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International Airlines Group

Industrials

2 March 2026

Record profit with robust returns

International Airline Group (IAG) delivered a record FY25 operating profit that reflects both favourable market dynamics and its portfolio strength, with an operating margin (15.1%) at the top end and return on invested capital (18.5%) above the company's through-the-cycle targets. The strategy of strengthening core hubs, focusing on premium long-haul markets, scaling capital-light earnings streams, with improving on-time performance and customer satisfaction, is delivering for customers and shareholders.

FY25 record operating profit

FY25's c €5bn operating profit was in line with the company-compiled consensus mean. There was strong operating leverage as 3.5% revenue growth translated through to c 13% growth in operating profit and c 22% growth in adjusted EPS. Capacity increases across all regions and constant currency unit prices across all regions except Europe drove revenue growth. The operating leverage came from a reduction in unit operating costs, mainly favourable fuel costs (c 28% of FY24's cost base), which fell by c 9%, while non-fuel costs were well controlled with a c 3% increase. All airlines except Vueling and Loyalty saw good year-on-year improvement in underlying operating margin with the end result that all are operating within or above the targeted 12–15%. The year-end net debt/EBITDA of 0.8x is well below the target 1.8x across the cycle, which is helpful as fleet investment will build to above normalised levels from FY27–32 to satisfy the expected medium-term target of 2–4% capacity growth. The FY25 dividend increased by c 9%.

Further growth in FY26 but fuel costs a headwind

Management's first guidance for FY26 is for continued revenue growth, including c 3% further capacity growth. The outlook for non-fuel unit costs, c 75% of FY25's costs, looks more favourable with an indicated 1% underlying increase or decline of 1% on a reported basis with more favourable forex. However, the increase in aviation fuel (before the attack on Iran after FY25 results released) and incremental costs from emissions trading and carbon offsetting both contribute roughly half of the indicated c 4% growth in fuel costs in FY26. With a slight year-on-year increase in capex to c €3.6bn in FY26 (FY25: €3.44bn), management guides to free cash of 'greater than €3bn' versus FY25's €3.15bn, which will enable attractive shareholder returns, including a greater announced share buyback of €1.5bn (€1bn in FY25).

Valuation

IAG's valuation continues to compare favourably to its European peers, which trade at an average P/E of 7.7x. IAG also has a more attractive dividend yield.

Consensus estimates

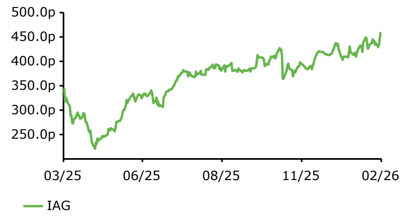
Year end	Revenue (€m)	EBIT (€m)	EBITDA (€m)	EPS (€)	DPS (€)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/24	32,100.0	4,443.0	6,807.0	0.57	0.09	3.9	8.1	2.0
12/25	33,213.0	5,024.0	7,652.0	0.70	0.10	3.5	6.6	2.1
12/26e	34,484.0	5,190.0	7,884.0	0.74	0.12	3.4	6.1	2.6
12/27e	35,975.0	5,450.0	8,293.0	0.82	0.13	3.2	5.6	2.8

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

Price[1]	401.40p
Market cap	€20,897m

[1]€4.46

Share price performance



Share details

Code	IAG
Listing	LSE
Shares in issue	4,565.1m
Net (debt) at 31 December 2025 including IFRS 16 liabilities	€(5,948.0)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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