

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

**JANUARY – FEBRUARY 2018**

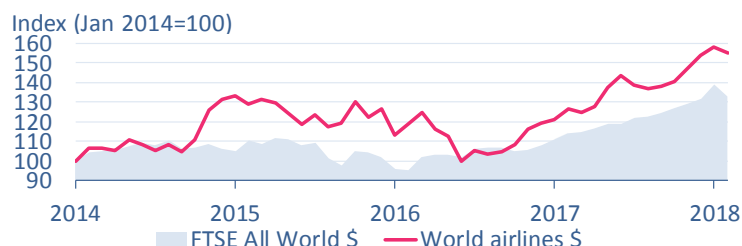
- The latest airline financial results indicate that the industry-wide EBIT profit margin was a robust 8.6% of revenues in Q4 2017 – broadly unchanged compared to the same period in 2016.
- Having fallen broadly in line with global equities during the market sell-off in early-February, global airline shares rebounded to a greater extent over the second part of the month, driven by gains in the Asia Pacific index.
- Industry-wide passenger yields are currently trending broadly sideways. We continue to forecast passenger yields to rise moderately in 2018 alongside a robust global economic backdrop and increases in key input costs.
- Oil prices fell back from recent highs in February, alongside wider volatility in financial markets and rising levels of oil production in the US. That said, the Brent crude oil price remains around 16% higher than it was a year ago.
- Temporary factors including Lunar New Year contributed to year-on-year growth in passenger volumes slowing in January. However, the bigger picture is that both passenger and freight traffic carried momentum into 2018.
- In 2017, the premium cabin accounted for 5.3% of total international origin-destination passenger traffic, but 27.2% of revenues, up from 25.9% in 2016. Premium-class demand has been supported by stronger global trade activity.

## Financial indicators

### Global airline shares fell in February, but still outperformed the wider equity market

#### Airline Share Prices

US\$ indices (Jan 2014=100)	Index Feb 28th	% change on		
		one month	one year	start of year
<b>World airlines</b>	<b>155.1</b>	<b>-1.8%</b>	<b>+22.6%</b>	<b>+1.0%</b>
Asia Pacific airlines	140.0	+1.0%	+34.1%	+7.3%
European airlines	145.9	-4.2%	+57.7%	+0.9%
North American airlines	176.6	-2.9%	0.0%	-4.5%
<b>FTSE All World \$</b>	<b>132.8</b>	<b>-4.3%</b>	<b>+16.6%</b>	<b>+1.0%</b>



- Airline share prices were not immune to the broader sell-off seen in global equity markets in early-February. The global airline share price index fell by 8% relative to its end-Jan level during the first seven trading days of the month, but recovered to end February 1.8% lower than where it started it.
- By comparison, while the global equity index fell by a similar extent in early-Feb trading, a more limited recovery meant it ended the month down by 4.3%.
- The quicker rebound in airlines shares was driven by the Asia Pacific index, which rose for the 5<sup>th</sup> consecutive month, helped by ongoing robust cargo performance. By contrast, the Europe and North America indices fell by 4.2% and 2.9% respectively.

### EBIT margin in our airline sample was broadly unchanged in year-on-year terms in Q4 2017

#### Airline Financial Results

Number of airlines in sample	Regions	Q4 2016		Q4 2017	
		EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>
14	North America	10.7%	1,968	10.3%	5,353
17	Asia-Pacific	9.3%	1,608	9.4%	1,843
8	Europe	4.6%	1,071	3.8%	-601
2	Latin America	8.5%	109	10.1%	125
3	Others	-4.7%	0	1.8%	7
<b>44</b>	<b>Sample total</b>	<b>8.9%</b>	<b>4,756</b>	<b>8.6%</b>	<b>6,727</b>

- The latest releases of airline financial data from Q4 2017 continue to show that the industry-wide EBIT margin was broadly unchanged compared to the same period in 2016, at a robust 8.6%.
- This has reaffirmed signs that industry profitability stabilized in the second half of 2017 from the weakness seen earlier in the year.
- The industry-wide results masked a modest decline in operating margins for North American and European carriers, offset by an increase in Latin America and a marginal improvement in Asia Pacific.

