SAA Group Results - FY17 YTD

An african airline with global reach

Group Income Statement

Introduction

The company continues to make losses and these losses are largely driven by significant shortages of revenue and persistently high base cost.

Shortages in revenue was driven largely by 14% increase from the prior period which was not realistic in the prevailing market conditions. The level of revenue budget has been historically designed to cover the high cost base of the company. This process of budgeting which is the "bottom up approach" is being reviewed as part of compiling corporate plan for SAA.

The company in the 11 month period has posted a loss of R4.490 billion versus a budgeted loss of R1.4 billion. It is important to highlight that the budgeted loss did not take into account the expected movement of the exchange rate. This was because of the volatility that it can present to the financials of the company, the best practice is not to budget for it. This is "mark to market" of foreign assets and liabilities as per the accounting standards.

SAA needs to address its operating cost as well as revenue management in order to operate at least at break even at EBIDTA level. The review process focus is both on revenue and costs.

FY17 performance - YTD February 2017

Rm	YTD ACTUAL	YTD BUDGET	VAR	PY ACTUAL	VAR	Notes
Total income	27 680	32 436	-15%	27 424	1%	**2**
Operating costs	(29 108)	(32 007)	9%	(28 357)	-3%	**3**
Energy	(6 773)	(7 092)	4%	(6 874)	1%	
Labour	(5 528)	(5 820)	5%	(5 358)	-3%	
Aircraft Maintenance	(4 075)	(4 972)	18%	(4 035)	-1%	
Other Operating Expenses	(12 732)	(14 124)	10%	(12 090)	-5%	
EBITDA	**(1 427)**	**428**	**>100%**	**(933)**	**-53%**	
Depreciation, impairment & other	(561)	(757)	26%	(893)	37%	
EBIT	**(1 989)**	**(329)**	**>100%**	**(1 826)**	**-9%**	**1**
Hedging gains/ losses	(57)	-	-	124	>100%	
Foreign exchange gains/ losses	(1 237)	-	-	1 122	>100%	**5**
OPERATING PROFIT (LOSS)	**(3 282)**	**(329)**	**>100%**	**(581)**	**>100%**	
Net finance income (costs)	(1 082)	(1 099)	2%	(752)	-44%	**4**
PROFIT (LOSS) BEFORE TAX	**(4 364)**	**(1 428)**	**>100%**	**(1 332)**	**>100%**	
Taxation	9	7	-23%	34	74%	
NET PROFIT (LOSS)	**(4 355)**	**(1 421)**	**>100%**	**(1 298)**	**>100%**	
Preference dividends	(135)	-	-	(93)	-45%	
RETAINED EARNINGS MOVEMENT	**(4 490)**	**(1 421)**	**>100%**	**(1 391)**	**>100%**	

Notes - Group Income Statement

1. EARNINGS BEFORE INTEREST AND TAX (EBIT) ANALYSIS

The group recorded a year to date ("YTD") net loss before interest of R1.989 billion which is 9% greater than the prior year and is more than 100% worse off compared to budget. SAA's primary challenge is the shortages of revenues and high base costs. Revenue is R4.756 billion below budget, significantly impacting the Group's bottom line. Whilst there is a cost base, the company managed to contain the costs as the operating costs are R2.9 billion below budget although they are R751 million above the prior year.

SAA's financial position and performance should also be viewed in light of the current market dynamics it is exposed to. This can be both macro-economic indicators and aviation specific variables. While the average rand exchange rate during the period is 12% stronger than the budget assumption of R16.28, it remains 8% weaker than the prior year, significantly impacting the cost base.

2. REVENUE ANALYSIS

Revenue has been static, if comparing year on year, the growth is only 1%. There is a significant shortage of revenue (R4.7bn) in the 11 months of the 2016/17 year. While the shortfall of revenue touches on most areas of the business, the largest portion relates to the SAA passenger business.
International route performance has improved compared to the prior year and regional and domestic route performance has declined. These routes are in the process of being reviewed.

3. COST ANALYSIS

Operating costs have increased by 3% compared to the prior year but there has been a saving of R2.9 billion when compared with the budget. The company is reviewing its cost base to ensure that it is aligned with the revenue. Most of the operating costs are impacted by the volatility of our local currency.

Energy, primarily comprising jet fuel, reflects a 4% improvement over budget and 1% over the prior year. This is the result of a combination of factors – barrels of fuel uplifted are 4.9% lower than budget (activity driven) and 1.3% lower than last year. While the rand is stronger than budget by 12% (although on average 8 %weaker than the prior year), the average price of Brent crude oil is now at USD48 versus a budget of USD35 and a prior year average of USD51. Benefits of a strengthening rand are therefore negated by a rising oil price and the improvement against budget is largely volume related.

It is pleasing to note that the aircraft lease costs (reflected in other operating costs) which are all paid in USD reflect a decrease of 2% year on year despite the 8% devaluation in currency - testimony to the cost saving initiatives embarked upon.

Notes - Group Income Statement (continued)

4. NET FINANCE COSTS ANALYSIS

YTD net finance costs of R 1.217 billion (which includes the R135million preference dividend as budget assumed this loan would have been refinanced and no longer subordinated) were 11% ahead of budget and 44% ahead of FY16 as a result of more reliance on debt finance to fund the Group's operating activities coupled with the fact that the budget assumed a level of debt consolidation which has not occurred.

5. OVERALL ANALYSIS

The YTD net loss of R 4.490 billion is significantly greater than the budgeted net loss of R 1.421 billion and the prior year loss of R1.391 billion. The YTD net loss includes net foreign exchange translation losses of R 1.237 billion, while the prior year recorded a translation profit of R1.122 billion – a negative swing of R2.359billion.

6. FOREIGN TRANSLATION ANALYSIS

The translation losses are not operational and result from the accounting treatment of foreign assets and liabilities. These translation losses were not budgeted for as the budget assumes a weakening currency which would give rise to translation credits to the income statement as was the case in previous years.
The losses have arisen due to the overall strengthening of the rand in the current year and the fact that SAA has greater assets that are foreign currency denominated than liabilities.

Group Balance Sheet

Summarised	Actual			Movement
Rm	Mar 16	Feb 17	Budget	Mar 16
ASSETS				
Non-current assets	**4 664**	**4 775**	**4 671**	**110**
- Property, plant and equipment	4 615	4 744	4 626	128
- Intangible assets	90	72	90	(18)
- Investments	23	23	18	0
- Retirement benefit fund	(64)	(64)	(64)	-
- Loans receivable	-	-	-	-
Current assets	**11 420**	**8 639**	**11 527**	**(2 781)**
- Inventories	726	838	747	111
- Trade and other receivables	8 284	6 690	8 114	(1 594)
- Cash and cash equivalents	2 315	1 043	2 342	(1 272)
- Derivative financial assets	94	67	323	(26)
TOTAL ASSETS	**16 084**	**13 413**	**16 198**	**(2 670)**
EQUITY AND LIABILITIES				
Equity	**(10 968)**	**(15 464)**	**(11 533)**	**(4 496)**
- Share capital	12 892	12 892	12 892	-
- Non distributable reserves	692	692	(118)	-
- Shareholder restructuring fund	74	67	193	(7)
- Accumulated loss	(25 925)	(30 414)	(25 800)	(4 489)
- Subordinated loans guaranteed by government	1 300	1 300	1 300	-
Non-current liabilities	**8 261**	**8 292**	**9 313**	**32**
- Long term loans	6 515	6 512	7 809	(3)
- Provisions	1 306	1 306	1 163	0
- Employee benefit obligations	26	22	34	(4)
- Deferred revenue	633	672	633	39
- Other long term liabilities	63	63	63	-
-Deferred tax	(282)	(282)	(388)	(0)
Current Liabilities	**18 791**	**20 585**	**18 417**	**1 794**
- Trade and other payables	8 321	9 531	8 151	1 210
- Air traffic liability	3 635	3 012	3 430	(623)
- Deferred revenue	578	572	619	(5)
- Provisions	2	1	3	(1)
- Derivative financial liabilities	4	1	4	(3)
- Short term portion of long term loans	6 251	7 467	6 210	1 217
TOTAL EQUITY AND LIABILITIES	**16 084**	**13 413**	**16 198**	**(2 670)**
USD/ ZAR closing rate	14.77	13.14	16.28	

SAAT Income Statement - FY17 YTD

Income statement	SAAT			Variance		
Rm	ACT	BUD	PY	BUD	PY	
Total income	**3 364**	**3 431**	**3 286**	-2%	2%	R67m below budget due to the timing of activities - this will be caught up by year-end.
Materials	(1 125)	(1 169)	(1 240)	-4%	9%	
Labour	(1 459)	(1 595)	(1 479)	-9%	1%	Below budget as a result of not filling all vacancies.
Energy	(45)	(63)	(47)	-29%	5%	
Other expenses	(488)	(473)	(426)	3%	-15%	
Operating costs	**(3 117)**	**(3 299)**	**(3 192)**	-6%	2%	
EBITDA	**247**	**131**	**93**	88%	>100%	
Depreciation, impairment & other	(0)	(83)	(199)	>100%	>100%	Release of stock provision (R45m) off-set depreciation of R46m
EBIT	**246**	**48**	**(106)**	>100%	>100%	
Hedging and foreign exchange	(6)	(6)	(6)	>100%	0%	
OPERATING PROFIT (LOSS)	**240**	**48**	**(127)**	>100%	>100%	
Net finance income (costs)	(25)	(121)	(0)	-79%	>100%	Timing of events - interest charged for 2 months only
Taxation	-	-	-	0%	0%	
NET PROFIT (LOSS)	**215**	**(73)**	**(128)**	>100%	>100%	

Airchefs Income Statement - FY17 YTD

Income statement	Airchefs			Variance		
Rm	ACT	BUD	PY	BUD	PY	
Total income	**446**	**398**	**404**	12%	11%	The increase against both budget and the prior year is mainly as a result of higher pricing and higher meal volumes on the SAA international routes as well as much higher lounges revenue (new ORT lounges were launched in October 2015). New business revenue (arising from SAA back catering, the LSG strike, Air India charter flights, Maluti Airlines, Swiss Airlines and Ster Kinekor) of R10.7 million has been generated to date against the budgeted R18.3 million.
Accomodation and refreshments	(223)	(163)	(167)	-37%	-33%	
Labour	(150)	(164)	(170)	8%	12%	Employee costs are lower than budget primarily as a result of savings brought about through not filling certain positions. Employee costs in the prior year include R19 million of restructuring charges. Excluding this amount, employee costs are marginally below the prior year which is indicative of the restructuring.
Energy	(16)	(20)	(17)	19%	8%	Lower electricity, water and gas as a result of higher tariff increases having been budgeted for.
Other expenses	(45)	(65)	(64)	31%	29%	Cost of sales is well above the budget mainly as a result of the higher revenue but is also indicative of higher prices as a result of the unforeseen drought and changes in meat suppliers arising from food safety concerns.
Operating costs	**(433)**	**(411)**	**(417)**	-5%	-4%	
EBITDA	**13**	**(13)**	**(14)**	>100%	>100%	Higher revenue
Depreciation, impairment & other	(9)	(11)	(8)	14%	-19%	Savings in depreciation in that new items of capital expenditure have not been acquired as the company does not have the available funds.
EBIT	**4**	**(24)**	**(21)**	>100%	>100%	
Hedging and foreign exchange	-	-	-	0%	0%	
OPERATING PROFIT (LOSS)	**4**	**(24)**	**(21)**	>100%	>100%	
Net finance income (costs)	(4)	(22)	(4)	83%	-2%	Savings in interest mainly as a result of the shareholder's loan being interest free until such time that SAA advances a 'new' loan to Air Chefs, delays in the acquisition and financing of dishwashing machines as well as improved cash flow management.
Taxation	-	-	-	0%	0%	
NET PROFIT (LOSS)	**0**	**(46)**	**(25)**	100%	100%	Prior year includes restructuring costs of R19 million.

