

AIRLINES FINANCIAL MONITOR

KEY POINTS

MARCH – APRIL 2018

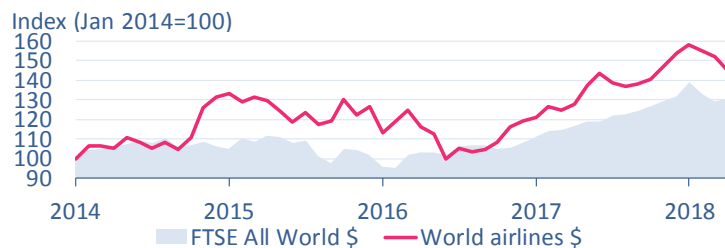
- The initial data for Q1 2018 indicate a pick-up in airline financial performance relative to the same period a year ago. The improvement was broad-based, with every region except Europe posting a widening in their EBIT margin.
- Despite these signs, global airline share prices fell by 4.8% in April, and underperformed the wider equity market by the widest margin in 10 months. The decline in April was led by North America, where investor concerns of the impact of rising capacity and fuel prices have seen airline shares fall by nearly 12% since the start of the year.
- Oil prices rose to their highest level since late-2014 in April, driven by tighter market supply and geo-political tensions. At the time of writing, the Brent crude oil price is currently around 50% higher than a year ago.
- The seasonally adjusted trends in passenger and freight demand have diverged in recent months. While industry-wide passenger capacity is still growing broadly in line with demand, slower freight demand has seen the freight load factor slip back of late.
- In an illustration of the importance of the premium-class cabin for airline finances, the premium cabin accounted for 5.4% of total international origin-destination passenger traffic, and just over 30% of revenues, in Jan-Feb combined.

Financial indicators

Airline shares underperformed global equities in April by the widest margin in 10 months

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Apr 30th	% change on		
		one month	one year	start of year
World airlines	144.7	-4.8%	+13.2%	-5.8%
Asia Pacific airlines	132.8	-1.3%	+25.3%	+1.9%
European airlines	134.9	-5.7%	+28.1%	-6.7%
North American airlines	163.1	-7.1%	-2.2%	-11.9%
FTSE All World \$	130.6	+0.8%	+12.0%	-0.7%



- Airline share prices fell by 4.8% in April – the third monthly decline in a row – which left them 5.8% lower than where they started the year. The global airline share price index underperformed the wider equity market by the widest margin in 10 months.
- The decline in the global airline index in April was led by a 7.1% fall in North America. Airline shares in the region have now fallen by almost 12% since the start of the year, driven by investor concerns of the impact of rising capacity growth and fuel prices.
- European and Asia Pacific airline shares both also fell in April (by 5.7% and 1.3%, respectively), although both indices remain more than 25% higher than they were a year ago.

Initial Q1 data point to a modest improvement in airline financial performance in Q1 2018

Airline Financial Results

Number of airlines in sample	Regions	Q1 2017		Q1 2018	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
13	North America	7.7%	1,482	7.9%	1,548
7	Asia-Pacific	9.4%	963	9.9%	1,469
4	Europe	-2.2%	-316	-2.4%	-315
1	Latin America	-13.6%	-73	-12.8%	-71
26	Sample total	6.5%	2,056	6.8%	2,631

¹ % of revenues ² US\$ million

Sources: The Airline Analyst, IATA

- Despite the downbeat equity market performance, the initial financial results from Q1 2018 actually point to an improvement in industry-wide financial performance relative to the same period a year ago. The EBIT margin in our sample of 26 airlines increased to 6.8%, up from 6.5% a year ago.
- Every region with the exception of Europe registered a modest annual improvement in their profit margin. (Note that the first quarter of the year is always a weak period for airline European airline profitability.)
- The increase in net post-tax profits in our sample was driven by airlines based in Asia Pacific, helped in part by continued robust freight yield performance.

Net cash flow returned to double-digit territory in Q4 2017, supporting higher free cash flow

Airline Cash Flow¹

Number of airlines in sample	Regions	Q4 2016			Q4 2017		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
15	North America	8.7%	14.5%	-5.8%	10.4%	13.3%	-2.8%
15	Asia-Pacific	16.1%	27.2%	-11.2%	20.7%	20.4%	0.4%
9	Europe	3.5%	11.1%	-7.6%	5.7%	11.9%	-6.2%
5	Latin America	9.4%	8.6%	0.8%	12.6%	6.8%	5.8%
3	Others	8.1%	17.1%	-9.1%	15.2%	10.5%	4.7%
47	Sample total	8.4%	15.1%	-6.7%	10.8%	13.6%	-2.8%

