AIRLINES FINANCIAL MONITOR

KEY POINTS NOVEMBER 2017 – DECEMBER 2017

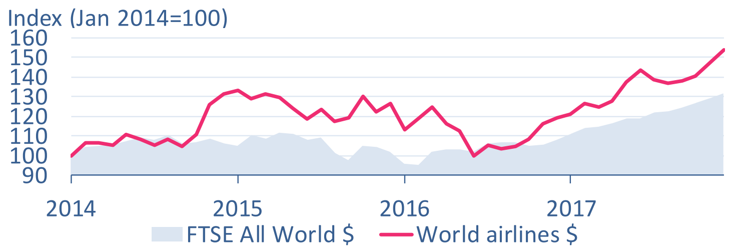
- The industry-wide EBIT profit margin remained broadly unchanged in Q3 relative to a year ago, at a robust 14.7% of revenues. A decline in the margin in the North America region was partly offset by increases elsewhere.
- Global airline share prices ended 2017 almost 29% higher than where they started, with sizeable gains for European and Asia Pacific airlines. Airline shares outperformed the global equity market by 7 percentage points.
- Industry-wide passenger yields are currently broadly unchanged from where they were a year ago. Against a backdrop of robust global economic growth, and rising input costs, we forecast yields to rise modestly in 2018.
- Indeed, oil prices continued to trend upwards into the New Year, driven by OPEC-led production cuts. At the time of writing, the Brent crude oil price is around $70/bbl – its highest level since December 2014.
- Year-on-year growth in both passenger and freight volumes is carrying solid momentum into 2018, alongside elevated load factors: the seasonally adjusted (SA) passenger load factor rose above 82% for the first time on record in November, while the SA freight load factor is continuing to maintain levels last seen in late-2014.
- The ongoing pick-up in global trade conditions is continuing to support premium-class demand, particularly on some key markets to, from, and within the important manufacturing region of Asia.

Financial indicators

Global airline share prices ended last year strongly, outperforming global equities again

Airline Share Prices

US$ indices (Jan 2014=100)	Index Dec 29th	% change on one month	one year	start of year
World airlines	**153.6**	**+4.4%**	**+28.9%**	**+28.9%**
Asia Pacific airlines	130.4	+3.8%	+38.6%	+38.6%
European airlines	144.6	+1.9%	+67.8%	+67.8%
North American airlines	185.0	+5.9%	+9.2%	+9.2%
FTSE All World $	**131.5**	**+1.6%**	**+21.6%**	**+21.6%**



Source: Thomson Reuters Datastream

- Global airline share prices ended last year strongly, rising by a further 4.4% in December. The result means that global airline shares increased by almost 29% over the course of 2017, outperforming the wider equity market by seven percentage points.
- The European airline index finished the year 68% higher than where it started, as shares recovered from the Brexit-hit 2016, helped by a robust regional economic and passenger demand backdrop. The Asia Pacific index also rose strongly (39%), partly reflecting stronger cargo market performance.
- The North American index had a more mixed year, but shares rallied at year-end in line with the wider equity market after the Trump tax plan was passed.

EBIT margin was broadly unchanged in year-on-year terms in Q3 2017, at a robust 14.7%

Airline Financial Results

Number of airlines in sample	Regions	Q3 2016 EBIT margin[1]	Q3 2016 Net post-tax profit[2]	Q3 2017 EBIT margin[1]	Q3 2017 Net post-tax profit[2]
36	North America	15.2%	5,232	12.8%	5,459
25	Asia-Pacific	10.7%	2,092	11.3%	2,035
15	Europe	18.6%	6,449	19.7%	7,147
7	Latin America	7.3%	209	10.2%	532
5	Others	14.7%	183	17.0%	234
88	**Sample total**	**15.0%**	**14,165**	**14.7%**	**15,407**

[1] % of revenues *[2] US$ million*

Note: Includes half-year results of Easyjet and Flybe

Sources: The Airline Analyst, IATA

- The final releases of financial data from Q3 data further underlined that the industry-wide EBIT margin was broadly unchanged in Q3 compared to the same period a year ago, at a robust 14.7%.
- All regions posted double-digit operating margins in the quarter, led by European carriers (19.7% - note that Q3 is a seasonal peak month for European airline profitability each year).
- In a sign that industry profitability is now stabilizing from the weaker first half of last year, every region except North America registered a year-on-year increase in operating margin.

