

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

November 2016 – December 2016

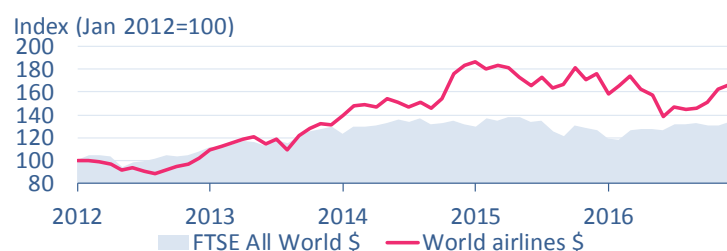
- ➔ The latest round of financial results from Q3 2016 underlined another solid quarter for industry financial performance, but there are ongoing signs that momentum in the profitability cycle has weakened;
- ➔ Global airline share prices outperformed the global equity market in H2 2016. This outperformance was driven mainly by North American shares, on renewed optimism that such airlines can stabilize unit revenues in 2017;
- ➔ Brent crude oil prices have been broadly stable around \$US55/bbl since the start of December. A rebalancing in the oil market is slowly taking place, but prices are expected to trend upwards just modestly from here;
- ➔ The intense downward pressure on yields has eased since earlier in 2016, but the trend is still pointing downwards;
- ➔ Premium traffic growth lagged behind that of its economy counterpart on most key routes in 2016, but premium airfares generally held up better. The premium segment remains a key buffer for airline financial performance;
- ➔ Annual growth in passenger volumes accelerated to its fastest pace in nine months in November, with the seasonally-adjusted load factor rising to a record high;
- ➔ November's data underlined a strong 2016 peak season for air freight, with freight volumes up 6.8% year-on-year. The freight load factor has recovered partly in recent months from its early-2016 low.

## Financial indicators

### Global airline share prices outperformed global equity market in H2 2016, led by N.America

#### Airline Share Prices

US\$ indices (Jan 2012=100)	Index Dec 30th	% change on		
		one month	one year	start of year
<b>World airlines</b>	<b>166.3</b>	<b>+2.3%</b>	<b>-5.7%</b>	<b>-5.7%</b>
Asia Pacific airlines	73.1	-3.3%	-16.7%	-16.7%
European airlines	177.9	+3.3%	-23.8%	-23.8%
North American airlines	413.2	+4.5%	+9.2%	+9.2%
<b>FTSE All World \$</b>	<b>133.9</b>	<b>+2.1%</b>	<b>+5.8%</b>	<b>+5.8%</b>



Source: Thomson Reuters Datastream

- ➔ Global airline share prices increased by 2.3% in December, and outperformed the wider global equity market over H2 2016. This outperformance was led by North American shares, on renewed optimism that such airlines can stabilize unit revenues in 2017. European airline share prices rose by 3.3% in December, but the Asia Pacific index fell for the tenth time in 12 months (-3.3%).
- ➔ Overall, global airline shares fell by 5.7% during the course of 2016, having lagged behind the wider global equity market during the first half of the year. But the recovery in airlines shares from their June low means that the margin of underperformance has narrowed markedly in recent months.

### Solid industry-wide financial performance during Q3 2016, but momentum has weakened

#### Airline Financial Results

Number of airlines in sample	Regions	Q3 2015		Q3 2016	
		EBIT margin <sup>1</sup>	Net post- tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post- tax profit <sup>2</sup>
39	North America	17.6%	6,972	15.3%	4,816
24	Asia-Pacific	8.1%	584	10.7%	2,425
15	Europe	17.5%	5,706	17.5%	5,753
7	Latin America	6.3%	-522	7.4%	206
5	Others	11.1%	79	11.3%	125
<b>90</b>	<b>Sample total</b>	<b>15.0%</b>	<b>12,819</b>	<b>14.5%</b>	<b>13,325</b>

<sup>1</sup>% of revenues <sup>2</sup>US\$ million

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

Sources: The Airline Analyst, IATA

- ➔ The latest round of results from Q3 2016 further showed that industry-wide financial performance remains robust by historical standards. However, there are ongoing signs that momentum for profitability has weakened.
- ➔ The EBIT margin in our sample of 90 airlines slipped to 14.5% in Q3 2016, from 15.0% in the same period in 2015. Profit margins dropped in North America, reflecting volatile fuel and labor costs, but nonetheless remained solid. Meanwhile, margins rose modestly in Asia Pacific helped by a good quarter for air freight, and were unchanged at 17.5% in Europe, where Q3 is the seasonal peak for profits.

