Airlines Financial Monitor

October-November 2019

Key points

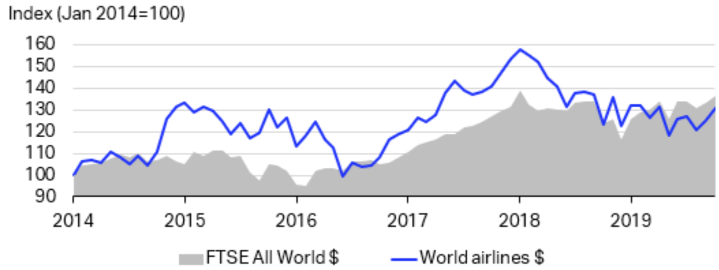
- The Q3 2019 airline financial data point to an improvement in industry-wide financial performance on the back of a stronger outcome in North America. However, EBIT margins moderated in both the Europe and Asia Pacific regions.
- Global airline share prices moved up, in line with the global equities index in November, despite the strong outperformance of European airlines. Nonetheless, the year to date performance of the global airline index continues to lag the overall market.
- Global passenger yields ticked up in October, reflecting modest improvements in both economy and premium class yields. Brent crude oil and jet fuel prices were relatively steady in November.
- In seasonally adjusted terms, air passenger demand maintained its moderate growth trend while freight demand has stabilized. Both passenger and freight capacity growth rates eased in October.

Financial indicators

European airlines performance driving the global airline index

Airline Share Prices

US$ indices (Jan 2014=100)	Index Nov 29th	% change on one month	one year	start of year
World airlines	**133.7**	**+2.4%**	**-1.4%**	**+8.9%**
Asia Pacific airlines	107.1	+0.9%	-5.8%	-3.4%
European airlines	106.7	+7.5%	-1.8%	+4.0%
North American airlines	171.8	+1.8%	-6.3%	+12.3%
FTSE All World $	**139.8**	**+2.3%**	**+11.3%**	**+19.9%**



Source: Thomson Reuters Datastream

- The global airline equity index increased by 2.4% in November, in line with global equities overall. Nevertheless, the year-to-date performance of airlines (up ~9%) remains well below that of the broader equities market (up ~20%).
- For the 3rd consecutive month, European airlines (+7.5%) outperformed the other regions. The North American airline index (up 1.8%) lagged the wider equity market in November, as cost pressures and the capacity outlook contributed to investor concerns. The uncertainty around US-China trade relations and the disrupted operations in Hong Kong both weighed on the Asia Pacific index this month, which rose by a subdued 0.9%.

Latest Q3 2019 airline financial results indicate an improvement in profit margins

Airline Financial Results

Number of airlines in sample	Regions	Q3 2018 EBIT margin[1]	Q3 2018 Net post-tax profit[2]	Q3 2019 EBIT margin[1]	Q3 2019 Net post-tax profit[2]
14	North America	11.8%	4,295	13.5%	4,982
21	Asia-Pacific	8.0%	925	6.9%	746
11	Europe	17.5%	6,083	17.0%	5,615
8	Latin America	6.0%	38	11.0%	25
5	Others	12.6%	172	14.5%	200
59	**Sample total**	**12.7%**	**11,513**	**13.2%**	**11,568**

[1]% of revenues [2]US$ million
Sources: The Airline Analyst, IATA

- Airline financial data for Q3 2019 indicate an improvement in industry-wide profit margins, due almost entirely to the solid performance of Nth American airlines. Airlines in this region have benefitted from robust travel demand and, notwithstanding rising non-fuel costs, a healthy domestic economic backdrop.
- On the other hand, the EBIT margin in Europe weakened as operating expenses – driven by fuel and maintenance costs – increased at a faster pace than revenues. Similarly, margins in Asia-Pacific deteriorated as the intense competition and the various disruptions noted above put pressure on yields. Looking forward, although rising capacity in 2020 may be a challenge in some regions, low fuel prices together with a moderate improvement in global economic growth are expected to support airline financials.

Industry-wide free cash flow generation is higher compared to a year ago

Airline Cash Flow[1]

