Airlines Financial Monitor

February 2019 – March 2019

Key points

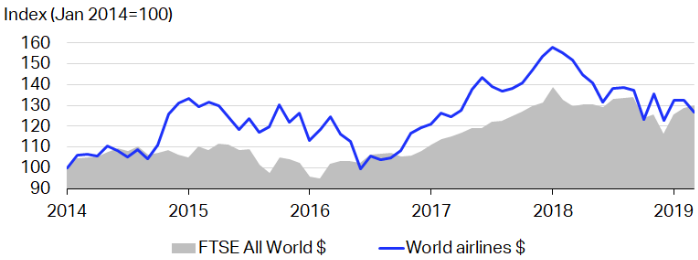
- The latest Q4 2018 data confirm that the fall in profit margins slowed compared to Q3. That said, the outcome is mixed at the regional level; while North America and Asia Pacific carriers recorded less intense profit squeeze, the trend was opposite for European carriers that did not benefit from falling oil prices due to high hedging ratios. The initial Q1 2019 information indicates an improvement for North America profit margins but less so for Europe.
- Global airline share price developments underperformed the wider equities market in March amidst uncertainty about jet fuel price developments and the direction of industry profitability.
- OPEC supply cuts and US sanctions on Venezuela and Iran pushed crude oil and jet fuel prices higher in March. Currently, the former hovers around 71US$/bbl while the latter is close to US$84/bbl, in both cases the highest level since November 2018.
- Global base fare yields eased in January, after a short-lived improvement in December. With premium cabin yields ticking-up modestly, the difference between the premium and economy cabin yields continues to widen further in early-2019.
- Annual growth in industry-wide revenue passenger kilometres moderated to 5.3% in February, down from 6.5% in the previous month. For freight, volumes were 4.7% lower versus the same period a year ago, the weakest outcome of the past three years.

Financial indicators

Airline share price index falls in March, underperforming the global equities market

Airline Share Prices

US$ indices (Jan 2014=100)	Index Mar 29th	% change on one month	one year	start of year
World airlines	**126.6**	**-4.3%**	**-16.7%**	**+3.2%**
Asia Pacific airlines	119.1	-0.3%	-11.5%	+7.4%
European airlines	98.5	-10.8%	-31.1%	-4.0%
North American airlines	155.8	-4.8%	-11.3%	+1.8%
FTSE All World $	**130.0**	**+1.0%**	**+0.3%**	**+11.5%**



Source: Thomson Reuters Datastream

- Global airline share price index fell by 4.3% in March and is currently almost 17% below its level of a year ago. By contrast, the global equity index has shown a relatively stable performance, up 0.3% over the same period.
- In recent months, airline share prices have been volatile, reflecting investors' uncertainty about the impact of developments in jet fuel prices. That said, this month's outcome was driven to a large extent by developments in Europe. There, the outsized fall reflects specific factors including uncertainty about Brexit and the fragility of the industry, represented by the recent collapse of WOW air.
- All told, the remaining two regional sub-indices also fell in month-on-month terms in March (-4.8% for North America and -0.3% for Asia Pacific).

Industry-wide fall in profit margins slowed in Q4 2018

Airline Financial Results

Number of airlines in sample	Regions	Q4 2017 EBIT margin[1]	Q4 2017 Net post-tax profit[2]	Q4 2018 EBIT margin[1]	Q4 2018 Net post-tax profit[2]
16	North America	9.7%	4,174	9.2%	2,986
41	Asia-Pacific	7.6%	3,051	4.6%	-57
31	Europe	4.6%	82	0.05%	59
11	Latin America	6.7%	265	4.9%	61
10	Others	-5.9%	-124	-5.1%	-374
109	**Sample total**	**7.2%**	**7,448**	**4.7%**	**2,675**

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

Sources: The Airline Analyst, IATA

- The latest airline financial data from Q4 2018 confirm that the intense profit squeeze observed in the middle of the year has eased recently; the EBIT margin has fallen by 2.5ppt over the year to Q4 vs 3.5ppt in Q3.
- That said, the improvement has not been broad-based across the regions. While the downward profit pressure slowed for North American carriers in Q4 vs Q3, airlines based in Europe faced rising costs and falling unit revenues.
- The initial results for Q1 2019 indicate ongoing improvement in profit margins in the North America market but the challenges for carriers based in Europe remain.

