

AIRLINES FINANCIAL MONITOR

KEY POINTS

MAY 2017 – JUNE 2017

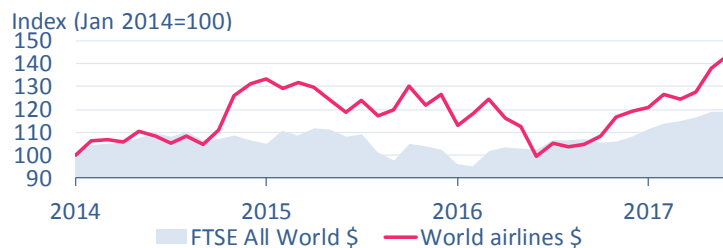
- Global airline share prices increased, and outperformed the global equity index, for the third month in a row in June. Airline shares have risen by more than 20% since start-2017, and are currently around 44% higher than a year ago.
- The recent gains in airline share prices indicate that investors are continuing to look through the impact that squeezed profit margins has had on airline financial performance in Q1 2017, and are focusing instead on signs that the upward pressure on the breakeven load factor is easing.
- The resilience of US crude oil supply has continued to put downward pressure on oil prices. Brent crude oil prices fell back below US\$50/bbl during June, and are currently broadly unchanged from levels seen a year ago.
- Meanwhile, although passenger yields remain around 4.5% lower in year-on-year terms, the latest monthly data add to signs that the downward trend in yields has bottomed out.
- Passenger and freight demand have both continued their strong start to 2017. The passenger load factor remains close to an all-time high, while the freight load factor recently recovered to its highest level since July 2014.
- The pick-up in global trade is helping to support premium passenger demand, particularly to, from and within Asia Pacific. Premium revenues have risen in year-on-year terms on key routes to and from the region so far in 2017.

Financial indicators

Global airline shares outperformed global equities in June for the third consecutive month...

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Jun 30th	% change on		
		one month	one year	start of year
World airlines	143.6	+4.2%	+44.2%	+20.5%
Asia Pacific airlines	116.4	+6.3%	+14.4%	+23.7%
European airlines	126.3	+5.0%	+60.1%	+46.6%
North American airlines	186.4	+3.2%	+58.7%	+9.9%
FTSE All World \$	119.1	+0.2%	+16.5%	+10.2%



Source: Thomson Reuters Datastream

- Global airline share prices rose by 4.2% in June – the third consecutive monthly increase. June was also the third month in a row in which global airline shares outperformed the global equity index.
- Airline share prices increased in all three regions over the month, with the biggest gain seen in the Asia Pacific index (6.3%).
- June marked the low point for airline share prices last year, reflecting investors' reaction to the Brexit vote as well as the peak of concerns about pressure on unit revenues. The recovery in airline share prices since means that they are currently 44% higher than a year ago. The biggest turnarounds have been seen in European and North American airline shares (both up around 60% year-on-year).

...as investors look through the squeeze on industry profit margins seen in Q1 2017

Airline Financial Results

Number of airlines in sample	Regions	Q1 2016		Q1 2017	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
43	North America	14.0%	4,214	7.9%	2,364
21	Asia-Pacific	8.0%	1,089	4.3%	1,296
12	Europe	-1.7%	-841	-2.8%	-1,270
5	Latin America	9.7%	255	6.3%	92
3	Others	-4.1%	-19	-10.8%	-70
84	Sample total	8.7%	4,698	4.5%	2,412

- The recent rises in airline share prices indicate that investors are looking through the squeeze on profit margins – from weak yields and higher costs – in Q1.
- The EBIT margin in our sample of 84 airlines in Q1 2017 is 4.5%, around half the 8.7% outcome seen in Q1 2016. The EBIT margin is lower across all regions compared with the first quarter of 2016.
- Net post-tax profits are also lower, at US\$2.4bn in total, down from \$US4.7bn a year ago.

¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA

Airlines reduced their capex spend in Q1 2017, but free cash flow still fell from a year ago

Airline Cash Flow¹

Number of airlines in sample	Regions	Q1 2016			Q1 2017		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
20	North America	21.3%	14.8%	6.5%	14.4%	14.6%	-0.3%
16	Asia-Pacific	27.8%	25.5%	2.3%	15.8%	16.1%	-0.3%
8	Europe	16.6%	15.3%	1.3%	20.1%	12.8%	7.4%
2	Latin America	2.7%	11.7%	-8.9%	7.8%	4.9%	3.0%
2	Others	16.5%	17.1%	-0.7%	9.5%	12.9%	-3.4%
48	Sample total	20.1%	17.1%	3.0%	16.1%	13.8%	2.2%

