![IATA]

Airlines Financial Monitor

May-June 2020

Key points

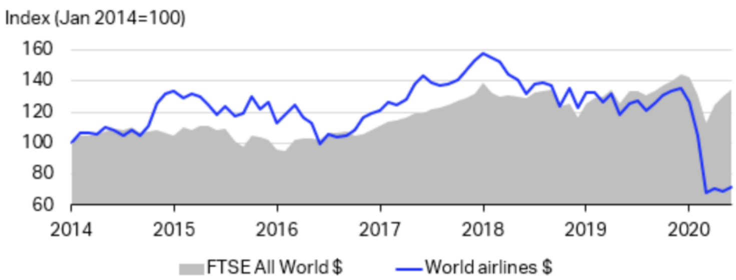
- Initial Q2 2020 financial results indicate that the airline industry will post its worst quarterly financial performance, extending the losses in Q1 2020, as COVID-19 became widespread across all regions. Although airlines immediately imposed stringent cost cutting measures to preserve cash and limit the impact of unprecedented revenue loss, the industry continues to face falling cash balances.
- The global airline share price index rose in June led by North American airline shares. However, the year-to-date performance of the global airline index lags wider equity markets as travel demand is expected to be soft for a prolonged time.
- Oil and jet fuel prices continue to move up following the rebound in June with the support of supply cuts from the OPEC+ nations but the recovery in oil demand is vulnerable as the economic recovery remains fragile so far.
- In May, both passenger and cargo demand picked up from their record low levels in April. This trend is expected to persist for both in June as countries ease lockdown measures. The use of vouchers as the industry restarts is limiting the extent to which recovering travel demand reduces airline cash burn.

Financial indicators

Airline shares hit harder than wider equity index in the first half of the year

Airline Share Prices

US$ indices (Jan 2014=100)	Index Jun 30th	% change on one month	one year	start of year
World airlines	**71.7**	**+4.2%**	**-42.9%**	**-47.0%**
Asia Pacific airlines	67.3	-2.3%	-37.9%	-38.8%
European airlines	62.9	-1.2%	-28.4%	-44.5%
North American airlines	84.7	+11.6%	-48.7%	-49.5%
FTSE All World $	**134.1**	**+3.0%**	**+0.3%**	**-7.3%**



Source: Thomson Reuters Datastream

- The global airline share price index lifted in June. The North American airline index was the driver as the gradual recovery of demand and cost-cutting measures was anticipated to halt the cash burn of some airlines in this region by the end of the year. However, the optimism reversed later in the month amid the surge of COVID-19 cases in the region.
- On the other hand, after rising sharply in May, European airline shares declined as investors remain sceptical about long-term travel outlook. Similarly, Asia-Pacific airline shares declined even though the recapitalization of some airlines and governmental support reduced liquidity concerns. Overall, in the first half of 2020, airline shares declined by more than the wider equity index as demand is expected to be soft for a prolonged time.

Profitability deteriorated across all regions

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]
31	North America	6.6%	2,890	-6.0%	-5,867
30	Asia-Pacific	7.7%	2,313	-18.8%	-6,599
15	Europe	-5.9%	-1,699	-16.3%	-6,547
8	Latin America	5.7%	-75	3.9%	-4,286
2	Others	-2.5%	-23	-15.5%	-120
86	**Sample total**	**4.6%**	**3,406**	**-10.8%**	**-23,419**

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

- Our latest sample for Q1 2020 confirms the start of the severe negative impact of the pandemic on airline financials. Airlines in all regions, except for Latin America, posted negative EBIT. The net loss of the industry in one quarter approached the 2008 full year loss. As North and Latin America regions were affected by the pandemic towards the end of Q1, operating profitability declined to a lesser extent compared to other regions.
- Initial Q2 data from North American carriers reflect that the adverse impact of COVID-19 had been greater than in Q1. Although cost cutting measures helped the bottom-line by partially offsetting revenue loss, Q2 results are expected to show further deterioration as all regions have been affected by groundings and travel restrictions for the entire quarter.

