Airlines Financial Monitor

August-September 2019

Key points

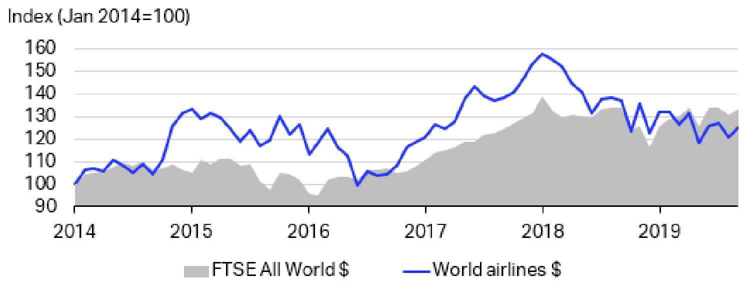
- The final Q2 2019 airline financial data showed that industry-wide profitability was steady compared to the same quarter a year ago, but this masks significant regional differences. North American airlines continued to outperform the overall industry result, with the operating margin improving further. In contrast, margins weakened both in Europe and the Asia Pacific vs Q2 2018.
- The global airline share price index rose solidly in September, rising 3.6% and outpacing global equities (up 2.0%). The year to date performance of the global airline index turned positive this month (up 2.1%) but is still lagging the overall global equity market (up 14.1% year-to-date).
- Global passenger yields moved a little higher this month, with the support of both the economy and premium cabin. Cost pressures from fuel prices in September proved to be temporary as expectations of weaker global growth outweighed geopolitical risks.
- In seasonally adjusted terms, air passenger demand maintained its moderate growth trend while freight demand continued to deteriorate. This divergence is also visible in passenger and freight capacity growth.

Financial indicators

Global airline shares outperformed global equities, supported by European airlines

Airline Share Prices

US$ indices (Jan 2014=100)	Index Sep 30th	% change on one month	one year	start of year
World airlines	**125.3**	**+3.6%**	**-8.6%**	**+2.1%**
Asia Pacific airlines	102.2	-0.2%	-11.5%	-7.8%
European airlines	88.3	+8.4%	-23.8%	-14.0%
North American airlines	164.7	+2.3%	-10.4%	+7.6%
FTSE All World $	**133.1**	**+2.0%**	**-0.7%**	**+14.1%**



Source: Thomson Reuters Datastream

- Global airline share prices rose in September despite headwinds arising from airline collapses, strikes and geopolitical events. The European airline index performed best, recording its highest monthly gain of the last two years, despite higher oil prices and another airline collapse. A fragile economic outlook, together with Brexit uncertainty, makes preserving this performance challenging.
- The North American airline index, which has been the best performer so far this year, rose following a sharp fall in August, but lagged the surge recorded by the European index. Asia Pacific airline shares eased slightly this month as weakness in the air cargo market, along with disrupted operations in Hong Kong both weighed impacted investor sentiment.

Industry-wide profitability remained stable

Airline Financial Results

Number of airlines in sample	Regions	Q2 2018 EBIT margin[1]	Q2 2018 Net post-tax profit[2]	Q2 2019 EBIT margin[1]	Q2 2019 Net post-tax profit[2]
32	North America	10.8%	3,741	11.9%	5,579
34	Asia-Pacific	3.3%	544	2.8%	207
13	Europe	9.1%	1,814	7.6%	1,654
8	Latin America	2.4%	-888	3.2%	-431
4	Others	4.7%	23	9.7%	93
91	**Sample total**	**7.6%**	**5,234**	**7.6%**	**7,102**

[1]% of revenues [2]US$ million
Sources: The Airline Analyst, IATA

- The final airline financial data for Q2 2019 showed that industry-wide operating profitability remained steady compared to the same period a year ago. N America remains the strongest performer, with a double-digit EBIT margin in Q2 2019. While margins weakened in Europe and Asia Pacific compared to a year ago, net income in Latin America was negative, impacted by the collapse of an airline and currency devaluation.
- Initial Q3 2019 earnings releases in N America showed that the bottom-line figures improved compared to the prior year, boosted by strong travel demand. However, looking forward rising costs are the main concern and this is expected to put pressure on profits in the last quarter of the year.

