

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

SEPTEMBER 2017 – OCTOBER 2017

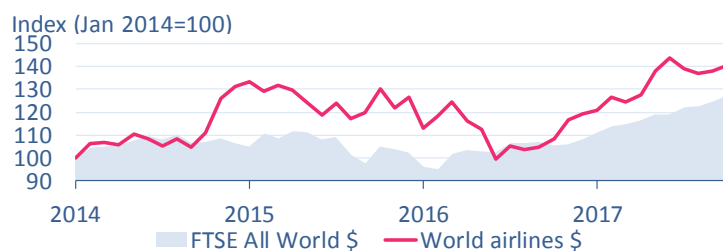
- ➔ The initial financial data for Q3 point to a healthy industry EBIT margin of 16.3%, down only slightly on a year ago. European airlines posted the widest profit margin on this occasion, overtaking their North American counterparts.
- ➔ Having trended downwards between late-2014 and late-2016, underlying industry-wide passenger yields are now broadly unchanged from their level a year-ago.
- ➔ Global airline share prices rose by 1.7% in October, driven by gains for European and Asia Pacific airlines. Airline shares have outperformed the broader market over the past year.
- ➔ Oil prices rose through the US\$60/bbl mark during October, amid signs that OPEC-led production cuts could be extended until end-2018, and rising tensions between Saudi Arabia and Iran.
- ➔ Passenger and freight volumes both grew robustly in year-on-year terms in September, although the seasonally-adjusted (SA) upward trends in both series eased between Q2 and Q3. The passenger load factor remains at an elevated level by historical standards, while the SA freight load factor is currently at a level last seen in late-2014.
- ➔ There is a wide spread in premium-class performance at a route level, but the pick-up in global trade conditions is helping to support demand on some of the key markets to, from, and within Asia.

## Financial indicators

### Global airline shares rose moderately in October, broadly matching the wider market

#### Airline Share Prices

| US\$ indices (Jan 2014=100) | Index<br>Oct 31st | % change on  |               |               |
|-----------------------------|-------------------|--------------|---------------|---------------|
|                             |                   | one month    | one year      | start of year |
| <b>World airlines</b>       | <b>140.6</b>      | <b>+1.7%</b> | <b>+29.7%</b> | <b>+18.0%</b> |
| Asia Pacific airlines       | 120.9             | +3.0%        | +23.6%        | +28.6%        |
| European airlines           | 137.6             | +5.6%        | +68.6%        | +59.7%        |
| North American airlines     | 160.9             | -1.7%        | +15.5%        | -5.1%         |
| <b>FTSE All World \$</b>    | <b>127.2</b>      | <b>+2.0%</b> | <b>+20.9%</b> | <b>+17.6%</b> |



Source: Thomson Reuters Datastream

- ➔ Global airline share prices rose by 1.7% in October, slightly below the 2% gain in the global equity market. That said, global airline shares have kept pace with the wider equity market since the start of 2017, and have outperformed over the past year.
- ➔ The increase in global airline share prices in October was driven by a rebound for European and Asia Pacific carriers (up 5.6% and 3.0% respectively after having both fallen in September).
- ➔ By contrast, following a solid increase last month, the North American airline share price index retraced around half of those gains, ending October 1.7% lower than where it began.

### EBIT margin eases slightly vs a year ago, but remains robust at 16%

#### Airline Financial Results

| Number of airlines in sample | Regions             | Q3 2016                  |                                  | Q3 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> |
| 12                           | North America       | 17.5%                    | 4,701                            | 14.8%                    | 5,110                            |
| 6                            | Asia-Pacific        | 11.9%                    | 656                              | 14.7%                    | 901                              |
| 6                            | Europe              | 22.2%                    | 3,907                            | 20.3%                    | 3,974                            |
| 2                            | Latin America       | 10.7%                    | 99                               | 8.1%                     | 59                               |
| <b>26</b>                    | <b>Sample total</b> | <b>18.2%</b>             | <b>9,363</b>                     | <b>16.3%</b>             | <b>10,044</b>                    |

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

- ➔ The initial financial data for Q3 point to a modest easing in the industry-wide EBIT margin, to (a still robust) 16.3% currently, from 18.2% a year ago.
- ➔ The performance of the Asia Pacific carriers has improved vs last year, and with a margin of 14.7% is now matching that of the North American airlines.
- ➔ European carriers, despite easing a little, have the highest margin, at just above 20%. Highlighting the challenging operating conditions in the region, the performance of the Latin American carriers lags, with a margin of 8.1% currently.

