



ishika

Aviation 2023
Clear Skies or Turbulence Ahead?

Wednesday 30th November 2022

Your Ishka Presenters



Eddy Pieniasek
Head of Advisory



Siddharth Narkhede
Head of Airline Analysis



Paul O'Driscoll
Consultant and
ISTAT Appraiser



Stuart Flaye
Senior
Consultant

Agenda

Airline performance to date

Key risk factors that may impact airline performance

How are airlines positioned to manage those risks

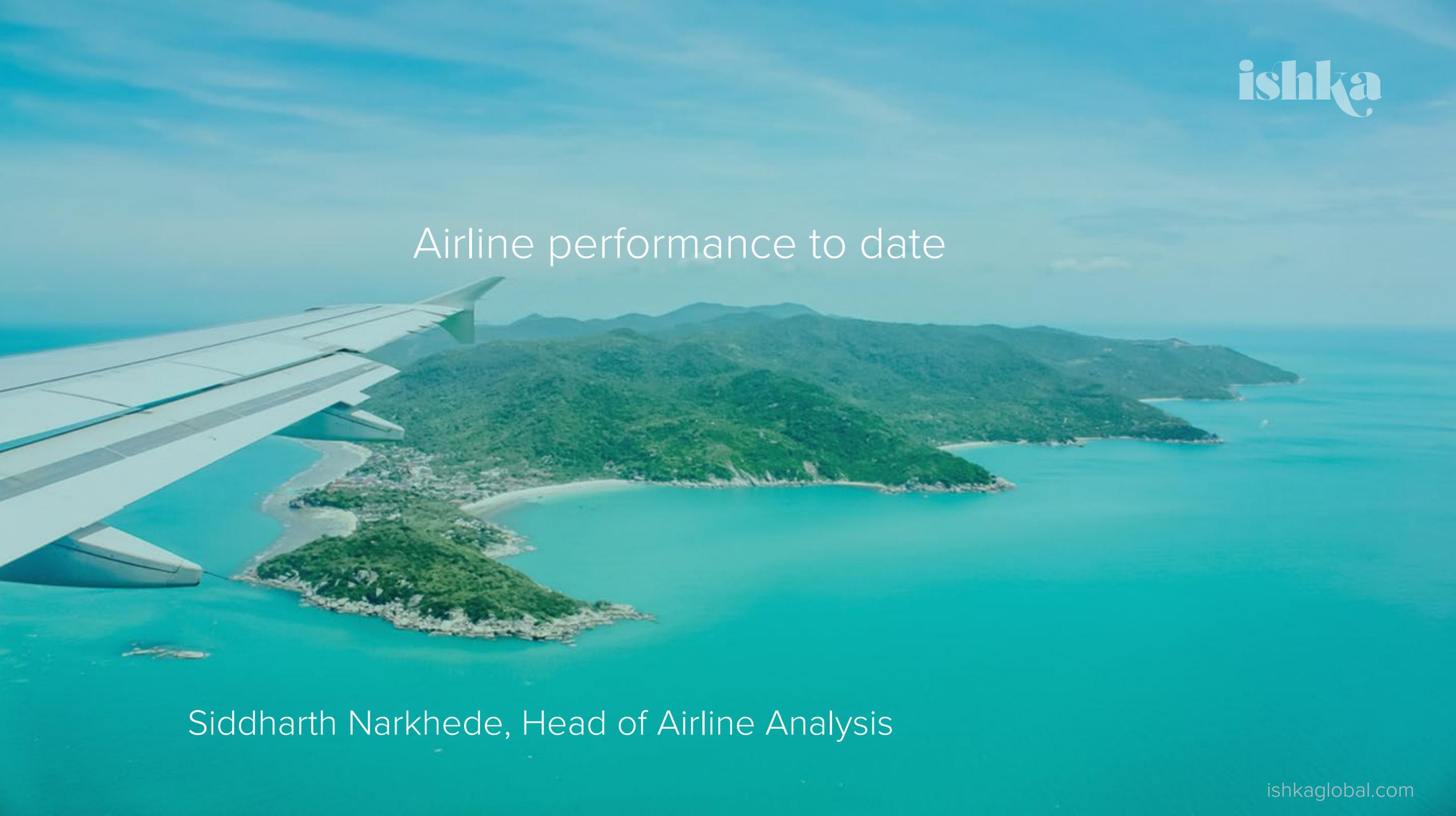
Summary and Outlook

Q4 Aviation Market Update

The Rise in Offtake Agreements

Airline Sustainability Initiatives

Key takeaways and Live Q&A

The background of the slide is an aerial photograph of a tropical coastline. In the foreground on the left, the white wing of an airplane is visible, extending towards the center. Below the wing, a small, rocky island with a sandy beach and a small settlement is visible. The water is a vibrant turquoise color, and the land is covered in lush green vegetation. In the distance, more landmasses and mountains are visible under a clear blue sky.

