



Airlines Financial Monitor

March-April 2021

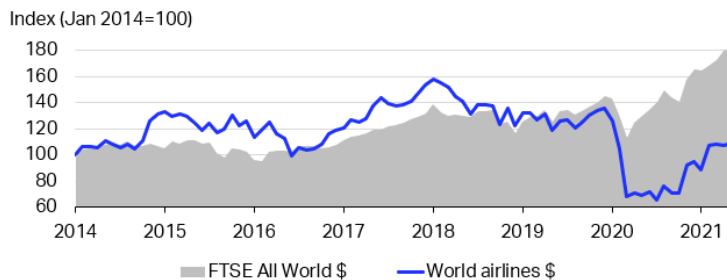
Key points

- Initial Q1 2021 results show that the airline industry continued to post net losses similar to those in Q4. Looking forward, financial performance will be varied by region dependent on the size of domestic markets and the pace of vaccine rollout.
- Airline share prices, except for European airlines index, performed better than wider equity markets in May. Prospects for the summer recovery in the regions with fast vaccine rollout and surging air cargo exports lifted the performance of airline shares. Nevertheless, globally airline share prices remain well below pre-pandemic levels, diverging from wider equity markets.
- Oil and jet fuel prices rose, boosted by the global economic recovery and supply-side concerns, and despite surging COVID-19 cases in some regions. Higher fuel prices will be a challenge to a return to profitability for airlines when the traffic rebounds.

Airline shares ticked up in May on hopes for summer travel

Airline Share Prices

US\$ indices (Jan 2014=100)	Index May 26th	% change on		
		vs Apr 2021	vs Dec 2019	start of year
World airlines	109.3	+2.4%	-19.2%	+15.8%
Asia Pacific airlines	83.6	+2.6%	-23.9%	+7.9%
European airlines	90.7	-0.1%	-19.8%	+6.4%
North American airlines	149.6	+1.8%	-10.9%	+30.1%
FTSE All World \$	181.1	+1.0%	+25.3%	+9.8%



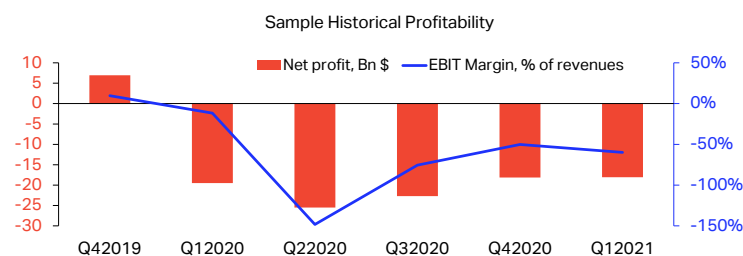
- Airline shares performed better than wider equity markets in May (2.4% vs 1.0%) on the back of rising hopes for summer travel in the regions with fast vaccine rollout and surging air cargo exports. However, the airline share price index is still well below the pre-pandemic levels (-19.2% vs. December 2019) as the road to recovery is bumpy while global equity markets are 25.3% above their pre-crisis levels.
- Asia Pacific airlines shares were the best performers in May, despite surging COVID-19 cases in the region. Strong demand for air cargo and recovering domestic travel where virus is under control were the main reasons behind this strength. North American airline index ticked up as well since the airlines are benefitting from government support and the rapid vaccine rollout in the U.S. raises expectations for the return of domestic travel demand. On the other hand, European airline index was stable, since the recovery in the summer season is at risk with slower than expected vaccine rollout.

Airlines continue to post losses more than a year after the pandemic started

Airline Financial Results

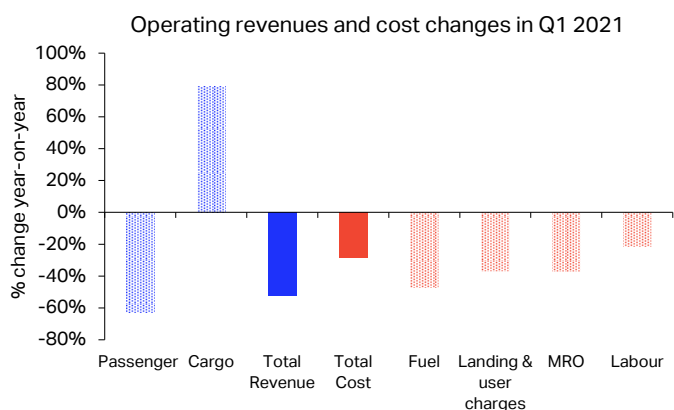
Number of airlines in sample	Regions	Q1 2020		Q1 2021	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
12	North America	-8.7%	-5,894	-7.4%	-5,259
4	Asia-Pacific	-22.2%	-1,844	-45%	-2,938
9	Europe	-16.8%	-7,721	-55%	-5,365
5	Latin America	3.0%	-4,030	-46%	-4,487
2	Others	1.9%	0	3%	4
32	Sample total	-11.8%	-19,489	-60%	-18,045

¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA



- Our initial sample of Q1 2021 airline financials show that airlines continue to post losses close to the level in the Q4 of last year.
- Net losses increased in Latin America and Asia Pacific, since new COVID-19 waves inverted the recovery in domestic travel demand in Latin America and China during the quarter. On the other hand, North American carriers reduced losses since domestic demand soared towards the end of the quarter and stringent cost controls remain in place.
- Looking forward, financial performance will be varied across regions. In our [updated forecast](#), North America is expected to be the best performer while Europe is to have the weakest operating performance due to slower vaccination and subdued international travel.

