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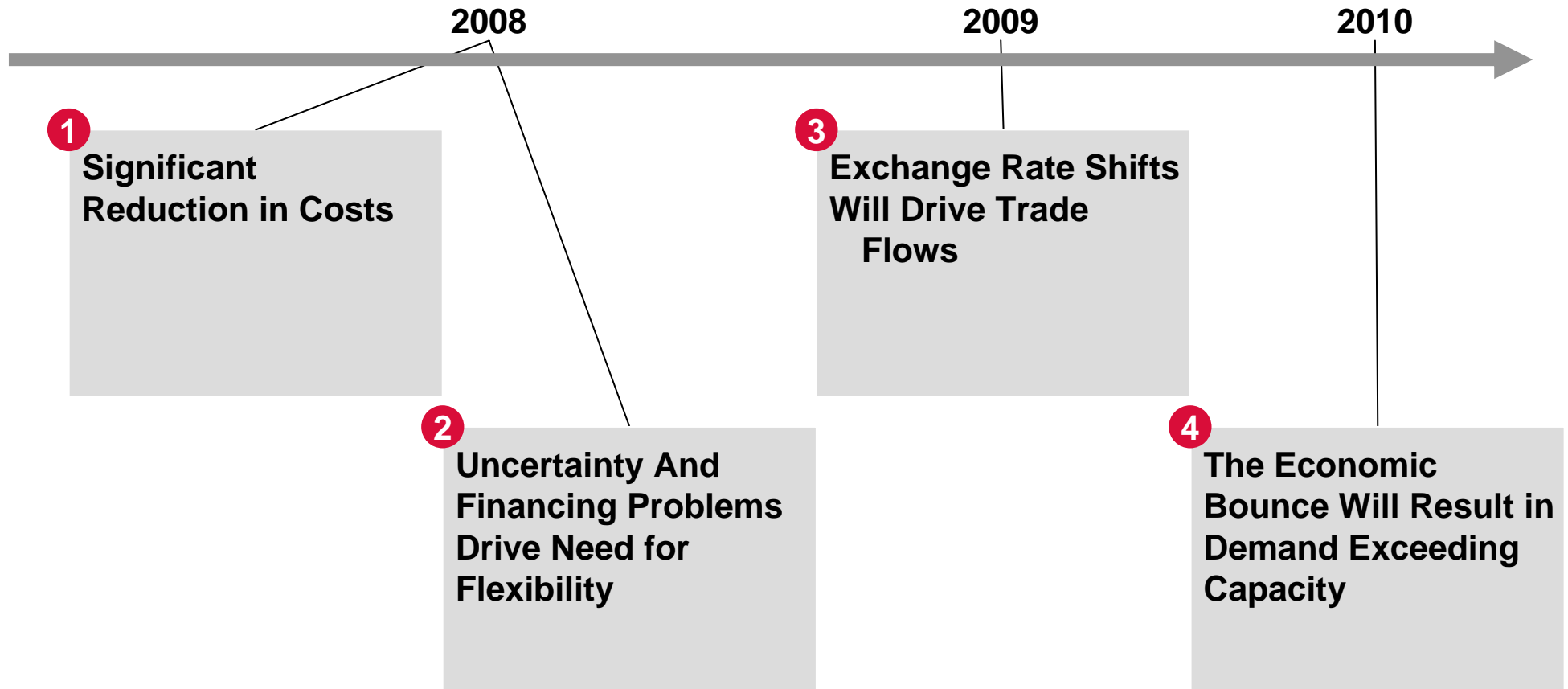
Market Prospects for SE Asia

The Cloud's Silver Lining?

Edward Clayton

We have developed four hypotheses to think through the current situation. Our opening position is that good times lie ahead

Air Cargo Industry Hypotheses



Hypothesis 1: As a result of the drop in oil price and reduction in airline growth, air cargo costs plummet resulting in more business

