

COVID-19

Outlook for the airline industry 2020-2021

Brian Pearce

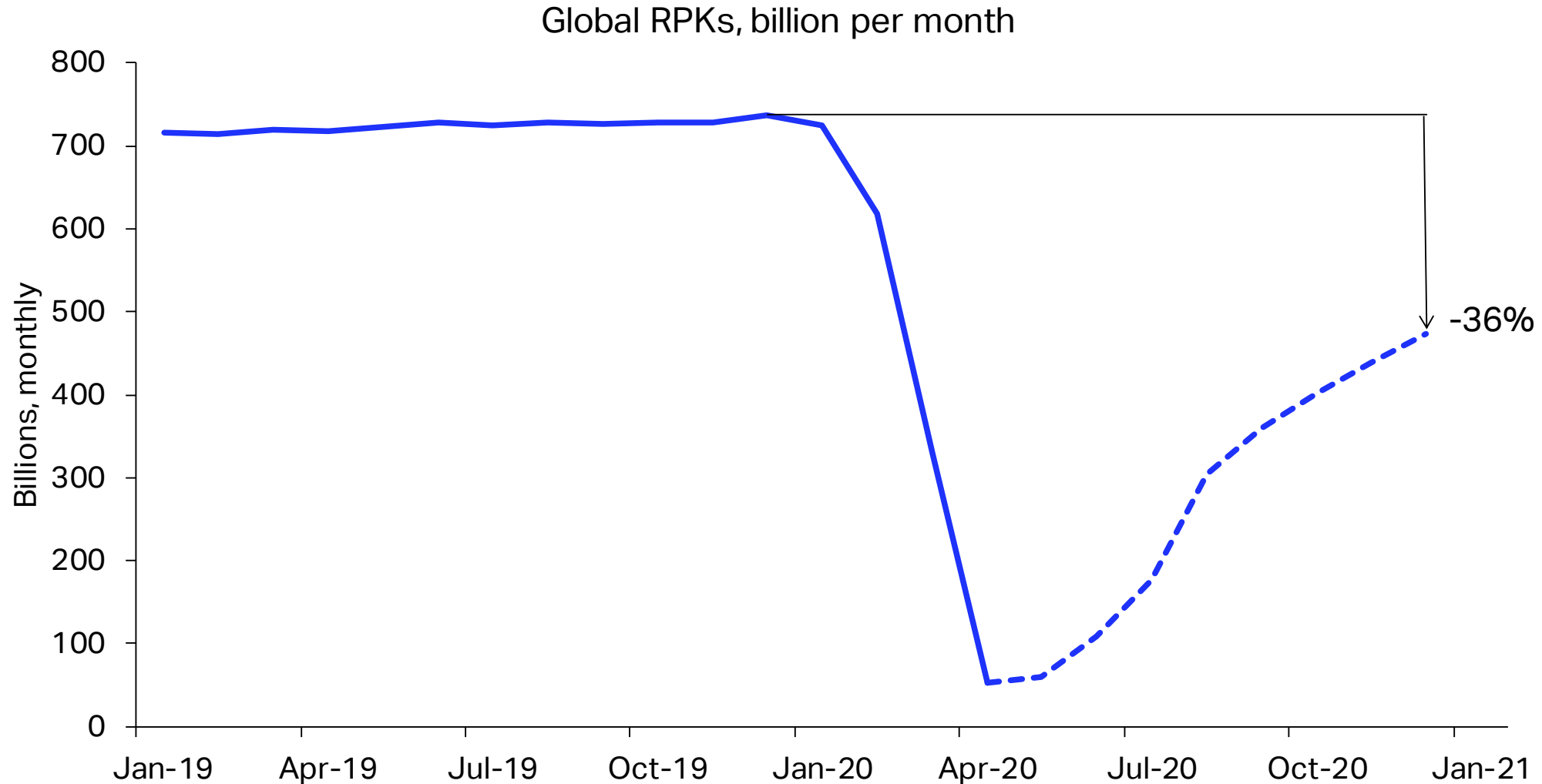
Chief Economist

9th June 2020



Phased re-opening of air travel markets

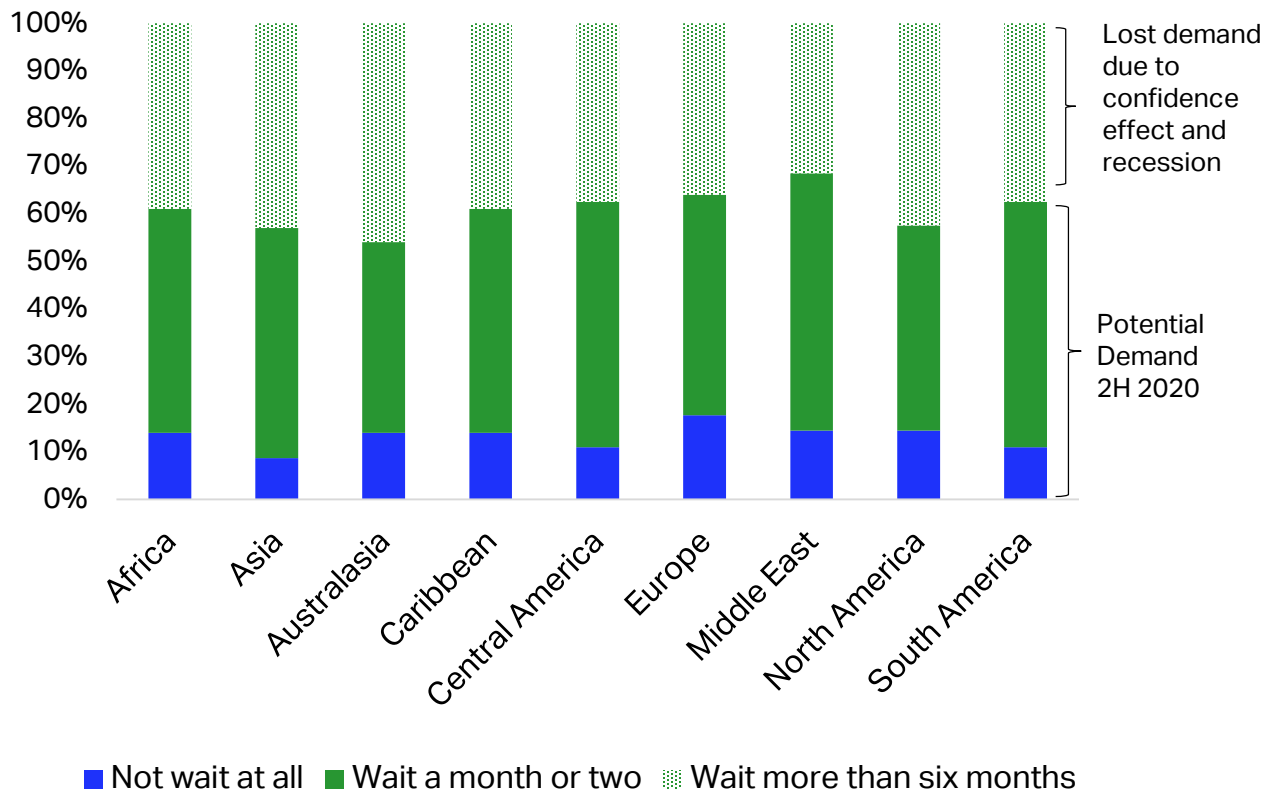
RPKs rising first on domestic markets and later on international in 2020



