

Airbus makes comeback, tops Boeing

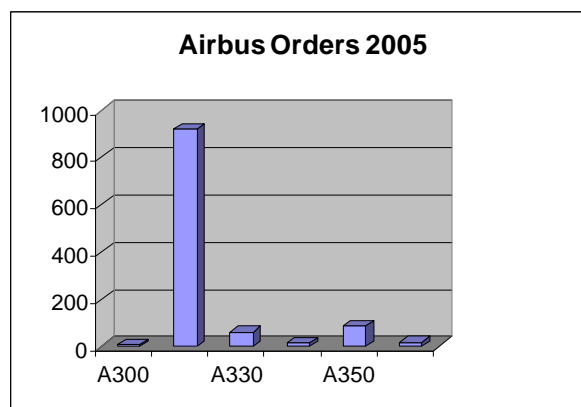
Airbus made a stunning comeback to top Boeing for orders in 2005. After trailing Boeing all year by typically a 55%-45% margin, Airbus announced on January 17 that it received 1,055 net orders vs. 1,002 net orders for Boeing, or a 51% market share for Airbus.

A complete listing of the Airbus orders may be found here:

http://www.airbus.com/odxml/orders_and_deliveries.xls

Airbus sold 918 single aisle planes in the A320 family, or a whopping 87%. The A330/340/350 family sold 166 planes, or 15.7%, and the super-jumbo A380 sold 20 planes, or 1.9%. The overwhelming reliance on the A320 family demonstrates the weakness in Airbus' twin-aisle line. Boeing had a much more evenly split spread across its product line, with about 56.7% of the sales coming from the 737. Even the venerable 747, written off as an anachronism at the beginning of the year, picked up 43 net orders, more than double the A380.

The second surprise out of the Airbus announcement: the poor showing for the A350. Airbus' super-salesman John Leahy had boasted the A350 would book 200 orders by year-end, and as recently as last week Airbus officials were saying the final tally would be only 10%-15% short of this goal. The reality: a mere 87 orders. The A300-600F picked up seven orders, the A330 had 64 sales and the A340 sold 15 planes, a miserable showing against the 777 with 154 orders. Even granting the Airbus technique of combining orders of the A330/A340 when comparing sales against the 777, the Boeing product out-sold Airbus two-to-one.



Next week we'll provide a regional analysis of the Airbus orders.

Airbus' surprise showing of 414 orders booked in December alone thrust Airbus past Boeing. Fully 369 of these planes came from the A320 family. There were seven A330s booked, 38 A350s and 10 A380s.

Airbus now has a backlog of 2,177 airplanes compared with Boeing's 1,809. Airbus plans to increase production this year to 30 single aisle and eight twin-aisle airplanes a month, according to *Bloomberg*., or 456 a year. We estimate that at current production capacity, Boeing can deliver at least 516 737s, 747s and 777s a year—a figure we think is somewhat low. At these estimates, this gives Boeing the ability to achieve a 53% market share in deliveries, increasing as Boeing ramps up production of these lines. Published reports suggest Boeing plans a production rate of seven to eight 787s a month, potentially doubling within 18 months. This capacity is the greatest threat to Airbus' dominance. Boeing's capacity advantage over Airbus can translate into sales for slots in production lines sooner than Airbus can offer airplanes, unless Airbus ramps up its production as well.

Word of the Airbus comeback leaked late January 16. Speculation arose that Airbus—which announced its 2005 orders nearly three weeks into 2006—might have been backdating some orders to book them in December. An Airbus spokesman told us that this isn't so; all the December orders, he says, were signed in December. Examining the breakdown on the Airbus website shows this includes the 150 A320-family orders placed by China, but unassigned by the government so far to the individual airlines. It was these 150 orders that put Airbus over the top of Boeing for the year; observers largely expected the firm contracts to be signed this year. Without them, Airbus would have come in at the 905 planes estimated by analysts and industry observers.

Airbus, along with Boeing, set records for orders in 2005, and as such Airbus has perfect right to boast about its performance. But the company should be embarrassed by its performance in the twin-aisle line, particularly so with the A330's modest showing. This aircraft killed off the Boeing 767 and ate into sales of the 777-200. The A330 is widely considered the best twin-aisle airplane produced by Airbus. The A350 shares the same fuselage as the A330 and competes for some of the same market probably hurt sales of the A330 last year and will probably do so going forward. Just how well the A350 will do this year, its first full year on the market will be interesting to watch (see below).

Airbus has a problem with its wide-body line, centered on the A340, that it has to fix.

Composite A320? Not so fast

Will they or won't they? That's the question facing readers of two conflicting stories reporting that Airbus is getting ready to proceed immediately with a composite successor to the popular A320 family; or not until 2015.

Last week Noel Fogeard, co-chairman of Airbus parent EADS, was quoted widely saying that Airbus will proceed with a composite successor to the A320 right away. Two days

later, Airbus CEO Gustav Humbert said, in essence, “just kidding, we really won’t be doing this until 2015.” The confusion over the two high-level officials saying wildly contradictory things prompted us to contact Airbus North America for further clarification. A spokesman’s response:

Seems Forgeard's comments about stuff being looked at for the long term were interpreted on a significantly shorter-than-actual timeframe. Bottom line is that Airbus is doing research in a number of areas, including further expansion of composite usage on future airframes (nothing surprising there). At this point, it's pure R&D. However, that research should allow us to make the right evaluation and to be ready with the right aircraft when it comes time to replace our single-aisle family. Of course, that A320 family is having great market success, so there are no active projects to replace it that this stage.

