

# Financial valuation of airbus a3xx

[Engineering](#), [Aviation](#)



Today, over ninety percent of aircraft in service for commercial flight are either Airbus or Boeing aircraft. There has always been rivalry between these two manufactures and now competitive tensions are at new heights, since the recent launch of Airbus' A380, formerly known as the A3XX. Airbus and Boeing are neck and neck and have different views on how the market will develop. We will look at various factors both from the strategic point of view and also whether it made financial sense for Airbus to go ahead with the plans of manufacturing A380.

Strategic Analysis of Airbus entry into the Super Jumbo market. Airbus has maintained a steady growth of commercial and freight rates and based on the region and the trend of airline alliances, a larger aircraft will be most likely in demand. However, Boeing believes that airlines want flexibility of smaller airports and the availability of long range aircraft. Airbus and Boeing have different views and have started projects on two very different aircraft. Large congested airports over time will start facing constraints in terms of the number of flights that can take off and land.

Hence as the demand for air travel increases, at a particular point of time, increasing the number of flight on a route or increasing the routes themselves, would not be enough. In this scenario, there would be great demand for high capacity planes like the A380. Boeing already has its 747 series of super jumbos. Airbus' entry into the market will help it capture some share of this market as and when it matures. As seen from the exhibit, the percentage of wide-bodied planes in the total fleet of major carriers in the world has increased substantially over the period 1997-2001.

In terms of comparison with the 747, the A380 has the advantage of being wide bodied and having wider seats and wider aisles. In longer flights, customers would be more comfortable in an A380 than they would be in a 747. This is likely to be a competitive advantage for Airbus in case the market really blossoms. Therefore, we can safely say that the A380 is on very firm ground as regards competing with the 747. However, one disadvantage is the brand equity that the 747 already enjoys. For instance, Japan Airlines categorically states that in case it decides to go in for a wide-bodied aircraft, it would first prefer buying a Boeing aircraft.

Boeing will not be able to Cross-subsidize henceforth: the wide-bodied aircrafts had much larger margins than did the small and medium sized aircraft. Boeing enjoyed an absolute monopoly in the VLA segment. As a result, it could use some of its margins to cross subsidize its smaller and medium sized aircraft making them more price competitive than Airbus models. Airbus' entry into the VLA segment would cause this monopoly to end. As a result, Boeing would not be able to continue to cross-subsidize its lower range of aircraft.

This would make Airbus more competitive in the other segments, thus increasing the total value proposition of the company. Today, sales have been low for Boeing, while Airbus has been standing strong with their shorter range aircraft sales, which booming discount carriers are nuts over, such as the A319 and the A320. Sales have almost stopped for the Boeing 747. The reason for this, is rather quite simple. Airlines are possibly avoiding the 747 because of the larger Airbus A380 which will soon be available. Some

important carriers, like British Airways and United Airlines, have converted some 747-400 orders to smaller 777's.

Asian carriers aren't even looking at the 747 as an option, they're all ordering 300-seat aircraft like the Airbus A340 and the Boeing 777

Financial Valuation of Airbus A3XX Key Assumptions 1) Operating profit: As of 2008, the price per plane is \$225m, the number of planes in steady state production is 50, and the constant operating margin is 15%. We have ignored learning curve effects. Incorporating learning effects and starting with a much lower initial margin lowers NPV unless one assumes that the operating margin exceeds 15% at some point in time.