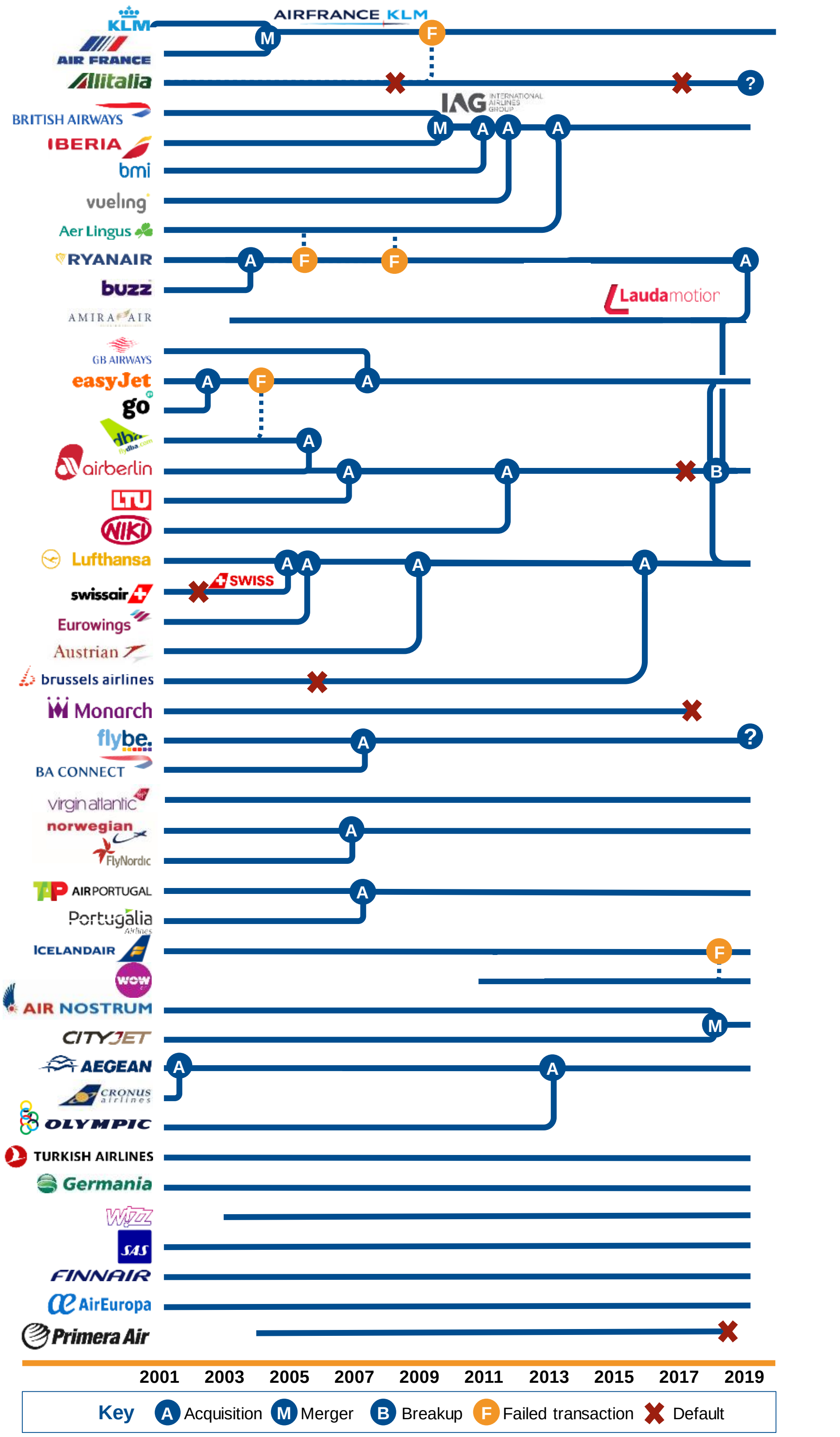
22 January 2019 | Corporates

European airlines
Europe's top five airlines carried more than half of Europe's passengers in 2018

Europe's top five airlines crossed the 50% threshold in their combined share of the region's passenger traffic in 2018 as low prices and overcapacity put smaller carriers under intense financial pressure, often forcing them out of business.

