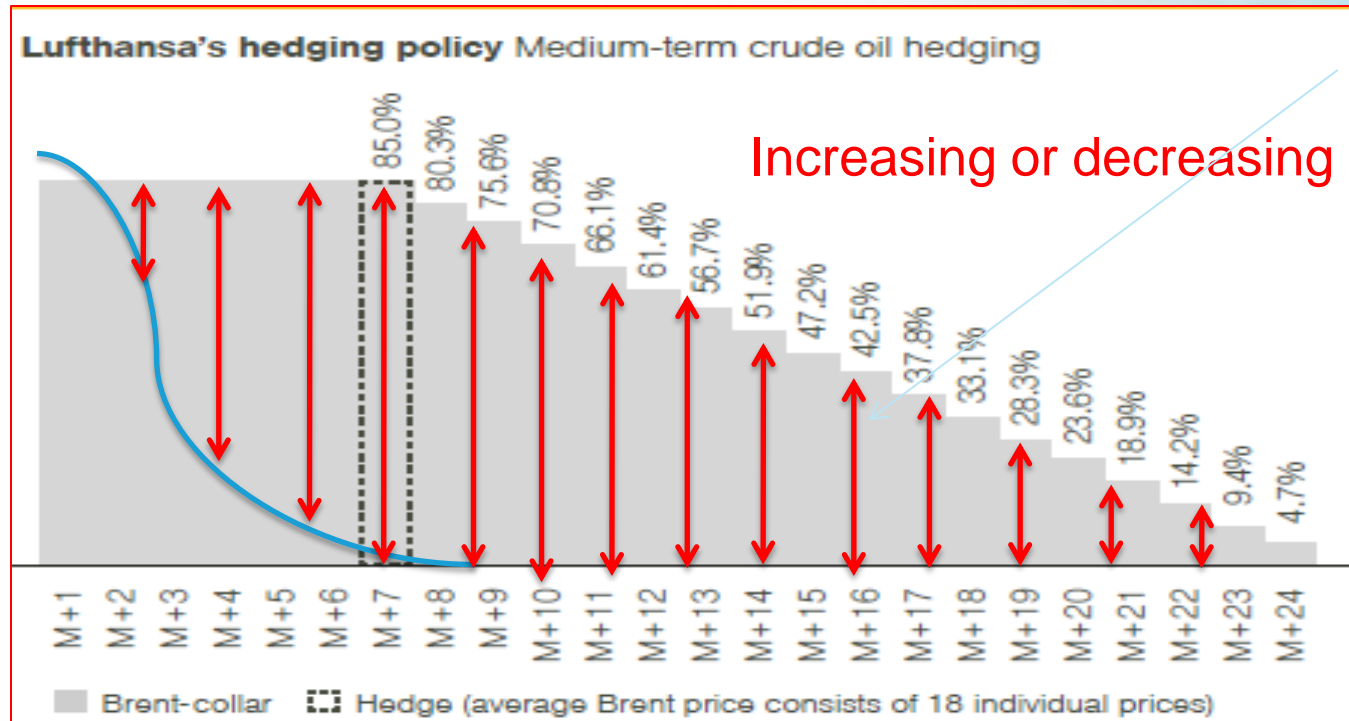


Past Performance

# A Consumer Jet Hedge



Scheduled Airline – often proportionally fix future fuel costs in sloping % tranche





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Last updated: February 20, 2015 5:48 pm

