



**Art'o'val Advisors**  
*True Art of Valuation*  
Industry Insights

# Valuation of the Airline Industry

**April 2025**



# Welcome 'ABOARD'

***“The airline industry’s demand for capital ever since that first flight has been insatiable. Investors have poured money into a bottomless pit.” - Warren Buffett.***



The aviation industry has historically struggled with profitability due to high capital expenditures and operational costs. This is mainly because the industry is heavily influenced by external factors such as fuel prices, economic cycles, regulatory policies, and global events like pandemics.



It was just after Covid-19 that helped the industry gain traction from analysts and investors from all over the world, given economic expansion, advancements in technology, improved business models, and high demand for business and leisure travel that have led to financial stability for some of the key big players in recent years.



Hence, understanding its valuation requires careful analysis of financial performance, market trends, and external risks. Investors and analysts rely on key valuation metrics, including but not limited to the Market Value approach using various EV and EBITDA multiples and discounted cash flow (DCF) analysis, to assess the true worth of aviation companies.

**This presentation will explore the factors driving aviation industry valuation, including market demand, revenue and cost structures, competitive dynamics, and external shocks.**

# Industry Trends and Overview



- The global airline industry is poised to grow by USD **430.2 Bn** from 2025 to 2029.
- It is projected to grow at a **CAGR of 8.7%**
- This would increase passenger traffic due to increased leisure and business travel.



- Air Passengers are expected to grow at an average annual Rate of **3.8%** over 20 years
- This would result in **4.1 Bn** additional passenger journeys by 2043, bringing the total to **7.9 Bn**.
- This would come through improved infrastructure & technological advancements.



- There is an increased global travel demand due to:
  - Economic Expansion
  - Rising Living Standards
  - Favorable Demographic Trends



- It creates opportunities for airlines to:
  - Expand their services
  - Cater to a broader customer base
  - Explore new routes
  - Expand into untapped economies.



- From the adoption of fuel-efficient aircraft to the integration of digitalization and AI, technology remains a major factor driving industry progress.



- India is ready to welcome 3 new airlines, with Shankh Air expected to start operations by May'25, and has pledged an initial investment of \$200Mn.
- Other 2 airlines- Air Kerala and Alhind Air, also expect to start from Mid'25, will focus on enhancing regional connectivity and cater to Kerala's large expatriate population in the Gulf region.

# Revenue Drivers

Tighten your seat-belts and let's deep dive into the Industry and understand the business model

## Revenue

Passenger Revenue		Ancillary Revenue		Cargo Revenue and Others	
Low-cost Airlines	Premium Airlines	Low-cost Airlines	Premium Airlines	Low-cost Airlines	Premium Airlines
LCCs operate on a volume-driven model and generate <b>60-65%</b> of revenues primarily from ticket sales	Premium Airlines generate <b>75%</b> of revenues primarily from ticket sales, and this also includes other ancillaries not provided by LCCs	It contributes about <b>30%</b> and is gaining a lot of traction recently. It includes <b>Baggage Fees, F&amp;B segment, Priority Check-ins, and Seat selection</b>	Premium Airlines generate <b>5-15%</b> of ancillary revenues, as these services are bundled together with passengers' ticket fares	Revenues coming from business partnerships and cargo transportation account for <b>5-10%</b> of the total airline's sales	Premium Airlines offer multiple benefits from business partnerships and cargo transportation that account for <b>25%</b> of the total airline's sales

Factors that may cause TURBULENCE to profitability

## Costs

Salaries		Fuel expenses		Maintenance and other costs	
Low-cost Airlines	Premium Airlines	Low-cost Airlines	Premium Airlines	Low-cost Airlines	Premium Airlines
LCCs maintain a lean workforce with multi-tasking roles and spend <b>10-15%</b> on salaries	Premium airlines maintain extensive staff with additional services personnel and spend generally <b>20-30%</b> on salaries	Fuel costs typically account for <b>30%</b> of the overall cost and are highly sensitive to fluctuations in fuel prices due to low fare offerings	They spend generally <b>20-30%</b> on fuel expenses, require higher fuel consumption, but have a limited impact on profitability due to higher ticket prices	LCCs spend <b>10-15%</b> on aircraft maintenance as they operate a limited fleet type that is relatively newer in age and prefer standardization for cost efficiency	Premium airlines spend <b>15-25%</b> on maintenance costs due to older fleets, diverse aircraft models, and extensive long-haul operations

# Industry Metrics and KPIs (1/2)

## Ancillary Revenue per Passenger

Ancillary revenues have recently become a significant profit driver for airlines due to their bundling abilities and ability to attain revenues without any incremental costs. These revenues have become a prominent portion of the airlines and are an important metric to consider while carrying out the valuations.

$$= \text{Ancillary Revenue} / \text{Total Passengers}$$

## RPK

It measures the actual capacity of aircraft being utilized by paying passengers. This metric measures the operating efficiency of the airline and how well it can optimize its seat availability to generate revenue-generating KM flown.

$$= \text{Paying Passenger} \times \text{KM flown}$$

## ASK

Represents the total seating capacity of the aircraft for a distance flown and its maximum revenue-generating capacity. It is also an important metric to gauge the operational efficiency and capability to cater to strong demands.

$$= \text{Seats Available} \times \text{KM flown}$$

## Load Factor

It measures the capacity utilization efficiency of the airlines. It is the percentage of available seating capacity filled with passengers. A load factor of **85%** suggests an aircraft filled with **85 passengers out of the 100 seats available**. A higher load factor of **~90%** reflects more revenues and management's ability to cater to the strong demand.

$$= \text{Revenue Passenger KM} / \text{Available Seat KM}$$

# Industry Metrics and KPIs (2/2)

## Passenger Yield

It indicates the profitability per unit of distance flown from the paying passengers. It enables the company to compare performance across different routes and manage its revenue efficiently by adjusting the prices thereof. It helps airlines assess their pricing strategy and overall financial performance.

$$= \text{Passenger Revenue}/\text{RPK}$$

## Fuel per ASK

Since fuel accounts for ~1/4<sup>th</sup> of the total cost incurred by the companies, it helps to analyze how efficiently an airline uses its fuel consumption relative to its seating capacity. It measures the fuel consumed for the distance flown per available seat, and a lower ratio by either low fuel costs or high seating capacity suggests higher operational efficiency and profitability.

$$= \text{Fuel costs}/\text{ASK}$$

## PRASK

It measures the revenue efficiency per available seat for a distance flown. A higher PRASK suggests better pricing and revenue management, but should be analyzed together with the Load factor, as a **high PRASK with a low Load Factor may suggest weak demand while a low PRASK with a high Load Factor indicates aggressive pricing.**

$$= \text{Passenger Revenue}/\text{ASK}$$

## Cost per ASK

It measures the cost incurred per available seat for a distance flown. The airlines usually try to minimize their CASK, which is an important metric to gauge the operational and financial efficiency of the airlines.

$$= \text{Operating Cost}/\text{ASK}$$

## Market Value Approach

- **EV/Revenue** - Measures the **company's value** relative to the **revenue earned**. Typically, the lower the better. Since most airlines fail to translate their high revenues into profits due to high Fuel/Lease costs, this metric helps in the valuation of companies with negative profit margins too.
- **EV/Seats** - This metric allows investors and valuers to analyze and assess the value of the airline and fleet **seating efficiency** among the industry peers. Airlines with more leased aircraft might show lower EV/seats due to low ownership of fleets.
- **EV/EBITDA** - Since fiscal year 2020, the adoption of Accounting Standard 116 (Ind AS 116) has altered the reporting structure for aircraft lease rentals. Previously categorized under operating expenses, operating lease rentals for aircraft are now recorded as **depreciation and interest expenses**. This has removed the differential in reporting structure between operating and financially leased aircraft in the profit and loss statement. Hence, EV/EBITDA can be used to compare the performance within the industry.

## Income Approach

### Discounting of Future Cash Flows (DCF Method)

- Since airlines operate in a highly cyclical and capital-intensive industry, their **earnings must be normalized** by accounting for factors like economic downturns, fuel price volatility, competition, and government regulations.
- A strong **load factor** and **efficient fleet utilization** enhance profitability, leading to higher valuations.
- Using **sensitivity analysis** to conduct and assess how variables such as fuel costs and demand fluctuations impact valuation.

### Conclusion :

Valuing an airline requires a mix of traditional financial analysis and an understanding of the unique industry characteristics, such as **cyclical demand, fuel dependency, and capital-intensive operations**. Each method has its advantages and limitations, so it's crucial to apply a **combination of approaches** and factor in both historical performance and future expectations.



# Impact of Leases on Valuation

Leasing is essential in the airline industry as it enhances **fleet flexibility**, enabling airlines to expand quickly, **modernize** with fuel-efficient aircraft, and **adjust capacity** for seasonal demand.

**Fleet flexibility and expansion**  
Leasing allows airlines to replace older aircraft with newer, fuel-efficient models without the burden of selling old planes to meet demand. This increases flight turnaround time, leading to higher operational efficiency and improved profit margins.

