

AIRLINES FINANCIAL MONITOR

KEY POINTS

APRIL 2017 – MAY 2017

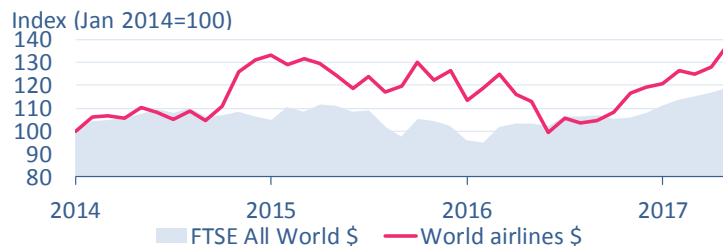
- Global airline share prices performed strongly in May, surging 7.8% to be up more than 20% over the past year. Gains were observed in all 3 regions, but European airline shares led the way again this month, with a 14.3% rise.
- The latest financial results for Q1 provide further evidence of the squeeze on airline profit margins, reflecting higher costs and weak yields. Industry-wide free cash flow also eased in Q1, compared with the outcome in Q1 2016.
- The fall in Brent crude prices in April extended into May and despite some recovery, the monthly average price fell almost 4%. Jet fuel prices behaved in a similar fashion and were down 5.6% for the month overall.
- The strong start to the year for passenger and freight demand growth has continued. The passenger load factor set a new record high in April while freight loads consolidated recent gains.
- Growth in premium passenger traffic has exceeded its economy counterpart in many key markets in the past year.
- Passenger yields remain 3-5% lower than a year ago amidst ongoing signs that the downward trend in yields of the past three years may have bottomed.

Financial indicators

Global airline shares surge in May, outperforming global equities over the last year...

Airline Share Prices

US\$ indices (Jan 2014=100)	Index May 31st	% change on		
		one month	one year	start of year
World airlines	137.8	+7.8%	+22.3%	+15.6%
Asia Pacific airlines	109.5	+3.3%	+4.4%	+16.4%
European airlines	120.3	+14.3%	+15.0%	+39.6%
North American airlines	180.6	+8.3%	+37.4%	+6.5%
FTSE All World \$	118.8	+1.9%	+15.3%	+9.9%



Source: Thomson Reuters Datastream

- Global airline share prices made strong gains in May, rising 7.8% in the month, to be more than 20% higher over the past year.
- Airline shares have now outperformed the global equity index in year-on-year terms, for the first time in around 18 months.
- Airline shares increased in all three regions this month, but the gain was driven by a strong surge in the European index which rose 14.3%.
- North American shares also performed strongly, gaining more than 8% in May, to be almost 40% higher over the past year.
- Asia-Pac airline shares gained 3.3%, to be up a more modest 4.4% on their level of a year ago.

...and suggesting the squeeze on industry profit margins in Q1 is not expected to endure

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
15	North America	15.1%	3,212	8.1%	1,643
16	Asia-Pacific	7.0%	539	3.5%	672
11	Europe	-1.7%	-813	-2.7%	-1,217
5	Latin America	9.7%	255	6.3%	92
2	Others	-4.8%	-8	-8.2%	-33
49	Sample total	8.3%	3,185	4.0%	1,157

¹% of revenues ²US\$ million

Sources: The Airline Analyst, IATA

- Airline financial results from Q1 2017 highlight the extent that profit margins were squeezed by higher costs and weak yields at the start of this year.
- The EBIT margin in the sample of 49 airlines in Q1 2017 is an even 4.0%, less than half the 8.3% outcome for the same period in 2016.
- The EBIT margin is lower across all regions compared with results from a year ago.
- Net post tax profits are also lower, at US\$1.2bn in aggregate, down from \$US3.2bn.

Free cash flow dips in Q1 2017, despite a lower capex spend

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
11	North America	21.1%	14.2%	6.9%	12.8%	13.9%	-1.1%
12	Asia-Pacific	27.7%	26.7%	1.1%	15.0%	16.0%	-1.1%
7	Europe	17.8%	15.2%	2.6%	21.4%	12.6%	8.8%
2	Latin America	2.7%	11.7%	-8.9%	7.8%	4.9%	3.0%
1	Others	18.2%	17.4%	0.8%	18.4%	18.2%	0.2%
33	Sample total	20.3%	17.1%	3.2%	15.9%	13.4%	2.4%

