

# AIRLINES FINANCIAL MONITOR

## KEY POINTS

January - February 2014

- Airline shares gained 6% in February compared to January, in line with the broader market which rose 5%;
- Improvements in financial performance continue to support growth in airline share prices, but recent developments in the Ukraine crisis could have adverse effects on markets as well as crude oil prices going forward;
- Q4 financial results show solid improvements in operating profits, mostly in the US but in Europe also;
- Jet fuel prices were broadly flat in February, remaining within the 3 year range at \$125/bbl;
- US passenger yields are stable on a year ago, but weakness continues in other regions;
- Air freight markets rose strongly in January, reflecting growth in world trade, and passenger travel growth has sustained a recent pick-up, driven by strength of emerging markets and improvements in advanced economies;
- Growth in available seats slowed in January, with new deliveries declining and aircraft returning to storage;
- This has helped sustain the recent rebound in passenger load factors, which have now risen back to above 80%;
- Recent improvements in air freight loads have moderated, but remain well above the mid-2013 low.

## Financial indicators

### Airline shares rose further in February, in line with the broader market



- Worldwide airline shares rose 6% in February compared to January, supported by solid financial performance. The February gain in airline shares was largely in line with the broader market, with the FTSE Global All Cap rising 5%. Regionally, airline share prices increased in the US and Europe, but remain weak in Asia Pacific. The divergence reflects developments in financial performance, with US and European airlines showing improvements as Asia Pacific carriers continue to underperform on a year ago.

### Q4 financial results show solid operating profit improvement, driven by the US

In US \$ Million

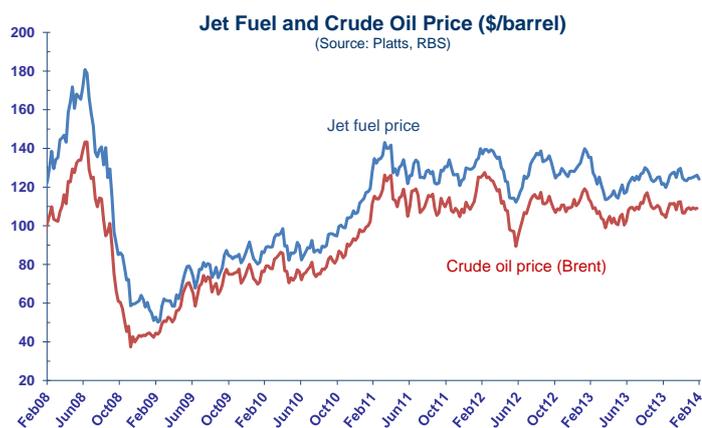
# Airlines		Q4 2012		Q4 2013	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
12	North America*	703	-293	1901	1499
12	Asia-Pacific	1358	1039	436	-130
4	Europe	-996	-1247	102	-1583
2	Latin America	188	134	180	144
1	Others	15	5	22	14
31	<b>Sample total</b>	1268	-362	2641	-56

\*Excluding \$2.2b reorganization items from AMR

- Q4 financial results indicate that airlines are continuing to improve financial performance at the operating level. The sample of 31 airlines shows operating profits up more than 100% on a year ago, driven by the performance of North American airlines. By contrast, results indicate continued weakness in Asia Pacific, where airlines are seeing declines at the operating and net level, largely reflecting weakness in cargo demand.

## Fuel costs

### Jet fuel prices trended sideways in February, averaging \$125/bbl



- Jet fuel prices remained broadly unchanged throughout February, averaging \$125/bbl, similar to levels in January. Although current levels have slightly (4%) since 2013 year end, levels remain well within the high range of the past 3 years. Jet fuel prices have been trending in a tight and high band since early 2011, averaging \$127 during the period.
- Current market conditions could continue to support oil prices at current levels – unless there are significant shifts in supply, improving economic conditions in the US and Europe should support demand.