Industry-wide free cash flow falls slightly in Q3, driven by higher capex in North America

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q3 2016 Net cash flow[2]	Q3 2016 Capex	Q3 2016 Free cash flow	Q3 2017 Net cash flow[2]	Q3 2017 Capex	Q3 2017 Free cash flow
15	North America	14.0%	9.3%	4.7%	10.3%	11.9%	-1.6%
15	Asia-Pacific	13.8%	14.3%	-0.5%	12.0%	11.1%	0.9%
9	Europe	4.9%	8.3%	-3.5%	11.4%	7.7%	3.7%
4	Latin America	8.0%	5.9%	2.1%	14.2%	5.1%	9.1%
1	Others	3.4%	3.0%	0.5%	10.2%	4.3%	5.9%
44	**Sample total**	**10.9%**	**9.5%**	**1.4%**	**11.1%**	**10.1%**	**1.0%**

[1] *% of revenues* [2] *From operating activities*

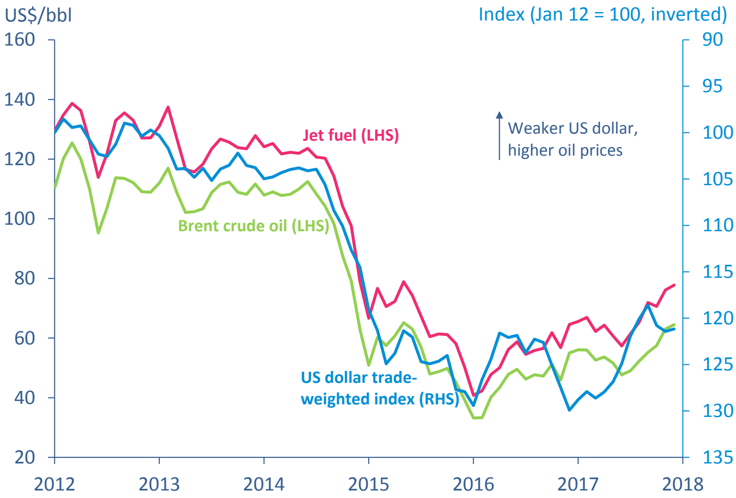
Note: Includes half-year results of Easyjet and Flybe

Sources: The Airline Analyst, IATA

- Industry-wide free cash flows (FCF) fell slightly to 1.0% of revenues in Q3 2017, compared to 1.4% a year ago. This small decline was driven entirely by an increase in capex (to 10.1%); indeed, net cash flow from operations also rose slightly (to 11.1%).
- Although most regions saw modest year-on-year declines in capex, this was more than offset in the sample total by a pick-up in North America.
- There was a wide spread in net cash flow performance by region. The measure rose strongly for airlines based in Europe and Latin America, but declined in the cases of airlines registered in Asia Pacific and North America.

Fuel costs

Brent oil prices have continued to trend upwards into the New Year

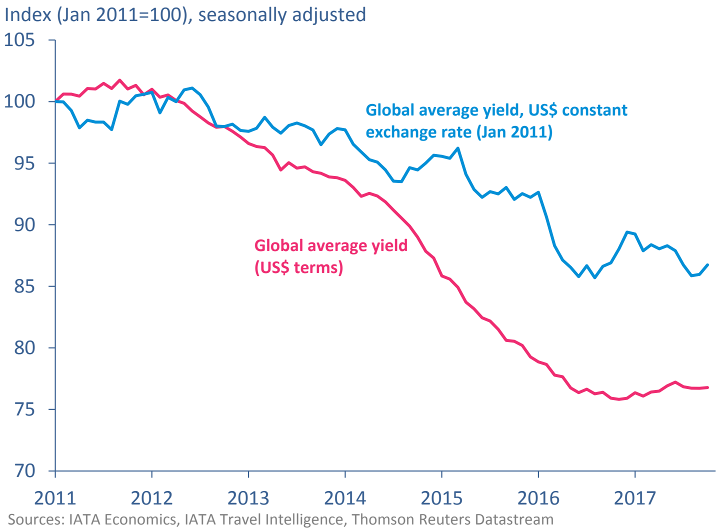


Sources: Platts, Thomson Reuters Datastream

- Oil prices continued to trend higher throughout December and into the New Year. At the time of writing, the Brent crude oil price is around $70/bbl – its highest level since December 2014 and around 25% higher than a year ago.
- The rising oil price trend has been bolstered by production cuts by OPEC and Russia, which have helped to reduce surplus inventories in the market. The net impact of lower supply from OPEC and other traditional producers and increasing supply from US tight-oil producers will be one of the key determinants of oil prices in the coming years.
- The futures market is continuing to point to a modest decline in oil prices from current levels, to around US$61/bbl in late-2019.

