

## AVIATION

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# No-frills rules the roost

Low-cost airlines have stormed the market, increasing capacity to compete with the big boys

By BOONSONG KOSITCHOTETHANA

**T**here were no downdrafts in Thailand's aviation market in 2013, marked by soaring air travel demand and a boom in low-cost carrier (LCC) capacity.

The most distinctive development was the larger role played by no-frills carriers, especially the two market leaders: Thai AirAsia (TAA) and Nok Air. LCC proliferation in the kingdom was evident by the leap in discount airline capacity as well as the number of passengers they carried.

LCCs in Thailand added 2 million more seats in the first half of 2013, ranking third in Asia after Indonesia (12.3 million) and India (3 million), reported the travel booker Amadeus. For Bangkok, Thailand's air hub, incremental LCC seat capacity for the period was 1.2 million, a 30% increase year-on-year.

Overall passenger traffic through Thailand by all budget airlines surged by 28.65% from January to June 2013, a record of 13.58 million, making up 31.08% of all passenger traffic through Thailand's six main airports including Suvarnabhumi.

Combined LCC aircraft movements grew 19.61% in the first half, accounting for 33.08% of total take-offs and landings at those airports, according to Airports of Thailand (AoT) figures.

LCC passengers accounted for 31% of

total passengers, or 43.68 million, from January to June.

Both TAA and Nok Air have enjoyed thriving traffic growth, load factor and profitability, which has left full-service airlines green with envy.

For the first nine months of 2013, TAA, the country's largest LCC with about 50% of the LCC market share, grew its passenger volume by 25% to 7.5 million passengers.

The 10-year-old airline recorded a load factor of 84% for the period.

Driving its growth was an expanded fleet of A320 jets, which are projected to reach 35 by the end of 2013, as well as aggressive network expansion and flight frequency increases.

Nok Air also displayed robust performance, carrying 4.3 million passengers in the first nine months of 2013, exceeding the 4.1 million it carried for the whole of 2012. Its load factor for the period was 86.1%, compared to 84.2% for the whole of 2012.

Late in 2013, Nok Air's fleet of B737-800s increased to 18.

Financially, both TAA and Nok Air fared relatively well in the highly contested LCC market.

TAA reported a 70% rise in net profit to 1.53 billion baht for the first nine months



Thai VietJetAir is expected to start serving major cities like Chiang Mai, Phuket and Hat Yai from its base at Suvarnabhumi airport.



Lion Air of Indonesia is taking direct aim at the regional budget leader AirAsia, establishing local units such as Thai Lion and placing one of the biggest aircraft orders in history.

of 2013, while Nok Air recorded a 179% jump in net earnings to 920 million baht for the same period.

In sharp contrast, flag carrier Thai Airways International posted a net loss of 6.31 billion baht for the first nine months of 2013, a reversal from a 5.62-billion-baht profit for the same period in 2012.

Thailand's political tensions had a limited bearing on Thai airlines' overall performance in 2013 as the protests heightened towards the end of November, only slowing passenger traffic by a small margin.

"There was not much effect from the political situation as the year was almost over," said Nok Air chief executive Patee Sarasin.

Competition is set to intensify in 2014 as at least four new players muscle in on the race for customers.

In response to a thriving air travel market, particularly in the LCC sector, Thai VietJetAir, Thai AirAsia X, and probably another start-up Thai-foreign joint venture will take to the skies in the first

quarter of next year.

Thai Lion Air (TLA), the no-frills carrier controlled by Indonesian giant Lion Group, took to the skies in December 2013 and has been moving to consolidate its position with an aggressive network plan and expediting fleet enlargement. Embarking on double-daily service from its base at Bangkok's Don Mueang airport to Chiang Mai on Dec 4, TLA was due to commence its first international foray with a daily flight to Kuala Lumpur and twice daily to Jakarta starting on Dec 18.