¹% of revenues

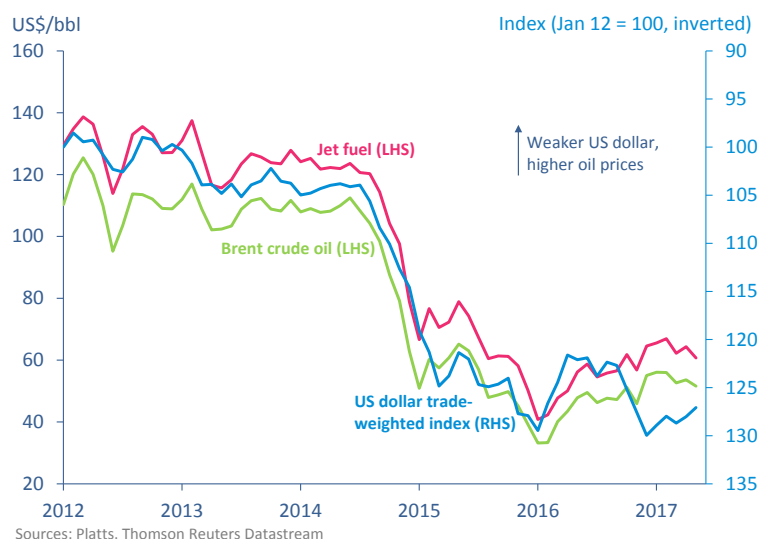
²From operating activities

Sources: The Airline Analyst, IATA

- The initial data available for Q1 2017 points to industry-wide free cash flow (FCF) easing to 2.4% of revenue, from 3.2% in Q1 2016.
- Q1 is a seasonally soft period for net cash flow, and the fall in FCF comes despite a lower capex spend, at 13.4% of revenue vs 17.1% a year ago.
- Bearing in mind the relatively small sample sizes at the regional level at this early stage, free cash flow was negative in both North America and the Asia-Pacific in Q1 but actually increased solidly, to a robust 8.8% of revenue, in Europe.

Fuel costs

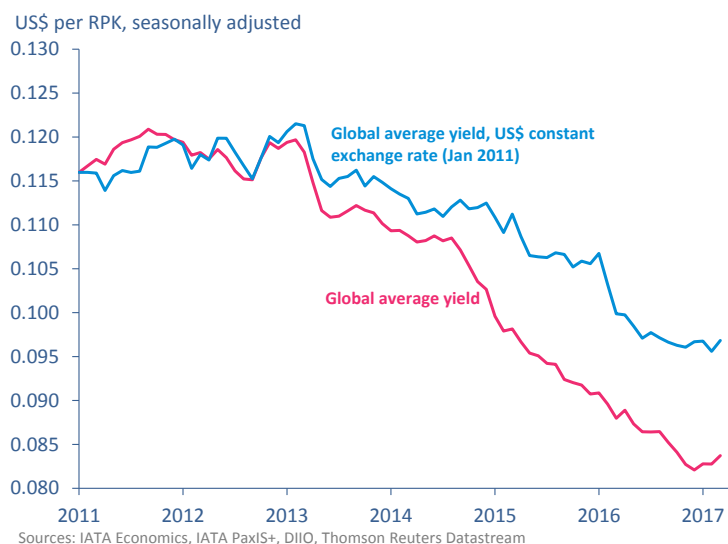
Oil and jet fuel prices lower in May, despite recovering some lost ground over the month



- The sharp fall in oil prices during the second half of April extended into May, with further declines over the first week or so of the month. Oil prices reached their lowest level in around five months.
- Notwithstanding some subsequent recovery – following agreement by the major oil producers to extend production cuts for a further six months – oil prices for the month overall were almost 4% lower than those of April. The picture is a similar one for jet fuel prices, although the monthly decline is larger at 5.6%.
- Futures markets largely shrugged off the spot volatility, continuing to expect only a modest increase in oil prices from current levels over the medium-term.

