



Where will the industry be in 12 months time?

And

Why do we think it might be in that position

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Chartered Insurance Institute Seminar

25th February 2021

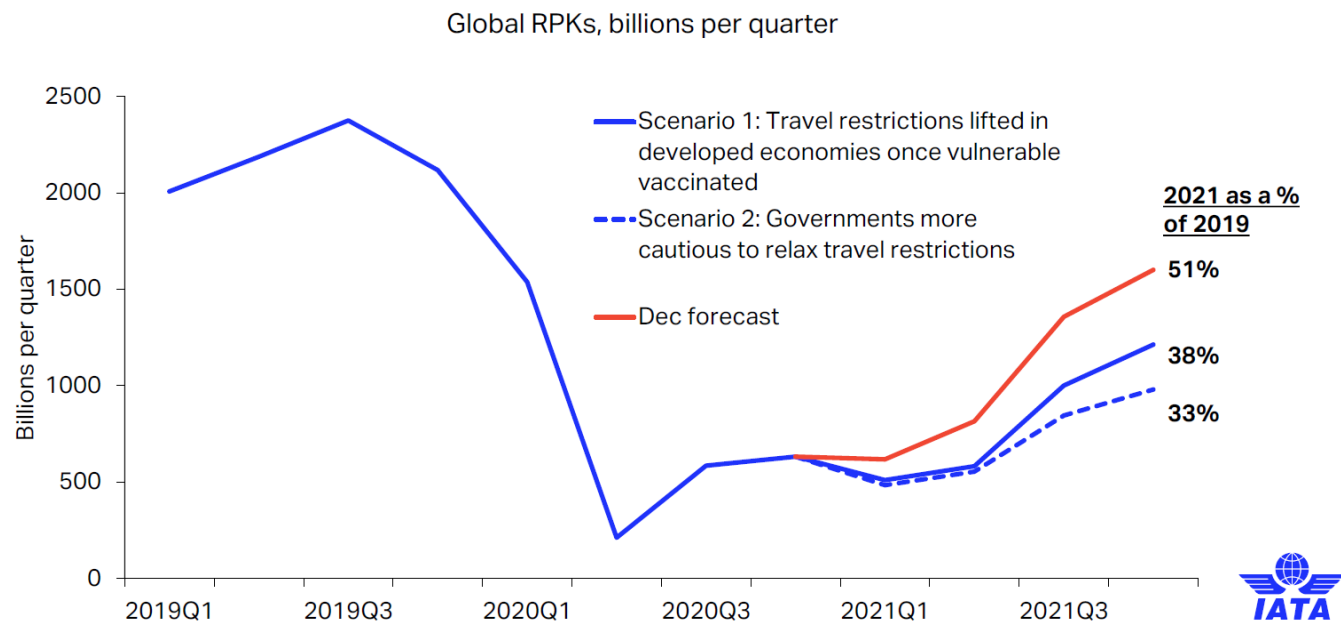


Key points

- Although we need to review where we are now the reality is that it is more important to take a look beyond and to the size, shape and composition of the industry.
- We have identified 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.
- We should be very clear that not only that the 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 – something which clearly shows through from our own analysis.
- Notwithstanding the spate of European restrictions the reality is that we are perhaps moving to a more sustainable turning point from the early part of Summer 2021 – Today we have seen Qantas announcing its return to international services later this year and much earlier than had been expected.
- 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.



IATA's most recent view of the outlook



Source; IATA 24th February 2021

- Highlights the need to look behind the aggregate given the wide range of experiences that are already evident and the fact that unlocking will not be uniform in terms of timing or universal in terms of geography
- Need to look on a bilateral basis and also a need to measure actual risks more appropriately



The current constraints – few surprises

- We have identified the principal constraints to not only travel now but also on the speed at which it is likely to recover to previous levels as:
 - Closed markets
 - Government decisions and in first instance corridors with or without airport testing
 - Travel restrictions including ad-hoc introduction of quarantine
 - A function of “in country” outbreaks at either end of the route
 - Lack of passenger confidence
 - Function of risk perception and also “freedom to travel”
 - Economic damage resulting from COVID-19
 - Generally material and will be long lasting in some cases, not least economies that depend upon inbound tourism if the return is delayed
 - Cash
 - For many airlines the prospect of “5 winter seasons”
 - Need for additional new cash but to enable businesses to restart and recover and not just cover losses but where traditional institutional markets unable to provide enough for an industry of the pre-covid size.
 - Real need for more equity - but how strong are the “investment stories”?



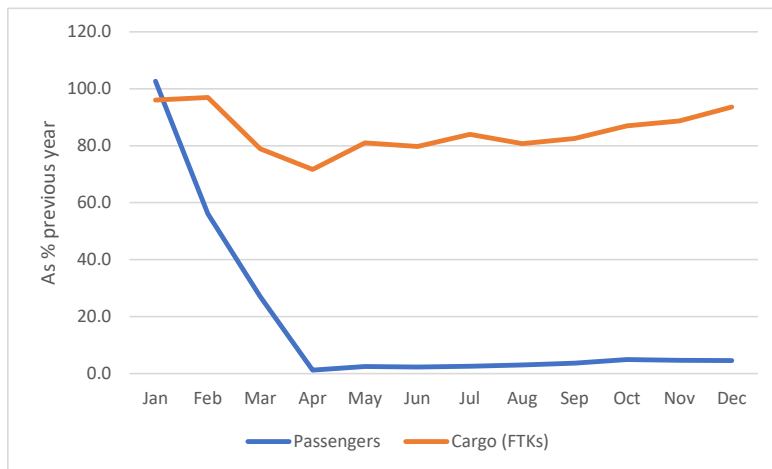
The current “activity states”

- In effective hibernation at least in respect of passenger activities
 - Evident in most 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