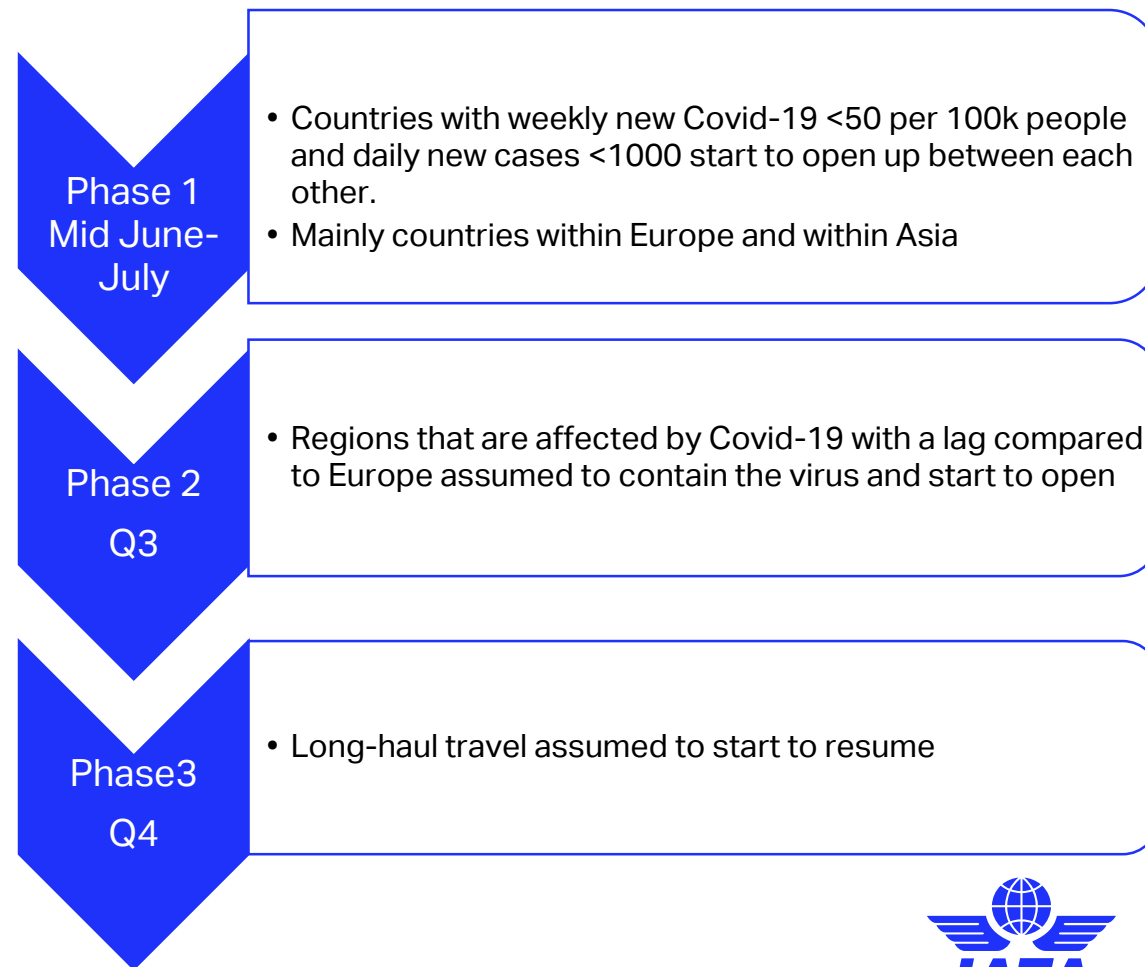
Return to air travel driven by confidence and access

We used COVID19 trajectories and passenger survey to time restarts

Passenger survey*



International recovery assumed to come in phases



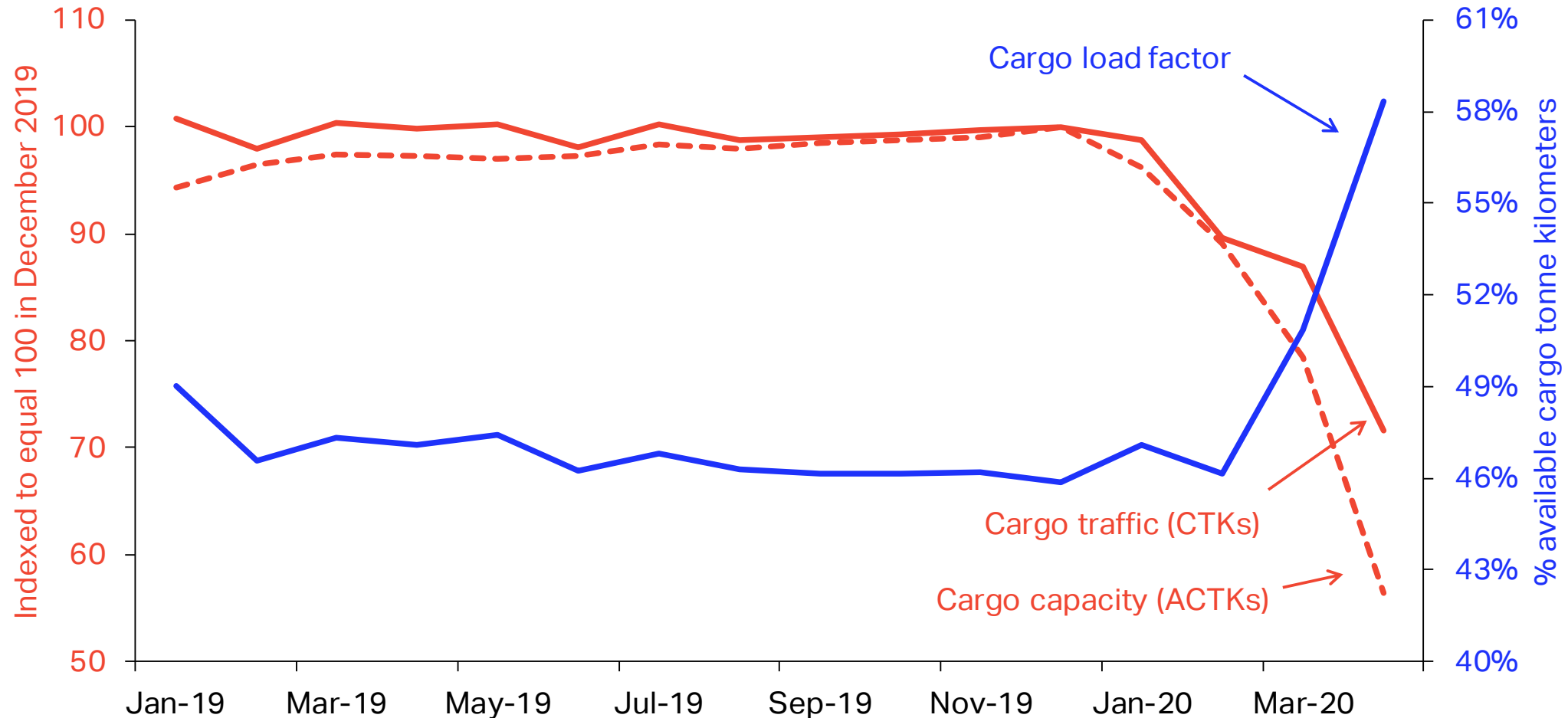
*Based on IATA passenger survey conducted in April 2020, average of representative countries are used as an indication of regional average.



