



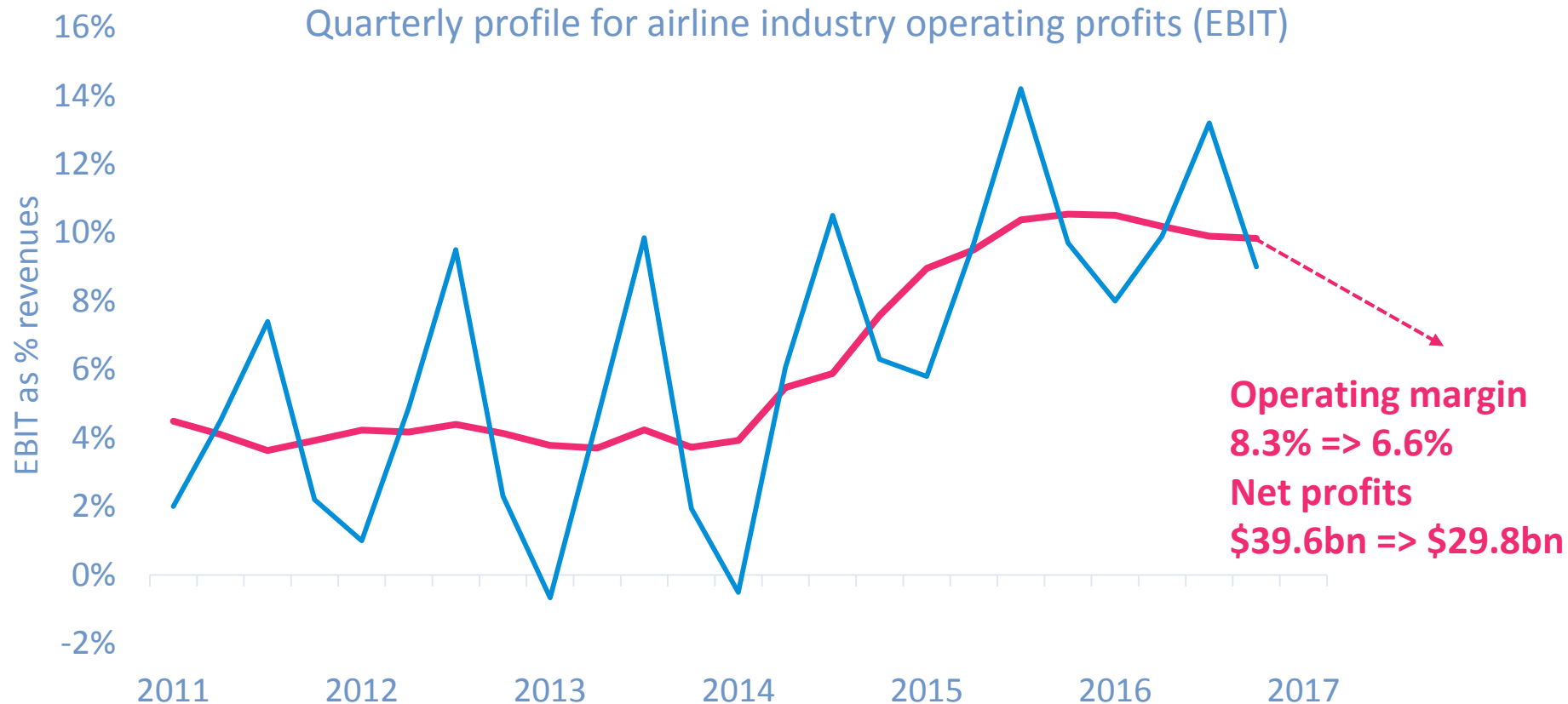
State of the airline industry

April 2017

Brian Pearce,
Chief Economist,
IATA

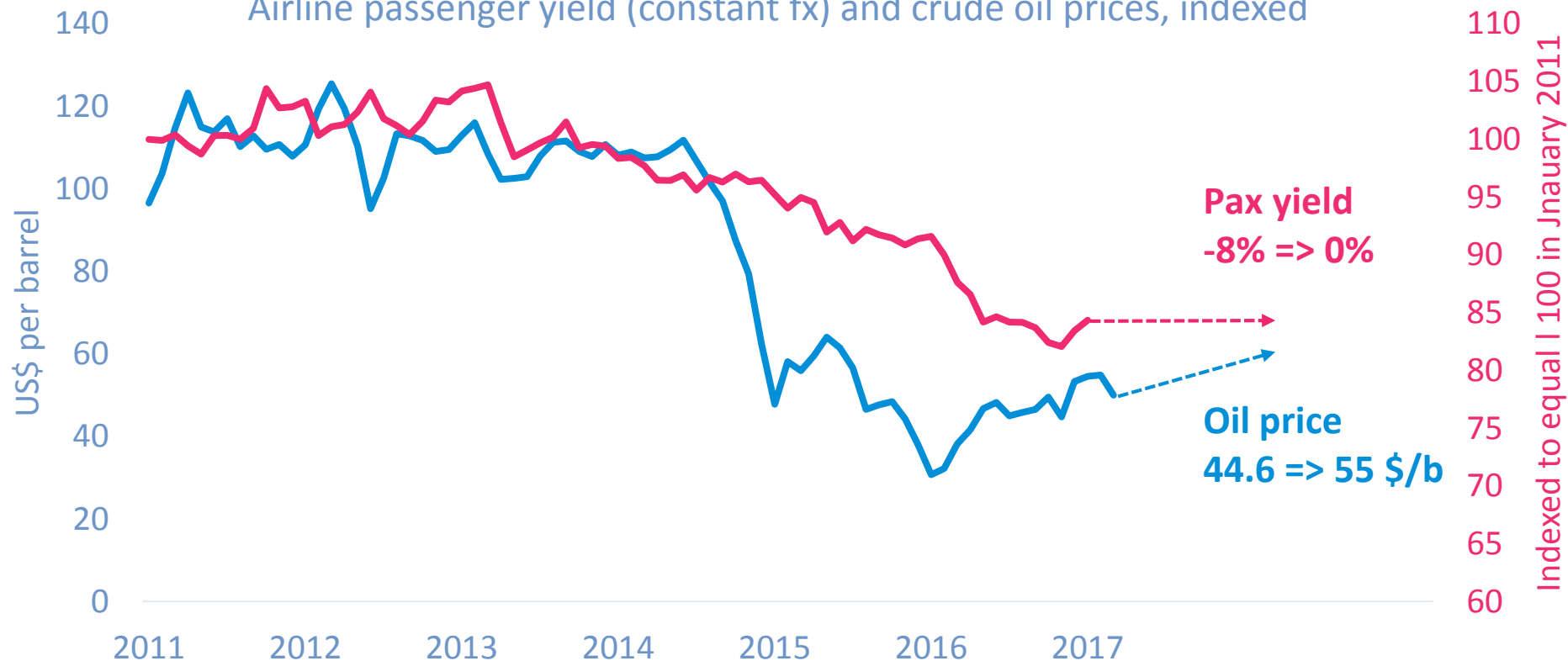
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Industry profitability peaked a year ago

