

Aviation industry outlook

Jonathan Wober, Chief Financial Analyst



The leading independent supplier of global aviation knowledge

Customised News and Analysis

Traffic & Operational Data

Fleet Data

Airline Financial Data

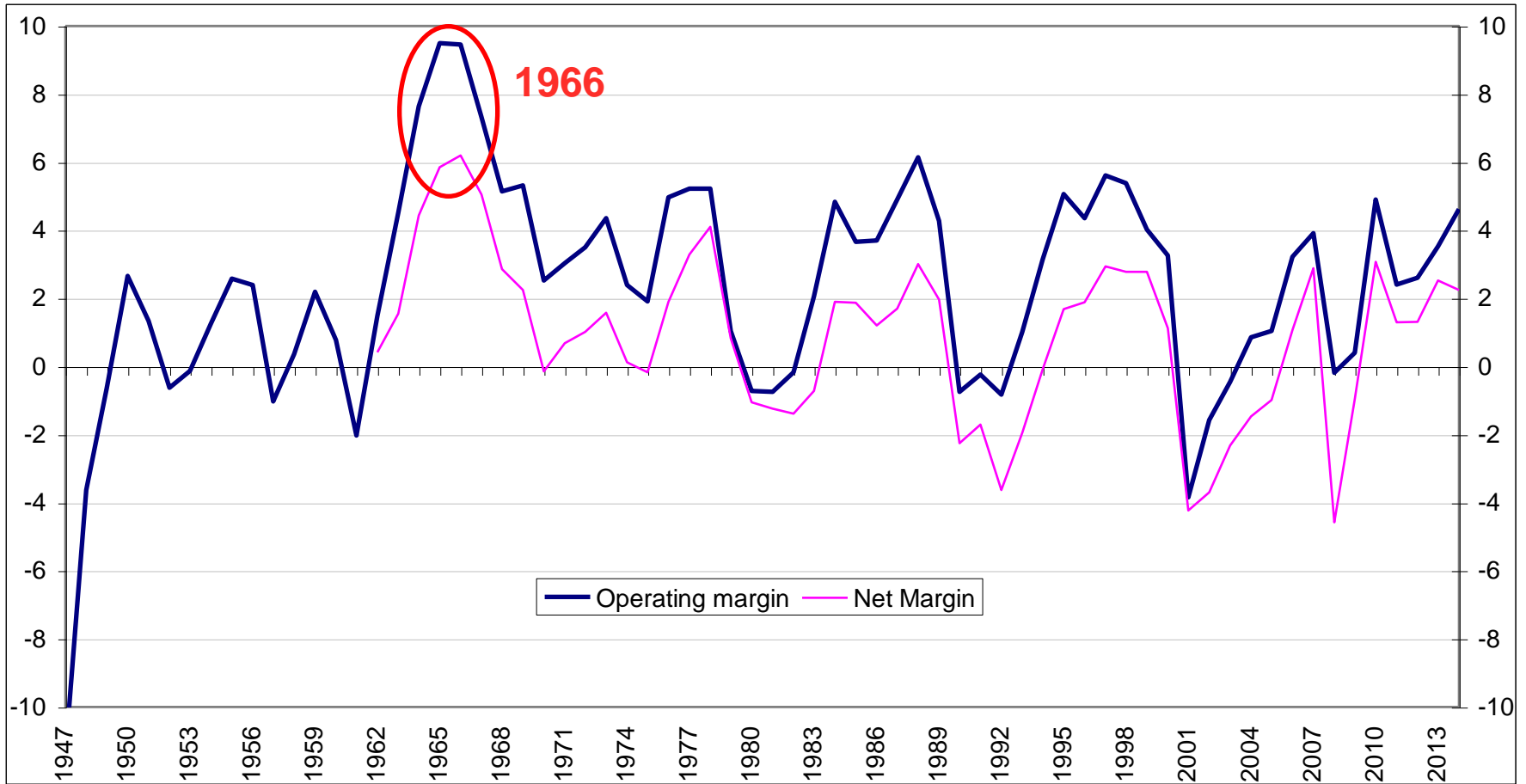
Conferences

Schedules Data



Airline margins: cyclical and thin

World airline operating and net margins (% of revenue) 1947 to 2014

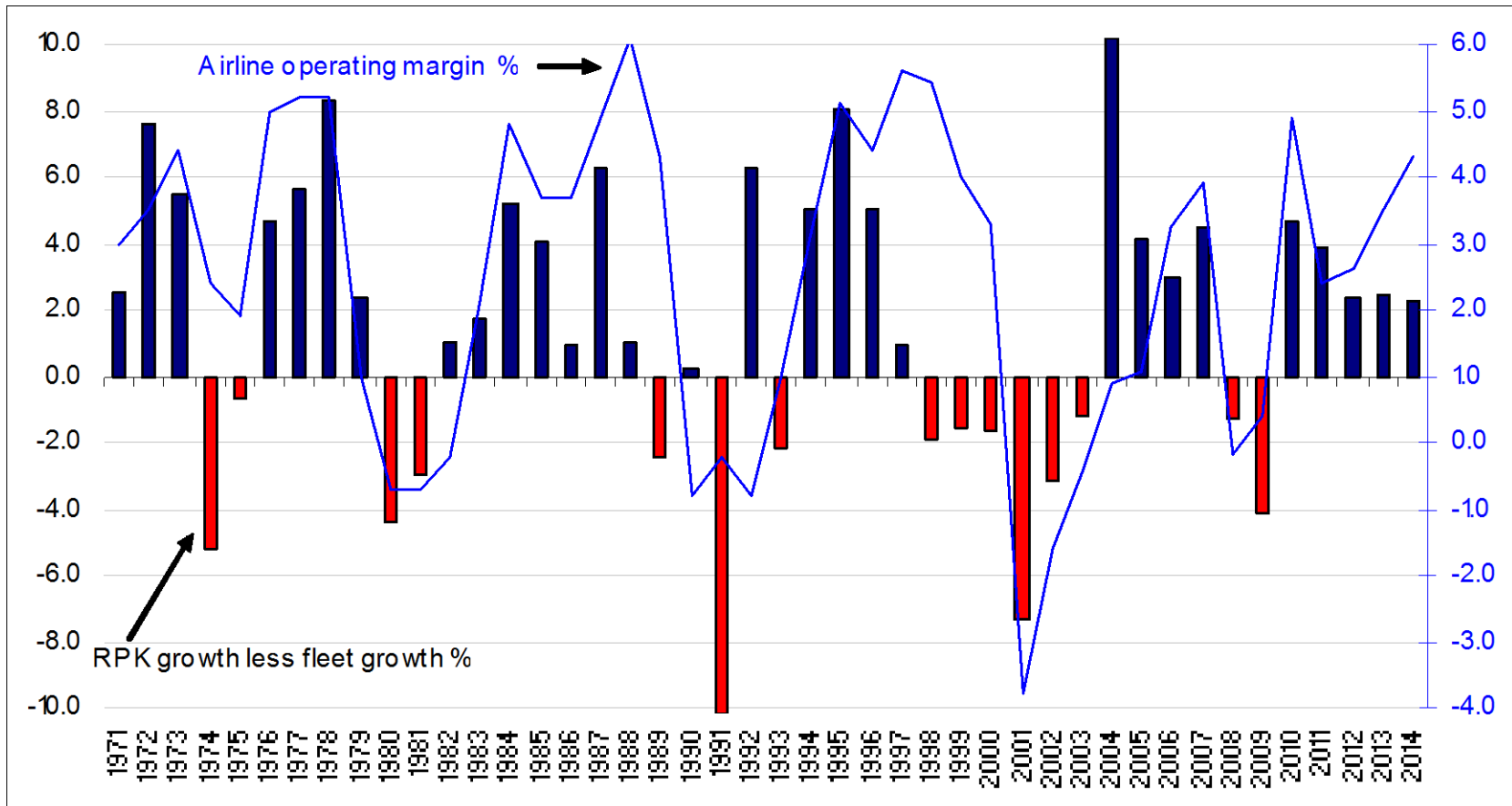


Source: CAPA – Centre for Aviation, ICAO, A4A, IATA

Margin cycle reflects supply & demand

Positive supply/demand balance has become more common

World airline operating margin versus RPK growth less fleet growth 1971 to 2014