Leasing helps in **reducing the maintenance and depreciation expenses**, which account for **15-20%** of the total operating cost of the company

Area of Impact	IAS 17 (Old)	IFRS 16 (New)
<b>Balance Sheet</b>	Operating Leases were off-balance sheet, hence companies reported lower debt	All leases appear as liabilities, increasing debt
<b>EBITDA</b>	Lower reported EBITDA due to lease expenses treated as rental (operating) expense	Higher EBITDA as lease expenses are split between Interest and depreciation (below EBITDA items)
<b>Leverage</b>	Lower leverage and debt ratios as lease obligations are not included in liabilities	Higher leverage and debt ratios as all leases appear as liabilities (except short-term/low-value leases that can be expensed directly)
<b>Cash Flow (Operating)</b>	Lower as full lease payments are deducted as rent for operating lease, while the interest component is shown for operating lease	Higher as no lease payments but only interest components
<b>Cash Flow (Financing)</b>	Higher for Operating lease as no expenses in deducted, but lower for Finance lease as principal repayments are shown under financing activities	Lower as the lease payments are deducted from financing activities

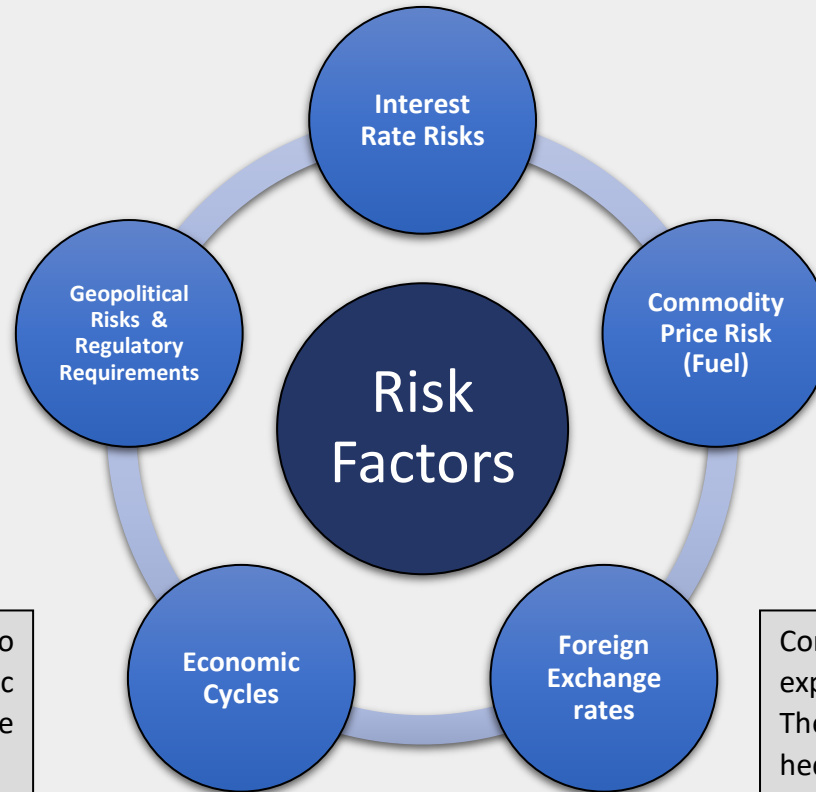
# Risk Factors to be considered during Valuations

Since the industry is capital-intensive, the fluctuations impact the cost of capital, requiring them to enter into swaps and maintain their positions.

Government regulations related to air traffic rights, safety standards, and environmental policies affect operations.

Also, events like wars, terrorism, or natural disasters can negatively impact demand or disrupt operations.

Air travel is closely linked to economic conditions. Economic downturns reduce both leisure and business travel.



Fuel is one of the largest expenses for airlines, typically accounting for 20–30% of operational costs.

Companies use hedging strategies to stabilize their cost and routinely enter into purchase contracts that are customarily indexed to market prices for aircraft fuel.

Companies generate revenues and incur expenses in numerous foreign currencies. They should enter into transactions to hedge their foreign currency exposure and regularly review their policy based on market conditions and other factors.

# Road to Profitability

## Profitability

### Capacity and Demand

The Industry is highly influenced by external factors. Therefore, the companies need to maintain a balance of demand for passenger flying and supply by catering sufficient seats, as overcapacity can lead to lower ticket prices and reduced revenue, while undercapacity can result in missed revenue opportunities.

### Seasonality

Air prices are heavily dependent on the festivals and holiday season; they often experience surges in pricing during periods of vacation.

### Fuel Costs

Due to its direct impacts on profit margins, companies have to enter into multiple agreements and swaps to efficiently maintain their fuel inventory and absorb any price fluctuation due to external factors.



**ROIC** is the best metric of value creation. Most airlines focus on increasing the numerator, which is profit. However, an often-overlooked way is by managing the denominator, or capital base, wisely. In our analysis, capital turnover, or the revenue earned per dollar invested in capital, is correlated with better ROIC performance



**Conduct** matters more than structure; slow-growing home markets outperform their peers in high-growth markets. Fast-growing markets attract many new entrants. As new planes are rapidly added in anticipation of demand growth, ticket prices fall



**Range of Price Ancillaries** - Customers enjoy greater control of their travel experience with more options. They are less price-sensitive for the add-ons they want compared with base fares.



**Brand Value** also matters as customers are conscious about safety and extra value-added services provided for their experience at a minimal difference.



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Thank You



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