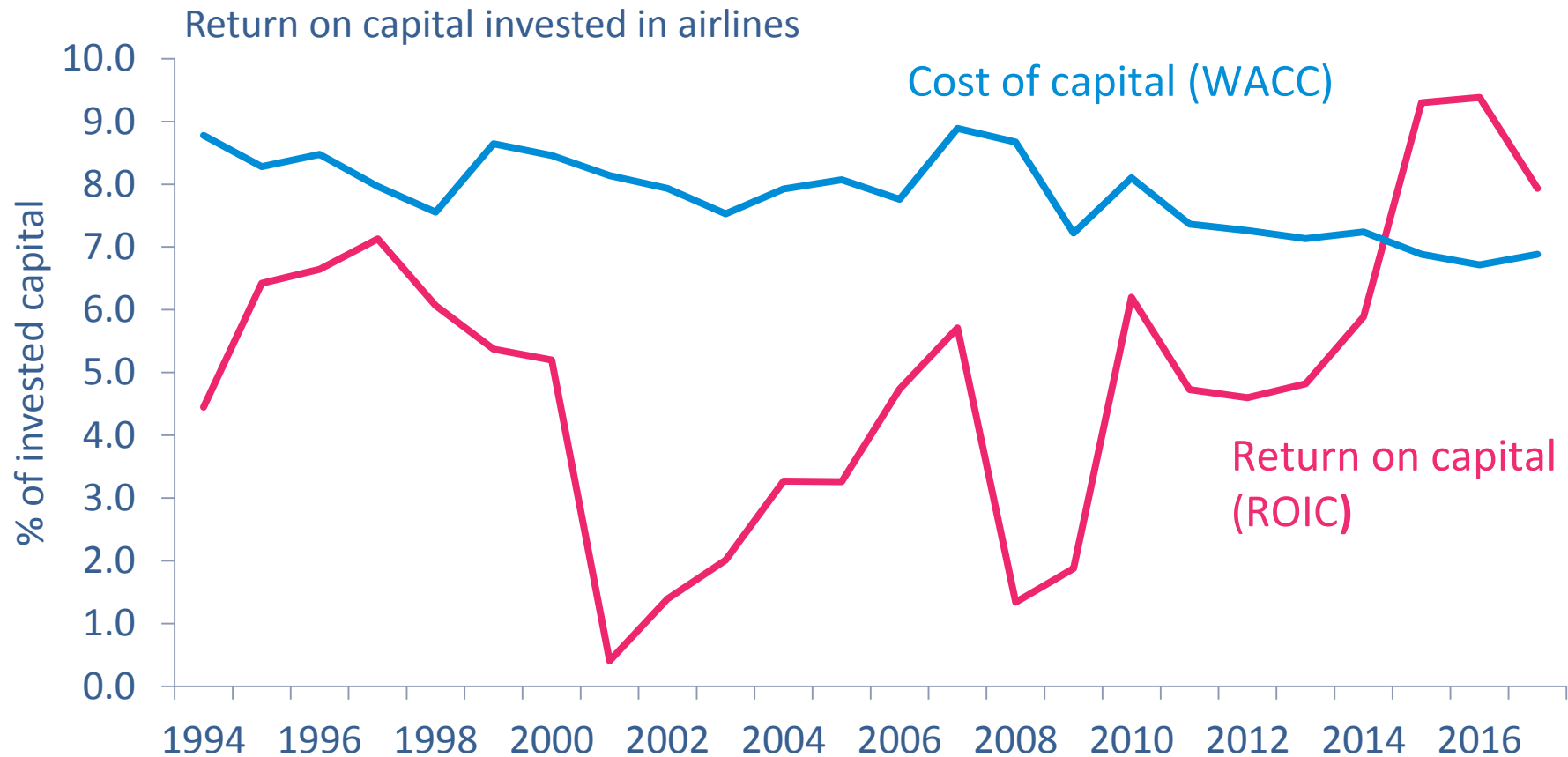


Profit margins are now being squeezed

Airline passenger yield (constant fx) and crude oil prices, indexed

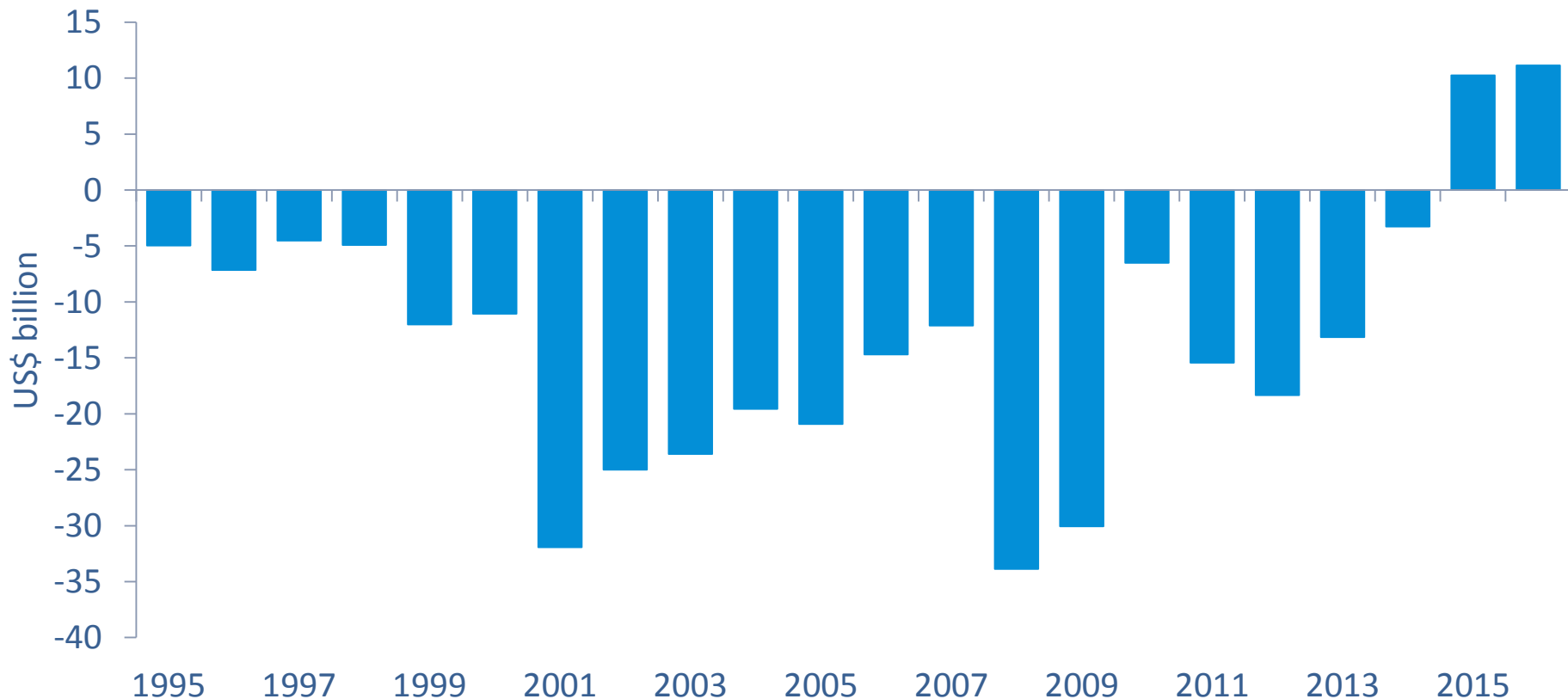


Return on capital is likely to be lower this year



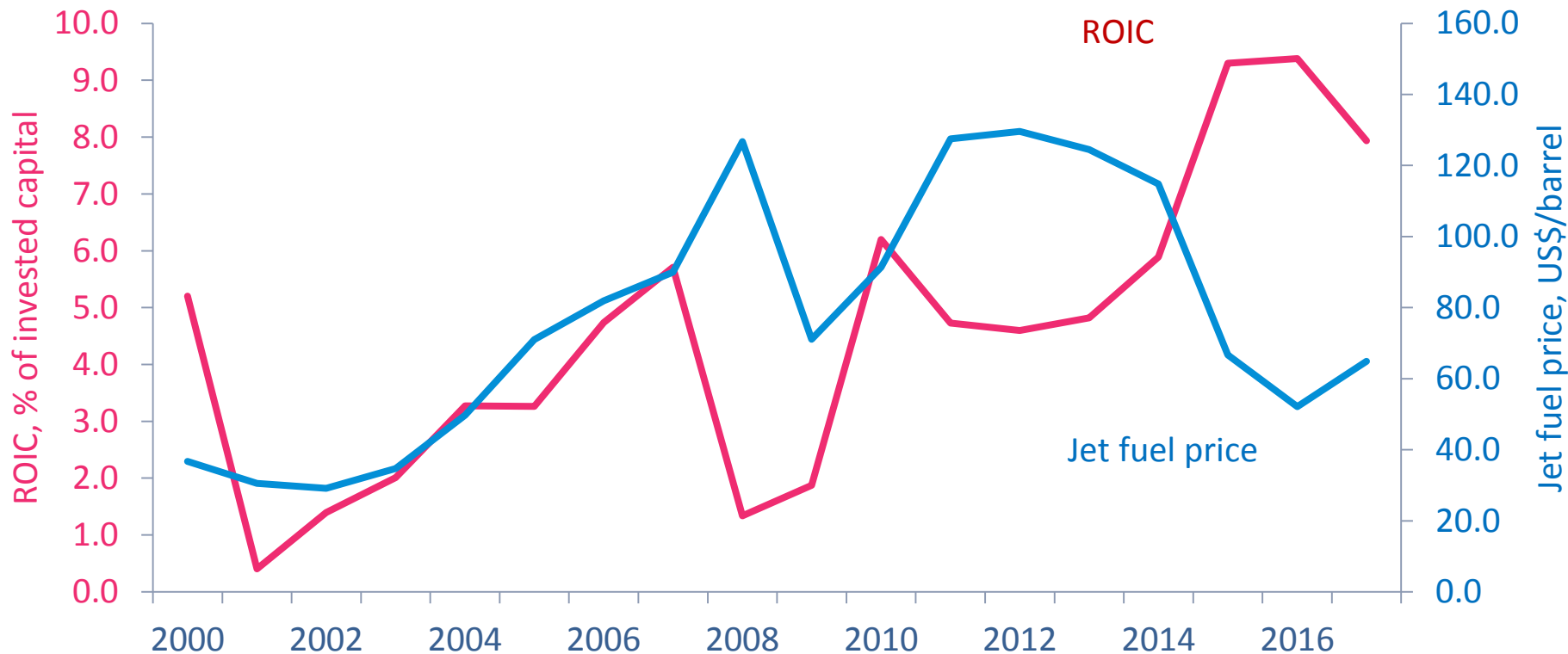
But investors should still see value created

Difference between investing in airlines and investing in similar assets elsewhere



Fuel prices were low but no simple impact on ROIC

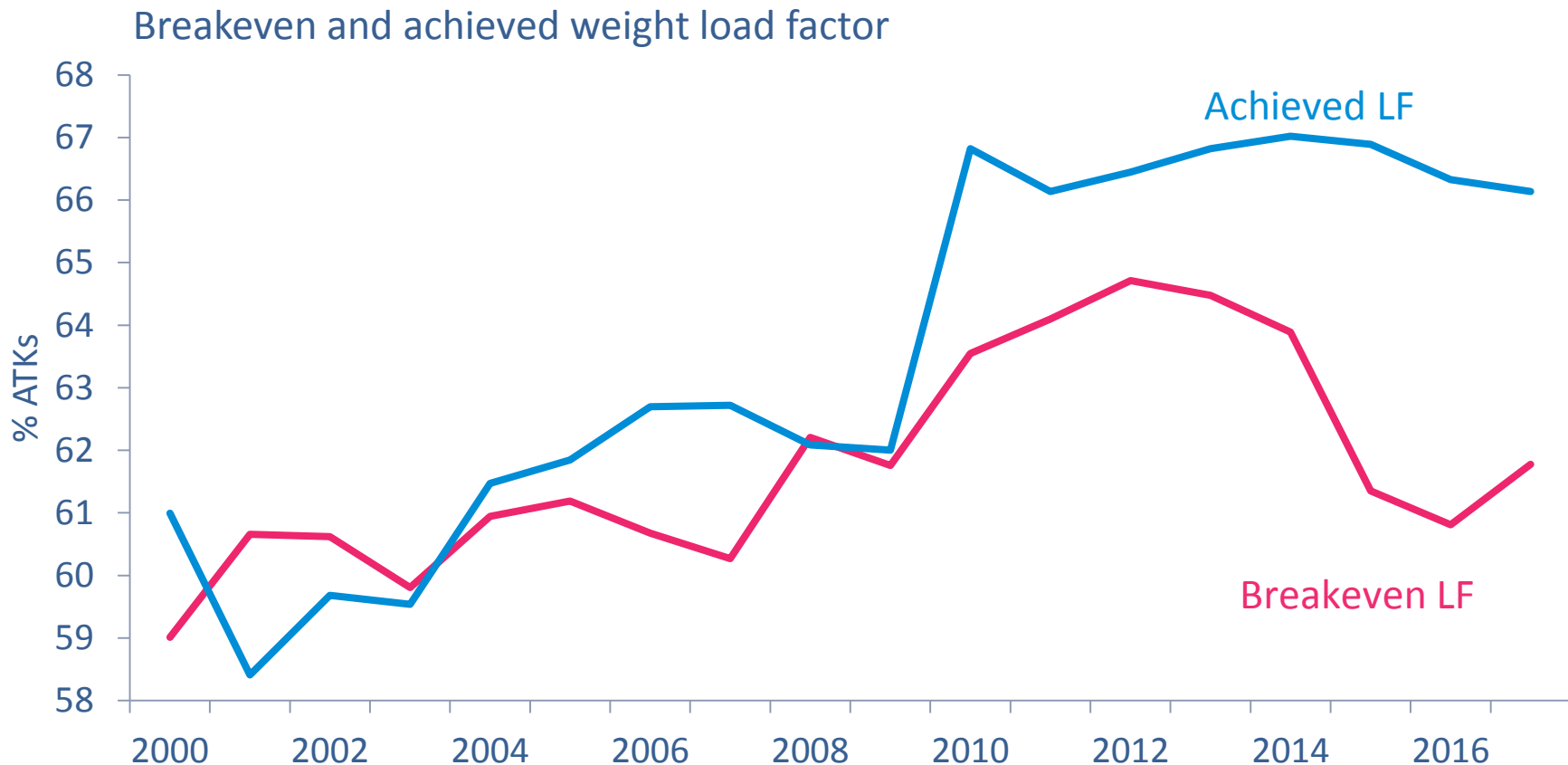
Airline industry ROIC and jet fuel prices



Source: IATA, Platts

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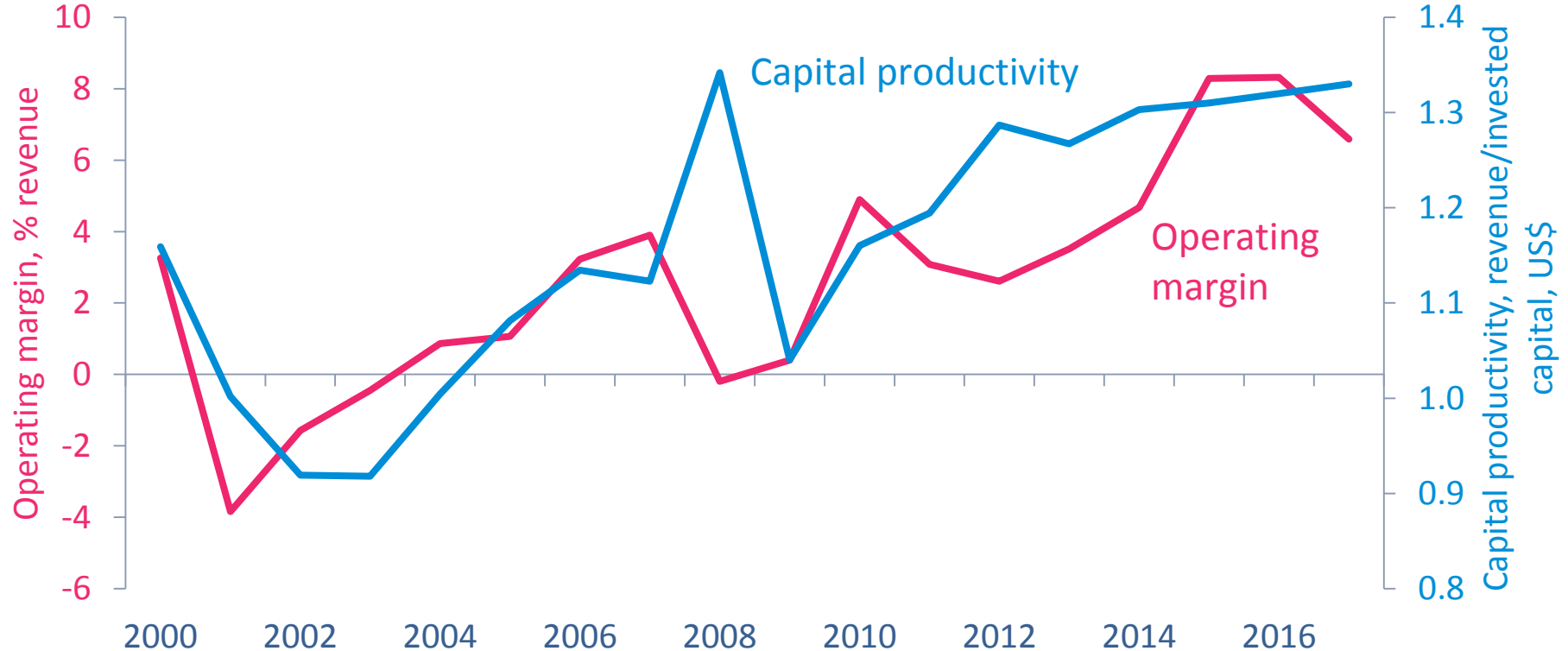
The emergence of this gap has driven better ROIC



