



# ASX Top 200 Stocks Down Under

📖 *Running an airline is like having a baby: fun to conceive, but hell to deliver.* 🗨️

- Christopher Mayer (1889-1966), Airline entrepreneur

ASX

EXCHANGE CENTRE

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Stocks Down Under rating: ★★

ASX: AIZ

Market cap: A\$1.9BN

52-week range: A\$0.47 / A\$1.12

Share price: A\$0.57

Two weeks after covering Qantas (ASX: QAN) - which is a Concierge pick – we thought we would turn our attention to the other flag carrier on the ASX, Air New Zealand (ASX: AIZ). Like Qantas, Air New Zealand offers exposure to the recovery in travel thematic, but with less PR problems than Qantas. And you might argue there's more upside as the current bear market has bought it back to Corona Crash levels. However, we don't think it was just the market that sent it crashing back to Earth.

## Share price chart



Source: Tradingview

## New Zealand's flag carrier

You all know Air New Zealand is Aotearoa's flag carrier. Like Australia, New Zealand is geographically isolated, which makes air travel a necessity, but also means the airline is strictly an 'end of line' carrier rather than being a transit airline, as Emirates and Qatar are. It has a simpler fleet than Qantas with Boeing 787s and 777s operating long-haul international flights, while A320s operate domestic and short-haul internationals and ATR 72s and Dash 8 Q300 turboprops operate regional flights.

Like Qantas, Air New Zealand had to cope with two years of closed borders, with a skeleton international schedule mostly used for cargo and a domestic schedule at the mercy of lockdowns. But now, New Zealand has re-opened and pent-up demand for in and outbound travel is being unleashed.

## Primed to gain from re-opening, like Qantas

Air New Zealand has many other upsides similar to Qantas, not to mention certain advantages, such as a newer fleet (therefore requiring less capex than Qantas in the next few years). It is launching new long-haul services that promise higher profit margins for shareholders. Most prominently, a non-stop service from New Zealand to New York from later this year while Qantas isn't launching theirs until 2025. Additionally, Air New

Zealand does not appear to have suffered the same operational problems that Qantas has and it certainly has not had the same PR problems as Qantas has – in appearing to blame customers for the troubles.

Despite being a Kiwi company, Air New Zealand uses the 1 July-30 June financial year and will release its results on 25 August. It is expecting a loss of just under \$750m - it did not note whether this was AUD or NZD, but given current exchange rates, it would not be substantially different either way. Consensus estimates are expecting a bounce back to positive EBITDA for FY23, to the tune of A\$753.8m. This gives it valuation multiples of 6.2x EV/EBITDA and 26.9x P/E.

### **But, here's why Qantas is a better bet**

But ultimately, we think Air New Zealand will lag Qantas in financial performance and, consequently, in share price. There are three reasons why.

The first is its capital situation. Unlike Qantas, Air New Zealand had to seek a formal loan from the government, putting off a capital raising until March this year when it saw the resumption of travel on the horizon. But the airline has had to repay the government loan – the debt maturity is scheduled for January 2026. The airline also has the option to issue up to \$1bn of redeemable shares to the government, something that could further dilute shareholders.

Second, we think in-flight comfort lags competitors. Despite the significant PR it has attracted from its Economy products, particularly Skycouch and Skynest, it is business class where the money is made. And its current product lags its peers, despite facing the aisles, they are tight and have no scope to recline – they only go all up right or flat. Recognising that passengers will look elsewhere if the product isn't 'premium' compared to its peers, the airline is introducing brand new suites. These seats are more conventional suites and fix the aforementioned problems with the old seats. But these will not take wing until 2024 at the earliest and it will take another year or two for it to be entirely rolled out across the fleet.

Third, its AirPoints program just isn't up to scratch relative to the Qantas Loyalty Division. The average consumer might actually prefer AirPoints. It isn't as easy to earn AirPoints, but you can always find a reward seat on any Air New Zealand flight provided you're willing to pay the high premium. But given this, and New Zealand's smaller population, the frequent flyer programme is really just a supplementary division to flying rather than a profitable business in its own right. Qantas' loyalty programme allowed revenue to still come in while flying was restricted.

Air New Zealand may have some upside from current share price levels, but it is difficult to get as excited about this company as it is about Qantas, especially in light of the factors above. And therefore, it's two stars from us. See [our 25 July article](#) about Qantas (ASX: QAN) for more on Australia's flag carrier and why it is a Concierge stock.

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