<sup>1</sup> % of revenues      <sup>2</sup> US\$ million

Note: Includes half-year results of Qantas, Air New Zealand and Virgin Australia

Sources: The Airline Analyst, IATA

## Industry-wide free cash flow improved in Q4 2017, driven by a pick-up in net cash flows

### Airline Cash Flow<sup>1</sup>

Number of airlines in sample	Regions	Q4 2016			Q4 2017		
		Net cash flow <sup>2</sup>	Capex	Free cash flow	Net cash flow <sup>2</sup>	Capex	Free cash flow
13	North America	8.6%	13.5%	-4.9%	10.3%	13.2%	-2.9%
10	Asia-Pacific	17.7%	26.4%	-8.7%	24.3%	25.5%	-1.1%
6	Europe	6.1%	12.9%	-6.8%	3.8%	11.3%	-7.5%
1	Latin America	10.1%	17.0%	-6.9%	18.3%	8.3%	10.0%
2	Others	6.2%	24.5%	-18.3%	28.7%	13.3%	15.5%
<b>32</b>	<b>Sample total</b>	<b>9.5%</b>	<b>15.4%</b>	<b>-5.9%</b>	<b>11.3%</b>	<b>14.6%</b>	<b>-3.3%</b>

<sup>1</sup>% of revenues

<sup>2</sup>From operating activities

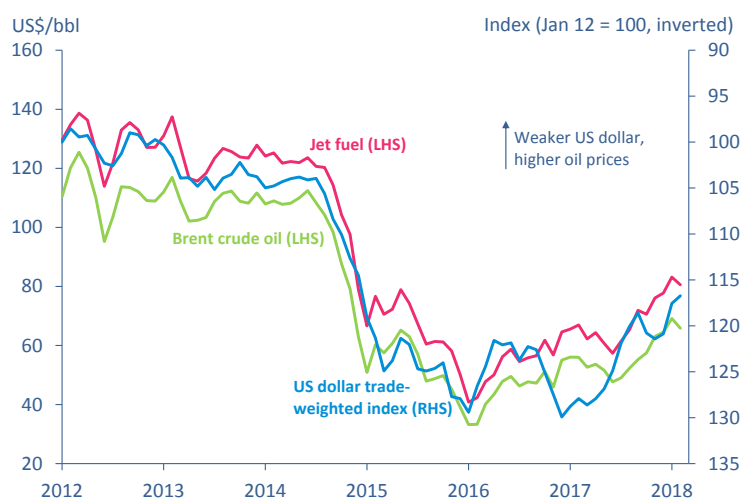
Note: includes half-year results of Qantas and Air New Zealand

Sources: The Airline Analyst, IATA

- Industry-wide free cash flows (FCF) in our sample of airlines increased to -3.3% of revenues in Q4 2017, up from -5.9% in Q4 2016. (Note that seasonal effects mean that free cash flow tends to be negative during the final quarter of each year.)
- This was driven largely by an increase in net cash flow from operations (to 11.3% of revenues, from 9.5%), but helped by a modest decline in capex too.
- As always, there was a range in performance at a regional level. Airlines in Asia Pacific saw a particularly large increase in net cash flows and also continued to invest the most of all regions. Europe was the only region to see a year-on-year decline in FCF, reflecting a fall in net cash flow.

