

AIRLINES FINANCIAL MONITOR

KEY POINTS

February 2016 – March 2016

- ➔ Global airline share prices continued their recovery in March from January's decline;
- ➔ The latest airline financial results from Q4 2015 further cemented the picture of a strong end to 2015, driven by carriers in North America. Financial performance improved in all regions relative to Q4 2014 except Latin America;
- ➔ Crude oil prices gained in March, although the market currently expects them to stay below \$50/bbl until late-2019;
- ➔ Further falls in air fares are likely to be seen in 2016 as hedging contracts unwind and the decline in oil prices seen towards the end of last year feeds through. Exchange rate-adjusted fares fell by 6.2% year-on-year in January;
- ➔ While the leap year may have flattered things, the global air passenger market is enjoying a strong start to 2016. Passenger loads have slipped in recent months, though, which will require monitoring;
- ➔ Air freight volumes in the first two months of 2016 fell by 1.5% year-on-year, although the comparison is complicated by the one-off boost last year from disruption at US west coast seaports. The freight load factor in January and February combined was well below average for the time of year, keeping cargo yields under pressure.

Financial indicators

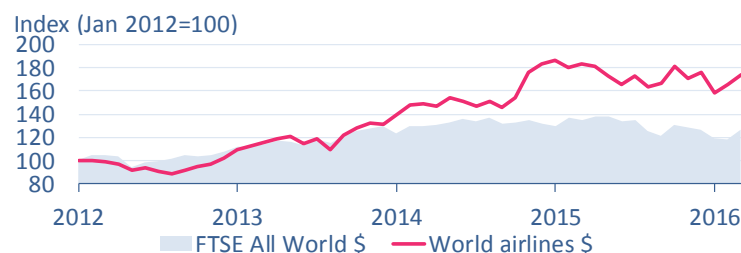
Global airline share prices continued their recovery in March from January's decline

Airline Share Prices

US\$ indices (Jan 2012=100)	Index Mar 31st	% change on		
		one month	one year	start of year
World airlines	174.0	+5.2%	-5.3%	-1.3%
Asia Pacific airlines	88.7	+6.5%	-7.1%	+1.1%
European airlines	225.8	+6.0%	+4.3%	-3.2%
North American airlines	376.6	+3.0%	-5.9%	-0.5%
FTSE All World \$	126.3	+7.2%	-6.1%	-0.2%

- ➔ Global airline share prices continued their recovery in March from the decline seen during January. Global share prices increased by 5.2% over the month, to leave them 1.3% below their start-year level. Asia Pacific and European carriers' share prices saw the biggest month-on-month rises (+6.5% and +6.0% respectively), while US airlines saw a smaller gain (+3.0%).

- ➔ Airline shares underperformed the wider equity market modestly in March. Having fallen for four consecutive months in month-on-month terms between November and February, the FTSE Global All Cap index jumped by 7.2% during March, leaving it just 0.2% lower than at the start of January.



Source: Thomson Reuters Datastream

The latest financial results from Q4 further cement the picture of a strong end to 2015

Airline Financial Results

Number of airlines in sample ³	Regions	Q4 2014		Q4 2015	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
17	North America	10.8%	2,520	15.2%	4,362
30	Asia-Pacific	5.6%	1,108	9.5%	2,330
12	Europe	0.9%	105	2.6%	976
6	Latin America	7.5%	321	6.0%	-533
3	Africa & Middle East	3.7%	40	9.7%	31
68	Sample total	6.3%	4,094	9.7%	7,166

- ➔ The latest financial results have continued to point to a strong end to 2015 for industry profitability. Net post-tax profits in our sample from the last quarter of 2015 were almost 60% higher than in the same period in 2014.

- ➔ The strongest results were posted by North American airlines, with an aggregate operating margin of just over 15%. Financial performance improved in the other regions too except Latin America, where challenging domestic economic conditions continue to take a toll.

