ishka View Extra
Airline Credit Profiles

AIRLINE SITUATION REPORT

Week of 5- and 12-April-2021

This report is the fiftieth 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.

2 weeks to go until **Investing in Aviation Finance: Europe** (28 - 29 April). With 40 top-class speakers confirmed so far and 2 days of jam-packed virtual content addressing the biggest issues around investing in aircraft assets including overheating in the ABS market, liquidity, residual values, new funding opportunities in 2021 and much more. Available to **Ishka+** members only.

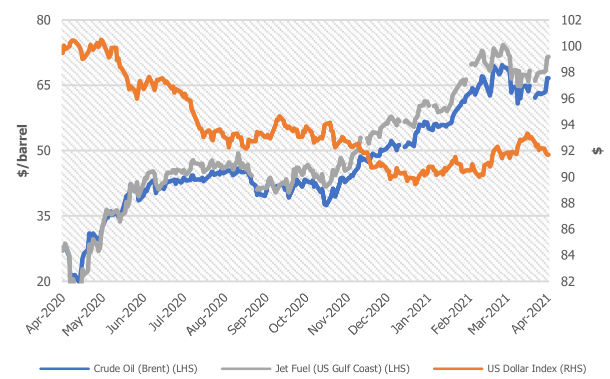
IMPACT INTELLIGENCE 5th – 14th April 2021

The three major Chinese airlines have released their full year 2020 results, with all of them posting more than $1b in net losses, despite a robust rebound in domestic traffic throughout 2020. **China Southern** reported a 36% drop in passengers for 2020, having carried 96.9m passengers during the period, with domestic passengers (93.9m) accounting for 97% of the total passengers. The airline decreased its capacity by 38% year-on-year (y/y), while yields were down by 6% for the same period. The airline's load-factor dropped by 12 percentage points to 71% in 2020 from 83% in 2019. Revenues were down 40% y/y, to RMB92.5b ($14.2b). The airline recorded an operating loss of RMB11.9b ($1.8b) and net loss of RMB11.8b ($1.8b) during 2020. On the balance sheet side, cash and cash equivalents were up significantly compared to end of 2019 – from RMB1.8b ($282m) at the end of 2019 to RMB25.4b ($3.8b) at the end of 2020 mainly owing to the share and convertible bond issuance during the year. In addition, the airline had financing facilities with several local banks and financial institutions of which ca. RMB228b ($35b) remained available as of end of 2020. As witnessed during 2020, the Chinese state-owned airlines had sufficient funding available from local financial institutions. Nevertheless, on a fundamental standalone level China Southern's balance sheet remains highly leveraged as it has traditionally been.

China Eastern's passenger numbers were down 43% in 2020, with the airline carrying 74.6m passengers during the year, with 72m of those on domestic flights**.** The airline's capacity, in ASKs, dropped by 44%, y/y, whilst its passenger yield was down 6%**.** The airline's passenger load-factor for the year dropped by 11 percentage points, y/y. The airline generated RMB58.7b ($8.9b) in total revenues for the year, a 51% drop, y/y. It posted an operating loss of RMB13.8b ($2.1b), whereas in 2019 it had posted RMB10b ($1.5b) in operating profits. Net loss in 2020 was RMB12.7b ($1.9b). China Eastern's cash position increased by a factor of 5.7x - from RMB1.3b ($205.9m) at the end of 2019 to RMB7.6b ($1.2b) at end of 2020. Like China Southern, it too had unutilised financing facilities, albeit, much smaller, of about RMB34b ($5b) as of 31st December 2020 and as a state-owned airline it has close relations with local banks and financial institutions which can provide additional financing as necessary. Like China Southern, it, too had a highly leveraged balance sheet with sizeable debt and lease payments (ca. RMB71b or $11b) due in 2021.