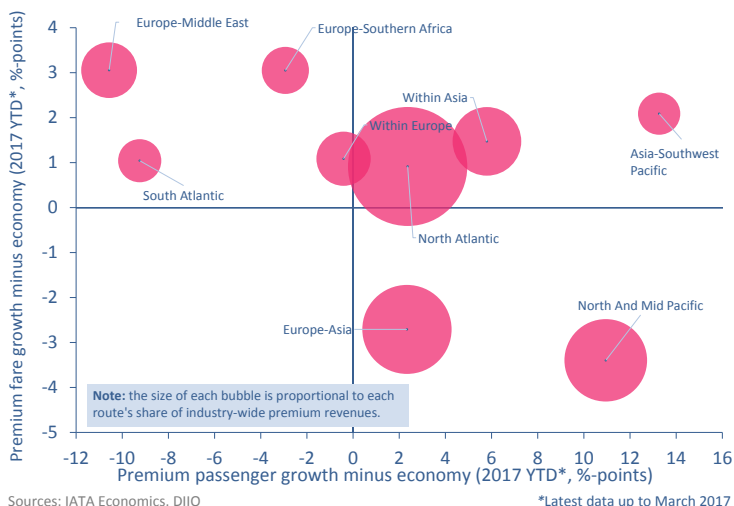
Yields and premium revenues

Further suggestions that industry-wide (passenger) yields may have bottomed



- The downward trend in passenger yields appears to have turned in recent months. However, yields are still 3-5% lower compared to their year-ago levels in both the headline (US\$) measure and when measured in constant exchange rate terms.
- This shift in trend is consistent with the increases observed in some key input costs, notably fuel prices and – in a growing number of countries – labour costs.
- Some of the segment level data available for April suggests that passenger yields have been narrowing and, in some cases, have actually risen (in US\$-terms at least) over the past 12 months.

Premium passenger volumes showing robust growth in most main markets

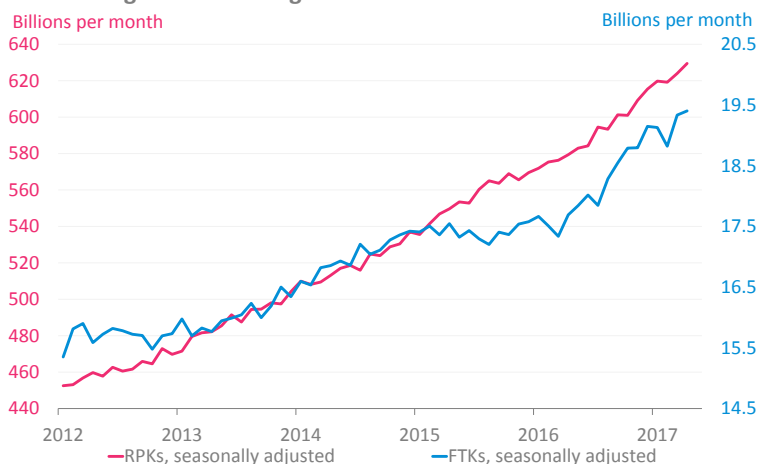


- ➔ Premium O-D international journeys accounted for 5.5% of the global total over the first three months of 2017, down slightly from 5.6% in Q1 2016.
- ➔ Annual growth in premium passenger traffic has been stronger than its economy counterpart in most of the main premium markets so far this year, particularly for travel Within Asia and across the Pacific.
- ➔ Overall, premium airfares have generally held up better than those in the economy cabin. In only two of the main premium markets (Europe-Asia and North and Mid Pacific) are premium fares underperforming economy. Premium traffic accounted for 27.2% of total passenger revenues in Q1 2017, up from 26.4% a year ago.

Demand

Total passenger volumes maintain strong growth, but a loss of momentum for freight

Air Passenger and Air Freight Volumes

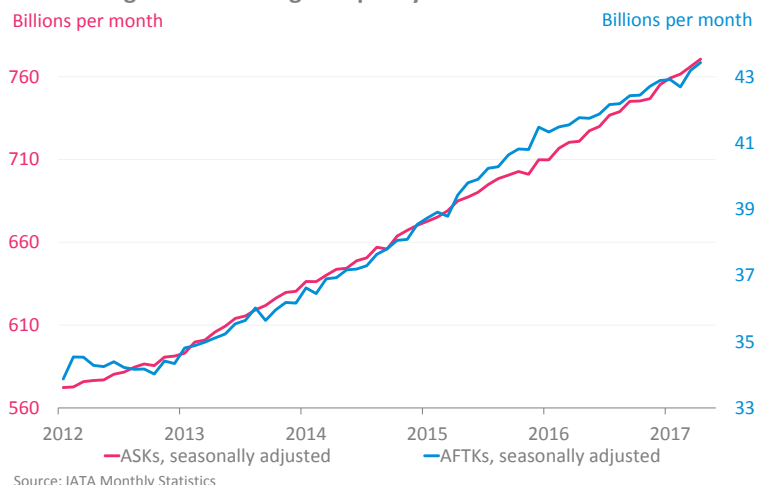


- ➔ Global passenger volumes grew by 10.7% in year-on-year terms in April – the fastest pace in six years.
- ➔ In seasonally-adjusted terms, RPKs have risen at an annualized pace of nearly 10% over the past six months or so, driven by a broad-based pick-up in global economic conditions and lower airfares.
- ➔ Global freight volumes grew by 8.5% year-on-year in April, easing somewhat from the 13.4% pace recorded in March. That said, in seasonally-adjusted terms the upwards trend in FTKs has slowed over recent months, despite underlying conditions remaining broadly favorable.

