



# PNG Air

**23<sup>rd</sup> Joint 2018 Annual Conference**

**of**

**CPA PNG & CPA Australia (PNG Branch)**

- 01 November 2018





# Agenda

- Asia Pacific Aviation Market
- PNG Domestic Market
- Aviation market challenges
- Trends





# Asia Pacific Region

- Diverse geographic region
- Home to more than 4 billion people
- Largest share of global passenger market
- 33% of global passenger revenue
  - USD 166 billion revenue
  - USD 7 billion net profit (4.2%)
  - 1,340 million passengers per year
    - PNG Share 0.15%
- Future growth will come from this region with 20 year CAGR growth of 5.6%

PNG has potential to access some of this growth but infrastructure development and social/environmental concerns remain as issues





# PNG Domestic Aviation Market

- Aviation fulfils vital community and commercial role
  - Lack of alternative transportation options
  - Challenging geography
- A competitive aviation sector drives options for customers, improved service delivery and lower price points
- Increasing middle class sector fuels demand for domestic traffic however resource sector requirements and performance are still main driver





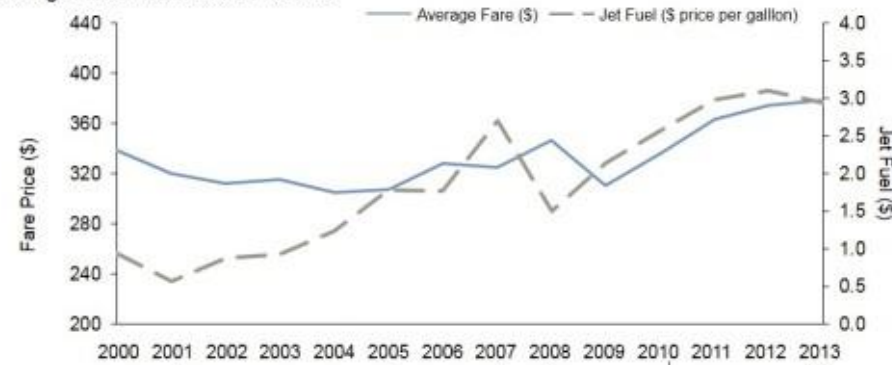
# Fuel price link to ticket prices

- Challenge in PNG is that rising fuel prices are good for the country in terms of revenue but result in increased cost to travel while depressed fuel prices generate lower cost tickets but fewer people have the disposable income to take advantage of this.

EXHIBIT 3

## Average Fare Prices Track Economic Fluctuations Like The Price Of Jet Fuel

Average Fares versus Cost of Jet Fuel



2001: American/TWA  
 2005: American West/US Airways, Skywest/Rambler, South East, Republic Airways Holdings/Shuttle America, Midwest Airlines and Frontier Airlines  
 2006: Southwest/ATA  
 2006-2010: Delta/Norwest  
 2007: Pinnacle Airways Holdings/Colgan Air  
 2011: Pinnacle/MESABA, Skywest/Atlantic, Southeast, Express Jet, Southwest/Airbus  
 2012-2013: Continental/United  
 2013: Delta/Virgin Atlantic, U.S. Airways/American

\*Research and Innovative Technology Administration, Bureau of Transportation Statistics  
\*\*Bloomberg







# PNG Domestic Aviation Market

- Both domestic carriers have issues due high fixed costs, low utilisation and depressed consumer confidence.
  - Crewing availability and cost are of concern worldwide
  - Charter margins are down significantly in the past 4 years
  - Domestic freight demand is at 2016 levels
- The race is on to improve efficiency and eliminate waste.
  - Virgin Australia            106:1 FTE/aircraft
  - Air New Zealand            100:1
  - Air Niugini                    79:1
  - PNG Air                        47:1






# External factors affecting performance

- PNG Economic situation is probably at an all time low and running counter to all earlier projections:



- Access to forex
  - Resource sector stagnant
  - Retail sector in decline
  - Domestic freight market in decline
- 



# Carrier Comparison Domestic (01 Oct 2018)

- Coverage is very equally spread domestically
- PX POM hub vs PNG Air connecting strategy
- Total Seats in Market 57945 (per week)
  - PX seats 30758 53%
  - PNG Air seats 27187 47%

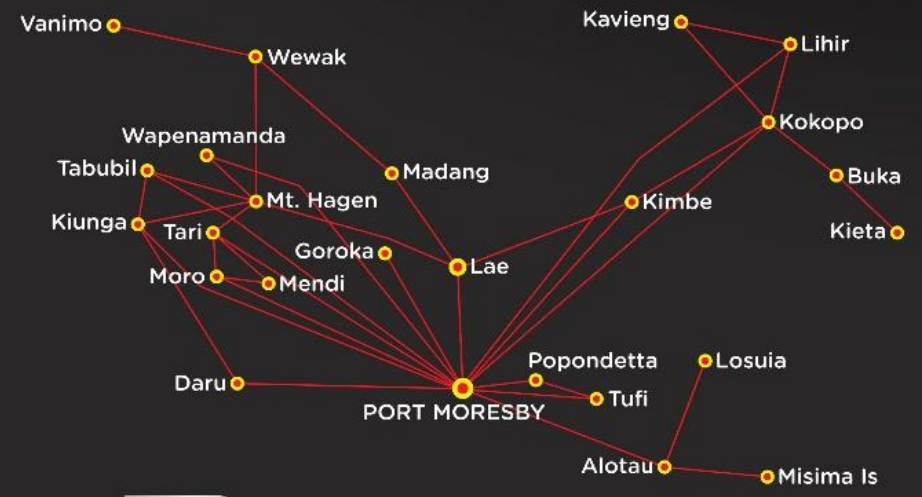
	PNG Air	Air Niugini
BUA	7	6
DAU	4	4
GKA	13	14
GUR	12	8
HGU	27	23
HKN	14	16
KVG	8	7
LAE	41	33
LNV	13	4
LSA	2	0
MAG	14	12
MAS	0	5
MIS	3	0
PNP	12	11
POM	94	148
RAB	36	29
TBG	7	7
TFI	3	0
UNG	8	7
VAI	7	4
WBM	5	4
WWK	16	11
	346	353



