**Etihad Airways Analysis**

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**INTRODUCTION**

Etihad Airways is the flag carrier airline of the United Arab Emirates (UAE). It was began by royal order in 2003 issued by Sheikh Khalifa bin Zayed Al Nahyan. It is located in Abu Dhabi, which is the capital of UAE. Since 2003, it has grown in a robust way up to present and is continuing to grow. The company turned its first profit in 2011 and has shown a higher profit each year after. Although owned privately by the UAE government the company is run in an independent manner by a board of directors and corporate officers. The board is comprised of citizens of UAE but the day-to-day business is carried out by a CEO and officers who are accomplished airline professionals from western countries.

**ETIHAD FIGURES:**

Etihad operates more than 1,000 flights per week to more than 100 passenger and cargo destinations in the Middle East, Africa, Europe, Asia, Australia and the Americas. It has a fleet about 100 Airbus and Boeing aircraft. According to CEO James Hogan, a key strategy to the youthful company’s phenomenal success is its partnerships with other airlines in which Etihad has made substantial equity investments. For example, it owns 24 percent of Jet Airways, a strong airline located in India. Although Jet struggled during the world financial crises in the recent years, it is stabilized since the investment of several hundred million by Etihad. The Jet Airways connection has opened up a vast Indian market for the company’s future growth. Etihad also has invested in airlines in Australia, Germany, Serbia, other parts of Europe and is near to an investment deal with Alitalia, an Italian airline.

In 2012, after its first profit in 2011, Etihad carried 10.3 million passengers for a 23% increase from the prior year, and took in revenue of US $4.8 billion and net profits of US $42 million, which were also big increases. Despite its young age, Etihad is now the fourth largest airline in the Middle East and the second largest in the UAE, after the Dubai-based Emirates, that is discussed below.

Etihad is governed by a Board of Directors under the chairmanship of Sheikh SA Hamed bin Zayed Al Nahyan and operates under the terms of its founding legislation and the Article of Association of the Company. The current Board of Directors consists of seven independent non-executive members and has two sub-committees, an Executive Committee and an Audit Committee, each with its own constitution and a president, which is good for checks and balancing against each other.

The airline operates more than 1,000 flights per week to over 100 passenger and cargo destinations in the Middle East, Africa, Europe, Asia, Australia and the Americas, with a fleet of over 100 Airbus and Boeing aircraft. These figures reflected strong growth in passenger traffic volumes. The airlines added six new destinations in 2013 Washington DC, Amsterdam, Sao Paulo, Belgrade, Ho Chi Minh City and Sana’a and increased capacity on 18 existing routes.

Etihad is situated in a strategic geographical location, where it chooses to bill itself as a crossroads airline in a crossroads hub. The location gives access to the major pathways of the future: to Australia, India, Southeast Asia, Indonesia and China. It’s already connected in flights to Russia, China, India, Europe, and the Americas.

Etihad put nine new destinations for 2014 Los Angeles and Dallas Fort Worth, Rome, Zurich, Jaipur, Perth, Phuket, Medina, and Yerevan in Armenia.

The company pointed to partnership strategy as key factor in its growth, with its wide ranging codeshares and its unique approach of minority equity investments in strategically important airlines. The company reports accelerated network growth, and now claims the largest route network of any Middle Eastern carrier to almost 400 destinations. It boosted its sales and marketing opportunities in key worldwide markets and utilized significant business synergies and cost savings. The company is closing an equity partnership with Alitalia Airlines, an Italian fleet. The most important of the partnerships is like Jet Airways pact which opens an instant market into vast territory and opportunities in India, with a fairly big airline with significant track record.

**Etihad has equity interests in the following:**

Darwin Airline (100%)

Air Serbia (49%)

Air Seychelles (40%)

Air Berlin (29.21%)

Jet Airways (24%) (India)

Virgin Australia (19.9%)

Aer Lingus (4.1%)

Etihad is young airline, but it’s already known for assisting struggling airlines in key markets for a cooperative venture that is of great benefit to both. If Etihad can help Jet Airways in India or Alitalia in Italy, and others listed above, it will be an infusion of energy and capital, that already sees Jet responding positively. Although some in India don’t want to see outside control, Etihad bought only 24% of Jet to comply with all laws. But this is a great assistance to return Jet to stabile operations and allow for profitable partnership by Etihad with lively business in the Indian market.

