



Airlines Financial Monitor

July-August 2021

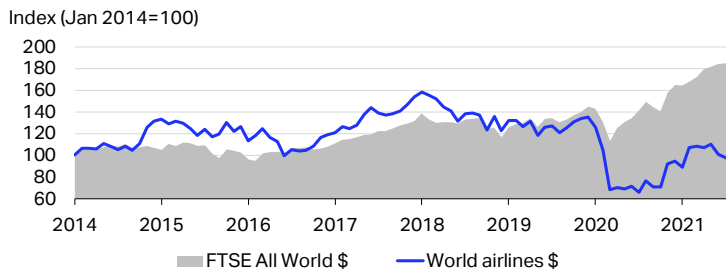
Key points

- Initial Q2 2021 results show that net losses of airlines at the aggregated level diminished compared with Q1 2021. In particular, North American airlines' financials showed a significant improvement amidst the rebound in U.S. domestic travel. Although the financial performance of the airline industry at the aggregated level improved considerably, new COVID-19 restrictions in some large domestic markets that are on the recovery track together with tight international travel restrictions pose downside risks to the recovery.
- Global airline share price index increased in August following the FDA approval of COVID-19 vaccines in the United States. However, the year-to-date performance of global airline stock index is still lagging wider global equity markets.
- Brent crude oil and jet fuel prices ticked down in August amidst concerns that new Delta outbreaks and the resulting restrictions will hit oil demand and slow global economic recovery.

Spread of COVID-19 variants affected airline share performance

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Aug 25th	% change on		
		vs July 2021	vs Dec 2019	start of year
World airlines	98.1	+0.7%	-27.5%	+3.9%
Asia Pacific airlines	80.2	+2.2%	-27.0%	+3.5%
European airlines	82.0	-1.7%	-27.6%	-3.8%
North American airlines	125.6	+1.6%	-25.2%	+9.3%
FTSE All World \$	187.8	+1.6%	+29.9%	+13.8%



Source: Refinitiv Eikon Datastream

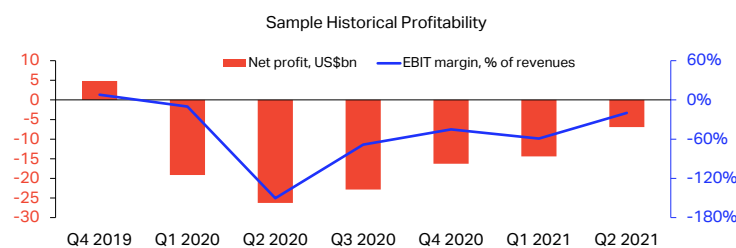
- The concerns about the fast spreading COVID-19 Delta variant resulted in sharp decline in airline share prices at the beginning of August. However, the approval of several COVID-19 vaccines by FDA in the United States and decline in cases in China brought some optimism later in the month. As a result, airline share prices increased in North America and AsiaPacific in August compared with the previous month.
- The recovery in airline stocks have been limited since the beginning of the year since the full reopening of international travel remains uncertain with the emergence of new variants. As of August, the year-to-date performance of global airline stock index is still lagging wider global equity markets (3.9% vs 13.8%).

Airline industry net-losses diminished in Q2 2021, in particular in the U.S.

Airline Financial Results

Number of airlines in sample	Regions	Q1 2021		Q2 2021	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
		13	North America	-70.2%	-5,228
9	Asia-Pacific	-43.5%	-2,064	-34%	-1,671
8	Europe	-54.2%	-4,956	-33%	-4,594
8	Latin America	-37.9%	-2,091	-18%	-702
3	Others	-15.9%	-50	-13%	-42
41	Sample total	-59.1%	-14,389	-20%	-6,913

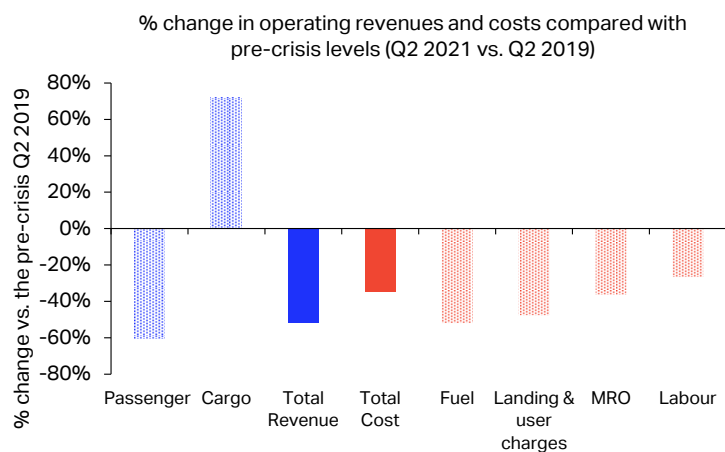
¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA



Source: IATA Economics using data from the Airline Analyst

- Initial Q2 2021 results show that net losses of airlines at the aggregated level moderated compared with Q1 2021. North American airlines' bottom-line at the aggregated level turned to positive since the domestic traffic rebounded in the U.S. amidst vaccine progress.
- North American and Latin American airlines were the best performers in Q2 as domestic and regional traffic had been improving during the quarter. On the other hand, improvement of Asia Pacific and European airlines was small due to still muted international travel, which represented an important source of these airlines' revenues before the crisis.
- Although the initial Q2 2021 financial results show that net losses narrowed down, downside risks for further recovery are increasing for the coming quarters since new COVID-19 restrictions are affecting some domestic markets that are on the recovery track, i.e. China. Moreover, international travel restrictions remain tight.

The fall in operating costs remains short of the decline in revenues



Source: IATA Economics using data from the Airline Analyst

- In Q2 2021, passenger revenues declined by 60% compared to the pre-crisis (Q2 2019). At the regional level, North American airlines showed the best outcome (-49%). Asia Pacific and European carriers posted passenger revenues down-63% and -66%, respectively compared with the pre-crisis level. Robust cargo revenues continue to support airlines (up 72%) since both demand and yields remain strong.
- The fall in operating costs in Q2 2021 (-35%) remain short of the decline in revenues. Across the key cost items, while fuel costs and user charges declined by 52% and 48%, respectively, the fall in labour cost was limited to -27%.

Cash flow generation improves, North American airlines are outperforming

Airline Cash Flow¹

Number of airlines in sample	Regions	Q1 2021			Q2 2021		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
11	North America	11.9%	15.8%	-3.9%	39.8%	10.5%	29.3%
4	Asia-Pacific	-18.9%	11.2%	-30.1%	-17.1%	22.3%	-39.3%
6	Europe	-39.5%	14.6%	-54.1%	26.6%	18.3%	8.3%
4	Latin America	-33.5%	6.1%	-39.6%	-15.4%	7.7%	-23.1%
2	Others	-37.0%	1.4%	-38.5%	17.0%	13.0%	4.1%
27	Sample total	-6.9%	14.5%	-21.4%	31.7%	12.7%	18.9%

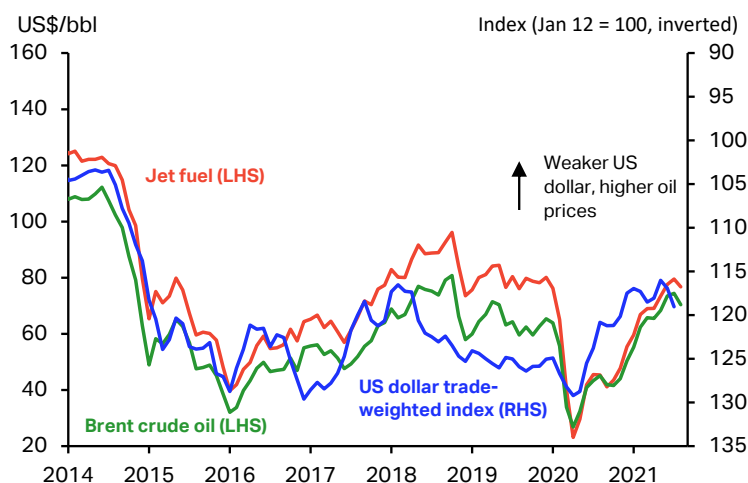
¹% of revenues

²From operating activities

Sources: The Airline Analyst, IATA

- In our initial small sample of airline financials, the cash flow generation improved considerably in Q2 2021.
- The industry-wide improvement was largely driven by North American airlines since passenger bookings for domestic travel rebounded sharply. North American carriers at the aggregate turned to positive both in operating and free cash flow generation. Cash flow of some of the major European carriers also turned positive since the beginning of the pandemic since passenger bookings for summer travel were boosted with the progress in vaccination.

Jet fuel and oil prices fall amidst rising pandemic concerns



Sources: Platts, Refinitiv Eikon Datastream, as of August 19th

- Following several months of upward trend, average Brent crude oil and jet fuel price ticked down in August amidst concerns that new Delta outbreaks and the resulting restrictions will hit oil demand and slow global economic recovery. The additional downward pressure on prices came from the increase in Opec+ oil output in August.
- The deterioration in the pandemic developments has been reflected in the latest International Energy Agency (IEA) oil demand forecast that was downgraded for the rest of the year. The average price of jet fuel year-to-date is US\$71.6/bbl, which is broadly in line with our forecast for 2021.

IATA Economics

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