AIRLINES FINANCIAL MONITOR

KEY POINTS

JULY – AUGUST 2018

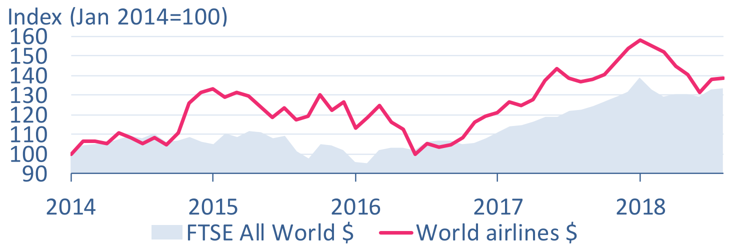
- The latest Q2 2018 data reaffirm a decline in airline profitability compared to the same quarter a year ago. Industry-wide cash flow generation is broadly unchanged vs Q2 2017.
- Global airline share prices edged higher in August, matching the wider global equity index, and consolidating the strong gain recorded in July. This month's improvement in the airline share price index was driven solely by the North American carriers. Airline shares are still 10% lower than at the beginning of this year.
- Oil prices eased slightly again in August, but the upward trend remains in place. Jet fuel prices were steady, at just under US$90/bbl.
- Passenger yields (base fare only) continue to trend lower overall, however, premium cabin yields continue to show more resilience than that of the economy cabin, helping to offset some of the impact of higher input prices.
- Passenger demand remained robust at the start of the peak northern hemisphere summer period, growing at an above-trend rate. Freight demand has slowed over the recent period, slipping below the pace of capacity growth.

Financial indicators

Global airline shares consolidate their July gain, broadly matching the uptick in global equities

Airline Share Prices

US$ indices (Jan 2014=100)	Index Aug 31st	% change on one month	% change on one year	% change on start of year
World airlines	**138.5**	**+0.4%**	**+1.1%**	**-9.8%**
Asia Pacific airlines	117.3	-2.1%	-1.2%	-10.0%
European airlines	121.1	-5.2%	-7.7%	-16.2%
North American airlines	182.0	+6.3%	+14.6%	-1.7%
FTSE All World $	**133.7**	**+0.5%**	**+9.2%**	**+1.7%**



Source: Thomson Reuters Datastream

- Global airline share prices ticked slightly higher in August, up 0.4% and consolidating the robust 4.8% gain in July. The monthly increase was broadly in line with the 0.5% monthly gain in the overall global equity index.
- Since the start of the year, however, airlines shares are down around 10% vs a modest 1.7% rise in global equities.
- The August increase for airlines was entirely due to a strong 6.3% increase in the share price of the North American carriers; Asia Pacific airline shares fell by 2% and European airline share were down by just over 5% in the month.

Q2 2018 data point to a decline in airline profitability

Airline Financial Results

Number of airlines in sample	Regions	Q2 2017 EBIT margin[1]	Q2 2017 Net post-tax profit[2]	Q2 2018 EBIT margin[1]	Q2 2018 Net post-tax profit[2]
15	North America	16.6%	4,718	12.1%	3,217
29	Asia-Pacific	5.0%	1,369	2.8%	635
14	Europe	9.7%	3,827	8.3%	3,888
7	Latin America	4.9%	-274	-0.7%	-449
5	Others	6.4%	59	0.9%	2
70	**Sample total**	**10.6%**	**9,699**	**7.5%**	**7,293**

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

Sources: The Airline Analyst, IATA

- The latest airline financial data for Q2 2018 reaffirm the signs of a fall in profitability observed last month. The EBIT margin for our sample of 70 airlines dipped to 7.5% in Q2 2018, from 10.6% a year ago.
- The moderation in profitability is widely spread across regions, suggesting that, in part, the steady rise in global fuel prices may be taking its toll. The largest impact on profits is coming from North America and the Asia Pacific. In Europe, margins have also eased, but to a lesser extent.

