



Airline financial performance

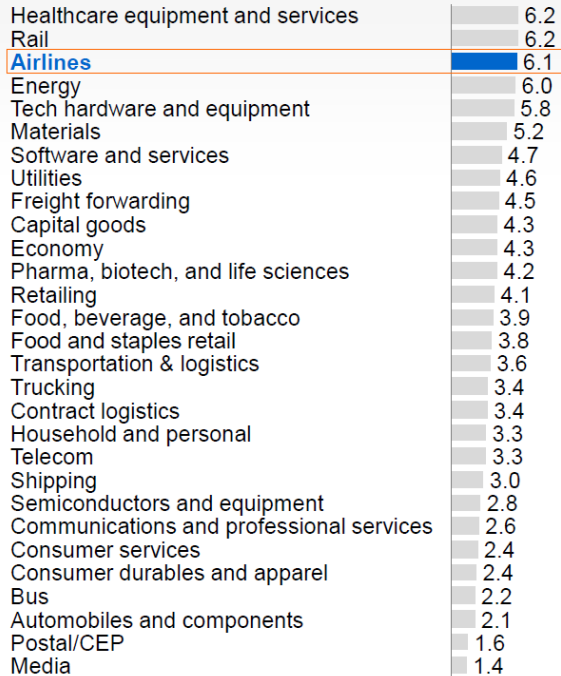
30 March 2017

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www.iata.org/economics

The air transport paradox

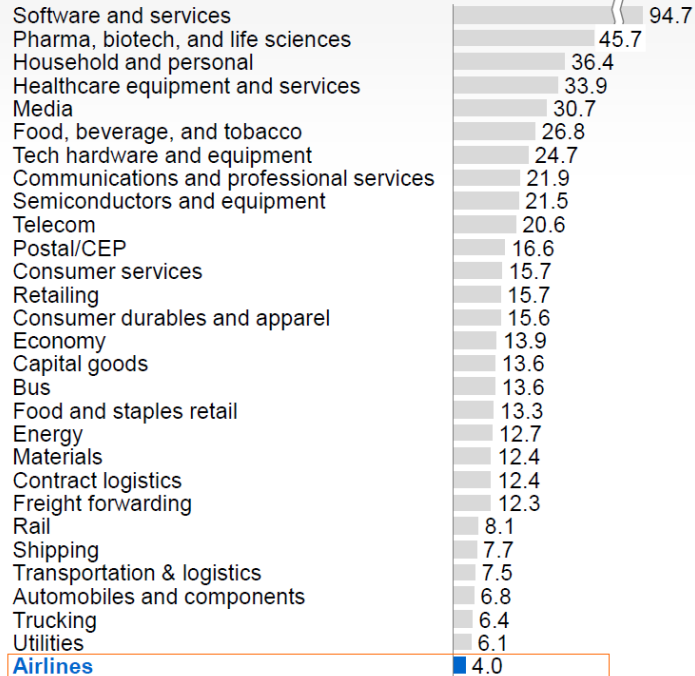
Revenue growth¹

Industry total for each year, 2004 - 13 CAGR, percent



ROIC² excluding goodwill (average)

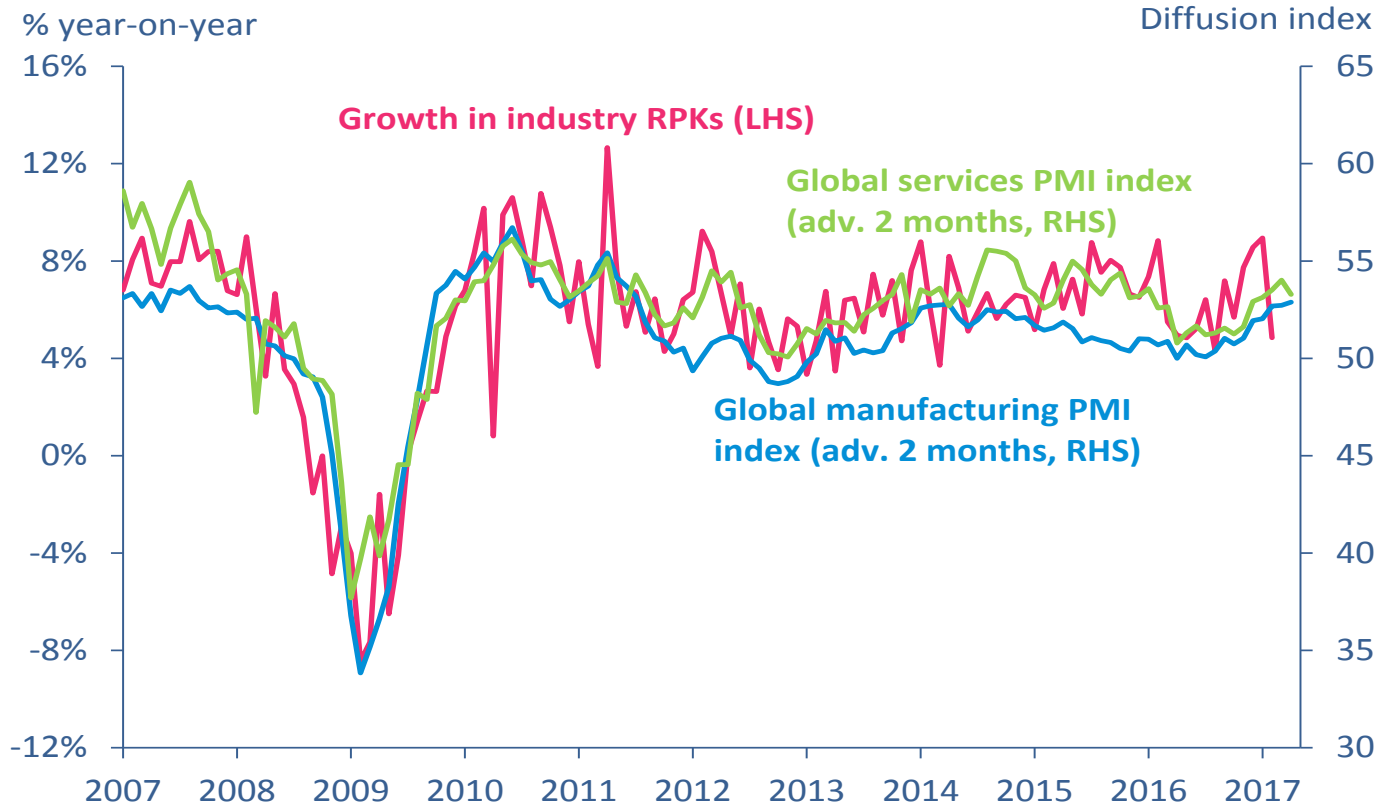
Industry aggregate, 2004 - 13 simple average, percent



¹ Real revenue growth, 2004 - 13 CAGR inflation adjusted, median for industry

² ROIC after tax, excluding goodwill; excludes outliers

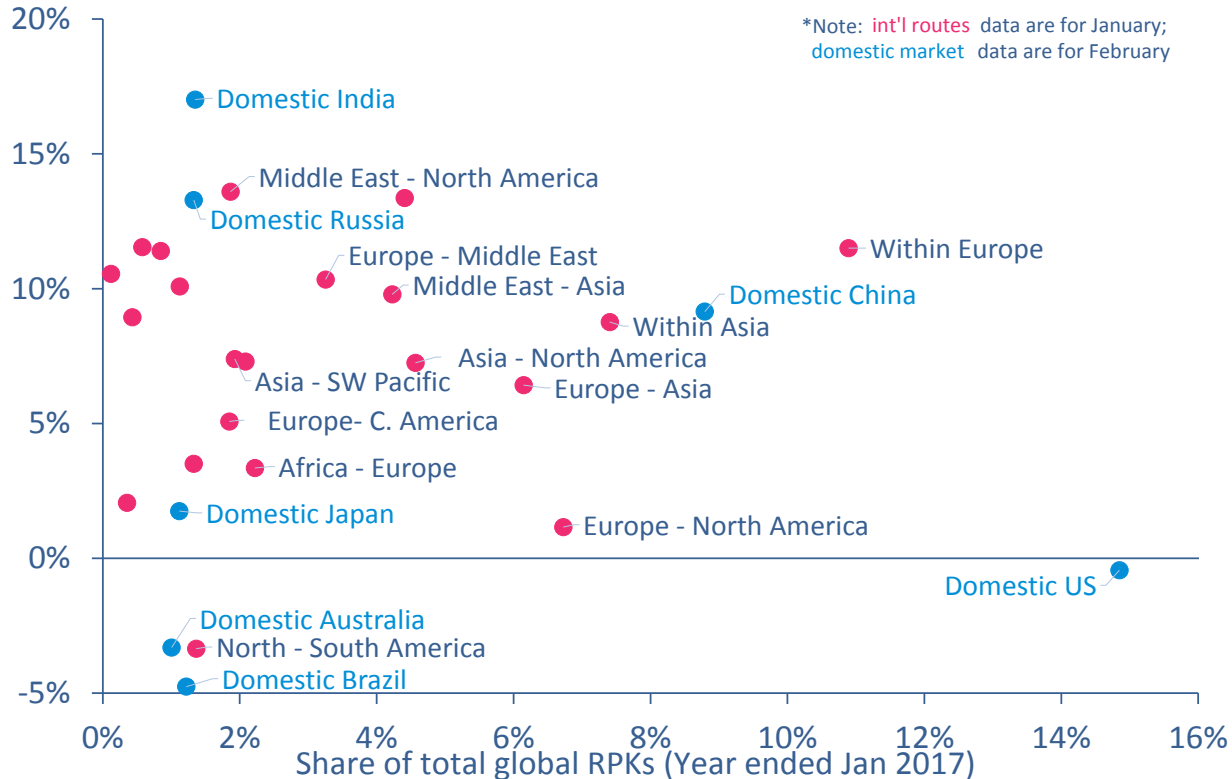
Still very much a growth story



Sources: IATA Economics, IATA Monthly Statistics, Markit

Though much variation by travel market

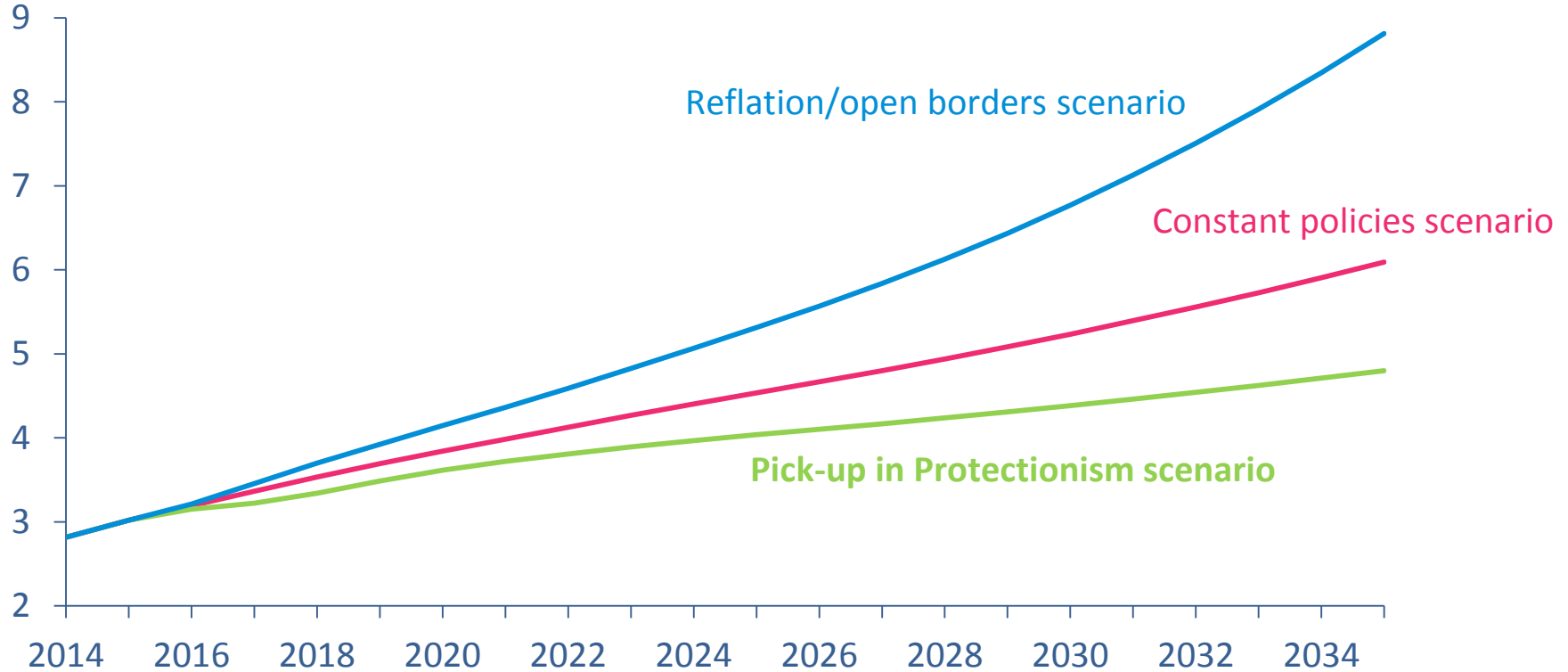
RPK growth by int'l route and dom. market (latest month, % year-on-year*)



