AIRLINES FINANCIAL MONITOR

KEY POINTS

OCTOBER 2017 – NOVEMBER 2017

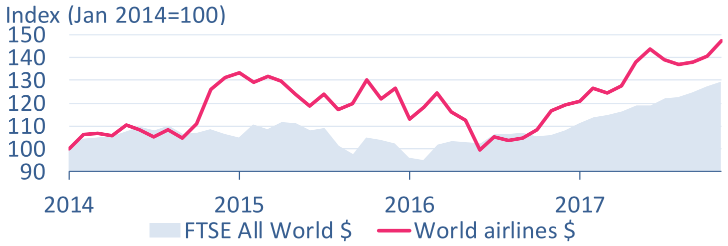
- The latest financial data show that the industry-wide profit margin remained broadly unchanged in Q3 compared to a year ago, at a robust 15.7% of revenues. All regions except North America posted annual increases in profitability.
- Underlying industry-wide passenger yields have trended broadly sideways over the past 12 months or so. An increase in the US dollar, as well as weather-related disruption, have both influenced recent yield developments.
- Global airline share prices increased by 4.6% in November – the biggest monthly gain since May – driven by a strong increase for North American airlines. Airline shares have outperformed the wider market over the past year.
- Oil prices rose to a 17-month high of more than US$64/bbl during November, in anticipation of the recent agreement by OPEC and Russia to extend oil production cuts until the end of next year.
- Once again, passenger and freight volumes both posted robust year-on-year growth in October, but the seasonally-adjusted (SA) upward trends in each of the series have eased. The passenger load factor posted a record-high for the month of October (80.8%), while the SA freight load factor is maintaining levels last seen in late-2014.
- Despite an ongoing spread in performance at a route level, stronger global trade conditions are continuing to support premium-class demand on markets to, from, and within the key manufacturing region of Asia.

Financial indicators

A strong increase in global airline share prices in November, driven by the N.American index

Airline Share Prices

US$ indices (Jan 2014=100)	Index Nov 30th	% change on one month	% change on one year	% change on start of year
World airlines	**147.1**	**+4.6%**	**+26.3%**	**+23.5%**
Asia Pacific airlines	125.6	+3.9%	+29.1%	+33.5%
European airlines	141.9	+3.1%	+70.1%	+64.7%
North American airlines	174.7	+8.6%	+7.7%	+3.1%
FTSE All World $	**129.4**	**+1.8%**	**+22.3%**	**+19.7%**



Source: Thomson Reuters Datastream

- Global airline share prices rose by 4.6% in September – the biggest monthly gain since May. The increase was more than twice that seen in the global equity market over the same period, and global airline shares have outperformed the wider market by four percentage points over the past year.
- The increase in global airline share prices in November was driven by a strong 8.6% increase in the North American index, which mainly reflected a rally in the broader equity market towards the end of the month in anticipation of the tax reform plan.
- Meanwhile, European and Asia Pacific airline shares also both posted solid month-on-month increases for the second consecutive month (3.1% and 3.9%, respectively).

EBIT margin broadly unchanged in Q3 2017 from a year ago, at a robust 15.7%

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]
16	North America	17.2%	4,723	14.7%	5,208
22	Asia-Pacific	10.8%	1,988	11.3%	1,896
15	Europe	18.6%	6,449	19.7%	7,147
7	Latin America	7.5%	207	10.4%	519
3	Others	15.0%	155	15.0%	162
63	**Sample total**	**15.9%**	**13,522**	**15.7%**	**14,932**

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

Note: Includes half-year results of Easyjet and Flybe

Sources: The Airline Analyst, IATA

- The latest financial data indicate that the industry-wide EBIT margin was broadly unchanged in Q3 2017 from a year ago, at a robust 15.7%.
- All regions posted double-digit operating margins in the quarter, led by European carriers (19.7%), for whom the third-quarter is a seasonal peak month for profitability each year.
- In a sign that industry profitability is now stabilizing, every region except North America registered an increase in operating margin from a year ago.