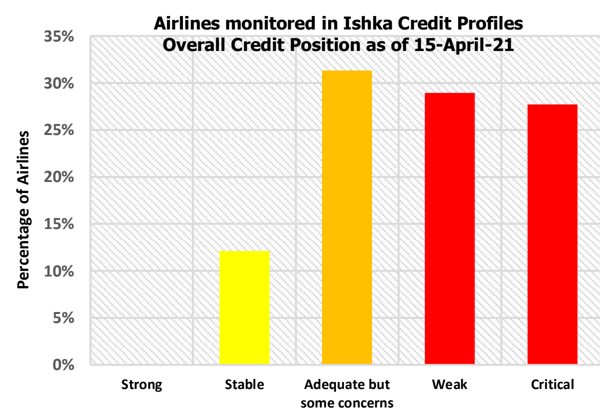
Air China's passenger numbers were down 40% during 2020 to 68.7m. Similar to other major Chinese airlines, Air China also relied on domestic traffic during the year, with 96% of the passengers carried in 2020 flown on domestic routes. The airline decreased its capacity, in ASKs, by 46%, y/y, while its passenger yield saw a reduction of 5%, y/y**.** The airline's load factor was down by 11 percentage points. Total revenues for the year were down by 47% to RMB73.8b ($11.2b). Operating loss was about RMB11b ($1.7b) whereas a year earlier the airline had posted a total operating profit of RMB14.6b ($2.2b) while net loss was RMB15.8b ($2.4b) which was higher than China Southern and China Eastern. Also, unlike the other two Air China's cash position was down 35% - from RMB8.9b ($1.3b) to RMB5.8b ($893m). However, it, too, had sizeable unutilised bank facilities of RMB122b ($19b) available as of 31st December 2020. Similar to China Southern and China Eastern, near-term debt and lease commitments were significant (ca. RMB53b or $8b). Unlike the other two – Air China has not yet received/planned any equity injection but it did raise significant amounts of debt during 2020 most of which was used to refinance existing debt.