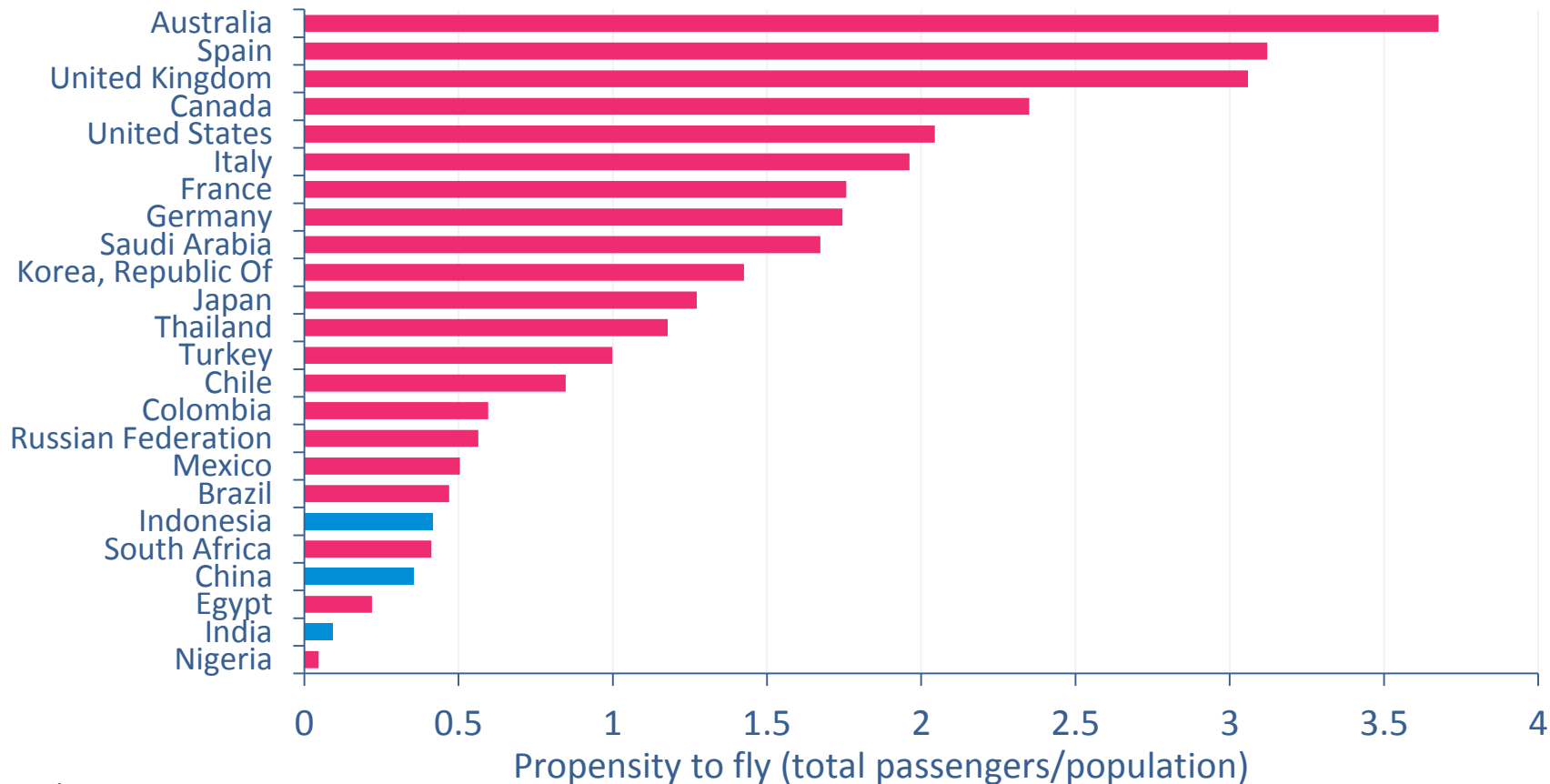
Sources: IATA Economics, IATA Monthly Statistics by Route

Long-term expansion even in gloomy macro scenario

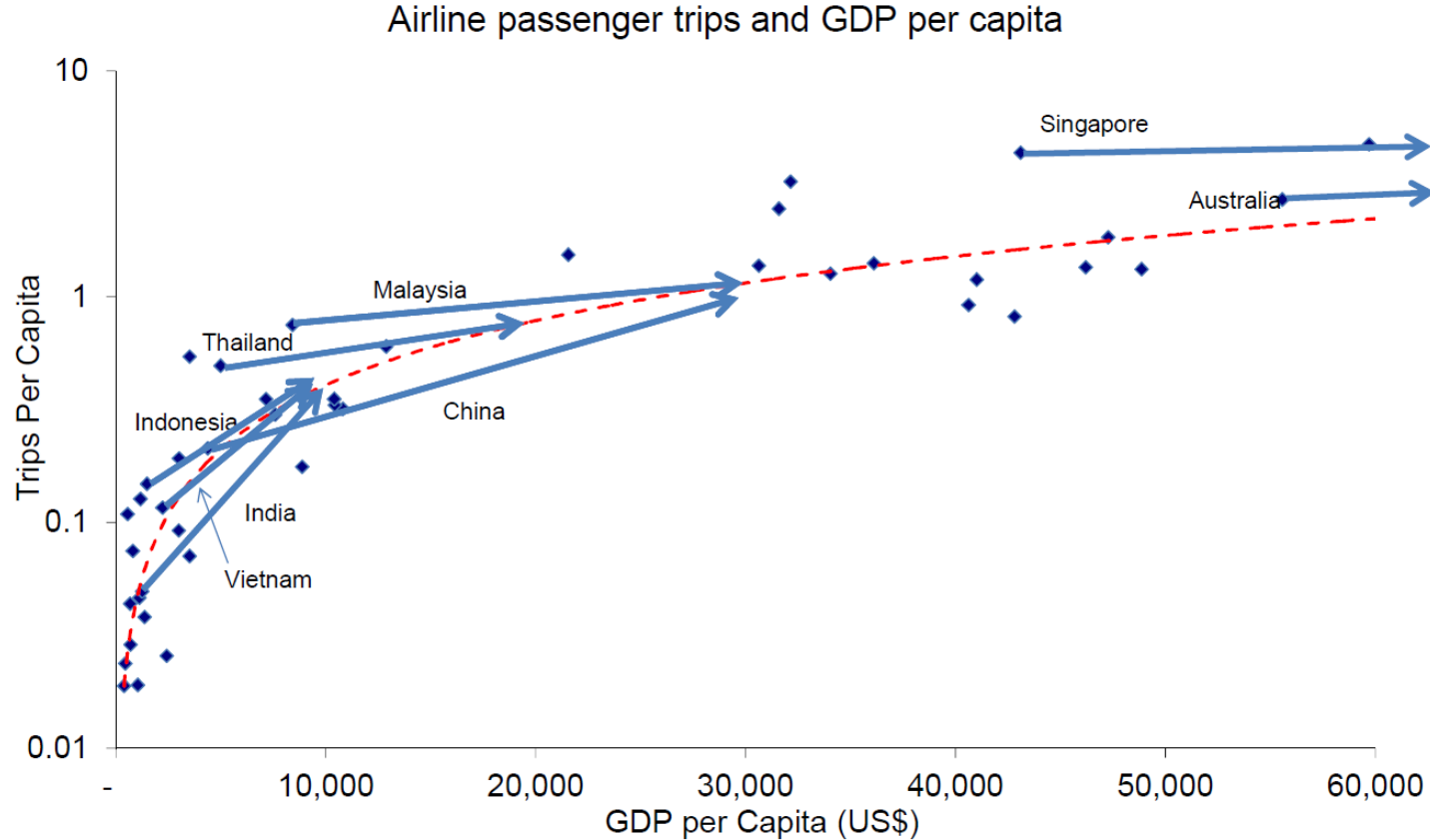
Global O-D passenger journeys (billion)



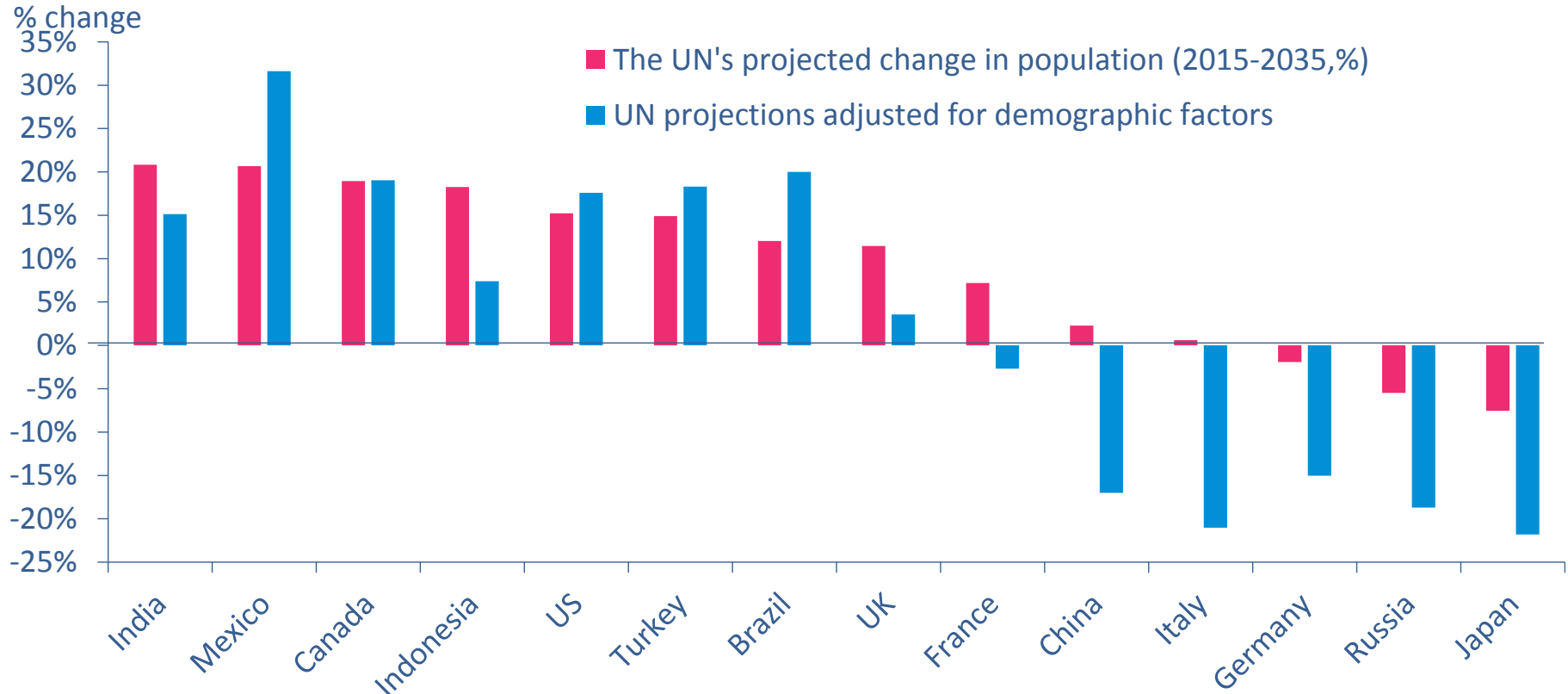
Trip frequency still low in many important markets



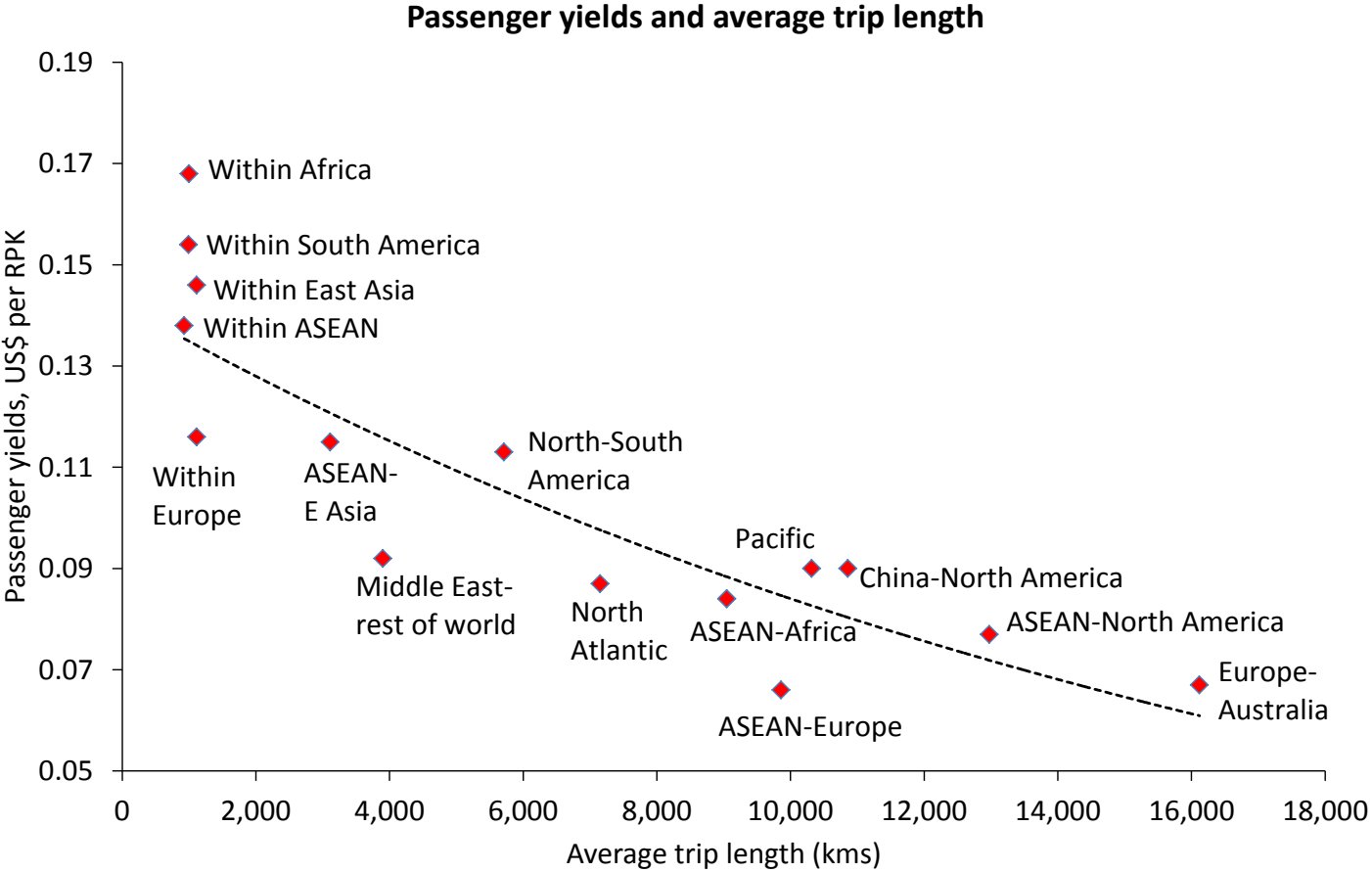
Large potential in populous but (currently) poor markets



