

AIRLINES FINANCIAL MONITOR

KEY POINTS

December 2015-January 2016

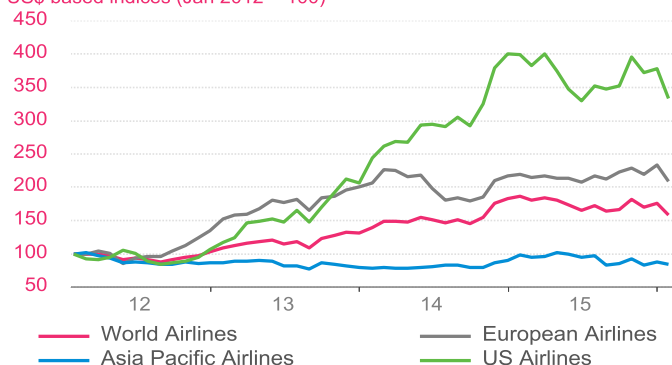
- Worldwide airline share prices fell by 10% in January, alongside widespread sell-offs in global financial markets;
- Airline financial results from Q4 2015 point to a strong end to 2015, with strong improvements in North America and Europe. Weakness on the cargo side means that Asia Pacific airlines saw the smallest improvements;
- Crude oil prices dropped to a 12-year low during January, reflecting a combination of heightened concerns over excess supply in the market and signs of weakness on the demand side too. If sustained, the most recent declines in oil prices would reduce the industry's annual fuel bill by approximately \$12 billion in 2016;
- After adjusting for the distortionary impacts from the rise in the US dollar over the past 18 months or so, global air fares fell by around 5% in annual terms in 2015. Recent falls in oil prices mean that further falls in air fares are likely to be seen in 2016 as hedging contracts unwind, which will help to stimulate demand over the year;
- Passenger traffic in 2015 enjoyed its strongest growth in five years. The passenger load factor averaged a record high over the year, which alongside a lower breakeven load factor, helped to drive strong financial performance;
- By contrast, the cargo side of the business had a fitful year, with volumes ending the year just 0.5% higher than they started it. The freight load factor has settled at a six-year low, keeping intense pressure on cargo yields.

Financial indicators

Worldwide airline shares fell by 10% in January, underperforming global equities

Airline Share Prices

US\$ based indices (Jan 2012 = 100)



Source: Thomson Reuters Datastream

- Airline share prices fell by 10.4% in January, alongside widespread sell-offs in global financial markets based on heightened concerns about the health of the global economy. All of the three regional airline share price indices that we track declined, with the largest proportional fall seen by US carriers (-11.8%).
- Airline stocks underperformed global equities in January: the FTSE Global All Cap index fell by 6.3% over the same period. This underperformance indicates that investors expect airlines' financial performance to deteriorate as a result of weaker economic prospects.

Q4 financial results point to a strong end to 2015

In US \$ Million

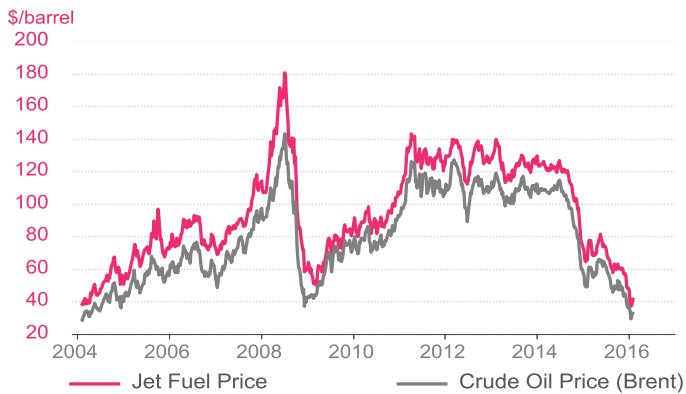
# Airlines	Regions	Q4 2014		Q4 2015	
		EBIT margin	Net post-tax profit	EBIT margin	Net post-tax profit
7	North America	11.0%	1,903	16.9%	3,091
5	Asia-Pacific	9.2%	449	10.1%	540
2	Europe	5.9%	86	9.0%	130
14	Sample total	10.4%	2,438	15.2%	3,761

- This view appears at odds with the latest financial results, and we still expect a strong financial performance for the industry in 2016.
- We only have Q4 2015 results from 14 airlines so far, but net post-tax profits in this sample were over 50% higher than in the same quarter in 2014, representing an operating margin of 15.2%. As in previous quarters, the strongest results were posted by North American airlines, but margins and profitability increased for the Asia Pacific and European airlines in our sample too, albeit more modestly.

