Airlines Financial Monitor

April - May 2020

Key points

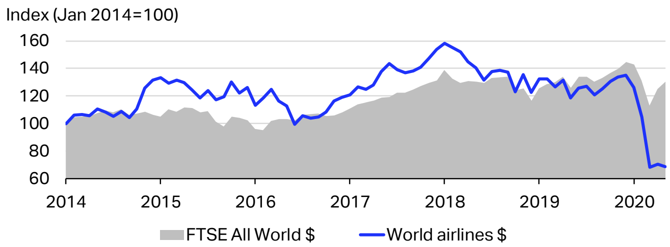
- The Q1 2020 financial results show the initial industry-wide deterioration in profitability following the impact of the coronavirus outbreak on air travel. The adverse outcome was widespread across all regions even though some markets were locked down relatively later in the quarter. All regions posted negative net income figures in Q1.
- Global airline share prices moved lower in May, before rallying in early June, driven by the restart of airline operations.
- Oil and jet fuel prices also recovered somewhat in May since the demand for fuel is expected to increase with the ease of lockdown measures. Sharp production cuts from both OPEC and Russia also provided price support.
- In April, air passenger demand posted its largest decline on record due to the widespread lockdowns and border closures. Air cargo demand was relatively more resilient but still saw volumes fall by 27.7% year-on-year on the disruption in global manufacturing activity. While the passenger load factor declined by 41 ppts vs last year, the cargo load factor rose by 11.2 ppts as a result of the decline in available capacity with the grounding of the passenger fleet.

Financial indicators

Airline shares lost half of their value in the first five months of 2020

Airline Share Prices

US$ indices (Jan 2014=100)	Index May 29th	% change on one month	one year	start of year
World airlines	**68.8**	**-2.4%**	**-42.0%**	**-49.2%**
Asia Pacific airlines	68.8	-4.5%	-35.6%	-37.4%
European airlines	63.6	+7.6%	-24.7%	-43.8%
North American airlines	75.9	-1.3%	-49.1%	-54.8%
FTSE All World $	**130.2**	**+4.2%**	**+3.5%**	**-10.0%**



Source: Thomson Reuters Datastream

- Following a temporary pick-up in April following the announcement of government support packages in various regions, the global airline share price index declined by 2.4 % in May. At the regional level, European airline shares went against the trend, rising by a sizeable 7.6% as countries began to relax lockdown measures. The world airline index has rallied in the first half of June as travel demand is slowly returning.
- Overall, in the first five months of the year, airline share prices in all regions were hit hard by the COVID-19 pandemic as global travel demand almost vanished. The world airline equity index lost almost half of its value over this period. The index underperformed the wider equity index substantially on investor concerns that the impact on air travel demand would be more severe and may be more prolonged than for other industries.

Profitability deteriorated across all regions

Airline Financial Results

Number of airlines in sample	Regions	Q1 2019 EBIT margin[1]	Q1 2019 Net post-tax profit[2]	Q1 2020 EBIT margin[1]	Q1 2020 Net post-tax profit[2]
14	North America	6.9%	2,174	-8.6%	-6,043
28	Asia-Pacific	7.9%	2,306	-18.4%	-6,454
12	Europe	-4.4%	-1,349	-16.1%	-5,911
6	Latin America	6.8%	12	4.7%	-4,143
60	**Sample total**	**5.1%**	**3,143**	**-12.3%**	**-22,551**

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

- Q1 2020 results confirm the severity of COVID-19 for airline financials, as the outbreak became global from late February. Although airlines implemented various measures to reduce their costs, the drop in revenue was much sharper, resulting in negative EBIT in Q1. As North and Latin American carriers were affected by the virus later, their operating profitability declined less than in other regions.
- Overall, the net loss in Q1 (across the sample of 60 airlines) reached the level of industry-wide loss recorded for the full year of 2008, during the Global Financial Crisis. Q2 results are expected to show further deterioration due to the almost complete lockdown of global aviation.

Industry-wide net cash outflow in Q1 2020

Airline Cash Flow[1]

Number of airlines in sample	Regions	Q1 2019 Net cash flow[2]	Q1 2019 Capex	Q1 2019 Free cash flow	Q1 2020 Net cash flow[2]	Q1 2020 Capex	Q1 2020 Free cash flow
12	North America	22.7%	13.7%	8.9%	0.8%	14.8%	-14.0%
18	Asia-Pacific	15.0%	12.3%	2.7%	-21.1%	15.5%	-36.6%
7	Europe	15.0%	16.9%	-2.0%	-8.7%	27.2%	-36.0%
5	Latin America	3.9%	8.3%	-4.4%	6.7%	7.3%	-0.6%
42	**Sample total**	**18.2%**	**13.5%**	**4.7%**	**-5.7%**	**16.4%**	**-22.1%**