## Free cash flow edges up in Q3 2016, as capex falls by more than cash from operations

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

Number of airlines in sample	Regions	Q3 2015			Q3 2016		
		Net cash flow <sup>2</sup>	Capex	Free cash flow	Net cash flow <sup>2</sup>	Capex	Free cash flow
18	North America	15.0%	10.0%	5.0%	14.1%	9.7%	4.4%
17	Asia-Pacific	13.5%	18.7%	-5.2%	13.4%	12.5%	0.9%
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%
<b>57</b>	<b>Sample total</b>	<b>11.5%</b>	<b>10.7%</b>	<b>0.8%</b>	<b>10.6%</b>	<b>9.5%</b>	<b>1.2%</b>

<sup>1</sup> % of revenues<sup>2</sup> From operating activities

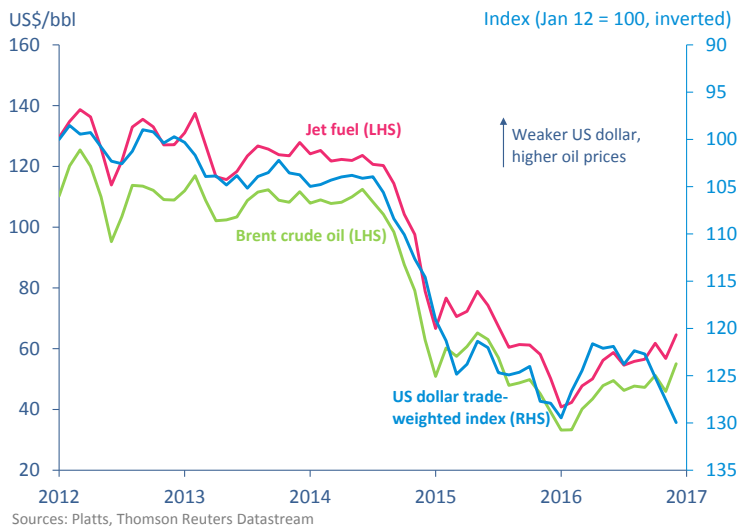
Note: Includes Easyjet, Flybe and Kenya Airways half-year results.

Sources: The Airline Analyst, IATA

- ➔ Net cash flow in our sample of 57 airlines eased to 10.6% of revenues in Q3 2016, from 11.5% in the same period last year. Net cash flow (ie, cash from operations) fell for the sample of carriers from North America, Asia Pacific and Europe, but rose in the case of those from Latin America.
- ➔ Capital expenditure in our total sample fell as a share of revenues in Q3 2016 compared to the same quarter in 2015. Free cash flow in Q3 edged up to 1.2% of revenues from 0.8% a year ago. Free cash flow allows airlines to return cash to investors or to pay down debt.

## Fuel costs

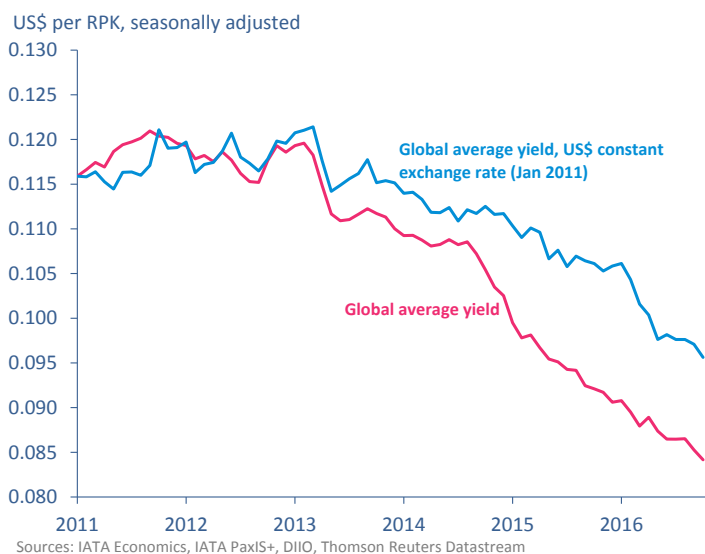
### Brent crude oil price has steadied around \$US55/bbl since the start of December



- ➔ Oil prices rose sharply in early-December following the agreement by non-OPEC suppliers to join their OPEC counterparts in limiting supply. The price of Brent crude has been broadly stable around US\$55/bbl since, nearly double the 12-year low reached in January 2016.
- ➔ A rebalancing in the oil market is slowly taking place. But amid ongoing skepticism as to whether the full extent of OPEC's supply cuts will be delivered, the futures market is still pricing in a very weak upward trend in oil prices over the coming years. Brent crude futures are currently below US\$56/bbl until 2020.

