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Australian Equities - Qantas Project Sunrise Investment Community Tour

Qantas' ultra long-range ambitions are taking shape, with the Airbus A350-1000 ULR set to redefine non-stop international travel from Australia and strengthen the airline's competitive position. Northcape's recent visit to Airbus' Toulouse facilities reinforced our view that the project is value accretive, supported by premium travel demand, operational resilience and meaningful network upside.

During June, Craig McCourtie, Portfolio Manager / Analyst from our Australian Equities team visited Airbus' Toulouse facilities to attend the unveiling of Qantas' ultra long-range aircraft, the Airbus A350-1000 ULR. The aircraft is designed to deliver world-first non-stop point-to-point services from Sydney to London and Sydney to New York, with scope for additional routes over time.

Qantas Airbus A350-1000 ULR (Source: Northcape)

Management presented a clear and compelling business case. They reiterated the forecast $400 million EBIT uplift, which may prove conservative based on our assessment and broader market views. Revenue per seat kilometre is expected to increase by approximately 30%, driven by a combination of higher pricing and a greater mix of premium seating, while costs appear stable.

Demand for premium, non-stop travel is already well established. The Perth–London service, introduced in 2018, has been highly successful and continues to deliver the highest customer satisfaction scores across the Qantas network. Further reinforcing this trend, customer surveys indicate that 70% of travellers would prefer a non-stop service.

We assess the operating risk associated with the new aircraft to be lower than expected. The A350 platform has been in service for more than a decade, and the Rolls-Royce engines are well proven. The primary innovations include the addition of a third fuel tank, a new seating configuration, and an advanced operating system designed to optimise routing, weather management and fuel efficiency (including the use of a seasonal polar route) and onboard service features aimed at reducing jet lag. Notably, Airbus has improved efficiency, safety and yields across the A350 platform in nine of the past ten years and expects this trajectory to continue with the A350-1000 ULR.

Cockpit of the Airbus A350-1000 ULR (Source: Northcape)

In our view, the most evident risk to the earnings uplift relates to aircraft certification. Regulatory scrutiny has increased following the Boeing 737 MAX groundings, leading to longer approval timelines. While Airbus does not anticipate issues with the aircraft itself, it acknowledged that certification timelines could extend.

Competitive dynamics are favourable, with no other airline expected to receive a comparable aircraft before at least 2032, providing Qantas with a meaningful advantage. In terms of industry capacity, the planned introduction of 12 aircraft over the initial years is unlikely to materially affect the broader market. While Middle Eastern carriers may respond with discounted pricing, they are unable to offer a comparable ultra long-range, non-stop service.

In summary, the project appears value accretive, with returns on capital expected to exceed the cost of capital while further strengthening Qantas' competitive position in international markets. The introduction of ultra long-haul aircraft also presents additional upside through more efficient deployment of the existing fleet across the broader network.

Craig McCourtie Qantas Investment Community Tour in Toulouse (Source: Northcape)

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