PROUDLY PNG OWNED



# MORE DESTINATIONS MORE OFTEN Get Connected



# PNG Air

**CENTRAL RESERVATIONS**

Phone: + 675 7222 2151  
TOLL FREE NUMBER 16111  
Email: [reservations@pngair.com.pg](mailto:reservations@pngair.com.pg)





# PNG Air Passengers Carried

Dash 8 + ATR = Grand Total

	Grand Total
2014	389,063
2015	378,602
2016	240,451
2017	179,536
2018	102,661

	Grand Total
2014	
2015	10,133
2016	212,331
2017	368,004
2018	266,454

YEAR	Grand Total
2014	389,637
2015	388,735
2016	452,782
2017	547,540
2018 est	560,000

PNG Air now carry approximately 40% of all domestic travellers in PNG

49% increase in passenger numbers in 5 years





# Aviation Market: Supply

- Demand is cyclical and inventory cannot be put into a warehouse
  - Unsold seats cannot be sold at a later date
- New aircraft are ordered many years ahead of delivery
  - Ordered in good times and delivered in bad
- Market share to a large degree is driven by Frequency
- Reducing capacity increases unit costs
- Aircraft inventory is difficult to scale up/down as needed





# Aviation Market: Demand

- Highly cyclical dependent on day of week, time of day and seasonality
- Highly dependent on macro factors such as changes in the economy, resource sector performance (PNG) and Government policies.
- Air travel is 'derived demand' ie it exists as a supporter of other activities such as business connections, family needs, leisure activities.
  - Business travel is paid for in pre-tax kina and generally results in tangible benefits eg contracts, increased business, increased sales
  - Leisure travel is paid for in after tax kina and has intangible benefits and is easily postponed if times are hard
- PNG booking profile is far shorter than most markets.....bulk are booked within 5 days of travel so planning and forecasting is difficult





# General Rules of Thumb

- +1% in disposable income = +2.7% in traffic
- -10% in fares = +3% in traffic
- +10% in fares = -3% in traffic + 7% in revenue
  
- PNG market however differs from most markets in that lack of disposable income, leisure market not constrained by time and short booking profile tend to negate most of the above





# Fixed Costs + Variable Costs = Fully Allocated

## Costs

- Once aircraft are purchased, crews trained and schedules allocated then costs are disproportionately FIXED
- Seat is a perishable commodity which cannot be held over and sold the next day
- Cost of adding an additional passenger to a scheduled flight are negligible

In PNG due to the majority of travellers being 'time rich' last minute specials are highly dilutionary and therefore do not top up the revenue.





- Aircraft are expensive assets which only generate revenue when in the air
  - Larger aircraft have lower CASK (Cost per Available Seat Kilometre)
  - Smaller aircraft have lower hourly costs and trip costs
  - All aircraft enjoy a cost taper over distance
  - The greater the utilisation then the lower the cost

ATR 72 offers right balance in terms of size of aircraft however is constrained by the relatively short sectors in PNG (1 hour average) and low utilisation which does not assist efficiency







# Capital intensive industry with low margins

## USA Carriers

Profit per passenger USD17.75

Margin 9%

## International

Profit per passenger USD7.76

Margin 4.1%





WinCalendar **January 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	Facility Charges 50			18	19	20
21				25	26	27
28	29	30	31			

WinCalendar **February 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			



WinCalendar **March 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	GST 33		8	9	10
11	12			15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

WinCalendar **April 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	Fuel 35			20	21
22	23	24	25	26	27	28
29	30					

Average number of days over which to cover major costs

WinCalendar **May 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		1	2	3	4	5
6		Maintenance 28		10	11	12
13	1			17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

WinCalendar **June 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4	Crew 33			8	9
10	11				15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

WinCalendar **July 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	Ownership 55			13	14
15	16				20	21
22	23	24	25	26	27	28
29	30	31				

WinCalendar **August 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	Commission 8					

WinCalendar **September 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	Insurance 4				Catering	
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

WinCalendar **October 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

WinCalendar **November 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4					9	10
11					16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

WinCalendar **December 2018**

Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	Profit 15			28	29
30	31					





# Trends

- Internationally
  - Business models continue to evolve
    - Full service, Low Cost Carrier, Ultra Low Cost Carrier
  - Multiple brands
    - QF/JQ or SQ, Scoot, Silkings or Westjet, Swoop
  - Differentiated classes of service
  - Unbundling of ancillary services
    - Seat + Seat choice + Meal + Bags + Entertainment + Lounge
  - Optimising revenue through network connectivity and alliances





# Trends

- Domestically
  - PNG market will benefit from increased utilisation resulting from infrastructure improvements underway from NAC and PNG Air Services
  - Use of technology to increase distribution/payment alternatives
  - Move to unbundle ancillary services





P2-ATF

[www.pngair.com.pg](http://www.pngair.com.pg)

PN*G* Air