

AIRLINES FINANCIAL MONITOR

KEY POINTS

December- January 2015

- ➔ The rise in worldwide airline share prices slowed as declines in crude oil and jet fuel prices paused;
- ➔ After falling more than 50% by the end of 2014, crude oil and jet fuel prices stabilized in January;
- ➔ Initial Q4 financial results show improvements continuing to be driven by US carriers;
- ➔ Passenger yields in the US show small year-end gains as fares in other regions fall further;
- ➔ Air travel growth remained strong in December and air freight demand sustained recent gains, despite developing concerns over the health of the global economy;
- ➔ Growth in available seats accelerated in December, but is still below the pace of growth in demand, which should support aircraft utilization rates;
- ➔ Passenger load factors trended improved in December, but air freight load factors lost ground on significant growth in capacity in Asia Pacific.

Financial indicators

Rise in airline share prices slowed as declines in jet fuel prices paused

Airline Share Prices

US\$ based index (100 = 2007)



- ➔ Growth in worldwide airline shares stabilized in January, with a rise of just 1% compared to December. Nonetheless, airline shares outperformed the broader market, with the FTSE Global All Cap declining 2% in January compared to December. Airline shares had increased 40% in 2014, helped partly by falling energy prices in the latter months of the year. The current easing in the upward trend in airline shares is likely a result of the recent rally in crude oil prices. Airline share prices were subdued in all regions; except for Asia Pacific which was up 8%. This however, was driven by outstanding share price increases of a few airlines.

Initial Q3 financial results show US improvement partially offset by weakness elsewhere

In US \$ Million

# Airlines	Regions	Q4 2013		Q4 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
8	North America	1390	976	2309	1140
4	Asia-Pacific	453	322	570	349
1	Europe	-31	-48	89	61
0	Latin America	0	0	0	0
0	Others	0	0	0	0
13	Sample total	1812	1250	2968	1550

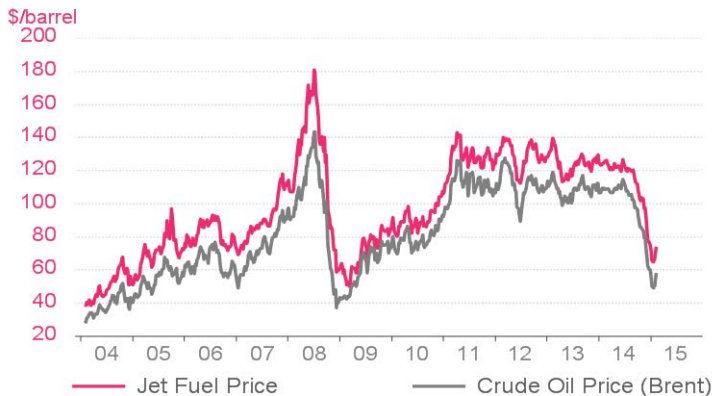
Source: The Airline Analyst, IATA.

- ➔ Airline financial performance continues to improve, according to initial Q4 financial results. A sample of 12 airlines shows that the industry financial performance improved on the year ago period at the operating and net level. The increase was driven by North American airlines, where consolidation and cost cutting has resulted in a significant boost to profitability. The small sample of Asia Pacific airlines shows signs of improvement, but that could change as more results are reported – the region's financial performance has been weak for some time, hampered by over-capacity and weakness in cargo revenues.

Fuel costs

Crude oil prices rally after dropping below \$50/bbl in January

Jet Fuel and Crude Oil Price



- Crude oil prices had fallen below \$50/bbl in January, the lowest price seen for the past 6 years. Jet fuel prices had followed suit, dropping below \$65/bbl. At the start of February, however, was a rally in crude oil prices, pushing them up to \$58/bbl.
- The recent increase in oil prices has come as a result of change in supply and demand conditions. On the supply side, there was a disruption to production at an oilfield in Libya. While in China, a central bank decision to inject liquidity into the economy is expected to boost demand for crude oil products

Yields

Passenger yields in the US show small year-end gains as fares elsewhere fall further

