Virgin Atlantic Could Not Grow In India Due to Jet Airways Collapse

New Delhi: The closure of Jet Airways (India) Limited changed the India growth plans of Virgin Atlantic. The British airline, which had a code share partnership with Jet Airways, then started its own services between London and Mumbai, as per the airline's country manager (India) David Hodges.

"We had a code-share partnership with Jet Airways, and we planned to grow that," Hodges said adding, "Unfortunately, the grounding of Jet Airways changed our growth plans."

Also Read : Explainer: Jet Airways crisis

One airline books its passengers on its partner carriers and provide seamless travel to destinations, where it has no presence by virtue of Code-sharing.

Virgin Atlantic will now start its own daily flights between London and Mumbai from 27 October to utilize the space vacated by Jet Airways, which operated three daily flights on this high demand sector. Jet Airways also flew a daily flight between Mumbai and Manchester.

"There was a lot of capacity (between Mumbai and London/Manchester). We were looking to increase our presence in the partnership with Jet Airways and probably fly one Virgin Airways flight between England and India (of the flights flown by Jet Airways)," Hodges said. "We need to be quick and nimble (after Jet's grounding). So, we decided to start our own services between Lond

Virgin Atlantic currently also has a daily flight between London and New Delhi.

Jet Airways suspended operations in April because of a severe cash crunch. A consortium of 26 banks led by the State Bank of India (SBI) has approached the National Company Law Tribunal (NMCLT) to recover dues worth more than ₹8,500 crore.

As things stand, Jet Airways has run a loss of more than ₹13,000 crore in the past few years. Its total liabilities amount to more than ₹15,000 crore even as lenders have been trying to sell the beleaguered airline as a going concern, but without much success.

Hodges said Virgin Atlantic was looking at forging new partnerships with Indian airlines, which could help the airline get traffic from smaller Indian cities and town. The airline, which already has an interline partnership with Vistara, is looking to forge more such partnerships or code share agreements with other Indian airlines.

“Now, the plan is how we grow in India. Having a code-share with Vistara is definitely an option for us,” Hodges said. “Interline with Vistara has given us great connections from Mumbai and New Delhi. It’s however not very simple. Lots of commercial considerations and decisions will have to be made for this alliance.”

An interline agreement is typically signed between two or more airlines to handle passengers when their itinerary involves travelling on multiple airlines. Such agreements allow passengers to change flights to one on another airline without having to check-in again.

Interlining agreements differ from code-share agreements as the latter usually refers to numbering a flight with the airline’s code even though the flight is operated by another airline.

Meanwhile, going ahead, Virgin Atlantic could look to operate between cities other than New Delhi and Mumbai, and London as the airline plans to tap the number of passengers traveling to England and Europe from other Indian metros.

“I have spoken to a number of Indian airports, and this is an interesting opportunity. There are also other high growth cities across South and North India,” Hodges said. “Bangalore is the next natural city we want to fly from in future, and one that we are currently not flying from.”

Virgin Atlantic will operating its Boeing 787-9 (Dreamliner) fleet between London and Mumbai. The airline currently operates Airbus 330 aircraft on its London-Delhi route. The airline hopes to also provide onward connections to destinations in Europe, South America, North America and South Africa from London for its passengers flying from India.

“Ultimately, we want to be able to compete with bigger airlines like British Airways in terms of network and network size,” Hodges added.

Thomas Cook Collapsed, Other European Airlines on Brink

A sad story of Thomas Cook: *being reported only for the sake of reporting.*

Its official now. By 23 September 2019, the 178-year-old company, Thomas Cook (TCG.L) along with a trio of subsidiary airlines has collapsed. Its stores across Northamptonshire have shut their doors. Thomas Cook branches in Weston Favell and Northampton's Abington Street have also closed for good. Two travel stores in Kettering in Lower Street and at Asda, stores in Wellingborough's Swansgate Centre and Corporation Street in Corby have also closed.

Hitherto known as a travel giant, its thousands of employees have been rendered jobless. This includes about 1,000 workers at their nearby Peterborough HQ.

Today, the grand old travel firm finds itself being put into compulsory liquidation. A weekend of frantic talks could not save Thomas Cook. Tens of thousands of its holidaymakers have been left in the lurch around the globe.

