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Skymark Shares Slump Most in Five Years on Plan to Buy Airbus A380 Jumbos

By Kiyotaka Matsuda - Nov 8, 2010

[Skymark Airlines Inc.](#), Japan's biggest low-cost carrier, fell the most in five years in Tokyo trading as some analysts said its plan to buy four Airbus SAS A380s and begin international services raised risk.

The carrier tumbled as much as 16 percent to 793 yen, the [biggest intraday drop](#) since March 2005. It was down 15 percent at 802 yen at the 11 a.m. trading break. The shares have more than doubled this year, compared with a 13 percent decline for the Tokyo Stock Exchange Mothers Index.

The 555-seater A380s would be the first widebody planes to join Skymark's fleet of 15 single-aisle [Boeing Co.](#) 737 aircraft that seat about 150 passengers. The A380 typically seats 525 and can carry more than 800 people. Moving into overseas services would also put the budget carrier into competition with full-fare rivals such as [All Nippon Airways Co.](#), Asia's biggest listed carrier by sales.

"The plunge in the shares reflects concern about the risks Skymark faces moving into a completely different business," said [Satoshi Yuzaki](#), Tokyo-based research division chief at Takagi Securities Co. "There are many questions, such as where will they get the huge amount of funding needed to purchase the planes?"

Skymark, which started service in 1998, plans to begin flying the A380s in the fiscal year starting April 2014, the Tokyo-based company said yesterday in a statement after the close of trading. The four-plane order is worth 1.39 billion euros (\$1.9 billion) at Airbus list prices.

Qantas Engine Trouble

Qantas Airways Ltd. grounded its fleet of six A380s last week after one had an engine failure on Nov. 4. Replacement aircraft are in place and the company is working with Rolls-Royce Group Plc to investigate the in-flight engine explosion, Sydney-based Qantas said in an e-mailed statement today.

Skymark hasn't decided how many classes of service will be in the superjumbo, Kazusa Naito, a spokeswoman for the airline, said yesterday.

Skymark now flies only economy class in Japan. Skymark's President [Shinichi Nishikubo](#) was the

chairman of an Internet service provider before buying a stake in the carrier and becoming its largest shareholder in 2003. He owns 49 percent of the airline.

Cost Concerns

“I have a lot of concerns” about Skymark’s plan to buy A380s, [Ryota Himeno](#), an analyst at Mitsubishi UFJ Morgan Stanley Securities Co., said yesterday. “How are they going to cope if fuel prices surge? They need pilots with completely different licenses. It’ll cost more for maintenance. Fixed costs per seat are going to increase.”

Skymark has been adding routes and hiring pilots as [Japan Airlines Corp.](#), which filed for bankruptcy in January, slashes service and retires its fleet of Boeing Co. 747s. Neither [All Nippon Airways Co.](#) nor [Japan Airlines](#) has bought A380s. All Nippon said in December 2008 it had postponed a decision on whether to buy the A380 or Boeing’s 747 jumbo jet.

Airbus had predicted that the A380 would be ideal for Japan because its larger capacity could help airlines increase services despite the limited availability of landing slots at Tokyo’s Narita airport. [Singapore Airlines Ltd.](#), the first customer for the A380, flies the plane to Narita, as do Air France and Deutsche Lufthansa AG. Airbus hasn’t picked up a new customer for the A380 since Air Austral ordered two last year for the maximum seat configuration.

Of 286 large aircraft in Japanese fleets today, 265, or about 93 percent, are Boeing models, with the other 21 being Airbus planes, according to data from Ascend, a London-based global aerospace and aviation consulting company.

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