It’s important to see that Etihad is strong across all factors of analyze. Even though it’s reporting is minimal and leaves some gaps of interpreting, it shows strong for 10 years, with the past four or five years being all progressively stronger and stronger. The company is run by experienced professional group who understand change and patterns of growth. They also understand networking and partnering. They give attention to the social networking factor which every growing business must connect into, for purposes of taking the forward momentum as this is developing. These leaders have been in place almost from beginning of Etihad, showing stability and the ability to take innovation aggressively into the field. With good leadership, capital funding, and a very keen interest in everything that is customer-orient, the airlines seems poised to take it to the next level. With continue of leadership In the Middle East, this dramatic growth is only directly overshadowed by its cousin airline discussed below.

**EMIRATES AIRLINES:**

The Emirates Group, was formed in 1985 and has enjoyed 25 straight years of profits since its inception. It is the largest airline in the Middle East and in comparison may be said to be a much greater and bigger guiding light to Etihad. Emirates was formed by the royal family of Dubai and is privately-owned. But Emirates has had good experience in the floating of several bond offerings, with a perfect performance record. Both companies have paid or will pay dividends to the private owners. Emirates is the experienced, sophisticated and highly successful player, while Etihad is expanding daily into its own role of leadership. A comparison of the two shows far greater revenue, profits, employee numbers, fleet numbers, and a substantial higher factor in almost every other key factor that Emirates has over Etihad.

**COMPARATIVE ANALYSIS – RESTRICTIONS AND PARAMETERS:**

This paper will start with compare of Etihad and Emirates to see how the younger company is growing in comparison between them. This company analysis must of necessity diverge from the given format of Income Statement, Balance Sheet, Stock Performance, Market Positions and Major operational ratios. Unfortunately there is wide divergence of availability of financial information. Emirates publishes financial reports of every nature, statement of income, financial condition, and sophisticated operational ratios. Much information has been published by Emirates, but Etihad as a new performer and more accustomed to operating privately has not apparently published widespread financial indications, such as providing regular or consistent actual balance sheets and formal financial statements that have been made public. These difficulties will be discussed at the end but cause such a wide divergence that they must be discuss here for introduction to the problem.

One other problem is that all finances for Emirates is reported in UAE dirhams (AED), which must be translated into U.S. dollars by the ration applying at the date of the transaction. The last exchange rate recently reported was 3.67 to the U.S. dollar. But Etihad published its little information by using U.S. Dollars to further complicate making correct comparisons between the two airlines.

Another problem is that the categories of stock performance and market conditions cannot be dealt with to any extent in this analysis because Etihad is strictly privately-owned and has no stock performance. Emirates is also privately-owned but it at least does conduct bond sales, and where appropriate that will be briefly described to at least have in recorded in this discussion.

By far the biggest problem is the little amount of finances made available by Etihad, which did not turn a profit until 2011 and is still appears to be adjusting to business reporting techniques. Of course, as an essentially government-owned entity, this company has been isolated from need to report and provide meticulous studies. In some categories where Etihad does report, Emirates does not have the equal category report. In some where Emirates reports, Etihad has nothing . Some categories are listed below with the respective numbers for each but this is a bit sparse numerical comparison. What is lost is attempt to be made up here in descriptive analysis and more general comparisons . Further, the general finding of the comparison is that both airlines are in a period of uninterrupted growth and stability for the foreseeable decades to come, with Etihad trailing in numbers only because of its young age.

The information that is available is good to make strong conclusions about the growth of Etihad and its strength in its markets. This paper will compare the two companies based on published financial indicators that are available and that are strong indicators of the strength of the companies, but may not be suffice to be called for example the tradition definition of balance sheet. There are also general business reports and evaluations that are used to show comparison. Also, the discussion of stock positions and major operational ratios is small due to these not being publicly traded companies and Etihad not reporting sophisticate operating ratios at this time. The net profits, supplemented by other financial figures and benchmarks, can give general idea of how company would be success if traded publicly.

