

# AIRLINES FINANCIAL MONITOR

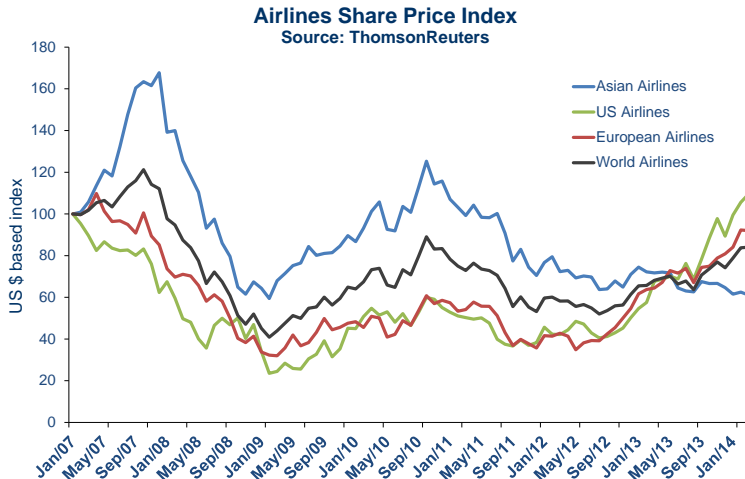
## KEY POINTS

February - March 2014

- Airline shares have gained 13% since the start of the year, outperforming the market which has stayed flat;
- Improvements in financial performance have driven growth in airline share prices, particularly in the US;
- Q4 financial results show solid improvements in operating profits, mostly in the US but in Europe also;
- Jet fuel prices eased slightly in March as a result of expectations that Libyan crude oil supply will increase;
- US passenger yields are stable on a year ago, but weakness continues in other regions;
- Growth in air transport volumes moderated in February, but the cyclical economic upturn suggests solid growth in volumes ahead;
- Expansion in available seats picked-up in February as new deliveries increased and net storage activity fell;
- Growth in demand will likely resume at rates at least in line with expansion in seats, supporting aircraft utilization;
- And while both passenger and cargo load factors fell slightly in February, they remain up on a year ago.

## Financial indicators

### Airline shares flat in March but up 13% so far this year, outperforming the market



- Worldwide airline shares were flat in March compared to February, much like the broader market with FTSE Global All Cap also showing no change over the month. There was some variation among the regions: while European airlines followed the global trend, airlines in Asia continues to see share values decline (down 2% in March compared to February), plagued by weakness in their cargo businesses. By contrast, US carriers continue to outperform, with shares gaining 4%, reflecting continued improvements in financial performance.

### Q4 financial results show solid operating profit improvement, driven by the US

In US \$ Million

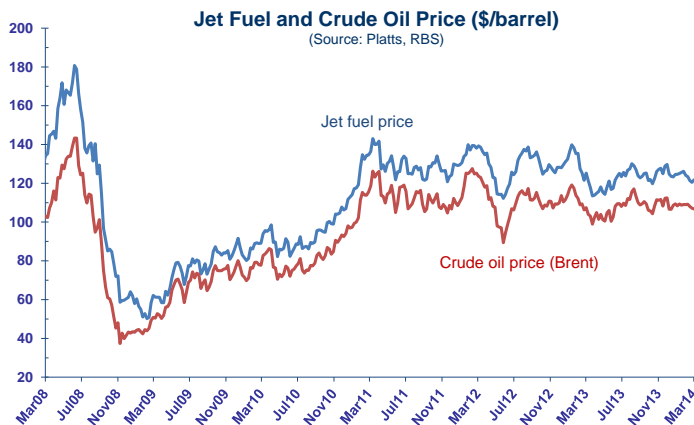
# Airlines		Q4 2012		Q4 2013	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
16	North America	852	-289	2127	1590
18	Asia-Pacific	1929	1498	1014	204
12	Europe	-435	-517	484	-1828
5	Latin America	190	-115	600	147
4	Others	89	1	111	47
55	<b>Sample total</b>	2625	578	4336	160

\*Excluding \$2.2b reorganization items from AMR

- Q4 financial results indicate that airlines are continuing to improve financial performance at the operating level. The sample of 55 airlines shows operating profits up 65% on a year ago, driven by the performance of North American airlines. But the improvements are not widespread as airlines in Asia Pacific continue to show weakness. Carriers in this region are seeing declines at the operating and net level, largely reflecting weakness in cargo demand.

