![IATA]

Airlines Financial Monitor

June-July 2020

Key points

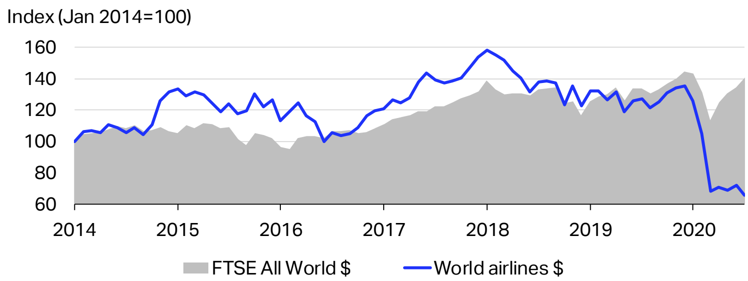
- Initial financial results confirmed that the airline industry had its worst quarterly financial performance in Q2 2020, extending the losses of Q1. Although airlines immediately imposed stringent cost cutting measures to counterbalance the loss in revenues and preserve cash, operating losses deepened sharply.
- The world airlines share price index fell in July following the announcements of negative Q2 results and the fading of early summer optimism, as COVID-19 cases increased in some regions. The performance of the global airline index diverged from wider equity markets as returning to sustainable recovery path in travel demand will take time.
- Oil and jet fuel prices continue to increase in August, but the improvement has been slower compared with July as the fuel demand rebound levelled out in some regions. Looking forward, the recovery in global oil demand is expected to be weak and jet fuel demand to be a major source of this softness.
- In June, both passenger and cargo demand continued to recover from the low point in April as countries ease lockdown measures. However, the pace of recovery in passenger demand lagged the improvement in seat capacity. Looking forward, restarting the network to response to weak and varying travel demand patterns will be a challenge for airlines.

Financial indicators

Airline shares fell in July diverging from wider equity markets

Airline Share Prices

US$ indices (Jan 2014=100)	Index Jul 31st	% change on one month	one year	start of year
World airlines	**65.6**	**-8.4%**	**-48.3%**	**-51.5%**
Asia Pacific airlines	61.7	-8.3%	-42.8%	-43.9%
European airlines	57.6	-8.4%	-30.7%	-49.1%
North American airlines	76.1	-10.2%	-55.3%	-54.7%
FTSE All World $	**140.8**	**+5.0%**	**+5.2%**	**-2.6%**



Source: Thomson Reuters Datastream

- Airline shares remain weak. Global airline shares fell in July with the announcements of negative Q2 results and the fading of early summer optimism as COVID-19 cases spiked in North and Latin America. Airline shares diverged from wider equity markets as border closures have impacted air travel despite the optimism over domestic economic rebound.
- The fall in airline share price was widespread across all regions reflecting fears that a new wave of COVID-19 cases would slow airlines' recovery. Moreover, negative Q2 results and pessimistic guidance affected airline shares in all regions.
- North American airlines recorded the largest fall due to the resurgence of cases in the U.S. The rise in COVID-19 cases and quarantine measures will continue to impact airline shares performance.

Airlines' losses rose substantially in Q2

Airline Financial Results

Number of airlines in sample	Regions	Q2 2019 EBIT margin[1]	Q2 2019 Net post-tax profit[2]	Q2 2020 EBIT margin[1]	Q2 2020 Net post-tax profit[2]
15	North America	13.7%	4,967	-198%	-12,648
19	Asia-Pacific	0.9%	-475	-54%	-3,536
9	Europe	8.2%	1,648	-106%	-7,967
7	Latin America	4.9%	-15	-300%	-3,557
50	**Sample total**	**9.2%**	**6,125**	**-130%**	**-27,708**

[1] % of revenues [2] US$ million

Sources: The Airline Analyst, IATA

- The initial sample of financial results for Q2 2020 shows the extension of severe negative impact of the pandemic on airline financials for another quarter. The net post-tax loss of the industry in this small sample surpassed the entire loss in Q1 2020.
- Profitability deteriorated further as all regions were affected by groundings and travel restrictions for the entire quarter. As a result, airlines in all regions recorded large EBIT losses. The North America region was affected by the pandemic far more than in Q1 and the region reported the largest loss among all regions in Q2 2020.

Cargo revenues strong in dramatic contrast to passenger revenues in Q2

Airline Revenues

Number of airlines in sample	Regions	Q2 2020 vs Q2 2019 (Year-on-year change) Passenger Revenues*	Cargo Revenues*	Total Revenues
15	North America	-91%	1%	-85%
19	Asia-Pacific	-88%	44%	-67%
9	Europe	-95%	29%	-84%
7	Latin America	-94%	11%	-86%
50	**Sample total**	**-92%**	**29%**	**-81%**

* Included in the sample if reported
Sources: The Airline Analyst, IATA

Airline Operating Costs

Number of airlines in sample	Regions	Operating Costs* Q2 2020 vs Q2 2019 (Year-on-year change) Fuel	Employee	Maintenance & Engineering	Landing fees & user charges	Selling & distribution
15	North America	-86%	-27%	-58%	-54%	-89%
19	Asia-Pacific	-80%	-30%	-52%	-70%	-84%
9	Europe	-90%	-50%	-59%	-84%	-85%
7	Latin America	-90%	-59%	-1%	-73%	-69%
50	**Sample total**	**-86%**	**-35%**	**-56%**	**-75%**	**-86%**

*Sub categories are included in the sample if reported
Sources: The Airline Analyst, IATA

- Airlines in all regions reported sharp decline in revenues as the low point in traffic was reached early in Q2. While passenger revenues in our sample of airlines declined by 92% in Q2 2020 compared to Q2 2019, cargo revenues were strong, partially offsetting the weakness on the passenger side.
- On the revenue side, Asia-Pacific airlines performed relatively better than other regions. Cargo is a larger business in this region and the shortage of cargo capacity together with the early recovery in domestic passenger markets were supportive. On the other hand, the increase in cargo revenues was limited for North American carriers as the use of passenger aircraft for cargo and strong cargo yields were not sufficient to offset the impact of loss in belly capacity.
- Costs have been cut as much as possible in these circumstances. The reduction in operating costs was driven by lower fuel expense and revenue related variable costs. However, airlines also took initiatives to lower their fixed costs including reduced work schedules and voluntary employee leave, which helped to reduce employee costs, albeit at a lesser extent than other operating costs.

Industry-wide free cash outflow in Q2 2020

Airline Cash Flow[1]

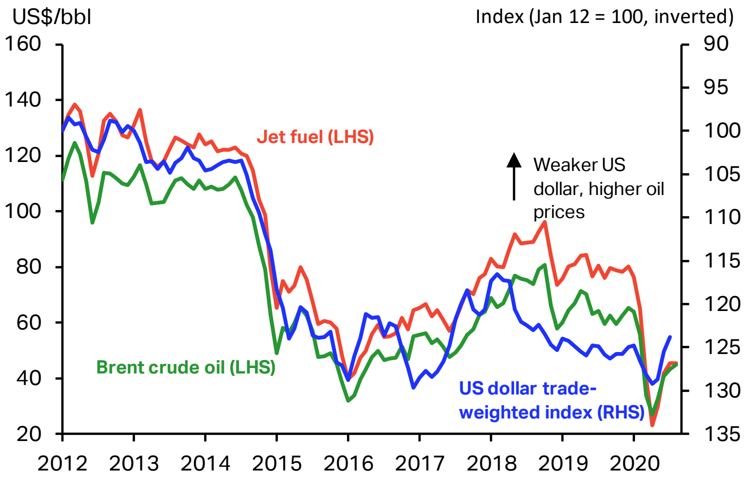
Number of airlines in sample	Regions	Q2 2019 Net cash flow[2]	Q2 2019 Capex	Q2 2019 Free cash flow	Q2 2020 Net cash flow[2]	Q2 2020 Capex	Q2 2020 Free cash flow
12	North America	17.2%	10.2%	7.0%	-26.8%	17.8%	-44.6%
15	Asia-Pacific	10.8%	9.6%	1.3%	-23.8%	21.0%	-44.8%
5	Europe	11.9%	11.6%	0.3%	-67.0%	20.9%	-87.8%
4	Latin America	10.5%	9.2%	1.3%	-19.2%	20.0%	-39.2%
36	**Sample total**	**14.0%**	**10.4%**	**3.6%**	**-36.2%**	**19.9%**	**-56.0%**

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

- Our initial Q2 2020 sample shows that the industry-wide net cash outflow from operating activities accelerated. The immediate response of airlines to the loss in demand, through cost reduction measures, were not sufficient to cover the sharp decline in revenues.
- Airlines in all regions targeted to reduce their capital expenditures by deferring aircraft deliveries. However, the proportion of capital expenditures increased to c. 20% of revenues due the sharp fall in revenues. As a result, free cash outflow increased to 56% of revenues, increasing the need for cash to be raised from the markets or from government aid.

