

Air New Zealand has emerged as the top performing airline in this region in Macquarie's aviation outlook for the year, which also says the airline could renew its relationship with Singapore Airlines.

The investment bank says that after a strong performance last year, Air NZ was expected to continue outperforming as it further consolidates its market leading position across its domestic and international network.

The research report says that under new chief executive Christopher Luxon the airline has a new, energised management team and positive momentum.

Macquarie agrees with Air NZ's assessment that its pre-tax profit will double this year and there is potential for further earnings improvement in the 2014 financial year as demand continues to improve and it gets the benefit of its alliance with Cathay Pacific.

"The relatively recent deal with Cathay Pacific and the termination of the Hong Kong-London flights from March should see the international long-haul business continue to strengthen, aided by gradually improving demand on the Japan and US routes, on which Air NZ is effectively the only carrier."

 There were opportunities for greater collaboration with Singapore Airlines.

"Air NZ has had a frosty relationship in the past given their combined Ansett history, however with Singapore Airlines' management fairly new and with a new CEO in Christopher Luxon, we think there may be opportunities to revisit this relationship to facilitate greater connectivity into the rest of Asia and arguably continental Europe, but without having to invest substantially more capital on what has traditionally been a lower margin part of the network."

The New Zealand domestic market remains the only area of concern for Air NZ given premium weak demand such as that for Government travel, and Jetstar adding more capacity here.

"However the ongoing transition across to a more fuel efficient A320 fleet should see Air NZ maintain its profitability in its key home market." The airline's shares were undervalued, the report says. Macquarie estimates a book value of \$1.60, and its target price \$1.82, well up on the closing price of \$1.28 yesterday.

Air NZ's 20 per cent stake in Virgin Australia is estimated to be worth 22c to its own share price.

Luxon had impressed analysts with the urgency he was working to improve domestic and international services, the report says.

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