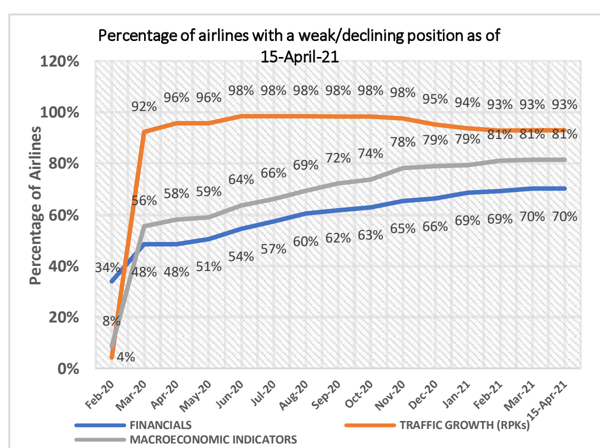
RECENT OIL PRICE AND $ TRENDS



Source: Bloomberg

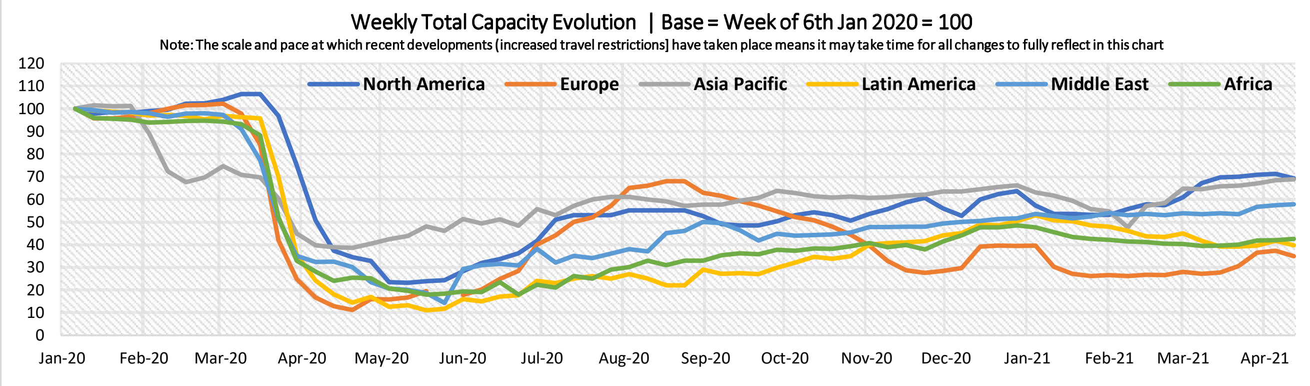
ACP TRAFFIC LIGHT AND SCORE SUMMARY

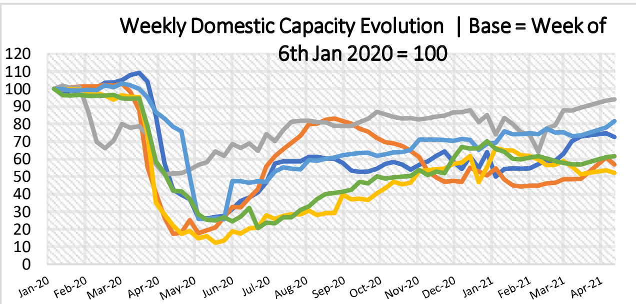


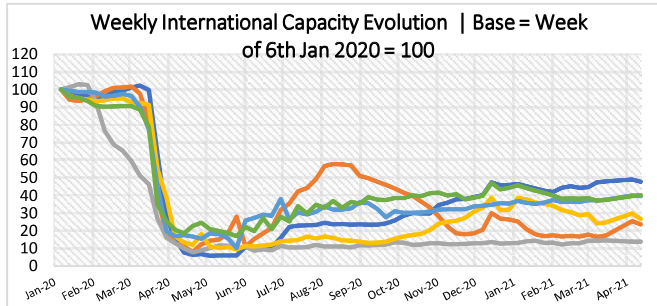


Most airlines are currently expected to record weaker results for 2020. However, the coronavirus outbreak remains an evolving situation and the quantum of decline is difficult to gauge. These metrics will change each month as our credit profiles get updated sequentially with incoming financial data.

CAPACITY SITUATION - THE WEEK OF 12th April 2021







Source: OAG Data and Ishka Calculations.

CAPACITY EVOLUTION – THE ISHKA VIEW

While capacity around the world has marginally decreased, week-on-week (w/w), from 63.2m seats to 62.3m seats, domestic capacity in Asia Pacific is inching closer to a return to figures last seen in January 2020. However, after weeks of growth, airlines in the US will fly a marginally reduced schedule, flying 447,000 less seats this week than they did the previous week. Overall, only Asia Pacific, the Middle East and Africa have increased capacity.

Airlines in Asia Pacific have added 262,000 seats, w/w, a modest 1% increase from the previous week. In China, airlines have added 327,000 seats, with **China Express Airlines** adding the most capacity, 152,000 seats, w/w. In Thailand, airlines added 37,000 seats, w/w, a 4% increase, mainly by **NOK Air** which added 19,000 seats, w/w, a 16% increase. In contrast, due to a surge in COVID-19 infections and reinstatement of localised lockdowns, airlines in India have retrenched capacity (2%, 67,000 seats, w/w), with **SpiceJet** removing 42,000 seats from the market. There is a possibility that more capacity could be taken off in coming weeks as the pandemic situation has worsened significantly in the country.

Even in continental Europe which is battling a third pandemic surge that has led to the reinstatement of lockdown measures, airlines have removed around 7% of the capacity, w/w or around 590,000 seats. Most of decrease this week comes from airlines in Turkey, which removed 110,000 seats, a 7% decrease, w/w, and from **Wizz Air**, which reduced capacity by almost 50,000 seats, w/w. **easyJet** has also dropped its w/w capacity by 52,000 seats, a 19% reduction in capacity.

In the US, airlines have reduced capacity by 3%, w/w. Much of this reduction has come from **Southwest** which has reduced capacity by 278,000 seats, w/w, or a 9% decrease. More positively, as per TSA data, 9.9m passengers passed through US airports in the week ending on 11th April 2021. The weekly passenger numbers have grown w/w, by 0.9%, whereas in the week ending on 4th April the TSA had reported 3.5% more passengers passing through US airports compared to week prior.

AIRLINES IN THE FIRING LINE

The Oslo County Court has approved **Norwegian's** restructuring plan in Norway. The airline will now proceed with the restructuring processes in Ireland and Norway. The airline has also updated the market on its capital raise plans, it is now seeking to upsize the capital raise to NOK6b ($712.5m), from the previous figure of NOK4.5b ($534.8m). The airline has also stated that it now expects, through the restructuring process, to reduce its debt by NOK62b ($7.4b) to NOK65b ($7.8b), having also cancelled NOK85b ($10.1b) in aircraft orders.

Interjet has called an Extraordinary General Shareholders' Meeting to approve the start of the bankruptcy process. The General Assembly will be held on 26th April 2021.

Kenya Airways had its trading of shares suspended by the Nairobi Securities Exchange for an additional nine months from 05 April 2021. Kenya's government will spend $336m to bail out key state-owned enterprises, including KQ. The country has recently agreed with the IMF a bailout plan of KES255b ($2.39b)

SpiceJet has received a grounding notice from Dubai Aerospace Enterprise over non-payment of dues. The notice involves three B737-800s.

