

2011 Aviation Business Sentiment Survey: Aviation to continue growth trajectory in Asia

It is that time of year again when we dust off our crystal balls. Throughout the aviation press, editors are prodding their pundits for prognostications, and padding their column inches with wild speculation.

By George Woods and James Leibert, L.E.K. Consulting

THIS YEAR, Aviation Business Asia Pacific has taken a different tack and asked L.E.K. Consulting to survey the industry with a view to achieving a more objective analysis of the outlook for business sentiment for the year ahead.

In total, more than 100 organisations gave detailed responses, representing the full diversity of the Australian aviation industry: from industry heavyweights such as Qantas and Sydney Airport, to small parts suppliers and lone consultants, as well as specialist military aviation contractors.

In future years, we plan to continue the survey, so we will be able to use 2011 responses as a benchmark for future surveys.

CAUTIOUSLY OPTIMISTIC

We can look back on 2011 with some relief – although we saw the awful floods in Queensland, the year was mercifully free of terror attacks or global health pandemics. In fact, 43 % of respondents in the survey reported that 2011 was better than the long term average, and only 29% said it was worse.

Looking forward, our respondents



are cautiously optimistic – 53% think 2012 will be better than 2011 and only 15% worse (see chart 1), and fully 62% are planning significant investment in physical infrastructure or new products and services in the year ahead.

“The uncertain economic environment makes it hard to look forward, but we are encouraged by what we are seeing so far going into 2012,” John Borghetti, Virgin Australia said at the company’s annual general meeting.

THANK YOU, MISTER HU

On the surface, this industry optimism seems surprising – the press has been full of bad news stories recently: the European debt crisis, high fuel prices, natural disasters, airline dramas. Yet the statistics continue to show strong aviation growth.

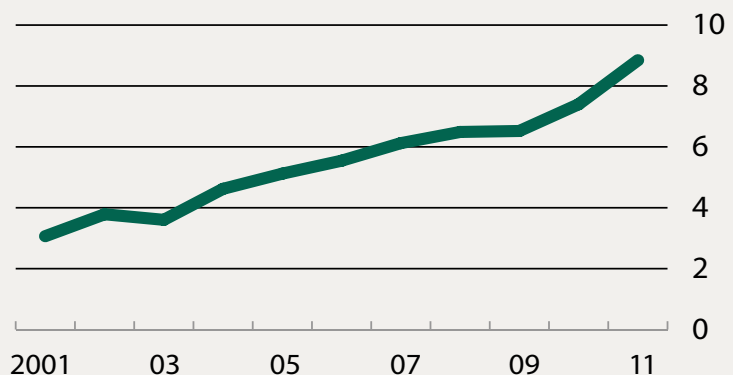
For that we largely have China to thank. Its burgeoning middle class is taking to the skies in ever increasing numbers, and stimulating large-scale urban development projects that are driving Australia’s mining boom. Visitors to Australia from Mainland China have grown 3-fold in a decade, now accounting for almost 9% of all inbound passengers to Australia (see chart 2).

Meanwhile, the mining boom is creating opportunities in domestic air transport, particularly in Western Australia and regional Queensland.

“There are positives and some

China rises

China’s share of International flights into Australia, percentage points



Source ABS



negatives ahead, but thanks to the mining boom, the positives win out," said Gert-Jan de Graaff of Brisbane Airport.

A further impact of the Chinese-led demand for Australian minerals has been a strong Australian dollar. Respondents to our survey saw both positive and negative consequences, with the overall effect being only marginally negative for most respondents, 57% of whom felt that the impact was more negative than positive.

EXHAUSTED? NOT REALLY

High fuel prices and the new carbon tax failed to make the list of the top 5 challenges to respondents for 2012 (see table 1). Even the airlines, who will bear most of the cost, were relatively unmoved by the issue, rating its importance well below more pressing concerns such as labour costs. It appears that the airline industry can adapt to sustained over-US\$100 per barrel oil prices, as long as the price is stable and predictable.