## Lufthansa scraps dividend after €732m loss

Chris Bryant in Frankfurt

Share Author alerts Print Clip Comments

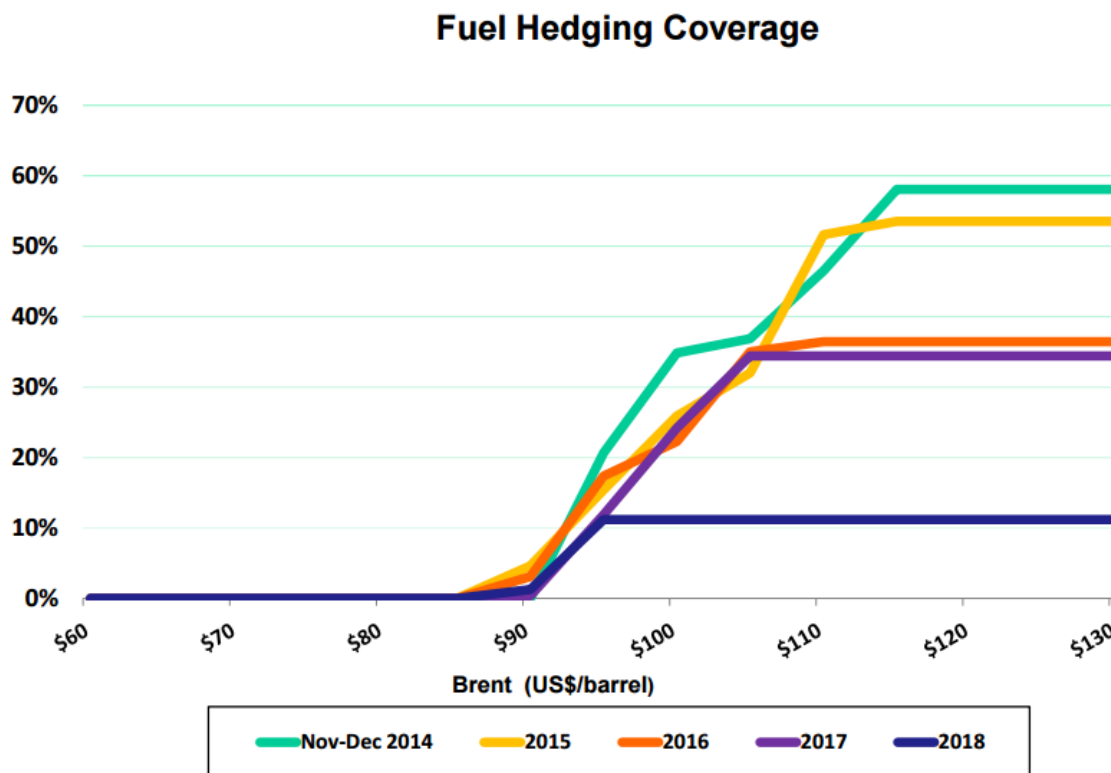


Lufthansa has scrapped its dividend for the second time in three years as rising pension costs and an accounting impact linked to volatile fuel prices caused it to record a treble-digit million loss.

The German flag carrier slumped to a €732m full year net loss under local accounting rules, compared to a profit of €407m a year earlier.



## Fuel Hedging



# Cathay Pacific – 2014 Hedge Detail



Fuel — Cathay's most significant cost — accounted for 39.2 per cent of total operating costs, up from 39 per cent a year before. Fuel costs were 0.7 per cent higher as more flights were operated.

Otherwise, the numbers looked pretty good: overall number of passengers carried rose 5.5 per cent to 31.6m, with turnover up the same amount to \$HK106bn. Demand for premium economy class seats increased, particularly on the Frankfurt and London routes. In cargo services, the tonnage carried increased by 12 per cent.

Results		2014	2013	Change
Turnover	<i>HK\$ million</i>	<b>105,991</b>	100,484	<b>+5.5%</b>
Profit attributable to the shareholders of Cathay Pacific	<i>HK\$ million</i>	<b>3,150</b>	2,620	<b>+20.2%</b>
Earnings per share	<i>HK cents</i>	<b>80.1</b>	66.6	<b>+20.3%</b>
Dividend per share	<i>HK\$</i>	<b>0.36</b>	0.22	<b>+63.6%</b>
Profit margin	<i>%</i>	<b>3.0</b>	2.6	<b>+0.4%pt</b>

A breakdown of the Group's fuel cost is shown below:

	2014 HK\$M	2013 HK\$M
Gross fuel cost	<b>39,388</b>	39,117
Fuel hedging losses/(gains)	<b>911</b>	(985)
Net fuel cost	<b>40,299</b>	38,132

Fuel consumption in 2014 was 41.7 million barrels (2013: 39.5 million barrels).

