

# International Consolidated Airlines Group

15:54 20 Jun 2019

## Airlines, plane manufacturers and tour operators beware - space could be your Kodak moment

If there wasn't already enough turbulence in the travel sector, long-haul flights will soon face further disruption by space rocket companies such as Elon Musk's SpaceX.

Using space for long-haul travel, using what is felt to be a conservative market penetration of 5% of the 150mln passengers who took flights of at least 10 hours in 2018, would be a potential game changer for travel.

READ: Space is the place...for capitalism

"We do not think airlines can ignore space, as the future of international time-sensitive travel could see rockets going into space," said UBS in a note to clients this week.

At a price of \$2,500 per trip, this opportunity within the wider space market, would be worth over \$20bn a year.

"Although some might view the potential to use space to service the long-haul travel market as science fiction, we think the circa 800 route pairs on point-to-point flights that take more than 10 hours mean there is a large market to be cannibalised," airline analysts at the Swiss bank said.

Holiday on the moon

Nearer term, the analysts predict space tourism will be the first space industry to become mainstream as the technology becomes proven and cost falls.

This month is the 50th anniversary of the first man on the moon and within a few years, super-rich tourists could take a similar giant leap and enjoy a weekend break on the moon, or at least nearby.

For instance, using technology licensed from NASA, Las Vegas-based Bigelow Aerospace could be the owner of the first space hotel, having successfully tested an expandable space module and booking a launch of its full-sized module into low-earth orbit next year, potentially as an addition to the International Space Station.

By around 2030, space tourism is estimated to be at least a \$3bn-per-year opportunity, UBS airlines analysts predict.

The total global space industry is generating revenue of around \$350bn currently, growing at double digit-rates, with the analysts pencilling in \$805bn by 2030.

Investment banks are all looking up into the night skies, with Morgan Stanley's eyes on a \$1.1trn space prize by 2040 and Goldman Sachs flagging to its clients two year ago that falling costs were the key to growing participation in the space economy, making internet-enabling satellites as the nearest-term opportunity and nascent industries like space tourism, asteroid mining and on-orbit manufacturing all viable in the more distant future.

**Price:** 587

**Market Cap:** £11.65 billion

### 1 Year Share Price Graph



### Share Information

**Code:** IAG

**Listing:** LSE

**52 week High Low**  
684 5.58404

**Sector:** Energy

**Website:** www.iairgroup.com

### Company Synopsis:

*International Airlines Group is one of the world's largest airline groups with 525 aircraft flying to 255 destinations and carrying 96.9 million passengers each year. It is the third largest group in Europe and the sixth largest in the world, based on revenue.*

action@proactiveinvestors.com

### Opportunity or Kodak moment

Airlines, aerospace manufacturers, tour operators, airport services providers, insurers and hoteliers all have the potential to be affected positively or negatively by the space sector.

"The associated threat or opportunity from this theme would depend heavily on how these companies move and shape their business models accordingly," said UBS, mentioning names running from International Consolidated Airlines Group (LON:IAG) and Delta Air Lines Inc (NYSE:DAL), through Airbus and Lockheed Martin Corp (NYSE:LMT), to InterContinental Hotels Group PLC (LON:IHG), TUI AG (LON:TUI) and SSP Group PLC (LON:SSPG).

While the analysts conceded that it might be too early to connect risk adjusted earnings forecasts to this theme, they warned "ignoring it qualitatively would be in our view short sighted".

"The Kodak moment did not happen when Kodak filed for bankruptcy but rather over a decade earlier."

### How will space replace long-haul travel?

For those seeing space flight to service the long-haul travel market on Earth as science fiction, UBS said the technology is continuing to evolve and costs to fall.

The routes with the greatest potential for space to replace traditional aeroplane flights are for routes that take 10 hours or more.

The most likely to alleviate safety concerns are city pairs near the sea, with space hubs on platforms out at sea, close to the city being serviced, so perhaps facilitating techies flying from San Francisco to Singapore at just over 17 hours or bankers flying from New York to Singapore at 18-and-a-half hours.

Sizeable demand is also seen coming from sub-10-hour routes carrying affluent and time-sensitive travellers, such as the North Atlantic market, where people are likely willing to pay a premium for fast travel so that they have time for other activities.

### Space economics

SpaceX's operations chief Gwynne Shotwell said last year that the company plans to operate an international travel service within a decade, using the Big Falcon Rocket (BFR), which can reach any location on Earth within an hour.

As an example, the BFR would carry around 100 passengers and the current objective is eventually getting costs down to the point where a ticket can be priced between a current economy and business class tariff.

Looking at the potential economics of the business, a spacecraft might need to undertake six trips per day to compared with the two trips a day that a Boeing 777 300ER flying from London to New York in a 24-hour period and carrying around 600 passengers a day if full, generating circa \$2.1m in revenues.

To facilitate such volumes, the spacecraft would need to be able to charge circa \$350,000 per trip, so around \$3,500 per person, per trip to generate \$2.1m in revenues per day.

"However, given the time saving, we anticipate that it is likely that more could be charged than currently for a standard commercial airline flight," the UBS analysts said.

"Indeed, with a reduction in travel time, business people can spend those 'freed' hours being more productive. Clearly, the cost of a space flight would need to come down materially, but we do see the potential for the market to be serviced by space travel."

### Will there be enough demand?

A space travel survey of 6,700 respondents in the UK, the US, Australia, Germany and France suggested that more than 10% of respondents would take a space flight.

The survey, commissioned on behalf of UBS Evidence Lab, found that 13% of respondents would be willing to travel frequently by spaceship, and a further 13% infrequently.

Given their historical association with space flight, exuberance about new technology and life efficiency it is perhaps not surprising that people in the US were most keen, with 20% said they would travel frequently on a spaceship, compared to 11% in Germany.

Proactive Investors facilitate the largest global investor network across 4 continents in 4 languages. With a team of analysts, journalists & professional investors Proactive produce independent coverage on 1000's of companies across every sector for private investors, private client brokers, fund managers and international investor communities.

Contact us +44 (0)207 989 0813 [action@proactiveinvestors.com](mailto:action@proactiveinvestors.com)

### No investment advice

The Company is a publisher. You understand and agree that no content published on the Site constitutes a recommendation that any particular security, portfolio of securities, transaction, or investment strategy is suitable or advisable for any specific person. You understand that the Content on the Site is provided for information purposes only, and none of the information contained on the Site constitutes an offer, solicitation or recommendation to buy or sell a security. You understand that the Company receives either monetary or securities compensation for our services. We stand to benefit from any volume which any Content on the Site may generate.

You further understand that none of the information providers or their affiliates will advise you personally concerning the nature, potential, advisability, value, suitability or profitability of any particular security, portfolio of securities, transaction, investment, investment strategy, or other matter.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.