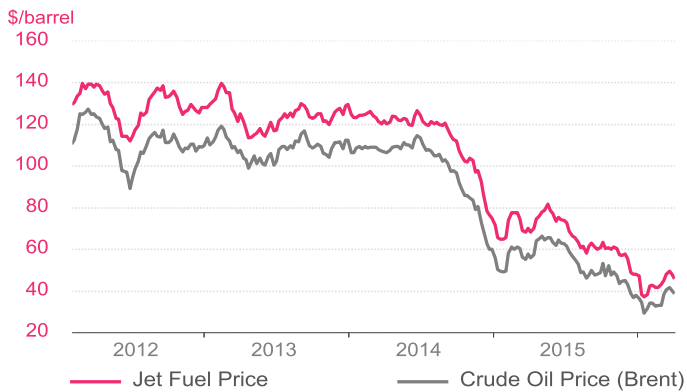
¹ % of revenues ² US\$ million ³ Includes Air New Zealand, Cathay Pacific Airways, Qantas Airways, Rex-Regional Express & Virgin Australia half-year

Sources: The Airline Analyst, IATA

Fuel costs

Crude oil prices gained in March, but the market expects them to remain lower for longer

Jet Fuel and Crude Oil Price

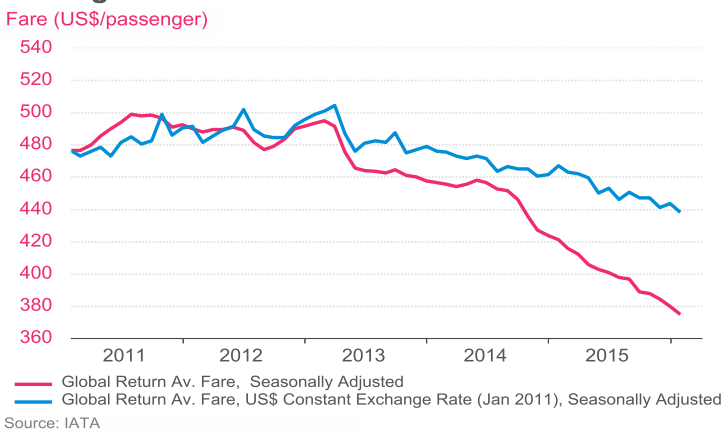


- Crude oil prices rallied in late-February and early-March, driven by market expectations of a possible freeze in production levels. The price of a barrel of Brent crude oil ended March almost 10% higher than it stood at the end of February.
- That said, the bigger picture is that oil prices are still around 30% lower than this time in 2015. Moreover, with storage levels remaining very high for this time of year, the overriding market sentiment for oil prices is 'lower for longer'. Indeed, according to the latest futures contracts, the market currently expects oil prices to remain below \$50/bbl until late-2019.

Yields

Lower fuel costs continue to feed into lower airfares, helping to stimulate demand

Average Return Fare Worldwide

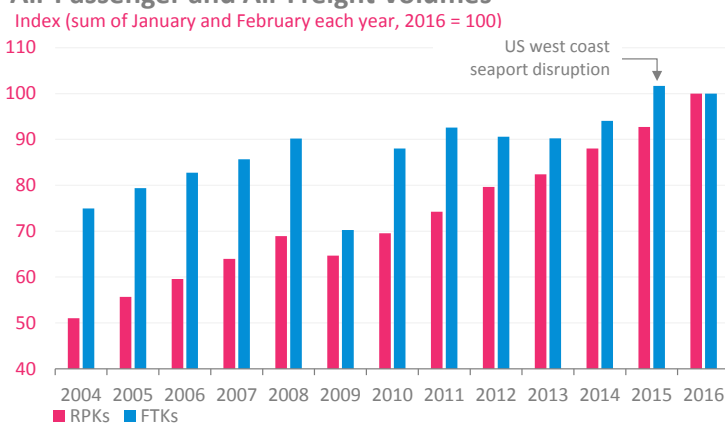


- Average global fares in reported US dollar terms fell by around 12% in 2015 compared to the previous year (excluding taxes, fees and surcharges). The strong appreciation in the US dollar seen over the period exaggerated the downward trend in airfares: adjusting for the currency effect, global fares were approximately 4.5% lower than in 2014. The distortion from the dollar is likely to ease in the coming months.
- Competitive pressures within the industry mean that the declines in oil prices seen around the end of last year and into 2016 are likely to translate into further declines in fares as fuel hedges unwind. Exchange rate-adjusted fares fell by 6.2% year-on-year in January 2016.

