STOCK OF THE MONTH

June 2026

IAG INTERNATIONAL AIRLINES GROUP

Market cap: £19.8bn
Sector: Industrials
Listing: LSE

Record FY25 profitability and a strong Q126 demonstrate the resilience of IAG's premium long-haul franchise, while hedging for 70% of FY26 fuel costs, a strong balance sheet and an active €1.5bn buyback support shareholder returns through the Middle East-driven fuel headwind.

WHY THIS STOCK?

- **In focus:** Q126 operating profit jumped 77% to €351m on just 1.9% revenue growth, with yields up 8.2% in constant currency and premium-cabin demand resilient across British Airways and Iberia. FY25 delivered a record €5bn operating profit at a 15.1% margin, at the top end of the company's through-the-cycle target.
- **Momentum:** Transatlantic and Latin American long-haul routes remain robust, IAG Loyalty (now a flagged capital-light earner) delivered €116m of standalone operating profit in Q1, and the group has redeployed aircraft from suspended Middle East routes into stronger-demand regions, protecting yield.
- **Valuation:** IAG trades on c 6.7x consensus FY26 P/E (LSEG Data & Analytics, 11 May 2026) – a slight premium to a median peer multiple of 6.2x – despite a materially higher margin and return profile, with an 18.5% FY25 return on invested capital (ROIC) well above the company's through-the-cycle target. A c 2.5% prospective dividend yield sits on top of an active buyback programme.
- **Catalysts ahead:** H126 results on 31 July 2026, completion of the current €500m buyback tranche (running to September 2026) within a wider €1.5bn programme and confirmation that 70% FY26 fuel hedging plus c 60% fuel-cost pass-through can defend margins through the second half.

WHAT IS NEXT?

- **Key takeaway:** Post-Q126 consensus moves FY26 EBIT to €4,671m (from €5,190m pre-Q1), reflecting fuel costs being revised up to €9.0bn from €7.4bn after the Middle East escalation. Despite this, management expects to generate significant cash flow in FY26 and the €1.5bn buyback is unchanged – signalling management confidence that the cycle is being managed, not derailed.
- **Drivers:** Operating leverage in Q1 was striking: a 0.2% capacity uplift plus 3.5% reported yield growth converted into 77% operating profit growth. Non-fuel cost discipline (in line with guidance), the high-margin Loyalty business, an earlier Easter and a weaker dollar all combined to insulate the bottom line. Management expects to recapture c 60% of higher fuel costs through pricing and discretionary cost actions.
- **Current view:** Net debt has fallen to €4.2bn (0.5x EBITDA, well below the 1.8x through-the-cycle target), giving IAG more balance-sheet flexibility than most EU peers heading into a fuel-volatile second half. Third-party analysis flags a 15% free cash flow yield and ongoing buyback support, with sell-side targets clustering above the current share price.
- **What's next:** Watch for: (1) Q2 booked-revenue confirmation at the H1 results on 31 July; (2) progression of the €500m second-tranche buyback running to end-September; (3) any easing of Middle East-related capacity disruption that would allow fuel hedge benefits to drop more cleanly to the bottom line; and (4) peer commentary on intra-European demand, where Ryanair's flat summer pricing flags a softer short-haul backdrop that long-haul-skewed IAG is better-positioned to navigate.

THREE STOCKS TO WATCH

Vietnam Holding
Market cap: £66m
Sector: Investment companies

Shepherd Neame
Market cap: £75m
Sector: Consumer

filtronic
Market cap: £858m
Sector: TMT