

American expects \$350 million hit from grounded Boeing plane

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In this March 13, 2019, file photo a worker walks past an engine on a Boeing 737 MAX 8 airplane being built for American Airlines at Boeing Co.'s American Airlines expects to take a \$1 billion hit from two things it didn't expect when 2019 started: That its newest Boeing jet would be grounded for months after two deadly crashes, and that oil prices would rise. (AP Photo/Ted S. Warren, File)

American Airlines expects to take a \$1 billion hit from two things it didn't expect when 2019 started: That its newest Boeing jet would be grounded for months after two deadly crashes, and that oil prices would rise.

The airline's top executives are confident that U.S. regulators will soon allow the Boeing 737 Max to fly again after Boeing completes changes to the jet. In the meantime, however, American is rebooking nearly 700,000 passengers who were supposed to be on the 15,000 Max flights that the airline canceled through Aug. 19.

American said Friday the grounding of its 24 Max planes will cut \$350 million from 2019 pretax profit, partly because vacationers who bought cheap tickets some time ago will fill seats that American hoped to sell at higher prices closer to the peak summer vacation period.

The Max-related loss, along with a \$650 million increase in projected fuel spending because of higher oil prices, caused American to cut its forecast of full-year earnings.

Executives said they believe the Federal Aviation Administration will approve the Max for flights before Aug. 19. But that was the earliest date that American had enough confidence—95% certainty, said CEO Doug Parker—to consider putting the plane back in the airline's schedule.

American, like Southwest and United, uses the Max only for domestic flights. And it doesn't matter to American that regulators in Canada, Europe and China are expected to take longer than the FAA to review and approve Boeing's fixes.

"If the FAA recertifies the Max, we absolutely will fly the airplane. That's our regulator," Parker said on a call with analysts and reporters.

Parker, echoing Southwest CEO Gary Kelly from the day before, said Boeing is a great company but "we are not happy about this issue" around the Max.



In a March 13, 2019 file photo, an American Airlines Boeing 737 MAX 8 sits at a boarding gate at LaGuardia Airport in New York. American Airlines expects to take a \$1 billion hit from two things it didn't expect when 2019 started: That its newest Boeing jet would be grounded for months after two deadly crashes, and that oil prices would rise. (AP Photo/Frank Franklin II, File)

At the "appropriate time," Parker said, his airline might talk to Boeing "about what this has done to American," but he said discussions over compensation from Boeing have not started.

Boeing designed new software called MCAS to prevent aerodynamic stalls, but the software was implicated in preliminary investigative reports into Max crashes in Indonesia and Ethiopia. The software erroneously pushed the planes' noses down based on faulty readings from sensors. Pilots were unable to counter the downward pitch.

Boeing says it is fixing MCAS by connecting it to more than one sensor and making the nose-down thrusts less powerful. It will also provide additional pilot training, although there is still debate about whether that instruction should be on computers, as Boeing wants, or in flight simulators, as some regulators prefer.

American said it didn't see any problems on the Max flights that it flew before the plane was grounded last month. President Robert Isom said the airline is working with the FAA and Boeing "to make the aircraft better and correct any deficiencies. I know that when we get through with addressing the issues related to MCAS software, it's going to be an even better plane."

American said it earned \$185 million in the first quarter, up 16% from the same quarter last year. Excluding unusual gains and losses, the Fort Worth, Texas-based company said it earned 52 cents per share, a penny better than the average forecast among 10 analysts surveyed by Zacks Investment Research.

The world's largest airline posted revenue of \$10.58 billion, up 2% from a year earlier but below the \$10.66 billion predicted by analysts.

American said full-year earnings will be between \$4 and \$6 per share. In January, it predicted \$5.50 to \$7.50 per share.

J.P. Morgan analyst Jamie Baker said American could have gotten a better handle on the Max crisis by acting sooner. He awarded American

"bronze elite status" among the nation's three biggest airlines because its pretax margins have lagged behind United for four straight quarters and Delta for 11 quarters.

Shares of American Airlines Group Inc. rose 33 cents to \$33.74 in midday trading, putting them up 5% this year.

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