Capacity

Passenger capacity continues to grow briskly, but freight has moderated

Air Passenger and Air Freight Capacity

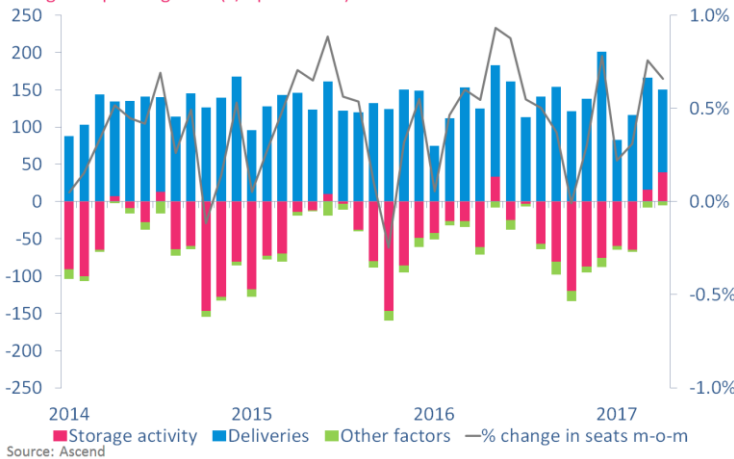


- ➔ Industry-wide available seat kilometres (ASKs) increased by 6.9% year-on-year in April in seasonally-adjusted terms. Notwithstanding this robust performance, industry supply continues to lag the pace of growth in demand.
- ➔ Meanwhile, available freight tonne kilometres (AFTKs) grew by a more modest 4.0% year-on-year (seasonally-adjusted) in April. After lagging demand in H2 2016, capacity has now broadly trended in line with demand since around the end of last year.

Net storage activity contributes to another solid rise in the number of available seats in April

Airline Fleet Development

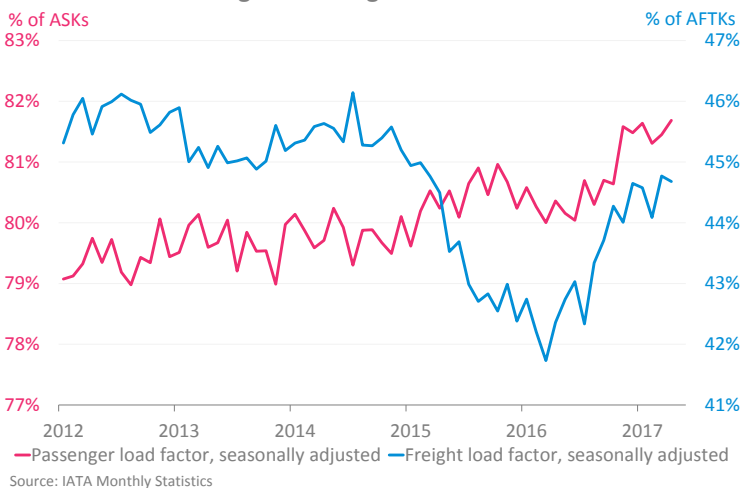
Change in operating fleet (a/c per month)



- ➔ The number of available seats in the global airline fleet increased by 0.7% month-on-month in April, and by 6.4% compared with the level of a year ago.
- ➔ 111 new aircraft were delivered in April, down somewhat from 125 in April 2016. However, the key difference on this occasion relates to storage activity. A (net) 39 aircraft were taken out of storage this month and placed into service, against 61 being taken out of service and placed into storage a year ago.
- ➔ Over the first four months of the year, the number of deliveries are similar to last year; 460 this year to date vs 465 over the same period in 2016.

Passenger load factor posts a new record high, while freight loads consolidate recent gains

Load Factors - Passenger and Freight



- ➔ The seasonally-adjusted passenger load factor posted a new all-time record high in April, as the pace of capacity growth over recent months has been unable to keep pace with the environment of ongoing strong demand.
- ➔ The industry-wide freight load factor (again, in seasonally-adjusted terms) ticked down slightly in April. However, the bigger picture is that it is not far from its highest level since early 2015 and remains more than two percentage points higher than its level of a year ago.

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 12th June 2017

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