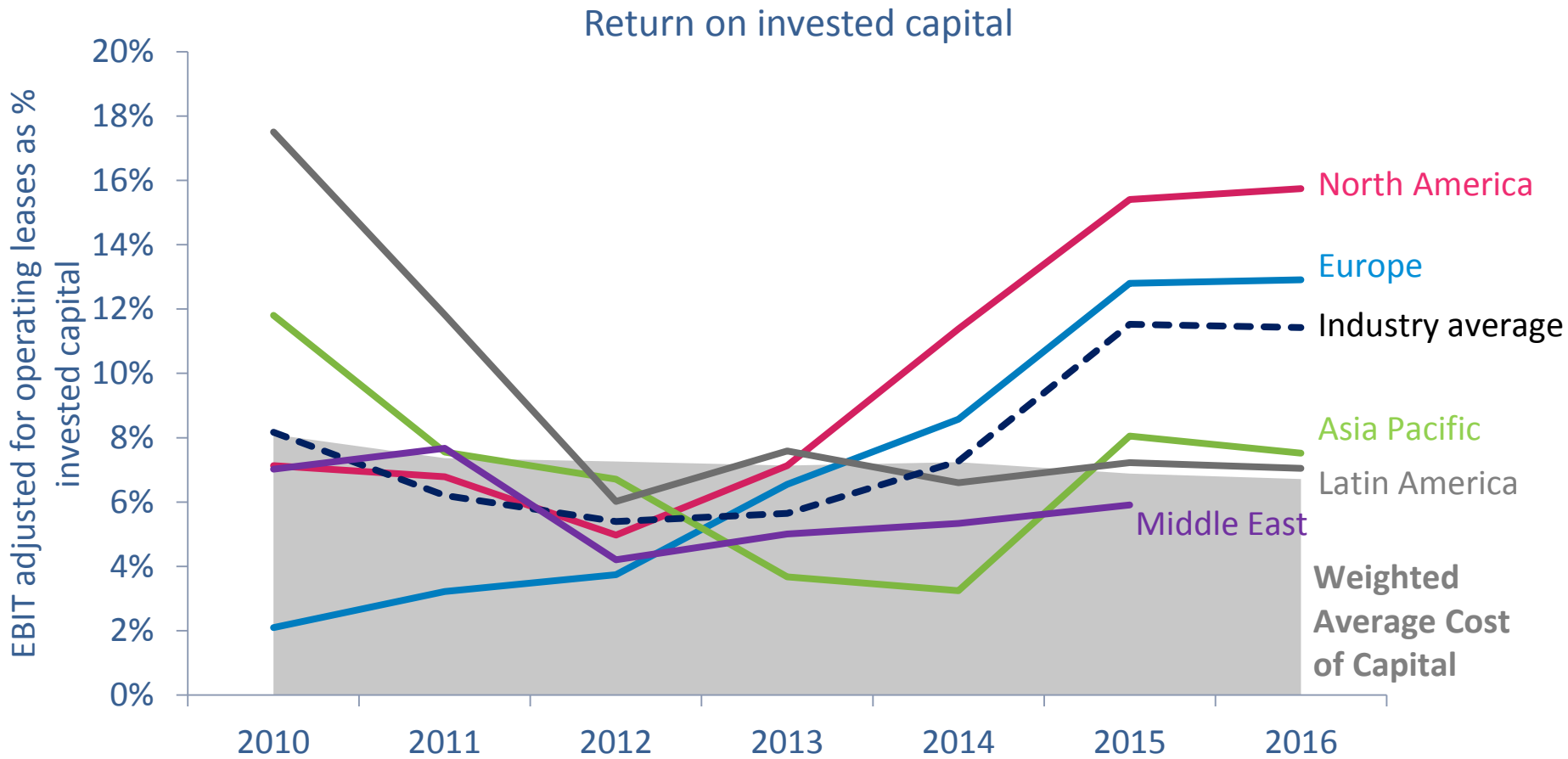
Source: IATA Economic Performance of the Airline Industry – end year 2016 report

Capital productivity matters as well as margins

Airlines' operating or EBIT margin and capital productivity

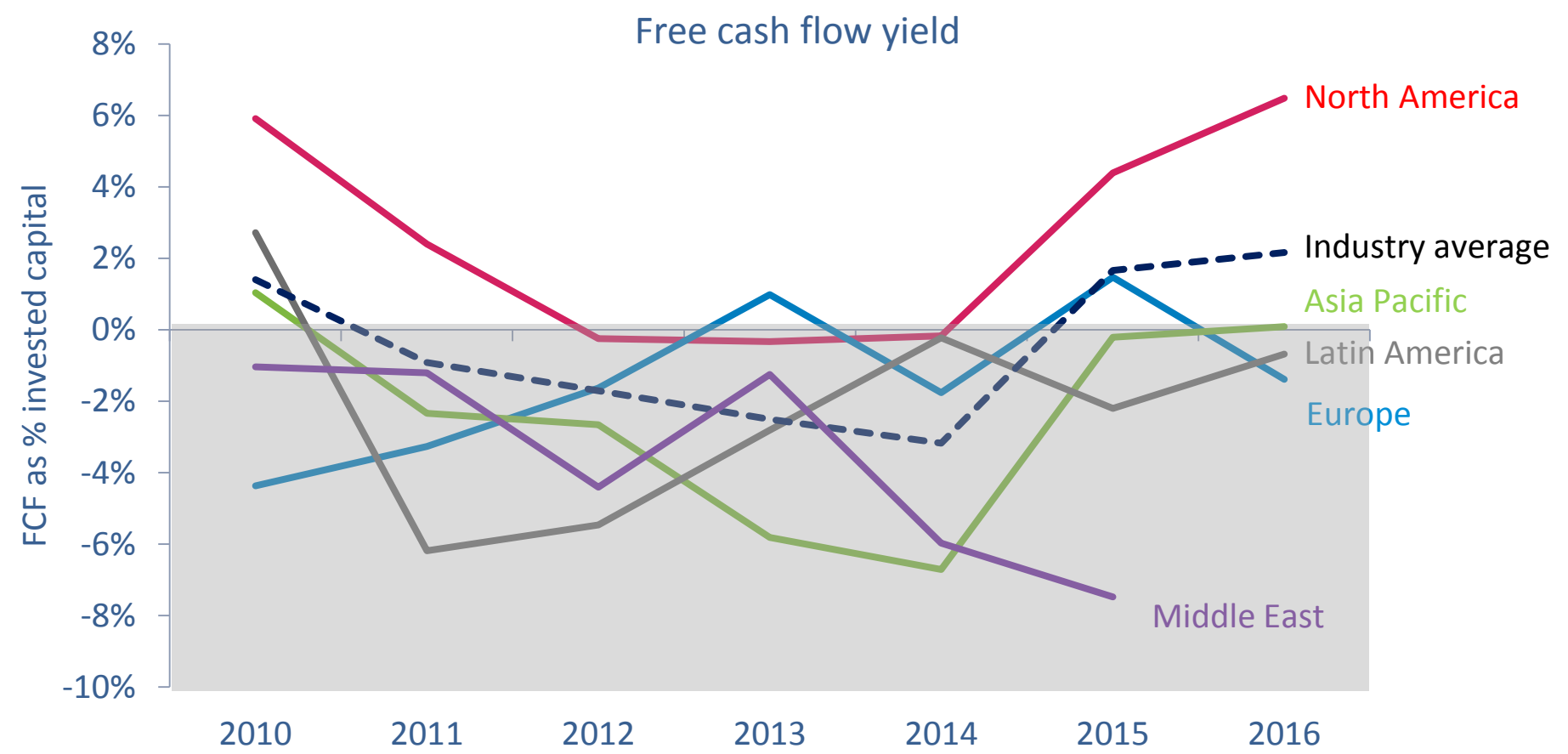


Asia Pacific airlines' ROIC lagging Europe and US



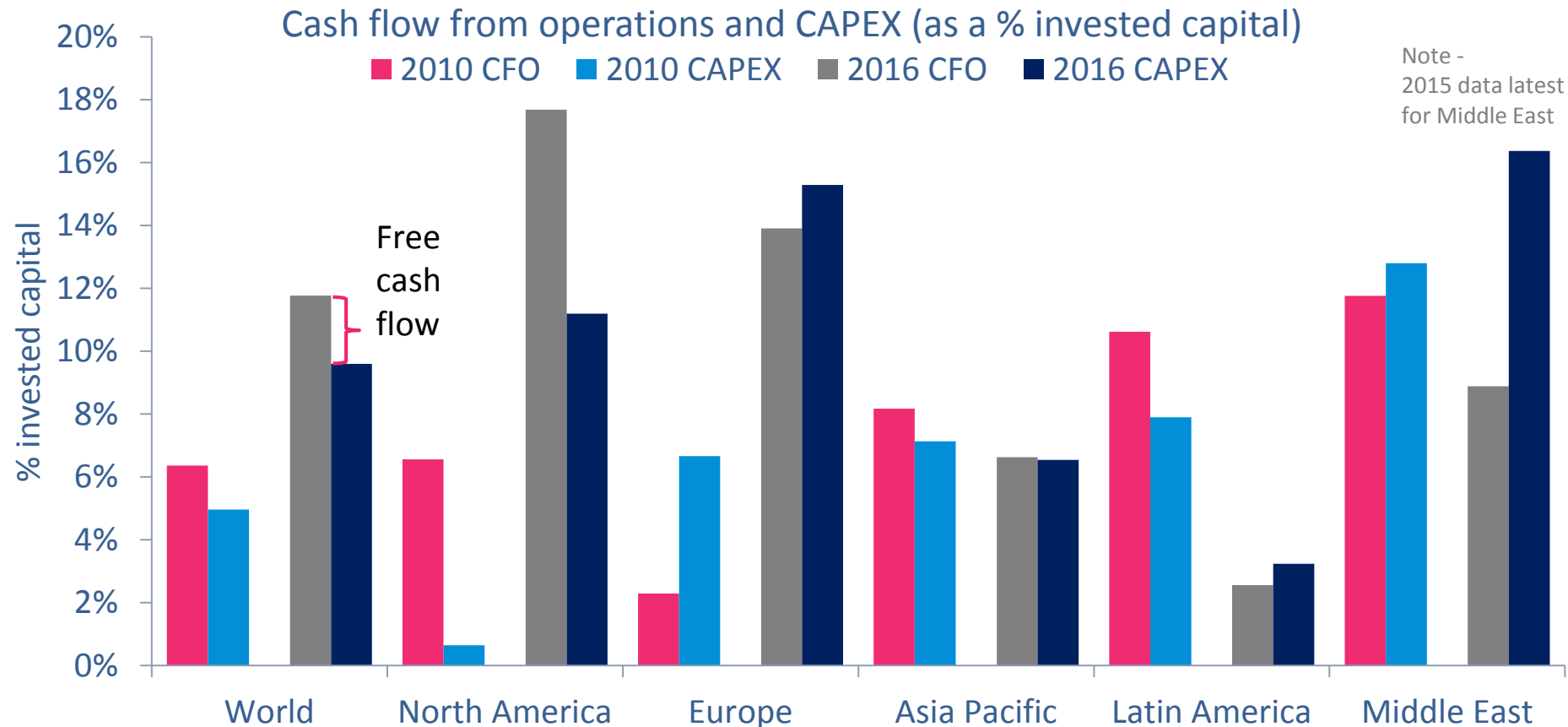
Source: IATA Economics using data from The Airline Analyst