Yields and premium revenues

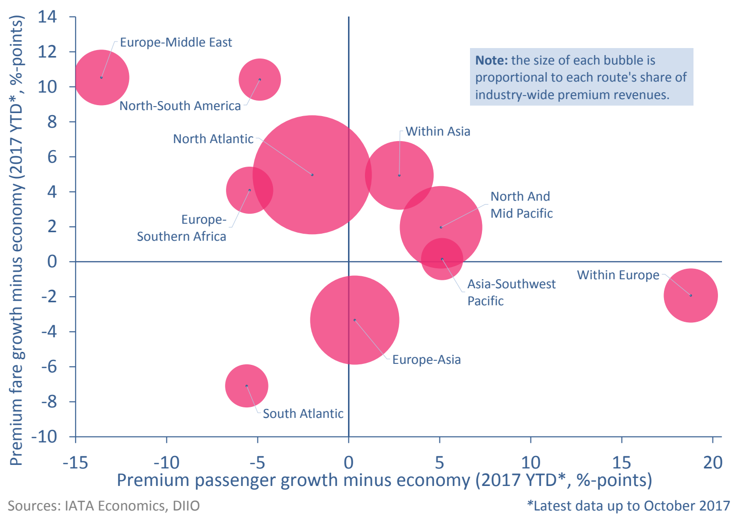
Passenger yields are expected to rise modestly in 2018



Sources: IATA Economics, IATA Travel Intelligence, Thomson Reuters Datastream

- The long-standing downward trend in passenger yields started to level off in mid-2016. When measured in US dollar and exchange-rate adjusted terms, yields are currently broadly unchanged from where they were a year ago.
- The change in the yield trend has occurred alongside a strengthening in global economic conditions, as well as upward pressure on some key input costs, including oil and labor.
- With global economic growth expected to remain robust this year, and given the rising trend in fuel costs, we forecast passenger yields to rise modestly during 2018.

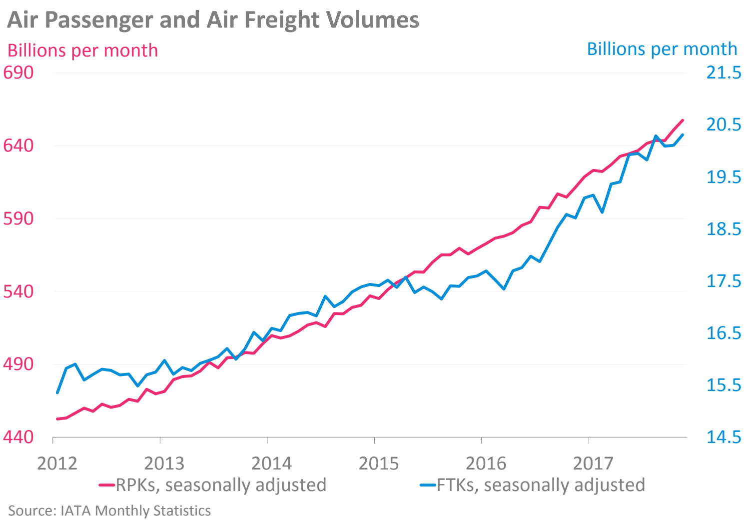
2017 has seen a wide spread in premium-class performance



- Premium-class traffic on some of the key markets to, from and within Asia has been supported so far this year by a pick-up in global trade conditions. O-D premium travel growth within Europe has also far outstripped its economy counterpart, driven by the region's stronger economic backdrop.
- By contrast, premium demand has lagged behind in a number of cases, most notably between Europe and the Middle East and also between North and South America.
- All told, the total share of all O-D passengers flying in the premium-class cabin remained constant at 5.2% during the first ten months of 2017, unchanged from the same period in 2016. At the same time, premium's share of total international revenues rose to 26.5% in the period, up from 25.6% a year ago.

Demand

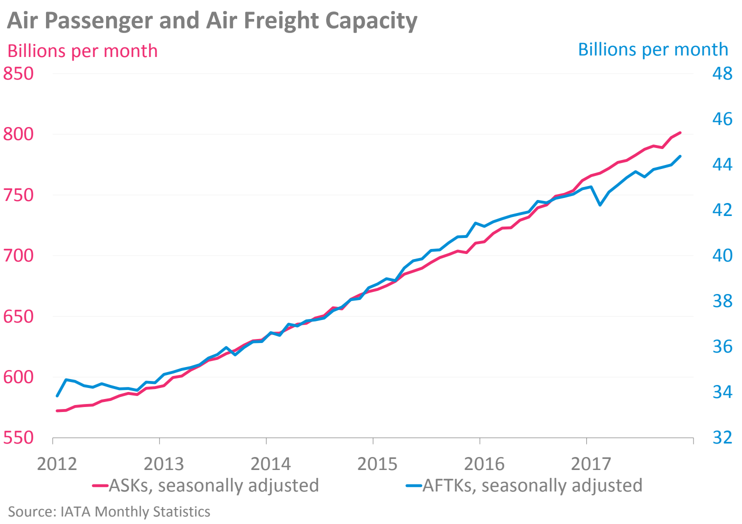
Passenger and freight growth are both carrying solid momentum into 2018



- Industry-wide revenue passenger kilometres (RPKs) grew by 8.0% year-on-year in November – the fastest rate in five months.
- Global passenger traffic has risen in SA terms in the latest two months, and is carrying solid momentum into 2018. We expect another year of above-trend passenger growth in 2018 as a whole, albeit slightly slower than in 2017 owing to less stimulation to demand from lower airfares.
- Meanwhile, annual growth in industry-wide freight tonne kilometres (FTKs) accelerated to 8.8% in November. The SA trend in freight volumes has moderated since mid-2017, although indicators continue to indicate that freight growth will remain supported during H1 2018.