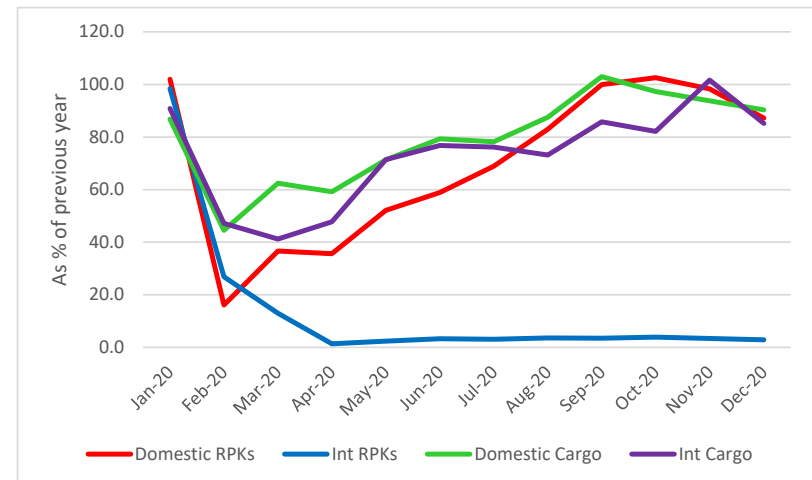


Asia – recent traffic performance

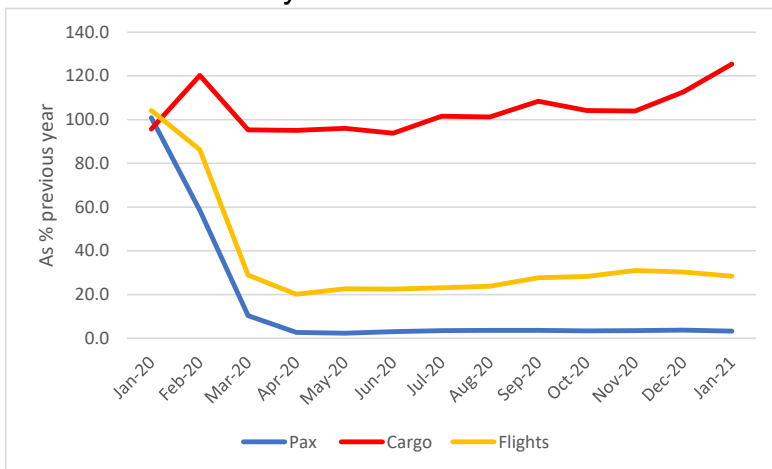
AAPA – Key data



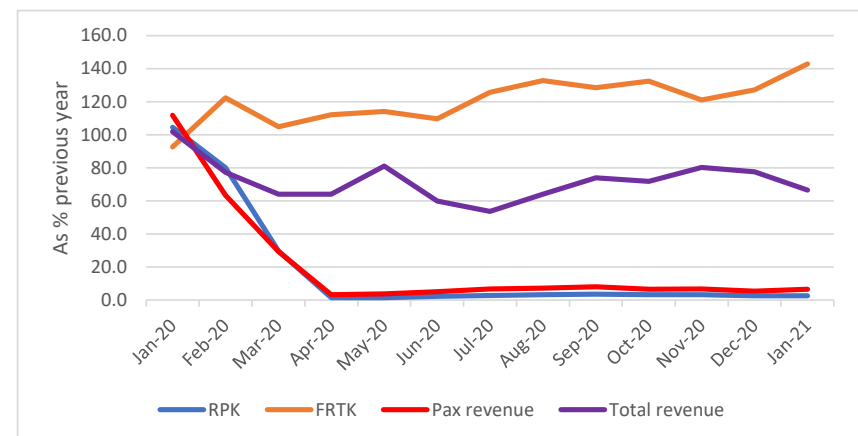
Air China



ICN – summary



China Airlines

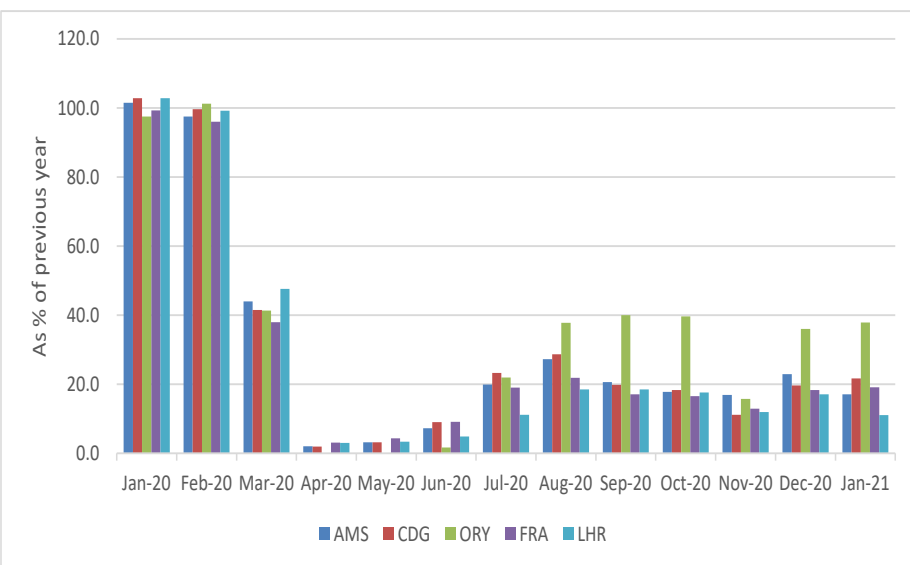


Source: CTAIRA from company reports

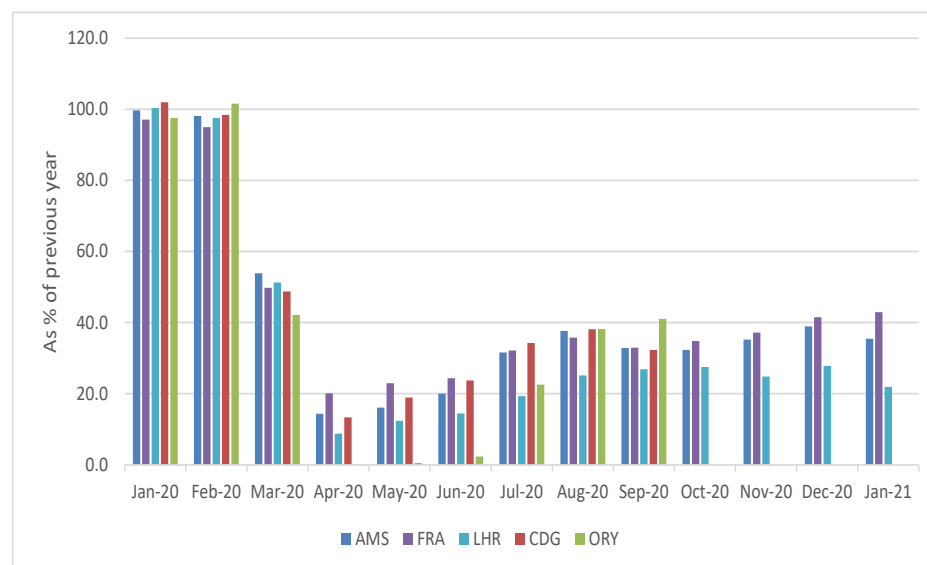


Europe - unsurprisingly similar

Passengers



Work load units



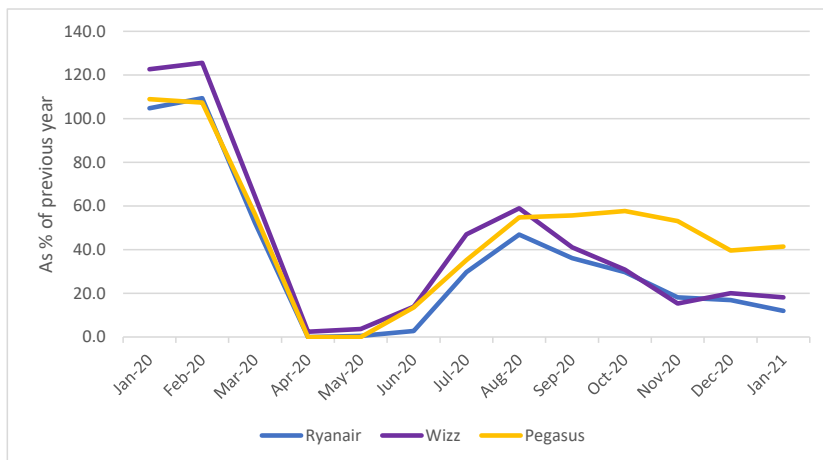
Source: CTAIRA from Company reports

- 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%.

