AIRLINES FINANCIAL MONITOR

KEY POINTS — FEBRUARY – MARCH 2018

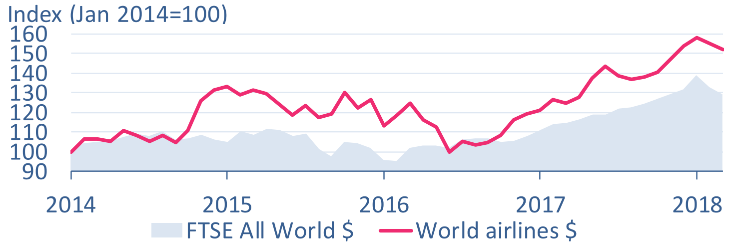
- The final data for Q4 2017 confirms the stabilisation in airline financials in 2H17. The industry-wide EBIT profit margin was a robust 8.7% of revenues in Q4 2017 – effectively unchanged from Q4 2016.
- The broad-based global equity market sell-off in March also impacted airline shares, although the 2% decline for airline was less than the market generally (down 2.4%). Looking through the monthly volatility, airline shares have risen by 22% over the past year, easily outpacing the overall equity market (up almost 13%).
- Oil prices rose in March, recovering some of the ground lost in February. Although jet fuel prices were largely unchanged this month, both oil & jet prices are currently around 30% higher than their level of a year ago.
- As the 2018 Lunar New Year disruption in the data clears, both passenger and freight demand remains robust. Industry-wide capacity is now growing broadly in line with the pace of demand growth.
- The premium cabin accounted for 5.3% of total international origin-destination passenger traffic but almost 30% of revenues in January, highlighting the importance of the premium cabin for airline finances.

Financial indicators

Global airline shares tracked the broader equity market lower in March

Airline Share Prices

US$ indices (Jan 2014=100)	Index Mar 30th	% change on one month	% change on one year	% change on start of year
World airlines	**152.0**	**-2.0%**	**+21.9%**	**-1.1%**
Asia Pacific airlines	134.5	-3.9%	+27.4%	+3.2%
European airlines	143.1	-2.0%	+50.0%	-1.0%
North American airlines	175.5	-0.6%	+6.0%	-5.2%
FTSE All World $	**129.6**	**-2.4%**	**+12.7%**	**-1.4%**



Source: Thomson Reuters Datastream

- Airline share prices ended March an even 2.0% lower than where they started, amidst a broad-based global share market sell-off. Even so, airline shares still outperformed the wider equity index, which fell by 2.4% in the month.
- Outcomes were mixed at the regional level. North American airline shares dipped by just 0.6% in the month, while European & Asia Pacific airlines shares were down 2% and almost 4%, respectively.
- Despite the sizeable decline this month, Asia Pacific airline shares are still a solid 3.2% higher since the start of the year, with their recent performance having been supported by the ongoing robust outcomes in air freight segment.

Final Q4 data confirms EBIT margin broadly unchanged in year-on-year terms

Airline Financial Results

Number of airlines in sample	Regions	Q4 2016 EBIT margin[1]	Q4 2016 Net post-tax profit[2]	Q4 2017 EBIT margin[1]	Q4 2017 Net post-tax profit[2]
16	North America	10.7%	1,994	10.3%	5,477
25	Asia-Pacific	12.9%	2,379	10.6%	3,670
12	Europe	1.2%	1,330	4.6%	-86
7	Latin America	6.9%	102	8.8%	208
4	Others	17.4%	-3	-3.1%	-23
64	**Sample total**	**8.8%**	**5,802**	**8.7%**	**9,246**

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

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

Sources: The Airline Analyst, IATA

- Our final Q4 sample of 64 airlines confirms the key findings from the preliminary data; the industry-wide financial performance stabilized in 2H17, with the EBIT margin essentially unchanged in Q4 2017 from a year previous, at 8.7%. North America and Asia-Pacific airlines have the highest margin (at 10.6% and 10.3%, respectively), followed closely by the European carriers (8.8%).
- At the same time, the level of industry-wide net post-tax profit increased solidly, to $9.2bn, driven primarily by an improved performance from the North American airlines.