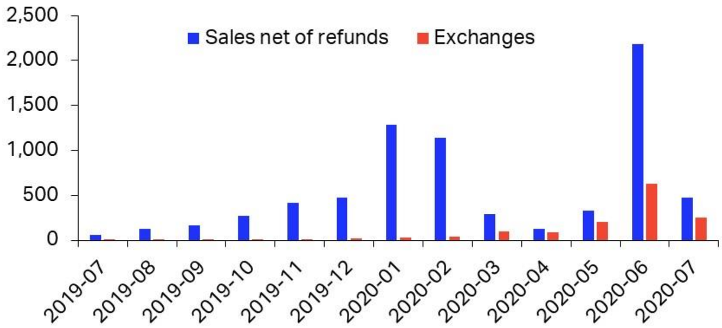
Industry-wide net cash outflow in Q1 2020

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
13	North America	22.5%	13.6%	8.9%	1.0%	14.6%	-13.6%
20	Asia-Pacific	15.0%	11.4%	3.6%	-15.1%	42.0%	-57.0%
9	Europe	16.0%	16.8%	-0.8%	-5.2%	27.0%	-32.1%
6	Latin America	4.4%	7.7%	-3.3%	4.7%	5.9%	-1.2%
2	Others	18.6%	12.4%	6.3%	18.3%	27.0%	-8.7%
50	**Sample total**	**18.1%**	**13.1%**	**4.9%**	**-3.6%**	**23.0%**	**-26.6%**

[1]% of revenues [2]From operating activities
Sources: The Airline Analyst, IATA

Intra-EU passengers travelling in first month after opening of intra-EU borders (Jun 15-Jul 15), by date of purchase ('000)

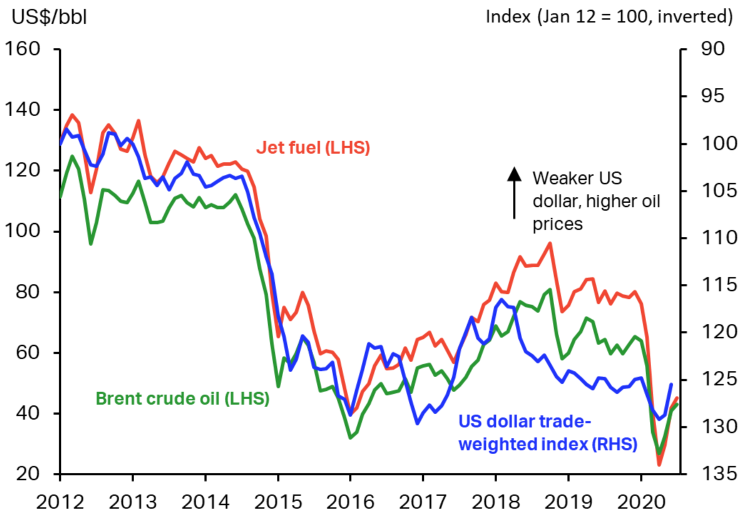


Sources: IATA Economics, DDS

- The latest 1Q20 sample of 50 airlines shows that industry-wide net cash outflow from operating activities reached 3.6% of revenues. Although airlines were undertaking cost reduction and cash flow enhancing measures, these were not sufficient to cover the unprecedented decline in revenues.
- Airlines have also reduced their planned full-year capital expenditures by renegotiating the delivery of aircraft and postponing any unessential investment, but capital expenditures increased to 23.0% of revenues with the plunge in revenues. Free cash flows plunged to a negative 26.6% of revenues in Q1.
- As travel demand recovers, cash flow pressure is expected to ease. However, airlines offered vouchers to passengers when they grounded their fleet globally starting from mid-March. This helped airlines to limit their cash burn at that time and prevented bankruptcies. However, with the restart of the industry, passengers have started to use these vouchers for their travel, which is not supportive for cash generation. Moreover, as travel demand is not expected to return to pre-crisis levels quickly, airlines expect to continue burning cash at least until the end of this year.

