2011 AIRLINE RANKINGS

CATHAY PACIFIC


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Rank: *2nd (Mainline/Legacy Category)*
2010 sales: *$11.5 billion*

In previous years, Cathay's score of 83 would have made it the No. 1-ranked carrier by a wide margin. While it was outpaced in this year's rankings by Singapore Airlines, Cathay still had a remarkable 2010. But even an operating profit improvement of more than 240% was not enough to gain the top spot this year. Cathay has seen the fourth-largest improvement in rankings over the past five years, with a net gain of 10 places. Its biggest year-on-year improvement was in last year's TPA study as it rebounded strongly from the 2008 downturn. Cathay is well-placed to tap into the Chinese market, thanks to its acquisition of Dragonair and a cross-shareholding deal with Air China.

TURKISH AIRLINES


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Rank: *29th (Mainline/Legacy Category)*
2010 sales: *$5.6 billion*

Turkish Airlines has been in the top 10 of the mainline category in the previous two TPA studies, but this year its ranking plummeted. The carrier recorded the second-highest decline in total points, in a year when all but five airlines achieved increases. Turkish has embarked on an ambitious growth path, but it appears that demand has been slower to catch up to additional capacity. Capacity was up 22% in 2009 and 15% in 2010, but the margin between unit revenue and unit costs has fallen dramatically, suggesting yield weakness. Turkish enjoys an advantageous hub location, but time will tell whether demand will catch up to its expansion or if the carrier has over-reached.

MAINLINE/LEGACY CARRIERS

RANK	COMPANY	12 MONTHS ENDING	2010 REVENUE ($ millions)	TOTAL SCORE
1	SINGAPORE AIRLINES	Mar. 11	10,910	99
2	CATHAY PACIFIC AIRWAYS	Dec. 10	11,523	83
3	ALASKA AIR GROUP	Dec. 10	3,832	74
4	DEUTSCHE LUFTHANSA	Dec. 10	29,519	73
5	AIR NEW ZEALAND	Dec. 10	2,986	70
6	COPA HOLDINGS	Dec. 10	1,411	69
7	QANTAS AIRWAYS	Dec. 10	11,446	67
8	ALL NIPPON AIRWAYS	Mar. 11	15,863	67
9	IBERIA LINEAS AEREAS DE ESPANA	Dec. 10	6,074	67
10	CHINA AIRLINES	Dec. 10	4,683	66
11	LAN AIRLINES	Dec. 10	4,391	64
12	TAM LINHAS AEREAS	Dec. 10	6,464	64
13	UNITED CONTINENTAL HOLDINGS	Dec. 10	23,229	62
14	EVA AIRWAYS	Dec. 10	3,617	61
15	AIR CANADA	Dec. 10	10,471	59
16	MALAYSIAN AIRLINE SYSTEM	Dec. 10	4,033	58
17	FINNAIR	Dec. 10	2,694	57
18	THAI AIRWAYS INTERNATIONAL	Dec. 10	5,696	56
19	AIR CHINA	Dec. 10	11,956	56
20	DELTA AIR LINES	Dec. 10	31,755	56
21	KOREAN AIR LINES	Dec. 10	10,227	55
22	US AIRWAYS GROUP	Dec. 10	11,908	54
23	CHINA SOUTHERN AIRLINES	Dec. 10	11,487	54
24	BRITISH AIRWAYS*	Dec. 10	11,980	53
25	SAS	Dec. 10	3,395	52
26	ASIANA AIRLINES	Dec. 10	4,649	50
27	AIR FRANCE - KLM	Mar. 11	31,208	47
28	AMR CORP.	Dec. 10	11,170	47
29	TURK HAVA YOLLARI	Dec. 10	5,589	47
30	CHINA EASTERN AIRLINES	Dec. 10	11,182	39
31	GARUDA INDONESIA	Dec. 10	1,975	38
32	PAKISTAN INTERNATIONAL AIRLINES	Dec. 10	1,377	17

NOTES:
Publicly traded airlines only. Scores range from 1 to a maximum value of 99. The methodology for these rankings can be found on page 47.

