

Air New Zealand

Can Bernoulli or Newton Explain the Lift?

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UNDERPERFORM

Air New Zealand (AIR) remains severely challenged by COVID-19 given border closures and the adverse impact on passenger demand. Cash losses and asset impairments will materially deplete its net asset value (NAV) as at 30 June 2020, and likely further to 30 June 2021. Our demand/capacity assumptions are broadly consistent with management commentary that the airline will be ~70% of its former size in two years time. We lower our target price to NZ\$0.70 from NZ\$1.00 to reflect heavier losses (and therefore a lower NAV) in FY21 than previously anticipated. With the share price trading substantially higher than this level, we retain an UNDERPERFORM rating.

NZX Code	AIR	Financials: Jun/	19A	20E	21E	22E	Valuation (x)	19A	20E	21E	22E
Share price	NZ\$1.60	NPAT* (NZ\$m)	270.1	-115.3	-274.0	-5.6	EV/EBITDA	3.5	6.1	8.5	4.5
Target price	NZ\$0.70	EPS* (NZc)	23.9	-10.2	-24.3	-0.5	EV/EBIT	8.9	n/a	n/a	n/a
Risk rating	High	EPS growth* (%)	-30.4	n/a	n/a	98.0	PE	6.7	n/a	n/a	n/a
Issued shares	1123.0m	DPS (NZc)	22.0	0.0	0.0	0.0	Price / NTA	0.9	2.0	3.0	3.1
Market cap	NZ\$1,797m	Imputation (%)	100	100	100	100	Cash div yld (%)	13.8	0.0	0.0	0.0
Avg daily turnover	2,072k (NZ\$3,498k)	*Based on normalised profits					Gross div yld (%)	19.1	0.0	0.0	0.0

What's changed?

- **Earnings:** PBT lowered in FY21 to -NZ\$381m
- **Target price:** Based on FY21 NAV; reduced to NZ\$0.70 from NZ\$1.00

Survive, revive and thrive

The company's 800 day plan to survive, revive and thrive provides a repositioning framework for AIR to rethink its business model and market opportunity. The survive part is cost focussed and is likely to run until the end of August 2020, by which time it is likely to have cut almost half of its previous fixed cost base, much of which relates to labour. The revive stage is about rebuilding revenues and incorporates the return of commercial international passenger flights. The 800 day plan ends with the thrive stage. Thrive is focussed on quality, rather than size. A distinct redirection from AIR's approach of recent years and consistent with our pre COVID-19 thinking that the new CEO, Greg Foran, would reinvest in people, product and prices.

Balance sheet needs

Ongoing cash losses, while narrowing, will continue into FY21. This means AIR's cash liquidity position will continue to fall. Management suggests that it will need to access the Government's NZ\$900m debt facility over the coming months. This may not be necessary if it undertakes an equity recapitalisation. AIR entered COVID-19 at the top end of its target gearing range of 45%-55%. In contrast, we expect net gearing to be well in excess of the range (~78%) at 30 June 2020.

NAV provides key valuation benchmark

In an uncertain world, with a very wide margin for error accepted in our earnings forecasts, we retain an asset based approach to valuing AIR. We recognise that the wide range of potential earnings/impairment outcomes over the next several years adds risk to the accuracy of our NAV calculation, albeit we acknowledge the clear distance between AIR's share price and our NAV based target price.

Air New Zealand Ltd (AIR)

Priced as at 12 Jun 2020 (NZ\$)