Figure 1: Overview of major consolidation activities of European airlines



Source: Scope Ratings based on market information

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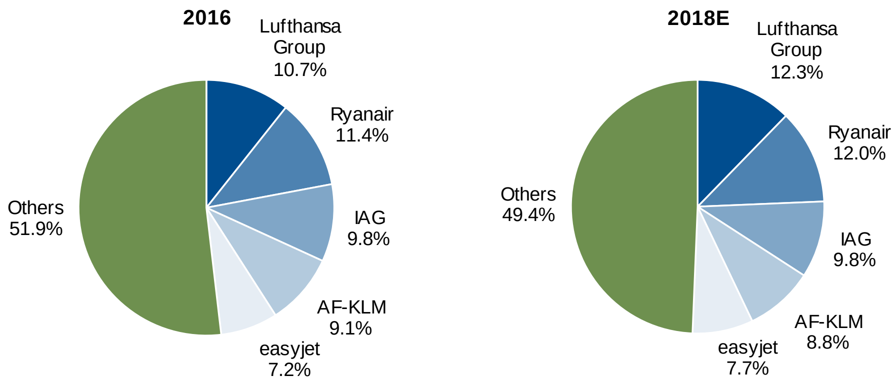
Lufthansa leads gains in market share among large airlines

TOP5 airlines increased European market share from 48% to 51%

According to Scope's calculations, Lufthansa Group (rated BBB-/Positive at Scope) has taken the biggest extra slice of the market, growing its share by 1.6pp to an estimated 12.3% in 2018 against 2016 (142m passengers in 2018), taking it ahead of Ryanair's 12% share, International Consolidated Airlines Group's 9.8%, Air France-KLM with 8.8% and easyJet with 7.7%.

While the European airline sector remains fragmented – other airlines retain 49.4% of the market – the larger carriers have filled the gaps left by the exit of the likes of Monarch, Primera, Small Planet, Azur, Cobalt, VLM, PrivatAir among others in the past two years. The near-collapse and rescue of budget airline Germania illustrates how smaller carriers remain under pressure this year (see also Scope's 2019 outlook on European airlines: Flight paths diverge as smaller carriers face credit squeeze, Nov 2018).

Figure 2: Market share gains of major European carriers



Source: companies, ACI Europe, Scope

Despite the fragmented nature, as measured by overall market share, some airlines still benefit from favourable market structures. IATA reported in June 2018 that the number of routes served by two and more airlines has increased to 30% between 2010 and 2017, up 5 percentage points since 2010. At the first sight, this would point to increasing competition but at the same time it confirms that 70% of all routes and connections are still monopolistic/duopolistic with the resulting benefits for those carriers that serve these connections.

Fate of Flybe, Alitalia and Adria Airways still uncertain

Some medium-sized airlines have also succumbed to market pressures, again to the benefit of larger airlines. Lufthansa Group and easyjet picked up the assets of insolvent Air Berlin (2016 market share of 2.8%). IAG has already acquired landing slots from Britain's Flybe, the regional carrier which is up for sale. It remains to be seen whether Flybe will eventually be sold to the newly formed consortium of Virgin Atlantic, Stobart Group and Cyrus Capital under the name Connect Airways. The future of Slovenia's Adria Airways remains in the hands of the Civil Aviation Agency. And the fate of Alitalia, Italy's bankrupt flag carrier, might soon be decided too as the airline looks for a suitor. On numerous occasions, Lufthansa has communicated not to be interested in Alitalia if the Italian carrier was to become a (partly) government-owned entity. The most recent of the many rumours that were spread over the past two year around the fate of Alitalia is an alleged interest of Delta Airlines Alitalia's long-haul business.

Some player can afford it to play the game tougher than others

Scope believes that the shake-out will continue as long as interest rates remain cheap and the larger – more creditworthy – airlines can benefit from their better cost profiles and the financial strength to fund the buyout of bankrupt entities. Small airlines cannot pass on increased costs – from rising jet-fuel prices, US dollar appreciation, higher wages costs, airport charges and passenger reimbursements – as easily as the large carriers.

Dominating airlines may not fully pass on increased cost base

What becomes an existential question for some smaller airlines may only be a temporary sacrifice of profitability for the larger operators such as Ryanair, Wizzair, easyjet or Lufthansa which can easily afford to give up some percentage points in profitability by not raising air fares for customers, thereby securing a competitive edge. Ryanair, for example, has reported a reduction in its EBITDAR margin to a still healthy 36% - excluding the negative effect from Laudamotion – in the first half of its business year 2018/19 against 41% in the period a year earlier, at an unchanged passenger load factor and even reduced average air fares. This one reason why we believe the gap in the creditworthiness of larger airline operators and smaller carriers is set to widen further.

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