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Long-Haul LCCs Fight For Post-COVID-19 Survival

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Norwegian needs to restructure if it is going to survive.
Credit: Joepriesaviation.net

After a catastrophic year for the entire air transport sector, long-haul low-cost operators, which already had their share of doubters pre-coronavirus, are looking for ways to make it through the coming months and years as traffic—it is hoped—begins a slow recovery but competition intensifies.

- Norwegian has warned its future is uncertain
- AirAsia X has not been operating since March

From Norwegian Air Shuttle to AirAsia X, the financial woes of the world's long-haul, low-cost carriers highlight the devastating impact the pandemic has had on their business models.

Europe's biggest long-haul LCC, Norwegian, is hoping to restructure after obtaining creditor protection, a step that came after the Norwegian government declined to allocate it more financial aid, leaving its future uncertain, the airline says.

The carrier and its subsidiaries have obtained protection under the examinership process, the equivalent of bankruptcy protection in Ireland, where Norwegian's aircraft assets are held, and also filed for reconstruction under Norwegian law Dec. 8.

The carrier is operating only around six aircraft on domestic routes and posted a 980 million Norwegian kroner ($109 million) net loss for the third quarter, when it had been operating some 25 aircraft out of a total fleet of 140.

Norwegian had already been facing financial pressures before the coronavirus crisis, after it expanded its fleet and network too rapidly, and it also suffered from the Boeing 737 MAX grounding as well as engine issues on its 787s.

Pre-pandemic, it had embarked on an ambitious restructuring plan including restructuring aircraft orders, establishing partnerships, selling aircraft and shares, extending the maturity of unsecured bonds and raising its cost-reduction targets. Now, with creditor protection in place, the airline wants to cut debt, reduce its fleet and attract investors. It had $7.65 billion in total liabilities at the end of September.

John Strickland, aviation consultant and director of JLS Consulting, was already skeptical about the long-haul LCC business model, which is subject to seasonality and price-driven traffic and needs state-of-the-art expensive aircraft to work.

But post-pandemic, LCCs will also be facing fierce competition from legacy carriers as long-haul demand is likely to return, he says.

"Pre-COVID, long-haul low-cost has been popular with passengers who wanted to explore the world at a budget price—but popularity shouldn't be confused with profitability, and profitability has been elusive," Strickland says.

If long-haul LCCs are to survive as demand gradually returns, changes to the long-haul LCC business model may be necessary.

On the key transatlantic sector, the introduction of cheap flights by Norwegian and its counterparts—including Eurowings and Level—forced legacy carriers into a defensive position and ultimately spurred them to strip down fares, with the three large U.S. full-service airlines all introducing basic economy-class fares in response to competition from European LCCs.

One U.S.-based LCC is also now hoping to challenge the legacy carriers on transatlantic routes when travel opens up. JetBlue Airways plans to introduce flights among New York John F. Kennedy International and Boston Logan and London Heathrow airports on Airbus A321neoLR jets beginning in late 2021. The New York-based carrier had been planning to add continental European destinations beginning in 2023.

Incumbents and new entrants alike will have to contend with the slow pace of recovering long-haul demand in key sectors, says Patrick Edmond, managing director of Altair Advisory. "We're going to see short-haul, domestic demand coming back initially, then demand within individual regions, but I think demand is going to be slower to come back in between different regions," he says.

While transatlantic demand may be one of the earlier long-haul segments to return, Edmond cautions: "I don't see significant low-cost, long-haul demand next summer, even in the best of scenarios."

With demand for business travel set to remain depressed for the foreseeable future, most long-haul activity will be driven by passengers visiting family and friends, Edmond says, and here there may be opportunities for carriers able to set themselves apart through low fares or innovative cabin setups.

For long-haul LCCs going up against legacy carriers that have improved their fleet mixes during the pandemic, competition likely will be cut-throat.

"With the spate of retirements of larger widebodies, the hub carriers are left with the same kind of equipment—787s or A350s—as the low-cost long-haul point-to-point carriers but with more traffic [and] cabin-mix permutations and feed potential," Strickland notes.

Changes to strategy are already afoot in the Asia-Pacific region, where the long-haul LCC business model is well-established. In Japan, major airlines are setting up widebody LCCs, which they see as well-suited to their predictions for the post-COVID market. In their latest market outlooks, Japan Airlines (JAL) and All Nippon Airways (ANA) predicted that leisure demand is likely to return faster than business or premium traffic, making LCCs more attractive. In contrast, both airline groups are scaling back their full-service widebody fleets.

ANA said Oct. 27 that it plans to launch a new low-cost widebody unit in the fiscal year beginning April 1, 2022, operating medium-haul flights using 787s configured with 300 seats in two classes—a higher density than ANA's current full-service 787-8s and -9s.

JAL launched its own international widebody LCC this year, Zipair Tokyo, starting with just two 787-8s, but the carrier is aiming for "steady growth as demand recovers."

Elsewhere in the Asia-Pacific region, the picture is mixed for long-haul LCCs. Some are in a dire financial predicament or have even closed down. Thailand's NokScoot, a widebody LCC, which operated seven Boeing 777-200s leased from part-owner Singapore Airlines (SIA), went into liquidation in June. But others, such as SIA subsidiary Scoot, which are part of legacy airline groups—often with stronger government backing—look in better shape to survive the pandemic.

AirAsia X (AAX), the long-haul affiliate of the AirAsia Group that operates Airbus A330s, suspended all of its operations in March and has no firm timeline for resuming services. It expects to make drastic changes to its operating strategy in the longer term, however.

With little revenue coming in, the Malaysia-based airline is facing a battle for survival. One of its main strategies is to negotiate a debt restructuring that would wipe out almost all of its unsecured debt, a plan AAX has told its creditors is probably the only way to avoid liquidation.

It aims to reestablish itself as a smaller but more financially viable carrier, with a reduced network, fleet and workforce and plans to resume flying with just two aircraft in the first quarter of 2021, before adding more routes and aircraft by the end of that year. The focus will be on medium-haul routes of 5-6 hr., implying that plans for long-haul routes to Europe have been shelved.

AAX intends to cap its group fleet at 25 A330s. Before the pandemic, it operated 39 aircraft. The airline has yet to confirm its intentions for its 78 A330neo and 30 A321XLR orders, but it is unlikely to have much appetite for new aircraft for some time.

Scoot is operating some international routes using its Boeing 787s, with nine in service out of a total of 20, while all of its A320s are either parked or in storage, according to Aviation Week's Fleet Discovery database. The SIA group believes Scoot will offer a competitive advantage in the post-pandemic environment by giving it more flexibility when routes resume. Having dual business models allows SIA to "deploy the right [aircraft] to the right market to tap [into] demand recovery," the carrier says.

Qantas subsidiary Jetstar is also operating 787s on long-haul routes and A320s on short-haul flights. However, unlike Scoot, Jetstar has parked its 11 787s and is operating most of its narrowbodies. This is because Australian domestic demand is returning, but the international markets where Jetstar operated widebodies remain closed. Jetstar is one example of a long-haul LCC that is looking to the qualities of new extended-range narrowbodies to give it a different size option on many routes. It has 36 A321XLRs on order, which will be better suited to some international routes than its 787s—particularly if demand recovery, as predicted, takes many years.