Industry-wide free cash flow generation is lower compared to a year ago

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q2 2018 Net cash flow[2]	Q2 2018 Capex	Q2 2018 Free cash flow	Q2 2019 Net cash flow[2]	Q2 2019 Capex	Q2 2019 Free cash flow
15	North America	19.8%	11.4%	8.4%	19.0%	10.3%	8.7%
29	Asia-Pacific	15.1%	14.6%	0.5%	12.0%	11.8%	0.2%
11	Europe	20.3%	13.7%	6.6%	16.1%	10.8%	5.3%
6	Latin America	8.6%	10.7%	-2.1%	5.6%	9.0%	-3.4%
3	Others	29.3%	24.6%	4.7%	30.0%	11.7%	18.3%
64	**Sample total**	**17.9%**	**13.0%**	**4.9%**	**15.5%**	**10.8%**	**4.7%**

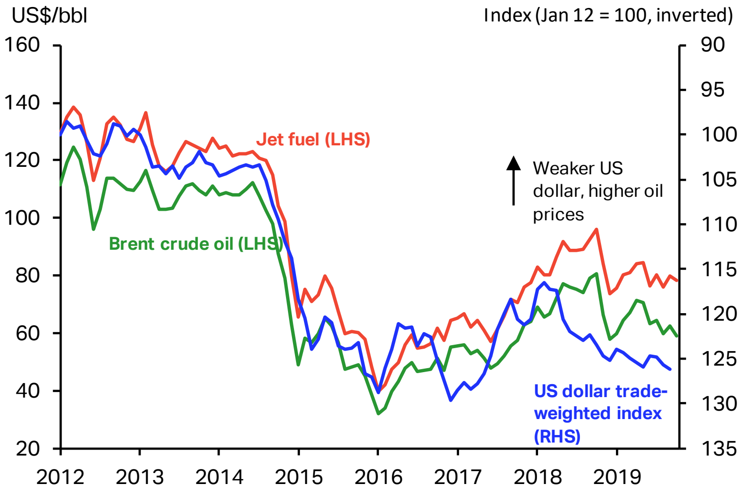
[1]% of revenues [2]From operating activities

Sources: The Airline Analyst, IATA

- Our final sample of airlines for Q2 2019 indicates that the industry-wide free cash flow (FCF) generation is slightly lower compared to the same period a year ago. Although capital spending was lower in Q2 2019, free cash flow as a percentage of revenues declined to 4.7%, stemming from the fall in net cash flow from operations.
- As with profitability (above), North American airlines outperformed in terms of cash flow generation. Solid bottom-line results and lower capital spending resulted in improved free cash flow generation for the region. Similarly, for airlines in Asia Pacific, Europe and Latin America, the decline in capital spending was a balancing factor to limit the impact of weaker net income figures. However, it was not enough to fully compensate for the lower cash flow generation in the FCF outcome.