Industry cash flows steady vs a year ago, but with clear regional differences

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q2 2017 Net cash flow[2]	Q2 2017 Capex	Q2 2017 Free cash flow	Q2 2018 Net cash flow[2]	Q2 2018 Capex	Q2 2018 Free cash flow
14	North America	18.1%	13.9%	4.2%	19.2%	11.3%	7.9%
17	Asia-Pacific	14.5%	19.6%	-5.0%	13.8%	18.6%	-4.8%
9	Europe	21.2%	9.8%	11.4%	19.3%	13.3%	6.0%
7	Latin America	7.9%	7.6%	0.3%	10.4%	10.4%	0.0%
4	Others	23.9%	9.0%	14.9%	16.4%	19.1%	-2.7%
51	**Sample total**	**17.6%**	**13.7%**	**3.9%**	**17.5%**	**13.5%**	**4.0%**

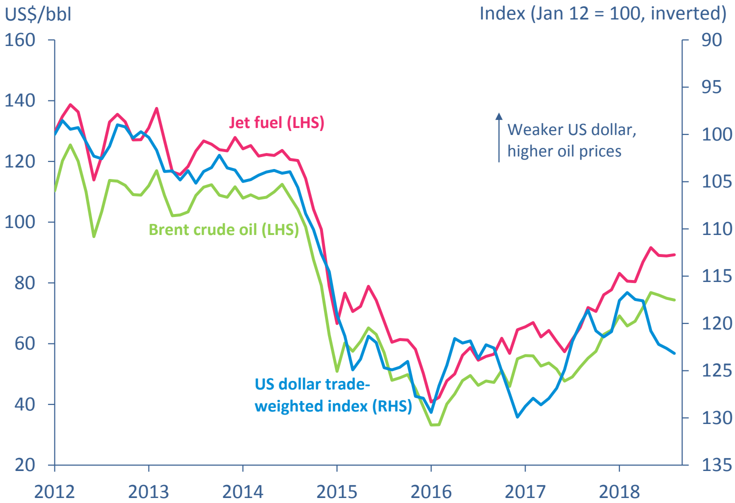
[1] % of revenues *[2] From operating activities*

Sources: The Airline Analyst, IATA

- Our updated sample of airlines (now totaling 51) shows an aggregate cash flow performance that is essentially unchanged in Q2 2018 vs a year ago. Net cash flow is currently 17.5% of revenues and free cash flow 4.0%.
- Airlines in Nth and Latin America both saw a rise in net cash flows vs a year ago, and the former also recorded a solid gain in free cash flow.
- In contrast, European airlines saw free cash flows almost halve, to 6.0% of revenues currently, with this mainly reflecting an increase in capex spend vs a year ago.

Fuel costs

Jet fuel prices were steady in August, even with a modest dip in oil prices

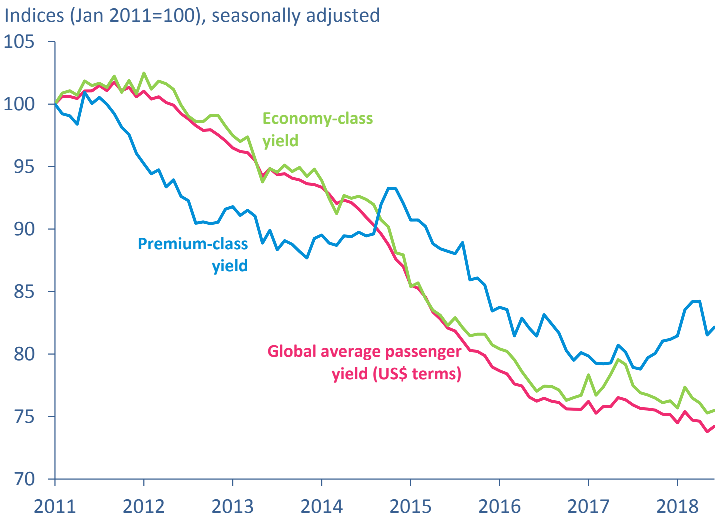


Sources: Platts, Thomson Reuters Datastream

- Overall, jet fuel prices remained steady in August, at just under US$90/bbl – their level of the past three months. Over the same period, oil prices have drifted slightly lower, easing by around 1% per month.
- As a result, the crack spread has widened a little, returning to around 20%, broadly in line with its long-run average.
- The key drivers of the upwards trend in oil & jet fuel prices since early-2017 are the gradual reduction in oil inventories, as well as various geopolitical tensions and uncertainties. In recent months, the stronger US$, geopolitical stability and an announced supply increase by Saudi Arabia has brought some respite in the price up-trend.