Cost Developments

Oil Price Impact

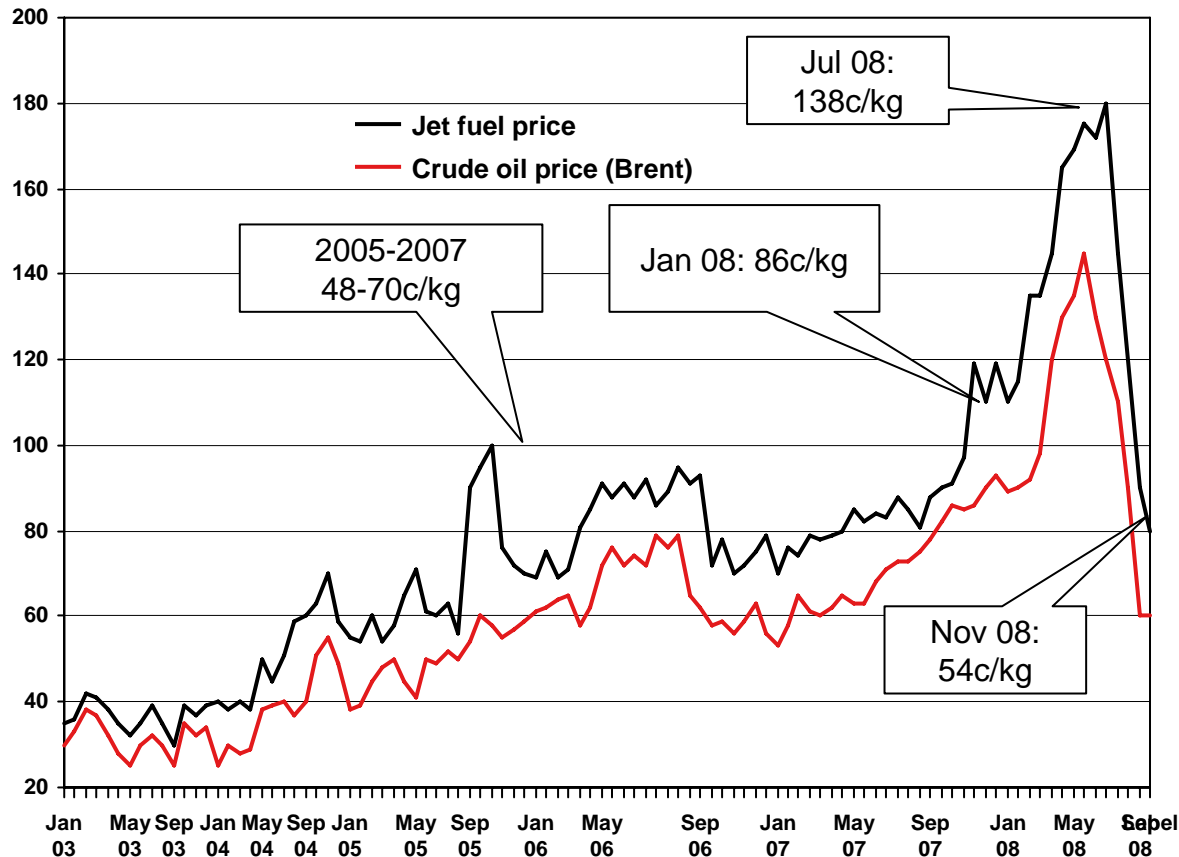
- Globally, consumers once again have more money to spend as fuel prices drop
- Fuel price drops will feed through into the aviation industry somewhat later due to hedging policies
- Looking forward, air freight customers can once again plan for reasonable rates and structure their supply chains accordingly

Airline Growth Reduction Impact

- Airline bankruptcies this year have released many aircraft into the second hand market
- The capacity tightness experienced in the past couple of years has eased
- Increasing numbers of airframes will become available for freighter conversion

During the course of this year, the oil price spike had a massive impact on air freight - it's unsurprising that traffic fell back

BA typical fuel surcharges (US\$)
Jet Fuel and Crude Oil Price (\$/ Barrel)



Oil Price Impact

- After several years of stability, prices jumped dramatically in 2008
- This coincided with slowing economies and a reduction in manufacturing
- Adding a further 60% to fuel surcharges, equivalent to around 15% increase in global freight rates, will inevitably reduce demand for air freight
- The drop in sea freight rates further provides pull to persuade shippers to consider alternatives to air freight
- However, airlines are now able to offer the equivalent of a 20% rate reduction due to lower fuel prices - which will boost traffic

Hypothesis 2: Customer uncertainty and financing difficulties makes air cargo much more attractive than sea freight

Uncertainty drives the need for flexibility

The Effect of Uncertainty

- Importers are increasingly uncertain about their markets
- Being stuck with large amounts of stock does not suit struggling businesses
- However, lines which move well need to be restocked early to continue their contribution

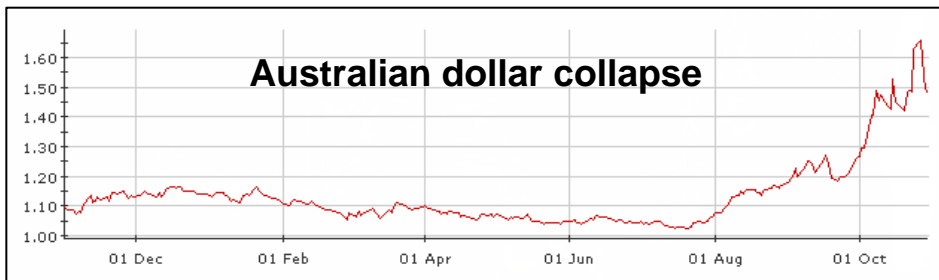
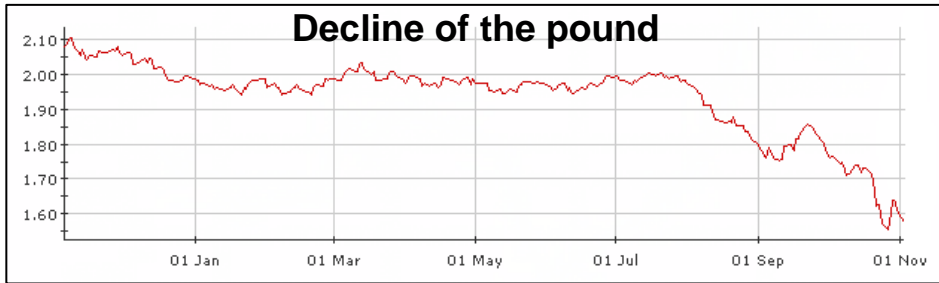


Financing

- Bank uncertainty is resulting in trade finance becoming glued up
- Obtaining letters of credit is increasingly difficult, and requires more collateral
- Air freight releases collateral much faster than sea freight

Hypothesis 3: The major exchange rate shifts in the past weeks will result in a revitalisation of trade flows in 2009

The US\$ and ¥ recovery, coupled with £ and € weakness, will shift trade advantages



Impact

- Currencies are more balanced from a PPP perspective than for many years
- USA consumers will find imports more affordable
- Germany and other Eurozone exporters more competitive
- Australian exports dramatically more affordable to consumers in Asia
- Airbus costs and revenues back into balance
- Currency uncertainty increases the attractiveness of air freight

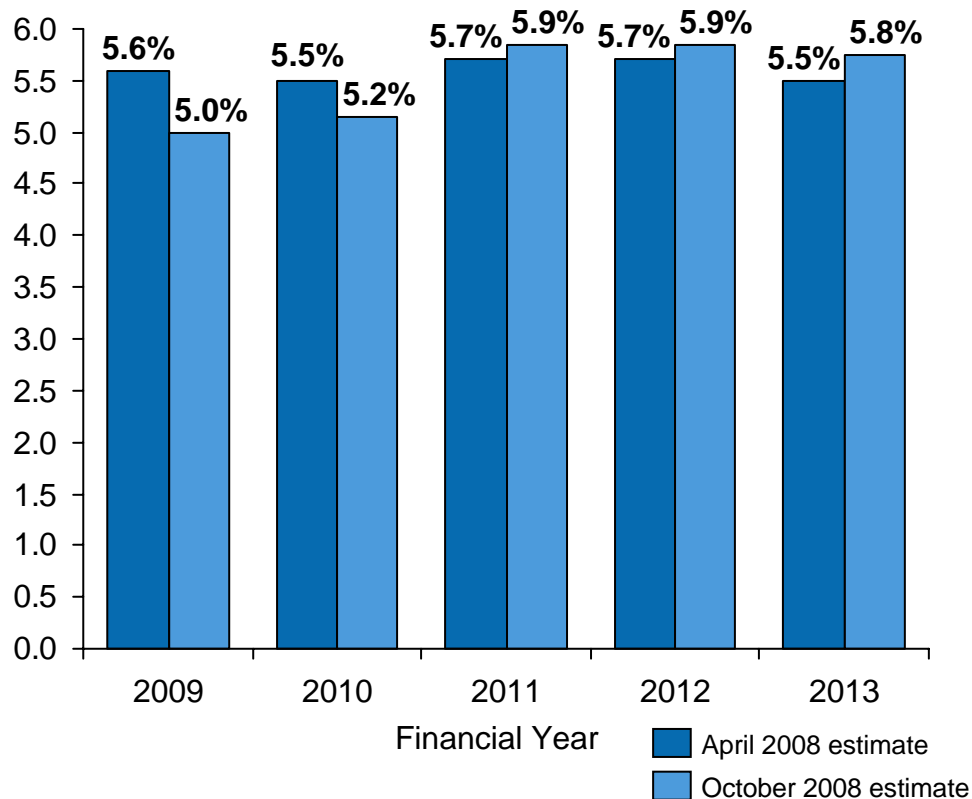
Source: BBC

Hypothesis 4: By 2010, the Economic Bounce will result in a significant growth in demand, in excess of supply

Consensus Economics Malaysia GDP Forecasts

April 2008 and October 2008

GDP Growth (%)



Economic Recovery from 2011

- Since April, the consensus forecast for Malaysian GDP has dropped significantly
- However, from 2011, forecast growth is now higher than expected 6 months ago
- By the northern autumn of 2010, air cargo volumes should be picking up significantly
- By then, shortages of aircraft due to delivery delays from Boeing and Airbus will further improve the situation for those who have capacity

Source: Consensus Economics.

Industry players who can effectively respond to these signs of improvement will be the winners in the next upturn

Responding to the challenges

Cost improvements	Customer Responsiveness	Trade Balance	Economic Bounce
<ul style="list-style-type: none">▪ Take advantage of natural cost improvements▪ Lock in longer term improvements by negotiating deals whilst suppliers are less busy	<ul style="list-style-type: none">▪ Work with customers to provide certainty of delivery times▪ Develop innovative financing solutions for trade facilitation▪ Engage to provide additional	<ul style="list-style-type: none">▪ Review how trade is likely to change as a result of the new exchange rate realities▪ Position yourself to benefit from the new trade flows	<ul style="list-style-type: none">▪ Be prepared<ul style="list-style-type: none">– Capacity– Partners– Staff▪ Take the marathon perspective<ul style="list-style-type: none">– Ensure enough stamina (cash) to see you through until the good times– Plan ahead to take advantage of the first signs of recovery