# 2015: Hedger's Annis Horribilis?



Hedging losses reported:

Kenya Airways - 58 mln USD fuel hedging loss (30<sup>th</sup> July 2015)



Air Malta – hedges placed in 2012 at 90 usd/bbl costing dearly now (9<sup>th</sup> August 2015)



Cathay Pacific - shares fell the most in more than six years after their results, which included a HK\$3.74 billion loss from fuel hedges. And an unrealised loss of HK \$7.42 billion (19<sup>th</sup> August 2015)



# Who is saving prudently in the downward market....



No Hedging:

Emirates - still not ready to hedge fuel, *but monitors position daily*, stopped after loosing 1.57 billion Dh in 2009. (12<sup>th</sup> August 2015)



The Prudent Hedge Outlier:

Alaska Air – This fuel-hedging tactic has saved Alaska Air \$300 mln usd by spending \$20 mln USD on Capping oil prices (May 2015)



Alaska have protected budget, defined total cost of hedging upfront and enjoy remarkably cheaper spot fuel now too!

# Alaskan Airlines – Delighted with price drops



‘This fuel-hedging tactic has saved Alaska Air millions’ (21st May 2015)  
[Alaska Air Group](#) (NYSE: ALK) has an insurance-like approach to fuel hedging, and it's worked well for the Seattle airline.

- ✓ The system has saved the company about \$300 million on cheaper jet fuel in the last year.
- ✓ “It’s been a really good thing for Alaska,” said Alaska Chief Financial Officer [Brandon Pedersen](#), during a Thursday interview. “We haven’t been wrong on any of our bets...and we’ve benefited fully from lower prices.”
- ✓ Spent \$20 mln on hedges - Capped jet supply prices