Source: CAPA – Centre for Aviation, ICAO, Airline Monitor

CAPA world airline operating margin model

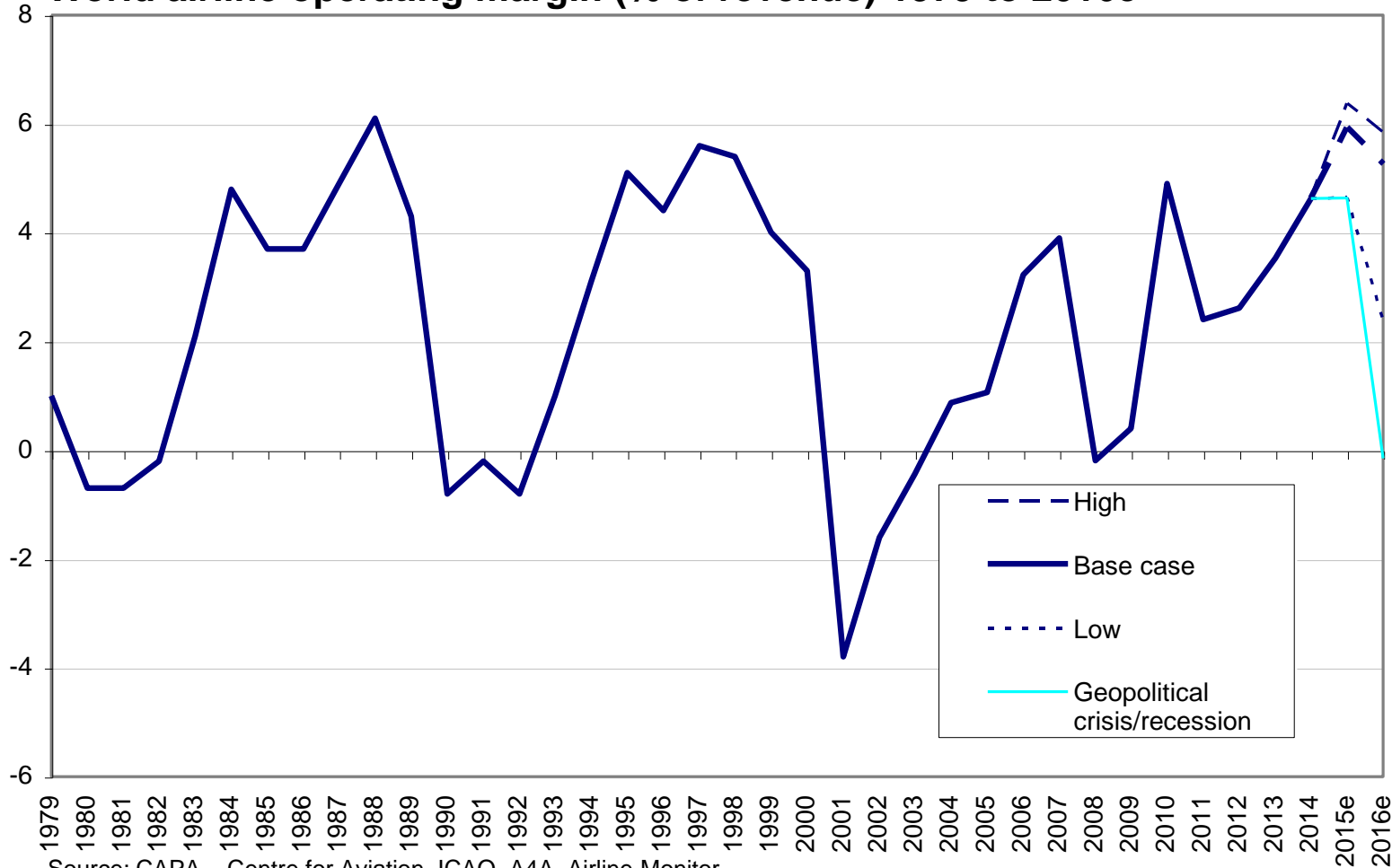
Margins set to grow in 2015, mainly due to lower fuel cost...

	2013	2014	2015f	2016f	Note/source
Brent crude USD/barrel	108.6	98.7	62.0	70.8	Reuters consensus poll 30-Jun-2015
World real GDP growth %	2.5	2.6	2.7	3.2	IMF forecast Jul-2015
Fleet growth %	3.0	3.9	3.9	4.1	CAPA model
World RPK growth %	5.5	6.0	6.1	7.0	CAPA model
World airline operating margin %	3.5	4.6	5.9	5.2	CAPA model

...but may dip once more in 2016 if oil price rises again

Nearing a peak, will cyclicality dampen?

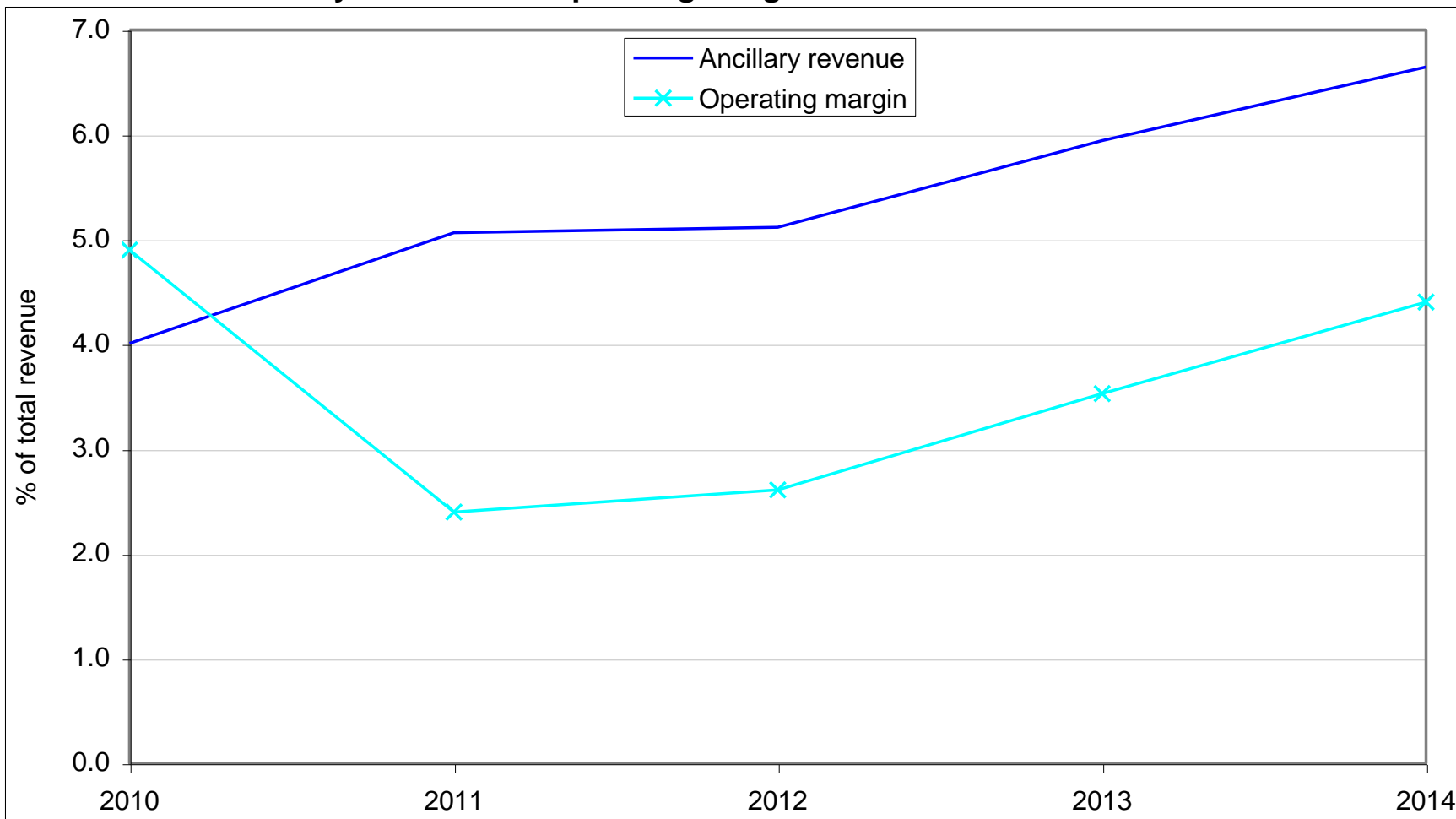
World airline operating margin (% of revenue) 1979 to 2016e