Demographics strong in some key markets, adverse in others

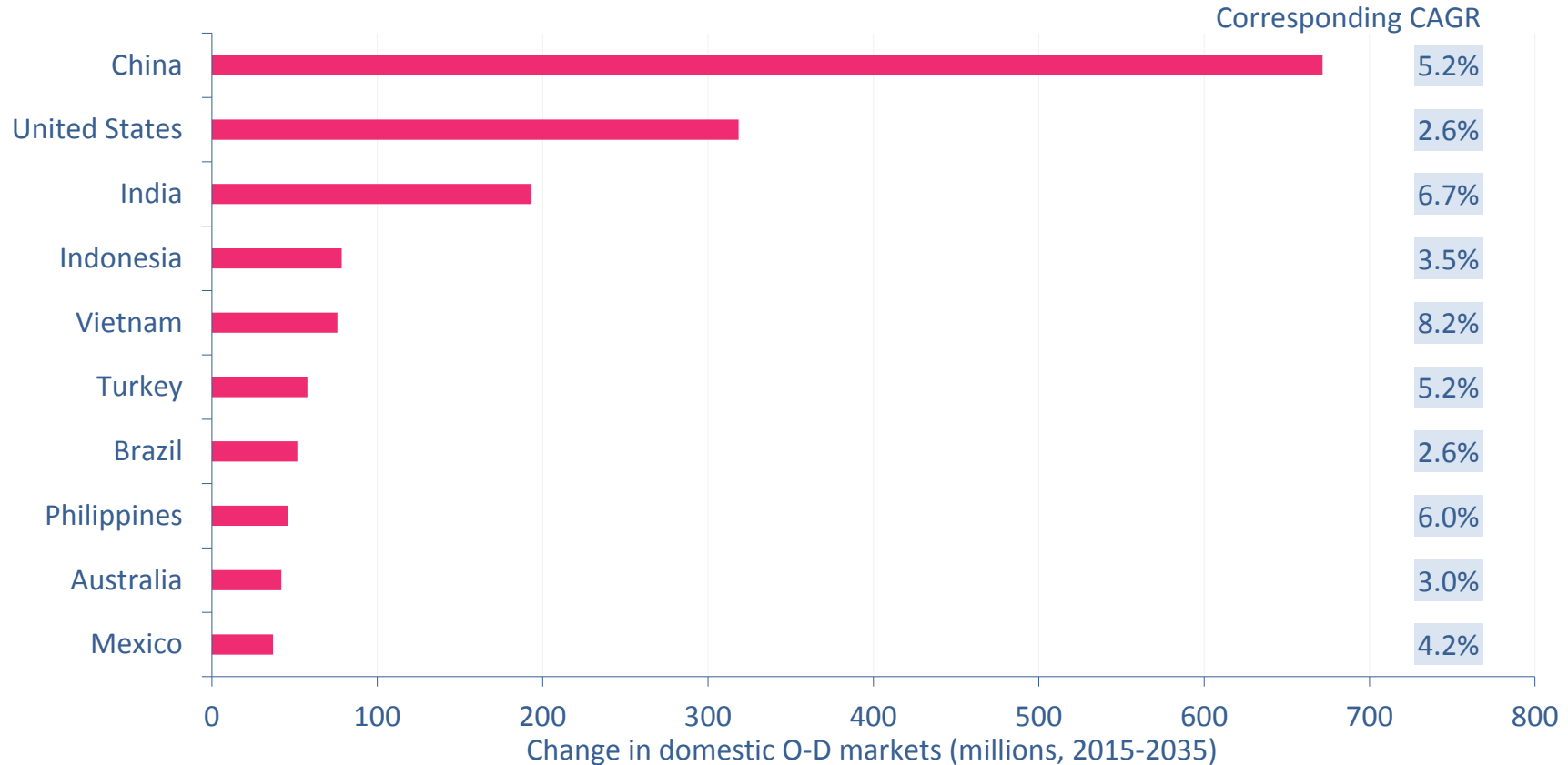


Scope for large price change in short-haul markets

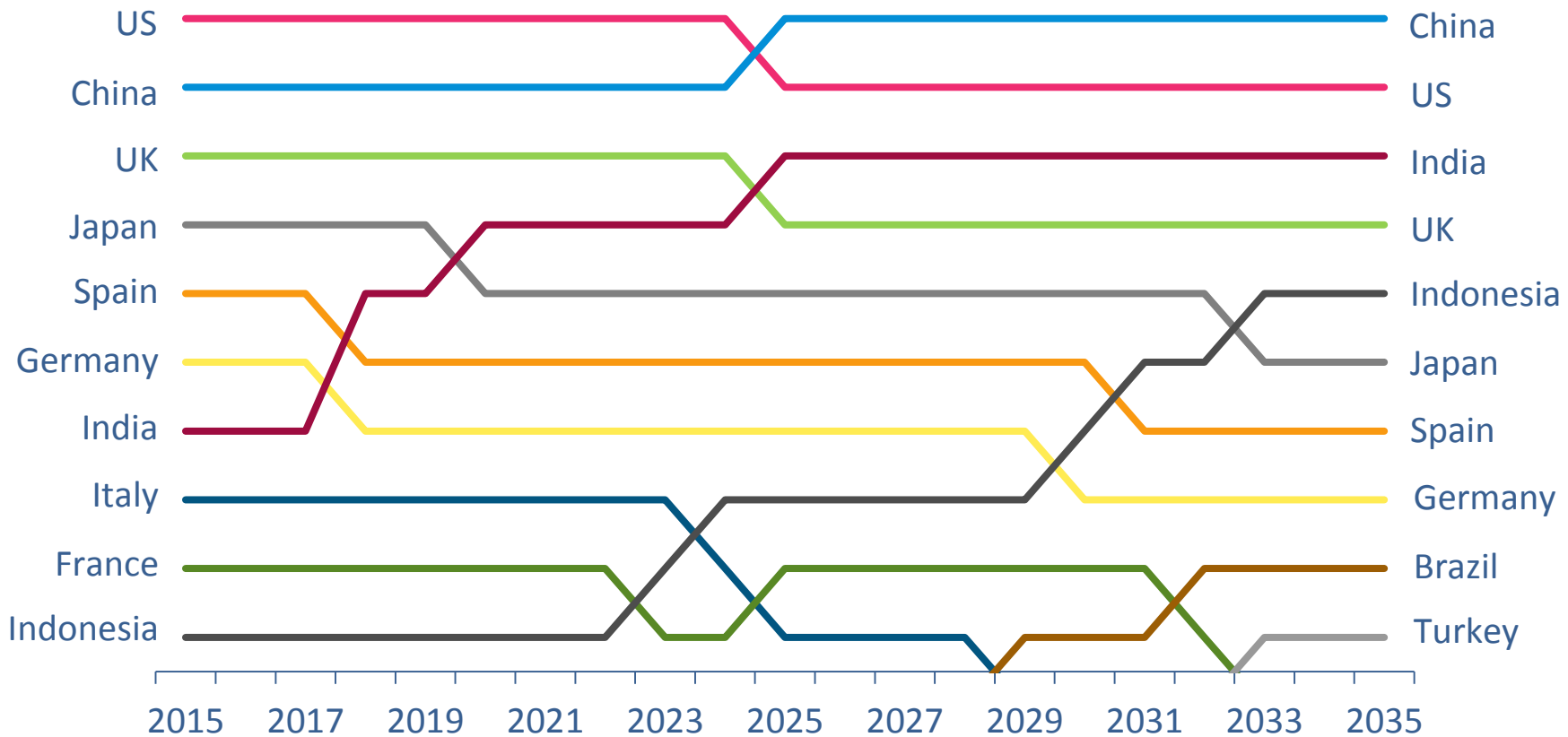


Source: IATA PaxIS+

China largest increment, US remains important

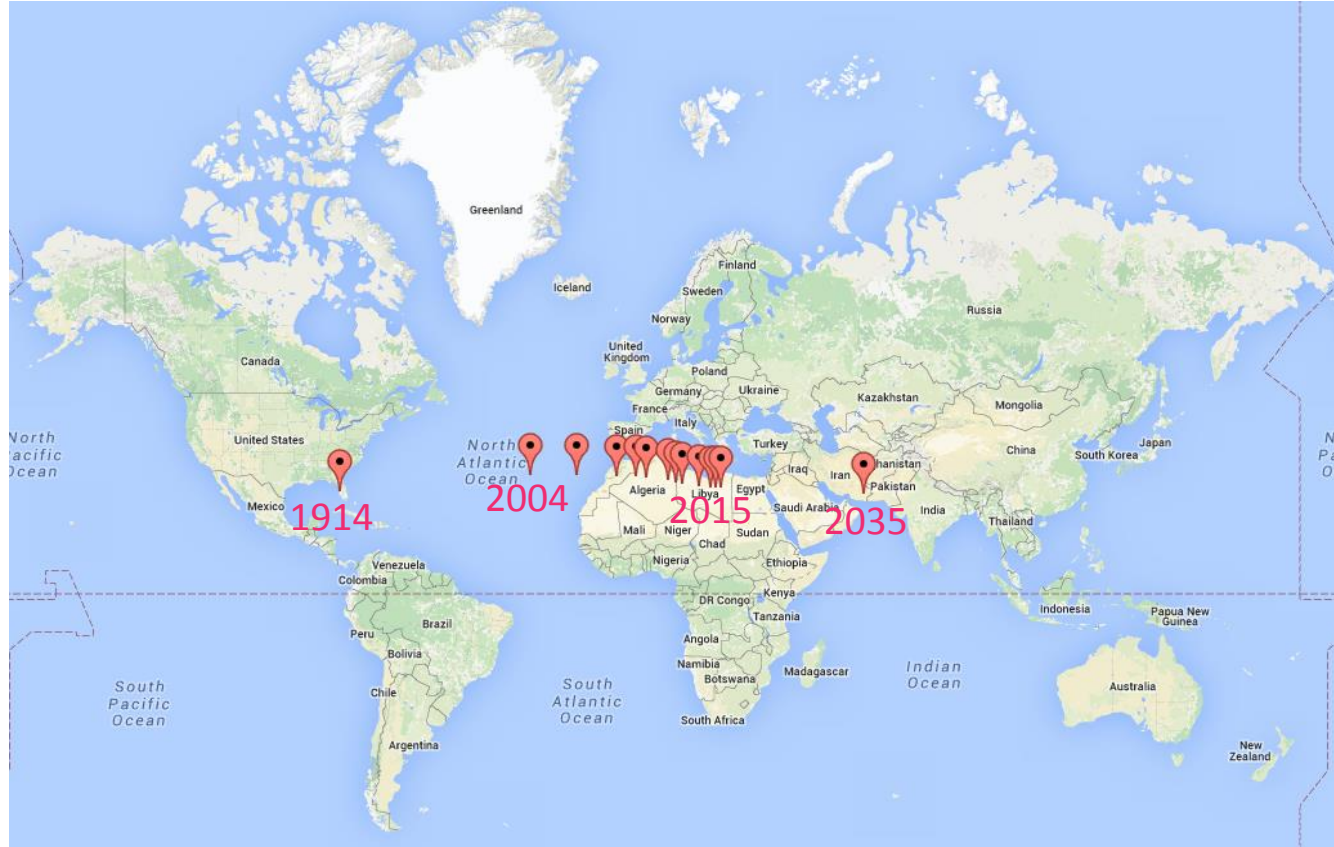


Significant change in top-10 markets over next 20 years



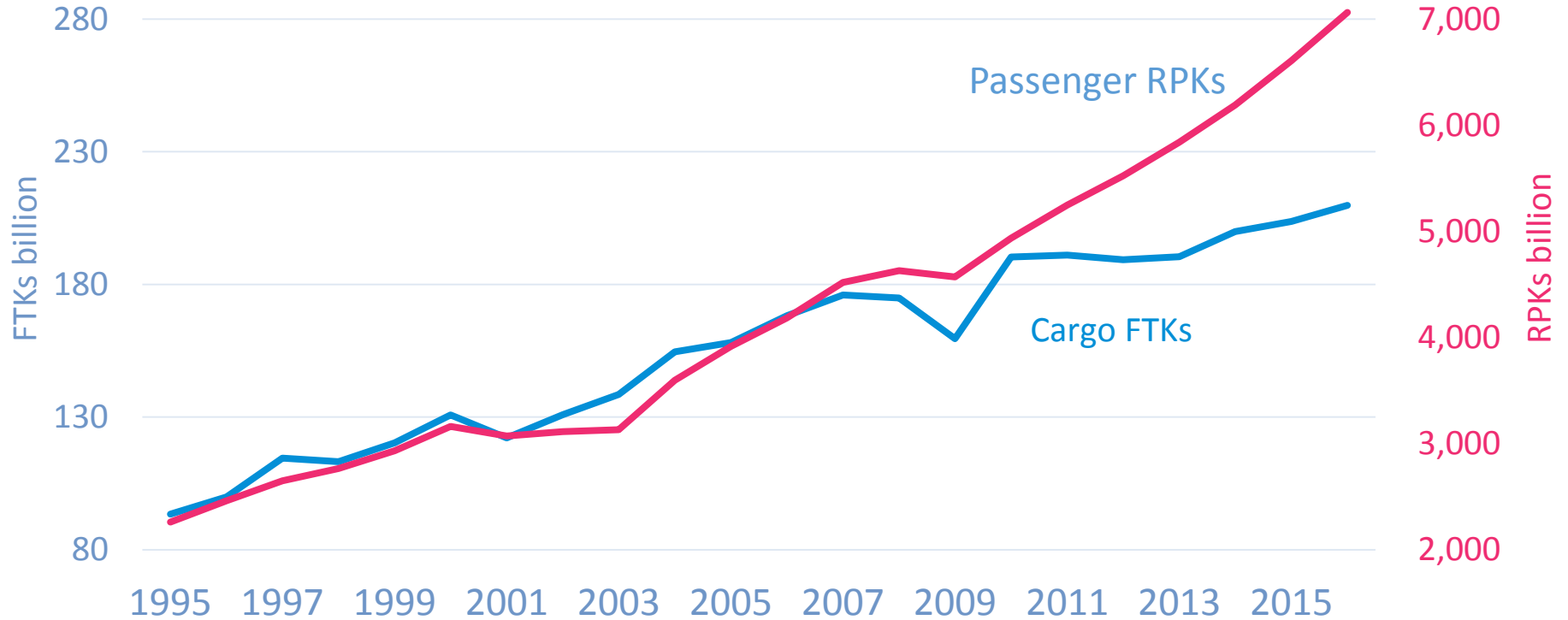
Source: IATA/Tourism Economics Air Passenger Forecasts, September 2016

