

Lufthansa maps out path to recovery and profitability

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Lufthansa (LH, Frankfurt Int'l) aims to strengthen its balance sheet with a capital increase, it confirmed this week as it outlined plans for a post-pandemic future and return to profitability with a downsized fleet and fewer employees. The company has been "mandating four banks to help calibrate" the possible capital increase, a move that would be "a clear path to leaving the stabilisation package in Germany and eventually the other countries that helped us in the crisis behind us," chief executive Carsten Spohr said during a virtual presentation. A year ago, in June 2020, the pandemic forced Lufthansa to accept EUR9 billion euros (USD10.1 billion at the time) in aid from Germany and its other home markets. But it said this week that the net proceeds from a capital raise would contribute in particular to the repayment of these stabilisation measures and "restore a sustainable and efficient long-term capital structure." It did not give a date or size for the measure. It added that the Economic Stabilisation Fund (ESF) "is considering, taking into account market conditions," participating in the capital raise, in which case it may place shares with investors and sell subscription rights on the open market. Lufthansa said it expected the German state, which now owns 20% of the company after the bailout, to agree to its recovery plan, especially as it would not involve another injection of public funds. In early May, the company secured the approval of its shareholders to raise up to EUR5.5 billion (USD6.6 billion) in additional liquidity. The further streamlining of Lufthansa Group will also mean some divestments, including business travel payments unit AirPlus International and possibly selling or floating a minority stake in Lufthansa Technik, "once fair value can be realised." The recovery plans include cutting costs by EUR3.5 billion (USD4.2 billion) by 2024 compared to 2019. It has already "achieved a headcount reduction" of 26,000 people, from 137,000 to 111,000, during the year to the first quarter of 2021. The fleet of the group, which includes Lufthansa, Austrian Airlines, Swiss, Eurowings, Brussels Airlines, and Air Dolomiti, will be 20% smaller but more efficient through a process of "modernisation and standardisation." The presentation summarised that of its approximately 800 aircraft in July 2019, around 250 are being retired but will be partly compensated by new deliveries of 60 short-haul aircraft and 20 long-haul jets and freighters to make a July 2023 operating fleet of about 650 aircraft, with moderate growth planned from 2024 onwards. Simplification also includes the "closure of multiple bases and sites." "We have passed the low point of the crisis," Spohr proclaimed. "We expect operating cash flow to be positive in this quarter already. We are confident to reach an adjusted EBIT margin of at least 8% by 2024." He pointed to increasing vaccination rates in Europe and the forthcoming EU digital green pass as facilitating short-haul travel in the months ahead. "Capacity offered in European short-haul has more than doubled in less than three months. Bookings have more than doubled compared to March and April, mostly at short notice but also increasing for leisure trips for August and September. It is also clear that business travel will recover," he said. "Of course we are not yet back to normal after this unprecedented crisis, but in our view, it's time now to look ahead with confidence. We at Lufthansa are moving from crisis mode to transformation mode."