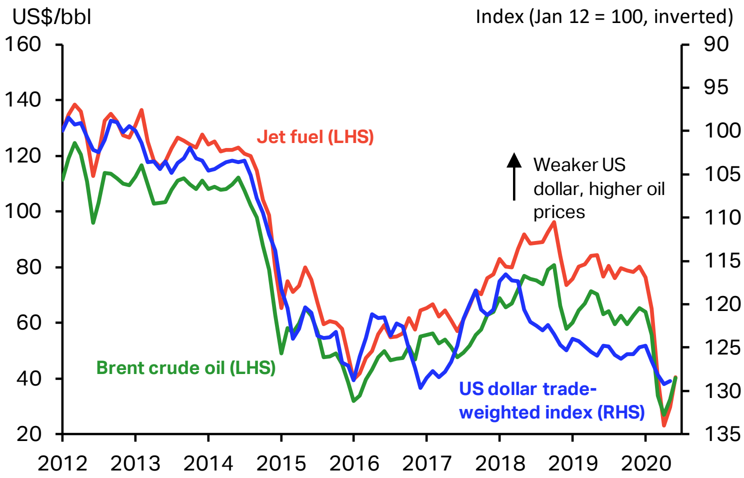
[1]% of revenues [2]From operating activities

Sources: The Airline Analyst, IATA

- Q1 2020 results show that airlines have been burning cash to pay their unavoidable costs. Industry-wide net cash outflow from operating activities was at 5.7% of revenues despite airlines taking strict measures to cut their costs.
- Airlines have also been reducing their planned full-year capital expenditures by postponing the delivery of aircraft, but capital expenditures reached 16.4% of revenues in Q1 2020 with the fall in revenues. As a result, Asia Pacific and European carriers recorded the largest deterioration in free cash flow.
- As demand recovers, cash flow pressure will ease. But with demand not expected to return to pre-crisis levels quickly, airlines will remain concerned about costs and are likely to continue to postpone investment plans.

Fuel costs

Oil and jet fuel prices

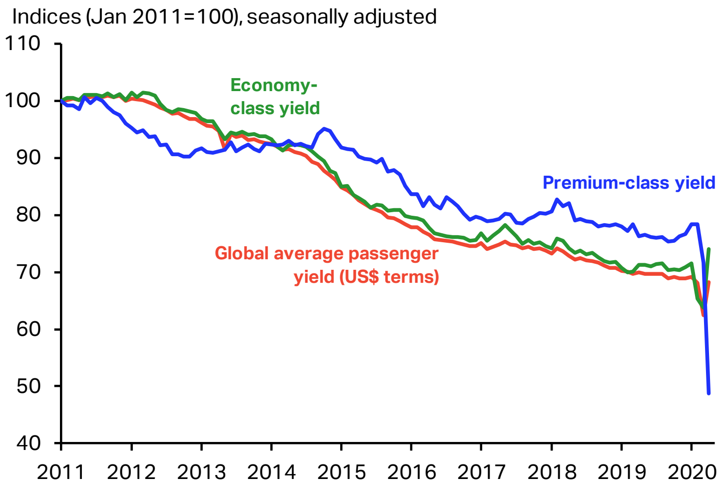


Sources: Platts, Thomson Reuters Datastream, as of June 17th

- Oil and jet fuel prices rose further in June as demand is expected to recover with the reopening of markets. Sharp production cuts from OPEC and Russia also provided price support. The jet fuel crack spread turned to negative in May as air travel demand was hit particularly hard by the crisis. At the time of writing, the price of Brent crude oil hovers around US$41/bbl and the jet fuel price is at US$43/bbl.
- Looking ahead, the easing of lockdown measures is expected to lead to a rebound in oil demand in the second half of 2020. However, the latest forecasts from the International Energy Agency suggest that oil demand will not recover to pre-pandemic levels until 2022.

Yields and premium revenues

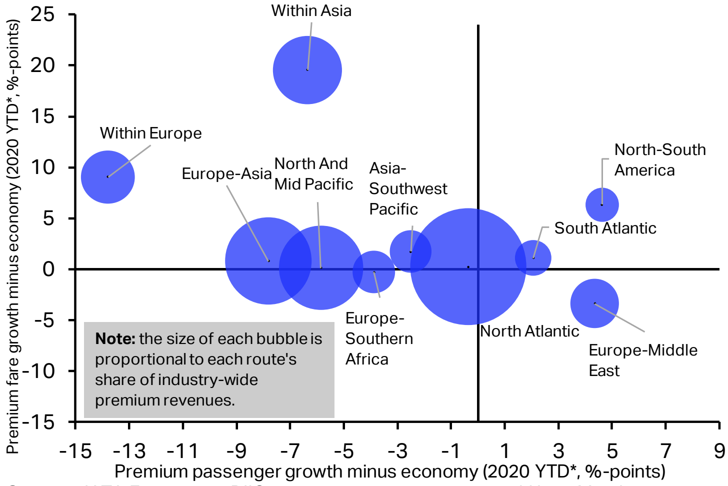
Global base passenger yields decline in annual terms amid widespread lockdowns



