

AIRLINES FINANCIAL MONITOR

KEY POINTS

February-March 2015

- Worldwide airline share prices rose 2% in March but the trend has been broadly flat in Q1, consistent with the rally in crude oil prices during the same period;
- After falling more than 50% by the end of 2014, crude oil prices have rebounded to \$60/bbl;
- Q4 financial results show continued gains in the US and a positive turn-around in Asia Pacific;
- Passenger yields in the US are starting to weaken and fares in other regions fell further, reflecting downward pressure from earlier declines in fuel related costs;
- Air transport volumes continued to expand at 5-6% trend, as FTKs surged from a temporary boost to demand;
- Growth in seats rebounded in February, but remains below expansion in volumes;
- Air freight load factors continued sideways trend in February as passenger loads start to improve, particularly on international markets.

Financial indicators

Airline share prices trending sideways in Q1, flattened by rally in fuel prices

Airline Share Prices

US\$ based index (100 = 2007)



- Airlines share prices rose 2% in March compared to February, underperforming the broader market. The FTSE Global All Cap rose 5%. Airline shares had increased 40% in 2014, helped partly by falling energy prices in the latter months of the year. However, the trend in airline share prices has flattened during Q1 2015 – likely a result of the rally in crude oil and jet fuel prices during the same period. Airline share prices have experienced the same trend in all regions.

Q4 financial results show strong operating improvement in North America and Asia Pacific

In US \$ Million

# Airlines	Regions	Q4 2013		Q4 2014	
		Operating profit	Net post-tax profit	Operating profit	Net post-tax profit
16	North America	2470	1716	4741	422
27	Asia-Pacific	1020	40	2720	1100
12	Europe	374	-1604	594	13
7	Latin America	575	134	544	44
4	Others	33	48	22	15
66	Sample total	4472	334	8621	1594

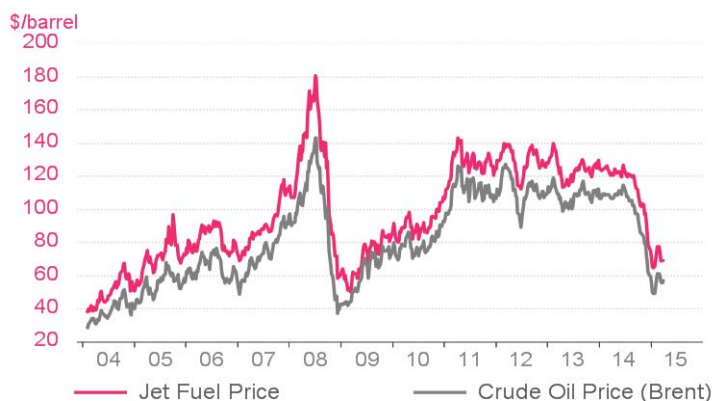
Source: The Airline Analyst, IATA.

- Airline financial performance continues to improve, according to initial Q4 financial results. A sample of 66 airlines shows that the industry financial performance improved significantly on the year ago period at the operating level. The increase was driven by North American airlines, where consolidation and cost cutting has resulted in a significant boost to profitability. Net profits for North American carriers were down on a year ago due to significant fuel hedge losses for Delta Air Lines. Asia Pacific airlines are also showing signs of improvement on a year ago, reflecting a combination of stronger demand and efficiency gains by some carriers.

