COVID-19
Outlook for the airline industry 2020-2021

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Chief Economist
9th June 2020
Phased re-opening of air travel markets
RPKs rising first on domestic markets and later on international in 2020

Global RPKs, billion per month

Source: IATA Economics using data from IATA Statistics
Return to air travel driven by confidence and access
We used COVID19 trajectories and passenger survey to time restarts

Source: IATA Economics using data from WHO and IATA passenger survey

### Passenger survey*

- **Not wait at all**
- **Wait a month or two**
- **Wait more than six months**

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

### International recovery assumed to come in phases

- **Phase 1** Mid June-July
  - Countries with weekly new Covid-19 <50 per 100k people and daily new cases <1000 start to open up between each other.
  - Mainly countries within Europe and within Asia

- **Phase 2** Q3
  - Regions that are affected by Covid-19 with a lag compared to Europe assumed to contain the virus and start to open

- **Phase 3** Q4
  - Long-haul travel assumed to start to resume

Lost demand due to confidence effect and recession

Potential Demand 2H 2020

Source: IATA Economics using data from WHO and IATA passenger survey
Air cargo services in strong demand relative to capacity. Disappearance of passenger belly capacity created significant shortage.

Source: IATA Economics using data from IATA Statistics.

Cargo tonne kilometers flown, capacity and load factors

- Cargo load factor
- Cargo capacity (ACTKs)
- Cargo traffic (CTKs)

Indexed to equal 100 in December 2019.

% available cargo tonne kilometers:
- Jan-19: 50%
- Mar-19: 60%
- May-19: 70%
- Jul-19: 80%
- Sep-19: 90%
- Nov-19: 100%
- Jan-20: 110%
- Mar-20: 120%

Source: IATA Economics using data from IATA Statistics.
Collapse of passenger revenues led to large cash burn
On top of unavoidable cost, ticket refunds will burn cash in 2020 Q2

Airline industry cash burn forecast for Q2 2020

Cash burn of $61bn in 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)

- Loans: 50 USD bn
- Wage subsidies: 35 USD bn
- Loan guarantees: 12 USD bn
- Equity financing: 11 USD bn
- Ticket taxes: 9 USD bn
- Corporate taxes: 3 USD bn
- Operating subsidies/Route funds: 2 USD bn
- Cash injections: 1 USD bn
- Fuel taxes: 1 USD bn
- Total: 123 USD bn

Source: IATA Economics
Airlines will enter ‘restart’ with very high levels of debt
$120bn rise in debt but <$30bn new equity ($11bn from Govt)

Demand for air cargo and travel will rise sharply in 2021. Stronger volumes next year but demand remains well below 2019 levels.

Source: IATA Economics using data from IATA Statistics
Need to generate cash and stimulate demand initially
Low passenger yields but higher unit costs will squeeze profit margins

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

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2020
Return on invested capital rises but still far from WACC
ROIC improves in 2021 but returns remain below ‘normal’ for investors

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

Rest of the industry

Top-30 airlines

Investment grade

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

Net debt/EBITDAR
(Note: EBITDAR proxy for operating cash flow)

Source: IATA Economics Economic Performance of the Airline Industry, Mid-Year 2020
Risk that city-pair connectivity may not fully recover
Flows of trade, investment, tourism critical for wider economic recovery

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

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