Airlines Financial Monitor

May 2021

Key points

- 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 underperformed wider equity markets in June. Higher jet fuel prices in the absence of international and business travel recovery have impacted airline shares' performance. Overall, global airline share prices remain well below the pre-pandemic levels, diverging from wider equity markets.
- Oil and jet fuel prices trended upwards in June amid improving economic fundamentals. Although steady vaccination rollouts in Europe and North America raise hopes for summer recovery, airlines will be challenged by higher fuel costs.

Airline shares ticked down in June despite the recovery in domestic travel

Airline Share Prices

US$ indices (Jan 2014=100)	Index Jun 23rd	% change on vs May 2021	vs Dec 2019	start of year
World airlines	**105.6**	**-4.4%**	**-22.0%**	**+11.8%**
Asia Pacific airlines	84.2	-0.1%	-23.5%	+8.6%
European airlines	88.7	-4.4%	-21.7%	+4.0%
North American airlines	138.3	-7.9%	-17.6%	+20.3%
FTSE All World $	**182.7**	**+0.4%**	**+26.3%**	**+10.7%**

Source: Refinitiv Eikon Datastream

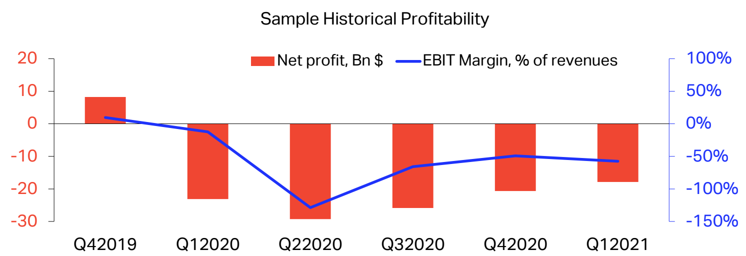
- Following the rally in the first five months of the year, airline shares declined (-4.4%) in June in contrast with the stable performance of wider equity markets. North American airlines were the worst performer (-7.9%) despite the rebound of domestic leisure travel close to the pre-pandemic levels. Similarly, European airlines plunged although there is some hope for summer travel in Europe as the vaccine rollout gained pace. Overall, soaring jet fuel prices in the absence of recovery in international and business travel, which were large part of airline revenues before the pandemic, have weighed on European and North American airlines performance. On the other hand, Asia Pacific airline index was stable with mixed regional airline performance.
- Overall, the airline share price index remains well below the pre-pandemic levels (-22.0% vs. December 2019) amidst pandemic-related uncertainties while global equity markets reached the level that is 26.3% higher than before the crisis.

Airline losses were stable in Q1 compared to the final quarter of 2020

Airline Financial Results

Number of airlines in sample	Regions	Q1 2020 EBIT margin[1]	Q1 2020 Net post-tax profit[2]	Q1 2021 EBIT margin[1]	Q1 2021 Net post-tax profit[2]
14	North America	-8.6%	-6,064	-73%	-5,371
21	Asia-Pacific	-18.9%	-4,044	-36%	-4,221
13	Europe	-16.9%	-8,812	-57%	-6,214
7	Latin America	2.4%	-4,174	-41%	-2,055
55	**Sample total**	**-12.3%**	**-23,094**	**-58%**	**-17,861**

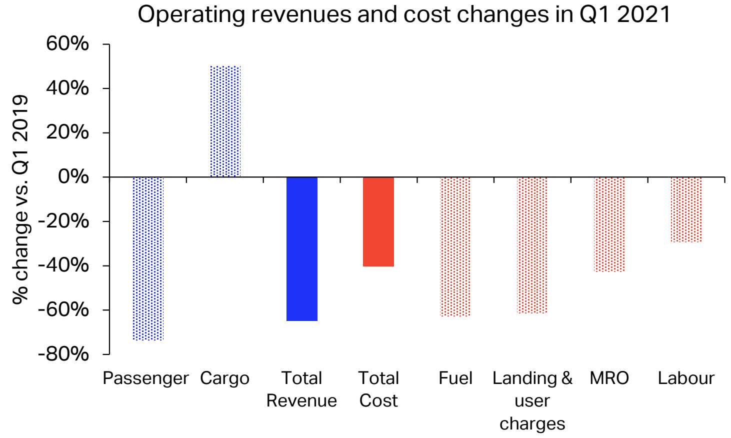
[1]% of revenues [2]US$ million
Sources: The Airline Analyst, IATA



Source: IATA Economics using data from the Airline Analyst

- Our latest sample for Q1 2021 confirms the negative impact of the pandemic on airline profitability. In Q1 2021 airlines continued to report losses close to the level in the final quarter of last year.
- North American carriers reduced losses since domestic demand improved in March once the vaccination rollout gained pace. In addition, some of the carriers in the region reported minor profit with the support of government pandemic relief support. European airlines also reduced their losses with the support of stringent cost-cutting measures. On the other hand, net losses increased in Latin America and Asia Pacific since some countries in the region faced new COVID-19 waves.
- 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 subdued international travel.

