Airlines Financial Monitor

February - March 2020

Key points

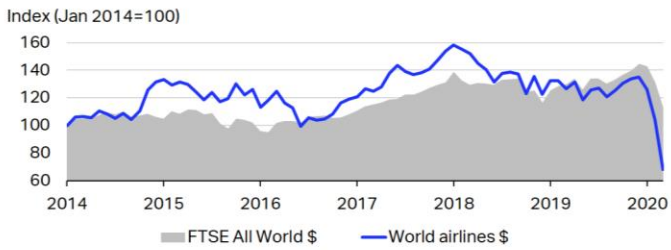
- The final Q4 2019 airline financial data point to a modest improvement in industry-wide profitability ahead of global disruptions from COVID-19. Based on our latest impact assessment, we estimate that the industry might lose up to US$314 billion (55%) of passenger revenues in 2020 amidst travel restrictions and confidence effects, compounded by a global recession.
- Global airline share prices fell sharply in March (-35%), significantly underperforming global equities (-14%). Most of the decline occurred in the first three weeks of the month, the index then recovered slightly on government fiscal stimulus announcements.
- Global oil and jet fuel prices continued to fall over the past month. The sharp decline was driven by collapsing fuel demand around the world, along with the oil price war between Saudi Arabia and Russia.
- February 2020 saw the first large impact of COVID-19 on air transport, mostly affecting volumes to, from and within Asia Pacific as well as – to a lesser extent – Europe. Seasonally adjusted industry-wide demand and capacity fell to levels last seen several years ago, but the cargo market is proving slightly more resilient than the passenger segment.

Financial indicators

Airline shares fell sharply again in March amidst the pandemic crisis

Airline Share Prices

US$ indices (Jan 2014=100)	Index Mar 31st	% change on one month	one year	start of year
World airlines	**68.2**	**-34.7%**	**-46.1%**	**-49.6%**
Asia Pacific airlines	66.5	-23.7%	-44.2%	-39.5%
European airlines	54.4	-36.4%	-44.7%	-51.9%
North American airlines	82.8	-36.3%	-46.9%	-50.7%
FTSE All World $	**113.1**	**-13.8%**	**-13.0%**	**-21.8%**



Source: Thomson Reuters Datastream

- The global airline share price index tumbled by 35% in March compared to the prior month, significantly underperforming the global equity market (-14%). Most of the decline took place in the first three weeks of the month due to COVID-19 related travel restrictions, including a US-Europe travel ban. In late-March, the index recovered briefly as governments launched measures to mitigate the impact of the virus.
- European and North American airline share indexes fell by a significant 36% - a significantly faster pace of decline than that of Asia Pacific airline equities. The 'better' performance of Asia Pacific can be partly explained by tentative signs of recovery observed in the Chinese market.

Industry-wide profitability ticked up in Q4 2019, ahead of COVID-19 turmoil

Airline Financial Results

Number of airlines in sample	Regions	Q4 2018 EBIT margin[1]	Q4 2018 Net post-tax profit[2]	Q4 2019 EBIT margin[1]	Q4 2019 Net post-tax profit[2]
14	North America	9.5%	2,777	10.0%	3,423
26	Asia-Pacific	4.7%	919	5.6%	1,187
15	Europe	2.5%	-304	3.7%	463
7	Latin America	6.1%	393	11.3%	32
3	Others	7.5%	-319	13.4%	58
65	**Sample total**	**5.9%**	**3,466**	**7.0%**	**5,163**

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

- The final sample of financial data for Q4 2019 confirms that industry-wide profitability improved ahead of global disruptions from COVID-19; industry-wide EBIT was at 7% of revenues, up ~1ppt vs Q4 2018. All regions posted higher EBIT margin outcomes vs a year ago.
- Looking ahead, Q1 2020 will bring a different picture. Based on our latest impact assessment, we estimate a US$314 passenger revenue loss in 2020 (down 55% vs 2019). The decline will be a result of travel restrictions and confidence loss due to COVID-19, compounded by the global economic recession that is now expected.