Air cargo services in strong demand relative to capacity

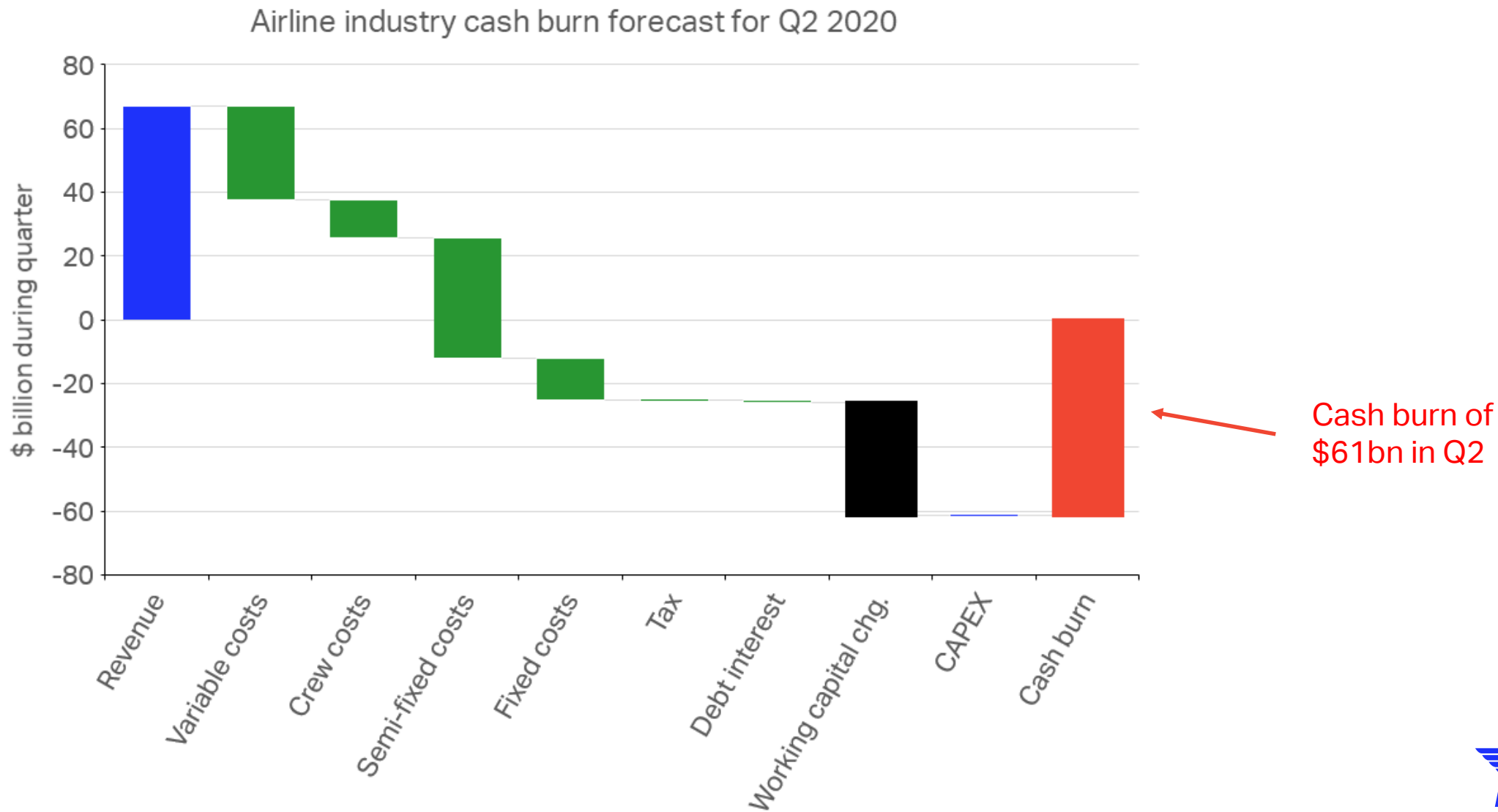
Disappearance of passenger belly capacity created significant shortage

Cargo tonne kilometers flown, capacity and load factors



Collapse of passenger revenues led to large cash burn

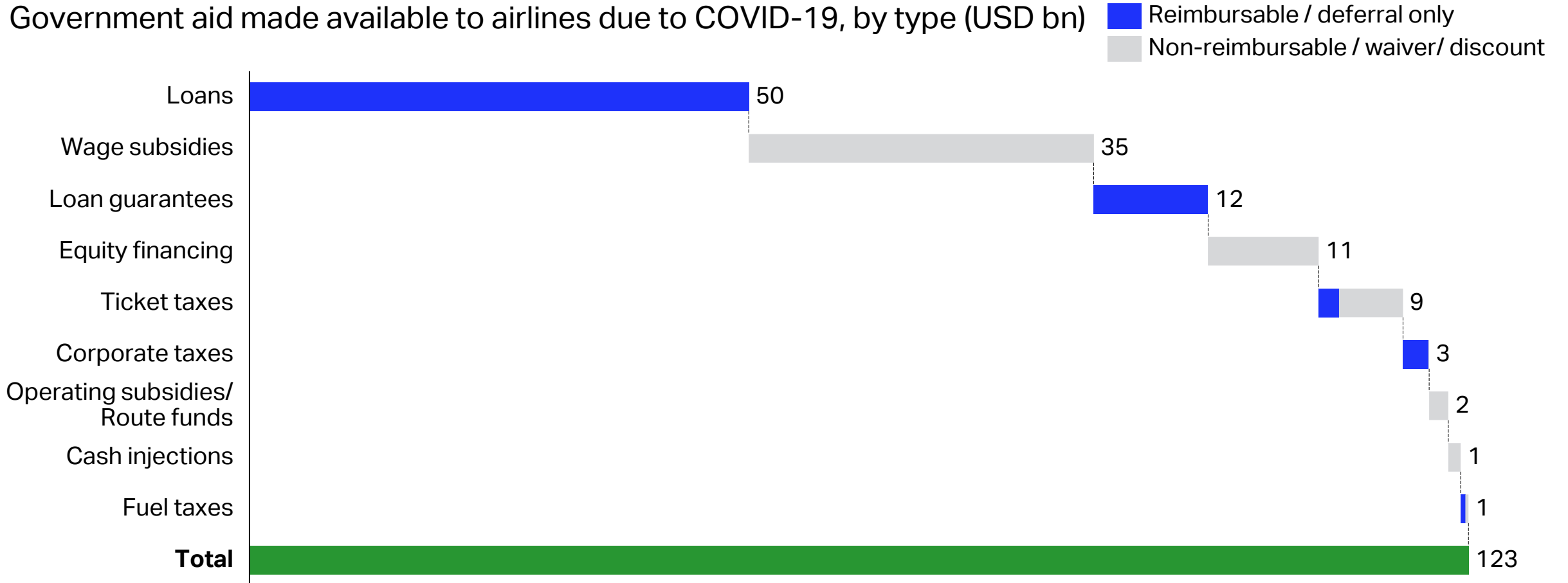
On top of unavoidable cost, ticket refunds will burn cash in 2020 Q2