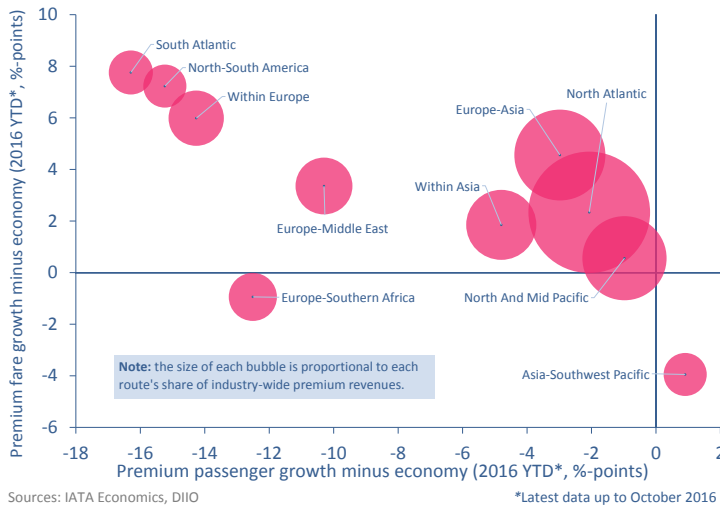
## Yields and premium revenues

### Intense downward pressure on underlying yields has eased, but the trend is still downwards



- ➔ The downward trend in yields looks to have reasserted itself in recent months, with another fall in October (the latest data available). Given the change in trend in fuel prices seen over the course of 2016, it remains to be seen how long the downward trend will continue.
- ➔ As was the case during late-2014, the rise in the US dollar since November will distort the US dollar-reported data in the coming months' data; this underscores the importance of looking at trends in yields in constant exchange rate terms (the blue line on the chart). The intense downward pressure on underlying yields has eased from that seen earlier in the year, but the trend is still pointing down. Yields fell by 7.6% year-on-year in the January-October 2016 period.

## The premium traffic segment remains an important buffer for airline financial performance

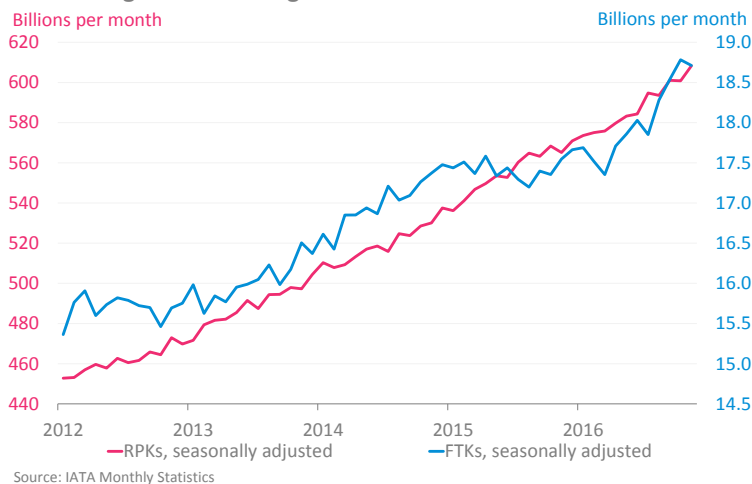


- ➔ Annual growth in premium international passenger traffic lagged behind that of economy in most of the top-10 premium markets during Jan-Oct 2016 (with the exception of Asia-Southwest Pacific). Premium O-D international journeys accounted for 5.2% of the global total over the first ten months of 2016, down from 5.5% a year ago.
- ➔ However, as was the case during most of 2016, premium fares held up better than their economy counterparts on most routes, and the premium segment continues to offer an important buffer for airline financial performance. Indeed, premium's share of revenues rose slightly in annual terms during the January-October 2016 period on the markets across the North Atlantic and between Europe and Asia.

## Demand

### Passenger traffic trend has picked up, with further signs of a strong 2016 freight peak period

#### Air Passenger and Air Freight Volumes

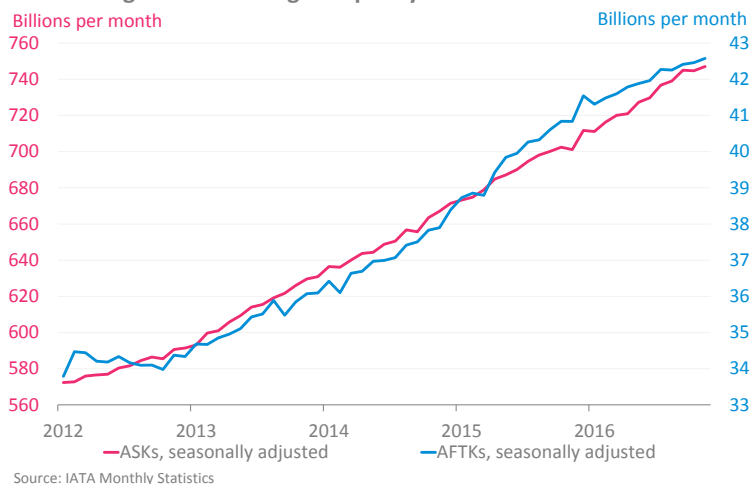


- ➔ Annual growth in industry-wide passenger traffic accelerated to a nine-month high of 7.6% year-on-year in November. The seasonally adjusted (SA) trend has strengthened of late, alongside a pick-up in the global economic cycle.
- ➔ Meanwhile, global air freight volumes increased by a robust 6.8% year-on-year in November, underlining the strong 2016 peak season for air cargo. While FTK volumes dipped in SA terms in November, the bigger picture is that the upward trend accelerated strongly during H2 2016.