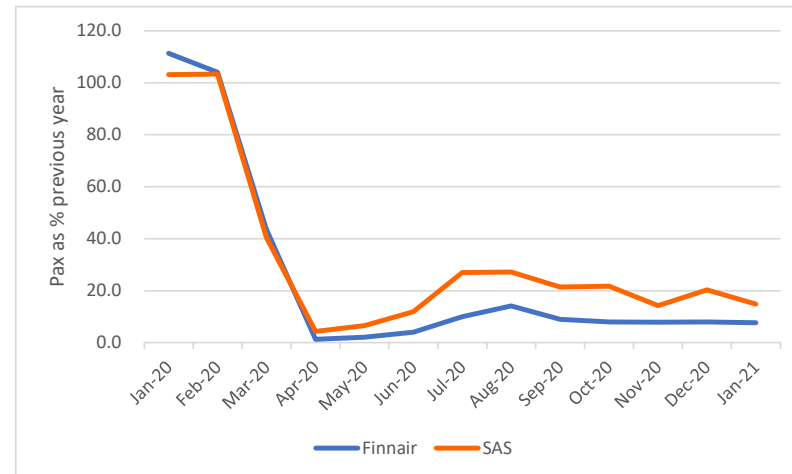


European Airlines – recent traffic performance

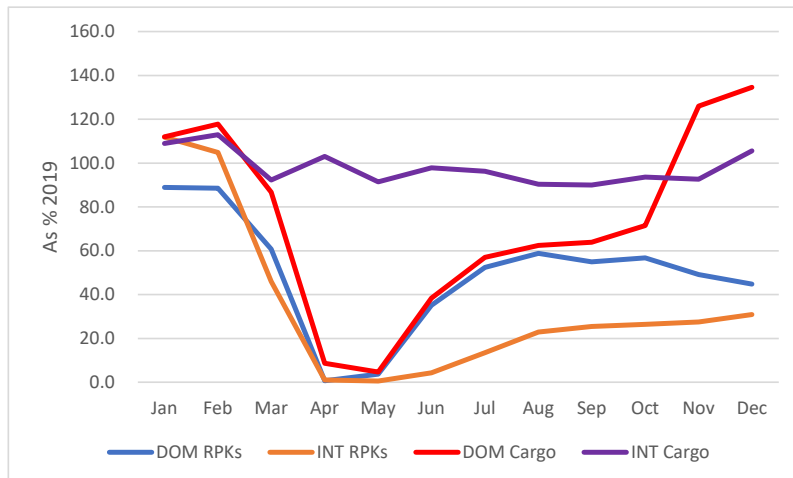
Pegasus, Ryanair and Wizz



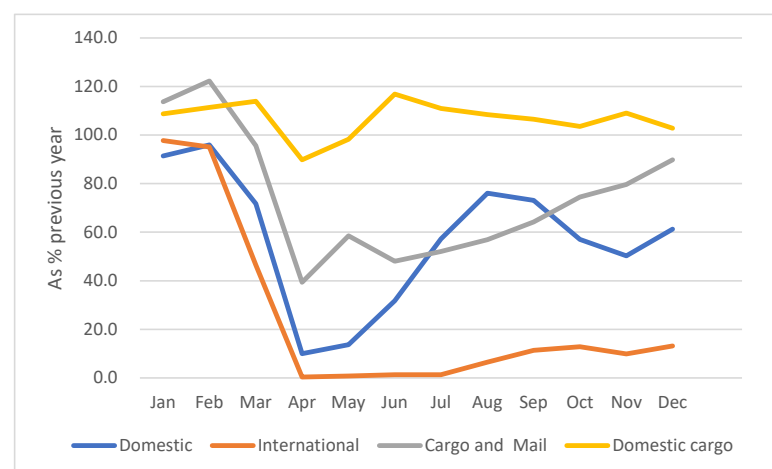
Finnair and SAS



Turkish



Aeroflot



Source: CTAIRA from company reports



Recent performances compared

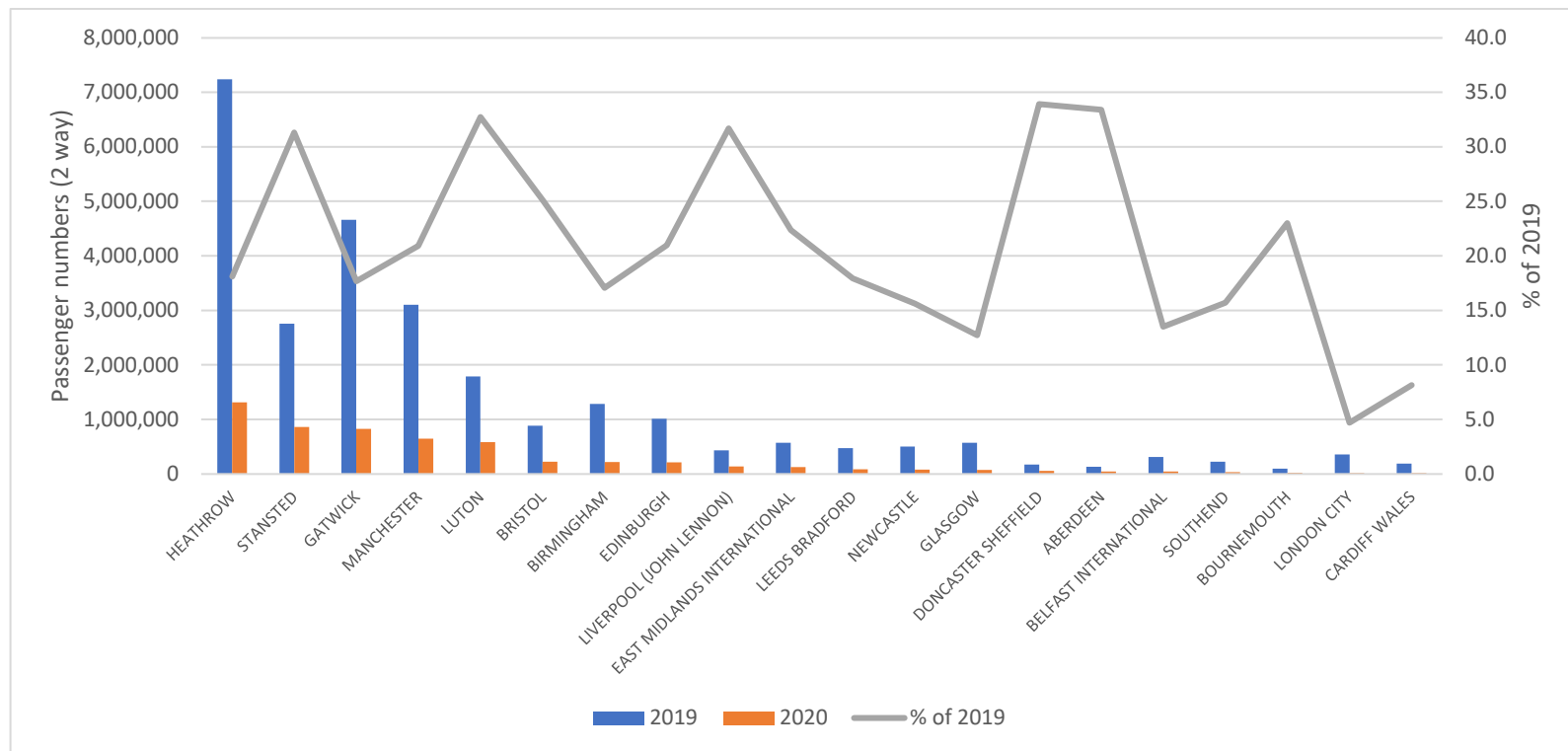
Quarter ending	30/06/2019	30/09/2019	31/12/2019	31/03/2020	30/06/2020	30/09/2020	31/12/2020
easyJet							
Revenue per seat	£	£	£	£	£	£	£
Scheduled	48.16	59.93	46.26	38.53	53.03	37.70	27.13
Ancillary	12.99	16.10	12.39	13.48	0.00	12.79	10.80
	61.15	76.03	58.64	52.01	53.03	50.49	37.93
Cost per seat	55.2	58.4	58.4	61.0	2515.9	73.5	135.2
Estimated cash cost	51.5	54.9	54.6	55.5	1743.2	65.2	111.7
	%	%	%	%	%	%	%
Operating margin	9.8	23.2	-0.3	-17.3	nm	-45.6	-256.4
easyJet €							
Revenue per seat	€	€	€	€	€	€	€
	67.3	83.6	64.5	57.2	58.3	55.5	41.7
Cost per seat	60.7	64.2	64.2	67.1	2767.5	80.9	148.7
Estimated cash cost	56.7	60.4	60.1	61.0	1917.5	71.7	122.9
Ryanair							
Revenue per seat	€	€	€	€	€	€	€
Scheduled	34.77	48.60	31.71	22.70	122.85	29.93	15.28
Ancillary	18.21	18.84	19.25	19.49	29.89	15.65	14.12
	52.98	67.45	50.97	42.19	152.74	45.59	29.41
Cost per seat	46.68	45.25	48.53	51.05	381.62	45.12	58.07
Estimated cash cost	44.34	43.04	45.56	47.84	376.40	53.23	67.05
	%	%	%	%	%	%	%
Operating margin	11.90	32.91	4.79	-21.00	-149.84	1.03	-97.48
Wizz							
Revenue per seat	€	€	€	€	€	€	€
Scheduled	34.17	47.08	31.11	25.18	23.08	19.59	18.99
Ancillary	28.10	32.81	27.85	27.74	48.19	23.64	22.69
	62.27	79.89	58.96	52.92	71.27	43.23	41.68
Cost per seat	53.93	53.63	55.76	65.87	154.71	59.06	81.11
Estimated cash cost	47.58	47.30	49.13	57.68	118.76	49.88	58.92
	%	%	%	%	%	%	%
Operating margin	13.4	32.9	5.4	-24.5	-117.1	-36.6	-94.6