Survey Respondents' Top 5 Challenges for 2012

- 1 Increased Competition
- 2 Domestic / Inbound Demand
- 3 Government Regulation
- 4 Labour Issues
- 5 Defence Delays / Retirements

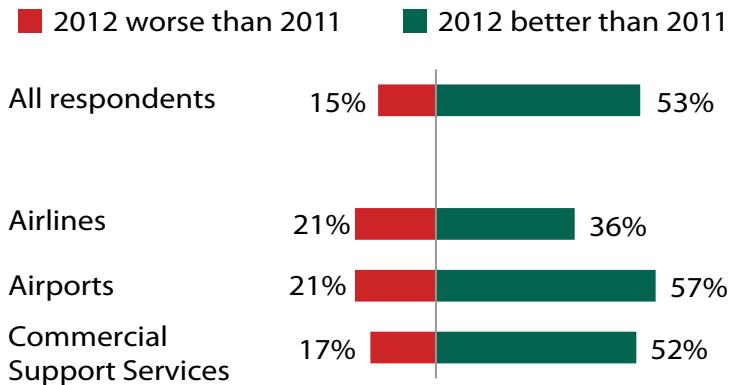
A far bigger challenge than fuel costs will be government regulation (rating three times more important). Regulation is particularly critical for smaller airports, who have been struggling with high taxes and increasing security burdens, which by some estimates, cost regional and rural airports \$30 million last year alone.

CAPACITY RESTRAINED

Capacity constraints also underwhelmed our respondents and failed to make the top 5 challenges, despite the obvious problems that growth will bring to the major city airports. With no resolution to Sydney's second airport in sight, Melbourne in the midst of a major investment programme, Brisbane planning extra runway capacity, and mining-focused regional airports stretched to the limit, L.E.K. predicts that

Largely optimistic

Survey respondents' view of how 2012 will compare to 2011, percentage of respondents



Source L.E.K. Survey

capacity issues will rise in importance in future surveys.

AIRPORT OF THE FUTURE

Airports were both the most optimistic group of respondents to our survey (57% expect a better 2012) and also the most forward-looking. They were the only group to rate innovation as a top five priority for 2012. L.E.K. sees something of a revolution taking place at Australia's airports – systems such as SmartGate and new check-in and bag drop options are lowering costs and improving the passenger experience. Over time we expect airports to increase their involvement in the innovation process, finding new ways to create financial value for themselves and airlines, and to deliver passenger benefits.

MIXED OUTLOOK FOR SUPPORT SERVICES

The Commercial Support Services

category saw significant differences between large and small organisations in their survey responses. News at the top end of the market has been mostly negative: as Qantas struggles to save its international business and the industry moves to the next generation of efficient long- and medium- range aircraft, it seems certain there will be more off-shoring of heavy maintenance. But it is a different story at the other end of the market, with 67% of smaller companies expecting a better 2012 thanks again to the mining boom, which has seen gains by fly-in-fly-out operators with smaller aircraft, and a consequent mini-boom for local service providers.

IN CONCLUSION...

So the clear message from this survey is that as long as China continues to grow and needs to import Australian minerals, we in Australian aviation can expect a good 2012.

We would like to thank everyone who took the time to participate in the survey. L.E.K. looks forward to seeing your predictions come true in 2012 and to asking you all once again to gaze into the future next year.

About L.E.K.: George Woods is a Partner and James Leibert is a Principal based in L.E.K. Consulting's Sydney office.

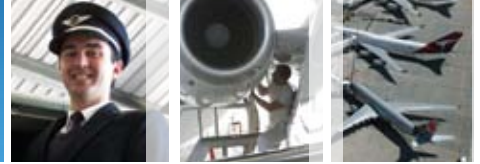
Telephone: 02 9323 0700. Email: g.woods@lek.com.

Both are part of L.E.K.'s market-leading, global Aviation & Travel practice.

Website: www.lek.com/industries/aviation-travel

AVIATION BUSINESS
→ ASIA PACIFIC





L.E.K. CONSULTING/AVIATION BUSINESS ASIA PACIFIC MAGAZINE 2011 BUSINESS SENTIMENTS SURVEY RESPONSES

RESPONDENT DEMOGRAPHICS

Q.1 Which sector are you in?

Airport.....	13%
Airline	14%
Defence OEM	6%
Commercial Aviation Support Services.....	17%
Military Aviation Support Services	10%
Government	12%
Other	30%

Q.2 How many people does your business employ?

1-10	26%
10-100	23%
100-1,000	25%
More than 1,000.....	26%

SURVEY RESPONSES: BUSINESS SENTIMENT

Q.3 Overall, was last year a good year for you compared to your long term average?