Airline performance to date

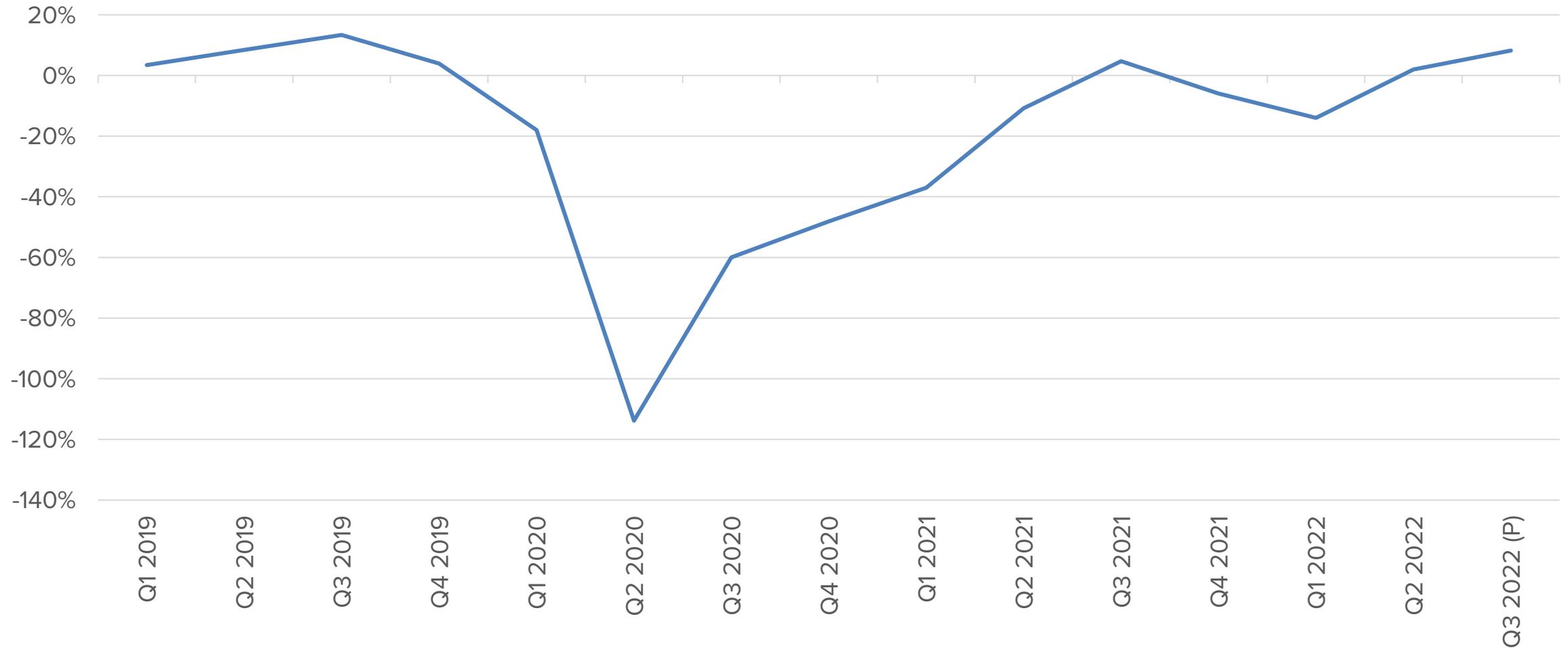
Siddharth Narkhede, Head of Airline Analysis