Fuel costs

Crude oil price trend sideways at \$60/bbl in April

Jet Fuel and Crude Oil Price

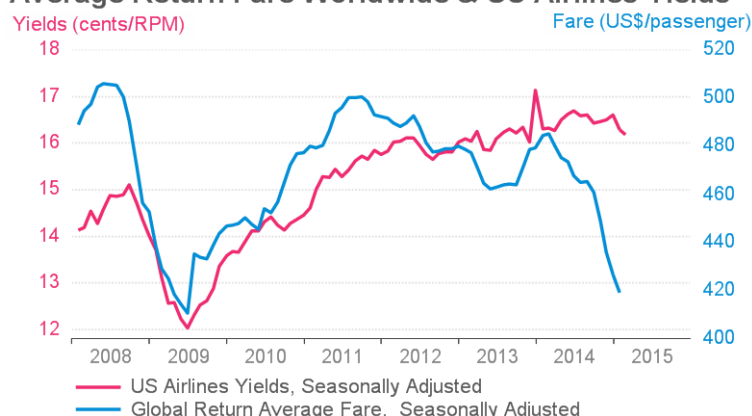


- Crude oil prices had fallen below \$50/bbl in January, the lowest price seen for the past 6 years. Jet fuel prices had followed suit, dropping below \$65/bbl. There was a partial rebound in crude oil prices in February, with the rally stabilizing at \$60/bbl in March. There has been a sideways trend in prices since.
- 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 starting to weaken as fares elsewhere declined sharply

Average Return Fare Worldwide & US Airlines Yields



- US passenger yields have started to decline after signs of a pick-up in Q4 2014. The trend in US passenger yields had been broadly flat for the past 12 months. The recent weakness in yields likely reflects downward pressure from earlier declines in fuel related costs.
- The downward trend in global fares in US\$ has continued. The fare data excludes fuel surcharges and ancillary revenues. The trend in global fares would partly reflect exchange rate distortions, but likely also is showing the impacts of falling fuel costs.

Demand

RPKs continue to expand at trend as FTKs surge on temporary factors

Total Air Travel and Air Freight Volumes



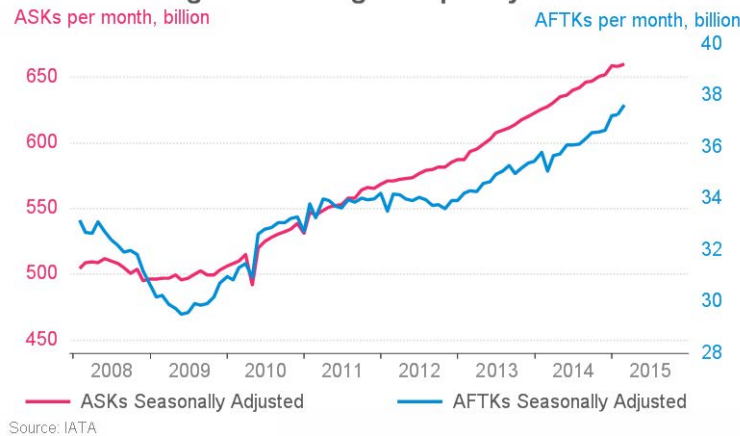
- Air transport volumes expanded at trend (5-6%) in February. The decline in oil prices over recent months should help support economic activity and passenger demand in 2015. In addition, recent improvement in business confidence should help support growth in international travel.
- Air freight volumes increased very strongly in February compared to January. The rise is likely to be temporary as underlying drivers do not support this rate of acceleration. Part of the surge in volumes reflects modal shift from sea to air owing to sea port congestion in the US.



Capacity

Trend in ASKs moderates as AFTKs rise in response to surge in demand

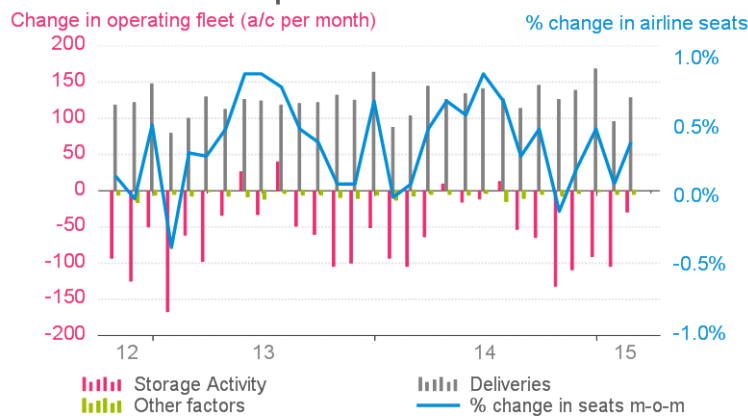
Total Passenger and Freight Capacity



- The positive growth trend in ASKs has moderated in 2015. Most of the slight increase in ASKs in February compared to January was on international markets – with all carriers except for those in North America and Africa seeming some increase. By contrast, most domestic markets experienced a contraction in capacity growth over the month.
- By contrast, air freight capacity increased strongly in February, consistent with the spike in FTK volumes. The rise in capacity came mostly from an expansion in AFTKs by North American airlines.