Demand

Passenger markets enjoying a strong start to 2016, flattered by the leap year

Air Passenger and Air Freight Volumes



- Annual growth in global passenger traffic accelerated to 8.6% in February. The outcome was helped by the fact that 2016 is a leap year, but the bigger picture is that the upward trend in seasonally-adjusted traffic, which allows for the extra day in February, remains very strong.
- Air freight volumes fell by 5.6% year-on-year in February, although the comparison is complicated by the one-off boost to air freight in February 2015 during the disruption at seaports on the US west coast. Looking across January and February combined, air freight volumes were 6.3% higher than at the start to 2014, which translates into a reasonably solid growth rate by air freight's recent disappointing standards.

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

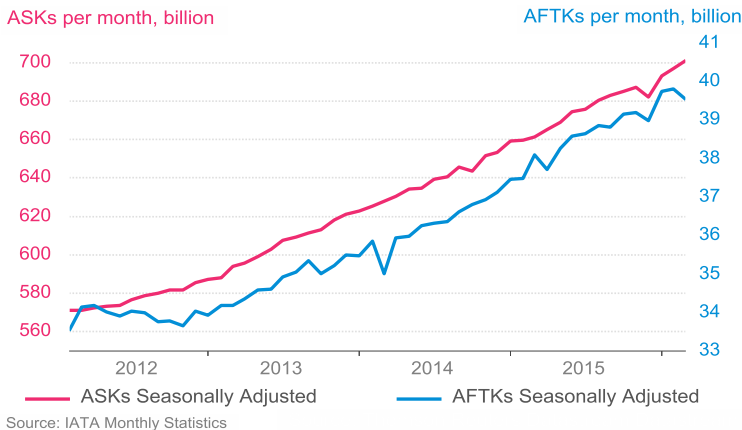
TOURISM ECONOMICS
IATA

including forecasts down to a country level

Capacity

Airlines have been cautious in adding passenger capacity, but tentative signs of a pick up

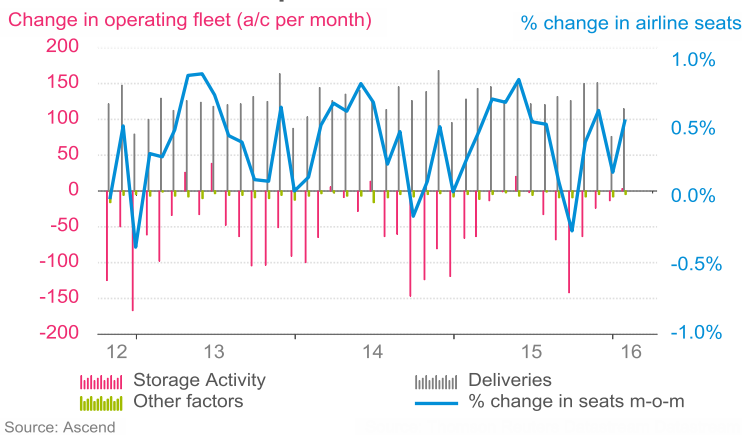
Total Passenger and Freight Capacity



- ➔ In general, airlines have reacted to robust travel demand over the recent past by adding capacity cautiously. That said, February was the first month since the middle of last year in which annual capacity growth exceeded that of passenger traffic, and is something to monitor.
- ➔ Available freight tonne kilometres increased by 7.5% year-on-year in February. Annual growth in industry-wide freight capacity has now outstripped annual growth in freight volumes for 12 consecutive months.

Net storage activity added to the fleet for the first time since the middle of 2015

