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AVIATION

Cathay pushes back target for pre-Covid capacity

Airline says 'lesson learned' as it announces first annual profit in four years

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Hong Kong flag carrier Cathay Pacific Airways reported its first annual profit in four years yesterday but said it had learned a lesson from recent flight cancellation setbacks amid pilot shortages and decided to push back its target for restoring pre-pandemic capacity to early 2025.

The company revealed yesterday that it made a net profit of HK$9.78 billion last year after a net loss of HK$6.62 billion in 2022, marking a strong post-pandemic recovery and ending a string of hefty deficits.

CEO Ronald Lam Siu-por said the company had taken a prudent approach in restoring its passenger flight capacity to pre-pandemic levels by pushing back the timeline by three months from the end of 2024 to the first quarter the next year. That followed a spate of flight cancellations between December and February.

"The main reason was because of the flight cancellation incident, we learned a lesson and want to take a prudent approach and made the adjustment to the timeline in restoring flight capacity," Lam said.

Hong Kong's tourism sector recovered more slowly than the government expected in 2023, with flight capacity limitations a factor.

Lam admitted earlier that management had underestimated the number of reserve pilots needed to cover a higher level of seasonal illness and responded to the issue by cutting hundreds of flights between December and February to ensure smooth operations during Lunar New Year.

Cathay chief operations and service delivery officer Alex McGowan said there was a shortfall of 500 pilots across premium carrier Cathay Pacific and budget unit HK Express.

The company had 2,900 pilots and needed to have 3,400 in place to fulfil the target of 100 per cent pre-Covid capacity, he said. He noted the figure of 3,400 was even lower than the number in October 2020.

He said the company was stepping up training and hastening promotions of first officers to fill the gap this year. McGowan said pilot turnover stood at 2 per cent, a record low.

Group chairman Patrick Healy said the company expected to return to 80 per cent of its pre-pandemic passenger flight capacity in the second quarter this year after reaching 70 per cent at the end of last year, which connected the city to 80 destinations.

"In 2023, we finally left the Covid-19 pandemic behind us," he said.

The group revealed a turnaround in the performance of Cathay Pacific and HK Express, on the back of what it called a "notable surge in travel demand".

The company restored its interim dividend for the first time since 2019, with directors recommending 43 HK cents per share.

Healy said the group's priority was to ensure sustainable growth and prepare for the full operation of Hong Kong International Airport's third runway by the end of the year.

Last year's results included a one-off gain of HK$1.9 billion as a result of the dilution of its stake in Air China from 18.13 per cent to 16.26 per cent.

Revenue in 2023 jumped 85.1 per cent year on year to HK$94.48 billion, fuelled by passenger services.

Passenger services revenue for the premium carrier surged by 308.8 per cent year on year to HK$55.95 billion, accounting for 59 per cent of the total profit.

HK Express also returned to profitability, making HK$433 million last year compared with a HK$1.36 billion loss in 2022, owing to high demand for short-haul flights. As of last December, it was operating at more than 130 per cent of its pre-pandemic passenger flight capacity.

3,400

Cathay Pacific, which currently has 2,900 pilots, needs this number to fulfil the target of 100 per cent pre-Covid capacity

The group's airlines carried 17.98 million passengers in 2023, 541.4 per cent more than the 2.8 million in 2022.

"The imbalance between supply and demand resulted in high yields and contributed to a strong financial performance in both halves of the year," Healy said, adding that the discrepancy would diminish this year as capacity was restored.

It delivered 19.6 per cent more cargo at 1.38 million tonnes in 2023 compared with the previous year. But cargo revenue shrank by 17.9 per cent to HK$22.16 billion last year, compared with 2022.

Earnings per share were HK$1.40, compared with a loss per share of HK$1.11 a year ago.

CEO Lam said the company allowed employees to share its profits, with some entitled to up to 7.2 weeks of eligible pay. This took the full-year total to 17.2 weeks of eligible pay last year.

Andrew Lee, an equity analyst at Jefferies, said the dividend payment was "a key surprise", adding he expected a significant drop in fares due to strong demand for business and leisure travel.

Lawmaker Michael Tien Puk-sun said it was better to have a conservative estimate for capacity than to take an aggressive approach to avoid a repeat of the flight cancellations.