PROFITS DIP BUT STILL ROBUST IN 2017; REGIONAL DIVERGENCE REMAINS

Our latest industry outlook includes updated financial forecasts; the global airline industry is expected to generate an operating profit of $55.7 billion in 2017. Although this represents a downgrade from the level of the last two years (around $61-62 billion in 2015 and 2016, respectively), it is an upward revision for 2017, compared with our initial December estimate of $48.5 billion.

This figure represents a relatively good EBIT (operating) margin of 7.5%, on industry revenues estimated at $743 billion in 2017. For the third consecutive year, the industry is forecast to generate a return on invested capital (ROIC) which exceeds the cost of that capital (WACC), at 8.8% vs 7.3%. The gap, however, is expected to narrow in 2017 to 1.5 percentage points, as returns ease and the cost of capital rises.

At the regional level, the profit outlook is a very mixed picture. The financial performance of North American airlines continues to lead the way, generating around 45% ($25 billion) of the total industry profit. Asia Pacific and European airlines follow, with a forecast operating profit 18.0 billion and 10.4 billion, respectively in 2017. For Asia Pacific, the outlook is bolstered by the improvement in air freight, which generally accounts for a larger share of airline operations in this region. For Europe, an improved economic backdrop helps to support another solid performance.

In Latin America, expected recovery in both economic and industry conditions should help airlines to see a small lift in operating profits this year, up $200 million to $1.5 billion. In contrast, profits in the Middle East are likely to ease again in 2017 to just $500 million, amidst signs of a slowing in demand across a number of key routes. In Africa, operating conditions remain challenging and a small operating profit of $300 million is forecast in 2017, on par with last year; performance in the region is improving, but only slowly.