Airlines are facing the risk of a liquidity crisis…

Airline Cash Flow[1]

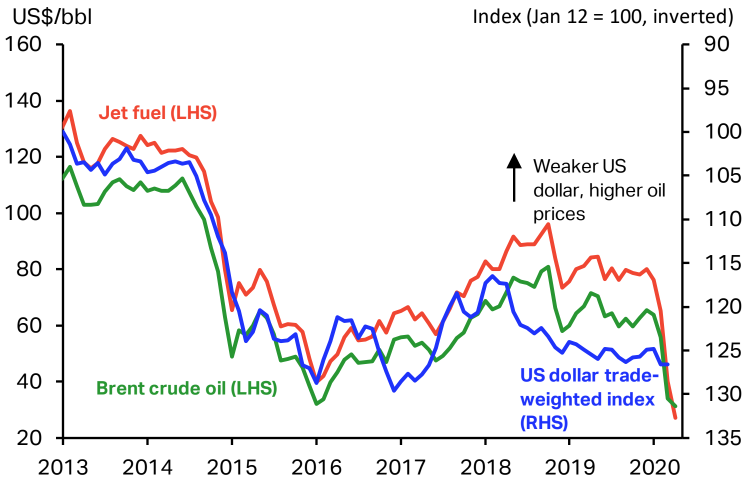
Number of airlines in sample	Regions	Q4 2018 Net cash flow[2]	Q4 2018 Capex	Q4 2018 Free cash flow	Q4 2019 Net cash flow[2]	Q4 2019 Capex	Q4 2019 Free cash flow
14	North America	11.6%	13.5%	-1.9%	9.6%	11.3%	-1.7%
9	Asia-Pacific	5.9%	14.8%	-8.9%	16.0%	16.7%	-0.7%
10	Europe	2.3%	14.7%	-12.4%	6.1%	16.5%	-10.4%
6	Latin America	15.9%	9.6%	6.3%	22.7%	19.9%	2.8%
2	Others	5.6%	19.5%	-13.9%	41.1%	35.3%	5.7%
41	**Sample total**	**8.5%**	**13.7%**	**-5.3%**	**10.3%**	**14.1%**	**-3.9%**

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

- The extended sample of 41 airlines this month shows only a modest improvement in industry-wide net cashflow in Q4 2019 vs Q4 2018 (up 1.8ppts at 10.3%) and broadly stabilized capital spending (14%). As a result, industry free cashflow (FCF) remained negative, at -3.9% of revenues.
- Airlines have since been taking swift action to preserve cash amid the COVID-19 crisis. More than 50% of the global fleet has been grounded, helping carriers reduce their variable costs. Depending on hedging profiles, low jet fuel prices have also provided some support.
- Despite that, airlines' liquidity position remains at risk due to large share of fixed and semi-fixed costs (49% of the total) and accumulated liabilities from sold but not flown tickets.