Fuel costs

The pace of recovery in jet fuel and crude oil price has slowed down

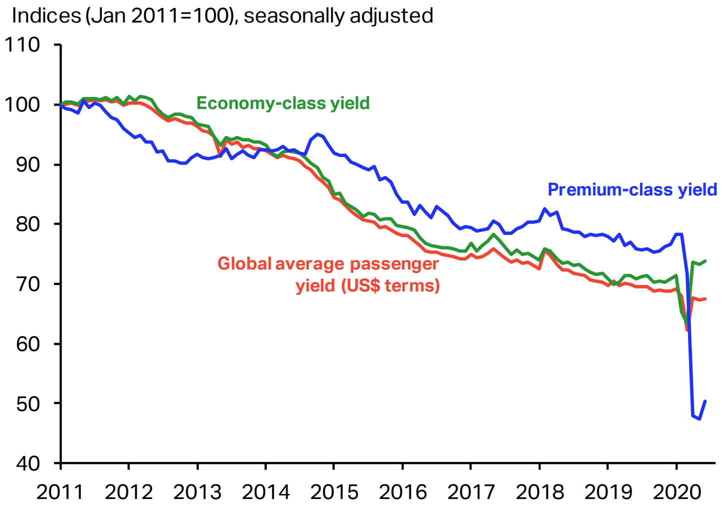


Sources: Platts, Thomson Reuters Datastream, as of August 24th

- Oil and jet fuel prices continued to increase in August but remained well below the levels seen in the pre-COVID period. The improvement has been slower compared with July as the fuel demand rebound has levelled out in some regions. At the time of writing, both Brent crude oil and the jet fuel price are close to US$44/bbl.
- Looking forward, the outlook for global oil demand remains downbeat since easing in lockdown restrictions has fuelled the resurgence of COVID-19 cases around the world. Indeed, the International Energy Agency revised down its global oil demand forecast to 91.9 million barrels per day, down by more than 8 million barrels compared with 2019 and cited jet fuel demand to be the major source of the weakness.

Global Yields

Global base passenger yields weakened in annual terms

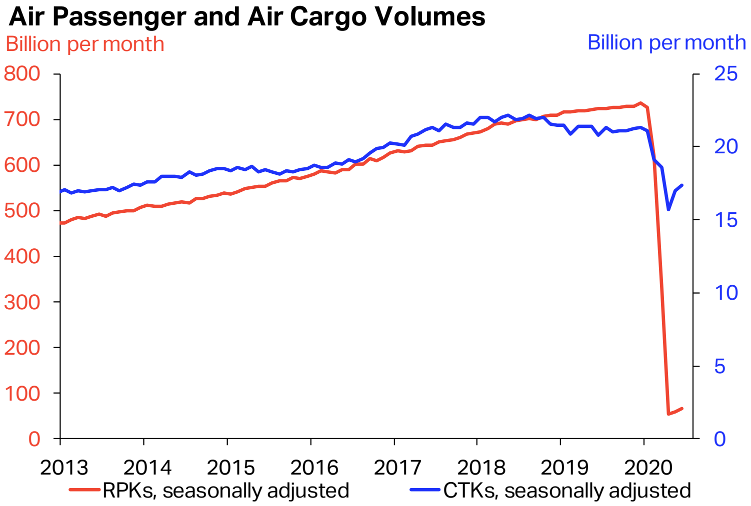


Sources: IATA Economics, DDS

- Global base passenger yields (in US$, excluding surcharges and ancillary revenues) rose slightly (0.1% month-on-month) in June as demand recovered slowly following the re-opening of air travel with the lifting of border restrictions.
- Although the yield data during the lockdown period should be interpreted with caution due to the dramatic fall in tickets being sold, the decline in premium yields was sharper than for the economy cabin. Economy class yields trended upwards following the initial fall with the support of repatriation flights and last minute bookings. However, global average passenger yields in US$ terms were still 3.0% below their level a year ago.

Demand

Passenger and cargo demand continue to improve but at a slower pace

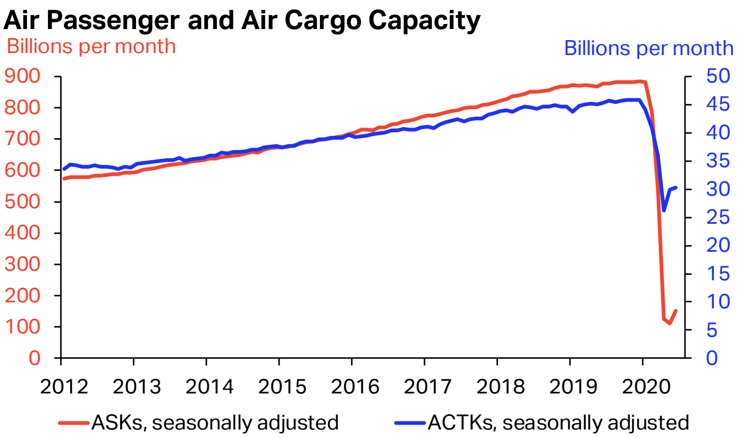


Source: IATA Monthly Statistics

- Air travel demand continued to show signs of recovery from the low point in April as more countries eased their travel restrictions. Seasonally adjusted RPKs picked up modestly for the second consecutive month, while in year-on-year terms, passenger volumes contracted by 86.5% compared with 91% in May and ~94% in April.
- Air cargo demand also ticked up for another month. However, the pace of recovery is relatively soft since air transport has been losing market share of global trade to cheaper ocean and rail transport – a pattern typical during crises. Cargo tonne kilometres (CTKs) picked up month-on-month by 2.2% compared with May while in year-on-year terms, CTKs were down 17.6% vs. 20.1% fall in the previous month.