Source: CAPA – Centre for Aviation, ICAO, A4A, Airline Monitor

Ancillaries' growing share of revenue

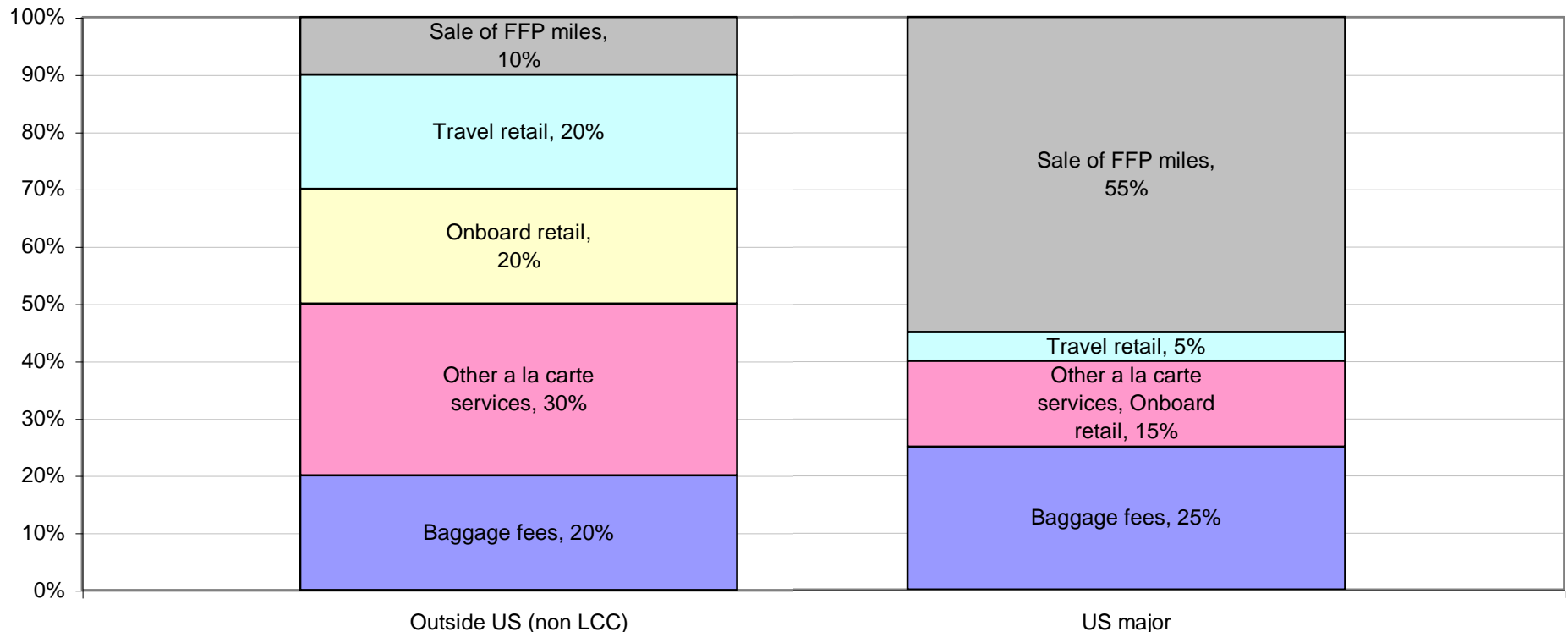
World airlines: ancillary revenue and operating margin as % of total revenue 2010 to 2014



Source: CAPA – Centre for Aviation analysis; IdeaWorksCompany/CarTrawler for ancillary revenue; ICAO for operating margin (CAPA estimate for 2014)

Different ancillaries outside US vs in US, distorted by FFP mile sales

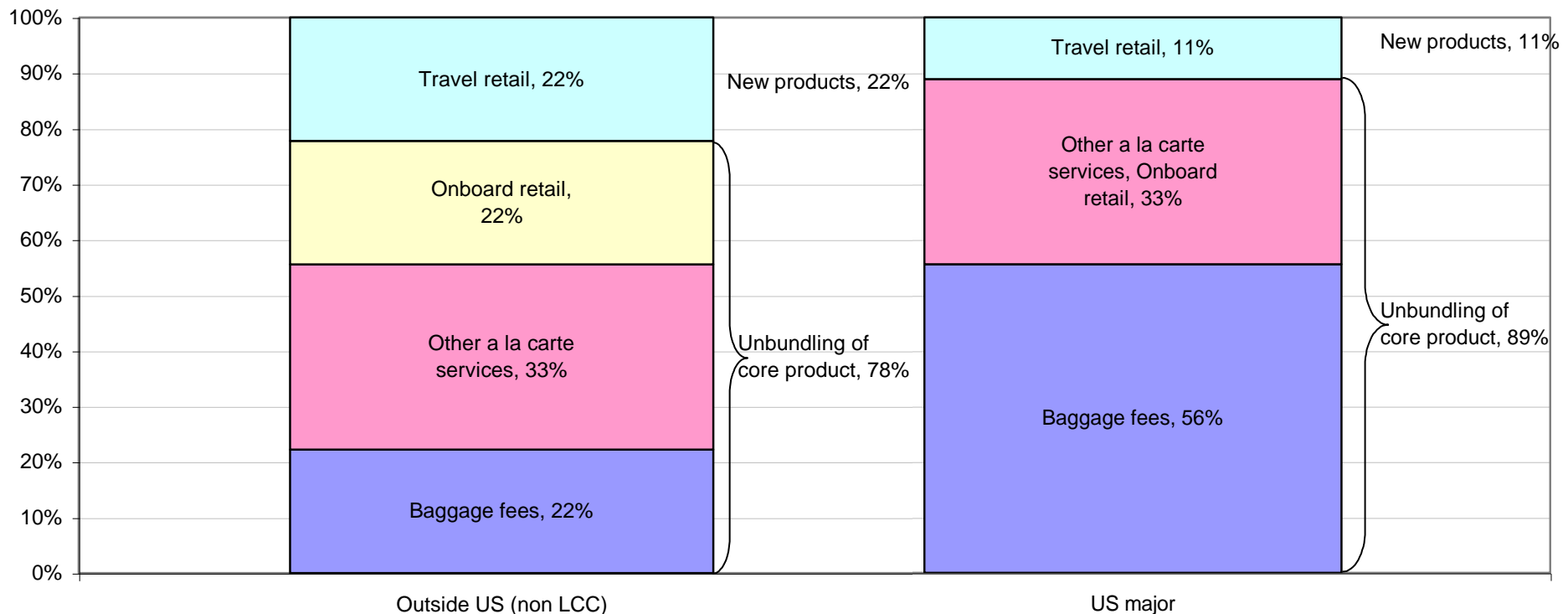
Ancillary revenue components 2013 (% of ancillary revenue)