Fuel costs

Oil and jet fuel prices ticked up

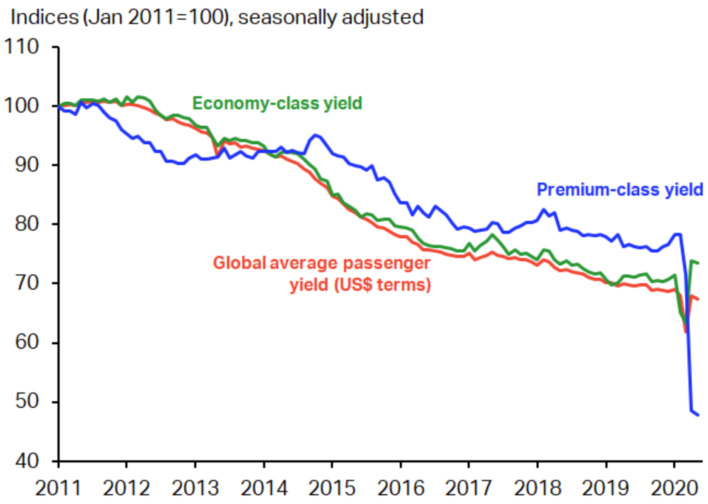


Sources: Platts, Thomson Reuters Datastream, as of July 16th

- Oil and jet fuel prices inched higher in July following the rebound from the dip in June. While supply cuts of OPEC+ continue to be supportive for oil prices, the recovery in oil demand is hampered by the surge in coronavirus cases, especially in the United States and Latin America.
- The demand for jet fuel has also started to recover from the all-time low during lockdowns but it is still depressed and the margins of refinery plants are squeezed as there is an over-supply of capacity in the market.
- The jet fuel crack spread turned to positive in June, but it is still well below levels compared to the pre-COVID period. At the time of writing, the price of Brent crude oil is at US$43/bbl and the jet fuel price is at US$45/bbl.
- Looking ahead, declining global oil inventories are expected to be supportive for prices. The Energy Information Administration raised its Brent crude price expectation by $4 to $41/bbl for the 2nd half of 2020, but it is still at low levels due to suppressed demand.

Yields and premium revenues

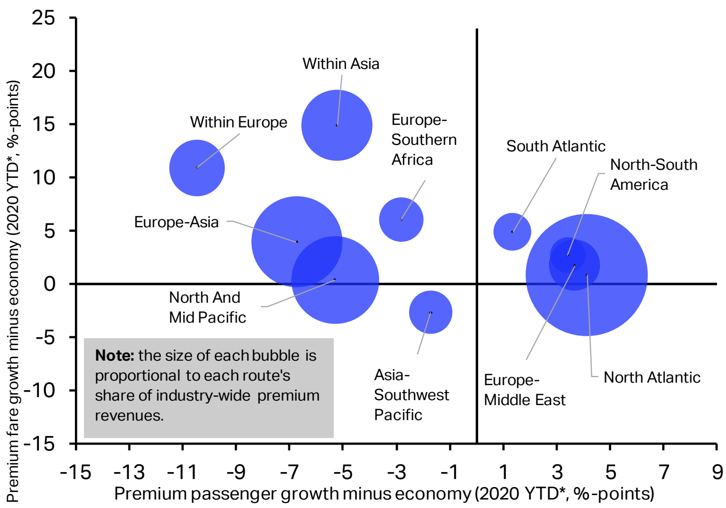
Global base passenger yields decline amid widespread lockdowns



Sources: IATA Economics, DDS

- Global base passenger yields (in US$, excluding surcharges and ancillary revenues) contracted by 0.7%. month-on-month in May following an uptick in April.
- However, the yield data during the lockdown period should be interpreted carefully as the number of tickets being sold declined dramatically and part of the sales were arising from repatriation flights.
- Overall, the decline in premium yields was sharper than for the economy cabin and as a result global average passenger yields in US$ terms fell to be 3.4% below their level a year ago.