## Capacity

### A moderation in the upward trends for passenger and freight capacity

#### Air Passenger and Air Freight Capacity

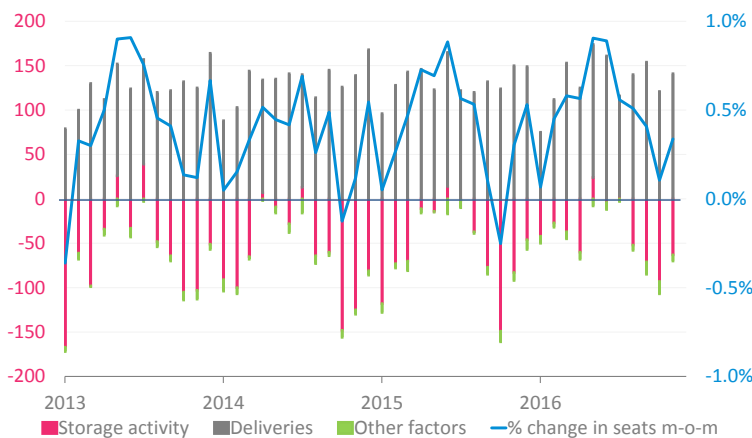


- ➔ Available seat kilometres grew by 6.5% year-on-year in November, although the upward trend in SA capacity has moderated in recent months.
- ➔ It is a similar case for available freight tonne kilometres, in part owing to a slowdown in deliveries to the wide-body passenger fleet in 2016 (particularly in Asia Pacific). Freight capacity grew by 4.4% year-on-year in November – the fourth month in a row in which year-on-year freight capacity has grown more slowly than demand.

## Net storage activity makes a relatively small negative contribution to fleet size in November

### Airline Fleet Development

Change in operating fleet (a/c per month)

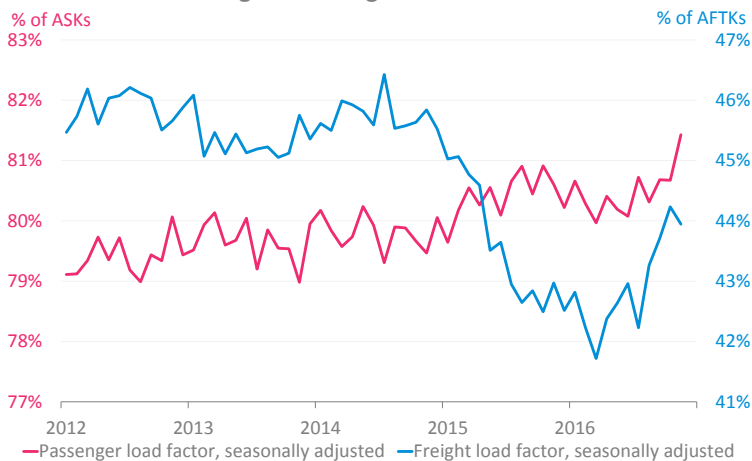


Source: Ascend

- The number of available seats in the global airline fleet increased by 0.3% in November compared to the previous month, and by 6.1% year-on-year.
- 141 new aircraft were delivered in November – slightly fewer than were delivered in the same month in 2015 (150). As is normally the case during the seasonal low period at the end of the year, net storage activity made a negative contribution to the fleet size in November. But the negative contribution was smaller in 2016 than it was in 2014 and 2015 (a net 63 aircraft leaving the fleet), mainly reflecting fewer aircraft going into storage compared to previous years.

## Passenger load factor posts a record high in seasonally-adjusted terms in November

### Load Factors - Passenger and Freight



Source: IATA Monthly Statistics

- The industry-wide passenger load factor rose to a new record-high in seasonally adjusted terms in November 2016. In year-on-year terms, the passenger load factor increased in all regions except the Middle East, with four regions posting record November highs.
- The combination of rising demand and the easing in the trend for capacity has caused the seasonally-adjusted industry-wide freight load factor to rise by around two and a half percentage points since its low in early-2016. For the second month in a row, freight load factors increased in annual terms for all regions except Africa.

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 12<sup>th</sup> January 2017

### Get the data

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

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