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Book review

Airline Finance, fourth ed., Peter S. Morrell. Ashgate, Farnham, Surrey (2013). £70, Hardback, ISBN 978-1-4094-5279-9, £30, Paperback, ISBN 978-1-4094-5278-2

This book came to me with a reputation as the primary text book concerning the financial elements of the aviation industry. As stated at the outset, it aims to cover material that will give the reader a broad understanding of airline finance, and as an air transport researcher looking to further develop knowledge in this area, I found that the book fulfilled this goal. The book would be of value to those in aviation who want to learn more about the financial elements of the industry, such as me, as well as those studying finance who want to examine airline applications. It should also be read by the many "dreamers and suckers" (p. 283) who want to start-up an airline, as a stark warning of the very poor profitability and cyclical nature of earnings associated with the industry.

There is a clear structure and natural progression through the book. Chapter 1 is a useful background summary over the last 20 years, covering the ups-and-downs of airline performance, incorporating the recent banking crisis which has loomed large over the aviation industry in recent years. The next few chapters are more practical, taking the reader through a logical progression of financial statements (Chapter 2) and using this information to calculate various airline financial ratios (Chapter 3). Cathay Pacific is the specific airline example, updated from British Airways in the previous edition, although it should be stressed that the author brings in a range of appropriate airline examples throughout the book. There is a natural flow to the next Chapter (Chapter 4) on airline valuation, covering historic airline take-overs, the role of route and traffic rights, airport slots, and the credit ratings of the airlines. Chapter 5 covers the sources of finance available to airlines, categorised by internal/external finance and a short/long term timescale.

Chapter 6 expounds on this by examining equity finance, before a very useful Chapter 7 covers airline privatisation, with six airline examples of different privatisation types: BA, Qantas, Lufthansa, Kenyan Airways, Iberia and Air France. It is interesting that many of the largest 25 airlines have been privatised, but very few of the next 25 airlines. Chapter 8 covers financial planning and appraisal, building upon the earlier practical material. Chapter 9 considers risk management in terms of foreign currency, fuel prices and interest rates; all relevant given the international nature of aviation. The topical and controversial EU emissions trading scheme is then covered, before the important issue of fuel hedging and associated airline strategies to deal with it.

Chapter 10, on aircraft leasing is a more technical aspect, going through the different leasing types, before aircraft securitsation for the leases is considered (Chapter 11). Chapter 12, that covers airline bankruptcy, is particularly interesting and relevant given the high operational and financial gearing within the industry, and the associated bankruptcy difficulties of laying-off staff and stranding passengers. The role of 'Chapter 11 bankruptcy' in the U.S. and the way the U.S. airlines emerge is fascinating when compared with regulation in other parts of the world, which is typically less lenient. The last chapter (Chapter 13) brings together the chapters well, although it could have been developed further. This Chapter covers the financial prospects in the industry, appropriately starting with a summary of aviation forecasts. It closes with a look at the most likely airline finance developments, namely cross-border mergers and more consolidation.

The book is very detailed, drawing from relevant industry and academic sources. The author is clearly very knowledgeable of aviation finance issues over the last twenty or so years (and the book is onto a fourth edition). The aviation industry has a range of financial peculiarities in comparison with other industries, such as fuel-hedging and aircraft leasing, and these are appropriately covered. The book strikes the right balance between the practical and technical financial elements, incorporating a range of aviation examples (often via useful box case studies) as well as hypothetical work-through examples. All in all, it provided me with some very useful insights into airline finance, both in terms of the detailed airline financial calculations required and the bigger aviation issues that impact upon financial decision-making.

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