Industry-wide free cash flows increase slightly in Q3, amid a mixed regional performance

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%
11	Asia-Pacific	11.5%	16.6%	-5.0%	11.4%	10.1%	1.2%
8	Europe	4.9%	8.2%	-3.3%	11.9%	7.2%	4.7%
4	Latin America	8.3%	5.6%	2.6%	14.2%	5.4%	8.8%
1	Others	3.4%	3.0%	0.5%	10.2%	4.3%	5.9%
39	**Sample total**	**10.6%**	**9.5%**	**1.2%**	**11.2%**	**9.8%**	**1.3%**

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

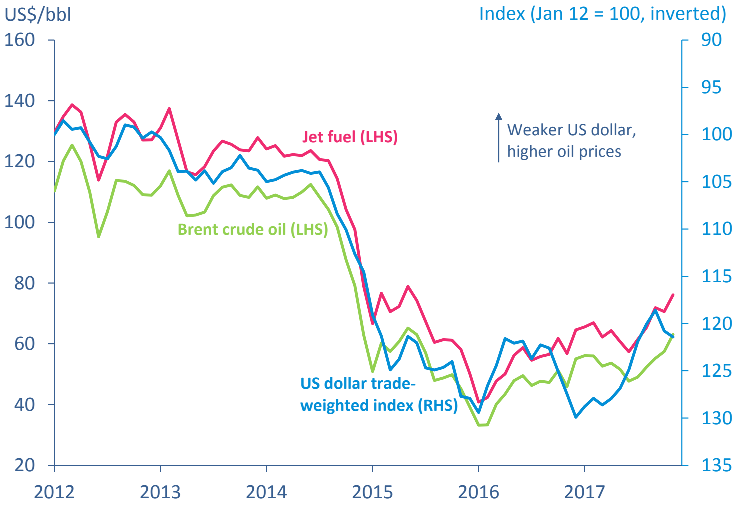
Note: Includes half-year results of Easyjet and Flybe

Sources: The Airline Analyst, IATA

- Industry-wide free cash flows (FCF) rose slightly to 1.3% of revenues in the latest sample of airlines for Q3 2017 compared to a year ago. This reflects a combination of a slight increase in both net cash flow from operations and capex (to, 11.2% and 9.8%, respectively).
- The sample totals mask a mixed performance at a regional level. Indeed, net cash flow rose strongly for airlines based in Europe and Latin America, but was broadly unchanged for airlines registered in Asia Pacific, and *fell* in the case of North America.
- Moreover, while the former group increased capex in Q3 as a proportion of revenues compared to a year ago, airlines in Asia Pacific invested less.

Fuel costs

Brent oil prices rose to a 17-month high of more than US$64/bbl during November

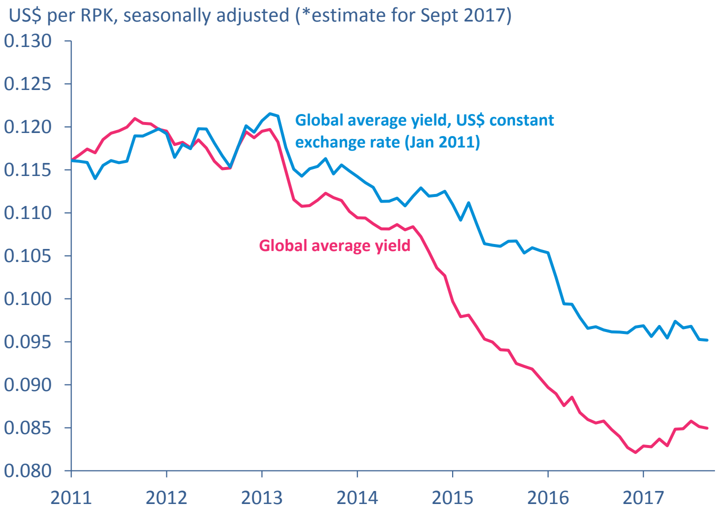


Sources: Platts, Thomson Reuters Datastream

- The Brent crude oil price rose to a 17-month high above US$64/bbl during November, in anticipation of the recent agreement by OPEC and Russia to extend oil production cuts until the end of next year. At the time of writing, the Brent crude oil price is currently around 15% higher than a year ago.
- As we have noted before, medium-term (supply-side) developments in oil prices will be driven by the net impact of lower supply from traditional producers and increasing supply from US tight-oil producers. One of the key issues facing the market at present is the extent to which higher oil prices might trigger an increase in US tight-oil production.
- The futures market is continuing to point to a modest decline in oil prices from current levels over the coming years, to ~US$58/bbl in late-2019.

Yields and premium revenues

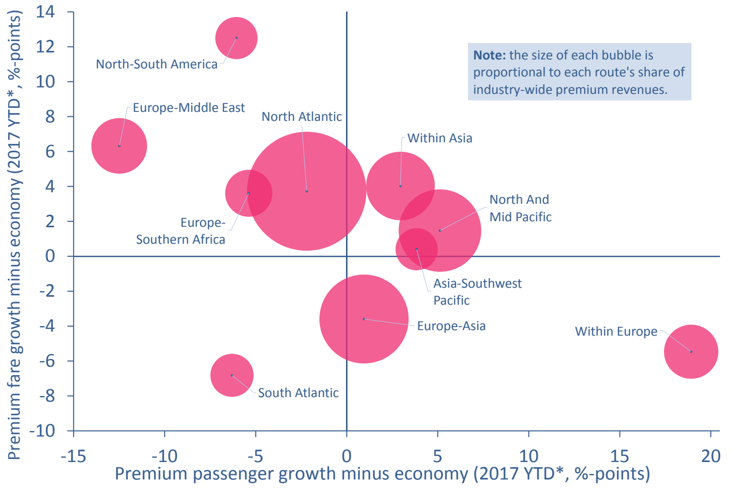
Having trended down in recent years, passenger yields are expected to rise modestly in 2018