¹% of revenues

²From operating activities

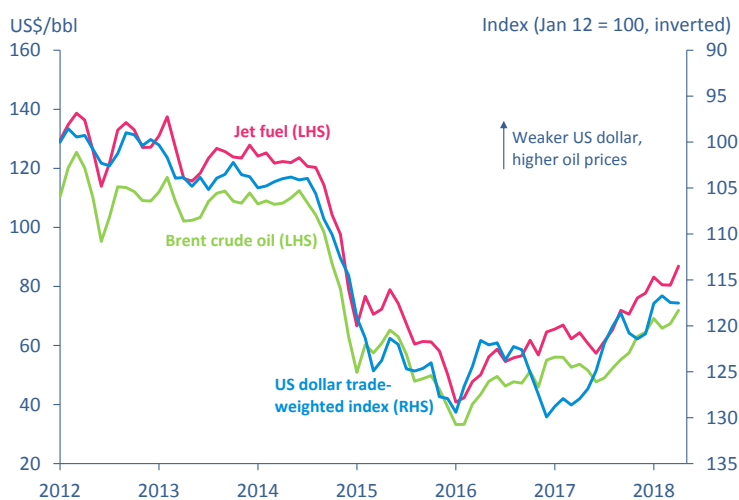
Note: Includes half-year results of Air New Zealand, Cathay Pacific Airways, Qantas and Virgin Australia

Sources: The Airline Analyst, IATA

- We do not yet have enough data to create a representative sample of free cash flow (FCF) for Q1 2018. Nonetheless, our sample from Q4 2017 showed an improvement in free cash flow in annual terms late last year. (Recall that FCF tends to be negative during the final quarter of each year.)
- The outcome in Q4 reflected a combination of both an increase in net cash flow from operations (to 10.8% of revenue, from 8.4%) as well as a moderate decline in capex spending.
- As usual, the industry-wide estimate masked a range in performance at the regional level. Negative FCF outcomes in North America & Europe were mostly offset by positive outcomes elsewhere.

Fuel costs

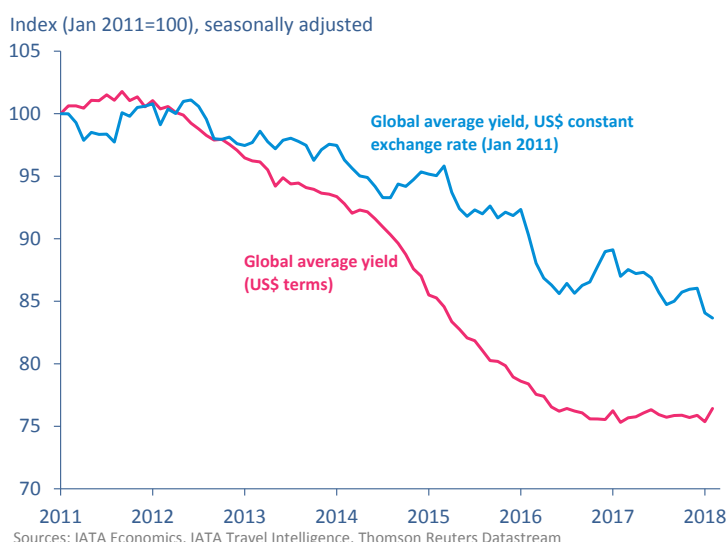
Oil prices have continued to trend higher, currently around 50% higher than a year ago



- Global oil prices rose to their highest level since late-2014 in April. At the time of writing, the Brent crude benchmark is sitting just below \$75/bbl, around 50% higher than a year ago.
- Recent gains in oil prices have been driven by a combination of a gradual reduction in global oil inventories on the back of a tightening in supply, as well as heightened geo-political concerns.
- That said, the futures curve remains consistent with a modest decline in oil prices from their current levels over the next 12-18 months. Indeed, the current curve points to oil prices falling to around \$65/bbl by mid-2020.