Sources: IATA Economics, DDS

- Global base passenger yields (in US$, excluding surcharges and ancillary revenues) contracted by 3% year-on-year in April, compared to a -11% annual decline in March.
- However, with the significant decline in the number of flights in April (globally, there were more than 80% less flights than at the start of the year; in some regions this figure exceeded 90%) the yield data need to be interpreted with more than the usual degree of caution at present. The dramatically smaller number of tickets being sold may result in a more volatile and less representative estimate than we would typically expect from these data.

Premium class demand fell faster than economy in the majority of markets



Sources: IATA Economics, DIIO

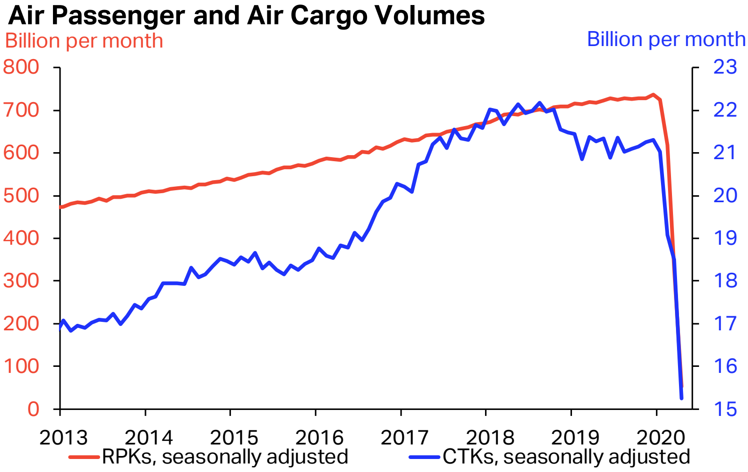
* Up to March 2020

- Premium-class passengers accounted for 4.9% of all the international origin-destination traffic in the first three months of 2020, down from the 5.3% share observed over the same period in 2019.
- Despite the smaller passenger share compared to economy class, premium cabin revenues represented 31.2% of total international revenues in the year-to-March 2020, up 0.2ppt vs. the same period in 2019.
- In Jan-March 2020, premium passenger traffic contracted faster than its economy counterpart across the majority of markets. On the revenue side, the Within Asia market posted the largest outperformance of premium fares (+11%) vs. economy (-9%). The majority of the remaining markets saw a broadly similar pace of growth/contraction in fares across premium and economy classes.

Demand

Passenger demand plunges to a record low, while the fall in cargo accelerates

Air Passenger and Air Cargo Volumes



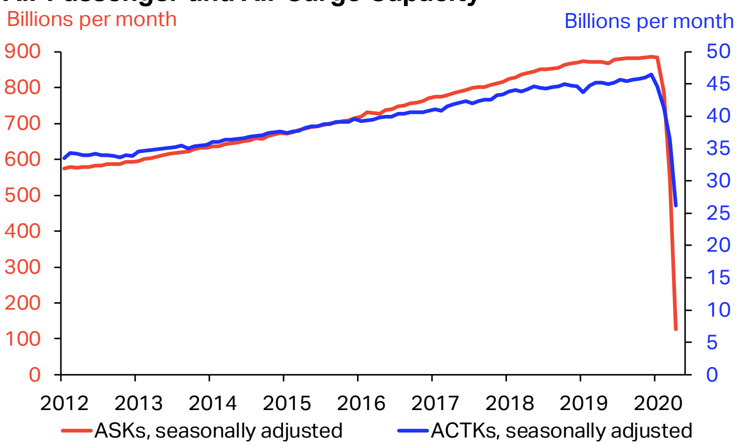
Source: IATA Monthly Statistics

- Air passenger demand almost entirely halted in April amidst the extension of lockdown measures and travel restrictions. In April, global revenue passenger kilometres (RPKs) plunged by 94.3% year-on-year. Seasonally adjusted RPKs reached their lowest level in the past 30 years. However, April is likely to be the low point for passenger volumes for this crisis. As countries start to relax restrictions, RPKs are expected to recover gradually, beginning with domestic markets.
- Although timely shipping of crucial goods such as medical equipment has been providing support to air cargo demand, industry-wide cargo tonne kilometres (CTKs) fell by 27.7% annually in April, as the lockdowns impacted global manufacturing activity. The month-on-month fall in seasonally adjusted CTKs accelerated to 17.6%.