## Industry-wide free cash flows dip in Q3, despite improvement in Asia Pacific & Europe

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

| Number of airlines in sample | Regions             | Q3 2016                    |             |                | Q3 2017                    |              |                |
|------------------------------|---------------------|----------------------------|-------------|----------------|----------------------------|--------------|----------------|
|                              |                     | Net cash flow <sup>2</sup> | Capex       | Free cash flow | Net cash flow <sup>2</sup> | Capex        | Free cash flow |
| 12                           | North America       | 14.0%                      | 9.2%        | 4.8%           | 10.0%                      | 11.5%        | -1.5%          |
| 3                            | Asia-Pacific        | 13.7%                      | 19.2%       | -5.5%          | 18.4%                      | 6.5%         | 12.0%          |
| 5                            | Europe              | 7.1%                       | 8.6%        | -1.5%          | 10.7%                      | 7.5%         | 3.2%           |
| 1                            | Latin America       | 18.7%                      | 9.7%        | 8.9%           | 6.2%                       | 3.9%         | 2.3%           |
| <b>21</b>                    | <b>Sample total</b> | <b>12.4%</b>               | <b>9.5%</b> | <b>3.0%</b>    | <b>10.5%</b>               | <b>10.2%</b> | <b>0.3%</b>    |

<sup>1</sup> % of revenues

<sup>2</sup> From operating activities

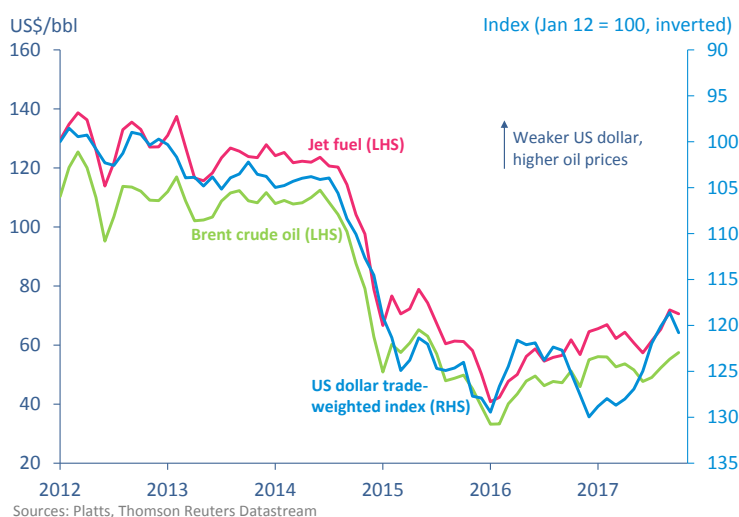
Note: Includes half-year results of China Southern Airlines and Shandong Airlines

Sources: The Airline Analyst, IATA

- Industry-wide free cash flows (FCF) slipped to just 0.3% of revenues in the initial sample of airlines for Q3 2017. This reflects a combination of moderately lower net cash flow from operations (now 10.5%) and slightly higher capex (10.2%).
- The lower industry figure compared with a year ago (3.0%) is driven by carriers from the Americas – both North & Latin America; FCF improved vs Q3 2016 for Asia Pacific and European carriers.
- As is typically the case, these data show considerable differences in the outcome from region to region.

