Airlines Financial Monitor

March - April 2020

Key points

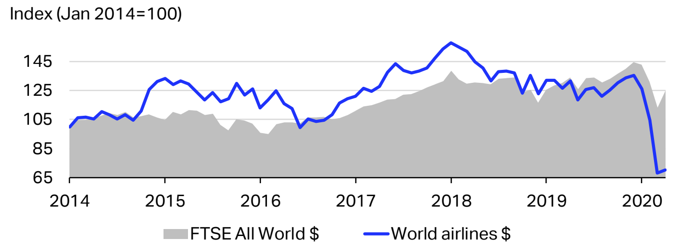
- The initial Q1 2020 financial results confirm the expected significant deterioration in industry-wide profitability amidst the negative impact of the coronavirus outbreak on air travel. The outcome was driven by Asia Pacific airlines, however EBIT margins also deteriorated in Europe and North America.
- Global airline share prices moved higher in April, reflecting government support to the industry and airline announcements about restarting part of their operations. Oil and jet fuel prices also ticked up as demand for fuel lifted amidst lockdown easing and the introduction of OPEC+ planned output cuts.
- Global passenger yields fell sharply in March, down 11% year-on-year, reflecting declines in both the premium and economy cabins.
- In March, the impact from the COVID-19 crisis on aviation worsened significantly as the virus spread worldwide. Passenger demand and the load factor fell sharply. Two thirds of the global passenger fleet was grounded. The cargo market however continued to provide some relief to carriers, with the cargo load factor rising 4.8ppts year-on-year in March.

Financial indicators

Airline share prices ticked higher in April but remained well below 2019 levels

Airline Share Prices

US$ indices (Jan 2014=100)	Index Apr 30th	% change on one month	one year	start of year
World airlines	**70.4**	**+3.2%**	**-46.5%**	**-47.9%**
Asia Pacific airlines	72.0	+8.3%	-37.8%	-34.5%
European airlines	59.0	+8.4%	-42.9%	-47.8%
North American airlines	76.9	-7.1%	-54.9%	-54.2%
FTSE All World $	**125.0**	**+10.5%**	**-6.8%**	**-13.6%**



Source: Thomson Reuters Datastream

- Following three consecutive months of sharp deteriorations, the global airline share price index rose by 3.2% amidst governmental support and airline announcements/plans about resuming part of their operations.
- At the regional level, Asia Pacific and European airline share indexes moved up by ~8% while North American equities fell again, albeit more slowly than in March (-7% vs -36.3%).
- The bigger picture remains that airline shares have lost almost 50% of their value since the start of the year amidst the dramatic impact of COVID-19 on air travel demand, capacity and the industry operating environment more broadly.

Airline profitability severely impacted by COVID-19 disruptions

Airline Financial Results

Number of airlines in sample	Regions	Q1 2019 EBIT margin[1]	Q1 2019 Net post-tax profit[2]	Q1 2020 EBIT margin[1]	Q1 2020 Net post-tax profit[2]
14	North America	6.9%	2,174	-8.6%	-6,043
15	Asia-Pacific	8.2%	2,148	-21.5%	-4,543
4	Europe	-1.8%	-384	-14.7%	-4,057
5	Latin America	9.5%	72	5.3%	-2,023
2	Others	1.9%	92	6.8%	106
40	**Sample total**	**5.9%**	**4,102**	**-10.5%**	**-16,560**

[1]% of revenues [2]US$ million

Sources: The Airline Analyst, IATA

- As expected, the initial sample of financial data for Q1 2020 shows a significant deterioration in industry-wide profitability due to COVID-19. Although airlines swiftly implemented strict cost controls and other measures to mitigate the impact, the industry-wide EBIT margin turned negative, at -10.5% of revenues.
- As the first region to be affected by the virus, Asia Pacific airlines recorded the largest decline in Q1 profitability with a margin of -21.5%. Our small sample of Latin American airlines performed relatively better in Q1 as the region was able to sustain operations for longer, with sharp capacity cuts not starting until mid-March.