Fuel costs

Lower forecasts for global oil demand growth outweigh geopolitical risks

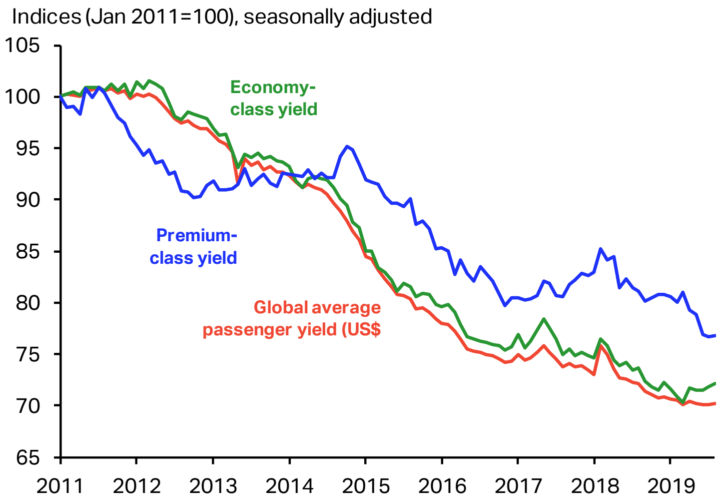


Sources: Platts, Thomson Reuters Datastream, as of October 17th

- Following the attacks on Saudi Arabia's oil field, Brent crude oil and jet fuel prices at first increased sharply in September. However, the price pressure swiftly abated, supported by a faster than expected recovery in production. Oil and jet fuel prices have returned to around pre-attack levels even though production has not been fully restored.
- Concerns regarding the global economic outlook have been weighing on oil prices, and more than offsetting the potential geopolitical risks. Both the U.S. Energy Information Administration and International Energy Agency revised down their oil demand growth forecasts due to the weakening in the global economy. At the time of writing this report, the price of Brent crude oil hovers around US$59/bbl and the jet fuel price is at US$79/bbl.

Yields and premium revenues

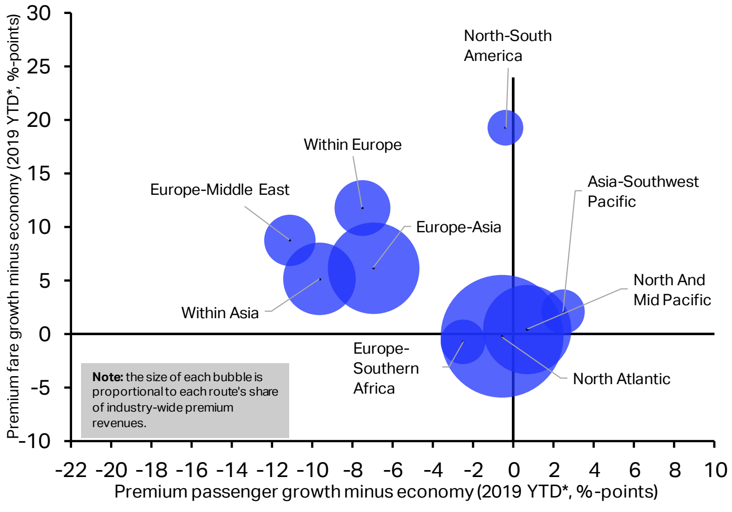
Global passenger yields inched up with higher economy and premium class yields



Sources: IATA Economics, IATA Travel Intelligence

- Global passenger yields increased slightly in August with the support of both economy and premium class. However, the global yield is still 2.7% lower compared to its level of a year ago. Note that the yield data are reported in US$ and exclude surcharges and the revenue that airlines generate from ancillary services.
- Impacted by trade and economic developments, premium cabin yields had been moving downward in the last four months and this was reversed in August (0.2%). Nevertheless, it is not possible to say that this is a trend change given that the global economy is softening and trade tensions have not been resolved. Economy class yields also moved up in August (by 0.4%) continuing the trend of recent months.

