

IATA ECONOMIC BRIEFING

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AIRLINE PROFITABILITY - SIZE AND BUSINESS MODEL – 2008

- Full industry-wide results are not yet available for 2009, so we use the latest 2008 data to see whether there were clear correlations between profit and size or business model. The industry faced exceptional challenges from record fuel prices and the ‘Great Recession’ in 2008. Industry wide earnings before interest and tax (EBIT), excluding exceptional non-cash items, declined from a US\$ 20 billion profit in 2007 to an estimated US\$ 3 billion loss in 2008.
- An analysis of the financial results of 233 major airlines - representing 89% of total passenger traffic - shows:
 - In 2008, operating profitability was extremely weak across all regions. Only 6 airlines made positive operating results of more than US\$ 500 million (compared to 19 in 2007) with 3 earning over US\$ 1 billion (7 in 2007). Ninety airlines made operating losses (54 in 2007), with 32 losing more than US\$ 100 million (5 in 2007).
 - Those able to make operating profit represented a range of business models. Large network airlines, smaller network airlines, regional feeder airlines, cargo airlines and LCCs airlines all emerge among the top 30 airlines. The 2008 results showed that only 6 airlines, all major network carriers, from various regions, managed to generate profit of more than US\$ 500 million, compared to 19 in 2007. Latin American carriers (Avianca, LAN, TAM Linhas Aereas), boosted by an expansion of their international operations during this period, significantly increased their profits and appeared in the top 20 airlines in 2008.
 - Profitability measured by EBIT margin dropped significantly compared to previous years. On average, airlines moved from a 4% margin in 2007 to a loss of -1 % in 2008. Among major airlines with operating revenue over US\$ 100 million, only 14 airlines achieved an operating margin of over 10% (compared to 45 in 2007).
 - Even the four airlines with the largest operating profits were not making sufficient profit, with an operating margin lower than 10%, to generate returns equal to the cost of capital. In fact all business models were challenged by the business environment in 2008. Some LCCs, which previously generating +10% margin, saw weaker performance in 2008 (e.g. Ryanair moved from an operating margin of 20% in 2007 to 3% in 2008).
- The 2008 results showed that there is no evidence of a straight-forward correlation between size and absolute profit, confirming results from earlier years. Larger size was associated in 2008 with both bigger losses (e.g. American or United Airlines) and larger profits (e.g. Lufthansa or FedEx).
- Further consolidation in the industry is necessary to improve efficiency and profitability, but the lack of correlation between size and profitability shows that there are other challenges to profitability beyond any lack of scale. Neither is there an obvious correlation between business model and profitability. There are no simple answers of course but financial success requires cost synergies as well as network benefits which implies a need to move beyond current alliance relationships to the cross-border mergers seen taking place in other global industries. That would require a significant change in national ownership regulations to allow such cross-border investment in airlines.

Chart 1: Revenues and Operating Profit

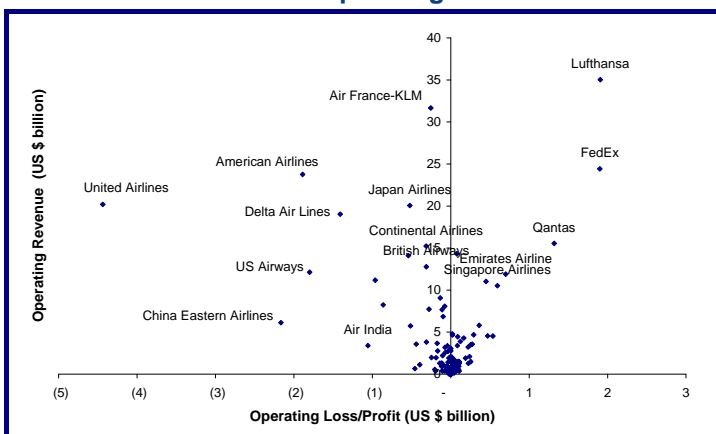
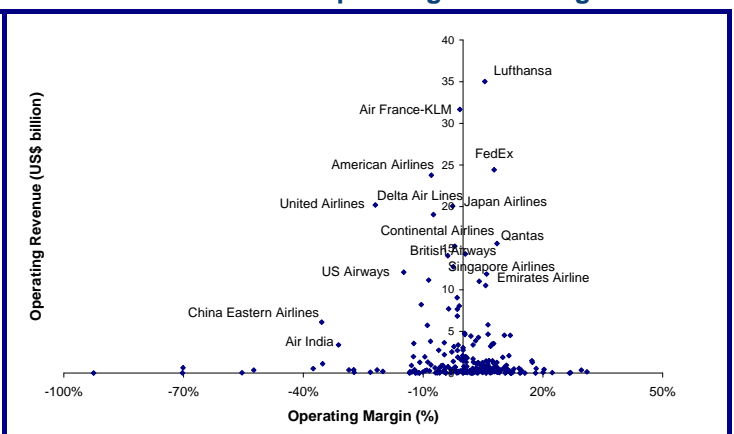