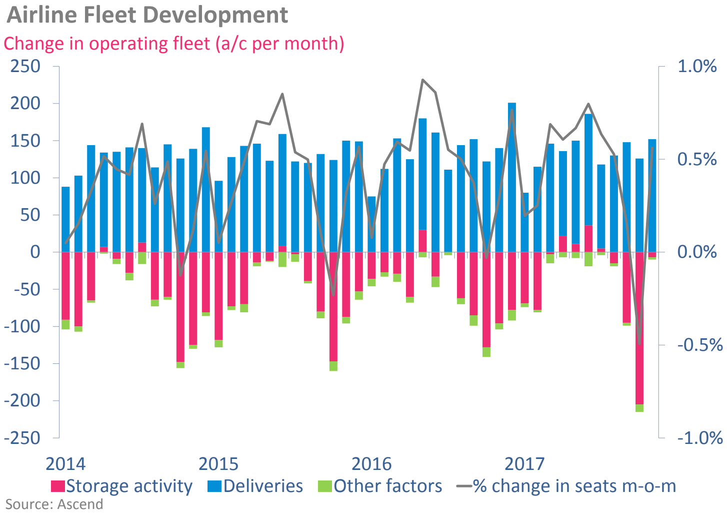
Capacity

Passenger and freight capacity are both trending upwards broadly in line with demand



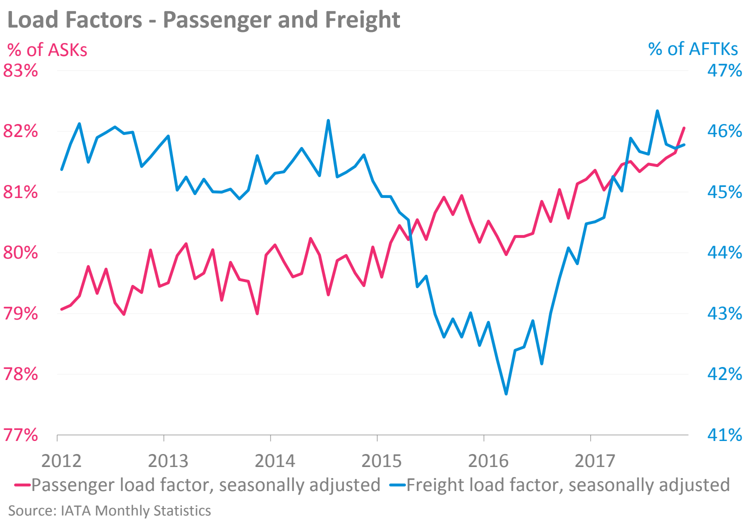
- Industry-wide available seat kilometres (ASKs) increased by 6.3% year-on-year in November. Capacity has trended upwards at a broadly constant rate over the course of 2017, slightly slower than that of demand.
- Available freight tonne kilometres (AFTKs) grew by 4.0% year-on-year in November – the 16th consecutive month in which year-on-year capacity growth has lagged behind that of demand. However, given the moderation in the upward trend in FTKs in recent months, demand and capacity have trended upwards at broadly similar rates over the past six months.

A return to positive month-on-month growth in in-service seats in November



- The number of available seats in the global airline fleet rose by 0.6% month-on-month in November, which lifted the year-on-year growth rate to 5.5%.
- 12 more aircraft were delivered in November 2017 than were delivered in the same period a year ago (152 vs. 140).
- Net storage activity made a significant negative contribution to the fleet in October, underpinning a month-on-month decline in the number of seats in the fleet for the first time in more than two years. Net storage activity was broadly neutral in November, however, with 128 aircraft being put into storage, and 121 returning into service.

Passenger load factor posts an all-time SA high, as freight loads remain broadly steady



- The passenger load factor posted a record high for the month of November (80.2%, 1.2 percentage points higher than November 2016). In fact, with aggregate capacity expanding at a slower rate than demand, the SA load factor rose above 82% for the first time on record. Higher load factors are helping to pull up unit revenues.
- Meanwhile, the industry-wide freight load factor also improved substantially in year-on-year terms in November. In SA terms, the series is continuing to maintain levels last seen in 2014.

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