Fuel costs

Crude oil prices fell to a 12-year low in January

Jet Fuel and Crude Oil Price

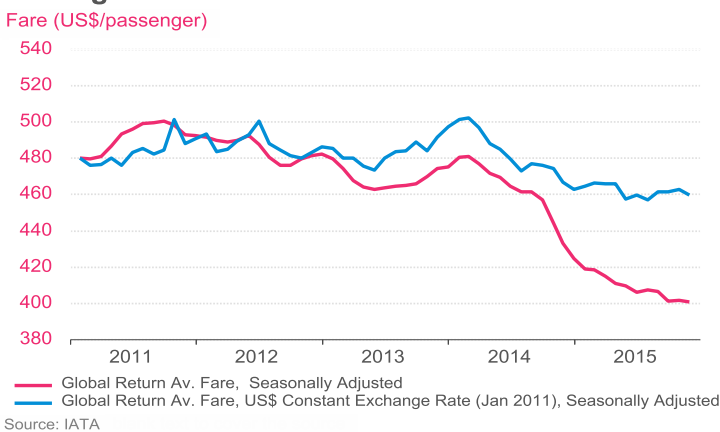


- Brent crude oil prices fell to a 12-year low of \$26/bbl during January, before recovering slightly by the end of the month. The recent falls in crude oil prices reflect ongoing concerns of over-supply in the market, exacerbated by additional supply coming on stream from Iran. Moreover, the demand outlook appears to have weakened too amid slower growth in key energy-consuming countries and near-record high storage levels.
- If sustained, the falls in oil prices seen over the past three months would reduce the industry's annual fuel bill by approximately \$12 billion in 2016, although hedging will delay these benefits.

Yields

Lower fuel costs have translated into lower airfares, and have served to stimulate demand

Average Return Fare Worldwide

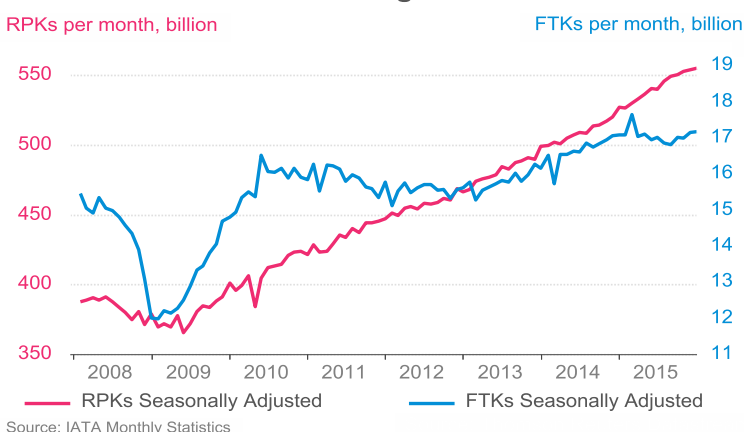


- Average global fares in reported US dollar terms were 12% lower in the first 11 months of 2015, compared to the same period in 2014. The strong appreciation in the US dollar over the period has exaggerated the downward trend in airfares: adjusting for the currency effect, nominal global fares were approximately 5% lower than in 2014.
- The downward trend in air fares eased towards the end of last year after oil prices settled for a period around \$45/bbl. However, recent falls in oil prices and competitive pressures within the industry are likely to translate into further declines in fares during 2016 as fuel hedges unwind.

Demand

Passenger traffic grew strongly in 2015, while cargo volumes broadly tracked sideways

Total Air Travel and Air Freight Volumes



- Global air passenger traffic grew by 6.5% in 2015 as a whole – its fastest pace since 2010. The outcome was set against a slightly weaker economic backdrop than in 2014, but was boosted by the fall in global air fares. Annual growth eased in the final months of the year, partly reflecting airline strikes in Europe, but we expect another strong year in 2016.
- By contrast, air freight volumes expanded by just 2.2% in 2015. The downward trend in volumes that was a feature of the first half of the year looks to have bottomed out, with volumes up by 2% in seasonally adjusted terms from their August low. But volumes ended the year just 0.5% higher than they started it, and with global trade growth remaining weak, the wider backdrop for cargo remains fragile.

Air Passenger Forecast service
The new joint venture between IATA and Tourism Economics

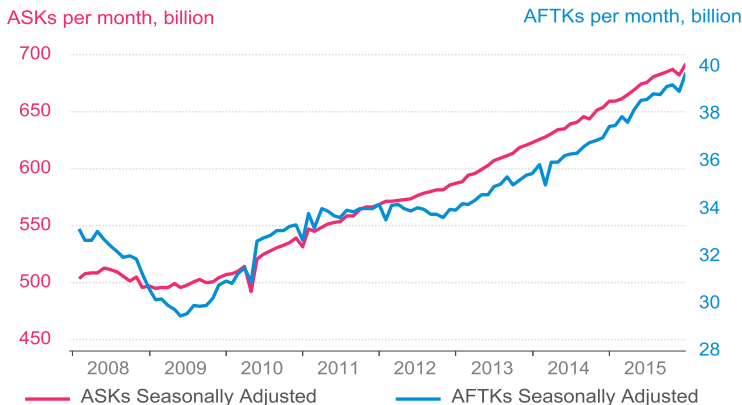
including comprehensive country-by-country fuel