Governments have provided substantial cash aid

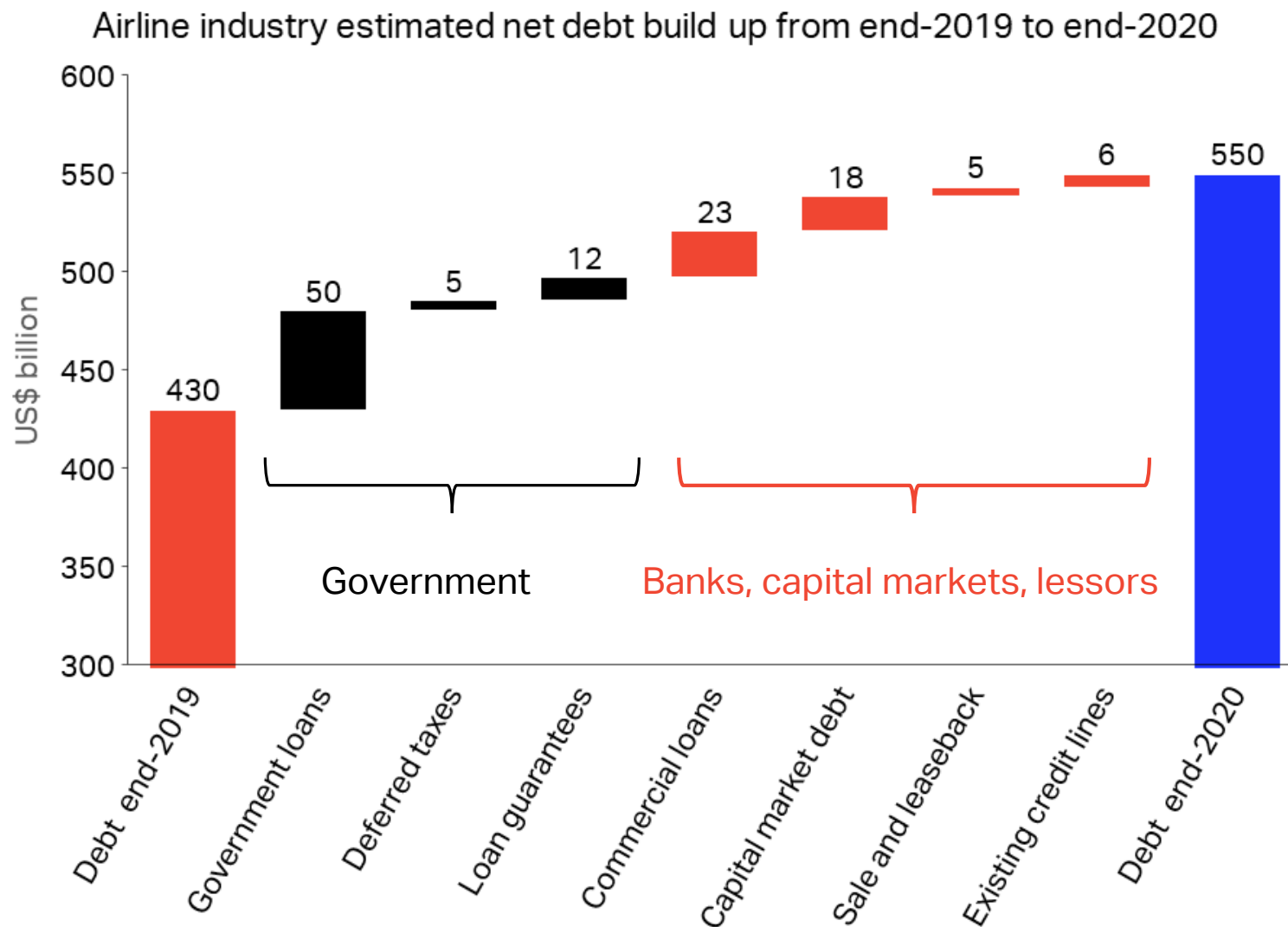
Airlines kept on life support in 2020 but majority of aid has to be repaid

Government aid made available to airlines due to COVID-19, by type (USD bn)



Airlines will enter 'restart' with very high levels of debt

\$120bn rise in debt but <\$30bn new equity (\$11bn from Govt)

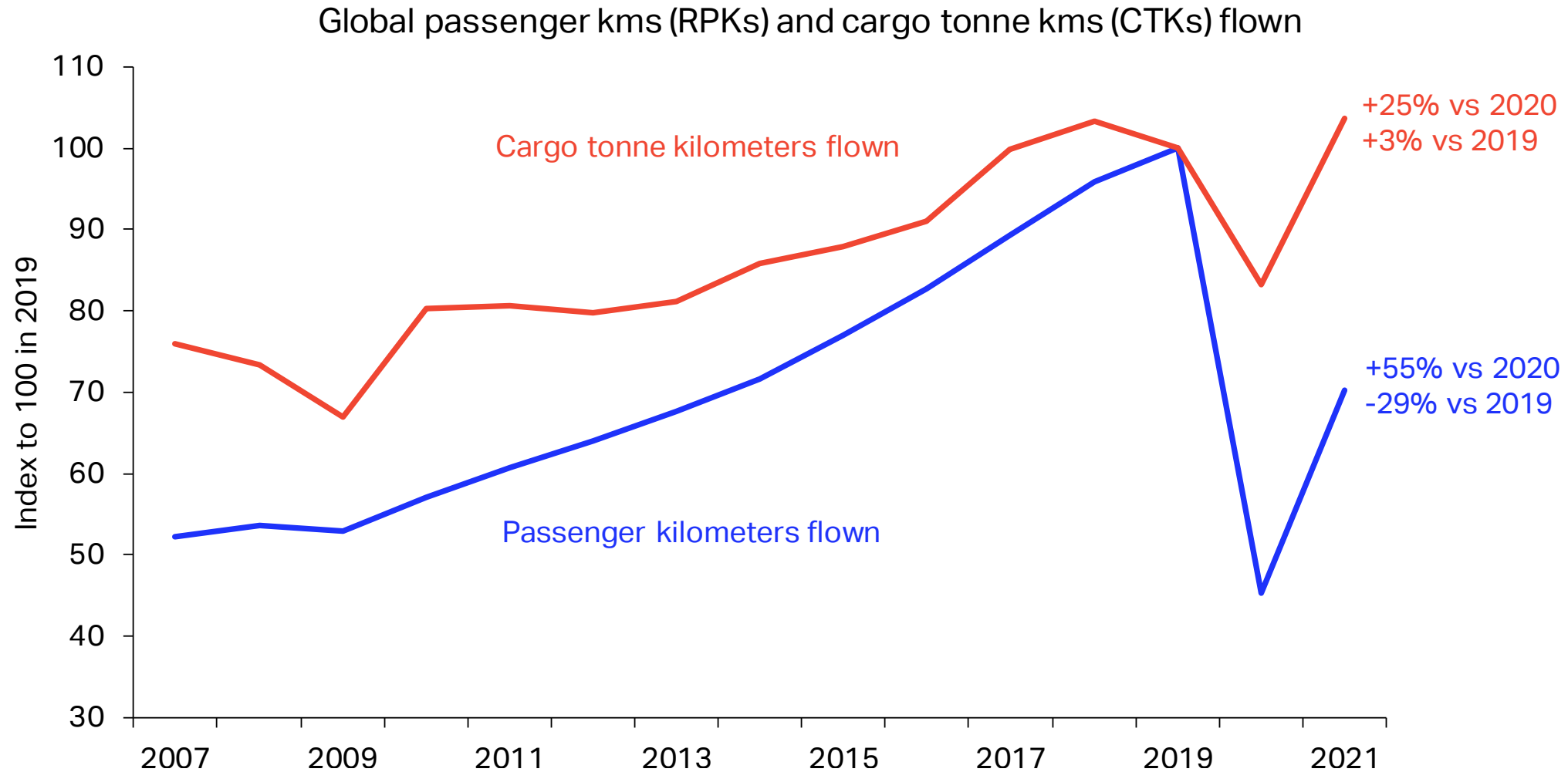


Source: IATA Economics using data from own estimates of Government aid, private debt estimates from Airfinance Journal 'Cash Burn and Liquidity Webinar, 14 May 2020. Debt includes adjustment for operating leases.