Capacity

Both passenger and cargo capacity also picked up in June



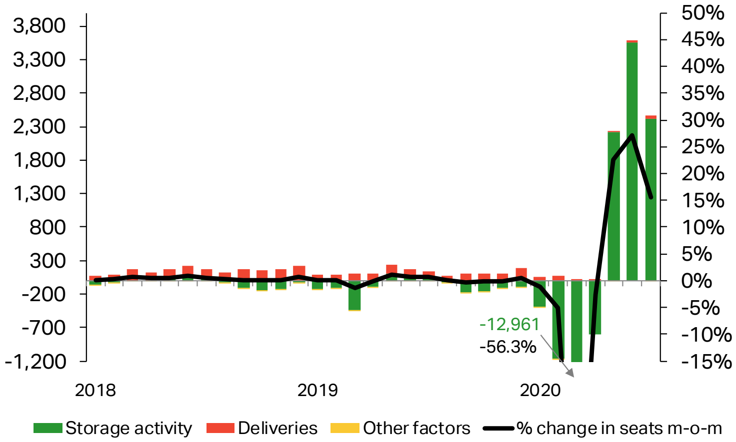
Source: IATA Monthly Statistics

- Pressure on passenger capacity also eased modestly in June since airlines began to restart some of their operations. Industry-wide available seat kilometres contracted by 80.1% year-on-year vs. 85.7% decline in May. The equivalent seasonally adjusted volumes rebounded from the bottom.
- Air cargo capacity also picked up in June although the capacity crunch resulting from the lack of belly cargo capacity was still present. Industry-wide available cargo tonne-kilometres are down by 34.1% compared to the previous year. Seasonally adjusted CTKs picked up by 1.8%MoM.

75% of commercial fleet brought back to service in July

Airline Fleet Development

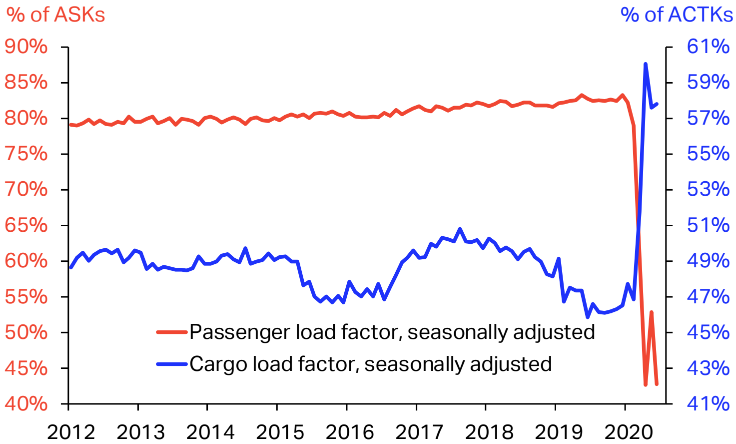
Change in operating fleet (a/c per month)



Source: Ascend

- Airlines continued to add back flights as travel slowly returns in July. The net storage activity has been positive for the third consecutive month with c. 2,500 aircraft re-joining the in-service fleet in July. Overall, there was about 22,700 active commercial fleet at the end of the month, up from 8,300 in April (low point of the crisis) but still well below the pre-COVID-19 level (c. 29,500). Similarly, total seat capacity picked up by 16% in July, but was still down 28% year-on-year.
- Airlines remain cautious about aircraft investments and delaying some aircraft deliveries amidst massive operational loss incurred in the first half of the year. In July, 40 aircraft were delivered and aircraft deliveries since the beginning of the year reached 245, c. one third of the same period of the previous year.

Passenger and cargo load factor trends continued to diverge in June



Source: IATA Monthly Statistics

- The industry-wide seasonally adjusted (SA) passenger load factor plummeted following the surge in May. The low load factor highlights that although airlines have been providing more seats after lockdowns were eased, passengers have been hesitant to fill them.
- On the cargo side, the SA industry-wide load factor remained close to record high levels (up 0.2ppts vs. May), confirming a significant lack of cargo capacity available in the market. Looking forward, the load factors are expected to ease as airlines bring their passenger fleet back to service, increasing available belly capacity.

IATA Economics

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