SATC Income Statement - FY17 YTD

Income statement	SATC			Variance		
Rm	ACT	BUD	PY	BUD	PY	
Total income	**2**	**-**	**8**	**0%**	**-72%**	In terms of the LTTS, SATC was deemed not to be the core business of SAA and a decision was made to divest. Thus no budget for FY17.
Labour	(2)	-	(3)	0%	29%	
Aircraft maintenance	(1)	-	(4)	0%	85%	
Other expenses	(2)	-	(5)	0%	68%	
Operating costs	**(4)**	**-**	**(8)**	**0%**	**55%**	
EBITDA	**(2)**	**-**	**(0)**	**0%**	**>100%**	
Depreciation, impairment & other	(0)	-	(1)	0%	98%	
EBIT	**(2)**	**-**	**(1)**	**0%**	**-22%**	
Hedging and foreign exchange	-	-	-	0%	0%	
OPERATING PROFIT (LOSS)	**(2)**	**-**	**(1)**	**0%**	**-22%**	
Net finance income (costs)	-	-	-	0%	0%	
Taxation	-	-	-	0%	0%	
NET PROFIT (LOSS)	**(2)**	**-**	**(1)**	**0%**	**-22%**	

Mango Income Statement - FY17 YTD

Income statement	Mango			Variance	
Rm	ACT	BUD	PY	BUD	PY
Total income	**2 157**	**2 361**	**2 073**	**-9%**	**4%**
Materials	(552)	(595)	(509)	7%	-8%
Labour	(259)	(255)	(238)	-2%	-9%
Energy	(540)	(567)	(559)	5%	3%
Distribution costs	(89)	(111)	(80)	20%	-11%
Navigation, landing & parking	(244)	(267)	(251)	9%	3%
Other expenses	(553)	(626)	(589)	12%	51%
Operating costs	**(2 237)**	**(2 421)**	**(2 228)**	**8%**	**-19%**
EBITDA	**(80)**	**(60)**	**(155)**	**-33%**	**49%**
Depreciation, impairment & other	(15)	(17)	(15)	14%	1%
EBIT	**(94)**	**(77)**	**(170)**	**-23%**	**44%**
Hedging and foreign exchange	2	-	(0)	>100%	>100%
OPERATING PROFIT (LOSS)	**(93)**	**(77)**	**(170)**	**-21%**	**45%**
Net finance income (costs)	61	51	49	20%	26%
Taxation	9	7	34	23%	-74%
NET PROFIT (LOSS)	**(23)**	**(18)**	**(87)**	**-23%**	**74%**

South Africa's domestic airline industry is facing significant challenges around filling increased domestic passenger capacity in the midst of low demand growth and very competitive pricing. The country is experiencing tough economic conditions characterised by low economic growth and high inflation (CPI average of 6.3% for the year to date), volatile exchange rates and high fuel prices.

Year to date Mango has showed significant improvement from the previous year, though still incurring a loss of R23m compared to the prior year loss of R87m. (Budgeted loss of R18m).

Income being lower than budget by 9% is as result of the reduction in capacity of 5%, as well as the lower than budgeted fares of 4% Income compared to the prior year increased by 4%, although capacity was reduced by 3%, average fares increased by 7%
There has been a decline in capacity, passengers carried and number of flights compared against both prior year and budget. Capacity was 2.8% less than prior year and 5.3% less than budget. Load factor was constant to the prior year and budget. Total income was 4.1% more than prior year and 8.6% less than budget.

Total cost were at the same levels as last year, due to a depreciation in R/$ of 4%, but countered by a saving due to a reduction in capacity of 3%. Total costs was lower than budget by 8%. This is largely due to the appreciation of the Rand against the budgeted $ rate.

Mango has generated positive cashflow for the first 11 months, and interest earned on cash investments is up by 25.8% compared to the prior year (19.5% compared to the budget).

For the first 11 months Mango's market share was 21.8% compared to a seat share of 19.7%.