Fuel costs

Oil and jet fuel prices plunge as COVID-19 outbreak hits fuel consumption

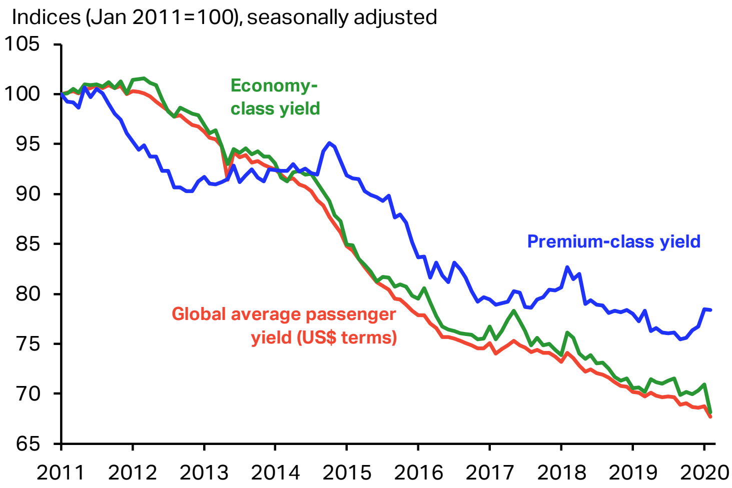


Sources: Platts, Thomson Reuters Datastream, as of April 14th

- Global oil and jet fuel prices fell further this month as COVID-19 distortions weighed on fuel consumption. Additional downward pressure came from the oil price war between Saudi Arabia and Russia.
- The jet fuel crack spread also narrowed and recently turned negative since air travel demand was hit particularly hard by the crisis. At the time of writing, the price of Brent crude oil hovers around US$30/bbl and the jet fuel price is at US$25/bbl.
- Looking ahead, the end of the Saudi Arabia-Russia oil price war and OPEC agreement about production cuts (~10mb/d) will lead to a fall in supply. However, it is unclear whether the cuts are enough to offset plummeting demand.

Yields and premium revenues

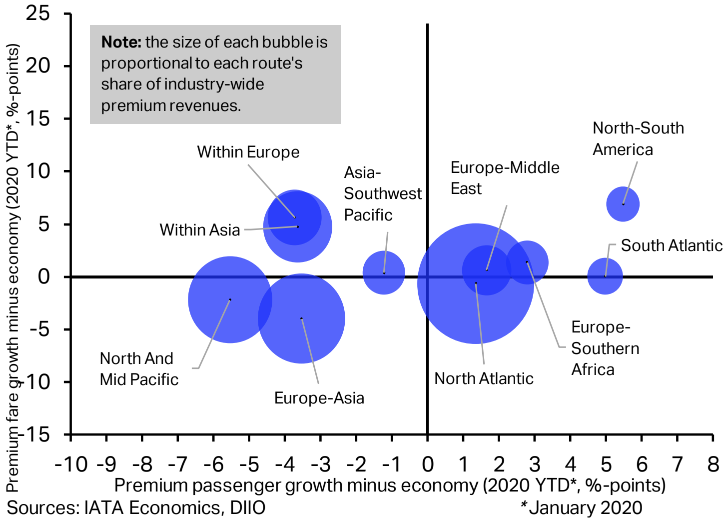
Global passenger yields ticked down, reflecting the virus impact



Sources: IATA Economics, DDS

- Global base passenger yields (in US$, excluding surcharges and ancillary revenues) fell by 6% year-on-year in February. The deterioration reflects the initial effects of COVID-19 on the air travel business.
- In month-on-month terms, economy class yields fell by ~3% and premium yields stabilized (following four consecutive months of growth). Unsurprisingly, the passenger load factor also underperformed (down 4.8ptps vs Feb 2019), despite the significant capacity adjustments of airlines.
- Looking forward, passenger yields will likely ease further in March amidst the new wave of restrictions, heightened traveller anxiety and travel bans that have led to a de facto closure of international aviation.