Global airline profitability shows strong resilience



EBIT as a percentage of Revenues



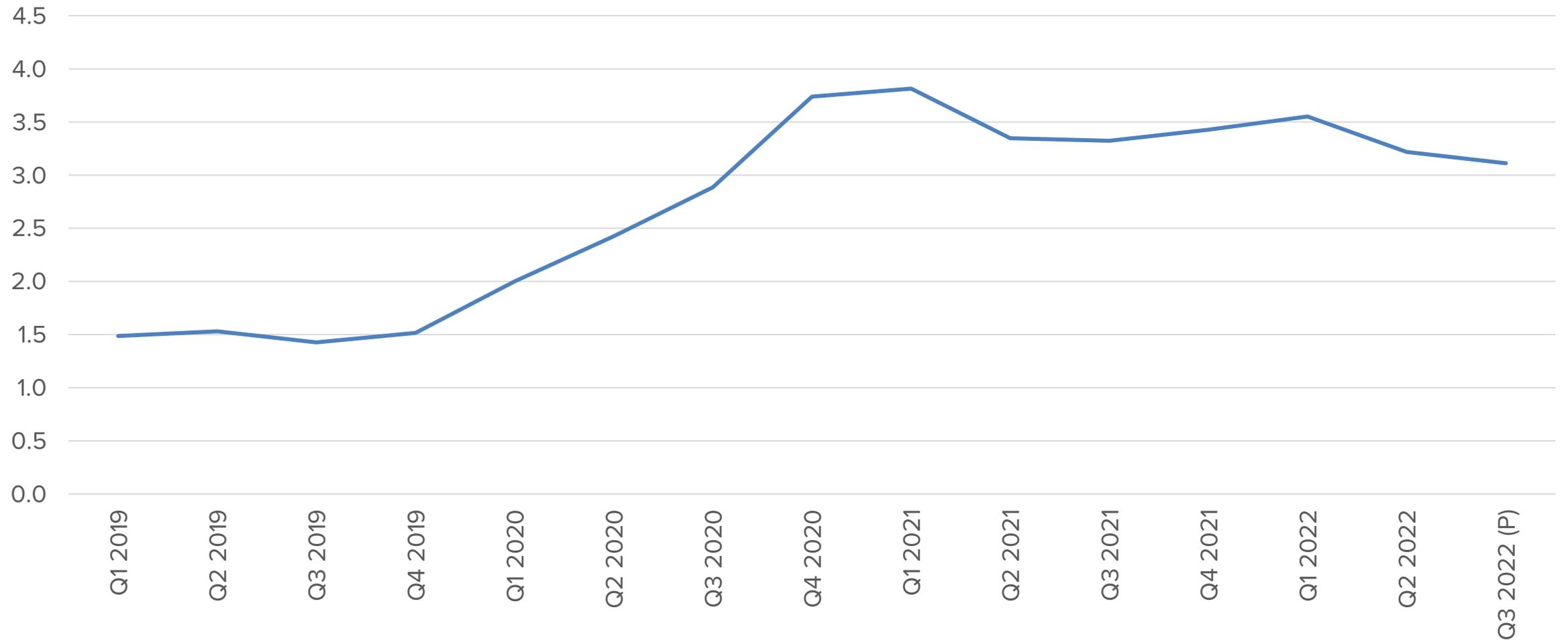
Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Sample Size – 68 airlines. Sample size could vary by quarter marginally depending on airline disclosures.



Balance sheets improving but still long way to go...



