

cargo facts UPDATE

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A huge order for FedEx. This week, Boeing and FedEx jointly announced an order for twelve 767Fs, and twelve 777Fs in a deal valued at US\$6.6 billion at list prices [FATs 00458-4481]. Although the 767Fs represent a completely new, previously unannounced order, FedEx has long stated in its Stat Book that it planned to take delivery of five 777Fs beyond what Boeing's order book has shown. FedEx also released financial results for its fiscal fourth quarter (read more on page 4).

According to FedEx's Q4FY18 Stat Book, the bulk of these newly-ordered freighters (eight) will be delivered in 2021, with two 767-300Fs from this tranche to be delivered between 2019 and 2020, and two units in 2022. FedEx currently operates fifty-seven of the fleet type and has sixty-nine more on order.

Are Azul Cargo Express' initial freighter ops just the beginning? Late last December, Brazil-based Azul Brazilian Airlines issued a joint press release with Correios (the country's postal service), announcing their plan to form "an integrated logistics solutions company." Shortly thereafter, the company announced its intention to lease two 737-400Fs, which led to the false assumption by many, that the two deals were connected. However, Azul Cargo Express told *Cargo Facts* that the decision to acquire the 737-400Fs was undertaken well before the JV was formed, and that the freighters are being added to accommodate increasing demand from Azul's own cargo customers.

Once operational, the JV company will handle logistics for all of Correios' postal transport needs, with Correios able to fly mail directly to 100+ airports via Azul's passenger network. Looking ahead, Azul Express Cargo is optimistic that the postal JV will justify the expansion of its freighter network, but for the time being, the focus is on launching the new company. In the absence of any regulatory hurdles, Azul expects the company to commence operations beginning gradually in 4Q18, with the bulk of operations getting off the ground by mid-2019.

Turning to the carrier's incoming 737-400Fs, Azul Cargo Express tells *Cargo Facts* that its appetite for narrowbody freighters has long been justified through the utilization of belly space on its sister carrier's A330-200 passenger flights. Most of the widebodies are used on long-haul flights between the United States and Brazil. Due to strong demand for cargo transport, Azul has also been using the A330s for domestic flights to cities like Manaus (MAO) and Recife (REC) from Campinas (VCP). Without robust industrial demand for airfreight, these routes certainly would not warrant the use of widebody aircraft.

Redelivery of the first of two 737-400Fs (28198), on-lease from Vx Capital, is expected in mid-July. The second unit



FedEx plans to take delivery of thirty-three 767Fs and nine 777Fs by the end of FY20, and will retire thirty-eight aircraft – a mix of MD-11Fs MD-10Fs and A300-600Fs.

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(28053), is already undergoing conversion in Tampa, and is said to be just one month behind the first. Both units are PEMCO-converted ex-Miami Air International aircraft. If customary regulatory processes go well, both freighters could be flying by October. Although no additional freighters are currently on order, the airline is hopeful that robust demand for general cargo and mail could warrant an expanded freighter fleet, which could include additional narrowbody freighters, and perhaps turboprops as well. Azul already operates a few ATR 72-500s in QC combination with daily cargo-configured flights to cities like Porto Alegre (POA) and Recife. For the time being, Azul says the QCs are sufficient – but depending on how the JV with Correios develops, dedicated freighters may be added.

Nippon Cargo Airlines (NCA) has grounded its entire eleven-unit 747F fleet, effective 16 June, shortly after inspectors from Japan's Civil Aviation Bureau (JCAB) discovered major inconsistencies in the company's maintenance records. Increased scrutiny of the Japan-based, all-cargo carrier began last month after JCAB found NCA had omitted multiple incidents involving its aircraft, and subsequently launched an audit of the airline. An audit is expected to take at least one week. According to *NHK World News*, during that time the majority of NCA's operations, including its codeshare flights co-marketed by Luxembourg-based Cargolux and Japan-based ANA, will be impacted.

Apart from NCA's own-operated fleet, Atlas Air Inc. was operating two 747-400Fs on an ACMI-basis for NCA as of September 2017. These aircraft will likely continue flying uninterrupted. Regardless, with eleven freighters suddenly parked, trans-Pacific trade lanes will see a shortage of capacity in the week(s) to come. Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) is also said to be considering punitive measures against NCA. Whether such fines will prompt NCA to sell-off additional freighters and opt for more ACMI operations, or attempt other similar restructuring initiatives, remains to be seen. One thing that is certain, is that it's a seller's market if NCA wishes to part with any of its -400Fs.

Cerberus to buy WFS. Paris-based Worldwide Flight Services (WFS), the air cargo handler with a presence in 198 major airports in twenty-two countries, is being acquired by Cerberus Capital Management. WFS could be valued at about €1.2 billion (US\$1.4 billion), including debt, according to people with knowledge of the matter, and is owned by US private equity firm Platinum Equity. So far in 2018, WFS has signed a five-year cargo-handling contract with Emirates Airlines, as well as contracts with Air Arabia and Norwegian.

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SF Airlines approved for cargo service to Tibet. The Shenzhen-based carrier gained approval from the Civil Aviation Administration of China (CAAC) for the high plateau operation qualification at Lhasa Gonggar International Airport (LXA) early this month, and announced on 16 June it was approved to commence regular 757-200F service from Chengdu to Lhasa.