1.60

12-month target price (NZ\$)*						Spot valuations (NZ\$)					
Expected share price return						1. Net asset value				0.70	
Net dividend yield						2. n/a				n/a	
Estimated 12-month return						3. n/a				n/a	
Key WACC assumptions						DCF valuation summary (NZ\$m)					
Risk free rate					2.00%	Total firm value				5,078	
Equity beta					1.40	(Net debt)/cash				(1,535)	
WACC					9.8%	Less: Capitalised operating leases				(2,821)	
Terminal growth					1.5%	Value of equity				723	
Profit and Loss Account (NZ\$m)						Valuation Ratios					
Sales revenue	2018A	2019A	2020E	2021E	2022E	EV/EBITDA (x)	2018A	2019A	2020E	2021E	2022E
Normalised EBITDA	5,485.0	5,785.1	4,571.9	2,276.4	3,799.0	EV/EBIT (x)	2.9	3.5	6.1	8.5	4.5
Depreciation and amortisation	1,065.0	935.1	549.0	393.8	742.9	PE (x)	5.7	8.9	n/a	n/a	>100x
Normalised EBIT	(525.0)	(567.0)	(820.8)	(730.6)	(709.7)	Price/NTA (x)	4.7	6.7	n/a	n/a	n/a
Net interest	540.0	368.1	(271.8)	(336.8)	33.2	Free cash flow yield (%)	0.9	0.9	2.0	3.0	3.1
Associate income	(33.0)	(31.0)	(74.0)	(73.8)	(71.0)	Net dividend yield (%)	12.4	9.2	-50.6	-2.0	6.0
Tax	33.0	37.0	30.0	30.0	30.0	Gross dividend yield (%)	13.8	13.8	0.0	0.0	0.0
Minority interests	(150.0)	(104.0)	200.4	106.6	2.2		19.1	19.1	0.0	0.0	0.0
Normalised NPAT	0	0	0	0	0	Capital Structure					
Abnormals/other	390.0	270.1	(115.3)	(274.0)	(5.6)	Interest cover EBIT (x)	2018A	2019A	2020E	2021E	2022E
Reported NPAT	0	0	616.7	0	0	Interest cover EBITDA (x)	16.4	11.9	n/a	n/a	0.5
Normalised EPS (cps)	390.0	270.1	(732.1)	(274.0)	(5.6)	Net debt/ND+E (%)	32.3	30.2	7.4	5.3	10.5
DPS (cps)	34.4	23.9	(10.2)	(24.3)	(0.5)	Net debt/EBITDA (x)	39.0	42.5	59.3	66.2	64.1
	22.0	22.0	0	0	0		1.3	1.6	2.8	3.9	1.8
Growth Rates						Key Ratios					
Revenue (%)	2018A	2019A	2020E	2021E	2022E	Return on assets (%)	2018A	2019A	2020E	2021E	2022E
EBITDA (%)	7.4	5.5	-21.0	-50.2	66.9	Return on equity (%)	6.9	4.7	-3.5	-4.6	0.5
EBIT (%)	2.9	-12.2	-41.3	-28.3	88.7	Return on funds employed (%)	17.9	12.9	-10.8	-35.0	-0.7
Normalised NPAT (%)	-0.4	-31.8	n/a	n/a	n/a	EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a
Normalised EPS (%)	2.9	-30.8	n/a	n/a	n/a	EBIT margin (%)	19.4	16.2	12.0	17.3	19.6
Ordinary DPS (%)	3.4	-30.4	n/a	n/a	n/a	Capex to sales (%)	9.8	6.4	-5.9	-14.8	0.9
	4.8	0.0	-100.0	n/a	n/a	Capex to depreciation (%)	14.7	14.2	13.1	15.4	9.2
						Imputation (%)	154	145	73	48	49
Cash Flow (NZ\$m)						Pay-out ratio (%)	100	100	100	100	100
EBITDA	2018A	2019A	2020E	2021E	2022E		64	92	0	0	0
Working capital change	1,065.0	935.1	549.0	393.8	742.9	Operating Performance					
Interest & tax paid	227.0	245.0	0	0	0.0	2018A	2019A	2020E	2021E	2022E	
Other	(183.0)	(135.0)	238.3	60.3	(41.3)	Available Seat Km (ASK)					
Operating cash flow	(78.0)	(59.1)	(1,097.2)	(140.4)	(243.6)	Domestic	6,905	7,104	5,648	4,262	5,683
Capital expenditure	1,031.0	986.0	(309.9)	313.6	458.1	Tasman and Pacific	12,964	13,640	10,298	8,184	11,594
(Acquisitions)/divestments	(809.0)	(821.0)	(600.0)	(350.0)	(350.0)	Long-haul	24,406	25,285	20,481	2,529	12,643
Other	33.0	13.0	40.0	40.0	40.0	Total	44,275	46,029	36,427	14,975	29,920
Funding available/(required)	253.0	103.0	(851.9)	21.6	166.1	Change (%)	5.0	4.0	-20.9	-58.9	99.8
Dividends paid	(260.0)	(260.0)	(260.0)	0	0	RASK (cents per ASK)					
Equity raised/(returned)	(17.0)	(14.0)	0	0	0	Domestic	22.0	22.5	22.7	20.3	20.8
(Increase)/decrease in net debt	(24.0)	(171.0)	(1,111.9)	21.6	166.1	Tasman and Pacific	9.6	9.6	9.3	8.7	8.9
						Long-haul	7.9	8.1	7.7	7.3	7.5
Balance Sheet (NZ\$m)						Total	10.6	10.8	10.5	11.7	10.6
Working capital	2018A	2019A	2020E	2021E	2022E	Costs					
Fixed assets	89.0	60.0	67.3	74.2	69.6	Ave. jet fuel price (US\$/bbl)	68.6	82.0	75.8	49.5	59.0
Intangibles	5,035.0	5,268.0	3,438.0	3,238.0	3,058.9	Fuel supply chain (US\$/bbl)	10.0	11.4	11.0	12.0	12.0
Right of use asset	170.0	186.0	186.0	186.0	186.0	Jet fuel cost (US\$/bbl)	78.6	93.4	86.8	61.5	71.0
Other assets	0	0	2,459.0	2,459.0	2,459.0	Jet fuel volume (bbl in millions)	9.0	9.1	7.2	3.6	6.8
Other liabilities	647.0	602.0	602.0	602.0	602.0	Ave. NZDUSD rate	0.72	0.67	0.64	0.61	0.63
Total funds employed	5,941.0	6,116.0	6,752.3	6,559.2	6,375.5	Jet fuel (NZ\$m)	987	1,271	977	363	770
Net debt/(cash)	1,391.0	1,542.0	1,553.9	1,532.3	1,366.2	Unit fuel (cents/ASK)	2.2	2.8	2.7	2.4	2.6
Lease liability	0	0	2,186.0	2,186.0	2,186.0	CASK ex-fuel/forex (cents/ASK)	7.2	7.4	8.4	10.9	8.5
Other liabilities	2,374.0	2,485.0	1,944.2	2,058.8	2,058.8						
Shareholder's funds	2,176.0	2,089.0	1,068.2	782.2	764.5						
Minority interests	0	0	0	0	0						
Total funding sources	5,941.0	6,116.0	6,752.3	6,559.2	6,375.5						