Average Return Fare Worldwide & US Airlines Yields

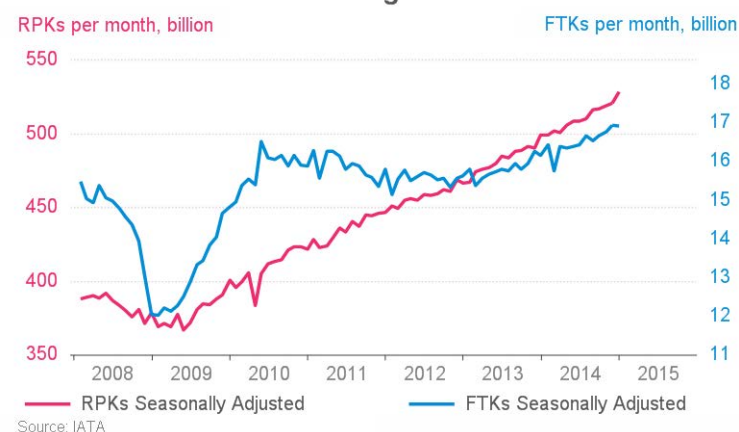


- US passenger yields appear to be breaking a trend of flat growth during Q2 and Q3 2014 with a rise toward the end of 2014. Underlying demand drivers remain positive, and there are no signs of downward pressure on yields from the decline in fuel related costs.
- By contrast, the downward trend in global fares in US\$ has continued. The trend in global fares reflects weakness in Asia as well as exchange rate distortions. The fare data excludes fuel surcharges and ancillary revenues, which could provide some offset to the decline in core fare yields.

Demand

Air travel increased strongly and air freight demand sustained recent gains

Total Air Travel and Air Freight Volumes



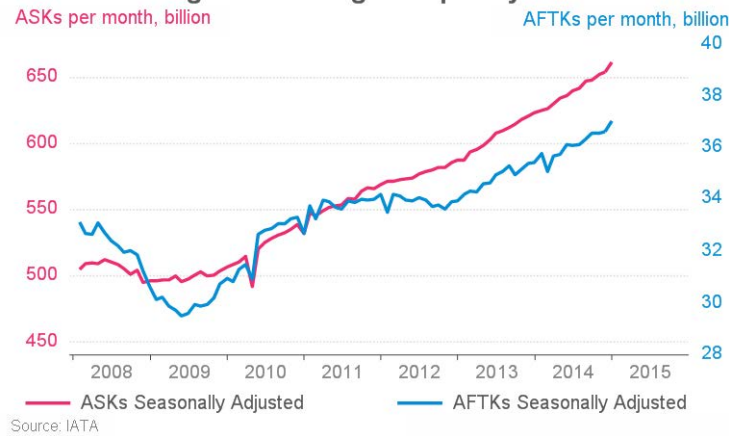
- Air freight volumes were able to sustain recent gains, despite a small contraction in December compared to November. The trend in air freight demand has been positive throughout H2 2014, despite recent concerns about the health of the global economy. Air freight demand has been driven by strong growth in Emerging Asia trade activity.
- Air passenger volumes expanded strongly in December compared to November. The easing in business confidence over recent months has adversely impacted international air travel, but domestic markets are seeing strong growth.



Capacity

Capacity expanded strongly in both business in December

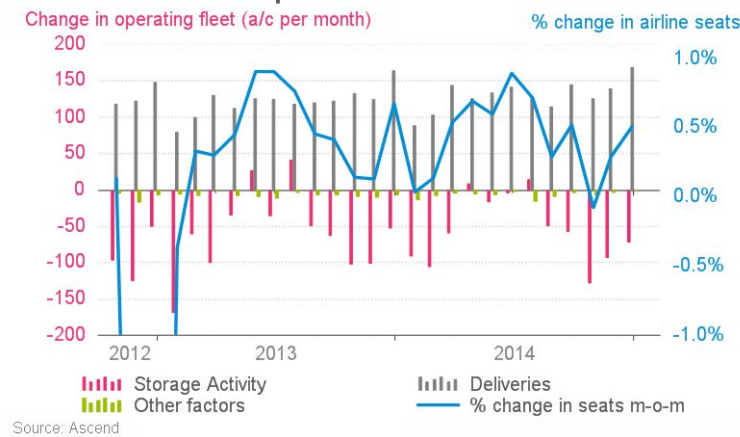
Total Passenger and Freight Capacity



- The strong positive growth in trend in ASKs continued in December with solid expansion in capacity compared to November. Growth in ASKs was strong on both international and domestic markets, with total growth exceeding 1% in December compared to November.
- Air freight capacity also increased strongly in December, after two months of no growth earlier in Q4. Solid expansion in AFTKs throughout 2014 was mostly the result of growth in capacity on Asia Pacific carriers.

