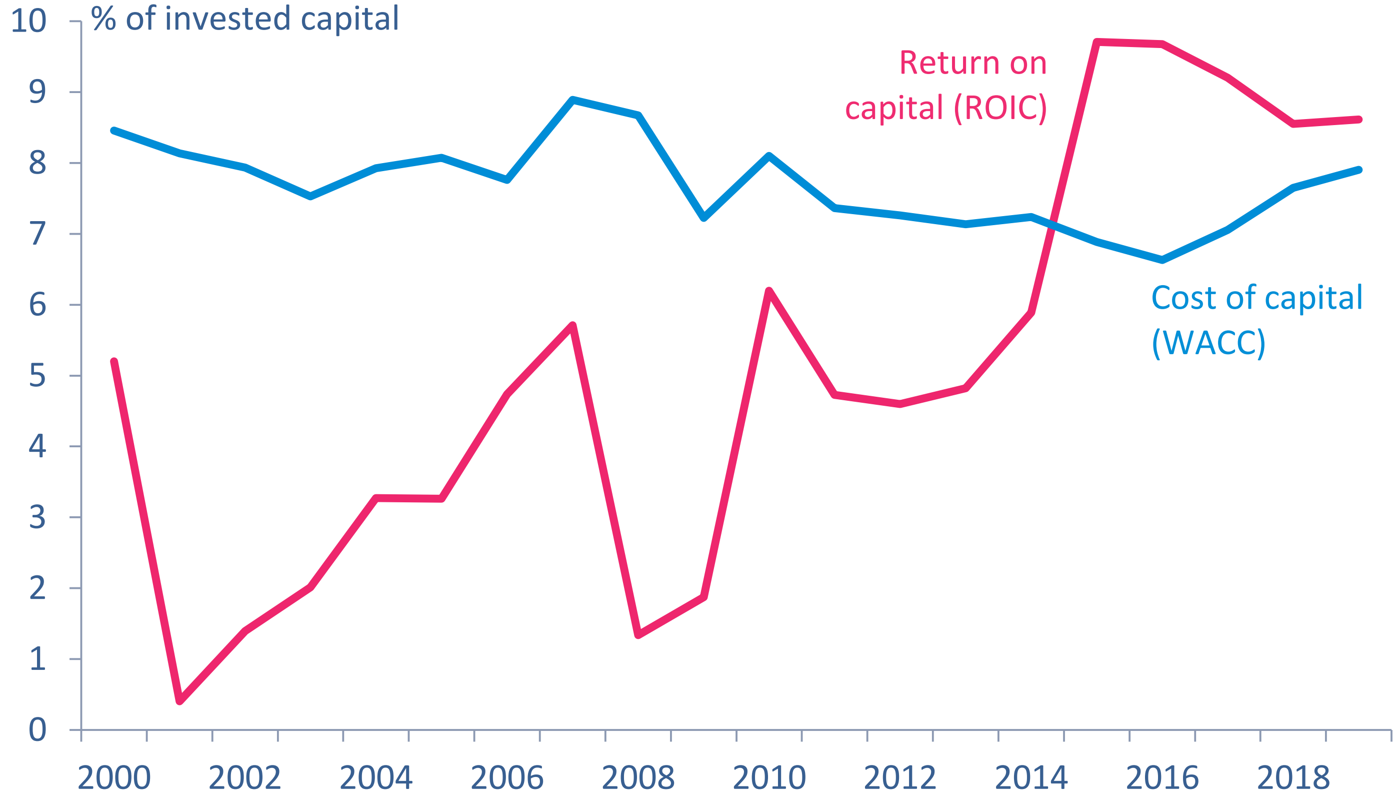
IATA Economics' Chart of the Week

14 DECEMBER 2018

Fifth consecutive year of value creation for investors in 2019

Return on capital invested in airlines & the cost of capital



Source: IATA Economics

- This week saw the release of our latest *Economic Performance of the Airline Industry* forecasts. The forecasts come at a time of heightened uncertainty and volatility in political and financial markets globally; there is no shortage of things to worry about! Looking through this uncertainty, however, the consensus view is still for robust, if a little slower, global economic growth. Coupled with lower oil and jet fuel prices, this should be a broadly positive environment for airlines.
- In terms of the industry's financial performance, 2019 is expected to be another robust year. The industry's return of capital (ROIC) is forecast to exceed its cost of capital (WACC) – thereby generating a return for equity investors – for a 5th consecutive year.
- The gap between ROIC and WACC is likely to narrow again in 2019, with ROIC unchanged from its estimated 2018 level of 8.6% but the cost of capital increasing further, on higher global interest rates and bond yields, to 7.9%. Even so, the narrowing ROIC-WACC gap makes it clear that continuing to generate the returns required by investors to attract the capital required for investment over the coming decades is likely to remain challenging.
- Overall, the global air transport industry is forecast to generate a net post-tax profit of $35.5 billion next year. This will mark the 10th consecutive year of profit – a feat that has not been observed previously in the history of the industry. While that level of net profit represents a strong outcome for the industry, putting this into perspective, it represents just 4% of total revenues and equates to a modest $7.75 per passenger.

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