Cargo business remained strong in Q1



Source: IATA Economics using data from the Airline Analyst

- Airlines passenger revenues declined sharply (down74% vs the same quarter in 2019) due to stagnant air travel demand and pressure on yields. On the other hand, the cargo business maintained its strength,increasing by 50% compared to Q1 2019 as the wider economy rebounds. Overall, cargo revenues were not sufficient to compensate for the sharp loss in passenger business, resulting in a 65% drop in overall revenues.
- Despite all the efforts of airlines to cut the costs, the year-on-year decline in operating costs was limited to 40%. While variable costs, i.e. fuel, landing and user charges, fell in line with the fall in revenues, the reductions in fixed/semi-fixed costs were limited.

Cashflow generation varies by region

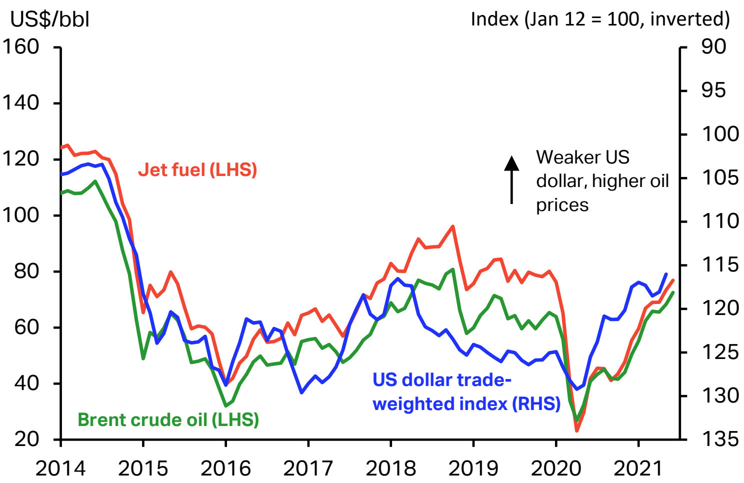
Airline Cash Flow[1]

Number of airlines in sample	Regions	Q1 2020 Net cash flow[2]	Q1 2020 Capex	Q1 2020 Free cash flow	Q1 2021 Net cash flow[2]	Q1 2021 Capex	Q1 2021 Free cash flow
13	North America	1.3%	14.8%	-13.5%	11.9%	15.7%	-3.8%
19	Asia-Pacific	-22.2%	16.0%	-38.2%	-9.2%	11.1%	-20.2%
10	Europe	5.0%	20.4%	-15.4%	-39.7%	14.7%	-54.4%
5	Latin America	4.1%	5.6%	-1.6%	-34.8%	5.7%	-40.5%
47	**Sample total**	**-1.5%**	**15.8%**	**-17.3%**	**-8.2%**	**13.9%**	**-22.1%**

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

- The weaker than expected passenger business in Q1 resulted in airlines to burn cash at similar rate to Q4 2020. Net cash outflows from operating activities were at 8.0% of revenues. However, there was a regional variation. Operating cash flow turned to positive in North America and some of the U.S. carriers reported cash break-even for the month of March amid the strong rebound in US domestic travel. On the other hand, European and Latin American carriers reported the most significant operating cash outflow as rising COVID-19 cases affected the demand.
- Although airlines continue to focus on limiting capital expenditures (13.9% of revenues), free cash outflows were at 21.9% of revenues. In the second half of the year cash flow pressure is anticipated to ease with the recovery in summer holiday demand.

Rising fuel costs might shadow the expected summer rebound in travel demand



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

- Oil and jet fuel prices trended upwards in June amid improving economic fundamentals. In addition, oil futures rose to their highest levels since late 2018.
- The International Energy Agency forecasts global oil demand to increase 6% this year and expects to return to pre-pandemic levels by the end of 2022. Demand for transport fuels is also expected to pick up as holiday season will support travel demand. On the supply side, world oil supply continued to rise amid higher supply from non OPEC+ and the monthly OPEC+ output cuts.
- Although steady vaccination rollouts and falling COVID-19 cases in Europe and North America raise hopes for summer recovery, airlines will be challenged by rising fuel costs as the traffic resumes.

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