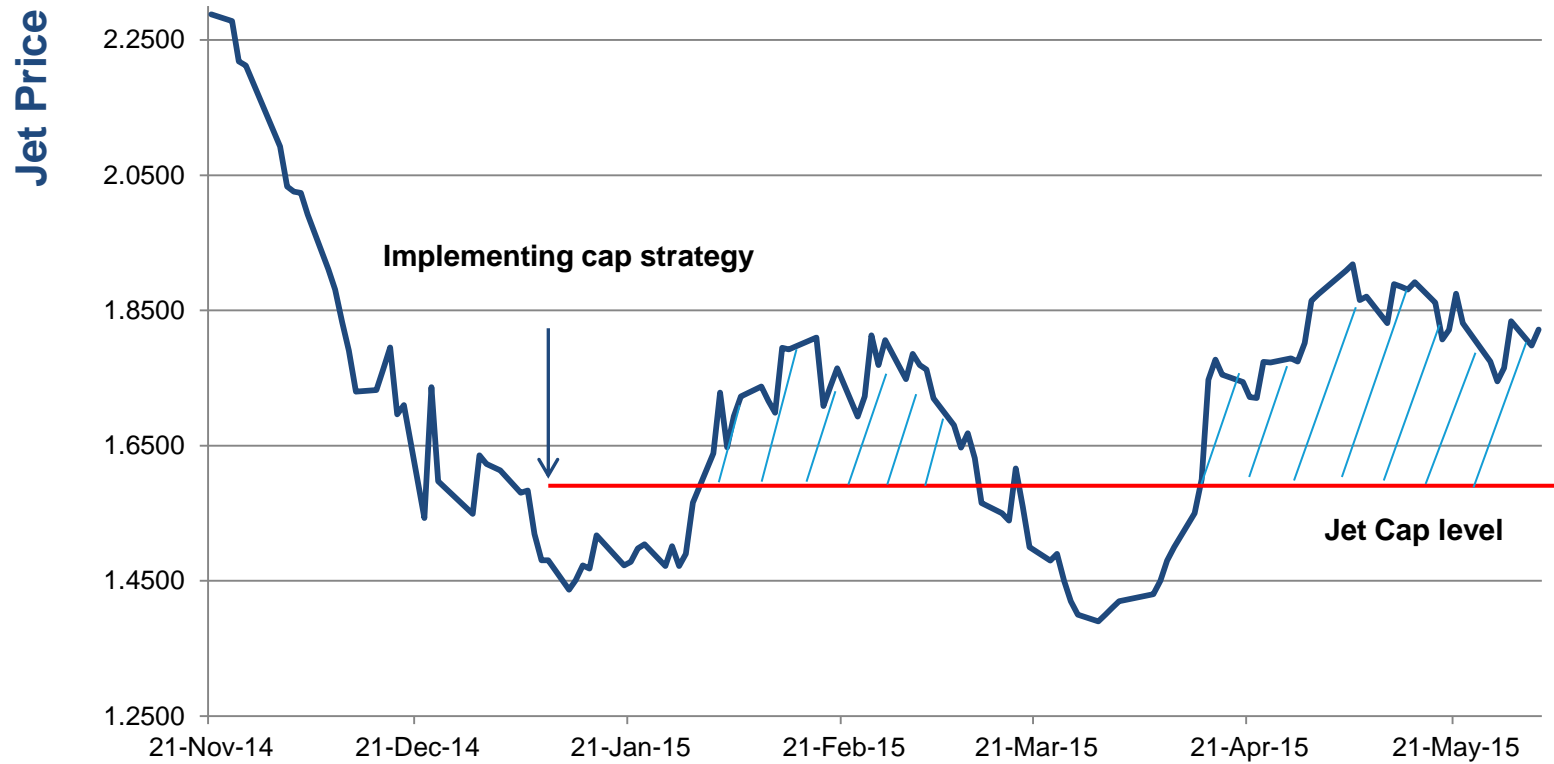
# Alaskan - Case Study Concept

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- Active budget control program
- Primary focus: insuring against rising price
- Tools: Capping, no fixing of prices (on jet or brent etc)
  1. Options are open - can fix at lower prices, if market falls
  2. Remains competitive at all times
  3. No risk of adverse fuel hedging – cost known up front
- Strong balance sheet and cash position
- No adverse/unexpected hedging loss reporting
- On budget and enjoying prices drops