The closure of Thomas Cook and the subsequent cancellation of all its flights has forced the launch of an operation by the Government and the Civil Aviation Authority (CAA). It is one of the largest repatriation in recent British history. This has been codenamed Operation Matterhorn.

This repatriation is hugely complex and the CAA and the government are working around the clock to support the Thomas Cook customers. All such passengers currently overseas who are booked to return to the UK over the next two weeks will be brought home as close as possible to their booked return date by providing new flights to return to the UK.

A CAA spokesman clarified:

“The Government and the Civil Aviation Authority are now working together to do everything we can to support passengers due to fly back to the UK with Thomas Cook between September 23 and October 6. Depending on your location, this will be either on CAA-operated flights or by using existing flights with other airlines.

If you are already abroad you will find all the information you need about your arrangements to get home on this website. If you are due to depart from a UK airport with Thomas Cook Airlines, please do not travel to your UK airport as your flight will not be operating and you will not be able to travel.

These repatriation flights will only be operating for the next two weeks (until October 6). After this date you will have to make your own travel arrangements. From a small number of locations, passengers will have to book their own return flights.”

Also Read : Jet Airways pushed further to the brink of collapse

Virgin Atlantic is one of the airlines taking part in the CAA scheme. A Virgin Atlantic spokesperson stated: “We’re sorry to learn that Thomas Cook has ceased trading earlier today and recognise the impact on its customers and staff in the UK and abroad. Virgin Atlantic is working closely with the CAA to repatriate Thomas Cook customers impacted in Cuba, Jamaica and the United States, to ensure they will be able to complete their journey as planned. We have allocated available space on our scheduled flights, and are also providing special flights to repatriate Thomas Cook passengers abroad.”

Similarly, a representative for the easyJet airline stated: “We are sorry to see the news about Thomas Cook and appreciate the anxiety that their customers will be facing now. easyJet is working with the CAA to provide a fully crewed A320 aircraft to support the repatriation efforts over the coming days.”

Besides, British Airways is also offering flights for Thomas Cook passengers returning to the UK from destinations like New York, Los Angeles, San Francisco, Las Vegas, and Cancun.

Aviation analysts observe that the strains that sank Thomas Cook weigh on other European airlines as well. Several such companies are struggling with similar problems.

Two small operators, Aigle Azur and XL Airways, are before the French bankruptcy courts today. The list of similar bankruptcies is long: Monarch, Air Berlin and Alitalia failed in 2017, Primera and Cobalt in 2018, and Germania, Flybmi and Iceland’s WOW so far in 2019.

Today in aviation sector, there is very little left for cheer. Larger European carriers are not immune from the threat of collapse. Regional operator Flybe’s sale to a Virgin Atlantic-led consortium just managed to avoid its closure. Third-ranked low-cost operator Norwegian Air (NWC.OL), which has bled cash while making inroads in the transatlantic market, somehow managed to get a reprieve from creditors last week, postponing repayment on $380 million in debt for up to two years.

Customers can find out how to book on to the repatriation flights through the CAA website: www.thomascook.caa.co.uk.

WEC Energy Acknowledges Need To Change

Image Source: WEC Energy Group Inc – IR Presentation

By Callum Turcan

WEC Energy Group Inc. (WEC) is a regulated electric and natural gas utility based in Milwaukee, Wisconsin, that serves 4.5 million customers across the Midwest primarily in the following states; Wisconsin, Illinois, Michigan and Minnesota. That includes power generation, transmission, and natural gas delivery operations that are supported by its natural gas storage assets. Shares of WEC yield 2.6% on a forward-looking basis as of this writing. We aren't interested in WEC Energy given its heavy reliance on coal-fired power plants at a time when natural gas and renewables (aided by government subsidies) are increasingly dominating the power generation landscape. Furthermore, we caution that domestic utilities that are overly reliant on coal-fired power plants will likely face major regulatory and environment hurdles in the medium-term, especially if the Clean Power Plan or some version of it is reinstated and that plan is enforced with the teeth of federal regulators.

