



Airlines Financial Monitor

February-March 2021

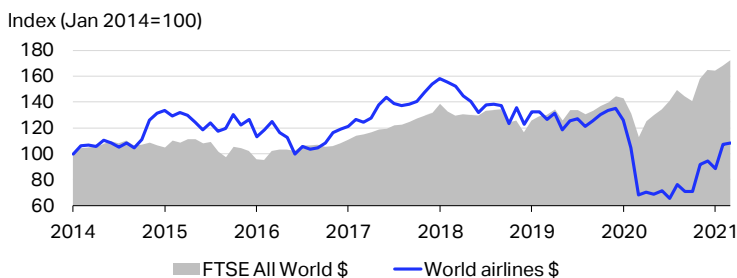
Key points

- Q4 2020 airline financial results so far show that airlines continued to post deep losses as the resurgence of COVID-19 cases and the renewed restrictive measures weighed on travel demand. But, initial Q1 2021 results indicate an improvement for North American carriers' financials. Looking forward, financial performance will vary across regions but those with large domestic markets and rapid vaccine rollout should perform better in 2021.
- Airline share prices, with the exception of North American carriers, underperformed wider equity markets in March. The pace of vaccine rollout and prospects of summer demand recovery affect the performance of airline shares. Globally, airline share prices remain well below pre-pandemic levels, in contrast with wider equity markets.
- Oil and jet fuel prices eased from the peak in March with rising concerns about global COVID-19 cases weakening the recovery in demand. However, prices remain close to pre-pandemic levels and higher fuel prices will be a challenge to a return to profitability for airlines as the recovery in passenger revenues remains subdued.

North American airline stocks have outperformed since the beginning of the year

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Mar 31st	% change on		
		one month	one year	start of year
World airlines	108.4	+1.1%	+58.8%	+14.8%
Asia Pacific airlines	85.0	+0.4%	+27.8%	+9.7%
European airlines	89.1	-5.1%	+63.5%	+4.5%
North American airlines	150.2	+5.7%	+81.4%	+30.6%
FTSE All World \$	172.2	+2.6%	+52.2%	+4.3%



Source: Refinitiv Eikon Datastream

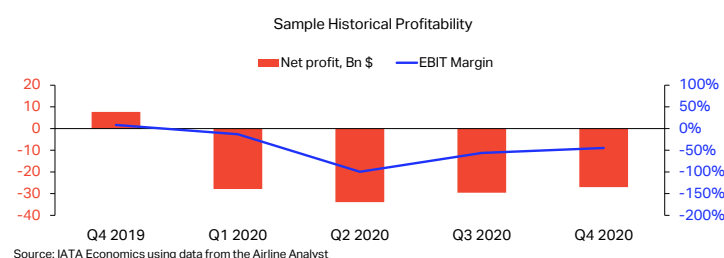
- Following the vaccine rally in February, airline shares, except North American airlines, underperformed wider equity markets in March.
- North American airline shares showed the best performance since the vaccine rollout in the region has been rapid and forward travel bookings indicate that air travel is bouncing back within the US. On the other hand, European airline shares declined sharply since investors are concerned about the recovery in the summer season as the new COVID-19 wave is affecting the region and the distribution of vaccines is slow.
- Overall, the airline share price index is still well below the pre-pandemic levels (-20% vs. December 2019) as the recovery in travel industry lags wider economy while global equity markets are 19% above their pre-crises levels.

Airline industry losses diminished in Q4

Airline Financial Results

Number of airlines in sample	Regions	Q4 2019		Q4 2020	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
18	North America	9.9%	3,482	-57%	-7,978
29	Asia-Pacific	11.0%	4,577	-33%	-8,721
15	Europe	2.0%	126	-48%	-7,918
8	Latin America	9.4%	-560	-36%	-2,223
3	Others	9.4%	64	-49%	-136
73	Sample total	8.2%	7,689	-45%	-26,976

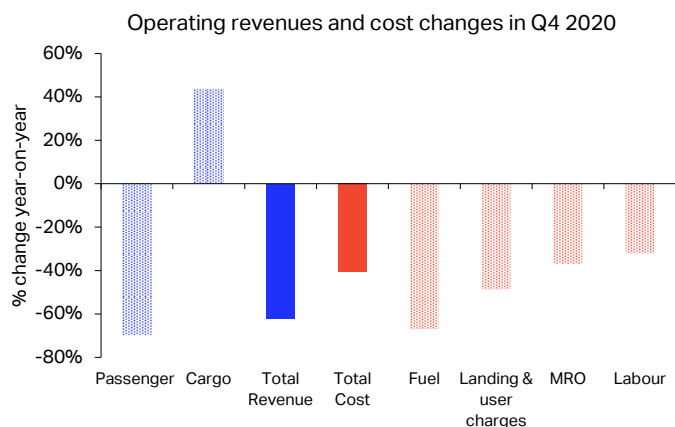
¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA



Source: IATA Economics using data from the Airline Analyst

- Our latest sample of airline financial results show further substantial losses in Q4 2020. The resurgence of virus cases and the renewed restrictive measures weighed on travel demand during the quarter. However, losses diminished compared to the previous two quarters mainly stemming from the improvement in North American carriers with the support of cargo revenues and cost reductions.
- But initial Q1 2021 financials for North American carriers indicate improvement, with reduced losses as travel demand started to recover towards the end of the quarter and stringent cost cutting measures 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.