FedEx reports solid 4QFY18. The express giant reported revenue up 10.1% y-o-y in its fiscal fourth quarter (ended 31 May) to a record \$17.31 billion. Net income for the quarter was \$1.13 billion, up 10.5% from \$1.02 billion in 4QFY17, and operating income for the quarter was \$1.58 billion (compared to a \$70 million loss). You can view more results in the chart on the right, and on our [website](#).

Google partners with China's JD.com. The companies announced a strategic partnership leveraging one another's areas of expertise, to develop new e-commerce products and services for global markets, including Southeast Asia, the US, and Europe. As part of the agreement, Google is investing US\$550 million in Beijing-based JD.com, which will issue discounted Class A shares to the Silicon Valley tech-giant.

For JD.com, optimizing its supply chain has long been a key component of its development strategy. As is the case with Amazon, JD.com directly controls a majority of the inventory moving through its company. Greater control over its own supply chain has enabled JD to pioneer technologies aimed at improving forward stocking and product fulfillment capabilities. Although the majority of JD's logistics activities to date center around the Chinese market and optimizing domestic deliveries, this could soon change. In May 2017, JD.com spun-out a 3PL subsidiary, JD Logistics, which has since attracted more than \$2.5 billion in investment capital from high-profile investors, such as Tencent, Hillhouse Capital, and Sequoia China.

Recent freighter aircraft transactions:

FedEx took delivery of a 777F (41440) from Boeing [FAT 004482]. FedEx now operates thirty-five 777Fs, and has fifteen more on order.

FedEx removed an A310-300F (449) from service and ferried it to Victorville (VCV) for storage, leaving only four A310 freighters operating in FedEx's fleet [FAT 004483].

SF Airlines acquired a 757-200 (27245, ex-American Airlines) and has ferried it to ST Aero's Seletar facility for conversion to freighter configuration [FAT 004484-4485].

Airwork Holdings took redelivery of a 737-400F (25371, ex-Blue Air) following conversion to freighter configuration by Aeronautical Engineers, Inc. at Dothan (DHN) [FAT 004486].

West Atlantic UK took redelivery of a 737-400F (25429, ex-Volito Aviation) on-lease from Vx Capital Partners [FATs 004487-4488] following conversion to freighter configuration by Aeronautical Engineers, Inc.

FedEx Corp. Financial and Operating Results				
Period Ended 31 May (Fourth Quarter FY18)				
FEDEX CORPORATION	Fourth Quarter		YTD	
	4QFY18	% Chg	FY18	% Chg
Total Revenue (millions)	\$17,314	10.1%	\$65,450	8.5%
Operating Income (millions)	\$1,490	(5.8%)	\$4,870	(3.3%)
Net Income (millions)	\$1,127	10.5%	\$4,572	52.6%
Net Margin	6.5%	0 pts	7.0%	2.0 pts
FEDEX EXPRESS SEGMENT				
Total Revenue (millions)	\$9,598	8.8%	\$36,172	6.9%
Operating Income (millions)	\$990	11.5%	\$2,578	(6.9%)
Operating Margin	10.3%	0.2 pts	7.1%	-1.1 pts
Packages - Average Daily Volume (000s)				
US Overnight Box (over 8 oz.)	1,257	4.6%	1,252	(1.0%)
US Overnight Envelope (less than 8 oz.)	551	(2.5%)	549	(2.1%)
US Deferred	878	(1.3%)	928	3.1%
Total US Domestic Packages	2,686	1.1%	2,729	0.1%
International Priority	534	(1.1%)	527	0.0%
International Economy	277	4.5%	268	5.5%
Total International Export Packages	811	0.7%	795	1.8%
International Domestic	2,377	(1.2%)	2,429	1.5%
Total Package Volume	5,874	0.1%	5,953	0.9%
Yield Per Express Package				
US Overnight Box (over 8 oz.)	\$23.26	2.0%	\$22.80	5.7%
US Overnight Envelope (less than 8 oz.)	\$13.15	4.4%	\$12.77	4.3%
US Deferred	\$16.52	3.0%	\$15.79	2.8%
US Domestic Composite Yield	\$18.98	3.3%	\$18.40	4.5%
International Priority	\$56.50	10.4%	\$54.69	5.9%
International Economy	\$48.72	8.6%	\$47.63	7.3%
International Export Composite Yield	\$53.85	9.6%	\$52.31	6.1%
International Domestic	\$7.77	11.3%	\$7.41	7.1%
Composite Package Yield	\$19.26	7.4%	\$18.44	5.6%
Freight - Average Daily Pounds (000s)				
US	8,512	5.7%	8,362	2.2%
International Priority	5,515	2.0%	5,386	3.3%
International Economy	13,738	7.4%	12,603	2.7%
International Airfreight	1,811	1.3%	1,939	1.9%
Total Average Daily Freight Pounds	29,576	5.5%	28,290	2.6%
Revenue Per Freight Pound				
US	\$1.37	13.2%	\$1.31	8.3%
International Priority	\$1.67	14.4%	\$1.59	10.4%
International Economy	\$0.63	10.5%	\$0.60	7.1%
International Airfreight	\$0.78	6.8%	\$0.75	2.7%
Composite Freight Yield	\$1.03	9.6%	\$1.01	8.6%

Source: FedEx Corp.

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