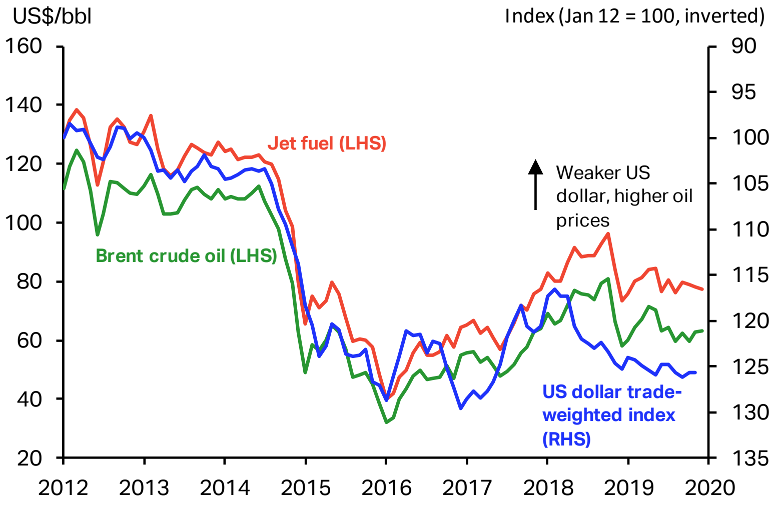
Number of airlines in sample	Regions	Q3 2018 Net cash flow[2]	Q3 2018 Capex	Q3 2018 Free cash flow	Q3 2019 Net cash flow[2]	Q3 2019 Capex	Q3 2019 Free cash flow
14	North America	9.5%	9.1%	0.4%	12.9%	8.7%	4.2%
17	Asia-Pacific	12.7%	13.4%	-0.7%	12.1%	10.9%	1.2%
9	Europe	6.5%	11.0%	-4.6%	12.9%	11.4%	1.5%
6	Latin America	6.3%	7.7%	-1.3%	12.4%	8.5%	3.9%
3	Others	9.2%	11.3%	-2.1%	20.5%	9.5%	11.0%
49	**Sample total**	**9.2%**	**10.4%**	**-1.2%**	**12.8%**	**9.8%**	**3.0%**

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

- Industry-wide free cash flow (FCF) in Q3 2019 is stronger than a year ago, with improvement spread across regions. Generally speaking, slightly lower capital spending together with higher net cash flow from operations supported the improved outcome.
- North American airlines continue to lead the other regions in terms of FCF performance. The European carriers showed a strong turnaround vs a year ago, driven by higher cash flow generation from operating activities. Latin America also showed a marked improvement, as the increase in cash flow outweighed a rise in capital spending – however, this improvement is not widespread across the region. For airlines in Asia Pacific, controlled capital spending balanced the impact of weaker bottom-line figures.

Fuel costs

Brent oil inched up, while jet fuel price remains stable

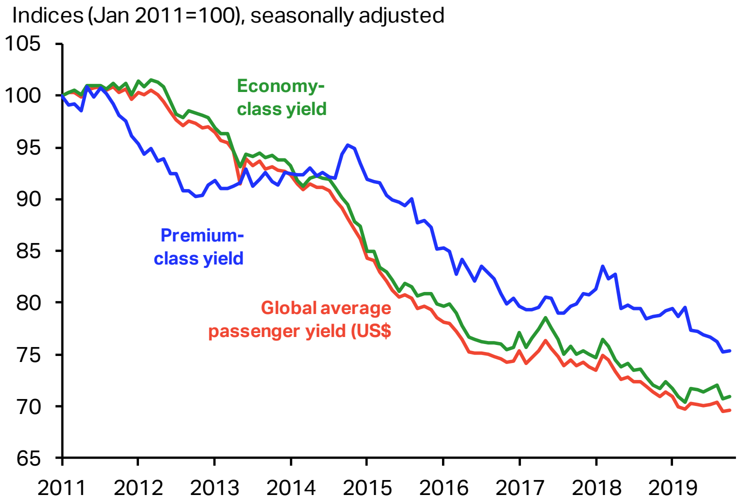


Sources: Platts, Thomson Reuters Datastream, as of December 10th

- Brent crude oil and jet fuel prices were both relatively stable in November. Concerns around the prospects for world trade and global economic activity were broadly balanced by the OPEC+ group of countries continuing their production cuts.
- At the time of writing this report, the price of Brent crude oil hovers around US$64/bbl and the jet fuel price is at US$78/bbl.
- Looking forward, the U.S. Energy Information Administration and International Energy Agency have both lowered their 2020 oil-demand forecasts. Escalation in geopolitical tensions is still a key risk factor on the supply side for next year.