NOK Air has been granted an extension to present its rehabilitation plan to the Bangkok Central Bankruptcy Court. The airline will have to submit the plan by 15th May 2021.

Etihad Airways is in talks to divest its 40% stake in **Air Seychelles**. The move would leave the Seychelles government as the sole shareholder of Air Seychelles as the Abu Dhabi carrier further unwinds its strategy of investing in other airlines.

Comair will apply for ZAR100m ($6.8m) in funding under the COVID-19 loan guarantee scheme established by the South African Reserve Bank and large commercial banks.

Performance and Response

Avianca reported steep declines in passenger traffic for 2020, with total passengers carried dropping by 74% - from 30.5m in 2019 to 7.9m in 2020. The airline reduced capacity by a similar margin whilst its load factor decreased by eight percentage points from 82% to 74%. Due to a strict lockdown imposed in Colombia, the airline carried only 43,500 passengers from April to August 2020. For Q4 2020, the airline saw a y/y drop in passengers of 77%, having carried 1.7m passengers during the period. The airline also saw its load-factor decrease by 26 percentage points. Total revenues for the year came in at $1.7b, a 63% drop compared to $4.6b in 2019. As expected, most of the drop came from the passenger business, while cargo and other revenues were down by 1%. The airline posted an operating loss of $621.5m for 2020, widening 12% from the operating loss of $554.3m in 2019. The airline posted a net loss for the year of $1.1b up from $894m in 2019. The airline is still undergoing Chapter 11 proceedings, having managed to increase its cash position by 2.6x, from $342.5m at the end of 2019 to $911.1m at the end of 2020 mainly thanks to the DIP facilities. Net debt was up by 7% to $5.3b at the end of 2020.

Aegean Airlines saw its passenger numbers for 2020 fall by two thirds to 5.2m compared to 15m in 2019. Capacity was down by 61%. The airline also saw a quarter-on-quarter drop in passengers in Q4 2020 – it carried just 767,000 passengers in Q4 2020, compared to 1.9m in Q3 2020. The airline did witness a modest recovery in traffic in Summer 2020 driven by leisure travel to Greece, however, that has been mostly disrupted since Q4 2020 and even in Q1 2021 as the pandemic worsened in Europe over Winter 2020/21. For 2020, the airline's revenues came in at EUR415.1m ($494m), a 68% drop from the EUR1.3b ($1.6b) in revenues it had booked in 2019. The airline posted a EUR296.8m ($353.2m) operating loss for the year, whereas in 2019 it had reported a EUR106.8m ($127m) operating profit. Net loss for 2020 was EUR227.9m ($271.2m). As a result of the heavy losses and negative operating cash flows, the airline's balance sheet has deteriorated considerably over the course of 2020. While its cash position has gone down compared to end of 2019, it remained favourable vis-à-vis near-term debt and lease commitments. Working capital position was also positive, a rarity for most airlines especially in today's environment. However, at a fundamental level, with the airline taking on more debt and new leases, net debt levels are up significantly while the losses have also evaporated its strong equity position. Positively, the airline has reached an agreement with the Greek gov't as part of which the state will provide the airline a grant of EUR120m ($143m) in exchange for warrants and subject to a EUR60m ($71.5m) capital raise which the airline expects to complete in May 2021.

United Airlines expects to report total revenues of $3.2b for Q1 2021, a decrease of 66% versus Q1 2019. The 66% decrease in revenue is a positive outcome compared to United's original expectations for the quarter with the decrease coming in at the lower-end of the previous guidance Q1 2020 vs. Q1 2019 (65%-70%). The airline has also revealed that during March 2021, it saw a surge in customer demand in bookings, which resulted in positive average daily core cash flow for the month. As a result, overall cash burn (airline calculated preliminary figure) for Q1 2021 is expected to be approximately $9m/day, a $10m improvement per day versus Q4 2020. The airline now expects to achieve positive average daily core flow moving forward. While this is encouraging and, as highlighted earlier, there have been tangible improvements on the pandemic front in the US in Q1 2021, the pandemic remains an evolving situation and the virus variants will continue to challenge the recovery.