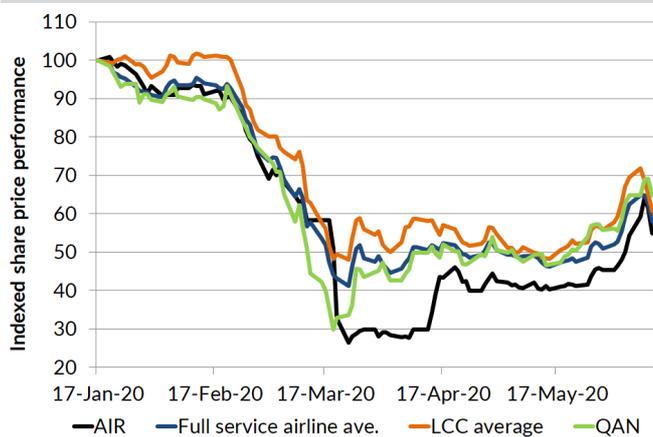
* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Valuation; NAV anchor appropriate given outlook uncertainty

Notwithstanding the declines late last week, airline share prices have rallied strongly in recent weeks on (1) strong retail investor buying, and (2) hopes of a "V" shaped recovery in air travel, despite the need for capital to support the industry in light of significant losses likely to be incurred in 2020, the worst year by a significant distance in aviation history. Industry body IATA last week estimated that combined airline losses in 2020 would be -US\$84bn at a net profit margin of -20%. Air New Zealand's (AIR) share price has followed a very similar pattern to its global peers, yet we continue to believe it needs a recapitalisation (an equity injection) to allow it to *survive, revive and thrive*.

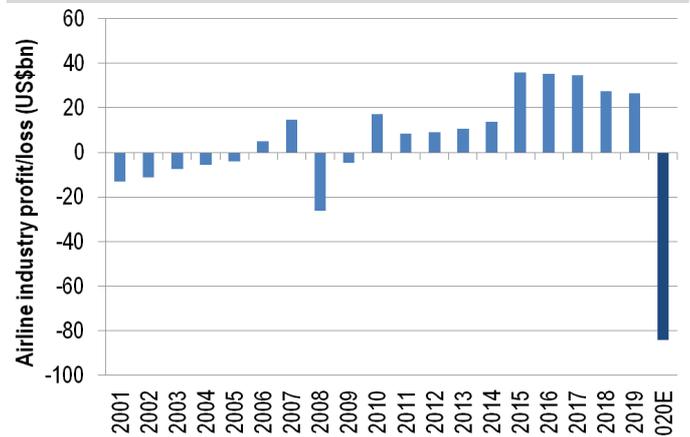
Our target price is lowered to NZ\$0.70, reflective of our NAV (net asset value) estimate as at 30 June 2021. However, we acknowledge the wide margin for error concerning this forecast given the range of possible operating outcomes over the next 12 months.