Centre of gravity of air travel shifting fast towards China



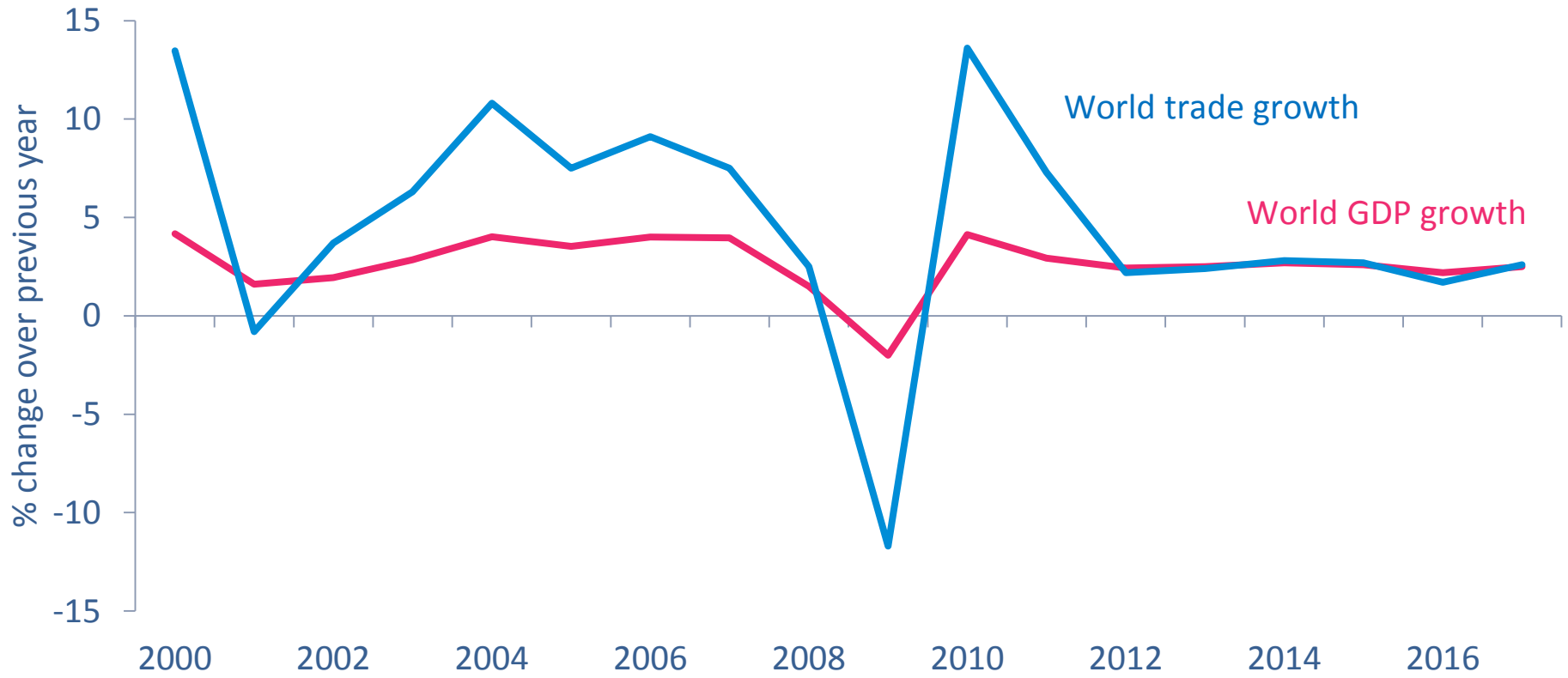
The GFC precipitated one key divergence

Air travel and cargo volumes



Retreat from globalization

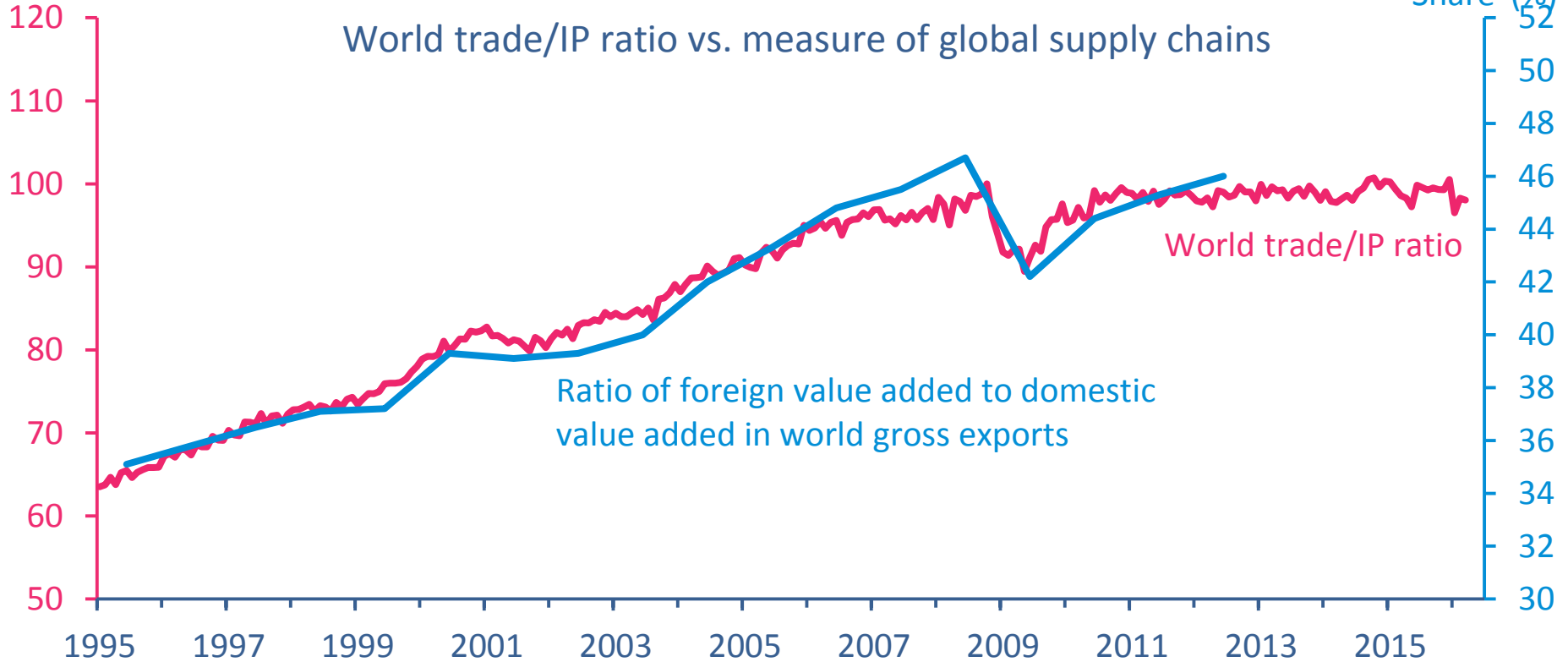
World GDP and cross-border trade growth



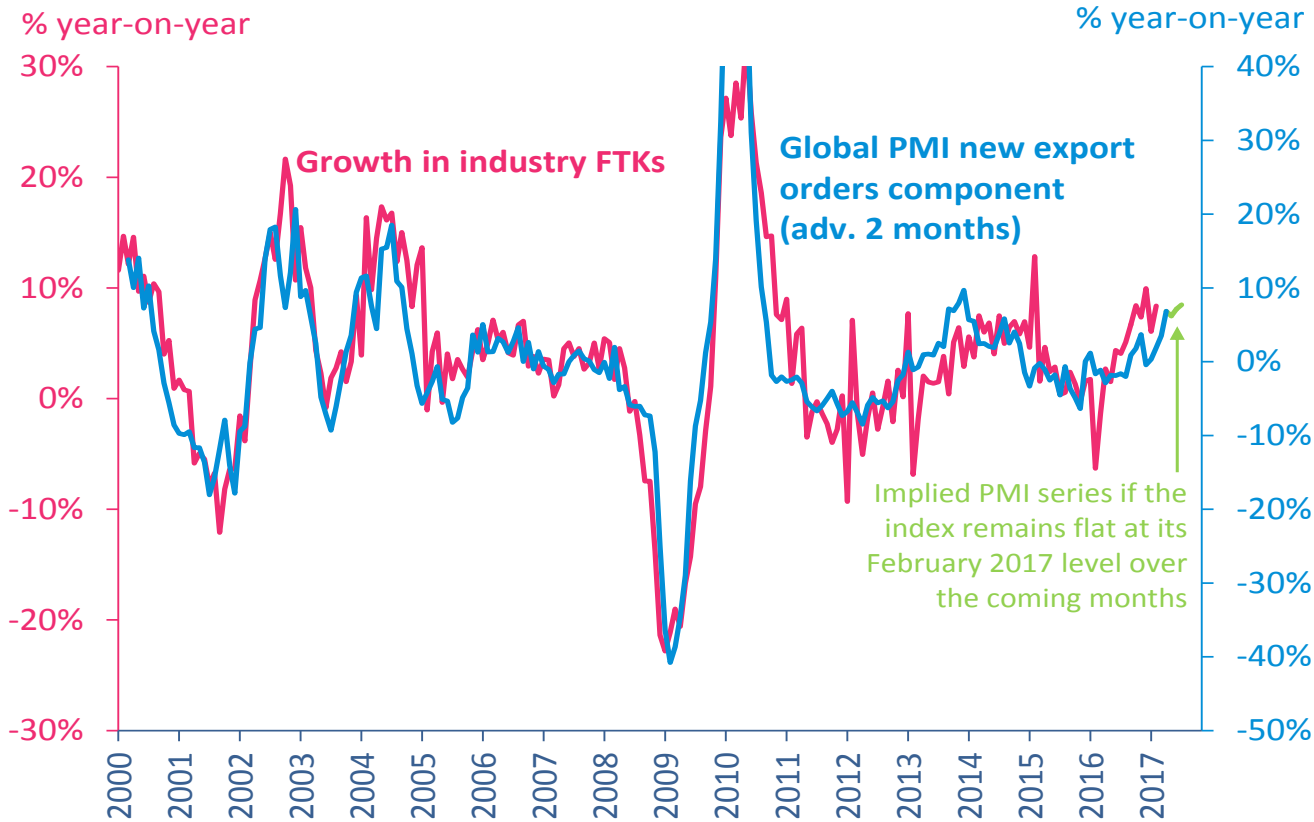
Source: IMF World Economic Outlook and the World Trade Organization

Supply chains have been shortened

Index (Oct 2008=100)