American has updated the market on its Q1 2021 performance. The airline expects revenues for the quarter to come in 62% below what the airline had reported in Q1 2019, whilst its capacity dropped by 43% from Q1 2019. The airline expects to register an unadjusted net loss for the period of between $2.7b and $2.8b. The airline has managed to bring down its daily cash burn from a previous guidance figure of $30m per day to $27m (the figure includes approximately $9m in regular debt principal and cash severance payments). The airline is understood to have reached an agreement with Boeing on its B787 delivery plan. It will defer and convert five B787-8 aircraft to B787-9 aircraft to deliver by 2023, retaining their existing financing. The airline has also exercised its remaining deferral rights on 18 B737 MAX aircraft previously scheduled to be delivered in 2021/2022. The 18 aircraft are now expected in 2023/2024.

easyJet operated significantly fewer flights in the Jan-Mar 2021 quarter than it did in the same quarter of 2019. The airline carried a total of 1.2m passengers during the period, whereas in Q1 2019 it had carried 20m passengers. Load factor was down 26 percentage points in H1 2020/21 (October 2020-March 2021) compared to H1 2019/20 (October 2019-March 2020). The LCC estimates its loss before tax for the six months ending March 2021 to be in the range of GBP690m ($950.5) to GBP730m ($1b). It had around GBP2.9b ($4b) in liquidity (comprising of cash and cash equivalents and an undrawn portion of a UKEF loan facility) at the end of March 2021. While the first half activity has mostly been non-existent, the airline is more optimistic of a recovery in the second half. Operating out of the UK where conditions have improved in recent months, the airline expects meaningful rebound in outbound air traffic from May 2021 onwards. However, mainland Europe is experiencing a severe third wave of COVID-19 infections which has led to the reinstatement of some form of lockdown measures across most jurisdictions. As such, there is significant uncertainty on the nature and extent of air traffic recovery during the critical Summer months as that will have a bearing on the UK gov't's travel plans and international travel regulations.

Wizz Air saw its traffic in the Jan-Mar 2021 quarter drop by 82%, y/y. The airline carried 1.4m passengers between January and March 2021, whereas for the same period, in 2020, it had carried 7.9m passengers. The average load-factor for the period also decreased – from 92% in Q1 2020 to 64% in Q1 2021. As lockdown measures were enforced in Europe during the period, Wizz Air carried 37% less passengers quarter-on-quarter, having carried 2.3m passengers in Q4 of calendar year 2020. In an interim update, the airline revealed that it expects to post a net loss of EUR570m-EUR590m in the recently concluded financial year ending 31st March 2021 ending the year with liquidity of around EUR1.6b, still one of the healthiest in the industry. The airline is more cautious on the 2021 summer travel recovery expecting only a 'gradual' recovery and that too in late summer.

Ryanair has announced that its total traffic for 2020 came in at 27.5m (down from 149m in FY20), an 82% drop, y/y. Its 'pre-exceptional' net losses for the year are expected to be around EUR800m to EUR850m (a better outcome than previous guidance of EUR850m to EUR950m). The LCC also continued to maintain extremely healthy cash levels of more than EUR3.15b ($3.7b). Ryanair expects to break even in the 2021/22 financial year and carry at least three to four times the passengers (80m to 120m) as it did in 2020/21 financial year.

Unlike **Korean Air**, its sister company, **Jin Air**, did not post a profit for 2020. The airline saw its passenger numbers drop by 50% from 8.6m in 2019 to 4.3m in 2020 while load-factor decreased by 13 percentage points. The airline generated KRW271.8b ($242.3m) in revenues for 2020, a 70% drop compared to 2019. Operating losses widened by 3.8x to KRW184.7b ($164.7m). Net losses for 2020 amounted to KRW190.4b ($169.8m).

Liquidity and Government support

Air France-KLM has been authorised by the European Commission (EC) to receive EUR4b ($4.7b) in capital from the French state. The injection includes a capital increase of up to EUR1.1b ($1.3b), which the airline has priced between EUR4.84 ($5.76) and EUR5.31 ($6.31) per share. The airline expects to net a total of EUR980m ($1.1b) to EUR1.1b ($1.3b) in proceeds from the capital increase. The capital increase will still have to be approved by the French Financial Markets Authority (AMF). In addition to the equity increase, the airline will also seek the conversion of a EUR3b ($3.6b) direct loan provided by the French State into perpetual hybrid bonds. The airline expects to improve its debt redemption profile over time. Through these measures the airline seeks to reduce its Net debt/EBITDA ratio to below 3.0x by 2023. China Eastern has announced that it would participate in the capital raise with a EUR168m ($199.8m) injection. However, the other major shareholders – the Dutch State and Delta Air Lines – will not participate. The final maturity of the French state-backed loan of EUR4b ($4.8) has also been extended to 2023.