Airline liquidity positions deteriorated in the first three months of 2020...

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q1 2019 Net cash flow[2]	Q1 2019 Capex	Q1 2019 Free cash flow	Q1 2020 Net cash flow[2]	Q1 2020 Capex	Q1 2020 Free cash flow
9	North America	22.8%	15.3%	7.5%	1.9%	16.5%	-14.6%
5	Asia-Pacific	14.0%	17.5%	-3.5%	-12.9%	21.2%	-34.1%
2	Europe	16.2%	16.1%	0.1%	1.9%	17.2%	-15.3%
3	Latin America	7.4%	5.4%	1.9%	17.0%	8.1%	8.8%
1	Others	9.4%	13.9%	-4.5%	10.6%	11.7%	-1.0%
20	**Sample total**	**19.1%**	**15.1%**	**3.9%**	**2.3%**	**16.0%**	**-13.7%**

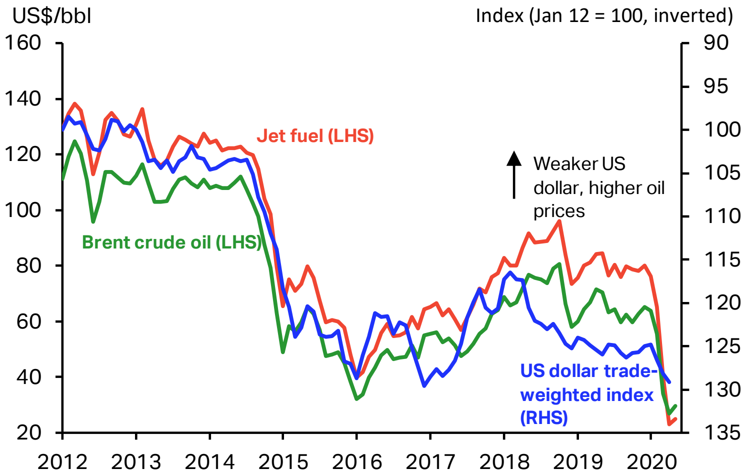
[1]% of revenues [2]From operating activities

Sources: The Airline Analyst, IATA

- The initial sample of 20 airlines for Q1 2020 confirms that airlines have been burning a significant amount of cash to pay for unavoidable costs and tickets sold but unused; industry-wide free cashflow (FCF) was at -13.7% of revenues – a stark contrast to the +3.9% outcome in the same quarter a year ago. We estimate that cash burn of the industry could be US$61bn in the second quarter.
- The regional outcomes so far are aligned with the profitability table above; Asia-Pacific carriers recorded the largest deterioration in FCF, due to negative cashflow from operating activities. European and North American airlines followed, with FCF around -15% of revenues and net cashflow just above zero.