Net Debt to Equity

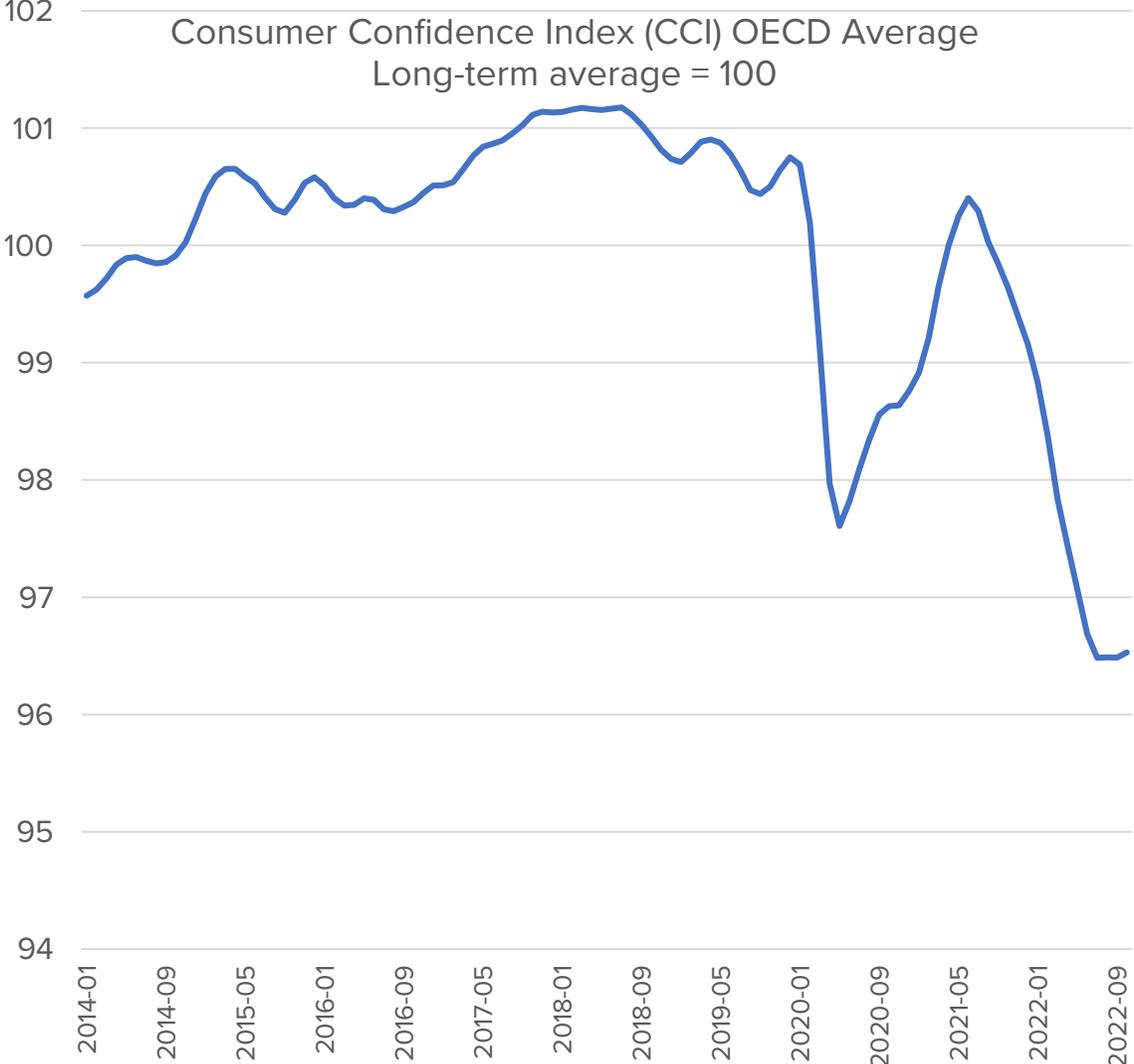