**British Airways reported audited nine-month results ended Dec. 31, 2010. Scored results are based on the pro-forma 12-month period ended Dec. 31.*

Aviation Week Intelligence Network subscribers can go to: **AviationWeek.com/awin/TPA** *for expanded rankings tables that break out each airline's scores in the five categories. Extensive data pages for each carrier can also be accessed, as well as additional charts and analysis.*

LOW-COST/NICHE CARRIERS

RANK	COMPANY	12 MONTHS ENDING	2010 REVENUE ($ millions)	TOTAL SCORE
1	CEBU AIR	Dec. 10	593	82
2	AIR ARABIA	Dec. 10	566	65
3	AER LINGUS GROUP	Dec. 10	1,611	65
4	SOUTHWEST AIRLINES	Dec. 10	12,104	63
5	RYANAIR HOLDINGS	Mar. 11	4,796	61
6	ALLEGIANT TRAVEL CO.	Dec. 10	664	60
7	TRANSAT A.T.	Oct. 10	3,372	59
8	WESTJET AIRLINES	Dec. 10	2,533	58
9	AIRASIA	Dec. 10	1,241	56
10	EASYJET	Sep. 10	3,740	56
11	GOL LINHAS AEREAS INTELIGENTES	Dec. 10	3,965	52
12	ICELANDAIR GROUP	Dec. 10	606	51
13	VUELING AIRLINES	Dec. 10	1,048	50
14	HAWAIIAN HOLDINGS	Dec. 10	1,310	48
15	SPICEJET	Mar. 11	632	45
16	VIRGIN BLUE HOLDINGS	Jun. 10	2,626	41
17	PAL HOLDINGS	Dec. 10	1,519	41
18	JETBLUE AIRWAYS	Dec. 10	3,779	39
19	KENYA AIRWAYS	Mar. 11	1,065	38
20	AEGEAN AIRLINES	Dec. 10	783	35
21	AIR MAURITIUS	Mar. 10	525	34
22	SHANDONG AIRLINES	Dec. 10	1,077	33
23	AIRTRAN HOLDINGS	Dec. 10	2,619	30
24	MERIDIANA FLY	Dec. 10	802	28
25	NORWEGIAN AIR SHUTTLE	Dec. 10	1,423	27
26	JAZEERA AIRWAYS	Dec. 10	148	26
27	TIGER AIRWAYS HOLDINGS	Mar. 11	372	21
28	AIR BERLIN	Dec. 10	4,936	20
29	JET AIRWAYS (INDIA)	Mar. 10	2,507	12
30	CROATIA AIRLINES	Dec. 10	223	9
31	CYPRUS AIRWAYS	Dec. 10	313	1

REGIONAL CARRIERS

RANK	COMPANY	12 MONTHS ENDING	2010 REVENUE ($ millions)	TOTAL SCORE
1	REGIONAL EXPRESS HOLDINGS	Dec. 10	205	66
2	SKYWEST	Dec. 10	2,748	62
3	CHORUS AVIATION - JAZZ AIR	Dec. 10	1,443	59
4	REPUBLIC AIRWAYS HOLDINGS	Dec. 10	2,654	56
5	GREAT LAKES AVIATION	Dec. 10	125	55
6	PINNACLE AIRLINES CORP.	Dec. 10	1,021	33

UNITED CONTINENTAL


UNITED CONTINENTAL

Rank: *13th (Mainline/Legacy Category)*
2010 sales: *$23.2 billion*

United Continental is the highest-ranked of the U.S. legacy giants. Its placing is also the highest in at least four years for any of the U.S. majors, excluding smaller carriers like Alaska. Pre-merger Continental has typically been the best of these carriers in recent years, ranking 16th or 17th in the three previous TPA studies. The two airlines' combined score is up 19 points from the prior year. Key things to watch include what further benefits the merger will yield, and how management will react to a possible deceleration of demand growth in the U.S. Delta provides an example of the benefits of a more mature merger, recording a year-on-year score improvement of 23.5.

SPICEJET


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Rank: *15th (LCC/Niche Category)*
Sales *(12 months through March 2011): $632 million*

SpiceJet has seen a rapid rise in the LCC/Niche category. In the previous TPA study, the Indian airline was ranked last based on results through March 2009, with a score of one. Based on results through March 2011, it is now ranked mid-table with a score of 45. The carrier operates 25 Boeing 737s, but with 737s and Bombardier Q400s on order, it plans to boost its fleet to 70 by 2013. SpiceJet has faced fierce competition in the Indian domestic market in the past few years, and is positioning itself to build its presence. However, rival LCCs IndiGo and GoAir will also be seeking more share, after placing massive orders for Airbus narrowbodies.