Fuel costs

Oil and jet fuel prices moved higher as economies start to reopen

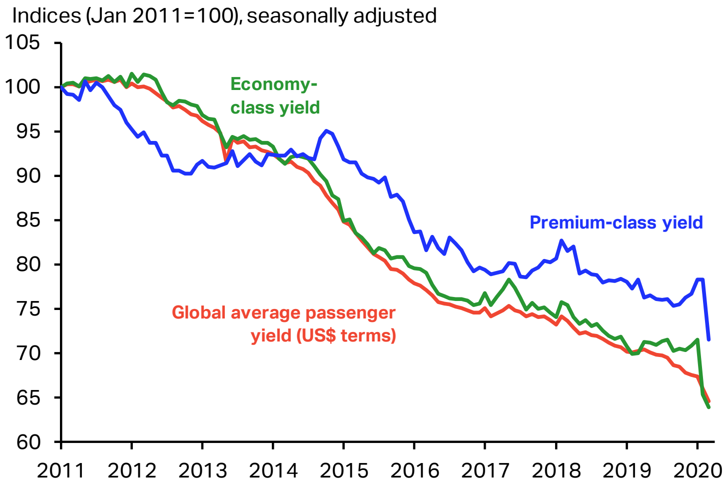


Sources: Platts, Thomson Reuters Datastream, as of May 15th

- Oil and jet fuel prices ticked up in May as OPEC+ supply cuts came into effect and economies started to reopen, triggering a modest increase in fuel consumption. At the time of writing, the price of Brent crude oil hovers around US$32/bbl and the jet fuel price is at US$30/bbl.
- Despite the uptick, fuel prices remain more than 50% below the level seen at the beginning of this year as global fuel supply still continues to outpace fuel demand amidst the COVID-19 crisis. Indeed, in late April, the glut of supply led to US crude oil (WTI) prices falling into negative territory for the first time in history.
- Looking ahead, price developments will depend on the further easing of lockdowns and a risk of a potential new wave of coronavirus infections.

Yields and premium revenues

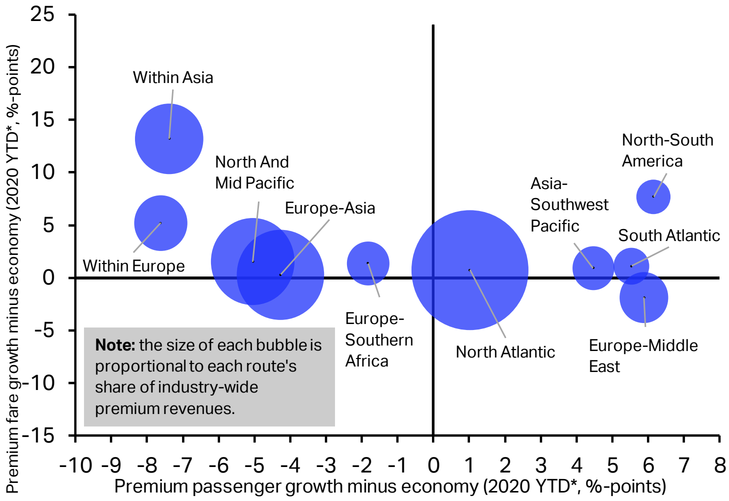
Global base passenger yields plunge as the virus spreads globally



Sources: IATA Economics, DDS

- In line with expectations, and building on the initial decline observed in February, global base passenger yields (in US$, excluding ancillary revenues) plummeted by 11% year-on-year in March as demand fell faster than capacity cuts. Indeed, the industry-wide passenger load factor fell to a record low for the month – down 21.4 percentage points vs March 2019.
- The contraction in global passenger yields reflected declines in both economy and premium class yields which fell by 2% and 9%, respectively compared to February.
- Looking ahead, passenger yields are expected to fall further in April as more countries introduced lockdowns and travel restrictions.

Premium revenue growth outperformed economy on all key markets but one



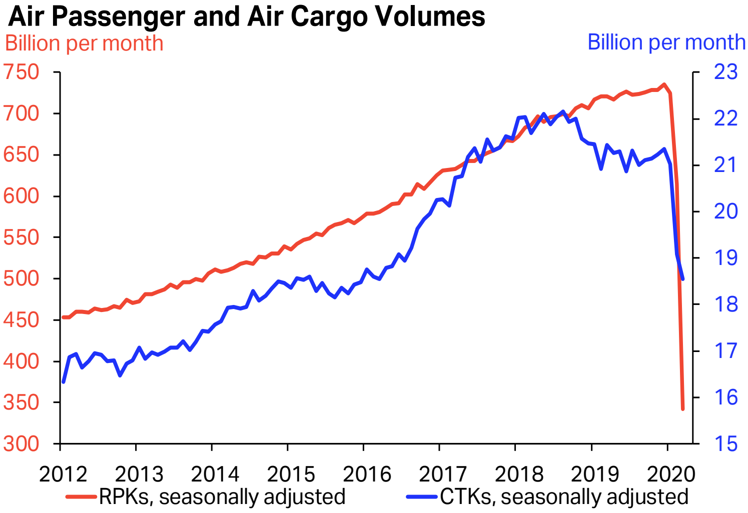
Sources: IATA Economics, DIIO * Up to February 2020