Revenues continued to fall faster than costs in Q4



Source: IATA Economics using data from the Airline Analyst

- Airlines posted sharp declines (-70%) in passenger revenues in Q4 2020 amid stagnating air travel demand. Airlines in all regions turned to the cargo business to alleviate the loss on the passenger side and cargo yields remained high during the peak cargo season in Q4. As a result, cargo revenues grew by a robust 43%, partially compensating the loss in passenger business.
- On the cost side, airlines had implemented stringent cost cutting measures. While variable costs, i.e. fuel, declined in parallel to the loss in revenues, the reductions in fixed/semi fixed costs were limited. Overall year-on-year decline in operating costs was limited to 41%, not enough to compensate the fall in revenues.

Industry cash burn continued into Q4

Airline Cash Flow¹

Number of airlines in sample	Regions	Q4 2019			Q4 2020		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
15	North America	9.9%	12.4%	-2.5%	-47.4%	16.1%	-63.5%
10	Asia-Pacific	3.7%	11.5%	-7.8%	-28.4%	16.4%	-44.9%
9	Europe	3.8%	19.0%	-15.2%	-59.3%	2.6%	-62.1%
6	Latin America	20.2%	15.7%	4.5%	-20.2%	5.9%	-26.1%
3	Others	23.7%	38.2%	-14.5%	-30.5%	-13.9%	-16.6%
43	Sample total	8.3%	14.7%	-6.4%	-46.8%	11.2%	-58.0%

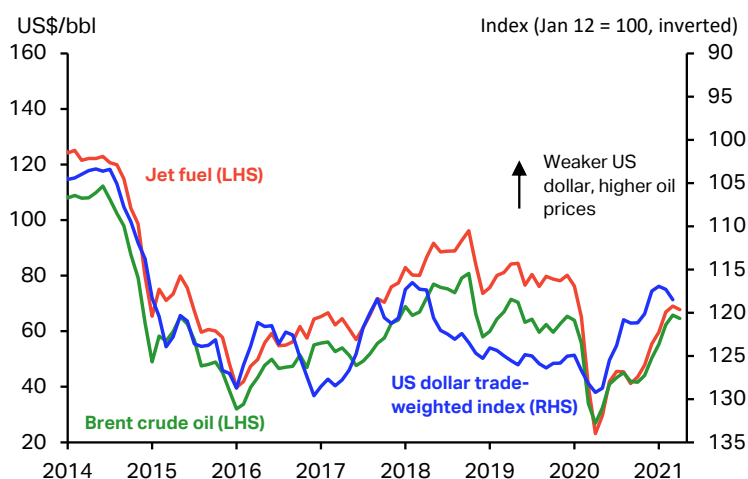
¹% of revenues

²From operating activities

Sources: The Airline Analyst, IATA

- Airlines continued to burn cash in Q4, i.e. net cash outflows from operating activities was at 47% of revenues. Although airlines focused on limiting capital expenditures and canceled discretionary projects, capital expenditures remained at 11% of revenues. As a result, free cash outflows rose to 58% of revenues. At the regional level, European and Asia Pacific carriers reported the most significant free cash outflow.
- Initial Q1 2021 results from North America indicate that some airlines stopped burning cash in the month of March with the quick rebound in US domestic travel. As travel demand recovers, cash flow pressure is expected to ease and positive cash flow for the whole quarter in Q2 is a possibility for some North American carriers.

Oil and jet fuel prices eased slightly due to rising concerns about demand



Sources: Platts, Refinitiv Eikon Datastream, as of April 16th

- Oil and jet fuel prices eased slightly in April since rising concerns about global COVID-19 cases weakened the expected recovery in demand. On the other hand, robust economic data and potential recovery in travel demand, specifically in the U.S., are supportive factors for future demand. The International Energy Agency (IEA) has sharply raised its global oil demand estimate for 2021, pointing to further signs that the global economy is recovering faster than previously expected, particularly in the US and China.
- Looking forward, demand outlook will be highly dependent on the progress in distribution of vaccines and the pace of air travel recovery. Since fuel has been the largest variable cost, airlines will face pressure on the cost side once the recovery starts.

IATA Economics

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27th April 2021

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