Premium passenger traffic growth generally underperformed the economy cabin

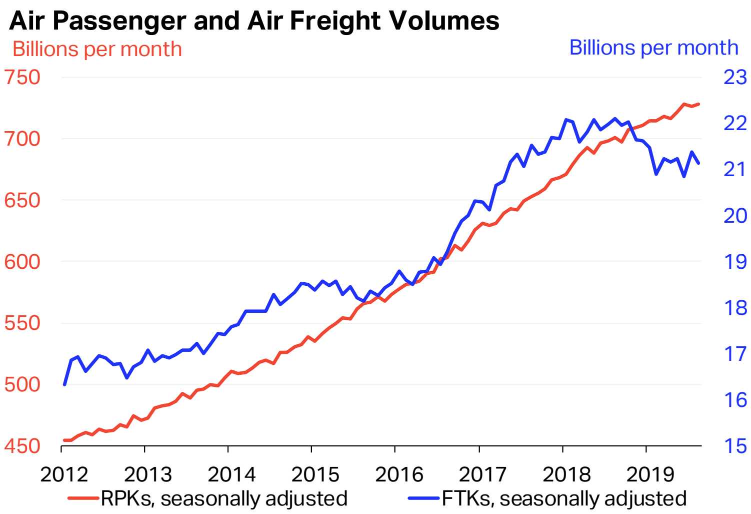


Sources: IATA Economics, DIIO *Up to July 2019

- Premium-class passengers accounted for 5.1% of total international origin-destination traffic in the first seven months of 2019, which is marginally lower (0.2 pps) than the proportion in the same period a year ago. In terms of revenues, premium-class passengers accounted for 30.8% of total passenger revenues which is higher (by 0.5 pps) compared to a year ago.
- Premium passenger traffic growth underperformed its economy counterpart in most of the international routes except for North-Mid Pacific and Asia-Southwest Pacific. The slowdown in the pace of economic growth in major markets in Europe together with trade tensions affected premium passenger traffic in all of the international routes linked to Europe. On the other hand, premium fare growth was above economy in most of the routes apart from Europe-Southern Africa and the North Atlantic.

Demand

Air passenger demand maintains a moderate growth trend, while freight declines

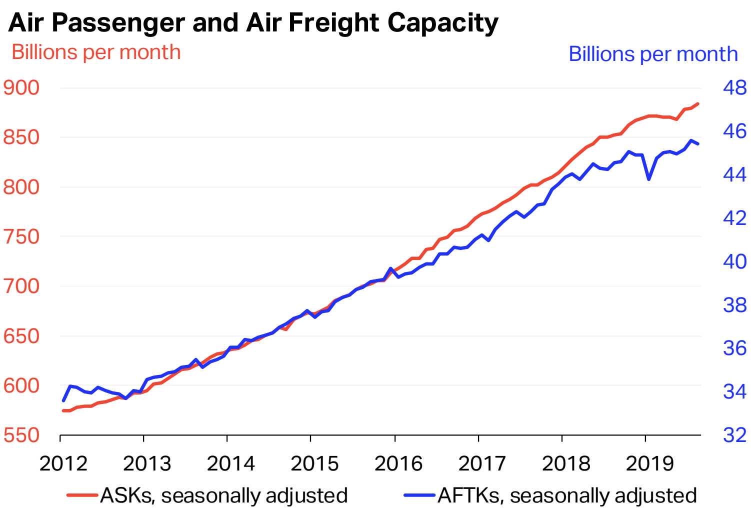


Source: IATA Monthly Statistics

- In seasonally adjusted (SA) terms, industry-wide revenue passenger kilometres (RPKs) continued the moderate upward trend in August, while SA air freight tonne kilometres (FTKs) declined, following an uptick in July.
- In the past year, the slow-down in global economic activity has resulted in a moderation in RPK growth. SA RPKs grew by 3.9% year-on-year, but the pace remained below the long-run historical average of around 5.5%. On the freight side, the industry continues to be affected by weak global trade and softer economic growth. In August, SA FTKs fell further by 4.4% year-on-year in August. Taking into account the economic outlook and risks related to trade disputes, our expectation on the freight side remains downbeat.

Capacity

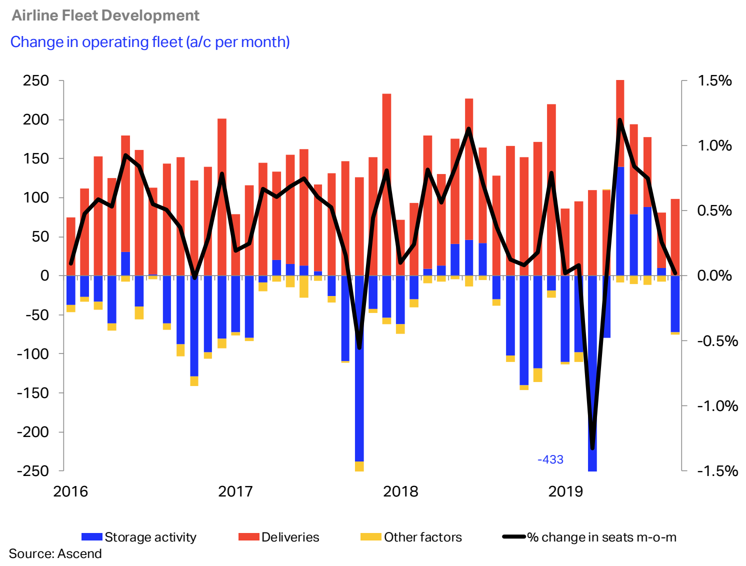
Passenger capacity increased in August, while freight declined