- In the first two months of 2020, premium-class passengers constituted an even 5.0% of the global international origin-destination traffic, unchanged from the full year 2019 and slightly below the same period a year ago (5.2%).
- But on the revenue side, premium cabin revenues corresponded to 30.9% of the international total in the year-to-February 2020, a 0.7ppt increase from the same period in 2019.
- In Jan-Feb 2020, premium passenger traffic growth was stronger than its economy counterpart on the large transatlantic market, as well as on several smaller markets. Premium revenue growth was above that of economy on all markets with the exception of Europe-Middle East – an improvement from January when three premium markets had underperformed vs economy.

Demand

Passenger demand falls precipitously, with cargo only slightly more resilient

Air Passenger and Air Cargo Volumes



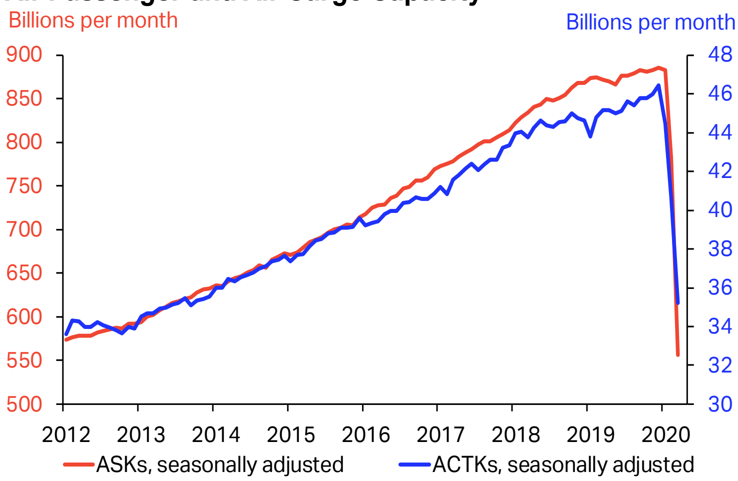
Source: IATA Monthly Statistics

- The significant decline in air passenger demand continued in March, with global revenue passenger kilometres (RPKs) falling by an unprecedented 52.9% year-on-year. COVID-19 continued to spread rapidly across the world during the month, prompting countries to impose lockdowns and travel restrictions. Seasonally adjusted RPKs (in the chart) fell to levels last seen in 2006. The decline is likely to further worsen in April.
- Industry-wide cargo tonne kilometres (CTKs) contracted by 15.2% annually in March due to falling manufacturing activity and disrupted global supply chains. Timely shipping of crucial goods such as medical equipment provided some welcome support to air cargo demand, with the fall in seasonally adjusted CTKs being more moderate than the month before.