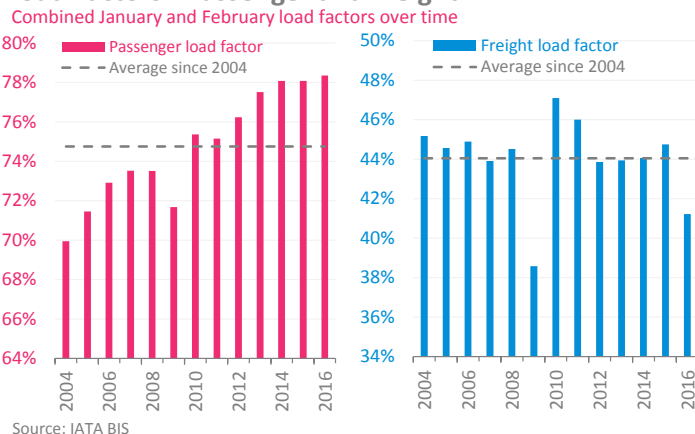
Airline Fleet Development



- ➔ The number of available seats in the global airline fleet increased by 0.6% in February compared to the previous month, and by 5.7% compared to February 2015.
- ➔ 115 new aircraft were delivered in February – a pick-up from the 76 delivered in January. Net storage activity made a small positive contribution to the fleet size for the first time since June 2015. The recent turnaround in net storage activity mainly relates to fewer aircraft going into storage, as lower oil prices and robust demand have made it economical to keep flying less fuel-efficient aircraft.

Passenger and freight load factors continue their divergence

Load Factors - Passenger and Freight



- ➔ The passenger load factor across January and February combined was slightly higher than it was during the same period in 2015 and well above the long-run average for the period. However, seasonally adjusted loads have slipped in recent months. High achieved loads have helped to support recent financial results, so we will be monitoring closely as to whether this marks the start of a downward trend.
- ➔ The industry freight load factor dropped to 41.0% in February – well below the long-run average during the first two months of the year. Low loads are keeping intense pressure on freight yields and revenues (a particular headwind for Asia Pacific carriers, for whom cargo is a key part of their business.)

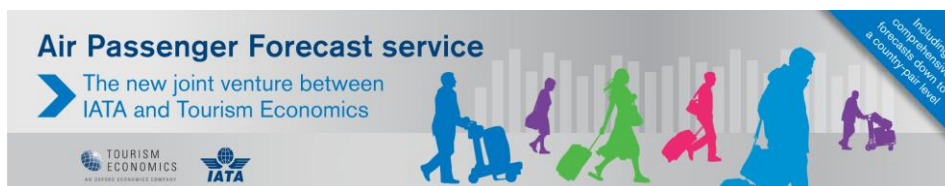
Data tables

Air passenger market detail - February 2016

	World share ¹	February 2016 (% year-on-year)				February 2016 (% year-to-date)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	8.6%	9.6%	-0.7%	77.8%	7.8%	7.5%	0.3%	78.4%
Africa	2.2%	11.6%	11.9%	-0.1%	65.7%	10.7%	9.3%	0.8%	68.2%
Asia Pacific	31.5%	9.8%	9.6%	0.1%	79.0%	10.2%	8.7%	1.1%	78.8%
Europe	26.7%	7.5%	7.3%	0.2%	77.7%	5.6%	4.5%	0.9%	77.9%
Latin America	5.4%	7.2%	7.3%	-0.1%	79.5%	6.0%	5.8%	0.2%	81.3%
Middle East	9.4%	11.0%	16.7%	-3.8%	73.3%	10.6%	14.7%	-2.8%	75.6%
North America	24.7%	7.1%	9.0%	-1.4%	79.1%	5.7%	5.8%	-0.1%	79.9%

Air freight market detail - February 2016

	World share ⁴	February 2016 (% year-on-year)				February 2016 (% year-to-date)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	-5.6%	7.5%	-5.7%	41.0%	-1.6%	6.8%	-3.5%	41.2%
Africa	1.5%	-1.7%	26.2%	-7.1%	25.0%	-2.2%	22.7%	-6.0%	23.5%
Asia Pacific	38.9%	-12.4%	3.7%	-8.5%	46.2%	-5.7%	4.4%	-5.1%	48.2%
Europe	22.3%	-2.4%	7.3%	-4.4%	44.6%	0.9%	6.2%	-2.3%	43.6%
Latin America	2.8%	2.7%	8.4%	-1.9%	34.6%	1.4%	7.6%	-2.1%	34.0%
Middle East	14.0%	3.7%	12.3%	-3.4%	41.0%	6.8%	11.0%	-1.6%	40.3%
North America	20.5%	-4.0%	8.0%	-4.2%	34.0%	-2.6%	6.4%	-3.1%	33.9%

¹% of industry RPKs in 2015⁴% of industry FTKs in 2015²Year-on-year change in load factor³Load factor level

IATA Economics
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