## Fuel costs

### Brent oil prices fell back in February but are still around 16% higher than a year ago

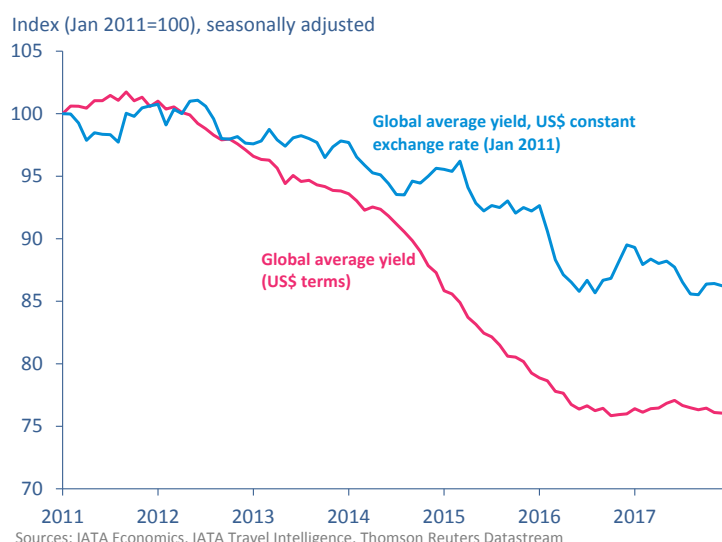


Sources: Platts, Thomson Reuters Datastream

- Oil prices fell back in February, alongside wider volatility in financial markets and rising levels of oil production in the US. Brent crude ended the month around 5% lower than where it started.
- That said, having been driven higher by OPEC-led production cuts and a weaker US dollar in the recent past, oil prices remain at levels last seen in late-2014 and around 16% higher than a year ago.
- As we have noted before, the net impact of OPEC-led production cuts and increasing supply from US tight-oil producers will be one of the key drivers of oil prices in the coming years. The futures market remains consistent with a moderate decline in oil prices from their current levels, to around US\$58/bbl in early-2020.

## Yields and premium revenues

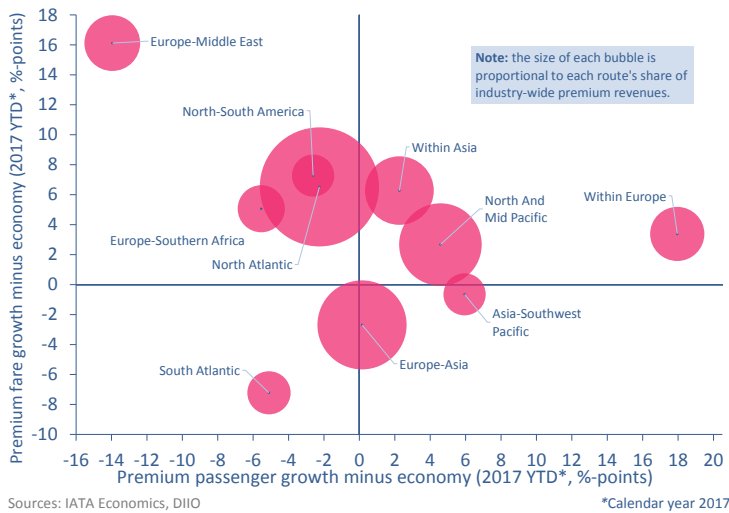
### Upward pressure on key input costs is expected to see pax yields rise modestly in 2018



Sources: IATA Economics, IATA Travel Intelligence, Thomson Reuters Datastream

- The long-standing downward trend in passenger yields started to level off during the middle of 2016. Passenger yields have broadly trended sideways in seasonally adjusted terms since.
- The change in the trend in the yield series has come alongside a strengthening in the global economy, as well as upward pressure on some key input costs, including oil and labor.
- With the backdrop of robust global economic activity and higher input costs expected to persist, we forecast industry-wide passenger yields to rise modestly during 2018, albeit broadly in line with the price of other goods and services.