Sources: IATA Economics, IATA PaxIS+, DIIO, Thomson Reuters Datastream

- The long-standing downward trend in passenger yields started to level off in mid-2016, in a reflection of the stronger global economic backdrop that emerged over the period, as well as upward pressure on some key input costs, including oil and labor.
- Indeed, our preferred measure of yields, which adjusts for movements in exchange rates that can create distortions in the data, has tracked broadly sideways over the past 12 months or so.
- An increase in the US dollar, as well as weather-related disruption in the Americas, have both been key influences on yields in recent months. Against a backdrop of rising input costs and stronger economic conditions, passenger yields are expected to rise during 2018.

A wide spread in premium-class performance, alongside a stronger global trade backdrop

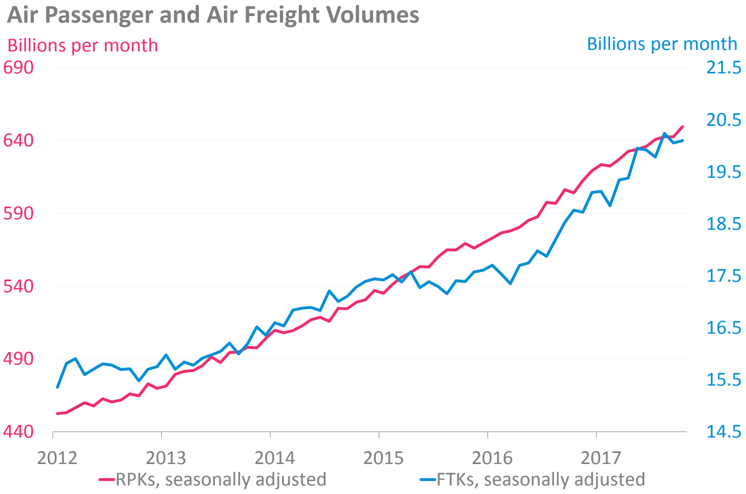


Sources: IATA Economics, DIIO *Latest data up to September 2017

- The share of O-D passengers flying in the premium-class cabin increased to 5.2% during the first nine months of 2017, from 5.1% in the same period a year ago. At the same time, premium's share of total international revenues rose to 26.0%, up from 25.4% a year ago.
- As we have noted before, stronger global trade conditions have helped to support premium passenger demand growth this year, particularly on markets to, from and within Asia. O-D premium travel within Europe has also done well, supported 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.

Demand

Robust annual growth in pax and freight volumes in Oct, but the upward trends have eased

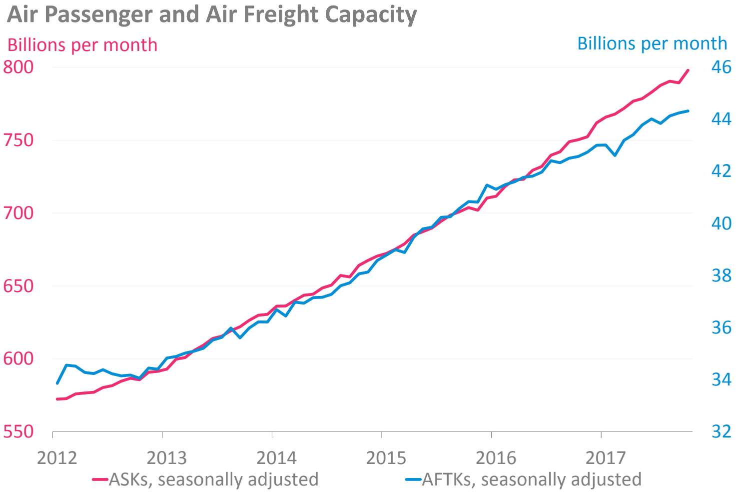


Source: IATA Monthly Statistics

- Year-on-year growth in industry-wide revenue passenger kilometres (RPKs) rose to a robust 7.2% in October, up from 6.0% the month before.
- As expected, passenger volumes recovered in October following the disruption caused by Hurricanes Irma and Maria in the Americas in September. However, the broader upward trend in SA RPKs has slowed over the course of 2017.
- Meanwhile, industry-wide freight tonne kilometres (FTKs) also grew by a robust 5.9% year-on-year in October – the first month of the traditional period of strong demand seen every Q4. However, similar to the case for RPKs, the upward trend in SA cargo volumes has clearly slowed over the past six months or so.

