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This report is the thirty-fourth in a series of supplements to Ishka's Airline Credit Profiles (ACP) subscription-based service. It delivers 'the Ishka View' on the near-term performance of airlines under today's extraordinary market circumstances.

Drawing on the unique set of ACP's data points, this report examines which airlines remain stronger credits in the weeks ahead, which airlines are on watch and which are seriously exposed to the ongoing impact of COVID-19.

THE ISHKA WORLD TOUR.... Our Virtual Aviation Finance Networking Series was held from 12th-23rd October 2020, but all the content is still accessible to attendees and sponsors. You will be able to browse through all the content and use all the functionalities of our custom-built bespoke platform, including watching all the sessions on demand and networking with the attendees. Visit our website for more details.

IMPACT INTELLIGENCE 26 - 30 OCT 2020

ANA has reported its financial results for the six months ending 30th September 2020. The airline recorded a drop in revenues of 72.4%, year-on-year (y/y), with revenues coming in at JPY291.8b (\$2.8b), whilst a year earlier the airline had posted revenues of JPY1tr (\$10b). The airline group managed to reduce its operating expenses, but only by 41.4%. The only silver lining came from cargo services remaining flat, y/y, with the airline generating about JPY50.8b (\$485m) from its international cargo services. The airline's cash position improved markedly, with the airline increasing its cash and deposits by JPY323.5b (\$3.1b), while its total liabilities increased by JPY363b (\$3.5b). The airline group also announced a forecast for its Full Year 2021, ending 31st March 2021, expecting to record a JPY510b (\$4.8b) net loss driven among other things by impairment of about JPY73b (\$697m) resulting from the retirement of 35 aircraft. In a major strategic overhaul, ANA also announced it will create a new medium-haul carrier, operating a two-class, 300+ seat B787 aircraft. This new carrier is expected to start operating around 2022/2023.

Japan Airlines (JAL) is reportedly seeking as much as JPY300b (\$2.9b) in subordinated loans, Kyodo News and Reuters reported. The airline is expected to report a total loss for the quarter ending in September 2020 of JPY85b (\$812m). And like its close peer, ANA, JAL too is expecting to record sizeable net losses for full year FY21 of about JPY230b (\$2.2b).

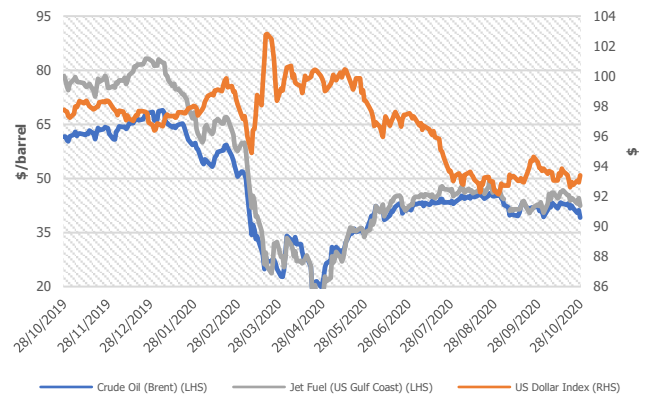
A Japanese start-up, **Star Flyer**, is expected to raise about JPY10b (\$95m) in a share placement. ANA is currently the airline's single largest shareholder with a 18% shareholding.

Azul is planning on raising between BRL1.6b (\$284m) to BRL1.8b (\$320m) in debentures which will be convertible into preferred shares. The debentures will have a five-year maturity and pay interest of 7.5% in the first year and thereafter pay interest at 6.0%. The debentures will be guaranteed by some Azul's assets including intellectual property owned by Azul's loyalty programme and certain rights to use the Azul Viracopos airport hangar and specified equipment required to maintain it. Previously in September 2020, the Brazilian National Development Bank (BNDES) had proposed a BRL2.1b (\$379m) funding offer to the airline, which, Azul is now expected to forgo.

AirAsia X's debt restructuring has been challenged by two of its creditors, BOC Aviation and Malaysia Airports, both of which have initiated legal action against the airline in the High Court of Malaysia. The creditors are seeking to intervene in the restructuring process. The airport company is reportedly seeking the payment of MYR78.2m (\$18.8m) in aeronautical charges the airline has not paid. BOC Aviation also filed a lawsuit against AirAsia X for \$23m in lease debts back in September 2020. According to ch-aviation, the lessor currently leases three A330-300 aircraft to the airline, with an average age of 4 years.

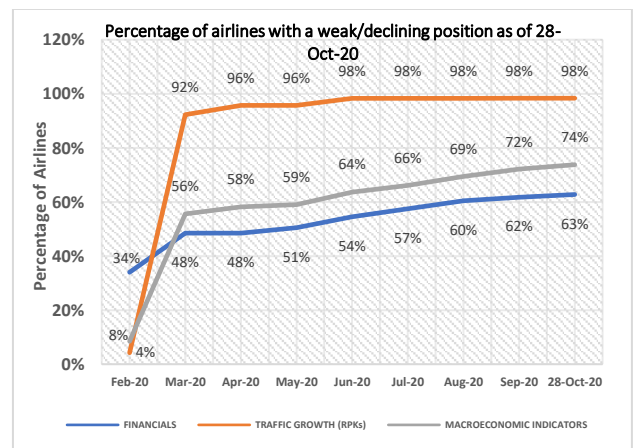
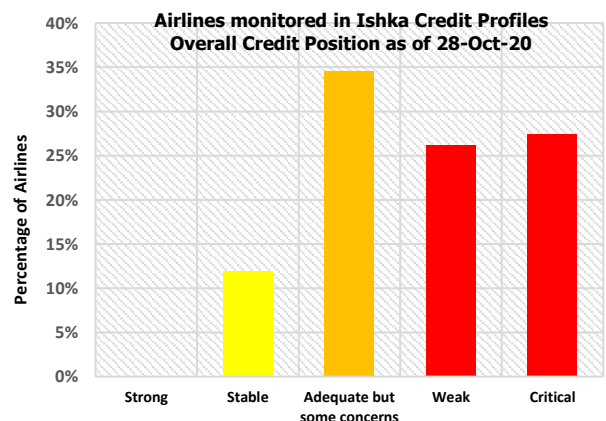
IATA has warned that the industry's total 2021 revenues are expected to be down by 46% versus 2019's total revenue of \$838b. Back in June 2020, IATA had forecast 2021 revenues to be down by 29% compared to 2019, as it expected demand to pick-up by Q4 2020.

RECENT OIL PRICE AND \$ TRENDS



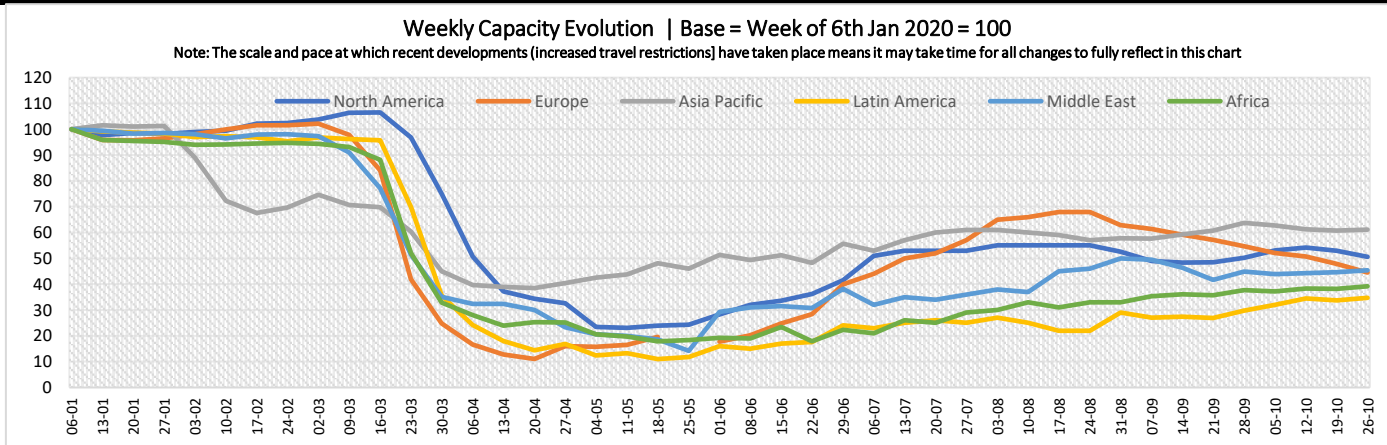
Source: Bloomberg

ACP TRAFFIC LIGHT AND SCORE SUMMARY



Most airlines are currently expected to record weaker results in 2020. However, the coronavirus outbreak remains an evolving situation and the quantum of decline is difficult to gauge. These metrics will change each month as our credit profiles get updated sequentially with incoming financial data.

CAPACITY SITUATION - THE WEEK OF 26th October 2020



Source: OAG Data and Ishka Calculations.

CAPACITY EVOLUTION – THE ISHKA VIEW

Global capacity in seats is down by about a million this week, a 1.8% decrease, week-on-week. European and North American airlines have scheduled 445,000 and 782,000 fewer seats this week. On the other hand, Latin American and African airlines will grow their seat capacity by 3.1% and 2.7%, w/w, respectively. Asia Pacific will remain mostly flat with 163,000 seats increase, or 0.6% w/w.

European airlines are continuing to adjust their schedules the most, as new clusters of COVID-19 continue to emerge across Europe. Russia has cut back capacity by 212,000 seats, a 11.6% decrease, w/w, whilst the UK reduced capacity by 39,000 seats, a 3.1% decrease, with **easyJet** cutting back 81,000 seats, a 14.4% w/w reduction. **Ryanair** and **Wizz Air** have also reduced capacity, albeit at significantly different paces. Ryanair cut capacity by only 3.5%, while Wizz Air reduced seats by 22.2%, w/w. In contrast, **British Airways** has actually increased its supply by 10.7%, adding 47,000 seats to the market.

In the US, passenger throughput across the country's airports decreased in recent week, after four weeks of growth. Last week, 191,000 fewer passengers transited through US airports than the previous week, a 3% decrease. This week, US airlines will reduce capacity by 4.5%, or 551,000 seats, driven by **American (-7.2%)**, **Southwest (-4.5%)** and **Delta (-9.7%)**.

In Asia Pacific, airlines have slightly increased capacity by 163,000 seats, a 0.6% decrease driven mainly by airlines from India, Indonesia and Vietnam, which added more than 423,000 seats, with India supplying 284,00 additional seats as GoAir, Air India and SpiceJet all grew by more than 19%, w/w. In **China**, however, airlines are continuing their capacity cuts, having reduced supply by 287,000 seats, a 1.9% drop, w/w.

In Latin America, airlines will add 96,000 seats to the market, a 3.1% increase, with airlines from **Chile** and **Colombia** increasing capacity by almost 58,000 seats. In Chile, **LATAM** will grow by 5.4%, or 30,000 seats, while **Avianca**, in Colombia added 19,000 seats, a 15.9%, w/w increase.

In Africa, airlines have added 34,000 seats, a 2.7% increase, w/w. Leading this week's growth is **Royal Air Morocco**, which added 10,000 seats, a 14.6% w/w increase.

AIRLINES IN THE FIRING LINE

After months of uncertainty and with no meaningful private investment coming forward, the South African government has finally provided clarity on funding plans for its flag carrier. The government has allocated **South African Airways (SAA)** ZAR10.5b (\$642m) to execute its business rescue plan which, as per a budget statement made by the South African Finance minister, would come from budget cuts to other government departments including policing, education and health. The announcement attracted resistance from within many quarters of South Africa.

Air Europa's request for a bailout has reportedly been approved by the Spain's state-owned industrial holding company (SEPI) as per local media. The report states that the gov't agency will provide the airline EUR475m (\$557.5m), an increase of EUR75m (\$88m) versus what had previously been reported. According to the same report, Air Europa has returned an A330 back to AerCap. The bailout now has to be approved by Spain's cabinet and the EU.

NY Koen Group, which is bidding for **Isair**, has reportedly offered \$50m for the airline. Out of the \$50m, approximately \$35.5m is expected to be paid to bondholders and \$14.8m to be directly injected into the airline. Meanwhile, the other known bidder, Al Habtoor group, has now withdrawn its interest.

NOK Airlines' rehabilitation process has been accepted by the Thai Central Bankruptcy Court with no objections. The response to the rehabilitation petition is now set for 4th November 2020.

Norwegian has converted another SEK231m (\$26m) of debt into equity by issuing 56.3 million new shares. The airline has stated that after the bankruptcy of two of its subsidiaries it has engaged in "constructive dialogue" with the two units' estates and reached an agreement to convert the debt into equity.

As per reports, a consortium of investors, which includes, among others, some Guadeloupean local investors, including the owner of Air Antilles, is concluding an MoU to buy a 100% stake in **Corsair**.

After news that **LongJiang Air** had been bought by Beijing Shengda Gold Industry Investment Consulting Co., it now seems like the transaction was not concluded. Reportedly, Beijing Shengda Gold Industry Investment Consulting Co. failed to settle its outstanding balance by the requisite date.

Performance and response

JetBlue has reported a 76% drop in revenues for Q3 2020 which was a marginally better outcome than the 80% reduction previously anticipated by the airline. Operating loss was \$516m while net loss amounted to \$393m which was higher than the \$320m loss it incurred during Q2 2020. Cash and cash equivalents and investments at the end of September 2020 quarter amounted to \$3.1b, compared to \$2.9b end of June quarter. The airline's net debt stood at \$2b end of Q3 2020, an increase of \$843m versus its net debt at the end of December 2019, which stood at \$1.2b. The airline also announced that it had reached an agreement with Airbus for aircraft delivery deferrals, which, along with reductions in other non-aircraft related expenditure, will reduce the airline's CAPEX by around \$2b between 2020 and 2022.

Meanwhile **Alaska Airlines** has reported a 71%, y/y, drop in total revenues for Q3 2020 to \$701m. The airline's operating expenses were down by a much smaller percentage (35%), resulting in an operating loss of \$571m. A year earlier, in the same quarter, it had reported \$422m in operating income. Net loss in Q3 2020 was \$431m, compared to a net profit of \$322m in Q3 2019. As for liquidity, the airline has increased its total cash and marketable securities by \$1.3b from end of December 2019 to \$3.8b at the end of September 2020. The airline currently holds \$1.6b in net debt, similar to what it had end of December 2019.

Also in the US, **Hawaiian Airlines** posted a 90% decrease in revenues for Q3 2020. Unlike its peers on Continental United States, demand for Hawaiian's services were severely affected by the 14-day mandatory quarantine imposed by local authorities. The airline generated revenues of only \$76m during Q3 2020, whereas in the previous year the airline had reported revenues of \$755m for the same quarter. The airline reported a \$121m operating loss and \$97m net loss for Q3 2020. At the end of the September 2020 quarter, the airline held \$979m in unrestricted cash, cash equivalents and short-term investments. The airline expects an improved Q4, as the Hawaiian Islands introduce a pre-travel testing programme.

South of the border, in Mexico, **Volaris** has reported its Q3 2020 results, with the airline bringing in MXN4.7b (\$225m) in revenues, a 50.3% decrease, y/y. The airline reported a MXN2.2b (\$105.5m) operating loss and a net loss of MXN2.18b (\$104.5m) over the period. Cash and cash equivalents end of September 2020 quarter amounted to MXN8.2b (\$365m), an increase of 3% compared to December 2019. Total debt was \$3.2b end of Q3 2020, an increase of \$427m versus end of December 2019.

Icelandair reported a profit for the Q3 2020 period, as it recognised Boeing's compensation for the delays in the delivery of MAX aircraft. Adding to the compensation, cargo revenues also increased by 16%. The airlines' total revenues were about \$104m, with other operating revenue totalling \$36m, an almost six-times increase versus last year's other operating revenue, which suggests the compensation might have been recognised in that line item. The airline recently completed a critical financial restructuring process which raised fresh equity of around \$167m and also unlocked a \$120m government-backed credit facility, which remains fully undrawn.

Liquidity and Government support

Korean Air is seeking to boost its balance sheet by KRW1.5tr (\$1.3b) by divesting a land lot owned by the airline and through state provided subsidy. The sale of the land lot is expected to generate proceeds of around KRW500b (\$442.9m), while the airline will raise the remaining KRW1tr (\$885.9m) via the Korean Development Bank.

The Korean Export-Import Bank has reportedly estimated **JEJU's** financial support to total KRW170b (\$150.5m). The airline has not yet decided whether it will request any state financial support. Meanwhile, Hanjin Kal, Korean Air's parent group, will reportedly invest \$4.9m in **Jin Air**.

Aeroflot has announced that it has raised RUB80b (\$1b) from newly issued ordinary shares. Following the offering, the Russian gov't holds a 57.34% stake in the airline.

Pegasus Airlines is set to receive a 12-year loan from the UK Export Finance, an export credit agency. The airline's CEO has stated to Bloomberg HT the agency will provide a loan worth \$300m as it will add more aircraft to its fleet.

Air Nostrum is negotiating with the regional gov't of Valencia for an injection of EUR10m (\$11.8m). The airline is also in talks with Spain's state-owned industrial holding company (SEPI) to increase its liquidity.

SATA Air Azores is seeking to raise up to EUR49.5m (\$58.5m) in commercial paper. The issuance will be fully guaranteed by the regional Azorean gov't and is expected to be concluded by April 2021, with each issuance having a maturity of 7 to 182 days, with the interest rate to be known once the commercial paper is issued. The gov't of the Faroe Islands has proposed providing DKK100m (\$15.9m) to **Atlantic Airways**. The proposal is now under review by the parliament.

The Romanian gov't has tentatively approved a six-year loan worth RON300.8m (\$73.2m) to **Blue Air**. The first tranche of RON163.7m (\$39.8m) will be immediately disbursed, supporting Blue Air's liquidity until February 2021. While the Slovenian gov't is planning to provide EUR6m (\$7m) in airline incentives for 2020 and 2021. The amount received in incentives will depend on traffic and frequency to the country's capital, Ljubljana.

The gov't of Vanuatu has agreed to provide VUV200m (\$1.8m) to **Air Vanuatu**. The airline is acquiring four A220s from Airbus. The gov't has also stated it will review the order and possibly reduce it to two aircraft, instead of the initial four.

Interjet's investors have still not invested the announced \$150m in the airline. A workers' union linked to Interjet has stated the investors will only invest in the airline once the debts with the Mexican Tax Services are settled.



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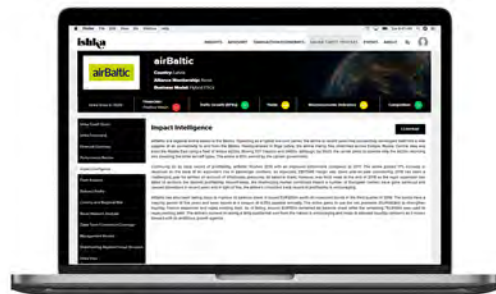
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