Based on the relative very strong financial standing of both airways it’s not surprise that the government owners have no need to ask outside investment. In several ways, it appears that Etihad is in a same growth pattern as Emirates and following the same business formula. Both airlines opening routes to India and Asia, and both accentuate partnerships with other companies. Both have CEO’s and management officers who are experienced professionals from Western countries. This may show a directional path from the leaders of the country to pattern both airlines in similar framework of growth. At this time and foreseeable future, both airlines benefitting greatly from the fact and perception that UAE is major tourism hub and that geographic location is ideal center for transport connections and short overstays. This is also a major center for business travel connects and business meetings and conference.

**CHART ONE -- Company Analysis:**

**Etihad: Emirates:**

**2013 Revenue: (US b) $ 6.1 (US b) $ 19.38**

**2012 Revenue: 4.8 16.74**

**2011 Revenue: 4.1 14.40**

**2010 Revenue: 3.0 11.57**

**2009 Revenue: 2.3 11.57**

**2013 Profit: (US m) $ 62 (US m) $ 222.98**

**2012 Profit: 42 219.98**

**2011 Profit: 14 156.82**

**2010 Profit: xx 166.89**

**2009 Profit: xx 138.03**

**2013 EBIT 208**

**2012 EBIT 170 (AED mil) 1,673**

**2011 EBIT 137 5,545**

**2010 EBIT**

**2009 EBIT**

**2013 EBITDAR US Mil 979 (AED mil) 13,891**

**2012 EBITDAR 753 10,735**

**2011 EBITDAR 648 13.437**

**2010 EBITDAR 10,638**

**2009 EBITDAR 8,286**

**2013 No. Aircraft 89 197**

**2012 No. Aircraft 70 169**

**2011 No. Aircraft 148**

**2010 No. Aircraft 142**

**2009 No. Aircraft 127**

**2013 Passengers: (millions) 11.5 39,391**

**2012 Passengers: 10.2 33,981**

**2011 Passengers: 8.3 31,422**

**2010 Passengers: 7.1 27,454**

**2009 Passengers: 6.3 22,731**

**2013 No. Employees 38,067**

**2012 No. Employees 10,656 33,634**

**2011 No. Employees 9,038 30,258**

**2010 No. Employees 7,855 28,686**

**2009 No. Employees 7,828 28,037**

**2013 Cargo Carried (000 tonnes) 1570**

**2012 Cargo Carried 368 1543**

**2011 Cargo Carried 310 1494**

**2010 Cargo Carried 263 1121**

**2009 Cargo Carried 1003**

On March 3, 2014 Etihad announced record revenue, earnings and profits for 2013, showing substantial increases over 2012 and 2011. The year 2011 was its first profit earned. The record financial results for 2013 showed net profit up 48 per cent from 2012 to US $62 million on revenues up 27 percent to US $6.1 billion. The record performance also saw earnings before interest and tax (EBIT) up 22 per cent from 2012 to US $208 million and earnings before interest, tax, depreciation, amortization and rentals (EBITDAR) up 30 per cent from 2012 to US $979 million. This spectacular growth in some ways follows in footsteps of Emirates, which is now largest airline in Middle East. This marked the third straight year of net profit for Etihad.

**CHART TWO**

**ETIHAD – RAPID PACE OF GROWTH**

Increases in Key Indicators in 2013 from 2012:

Key Indicators\* 2013 2012 Variance

Total revenue (US$ billion) 6.1 4.8 27%

Net profit (US$ million) 62 42 48%

EBIT (US$ million) 208 170 22%

EBITDAR (US$ million) 979 753 30%

Revenue passengers (million) 11.5 10.3 12%

Revenue passenger kilom (bn) 55.5 47.7 16%

Available seat kilometers (billion) 71.1 61 17%

Number of aircraft 89 70 +19

Codeshare partners 47 40 +7

Partner revenue (US$ million) 820 629 30%

Cargo revenue (US$ million) 928 716 30%

Number of employees (core airline) 13,535 10,656 27%

**To summarize some of the key growth factors in the Etihad story, here is a summary of some of these trends based on 2013 figures**:

• Total revenue up 27 per cent to US $6.1 billion

• Alliance strategy performs strongly, with partnership revenues up 30 per cent to US $820 million, representing 21 per cent of passenger revenues