Dividend Commentary

In 2018, WEC Energy generated $0.3 billion in free cash flow (defined as net operating cash flow less capital expenditures) while spending $0.7 billion on dividend payments. Debt issuance was used to cover the gap. We like the stability of

WEC Energy's free cash flows over the past three full fiscal years, which averaged $0.4 billion during this period, but caution the firm needs to maintain access to capital markets to cover both its dividend commitments and growth trajectory. We would like to note that if WEC Energy didn't pursue significant growth activities its free cash flows would likely be much stronger (as its capital expenditures would be materially lower).

However, the company is seeking growth opportunities as many are available and capital markets are very willing to keep lending WEC Energy more money. We'll cover that growth runway in greater detail in a moment. Having investment grade credit ratings and positive free cash flows make this process significantly easier.

WEC Energy prefers to use debt issuance, and not equity issuance, to fund its growth trajectory and please note the company has historically repurchased a marginal amount of its stock each year to offset dilution (from activities like stock-based compensation). At the end of June 30, 2019, WEC Energy had a net debt load of $11.9 billion (inclusive of short-term debt). Lower interest rates in the US will make refinancing activities significantly easier, and should lower WEC Energy's cost of debt.

Shifting Away from Coal

As you can see in the graphic below, 48% of WEC Energy's rated electric generation capacity was represented by its coal-fired power plants at the end of last year. Most of the remainder is made up by older less economical peaker plants (fueled by oil and natural gas) which are turned online during times of elevated demand (cold winters, hot summers, unplanned outages at baseload facilities). Only a quarter of WEC Energy's rated power generation capacity is represented by more modern (and most importantly, very economical) combined cycle natural gas-fired power plants. Please note that natural gas prices in America have been very low for some time and are likely to remain subdued going forward given the abundance of domestic and Canadian gas supplies. Renewables made up just a tiny portion of WEC Energy's rated power generation capacity at the end of 2018.

WEC Energy is making major investments to change this picture, which we can appreciate. In its 2018 Annual Report, the company notes it planned to retire 1,800 MW of coal-fired power generation capacity by 2020. Last year, the firm retired 1,500 MW of coal-fired power generation capacity as part of that effort. This year, WEC Energy retired the coal-fired Presque Isle power plant. That capacity is being replaced with natural gas-fired generation capacity at WEC Energy's Upper Michigan Energy Resources ("UMERC") subsidiary. UMERC turned two new gas-fired power plants online this year with a combined 180 MW of power generating capacity. WEC Energy is also investing in a handful of renewable energy projects as well.

Betting Big on Wind

By the end of 2019, WEC Energy expects that its Coyote Ridge Wind Farm project in South Dakota will be completed. WEC Energy has already signed an offtake agreement with Alphabet Inc.'s (GOOG) (GOOGL) Google Energy to buy 100% of that power generation for 12 years. The utility mentions that over three dozen wind turbines made by General Electric Company (GE) will be used to create the wind farm, which is expected to have almost 100 MW of power generation capacity.

Keep in mind that Google Energy is likely to need power indefinitely, so there are reasons to believe that its 12-year deal with WEC Energy could be extended given that Alphabet wants to source as much of its electricity consumption as possible from renewable energy. Avangrid Renewables, a subsidiary of Avangrid Inc. (AGR), is developing the wind farm and will be the operator once completed. WEC Energy acquired an 80% stake in this development in early-January 2019 for $145 million. That asset is expected to qualify for the federal production tax credit.