Figure 1. Airline share prices have bounced strongly



Source: Eikon, Forsyth Barr analysis

Figure 2. Global airline industry profit/(losses) in recent years

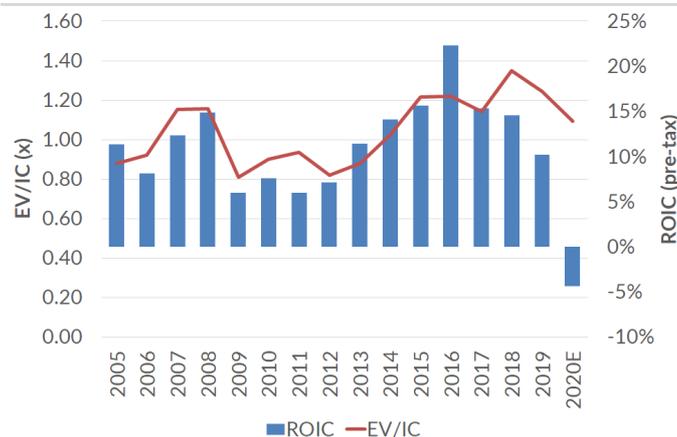


Source: IATA, Forsyth Barr analysis

Asset based valuations

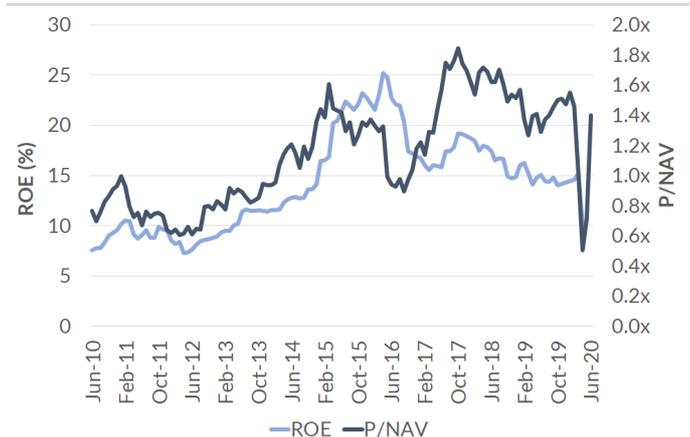
There are a number of different asset based valuations available, which largely provide the same insight or outcomes. We typically favour EV/IC (enterprise value to invested capital) given its symmetry with our ROIC (return on invested capital) framework. Albeit P/NTA (price to net tangible assets) or P/NAV (price to net asset value) and ROE (return on equity) are equally useful approaches.

Figure 3. Annual ROIC vs EV/IC



Source: AIR, Forsyth Barr analysis

Figure 4. Monthly forward ROE vs P/NAV



Source: Datastream, Forsyth Barr analysis

ROIC is a key driver of EV/IC multiple

Over the past 15 years AIR has generated an average pre-tax ROIC of ~12%. On a post-tax basis, this equates to ~9%. Valuation theory suggests that when a company's ROIC is in excess of its WACC then its EV (enterprise value) should be higher than IC (invested capital). Our assessment of AIR's EV/IC multiple over the same period suggests an average EV premium of ~+5%, implying that the market's forward view on its ROIC outlook was positive relative to its WACC.

What EV/IC should AIR trade at now?

This depends on its sustainable return on capital relative to its WACC, in our view. Quite simply, a company generating a return on capital in excess of its WACC should command an EV/IC in excess of 1.0x. AIR has historically generated a return on capital in-line with its WACC, but in light of the large amount of uncertainty surrounding AIR's key drivers (cash burn? impairments? border restrictions? consumer/corporate demand? competition? fuel costs?) over the near, medium and long term, we believe it is appropriate to assume at best that AIR can ultimately generate a return in-line with WACC for the foreseeable future. Therefore, we believe a target EV/IC multiple of 1.0x is appropriate for AIR in the current environment.

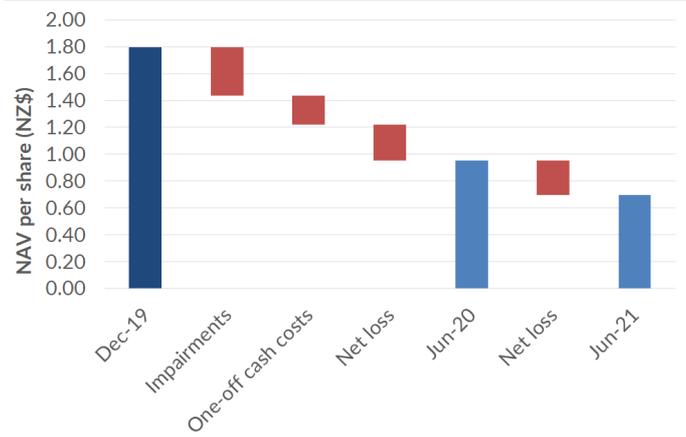
At an EV/IC of 1.0x, the implied share price becomes NAV (net asset value) per share. We've also referred previously to AIR's NTA (net tangible assets), which is NAV less intangible assets. The difference between the two relates primarily to internally developed software, which amounts to around 16c per share.

Figure 5. Asset values for AIR at different balance dates (NZ\$m)

	Jun-19	Dec-19	Jun-20	Jun-21
Shareholders' equity	2,089	2,014	1,068	782
Net debt	1,271	2,389	3,900	3,878
Capitalised op. leases	1,246	-	-	-
Invested capital (IC)	4,606	4,403	4,968	4,660
Invested capital/share (c)	4.10	3.92	4.42	4.15
Shareholders' equity	2,089	2,014	1,068	782
Net asset value (NAV)	2,089	2,014	1,068	782
NAV per share (cents)	1.86	1.79	0.95	0.70
Shareholders' equity	2,089	2,014	1,068	782
Less: Intangible assets	(186)	(188)	(187)	(186)
Net tangible asset (NTA)	1,903	1,826	881	596
NTA per share (cents)	1.69	1.63	0.78	0.53

Source: Forsyth Barr analysis *estimated

Figure 6. NAV bridge between Dec-19 and Jun-21*



Source: Forsyth Barr analysis *estimated

Outlook for FY21 and beyond

Providing reliable forecasts for AIR in the current environment is challenging and comes with a 'wide margin for error' warning. The uncertainty stemming from key drivers (including border restrictions, consumer/corporate demand, competition and fuel costs) is extreme. While we acknowledge our forecasting shortcomings, our approach to equity analysis forces us to provide mid-point estimates for AIR's earnings over the next few years. With this in mind, several key principles underpin our medium term forecasts:

- AIR will be a **smaller airline** post COVID-19
- AIR has **competitive advantage** particularly through its loyalty scheme, airports, and Koru membership
- AIR has very **favourable structural positions** in New Zealand and internationally
- AIR is **return on capital focused**

We consider each of these below but first outline our updated forecasts.