Premium class demand continues to decline faster than economy class demand



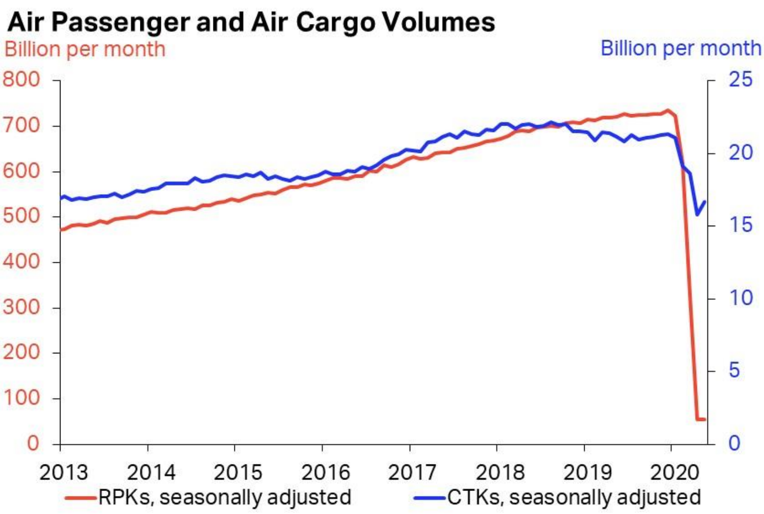
Sources: IATA Economics, DIIO

* Up to April 2020

- In the first four months of 2020, the share of premium-class passengers in all the international origin-destination traffic, declined to 4.9% from the 5.2% observed over the same period in 2019. Nevertheless, in the January-April 2020 period, premium cabin revenues represented 31.2% of total international revenues, up 0.2ppt compared to the same period of 2019.
- While premium passenger traffic contracted faster than its economy counterpart in most of the regions, in the largest North Atlantic region it contracted more slowly. The Within Europe market posted the largest decline in economy fares (-9.6%) as airlines tried to stimulate demand. On the revenue side, the Within Asia market posted the largest outperformance of premium fares (+11%) vs. economy (-3.9%).

Demand

Both passenger and cargo demand picked up from record low levels

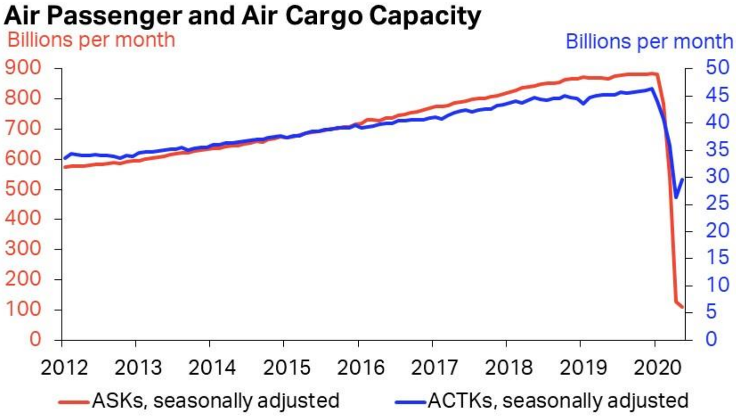


Source: IATA Monthly Statistics

- Air passenger demand picked up in May from its lowest point in the history of the series. While seasonally adjusted revenue passenger kilometres (RPKs) increased month-on-month (MoM) by c.1% in May, RPKs were still 91% below their 2019 level. However, as countries, especially in the EU, began to relax restrictions, RPKs are expected to recover in June with the support of domestic and within region travel.
- The rebound in air cargo demand was more visible in May compared to passenger demand. Seasonally adjusted industry CTKs lifted by 5.6% MoM. The increase in business confidence (PMI index) was supportive but the PMI index still remains in the area associated with a contraction in activity.