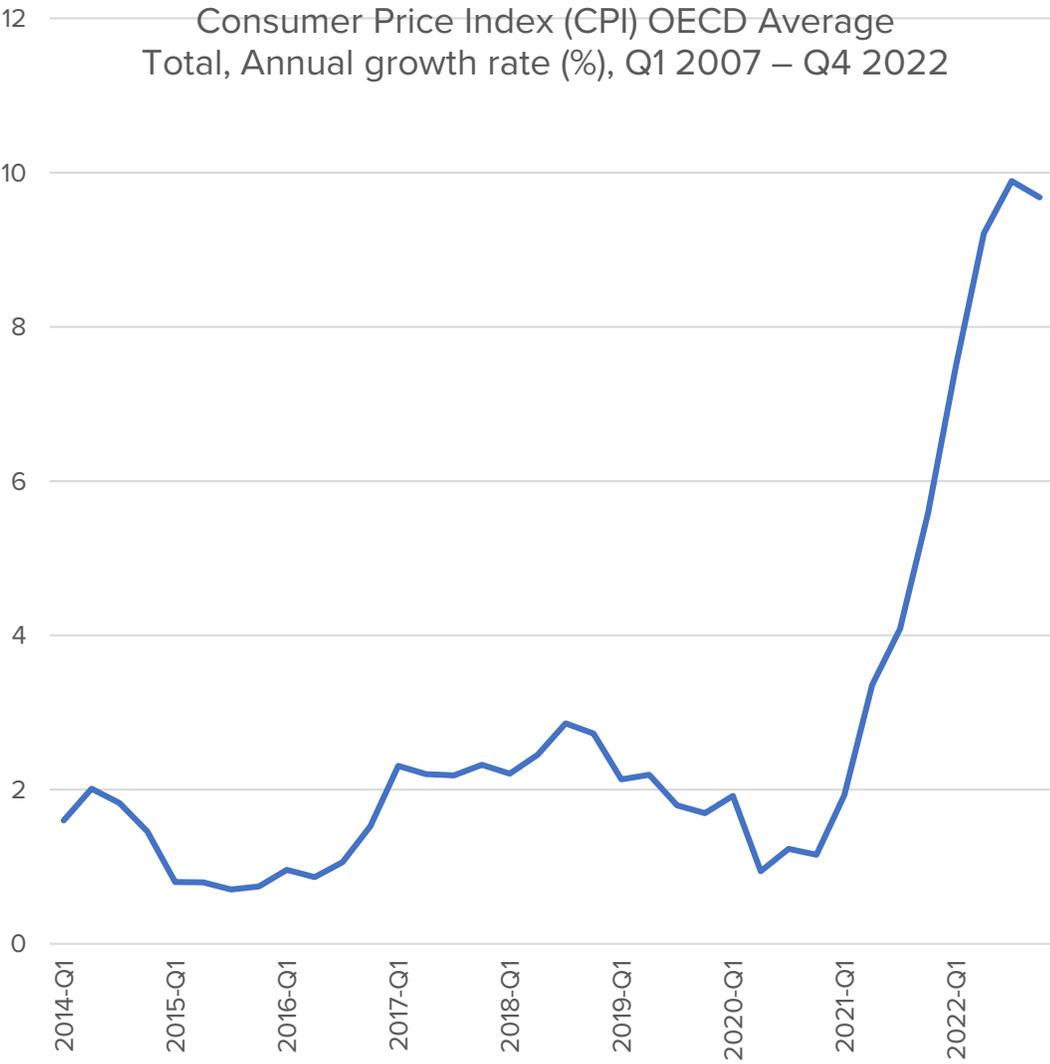


Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Sample Size – 68 airlines. Sample size could vary by quarter marginally depending on airline disclosures.

Key risk factors that could impact airline performance



Inflation at record highs, consumer confidence declining...

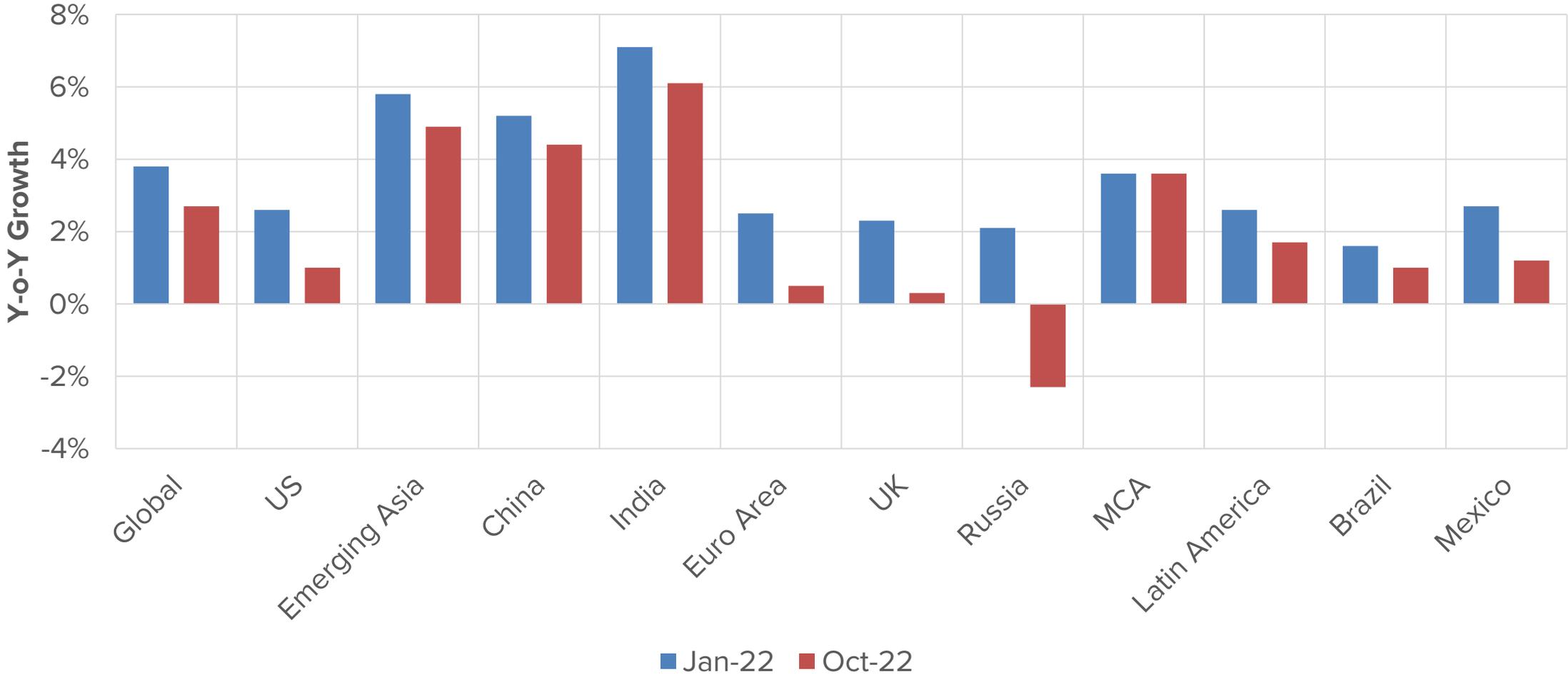


Source: OECD