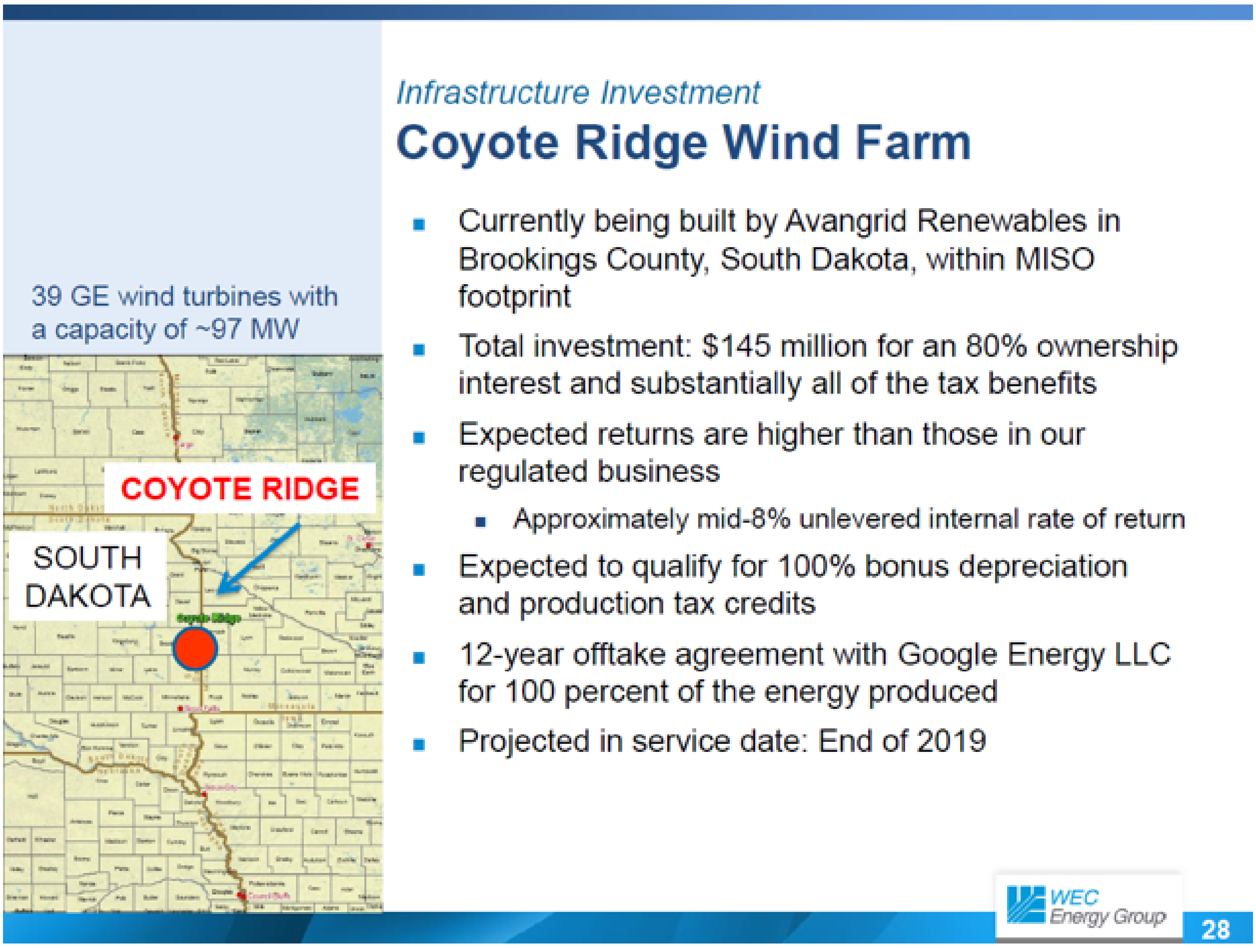

Image Shown: An overview of WEC Energy's Coyote Ridge Wind Farm project. Image Source: WEC Energy – IR Presentation

The Coyote Ridge Wind Farm project is one of many renewable energy endeavors WEC Energy is pursuing. WEC Energy increased its stake in the 132 MW Bishop Hill III wind farm in Illinois to 90% from 80% last year, and at the start of 2019, WEC Energy acquired an 80% stake in the ~203 WM Upstream Wind Energy Center in Nebraska. Both of those power plant facilities are now operational. The revenue streams generated through the power produced and sold from these assets are secured by long-term contracts.

On September 3, 2019, WEC Energy agreed to acquire an 80% stake in the 330 MW Thunderbird Wind Energy Center in Nebraska for $338 million. By the end of 2020, commercial operations are expected to commence. 108 GE wind turbines are expected to be use to develop this wind farm, and the venture is supported by an offtake agreement for 100% of the energy produced.

Management is serious about bulking up WEC Energy’s renewable asset base, with the production tax credit meaningfully enhancing the expected returns on these developments. Please note that as things stand today, the production tax credit is expected to phase out soon, which is why it’s very important that the developers WEC Energy is working with bring these wind farms online on-time.