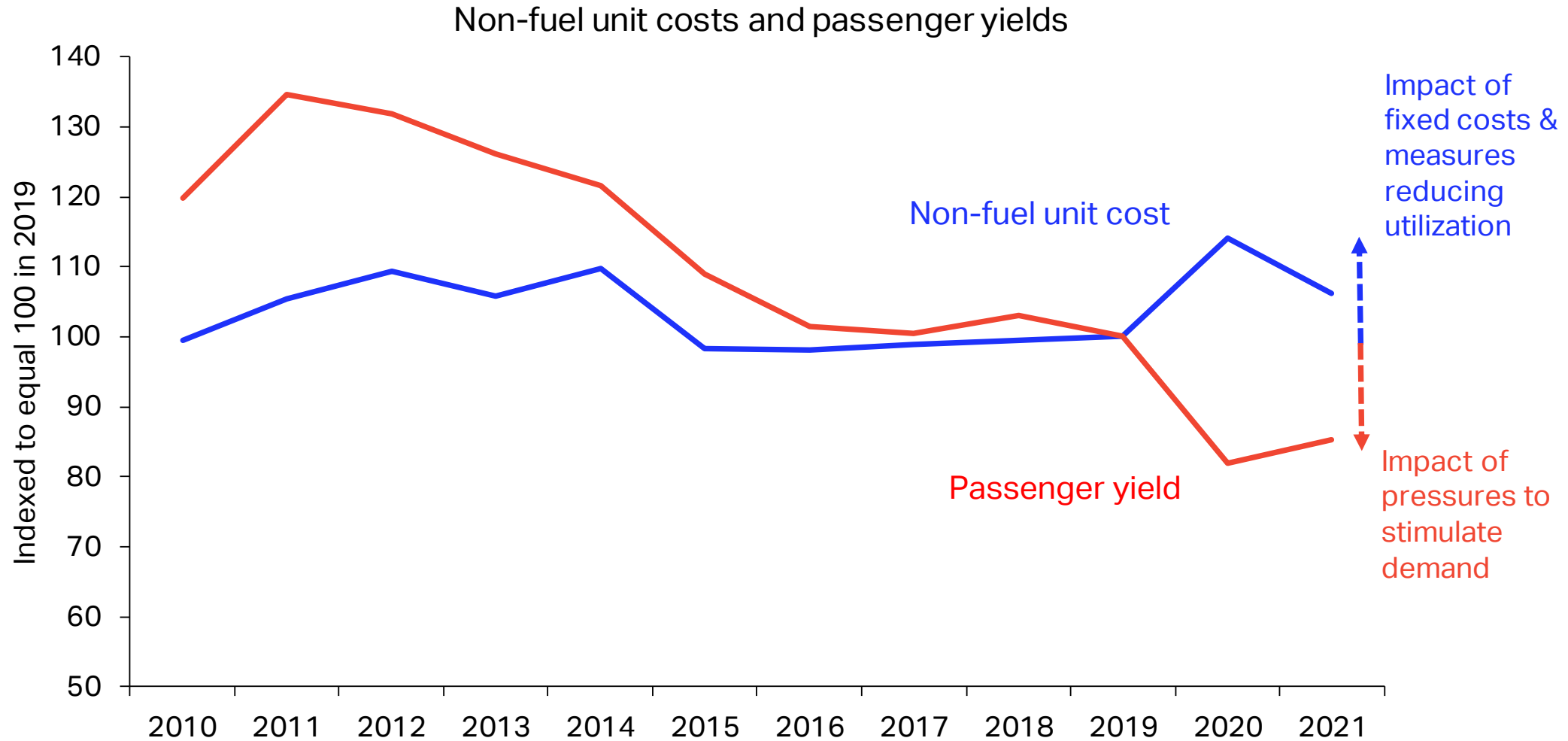
Demand for air cargo and travel will rise sharply in 2021

Stronger volumes next year but demand remains well below 2019 levels



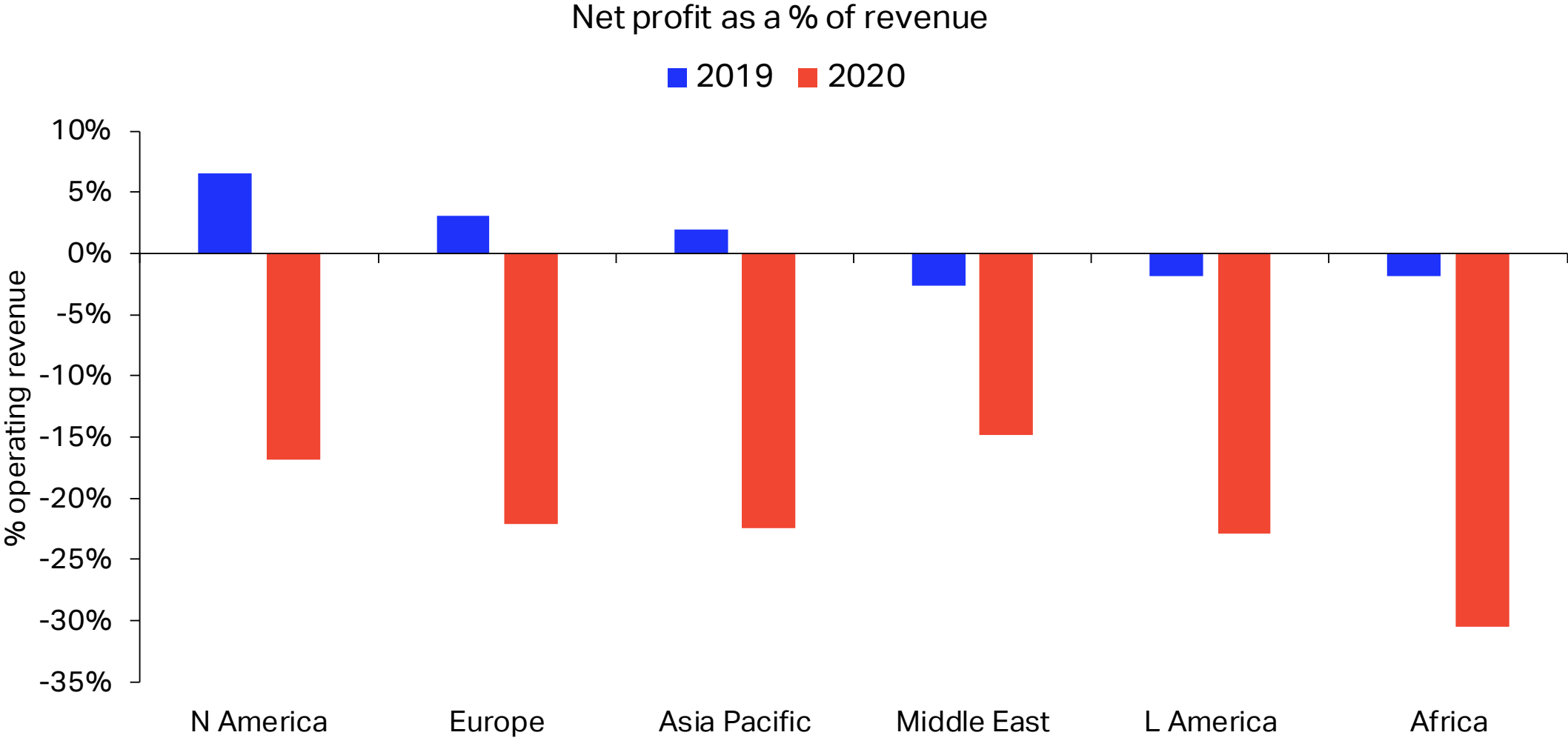
Need to generate cash and stimulate demand initially

