Fleet-renewal cycle keeps Comair flying

By Neels Blom

19 Mar 2018

The secret to successfully operating an airline business in SA is what Comair CEO Erik Venter calls a fleet-renewal cycle in which newer, bigger but more fuel-efficient aircraft are phased into the fleet, as older aircraft are phased out.

In a sense, this is counterintuitive for an industry already beleaguered by eyewatering capital inputs. Comair is in the process of acquiring eight new Boeing 737-8 Max aircraft at a cost of $420m, scheduled for delivery between 2019 and 2022.

Venter made his remarks in the presence of Boeing's sub-Saharan MD Miguel Santos, who took the trouble to emphasise that Boeing was no mere vendor, but Comair's business partner.

That disclaimer aside, a wider context is the gravitas of Comair's performance record.

In February, it reported a record R203m operational profit in its 71-year unbroken profit record. In shareholder value, it now ranks among the top five JSE-listed companies on an average annual growth of 41.5%. It achieved this in an industry globally recognised as profoundly regulated, capital intensive, volatile and cyclical with negligible profit margins. The South African industry mirrors this, only more acutely, with tightening regulation and considerable price competition from state-owned carriers.

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14 Sep 2017

To illustrate, Venter enumerated the failure of 80% of privately owned companies out of a total 18 operators.

The survivors among state-owned entities were South African Airways (SAA), SA Express, Mango and (semistate) SA Airlink.

In the comparable private sector, only Comair (BA and kulula.com) and Flysafair were still in existence.

Why Comair survives

Comair survives because it has been able to close the gap between costs and revenues per unit. Costs per aircraft in the period from 2001 to 2017 rose 222%, while the revenue per unit rose a mere 20%. That would sink any airline in its first year of operation, said Venter. This gap grows exponentially with each passing year.

The solution is the economies of scale that result from a fleet-renewal cycle. The new aircraft, for instance, are expected to burn 14% less fuel by volume, plus they carry more passengers.

This is important because fuel is any airline's single biggest cost and it has also become impossible to hedge against volatility in the oil price and in the rand's exchange rate.

Newer aircraft spend less time in maintenance, which means more paying passengers per hour and fewer ground staff, resulting in a competitive "scheduled reliability". The market reflects this, said Santos, with Boeing about 56% oversold, which he expected to grow to 60% by 2020.

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Comair's strategy, however, depends greatly on maintenance, for which it must rely on its relationship with SAA Technical (SAAT). Venter said Comair was cognisant of the challenges at SAA and SAAT, especially at managerial level where it could affect workflow, but it circumvented this by having its own structures in place at SAAT.

On a technical level, Comair was satisfied with SAAT, he said, but it was considering its options, including forming a relationship with Lufthansa.

The risks in the industry were many and large, said Santos. This had been compounded by the slow and partial uptake of an open-skies policy.

This had meant a lost opportunity for African airlines. To fix this, Africa must adopt an open-skies policy, he said.

Source: Business Day