

AIRLINES FINANCIAL MONITOR

KEY POINTS

MARCH 2017 – APRIL 2017

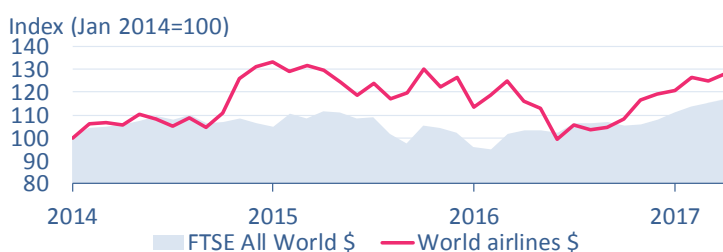
- Global airline share prices rose by 2.5% in April, partly reflecting expectations that the squeeze on margins will diminish. The monthly increase was driven by European airlines, with modest increases in Asia-Pac and N America.
- The initial financial results from Q1 2017 highlight the extent that airline profit margins were squeezed in the opening months of the year by a combination of higher costs and weak yields.
- Brent crude oil prices fell sharply in mid-April, and dropped below US\$50/bbl in early-May for the first time since the end of November. Forward markets still expect oil prices to rise only gradually over the next 2-3 years.
- Passenger yields remain well below their level a year ago, but there are ongoing signs that the long-standing downward trend in the seasonally adjusted series may be bottoming out.
- Passenger and freight demand growth has made a strong start to 2017. The passenger load factor remains steady close to a record high level, while the freight load factor has recovered back to levels last seen in early-2015.
- Premium fares continue to hold up better than those of the economy cabin, supporting airline finances.

Financial indicators

Global airline share price index rose in April to their highest level in 18 months

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Apr 28th	% change on		
		one month	one year	start of year
World airlines	127.8	+2.5%	+10.0%	+7.2%
Asia Pacific airlines	106.0	+0.4%	-4.2%	+12.7%
European airlines	105.3	+10.4%	+0.0%	+22.2%
North American airlines	166.7	+0.7%	+23.3%	-1.7%
FTSE All World \$	116.6	+1.4%	+13.0%	+7.9%



Source: Thomson Reuters Datastream

- Global airline share prices rose by 2.5% in April, taking them to their highest level since October 2015. The global airline index has now risen by 10% over the last year, just below the 13% increase seen in global equities over the same period.
- The increase in airline share prices was driven by European airline share prices, which jumped by 10.4% following signs of an improved trading environment in the region. European airline shares are now unchanged from levels seen a year ago.
- The Asia-Pac airline index rose by a modest 0.4% in April, but have gained 12.7% since the start of the year, helped by the recent strength of air freight. By contrast, North American airlines shares have fallen by 1.7% since the start of 2017, but remain more than 23% higher than where they stood last year.

Initial financial results from Q1 2017 highlight the squeeze on industry profit margins

Airline Financial Results

Number of airlines in sample	Regions	Q1 2016		Q1 2017	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
11	North America	15.4%	3,117	8.0%	1,550
4	Asia-Pacific	5.7%	134	2.1%	97
6	Europe	-0.5%	-202	-0.3%	-478
3	Others	9.2%	54	-1.5%	-89
24	Sample total	9.6%	3,103	4.8%	1,080

¹% of revenues ²US\$ million

Sources: The Airline Analyst, ATW, IATA

- The initial financial results from Q1 2017 highlight the extent that airline profit margins were squeezed by higher costs and weak yields at the start of this year.
- The EBIT margin in our small sample of 24 airlines halved to 4.8%, from 9.6% in Q1 2016. EBIT margins were lower in year-on-year terms in all regions except Europe (where Q1 is the seasonal low-point for profitability).
- Upward pressure on airline costs mean that the operating environment will remain challenging. But with yields looking to have stabilized, the squeeze on margins may ease over the period ahead.

Negative free cash flow in Q4 2016, but still broadly in line with Q4 2015

Airline Cash Flow¹

Number of airlines in sample	Regions	Q4 2015			Q4 2016		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
15	North America	9.5%	14.8%	-5.3%	8.2%	14.4%	-6.1%
19	Asia-Pacific	17.7%	25.1%	-7.4%	14.5%	21.9%	-7.4%
9	Europe	2.3%	11.2%	-8.9%	3.1%	11.8%	-8.7%
4	Latin America	13.0%	18.0%	-5.0%	10.7%	8.9%	1.8%
2	Others	19.0%	5.4%	13.7%	12.0%	16.4%	-4.4%
49	Sample total	9.7%	16.2%	-6.5%	8.4%	15.0%	-6.6%