Capacity

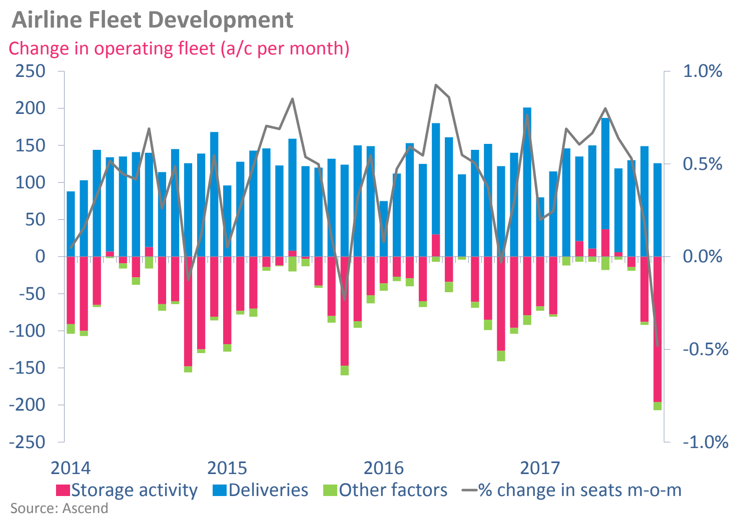
Passenger and freight capacity are both trending upwards broadly in line with demand



Source: IATA Monthly Statistics

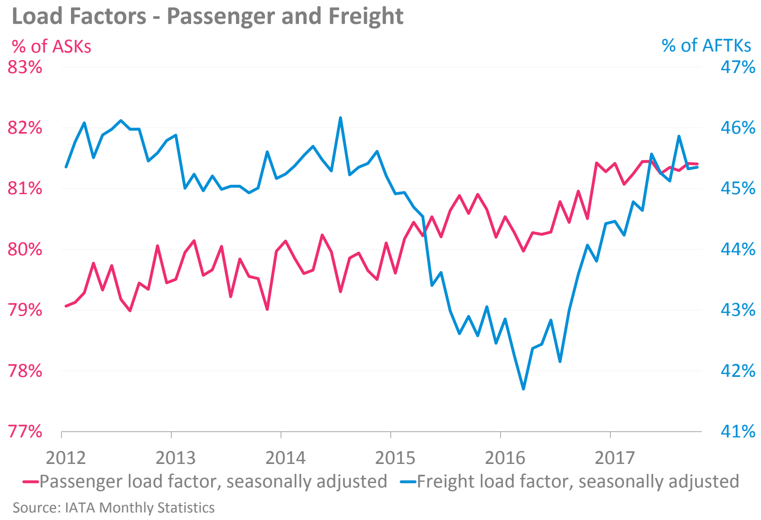
- Industry-wide available seat kilometres (ASKs) increased by 6.2% year-on-year in October. Having also been affected by Hurricanes Irma and Maria in the previous month, ASKs also recovered strongly in October.
- Available freight tonne kilometres (AFTKs) grew by 3.7% year-on-year in October – the 15th month in a row in which year-on-year capacity growth lagged behind that of demand. Industry anecdotes indicate ongoing tight supply conditions in the current period of strong demand. But freight capacity and demand are both currently trending upwards at a similar pace.

A month-on-month fall in in-service seats in October, driven by net storage activity



- The number of available seats in the global airline fleet fell by 0.5% in October compared to the previous month. As a result, the year-on-year growth rate slowed to 5.2% – its slowest rate since early-2016.
- 126 new aircraft were delivered in October, slightly ahead of the number of deliveries made in October (122).
- However, 285 aircraft were put into storage during the month, which was a significant increase from the 227 that went into storage a year ago. With just 89 aircraft coming out of storage, compared to 100 a year ago, net storage activity made a large negative contribution to the fleet.

Passenger load factor posts a record Oct-high, as SA freight loads maintain late-2014 levels



- The passenger load factor posted a record high for the month of October (80.8%, 0.8 percentage points higher than October 2016). In seasonally-adjusted terms, the passenger load factor remains elevated and very close to its all-time record high.
- Meanwhile, the industry-wide freight load factor in October was 1.0 percentage point higher than its level a year ago. Although the series is volatile in SA terms on a month-to-month basis, it is maintaining levels last seen in late-2014.

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