Low passenger yields but higher unit costs will squeeze profit margins



Profit margins devastated in all regions this year

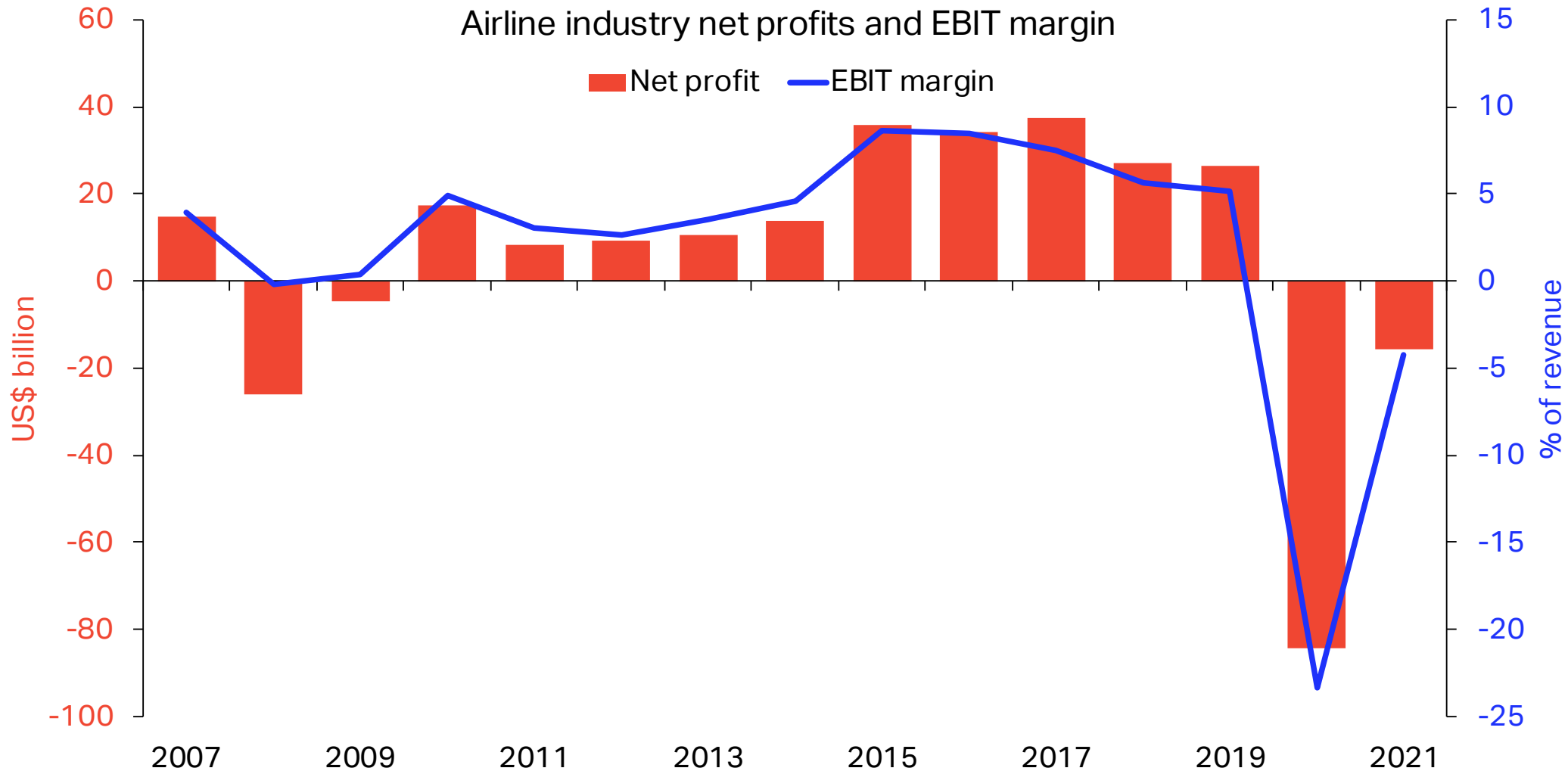
Net losses of 15-30% of revenues as some costs unavoidable



Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2020

Unprecedented 2020 loss narrowed but not eliminated

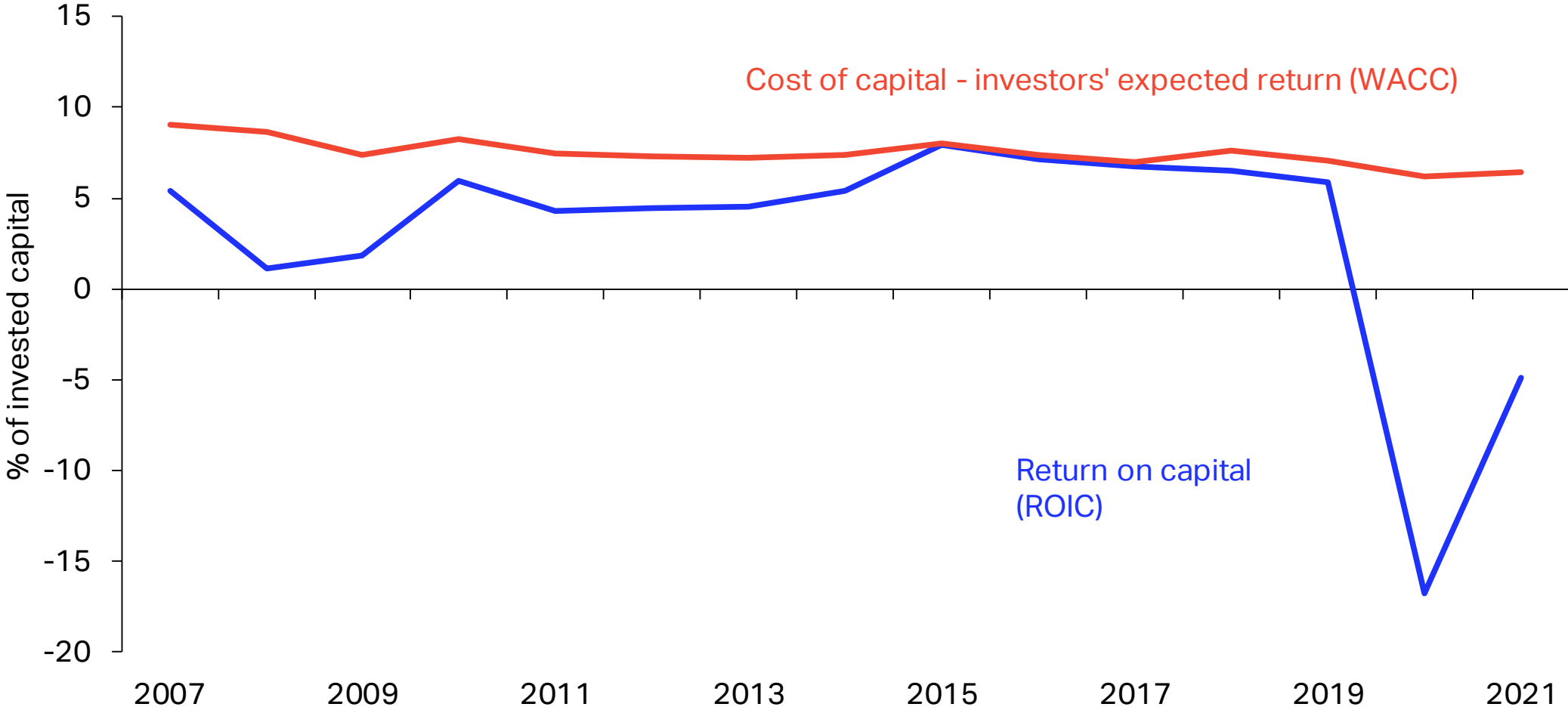
After \$84bn net loss this year we forecast further loss of \$15bn in 2021



Return on invested capital rises but still far from WACC

ROIC improves in 2021 but returns remain below 'normal' for investors

Airline industry return on capital (ROIC) and cost of capital (WACC)