## Fuel costs

### Brent oil prices rose above US\$60/bbl in October, mainly on supply-side considerations

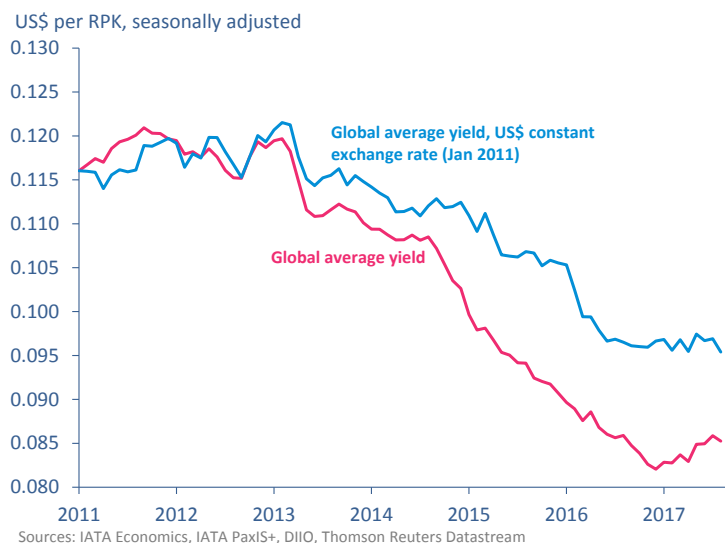


Sources: Platts, Thomson Reuters Datastream

- The Brent crude oil price rose through the US\$60/bbl mark during October. At the time of writing, it is at its highest level since June 2015, nearly 40% higher than a year ago. Oil prices climbed steadily throughout the month, following a strong indication that OPEC-led production cuts could be extended until the end of 2018, as well as rising tensions between Saudi Arabia and Iran.
- It is worth noting that the futures market points to oil prices declining modestly from current levels over the coming years, to ~US\$58/bbl in late-2019.
- As noted previously, medium-term (supply-side) developments in oil prices will be shaped by the net impact of reduced supply from traditional producers and increasing supply from US tight-oil producers.

## Yields and premium revenues

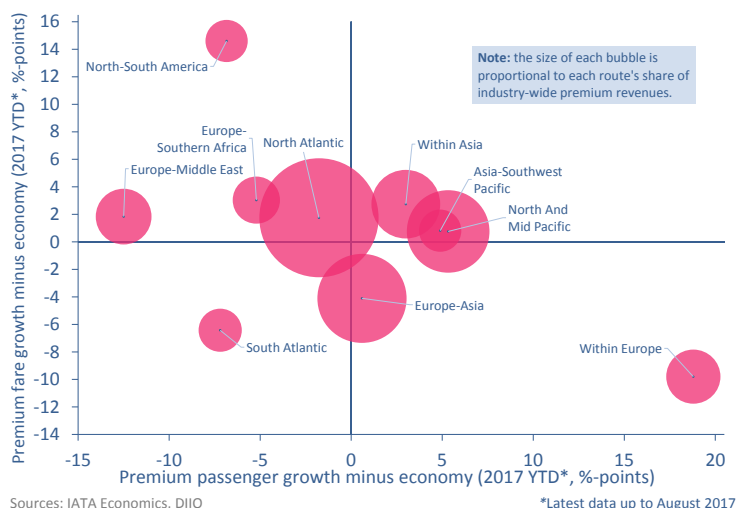
### The long-standing trend in yields has paused, but signs of weakness in August?



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

- The main story in passenger yields over the past year or so has been the pause in the long-standing downward trend. This has reflected a number of factors, including an improved global economic backdrop, as well as upward pressure on some key input costs, including labor and oil.
- The fall in the US dollar this year means that the unadjusted yield series has exaggerated the upward trend in underlying yields. After adjusting for movements in exchange rates, the bigger picture is that underlying yields are now broadly unchanged from their level a year ago.
- Nonetheless, the August data saw the biggest month-on-month decline in the constant exchange rate yield series since March 2016. It remains to be seen whether this is data volatility or the start of a new downward move in underlying yields.