Premium fares grew at around the same pace as economy fares in January

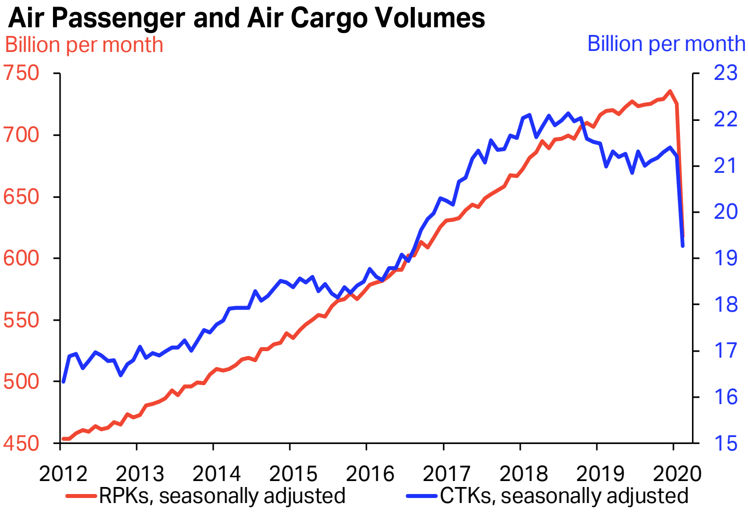


Sources: IATA Economics, DIIO *January 2020

- In January 2020 (latest available data), premium-class passengers accounted for an even 5.0% of all the international origin-destination traffic, unchanged from the full year 2019 and down from 5.1% in January 2019.
- In terms of revenue, premium cabin revenues amounted to 30.1% of the total in January 2020; just a tick above the outcome for January last year (30.0%).
- Premium class demand outperformed economy in several markets in January. This was the case in the large North Atlantic market, as well as in several smaller markets such as Nth-Sth America. The revenue performance of the premium cabin was weaker than during most of 2019, with premium fares in markets such as Europe-Asia and Nth and Mid Pacific underperforming economy fares.

Demand

Passenger and cargo demand take the first impact from COVID-19

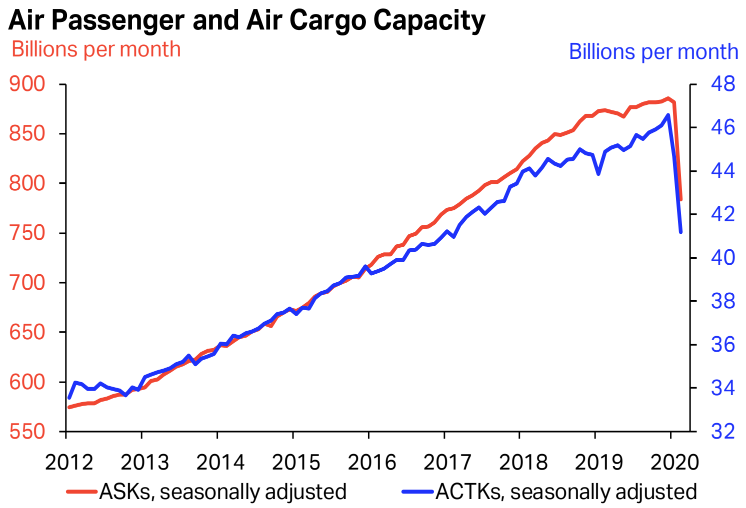


Source: IATA Monthly Statistics

- Industry-wide revenue passenger kilometres (RPKs) fell by 14.1% year-on-year in February 2020. The impact of COVID-19 – and the associated travel restrictions and trip cancellations – was also apparent in seasonally adjusted (SA) passenger volumes, which contracted by 15% compared to January (-14.2% year-on-year). SA RPKs (in the chart) were back to levels last seen in late-2016.
- Turning to the cargo business, the closure of factories and businesses as well as supply chain bottlenecks impacted the outcomes in February. Industry-wide cargo tonne kilometres (CTKs) fell 1.4% annually in February. In seasonally adjusted term, the weakening was more pronounced. The month-on-month decline in SA volumes was 9.1% (-8.2% in year-on year terms).

Capacity

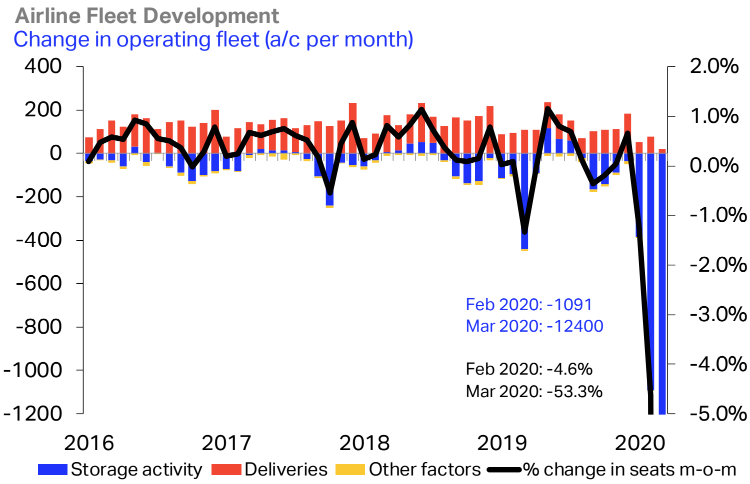
Both cargo and passenger capacity drop on cancelled passenger flights