¹ % of revenues

² From operating activities

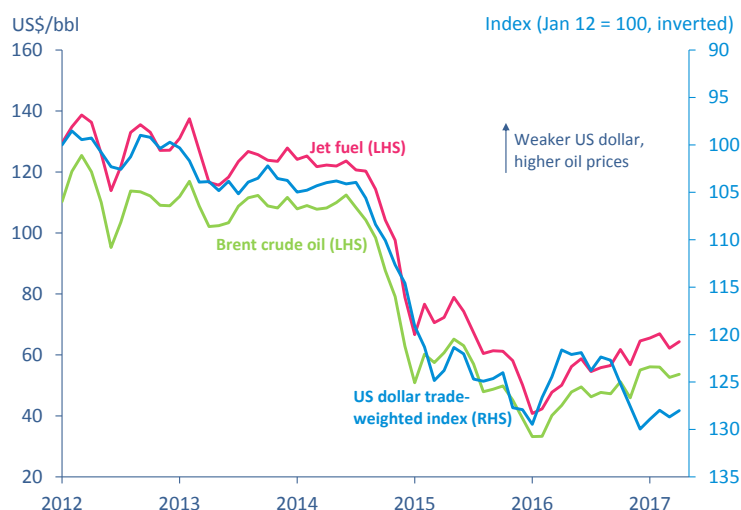
Note: Includes Air New Zealand, Comair Limited, Qantas Airways, Regional Express, Virgin Australia, China Southern and Cathay Pacific half-year results.

Sources: The Airline Analyst, IATA

- At the time of writing there were not enough announcements to focus on developments in Q1.
- Of the 49 airlines reporting data in Q4 2016, net cash flow from operations fell moderately in year-on-year terms – by 1.3 percentage points, to a still robust 8.4% of revenue.
- Capital expenditure was a little lower than in the previous year as well (down 1.2 percentage points to 15.0% of revenue), leaving free cash flow almost unchanged from Q4 2015.

Fuel costs

Brent oil prices fell back sharply during April, dropping below US\$50/bbl in early-May

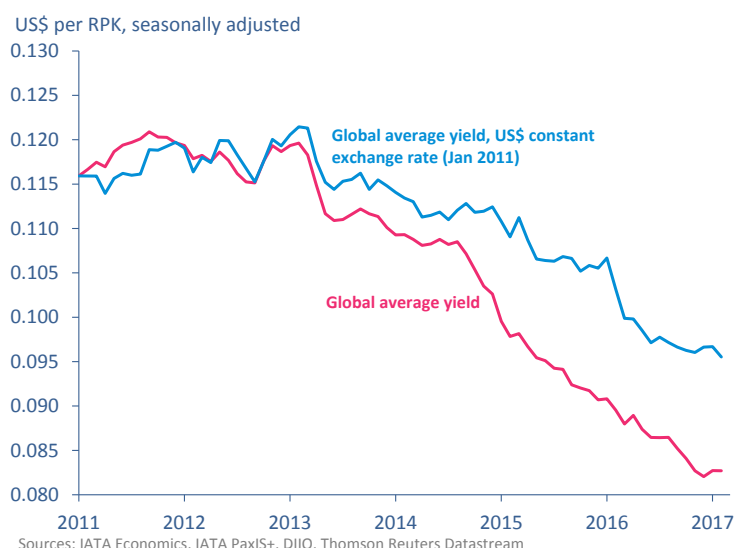


Sources: Platts, Thomson Reuters Datastream

- Oil prices fell sharply during the second half of April, driven by strong global supply conditions. While the monthly average price of Brent crude was slightly higher than that in March, the price fell by nearly 10% between the middle and the end of the month. The declines extended into early-May, with Brent falling below US\$50/bbl in early-May for the first time since late-November.
- Signs that OPEC will extend their agreement to limit oil supply beyond the initial six-month period (which is due to finish at end-June) have provided some support for oil prices since. But the bigger picture is that financial markets are still only expecting a modest increase in oil prices from current levels over the medium to long term.

