

The ishka View

Ishka+ - China Briefing – Airlines and Metal June 2021

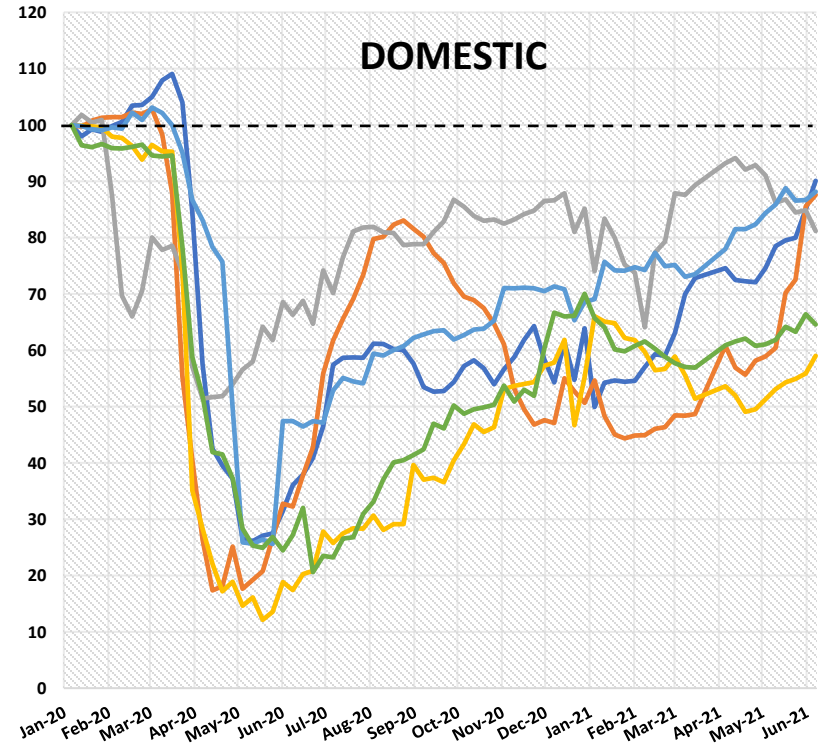
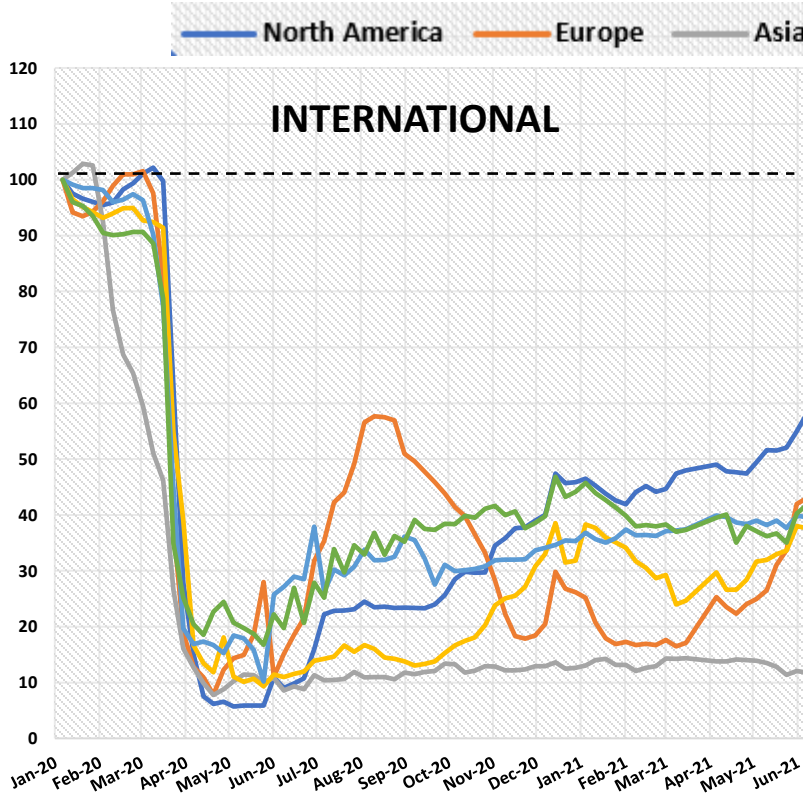
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Airline capacity – a Volatile Recovery

