

AIRLINES FINANCIAL MONITOR

KEY POINTS

January 2016-February 2016

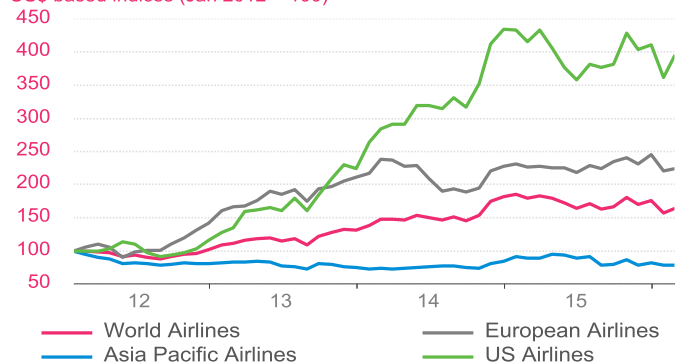
- Worldwide airline share prices increased by 4.7% in February, recovering some of the decline seen in January;
- The latest airline financial results from Q4 2015 continue to point to a strong end to 2015, led by carriers in North America. By contrast, challenging economic conditions have taken a toll on Latin American carriers' performance;
- Crude oil prices have rallied in recent weeks, driven by market expectations of a tightening in supply. However, the bigger picture is that oil prices are still some 30% lower than they were this time last year;
- After adjusting for distortions related to the rise in the US dollar over the past 18 months or so, global air fares fell by around 4-4.5% in 2015. Further falls in air fares are likely to be seen in 2016 as fuel hedging contracts unwind and the decline in oil prices seen towards the end of last year feed through;
- The global air passenger market made a strong start to 2016, with most regions posting record-high passenger load factors for the month of January. This bodes well for industry-wide financial performance in early 2016;
- The cargo side of the business made a reasonably solid start to 2016 by its standards, although challenges remain. The freight load factor remains rooted near a six-year low, keeping intense pressure on cargo yields.

Financial indicators

After January's market turbulence, global airline share prices rose by 4.7% in February

Airline Share Prices

US\$ based indices (Jan 2012 = 100)



Source: Thomson Reuters Datastream

- Airline share prices increased by 4.7% in February, recovering some of the decline seen during January's turbulence. US carriers' share prices saw the biggest month-on-month rise (+9.5%), while European airlines saw a smaller gain (+1.9%). By contrast, Asia Pacific was the only region to see a further decline (0.4%).
- The modest recovery in airline stocks in February occurred alongside a second consecutive monthly fall in global equities: the FTSE Global All Cap index dipped by 0.7% over the same period.

The latest financial results from Q4 continue to 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
15 North America	11.0%	2,567	15.5%	4,352
18 Asia-Pacific	6.0%	646	8.4%	1,455
10 Europe	0.1%	636	5.0%	1,047
4 Latin America	9.1%	282	7.6%	-235
3 Africa & Middle East	3.7%	40	9.7%	31
50 Sample total	7.1%	4,171	10.9%	6,650

Source: The Airline Analyst, IATA.

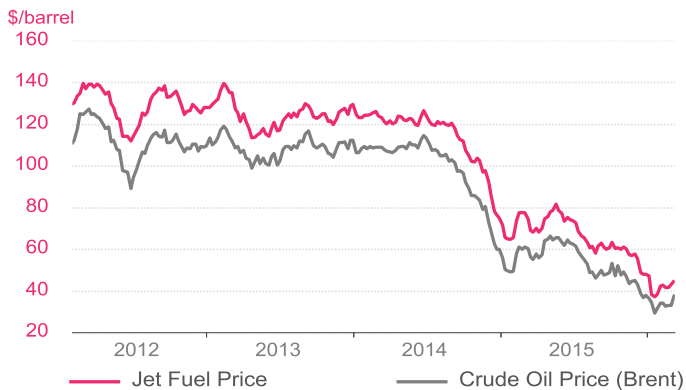
*Includes Air New Zealand, Qantas Airways, Rex-Regional Express & Virgin Australia half-year results

- The latest financial results have continued to point to a strong end to 2015 for industry profitability. Net post-tax profits in our sample in the final quarter of 2015 were almost 60% higher than in the same period a year ago.
- As in previous quarters, the strongest results were posted by North American airlines, with an aggregate operating margin of around 15%. Financial performance improved in the other regions too with the notable exception of Latin America, where challenging domestic economic conditions have taken a toll.