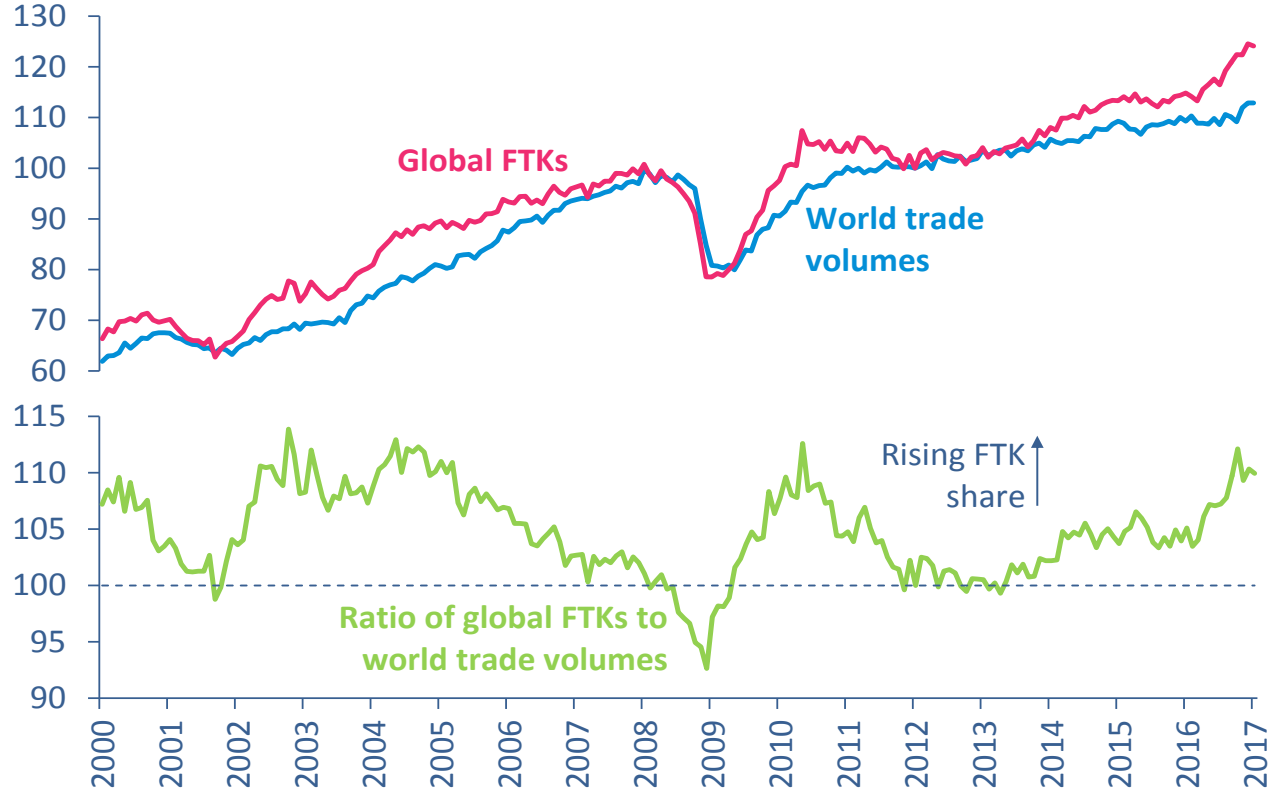
But growth has returned to cargo



Sources: IATA Economics, IATA Monthly Statistics, Markit

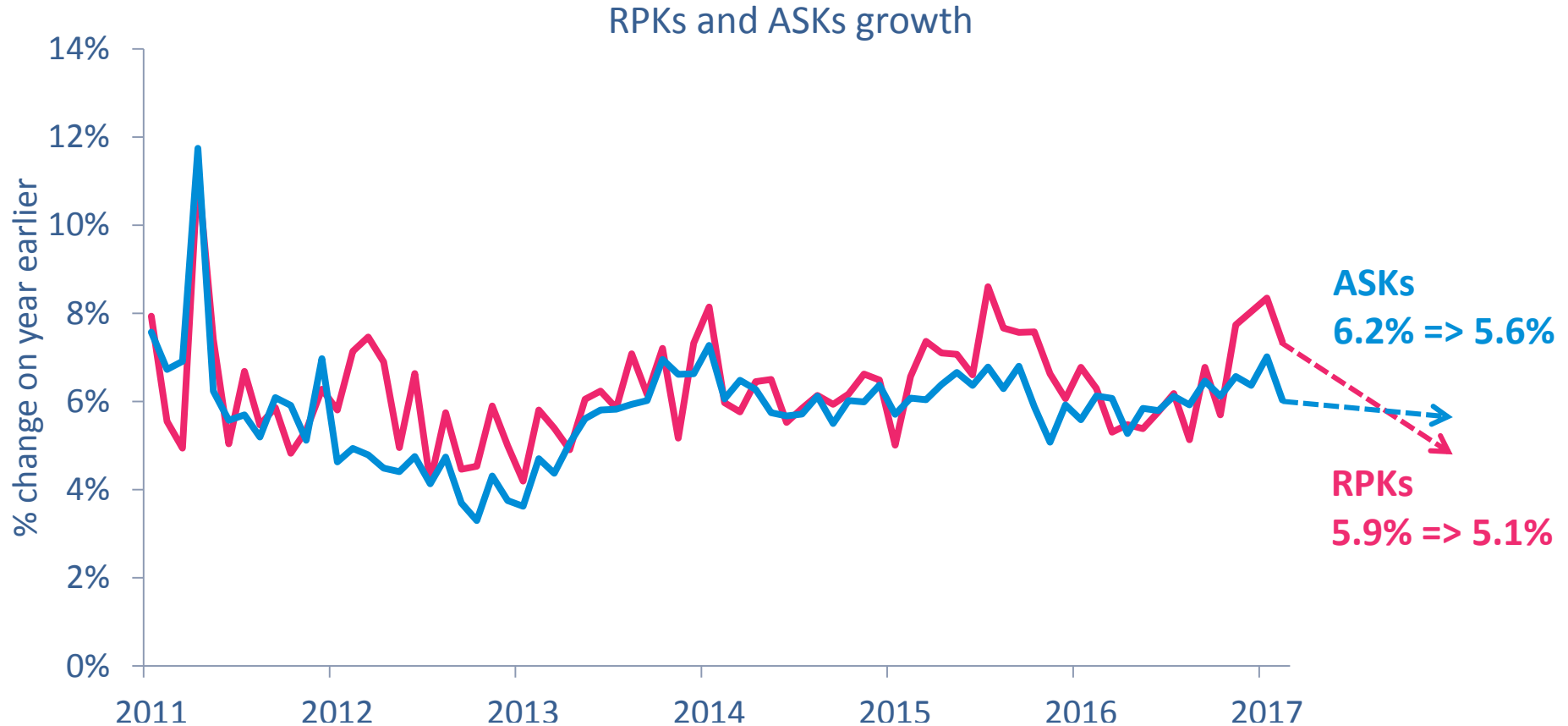
Despite sluggish world trade

Indices (Jan 2012=100, seasonally adjusted)



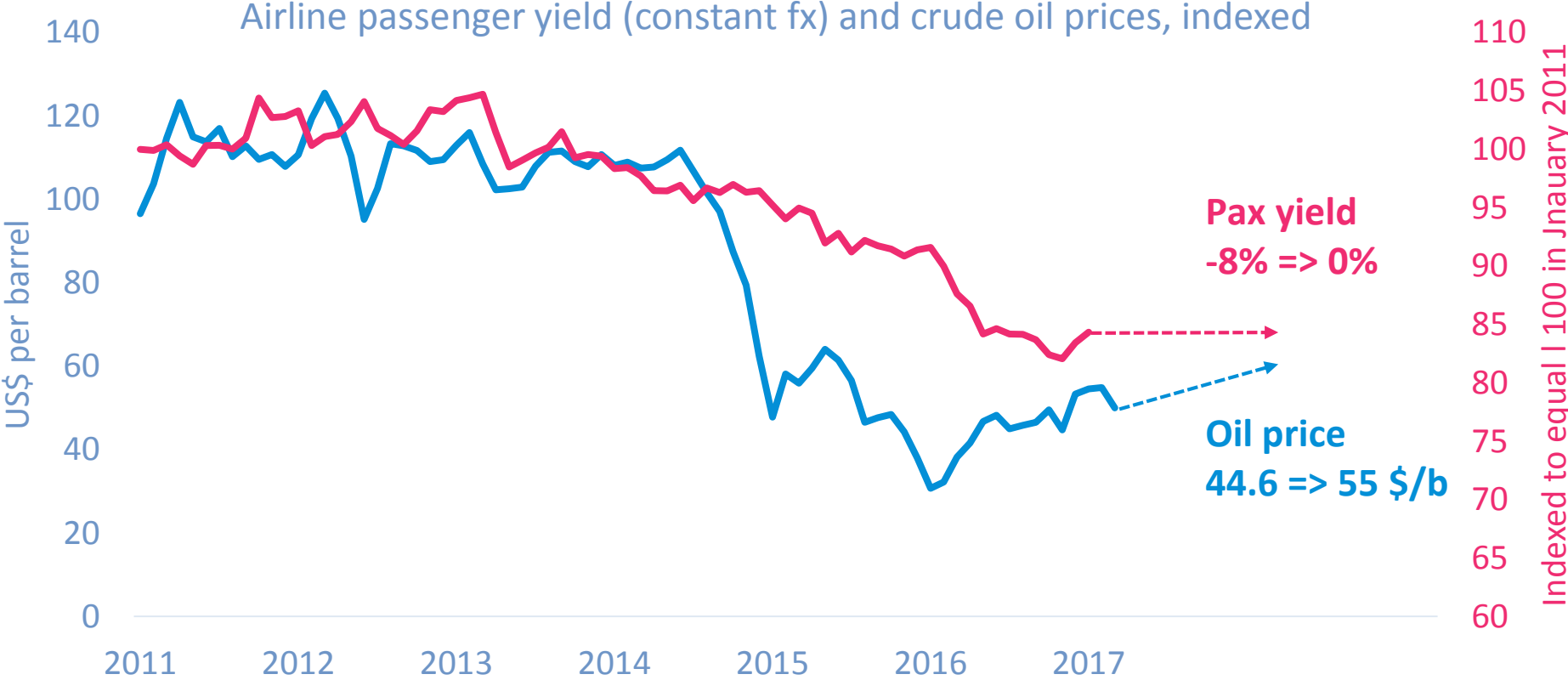
Sources: IATA Economics, IATA Monthly Statistics, CPB

Traffic accelerating ahead of capacity growth



Source: IATA using data from The Airline Analyst

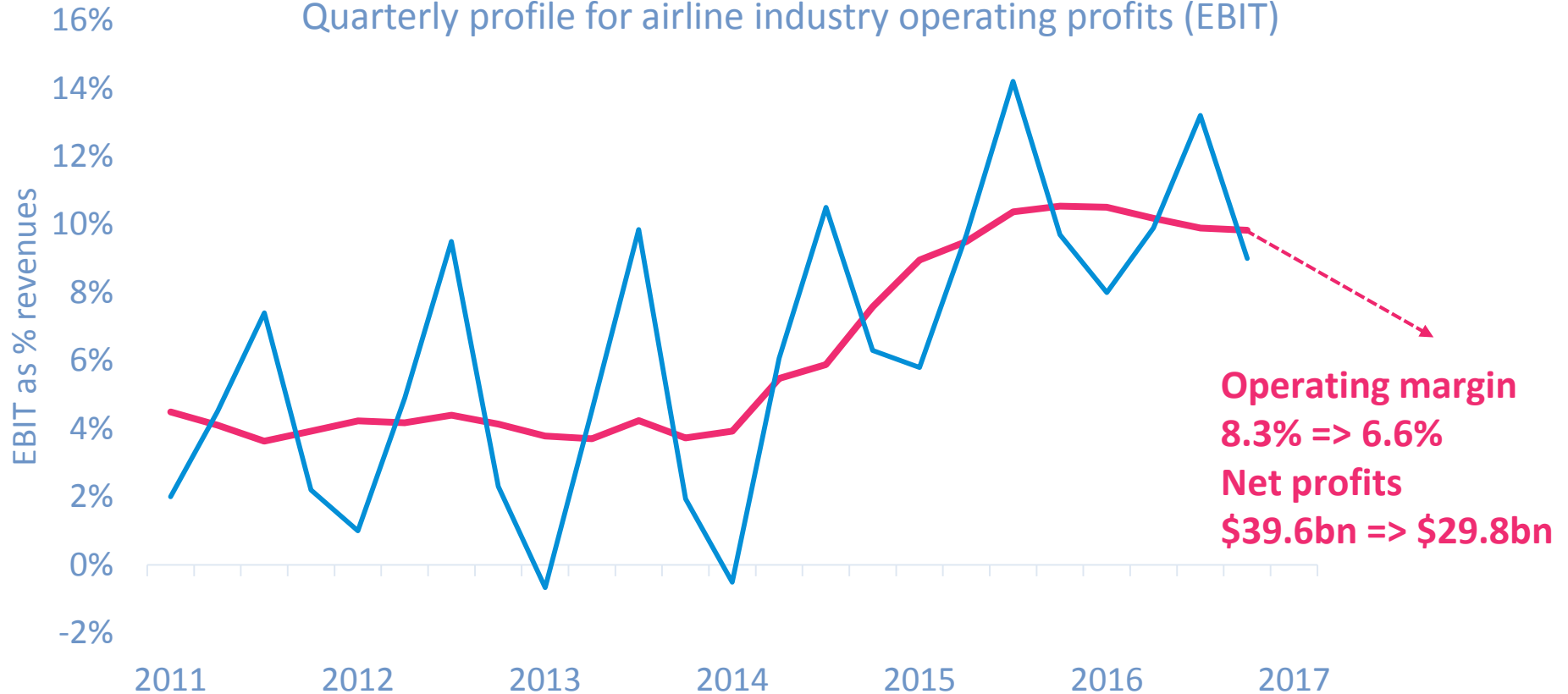
Margin squeeze signs of easing?



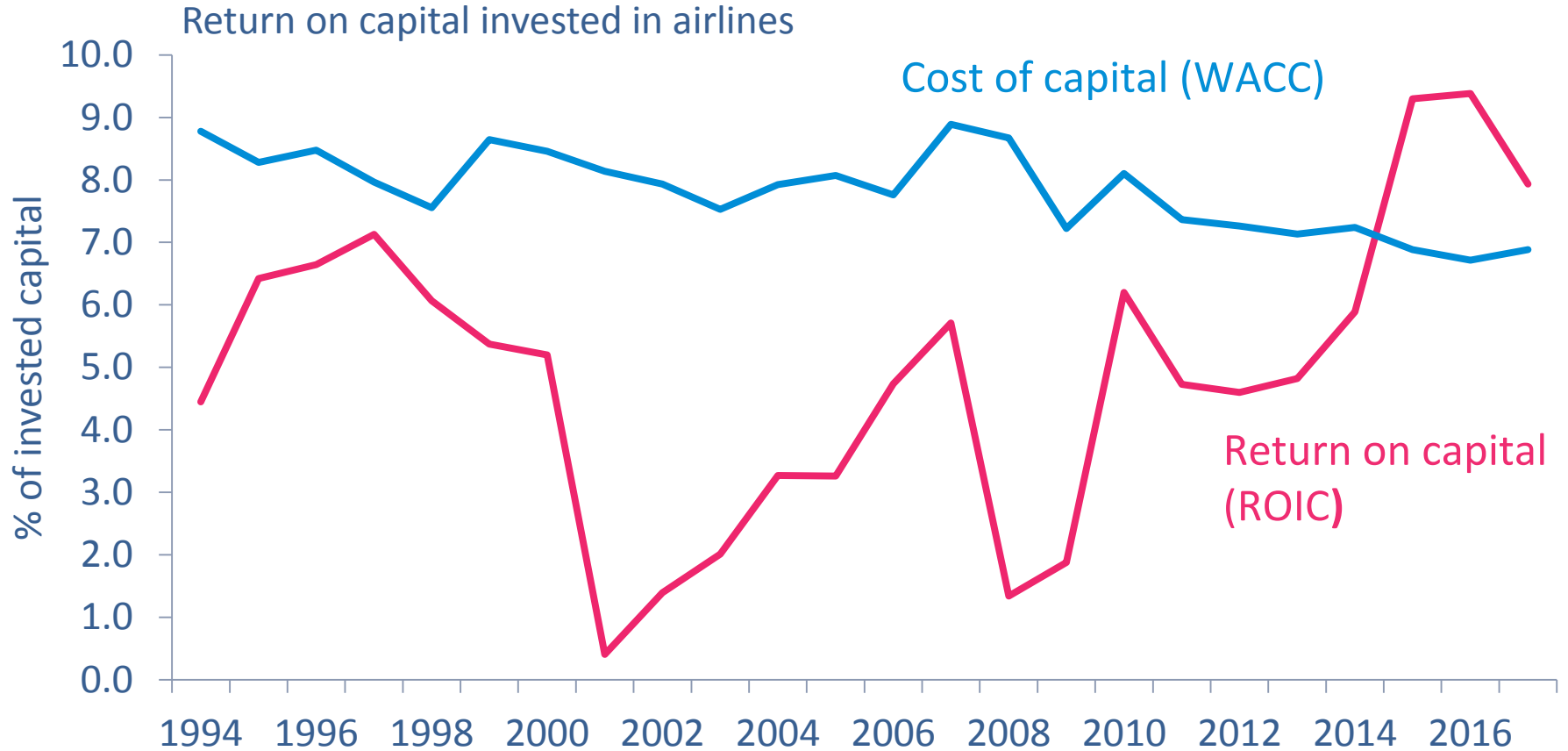
Source: IATA using data from The Airline Analyst

Industry profitability declining but how fast?