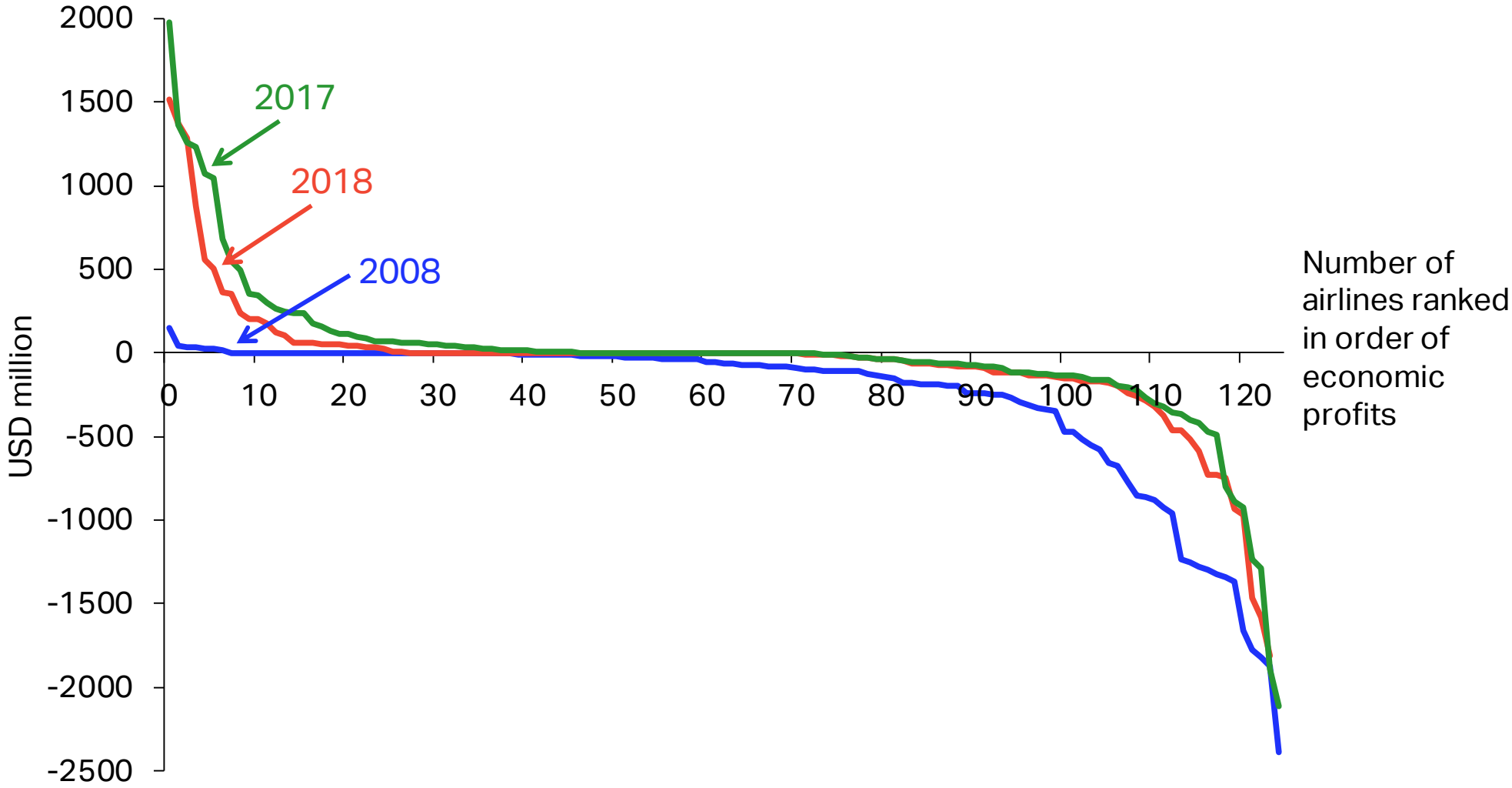


Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2020

Even before COVID-19 much of the industry was fragile

Only around 30 airlines drove improvement. Long tail of weaker airlines

World's airlines ranked by economic profits



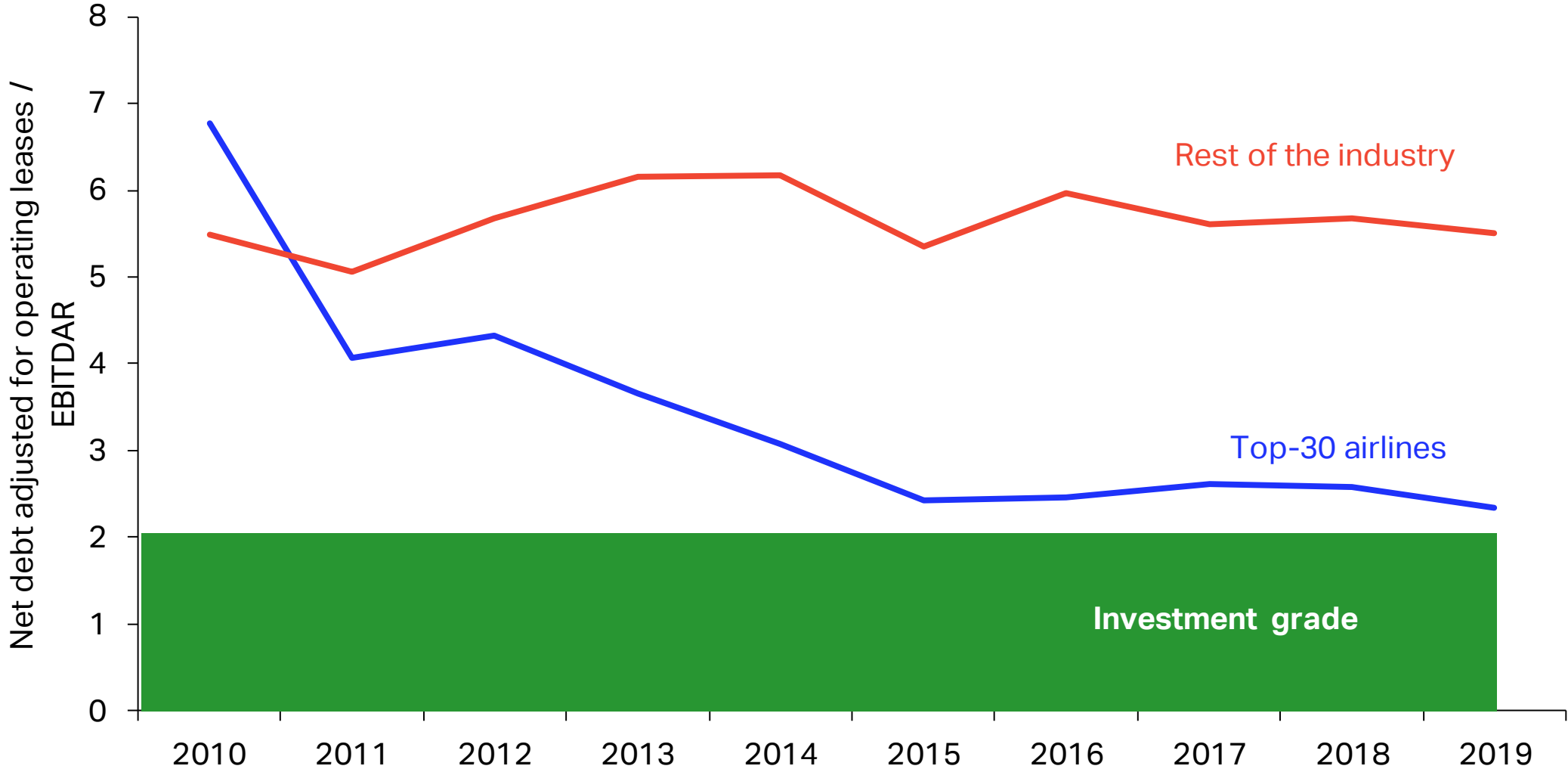
Source: IATA Economics using data from a McKinsey study for IATA