Yields and premium revenues

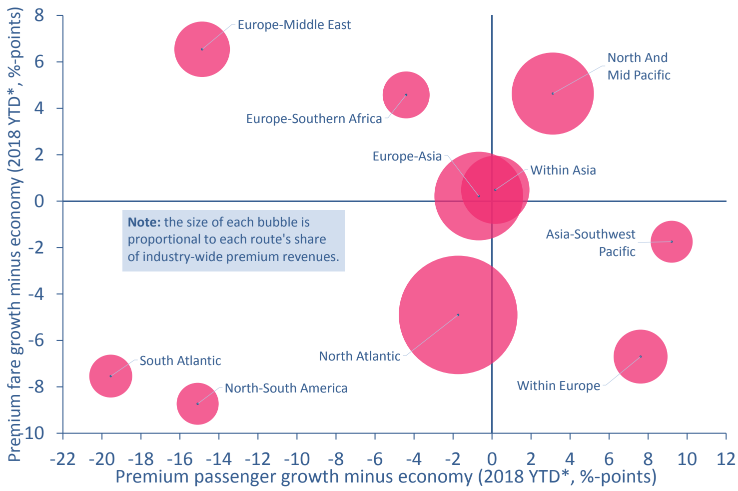
Premium and economy-cabin passenger yields continue to diverge



Sources: IATA Economics, IATA Travel Intelligence

- Global passenger yields (total) continue to trend moderately lower, notwithstanding a small uptick this month. Recall that these data reflect developments in the 'base' airfare only and exclude revenue from surcharges and ancillary services.
- The gap between the premium and economy cabin yields was maintained in the latest data, with the former partly unwinding last month's sizeable decline.
- Going forward, ongoing international trade tensions represent a key source of downside risk both to yields – particularly for the premium-class cabin – and broader industry financial outcomes.

International premium traffic and revenue shares remain stable over the first half-year

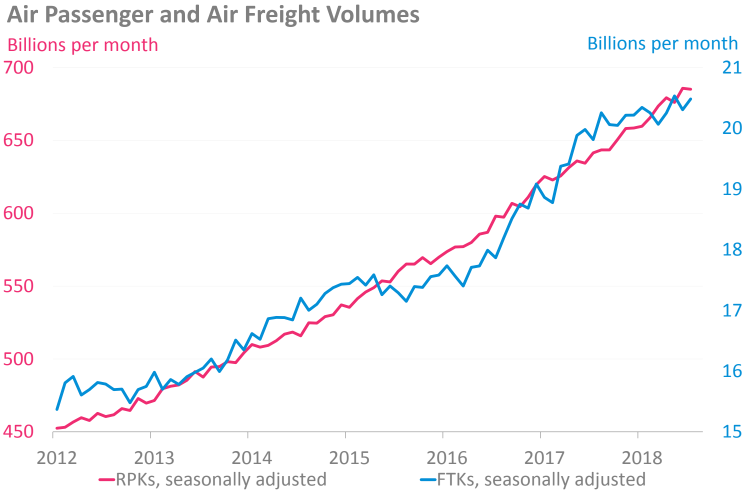


Sources: IATA Economics, DIIO *Up to June 2018

- Premium-class passengers accounted for 5.3% of total international origin-destination traffic in the first six months of 2018 – unchanged from the share seen in the same period of 2017.
- In terms of revenue, premium-class passengers accounted for 31% of passenger revenues over the first half of 2018. Again this figure was unchanged from the same period a year ago.
- Premium passenger growth over the year-to-date has outperformed its economy counterpart most visibly on the Asia-Southwest Pacific and Within Europe markets. For the two largest premium markets (by revenue) – the Nth Atlantic & Europe-Asia – premium pax growth continues to modestly lag developments in the economy cabin.