Weekly International Capacity Evolution | Base = Week of 6th Jan 2020 = 100

Weekly Domestic Capacity Evolution | Base = Week of 6th Jan 2020 = 100

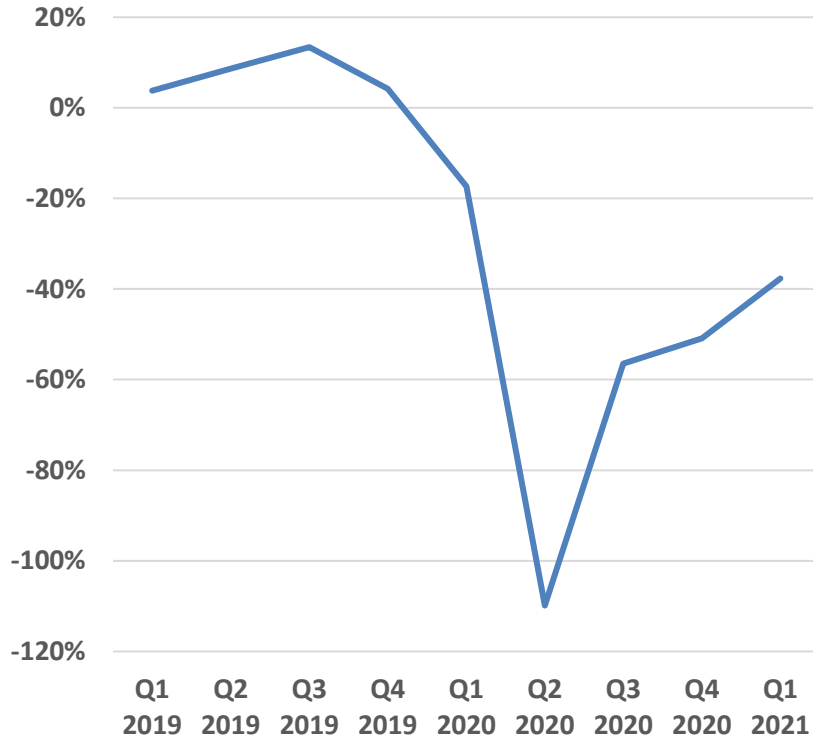


Source: OAG Data & Ishka Calculations.

Losses continue

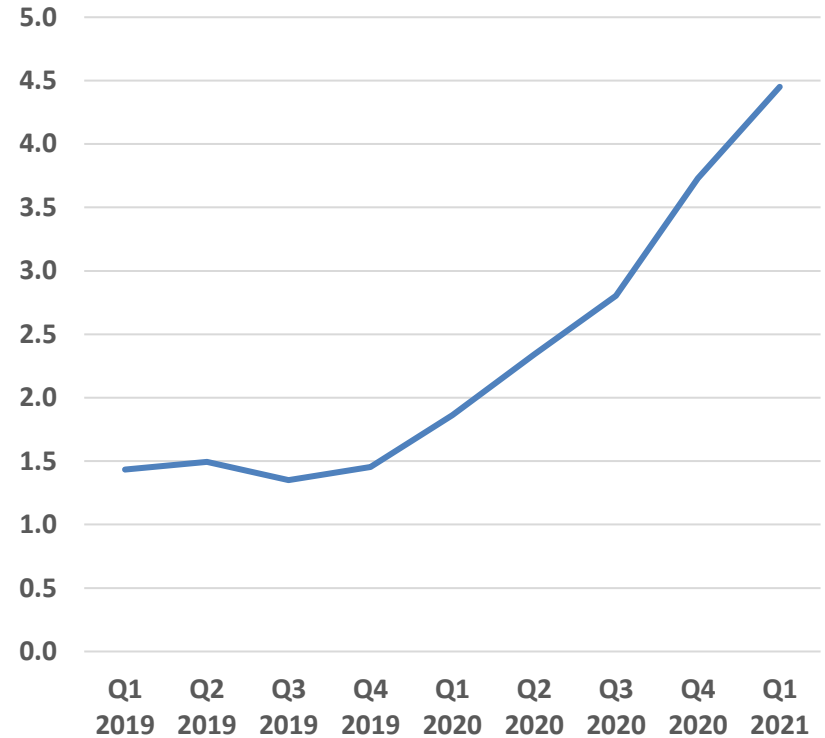
equity continues to deteriorate & debt levels continue to rise