Yields and premium revenues

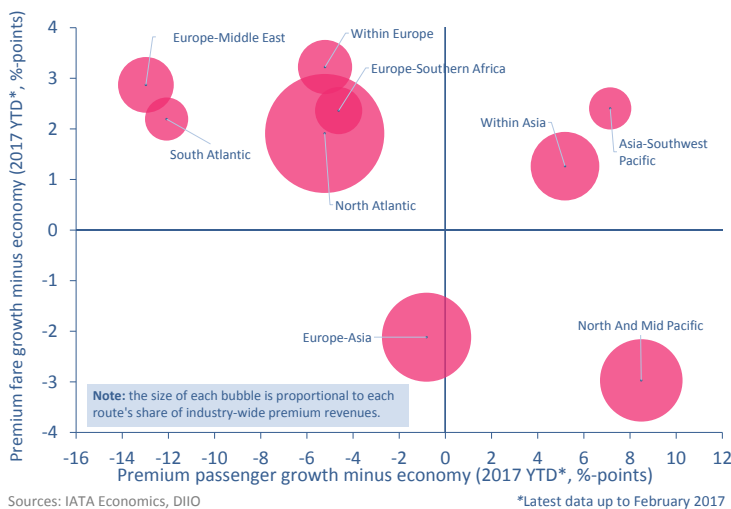
Ongoing signs that industry yields may have bottomed out



Sources: IATA Economics, IATA PaxIS+, DIIQ, Thomson Reuters Datastream

- Passenger yields remain well down compared to their year-ago levels; down around 8% year-on-year in both the headline measure and when measured in constant exchange rate terms.
- However, the most recent data provide a little more confidence that the downward trend in seasonally adjusted yields is bottoming out, and that yields may start trending higher, alongside the trend increase observed in some key input costs.
- This is consistent with the results from our latest *Business Confidence Index*, which was conducted in early-April. 45% of respondents reported that they expect passenger yields to increase over the year ahead, up from 23% last time (see [link](#)). Moreover, the respondents expect passenger yields to keep pace with costs over the next 12 months (see [link](#)).

Premium traffic is an important contributor to airline financial performance

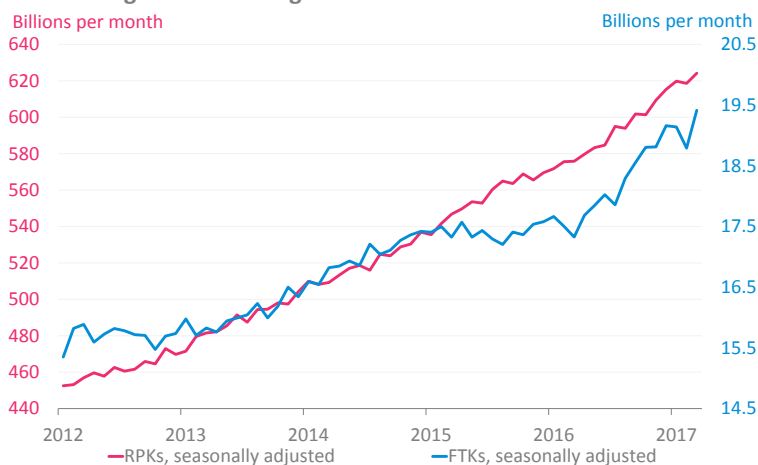


- ➔ Premium O-D int'l journeys accounted for 5.4% of the global total over the first two months of 2017, compared to 5.6% in the same period of 2016.
- ➔ Annual growth in premium passenger traffic has lagged behind its economy counterpart in most of the main premium markets so far this year, although premium travel is growing robustly Within Asia and across the Pacific.
- ➔ Premium airfares have generally held up better than those in economy. Of the main premium markets, in only two (Europe-Asia and North and Mid Pacific) markets did the premium fares underperform economy. This highlights the importance of premium cabin revenues to support overall financial performance: indeed, premium traffic accounted for 26.5% of passenger revenues in Jan-Feb 2017, up from 26.2% a year ago.

Demand

Passenger and freight volumes post strong annual growth in the first three months of 2017

Air Passenger and Air Freight Volumes

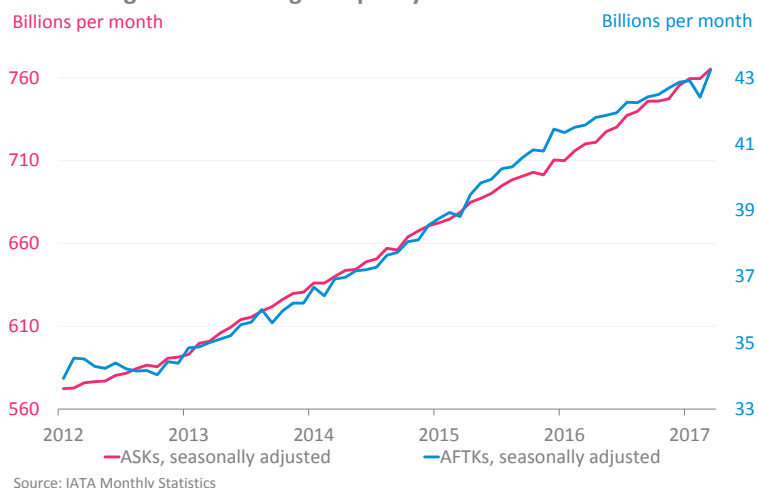


- ➔ Both passenger and freight posted strong year-on-year growth in traffic in Q1 2017: industry RPKs were 7.0% higher than in the same period a year ago (around 8.1% adjusting for the fact that there was one fewer day in February 2017 than there was the previous year). Meanwhile, FTKs grew by 9.7% year-on-year in Q1 2017 – closer to 11% allowing for the effect of the leap year.
- ➔ In seasonally adjusted terms, freight volumes bounced back in March following February's decline, and there was an uptick in passenger volumes too.

Capacity

The upward trend in passenger and freight capacity has continued to moderate

Air Passenger and Air Freight Capacity

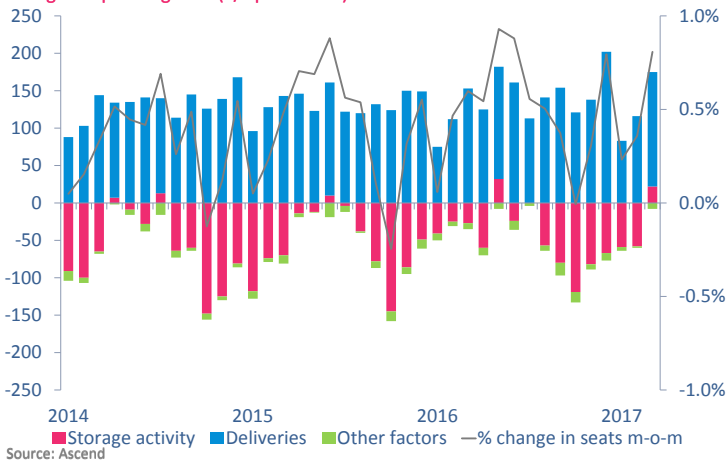


- ➔ Industry-wide available seat kilometres increased by 6.1% year-on-year in March. Airlines have slowed the pace of capacity growth over the recent past: ASKs have trended upwards at an annualized rate of 5.2% over the past six months, compared to 7.4% for demand.
- ➔ Meanwhile, available freight tonne kilometres grew by 4.2% year-on-year in March. Adjusting for the leap year effect, we estimate that AFTKs have grown by around 3.7% in annual terms in 2017 to date – around one-third of the pace of demand.

A solid rise in the number of available seats in March

Airline Fleet Development

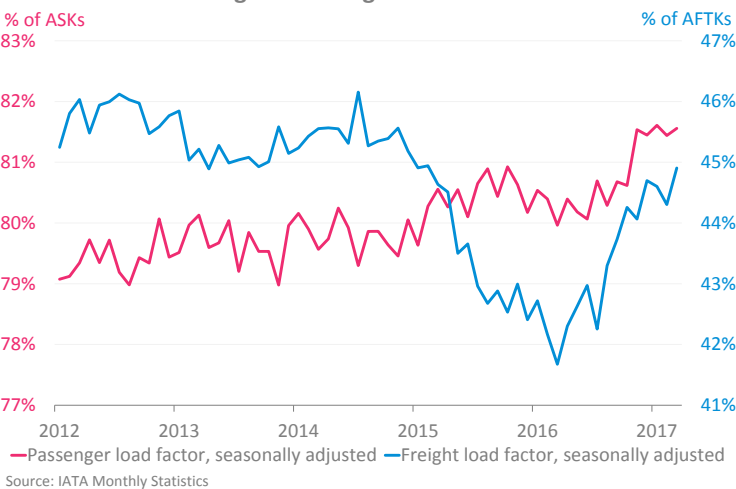
Change in operating fleet (a/c per month)



- The number of available seats in the global airline fleet increased by 0.8% month-on-month in March, and by 6.5% compared year-on-year.
- 153 new aircraft were delivered in March – the same as were delivered in March 2016. The timing of holiday periods, particularly in China, can affect aircraft delivery schedules at the start of each year.
- Looking across the first quarter as a whole, 352 aircraft were delivered in the first three months of 2017, compared to 340 during the same period last year.

Passenger load factor steady near record high, alongside ongoing recovery in freight loads

Load Factors - Passenger and Freight



- The passenger load factor has held on to the gains made in late-2016, and remains steady close to a seasonally-adjusted record high.
- The industry-wide freight load factor has risen by more than three percentage points over the past year and, in seasonally adjusted terms, is currently back to levels last seen in early-2015.

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 11th May 2017

Get the data

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www.iata.org/monthly-traffic-statistics

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