Demand

Recent trends in passenger & freight volumes were broadly maintained through July

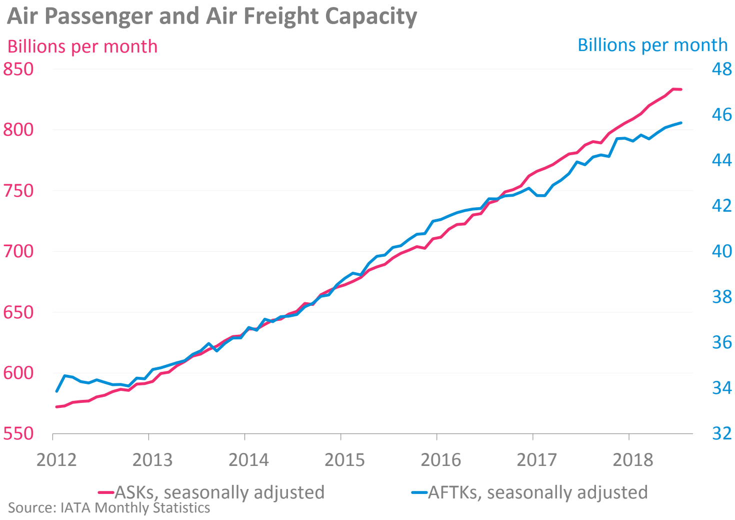


Source: IATA Monthly Statistics

- Industry-wide revenue passenger kilometres (RPKs) grew by 6.2% year-on-year in July – a solid start to the peak northern hemisphere summer, but slowing from a brisk 8.1% in June.
- Passenger volumes have increased by 6.9% over the first seven months of the year compared to the same period of 2017 – in line with the average pace seen over the past five years
- Year-on-year growth in industry-wide FTKs fell to 2.1% in July – its slowest pace since May 2016 and well below the five-year average FTK growth rate (5.1%).
- More broadly, there is little sign of any change in the moderate uptrend in air freight volumes that has now been in place since mid-2017.

Capacity

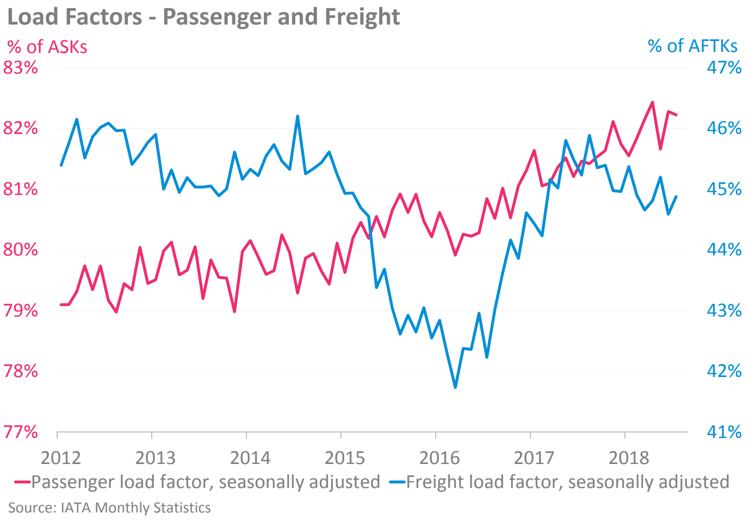
Passenger demand again outpacing capacity; not so for freight



Source: IATA Monthly Statistics

- Industry-wide available seat kilometres (ASKs) grew by a robust 5.5% year-on-year in July. In seasonally adjusted (SA) terms, passenger demand is once again trending upwards slightly faster than capacity.
- Available freight tonne kilometres (AFTKs) grew by a more modest 3.8% year-on-year in July, but nonetheless faster than the corresponding annual demand growth rate for the fourth time in five months.

The divergent trend in the passenger and freight load factors has continued



- With capacity growing more slowly than demand, the (unadjusted) passenger load factor rose by 0.6 percentage points relative to July 2017, to a record-high for the month of July, at 85.2%. (Note that the chart depicts seasonally adjusted data.)
- Higher passenger loads continue to support airline financial performance despite the ongoing softness in passenger yields.
- The converse holds for the freight segment where capacity is outpacing demand. The industry-wide load factor fell by 0.7 percentage points compared to July 2017, continuing its downward trend over recent months. That said, both cargo yields and utilisation remain in good shape, as we noted in the latest quarterly Cargo Chartbook.

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13th September 2018

Get the data

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