

American Airlines earnings rise despite Boeing MAX hit

24 October 2019, by John Biers



American Airlines now expects the prolonged grounding of the Boeing 737 MAX to cut pre-tax profits by \$540 million, much higher than previously estimated, while Southwest says the hit so far this year amounts to \$435 million

American Airlines rode strong demand for flying among the traveling public to higher earnings on Thursday despite mounting costs connected to the prolonged grounding of the Boeing 737 MAX.

Shares of the big US carrier—which vowed to recoup MAX-related losses from Boeing—rallied after the company announced on a conference call that it expects more shareholder distributions in the next couple of years as it exits a period of heavy capital investment to update its plane fleet.

Fuller flights amid a good consumer environment enabled American's profits to soar by 14.2 percent in the third quarter to \$425 million. Revenues increased three percent to \$11.9 billion.

Chief Executive Doug Parker said he was pleased with the earnings growth but conceded that "our results should have been better."

Parker cited the hit from the MAX grounding—in the

wake of two deadly crashes—as well as ongoing operational challenges tied to contentious labor talks with maintenance workers.

American now estimates the MAX grounding will shave pre-tax profits by \$540 million in 2019, up from the prior estimate of a \$400 million hit to the bottom line.

Parker said the company intends to recover compensation from Boeing for its growing MAX-related costs and to "ensure that Boeing shareholders bear the cost of Boeing's failure, not American's shareholders."

Boeing has set aside \$4.9 billion for customers harmed by the MAX grounding and indicated that the payments could come in cash or through in-kind contributions in aircraft or services.

Earlier this month, American pushed back the return of the jets until January 2020 based on slower-than-expected recertification of the plane by regulators.

The MAX was grounded in March following two crashes that killed 346 people. On Wednesday, Boeing said it expects to receive approval from some regulators later this year to allow the aircraft back into service.

American now expects 2019 earnings per share of between \$4.50 and \$5.50, cutting the upper end of the projected range from \$6.00.

Shares fell following the report but rallied after Parker announced that American would significantly cut its capital spending in the next few years, freeing up more cash to pay down debt and return money to shareholders.

Parker said only 10 percent of the company's fleet is 20 years or older and that more than half the fleet has been delivered over the last decade.

"We had to spending a lot to get here but we really like our position," he said.

Southwest sees 2020 MAX hit

Southwest Airlines also cited strong consumer demand as it reported higher third-quarter profits on Thursday, despite a big MAX hit.

With its fleet of 34 MAX planes, bigger than American's or fellow rival United Airlines, the grounding of the popular aircraft has reduced Southwest's earnings by \$435 million so far in 2019.

And damages are expected to "continue to grow into 2020," Southwest Chief Executive Gary Kelly said.

"We are engaged in ongoing discussions with Boeing regarding compensation for damages related to the MAX groundings," Kelly said.

"We have not reached a settlement with Boeing and no estimated settlement amounts have been included in our third quarter 2019 results."

Southwest's net income rose 7.2 percent to \$659 million, as revenues increased 1.1 percent to \$5.6 billion.

Shares of American jumped 4.0 percent to finish at \$29.41, while Southwest surged 5.7 percent to \$56.29.

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