Industry-wide cash flows lower compared to a year ago

Airline Cash Flow[1]

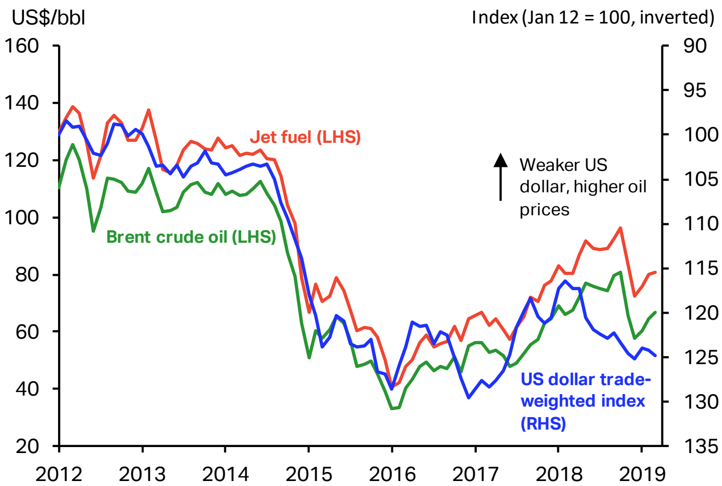
Number of airlines in sample	Regions	Q4 2017			Q4 2018		
		Net cash flow[2]	Capex	Free cash flow	Net cash flow[2]	Capex	Free cash flow
16	North America	10.2%	13.6%	-3.4%	11.0%	13.1%	-2.0%
21	Asia-Pacific	12.1%	15.5%	-3.4%	8.4%	15.1%	-6.8%
12	Europe	8.9%	13.1%	-4.2%	-0.2%	11.6%	-11.8%
6	Latin America	9.2%	4.7%	4.5%	18.5%	10.2%	8.4%
4	Others	4.8%	7.7%	-2.9%	-1.7%	11.5%	-13.2%
59	**Sample total**	**10.0%**	**13.2%**	**-3.2%**	**7.3%**	**12.7%**	**-5.4%**

[1]% of revenues [2]From operating activities
Sources: The Airline Analyst, IATA

- The latest Q4 2018 sample of 59 airlines indicates moderation in both industry-wide net and free cashflow compared to the same period a year ago.
- Net cash flow was 7.3% of revenues (down from 10% in Q4 2017), reflecting the fall in operating profits discussed above. Capital spending fell in Europe, while it remained relatively stable for carriers based in North America, where profitability is higher.
- Q4 is always a seasonally weak quarter for free cash flow but there was also a decline compared to last year. Indeed, at the regional level, free cash flow was negative with the exception of Latin America (8.4%), that recorded ~4ppt improvement compared to a year ago.

Fuel costs

Oil and jet fuel prices trending higher for a third consecutive month

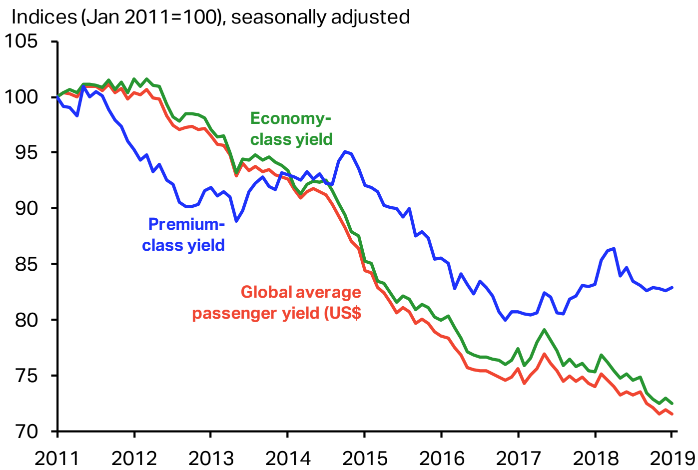


Sources: Platts, Thomson Reuters

- The average monthly price of Brent crude oil and jet fuel continued to trend upwards in March, although at a slower pace than in the previous two months.
- The 2019 increase in oil prices follows the effort of OPEC countries to cut production and thus offset rising output of US tight oil. On top of that, US sanctions imposed on Iran and Venezuela have also contributed to the recent price pick-up.
- At the time of writing this report, the price of Brent crude oil hovers around US$71/bbl and the jet fuel price is between US$84-85/bbl – the highest level since November. For more data on oil price developments, check out our weekly Jet Fuel Price Monitor.