## Pick-up in economic and trade conditions supported premium-class demand in 2017

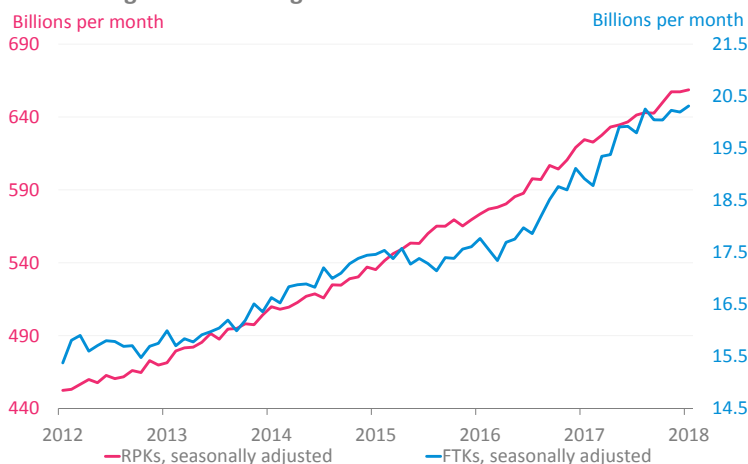


- The share of international O-D passengers flying in the premium-class cabin increased to 5.3% in 2017 as a whole, up slightly from 5.2% in 2016. However, with premium-class fares generally holding up better than those in economy, the premium cabin's share of total international revenues increased to 27.2%, up from 25.9%.
- Premium-class demand in 2017 was supported by the broad-based pick-up in economic and trade conditions, particularly on key markets to, from and within Asia. That said, premium demand has lagged behind in a number of cases, notably between Europe and the Middle East, where impacts from travel bans and tighter government budgets in the Gulf region have taken a toll.

## Demand

### Passenger and freight volumes have both carried momentum into 2018

#### Air Passenger and Air Freight Volumes

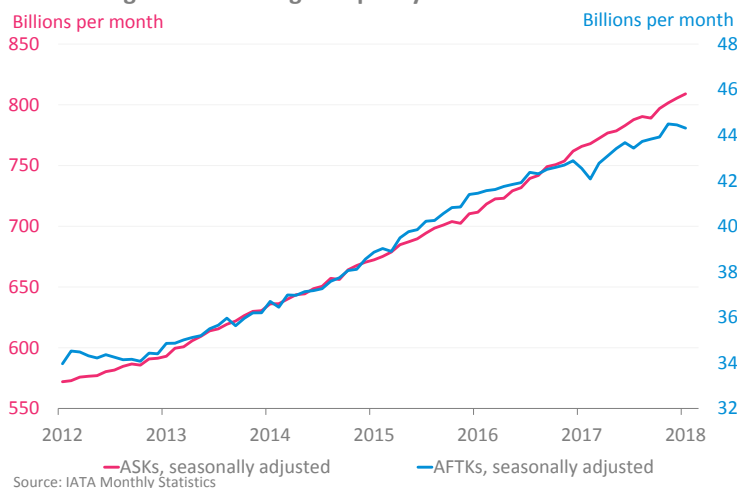


- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) slowed to a 46-month low of 4.6% in January, although this was distorted by temporary factors including the later timing of Lunar New Year this year.
- The bigger picture is that global passenger traffic is carrying solid momentum into 2018, helped by buoyant global economic conditions.
- Meanwhile, although the upward trend in seasonally adjusted freight tonne kilometres (FTKs) has slowed over the past six months or so, carryover effects helped year-on-year FTK growth to make a robust start to 2018 (8.0%).

## Capacity

### Capacity is currently rising broadly in line with demand

#### Air Passenger and Air Freight Capacity

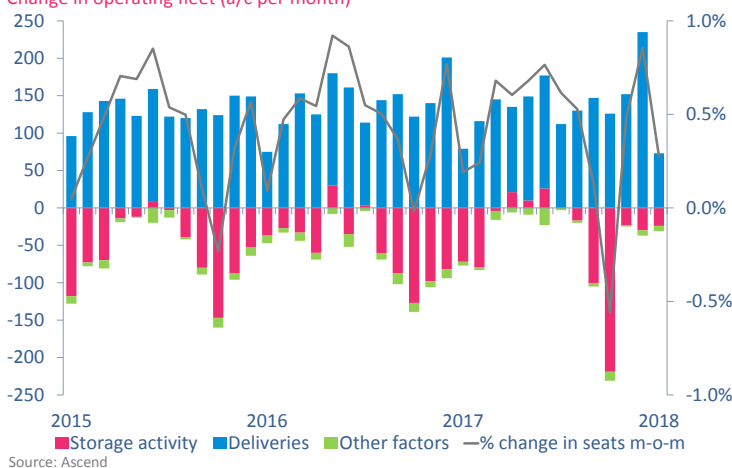


- Industry-wide available seat kilometres (ASKs) increased by 5.3% year-on-year in January 2018. This was the first time in 15 months in which ASKs grew faster than RPKs in year-on-year terms. (This mainly reflects the fact that aircraft schedules are generally fixed in advance for the season and are therefore usually less prone to the type of fluctuation seen in RPKs in January.)
- Meanwhile, available freight tonne kilometres (AFTKs) grew by 4.2% year-on-year in January 2018 – just over half the pace of demand. AFTKs and FTKs are trending upwards at a broadly similar pace in SA terms.

## Aircraft deliveries saw the usual seasonal drop-off in January 2018

### Airline Fleet Development

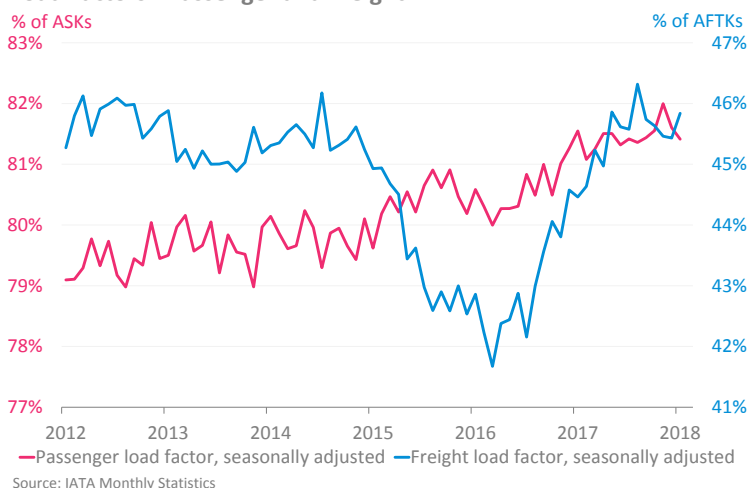
Change in operating fleet (a/c per month)



- ➔ The number of available seats in the global airline fleet increased by 0.3% month-on-month in January, and by 5.4% compared to the same month in 2017.
- ➔ As expected, we saw a pronounced drop-off in aircraft deliveries in January following the usual end-year spike seen in December. 73 aircraft were delivered in the month, six fewer than were made in January 2017.
- ➔ Net storage activity made another modest negative contribution to the size of the fleet, with 127 aircraft being put into storage, and 103 returning into service.

## Passenger load factor remains near a record high; freight loads rise in January

### Load Factors - Passenger and Freight



- ➔ The passenger load factor fell by 0.5 percentage points in year-on-year terms in January. Nonetheless, the SA load factor remains close to a record high, which is helping to support airline financial performance.
- ➔ Meanwhile, the industry-wide freight load factor rose by 1.5 percentage points in January 2018 compared to the same month last year. The SA load factor has been broadly steady within a relatively narrow range over the past nine months or so.

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 13<sup>th</sup> March 2018

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication:  
[www.iata.org/monthly-traffic-statistics](http://www.iata.org/monthly-traffic-statistics)

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