Quarterly profile for airline industry operating profits (EBIT)

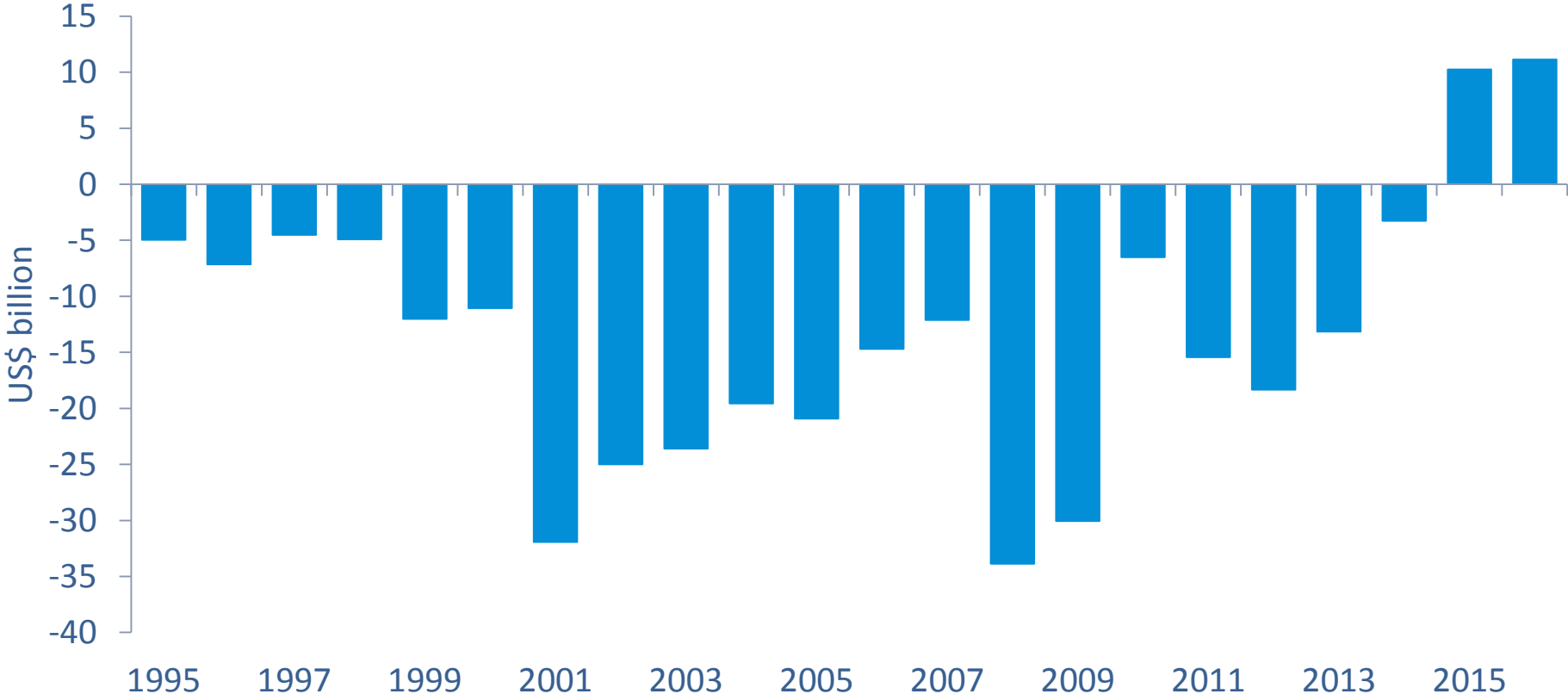


At last investors are getting a 'normal' return



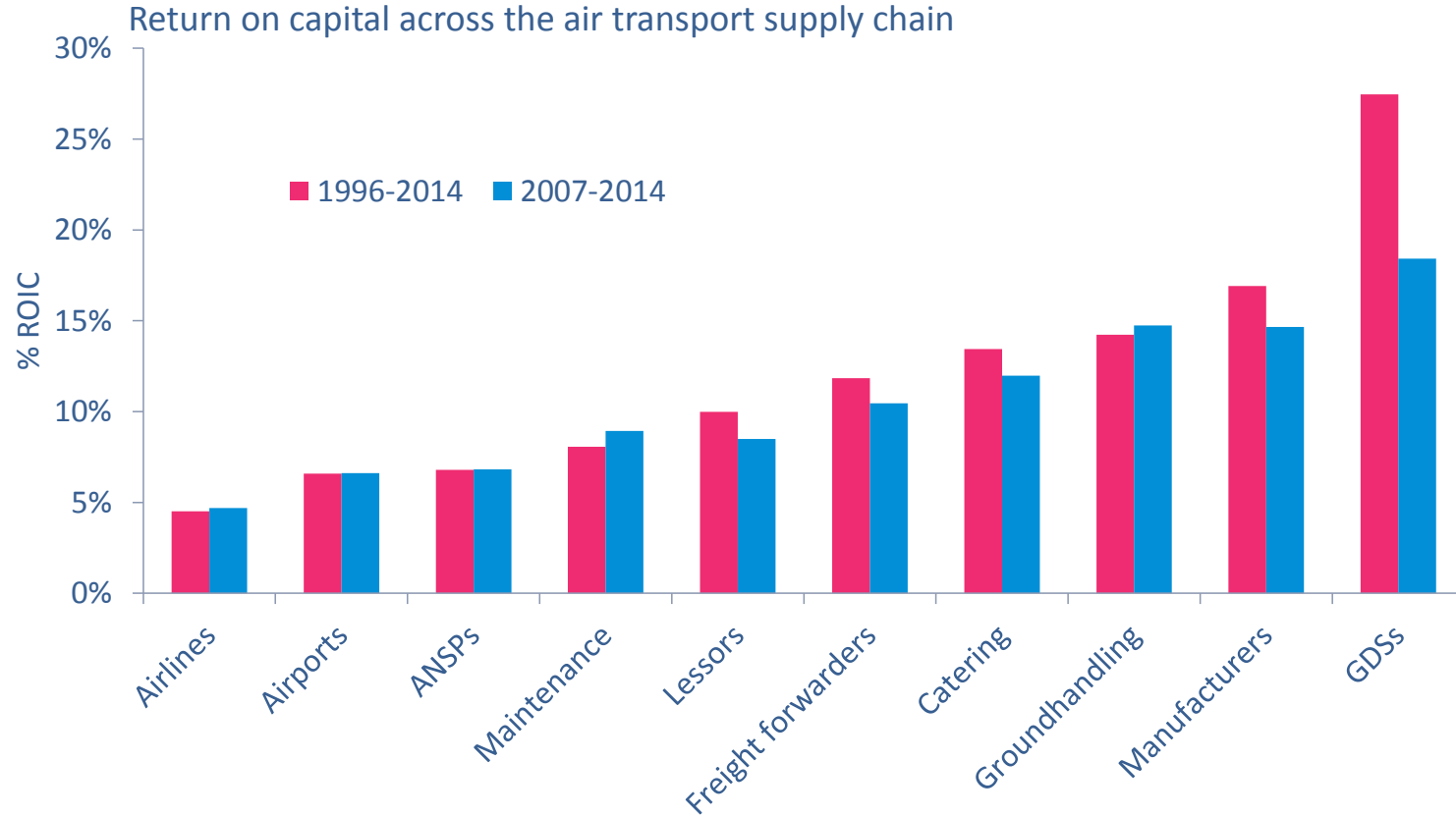
Ending decades of investor capital destruction (?)

Difference between investing in airlines and investing in similar assets elsewhere



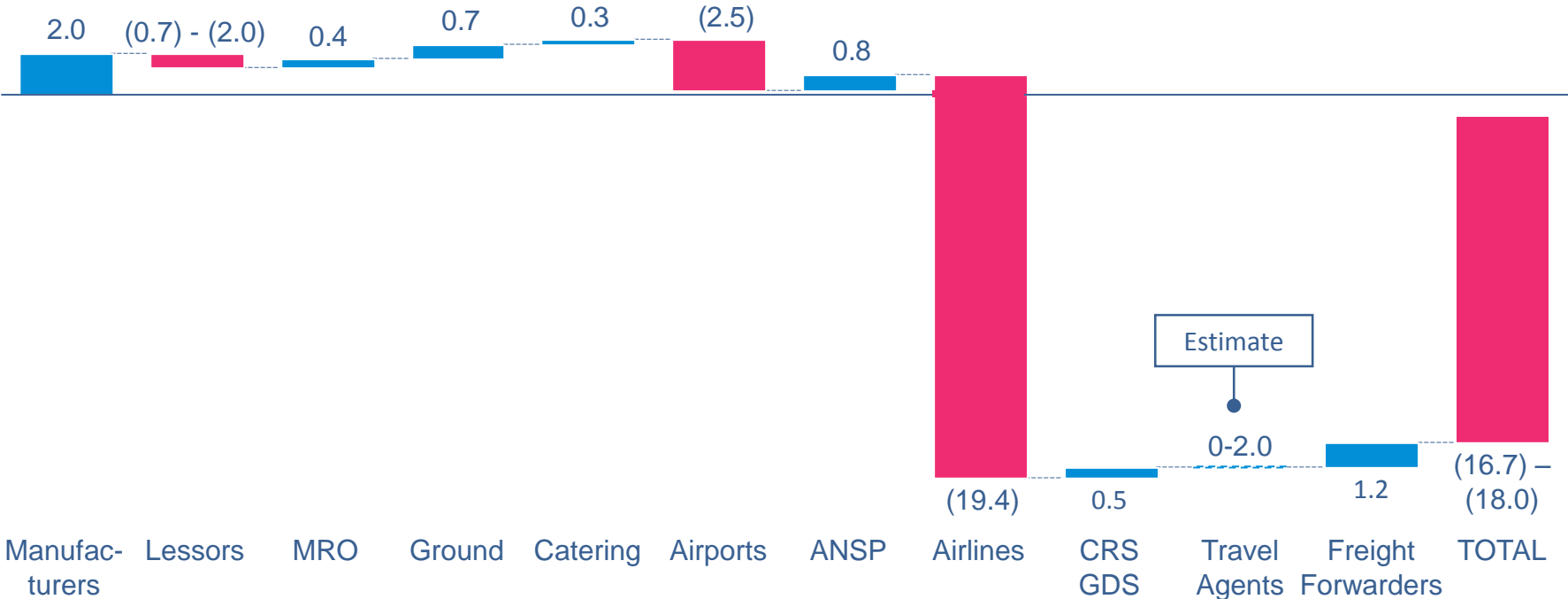
Source: McKinsey, IATA

Other sectors do better



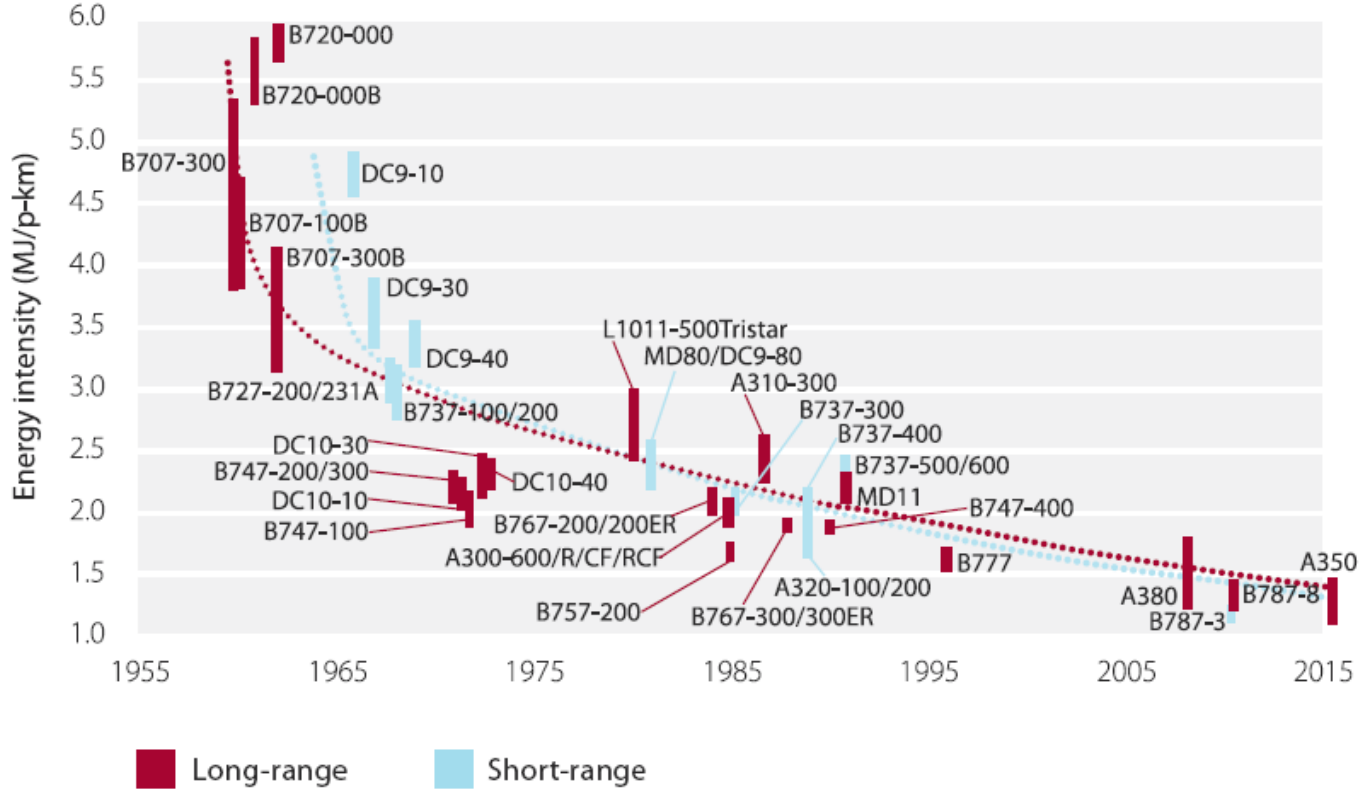
But this is not the main issue for airline earnings