TOURISM ECONOMICS
IATA

Capacity

Capacity growth lagged behind demand growth in most regions in 2015

Total Passenger and Freight Capacity

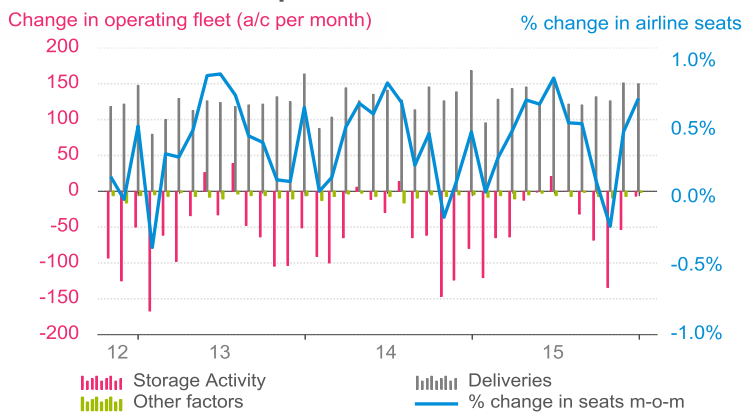


Source: IATA Monthly Statistics

- Airlines reacted to robust travel demand by adding capacity cautiously. Global passenger capacity increased by 5.6% in 2015 as a whole. Demand growth outstripped capacity growth in all regions except the Middle East, where capacity surged by 12.6%.
- By contrast, air freight capacity grew nearly three times faster than cargo demand in 2015 (6.1% vs. 2.2%). This partly reflects the ongoing delivery of wide-body passenger aircraft with large amounts of belly capacity.

Increase in passenger capacity driven mainly by additional seats entering the global fleet

Airline Fleet Development



Source: Ascend

- The number of available seats in the global airline fleet increased by 0.7% in December compared to the previous month, and by 5.1% in 2015 as a whole.
- 150 new aircraft were delivered in December – broadly unchanged from the number made in November. There has also been a marked reduction in the negative influence from storage activity in recent months. This was driven mainly by fewer aircraft going into storage, as lower oil prices make it economical to keep flying less fuel-efficient aircraft.

Trends in passenger and freight load factors diverged throughout 2015

Load Factors - Passenger and Freight



Source: IATA Monthly Statistics

- The industry passenger load factor dropped back sharply in December to 80.3% on a seasonally adjusted basis, thereby reversing the strong gain seen in November. The bigger picture is that the load factor averaged a record high in 2015, while the breakeven load factor declined as unit costs came down. This combination supported the strong financial results achieved in 2015.
- By contrast, the industry freight load factor fell to 43.2% in December – its lowest level since May 2009. The declining trend has levelled off in recent months, but cargo yields remain under pressure. This helps to explain why Asia Pacific carriers – for whom cargo is a key part of their business – saw the least improvement in operating margins in the final quarter of 2015.

Data tables

Year on Year Comparison	Dec 2015 vs. Dec 2014						2015 vs. 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	10.5%	7.8%	70.6%	-8.4%	17.6%	27.4%	2.9%	1.4%	69.3%	1.2%	5.3%	29.7%
Asia/Pacific	7.4%	6.6%	77.8%	0.1%	4.4%	53.9%	8.6%	6.7%	78.6%	2.3%	5.7%	53.9%
Europe	2.6%	2.8%	77.7%	1.2%	7.3%	45.8%	5.1%	3.9%	81.7%	-0.1%	4.4%	44.9%
Latin America	4.7%	4.4%	80.1%	-6.2%	-1.3%	39.2%	6.7%	6.4%	79.9%	-6.0%	1.8%	38.3%
Middle East	9.0%	10.3%	76.8%	4.0%	9.9%	41.8%	10.0%	12.6%	76.7%	11.3%	15.7%	42.8%
North America	3.8%	3.6%	82.8%	1.4%	6.6%	34.1%	4.3%	3.8%	84.0%	0.1%	3.8%	34.3%
Total Market	5.4%	5.3%	78.8%	0.8%	6.5%	43.9%	6.5%	5.6%	80.3%	2.2%	6.1%	44.1%

RPK: Revenue-Passenger-Kilometers; ASK: Available-Seat-Kilometers; PLF: Passenger-Load-Factor; FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;
All Figures are expressed in % change Year on Year except PLF and FLF which are the load factors for the specific month, and not seasonally adjusted

Air Passenger Forecast service
The new joint venture between IATA and Tourism Economics

Including comprehensive forecasts down to a country-pair level

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