Free Cash Flow yield just positive in Asia Pacific

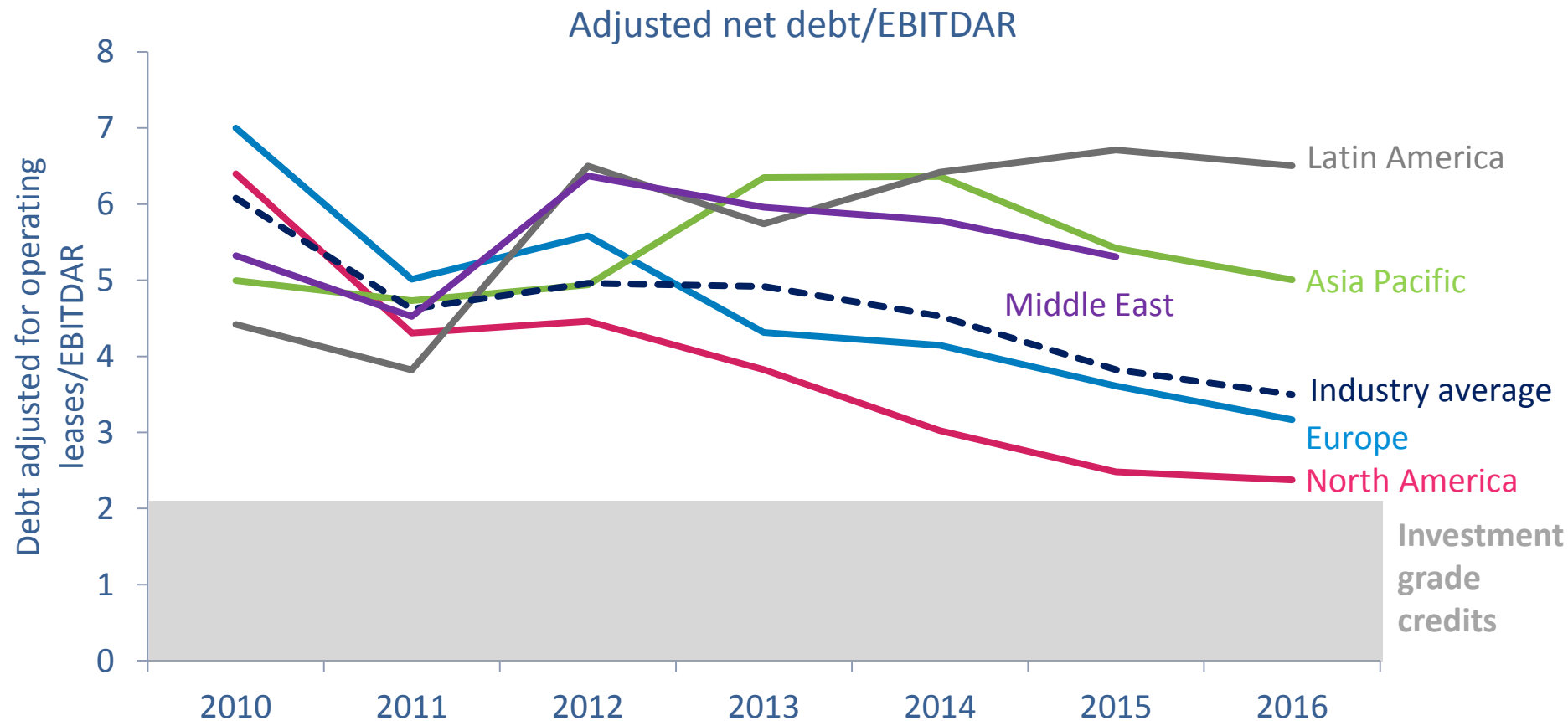


Source: IATA Economics using data from The Airline Analyst

Cash from operations and CAPEX have declined

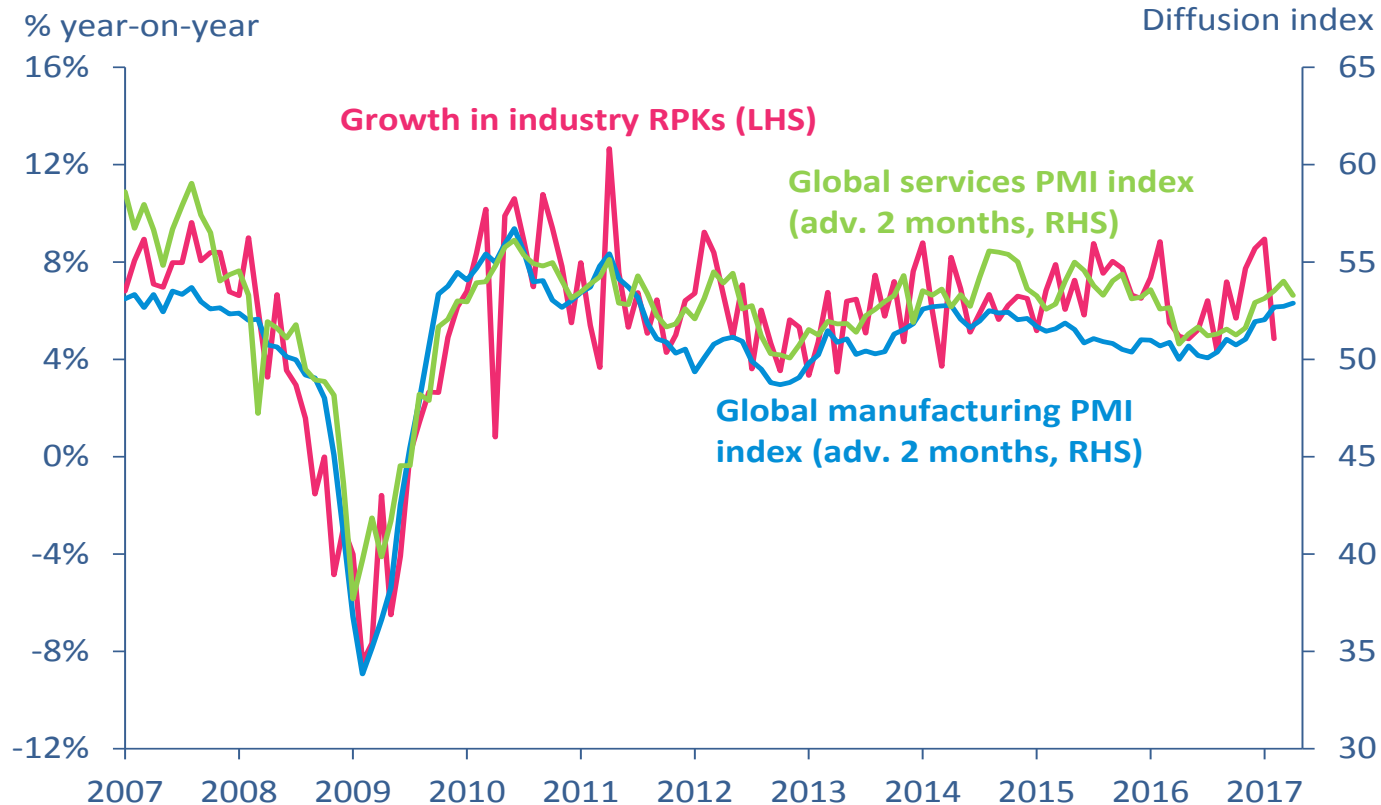


Balance sheets still highly leveraged in Asia Pacific



Source: IATA Economics using data from The Airline Analyst

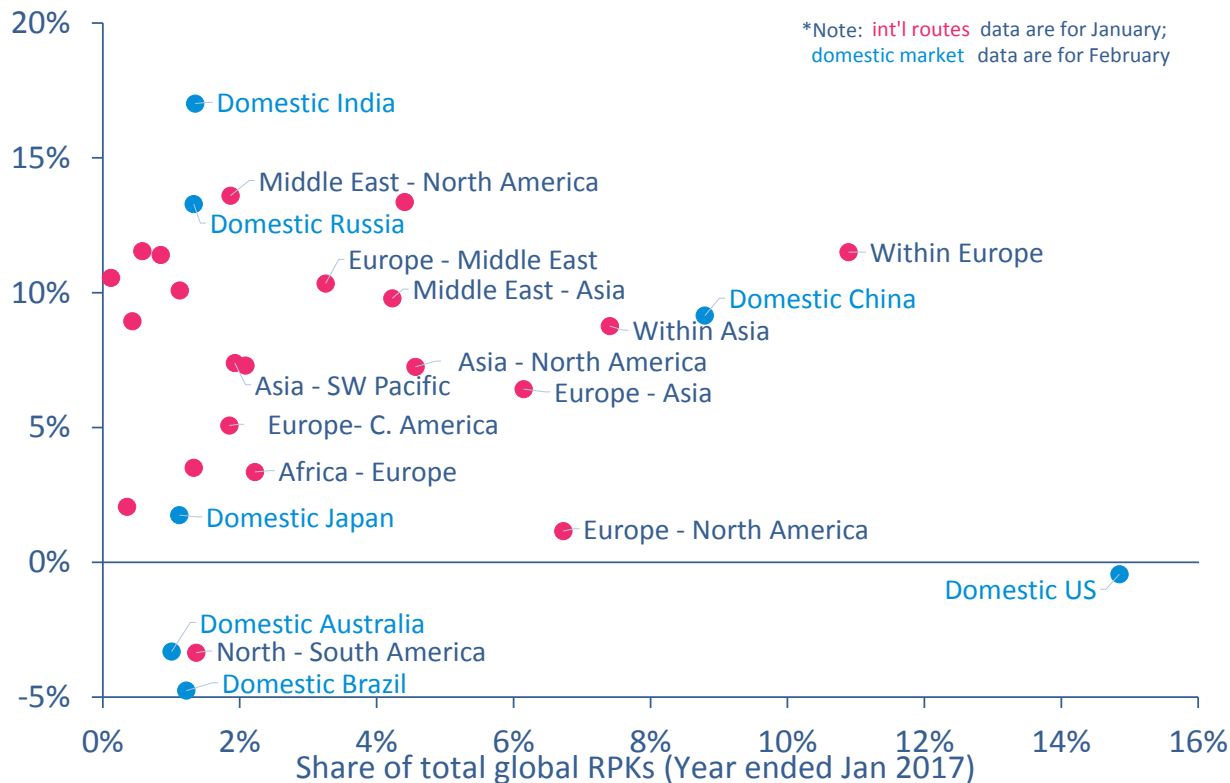
Business confidence and air travel up in last 6 months



Sources: IATA Economics, IATA Monthly Statistics, Markit

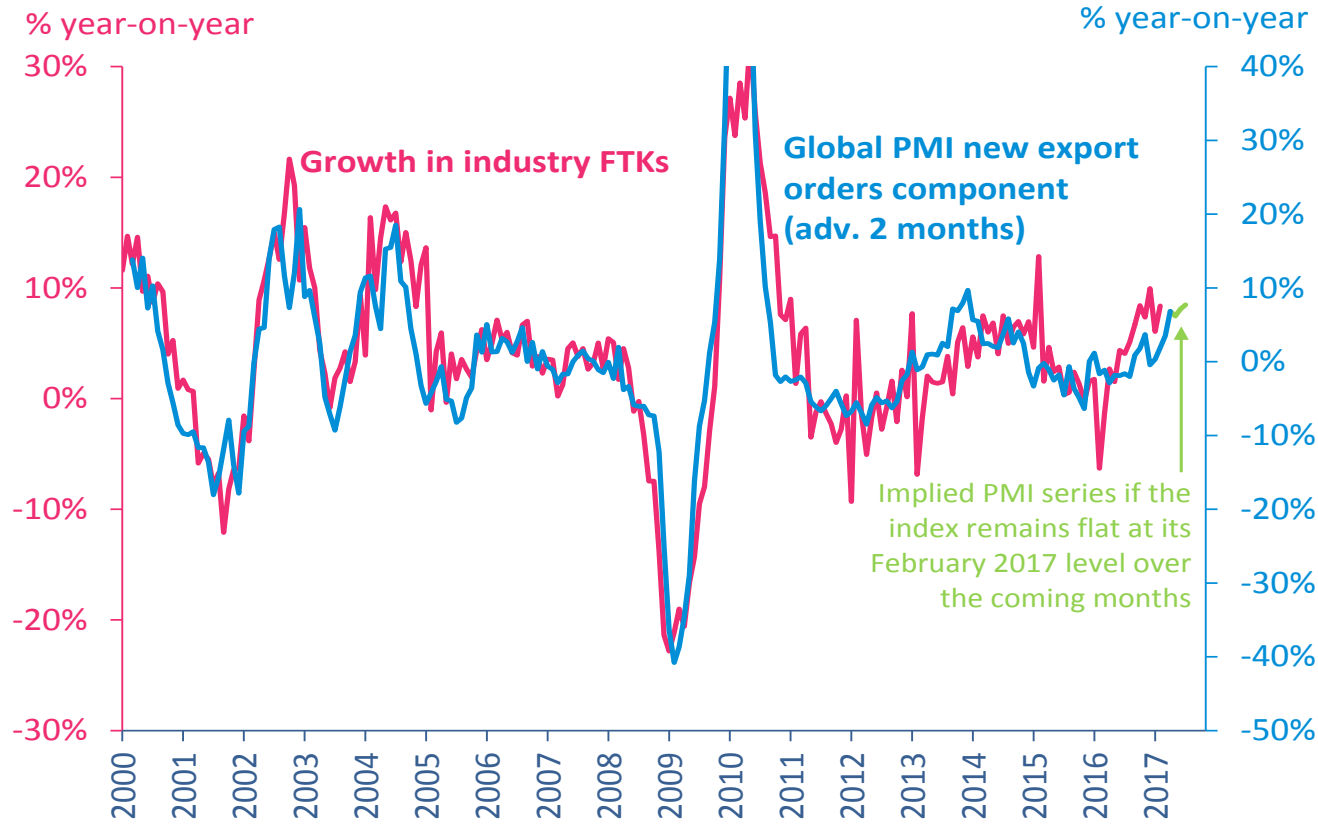
Though still much variation by air travel market

RPK growth by int'l route and dom. market (latest month, % year-on-year*)



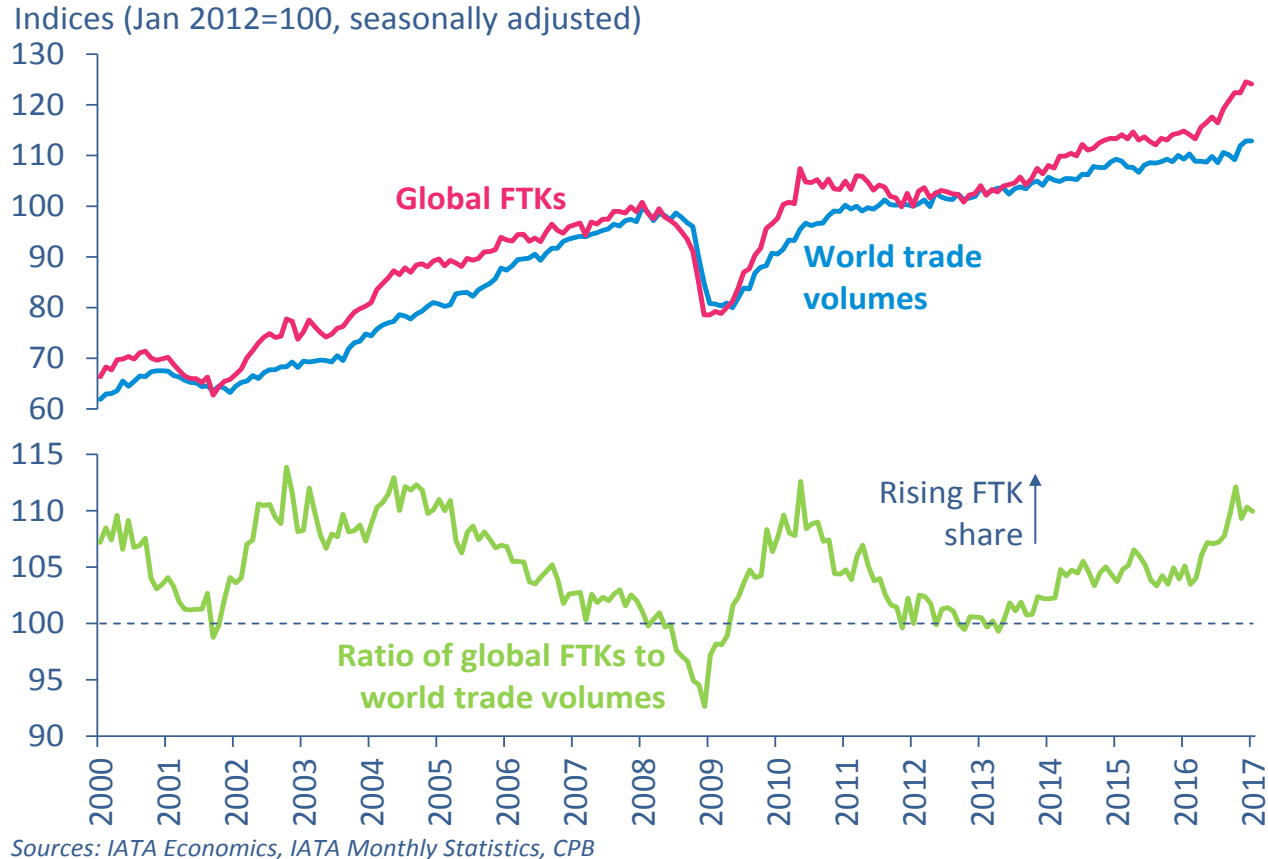
Sources: IATA Economics, IATA Monthly Statistics by Route

Growth has returned to air cargo



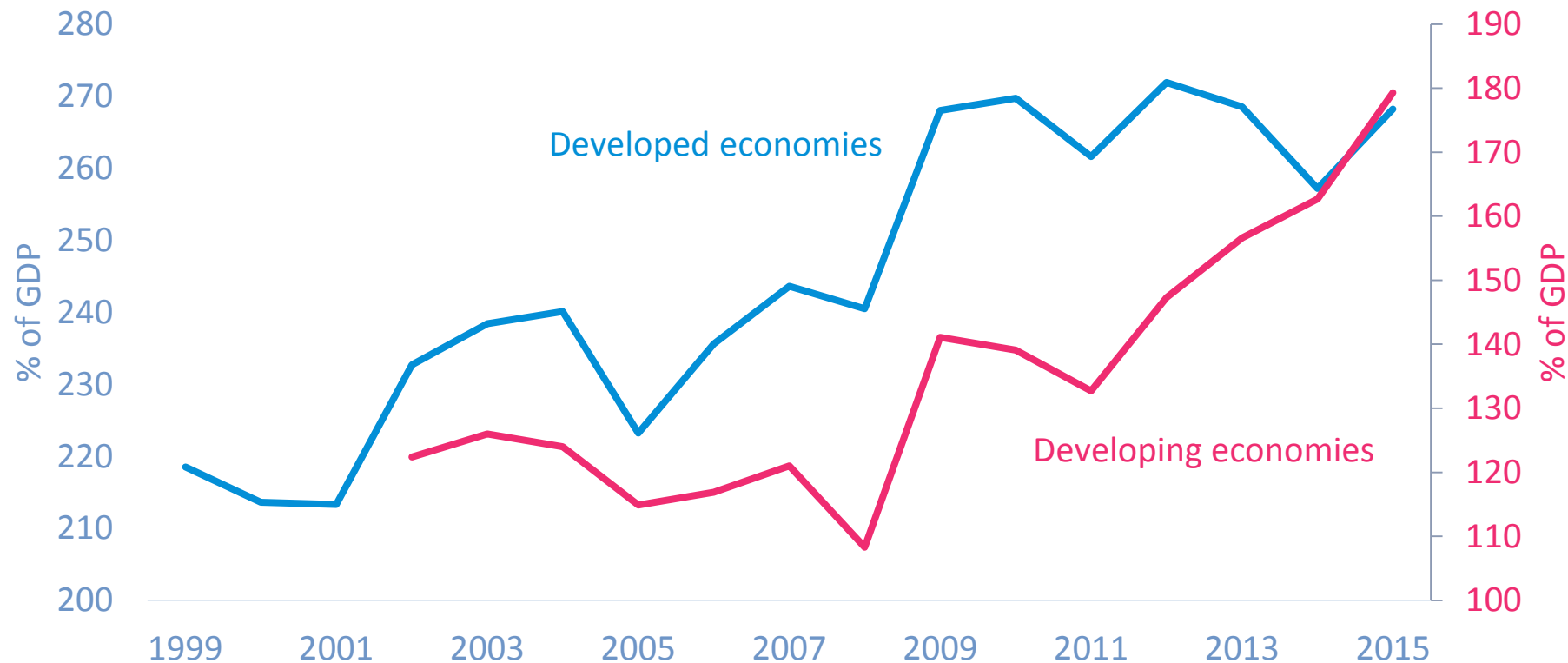
Sources: IATA Economics, IATA Monthly Statistics, Markit