Yields and premium revenues

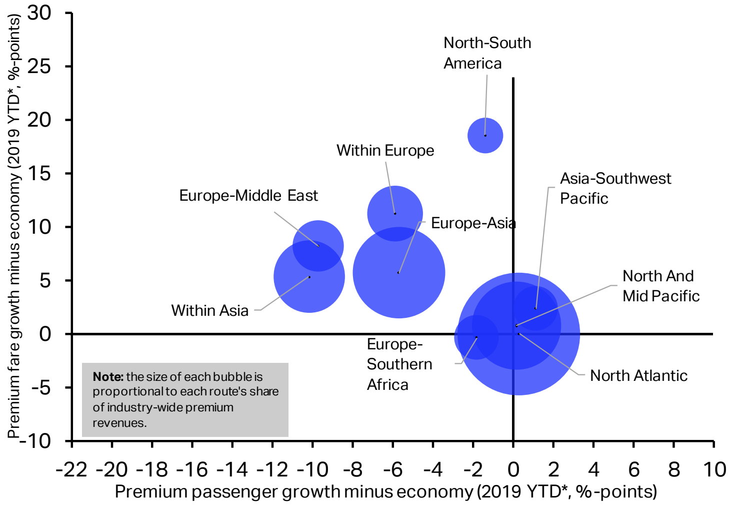
Global passenger yields ticked up amidst higher economy & premium class yields



Sources: IATA Economics, IATA Travel Intelligence

- Following a decline in September, global 'base' passenger yields (ie excluding surcharges and ancillary revenues) picked up in US dollar terms this month, driven by a modest improvement in both premium and economy class yields.
- A broadly sideways trend seems to have emerged for economy class yields in recent quarters. In contrast, premium class yields continue trending downwards – despite this month's uptick – and have fallen by 5% since the start of the year.
- As we have noted previously, moderate and patchy economic activity together with the planned capacity increases in some regions will likely put (downward) pressure on yields in the period ahead.

International premium traffic and revenues are in line with that of a year ago



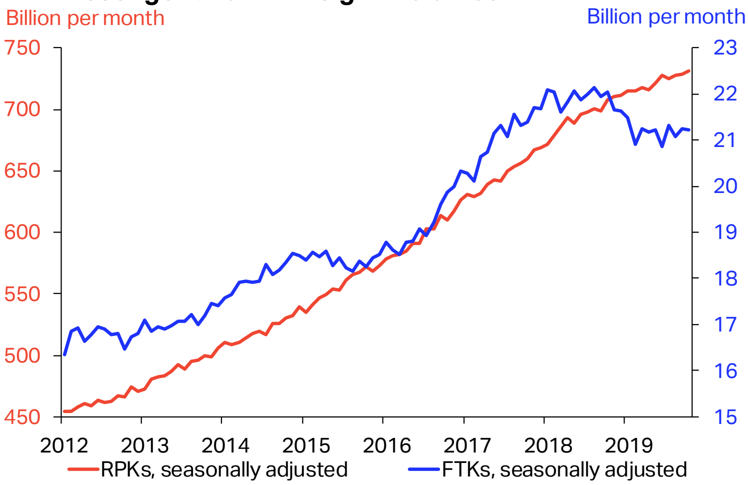
Sources: IATA Economics, DIIO *Up to September 2019

- Premium-class passengers accounted for 5.0% of total international origin-destination traffic in the first three quarters of 2019. This proportion was marginally lower (down 0.1ppt) compared to the same period a year ago. In terms of revenue, the share of premium-class passengers improved by 0.5 ppt to 30.1% of total international revenues.
- In September (latest available data), weakness in the global economy and uncertainties related to world trade continue to weigh on business travel in particular. Premium passenger traffic growth outpaced its economy counterpart only in three international markets, the North Atlantic, Asia-Southwest Pacific, and North-Mid Pacific. On the revenue side, the largest outperformance of premium fares (vs economy) has been in the Nth-Sth America and Within Europe markets.

Demand

Passenger traffic continued its modest growth, while cargo volumes stabilized

Air Passenger and Air Freight Volumes



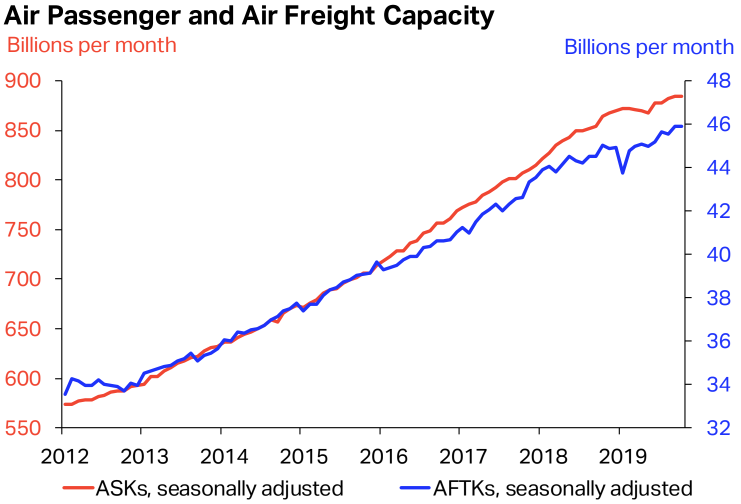
Source: IATA Monthly Statistics

- The moderate upward trend in seasonally adjusted (SA) revenue passenger kilometres (RPKs) remained intact in October. SA RPKs have been rising at a 3.7% annualized rate since Q2 2018. Our latest forecasts point to a continuation in the moderate growth trend in 2020, with RPKs set to increase by 4.1% for the year as a whole.
- On the cargo side, recent monthly SA freight tonne kilometres (FTK) outcomes indicate stability in cargo volumes, following a sharp decline in 2018 and early-2019. Developments in world trade remain a key risk to the outlook, but we expect to see a modest rebound in FTKs in 2020, with growth of 2.0% after a decline of more than 3% this year.

