

# SA Express

Presentation to The Portfolio Committee  
February 2016

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# Flight Plan – Contents

- ✕ SA Express Overview
- ✕ Performance against the Shareholder's Compact
- ✕ Financial Performance
- ✕ Austerity Measures Update
- ✕ Strategy – Implementation Update of SAX 20:20 Vision & Vision

# Overview

## About Our People



- ✗ Turnover R2.6bn
- ✗ Operates 26 routes in 6 SADC Countries
- ✗ South African Express employs 1,095 employees
  - ✗ This supports about 8,000 indirect jobs\*
- ✗ Most transformed commercial airline in SA
  - ✗ 70% black
  - ✗ 38% females
  - ✗ Over 20% black pilots – Industry is 2%
  - ✗ 61% black Technicians
- ✗ Incubator for aviation critical skills
  - ✗ Over 150 Black pilots, 250 technicians, 100 Learnerships

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\* IATA: 1 airline job creates about 6.7 indirect jobs

# Shareholder Compact FY2014/15

Strategic Deliverables 2014/15  
Performance against targets



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# Summary of the Shareholder's Compact

- ✘ Shareholder's Compact contained 44 indicators
- ✘ SA Express achieved 27 of 44 (61%) indicators
- ✘ *Challenge to achieve financial targets due to highly competitive trading conditions which affected operational profits especially as airline was under-capitalised and operating with ageing fleet*

# Challenges facing the Aviation Industry and SA Express

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# Global and SA Airline Challenges & Highlights

## Highlights

Increased Revenue

Lower Fuel Price

Increased Seat Kilometres

## Challenges

Increased Competition

Increased Operating Costs

Reduced Passenger  
Demand

Reduced Profits



# SA Express FY2014/15 Highlights

## Performance

- ✗ Increased Revenues
- ✗ Reduced Costs

## Austerity Measures

- ✗ Schedule Optimisation
- ✗ Contract Reviews – services & Leases etc
- ✗ In-source of Services – self handling

## Operations

- ✗ Improved Internal Controls
- ✗ Terminated Loss-Making Routes

## Human Capital & Training

- ✗ Training of Cadets and Technicians
- ✗ Salary Freeze

# SA Express Current Challenges

## Challenge

## Contributing Factors

### Pressure on Profitability

- High operating cost
- Depreciation of the Rand against foreign currencies
- Loss of market share – due attrition

### Network Growth & Regional Expansion

- Competition under same code
- Un-coordinated schedules between SAX, SAA and Mango

### On Time Performance & Reliability

- Aged Fleet
- Increased maintenance ground time
- High Maintenance Costs

### Customer Service

- Reliability - negative impact on customer service
- AOG's and Delays create negative customer perception and frustration

### Labour Costs & Skills

- High Labour costs - legacy issues (pilots and technicians)
- Scarce skill retention and attraction

# Fleet Challenges

## Challenges & Impact of challenges

- ✗ **Ageing Aircraft**
  - Reliability
  - Defects
  - Deferrals
- ✗ **Cost of Maintenance high** (Parts & rotables)
- ✗ **High Capital Expenditure** (Engines, Landing Gears)
- ✗ **Cash Flow Constraints** – Costs causing cash flow problems for business

Fleet Type	Average Years
CRJ 200 – 50 seats	18
CRJ 700 – 50 seats	12
DH8 Q400 – 74 seats	7

## Interventions

- ✗ **Fleet Strategy**
- ✗ **Re-fleet the Jets** – Business will minimize maintenance costs and improve operational efficiency

# SA Express Response to challenges

## Challenges

## Interventions

### Pressure on Profitability

- Review business model
- Review cost structure of business

### Network Growth & Regional Expansion

- Schedule Optimisation (reduction and matching capacity to demand)
- Terminating loss making routes - 6 routes terminated

### On time Performance & Reliability

- Reduced schedule to relieve pressure on operations
- Re-fleeting strategy

### Human Capital

- High Labour costs – systematically address costs through attrition, salary freezes, lower scales, no bonuses
- Corporate Training Freeze

### Cost Containment

- Austerity Measures implementation

# Financial Overview FY2014

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# Financial Performance – Income Statement

## Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand	Note(s)	2015	2014
Revenue	18	2 591 494 154	2 562 802 770
Other income	19	15 257 136	24 892 494
Operating expenses		(2 592 039 635)	(2 613 119 551)
<b>Operating profit (loss)</b>	20	<b>14 711 655</b>	<b>(25 424 287)</b>
Investment revenue	21	7 122 773	8 286 366
Depreciation and amortisation		(113 911 880)	(120 234 745)
Fair value adjustments	22	(10 359 711)	(11 261 636)
Impairment of assets	23	(62 163 941)	149 337 309
Proceeds on sale of assets		10 984 185	46 053
Finance costs	24	(30 126 913)	(22 089 008)
<b>Loss before taxation</b>		<b>(183 743 832)</b>	<b>(21 339 948)</b>
Taxation	25	51 386 195	11 118 565
<b>Loss for the year</b>		<b>(132 357 637)</b>	<b>(10 221 383)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(132 357 637)</b>	<b>(10 221 383)</b>

### Financial Results

✗ Revenue – **1.12% increase**

### Operating Performance

✗ Passengers – **3% decrease**

✗ OTP – remained the same

***SA Express made an Operating Profit***

# Financial Performance – Balance Sheet

## Statement of Financial Position as at 31 March 2015

Figures in Rand	Note(s)	2015	2014 Restated	2013 Restated
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	3	496 544 980	502 470 811	208 904 070
Intangible assets	4	-	397 150	1 088 659
Other financial assets	5	-	-	73 641 660
Deferred tax	6	221 626 873	170 240 678	159 122 113
		<b>718 171 853</b>	<b>673 108 439</b>	<b>440 756 502</b>
<b>Current Assets</b>				
Inventories	7	128 511 547	175 178 302	85 582 349
Trade and other receivables	9	825 775 015	825 345 892	721 135 483
Other financial assets	5	-	75 112 192	-
Current tax receivable	17	-	75 410 097	106 344 272
Cash and cash equivalents	10	23 921 645	73 017	22 575 998
		<b>978 208 207</b>	<b>1 151 119 500</b>	<b>935 638 102</b>
<b>Total Assets</b>		<b>1 696 380 060</b>	<b>1 824 227 939</b>	<b>1 376 394 604</b>
<b>Equity and Liabilities</b>				
<b>Equity</b>				
Share capital	11	501 837 518	501 837 518	501 837 518
Reserves		356 954 972	356 954 972	356 954 972
Accumulated loss		(802 956 078)	(670 598 441)	(660 377 058)
		<b>55 836 412</b>	<b>188 194 049</b>	<b>198 415 432</b>
<b>Liabilities</b>				
<b>Non-Current Liabilities</b>				
Other financial liabilities	13	-	200 000 000	200 000 000
<b>Current Liabilities</b>				
Trade and other payables	16	809 615 045	807 875 799	549 878 366
Other financial liabilities	13	300 000 000	100 000 000	-
Provisions	14	296 469 289	254 763 621	159 319 046
Neutrality advance	15	234 459 314	177 266 915	177 266 915
Bank overdraft	10	-	96 127 555	91 514 845
		<b>1 640 543 648</b>	<b>1 436 033 890</b>	<b>977 979 172</b>
<b>Total Liabilities</b>		<b>1 640 543 648</b>	<b>1 636 033 890</b>	<b>1 177 979 172</b>
<b>Total Equity and Liabilities</b>		<b>1 696 380 060</b>	<b>1 824 227 939</b>	<b>1 376 394 604</b>

SA Express is  
Solvent



# Key Issues relating to Balance Sheet

- ✗ The airline is still undercapitalised with a weak Balance Sheet
- ✗ The current guarantee is a short term solution
- ✗ Continued erosion of equity
- ✗ High gearing and debt levels
- ✗ Investment in inventory will be addressed as it is very high

# SA Express Austerity Measures Update

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# SA Express Challenges Intervention – Austerity Measures

## Challenges

## Interventions

### Pressure on Profitability

- Review business model
- Review cost structure of business

### Network Growth & Regional Expansion

- Schedule Optimisation (reduction and matching capacity to demand)
- Terminating loss making routes - 6 routes terminated

### On time Performance & Reliability

- Reduced schedule to relieve pressure on operations
- Re-fleeting strategy

### Cargo

- Focus on “Express Cargo”
- Re-negotiate Cargo Agreement

### Human Capital

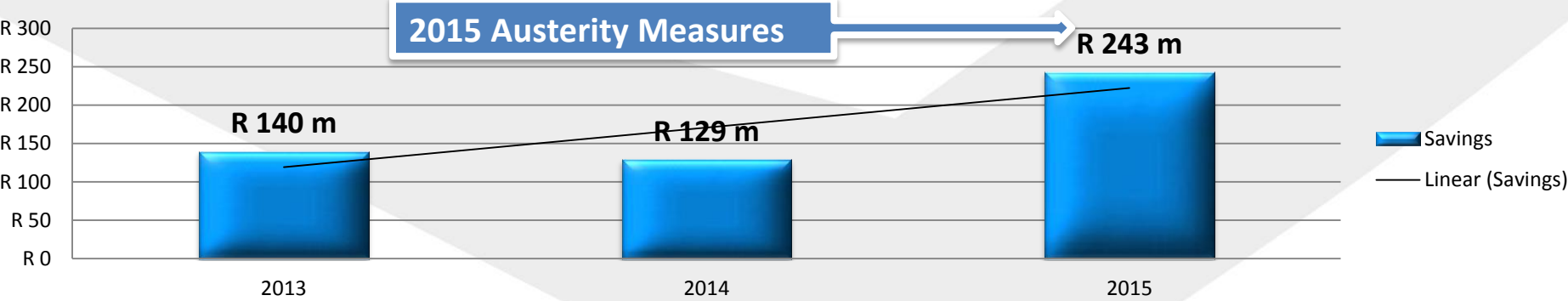
- High Labour costs – minimise salary increases
- Corporate Training Freeze

### Cost Containment

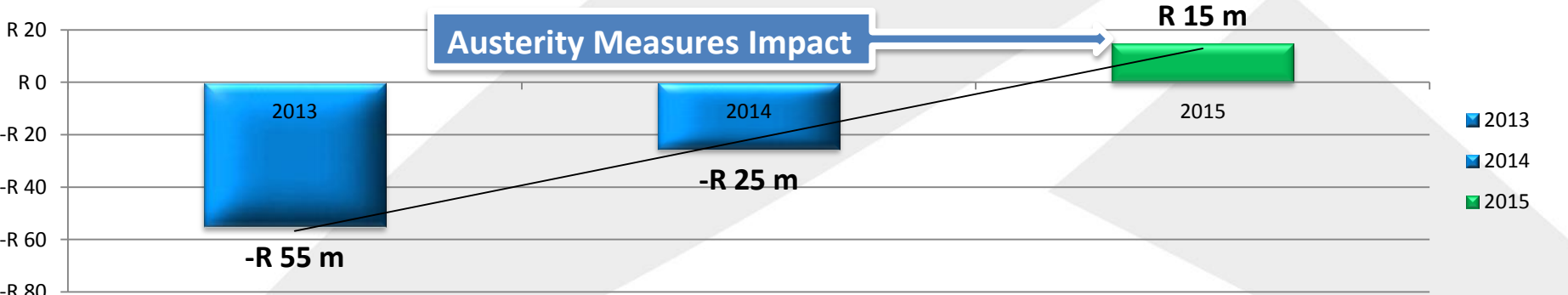
- Review of SAA Cost of services and other service providers
- identified additional cost saving initiatives

# Austerity Measures Continued...

SA Express Savings History (In Millions)



Operating Profit (In Millions)



- SA Express continues to focus on cost containment and revenue enhancement
- SA Express has saved a total of R512m over the past 3 years
- The savings have a direct alignment to the improvements in the operating profit
- In 2015 the airline achieved a positive operating profit of R15m



19 • It is expected that the austerity measures will continue to positively impact the company's profitability