Fuel costs

Crude oil prices have rallied in recent weeks, but remain well down in year-on-year terms

Jet Fuel and Crude Oil Price

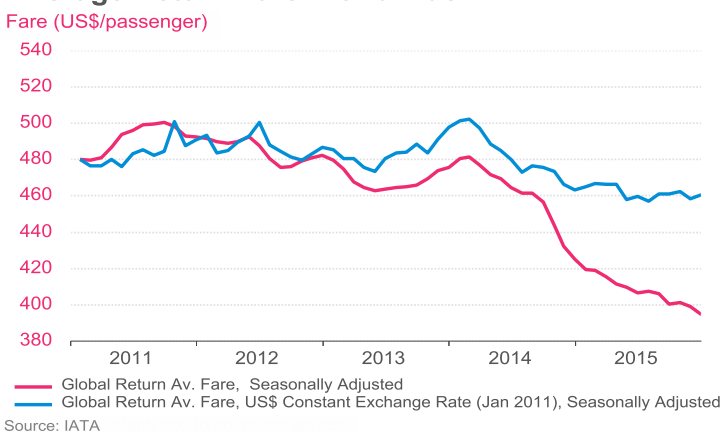


- Crude oil prices have rallied in recent weeks, driven by market participants anticipating a tightening in supply. At the time of writing, the price of crude oil (Brent) was around 50% higher than its January low-point.
- That said, the bigger picture is that oil prices are still some 30% lower than this time last year. Moreover, with storage levels remaining high, it remains to be seen whether the rally will hold.

Yields

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

Average Return Fare Worldwide

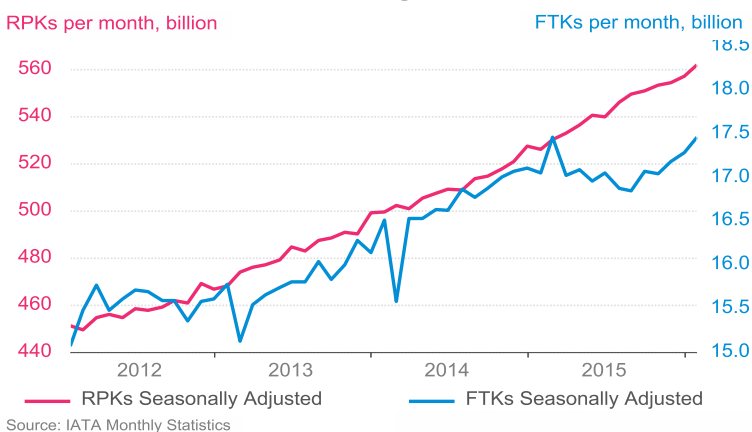


- Average global fares in reported US dollar terms fell by around 12% in 2015 compared to the previous year. The strong appreciation in the US dollar seen over the period exaggerated the downward trend in airfares: adjusting for the currency effect, nominal global fares were approximately 4-4.5% lower than in 2014.
- The downward trend in exchange rate-adjusted air fares flattened towards the end of last year. However, 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 during H1 2016 as fuel hedges unwind.

Demand

A bright start to 2016 for passenger markets, with a solid rise in freight volumes too