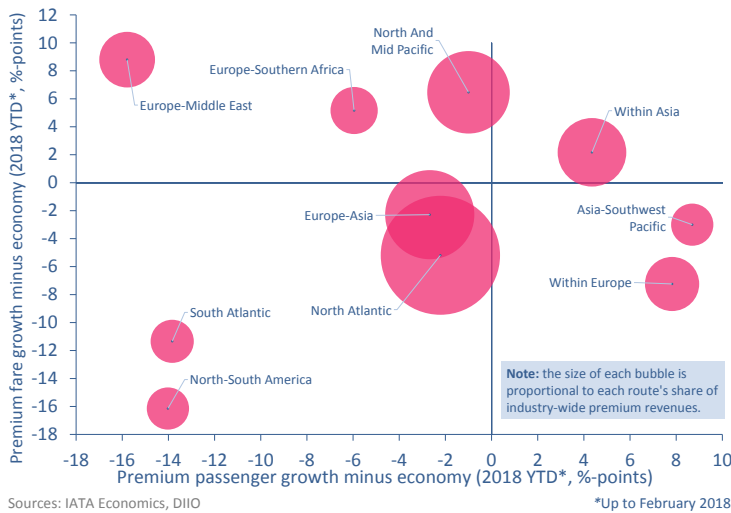
Yields and premium revenues

Passenger yields (excl surcharges & ancillaries) rise strongly in monthly terms in February



- Having trended sideways in SA terms since late-2016, passenger yields posted their strongest month-on-month rise in at least seven years in February. In US\$ terms, yields in February were 1.5% higher than the same month in 2017.
- While we would caution against reading too much into one month's worth of data, the February reading is perhaps the clearest sign yet of the expected upward trend in yields following increases in key airline input costs.
- Recall that our yield data relate to developments in the 'base' airfare only and exclude revenue from surcharges and ancillary services. Such additional sources of passenger revenue also look to be helping to support the ongoing robust financial performance of the industry.

Premium-class volumes and revenues remain broadly in line with those a year ago

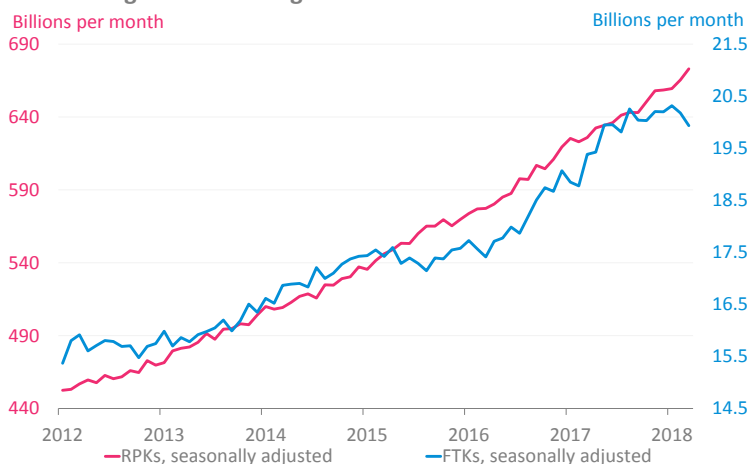


- ➔ Premium-class passengers accounted for 5.4% of total international origin-destination traffic in January and February combined – unchanged from the share seen in the same period of 2017.
- ➔ In an illustration of the importance of the premium-class cabin to airline financial performance, premium-class revenues accounted for 30.1% of total international revenues in Jan-Feb; again, this share is broadly unchanged from a year ago.
- ➔ It is worth noting that the three largest markets in terms of premium revenues have all seen positive growth in premium passenger traffic in annual terms so far in 2018, albeit at slightly slower rates than seen in the corresponding economy cabins.

Demand

Passenger and freight trends have diverged in recent months

Air Passenger and Air Freight Volumes



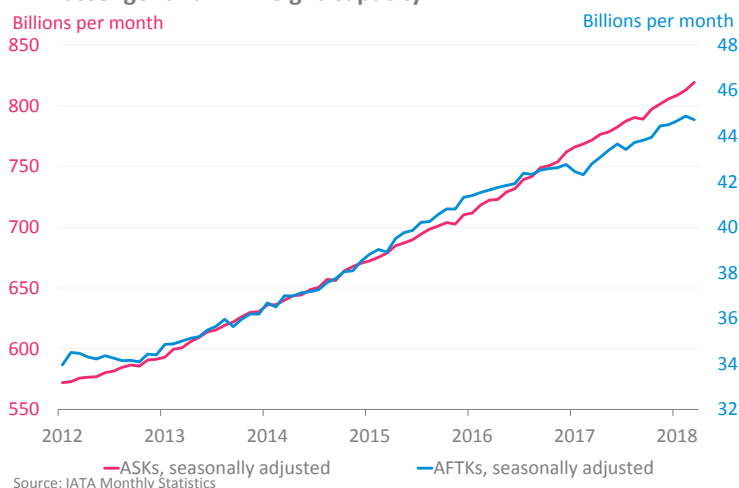
Source: IATA Monthly Statistics

- ➔ Industry-wide revenue passenger kilometres (RPKs) increased by 9.5% year-on-year in March 2018 – the fastest pace in 12 months and well above the five-year average rate (6.8%).
- ➔ Robust growth in air travel has continued to be supported by the comparatively strong global economic backdrop.
- ➔ By contrast, annual growth in industry-wide freight tonne kilometres (FTKs) fell to its slowest pace since early-2016 (1.7%). The broader slowdown in the upward trend in demand suggests that the recent period of air freight outperformance relative to global good trade looks to be firmly behind us.