No, worse	29%
About average	28%
Yes, better	43%

Q.4 Do you expect next year to be

Worse	15%
About the same.....	32%
Better.....	53%

Q.5 How has your business performed in revenue terms over the past year?

Decline	15%
Flat	19%
Growth	54%
Prefer not to answer.....	12%

Q.6 How has your business performed in operating profit terms over the past year?

Decline	21%
Flat	21%
Growth	43%
Prefer not to answer.....	15%

Q.7 What is the revenue outlook for your business over the next 12 months?

Decline	10%
Flat	21%
Growth	57%
Prefer not to answer.....	12%

Q.8 What is the operating profit outlook for your business over the next 12 months?

Decline	8%
Flat	29%
Growth	51%
Prefer not to answer.....	12%



John Holland Aviation Services is Australia's premier independent MRO and our 500 staff provide industry leading service throughout Melbourne, Sydney, Perth, Brisbane, Adelaide and Auckland.

Our business provides extensive transit, base and heavy maintenance services alongside component repair services, fleet technical management, logistics services and comprehensive ground support equipment. We're providing to some of the leading international and domestic airlines, defence forces and airport operators.

If you've got a key project on the horizon, think John Holland.



John Holland Aviation Services Pty Ltd
First Floor Hangar 91 Gate 24,
Operations Road Melbourne Airport
VIC 3045 Australia
Tel: +61 3 9373 8401 Fax: +61 3 9373 8444

We understand...

Find out more, visit us at johnholland.com.au

Aviation Services | Civil Engineering | Social Infrastructure
Minerals & Industrial | Tunnelling | Energy | Mining | Rail
Water & Enviro | Communications

Q.9 How dependent is your business on the overall health of the airline sector?

Not at all dependent	24%
Slightly dependent.....	35%
Very dependent.....	41%

Q.10 How dependent is your business on the overall health of the defence sector?

Not at all dependent	51%
Slightly dependent.....	27%
Very dependent.....	22%

Q.11(a) What are the major positives influencing your business direction right now?

Q.11(b) What are the biggest challenges your business faces in 2012?

Respondents were asked to assign a score out of 10 – below are the average scores

	Now	2012
Inbound demand	2	1
Domestic demand	1.1	0.9
State / Federal regulation.....	1.1	1
Strong AUD.....	1	0.8
New entrants	0.9	0.7
Access to customers.....	0.9	0.6
Defence project delays / deferments.....	0.8	0.7
New capacity / infrastructure	0.4	0.7
Labour.....	0.4	0.9
Increasing competition.....	0.3	1
Substitute products / new business models	0.2	0.4
Fuel prices	0.2	0.3
Security.....	0.2	0.1
Local council regulation.....	0.2	0.2
Defence aircraft retirement.....	0.2	0.2
Carbon tax.....	0.1	0.3
Other input prices.....	0	0.2

SURVEY RESPONSES: POTENTIAL BUSINESS IMPACTS

Q.12 What impact do you expect the carbon tax to have on your business?

Negative.....	67%
None at all	30%
Positive	3%

Q.13 What impact does the high Australian dollar have on your business?

Negative.....	57%
None at all	19%
Positive	24%

Q.14 To what extent does your business experience a shortage / surplus of skills?

Shortage.....	62%
No shortage / surplus	35%
Surplus	3%

Q.15 Which of the following activities do you plan to address in 2012?

Respondents were asked to assign a score out of 10 – below are the average scores:

Substantial investment in physical assets	2.1
Acquisition or new alliances	0.9
Growing the talent base.....	1.5
Adopting new technologies	1.5
Restructuring to take out cost	0.6
Repositioning the business	0.9
Launching new products	2.5

AVIATION TRAINING TO MEET INDUSTRY NEEDS

AVIATION AUSTRALIA'S COURSES WILL PROVIDE YOU WITH THE ESSENTIAL TRAINING REQUIRED TO BEGIN OR ADVANCE YOUR CAREER IN THE AVIATION INDUSTRY.

- >> FLIGHT ATTENDANT TRAINING
- >> AIRCRAFT ENGINEERING TRAINING
- >> UPSKILLING TRAINING
- >> EMPLOYMENT SERVICES
- >> CONSULTING SERVICES

Find out more at www.aviationaustralia.aero



>> EXCELLENCE IN AVIATION TRAINING