- 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



UK airports – as good as it gets?

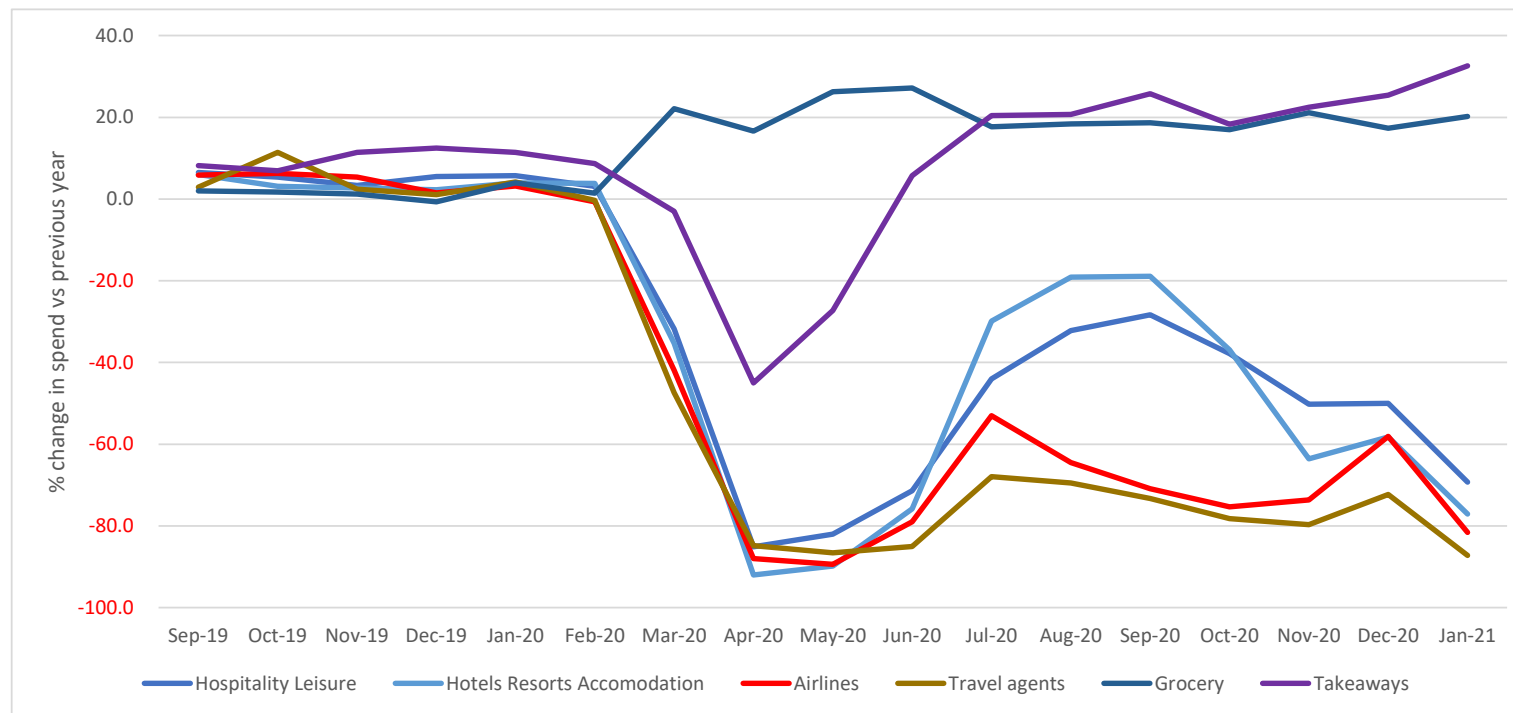


Source: CTAIRA from CAA data

- August in relative terms the best month – but range 5 -34% of 2019 passenger numbers
- Reflects airline structure and networks



Follow the money – or lack of it

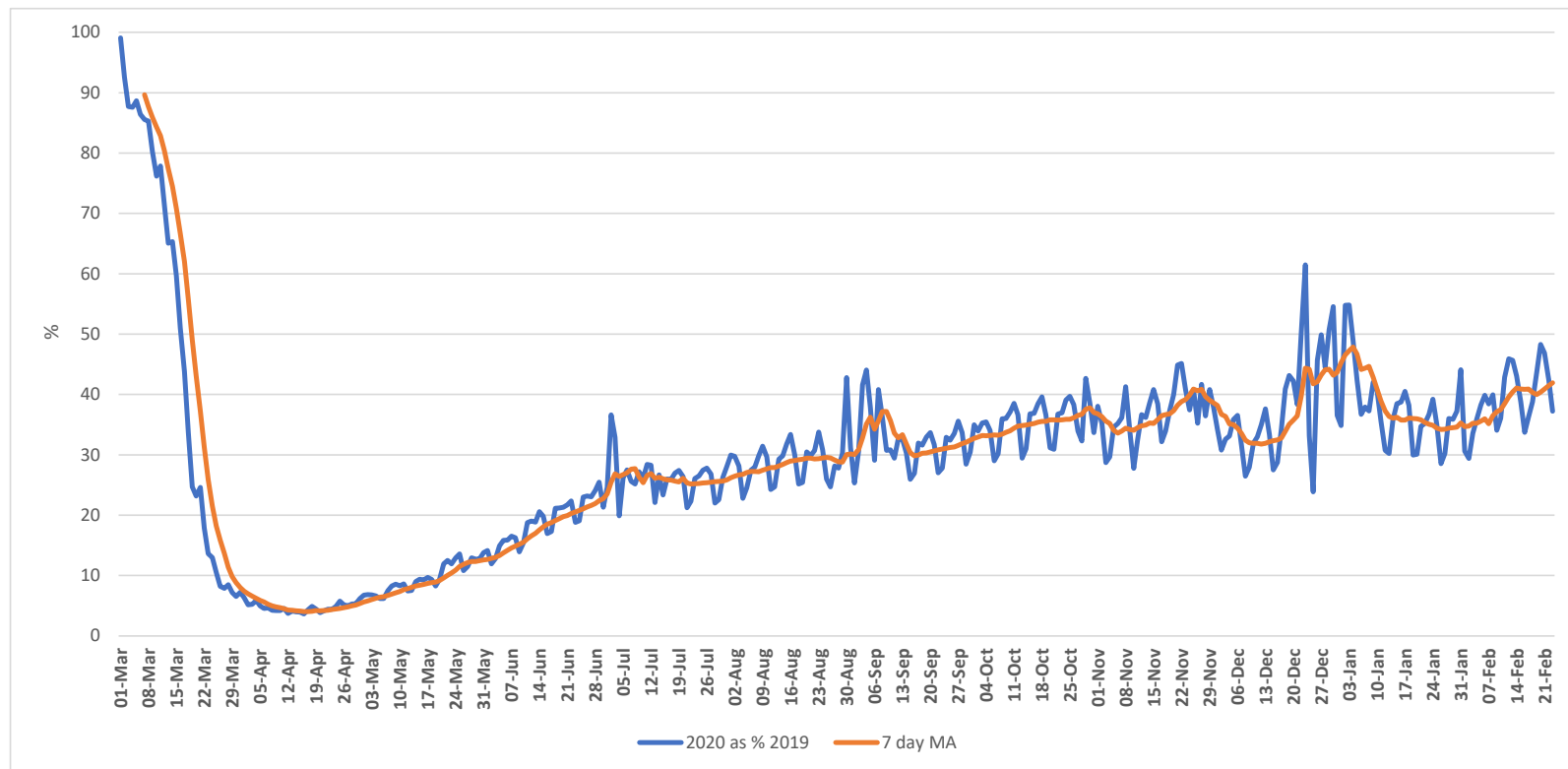


Source: CTAIRA from Barclaycard data

- No surprises in terms of direction but the size of some of the changes revealing
- December pick up for airlines reflects opened markets (at the time) and some anticipation of summer travel – but reversed in January and will show another reverse again in February data



US passenger trends (1)

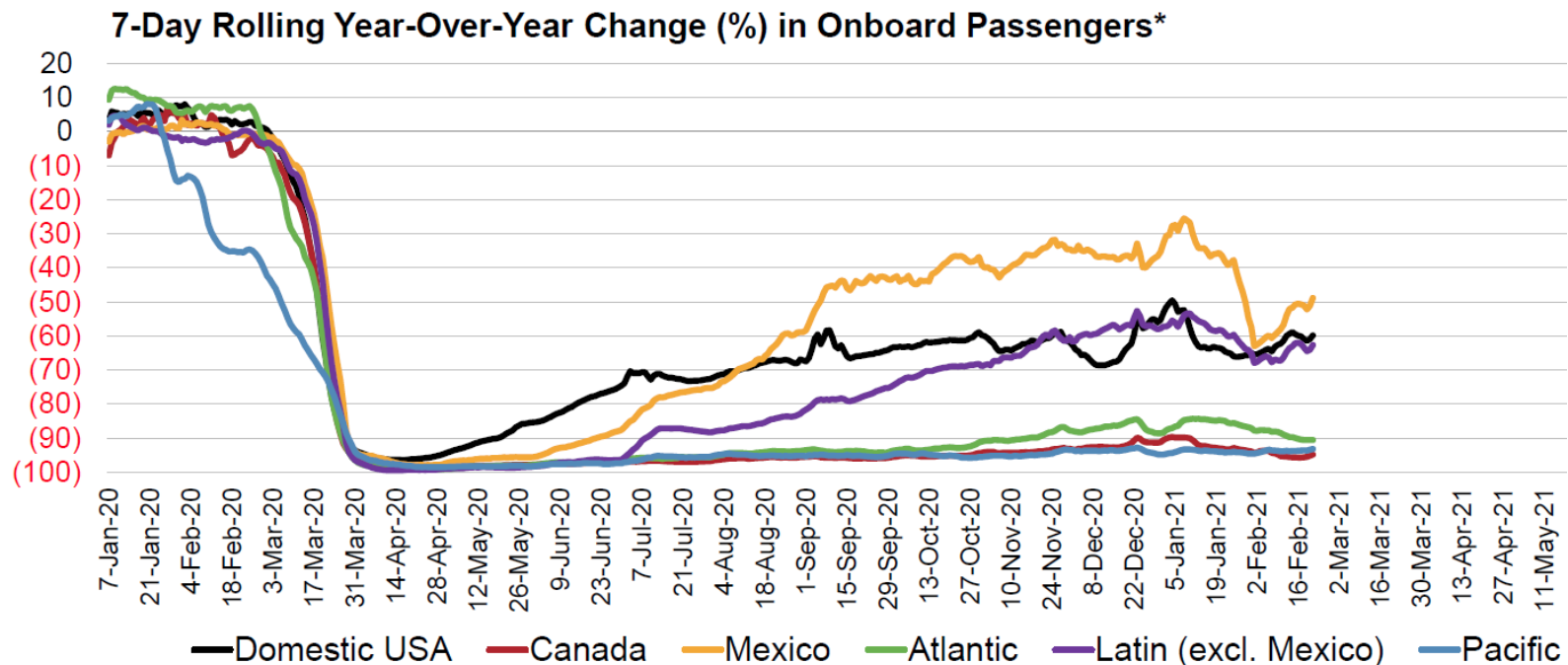


Source: CTAIRA from TSA data

- “Distortion” due to “4th July”, “Memorial Day” and most recently Christmas and introduction of US-Mexico restrictions – now c 42% of 2019 and indeed 2020 levels



US passenger trends (2)



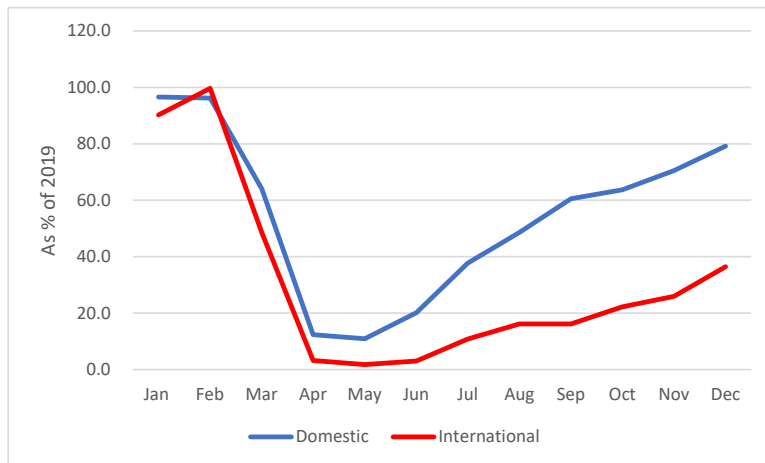
Source: Airlines for America

- Need to separate trend from “seasonal factors and transient peaks and then imposition of restrictions.

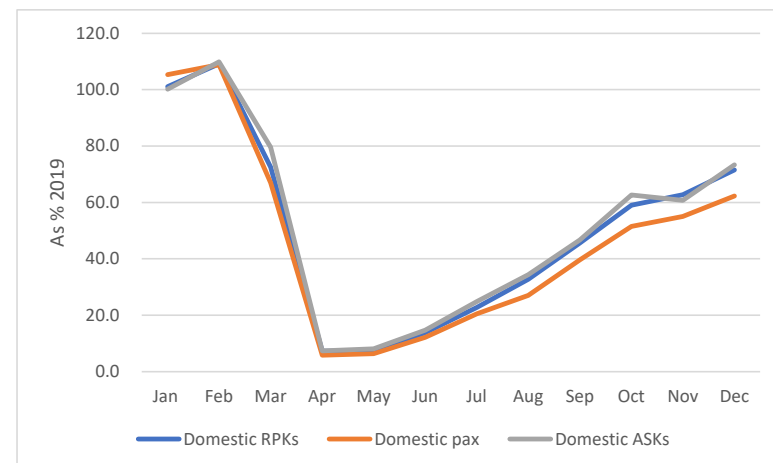


Latin America trends (1)

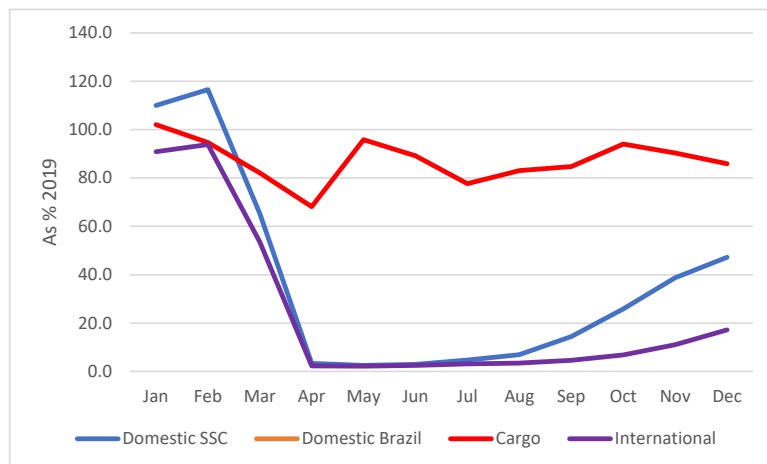
Aeromexico



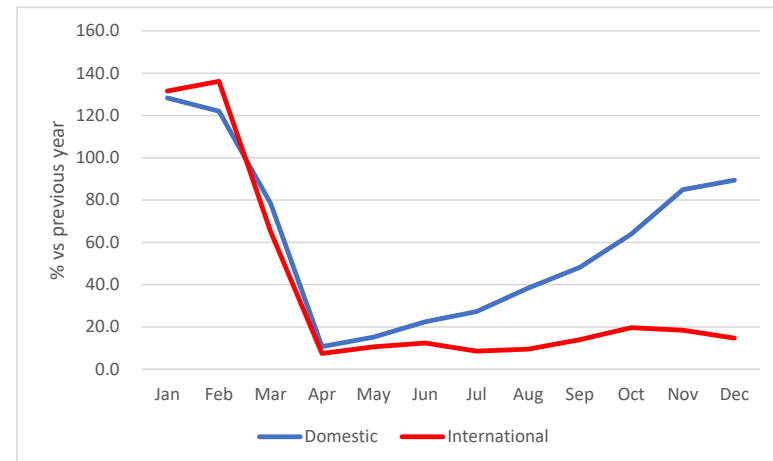
GOL



Latam



Azul

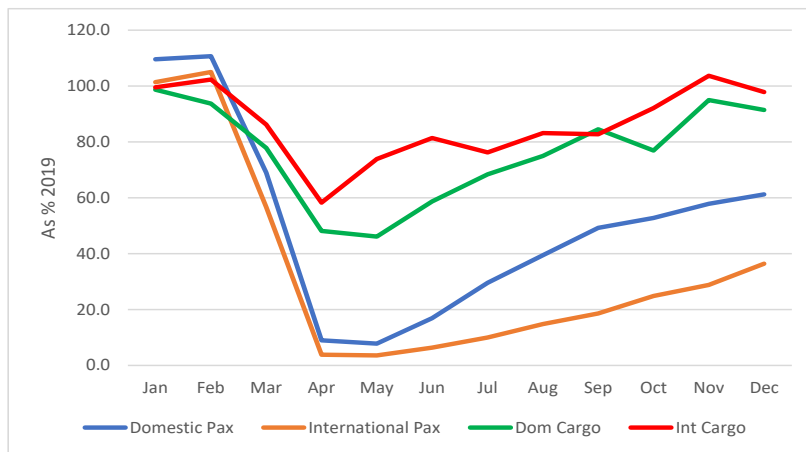


Source: CTAIRA from Company reports

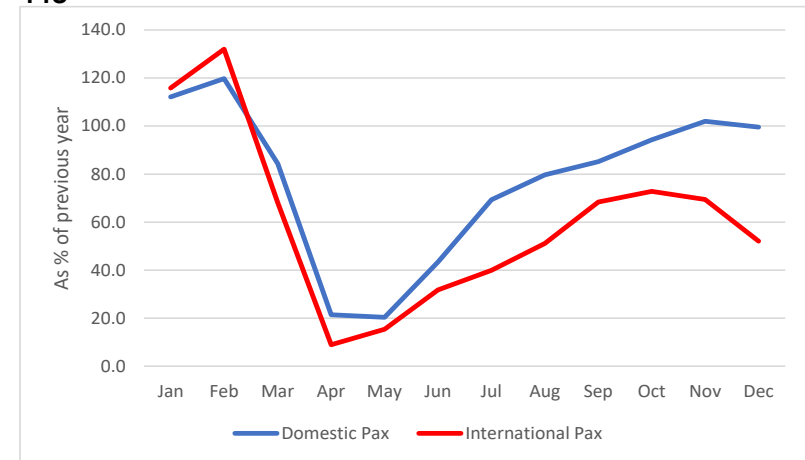


Latin America trends (2)

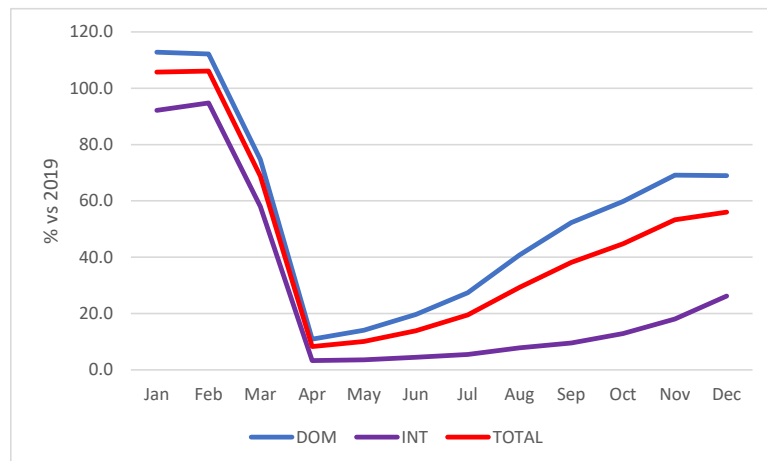
MEX



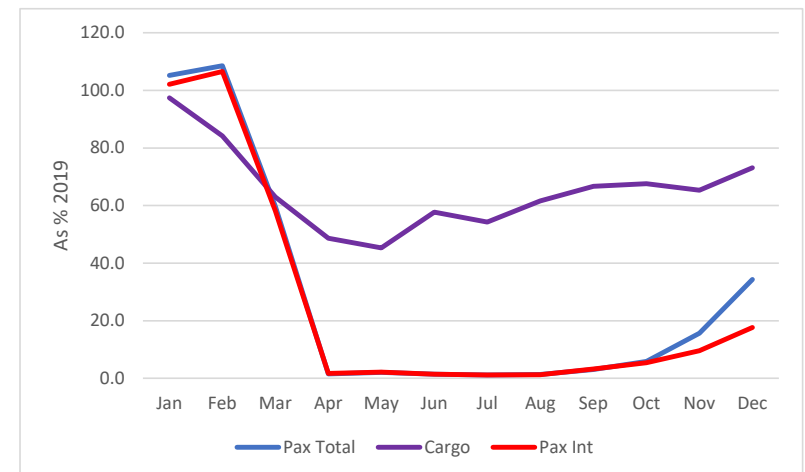
TIJ



GRU



EZE



Source: CTAIRA from Company reports



Releasing the restrictions – few surprises



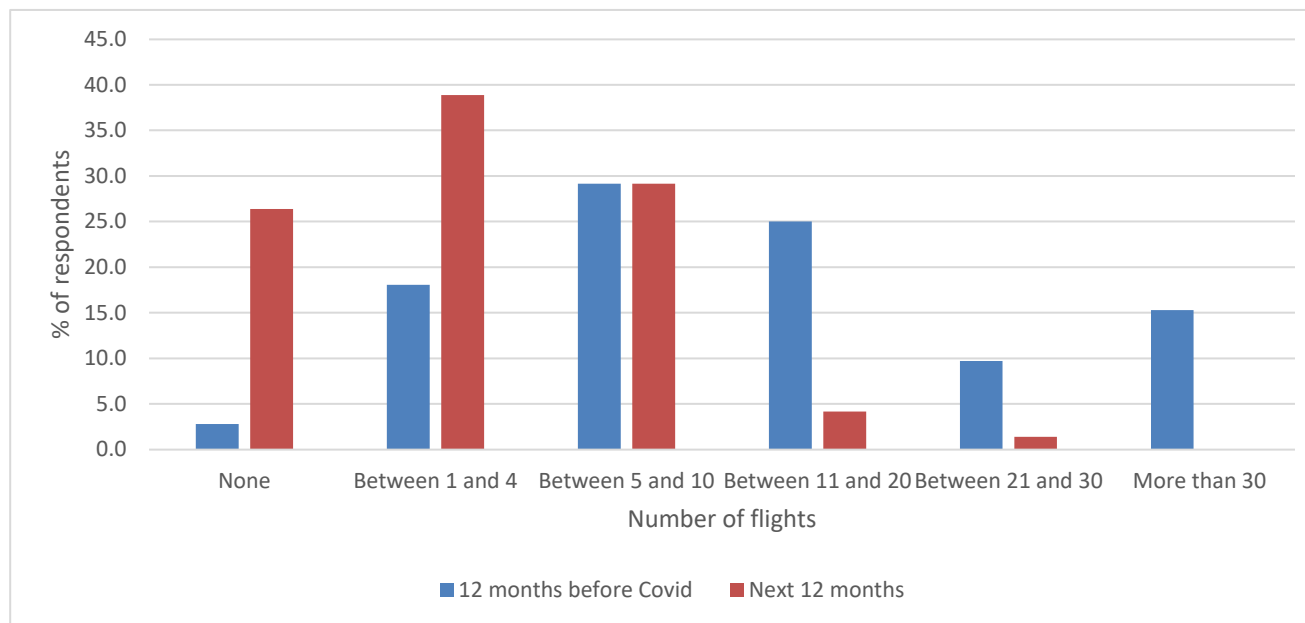
Source: The Times 24th February

- Entirely predictable response to an expectation that markets will open – these are the main UK tourist markets
- Jet2 Bookings +600% vs previous week; easyJet Holidays +630% and flights +337% : TUI - bookings from July for Greece, Spain and Turkey +500%
- Still issues around “acceptance at other end of the route”, open borders and vaccination passports



View on number of business flights

How do you expect the number of business flights you take to compare pre and post COVID?

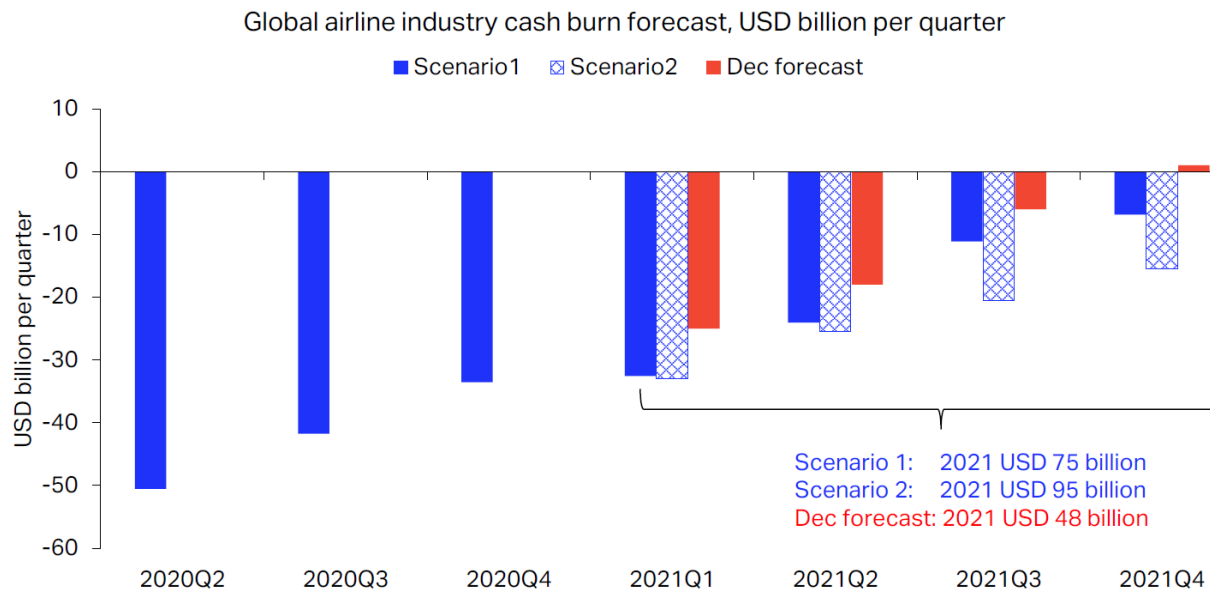


Source: CTAIRA Travel survey September 2020

- Deeper analysis of the data suggests that business travel over next year likely only to be some 30% of what it was in the 12 months pre-COVID
- Material volume and value effect for airlines, airports with consequences for cash



Taking a view on cash



Source: IATA (24/Feb/2021)

- We estimate >90% of airlines have < 3 months liquidity on hand
- 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 2.875% on Ryanair bond (September 2020 was oversubscribed 4x) and 1.85% on recent easyJet bond (Feb2021 and 5x oversubscribed)
- Where will the cash come from and what are the consequences of it not materialising? – too much for traditional markets
- Need to look at material increases in cash interest payments not just airlines but airports too – for LHR in 2021 cash interest = 55% of revenues



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

	5-year averages							Summer 2020 forecast		Spring 2020 forecast	
	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

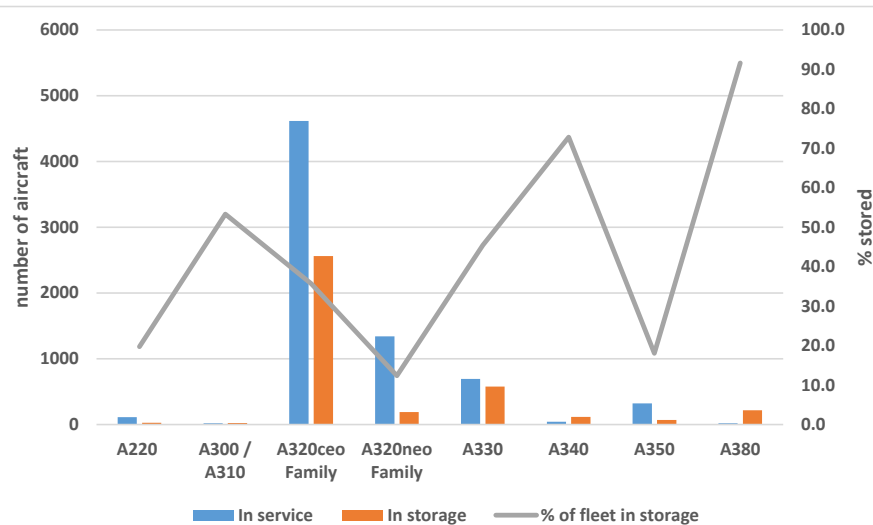
Source: CTAIRA from ADB data

- 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.

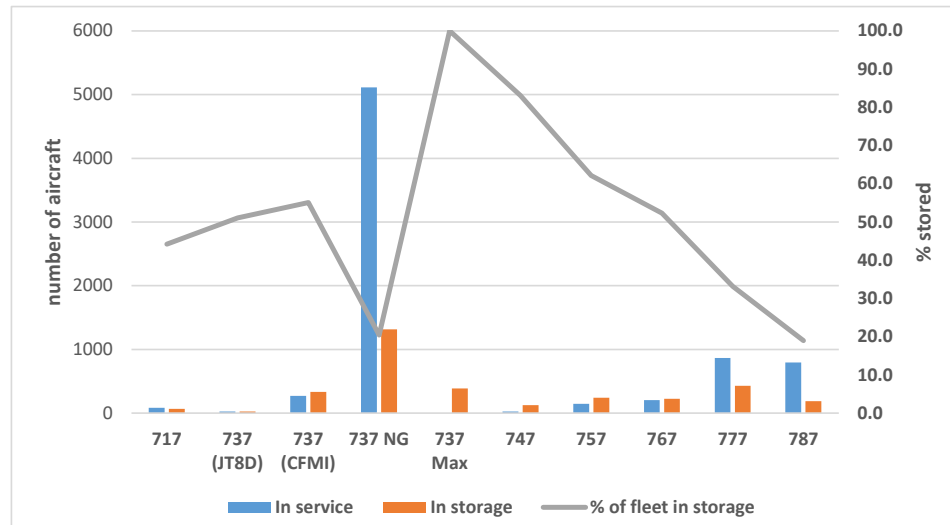


Activity by manufacturer and type

Airbus



Boeing

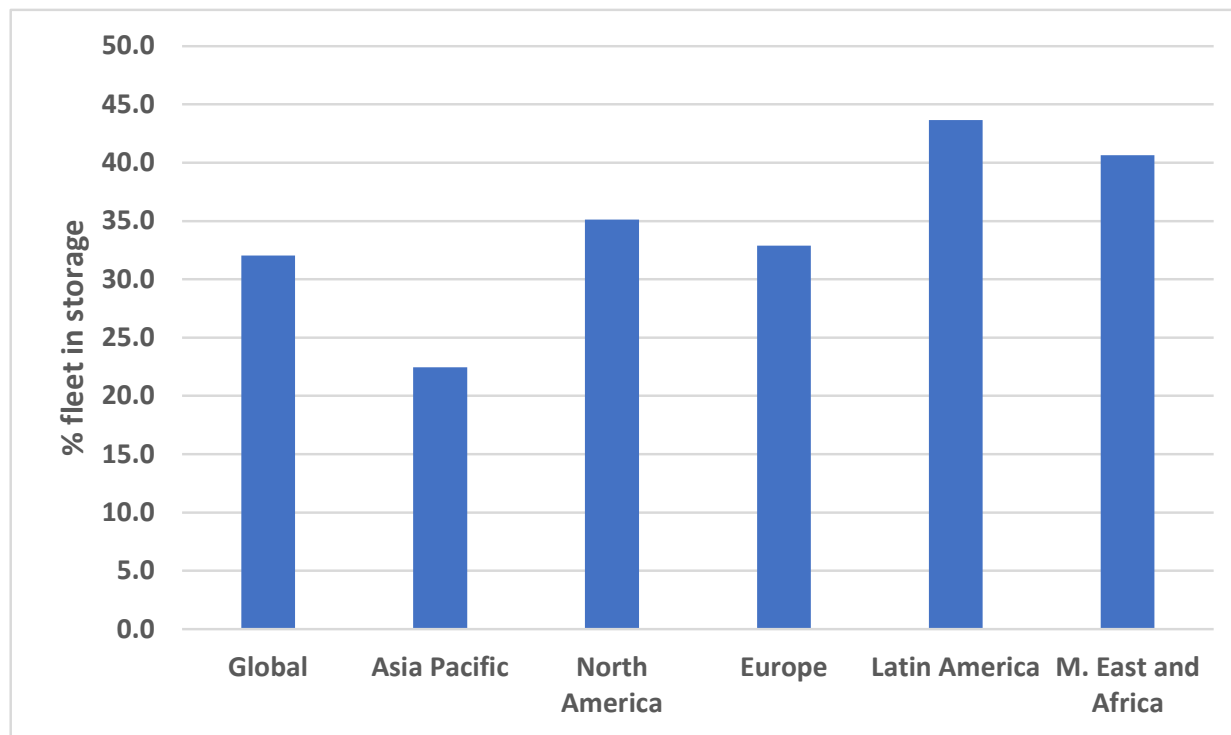


Source: CTAIRA from Ascend and company data

- Few surprises here also some very clear statements of intent re for example A380 (Current week 5.8% of flights vs 2020) , B747 (6.2% of flights vs 2020) etc but also clear from utilisation statistics that where being operated A350 and B787 hours broadly similar to those of 2019
- Boeing's recent results conference provided a perspective on the state of both the B787 programme and the number of undelivered aircraft as well as a reduction in the "pool size" of the B777X – with an indication of the consequent financial impact



Accommodating the recovery – by region



Source: CTAIRA from Cirium Airline Insights Report

- Clear that a significant proportion of these will have been permanently removed from service – and not just older long haul aircraft as are seeing 10 year old narrow bodies being scrapped



So what might it mean?

- 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. Key issue is that there is not a loss of momentum after the summer.
- In the absence of restrictions short haul leisure and VFR will recover rapidly across the summer – business and long haul (other than perhaps VFR will lag)
- The structure of traffic at a market and airline level will be a material determinant on the pace of recovery – highlighting the need for focus rather than generalisations.
- 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. At least in the near term for any given level of economic activity traffic volume and value will be lower.
- 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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