## Fuel costs

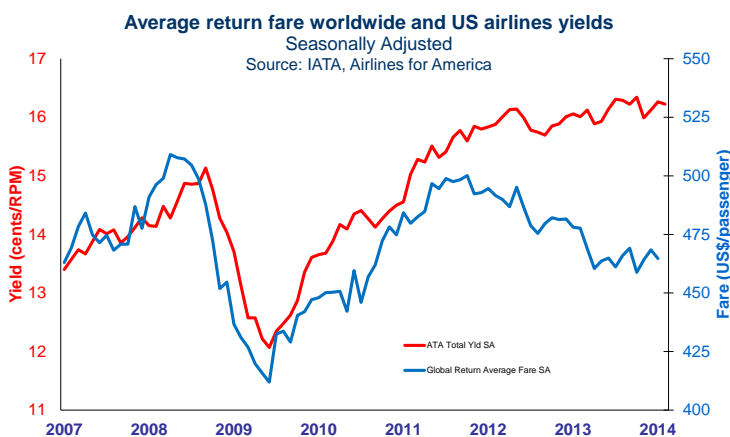
**Jet fuel prices ease slightly in March, down 4% on February to \$121/bbl**



➤ Jet fuel prices eased slightly in March compared to February, following a small fall in crude oil prices. Nonetheless, jet fuel price levels remain well within the high range of the past 3 years. Jet fuel prices have been trending in a tight and high band since early 2011, averaging \$127/bbl during the period. Although demand conditions continue to improve, consistent with the pick-up in global economic growth, crude oil prices eased over recent weeks on the expectation that supply could rise with the opening of Libyan ports that have been blocked for the past 8 months.

## Yields

**Passenger yields have stabilized in the US, and remain weak in other regions**

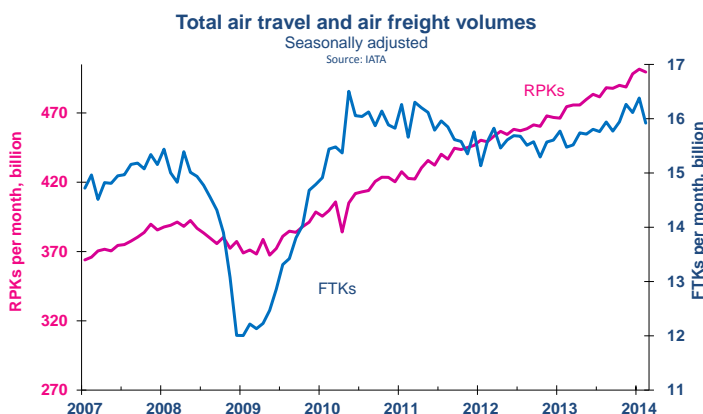


➤ The trend in US passenger yields moderated over recent months, after showing signs of a pick-up in the first half of 2013. Sustained growth in demand and industry consolidation have provided support to US yields, which are still stable compared to year ago levels.

➤ By contrast, the weak trend in global fares in US\$ appears to be continuing. The trend in global fares reflects weakness in Asia as well exchange rate distortions. The fare data excludes fuel surcharges and ancillary revenues, which provide some offset to the decline in core fare yields.

## Demand

**FTKs and RPKs slipped in February but remain at solid levels compared to a year ago**

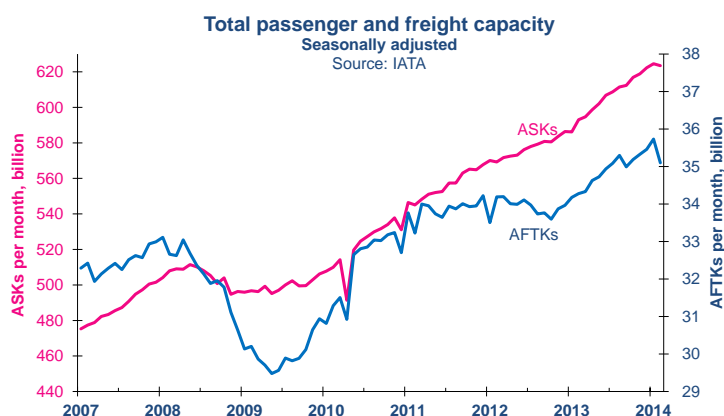


➤ After a strong start to 2014, air freight volumes contracted in February compared to January. The fall, however, is likely due to temporary factors rather than a trend change. Key drivers of air freight demand, like world trade and business confidence, remain solid.

➤ Growth in air travel has accelerated over recent months, consistent with the cyclical economic upturn. Despite some moderation in volumes in February compared to January, growth in the two months combined is up on 2013 expansion.

