



# Airlines Financial Monitor

October 2021

## Key points

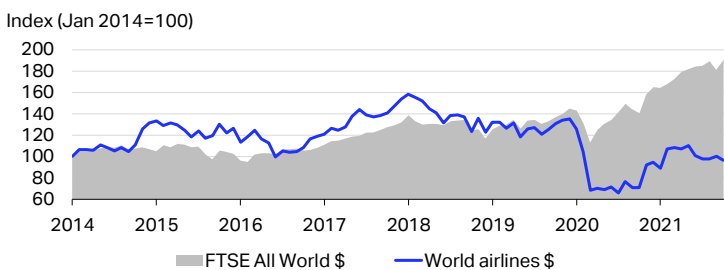
- Initial Q3 financial results indicate that pressure on airlines' profitability eased further compared with Q2 as passenger traffic restarted on some domestic and short-haul routes with the reopening of markets.
- Global airline share price index ticked down in October, reflecting investors' concerns about the impact of rising jet fuel prices on airlines' financial recovery. The performance gap between wider equity markets and airline stocks widened.
- The jet fuel price continued to trend upwards in recent weeks as economic activity restarts around the world and supply remains tight. As of early November, jet fuel price was 70% higher vs. the start of the year.

## Airline shares fell amidst rising jet fuel price

### Airline Share Prices

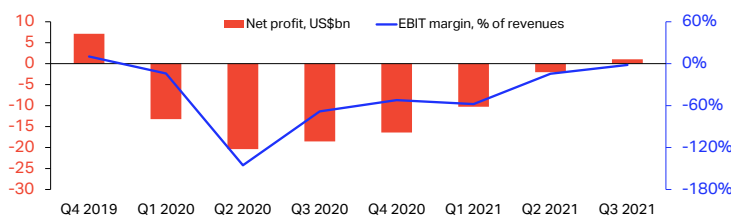
US\$ indices (Jan 2014=100)	Index Oct 29th	% change on		
		vs Sept 2021	vs Dec 2019	start of year
<b>World airlines</b>	<b>96.1</b>	<b>-4.2%</b>	<b>-28.9%</b>	<b>+1.8%</b>
Asia Pacific airlines	82.5	-3.2%	-25.0%	+6.5%
European airlines	79.4	-2.0%	-29.8%	-6.8%
North American airlines	118.2	-7.2%	-29.6%	+2.9%
<b>FTSE All World \$</b>	<b>190.1</b>	<b>+4.9%</b>	<b>+31.4%</b>	<b>+15.2%</b>

- Airline stocks ticked down in October amidst concerns about the impact of rising jet fuel prices on airlines' operating costs. The fall was broad-based across all regions, and was the most significant in North America (stocks down 7.2% vs. September).
- The global airline share price index has been trending sideways at well below pre-pandemic levels throughout most of 2021 amidst uncertainty about pandemic outbreaks and their impact on the air travel recovery. Indeed, the metric rose by only 1.8% year-to-date, compared with a 15.2% increase in wider equity markets over the same period. Amongst the regions, European airlines have on average the weakest share price performance (down nearly 7% YTD).



## Airlines' financials improved in Q3, but cost pressures are rising

Sample Historical Profitability



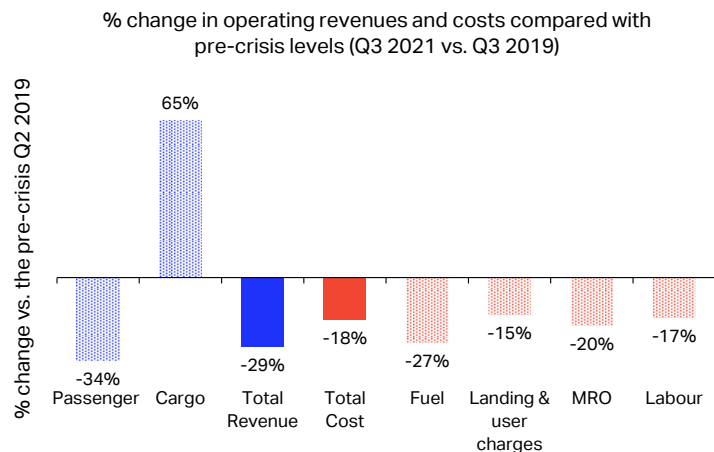
- The initial Q3 2021 results show that financial losses of airlines at the aggregated level diminished compared with Q2 2021, with some carriers reporting their first profitable quarter since the crisis started. In the sample of 27 airlines, the industry-wide EBIT margin improved to -2% of revenues in Q3.
- The improvement has been driven by passenger travel recovery on some domestic and short-haul routes where travel restrictions were lifted during the traditionally busy Q3. North American airlines were amongst the best performers, benefitting from the traffic in the US domestic market despite a negative impact from COVID outbreaks in Aug-Sept period. The US airlines' bottom line was also boosted by government payroll-support program. European carriers also recorded a robust recovery on the back of rising intra-European traffic.
- However, a sharp increase in jet fuel price has been putting an upward pressure on airlines' operating costs and represents a risk to a further recovery in the industry's profitability during Q4. Additional challenge comes from rising infrastructure costs and staff shortages (in the US).