Capacity

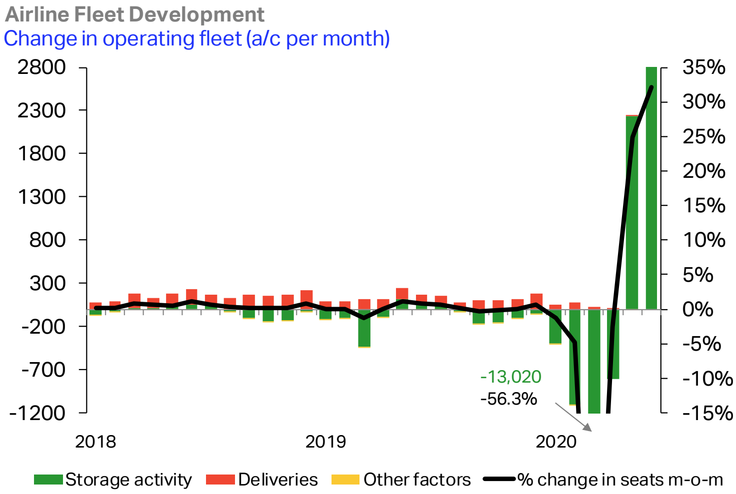
Passenger and cargo capacity diverged in May



Source: IATA Monthly Statistics

- In May, industry-wide available seat kilometres (ASKs) fell by 86% year-on-year, similar to the previous month (-87%). The equivalent seasonally adjusted (SA) measure (in the chart) contracted by c. 14% month-on-month.
- In contrast to the passenger side, cargo capacity improved. SA ACTKs increased by more than 12% month-on-month. This stemmed mainly from the increase in belly cargo capacity. Nevertheless, industry-wide available cargo tonne kilometres (ACTKs) were 34.7% lower compared to their level in the same period of 2019.

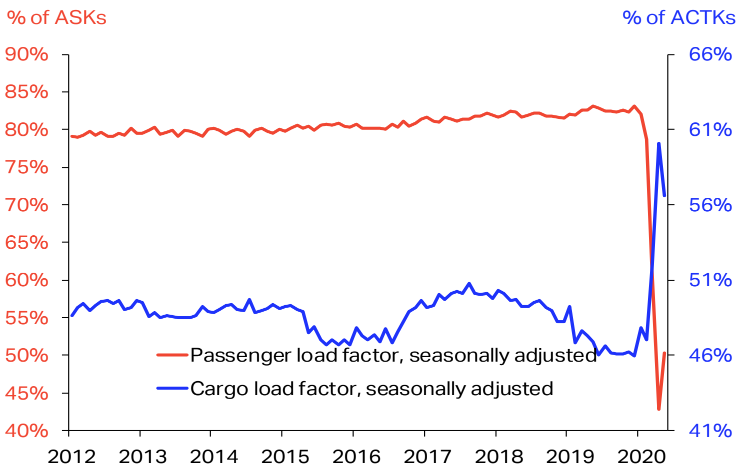
Airlines continued to return aircraft into service in June



Source: Ascend

- As the lockdown measures relaxed further in June, airlines continued to bring back aircraft from storage into service. An additional 4,109 aircraft re-joined the in-service fleet in the month. As a result, c. 40% of the aircraft taken into storage since the beginning of this year have returned to the fleet in the last two months. Total seat capacity improved by 32% compared to the previous month but was still 35% below the level of a year ago.
- New aircraft deliveries were limited to 30 aircraft in June as airlines have been restricting their fleet investments following the COVID-19 crisis.

Passenger and cargo load factor trends diverged



Source: IATA Monthly Statistics

- The industry-wide seasonally adjusted passenger load factor improved from the record-low level in April, rising 7.6ppts to 50.3% in May. As travel restrictions are being lifted, demand improved from historically low levels.
- In contrast to the passenger market, the air cargo load factor declined moderately in May, from its all-time high level last month. The air cargo capacity crunch eased with the return of some of belly capacity. The industry-wide seasonally adjusted cargo load factor eased in month-on-month terms by 3.5 ppts. As airlines bring their passenger fleet back into service in the coming months, air cargo load factors can be expected to fall further.

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