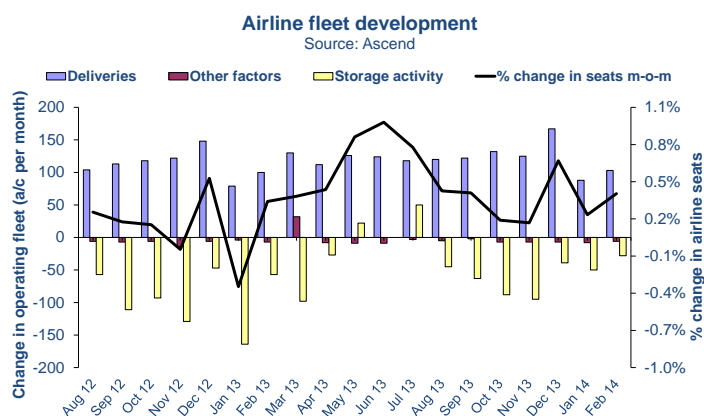
## Capacity

### Passenger and freight capacity contracted in February compared to January



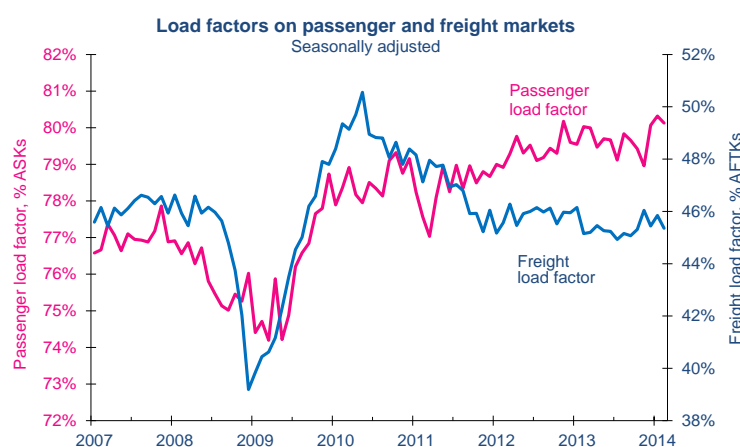
➤ ASKs and AFTKs both contracted in February compared to January. The decline was consistent with the moderation in demand. The contraction in passenger capacity came solely through domestic markets, but it was not enough to offset the moderation in traffic, causing loads to slip slightly. Freight capacity, by contrast, contracted strongly on international markets. But here also, it was not enough compared to the strong fall in volumes in February compared to January, pushing loads down over the month.

### Growth in seats picked-up as new deliveries increased and storage activity eased



➤ Growth in available seats pick-up in February compared to January. The acceleration comes after an increase in the number of new aircraft deliveries. In February, there were 103 new aircraft delivered (compared to 88 in January) with a net 28 aircraft going into storage, (compared to 50 in January). Growth in seats in February rose to an annualized rate of about 3%. Although there was a contraction in growth in volumes in February, the moderation is likely temporary and growth should resume at rates at least in line with this pace of expansion in seats, sustaining aircraft utilization rates.

### Passenger and freight loads slip slightly as a result of the fall in volumes



➤ Passenger load factors slipped slightly in February compared to January, reflecting the moderation in volumes over the month. But recent acceleration in the growth trend has kept passenger load factors at high levels, close to 80% on a seasonally adjusted basis.

➤ Recent improvements in air freight load have moderated slightly, but levels are still the above the low point seen during mid-2013. The recent improvement in load factors has been supported by stronger demand. Overall however, levels are low and barely above 45%.

## Data tables

Year on Year Comparison	Feb 2014 vs. Feb 2013						YTD 2013 vs. YTD 2012					
	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>	<i>FTK</i>	<i>AFTK</i>	<i>FLF</i>	<i>RPK</i>	<i>ASK</i>	<i>PLF</i>	<i>FTK</i>	<i>AFTK</i>	<i>FLF</i>
Africa	-0.7%	3.2%	65.7%	-5.2%	5.5%	29.0%	0.8%	3.3%	67.4%	-1.5%	4.4%	27.9%
Asia/Pacific	6.3%	6.6%	78.5%	0.1%	3.9%	50.6%	9.0%	8.6%	77.9%	2.0%	6.7%	50.8%
Europe	6.1%	6.1%	76.4%	5.5%	1.7%	49.8%	6.7%	6.2%	76.3%	5.7%	2.8%	47.5%
Latin America	6.8%	2.5%	79.2%	6.1%	1.7%	41.0%	6.7%	3.6%	80.0%	6.9%	0.5%	39.1%
Middle East	12.5%	11.6%	79.3%	11.9%	9.2%	46.8%	15.1%	12.8%	80.6%	11.3%	10.5%	44.2%
North America	1.5%	0.8%	80.2%	-0.3%	-1.9%	35.1%	2.1%	0.9%	80.4%	0.2%	-1.5%	34.9%
<b>Total Market</b>	<b>5.4%</b>	<b>5.2%</b>	<b>78.1%</b>	<b>2.9%</b>	<b>2.3%</b>	<b>44.8%</b>	<b>6.9%</b>	<b>6.0%</b>	<b>78.2%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>43.9%</b>

*RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;*  
*All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month.*

**AIRLINE INDUSTRY FORECAST 2013 - 2017**  
 Predict demand patterns & minimize investment risk  
[www.iata.org/forecast](http://www.iata.org/forecast)



**IATA Economics**  
 7<sup>th</sup> April 2014