Yields and premium revenues

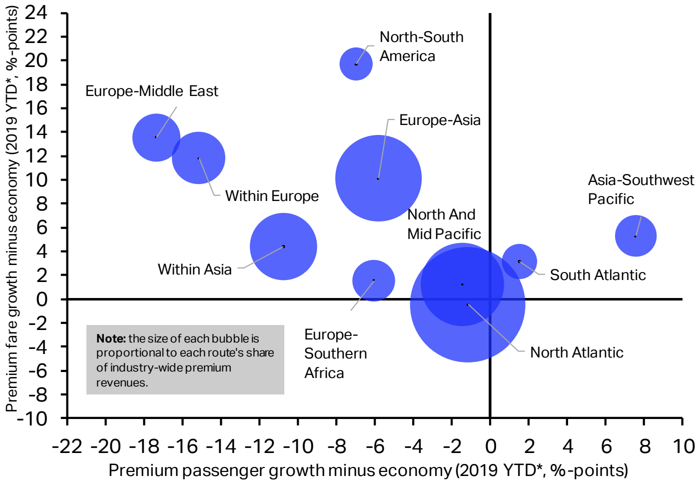
Premium and economy cabin passenger yields continue to diverge in early-2019



Sources: IATA Economics, IATA Travel Intelligence

- Global 'base fare' passenger yields (i.e. excluding surcharges and the revenue that airlines generate from ancillary services) started the year on a soft note, falling by 0.5% in month-on-month terms after a short-lived improvement in December and are currently ~4% down vs January 2018.
- The story is more positive for premium cabin, where yields ticked up modestly in January. That said, they remain 0.4% below their level of a year ago.
- The gap between the premium and economy cabin yields continues to widen in 2019. This reflects the fact that premium-class demand is generally less price-sensitive than the economy counterpart, which allows carriers to better offset higher operating costs.

Strong demand for premium cabin in the Asia-Southwest Pacific market



Sources: IATA Economics, DIIO

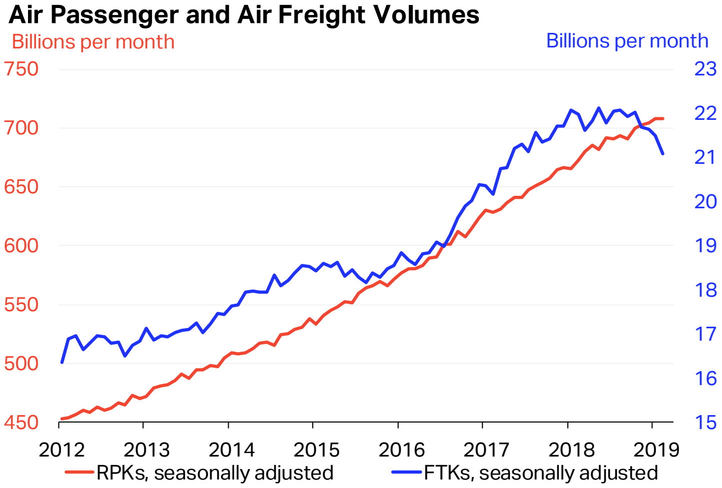
*Up to January 2019

- Premium-class passengers represented 5.1% of the total number of international origin-destination traffic in January 2019, down from 5.3% observed a year ago.
- In terms of revenue, premium-class passengers accounted for 30% of total international passenger revenues, up a modest 0.3ppt compared to the outcome seen in January 2018.
- As usual, the performance outcome was mixed across the key markets in January. Premium passenger growth has outperformed its economy counterpart most notably on the smaller Asia-Southwest Pacific and South Atlantic markets. By contrast, premium class lagged behind its economy counterpart in Europe-Middle East and Within Europe.