EBIT as a percentage of Revenues



Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Sample Size – 58 airlines

Net Debt to Equity

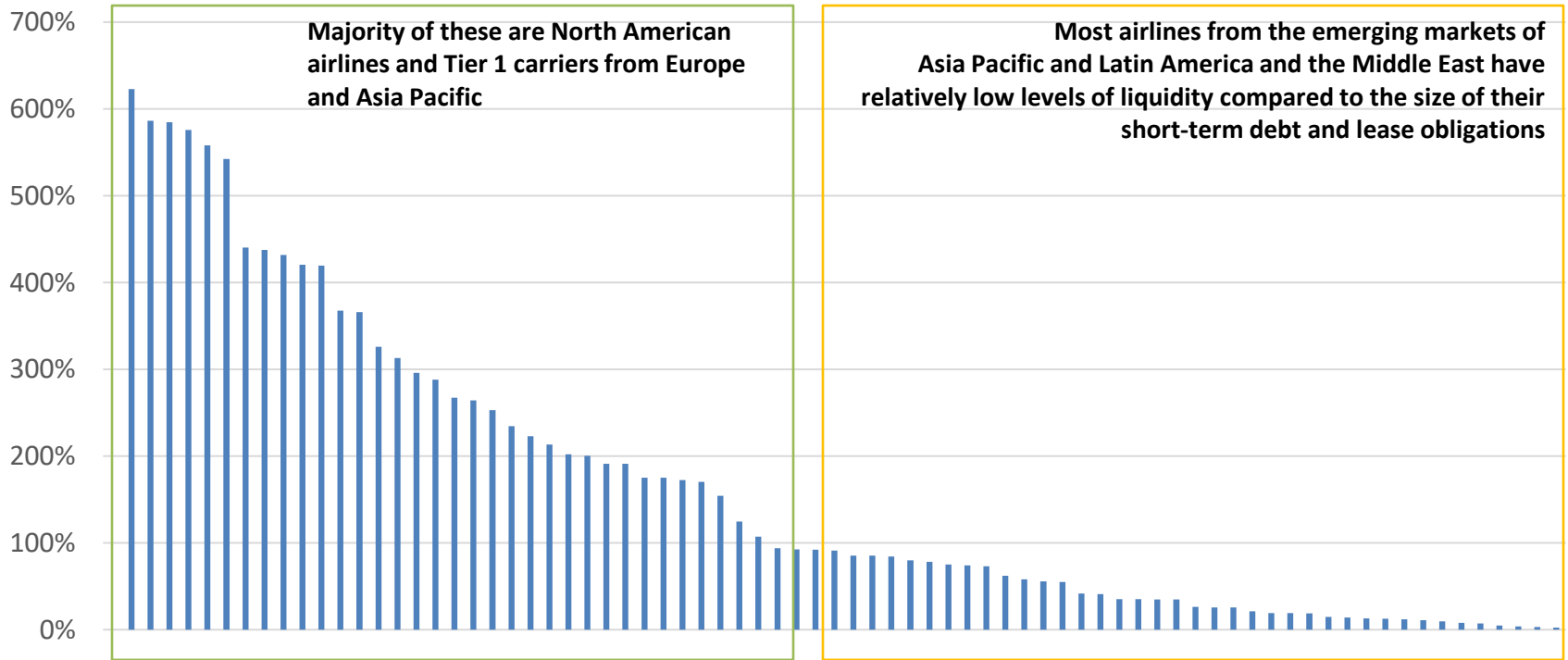


Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Sample Size – 58 airlines

Liquidity levels up but not evenly

Critical factor to cover further revenue disruptions

Cash as a percentage of Short-Term Debt and Lease Obligations as of end of 2020



Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Sample Size – 77 airlines. As of end of 2020

