



Airlines Financial Monitor

June 2021

Key points

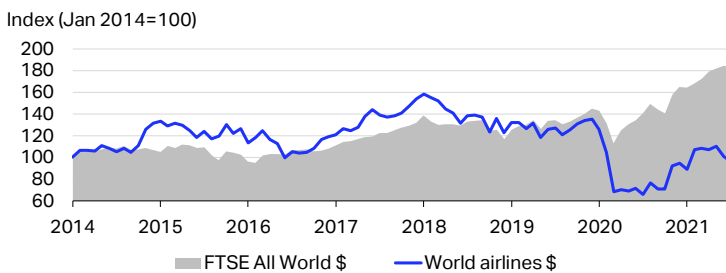
- Q1 2021 results show that the start of the year was still very weak for the airline industry as virus outbreaks paused air travel recovery in many important markets. However, initial Q2 results indicate a significant improvement in North American airlines' financials on the back of the US domestic rebound and also some positive developments in international and business travel.
- Despite the positive news coming from North America, there is a reason for caution. Global number of COVID cases has been trending upwards, which caused concerns amongst investors about the future of air travel recovery. Airline share prices ticked down in July across the three regions that we regularly track.
- Oil and jet fuel prices continue to trend upwards amidst wider economic recovery and supply constraints.

Airline stocks fell in July amidst concerns about the industry recovery

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Jul 16th	% change on		
		vs Jun 2021	vs Dec 2019	start of year
World airlines	96.7	-4.1%	-23.2%	+2.4%
Asia Pacific airlines	80.3	-1.5%	-17.8%	+3.6%
European airlines	80.1	-3.2%	-24.5%	-6.1%
North American airlines	121.9	-7.9%	-23.7%	+6.0%
FTSE All World \$	183.7	-0.1%	+28.6%	+11.3%

- Airline stock prices ticked down in July compared with June across the three key regions that we regularly track. The fall reflects investors' concerns about the future of the industry recovery amidst the global rise in COVID cases. North American airlines reported the most significant monthly decline (-7.9% vs. June) despite the rebound in US domestic traffic.
- Overall, the recovery in airline stocks has been slow during 2021 notwithstanding the rising air passenger volumes in some key domestic markets in the second quarter. As of July, the global airline stock index is 2.4% higher compared with the start of the year while global equity markets rose by 11.3% over the same period.



Source: Refinitiv Eikon Datastream

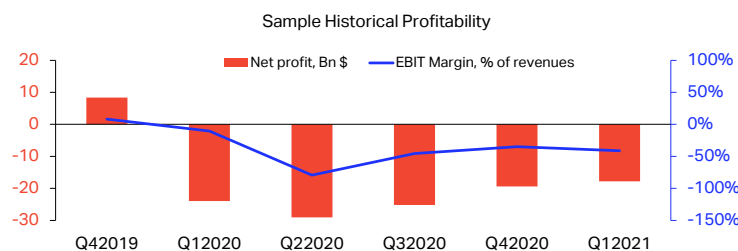
Start of the year has been weak but encouraging Q2 results in North America

Airline Financial Results

Number of airlines in sample	Regions	Q4 2020		Q1 2021	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
26	North America	-30.3%	-6,559	-39%	-4,628
26	Asia-Pacific	-29.8%	-2,896	-31%	-4,544
14	Europe	-49.8%	-7,678	-61%	-6,569
7	Latin America	-44.0%	-2,272	-41%	-2,055
73	Sample total	-34.9%	-19,405	-41%	-17,796

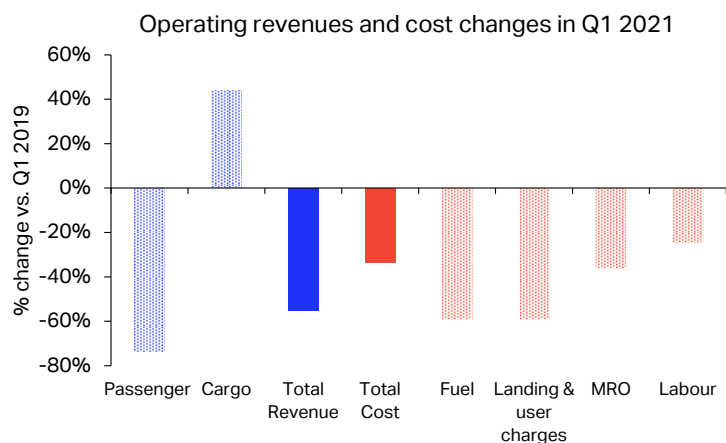
- The latest Q1 2021 financial results confirm that the start of the year was weaker than originally expected as new virus spikes paused or reversed air travel recovery in many important markets. Overall, the industry-wide net losses were close to the level seen in Q4 2020.
- The global picture hides regional variation. North American airlines showed the most significant reduction in net losses as willingness to travel started to recover in the US in March amidst vaccine progress. On the other hand, Asia Pacific airlines in our sample remained the weakest performers (net losses up 57% vs Q4) due to new COVID outbreaks and muted international travel in the region.
- Initial Q2 2021 financial results show that net losses significantly diminished in North America and return to profitability is likely in H2 2021. Operating environment in the region has been improving; US domestic air travel hovers around pre-crisis levels and there are also some positive developments in international and business travel – an important source of revenues before the pandemic.