Capacity

Passenger and cargo capacity continues to decline

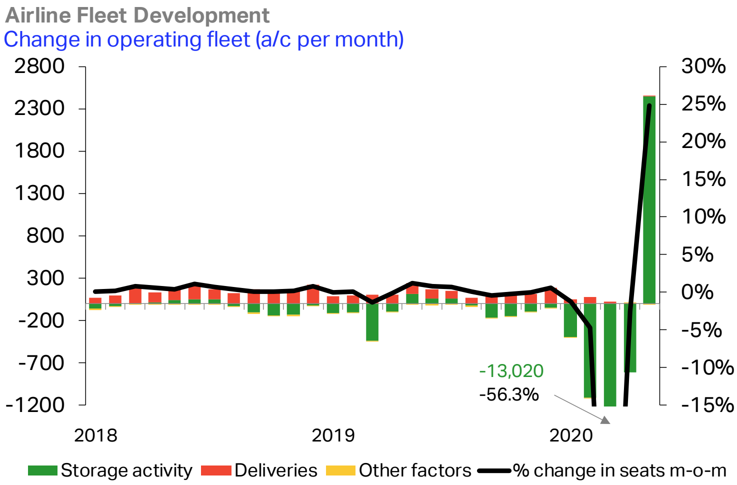
Air Passenger and Air Cargo Capacity



Source: IATA Monthly Statistics

- Airlines in all regions responded to travel restrictions and border closures with significant capacity reductions. Remaining passenger capacity in April primarily came from the recovering domestic markets in Asia-Pacific region, i.e. China, Vietnam, South Korea and from repatriation flights. Global available seat kilometres (ASKs) fell by 87% year-on-year, and the equivalent seasonally adjusted (SA) measure (in the chart) fell by c. 77% month-on-month.
- Cargo capacity also tumbled in April although airlines increased available space by transporting goods on cargo-only flights using passenger aircraft. International dedicated freighter capacity increased by 15% year-on-year in April. Overall, industry-wide air cargo capacity measured by available cargo tonne kilometres (ACTKs) fell by an even 42% year-on-year due to the grounding of the passenger fleet.

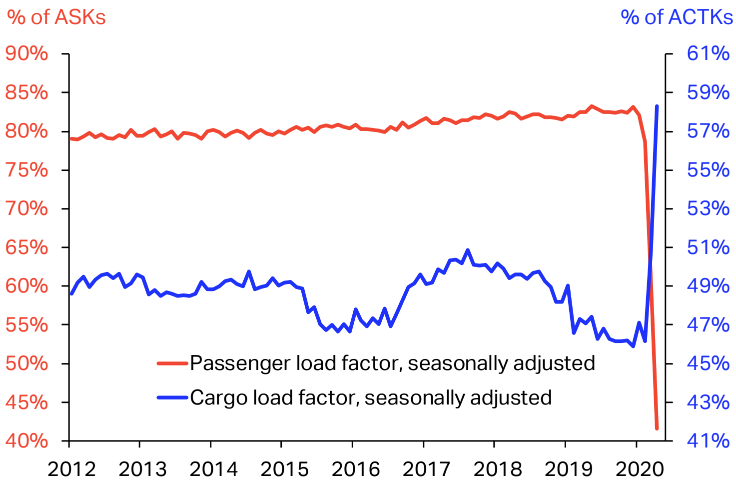
Airlines began to return aircraft into service in May



Source: Ascend

- In May 2020, airlines started to return aircraft to service with the relaxation of lockdown measures. An additional 2,444 aircraft re-joined the in-service fleet in the month. As a result, total seat capacity improved by 25% compared to the previous month. However, total seat capacity was still 49% below the level of a year ago.
- New aircraft deliveries were limited (16 aircraft) in May as airlines have been postponing or cancelling future deliveries in response to the COVID-19 crisis. As travel demand is expected to recover only gradually, airlines will likely remain cautious regarding capacity increases.

Passenger and cargo load factor trends diverged



Source: IATA Monthly Statistics

- In April, the industry-wide seasonally adjusted passenger load factor contracted year-on-year by 41ppts to 40.9%, which is a new record low level. Although airlines placed half of their fleet in storage, demand fell at an unprecedented rate and declined much faster than capacity. Falls in load factors were widespread across all regions this month.
- In contrast to the passenger market, air cargo has faced a capacity crunch with the decline in belly capacity. The industry-wide seasonally adjusted cargo load factor rose year-on-year by 11.2 ppts, to an all-time high level since the start of our series in 1990. As airlines bring their passenger fleet back into service in the coming months, the upward pressure on air cargo load factors can be expected to ease.

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