Source: IATA Monthly Statistics

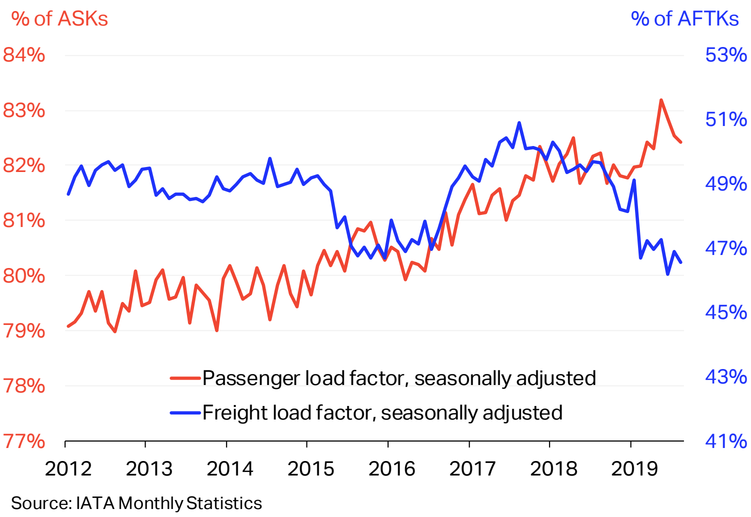
- Seasonally adjusted (SA) industry-wide available seat kilometres (ASKs) continued their upward trend for the third consecutive month in August. However, the year-on-year growth trend in SA ASKs is still soft compared to a year ago (3.7% vs 6.7% in August 2018) and lags the growth trend in RPKs.
- Available freight tonne kilometers (AFTKs) in seasonally adjusted terms declined in August following the increases of the last two months. The SA annual freight capacity growth rate, which was close to 5.0% a year ago, eased to 1.9 %. We expect airlines to remain cautious about adding new capacity both in passenger and freight side amidst the weakness in the global economy and intensified trade tensions.

Seat capacity growth halted in September



- After four months of continuous growth, the number of available seats in the global airline fleet remained stable in September. Subsequently, annual growth eased further to 2.9% this month which is almost half of the growth rate of a year ago (5.7%).
- 98 aircraft were delivered in September, but this was mostly offset by storage activity. Storage activity was supportive for fleet growth in the last four months as airlines sought to counter the impact of the 737 MAX groundings. However, this trend reversed in September.
- Overall, the number of aircraft delivered in the first nine months of the year was lower than that seen in the same period last year (896 vs 1185).

Passenger and freight load factors continue to diverge



- In August, both seasonally adjusted (SA) passenger and freight load factors declined but there is still wide divergence. The seasonally adjusted passenger load factor eased to 82.4% but was still 2.3 percentage points above the historical (10-year) average of 80.1%. In SA terms, the last two months have seen industry-wide capacity growth outpace demand.
- On the other hand, the seasonally adjusted freight load factor further weakened to 46.5% in August even though airlines have adjusted capacity. The SA freight load factor is currently 3.1 percentage points lower compared to its level of a year ago.

IATA Economics
economics@iata.org

18th October 2019

Get the data

Access data related to this briefing through IATA's Monthly Statistics publication: www.iata.org/monthly-traffic-statistics

20-year passenger forecasts

To find out more about our long-term passenger forecasts, and to sign up, visit: www.iata.org/pax-forecast

IATA Economics Mobile App

100% free access to our analysis & briefing for iOS & Android devices. For more details or to download, see here: