

Teal Group Evaluation

Dead Plane Flying

The A340 had an adequate first decade, but until the -500/600 came on line times were turning rotten. Then they got worse. The -300 order book looks like the departures board at a third world airport. It's a strange mix of unknown carriers, and many of the known carrier entries are either delayed or cancelled. Lufthansa was the last true believer. They've stopped believing.

The last four years have seen the 777 clobber the A340 by a 15-1 margin, leaving Airbus to ponder what could be done to save the situation (aside from increasing production rates, of course). Higher fuel costs exacerbated the operating cost differential between the quad A340 and the

twin 777, and several airlines looked at legal action against Airbus over A340-600 performance.

Another problem might just be the A380. Given reports of \$150 million A380s, it could be that Airbus is converting potential A340-600 sales to A380 sales. In short, the growth A340 family may have offered limited promise, but Airbus sacrificed it to feed the feeble A380 business case.

The A380 isn't the only source of fratricide. The A350 XWB will make a better 777-200ER/300ER challenger than the A340. The A350 will also destroy the A340-500. The vague prospect of an improved -600 was stillborn.

In line with our expectations over the past few years, we expect produc-

tion of this plane to end in the next two years. Our 2008 forecast called for a final 30 planes; after 13 deliveries, our 2009 forecast called for 17 more. Since then, there have been ten deliveries. We're forecasting five more. In short, we were generous by two aircraft.

After production ends, things will continue to look grim. Asset value trends have been unimpressive, to say the least. In mid 2007, AerCap actually scrapped a 14-year old -300. Thai tried to sell its -500s, but stopped trying after only being offered an incredible \$50 million. The current difficult environment will merely accelerate this aircraft's exit.

Production Forecast

User (Variant)	Through 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Airbus Industrie												
All users (A340-200/300*)	246	—	—	—	—	—	—	—	—	—	—	246
All users (A340-500/600*)	125	5	—	—	—	—	—	—	—	—	—	130
Total	371	5	—	—	—	—	—	—	—	—	—	376

*Excludes eight test aircraft.