Chart 2: Revenues and Operating Profit Margin



OPERATING PROFITS BY AIRLINE

Table 1: Top 30 Airlines by Operating Profitability (2008 unless otherwise stated)*

By Total Operating Profit				By Operating Profit Margin			
2008	2007			2008	2007		
Rank	Rank	Airline	US\$ m	Rank	Rank	Airline	%
1	1	Lufthansa Group	1,907	1	3	Republic Airlines	29.6%
2	2	FedEx (Express segment)	1,736	2	7	Shuttle America	20.3%
3	11	Qantas	1,320	3	16	Middle East Airlines	18.3%
4	10	Emirates Airline (Year to Mar09)	700	4	10	COPA Airlines	17.4%
5	12	Singapore Airlines (Year to Mar09)	594	5	11	Chautauqua Airlines	17.2%
6	23	LAN Airlines	536	6	25	Astar Air Cargo	14.6%
7	21	Turkish Airlines	470	7	29	Air Arabia	14.1%
8	13	Southwest Airlines	449	8	23	Continental Micronesia	12.7%
9	30	UPS Airlines	362	9	30	LAN Airlines	11.8%
10	33	TAM Linhas Aereas	292	10	18	WestJet	11.5%
11	35	Air New Zealand	273	11	27	Allegiant Air	11.1%
12	26	SkyWest Airlines	255	12	24	Kenya Airways	10.9%
13	34	Chautauqua Airlines	255	13	36	Turkish Airlines	10.3%
14	29	WestJet	240	14	42	Air Wisconsin	10.3%
15	38	COPA Airlines	224	15	22	Avianca	9.9%
16	27	Aeroflot Russian Airlines	222	16	51	Nouvelair Tunisie	9.5%
17	40	Avianca	189	17	193	Centurion Air Cargo	9.5%
18	25	easyJet	166	18	87	Omni Air International	8.8%
19	17	Ryanair	122	19	67	Qantas	8.0%
20	56	Comair	109	20	84	Comair	8.5%
21	45	Atlantic Southeast Airlines	108	21	47	Aegean Airlines	8.2%
22	62	Republic Airlines	107	22	108	SilkAir	7.9%
23	49	Kenya Airways	103	23	74	Air New Zealand	7.7%
24	60	Middle East Airlines	100	24	159	Hawaiian Airlines	7.6%
25	54	Jetstar	98	25	59	Evergreen International Airlines	7.5%
26	126	Hawaiian Airlines	92	26	31	Atlantic Southeast Airlines	7.4%
27	50	Shuttle America	91	27	39	SkyWest Airlines	7.3%
28	32	Malaysia Airlines	88	28	47	FedEx	7.0%
29	42	JetBlue Airways	85	29	37	Iberworld	6.9%
30	55	Philippine Airlines	84	30	40	Aeroflot Russian Airlines	6.9%

Source: Ascend Financial Database, Airline financial reports.

* Note: The figures are taken from published accounts and refer to operating profits. There will be slight differences in accounting policies across different countries.

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