¹% of revenues

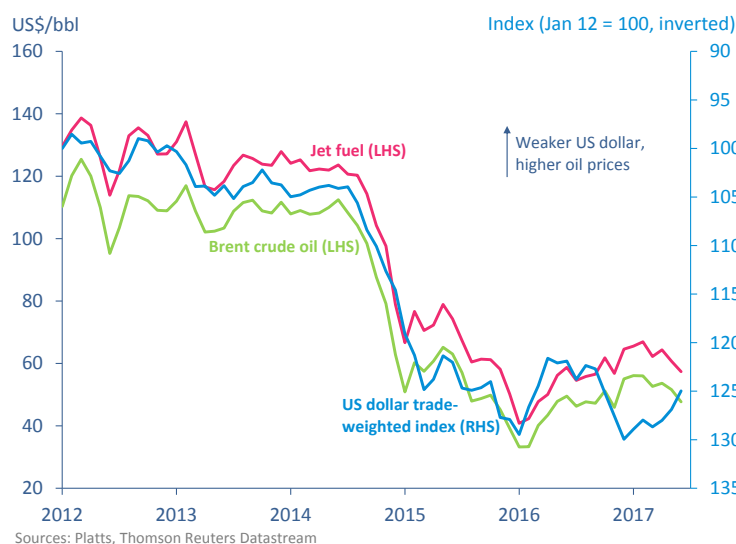
²From operating activities

Sources: The Airline Analyst, IATA

- The latest data available show that industry-wide free cash flow (FCF) eased to 2.2% of revenues in Q1 2017, down from 3.0% in Q1 2016.
- The first quarter of the year is a seasonally-soft period for net cash flow, and the fall in FCF comes despite a lower capex spend, at 13.8% of revenue in Q1 2017 compared to 17.1% a year ago.
- Free cash flow was negative in both North America and Asia Pacific in Q1 but actually increased, to a robust 7.4% of revenue, in Europe.

Fuel costs

Oil and jet fuel prices fell back further in June, despite the ongoing decline in the US dollar

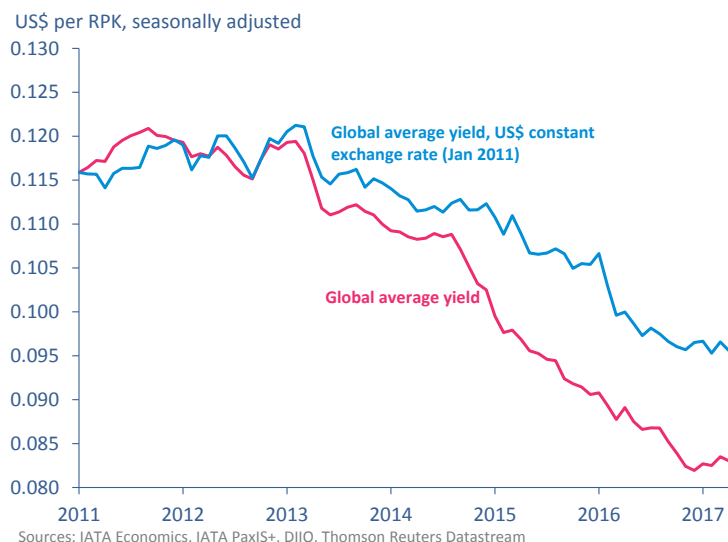


Sources: Platts, Thomson Reuters Datastream

- Oil prices (Brent) fell back below US\$50/bbl at the start of June, and reached a seven-month low during the month. Although oil prices recovered slightly towards the end of the month, they still ended more than 4% lower than at the end of May.
- The downward trend in oil prices seen since the start of 2017 has been driven by the resilience of US shale production. Indeed, the downward pressure on oil prices has actually come alongside a fall in US dollar. (Recall that a weaker US dollar makes dollar-denominated commodities such as oil cheaper in terms of other currencies, and tends to translate into *upward* pressure on prices.)
- As has been the case for some time, the futures market continues to expect only a modest increase in oil prices over the medium-term.

Yields and premium revenues

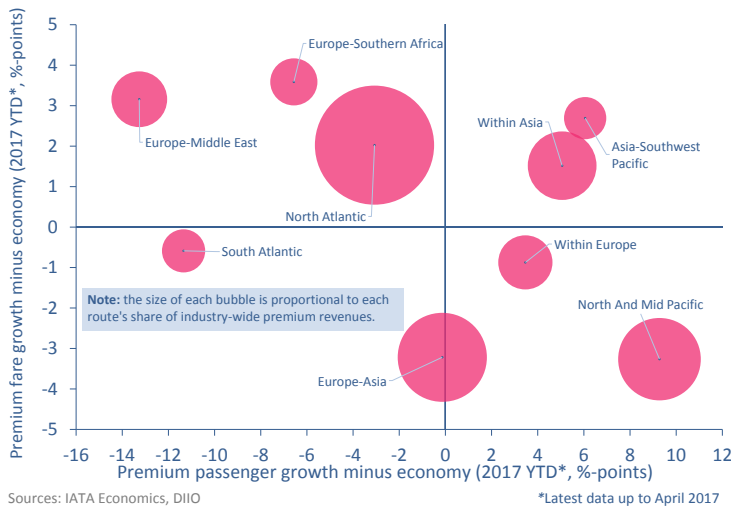
Ongoing evidence that industry-wide passenger yields have bottomed out