Earnings revisions

We make material cuts to our FY21 and FY22 earnings estimates as shown in Figure 7. The longer duration recovery than previously envisioned when we last changed our forecasts (16 March 2020) has a materially negative impact on earnings. We now expect AIR to be loss making in both FY20, FY21 and FY22. Assuming profits resume in FY23, the company may then resume its dividends.

Our RASK estimates simplistically assume a -10% decline in FY21 on FY19 levels across each business segment, with a modest improvement in FY22. We expect RASK to be below prior levels due to (1) excess capacity, (2) lower levels of higher RASK business travel demand, and (3) the flow-on effects of lower fuel prices. Overall, RASK changes in Figure 7 are heavily influenced by capacity mix changes.

Figure 7. Earnings revisions (NZ\$m)

	FY20E			FY21E			FY22E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Group RASK growth	-1.0%	-2.6%	-161 bps	-1.5%	11.8%	1330 bps	3.1%	-9.9%	-1295 bps
Group ASK growth	-19.0%	-20.9%	-187 bps	-2.0%	-58.9%	-5689 bps	25.9%	99.8%	7392 bps
Total fuel cost (ex forex hedging)	993	977	(16)	792	363	(429)	1,029	770	(260)
Sales revenue	4,837	4,572	-5%	4,707	2,276	-52%	5,967	3,799	-36%
Underlying PBT	(162)	(316)	-95%	(128)	(381)	-198%	532	(8)	-101%
Underlying NPAT	(116)	(115)	1%	(92)	(274)	-198%	383	(6)	-101%
Underlying EPS (cents)	(10.3)	(10.2)	1%	(8.1)	(24.3)	-198%	33.9	(0.5)	-101%
DPS (cents)	11.0	0.0	-100%	0.0	0.0	n/a	22.0	0.0	-100%

Source: Forsyth Barr analysis

A smaller airline

AIR has consistently said that it will be a smaller airline as a result of COVID-19. It has been positioning itself to be ~70% of its former size. We believe it can be profitable at this size, albeit this is subject to addressing its fixed cost base (which it is doing), reducing capacity to ensure RASK is optimised, and rationalising the fleet to remove capital.

Fixed cost base

We assume AIR's cost base (excluding fuel) was 40% fixed and 60% variable in FY19 levels. Fixed costs are predominantly labour and in FY20 totalled ~NZ\$1.3bn. Cost cutting initiatives to remove headcount should realise savings of NZ\$350m–NZ\$400m from July 2020, with a further NZ\$150m of labour savings targeted.

Reduced capacity

Our forecasts are predicated on the capacity assumptions outlined in Figure 8. We expect average capacity to be ~65% of FY19 levels in FY22, broadly in-line with AIR's current planning assumptions to be 70% of its former size.

Figure 8. Capacity assumptions (average for year) for medium term recovery at AIR

	FY19	FY20E	FY21E	FY22E	FY23E
Domestic	100%	80%	60%	80%	90%
Tasman/Pacific Islands	100%	75%	60%	85%	90%
Long haul	100%	80%	10%	50%	70%
Total	100%	79%	33%	65%	79%

Source: Forsyth Barr analysis

Long haul fleet rationalisation

AIR is grounding its B777-200 fleet and up to two B777-300 aircraft. In combination these account for around one third of its long haul capacity as outlined in Figure 9. As a result it will impair these aircraft as at 30 June 2020 by NZ\$350m–NZ\$450m. Consequently, we expect depreciation to fall by ~NZ\$100m from FY21.

Figure 9. B777s grounded

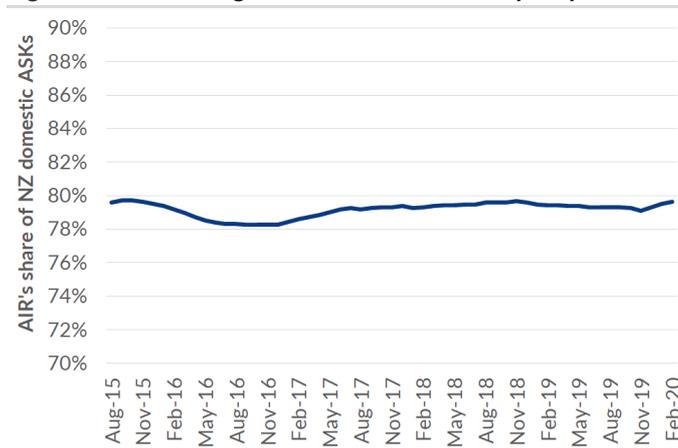
Aircraft	In operation	Seats	Available seats	Proportion of long haul capacity
B777-200ER	8	312	2,496	27%
B777-300ER	2	342	684	7%
Mothballed long haul fleet	10	318	3,180	34%
B777-300ER	6	342	2,052	22%
B787-9	9	302	2,718	29%
B787-9	5	275	1,375	15%
Total long haul	30	311	9,325	100%

