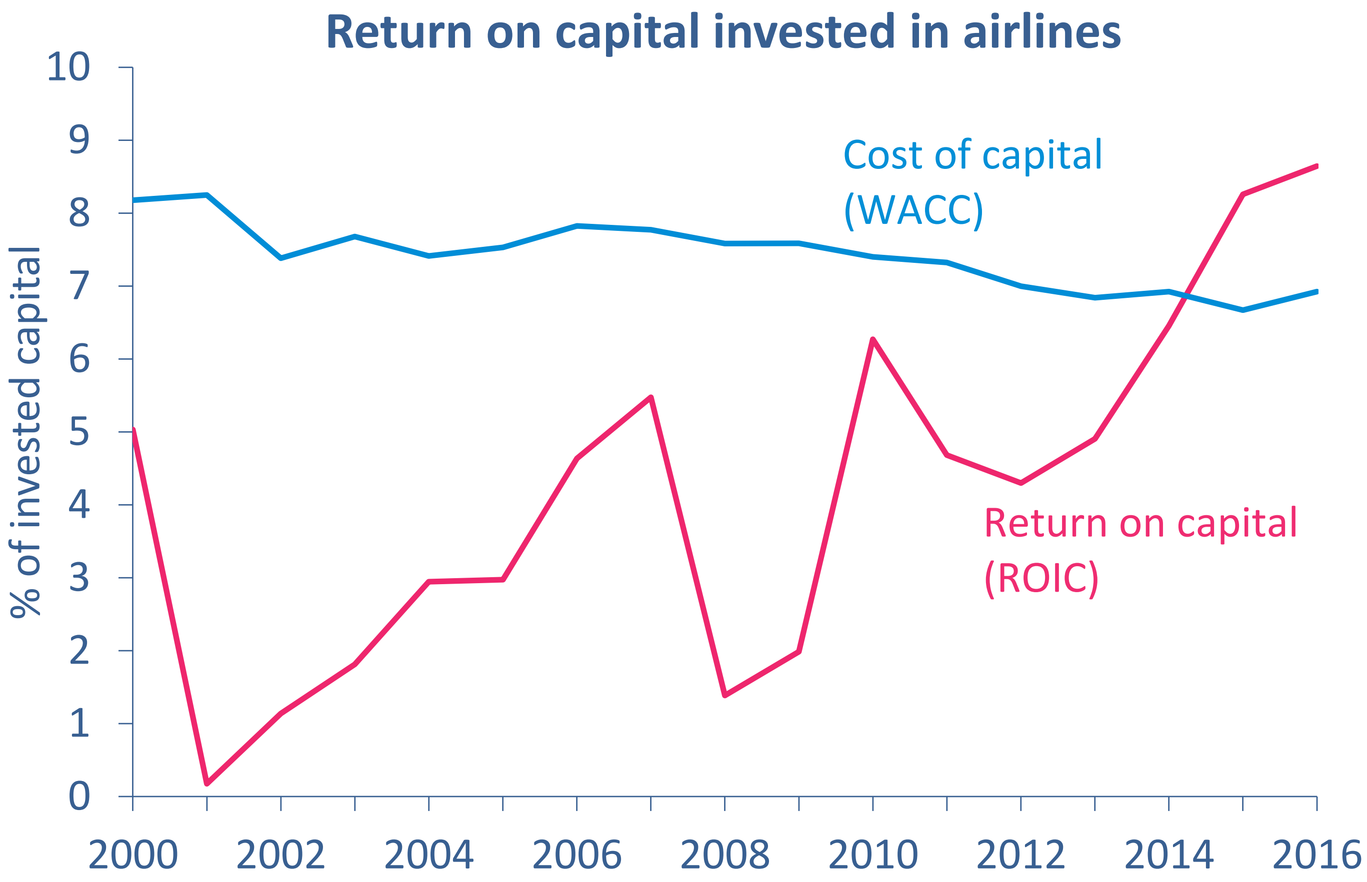
IATA Economics' Chart of the Week

11 December 2015

Airline Investors Paid a 'Normal' Return for the 1st Time



Sources: IATA, ICAO, McKinsey

- Equity owners in airlines have not usually been rewarded adequately for risking their capital, except in a handful of cases. Investors should expect to earn at least the normal return generated by assets of a similar risk profile – the so-called weighted average cost of capital (WACC). Such is the intensity of competition, and the challenges to doing business, that average airline returns are rarely as high as the industry's cost of capital. Equity investors have typically seen their capital shrink.
- But this year we expect the industry to generate a return on invested capital (ROIC) of 8.3%, which does, for the first time, adequately reward equity owners. This has not been due just to lower fuel costs, although that has been a big help. Airlines have also made important changes to keep load factors above break-even rates, and have improved capital productivity significantly.
- The challenge will be to make these levels of profitability the norm they need to be to attract the capital required over the coming years.

Brian Pearce
pearceb@iata.org