Total Air Travel and Air Freight Volumes



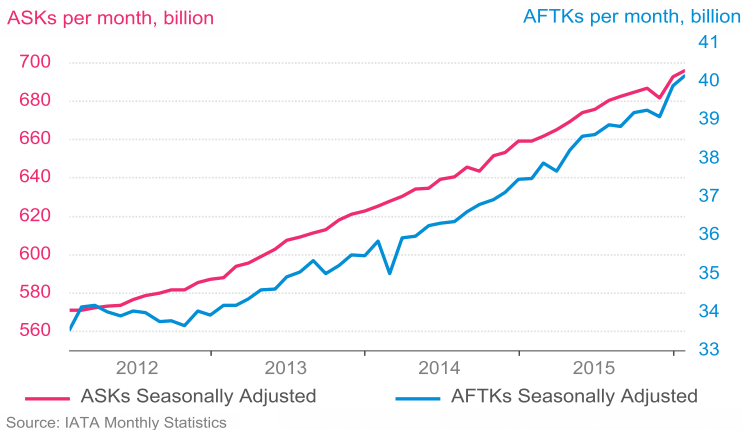
- The global air passenger market carried strong momentum into 2016. Global passenger traffic in January was 7.1% higher than in the same month in 2015. The continuation of the strong upward trend in seasonally-adjusted traffic underlines the resilience of industry performance to the equity market turmoil seen early this year.
- The recovery in air freight volumes from the weak first half of last year also continued into 2016. FTKs finally surpassed their seasonally-adjusted peak reached in February 2015 at the time of the US West Coast seaport disruption. That said, the absence of any particularly strong demand tailwinds – not least the ongoing sluggishness of world trade – suggests that freight volumes are set for another year of just modest growth in 2016.



Capacity

Airlines have remained cautious in adding passenger capacity

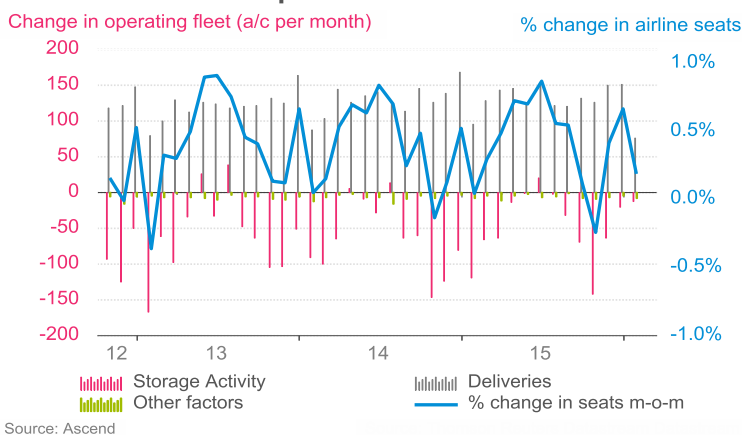
Total Passenger and Freight Capacity



- ➔ Airlines have continued to react to robust travel demand by adding capacity cautiously (total available seat kilometres increased by 5.6% year-on-year in January). As was the case in 2015 as a whole, demand growth in January outstripped capacity growth in all regions except the Middle East.
- ➔ By contrast, growth in the amount of capacity coming into the freight market has continued to far outstrip that of freight demand. (Indeed, freight capacity has grown faster than passenger capacity over the past year or so as well.) Available freight tonne kilometres increased by 7.0% year-on-year in January.

Aircraft deliveries slowed in the first month of 2016

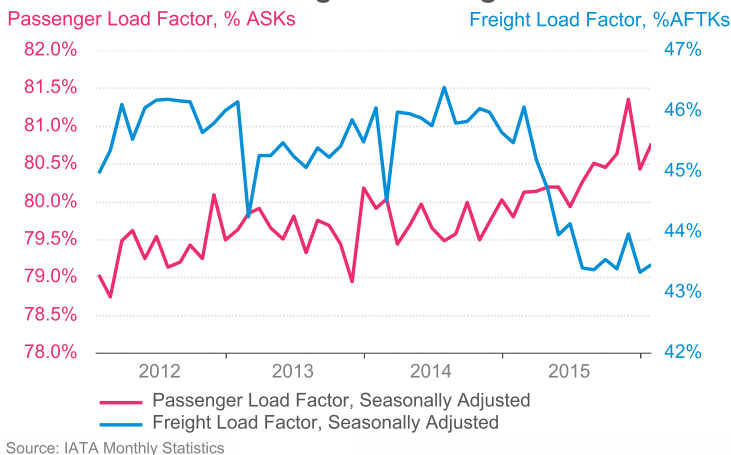
Airline Fleet Development



- ➔ The number of available seats in the global airline fleet increased by 0.2% in January compared to the previous month, and by 5.4% compared to January 2015.
- ➔ 76 new aircraft were delivered in January – a slowdown from recent months, possibly reflecting delivery schedules being affected by the earlier timing of Chinese New Year this year. As in January, net storage activity made only a modest net negative contribution to the fleet size. This mainly relates to fewer aircraft going into storage in recent months, as lower oil prices have made it economical to keep flying less fuel-efficient aircraft.

Divergent trend in passenger and freight load factors continues

Load Factors - Passenger and Freight

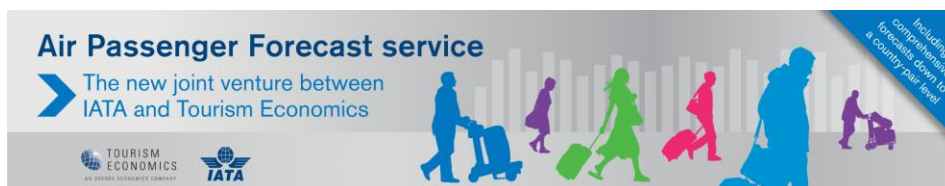


- ➔ The industry passenger load factor increased to 80.8% in January on a seasonally adjusted basis, just 0.5 percentage points lower than its all-time high. Achieved industry loads have remained elevated while breakeven loads have declined. This combination has supported the strong financial results achieved in 2015.
- ➔ By contrast, the industry freight load factor edged up to 43.5% in seasonally-adjusted terms in January – further evidence that its downward trend seen during 2015 has bottomed out. Nonetheless, the bigger picture is that loads remain close to a six-year low, and are keeping cargo yields under pressure. (This is a particular headwind for Asia Pacific carriers, for whom cargo is a key part of their business.)

Data tables

Air pax market	World share ¹	January 2016 (% year-on-year)				2015 (% year-on-year)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	7.1%	5.6%	1.1%	78.8%	6.5%	5.6%	0.6%	80.4%
Africa	2.2%	11.0%	7.1%	2.5%	71.3%	3.1%	1.4%	1.1%	69.5%
Asia Pacific	31.5%	10.4%	7.9%	1.8%	78.5%	8.7%	6.7%	1.4%	78.6%
Europe	26.7%	4.0%	2.1%	1.4%	77.9%	5.1%	3.9%	0.9%	81.7%
Latin America	5.4%	5.1%	4.6%	0.4%	82.8%	6.8%	6.5%	0.2%	79.9%
Middle East	9.4%	10.5%	12.8%	-1.6%	77.9%	10.1%	12.6%	-1.7%	76.7%
North America	24.7%	4.3%	2.9%	1.1%	80.7%	4.3%	3.8%	0.4%	84.0%

Air freight market	World share ⁴	January 2016 (% year-on-year)				2015 (% year-on-year)			
		FTK	AFTK	FLF (%-pt) ²	FLF (level) ³	FTK	AFTK	FLF (%-pt) ²	FLF (level) ³
TOTAL MARKET	100.0%	2.7%	7.0%	-1.8%	41.3%	2.2%	6.2%	-1.7%	44.1%
Africa	1.5%	-1.4%	19.4%	-4.8%	22.6%	1.8%	5.5%	-1.1%	29.8%
Asia Pacific	38.9%	1.3%	5.9%	-2.3%	49.8%	2.4%	5.7%	-1.8%	54.0%
Europe	22.3%	2.5%	6.3%	-1.5%	41.6%	-0.2%	4.4%	-2.1%	44.9%
Latin America	2.8%	-3.6%	4.2%	-2.7%	32.9%	-5.9%	4.3%	-4.1%	37.4%
Middle East	14.0%	8.8%	9.8%	-0.3%	39.2%	11.6%	15.7%	-1.6%	42.9%
North America	20.5%	2.5%	6.7%	-1.4%	34.6%	0.1%	3.8%	-1.3%	34.3%

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

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