Outside the top-30 balance sheets debt levels were high

So many airlines will have fixed obligations of debt to service and repay

Net debt adjusted for operating leases / EBITDAR

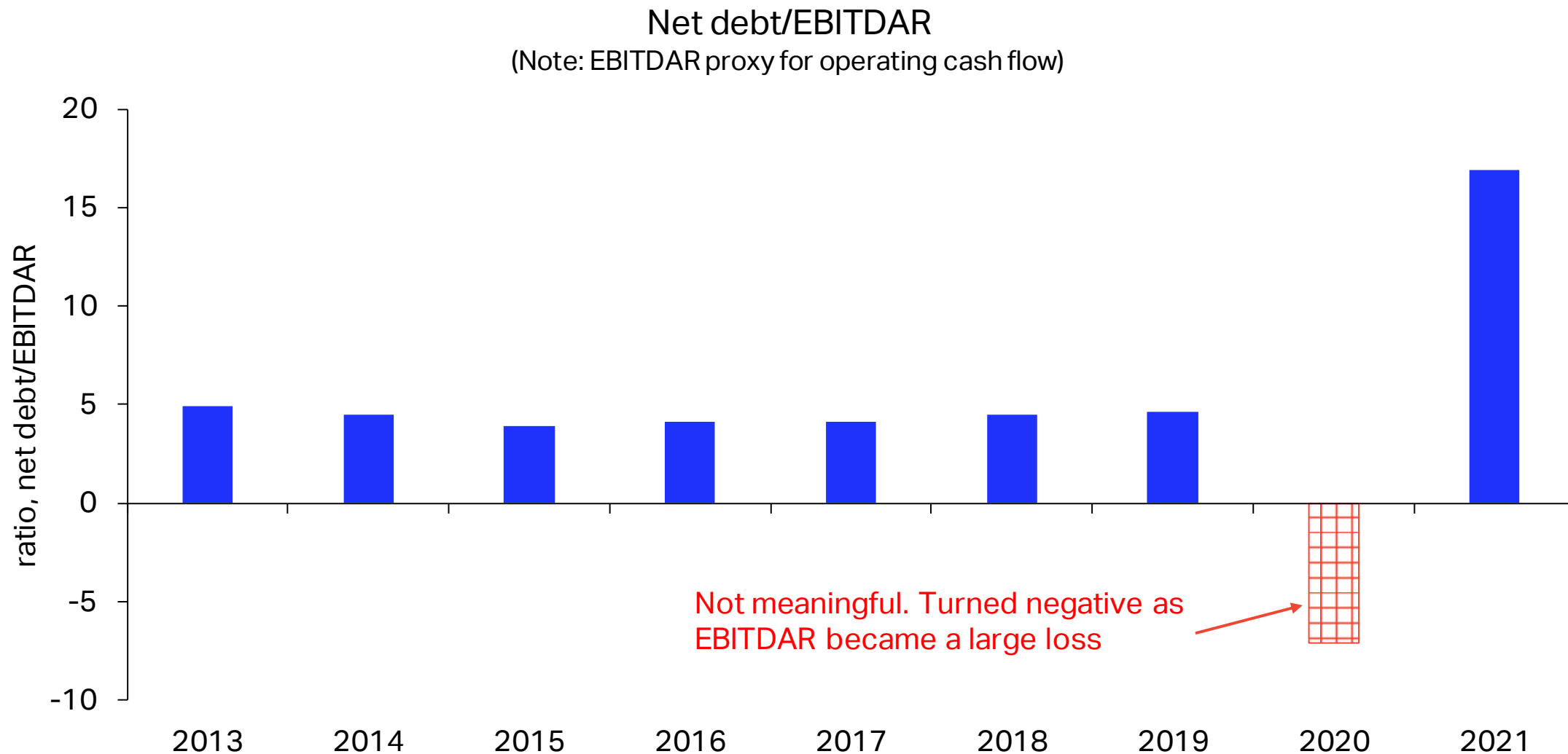


Source: IATA Economics using data from the Airline Analyst, own estimates



Projected debt burden not sustainable

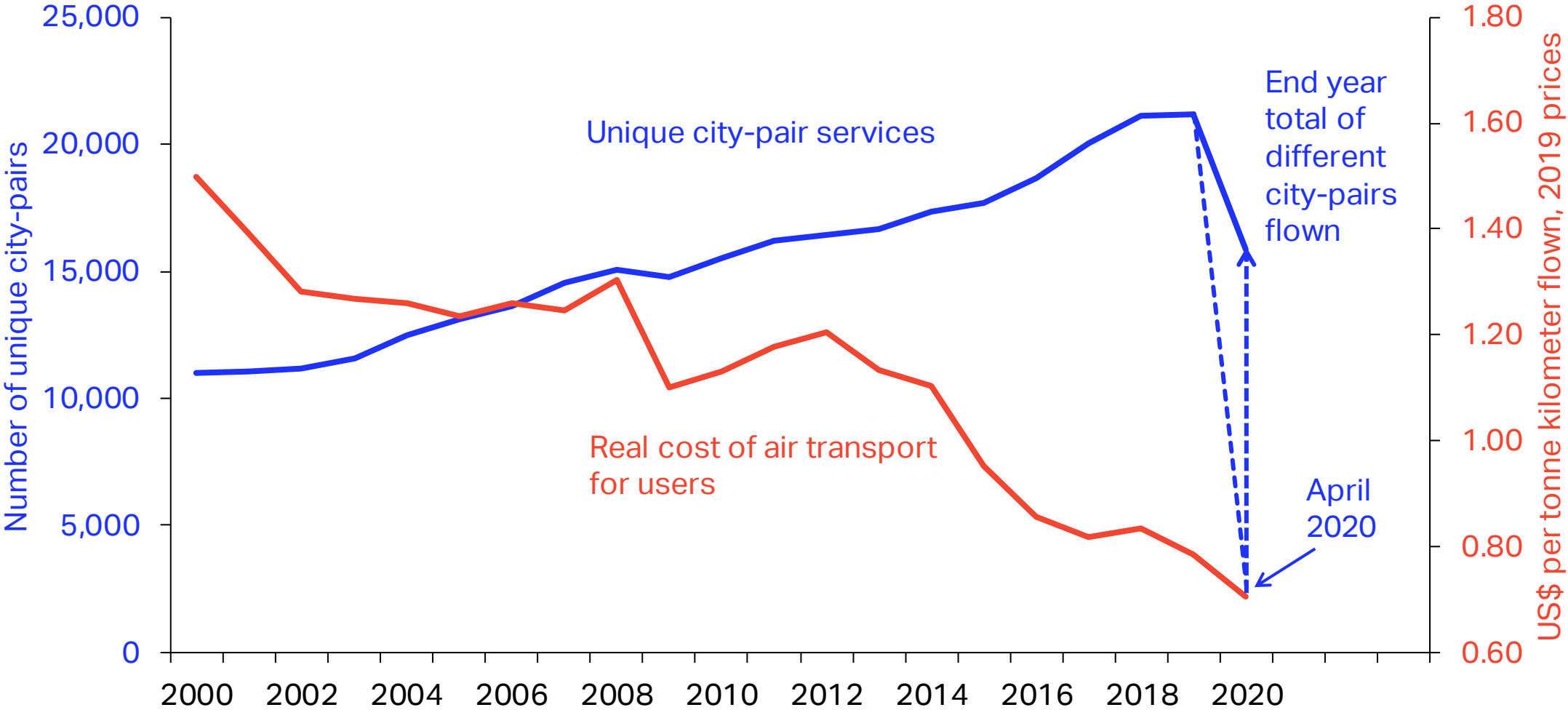
Net debt/EBITDAR of 4.6x in 2019 may rise to 16x in 2021



Risk that city-pair connectivity may not fully recover

Flows of trade, investment, tourism critical for wider economic recovery

Unique city-pair services & the real cost of air transport for users



Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2020

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