Average yearly economic profit, USD billion, 2007-2014



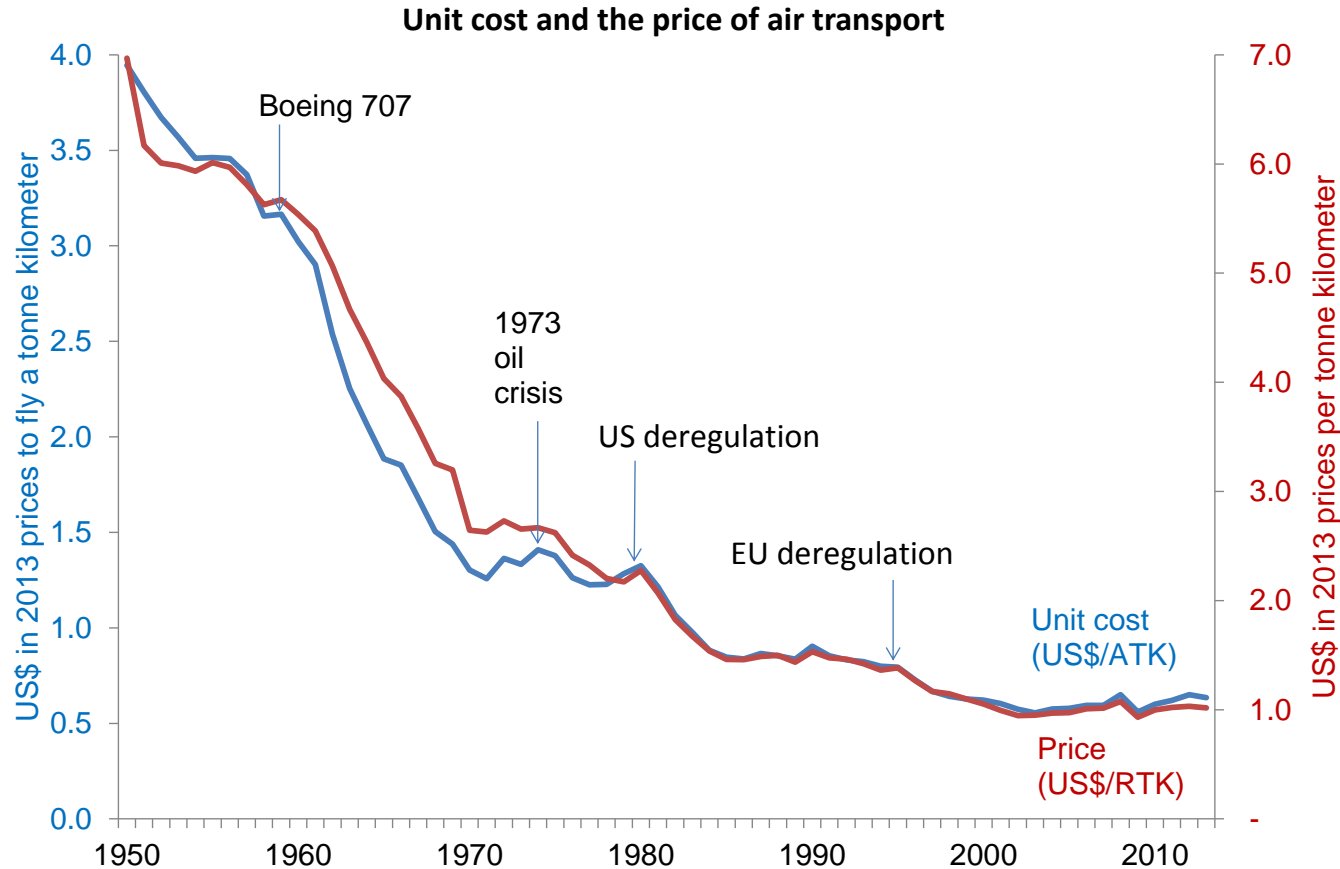
Source: McKinsey for IATA

Aircraft fuel efficiency has improved dramatically



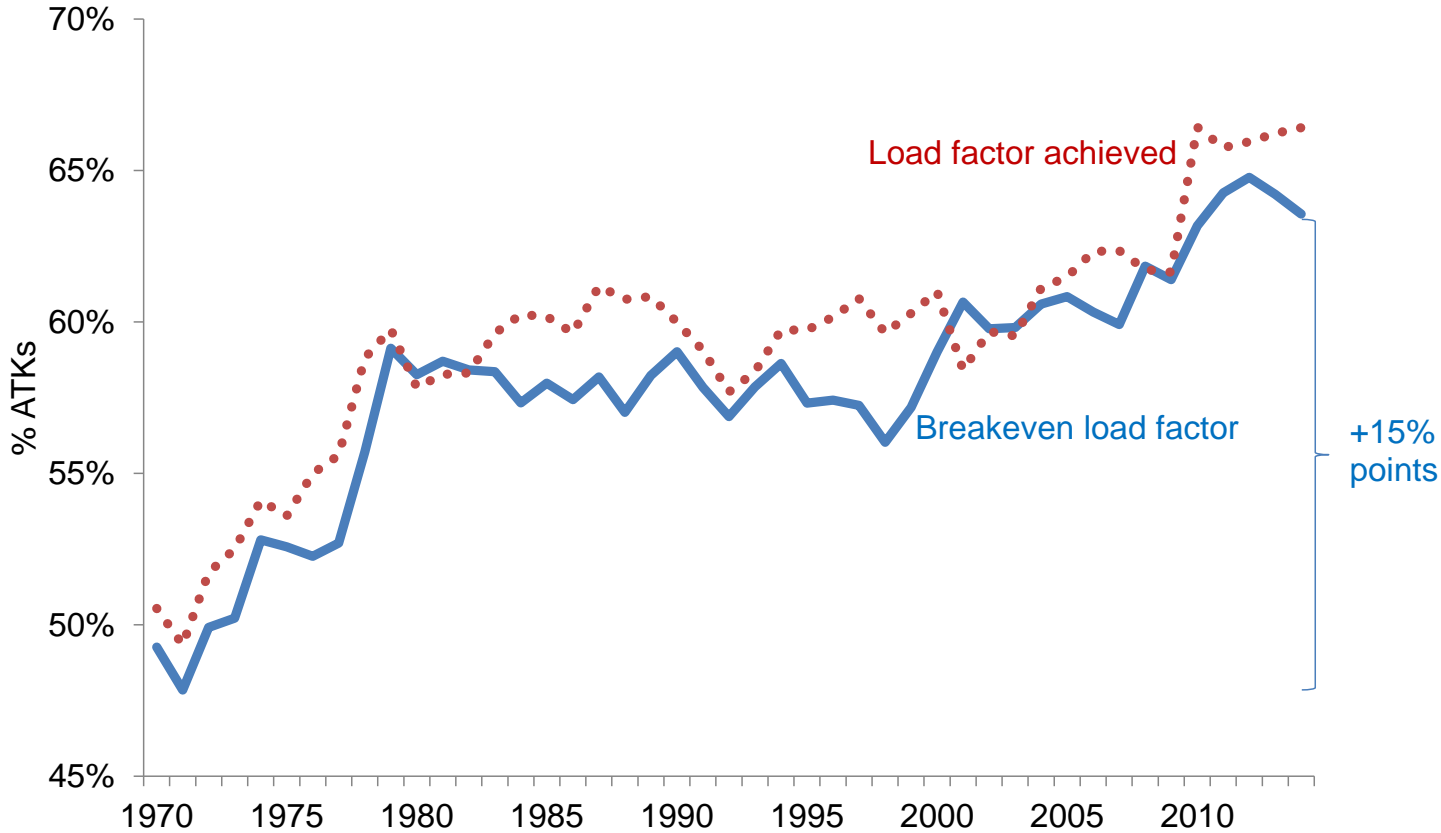
Source: Lee

But costs typically passed through to prices



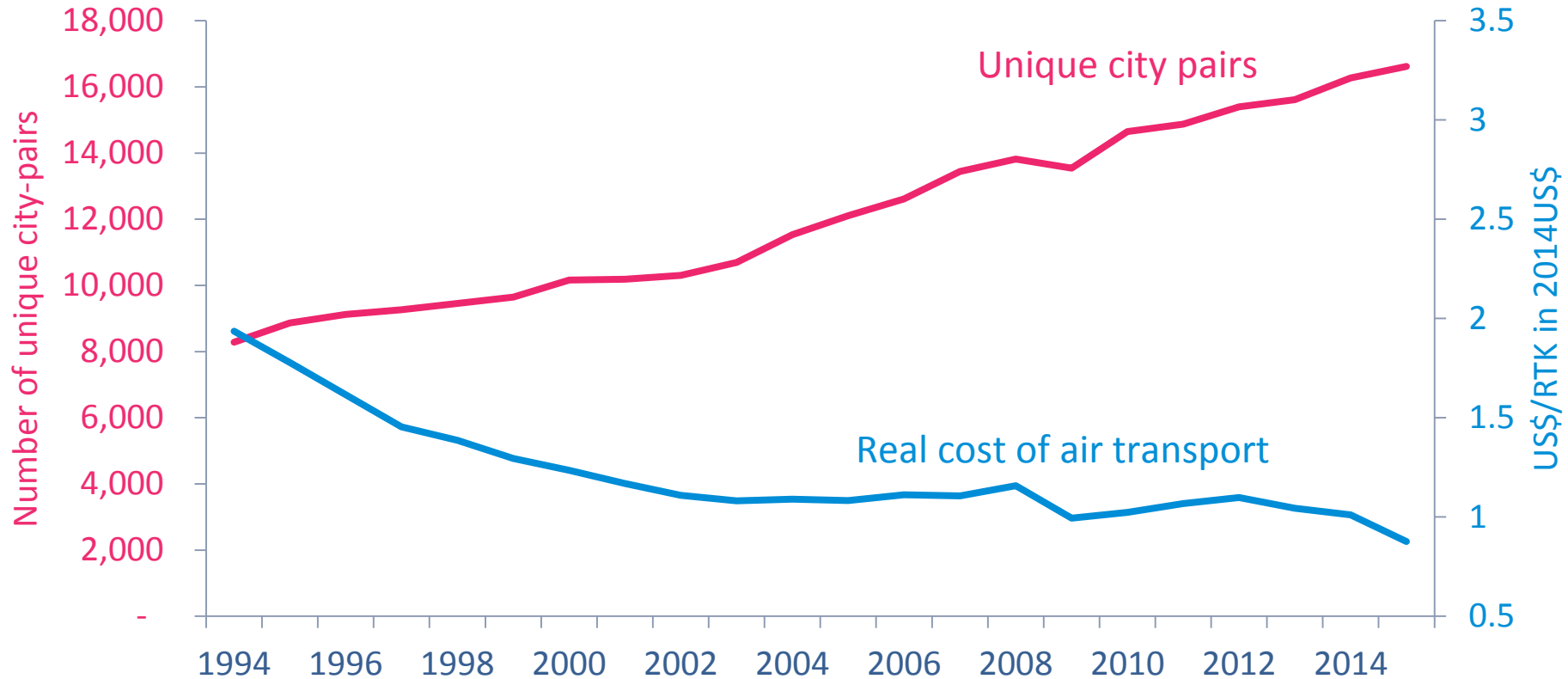
In fact prices have fallen further than costs

Breakeven and actual load factors



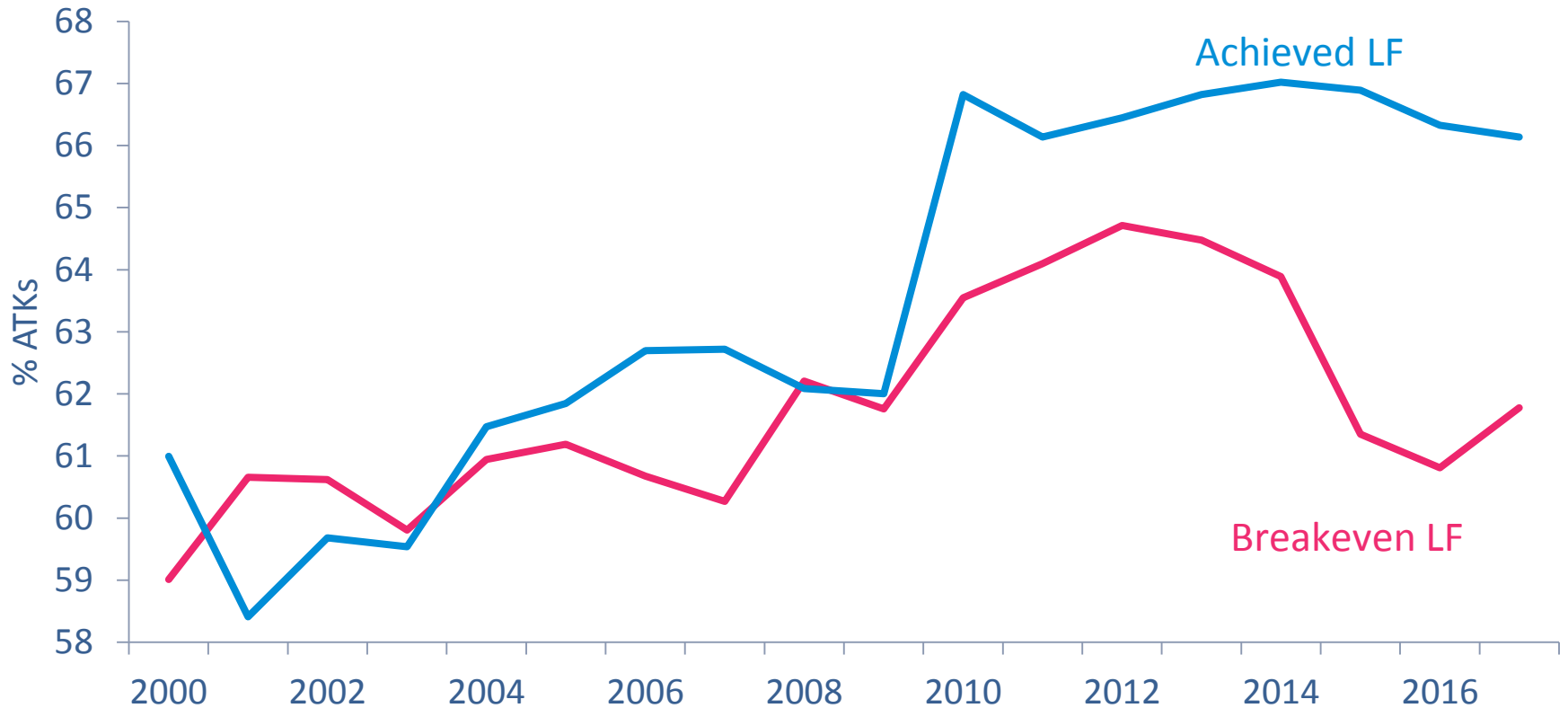
Consumers have been the major beneficiaries

Unique city-pairs and real transport costs



Structural change?