Net cash flow returns to double-digits in Q4 2017, supports improved free cash flow

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q4 2016 Net cash flow[2]	Q4 2016 Capex	Q4 2016 Free cash flow	Q4 2017 Net cash flow[2]	Q4 2017 Capex	Q4 2017 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* [2] *From operating activities*

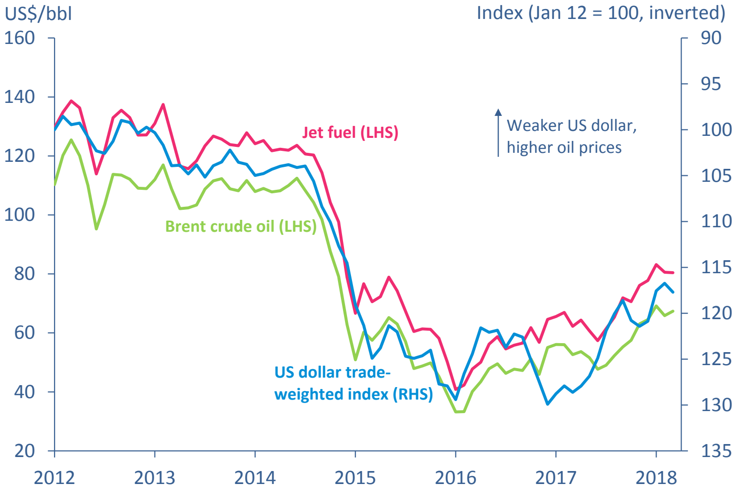
Note: Includes half-year results of Air New Zealand, Cathay Pacific Airways, Qantas and Virgin Australia

Sources: The Airline Analyst, IATA

- Industry-wide free cash flows (FCF) in our sample of 47 airlines increased to -2.8% of revenues in Q4 2017, up from -6.7% for the equivalent sample in Q4 2016. (Note that seasonal effects mean that free cash flow tends to be negative during the final quarter of each year.)
- This outcome reflected a combination of both an increase in net cash flow from operations (to 10.8% of revenue, from 8.4%) and a moderate decline in capex spending (to 13.6% of revenue, from 15.1%).
- As usual, within the industry-wide estimate, there was a range in performance at the regional level. Negative FCF outcomes in Nth America & Europe were mostly offset by positive outcomes elsewhere.

Fuel costs

Brent oil prices recover somewhat in March, now up almost 30% on a year ago

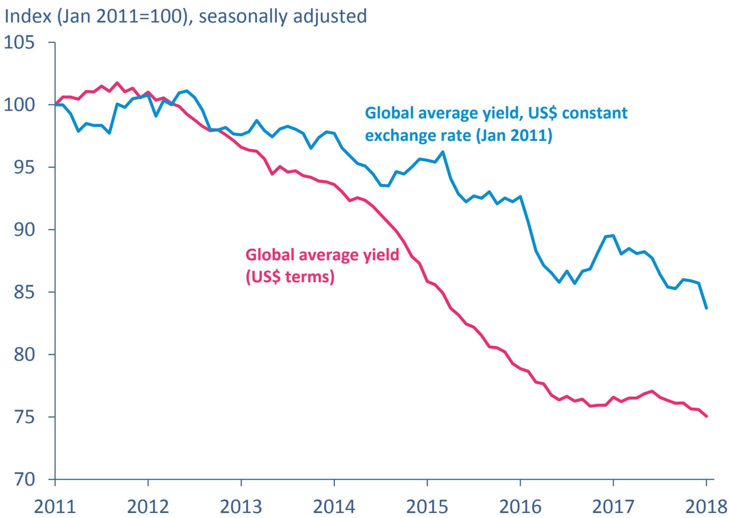


Sources: Platts, Thomson Reuters Datastream

- World oil prices increased moderately in March, with the Brent crude benchmark rising by 2.3% and retracing around half of last month's solid decline.
- In contrast, jet fuel prices were largely unchanged this month, but recall that they did not fall as sharply as crude oil prices in February.
- Both crude oil and jet fuel prices are currently almost 30% higher than their level of a year ago, although, the upwards trend in both has paused in recent months.
- The oil price futures curve continues to suggest that financial markets do not expect significant change in oil prices over the next 12-18 months. A modest decline is currently priced in by financial markets, to around US$62-65/bbl.

Yields and premium revenues

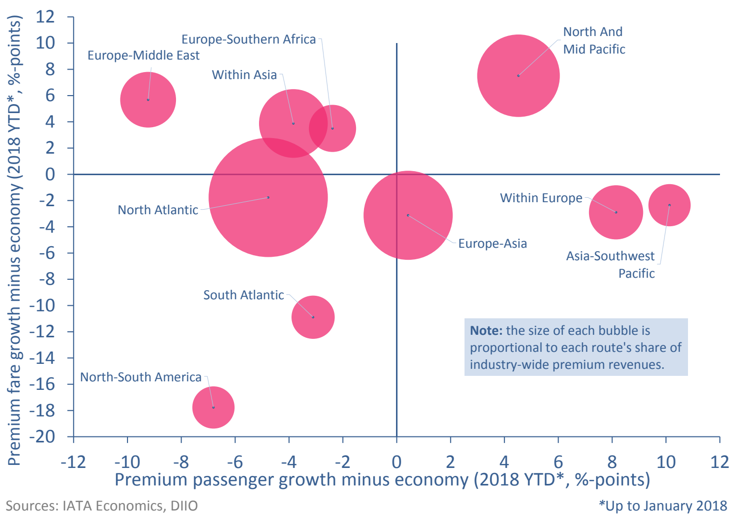
Passenger yields (excl surcharges & ancillaries) ease despite pressure on key input costs