Source: CAPA – Centre for Aviation using data from IdeaWorksCompany/CarTrawler

Ex FFP sales, vast bulk of ancillaries are from unbundling of core product

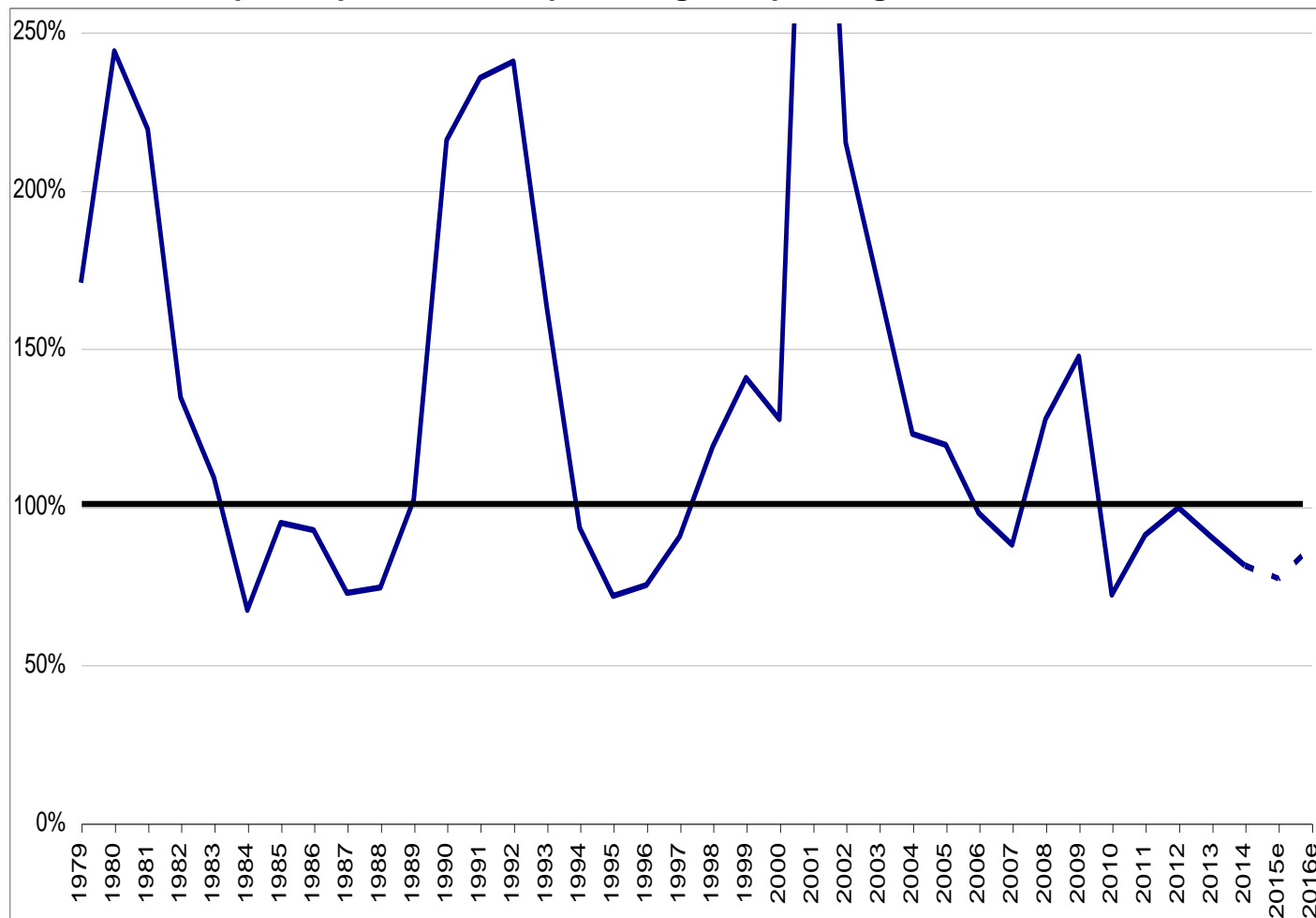
Ancillary revenue components excluding sale FFP miles 2013 (% of ancillary revenue ex FFP miles)



Source: CAPA – Centre for Aviation using data from IdeaWorksCompany/CarTrawler

Cash flow is exceeding capital investment currently

World airline capital expenditure as a percentage of operating cash flow 1979 to 2016E*



Source: CAPA - Centre for Aviation, Airline Monitor, IATA

Uses for surplus cash?

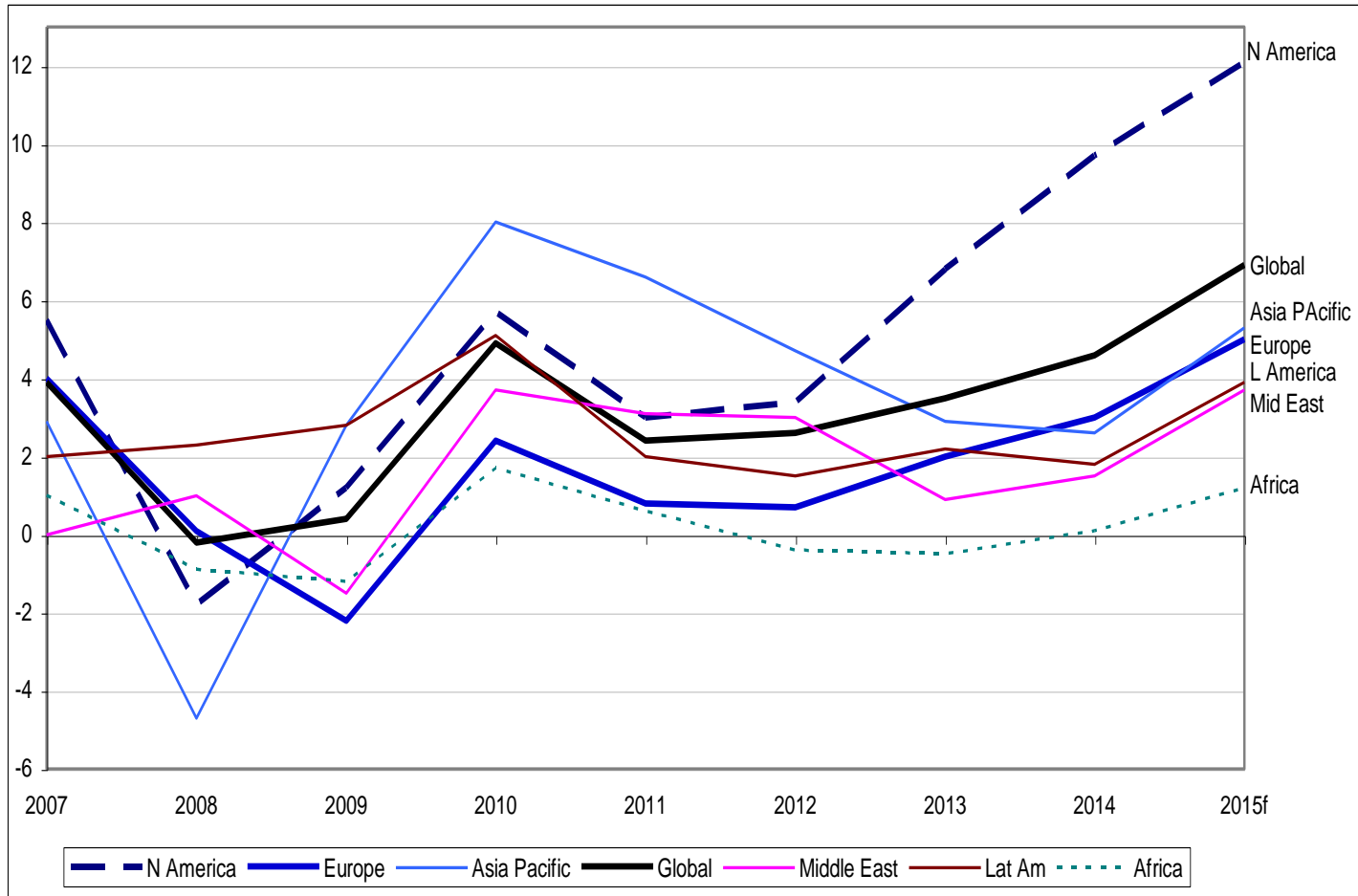
- 👍 Debt repayment
- 👍 Shareholder returns: dividends, buybacks

