



Airlines Financial Monitor

January-February 2021

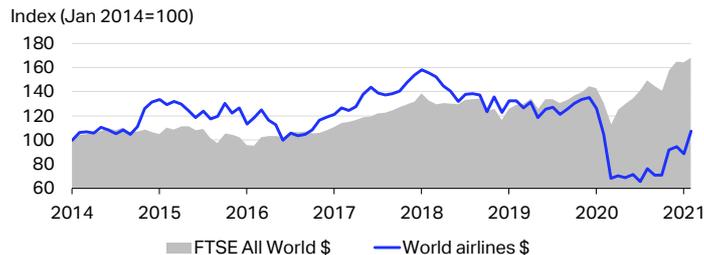
Key points

- The latest Q4 financial results confirm that airlines continued to experience deep losses due to the ongoing impact of the pandemic. These losses were most significant in the Latin and North America region. The pressure on airlines' revenues will continue in the near-term. Although vaccine rollout has been encouraging, there are large differences across regions. Moreover, Europe is facing a new virus wave, which worsens prospects about the summer travel recovery.
- Airline share prices picked up across all regions in February, reflecting the vaccine optimism and hope for a resumption of summer travel. However, the upward trend was reversed in March as the concerns about virus spikes in Europe countered positive developments in the US.
- Because of growing optimism about growth in the wider economy, oil and jet fuel prices strengthened in March and hovered close to pre-pandemic levels for the second consecutive month. The higher fuel prices will add to the challenge of making the restart of air travel cash positive.

Airline share price index soared in February but there is considerable volatility

Airline Share Prices

US\$ indices (Jan 2014=100)	Index Feb 26th	% change on		
		one month	one year	start of year
World airlines	107.3	+20.9%	+2.7%	+13.6%
Asia Pacific airlines	84.7	+13.9%	-2.8%	+9.3%
European airlines	93.8	+21.4%	+9.5%	+10.1%
North American airlines	142.0	+29.1%	+9.3%	+23.6%
FTSE All World \$	167.9	+2.2%	+28.0%	+1.7%



Source: Refinitiv Eikon Datastream

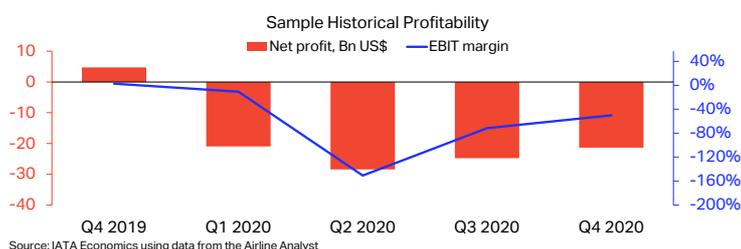
- Airlines shares picked up by a robust 21% in February as vaccination efforts gained momentum, COVID-19 cases started to fall and investors became increasingly optimistic about the recovery in leisure travel in the summer season. The share price increase was broad-based across all regions that we regularly track. North American airline shares showed the largest value increase (+29%), followed by Europe.
- Despite the February improvement, the airline index was still well below the pre-pandemic levels (down 21% vs. December 2019) and significantly lagged behind the wider equity markets. Moreover, daily March data (not in the chart) show a new deterioration in prices as the new COVID-19 wave in Europe negatively impacts prospects about the summer travel.

The airline industry reported deep but diminishing losses in Q4

Airline Financial Results

Number of airlines in sample	Regions	Q4 2019		Q4 2020	
		EBIT margin ¹	Net post-tax profit ²	EBIT margin ¹	Net post-tax profit ²
13	North America	9.9%	3,427	-58%	-7,805
11	Asia-Pacific	7.3%	986	-36%	-5,292
9	Europe	3.9%	541	-46%	-6,450
6	Latin America	9.1%	-264	-59%	-1,769
2	Others	18.5%	50	-8%	-30
41	Sample total	7.6%	4,740	-50%	-21,346

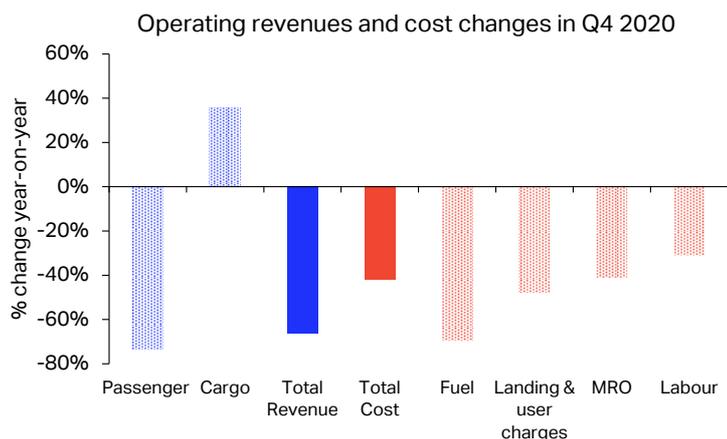
¹% of revenues ²US\$ million
Sources: The Airline Analyst, IATA