How It Works

TPA scoring highlights excellence in airline operating performance

This year's ranking of publicly traded airlines identifies those that have lifted their operating performance as they recover from the 2008 global recession and deal with new challenges such as oil price spikes. Scores represent the composite of five performance categories, with emphasis on financial fitness and earnings performance. The five categories (and their contributions to total score) include:

Liquidity (20%), scored from a series of metrics measuring cash and equivalents available to fund current operating requirements; implicit borrowing capacity computed from a percentage estimate of unencumbered asset collateral to debt; and unrestricted cash reserves per available seat mile.

Financial Health (30%), representing an airline's overall financial strength based on assessments of solvency, current ratio, fixed-charge coverage, mix of debt and equity capital, operating income margin and debt service cover.

Earnings Performance (30%), based on a string of measures of earnings momentum and quality, from cash flow margin and year-over-year changes to unit revenue and operating cost.

Fuel Cost Management (10%), determined from a string of measures of cash flow (Ebitdar) and year-over-year changes to liquidity and solvency against the average annual cost of Jet A fuel.

Asset Utilization (10%), determined from the ratio of cash flow return on investment, providing computation of an economic (versus book or GAAP-based) internal rate of return on inflation-adjusted operating assets of an airline.

Companies Grouped According to Operating Profile

Separate scoring algorithms have been developed for each of the three airline groups, including passenger carriers designated as (1) mainline/network, (2) low-cost (LCC)/niche and (3) regional.

Ratios Assigned to Performance Categories

The scoring algorithms used to rank this year's Top-Performing Airlines were compiled from a selection of 18 ratios assigned to one of the five performance categories. Ratios grouped within their respective performance categories were calculated over a 10-year period (where available), weighted and then subjected to an extensive compilation procedure that generated preliminary values for Total Score and each of the five performance categories. Ratios were then assigned coefficients supporting the preliminary values to complete the scoring algorithms.

Data Adjustments

Bankruptcy and reorganization-related gains/charges, mark-to-market asset impairment write-downs, gains/losses from fuel-related derivatives and other non-operating transactions have been excluded from all Ebitdar (cash flow) computations to normalize results.

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Further Review Opportunity Gained From Methodology Design

In addition to facilitating company rankings, total score and results shown in the tables for the five performance categories can also be interpreted as percentiles of performance for fiscal 2010 compared to peer results over the prior 10 years. A score of 85, for example, indicates a company's performance is within 14 points of the best result earned by its peer group during 2001-10.

TPA Project Manager Michael K. Lowry—formerly a senior executive with aerospace and airline companies and an equity analyst—is editor/publisher of AirWatch Report, *an airline credit advisory service (AirWatchReport@aol.com).*

Calculations are based on the latest operating results reported for fiscal years ended no later than March 31, 2011. Where possible, companies with fiscal year-ends prior to Dec. 31 have been scored, using interim quarterly data, to the calendar year end to better match operating performance between companies. Raw information is provided by database vendor Standard & Poor's (which, like Aviation Week, *is a division of The McGraw-Hill Companies). For non-U.S. companies, income statement data presented in native currencies have been converted to U.S. dollars on an averaged, annual basis. Balance sheet data have been adjusted to year-end currency conversion rates.*

Regional Malaise

ADRIAN SCHOFIELD/WASHINGTON

While Regional Express Holdings (REX) was the top performer in the regional category for the third year running, the performance of the category overall was lackluster.

Only Australia's REX and U.S. carrier Republic Airways saw their scores increase, with the other carriers sliding. The TPA council of advisers sees a bleak future for U.S. regionals and believes more consolidation is likely.

TPA adviser Raymond Neidl says the major U.S. carriers are rapidly losing interest in feed from small markets. Michael Dyment adds that majors are likely to put more pressure on contracts with regional carriers and restructure the regional business to be more cost-effective for them. George Hamlin predicts that service will increasingly decline in markets that cannot support aircraft with at least 70-90 seats.

REX secured the top spot with a total score of 66, again edging out U.S. regional giant SkyWest. Republic saw the greatest year-on-year increase in total score, lifting nearly 12 points to 56, based on 2010 results.

TPA Project Manager Michael Lowry notes that Republic made progress in 2010 digesting its Frontier Airlines and Midwest Airlines acquisitions, though this year Frontier recorded a first-quarter $55.2 million pre-tax loss, also dragging Republic to a loss. Republic unveiled plans to restructure Frontier and reduce its ownership stake.

The big question for Republic is when—or if—Frontier will begin to make meaningful contributions to profits. Lowry says management will not be willing to let Frontier continue to drag down earnings, particularly since there is little initial investment to protect and Frontier's Denver base is a "tough, competitive market."