Despite sluggish world trade



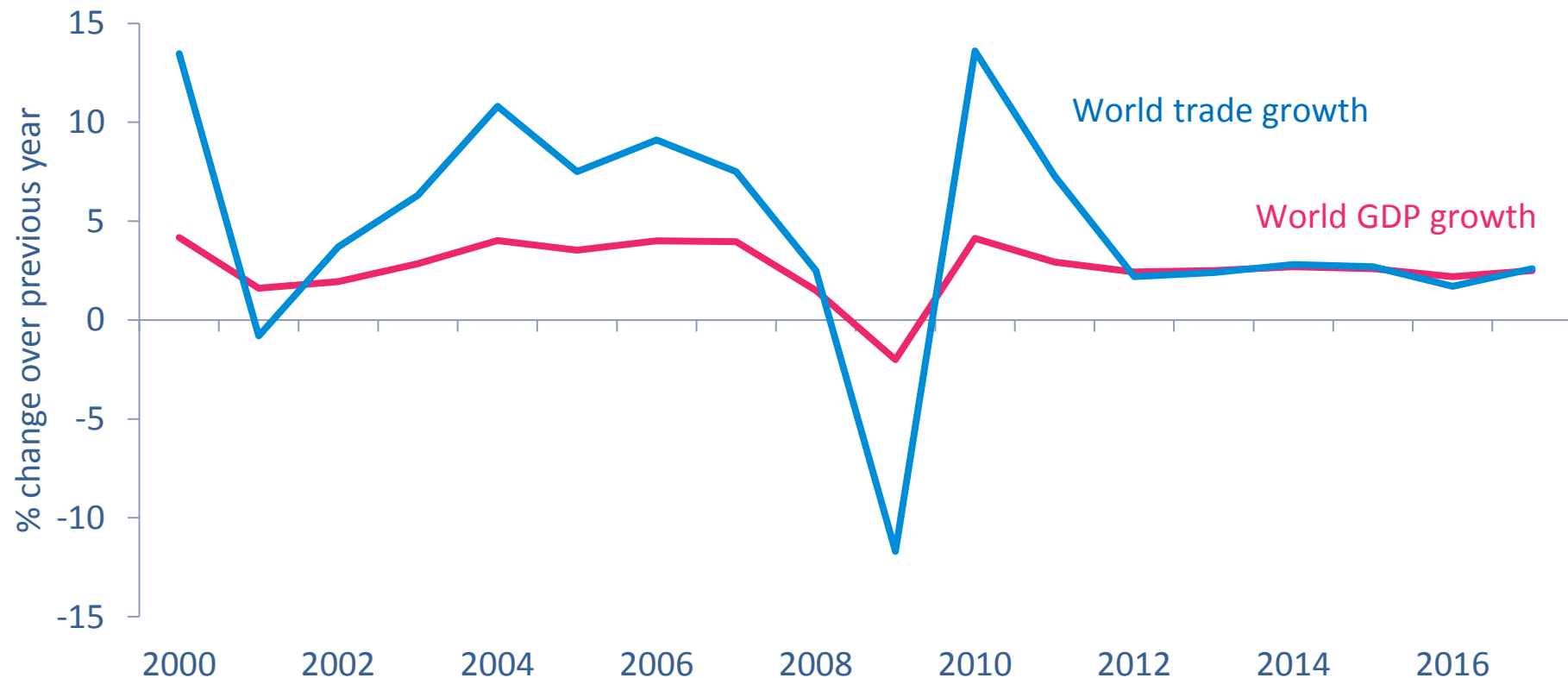
Headwind – continuing debt overhang

Outstanding debt of non-financial sector, % of GDP

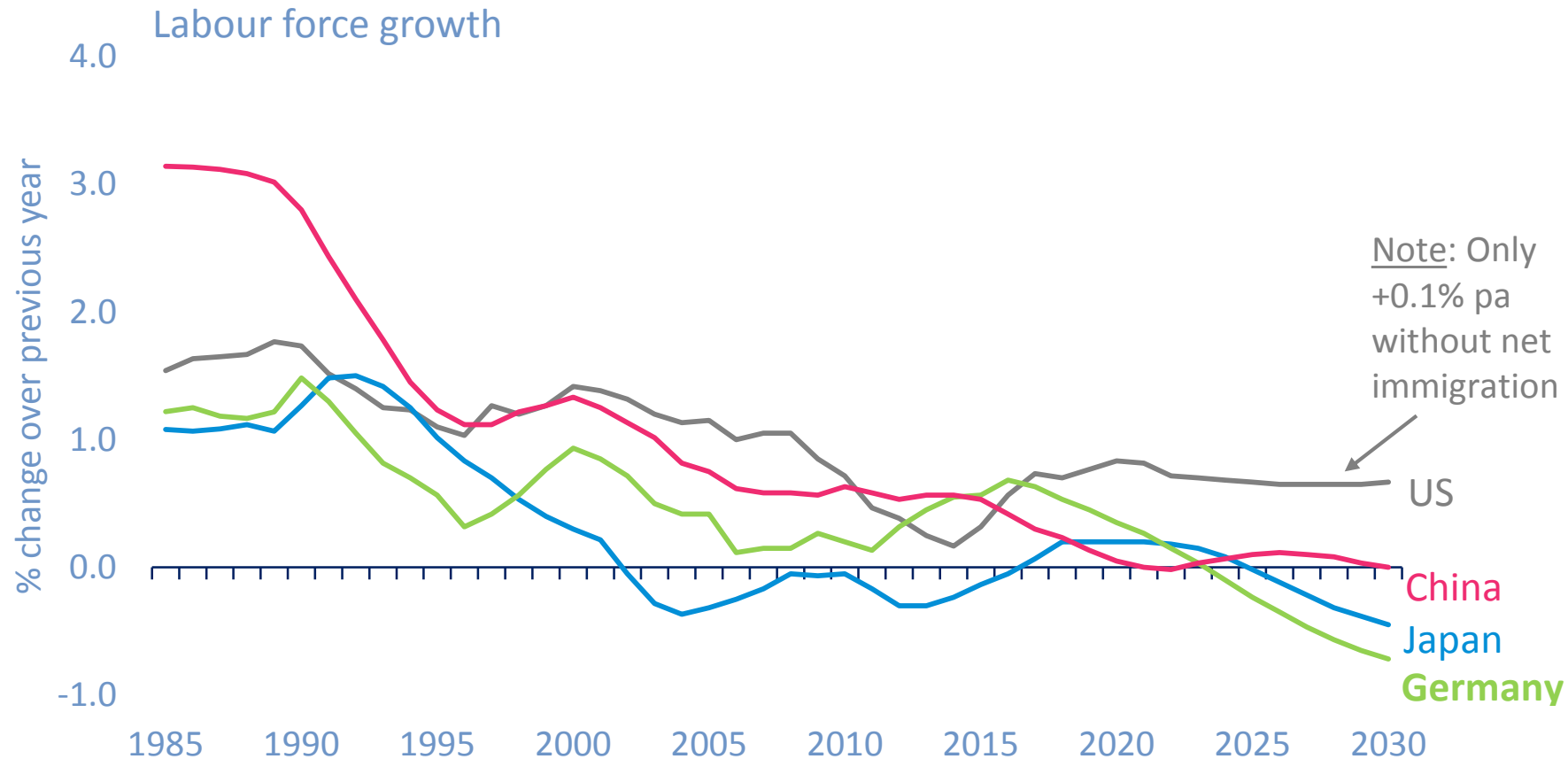


Headwind – the retreat from globalization

World GDP and cross-border trade growth

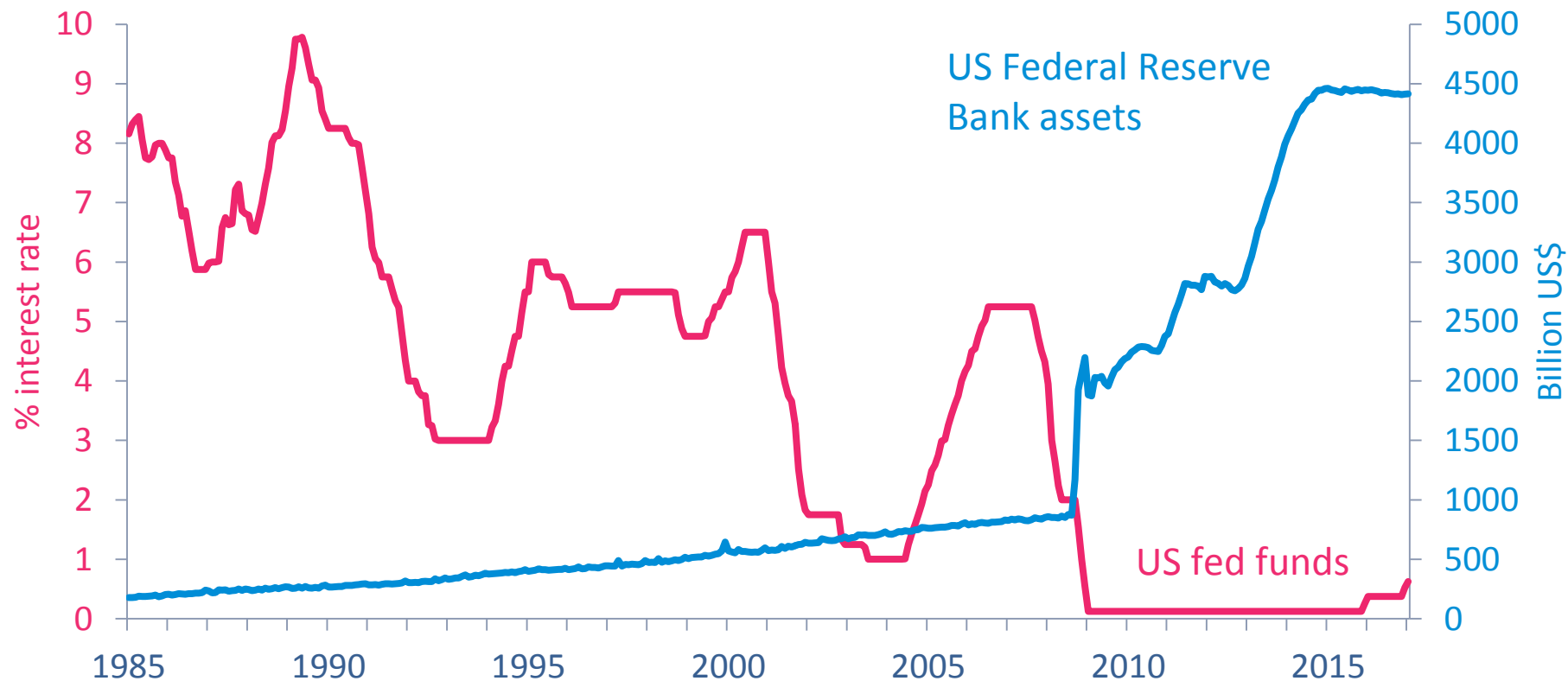


Headwind - poor demographics in some economies



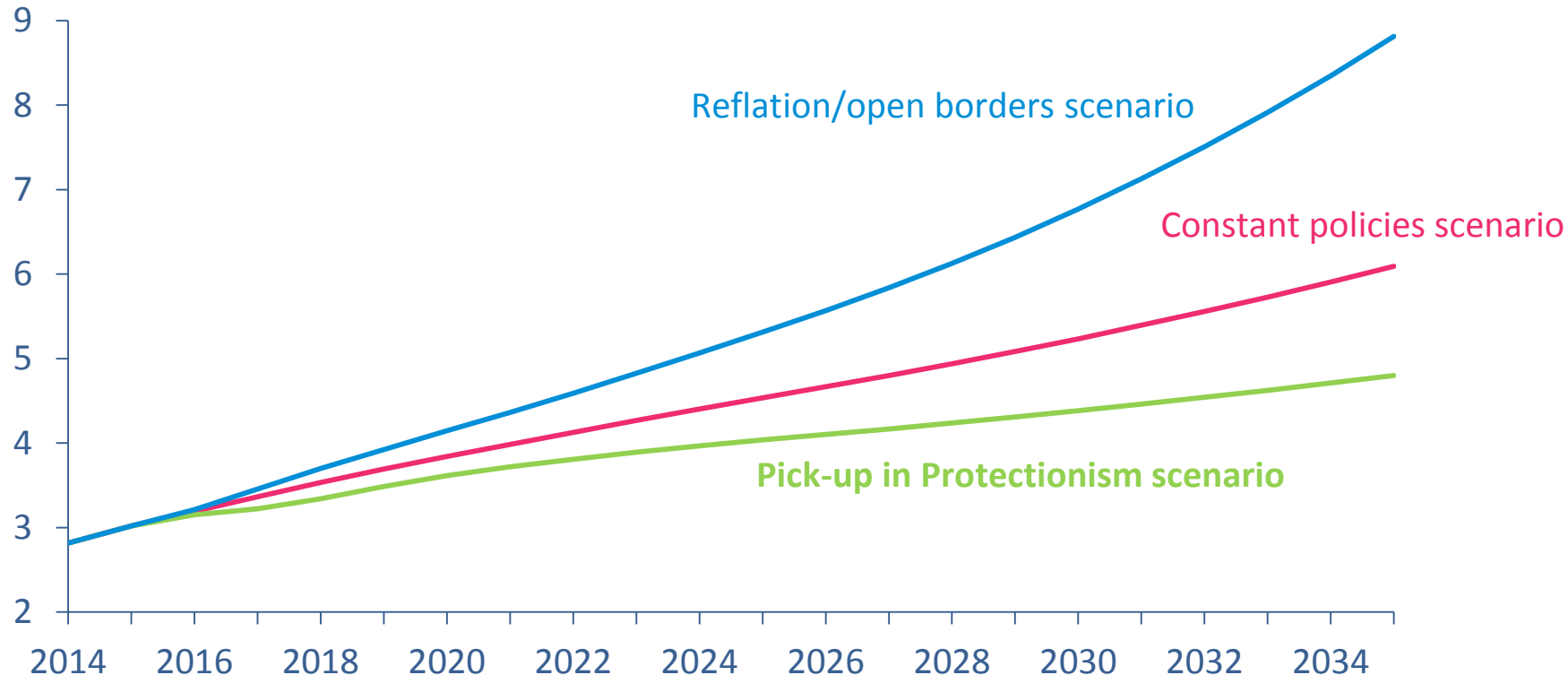
Headwind - the exhaustion of monetary policies

US federal funds target rate and balance sheet assets

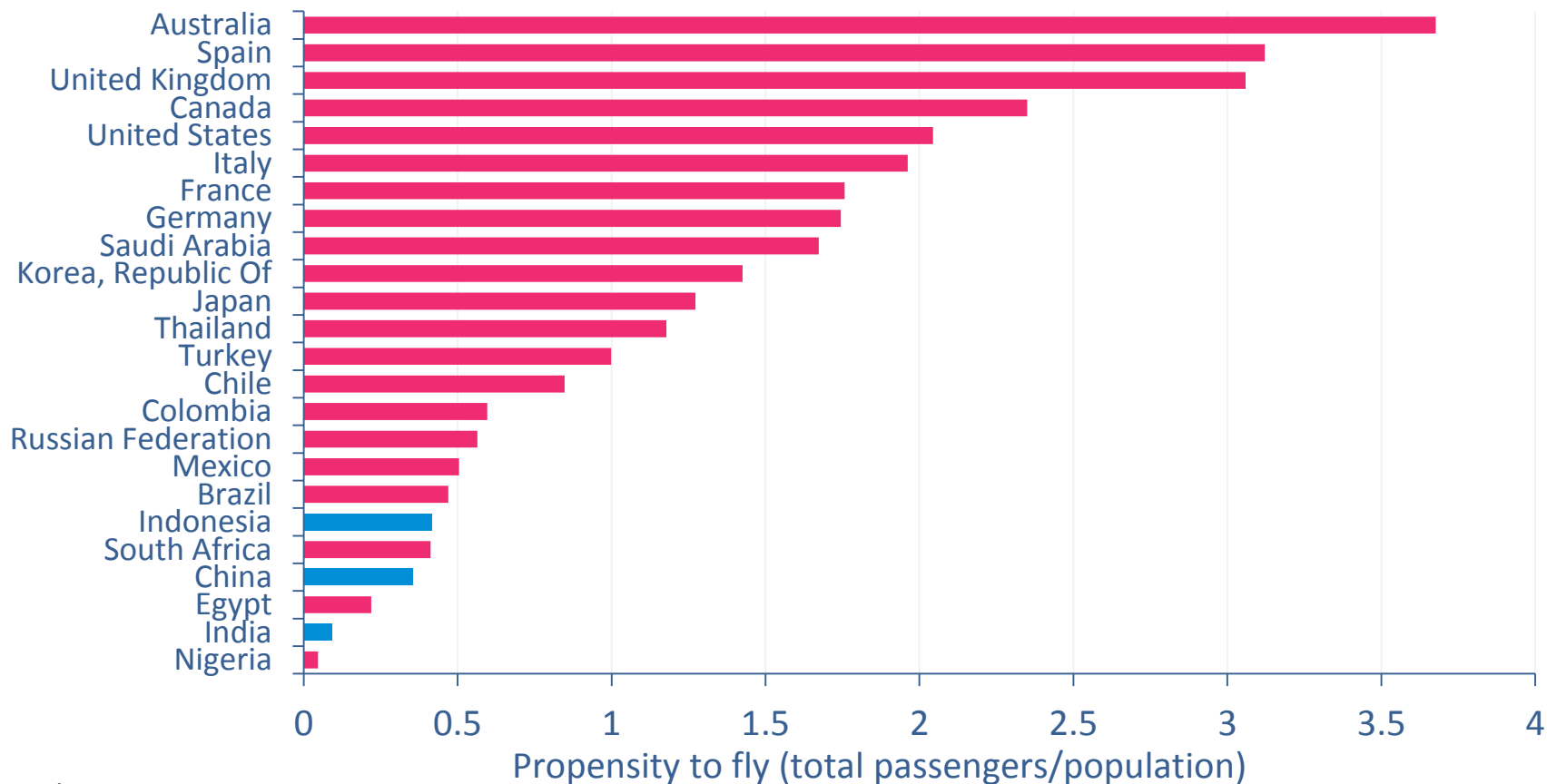


Long-term expansion even in gloomy macro scenario

Global O-D passenger journeys (billion)



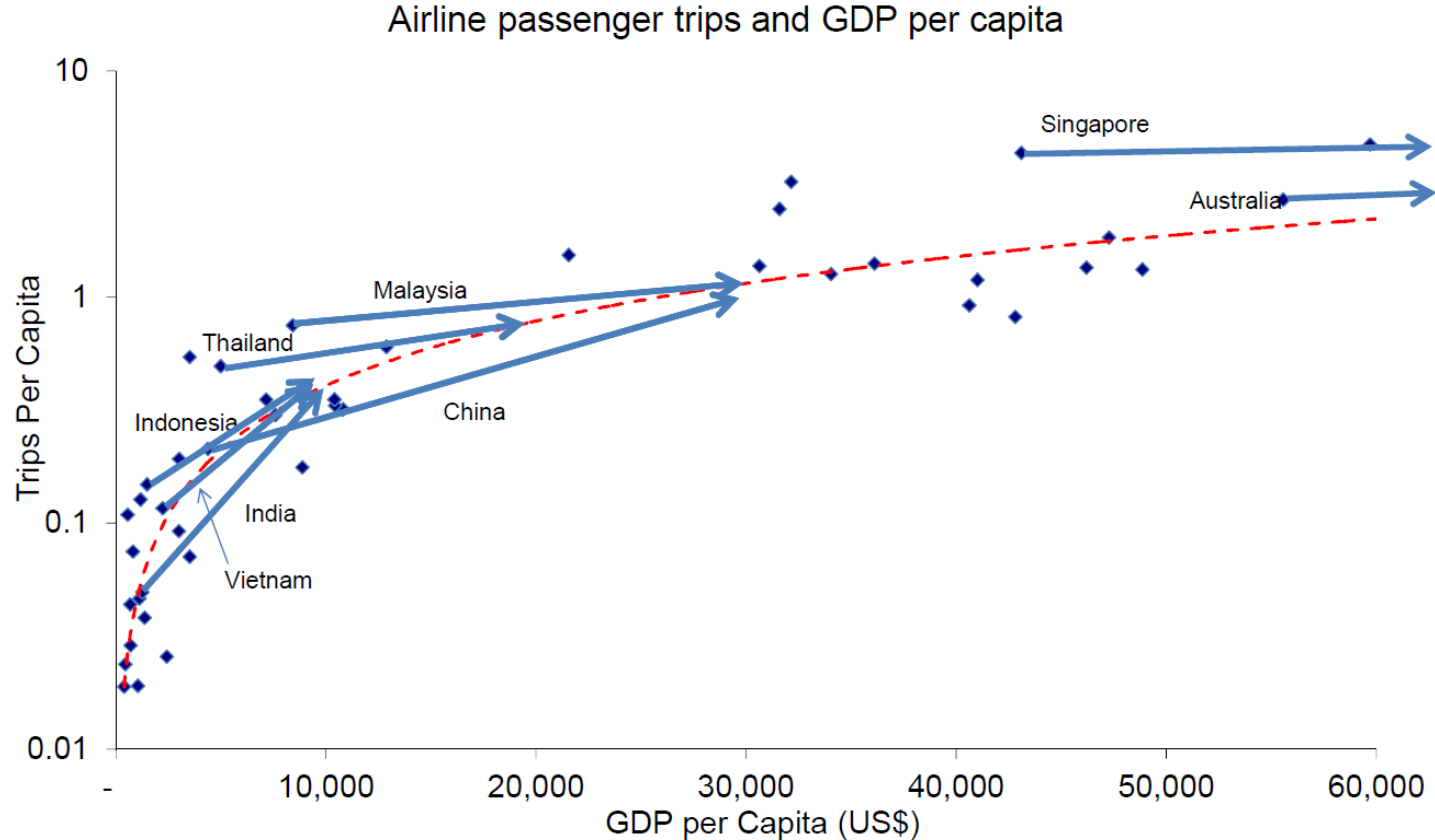
Trip frequency still low in many important markets



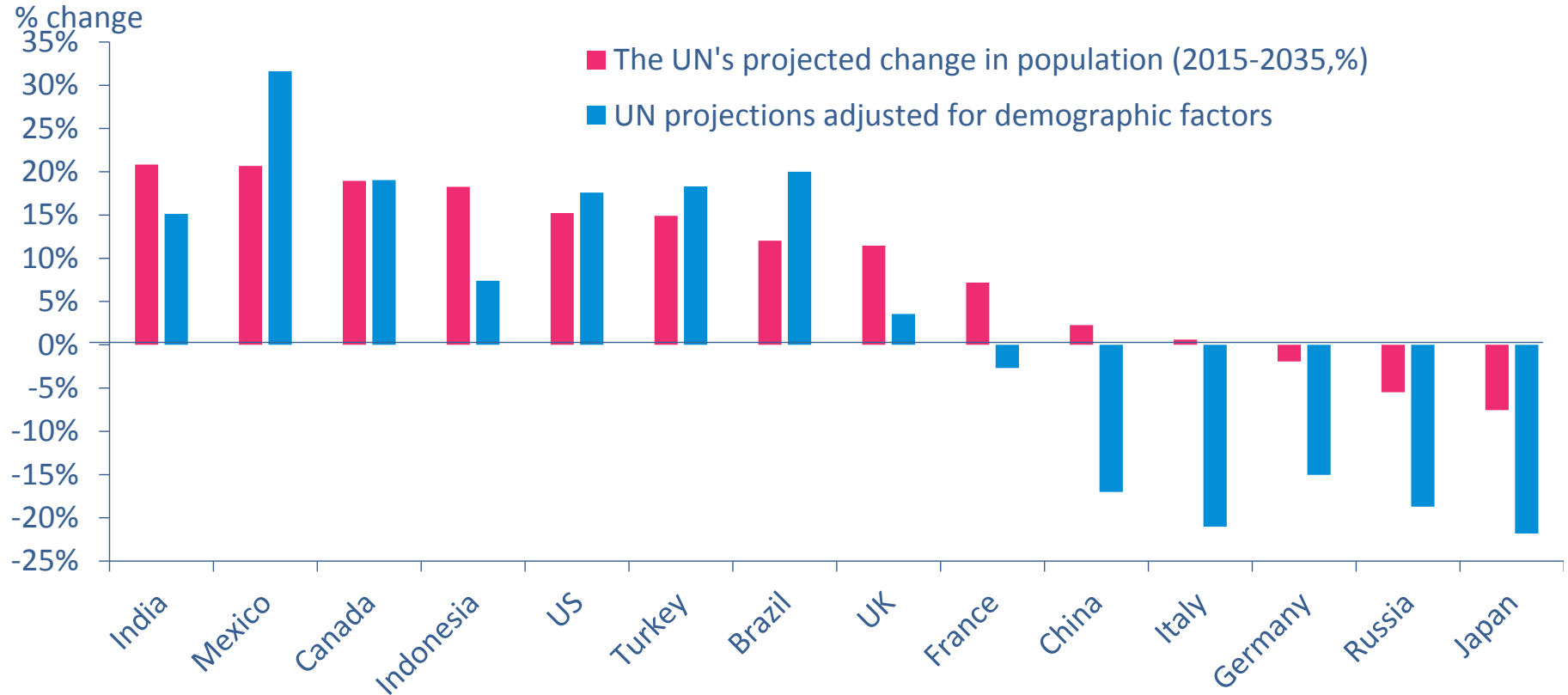
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

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Large potential in populous but (currently) poor markets

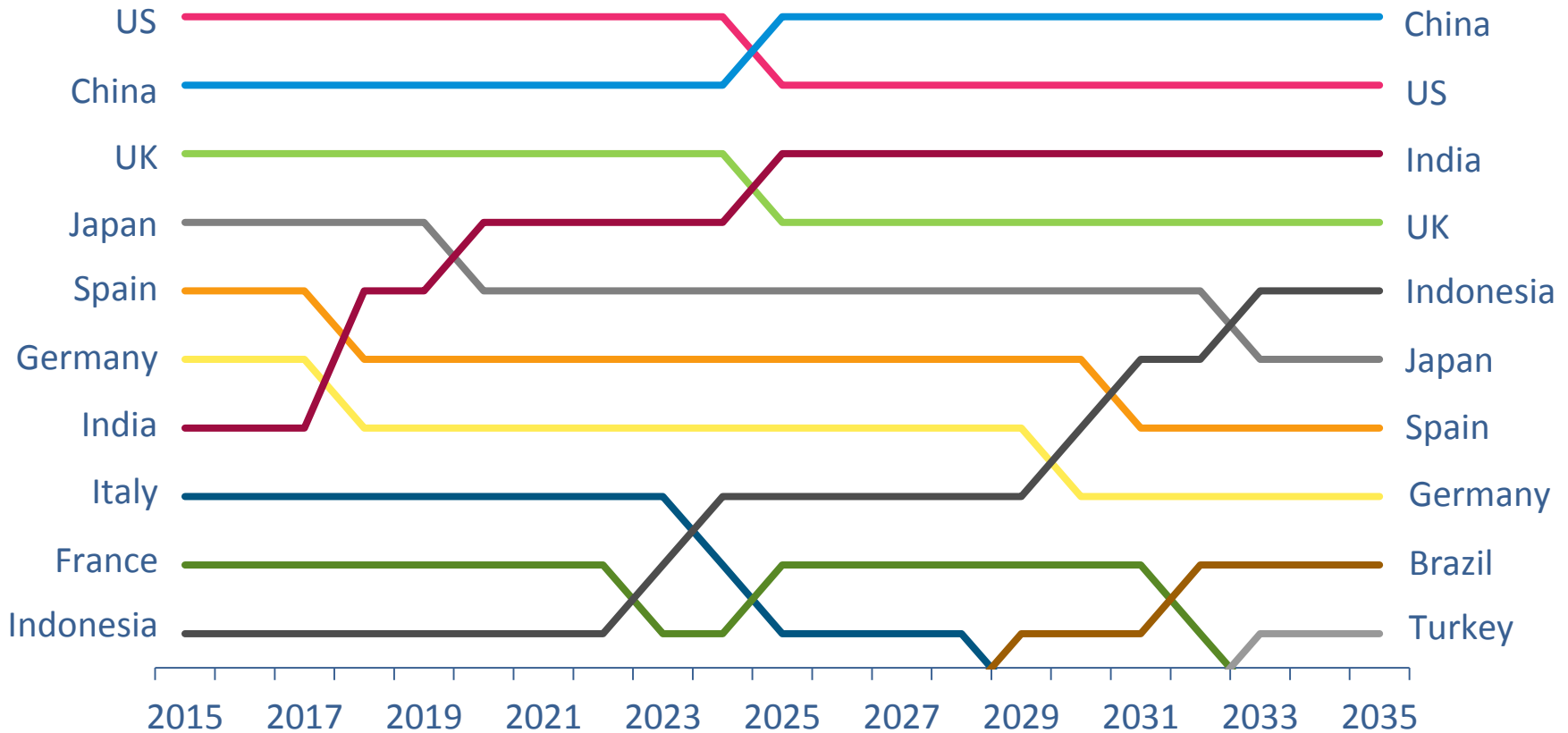


Demographics strong in some key markets, adverse in others



Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

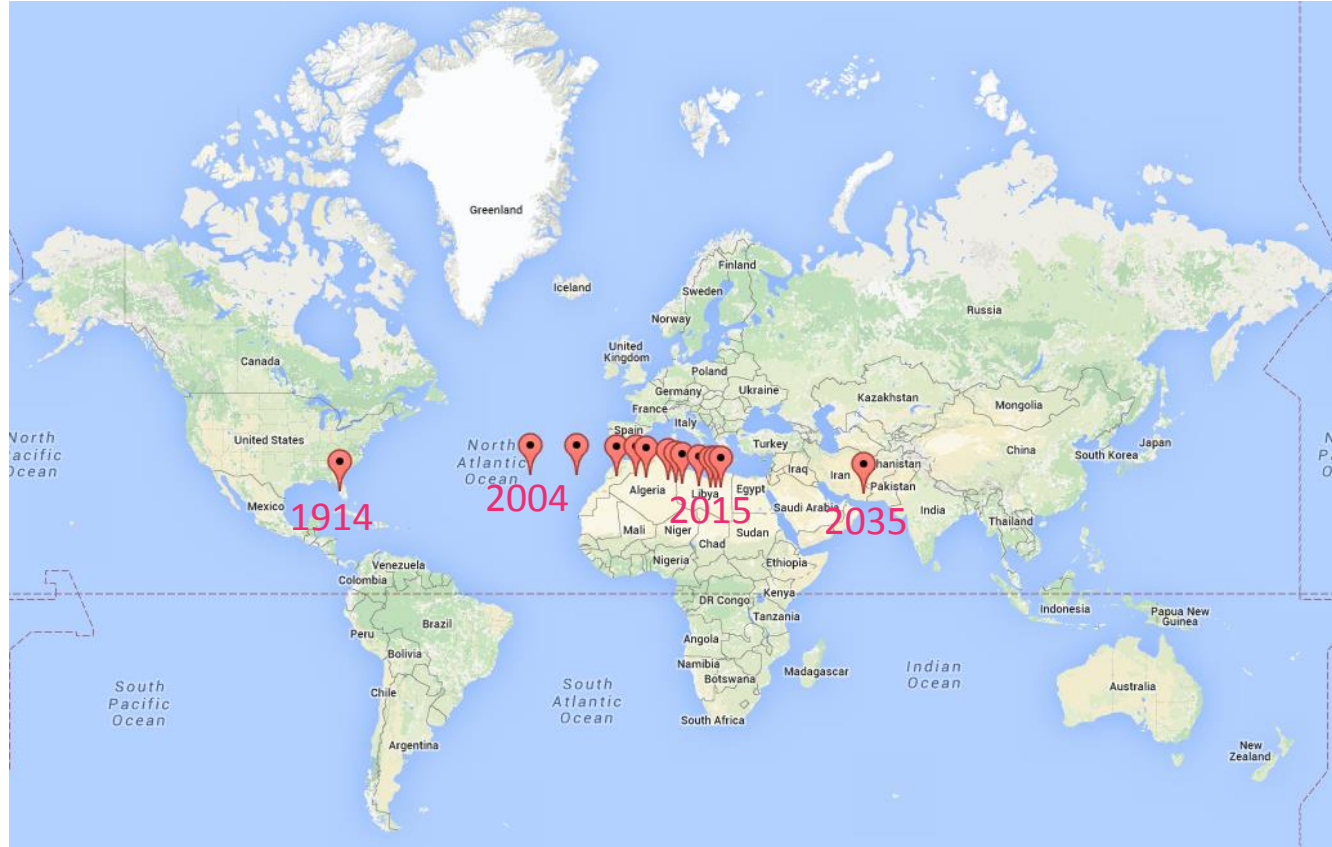
Significant change in top-10 markets over next 20 years



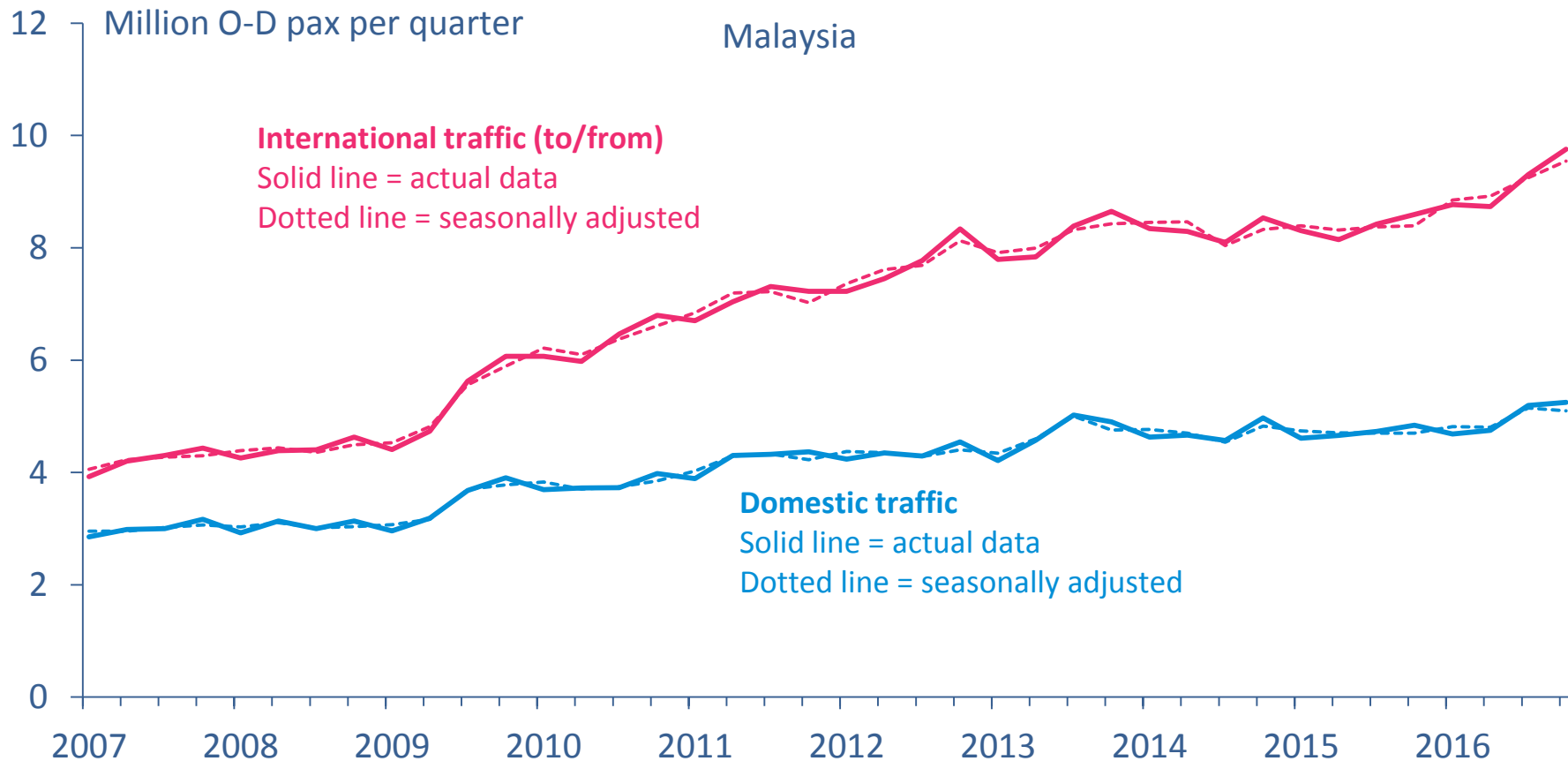
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