## A wide spread in premium-class performance, alongside a stronger global trade backdrop

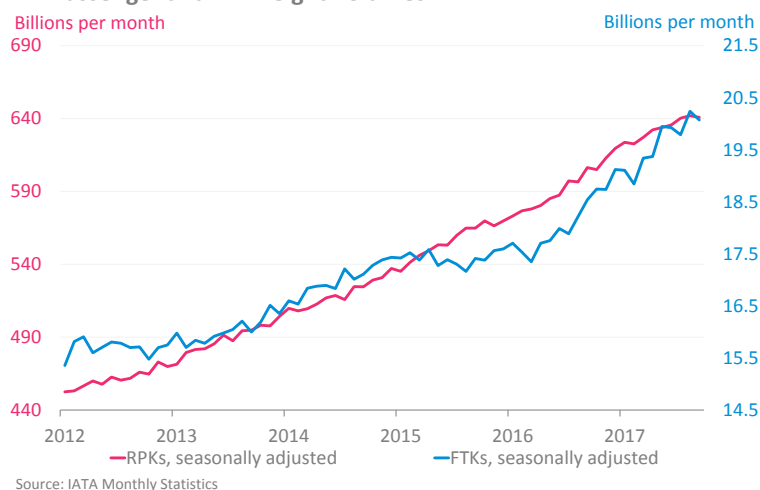


- The share of O-D passengers flying in the premium-class cabin increased to 5.2% during the first eight months of 2017, from 5.1% in the same period a year ago. Similarly, premium's share of total international revenues rose slightly over the same period, to 25.5%, from 25.4% a year ago.
- The pick-up in global trade conditions has helped to support premium passenger demand growth this year, particularly on markets to, from and within Asia. At the same time, premium fares on such routes have also held up well.
- By contrast, premium demand has lagged behind economy in a number of cases, most notably between Europe and the Middle East, which, in part, appears to reflect the impact of the ban of personal electronic devices in early 2017.

## Demand

### The SA upward trends in passenger and freight demand slowed modestly during Q3

#### Air Passenger and Air Freight Volumes

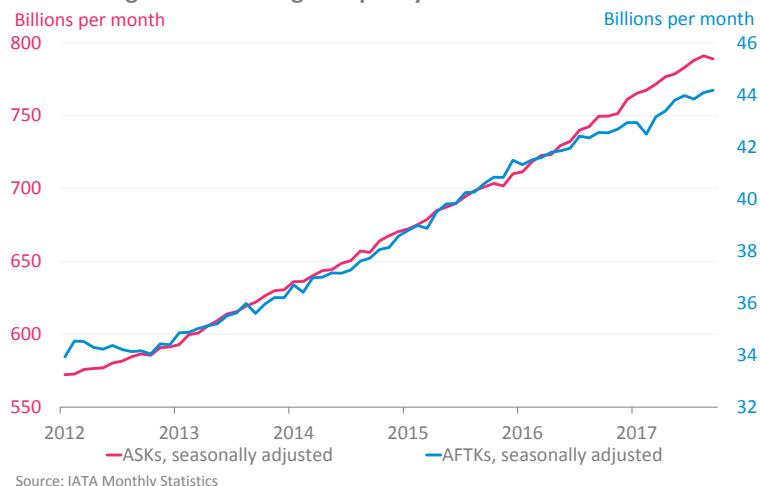


- Industry-wide revenue passenger kilometres grew by 5.7% year-on-year in September.
- Hurricanes Irma and Maria weighed on passenger volumes for carriers in the Americas during the month, particularly in the domestic US market. More generally, the upward trend in SA RPKs has slowed from that seen at the end of 2016.
- Meanwhile, global freight volumes posted another month of robust year-on-year growth (9.2%). However, as in the case of passenger volumes, the upward trend in freight traffic has eased, amid signs that year-on-year growth may now have passed its cyclical peak.

## Capacity

### Irma and Maria-related disruption contributed to a fall in passenger capacity in September

#### Air Passenger and Air Freight Capacity

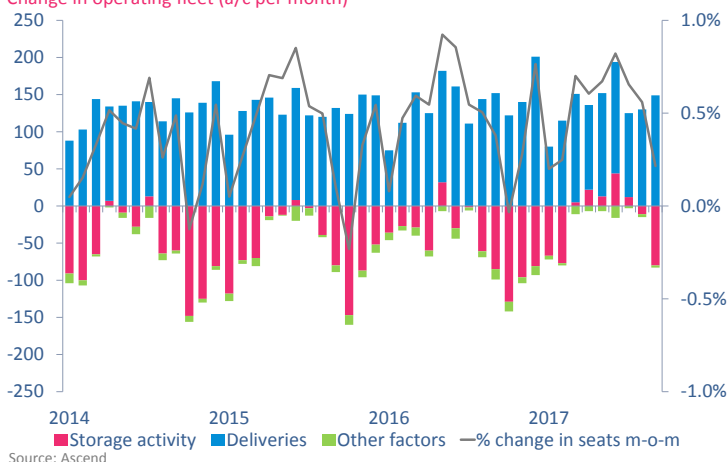


- Industry-wide available seat kilometres (ASKs) increased by 5.3% year-on-year in September. As was the case for RPKs, ASKs also declined in month-on-month terms on this occasion, primarily reflecting the disruption caused by Hurricanes Irma and Maria in the Americas.
- Available freight tonne kilometres (AFTKs) grew by 3.9% year-on-year in September – less than half the corresponding pace of demand. This was the 14<sup>th</sup> consecutive month in which year-on-year capacity growth lagged behind that of FTKs.

## After the peak summer period, storage made a negative contribution to the fleet size in Sept

### Airline Fleet Development

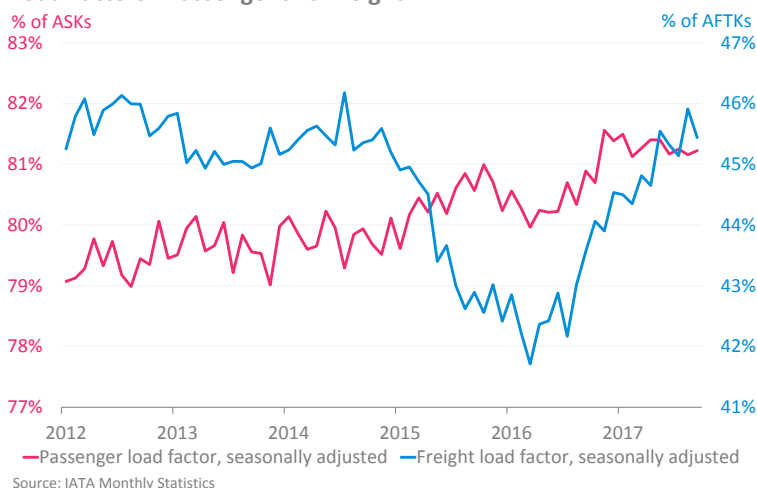
Change in operating fleet (a/c per month)



- The number of available seats in the global airline fleet increased by 0.2% in September compared to the previous month. As a result, there were 5.8% more seats in service compared to the same month a year ago.
- 149 new aircraft were delivered in September, broadly unchanged from the number of deliveries makes in September 2016 (152). All told, 47 fewer aircraft, or 4%, were delivered in the first nine months of 2017 compared to the same period a year ago (1,136 versus 1,183).
- As is usual following the Northern Hemisphere peak summer period, storage activity made a negative contribution to fleet growth in September: 187 aircraft were put into storage, with 107 re-entering service from storage.

## Passenger load factor remains elevated, with SA freight load factor back to late-2014 level

### Load Factors - Passenger and Freight



- The seasonally-adjusted passenger load factor remains at an elevated level by historical standards, but it has declined modestly since reaching a record high in late-2016. The indicator increased slightly in September, despite the impact of Hurricanes Irma and Maria on demand.
- The industry-wide freight load factor in September was 2.2 percentage points higher than where it stood a year ago. While volatile on a month-to-month basis, it has recovered to levels last seen in late-2014.

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 9<sup>th</sup> November 2017

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication:  
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