

Scandinavians lead European airline shorts

Shielded by declining oil prices, traditional European airlines join Scandinavian carriers being targeted by short sellers while short haul budget carriers are ignored.

- Scandinavian carrier SAS currently the most shorted airline in Europe
- Norwegian Air's long haul ambitions attract short sellers despite shares and business gains
- Shorts abandoned bulk of Air France KLM positions prior to CEO departure

SAS and Norwegian Air Shuttle lead European airline shorts as the benefit of lower oil prices on earnings fades, rewarding short sellers staying the course.

The lowest fuel costs seen in almost two years have provided a bump in airline earnings. Sustained lower oil prices have seen now seen airlines once again actively **hedging** their energy exposure.

Established long haul airlines have for some time been squeezed by larger legacy cost bases, less efficient fleets, labour issues and fierce competition (in particular from long haul - Middle East carriers). Combined with the success of short haul budget airlines in past decades, revenue and earnings growth at traditional airlines has remained mostly grounded.

Low cost budget airlines Easyjet and Ryanair are for now flying below short seller's radars but ambitious low cost long haul carrier Norwegian Air has been targeted as of late. The most shorted European airline however is Norwegian Air's rival SAS with 13.4% of its shares currently sold short.

SAS Ab



SAS shares have fallen 7% thus far this year after posting a strong rally in 2015 which saw short sellers double down and increase positions by almost two fold. SAS recently **released** earnings for the company's first and "seasonally weakest quarter" for 2016. Figures were improved on a year-on-year basis however, were boosted by lower jet-fuel costs and cost cutting measures.

The second most shorted European airline is Norwegian Air with 12.9% of its shares outstanding on loan. Short sellers have however again **covered** positions in the stock since the end of January, reducing positions by almost a third as shares rallied 30%. The company posted **strong** overall earnings for 2015, benefiting from market share gains and lower fuel costs.

Norwegian Air Shuttle Asa



With 10.7% the third most shorted airline in Europe is Deutsche Lufthansa whose shares have come under recent pressure after an impressive recovery staged in late 2015. Shares have fallen as the company **reported** higher than expected costs caused by labour issues, including strikes and a cabin modernisation programme.

Deutsche Lufthansa Ag



Unable to improve Air France-KLM's competitive outlook, the firm's CEO just stepped down after **three years** battling trade unions and declining profitability. Shares have **tumbled** in reaction to the news but short sellers had already abandoned more than half of their positions in the stock since late 2015.

Air France Klm Sa



Short sellers retreated as Air France KLM shares (like Deutsche Lufthansa) benefited from rising earnings with shares rising almost 40% since October 2015. These movements were driven by improved earnings, which were predominantly driven by lower fuel costs.

Most shorted European Airlines

Name	Ticker	Short Interest	Change YTD	Quantity on loan (m)
Sas Ab	SAS	13.4	15%	44
Norwegian Air Shuttle Asa	NAS	12.9	11%	5
Deutsche Lufthansa Ag	LHA	10.7	24%	50
Air France Klm Sa	AF	5.7	7%	17
Easyjet Plc	EZJ	2.1	137%	8
Wizz Air Holdings Plc	WIZZ	1.0	73%	1
International Consolidated Airline: IAG		0.8	-49%	16
Ryanair Holdings Plc	RY4C	0.4	-11%	5
Flybe Group Plc	FLYB	0.2	-52%	1
Air Berlin Plc	AB1	0.2	-9%	0

Source: Markit

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