IS THE CURRENT INVESTMENT CLIMATE IN AVIATION FAVOURABLE FOR NEW IPOS?

News / Airlines, Finance

Being shocked by a number of bankruptcies, for around 7 years the global aviation industry had been subject to diminished enthusiasm from investors. However, since 2016, record-low aviation fuel prices have led to more green on the airlines' balance sheets, growing cash flows in the market and an increasingly positive outlook on the future of the industry in general. Does this mean that we should expect an increase in the number of airline IPOs, too? According to the aviation industry executive and Board Chairman of Avia Solutions

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Group Gediminas Ziemelis – many signs suggests so, but not in all regions across the globe.

“At the moment, in the aftermath of a number of bankruptcies, the airline industry in Europe is undergoing complex consolidation processes, where the variation in the net worth of insolvent carriers is being bought out by larger industry players. If these larger industry players find themselves in need of additional cash to accelerate consolidation, they may opt for new IPOs in order to acquire the necessary funds fast. Similar tendencies can be observed in the airline support industry – MROs, ground handling, technical training and other sectors,” comments Gediminas Ziemelis.

According to the executive, the situation in the Asia-Pacific region is fundamentally different from the one in Europe. The rapidly growing middle class and, in turn, the rising number of air passengers have been accelerating industry growth for a considerable number of years now.

“As opposed to the sole noteworthy Wizzair IPO in Europe in the last 7 years, the Asia-Pacific market has seen multiple exciting public offerings and mouth-watering projects for investors. It is also important to note that the capital markets in the region are generally developing very dynamically, including those in the aviation sector. I see no reason to expect any negative changes to this trend any time soon,” explained G. Ziemelis.

Meanwhile, in the US, the recent investment in America’s big four airlines made by the previously very sceptical Warren Buffet have served as a powerful resuscitating move to the hitherto stiff market. And although the resulting increase in buzz does produce grounds for optimism, Gediminas Ziemelis is not in a hurry to draw any conclusions.

“In my opinion, the fact that Warren Buffet decided to spread his investment among all four major US carriers rather evenly, suggests that they are all strong market players with little to no interest in competing and breaking the existing *status quo*. Therefore, while this oligopoly is great for these four players, it may deter new investors and slow the development of the industry. One may even argue that the past acquisitions that had led to the stabilized operation of the four US mega carriers marked the most exciting period in terms of market development for the entire decade, so for the time being the airline industry in the US should see little new twists and turns,” says G.

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Ziemelis.

Aside from Asia-Pacific, other markets which are under constant surveillance by many active investors interested in airline business are South America and Africa. However, in both continents low economic and political stability holds back even the most risk-loving investors out there. Moreover, the considerably slower growth of the middle class makes Asia Pacific a ten times more attractive market with little risk and same high returns. Nevertheless, should the political and economic situation stabilize, we may see a string of events leading to exciting investment opportunities in both continents.

“All in all, I would say that at the moment Asia-Pacific is the region which continues being the most thrilling scene in terms of growth and possibly new IPOs. In Europe and the US, the markets are rather mature, yet they may still appeal to more risk-averse investors, so we may expect several new IPOs in the near future. And when it comes to South America and Africa, the existing political and economic instability accompanied by the slow growth in middle class make the markets unlikely places to see major investors in the near future,” concluded G. Ziemelis.

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