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## Fixed Income Commentary

# Management Bullish on Airlines

AMR Corp. (AMR), Delta Air Lines (DAL) and UAL Corp. (UAUA) have all just issued revenue guidance or fresh commentary for the second quarter at an equity conference and each carrier is forecasting strong unit revenue performance. As we are aware, travel demand has been rebounding, particularly on the business/premium side. Coupled with capacity discipline by the industry, this has translated into improved pricing traction as well. The one area of bad news for the industry is the creeping cost of fuel, which is on the rise again over the last few weeks. Crude is now at \$77 per barrel, up 16% since late May, and New York Harbor jet fuel is now \$2.12, up 12%.

### AMR Guidance

- CEO Gerard Arpey says:
  - seeing a very healthy rebound in business travel; says corporate America is once again traveling in “premium class”
  - company is on the verge of antitrust approval for immunized alliance with British Airways
  - sees a lot of possibilities to work closely with JetBlue in the future (codesharing, etc)
- 2Q mainline unit revenue is forecast to rise between 16.7-17.7% year-over-year (YoY), while 2Q consolidated unit revenue is forecast to increase 16.5-17.5%. This is strong guidance, and implies that June is tracking very well.
- Expects to end June with cash balance of \$5.5 billion (\$5.0 billion unrestricted)
- Fuel Hedging: 2Q hedged 39% at average cap of \$2.48, FY2010 hedged 36% at average cap of \$2.44; AMR actual price paid in April, May was \$2.39 and \$2.44, respectively

### DAL Guidance

- Forecasts 2Q passenger unit revenue to be up 20% YoY, also a strong performance (with the month of June up 23%)
- Corporate contract volume is up 35% YoY and associated corporate revenue was up 63% for the week ended May 23
- Projected system load factor for June, July of 87%
- Sees \$2 billion of free cash flow for 2010, which will be used to reduce debt
- Forecasts June 30 unrestricted liquidity of \$6.0 billion

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# Management Bullish on Airlines (cont'd)

### UAUA Guidance

- Forecasts 2Q passenger unit revenue to be up 26-27% YoY, as UAUA continues to outperform the industry on the revenue front due to strong business/premium demand. Mainline unit revenue forecast to be up 28-29% (100 basis points due to an accounting adjustment)
- 2Q mainline traffic up 0.4-1.4%
- 2Q mainline capacity down -1.8%
- Fuel hedging: hedged approx 77% of 2Q fuel needs at crude equivalent of \$75/barrel
- Expects to end June with unrestricted cash balance of \$4.8 billion

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