• EBITDAR (earnings before interest, tax, depreciation, amortization and rentals) up 30 per cent to US $979 million

• EBIT (earnings before interest and tax) up 22 per cent to US $208 million

• Net profit up 48 per cent from US$42 million to US $62 million

• Revenue passenger numbers up 12 per cent to 11.5 million

• Revenue passenger kilometers (RPKs) up 16 per cent to 55.5 billion

• Available seat kilometers (ASKs) up 17 per cent to 71.1 billion

• Fleet increased from 70 to 89 aircraft

• US$67 billion order for up to 199 aircraft and 294 engines ordered in November 2013

• 94 active passenger and cargo destinations, with new services to nine additional cities to commence in 2014

• ‘Equity alliance’ grows to seven airlines

• Codeshare partners increased from 40 to 47

• Through partnerships, “virtual network” increased to almost 400 destinations

• Etihad Cargo revenues up 30 per cent to US$928 million

• Etihad Airways “World’s Leading Airline” for fifth consecutive year at World Travels

**CHART THREE**

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(From "Annul report of Etihad Airways")

In Chart Three above, the steady progression of growth for Etihad is depicted over a period ranging from 2006 through 2013. The key factors of revenue , passengers, fleet numbers, seat load factor, cargo carried, and number of direct destinations have all shown steady growth. Seat load factor has not shown dramatic progression because the high percentage of seats sold has been steady and hovering at high percentages near full capacity for the past several years. The chart shows an airline that is doing everything it needs to do and getting it right , this is a strong sign that, barring some unforeseeable and unexpected catastrophe, this airline is in solid pattern of growth for many years to come.

**Increases in 2012 from 2011:**

To mention some of the other points in the growth from first year of profit, 2011, into the next year, 2012, there was retention of dramatic pace of growth. The revenue of 4.8 billion, making a net profit 42 million that just about quadrupled the profit for 2011, and EBIT of 170 million and EBITDAR of 753 million. In 2011, revenue of 4.1 billion, net profit 14 million, EBIT 137 million and EBITDAR 648 million. Revenue in 2012 thus increased by 17% from 2011 to 4.8 billion.

For the same 2011 to 2012 period, passenger numbers grew by 23% to 10.2 million from 8.3 million. Earnings before interest and taxes (EBIT) increased by 24% to $170 million from $137 million EBITDAR (earnings before interest, tax, depreciation, amortization, and rentals) rose to $753 million from $648 million.

**SWOT ANALYSIS OF ETIHAD AIRLINES:**

**Strengths**: Etihad has strong advantages over competitors. It follows the success of Emirates, which is the largest and busiest and most profitable airline in the Middle East. Its ethic and model are patterned on the way of Emirates. As mentioned, both companies opening vast business potential of India by partnering with other airlines and otherwise focusing on that market. Both airlines emphasize partnerships and ownership of equity in other airlines that need the capital stimulate. In this way, they are able to penetrate new lucrative geographic areas with more ease.

In fact, Etihad like Emirates can take advantage of geographic location as a crossroads to East and West. Being in a strategic travel line that goes easily into India and then China and Southeast Asia, and also being stopping place for those coming from Asia to the western ports, this is the selling point of the crossroads, which has worked very well. Further, in addition to location very good located to India, Etihad has situated position business with Australia. Although a long trip over Indian Ocean, Australia is a potential high-growth area and an existing point of activity. This is complemented by the UAE’s leading efforts to provide a tourism hub of its own, along with being a major business center for business transactions in the Middle East. UAE provides magnificent tourist attractions, solid infrastructure, and ample business resources and facilities to accommodate major tourism. Together with the geographical identity of this port as being an airway hub between East and West, the region is highly situated to continue a position well-carved out for long-term success. Etihad, based at the major airport hub in Abu Dubai, is positioned to grow directly in the same pattern and to enjoy the same complementary dynamics.