But

- 👎 Consolidation: mergers and acquisitions?
 - Impeded by ownership & control restrictions

N America airline margin leads, Europe lags

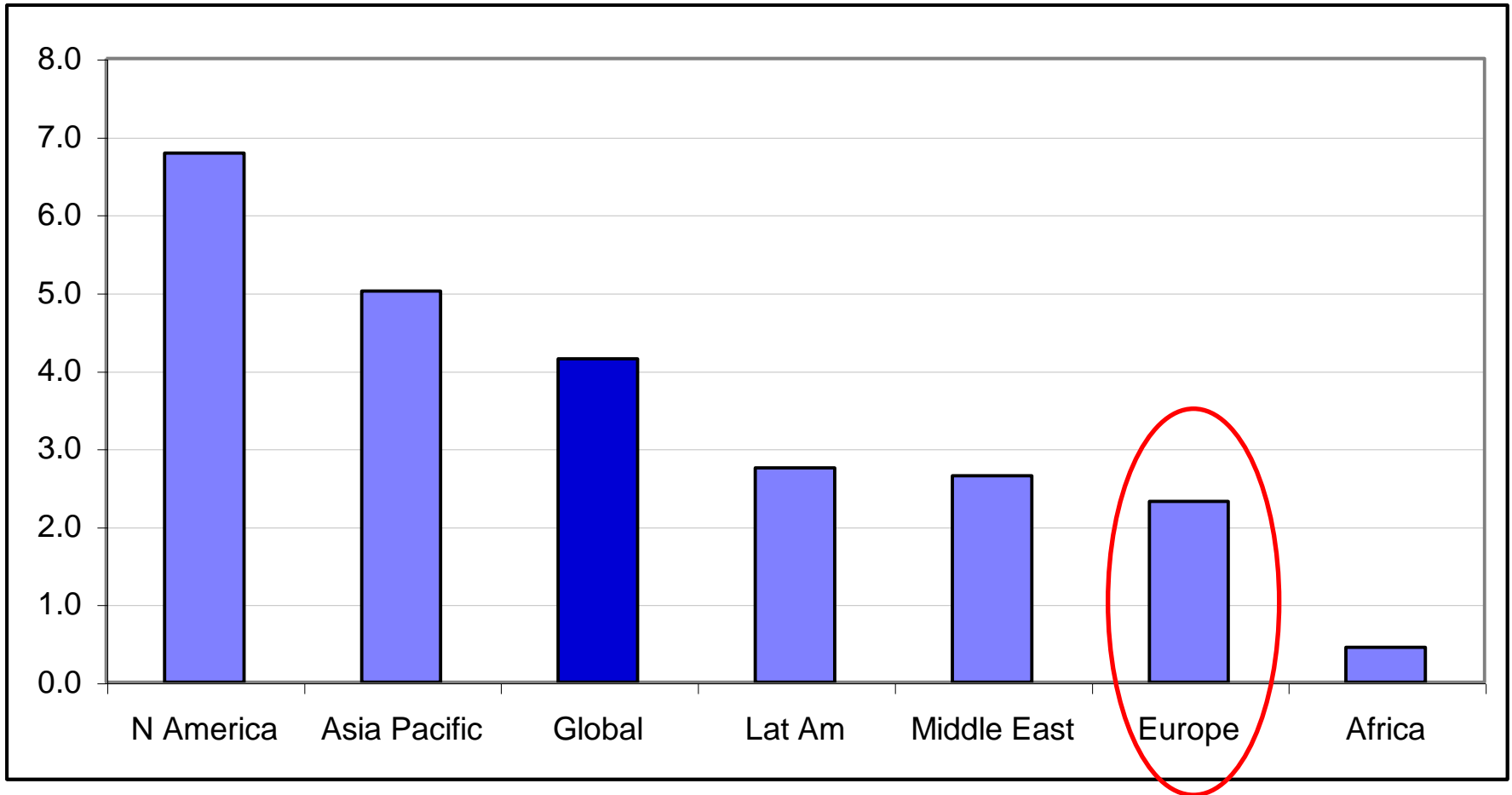
Airline EBIT margin (%) by region 2007 to 2015f



Source: CAPA – Centre for Aviation, IATA

Europe margins under-perform post recession

Airline average EBIT margin (%) by region 2010 to 2015f



Source: CAPA – Centre for Aviation, IATA

centreforaviation.com

capaevents.com

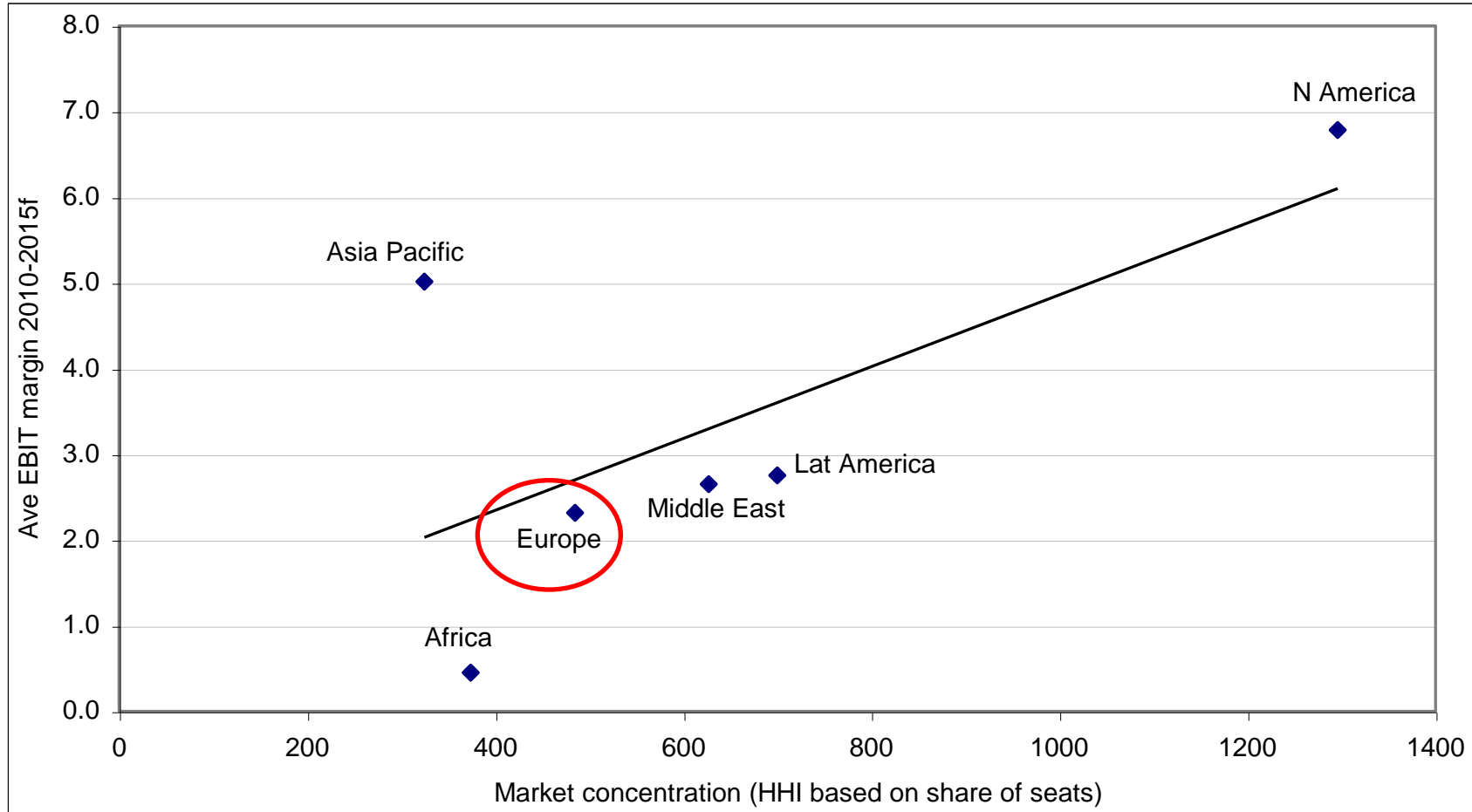
SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

Europe airline profits held back by market structure

Average airline EBIT margin 2010-2015F versus market concentration (horizontal axis) by region



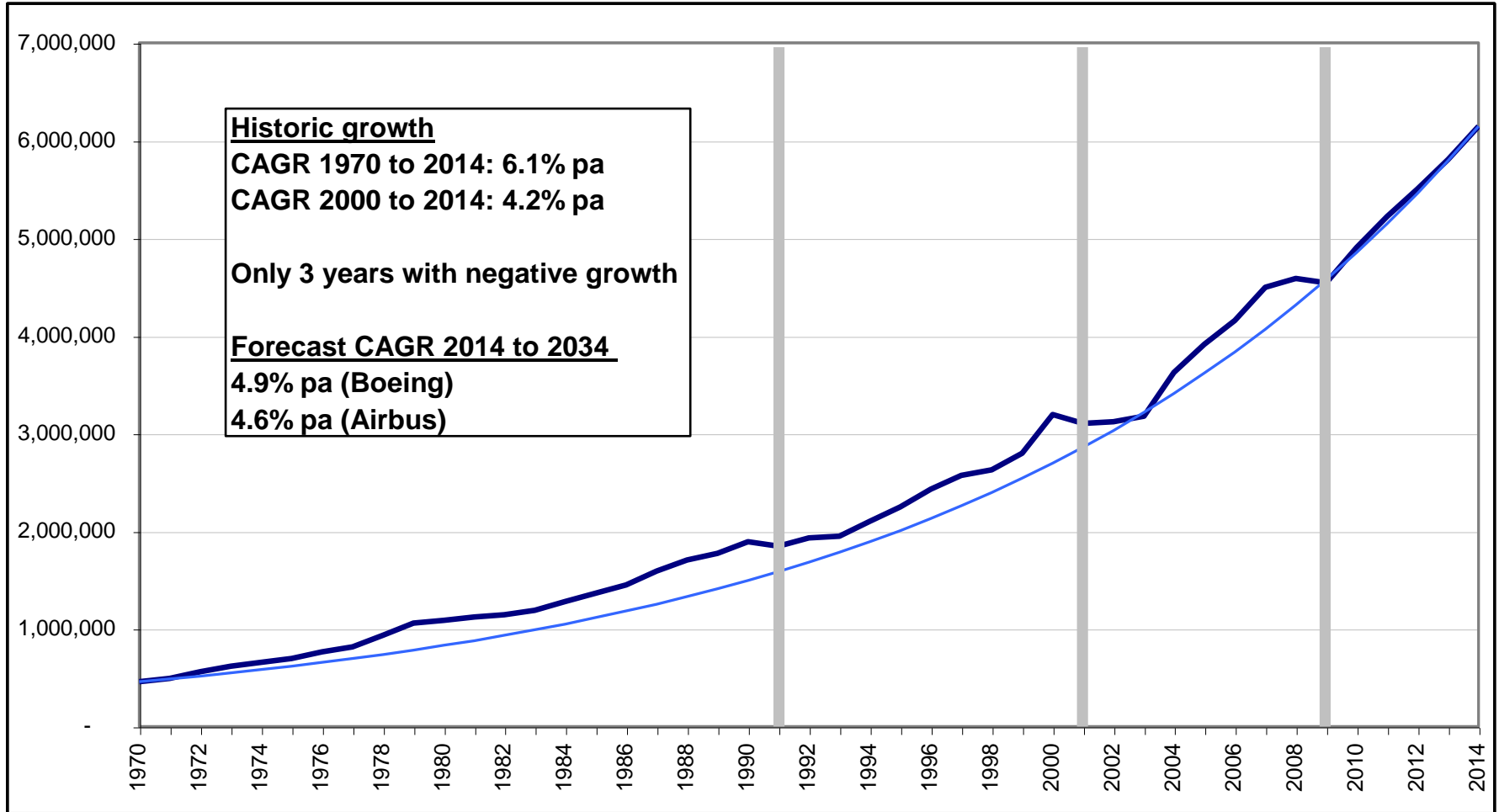
Source: CAPA – Centre for Aviation, OAG (seat data for week of 9-Jun-2014), IATA margin forecasts

Ownership & control in practice

- Many ways to circumvent the restrictions
 - Minority stakes
 - Holding company structures
 - Global alliances
 - Revenue or profit sharing joint ventures
- These methods continue to grow, but are less efficient than merger
- Why should airlines be a special case?
 - Banks, telecoms, utilities, media

Aviation is still a growth industry...

World airline traffic in revenue passenger kilometres (RPK, million) 1970 to 2014



Source: CAPA – Centre for Aviation, ICAO, Boeing, Airbus

centreforaviation.com

capaevents.com

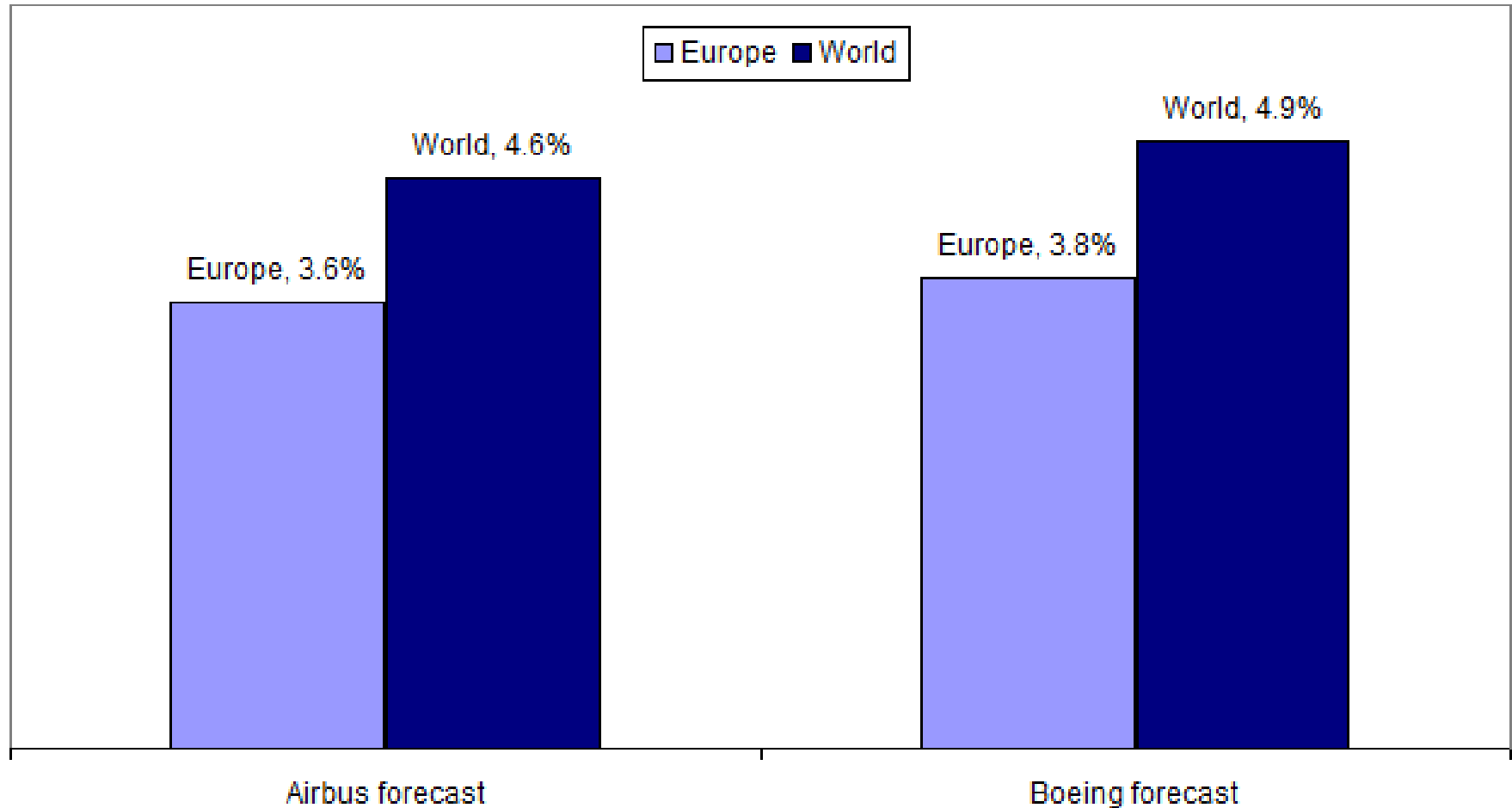
SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

