

AIRLINES FINANCIAL MONITOR

KEY POINTS

December 2016 - January 2017

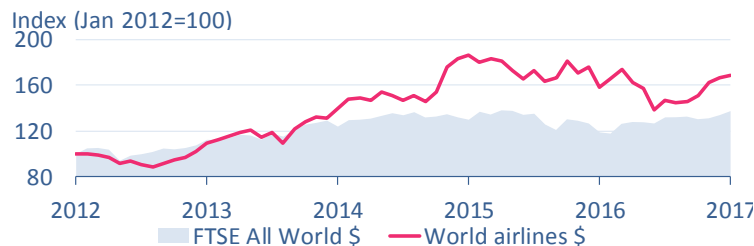
- The initial financial results for Q4 2016 indicate a continued solid performance for the air transport industry, albeit with ongoing signs that momentum in the profitability cycle has weakened.
- Global airline share prices began the year on a positive note, rising 1.5% in January and a healthy 6.8% over the past year. However, the industry has lagged the overall performance of global equities on both measures.
- Brent crude oil prices have been broadly stable around \$US55/bbl since the start of December and spent January trading in a tight range. Prices are expected to rise only gradually.
- Downward pressure on industry-wide pax yields remains, despite increases in key cost components, particularly fuel and, in some markets, labor. The aggregate, however, masks differences in individual markets.
- Both pax and freight demand ended 2016 on a strong note, delivering above-average growth for the year. Likewise, load factors also performed strongly in 2016, with the passenger measure registering a record annual outcome.
- Premium airfares continue to generally hold up better than those of the economy cabin, helping to support airline financial performance.

Financial indicators

Global airline share prices have started 2017 on a positive note

Airline Share Prices

US\$ indices (Jan 2012=100)	Index Jan 31st	% change on		
		one month	one year	start of year
World airlines	168.8	+1.5%	+6.8%	+1.5%
Asia Pacific airlines	78.3	+7.1%	-6.4%	+7.1%
European airlines	184.2	+3.5%	-11.9%	+3.5%
North American airlines	406.2	-1.7%	+21.7%	-1.7%
FTSE All World \$	137.5	+2.6%	+15.6%	+2.6%



Source: Thomson Reuters Datastream

- Global airline share prices increased by a modest 1.5% in January, underperforming the broader global equity market which rose by 2.6%.
- At the regional level, performance was mixed, with the Asia Pacific index rebounding strongly, up 7% in January after a 3% fall in December. European airlines gained another 3.5%, building on the (similar) December performance and the North American index unwound some of the 7% surge in December, slipping back by almost 2% in January.
- Over the past year, airline shares have risen by a solid 6.8%. However, this is entirely due to the North American index (up 22%) and is less than half the gain of global equities overall.

Industry-wide financial performance still solid, amidst a weakening in profit momentum

Airline Financial Results

Number of airlines in sample	Regions	Q4 2015		Q4 2016	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
10	North America	16.4%	4,087	9.8%	1,815
4	Asia-Pacific	9.0%	694	10.1%	767
3	Europe	10.5%	191	7.2%	202
0	Latin America	-	-	-	-
0	Others	-	-	-	-
17	Sample total	14.7%	4,972	9.7%	2,784

¹% of revenues ²US\$ million

Sources: The Airline Analyst, IATA

- The initial financial results from Q4 point to an ongoing solid performance for the industry, but one in which momentum in profitability has weakened further.
- Based on the small sample of 17 airlines, the (EBIT) margin has eased by 5 percentage points compared with a year ago, to 9.7%. The EBIT margin for both North American and European carriers has fallen, partly offset by a slight improvement for Asia Pacific carriers.

Free cash flow lifts modestly in Q3 2016, as capex eases more than net cash flow

Airline Cash Flow¹

Number of airlines in sample	Regions	Q3 2015			Q3 2016		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
18	North America	15.0%	10.0%	5.0%	14.1%	9.7%	4.4%
21	Asia-Pacific	12.6%	17.5%	-4.9%	12.8%	11.5%	1.2%
12	Europe	6.7%	8.1%	-1.3%	4.3%	8.1%	-3.9%
6	Latin America	2.2%	12.3%	-10.1%	7.5%	5.8%	1.7%
4	Others	17.1%	8.3%	8.8%	14.3%	14.3%	0.0%
61	Sample total	11.4%	10.7%	0.8%	10.6%	9.4%	1.2%

¹ % of revenues

² From operating activities

Note: Includes Easyjet, Flybe and Kenya Airways half-year results.