Sources: IATA Economics, IATA Travel Intelligence, Thomson Reuters Datastream

- Following a pause from around mid-2016, recent data point to a modest downward trend in passenger yields reasserting itself. In US$ terms, yields are currently 2.0% lower than a year ago.
- Note that these data relate to developments in the 'base' airfare only and exclude airline passenger revenue from sources including surcharges and ancillary services.
- Airline-level financial data for Q4 paints a mixed picture, however there are indications that – at least for some carriers – these other sources of passenger revenue have helped to offset the decline in passenger yields over the past year and supported the ongoing robust industry-wide financial performance.

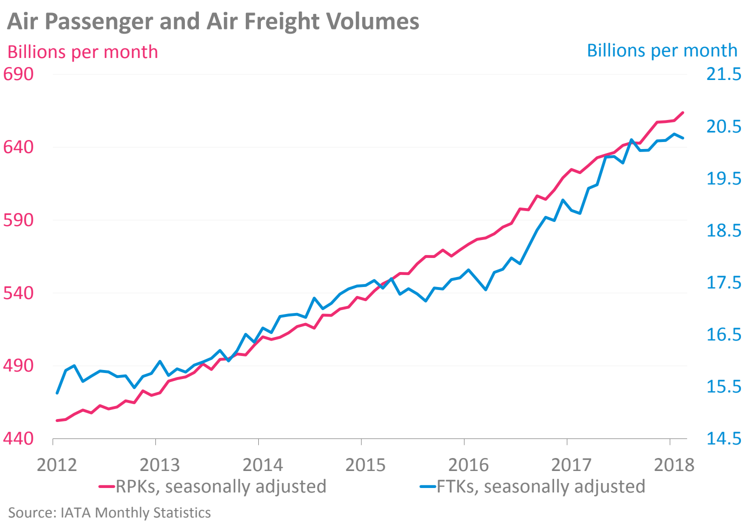
Premium class volumes and revenues in line with that of a year ago



- The share of international O-D passengers flying in the premium-class cabin was 5.3% of the total in January, in line with the outcome for 2017 as a whole but slightly below the January reading for last year (5.4%).
- Highlighting the importance of the premium cabin to airline financial performance, premium revenues accounted for 29.6% of the total in January 2018; again, only a tick below the outcome for last year (29.7%).
- As usual, the performance across the key markets was varied. Premium-class demand was strongest for the Asia-Southwest Pacific and Within Europe markets. In contrast, demand was softest for Europe-Middle East and North-South America.

Demand

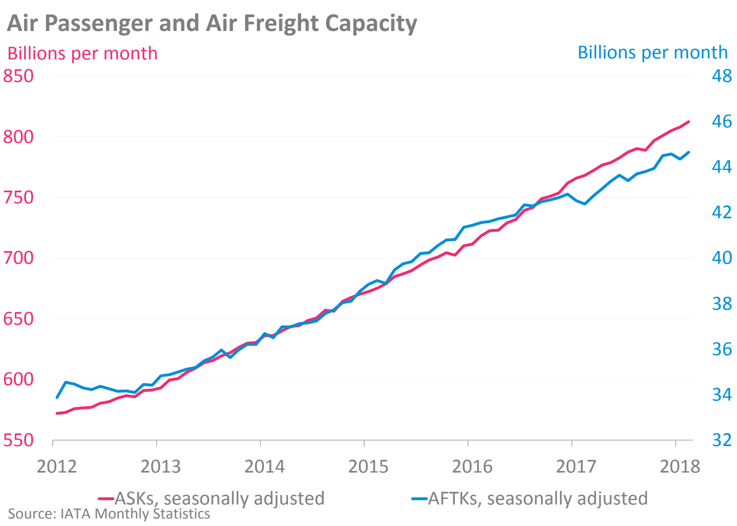
Passenger demand rebounds in February, freight delivers its best start to a year since 2015



- As expected, year-on-year growth in air passenger volumes rebounded in February, with industry-wide revenue passenger kilometres (RPKs) increasing by 7.6% year-on-year, up from 4.6% in January. The (changing) timing of Lunar New Year (LNY) is always a factor at the start of the year.
- Industry-wide freight tonne kilometres (FTKs) increased by a robust 6.8% year-on-year in February, down from 8.5% in January. However, taking Jan and Feb together (which helps to adjust for the LNY disruption), FTKs rose by a robust 7.7% year-on-year – the strongest start to a year on this basis since 2015.