Largely pitching itself against TAA, Thai Lion set its sights on growing its network both domestically and regionally in 2014 with flights to Hat Yai, Krabi, Udon Thani, Ubon Ratchathani, Singapore and Hong Kong.

With its initial network expansion clearly defined, the airline decided to speed up the delivery of two additional Boeing 737-900ERs from March to February, said TLA chief executive Darsito Hendroseputro.

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TLA has two new single-aisle jets in service and expects to have 10 B737-900ERs toward the end of 2014.

Rusdi Kirana, the co-founder and chief executive of Lion Air Group, said TLA's fleet of US-made narrow-body jets will grow by an average of 10 a year to reach 50 in its fifth year of operation.

Signing a memorandum of understanding in June 2013 to set up a Thai offshoot of Vietnam's VietJet Air, Thai VietJetAir is expected to start serving major cities like Chiang Mai, Phuket and Hat Yai from its base at Suvarnabhumi airport with the deployment of two to three A320 single-aisle jets.

Thai commuter airline Kan Air owns 51% of Thai VietJetAir, with 49% by VietJetAir, as the parent already operates two routes linking Bangkok with Ho Chi Minh City.

Thai AirAsia X (TAA) expects to enter the market in March or April 2014 as Thailand's first locally registered long-haul LCC. It has paid-up capital of 400 million baht and formed in 2013 with 49% ownership by Malaysia-based AirAsia X Bhd, 41% by Tassapon Bijleveld, the chief executive of TAA, and 10% by Thai businessman Julpas Kruesopon.

From its base at Don Mueang airport, TAA plans to serve cities in South Korea and Japan, highly competitive routes with strong demand from Thais. The airline will start with two Airbus 330-300 wide-body jets.

TAA cannot serve flights over four hours with its short-haul A320s, but another long-haul low-fare airline, a joint venture with a Thai airline and a Southeast Asian carrier, was reportedly forming on the horizon.

In the more distant future, TLA also plans to broaden its services beyond the short-haul sector to cover medium-

haul destinations such as South Korea and Japan. This service would be operated by new Boeing 787 Dreamliner wide-body jets starting in 2016, when parent Lion Air starts taking delivery.

Lion Air will allocate several of the 15 Boeing 787-8s it ordered to TLA.

TAA expects to add eight additional A320s to its fleet in 2014, allowing it to carry 13 million passengers and sustain an average load factor of 85%. The market leader projects to grow its overall operations by 20-25% next year from 2013, said Mr Tassapon.

Nok Air plans to add four B737-800s

## BUDGETBOOM

### Asian capital cities experiencing the greatest LCC capacity increase

Capital city	Overall LCC share of seats 2012	Overall LCC share of seats 2013	Absolute increase in seats (millions)	LCC capacity change
• Jakarta	42%	51%	2.8	44%
• Bangkok	22%	26%	1.2	30%
• Tokyo	2%	5%	1.1	178%
• Kuala Lumpur	51%	52%	1	15%
• Singapore	26%	29%	0.8	17%

Source: Amadeus

to its fleet next year, expanding its domestic coverage and revving up its international service that resumed on Sept 1, 2013 after a five-year hiatus. Next on its radar after debuting service to three Myanmar routes (Bangkok-Yangon, Mae Sot-Yangon and Mae Sot-Mawlamyine) is making inroads in Vietnam, especially to Hanoi and Ho Chi Minh City in mid-2014

Fiercer competition could mean a possible 10% drop in fares in 2014 from the previous year, said Mr Patee. In late 2013 a price war broke out between TLA and TAA on the Bangkok-Chiang Mai route, with TLA offering 370 baht as its lowest fare tier, undercutting TAA's 390 baht all-in fare.

"It will be an uphill battle for new players to carve out a share in this market dominated by existing players," said Mr Tassapon. "Unfortunately, the cake on the domestic front is becoming smaller."

Aside from offering competitive fares, controlling costs, introducing operating system innovations and passenger service quality will be the determinants for carriers to stay afloat in a fierce market, said airlines executives.