Source: Forsyth Barr analysis

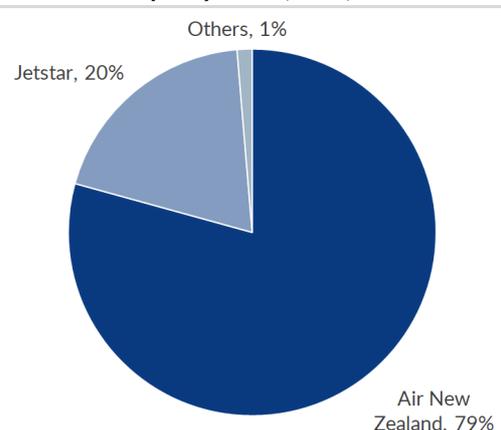
Favourable structural positions

AIR has enviable structural positions in its domestic and international businesses compared to most airlines globally. In 2019 its share of domestic capacity was 79%, which will increase given Jetstar's exit from regional routes in December 2019. International share declined through the industry boom of 2016 and 2017, with a plethora of new airlines providing New Zealand services for the first time. However, some of these have since exited the market (Air Asia X, Hong Kong Airlines, Tianjin Airlines) and others have cut services (Emirates, American) and AIR's share has since at least partially recovered.

At a route level AIR has few competitors by number. The Tasman is its most competitive market, yet the three largest Tasman airlines (AIR, QAN including Jetstar and Virgin Australia) accounted for ~94% of capacity in 2019. The general rule of thumb in aviation is that, the fewer the number of competitors the more rational the supply backdrop, and therefore the pricing environment for airlines.

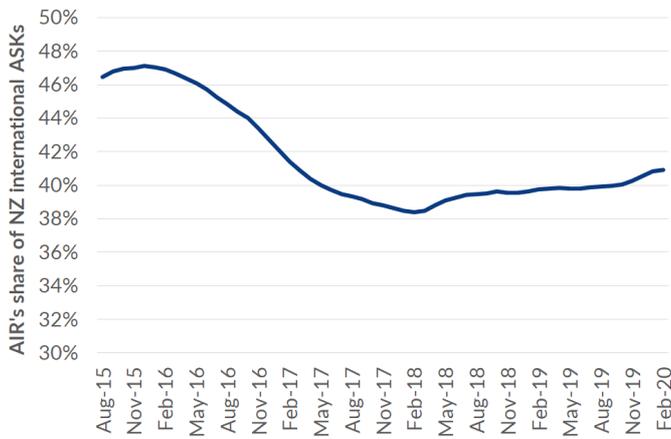
Figure 10. AIR's rolling 12m share of domestic capacity


Source: OAG, Forsyth Barr analysis

Figure 11. Domestic capacity share (2019)


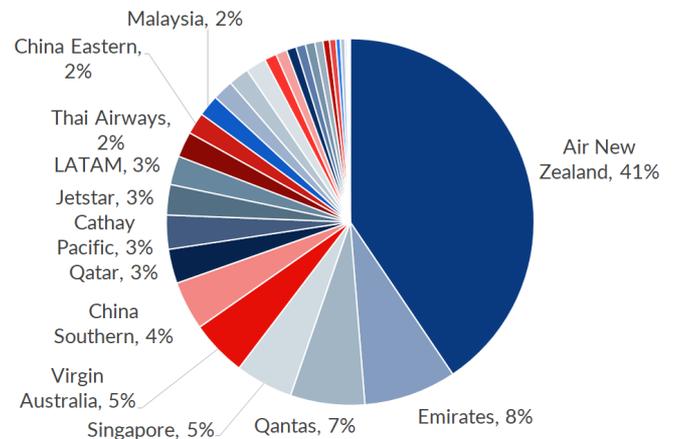
Source: OAG, Forsyth Barr analysis

Figure 12. AIR's rolling 12m share of international capacity



Source: OAG, Forsyth Barr analysis

Figure 13. International capacity share (2019)



Source: OAG, Forsyth Barr analysis

AIR's structural position is enhanced by its various airline joint ventures, which reduce competition. Its airline JVs include:

- United Airlines – mainland USA
- Singapore Airlines – Singapore
- Cathay Pacific – Hong Kong
- Air China – Shanghai, Beijing

Competitive advantage

A key source of AIR's competitive advantage stems from its Airpoints loyalty programme. Cam Wallace, Chief Revenue Officer spoke about it at the 2019 Investor Day: "if you're looking for a special sauce that exists at Air New Zealand, that is it. It's our Airpoints loyalty scheme. This is a fantastic scheme, an unbelievable product in terms of driving extraordinary attachment to the brand and our products and services."

Irrespective of the alleged brand damage as a result of COVID-19 and the company's reluctance to refund non-refundable tickets, we expect no lasting impact on AIR's competitive position in light of the strength of its loyalty scheme. It has over three million members accounting for two thirds of the New Zealand population. In contrast, the very successful Qantas Frequent Flyer programme has the equivalent of ~50% of the Australian population as members.