Capacity

Both passenger and freight capacity eased in October

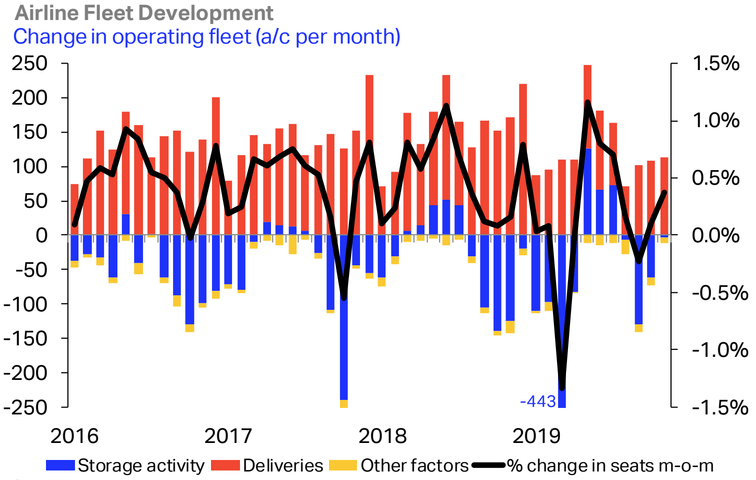
Air Passenger and Air Freight Capacity



Source: IATA Monthly Statistics

- Growth in SA industry-wide available seat kilometres (ASKs) started the last quarter of the year with a slight moderation. In year-on-year terms, the capacity growth rate eased to 2.3%, although there is considerable variation at the regional level.
- Similarly, growth in available freight tonne kilometres (AFTKs) posted a modest dip in October. Year-on-year industry-wide growth is currently 2.2%, although capacity is growing at a double-digit pace for the African airlines.

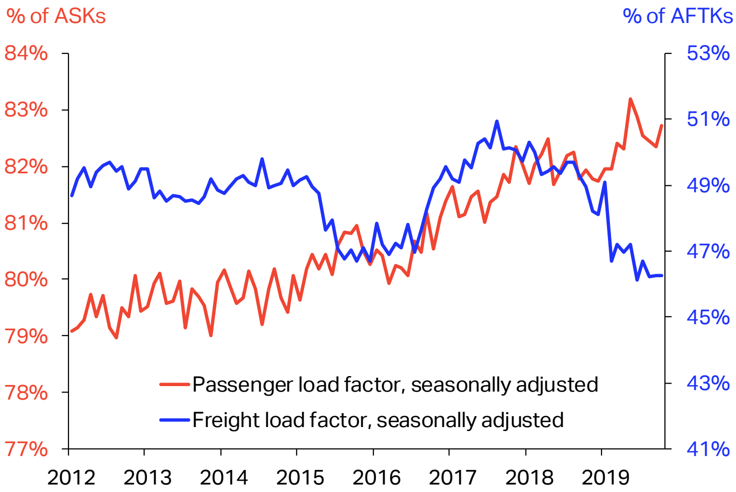
Storage activity diminished in November, number of seats up 0.4%



Source: Ascend

- Aircraft deliveries maintained a similar pace in November, while returns to storage were limited; 114 new aircraft were delivered, with only 3 returned to storage. As a result, the number of seats in the global airline fleet picked up by 0.4% this month.
- In annual terms, the number of seats increased by 2.6%, a pace broadly in line with the outcomes observed over the past six months but well below the growth rate in November 2018 (6.1%).
- Overall, the number of aircraft delivered year-to-date remains lower than that seen over the same period last year (1124 vs 1508).

Passenger load factor moved up this month, freight load factor steady



Source: IATA Monthly Statistics

- The seasonally adjusted passenger load factor improved to 82.7% in October, up from 82.3% in September. The passenger load factor remains around historically high levels.
- Despite some stabilization this month, the seasonally adjusted freight load factor remains well below the levels observed throughout 2017 and 2018 (down 2.7ppt vs November 2018). Airlines have slowed the pace of capacity growth, but have been unable to match the weakness in air cargo demand.

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20th December 2019

Get the data

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www.iata.org/monthly-traffic-statistics

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