

Delta Air Lines CEO says surge of the omicron variant will result in a Q1 loss

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Delta Air Lines said Jan. 13 that the surge of the omicron variant of Covid-19 will drive it to a first-quarter loss, but that it still expects to turn a profit this year on stronger travel demand.

CEO Ed Bastian said omicron is expected to delay a rebound in air travel by about 60 days, forecasting losses for January and February and then profits in March.

“The next four to six weeks are going to be difficult,” Bastian said in an interview Thursday on CNBC’s “Squawk Box.” “What we do see in the booking data is President’s weekend forward looks really robust. ... People are ready to travel.”

Delta is the first U.S. airline to report fourth-quarter results and to give a detailed forecast of the variant’s impact on its business. Omicron’s rapid spread has hit theaters, restaurants, retailers and grocery stores.

Disruptions starting to ease

Airlines, including Delta, together canceled more than 20,000 U.S. flights from Christmas Eve through the first week of the year as a spike in Covid infections among crews left them short-staffed and winter storms rolled through some of the country’s busiest airports.

Bastian said around 8,000 of Delta’s employees, roughly 1 in 10, has tested positive for Covid over the last four weeks. United Airlines CEO Scott Kirby on Monday said some 3,000 of its roughly 67,000 U.S. employees had Covid simultaneously and that on one day recently at its Newark, New Jersey, hub, a third of the staff called out sick with the virus.

United, JetBlue Airways, Delta and others have been paying crews extra to pick up open shifts and ease staffing shortages. The bonus pay and disruptions will cost Delta between \$60 million and \$70 million in the first quarter, CFO Dan Janki said on an earnings call. That followed a roughly \$70 million revenue hit in the last three months of the year.

Delta said in an earnings release that its operation has stabilized and that omicron caused it to cancel only 1% of its flights over the past week.

“So while the new variant is not done, it appears that the worst may be behind us,” Bastian said on a call with analysts and reporters.

In the fourth quarter, Delta posted its highest revenue since late 2019, thanks in part to strong holiday bookings and more business travel.

Sales of \$9.47 billion beat analysts' expectations for \$9.21 billion. The company is still yet to fully recover from the Covid-19 crisis. Revenue was down 17% from \$11.44 billion during the last three months of 2019, just before the coronavirus pandemic began.

Delta set aside \$108 million in employee profit-sharing for its more than 75,000 employees, its first in nearly two years. In February 2020, Delta announced a record \$1.6 billion in profit-sharing for its staff, which then stood at 90,000.

"Amid the continuing challenges, including one of the most difficult holiday environments we've ever encountered, you continue to rise above and provide unmatched service to our customers," Bastian said in a note Thursday to employees.

Delta posted a net loss of \$408 million for the fourth quarter as fuel and other costs rose, partly driven by disruptions from omicron. Adjusting for one-time items, Delta reported per-share earnings of 22 cents, ahead of the 14 cents Wall Street expected.

For the full year, Delta reported \$280 million in profit, its first in two years, thanks to \$4.5 billion in federal aid for airline labor costs during the crisis. In 2020, after travel demand plunged, Delta posted its biggest-ever loss: \$12.4 billion.

Investors have largely shrugged off omicron's impact on airlines. Delta's shares are up 6% this year through Wednesday, while United and American shares are up 10% and 8%, respectively. The S&P 500, in comparison, is down 2.3%.

Delta expects first-quarter revenue to come in 24% to 28% below 2019 levels on capacity 15% to 17% below what it flew three years earlier. It forecast a roughly 15% jump in costs from 2019, excluding fuel.

Airlines have been comparing results to 2019 to show how far the business has recovered from pre-pandemic levels.

"The cost outlook is likely the biggest point of contention for investors, as airlines (not just Delta) have consistently seen higher than expected costs relative to expectations," MKM Partners airline analyst Conor Cunningham wrote in an investor note Thursday.

Hiring spree

Delta and its rivals have scrambled to hire pilots, flight attendants, baggage handlers and reservations agents, a challenge in a tight labor market.

Bastian said the company would hire between 3,000 and 5,000 employees this year on top of 9,000 last year "depending on how demand shapes and comes back."

He said the airline isn't having trouble hiring except for regional airlines, particularly in areas where the cost of living is high, like the Northeast.

Delta's regional flights — smaller planes operated by its subsidiary Endeavor Air or third-party contractors — will be down as much as 25% in the first part of the year, Delta President Glen Hauenstein said on the earnings call.

United is scheduled to report results after the market closes on Wednesday followed by American the next morning. Southwest Airlines will report the following week.

Delta's shares rose 2.1% on Thursday to \$41.47, giving some of the session's earlier gains. United rose 3.5% to end the day at \$48.17 while American added 4.5% to \$19.34.

Here's how Delta performed compared with what analysts expected, according to average estimates compiled by Refinitiv:

- Adjusted earnings per share: 22 cents versus 14 cents expected.
- Revenue: \$9.47 billion versus \$9.21 billion expected.

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