Figure 14. AIR's airpoints membership is the equivalent of 2/3rds of the New Zealand population

	Date	Members	Population	Proportion of population
Airpoints (AIR)	Apr-19	3.2	4.9	65%
Qantas Frequent Flyer	Jun-19	12.9	25.4	51%

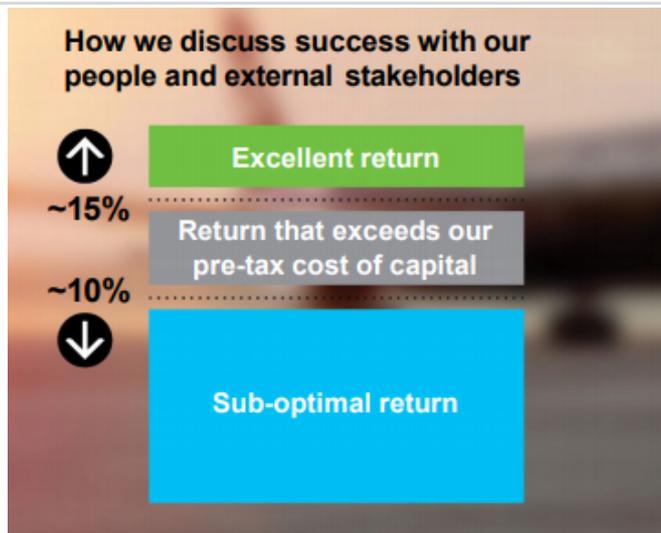
Source: Forsyth Barr analysis

Return on capital focussed

AIR is a return on capital focussed business. We don't expect this to change under new CEO Greg Foran. From 2019 AIR's short incentive programme uses pre-tax ROIC as the basis of determining its financial targets.

Its current ROIC model targets a pre-tax return of between 10% and 15% as shown in Figure 15. While this may be tweaked (lowered) in light of lower bond/risk free rates, the focus on ROIC helps with capital discipline and is congruent with shareholder value.

Figure 15. Slide from 2019 investor day



Source: AIR, Forsyth Barr analysis

Investment Summary

Air New Zealand (AIR) offers one of the most favourable structural positions for any airline globally. A dominant domestic business with ~80% market share and an international business that has mitigated competitive threats through JVs, lower cost capacity, and its brand positioning among higher yielding NZ travellers. Management is pursuing a rational value accretive strategy of optimising revenues through yield and capacity initiatives, and keeping a lid on costs. However, the dramatic impact of COVID-19 on demand through consumer behaviour and government intervention is likely to shift AIR well into loss-making territory for the foreseeable future. A substantial drop in oil prices provides some respite to profitability over the medium term, but that seems a long way off. UNDERPERFORM.

Business quality

- **Strong structural position in tough industry:** AIR operates in an intensely competitive industry. It benefits from a duopoly industry structure in NZ.
- **Fleet investment:** AIR continues to invest in new lower cost capacity, which provides scope for growth and a more competitive fleet.

Earnings and cashflow outlook

- **Fuel prices:** Jet fuel represents ~25% of the cost base at AIR and can have a significant impact on company profitability from period to period. AIR hedges forward most of its exposure, which offers near term certainty.
- **Passenger demand:** Rising secular demand both domestically and from offshore markets is supportive to yields and load factors.
- **Cost control:** Management believes cost control measures can more than offset inflationary pressures to lower CASK (cost per available seat km).

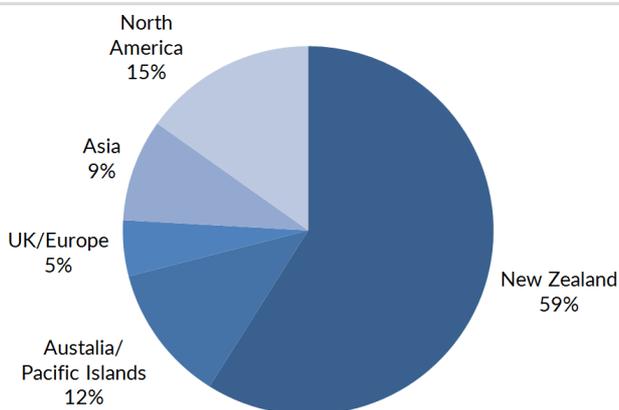
Financial structure

- **Balance sheet:** Gearing was at the top end of management’s 45%–55% target band at June 2019. This position will be exacerbated by the COVID-19 demand impact.
- **Capital raise:** In light of the severe demand implications of COVID-19 we believe a capital raise is likely to provide liquidity and protect the balance sheet.

