

# International Airlines Group

Come fly with me

International Airlines Group (IAG) enjoys the tailwinds of structural demand growth in an industry that is becoming more structurally profitable, being well positioned in some of the largest and most attractive markets, and with a portfolio of leading brands catering to the value requirements of its customers. While IAG already has industry-leading profitability, management is transforming it by investing in network expansion, customer service and operational efficiency to drive sustainable revenue growth and increase free cash flow.

## Four key levers of growth

In 2023, management highlighted its four key strategic priorities: transform all businesses to reach their full potential (as with the step change in Iberia's profitability); leverage its Spanish platforms, growing the footprint and network depth in Europe and to Latin America where it already has market leadership; invest in British Airways (from booking to lounges and aircraft) to drive higher customer satisfaction, profits and margins; and grow IAG Loyalty, which is highly profitable (FY24 operating margin c 20%) and more capital-light so benefits IAG's free cash.

## Industry-leading profitability and returns

Management's medium-term ambition is to deliver world-class margins (12–15% operating) and returns on invested capital (13–16%), which should reward shareholders with growing earnings, strong free cash flow, ordinary dividends, share buybacks and potential special dividends, excluding demand shocks. Management assumes available seat kilometres (ie volume) will grow organically by 4–5% in FY24–26. IAG is tracking well versus its ambitions, achieving a 13.8% operating margin in FY14, a high since pre-COVID FY19, and a ROIC of 17.3%, well above its ambition. Regarding shareholders returns, IAG reinstated ordinary dividends in FY24, the first since before the outbreak of COVID, and has completed the €350m share buyback announced in November 2024, with a further return of €1bn announced in February 2025. Consensus forecasts 4–5% pa revenue growth in FY25–27 and a relatively stable 13.7–14.0% operating margin, which translates into a c 9% CAGR in adjusted net income, including greater growth (c 12%) in FY25.

## Valuation

IAG's FY25 EV/EBITDA multiple of 3.4x is a modest premium to the median multiple of its European peers of 3.1x, despite enjoying a much higher level of profitability. Its FY25e EBITDA margin of c 21% compares favourably to the peer median of c 15%.

| Consensus estimates |              |           |         |         |               |           |
|---------------------|--------------|-----------|---------|---------|---------------|-----------|
| Year end            | Revenue (€m) | EBIT (€m) | EPS (€) | DPS (€) | EV/EBITDA (x) | Yield (%) |
| 12/23               | 29,453.0     | 3,507.0   | 0.51    | 0.00    | 4.4           | N/A       |
| 12/24               | 32,100.0     | 4,443.0   | 0.57    | 0.09    | 3.6           | 2.6       |
| 12/25e              | 33,468.0     | 4,575.0   | 0.63    | 0.12    | 3.4           | 3.3       |
| 12/26e              | 34,868.0     | 4,802.0   | 0.67    | 0.13    | 3.3           | 3.8       |

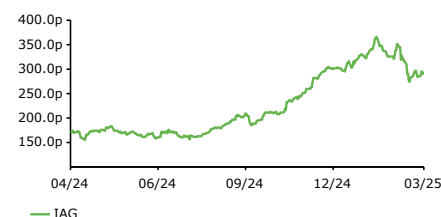
Source: LSEG Data & Analytics.. EBITDA, EBIT and EPS are adjusted for exceptional items.

Industrials

28 March 2025

**Price** 290.80p  
**Market cap** €16,728m

### Share price performance



### Share details

|  |             |
|--|-------------|
| Code   | IAG         |
| Listing  | LSE         |
| Shares in issue  | 4,791.7m    |
| Net cash/(debt) at 31 December 2024 (including leases) | €(7,517.0)m |

### Business description

International Airlines Group is a British-Spanish multinational airline company that provides passenger, cargo and ancillary services. Its airlines include British Airways, Iberia, Vueling and Aer Lingus.

### Bull points

- 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.
- IAG operates in some of the world's largest and most attractive airline markets.

### Bear points

- The airline industry is vulnerable to changes in economic growth and consumer spending.
- Volatile fuel and rising labour costs (43% of FY24 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.

### Analysts

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