Demand

Demand softened on a passenger side and fell further for air freight

Air Passenger and Air Freight Volumes



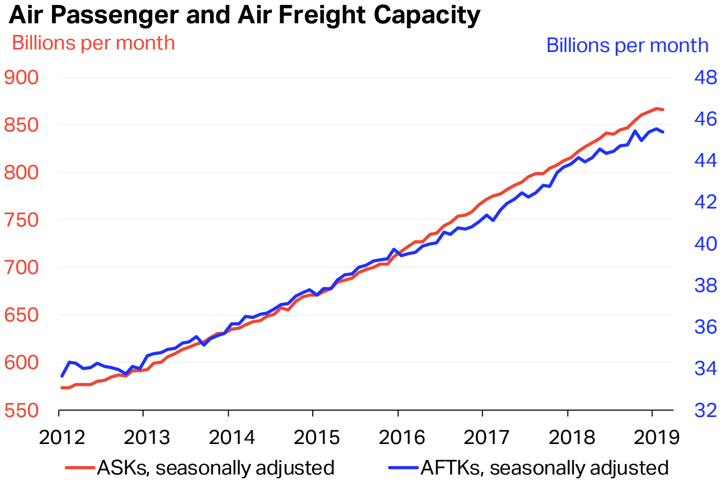
Source: IATA Monthly Statistics

- Industry-wide revenue passenger kilometers (RPKs) slowed moderately in February, to 5.3% year-on-year, following the brisk but short-lived uptick to 6.5% last month. Although trending upwards, the seasonally adjusted RPK trend has clearly eased recently; indeed, the annualized rate of growth was around 4.5% over the past 6 months, down from 8% over the first half of 2018.
- In February, industry-wide freight tonne kilometres (FTKs) were 4.7% below their level of a year ago; the slowest annual rate of growth in three years. In seasonally-adjusted (SA) terms, the level of FTKs has fallen by around 4.5% over the past six months, following a period of relative stability.

Capacity

Passenger capacity moves in line with demand, not so for freight

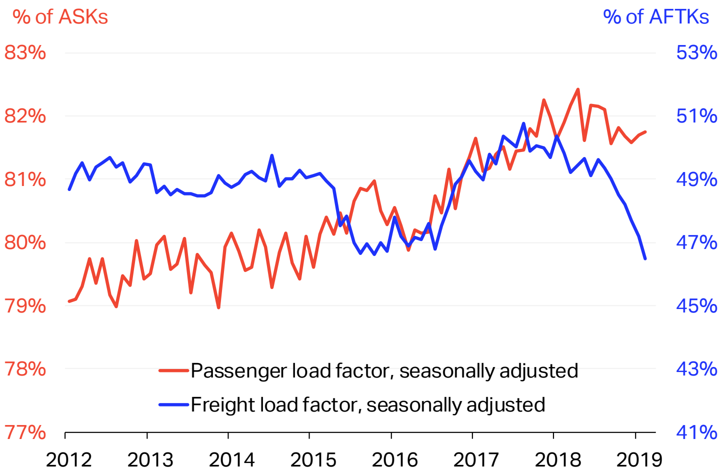
Air Passenger and Air Freight Capacity



Source: IATA Monthly Statistics

- Industry-wide available seat kilometres (ASKs) grew by 5.4% year-on-year in February, moving broadly in line with the pace of industry-wide RPKs.
- Seasonally adjusted (SA) passenger capacity has been trending upwards faster than demand for some time. Capacity has now risen at an annualized rate of around 5.2% over the past six months compared to ~4.5% for the demand over the same period.
- On a freight side, industry-wide capacity, measured by available freight tonne kilometres (AFTKs), increased by a moderate 2.7% year-on-year in February, which represents the slowest rate of annual growth since February 2017.

Load factor softened in year-on-year terms on both passenger and freight side



Source: IATA Monthly Statistics

- The passenger load factor (PLF) softened compared with its level of a year ago, but remains elevated, at 80.6% this month – only marginally below last year's record high for February, of 80.7%. Although the seasonally adjusted load factor ticked up modestly, the key takeaway remains that it has been trending downwards since early-2018.
- For freight, the load factor (FLF) continues to trend sharply downwards in seasonally adjusted terms and is currently at the levels last seen in the period that followed the global financial crisis. In annual terms, the FLF was 3.5ppt lower than its level a year ago.

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