Cargo revenues further strengthen



Source: IATA Economics using data from the Airline Analyst

- Airline passenger revenues were still 63% lower in Q1 2021 compared to the prior year due to stagnant air travel demand. On the other hand, the cargo business strengthened further (increasing 79% compared to Q1 2020) with the support of North American and European airlines. Nevertheless, cargo revenues were not sufficient to compensate for the sharp loss in passenger business, resulting in a 52% drop in overall revenues.
- On the cost side, the year-on-year decline in operating costs was limited to 29%, not enough to compensate the fall in revenues. The decrease in operating costs was mainly driven by reductions in flight-volume related costs, i.e. fuel, landing and user charges. The reductions in fixed costs were limited.

Cash outflow declined in Q1 2021 compared to Q4 2020

Airline Cash Flow¹

Number of airlines in sample	Regions	Q1 2020			Q1 2021		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
11	North America	0.9%	15.0%	-14.1%	11.9%	15.8%	-3.9%
3	Asia-Pacific	-8.3%	14.6%	-22.9%	-5.0%	5.3%	-10.3%
6	Europe	5.9%	21.5%	-15.7%	-35.1%	10.2%	-45.2%
4	Latin America	6.1%	7.1%	-1.0%	-43.0%	5.8%	-48.7%
2	Others	38.3%	15.5%	22.8%	32.8%	20.7%	12.1%
26	Sample total	2.1%	16.1%	-14.0%	-8.5%	11.7%	-20.2%

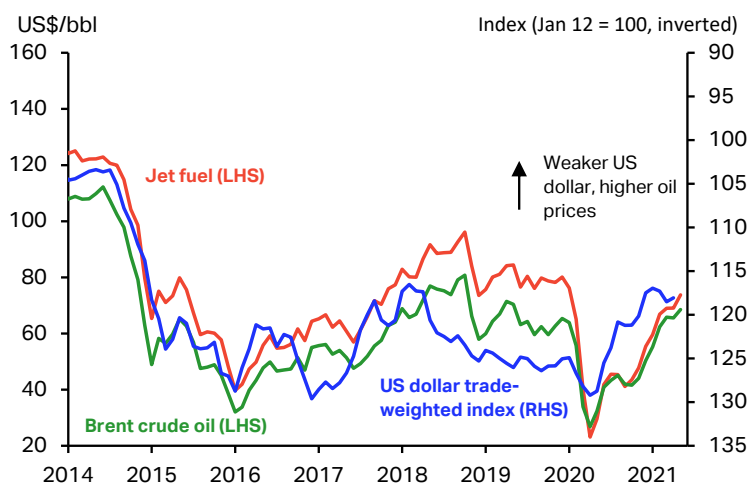
¹% of revenues

²From operating activities

Sources: The Airline Analyst, IATA

- Airlines continued to burn cash in Q1, i.e. net cash outflows from operating activities were at 8.5% of revenues. At the regional level, operating cash flow turned to positive in North America with the support of payroll programs for U.S. carriers. Some U.S. carriers stopped burning cash in March on the back of a strong rebound in US domestic travel.
- Airlines limited capital expenditures to 11.7% of revenues. As a result, free cash outflows were at 20.2% of revenues. As travel demand recovers, cash flow pressure is expected to ease and positive cash flow for the whole quarter Q2 is a possibility for some. On the other hand, European and Latin American carriers reported the most significant free cash outflow.

Oil and jet fuel prices continue rising as demand grows



Sources: Platts, Refinitiv Eikon Datastream, as of May 18th

- Oil and jet fuel prices rebounded in May boosted by the global economic recovery and supply-side concerns despite surging COVID-19 cases in some regions.
- The International Energy Agency has revised down its global oil demand estimate for 2021 due to weaker than expected demand in Europe and OECD Americas in 1Q21 and in India in 2Q21 amid new COVID-19 waves. However, demand for the second half is unchanged as the vaccine rollout continues. On the supply side, world oil supply rose in April and May as the OPEC+ continues to ease output cuts.
- Looking forward, global oil and fuel demand is expected to rise with the increase in vaccination rates and easing of restrictions. Also, the pace of rise in supply is not expected to be as fast as the recovery in demand. Hence, airlines will be challenged by rising fuel costs as the traffic resumes.

IATA Economics

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