Sources: The Airline Analyst, IATA

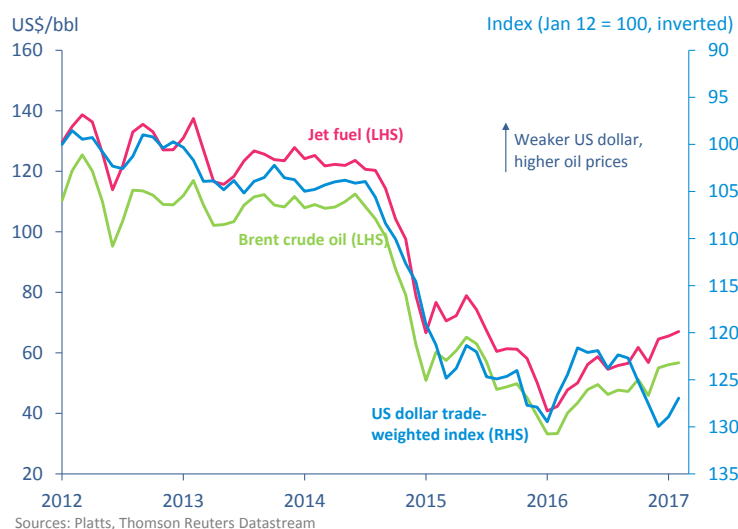
→ With only very limited data available for Q4, the final industry-wide outcomes for Q3 show a modest easing in net cash flow from operations (down ~1pp to 10.6% of revenue) compared with a year ago – despite a notable improvement in Latin America.

→ However, with capital expenditure moderating by 1.3pp over the same period (to 9.4% of revenue), free cash flow increased modestly, up 0.5pp to 1.2% of revenue from 0.8%.

→ Net cash flows have eased in Nth America and Europe, but lifted in Latin America (as cash from operations improved and capex plans were trimmed significantly) compared with a year ago.

Fuel costs

Brent crude oil price has remained steady at around \$US55/bbl since the start of December



Sources: Platts, Thomson Reuters Datastream

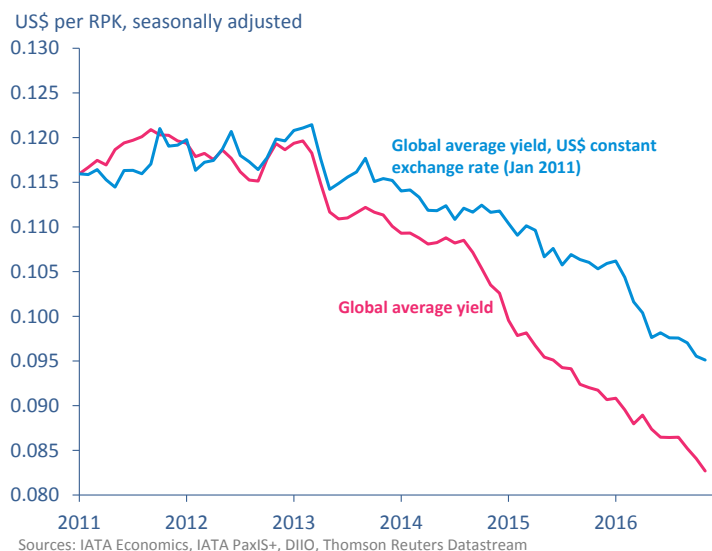
→ Oil prices were relatively steady over the course of January, consolidating the sharp rise in December which followed the decision by OPEC and non-OPEC countries alike to limit production.

→ The Brent crude oil price traded in a tight range of US\$53-56 over January, a level that is double the low point of 12 months ago.

→ Despite the rebalancing in the oil market that is now underway, financial markets are still only pointing to a modest and gradual rise over the next 2-3 years. Oil prices are expected to remain below US\$60 over this period.

Yields and premium revenues

Downward pressure on underlying industry yields continues



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

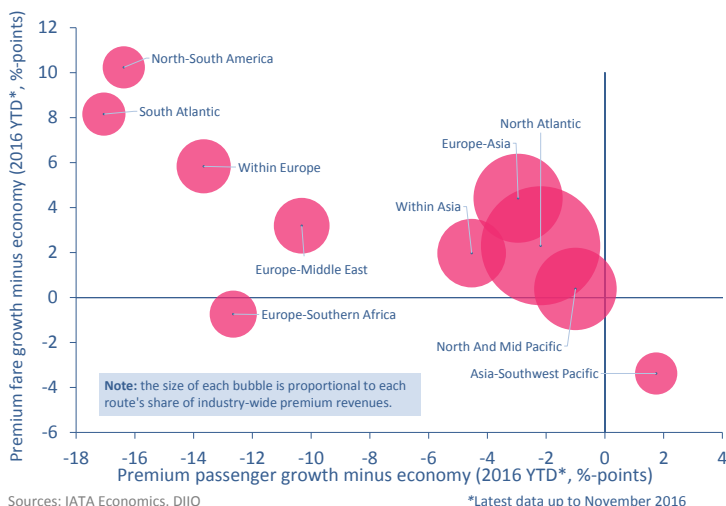
→ The downward trend in industry-wide passenger yields gathered pace again in 2H16 and this was continued in November (latest available data).

→ This development comes despite the *upwards* trend in oil and jet fuel prices – along with rising labor costs in some key markets – over the course of the year.

→ With the yield data denominated in US\$, the significant swings in that currency over the past 2-3 years impacts the results. Correcting for this effect, the constant exchange rate series (the blue line on the chart) nonetheless shows that downward pressure on yields is still substantial.

→ Yields have now fallen by more than 9.5% over the past year, although the industry figure masks substantial differences in individual markets.

Premium traffic continues to support overall airline financial performance

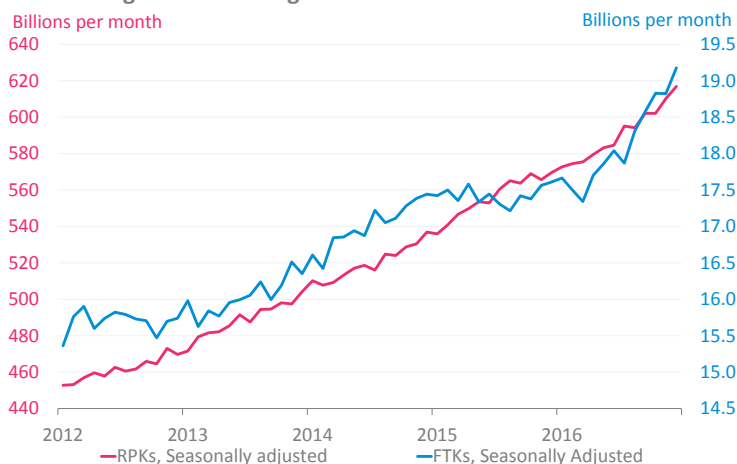


- ➔ Amongst the Top-10 premium international markets, annual growth in premium passenger traffic typically lagged that of the economy cabin during Jan-Nov 2016 (latest available data). The sole exception was traffic on routes between Asia and the Southwest Pacific.
- ➔ Premium O-D international journeys accounted for 5.8% of the global total over the eleven months to November 2016, down from 6.1% in the equivalent period in 2015.
- ➔ However, as has been the case for most of 2016, premium fares – while having fallen on most key routes – have generally held up better than their economy counterparts, helping to support airlines' overall financial performance.

Demand

Passenger & freight traffic end 2016 on a solid footing

Air Passenger and Air Freight Volumes

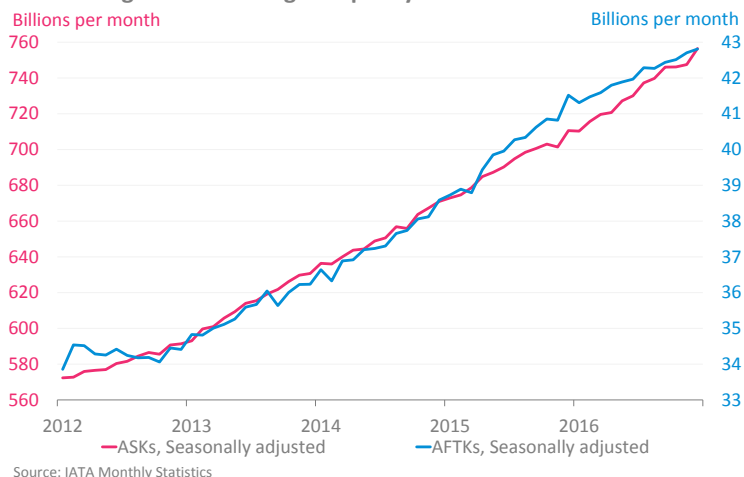


- ➔ Industry-wide passenger traffic grew by 8.8% year-on-year in December (a 10-month high), and by 6.3% in 2016 as a whole. While slowing from the (oil price-assisted) 7.1% growth seen in 2015, this still represents a strong performance, well ahead of its 10-year average growth rate (5.5%).
- ➔ Annual growth in global FTKs increased to 9.8% in December – its fastest pace since February 2015 during the disruption at US west coast seaports – confirming that the strong peak season continued into the year-end. Industry-wide FTKs grew by a solid 3.8% in 2016, nearly double its five-year average pace (2.0%).

Capacity

Passenger capacity steps up into the year-end but the freight moderation remains in place

Air Passenger and Air Freight Capacity

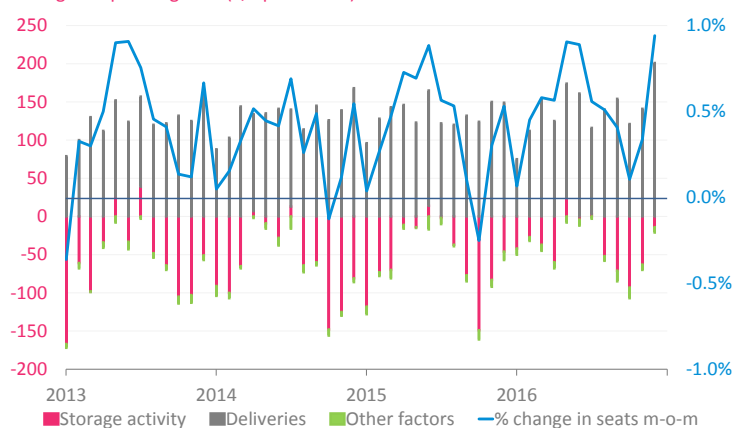


- ➔ Industry-wide available seat kilometres increased by 6.6% year-on-year in December, and by 6.2% in 2016 overall. The strong upward trend in seasonally-adjusted passenger capacity resumed into the year-end after a pause in Q3.
- ➔ On the freight side, available freight tonne kilometres, increased by 3.2% year-on-year in December, and by 5.3% in 2016 as a whole. Despite this solid performance, the seasonally-adjusted upward trend in capacity moderated in 2016 from that in recent years.

Number of available seats surges in December on strong aircraft deliveries

Airline Fleet Development

Change in operating fleet (a/c per month)

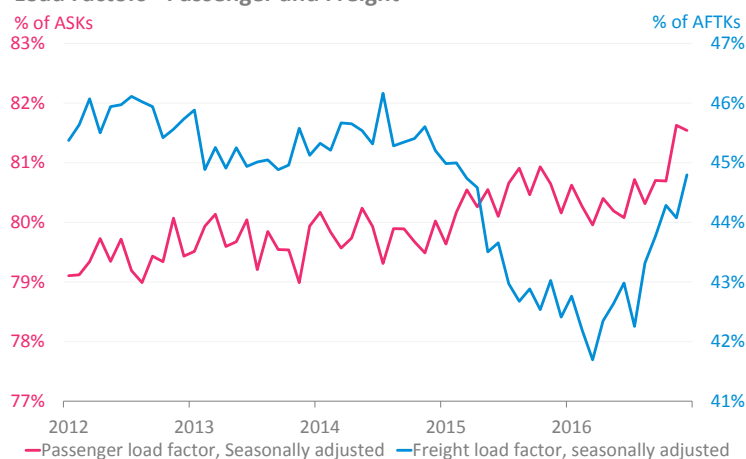


Source: Ascend

- ➔ The number of available seats in the global airline fleet increased by 0.9% in December, the fastest monthly increase in more than four years.
- ➔ 201 new aircraft were delivered in December – substantially higher than that of a year ago (150) as well as that of recent months – and accounting for the bulk of the seat increase this month.
- ➔ For 2016 overall, the number of seats in service increased by a substantial 6.5% compared with 2015 as the global fleet grew in size to more than 27,750 aircraft.

Load factor performance remains strong; as pax posts a record annual average outcome

Load Factors - Passenger and Freight



Source: IATA Monthly Statistics

- ➔ After reaching a new record-high level (in seasonally adjusted terms) in November, the industry-wide passenger load factor eased back a little in December. Even so, at 80.5% for 2016 overall, the load factor has registered its highest annual average outcome on record.
- ➔ For freight, the moderation in the upward trend in capacity growth, combined with a strong rise in demand in 2H16, has driven a rebound in the seasonally adjusted industry-wide load factor over the course of the year. The freight load factor has risen by three percentage points since its recent low in early-2016, ending the year at 44.8% (and at 43.1% for the year overall).

IATA Economics
economics@iata.org
 9th February 2017

Get the data

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

20-year passenger forecasts

To find out more about our long-term passenger forecasts, and to sign up, visit:
www.iata.org/pax-forecast

IATA Economics Consulting

To find out more about our tailored economics consulting solutions, visit:
www.iata.org/consulting

Terms and Conditions for the use of this IATA Economics Report and its contents can be found here: www.iata.org/economics-terms
 By using this IATA Economics Report and its contents in any manner, you agree that the IATA Economics Report Terms and Conditions apply to you and agree to abide by them. If you do not accept these Terms and Conditions, do not use this report.