## Yields

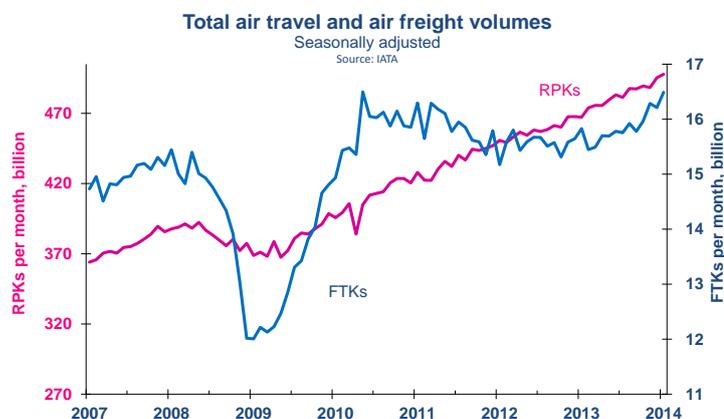
### Passenger yields have moderated in the US, and remain weak in other regions



- The trend in US passenger yields moderated over recent months, after showing signs of a pick-up in the first half of 2013. Sustained growth in demand and industry consolidation have provided support to US yields, which are still stable compared to year ago levels.
- By contrast, the weak trend in global fares in US\$ appears to be continuing. The trend in global fares reflects weakness in Asia as well exchange rate distortions. The fare data excludes fuel surcharges and ancillary revenues, which provide some offset to the decline in core fare yields.

## Demand

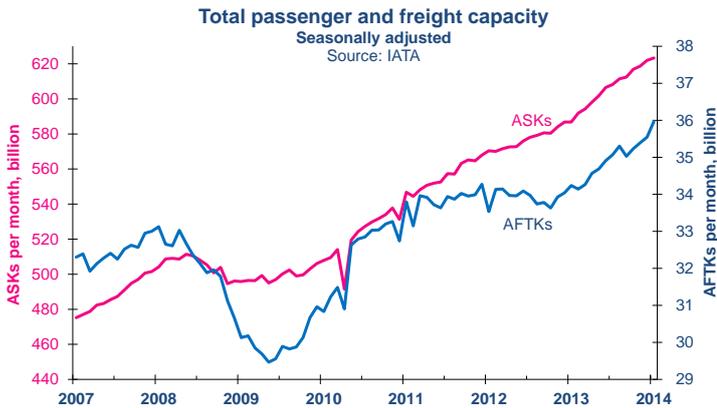
### FTKs increased strongly in January as RPKs continue robust growth trend



- Air freight markets expanded by 1.7% in January compared to December, accelerating a positive growth trend that has been developing since Q2 2013. Growth in FTKs has been supported by a better business environment as well as acceleration in world trade over recent months.
- Growth in air travel volumes has accelerated over recent months, supported by strength of emerging markets and improvements in advanced economies. Global RPKs were 8.0% higher in January compared to a year ago.