Sources: IATA Economics, IATA PaxIS+, DIIO, Thomson Reuters Datastream

- The latest monthly passenger yield data provide further evidence that the downward trend in the measure has bottomed out. This development reflects a pick-up in global economic activity, as well as upward pressure on some key input costs, including labour costs in a number of countries.
- It is worth noting that yields remain around 4.5% lower than their year-ago level when measured in constant exchange rate terms. Moreover, there is no sign of any upward trend yet.
- Nonetheless, signs that yields have bottomed out are consistent with an easing in the upward pressure on the breakeven load factor seen during 2016. With achieved passengers loads remaining close to all-time high levels, this is underpinning investors' confidence about airline financial performance over the year ahead.

Pick-up in global trade helping to underpin premium passenger demand

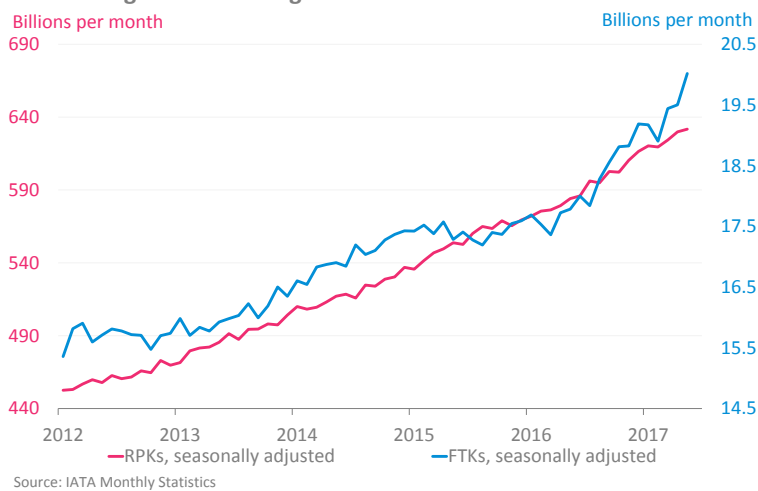


- ➔ Annual growth in premium passenger traffic has been stronger than its economy counterpart in a number of premium markets so far this year, particularly for travel across the Pacific. This corresponds with the recent pick-up in global trade conditions, which tends to correlate well with premium-class travel demand.
- ➔ Overall, premium fares have generally held up better than those in the economy cabin. In fact, premium revenues have increased in year-on-year terms in a number of markets during the first four months of 2017, notably to and from Asia.
- ➔ Overall, premium traffic accounted for 27.0% of total passenger revenues in the first four months of 2017, up from 26.5% a year ago.

Demand

Passenger demand trend remains robust, alongside a very strong month for freight

Air Passenger and Air Freight Volumes

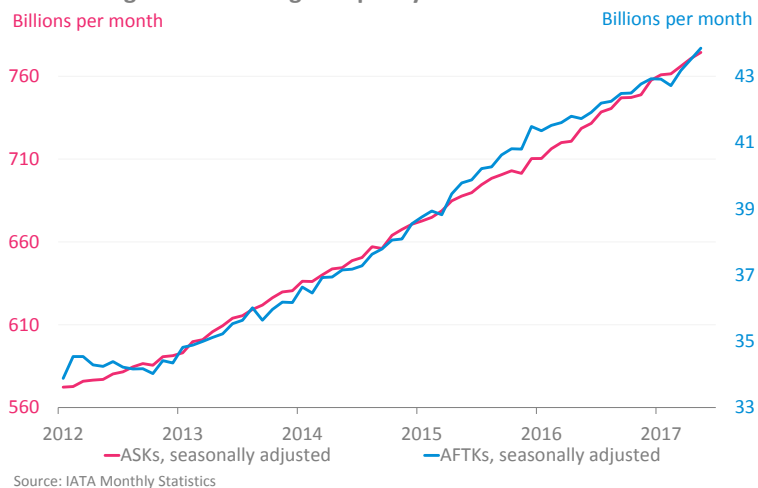


- ➔ Year-on-year growth in passenger volumes slowed to 7.7% in May, but remained robust.
- ➔ Passenger demand continues to be supported by a pick-up in global economic activity and lower airfares. Admittedly, the upward trend in seasonally-adjusted (SA) traffic has moderated from the double-digit pace seen at the end of 2016. However, the current trend pace is still very strong, and well ahead of its long-run average.
- ➔ Global freight volumes grew by 12.7% year-on-year in May, up from 8.7% in April. After a mixed start to 2017 in SA terms, May saw strong month-on-month growth in FTKs; volumes are now back in line with the strong upward trend that began in early-2016.