Air Canada and **Transat** have mutually terminated the acquisition proposal of Transat by Air Canada. The deal, which had originally been announced in June 2019, was later revised in October 2020. Air Canada has also revealed that the European Commission had not allowed the transaction despite including some remedies in the transaction, including slot surrender. Air Canada will now have to pay Transat a termination fee of CAD12.5m ($9.9m). Transat's largest shareholder has announced it would not sell its shares at the price offered by another Quebec investor. The Canadian transport minister has stated that discussions with 'different people' who had shown interest in the tour operator have been initiated.

Separately, **Air Canada** has reached an agreement with the Canadian Gov't, under the Large Employer Emergency Financing Facility, which will allow the airline to access up to CAD5.8b ($4.6b) in liquidity. The package comprises of a direct equity injection of CAD500m ($398.5m), CAD1.5b ($1.2b) in the form of a secured revolving credit facility at a 1.5% premium to the Canadian Dollar Offered Rate (CDOR), CAD2.5b ($1.9b) in the form of three unsecured non-revolving credit facilities of CAD825m ($657m) – a five-year tranche maturing in 2026 at a 1.75% premium to CDOR per year; a second tranche, six-year and at 6.5% per year (increasing to 7.5% after five years); and the third, seven-year tranche at 8.5% per annum (increasing to 9.5% after 5 years). In return for the credit facilities the airline has issued warrants exercisable for shares totalling CAD397.5m ($316.9m). The airline will also have access of up to CAD1.4b in the form of an unsecured credit facility to repay non-refundable tickets. The facility will have a seven-year term and bear a 1.2% annual interest. The bailout plan requires the airline to implement some measures, including the restriction of dividend pay-outs and share buybacks. The airline will also have to maintain employment at levels not lower than the ones in April 2021. Finally, the airline has also agreed to fully acquire the 33 A220 aircraft from Airbus Mirabel plant, in Quebec and the 40 B737MAX aircraft currently on order.

Korean Air plans to raise KRW200b ($179m) through a bond issue. The airline will issue three non-guaranteed convertible bonds with maturities of 18 months, two years, and three years. The bonds redeeming in 2022 are worth KRW60b ($54m), while the two years tranche total KRW80b ($71m), and the bonds maturing in 2024 are worth KRW60b ($53.7m). Korea Development Bank will acquire bonds worth KRW20b ($17.9m). The deal can be upsized to KRW300b ($268m) if the airline sees enough demand. The net proceeds will be used to pay aircraft leases and other debts.

Air New Zealand has deferred the planned capital raise that was planned for June 2021. The airline wants to assess the impact of the travel bubble between Australia and New Zealand. The airline's CEO has stated that the bookings have been significantly positive, as the travel bubble is set to start on 19th April 2021. In the meantime, the airline's loan facility will be increased by up to NZD600m ($422.5m), upsizing the total facility to NZD1.5b ($1.1b).

United Airlines will conduct a private offering of $4b in aggregate principal amount of two series of unsecured notes. One tranche of senior secured notes due 2026 and another tranche of senior secured notes due 2029. The notes are subject to market and other conditions. Separately, the carrier has also announced that it will enter into a new $5b senior secured term loan facility due 2028 and a new $1.75b senior secured revolving credit facility due 2025. The airline will use the net proceeds to repay in full a $1.4b term loan facility, $1b under a revolving credit facility and $520m aggregate principal amount outstanding under the CARES Act term loan facility.

TUI completed its offering of senior unsecured convertible bonds due in 2028. The bonds have an aggregate principal amount of EUR400m ($477.7m), upsized from EUR350m ($417.9m). The bonds bear 5% in interest, with the issuance oversubscribed by two times.

Blue Air plans to issue bonds within several months after it exits the pre-insolvency procedures. The airline plans to issue the bonds in Q3 2022. The airline also plans to list shares on the London Stock Exchange within two to three years.

Pegasus has received an approval from the Turkish Capital Markets Board for the issuance of up to $750m in debt securities overseas. The airline will be able to issue debt in one or multiple tranches until April 2022.

Skymark Airlines plans to resume the process for relisting its shares on the Tokyo Stock Exchange through an Initial Public Offering (IPO) in Q1/Q2 2022.

The French State will provide financial support to **Air Austral**, via a state backed loan of EUR30m ($35.9m)

Jazeera Airways' board has recommended a capital increase from the current KWD20m ($66.3m) to KWD22m ($72.96).