

Uncertain outlook weighs on American Airlines shares despite blowout Q2

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American Airlines reported record quarterly revenues as travel demand stayed strong.

American Airlines reported blowout second-quarter earnings on Thursday on strong demand and lower jet fuel prices, but shares still

tumbled on disappointment with the company's outlook.

While the big US carrier lifted its full-year projections, Wall Street analysts said the fine print in the forecast suggested a greater ebbing of pricing strength compared with competitors.

The results follow robust reports last week from Delta Air Lines and on Wednesday from United Airlines, with the latter elaborating Thursday on its response to weather-related disruptions late last month at its Newark, New Jersey hub.

US carriers have enjoyed a heady second quarter, pointing to sizzling demand in a seasonally strong period boosted further by pent-up demand for travel following pandemic shutdowns.

Profits at American were nearly triple the year-ago level at \$1.4 billion, while revenues rose 4.7 percent to \$14.1 billion, a record.

Results were boosted by a retreat in jet fuel prices, which were down 35 percent from the year-ago level.

American Airlines Chief Executive Robert Isom said the results reflected "historically strong" operational performance and highlighted a two-notch upgrade in its credit rating by Fitch.

But analysts on a conference call questioned American's forecast, which implies a less impressive second half of 2023. The outlook includes anticipated effects of a new labor contract with higher pilot pay that is expected following union ratification.

American raised its full-year profit outlook to a range of \$3.00 to \$3.75 per share from \$2.50 to \$3.00. The third-quarter is forecast at between 85 and 95 cents per share.

The third-quarter outlook disappointed analysts, who noted that both Delta and United signaled greater gains for the same period.

That suggests Delta "is capitalizing on the trend towards pricier premium seats better than American is," said Briefing.com, which also noted that Delta's forecasts already incorporate higher labor costs after Delta pilots ratified a hefty increase earlier this year.

American's "pricing power is starting to erode," said Christopher Raite, an analyst at Third Bridge, who also pointed out that American described business travel as plateauing at about 80 percent of pre-pandemic levels.

Other carriers have not spelled out that problem, Raite said. What's more, American faces questions over its service in the northeastern United States due to the demise of a joint venture with JetBlue following an unfavorable US court ruling, he added.

United trims Newark plans

Meanwhile, United, which also reported record results on Wednesday night, spelled out more precisely the effects of flight disruptions at Newark just ahead of the July 4th holiday weekend.

Executives estimated a hit to profit margins of about one percentage point due to widespread flight cancelations and delays, along with a one percentage point drag on second-quarter capacity.

Besides improving coordination with federal air safety regulators, United has trimmed its flight schedule for the summer at Newark.

The airline normally schedules 435 flights per day at Newark over the summer.

At the outset of the summer of 2023, United planned 410 flights per day after the Federal Aviation Administration highlighted staffing constraints for the New York area, already the nation's busiest airspace.

But in the aftermath of the recent difficulties, United is trimming its August schedule to 390 per day, said Chief Commercial Officer Andrew Nocella.

Nocella said United also expects a "smaller schedule" at Newark in the summer of 2024 to improve reliability.

American shares dropped 6.2 percent to \$17.44, while United gained 3.2 percent to \$56.57.

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