Source: IATA Economics using data from the Airline Analyst

- Our latest sample of financial results confirms that airlines experienced deep losses in Q4 2020 due to the adverse effects of the pandemic. Profitability declines were broad-based across all regions, notably in the Americas. On a more positive note, the extent of losses was lower compared to the previous two quarters. This could be attributed to robust cargo revenues as cargo volumes continued to recover (back to pre-crisis levels in January) and yields remained elevated in Q4. Losses were also reduced thanks to dramatic cost-cutting measures and cash savings.
- The stalling recovery in passenger demand continues to be the key obstacle for the faster rebound in revenues. The start of the year had been weaker than expected due to new virus outbreaks. Although vaccine rollout has been gaining momentum, there are large differences across regions and some countries are facing new spikes. This indicates a challenging time ahead for airlines' financials.

Revenues continued to fall faster than costs in Q4



Source: IATA Economics using data from the Airline Analyst

- In our sample of airlines, passenger revenues fell by 73% compared with Q4 2019 due to stagnating air travel. The declines were broad-based across all regions. On the other hand, cargo revenues picked up by a robust 36% over the same period, supported by elevated yields and improving cargo demand.
- On the cost side, airlines achieved a significant reduction in all major variable and semi-variable cost items. Apart from fuel though, other costs fell by much less than output. Overall, total costs fell by 42%, lagging behind the fall in revenues and causing substantial cash burn to continue

Industry cash burn continued into Q4 amidst stalling passenger demand

Airline Cash Flow¹

Number of airlines in sample	Regions	Q4 2019			Q4 2020		
		Net cash flow ²	Capex	Free cash flow	Net cash flow ²	Capex	Free cash flow
13	North America	10.2%	12.4%	-2.3%	-47.6%	16.0%	-63.6%
6	Asia-Pacific	8.7%	12.5%	-3.7%	-19.9%	17.5%	-37.5%
7	Europe	4.5%	17.8%	-13.3%	-58.2%	-1.6%	-56.6%
4	Latin America	26.0%	19.8%	6.2%	-25.0%	9.5%	-34.5%
2	Others	40.6%	35.7%	4.9%	6.5%	-26.6%	33.1%
32	Sample total	9.4%	14.4%	-5.0%	-46.3%	10.6%	-56.8%

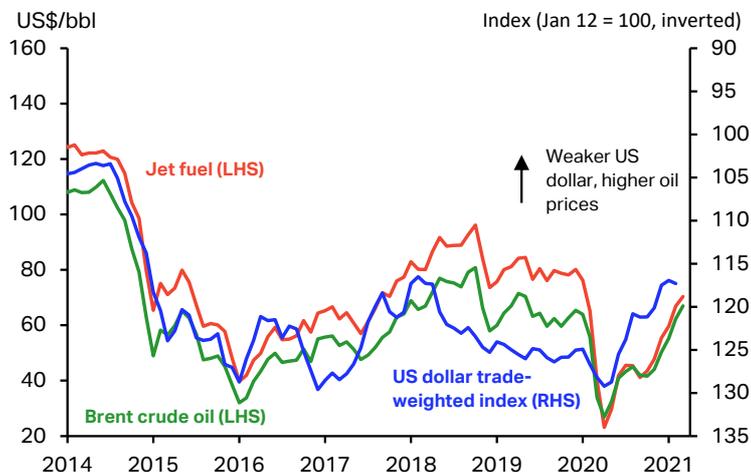
¹% of revenues

Sources: The Airline Analyst, IATA

²From operating activities

- Since the reduction in airline variable and semi-variable costs was not enough to offset plunging passenger revenues, airlines continued to burn cash at a rapid pace. Indeed, industry-wide net cash outflow from operating activities rose to 46% of revenues in Q4. At the regional level, European carriers reported the most significant cash outflow, at 58.2%.

Oil and jet fuel prices continue rising as demand grows and supply is tight



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

- Although aviation is weak, the wider economy – or at least optimism about its prospects – continues to strengthen, so the average oil and jet fuel price strengthened further in March and hovered close to the pre-pandemic levels for the second consecutive month. While demand for fuel continues to rise as some countries emerge from lockdowns and economic activity restarts, oil supply remains constrained due to OPEC+ reluctance to significantly increase oil production.
- The resulting surge in jet fuel costs – which represented on average about 25% of the total airline operating costs before the pandemic started – will put increased pressure on airline bottom lines and add to the challenge of making restart of air travel cash positive.

IATA Economics

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