# Insurance: Maximum fuel price

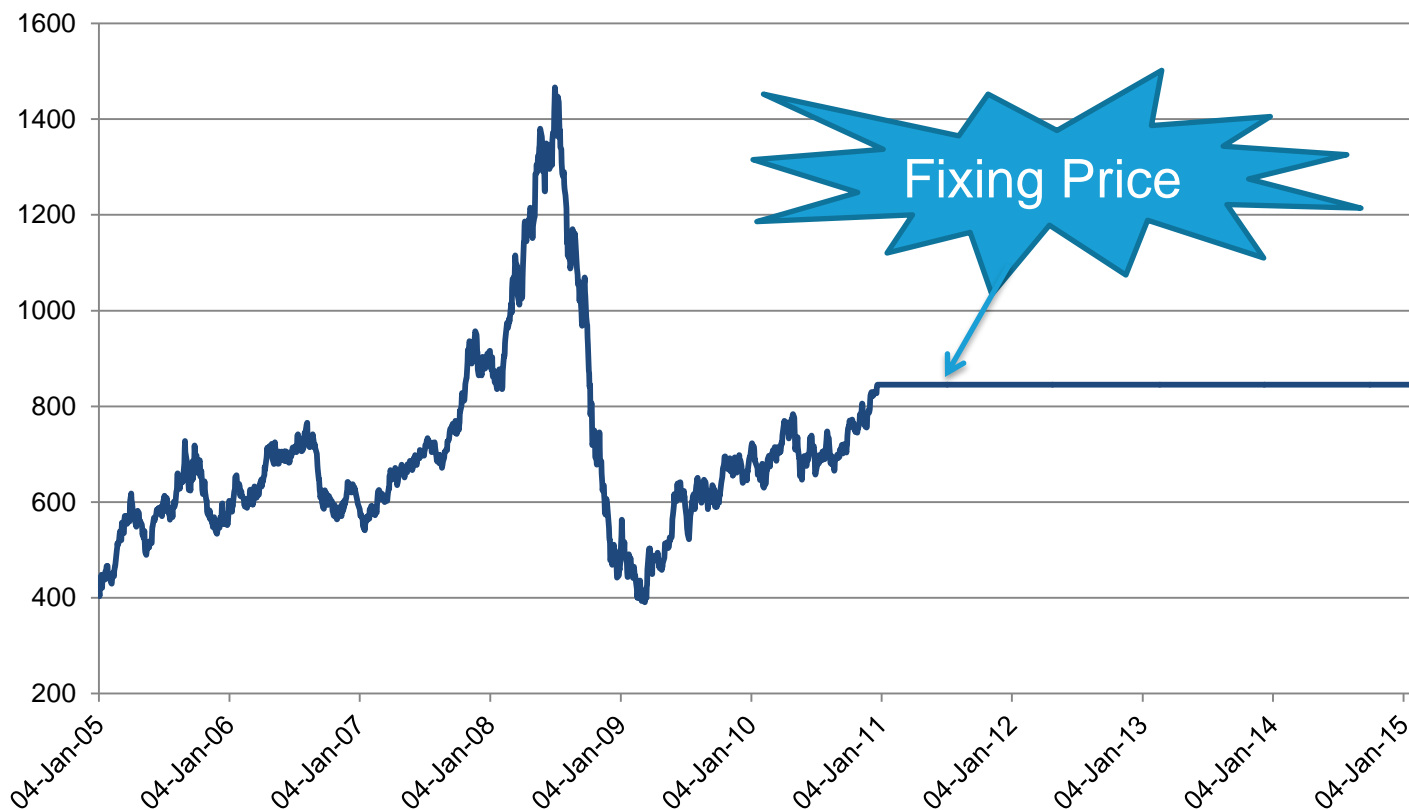


Past Performance

# Take a shorter term Fixed Price

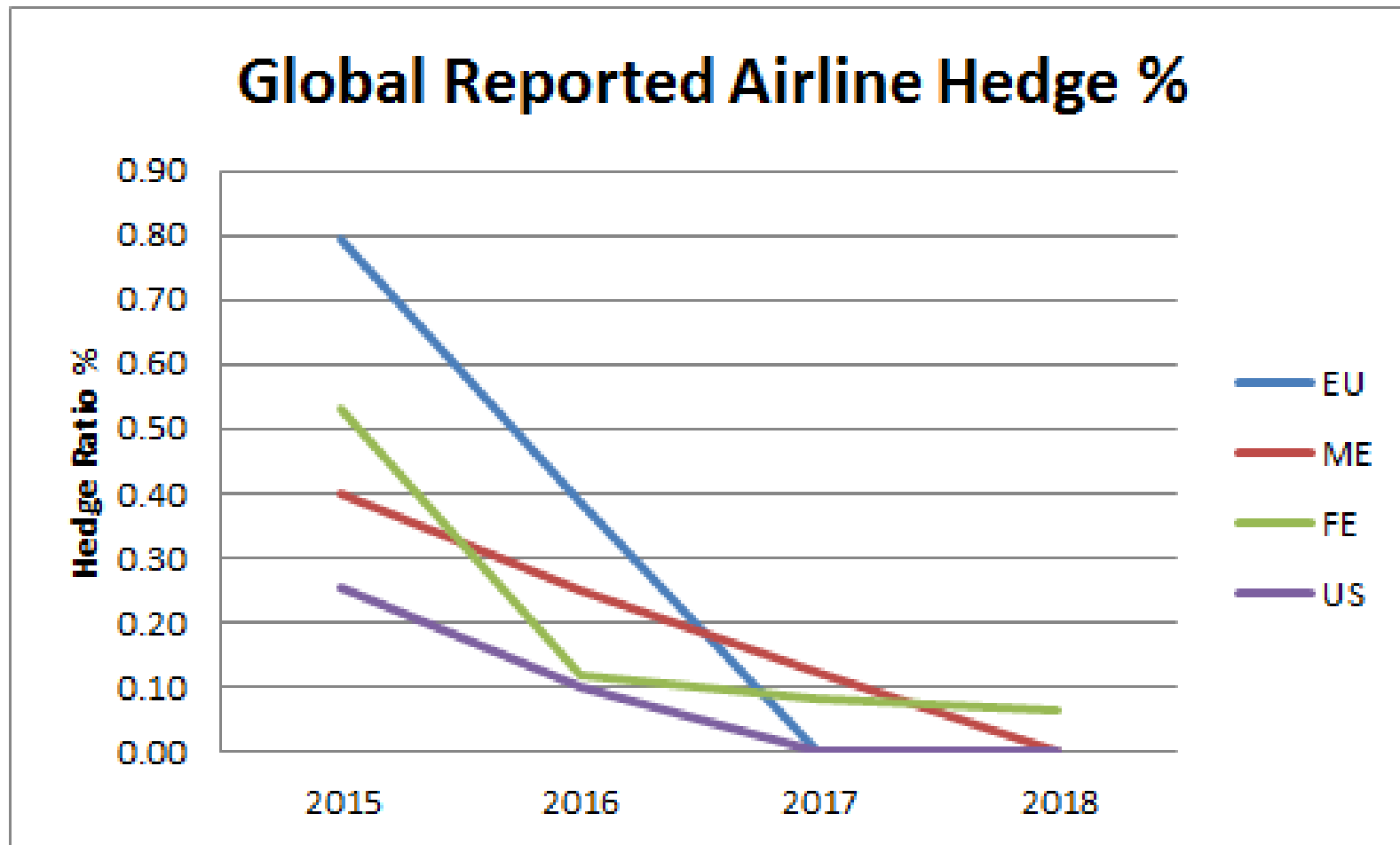


## Platts Jet Prices [USD/MT]



Past Performance

# Hedge Tenor – no single solution



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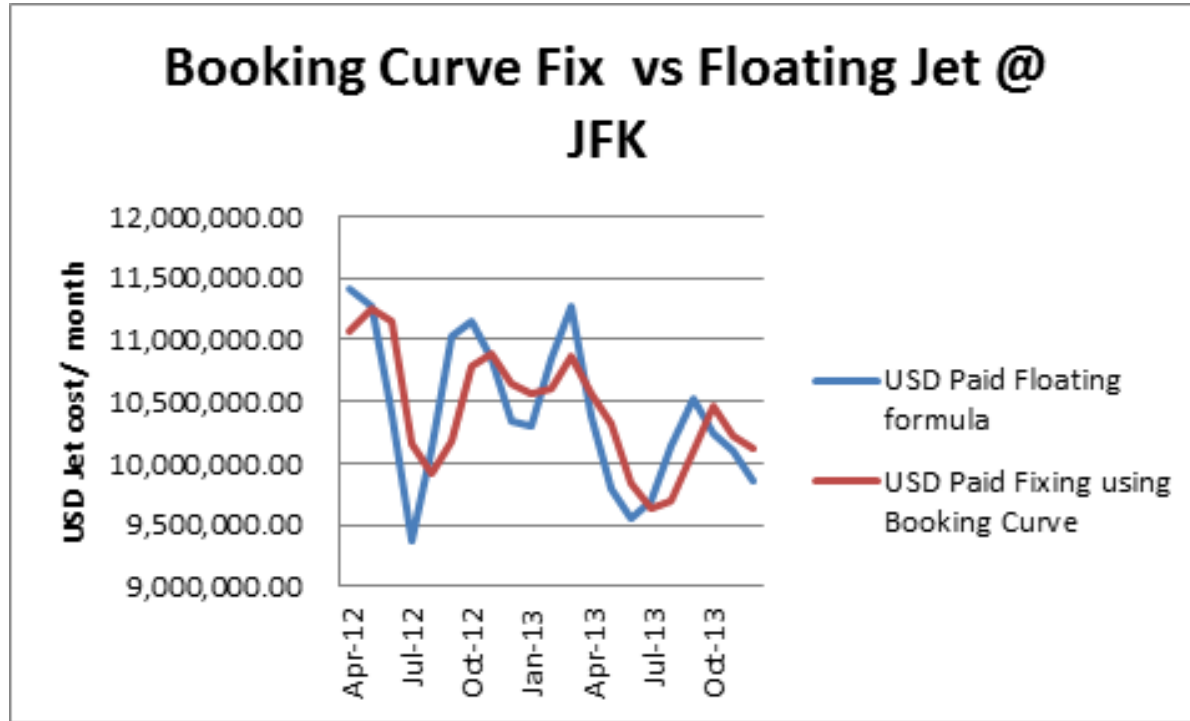
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# Back testing: Results of 3 month jet hedge program at JFK



Fixing for the immediate three months ahead is based on the monthly 50%, 23%, 10%,  
In the example fixing happens on the last day of the month for next three immediate months



- **Corporates hedge because price direction is so uncertain**
- **Fuel hedge ideally provides budget price certainty**
- **Market is volatile – that's why a prudent hedging policy is required**
- **Create an agreed stakeholder hedge policy – based on your risk**
- **Start capping/insuring longer term risk and then fixing short term price risk**

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