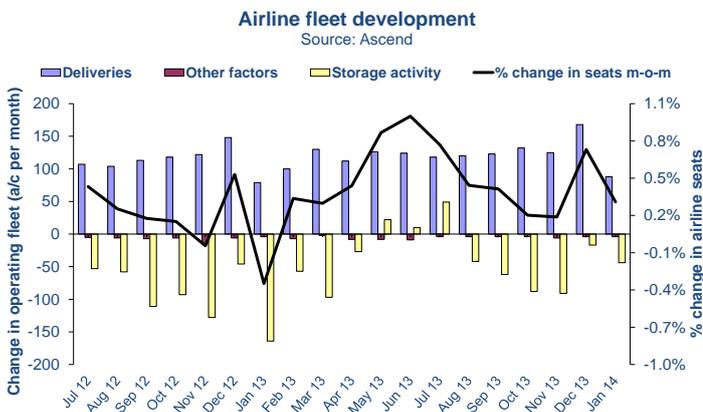
## Capacity

### Growth in ASKs moderated in January while expansion AFTKs picked-up



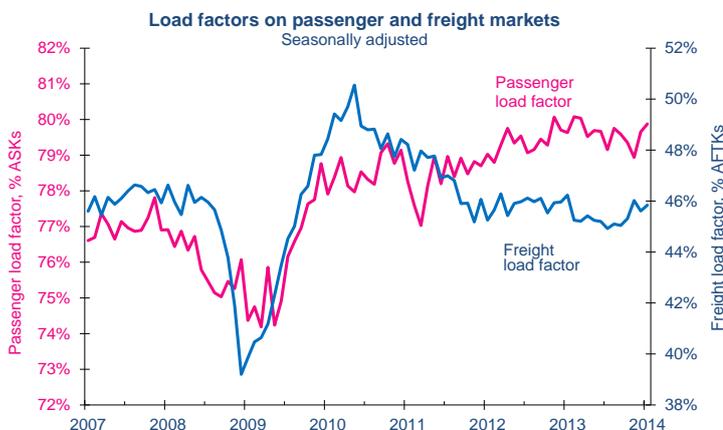
➤ Growth in capacity expanded slowly in January compared to December, by 0.3%. The growth in ASKs came through international markets; capacity was flat on domestic markets. The modest rate of expansion remained below the rise in demand. Freight capacity, by contrast, expanded strongly, rising 1.2% in January compared to December. But as has been the case over recent months, the growth in demand has been stronger than the expansion in AFTKs, helping support load factors.

### Growth in seats fell sharply as new deliveries declined and stored activity increased



➤ Growth in available seats slowed in January compared to December. The slowdown comes after a sharp increase during the end of 2013. In January, there were 88 new aircraft delivered (compared to 169 in December) and a net 44 aircraft went into storage, compared to 17 in December. Growth in seats in January had slowed to an annualized rate of between 2-3%. The expansion in volumes in January was above this rate, helping sustain loads and aircraft utilization rates.

### Passenger load factors continue to improve and freight load remain at improved levels



➤ Passenger load factors rebounded in January compared to December, supported by a solid rise in demand and slower growth in capacity. Load factors had been showing weakness throughout much of 2013 as a result of strong growth in capacity, but levels remain high and are now back above 80% on a seasonally adjusted basis.

➤ Recent improvements in air freight load have moderated slightly, but levels are still the above the low point seen during mid-2013. The recent improvement in load factors has been supported by stronger demand. Overall however, levels are low and barely above 45%.

## Data tables

Year on Year Comparison	Jan 2014 vs. Jan 2013						2013 vs. 2012					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	2.1%	3.7%	68.9%	4.1%	3.9%	27.4%	5.1%	4.5%	69.9%	1.0%	6.6%	29.0%
Asia/Pacific	11.2%	10.3%	77.2%	3.8%	9.7%	50.8%	7.1%	7.1%	77.6%	-1.0%	0.8%	55.5%
Europe	6.7%	6.1%	76.0%	6.0%	3.8%	45.6%	3.8%	2.7%	80.2%	1.8%	2.2%	47.5%
Latin America	6.5%	4.1%	80.9%	6.8%	-0.6%	37.1%	6.3%	4.5%	78.0%	2.4%	1.8%	41.9%
Middle East	17.2%	14.1%	81.4%	10.7%	11.5%	41.9%	11.4%	12.0%	77.6%	12.8%	11.8%	44.5%
North America	2.6%	1.1%	80.7%	0.7%	-0.9%	34.6%	2.3%	2.0%	83.4%	-0.4%	0.9%	34.3%
<b>Total Market</b>	<b>8.0%</b>	<b>6.7%</b>	<b>78.1%</b>	<b>4.5%</b>	<b>5.1%</b>	<b>43.1%</b>	<b>5.2%</b>	<b>4.8%</b>	<b>79.5%</b>	<b>1.4%</b>	<b>2.6%</b>	<b>45.3%</b>

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.

**AIRLINE INDUSTRY FORECAST 2013 - 2017**  
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**IATA Economics**  
**6<sup>th</sup> March 2014**