Financial health achieved for some airlines but not all

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Brian Pearce, Chief Economist
www.iata.org/economics

To represent, lead and serve the airline industry
North-South divide on airline profitability

2014 EBIT margin (% of revenue)

Source: The Airlines Analyst
Partly driven by exchange rate divergence

Latin American exchange rates against the US$

Indexed to equal 1 in December 2013

Argentina
Brazil
Colombia
Mexico
Chile
And partly divergence in major economies

Business confidence - manufacturing PMIs

50=no change, seasonally adjusted

Source: Markit
But there are strong economies in L America

GDP growth – ave. of last 3yrs vs next 3yrs

Per cent

Source: IMF

IATA Economics  www.iata.org/economics
Two big changes in the business environment

US dollar trade-weighted index and the price of oil

Source: Datastream
Impact of lower fuel prices not clear

Return on invested capital and unit costs

Source: IATA, McKinsey
Costs typically passed through to prices

Unit cost and the price of air transport

Source: IATA/Tourism Economics ‘Air Passenger Forecasts’
A strong economic cycle would help airline returns

Airline industry ROIC and world GDP growth

Source: IATA, McKinsey, IHS Global Insight
Economic cycle positive but not very strong

Measures of the global economic cycle

- World trade growth
- Global industrial production growth
- Business confidence

Source: Datastream
But growth in demand for travel and cargo is solid

Source: IATA
Adverse structural change in air cargo

International trade compared to global industrial production

BETORE: FTKs growth 6.4% p.a
AFTER: FTKs growth 3.2% p.a.

Source: Netherlands CPB, IATA
Fragmentation remains a problem in many markets

Market share of top-4 airlines/JVs

Source: SRS Analyser

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Commoditization problem starting to be addressed

Source: IdeaWorks, Airline Analyst, IATA
All of which is leading to this…

Breakeven and achieved load factor

Source: IATA
So airline industry ROIC is improving significantly

Return on capital invested in airlines

Cost of capital (WACC)

Return on capital (ROIC)

Source: IATA, McKinsey
Improvement driven by a subset of the industry

Distribution of 2014 airline ROIC

Most frequent ROIC = 0%
Median ROIC = 3.2%
34 airlines ROIC > WACC

Source: The Airline Analyst, IATA
Median airline not as well placed as leaders

Free cash flow and adjusted net debt

Median airline
$3 billion net debt
-3% FCF/net debt

6 airlines could repay all debt in next 5 years

Source: The Airline Analyst, IATA
Takeaways

• North-South divide
• US consolidated, strong economy, strong $, low fuel
• Returning cash to shareholders!
• Key Latin economies and currencies weak
• Some growth hotspots
• Capacity discipline strongest in the North
• COPA exception: management, geography
• Low fuel prices not always good
• Industry profitability narrowly based
• Fragmentation tackled by JVs/LATAM innovation
• Commoditization being addressed by NDC