Breakeven and achieved weight load factor



High fuel prices not always bad for airlines

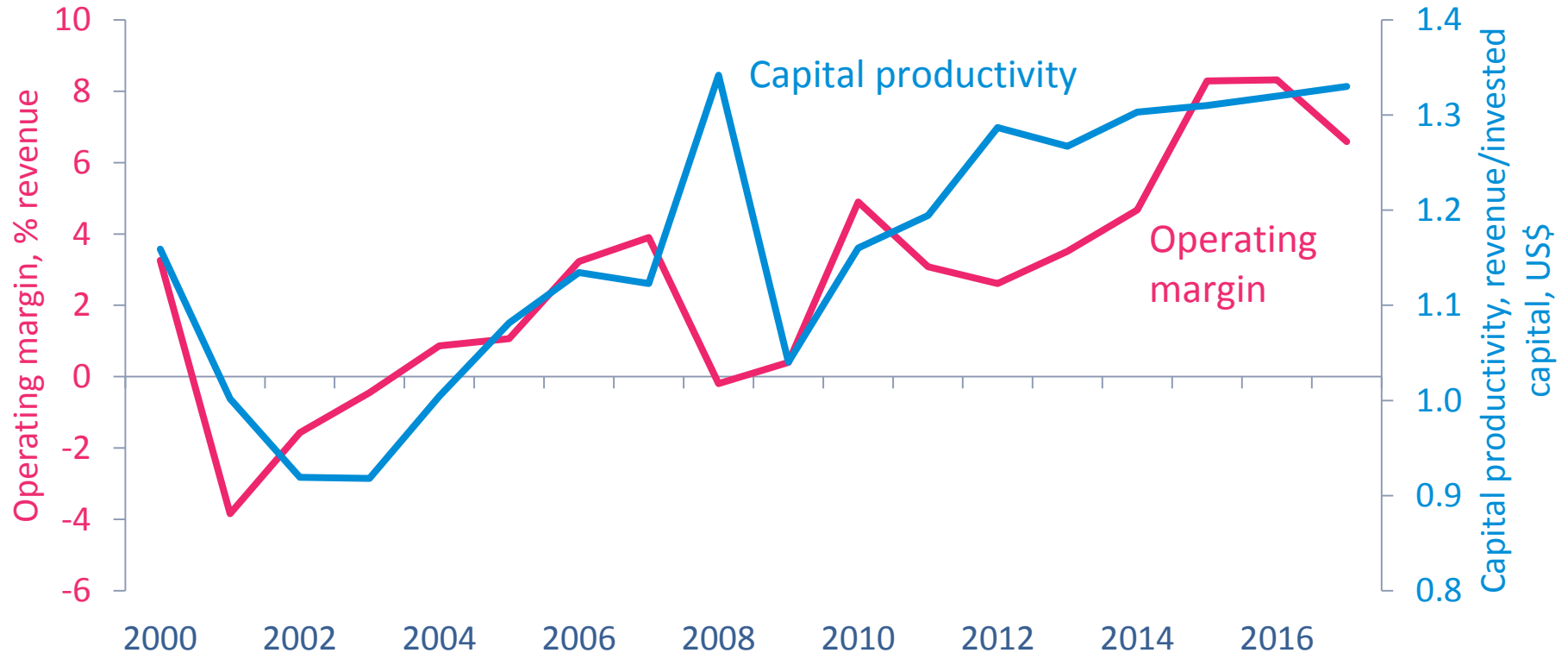
Airline industry ROIC and jet fuel prices



Source: IATA, Platts

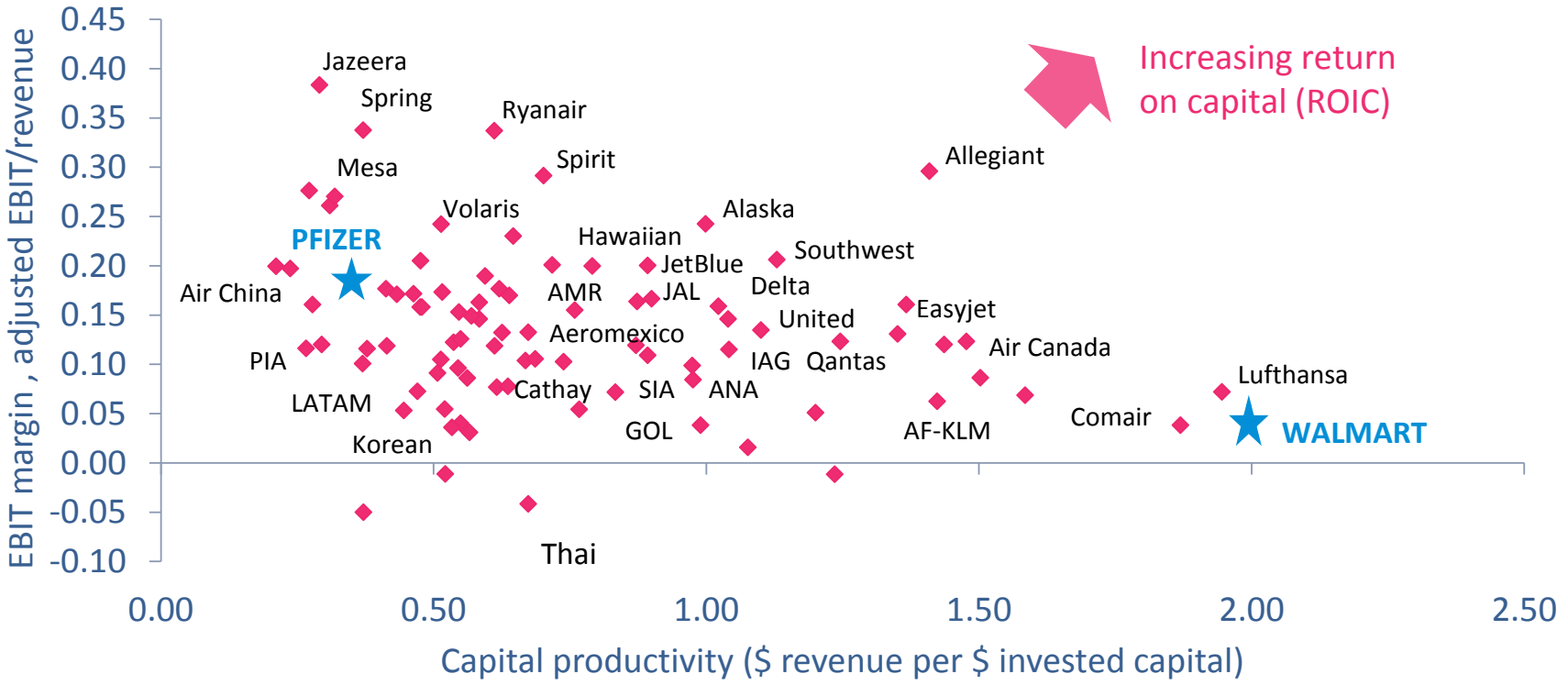
Solid improvement in capital productivity

Airlines' operating or EBIT margin and capital productivity



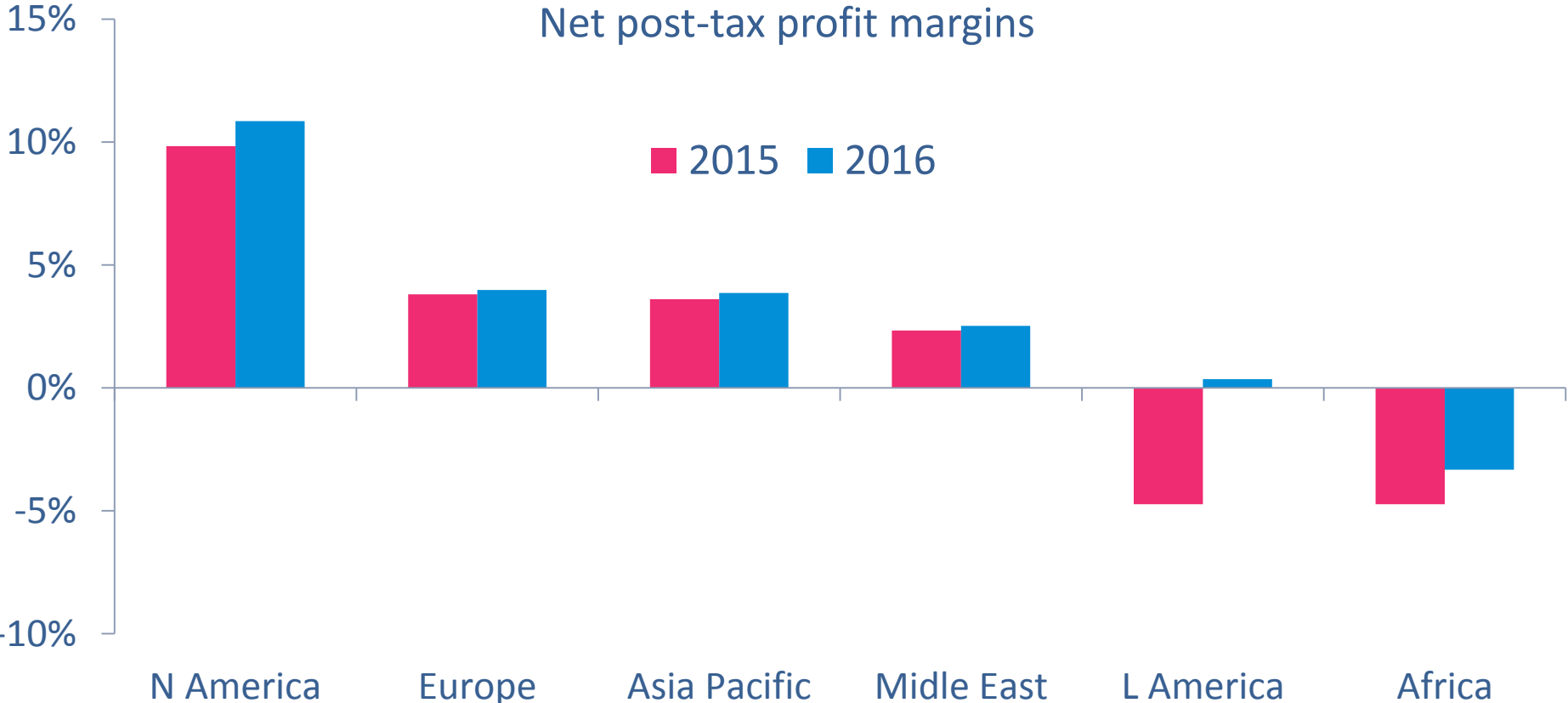
Very wide variety of business models

2015 ROIC = adjusted EBIT/revenue * revenue/invested capital



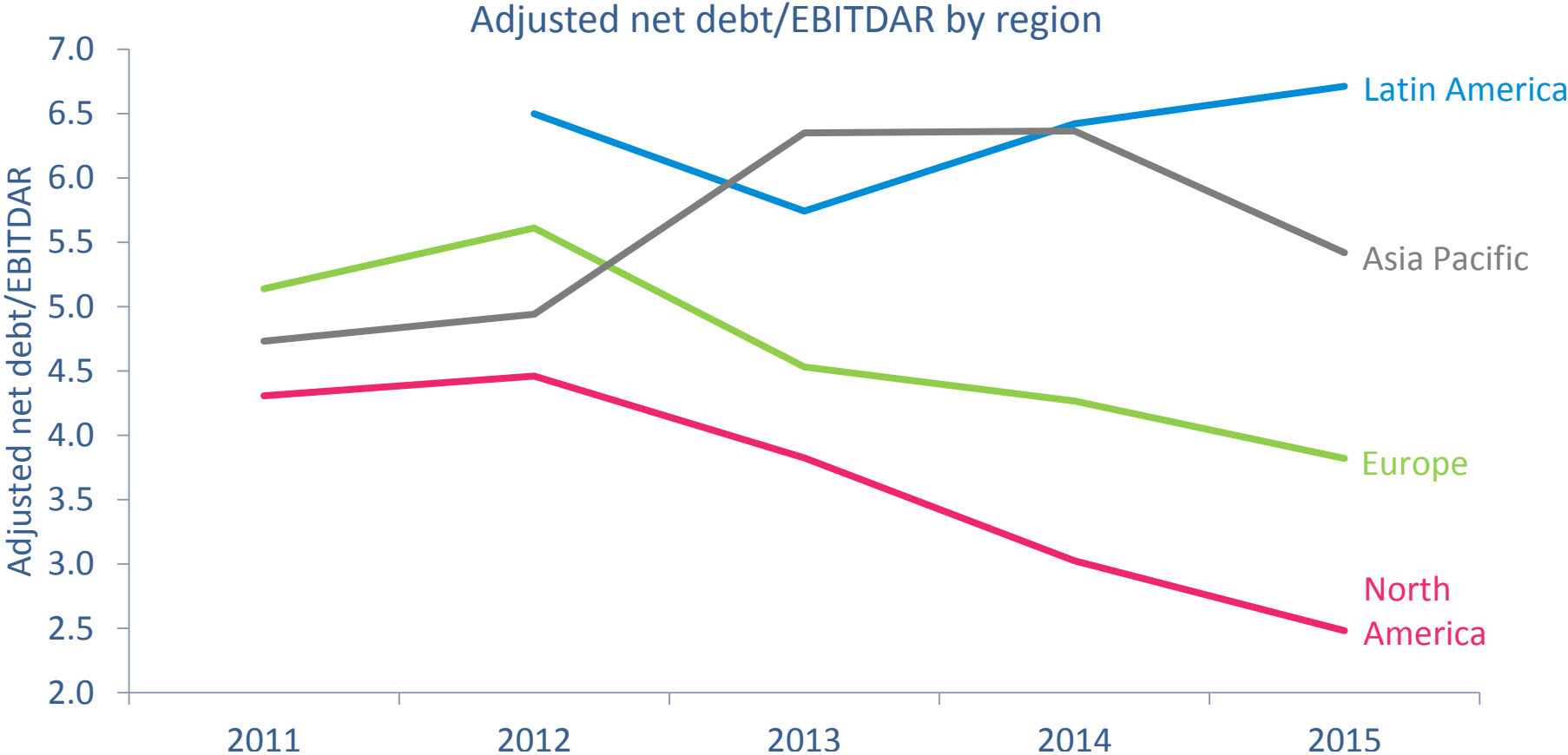
Source: IATA using data from The Airline Analyst

US performance dominating industry totals



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

Wide variation in balance sheet performance



Source: IATA Economic Performance of the Airline Industry, End-Year 2016 report

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