Capacity

Cargo and passenger capacity fall further on cancelled passenger flights

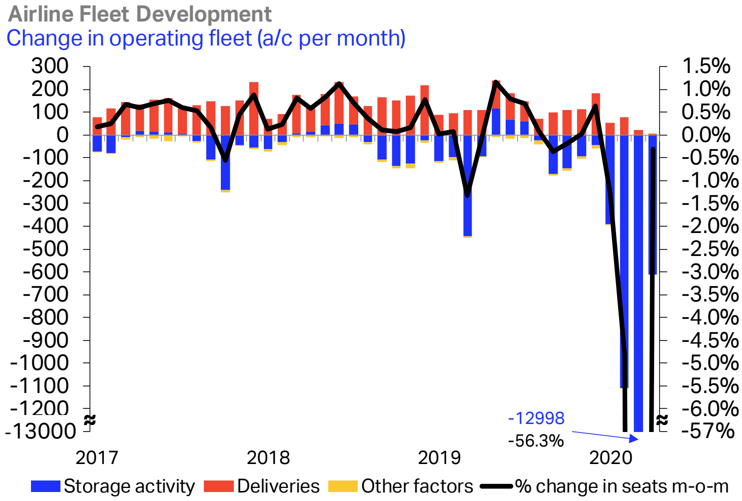
Air Passenger and Air Cargo Capacity



Source: IATA Monthly Statistics

- As travel restrictions and border closures brought much of the passenger market to a halt, the remaining passenger capacity in March came from repatriation flights, from the slow restart of activity within China and from operations in the regions that were affected by COVID-19 with a delay.
- Global available seat kilometres (ASKs) fell by 36.2% year-on-year, and the equivalent seasonally adjusted (SA) measure (in the chart) fell by around 30% month-on-month.
- For the air cargo market, the grounding of the passenger fleet removed considerable (belly) capacity from the market. Although partly offset by additional freighter capacity, industry-wide available cargo tonne kilometres (ACTKs) fell by 22.7% year-on-year. SA ACTKs fell to mid-2013 levels

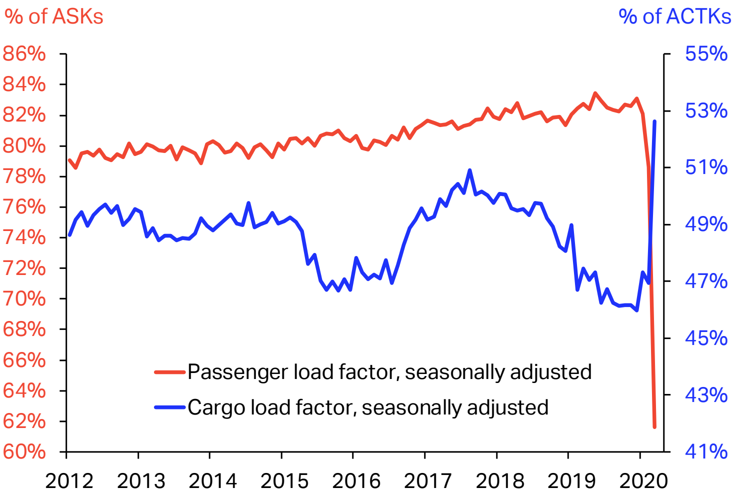
Two thirds of the commercial passenger fleet was grounded in April



Source: Ascend

- In April 2020, total seat capacity was almost 60% lower than April 2019, but was largely unchanged from March 2020. This suggests that air transport capacity may not fall further during the COVID-19 crisis.
- Airlines continued to put their unutilized aircraft into storage in April with an additional 600 aircraft removed from service in the month. As a result, roughly 2/3 of the global commercial fleet was grounded by the end of April.
- In addition, new aircraft deliveries were almost non-existent in April. Many airlines have also cancelled or delayed future deliveries. Balancing capacity with the expected slow recovery in demand will be a challenge for the industry going forward.

Passenger and cargo load factors in sharp contrast in March



Source: IATA Monthly Statistics

- In March, the industry-wide passenger load factor contracted by 21.4ppts to 60.6%. While airlines have cut flights and grounded aircraft, this was not sufficient to meet evaporating demand, in part due to the need to maintain a skeleton network in some markets. North America and Asia Pacific were the most impacted regions this month.
- In SA terms, the passenger load factor fell to levels last seen in early 1991.
- In marked contrast, the industry-wide cargo load factor rose by 4.8ppts, driven by Asia (up 10.2ppts) and to a lesser extent, Europe (up 6.7ppts). This highlights the impact of the reduction in belly capacity with the grounding of the passenger fleet.

IATA Economics
economics@iata.org

20th May 2020

Get the data
Access data related to this briefing through IATA's Monthly Statistics publication:
www.iata.org/monthly-traffic-statistics

20-year passenger forecasts
To find out more about our long-term passenger forecasts, and to sign up, visit:
www.iata.org/pax-forecast

IATA Economics Mobile App
100% free access to our analysis & briefing for iOS & Android devices. For more details or to download, see here: