



## **Beyond the Bleak Mid-Winter**

A need to look at the medium and longer term developments and consequences

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January 2021



## Key points

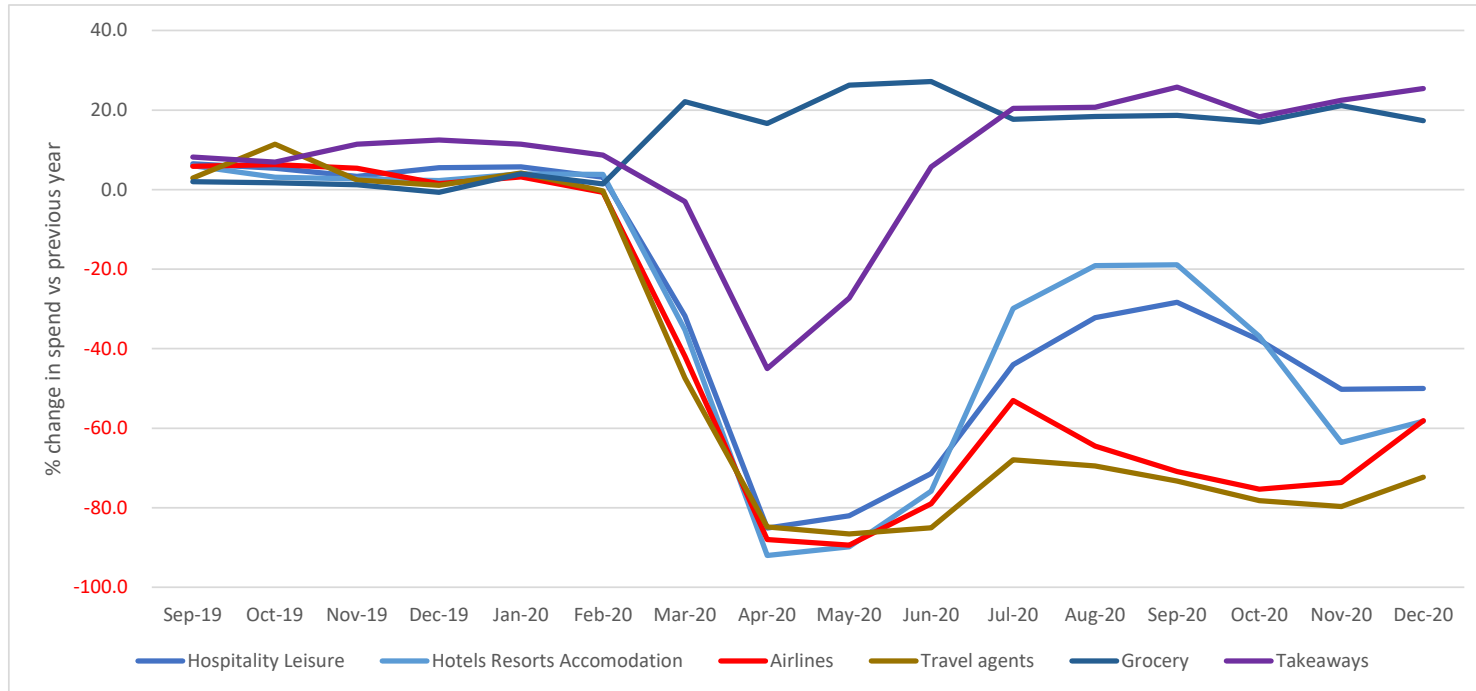
- Although there is need to review where we are now the reality is that there is need to take a look beyond and to the size, shape and composition of the industry.
- There are five constraints which will to varying degrees impact upon the restart and recovery phase and which need to be viewed against the background of the four states in which airlines are in at the present time.
- There is very good reason to expect that over time aviation will recover and then grow again; however, we should not underestimate the likely nature of the structural change not only in respect of airline services (smaller aircraft, less transfer traffic and new models including virtual airlines) but also across the wider sector and the resulting consequences.
- Generalisations are even more dangerous now than usual and the need is to look at both a market and company level as this approach highlights both the nature and extent of the challenges as well as opportunities Notwithstanding the spate of European restrictions the reality is that we are perhaps moving to a more sustainable turning point corresponding with the start of the S21 IATA season - but where international long haul will be conspicuous by its absence.
- The principal challenge for many airlines remains a shortage of cash where in terms of new equity there will be greater selectivity and where debt will be more expensive with increased realism in terms of the value ascribed to collateral.

# The current “activity states”

- In effective hibernation at least in respect of passenger activities
  - Evident now across Europe and majority of Asia (ex-China) and for most long haul activities elsewhere too
- At least partial restart but then loss of momentum
  - Evident in Europe and increasingly now in the US
- Restart then steady state/ modest recovery
  - US until recently provided the best example
- Restart then accelerating recovery
  - Evident in many domestic markets but also in some LATAM countries internationally



# Follow the money – by UK sector

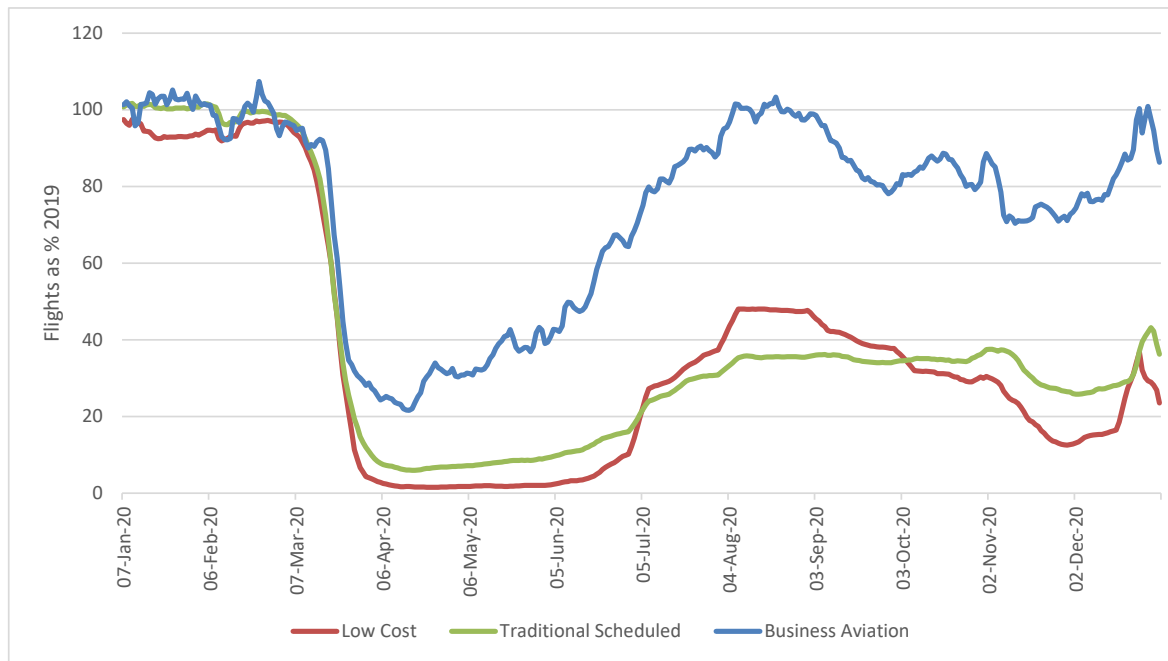


Source: CTAIRA from Barclaycard data

- No surprises in terms of direction but the size of some of the changes revealing
- Need to keep a sense of perspective regarding increased savings ratio – less than 5% expected to provide a “catch up boost” to the economy
- December pick up for airlines reflects opened markets (at the time) and some anticipation of summer travel – Spain likely to be closed to travellers from UK until late summer



# Flights handled by Eurocontrol



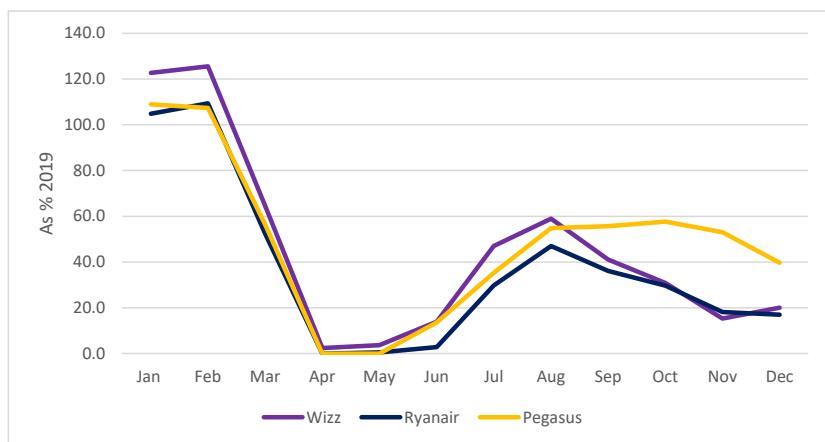
Source: CTAIRA from Eurocontrol data

- Business aviation initially recovered to previous levels falling back to 75-80% of 2019 levels in October-November. Traditional scheduled and “low cost” entirely explainable due to closed, partially open and then closed markets in short haul and essentially closed long haul
- Absence of business traffic and increased significance of VFR traffic has had material impact on yields for both airlines and airports in the summer and winter now worse than expected

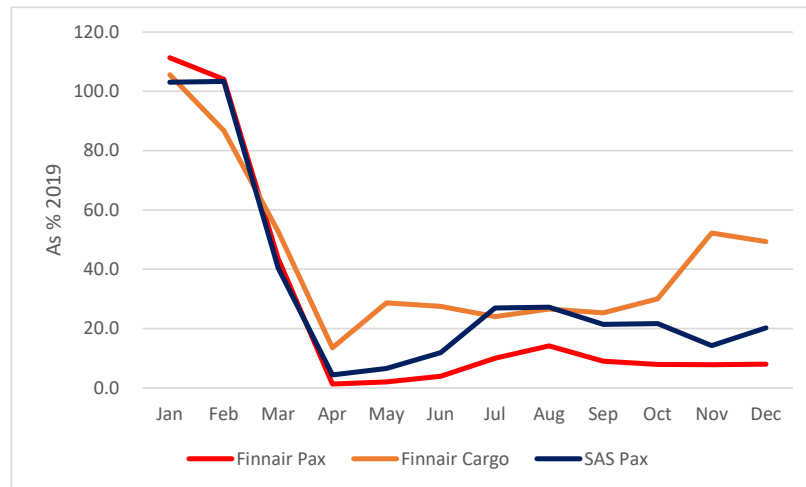


## European Airlines – recent traffic performance

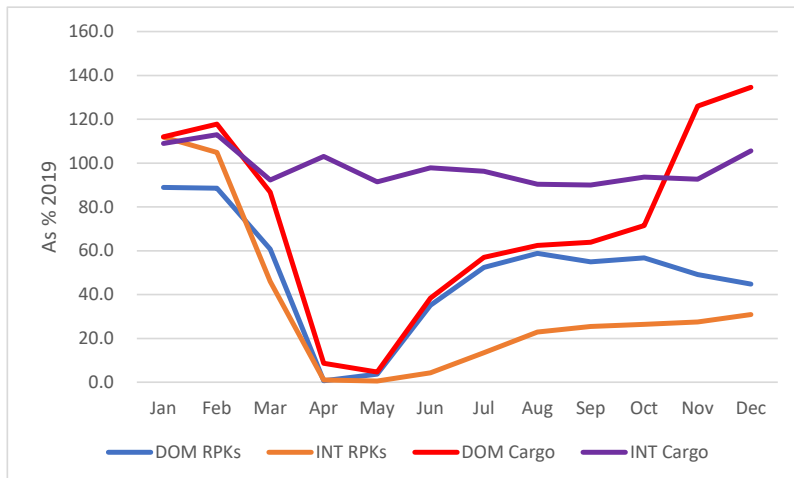
### Pegasus, Ryanair and Wizz



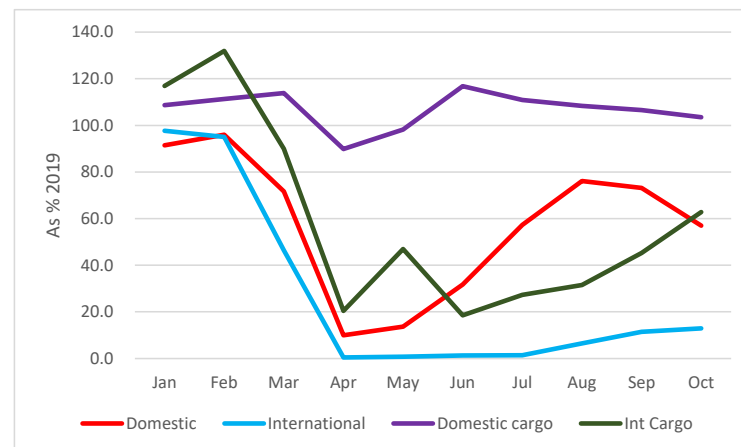
### Finnair and SAS



### Turkish



### Aeroflot

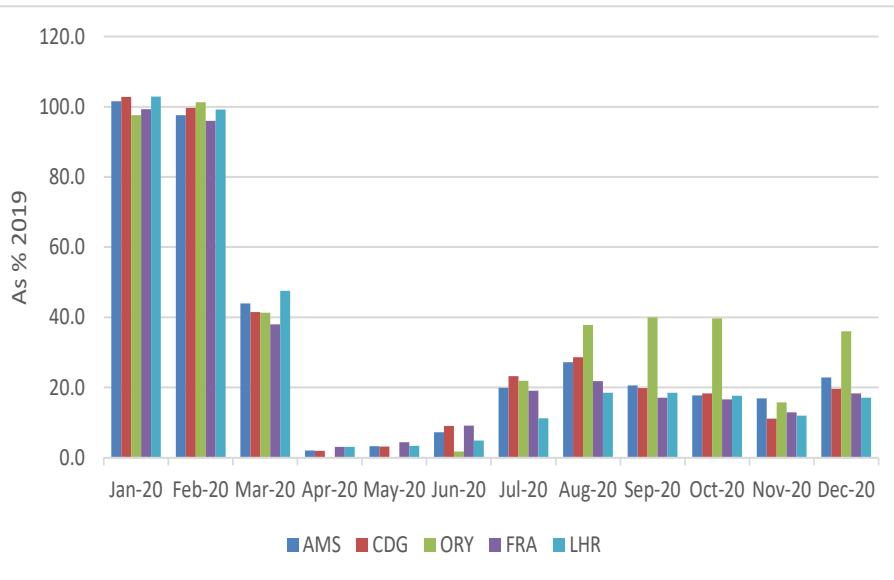


Source: CTAIRA from company reports

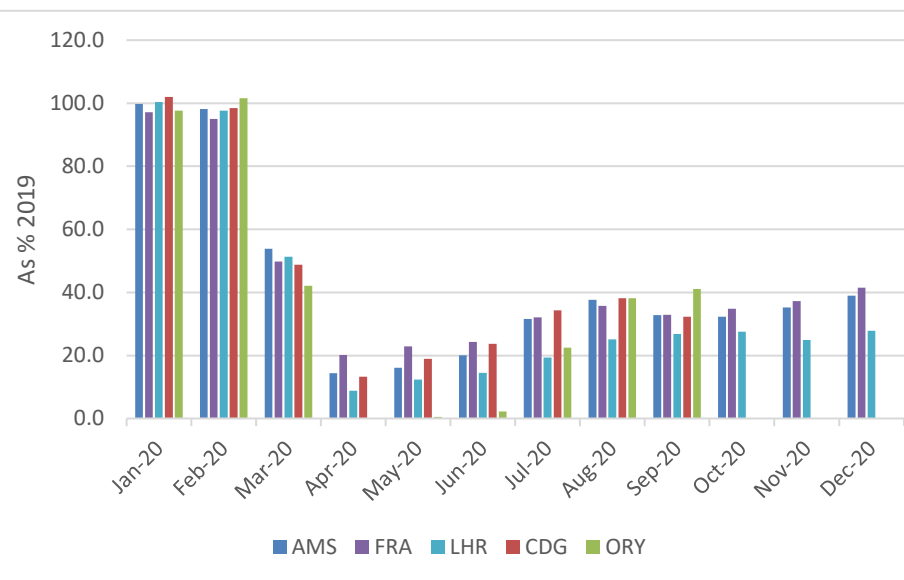


# Europe - unsurprisingly similar

## Passengers



## Work load units



Source: CTAIRA from Company reports

- Entirely predictable pattern given the restrictions – significant implications for airports re capacity to open and also how to achieve better variable/fixed split re costs.
- Cargo at FRA in December +8.9% vs 2019, AMS +7.4%, but -15.1% at LHR.
- In terms of “workload units” FRA currently 41% of 2019 and LHR 28%.



## Recent performances compared

Quarter ending	30/06/2019	30/09/2019	31/12/2019	31/03/2020	30/06/2020	30/09/2020
<b>easyJet</b>						
Revenue per seat	£	£	£	£	£	£
Scheduled	48.16	59.93	46.26	38.53	53.03	37.70
Ancillary	12.99	16.10	12.39	13.48	0.00	12.79
	61.15	76.03	58.64	52.01	53.03	50.49
Cost per seat	55.2	58.4	58.4	61.5	2515.9	73.5
	%	%	%	%	%	%
Operating margin	9.8	23.2	0.4	-18.3	nm	-45.6
<b>easyJet</b>						
Revenue per seat	€	€	€	€	€	€
Scheduled	67.3	83.6	64.5	57.2	58.3	55.5
Cost per seat	60.7	64.2	64.2	67.7	2767.5	80.9
<b>Ryanair</b>						
Revenue per seat						
Scheduled	34.77	48.60	31.71	22.70	122.85	29.93
Ancillary	18.21	18.84	19.25	19.49	29.89	15.65
	52.98	67.45	50.97	42.19	152.74	45.59
Cost per seat	46.68	45.25	48.53	51.05	381.62	45.12
	%	%	%	%	%	%
Operating margin	11.90	32.91	4.79	-21.00	-149.84	1.03
<b>Wizz</b>						
Revenue per seat	€	€	€	€	€	€
Scheduled	34.17	47.08	31.11	25.18	23.08	19.59
Ancillary	28.10	32.81	27.85	27.74	48.19	23.64
	62.27	79.89	58.96	52.92	71.27	43.23
Cost per seat	53.93	53.63	55.76	65.87	154.71	59.06
	%	%	%	%	%	%
Operating margin	13.4	32.9	5.4	-24.5	-117.1	-36.6

- Actual low cost now even more important than in the past
- Volumes will lead fares for some time
- VFR and leisure will recover quickest
- Further structural market shift

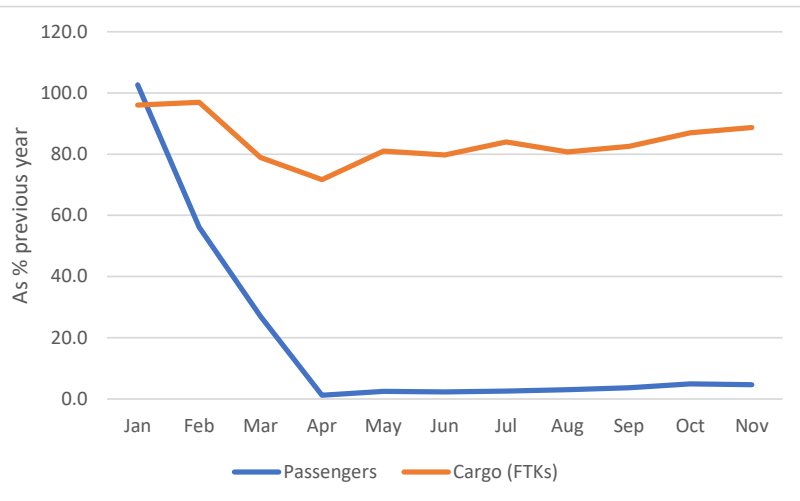
Source: CTAIRA from company reports



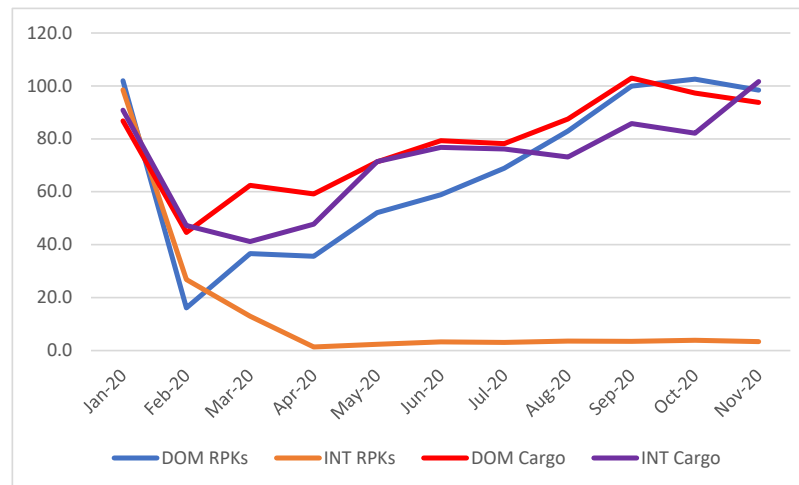


## Asia – recent traffic performance

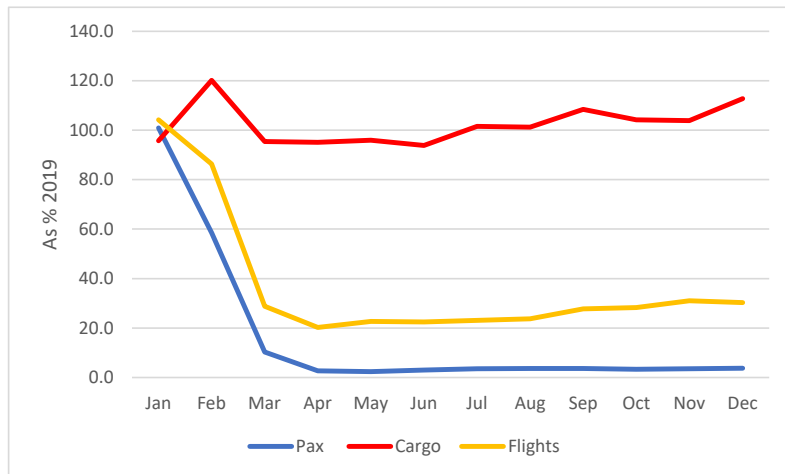
### AAPA – Key data



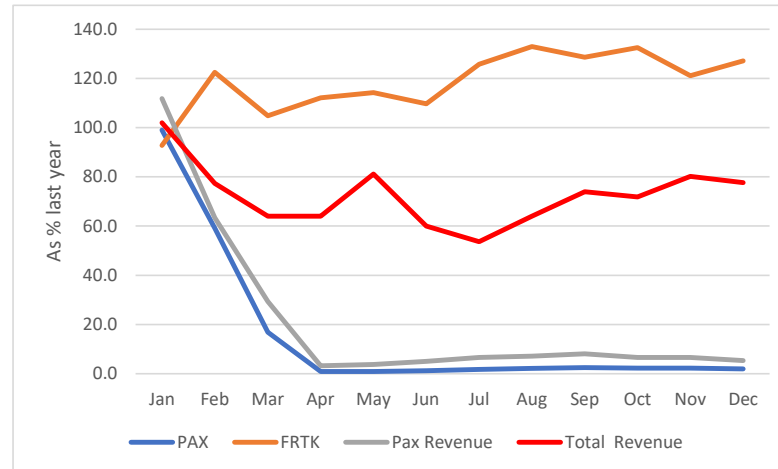
### Air China



### ICN – summary



### China Airlines

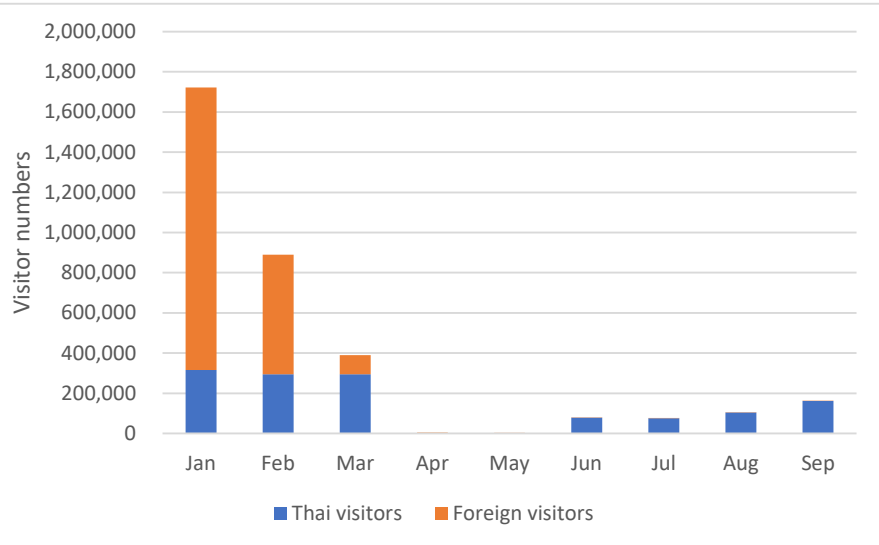


Source: CTAIRA from company reports

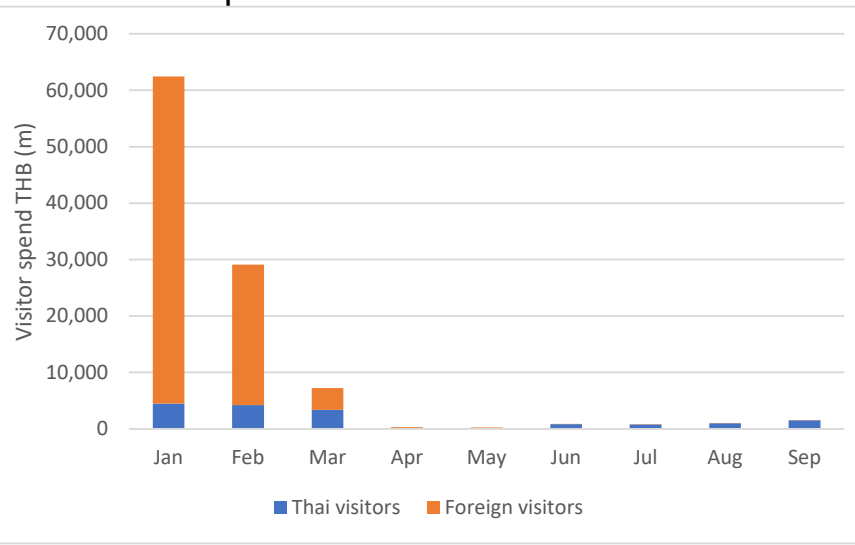


# Taking a look at Phuket - tourism

Phuket visitors



Tourism spend

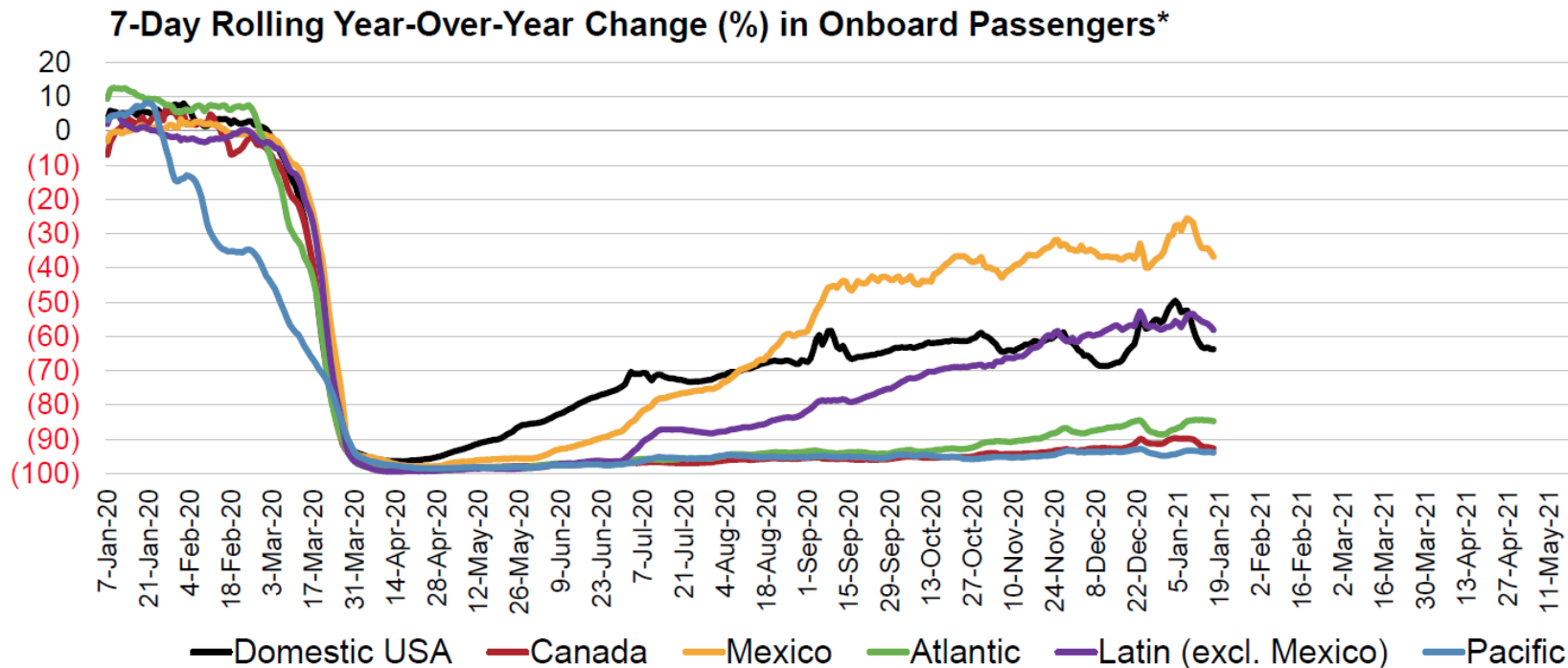


Source: CTAIRA from Ministry of Tourism and Sports

- In terms of tourists all international visitors represented some 73% of total visitor numbers in January to September 2019 and some 88% of revenues.
- Whilst restrictions remain in place sector will remain depressed – key issue is concern of Covid in “origin markets” and importing it given Thailand’s low rate of infections and deaths.



# US passenger trends



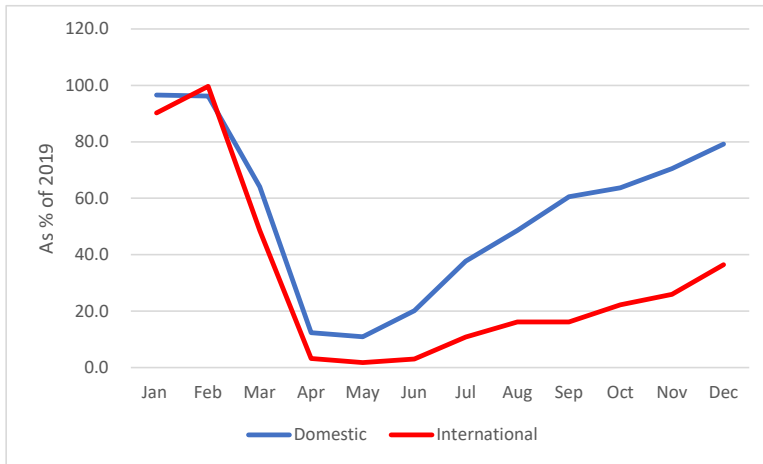
Source: Airlines for America

- Need to separate trend from “seasonal factors and transient peaks

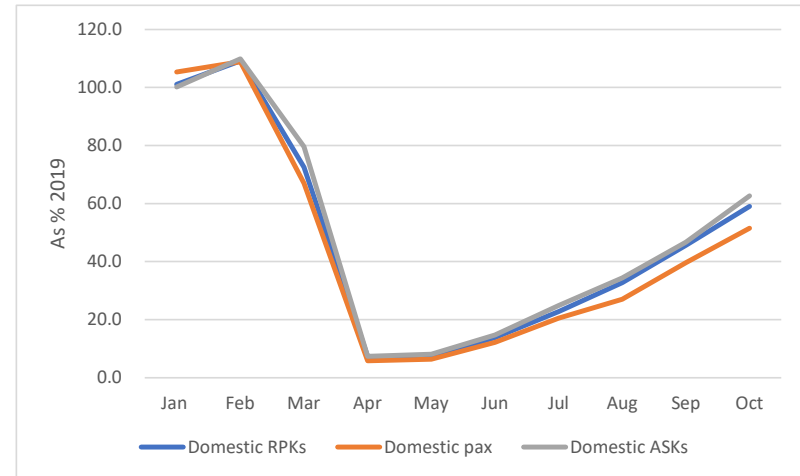


## Latin America trends (1)

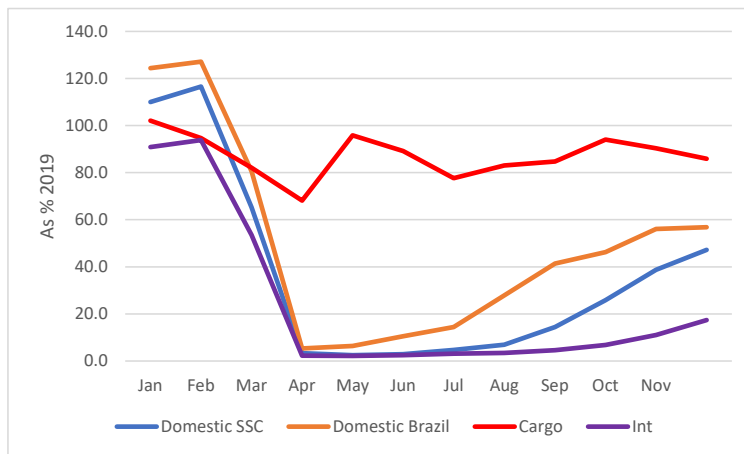
### Aeromexico



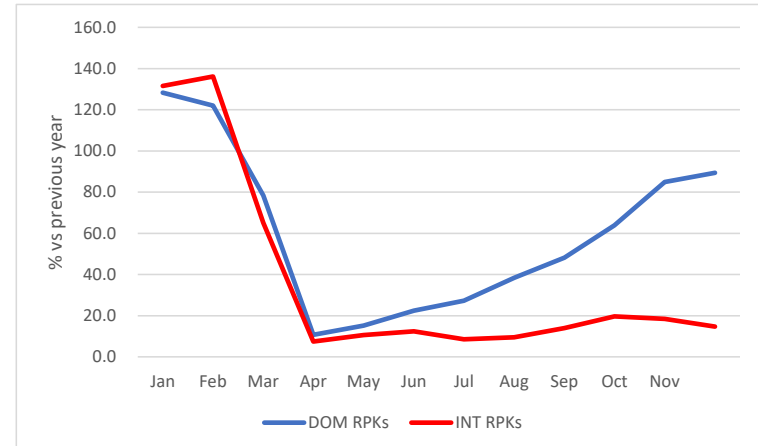
### GOL



### Latam



### Azul

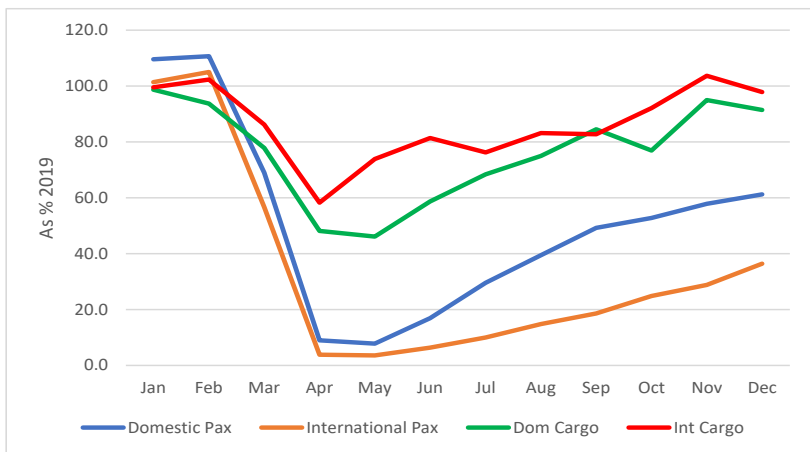


Source: CTAIRA from Company reports

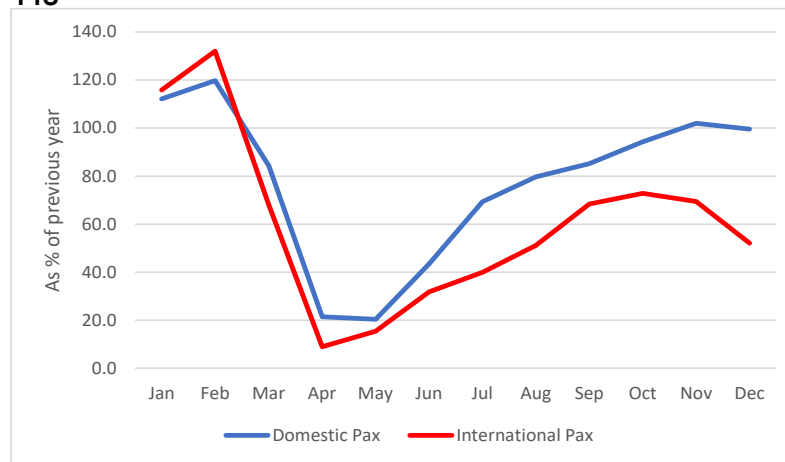


## Latin America trends (2)

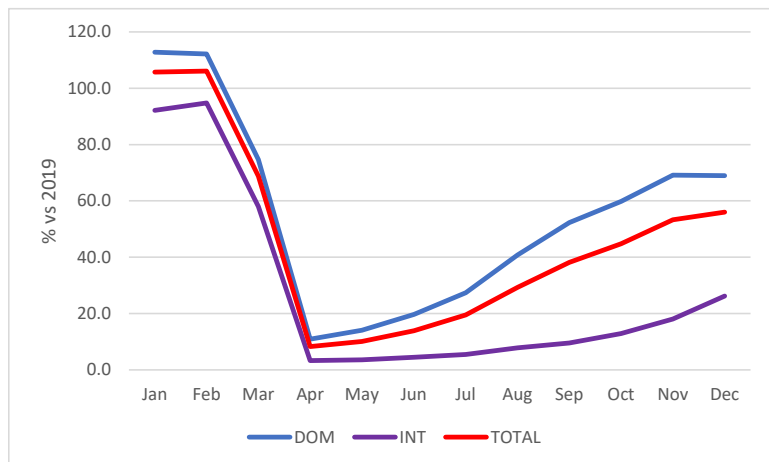
### MEX



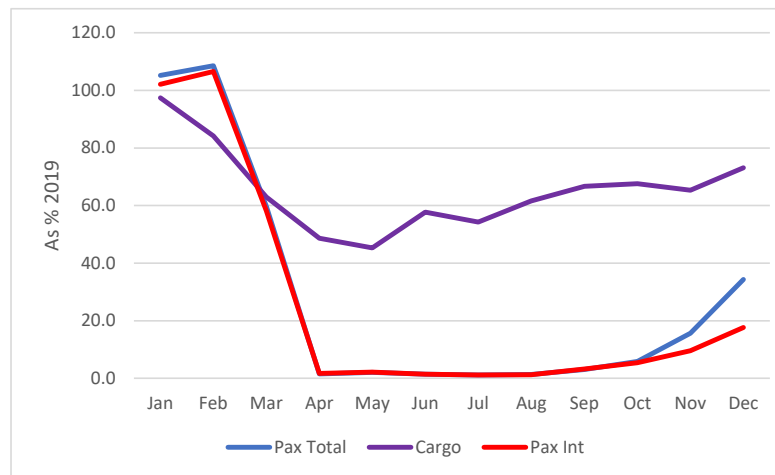
### TIJ



### GRU



### EZE

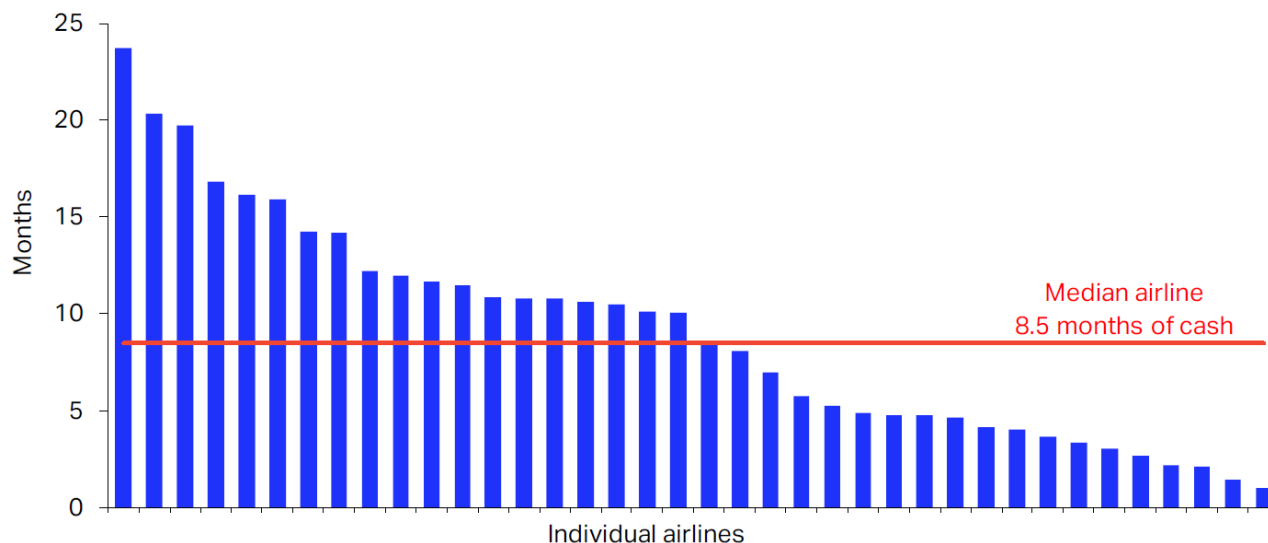


Source: CTAIRA from Company reports



# Taking a view on cash

2020 end June cash+cash equivalents/2020 H2 monthly cash burn



Median airline  
8.5 months of cash

Source: IATA

- Only a relatively small sample – reality likely to be far worse – we estimate >90% of airlines have less < 3 months liquidity on hand
- Will be worse in Q3,Q4 and Q1 2021 due to outflows and minimal inflow
- Increased gap between the “haves” and “have nots” largely determined by access to affordable capital - e.g. coupon on Finnair bond 10.25% (notwithstanding significant government ownership) vs 3% on Ryanair bond (was oversubscribed 4x).
- Not looking good but where will the cash come from and what are the consequences of it not materialising? – too much for traditional markets



## It's the economy that matters after the restart

Table 1: Gross domestic product, volume (percentage change on preceding year, 2001-2021) 30.6.2020

	<u>5-year averages</u>							<u>Summer 2020 forecast</u>		<u>Spring 2020 forecast</u>	
	2001-05	2006-10	2011-15	2016	2017	2018	2019	2020	2021	2020	2021
Belgium	1.9	1.5	1.3	1.5	1.9	1.5	1.4	-8.8	6.5	-7.2	6.7
Germany	0.5	1.2	1.7	2.2	2.5	1.5	0.6	-6.3	5.3	-6.5	5.9
Estonia	7.3	-0.3	3.3	2.6	5.7	4.8	4.3	-7.7	6.2	-6.9	5.9
Ireland	5.3	0.4	6.7	3.7	8.1	8.2	5.5	-8.5	6.3	-7.9	6.1
Greece	3.9	-0.3	-4.0	-0.2	1.5	1.9	1.9	-9.0	6.0	-9.7	7.9
Spain	3.3	1.0	0.0	3.0	2.9	2.4	2.0	-10.9	7.1	-9.4	7.0
France	1.7	0.8	1.0	1.1	2.3	1.8	1.5	-10.6	7.6	-8.2	7.4
Italy	0.9	-0.3	-0.7	1.3	1.7	0.8	0.3	-11.2	6.1	-9.5	6.5
Cyprus	4.0	2.7	-1.7	6.7	4.4	4.1	3.2	-7.7	5.3	-7.4	6.1
Latvia	8.2	-0.5	3.6	1.8	3.8	4.3	2.2	-7.0	6.4	-7.0	6.4
Lithuania	7.6	1.1	3.8	2.6	4.2	3.6	3.9	-7.1	6.7	-7.9	7.4
Luxembourg	2.9	2.4	2.9	4.6	1.8	3.1	2.3	-6.2	5.4	-5.4	5.7
Malta	2.1	2.0	5.7	5.8	6.5	7.3	4.7	-6.0	6.3	-5.8	6.0
Netherlands	1.3	1.4	0.7	2.2	2.9	2.4	1.7	-6.8	4.6	-6.8	5.0
Austria	1.8	1.3	1.1	2.1	2.5	2.4	1.6	-7.1	5.6	-5.5	5.0
Portugal	0.9	0.6	-0.8	2.0	3.5	2.6	2.2	-9.8	6.0	-6.8	5.8
Slovenia	3.6	1.9	0.4	3.1	4.8	4.1	2.4	-7.0	6.1	-7.0	6.7
Slovakia	5.0	4.9	2.6	2.1	3.0	3.9	2.4	-9.0	7.4	-6.7	6.6
Finland	2.6	0.9	0.1	2.8	3.3	1.5	1.1	-6.3	2.8	-6.3	3.7
Euro area	1.5	0.8	0.8	1.9	2.5	1.9	1.3	-8.7	6.1	-7.7	6.3
Bulgaria	5.7	3.2	1.8	3.8	3.5	3.1	3.4	-7.1	5.3	-7.2	6.0
Czechia	3.9	2.4	1.7	2.5	4.4	2.8	2.6	-7.8	4.5	-6.2	5.0
Denmark	1.3	0.2	1.3	3.2	2.0	2.4	2.4	-5.2	4.3	-5.9	5.1
Croatia	4.5	0.5	-0.2	3.5	3.1	2.7	2.9	-10.8	7.5	-9.1	7.5
Hungary	4.4	-0.2	2.1	2.2	4.3	5.1	4.9	-7.0	6.0	-7.0	6.0
Poland	3.1	4.8	3.0	3.1	4.9	5.3	4.1	-4.6	4.3	-4.3	4.1
Romania	5.6	2.8	3.0	4.8	7.1	4.4	4.1	-6.0	4.0	-6.0	4.2
Sweden	2.6	1.8	2.2	2.1	2.6	2.0	1.2	-5.3	3.1	-6.1	4.3
EU	1.7	1.0	1.0	2.1	2.7	2.1	1.5	-8.3	5.8	-7.4	6.1
P.M.: United Kingdom	2.8	0.5	2.0	1.9	1.9	1.3	1.5	-9.7	6.0	-8.3	6.0

Source: Eurostat



## APAC likely to recover quickest

	2018	2019	2020 forecast	2021 forecast
Bangladesh	7.9	8.2	5.2	6.8
Cambodia	7.5	7.1	-4.0	5.9
Hong Kong, China	2.8	-1.2	-6.5	5.1
India	6.1	4.2	-9.0	8.0
Indonesia	5.2	5.0	-1.0	5.3
Malaysia	4.8	4.3	-5.0	6.5
Maldives	6.9	5.9	-20.5	10.5
Pakistan	5.5	1.9	-0.4	2.0
People's Republic of China	6.7	6.1	1.8	7.7
Philippines	6.3	6.0	-7.3	6.5
Republic of Korea	2.7	2.0	-1.0	3.3
Singapore	3.4	0.7	-6.2	4.5
Sri Lanka	3.3	2.3	-5.5	4.1
Taipei, China	2.7	2.7	0.8	3.5
Thailand	4.2	2.4	-8.0	4.5
Viet Nam	7.1	7.0	1.8	6.3

Source: CTAIRA from ADB data

- Inevitably a wide range of experiences and expectations and in some cases a dip in growth this year and in many others a significant recovery in 2021.
- Experience of Thailand and Maldives highlight the impact on tourism dependent economies.

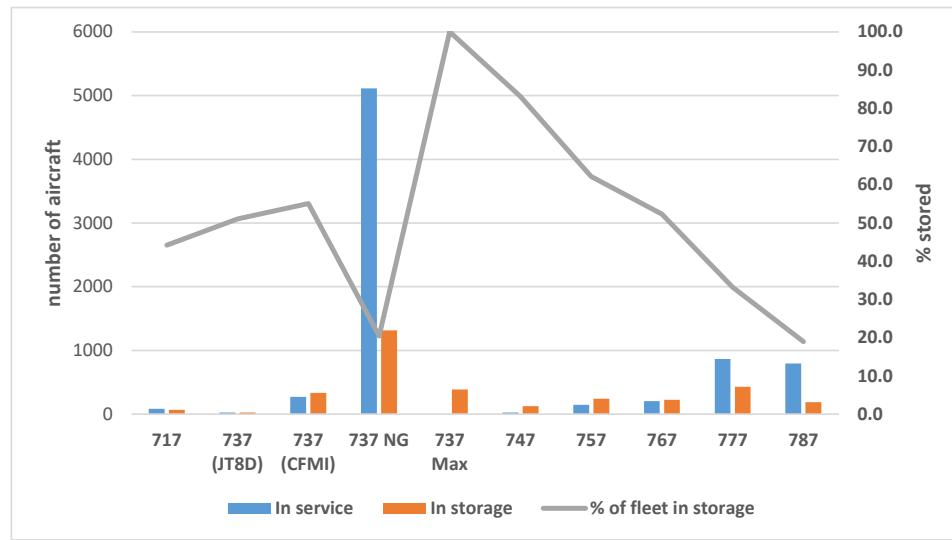
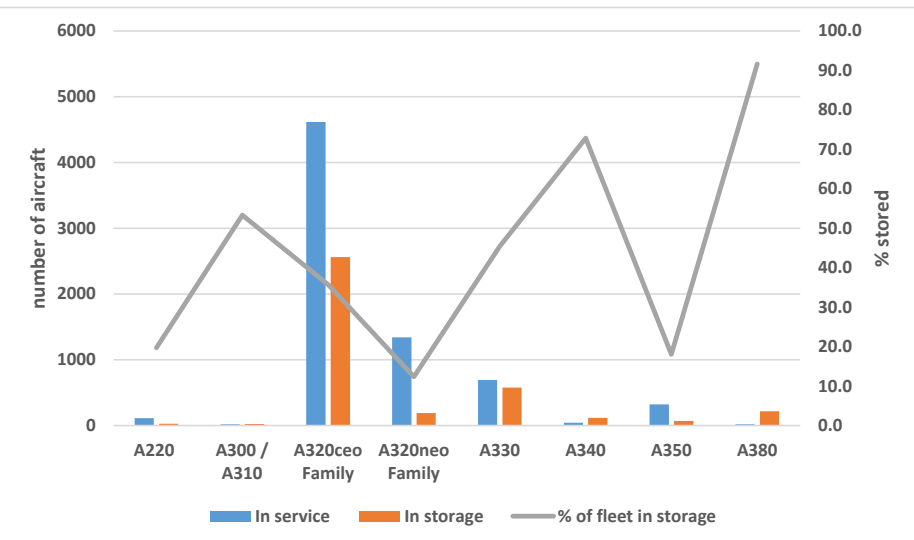




# Activity by manufacturer and type

Airbus

Boeing



Source: CTAIRA from Ascend and company data

- Few surprises here also some very clear statements of intent re for example A380 (Current week 5.8% of flights vs 2019) , B747 (6.2% of flights vs 2019) etc but also clear from utilisation statistics that where being operated A350 and B787 hours broadly similar to those of 2019

# So what might it mean?

- Still facing a hiatus until at least the first two constraints (market access and restrictions) are relieved to some degree and where key issues for some remain (profitable?) restart (on a route basis) and for others a move to the recovery phase; Winter already more challenging than previously expected.
- Traveller confidence related to vaccination and testing but reality is that Spring 2021 will be the turning point as a recognition will also have to live with it.
- The structure of traffic at a market and airline level will be a material determinant on the pace of recovery.
- The time taken for economies to bounce back, and then grow again, will have a material and differentiated impact on pace of recovery and the associated revenue.
- End of “have metal will fly strategies” as crisis brings an opportunity to reduce non-productive fleet – secondary aircraft market still disorderly with consequences in particular for aircraft values and financing and also production rates.
- Opportunities for new market entrants with new models particularly in dislocated markets with a low cost of entry and also a need for a number of small countries to consider “virtual airlines” as the only affordable way to provide required connectivity and economic and societal benefit.
- Future will be characterised by a greater share of point to point, particularly in international markets; unless “demand aggregators” fully restore schedules attractiveness of connecting services significantly declines – with amongst other things an impact on “ideal” aircraft size.
- Potentially a more concentrated industry and a move back towards (sustainably profitable) demand side economics and away from supply side determination – the airline shake out has yet to run its course.



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