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



Source: IATA Economics using data from the Airline Analyst

Rising cargo revenues are not enough to offset fall in passenger revenues



Source: IATA Economics using data from the Airline Analyst

- Passenger revenues in our sample of airlines fell by 74% in Q1 2021 vs. the pre-crisis Q1 2019. At the regional level, Asia Pacific carriers were the weakest performers (revenues down -85% vs the pre-crisis level) while North American airlines reported the most resilient outcome (-68%). Although cargo revenues rose by 44% over the same period as cargo demand continued to climb and yields remained elevated, it was not enough to avoid a significant fall in total revenues (-55%).
- Operating costs declined by 34% in Q1 2021 vs. the same quarter in 2019. Across the key cost items, the expenses directly related to traffic levels such as fuel costs and user charges fell the most significantly (down -60%).

Cash flow generation improves on the back of North America recovery

Airline Cash Flow¹

Number of airlines in sample	Regions	Q4 2020			Q1 2021		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
13	North America	-49.1%	16.1%	-65.2%	11.9%	15.7%	-3.8%
20	Asia-Pacific	-7.5%	19.8%	-27.3%	-7.4%	17.4%	-24.8%
11	Europe	-71.5%	4.0%	-75.6%	-48.7%	15.0%	-63.7%
5	Latin America	-22.2%	4.8%	-27.1%	-34.8%	5.7%	-40.5%
49	Sample total	-42.7%	13.4%	-56.1%	-10.2%	15.4%	-25.5%

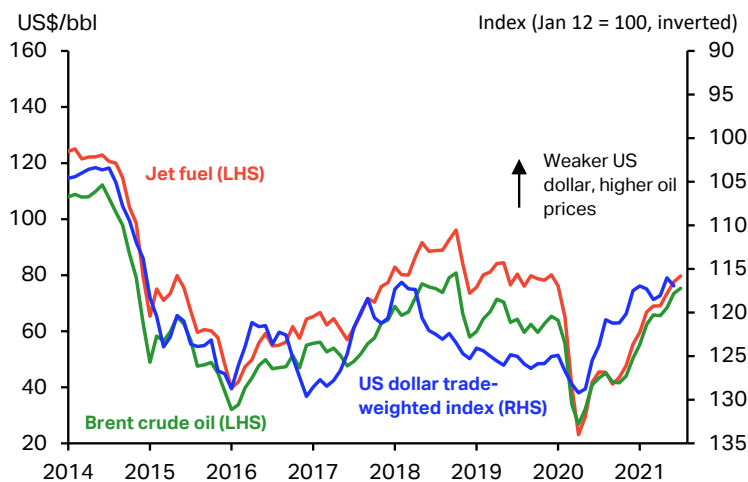
¹% of revenues

²From operating activities

Sources: The Airline Analyst, IATA

- Despite stalling passenger demand and rising fuel prices, the rate of cash outflow slowed in Q1 2021 vs Q4 2020. The industry-wide improvement was largely driven by North American airlines due to the rise in passenger bookings for future travel in March as passengers became more optimistic about air travel recovery.
- Initial Q2 financial results indicate an ongoing improvement in North America, with major US carriers reporting positive free cash flow for the first time since the crisis started.

Jet fuel prices trend upwards, putting extra pressure on airlines' financials



Sources: Platts, Refinitiv Eikon Datastream, as of July 12th

- Oil and jet fuel prices continue to trend upwards. In the first half of July, the average price of Brent Crude oil was at US\$75.3 /bbl while that of jet fuel hovered around US\$80/bbl.
- The price increase has been driven by restarting economic activity as countries emerge from lockdowns. Additional upward pressure has come from Opec+ failure to close the deal over increasing oil output. The International Energy Agency (IEA) warned that if no agreement is achieved soon, oil markets will tighten further.
- The rising fuel bill will put upward pressure on airlines' costs and might partly offset the positive effects of the summer air travel rebound in some markets.

IATA Economics

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