Airlines Financial Monitor

December 2020 – January 2021

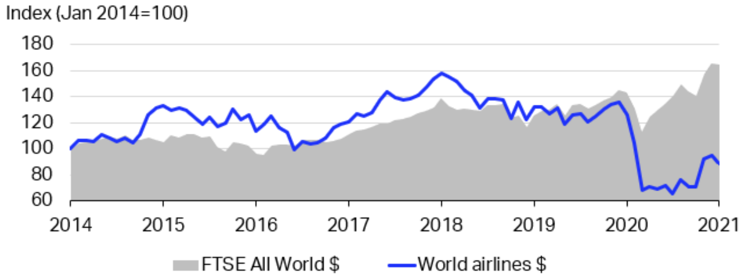
Key points

- First releases of Q4 financial results show that airline losses continued in Q4 but losses were smaller than Q3 helped by cost cutting measures and robust cargo revenues. However, airlines are still expected to continue to burn cash throughout 2021 as the recovery in travel demand is delayed to the second half of the year.
- Global airline share prices declined in January amid new travel restrictions. European carriers underperformed other regions as the pace of vaccine rollout was slower than expected, increasing the risk to summer travel.
- Oil and jet fuel price reached pre-pandemic levels. Oil supply cut extensions from OPEC+ and expectations about global economic recovery led the price rally despite the lockdowns. Looking forward, airlines will face cost pressures once the recovery starts as fuel is the largest variable cost and fuel hedging is limited at present.

Airline shares lost value in January with renewed travel restrictions

Airline Share Prices

US$ indices (Jan 2014=100)	Index Jan 29th	% change on one month	one year	start of year
World airlines	**88.8**	**-6.0%**	**-29.5%**	**-6.0%**
Asia Pacific airlines	74.4	-4.1%	-23.9%	-4.1%
European airlines	77.3	-9.3%	-27.1%	-9.3%
North American airlines	110.0	-4.3%	-31.2%	-4.3%
FTSE All World $	**164.2**	**-0.5%**	**+14.9%**	**-0.5%**



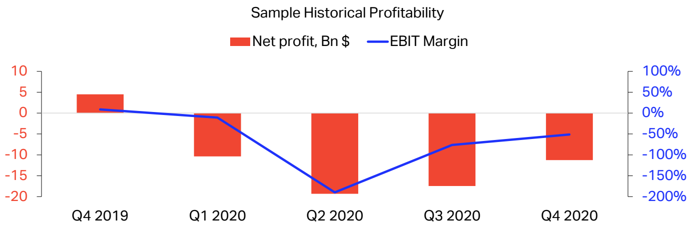
Source: Refinitiv Eikon Datastream

- Airline shares trended downwards in January amid new travel restrictions with the sharp rise in COVID-19 cases. European carriers, which had performed better than the other regions on the back of vaccine news in December, fell the most. The pace of vaccine rollout was slower than expected increasing the risk to summer travel. Asia-Pacific and North American airline shares fell by a similar extent, with the rising covid cases weighing on the recovery. However, both regions have the advantage of having large domestic markets increasing the potential of faster improvement .
- Overall, global airline shares continued to underperform the wider equity markets, as in 2020, since travel industry remains to be one of the sectors hardest hit by the pandemic. Looking ahead, there are uncertainties regarding the vaccination progress and lifting of travel restrictions. The strength of the rebound in travel demand will depend on the pace of vaccine rollouts and easing of travel restrictions. In the meantime, airlines are expected to continue to burn cash.

Airlines net losses diminished in Q4 2020

Airline Financial Results

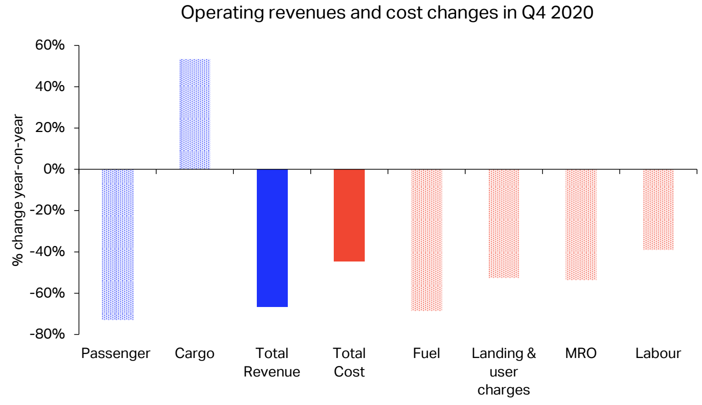
Number of airlines in sample	Regions	Q4 2019 EBIT margin[1]	Q4 2019 Net post-tax profit[2]	Q4 2020 EBIT margin[1]	Q4 2020 Net post-tax profit[2]
12	North America	9.9%	3,399	-57%	-7,812
5	Asia-Pacific	9.0%	815	-33%	-1,852
3	Europe	2.4%	294	-54%	-1,574
20	**Sample total**	**8.7%**	**4,508**	**-51%**	**-11,238**



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

- The initial sample of 4Q20 financial results shows that airlines in all regions continued to report losses due to the ongoing impact of the pandemic. However, the sample also indicates that losses were steadily narrowing down despite stagnating traffic outlook. In this small sample, airline net losses narrowed down close to 1Q20 levels when the pandemic initially hit the industry. It is important to note that this is mostly due to the rigorous cuts in capital expenditures and operating costs since revenues are still less than half of their level in 1Q120.
- Looking forward, we expect air travel demand to gradually revive in the second half of 2021 following a weak first half of the year. Hence, airlines will continue to focus on limiting losses by implementing cost cutting measures and preserving cash balances.

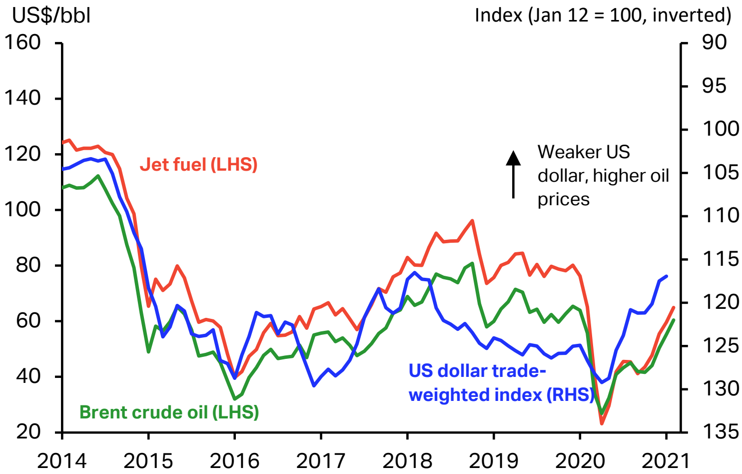
Cost saving remains a priority for airlines



Source: IATA Economics using data from the Airline Analyst

- The initial sample of airlines' data shows that passenger revenues remained weak (-73% year-on-year) in Q420 as the recovery in air travel demand stalled. On the other hand, cargo revenues were strong (+53% year-on-year). While ongoing economic recovery and seasonal shopping days were supportive for cargo demand, capacity limitations kept cargo yields at elevated levels.
- Airlines' top priority has been cutting costs since the beginning of pandemic and significant progress has been made on reducing fixed/ semi-fixed costs. Airlines in our sample reduced maintenance and employment costs respectively by 54% and 39% in 4Q20 vs 4Q19. However, the decline in operating costs (-45%) was much lower compared to the loss in revenues (-67%). 2021 will also be a challenging year and airlines will look for cost cutting measures until the recovery starts with the openining up of international markets.

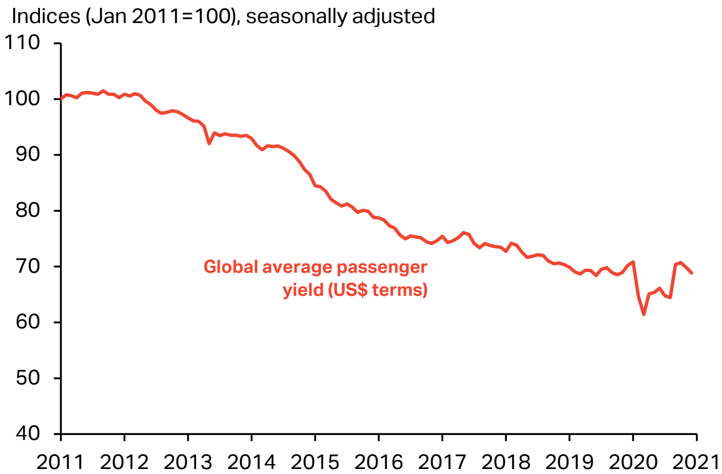
Oil and jet fuel prices reach one-year high as global supply remains tight



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

- Oil and jet fuel price further strengthened in February, reaching pre-pandemic levels. Although near-term global oil demand remains fragile due to the renewed lockdowns to contain the pandemic, oil supply cut extensions from OPEC+ and the anticipation of the global economic recovery lifted the prices to one-year high.
- Looking forward, economic and oil demand outlook will be highly dependent on the progress in distribution of vaccines and subsequent easing of restrictions. The recovery in air travel depends on similar factors. Hence, airlines would face pressure on the cost side once the recovery starts. Fuel is the largest variable cost for airlines and airlines in general did not engage in fuel hedging in 2020 due to significant hedging losses incrued with the collapse in prices last year.

Global base passenger yields ease in December



Sources: IATA Economics, DDS

- Global base passenger yields (in US$, excluding ancillary revenues) trended downwards in November and December as airlines tried to stimulate stagnating demand due to rising travel restrictions. Global base passenger yields are 2% lower than their level a year ago in December.
- While economy cabin yields trended downwards, premium passenger yields improved in December. However, the premium passenger yields were still 4.0% below their level a year ago since theirdecline during the lockdown period was sharper than that in the economy cabin yield. Looking ahead, passenger yields are expected to soften as forward bookings remain limited due to uncertainties related to travel restrictions.

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