Boeing’s blogger-in-chief couldn’t help but crow a bit in his January 13 musings. Says Randy Baseler:

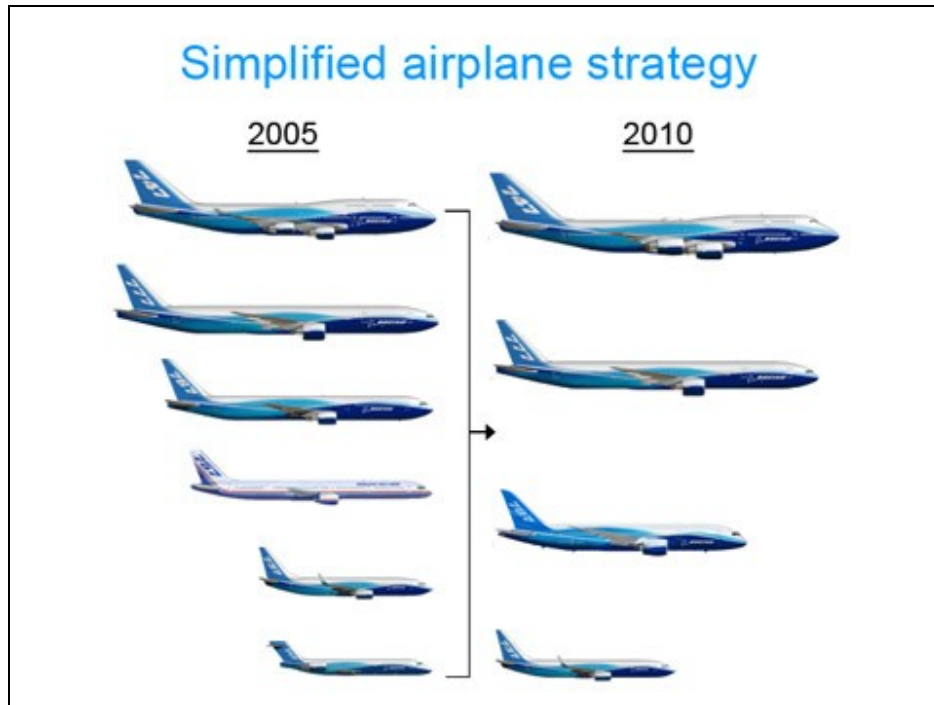
I also noticed this past week that Airbus is looking to follow our lead on technology, floating as "new," concepts that Boeing has [already](#) committed to and is already working on.

Take the recent comments from the chief executive of Airbus' parent company about building an airplane using composites - exactly what we're already doing today with the 787. Noel Forgeard is quoted in the "Financial Times" as saying Airbus is "actively engaged" in developing lighter composite airplanes as the way to go because of fuel efficiency. They're recognizing that with high fuel prices, they have to make more fuel-efficient airplanes. (I find this interesting, since Boeing has always recognized that lighter airplanes use less fuel. And that's why all our airplanes weigh less than the competition's across the board.)

The seemingly contradictory direction coming from EADS and Airbus—and, it appears, the clarification that there won’t be an A320 successor until perhaps 2015—in our view does not bode well for Airbus. We think Airbus badly missed the boat in the A350/787 arena, giving Boeing a critical two-year lead over the A350, and with newer technology. Boeing’s CEO Jim McNerney is on record as saying the 737 successor (which, we understand, will use an all-composite design like the 787) has to be to market first. Boeing is talking about 2012 or perhaps as early as 2010. If Airbus is looking at a composite A320 in 2015, this delay will put Airbus behind Boeing for years, perhaps decades, to come.

Of course, Airbus’ problem is that it already has two new aircraft programs underway, the A380 and the A350, and funding a third, entirely new program will be a challenge at best. (Hence, of course, Boeing’s determination to kill any future launch aid for Airbus from European governments.) On top of the A380 and A350, Airbus is now talking about launching yet another, updated version of the A340. This four-engine product only sold 15 airplanes in 2005 compared with more than 150 for the 777. In this day of high-cost fuel, four engines turning equals four engines burning—a lot of fuel compared with the twin 777. It’s clear the market has spoken: the A340 is passé. Airbus’ problem is that if the airplane was discontinued, it would have a huge seat gap between the A330 (and A350) and the A380.

Boeing's Baseler likes to point to Boeing's simplified product line now: four basic models, down from six:



Source: Boeing

Airbus, of course, has quite the spread: A300-600R, the A320 family, the A330, the A340, the A350 and the A380. The family spans the 1970s/80s through the 21st Century. Across this broad spectrum, Airbus loses some commonality, which has been a key selling feature—and which was once the problem with the multitude of airplanes produced by Boeing.

While Boeing and pundits (but not this one) like to point to Boeing's success last year over the A350 vs. the 787, let's remember that the 787 had a two year lead over the A350, which was not officially launched in October. This year will be the first full year with head-to-head competition between the two airplanes. It will be fascinating to see how well the planes do against each other now, especially if Boeing launches the 787-10 series, which is more closely matched in capacity to the A350 than the other 787 versions.

By Scott Hamilton, January 17, 2006