European price war squeezes Lufthansa hard

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Rising costs for jet fuel and price competition are squeezing profits at Lufthansa

European airline giant Lufthansa on Tuesday reported tumbling net profits in the second quarter, saying higher operating costs and a European short-haul price war ate into the bottom line.

Net profit at Lufthansa fell 70 percent year-on-year in April-June, to 226 million euros ($252 million).

"Persistent overcapacities, aggressive competition and increasingly pricesensitive demand" were clipping the group's wings, it said in a statement.

Operating, or underlying profit adjusted for special items was down less sharply, falling 25 percent to 754 million euros, on revenues up four percent at 9.6 billion.

Lufthansa highlighted a seven percent increase in costs, including a fuel bill that had risen by 255 million euros compared with 2018's second quarter.

Those squeezed the group's adjusted operating profit margin by three percentage points, to 7.8 percent.

The group, which includes the flagship blue-crane airline alongside no-frills Eurowings and smaller carriers like Austrian and Swiss, is "responding to this by further reducing our costs and increasing our flexibility," said chief financial officer Ulrik Svensson.

Notably, "we intend to make Eurowings a sustainably profitable airline" after bosses for years forced breakneck growth through takeovers of competitors' aircraft and other assets.

The no-frills branch booked an adjusted operating loss of 273 million euros in the second quarter, worse than the 220 million in April-June last year.

Bosses hope to return it to profitability in 2021, and aim to cut costs 15 percent by the following year while avoiding layoffs.

While price wars were weighing on short-haul flights, long-haul "is expected to continue its currently above-average development in the second half," Lufthansa said, although "risks... have increased".

The group also pointed to "overall economic prospects growing gloomier in... home markets" like Germany, where trade wars, Brexit and weakness in key emerging markets are weighing on the growth outlook.

Looking ahead to the full year, Lufthansa stuck to its forecast of "a low single-digit percentage increase" in revenue and an adjusted operating profit margin of between 5.5 and 6.5 percent, compared with 7.9 percent last year.

"The Lufthansa group expects the European market to remain challenging until at least the end of this year," it added.

Shares in Lufthansa were the second-worst performers on Germany's blue-chip DAX index around 11:15 am (0915 GMT), shedding 5.5 percent to trade at 14.30 euros.

Finance chief Svensson also said that the group has "no plans" to reshape itself into a holding company along the lines of other German giants like Siemens or Daimler—dashing the hopes of some investors.

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