Risk factors

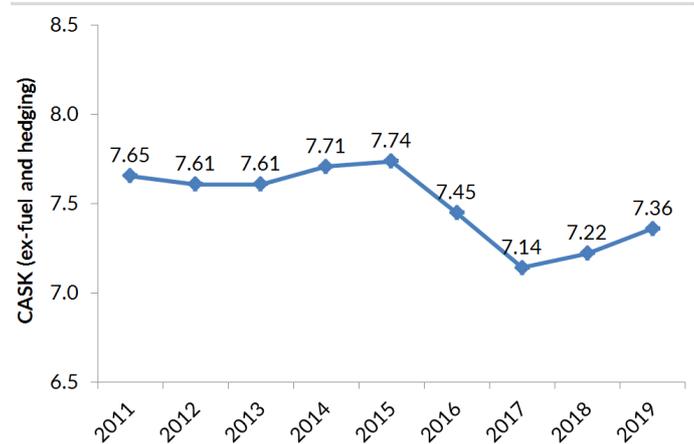
- **Left field events:** Disease outbreak (for example COVID-19), volcanic ash clouds, terrorism events.
- **Macro:** Volatility in exchange rates and global oil prices can have a dramatic impact on profitability.
- **Safety:** Any blip on AIR’s good safety record could impact passenger confidence in the airline.

Figure 16. Geographic exposure mix in FY19



Source: Forsyth Barr analysis

Figure 17. Cost per ASK under control (cents per ASK)



Source: Forsyth Barr analysis

Figure 18. Price performance


Source: Forsyth Barr analysis

Figure 19. Substantial shareholders

Shareholder	Latest Holding
NZ Govt	52.5%

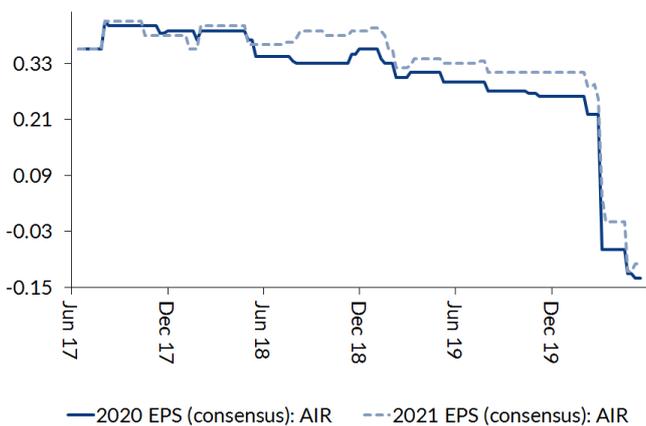
Source: NZX, Forsyth Barr analysis, NOTE: based on SSH notices only

Figure 20. International valuation comparisons

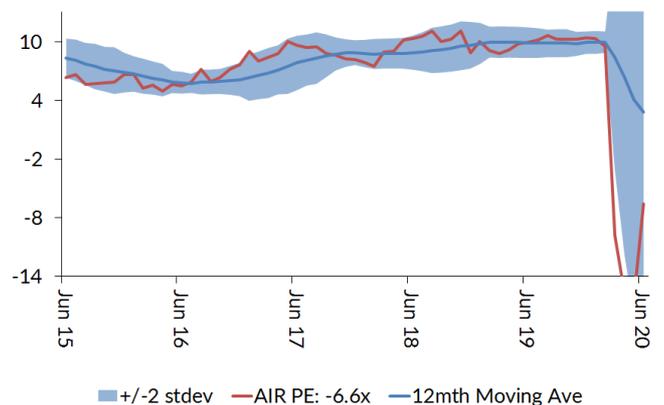
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld 2021E
				2020E	2021E	2020E	2021E	2020E	2021E	
Air New Zealand	AIR NZ	NZ\$1.60	NZ\$1,797	<0x	<0x	6.1x	8.5x	<0x	<0x	0.0%
DEUTSCHE LUFTHANSA-REG	LHA GY	€10.16	€4,856	1.3x	<0x	<0x	<0x	2.2x	6.1x	0.6%
AIR FRANCE-KLM	AF FP	€4.68	€2,004	3.2x	<0x	<0x	<0x	3.5x	<0x	0.0%
SINGAPORE AIRLINES	SIA SP	S\$4.20	S\$12,444	<0x	5.8x	16.3x	30.4x	>75x	<0x	1.5%
CATHAY PACIFIC AIRWAYS	293 HK	HK\$8.42	HK\$33,123	8.1x	14.4x	14.5x	14.3x	10.5x	10.4x	0.9%
QANTAS AIRWAYS	QAN AT	A\$4.63	A\$6,902	<0x	>50x	5.9x	5.5x	>75x	47.9x	1.4%
VIRGIN AUSTRALIA HOLDINGS LT	VAH AT	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
AMERICAN AIRLINES GROUP INC	AAL US	US\$14.38	US\$6,081	1.4x	<0x	<0x	1.9x	3.8x	28.5x	0.2%
UNITED AIRLINES HOLDINGS INC	UAL US	US\$33.32	US\$9,809	0.7x	25.5x	<0x	1.8x	1.5x	10.6x	0.0%
Compco Average:				3.0x	15.2x	12.2x	10.8x	4.3x	20.7x	0.7%
AIR Relative:				n/a	n/a	-50%	-21%	n/a	n/a	-100%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (AIR) companies fiscal year end

Figure 21. Consensus EPS momentum (NZ\$)


Source: Forsyth Barr analysis

Figure 22. One year forward PE (x)


Source: Forsyth Barr analysis

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