

## Intense dogfight seen for short-haul traffic

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"Regional airlines (including Malaysia Airlines (MAS) and AirAsia) are expected to compete intensely for short-haul traffic between developing countries. These countries have populations with a growing desire for holidays in regional countries because air fares are lower," it wrote in a report yesterday.

While consumers may be downgrading from full-service carriers to low-cost ones, that does not ensure profitability for low-cost carriers (LCCs).

"Competition between LCCs is likely to be highly intense with razor thin margins on base fares," it added.

The research firm said the recently concluded fourth-quarter results of both MAS and AirAsia came in below its expectations as the airline sector felt the effects of a worse-than-anticipated economic slowdown and bad bets on fuel prices.

"Nonetheless, we are expecting a reprieve in 2009, especially on the costs structure, that is, fuel hedging that would ease some pressure on operating margins," it said.

It is maintaining a "neutral" view on the airline sector, underpinned by rising risks that could impede an economic recovery that is crucial to the resumption of healthy air traffic.

Meanwhile, MIDF Research expects regional airports to reduce fees because governments will want more traffic passing through their airports.

"Billions have already been spent in tourism infrastructure and a significant amount of many nations' gross domestic product is derived from tourism and its spillover effects.

"It makes more sense to assist the millions of jobs involved in tourism than to look after the profitability of a few airport operators," it said.