Source: IATA Monthly Statistics

- Widespread flight cancellations in markets affected by COVID-19 in February – in particular to, from and within Asia Pacific – pushed available seat kilometres (ASKs) down 8.7% year-on-year.
- Industry-wide available cargo tonne kilometres (ACTKs) declined by 4.4% in February 2020 compared to the same month a year ago. Dedicated freighter capacity was resilient, with bellyhold space driving this month's decline. Indeed, the share of global total cargo capacity going into the belly of passenger aircraft fell by around 3 ppts annually to 62% in February.
- Seasonally adjusted ASKs and ACTKs also declined sharply, falling to levels last seen in early 2017.

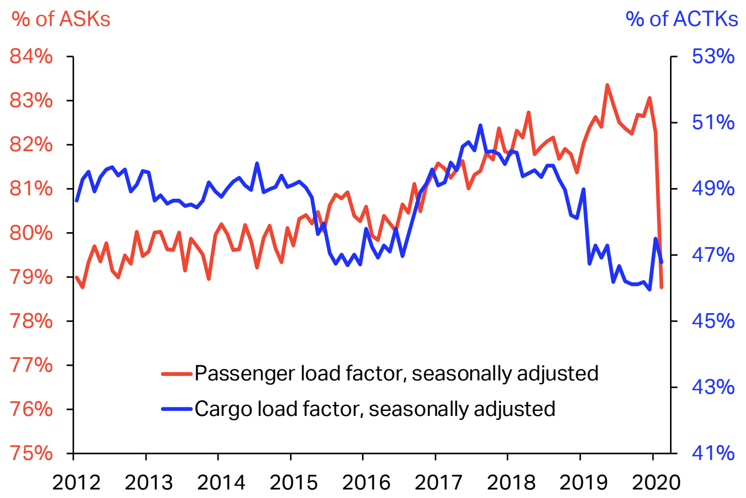
The majority of the aircraft fleet is grounded, with deliveries slowing to a trickle



Source: Cirium

- As the COVID-19 pandemic progressed further in March, air transport came to a halt in most regions of the world and struggled to restart in markets affected earlier. In consequence, seat capacity evaporated and plunged 53% month-on-month (55% year-on-year) in March, down from a revised 4.6% fall in February.
- The revised data for February shows that more than a thousand aircraft were parked that month, dwarfing the 737 Max grounding in 2019. In March, airlines grounded 12'400 additional aircraft, with slightly more than half of the global fleet being in storage at the end of the month.
- Deliveries also slowed to a trickle in March, as many orders were cancelled or delayed.

Seasonally adjusted load factors declined, but the cargo market is more resilient



Source: IATA Monthly Statistics

- The industry-wide passenger load factor (PLF) declined to 75.9%, as demand fell faster than capacity in February. This outcome was mostly driven by carriers in Asia Pacific (-15.1ppts) and Europe to a lesser extent (-3.9ppts). In seasonally adjusted terms, the PLF fell from 82.3% to 78.8% in February, since the flights that had not been cancelled often saw reduced passenger demand and empty seats.
- In contrast, the industry-wide cargo load factor (CLF) lifted by 1.5ppts year-on-year, driven by the increase for Asia Pacific carriers (8.6ppts). Load factors also rose in Latin America and Africa. In seasonally-adjusted terms, the surge in the CLF observed in January was partly unwound in February.

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