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## Middle East Has Too Many Airlines, Qatar Airways Has Big Problems and Boeing May Be Hurt

Ted Reed Jun 6, 2017 11:59 AM EDT



Looking ahead to the Paris Air Show in two weeks, **Boeing (BA)** on Tuesday announced highlights of its presence: appearances by top executives; a 737 MAX 9 flight; a 787-10 display; displays of several defense products and this: "**Qatar Airways** plans to present a 777-300ER, showcasing its newly designed business class interior."

This was perhaps the most positive comment about Qatar Airways' future that anybody made on Tuesday.

Qatar Airways faces an existential crisis due to a diplomatic showdown after four neighbors -- Saudi Arabia, Egypt, the United Arab Emirates and Bahrain -- severed

relations with Qatar and closed their airspace to its flag carrier's flights on Monday. CNN reported that Qatar Airways is losing more than 50 flights a day, accounting for an estimated 18% of its capacity.

Not only can the airline not operate in the four countries, but also it cannot fly within their air space, a far bigger problem because the four countries largely surround Qatar. CNN said the airline must use alternative, longer routes -- primarily routes over Iran -- for flights to Europe and North America.

Longer term, it's not just Qatar and its passengers who may suffer. It is also Boeing and **Airbus**.

Boeing is having a good year. In trading Tuesday, shares were down slightly but have risen 21% year to date. Among the 30 **Dow** stocks, up 7% so far in 2017, Boeing is the No. 4 performer.

Nevertheless, a massive commitment to Middle East carriers has been a concern for some Boeing experts, if not for Boeing investors.

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Middle East carriers combined account for 544 outstanding aircraft orders, about 10% of Boeing's total. The value percentage is higher because the Middle East order books tilt to widebodies.

Qatar has orders for 74 Boeing 777s and 30 Boeing 787s. **Emirates** has orders for 171 Boeing 777s. **Etihad** has orders for 26 Boeing 777s and 59 Boeing 787s.

Airbus, meanwhile, has 110 outstanding orders from Qatar, 94 from Emirates and 83 from Etihad.

The threat to Qatar is only the latest in a series of geopolitical events that have called the order books into question.

In April, Emirates cut its U.S. flying by 20%, blaming security measures that ban laptops -- very peculiarly, only on flights from Middle East airports -- and on the Trump administration's continuing efforts to ban travelers from some Muslim-majority nations.

Etihad, meanwhile, has not succeeded with a strategy of investing in troubled international carriers including Alitalia and Air Berlin. In an April report, aerospace consultant Scott Hamilton wrote, "Etihad's struggles and poor investment choices led to losses and a declining balance sheet, say those familiar with the situation.

"Etihad appears so far to be hardest hit by the evolving market dynamics. It's deferred Boeing 787s from next year into 2019, according to an analysis of the Ascend data base," Hamilton wrote. "It's also pushed 787s from 2020 and 2021 into 2022 and 2023."

The three Middle East carriers have an unusual business strategy. They are heavily subsidized by their governments, which seek to take advantage of a unique interpretation of Open Skies treaties with the U.S. to establish giant hubs in an area that produces minimal local traffic.

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*This article is commentary by an independent contributor. At the time of publication, the author held no positions in the stocks mentioned.*

According to Hamilton, Emirates, Etihad and Qatar "largely compete for the same connecting traffic through hubs only 72-235 miles apart. This is like having hubs in Milwaukee and Chicago (81 air miles apart) and Chicago-Detroit (237 air miles) with much, much smaller domestic catchment basins."

The region has "too many airlines with too many grand ambitions," said Richard Aboulafia, airline analyst for the Teal Group.

The situation recalls U.S. aviation in the 1990s, when America West had a hub in Columbus, Ohio; Continental had a hub in Cleveland; **Delta** had a hub in Cincinnati, and US Airways had a hub in Pittsburgh.

In a country that requires its airlines to be profitable, none of the four hubs exist today and, except for Delta, none of the airlines do either.

On Monday, leaders of the world's airlines gathered in Cancun, Mexico, for the annual meeting of the International Air Travel Association, a trade group for 275 airlines. Qatar CEO Akbar Al Baker attended, but on Monday, as Qatar's neighbors announced they had severed relations "he left suddenly," said Hamilton, who also attended the session.

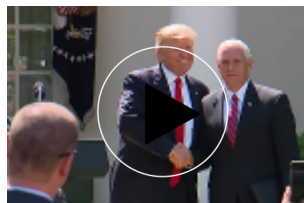
"There was no mystery," Hamilton said. "Everyone knew why."

Aerospace consultant Addison Schonland added, "Akbar's hasty and early departure from Cancun says it all. The airline has to be going through nasty schedule and route changes now. Traffic will also have shrunk {which} will likely mean a slowdown in deliveries.

"It's very early to opine," Schonland said. "I'm watching the Paris Air Show for a guide on how this plays out."

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