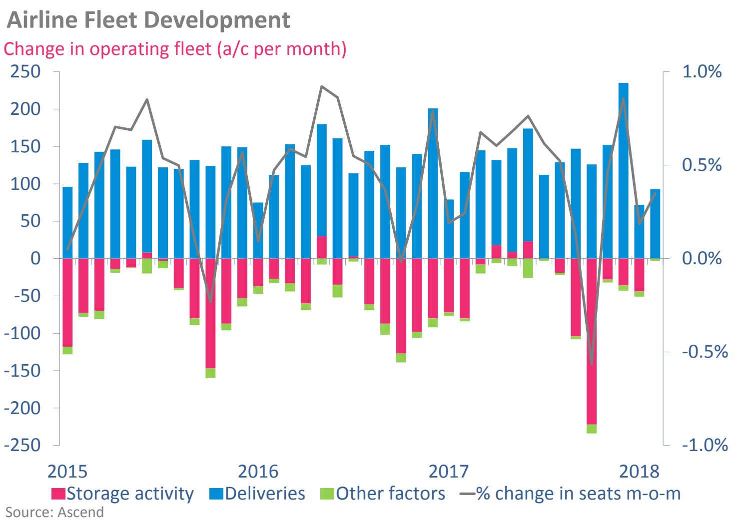
Capacity

Capacity is currently rising broadly in line with demand



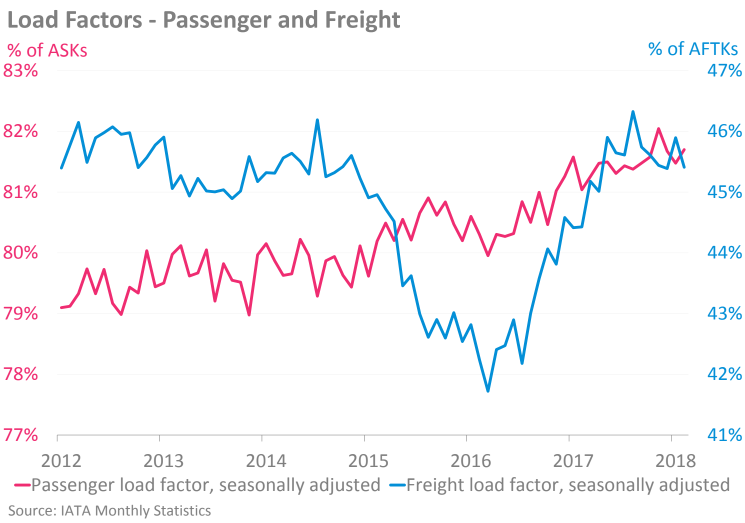
- Industry-wide available seat kilometres (ASKs) increased by 6.3% year-on-year in February 2018 and, in SA terms, are broadly continuing the trend that has been in place since late 2016.
- Available freight tonne kilometres (AFTKs) grew by 5.6% year-on-year in February 2018 – also remaining below the pace of demand.
- Having said that, in SA terms, following a sustained period where growth in demand readily outstripped capacity – for both the passenger and freight segments – the two series are now increasing more closely in line with one another.

Another month of modest expansion in the passenger fleet in February



- The number of available seats in the global airline fleet increased by 0.3% month-on-month in February, and by 5.4% compared to the same month in 2017.
- 93 aircraft were delivered in the month, compared to 116 in February 2017. The later timing of Lunar New Year in 2018 may have had an effect, although 30 fewer aircraft were delivered in the Jan-Feb period combined relative to a year ago (165 vs. 195).
- The number of aircraft returning to the fleet from storage in February (98) was fully offset by the same number being placed into storage.

Passenger load factor remains near a record high; freight loads rise in January



- In February, the passenger load factor increased by a sizeable 0.9 percentage points compared to the same period in 2017, taking it to a record high for the month, at 80.4%.
- More generally, however, in SA terms ASKs and RPKs have both trended upwards at a similar pace in recent months, leading to a pause in the increase of the SA load factor.
- The industry-wide freight load factor also increased in the month, rising by 0.5 percentage points in February, to 44.4%.
- In SA terms, the slowdown in the upward trend in freight volumes (FTKs) means that capacity has started to outpace the growth in demand in recent months; the SA load factor has eased a little accordingly.

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11th April 2018

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