Capacity

Passenger capacity currently rising broadly in line with demand, but freight rising faster

Air Passenger and Air Freight Capacity



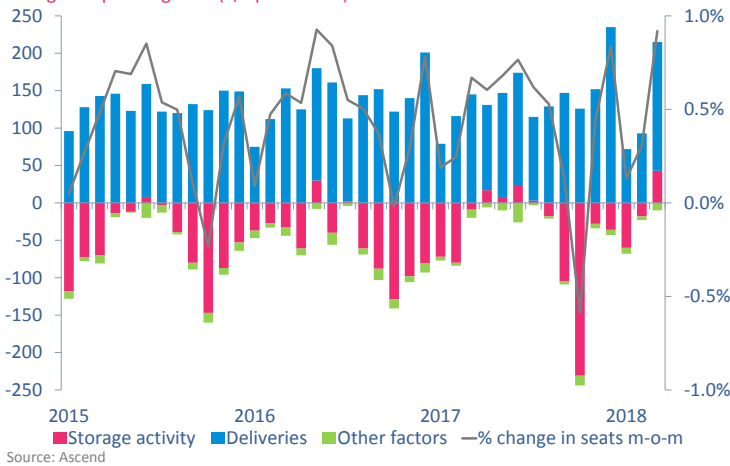
Source: IATA Monthly Statistics

- ➔ Industry-wide available seat kilometres (ASKs) increased by 6.4% year-on-year in March. Passenger capacity has continued to trend upwards in SA terms in recent months, broadly in line with the similar upward trend in demand.
- ➔ Meanwhile, available freight tonne kilometres (AFTKs) rose by 4.4% year-on-year in March 2018, down from 6.3% in the previous month.
- ➔ In a reflection of the recent moderation in the upward trend in freight demand, this was the first time in 20 months that the annual AFTK growth has exceeded that of FTKs.

Strong month for deliveries in March, alongside a boost to the fleet from storage activity too

Airline Fleet Development

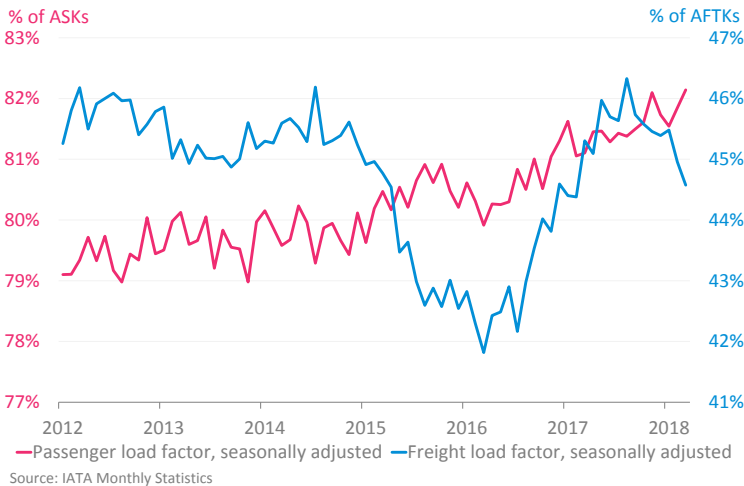
Change in operating fleet (a/c per month)



- The number of available seats in the global airline fleet increased by 0.9% month-on-month in March, and by 5.5% compared to the same month in 2017.
- 172 aircraft were delivered in the month, compared to 145 in the same period a year ago. Altogether, the number of aircraft delivered in the first quarter of 2018 was broadly unchanged from that seen in Q1 last year (337 vs. 340).
- 123 aircraft left the fleet to go into storage in March, although the impact on the total fleet size was more than offset by the 166 aircraft returning to the fleet from storage during the month.

Passenger load factor rose back above 82% in Feb, as freight loads have continued to slip

Load Factors - Passenger and Freight



- The passenger load factor increased by 2.3 percentage points relative to the same month a year ago, taking it to a record high for the month, at 82.4%. The load factor rose back above 82% on an SA basis in March too, for just the second time ever.
- Meanwhile, the industry-wide freight load factor fell in year-on-year terms for the first time since July 2016. The slowdown in the upward trend in freight volumes (FTKs) since mid-2017 has been reflected in a corresponding decline in the SA load factor.

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