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International Airlines Group

Industrials

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Resilient demand provides confidence

International Airlines Group (IAG) delivered strong results in Q126 with resilient demand and improved operational performance driving a material increase in profitability. While no surprise, management believes higher fuel prices and disruption linked to the Middle East conflict will weigh on FY26 profit growth, and trading remains encouraging, particularly across premium and long-haul markets for most of its airlines. IAG will look to offset a good proportion, 60%, of the higher fuel cost with price increases and a focus on discretionary costs. The broader message remains confident as the combination of leading market positions, a diversified portfolio, ongoing transformation initiatives and a strong balance sheet leaves it better placed than many of its peers to manage the near-term pressures, while healthy cash flow will support shareholder returns.

Demand and cost control drive strong profit growth

In Q126 revenue increased by 1.9% and operating profit increased by just over 77%. Revenue growth was due to both higher capacity (0.2%), with growth skewed to Asia-Pacific, and Latin America and Caribbean, and higher yields across all regions (3.5% reported and 8.2% constant currency). Passenger revenue and operating profit grew for all the brands, except Aer Lingus as a result of competition on its North Atlantic routes and fuel costs. Despite the pressures on fuel prices from the end of February, profit growth was helped by non-fuel costs being in line with management's expectations supported by: strong growth by high-margin Loyalty; the earlier timing of Easter; the absence of last year's closure at Heathrow; and favourable fx from a weaker US dollar.

Middle East conflict hampers profit outlook

The Middle East conflict has two important impacts on guidance. First, capacity growth will be lower than the 3% growth expected at the FY25 results, with suspension of some Middle East routes offset by redeployment of aircraft to regions where demand and yields remain strong as well as providing operational resilience. Second, fuel costs for FY26, with 70% of costs hedged, are currently projected to be €9.0bn versus €7.4bn previously. The lower profit performance naturally flows through to lower (unquantified) free cash flow than previously. However, this is not affecting the €1.5bn share buyback, with the first €500m tranche almost completed.

Valuation

IAG trades a slight premium to the median peer FY26 P/E multiple of 6.2x despite enjoying significantly higher levels of profitability.

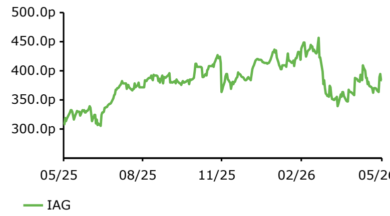
Consensus estimates								
Year end	Revenue (€m)	EBIT (€m)	EBITDA (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)	EV/EBITDA (x)
12/24	32,100.0	4,443.0	6,807.0	0.57	0.09	7.8	2.0	3.5
12/25	33,213.0	5,024.0	7,652.0	0.70	0.10	6.4	2.2	3.1
12/26e	34,645.0	4,671.0	7,405.0	0.66	0.11	6.7	2.5	3.2
12/27e	36,334.0	5,137.0	8,048.0	0.77	0.12	5.7	2.7	3.0

Source: IAG, LSEG Data & Analytics. Note: EBIT, EBITDA and EPS are adjusted for exceptional items.

Price[1]	385.00p
Market cap	€19,870m

[1]€4.46

Share price performance



Share details

Code	IAG
Listing	LSE
Shares in issue	4,468.0m
Net cash/(debt) at 31 March 2026	€(4,183.0)m

Business description

International Airlines Group is a European multinational airline company that provides passenger, cargo and adjacent services. Its airlines include Aer Lingus, British Airways, Iberia and Vueling, alongside IAG Loyalty.

Bull points

- The aviation sector enjoys secular growth in demand, supported by a shift in spend to services and experiences from goods, and favourable demographics.
- The industry has seen more rational capacity development and constraints on new aircraft production are expected to support pricing for some years to come.
- IAG operates in some of the world's largest and most attractive travel markets.

Bear points

- The airline industry is vulnerable to changes in economic growth and consumer spending.
- Volatile fuel and rising labour costs (41% of FY25 sales) can pressure profitability.
- Free cash flow generation has been volatile and low (relative to sales) as swings in profitability can be compounded by capital investment.

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