Aircraft Market Values

Declines reflect current overcapacity and demand issues

Decline in MARKET VALUE since Jan 2020

5 year old Widebody		5 year old Narrowbody	
B787-8	-33%	B737-800	-17%
A330-300	-36%	A321-200	-20%
B777-300ER	-38%	E190LR	-30%
10 year old Widebody		10 year old Narrowbody	
A330-200	-48%	A320-200	-18%
B777-300ER	-49%	B737-900ER	-22%
B777-200ER	-54%	E190LR	-35%
15 year old Widebody		15 year old Narrowbody	
B777-300ER	-46%	CRJ900	-24%
B777-200ER	-51%	A321-200	-27%
A380	-51%	B737-700	-33%

Less impacted:

- Younger aircraft
- In Production types
- Narrowbody aircraft

China fleet of 4,122 aircraft includes:

1,193 B737-800s
 797 A320ceo
 335 A321ceo
 291 A320Neo
 129 A330-300
 83 B787-9
 73 B777-300ER

Aircraft Market Lease Rates

Declines reflect current overcapacity and demand issues

Decline in MARKET LEASE RATE since Jan 2020

5 year old Widebody		5 year old Narrowbody	
A350-900	-26%	A320-200	-28%
B787-8	-35%	B737-800	-31%
A330-300	-47%	E190LR	-32%
10 year old Widebody		10 year old Narrowbody	
B767-300Er	-29%	A321-200	-37%
A330-300	-39%	B737-800	-40%
B777-200ER	-41%	Dash 8 Q400	-49%
15 year old Widebody		15 year old Narrowbody	
A330-200	-25%	CRJ900	-31%
B777-300ER	-38%	A320-200	-39%
A380	-45%	B737-800	-48%

Less impacted:

- Younger aircraft
- Freighter aircraft

China fleet of 4,122 aircraft includes:

- 1,193 B737-800s
- 797 A320ceo
- 335 A321ceo
- 291 A320Neo
- 129 A330-300
- 83 B787-9
- 73 B777-300ER

China Market Specifics - Airlines

- **Domestic market recovery**
- **Profitable at EBITDAR level**
- **Younger fleet=lower market disruption=relatively less impairment/restructuring losses (except select airlines)**
- **Return to positive CFO in Q2 2020 and for subsequent quarters, however, below pre-pandemic levels**
- **Volatile situation makes it challenging for sustained CF recovery**
- **International segment non-existent**
- **Important for the large carriers**
- **Increased competition on the domestic segment – LCCs making inroads**
- **Although Q1 2021 disruption was short-lived, it was enough to cause sizeable losses**
- **High leverage is a concern**
- **Sizeable short-term debt and lease commitments**
- **Credit facilities available and established relations with local financial institutions**
- **New equity issuances planned**

Near term outlook

Airlines

- **Summer 2021 key to determining global airline performance in 2021**
- **Vaccination programmes are positively reducing localised restrictions**
- **Big improvements in domestic capacity, but actual traffic recovery not as quick**
- **International capacity and traffic still massively disrupted**
- **Outbreaks in Asia a concern**
- **Belly Cargo traffic has growing potential to influence passenger networks and routes**
- **Fundamental desire to travel = pent-up demand, particularly in Asia Pacific / Europe**
- **Leisure airlines and large domestic markets more favourably positioned**
- **Volatility in earnings likely to continue - Crisis remains ongoing – recent developments have highlighted that any recovery in the short-term remains highly fragile**
- **As such question marks on ability to generate sustained free cash flow for the year**
- **There are sizeable debt and lease obligations to service**
- **Increased competition as FSC/network carriers adjust their business towards VFR/leisure segment e.g. LH 60% increase in leisure destinations**

Aircraft and Financing

- **Values and Lease Rates have continued to decline in 2021 – leading to accounting impairments but also to start-up and re-fleeting opportunities**
- **Thousands of aircraft remain ‘in limbo’ – return to service or permanent retirement?**

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