Etihad has the strength of highly experience western professionals running the day-to-day operations, which has worked tremendous so far. Current CEO knows his business and speaks with authority. Etihad won “Best airline in the world” for the past four years, which says something about its internal strength, which will be hard for others to catch up to and surpass, unless Etihad become soft or lazy, or somehow fails to continue its innovative ways. The Gulf team of Emirates and Etihad already have reputation of success in hospitality fields due to magnificent resources in built and marketed in UAE. This area has developed a tourism personality and has the advanced infrastructure to deliver on travel plan. Leadership is progressive and tuned in to the digital revolution with many cultural and socializing effects as result of technology.

Very important strength of Etihad is the approach to a “green” prospect for conservation of environment. The company CEO and the officials have taken strong stand for conservation of fuel, cutting down on pollutants, and similar plans to be in this important trend for the future, where these actions will serve the airline well and will give the airline good papers and credential to move forward as each year. These measures are focused in the company’s promotions and annual report.

**Weaknesses**: The weaknesses of Etihad in relation to its positioning and branding so far are little to find. Weakness of geopolitical danger is maybe more of a “threat” discussed below. But either category, still the eruption of terrorism or violence of some kind is always looming threat while political instability continues as Middle East and even possible increased Asian danger factor. Because Etihad has done such a great task of covering all bases of economic success, it seems little weakness can affect the company. The company has appear to be good and excellent employee relations, similar also to policy of Emirates.

True that the company has not reported its financials as well as Emirates, and to some extent this thwarts and working against making good analysis, this is believed to be temporary weakness for company that has had so few gaps in its activities. Also, it may be that such material is available on pay sites, in existence but it’s just not readily available on general Google searches. This should change probably as it continues to emerge into mainstream leadership position.

**Opportunities**: One of these is in continuing development of the social media networks. This can be very important for a tourism hospitality business. The direct relationship to be formed with customer is an opportunity for the company. It appears that Etihad is already aware and has a very active website, with very active social contacts and communications, along with the promotions and contests, etc. that will expand on this media. With the leadership of Etihad being so tuned in to technological progress and the necessity of change, this should set the company in position with the future changes that will happen. Based on continued management stability, there is no reason for a downward turn other than if there is a worldwide economic downturn or collapse.

It’s already said that Etihad had eyes on developing markets and is focused and aware of the importance of these. The almost unlimited business to come out of Asia, India and even Australia will be enough to sustain large growth for longest time.

Also, with UAE standing as the crossroads and looking attractive for tourism features for families, the growth of tourism in the area should continue, which Etihad should view as important opportunity to mix with travel method with vacation and business visits to the place.

**Threats**: Geopolitical unrest or terroristic events could be an outside intrusive force that would hurt business in some instances. If competitors surge ahead for some reason, say in the Indian market, and if the consumer interests were drawn more in to favor strictly Indian airline, then perhaps a shift like that could hurt. But the Etihad executives are so smart to associate with helping an Indian airline get back on track, and taking a smaller position of 24%, this is a well-planned and controlled way to get an assured market in the vast region. Etihad will have positive concern and interest in seeing peace in Middle East and normalization of relations with all countries for economic prosperity that will be unparalleled. This development should cause a dent in the ability of terrorism to spread its destructive work.

**3. How would your work above impact your decision to work or invest in this firm – explain?**

What I’ve learned in this search is that Etihad is in position of strong growth and well situated for continued profitability. For the reasons gone in detail above, this is a company that should be interacted for mutual success. Unfortunately, it is privately owned and not open to public investment, that is what the research shows. As both Emirates and Etihad continue to expand, it may be that the owners will find it necessary to go “public.” That is something to closely monitor. It’s interesting that Etihad now owns interests in several companies that are listed for public trading. That may be one way to invest in Etihad, by investing in one of the companies where he has equity interest.

I would definitely consider invest in Etihad if and when this become possible. In meantime it is also good company to work for or with because it is patient with people and pays well for work given. Because it looks to future improvements, green environmental actions, taking advantage of technology and social media, this seems like good professional team of smart and successful managers.

The financial comparison of the two airlines shows positive parallels moving in same positive directions. This study of two private companies owned by government interests is impressed me that the companies have been run excellent and in maximum strategy for success. The government interests should be able to relax high control and encourage private investment as Etihad makes solid position. This project has made me interest in following this company and excited to see it grow – I would be excited to be able to invest in it or work there sometime in the future.

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