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Cathay Pacific’s new CEO faces big challenges

Cathay Pacific Airways Ltd.’s **John Slosar** will face rising competition in China, higher fuel prices and a slowdown in earthquake-hit Japan when he takes over as chief executive officer this week.

Slosar, 54, steps into the top job at Asia’s second-largest listed carrier by sales as a nuclear crisis saps travel demand in Japan, a market accounting for about 8 percent of Hong Kong- based Cathay’s **revenue**, according to a Daiwa Institute of Research estimate. **Fuel prices** have also surged 27 percent this year in Singapore trading as protests in the Middle East and North Africa stoke concerns about oil supplies.

“It will be very hard for Cathay to repeat last year’s profit,” said **Julius Yeo**, a Singapore-based analyst at Frost & Sullivan. “Slosar has very big shoes to fill.”

Slosar will replace **Tony Tyler** who is leaving Cathay on March 31 after almost four years as CEO to become head of the **International Air Transport Association**, an industry group. Last year, Tyler almost tripled net income to HK$14 billion ($1.8 billion) because of a rebound in demand following the end of the global recession and the sales of stakes in affiliates. Net income this year may fall to HK$9.3 billion based on the average of 17 **analyst estimates** compiled by Bloomberg.

Slosar will get an annual salary and allowances of HK$5.5 million ($710,000), plus bonuses and housing, according to a March 2 statement. He has worked for Swire Group, Cathay’s parent, since 1980, including being the airline’s chief operating officer since July 2007.

Tokyo Travel

Travel to Tokyo has plunged since a March 11 earthquake crippled a nuclear-power plant north of the city, triggering fears about leaking radiation. The number of foreigners arriving at the capital’s Narita International Airport, Japan’s main international gateway, from overseas plunged 60 percent from a year earlier through March 22, according to the Immigration Bureau of Japan. The nation accounts for 6.5 percent of global air traffic and 10 percent of sales, according to **IATA**.

“Inevitably, we are seeing softer demand to Tokyo,” **Carolyn Leung**, a Cathay spokeswoman, said in a March 25 e-mailed reply to questions. “We expect several months of weakness with a recovery toward the summer, but there are still a lot of variables.”

Cathay, also the world's largest international air-cargo carrier, closed little changed at HK$18.36 in Hong Kong trading today. It has dropped 14 percent this year, the third-worst performance in the **Hang Seng Index**. Last year, it was the fourth-best, rising 48 percent.

The stock has dropped 5.7 percent since Tyler became CEO in July 2007, outperforming **Singapore Airlines Ltd.**'s 24 percent decline and the Bloomberg Asia Pacific Airlines Index's 16 percent fall. Tyler saw Cathay through the global recession, spent billions of dollars on Airbus SAS and Boeing Co. planes and boosted ties with affiliate Air China Ltd., the nation's largest international carrier.

China Demand

Cathay plans to increase both cargo and passenger capacity about 10 percent this year as a rebounding global economy and growth in China spurs demand. The airline is starting flights to Abu Dhabi and Chicago, and it is due to take delivery of 15 new planes this year, including six freighters.

"The fundamental growth picture of Greater China and the integration of China with the rest of the world is going to carry on," Slosar said in a March 10 interview. "We're investing behind that."

The airline announced 27 plane orders and leases on March 9, raising its backlog to 91 new aircraft for delivery by 2019. The carrier had a group fleet of 166 as of March 25, it said by e- mail. It plans to retire its 21 Boeing 747-400s and 11 Airbus SAS A340-300s by decade's end.

China likely will be the world's fastest-growing market for international air travel through 2014, according to IATA. Cathay last year boosted passenger numbers 9 percent to 26.8 million.

Business-Class Refit

The airline is spending HK$1 billion on new business-class cabins and services as Emirates Airline and **Singapore Air** woo passengers with the double-decker Airbus A380 and U.S. carriers add China flights.

Cathay also faces more competition from within China and Hong Kong, where it gets about half of sales. Hong Kong Airlines Ltd., backed by the government of China's Hainan province, agreed this month to buy 38 twin-aisle Boeing planes to boost its network.

Mainland Carriers

The three biggest mainland carriers -- **Air China Ltd.**, China Southern Airlines Co. and China Eastern Airlines Corp. -- also are expanding. Beijing-based Air China, the world's largest carrier by market value, plans to boost its group fleet to more than 700 planes by 2015 from about 400, Chairman **Kong Dong** said earlier this month.

"China is a growing market but there's huge competition," Daiwa's **Kelvin Lau** said. "The three Chinese airlines have big fleets and huge capacities, much larger than Cathay. In the future, more travelers may choose to fly via Shanghai or Beijing."

Cathay is cooperating with **Air China** to tap mainland sales, through steps including codeshares. The two, which own stakes in each other, are also forming a cargo venture that will give Cathay access to freight hubs in Shanghai and Beijing.

Cargo generates about 30 percent of Cathay's sales, helped by exports from China's Pearl River Delta neighboring Hong Kong. The rising number of mainland millionaires is also boosting inbound shipments of luxury goods and fresh seafood.

Slosar, who studied at Columbia University in New York and the University of Cambridge, has worked for Swire Group's aviation division in Hong Kong, the U.S. and Thailand. He became managing director of plane-maintenance unit Hong Kong Aircraft Engineering Co. in 1996. Two years later, he was appointed managing director of Swire's beverages arm, before becoming Cathay's COO in 2007.

"He tends to be bullish and optimistic," Lau said. "He's very enthusiastic and would be a good leader."