Capacity

Passenger and freight capacity currently trending upwards at similar rates

Air Passenger and Air Freight Capacity

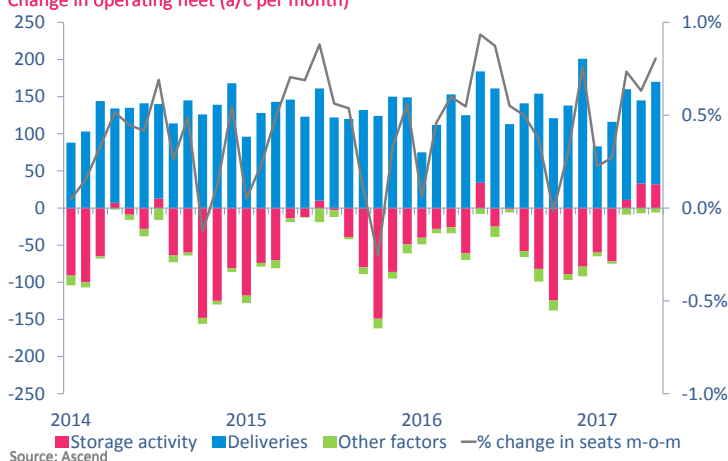


- ➔ Industry-wide available seat kilometres (ASKs) increased by 6.1% year-on-year in May. In SA terms, ASKs have now trended upwards at an annualized rate of around 7.0% over the past three months, slightly below the corresponding rate for demand.
- ➔ Available freight tonne kilometres (AFTKs) grew by 5.2% year-on-year in May. AFTKs have been trending upwards at a reasonably steady annualized rate of around 6.5% over the past year or so.

May saw another solid rise in the number of available seats in the global airline fleet

Airline Fleet Development

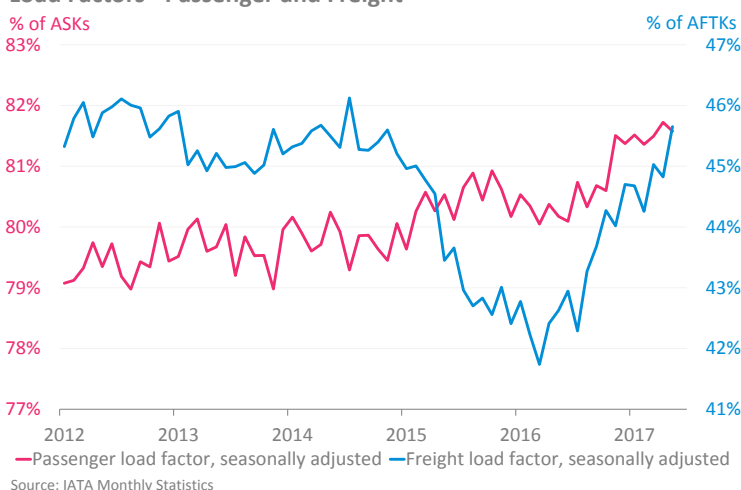
Change in operating fleet (a/c per month)



- ➔ The number of available seats in the global airline fleet increased by 0.8% month-on-month in May, and by 6.2% compared with the level of a year ago.
- ➔ 138 new aircraft were delivered in May, down from 150 in May 2016. The net change in the fleet size from storage activity during the month was similar to that seen a year ago: a (net) 32 aircraft were taken out of storage in May and placed into service, compared to a net 34 a year ago.
- ➔ Over the first five months of the year, the number of deliveries are similar to last year; 598 this year to date vs 615 over the same period in 2016.

Passenger load factor close to an all-time high, alongside ongoing recovery in freight loads

Load Factors - Passenger and Freight



- ➔ The seasonally-adjusted passenger load factor remained elevated close to an all-time SA record high in May. Alongside signs that upward pressure on the breakeven passenger load factor is easing. Sustained high achieved load factors will support airline financial performance.
- ➔ The industry-wide freight load factor jumped in May in SA terms. The SA load factor has now risen by four percentage points since its low point in early-2016, and is currently at its highest level since July 2014.

IATA Economics
electronics@iata.org
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www.iata.org/monthly-traffic-statistics

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