Growth in seats picks-up further but still below expansion in demand

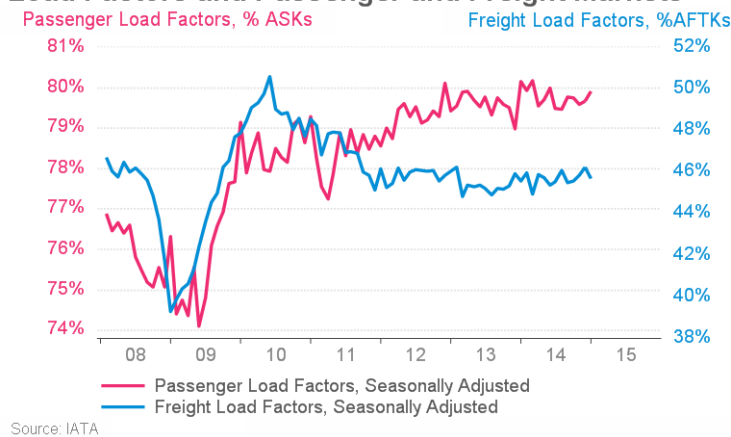
Airline Fleet Development



- Growth in available seats increased further in December. The acceleration in growth in seats resulted from a decline in net storage activity, as well as a small increase in new aircraft deliveries. In December there were 168 new aircraft delivered compared with 139 new deliveries in November. In addition, 71 aircraft went into storage in December, compared to 93 in November. Growth in seats increased to a 6% annualized rate, but this pace of expansion is still below the growth in demand, and should provide a boost to aircraft utilization.

Passenger loads improve in December as air freight load factors lose some ground

Load Factors and Passenger and Freight Markets



- Industry load factors improved in December compared to November, but the growth trend has been weak overall in 2014. Domestic load factors have been starting to recover some of the ground lost in the first half of 2014, following solid expansion in volumes during recent months. By contrast, international load factors have made little progress in H2 2014 due to weakness in demand.
- Cargo load factors fell slightly in December, both compared to the previous month and on a year ago. The growth in air freight demand over recent months has supported some improvement in loads, but continued expansion in capacity through the passenger business has kept load factors low at just over 45%.

Data tables

Year on Year Comparison	Dec 2014 vs. Dec 2013						2014 vs. 2013					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-1.1%	-1.0%	69.6%	12.2%	-0.6%	33.8%	0.3%	2.5%	68.4%	6.7%	0.9%	30.7%
Asia/Pacific	8.9%	7.4%	77.4%	5.9%	6.1%	55.6%	7.1%	7.5%	77.2%	5.4%	5.7%	55.4%
Europe	4.5%	4.3%	77.6%	2.3%	3.9%	48.6%	5.8%	5.2%	80.8%	2.0%	3.0%	46.9%
Latin America	6.9%	6.8%	79.7%	-4.5%	-1.7%	41.6%	6.4%	4.1%	79.8%	0.1%	0.3%	41.8%
Middle East	13.9%	14.6%	77.7%	11.3%	16.3%	43.9%	12.6%	11.5%	78.4%	11.0%	11.1%	44.5%
North America	1.9%	4.0%	82.8%	2.8%	-0.8%	36.2%	2.7%	2.4%	83.6%	2.4%	-0.5%	35.3%
Total Market	6.1%	6.2%	78.7%	4.9%	4.6%	46.4%	5.9%	5.6%	79.7%	4.5%	3.7%	45.7%

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.

Air Passenger Forecast service
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IATA Economics
10th February 2015