### Airline Financial Results

Number of airlines in sample	Regions	Q3 2020		Q3 2021	
		EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>	EBIT margin <sup>1</sup>	Net post-tax profit <sup>2</sup>
10	North America	-94%	-11,840	1%	2,683
6	Asia-Pacific	-31%	-1,544	-23%	-1,558
6	Europe	-57%	-4,810	1%	-142
3	Latin America	-76%	-260	14%	10
2	Others	-86%	-75	20%	49
<b>27</b>	<b>Sample total</b>	<b>-68%</b>	<b>-18,529</b>	<b>-2%</b>	<b>1,042</b>

<sup>1</sup>of revenues      <sup>2</sup>US\$ million  
Sources: The Airline Analyst, IATA

## Operating revenues continue to fall faster than operating costs



Source: IATA Economics using data from the Airline Analyst

- The initial financial results indicate that passenger revenues declined by 34% in Q3 2021 compared with the pre-crisis Q3 2019, while cargo revenues rose by 65% over the same period amidst robust cargo demand. Total airline revenues went down by ~30% – a robust improvement on the 46% decline in Q2.
- The fall in operating costs in our airline sample was lower than the fall in revenues, at -18% (vs. Q3 2019). The rising fuel prices increased pressure on fuel costs (down 27% in Q3 2021 vs -45% in Q2 2021). However, other variable costs have also been rapidly returning with the traffic restart, reinforcing the need for all partners in the air transport supply chain to carefully manage costs in a still weak revenue environment.

## Cash flow generation improved in Q3 2021 vs. Q3 2020

### Airline Cash Flow<sup>1</sup>

Number of airlines in sample	Regions	Q3 2020			Q3 2021		
		Net cash flow <sup>2</sup>	Capex	Free cash flow	Net cash flow <sup>2</sup>	Capex	Free cash flow
9	North America	-74.2%	19.9%	-94.1%	-9.2%	6.4%	-15.6%
5	Europe	-53.8%	11.6%	-65.4%	15.1%	10.0%	5.1%
3	Others	-55.6%	3.5%	-59.1%	9.0%	1.3%	7.7%
<b>17</b>	<b>Sample total</b>	<b>-67.6%</b>	<b>16.6%</b>	<b>-84.2%</b>	<b>-4.0%</b>	<b>6.9%</b>	<b>-10.9%</b>

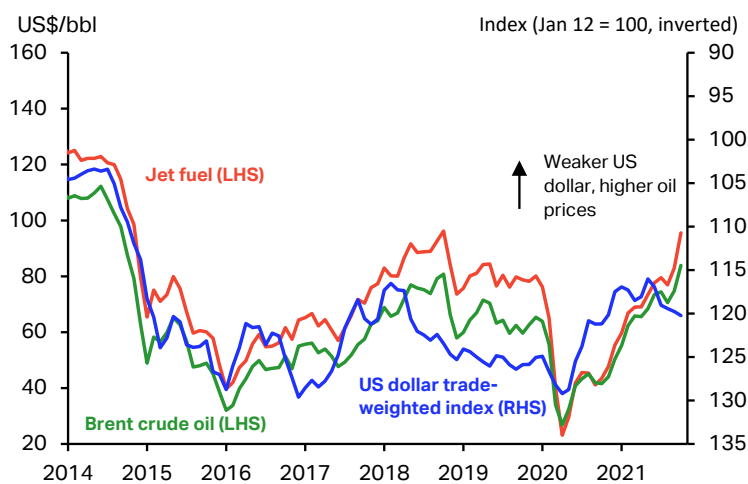
<sup>1</sup>% of revenues

<sup>2</sup>From operating activities

Sources: The Airline Analyst, IATA

- In our initial small sample of airlines financials, cash flow generation improved in Q3 2021 vs. Q3 2020 due to reopening of some int'l markets, increase of domestic traffic and positive contribution of cargo revenues.
- Q3 tends to be a weaker season for operating cashflow generation, since many of the tickets for the travel during the northern hemisphere summer are already sold in Q2. As a result, some carriers in our sample turned back to negative operating and free cash flow generation compared with Q2. Falling bookings in key markets due to new COVID spikes also contributed to the weaker result.

## Jet fuel price up 70% since the start of the year...



Sources: Platts, Refinitiv Eikon Datastream, as of November 2<sup>nd</sup>

- Average monthly jet fuel price and Brent crude oil price continued to climb higher in recent weeks, and is currently well above pre-crisis 2019 levels. At the beginning of November, the price per barrel of jet fuel was at US\$96.1, +70% year-to-date.
- The price increase has been driven by swiftly recovering demand as markets reopen around the world and economic activity restarts. Meanwhile, supply has remained tight since an increase in OPEC+ production has been slow.
- Many airlines have been voicing concerns about the impact of rising fuel costs – airlines' largest operating cost item – on their financial recovery. Q4 tends to be seasonally weaker quarter for airlines passenger revenues so the fuel price increase represents an unwelcomed challenge.

IATA Economics

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8<sup>th</sup> November 2021

### Get the data

Access data related to this briefing through IATA's Monthly Statistics publication: [www.iata.org/monthly-traffic-statistics](http://www.iata.org/monthly-traffic-statistics)

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