When it comes to solar, WEC Energy teamed up with a subsidiary of MGE Energy Inc. (MGEE) to bring an additional 150 MW of power generation capacity at the Badger Hollow Solar Farm in Wisconsin online. That’s on top of the 150 MW of power generation capacity already planned at the site. The expansion was announced on August 1, and the joint venture expects to begin commercial operations by the end of 2020 from the development’s first phase. The second phase is forecasted to start commercial operations a year later in 2021. At peak capacity, the Badger Hollow Solar Farm will add 300 MW of gross renewable power generation capacity to WEC Energy’s asset base.

Concluding Thoughts

WEC Energy has accepted it needs to shift its power generation operations away from coal (which faces major medium- and long-term regulatory and environmental hurdles) and towards cleaner options. Natural gas represents America’s bridge fuel as the country slowly shifts towards a world where renewables will no longer play second fiddle to coal, natural gas, nuclear, or hydro-conventional sources of electricity generation. That being said, we still aren’t interested in shares of WEC here as we see better income growth opportunities out there.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: Alphabet Inc Class C (GOOG) shares are included in Valuentum’s simulated Best Ideas Newsletter portfolio. This article or report and any links within are for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this article and accepts no liability for how readers may choose to utilize the content. Assumptions, opinions, and estimates are based on our judgment as of the date of the article and are subject to change without notice.

After Posting Rs 4,600 crore operating loss in 2018-19, Air India Aims Operating Profit This Fiscal

NEW DELHI:

Air India posted an operating loss of around Rs 4,600 crore in the last financial year. The reasons attributed by its management are :

– higher oil prices and

– foreign exchange losses

The debt-laden carrier expects to turn operationally profitable in 2019-20, as per its senior officials.

Reflecting tough business conditions, the airline's net loss stood at about Rs 8,400 crore while total revenues touched around Rs 26,400 crore in 2018-19.

Another senior official of Air India said the airline is projected to post an operating profit of Rs 700 to 800 crore in 2019-20, provided oil prices do not shoot up significantly and there is no steep fluctuation in foreign exchange rates.

However, the airline incurred an operating loss of Rs 175 to 200 crore in the three months ended June as closure of Pakistan airspace for Indian carriers resulted in higher costs and caused a daily loss of Rs 3 to 4 crore when the restrictions were in place, the official said.

Air India had a loss of Rs 430 crore in the four-month period when Pakistan closed its airspace after the Balakot air strikes.

Last week, state-owned oil marketing companies (OMCs), led by IndianOil, had stopped fuel supply to Air India at six – Ranchi, Mohali, Patna, Vizag, Pune and Cochin – airports over non-payment of dues.

The official noted that load factor and yields are improving for Air India, which currently flies to 41 international and 72 domestic destinations. Load factor is a measure of seat occupancy and yield refers to average fare paid per passenger.

The situation is anticipated to improve further as more wide-body planes would be available for operations in the coming months, the official added. Air India had grounded several of its wide-body aircraft for maintenance and most of them are in the process of being re-inducted into the fleet.

Air India is to start flying to Toronto from September 27 and to Nairobi in November.

The airline has a debt burden of more than Rs 58,000 crore and servicing the loans is a major challenge as the annual outgo is more than Rs 4,000 crore.

The official who was quoted first said the carrier is facing a financial crisis and disinvestment is the option.

Aviation consultancy CAPA South Asia CEO and Director Kapil Kaul said Air India’s financial position is likely to “significantly improve” in the current financial year.

“CAPA expects a closer to break-even in FY 20 excluding increased costs incurred due to closure of Pakistan airspace. With oil prices expected to stay below USD 60, expect a closer to break-even for Air India in FY 20,” he told PTI.

Noting that improved financial performance would be a positive for divestment, Kaul said a fully divested Air India that is well capitalised and with improved governance and management would ensure that the airline has a relevant future.

India needs a stronger Air India which is viable without taxpayers’ support, he added.

The government has decided on disinvestment of Air India as part of efforts to revive its fortunes. Air India, which has been in the red for long, was sanctioned a nearly Rs 30,000 crore bailout package for a 10-year period by the UPA regime in 2012.