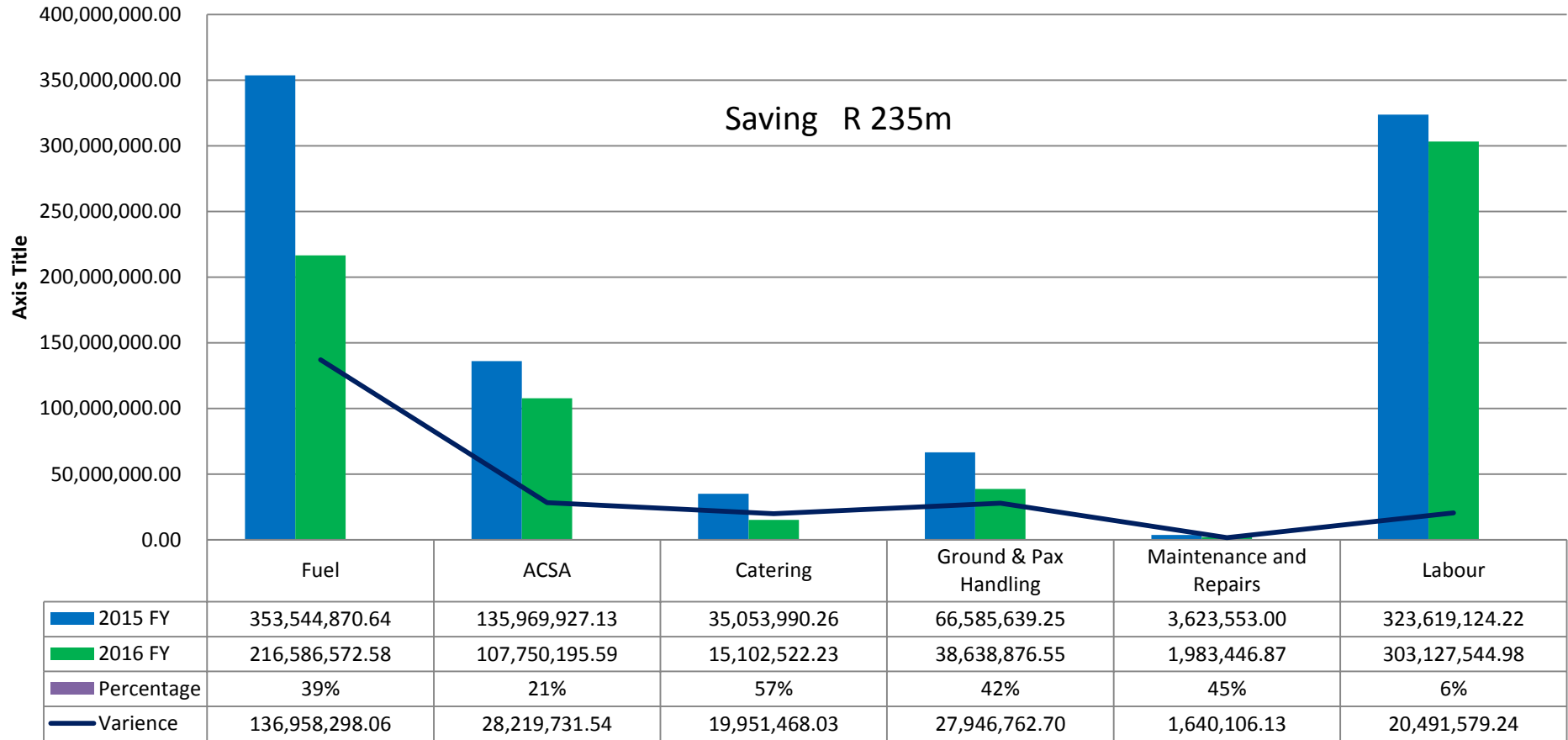
# Cost Containment Initiatives 2014 vs 2015 YTD

Initiative	2014	2015	Variance	Percentage
Fuel	R 352m	R 215m	R 137m	39%
Acsa	R 135m	R 107m	R 28m	21%
Catering	R 35m	R 15m	R 19m	57%
Ground Handling	R40m	R40m	R129K	0.31%
Pax handling	R66m	R38m	R27m	42%
Maintenance & Repairs	R3.6m	R1.9m	1.7m	45%
Labour -Salary Freeze -Natural Attrition	R323m	R303m	R20m	6%
<b>Total</b>	<b>R917m</b>	<b>R682m</b>	<b>R235m</b>	<b>26%</b>

**Total Savings for the 6 months YTD exceed 26%**

# Austerity Measures Performance Impact

## Austerity Measures 2015



- Catering delivered the highest percentage savings of **57%** ,followed by Ground and Pax Handling and Fuel with savings of **42%** and **39%** respectively
- The total savings for this period amounted to is **R 235m**, with fuel being the highest contributor by Rand value of **R137m**

# Cost Containment 2016/2017

The initiatives implemented are ensuring that the airline is financially sustainable:

- Quarter 2 15/16 Net Profit is **R11m** (Exceeded budget of R9m) - **this is a positive variance of over 127 million rands compared to the R118m loss of 2014/15**
- **Nov 2015 YTD Profit was R25m** compared to a loss of R132m in 2014
- In the next Financial Year, SA Express will focus on the Additional Initiatives
- In Quarter four (4) , SA Express will share the 2016/17 Cost Containment / Austerity Measures Initiatives with DPE & the Portfolio Committee



# The company will continue to address:

- ✗ Revenue Generation initiatives
- ✗ Operating Cost
- ✗ People Cost and Skills
- ✗ Ageing Fleet and utilisation
- ✗ Corporate Governance and Internal Controls
- ✗ Reputation of the company



**FINANCIAL STABILITY**

# Thank you