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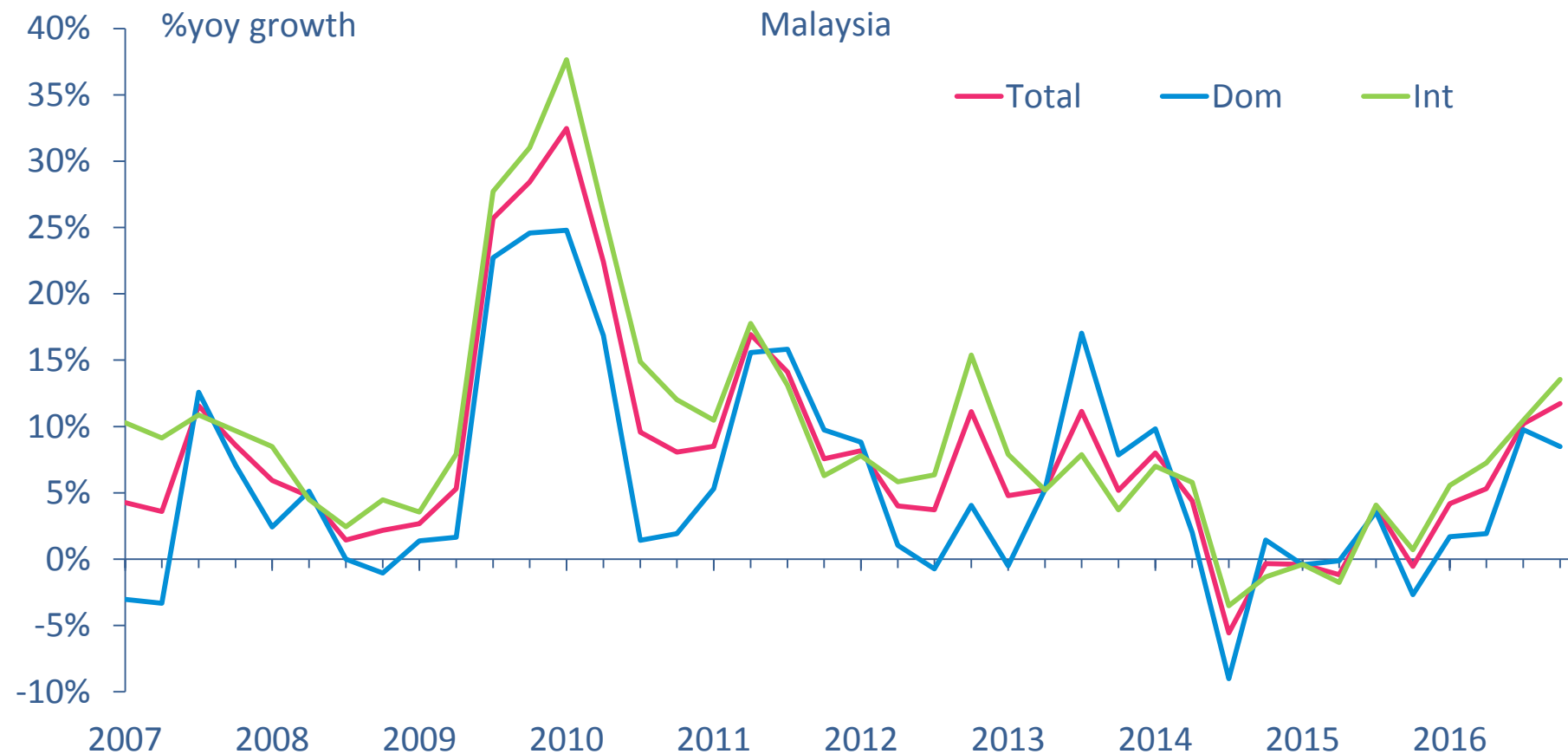
Centre of gravity of air travel shifting fast towards China



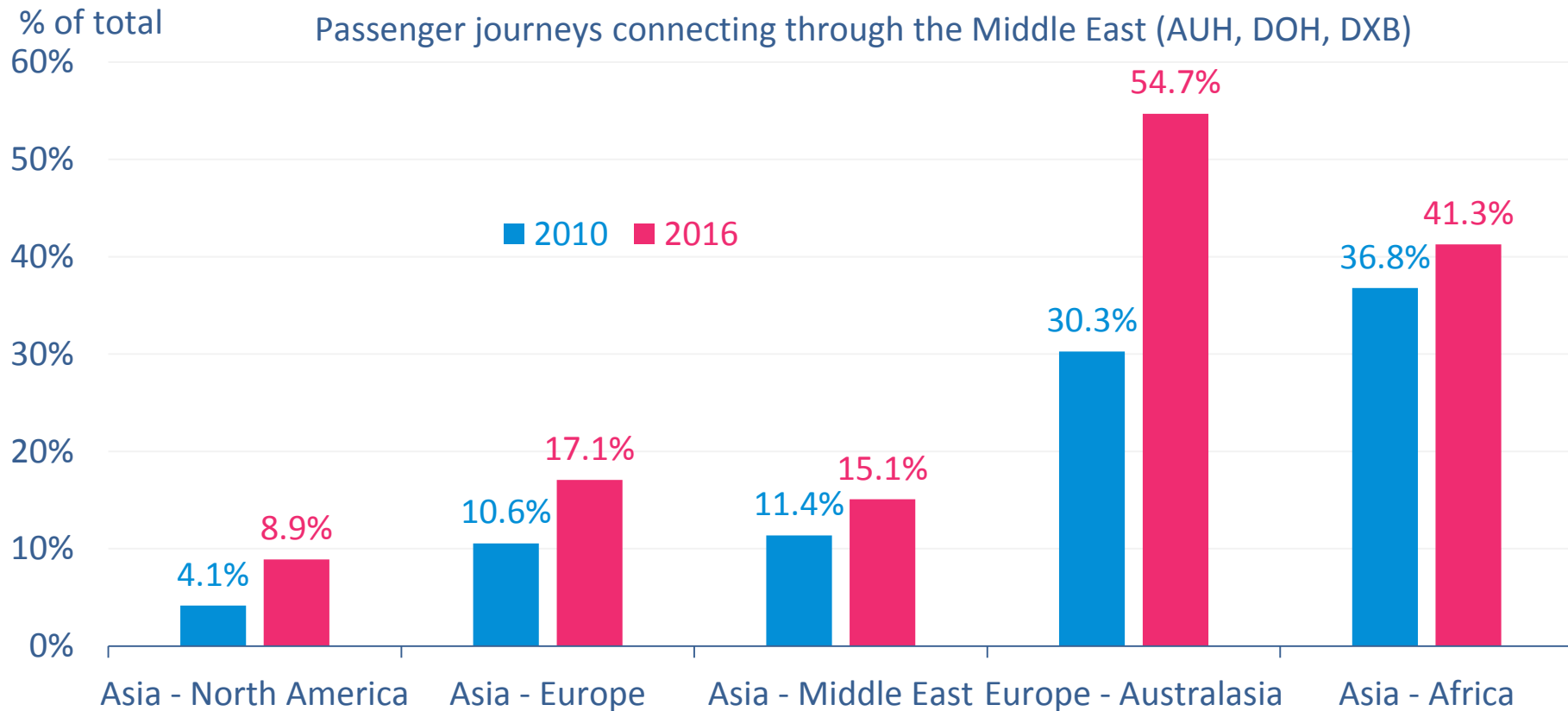
Some recent acceleration of Malaysia OD air travel



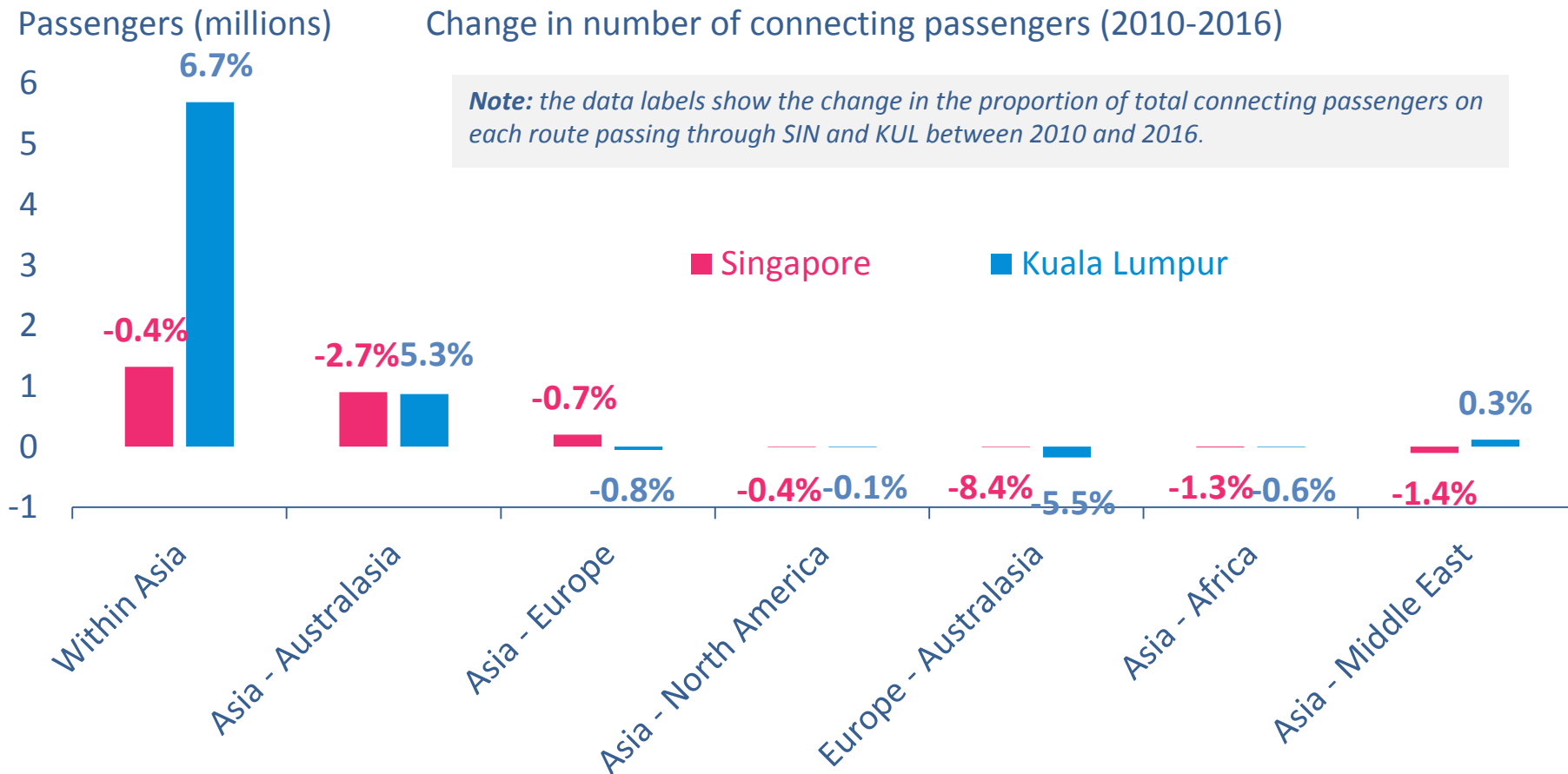
Growth rates back to double figures



Middle East hubs dominating some connecting markets



But KL has seen success in regional connecting market



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