...but Europe will grow less rapidly

Forecast CAGR in Europe revenue passenger kilometres (RPK, million) 2014 to 2034



Source: CAPA – Centre for Aviation, Boeing, Airbus

centreforaviation.com

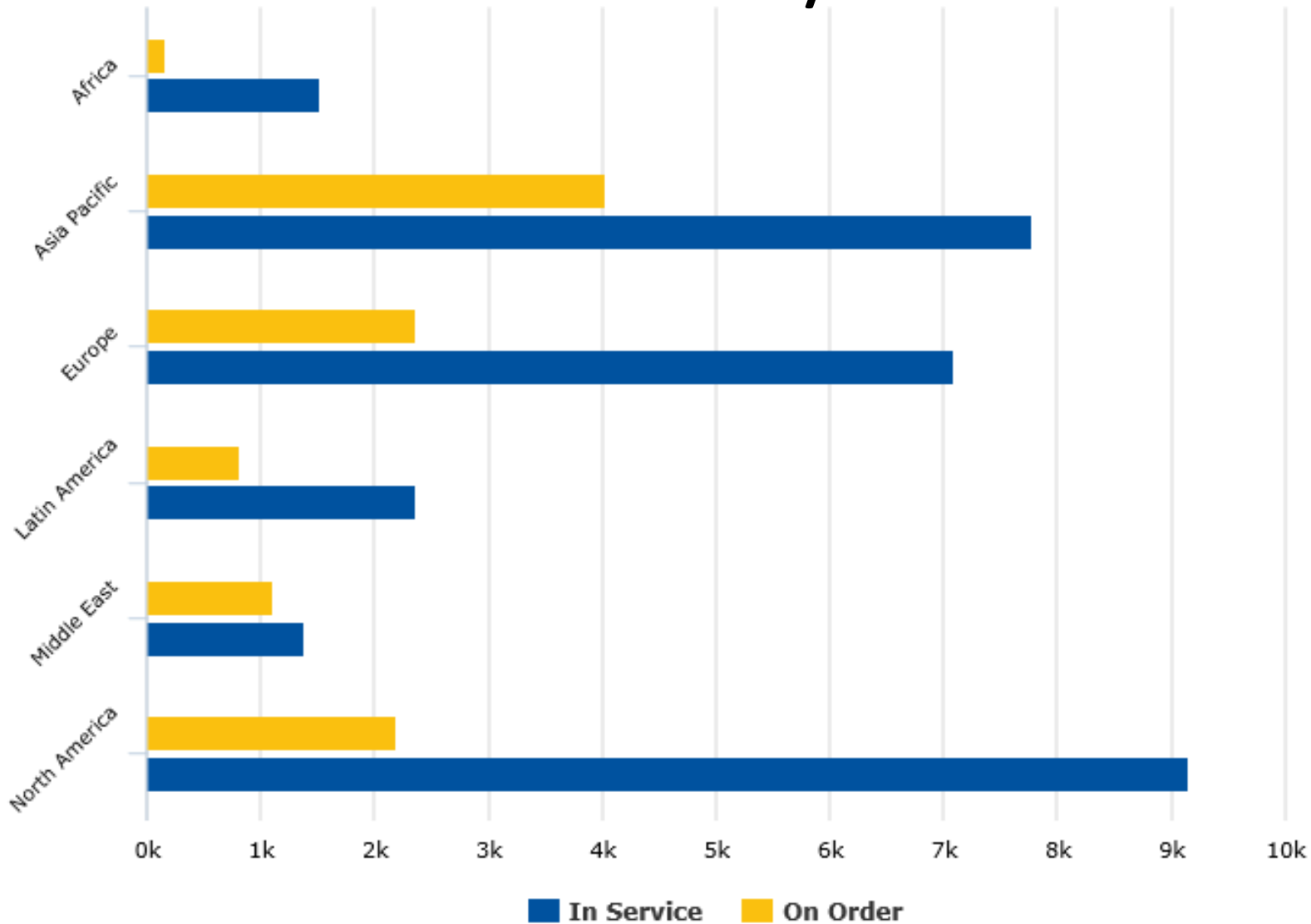
capaevents.com

SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

Aircraft in service/on order



Source: CAPA Fleet Database as at 23-Oct-2015

centreforaviation.com

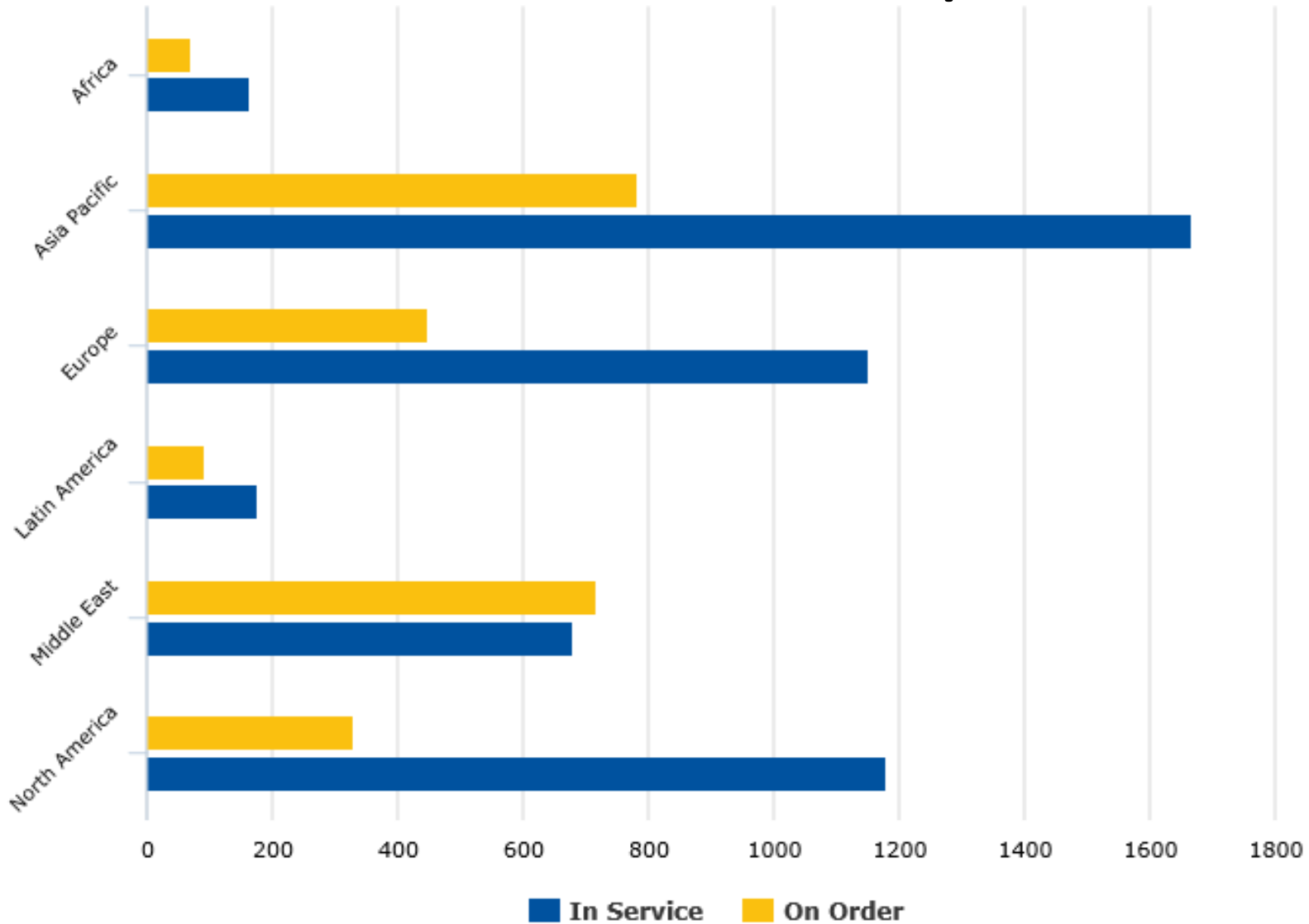
capaevents.com

SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

Widebodies in service/on order



Source: CAPA Fleet Database as at 23-Oct-2015

centreforaviation.com

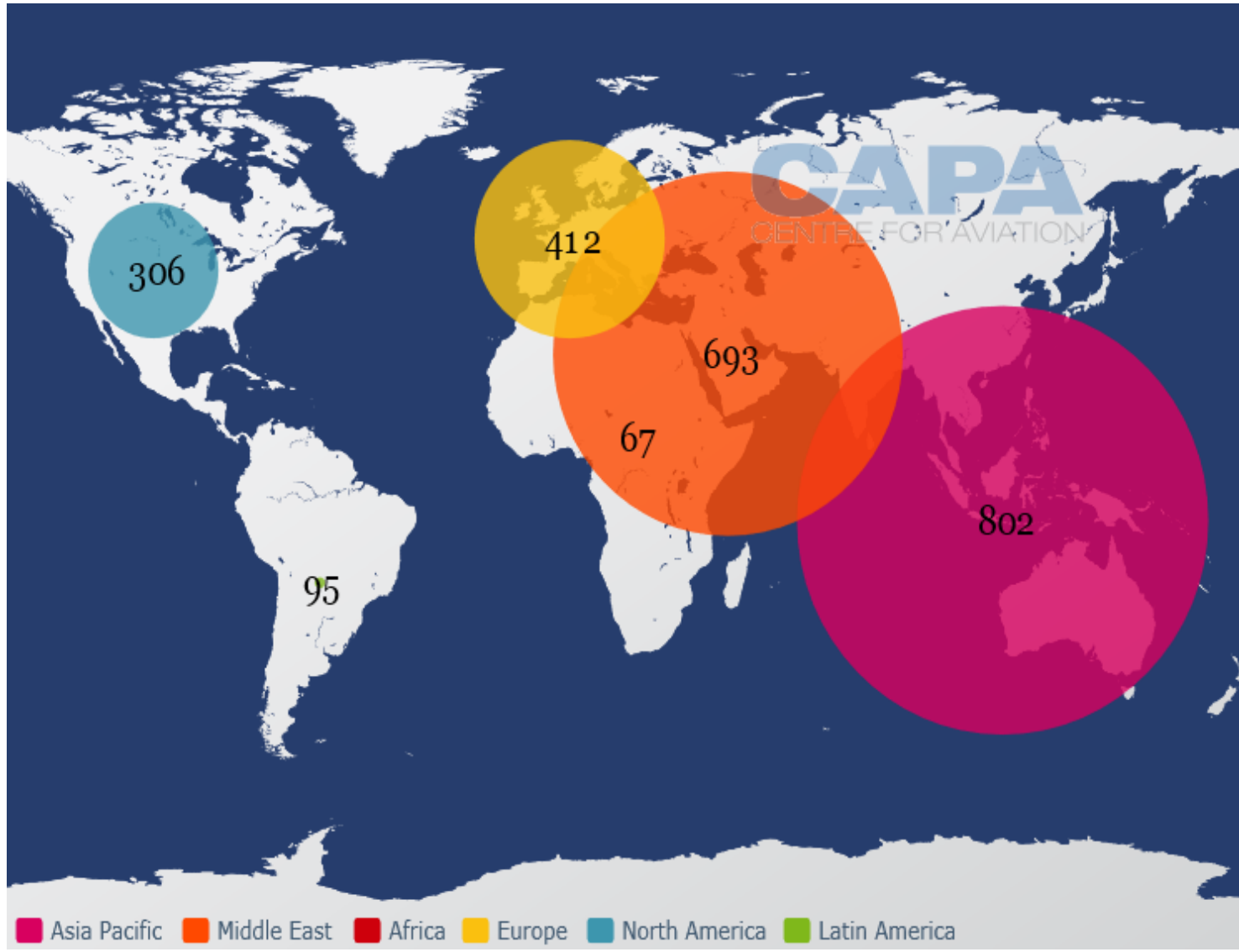
capaevents.com

SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

Centre of gravity is moving east



Widebodies
on order

Source: CAPA Fleet Database
as 18-May-2015

centreforaviation.com

capaevents.com

SITA

SITA Aviation ICT Forum Oct-2015

CAPA
CENTRE FOR AVIATION

Summary

- Airline profits still cyclical
 - Cost and capacity discipline may reduce cyclical

Summary

- Airline profits still cyclical
 - Cost and capacity discipline may reduce cyclical
- Ancillary revenue is growing
 - Will see more new revenue generation

Summary

- Airline profits still cyclical
 - Cost and capacity discipline may reduce cyclical
- Ancillary revenue is growing
 - Will see more new revenue generation
- Europe's airline profits held back by fragmentation
 - Ownership & control restrictions will reduce, slowly
 - Partnerships and alliances will continue to grow

Summary

- Airline profits still cyclical
 - Cost and capacity discipline may reduce cyclicality
- Ancillary revenue is growing
 - Will see more new revenue generation
- Europe's airline profits held back by fragmentation
 - Ownership & control restrictions will reduce, slowly
 - Partnerships and alliances will continue to grow
- Aviation is still a growth industry
 - Europe's growth will be slower
 - Europe will have to solve problems of infrastructure & taxes

Summary

- Airline profits still cyclical
 - Cost and capacity discipline may reduce cyclical
- Ancillary revenue is growing
 - Will see more new revenue generation
- Europe's airline profits held back by fragmentation
 - Ownership & control restrictions will reduce, slowly
 - Partnerships and alliances will continue to grow
- Aviation is still a growth industry
 - Europe's growth will be slower
 - Europe will have to solve problems of infrastructure & taxes
- Centre of gravity is moving eastwards