Growth in seats rebounded in February, but remains below expansion in volumes

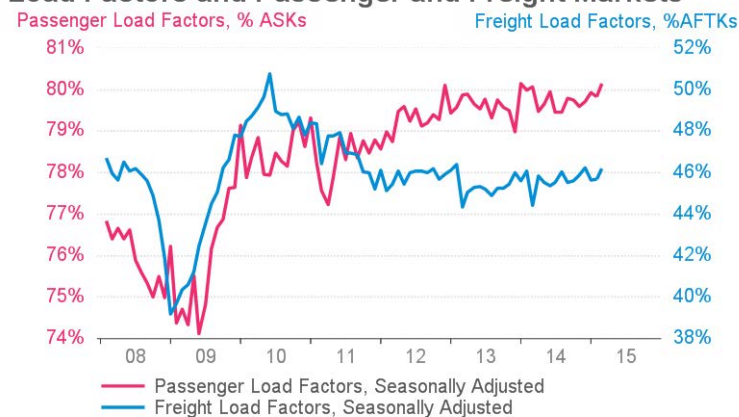
Airline Fleet Development



- Growth in available seats rebounded in February. The acceleration in growth in seats resulted from a rise in new aircraft deliveries and a fall in net storage activity. In January there were 96 new aircraft delivered compared with 128 new deliveries in February. In addition, 184 aircraft went into storage in January, compared to 113 in February. Growth in seats accelerated to a 4-5% annualized rate, slightly slower than the growth in demand.

Air freight load factors continue sideways trend as passenger loads start to improve

Load Factors and Passenger and Freight Markets



- Air passenger load factors increased in February compared to January, and are showing signs of breaking the sideways trend seen throughout 2014. Domestic load factors have shown improvement since mid-2014, supported by stronger growth in volumes. International load factors are only now starting to rise, after being in a slightly declining trend during the second half of 2014.
- Cargo load factors continue to trend sideways, despite an improvement in February compare to January. The growth in air freight demand over recent months has helped sustain load factors, but continued expansion in capacity through the passenger business has kept rates low at just over 45%.

Data tables

Year on Year Comparison	Feb 2015 vs. Feb 2014						YTD 2015 vs. YTD 2014					
	RPK	ASK	PLF	FTK	AFTK	FLF	RPK	ASK	PLF	FTK	AFTK	FLF
Africa	-2.1%	-1.2%	65.2%	8.3%	3.8%	30.5%	-1.4%	-0.4%	66.7%	5.5%	2.4%	28.9%
Asia/Pacific	9.1%	8.3%	79.1%	20.8%	12.7%	54.2%	6.6%	6.5%	78.0%	12.7%	8.5%	52.8%
Europe	4.4%	2.8%	77.4%	1.1%	2.4%	49.1%	4.7%	3.6%	76.9%	-0.2%	2.9%	46.0%
Latin America	8.0%	7.6%	80.0%	-9.6%	1.9%	36.9%	7.8%	6.4%	81.2%	-8.6%	0.0%	36.3%
Middle East	8.2%	10.4%	77.5%	17.6%	19.2%	45.6%	8.3%	10.4%	78.8%	15.2%	17.3%	43.1%
North America	3.4%	2.9%	80.3%	8.7%	0.7%	37.7%	3.1%	3.8%	79.8%	4.8%	0.3%	36.2%
Total Market	6.2%	5.6%	78.5%	11.7%	7.4%	46.5%	5.3%	5.3%	78.1%	7.5%	5.7%	44.6%

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
13th April 2015