GDP Growth expectations have moderated since January 2022

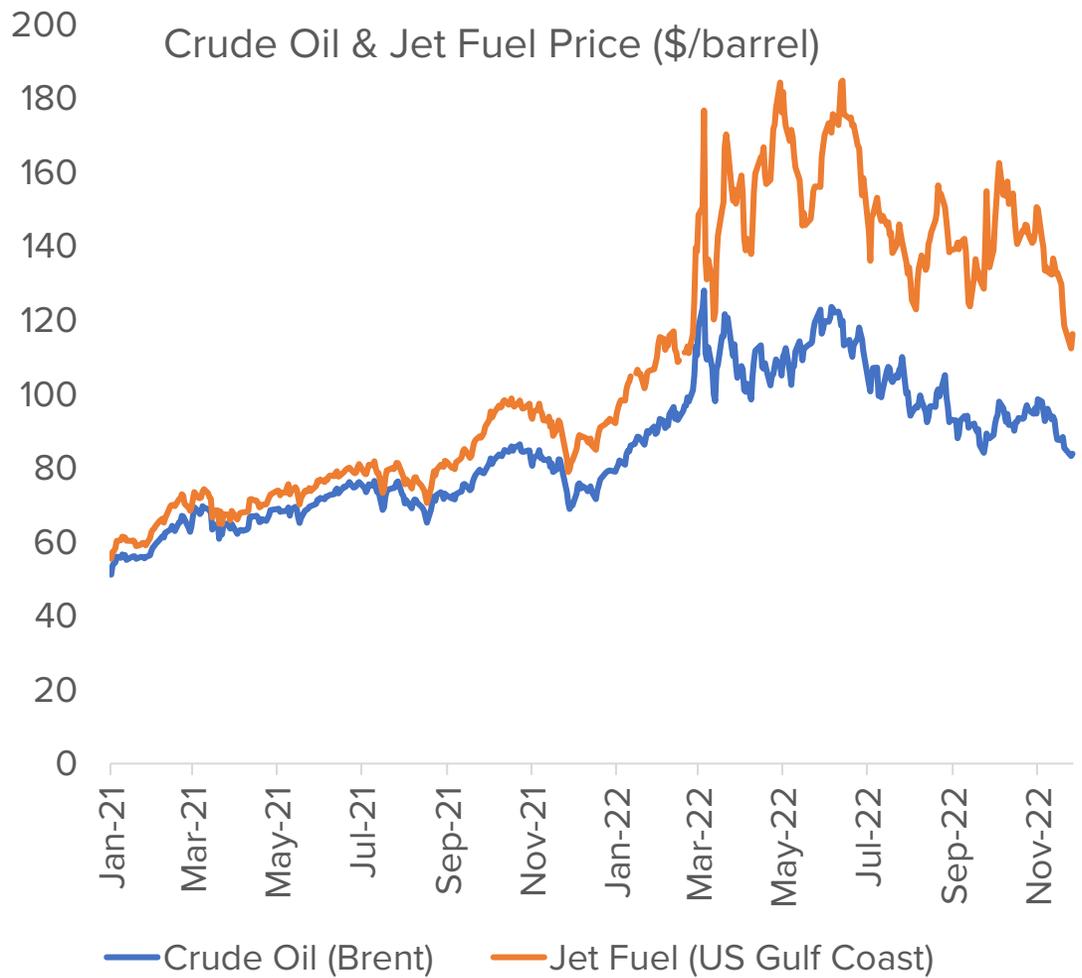
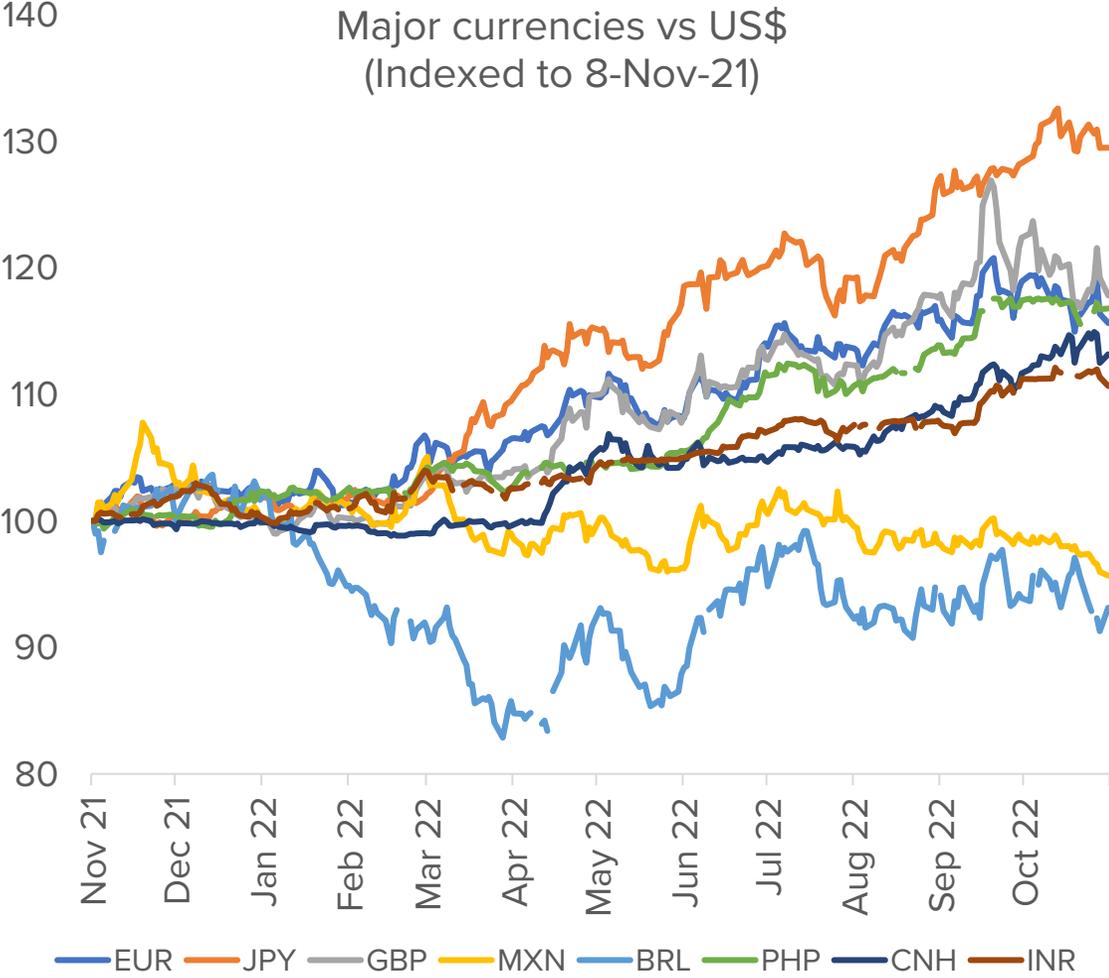


2023 GDP growth estimates by IMF



Source: IMF October 2022 Update. Latin America includes the Caribbean as well. MCA is Middle East and Central Asia

Inflation at record highs, consumer confidence declining...



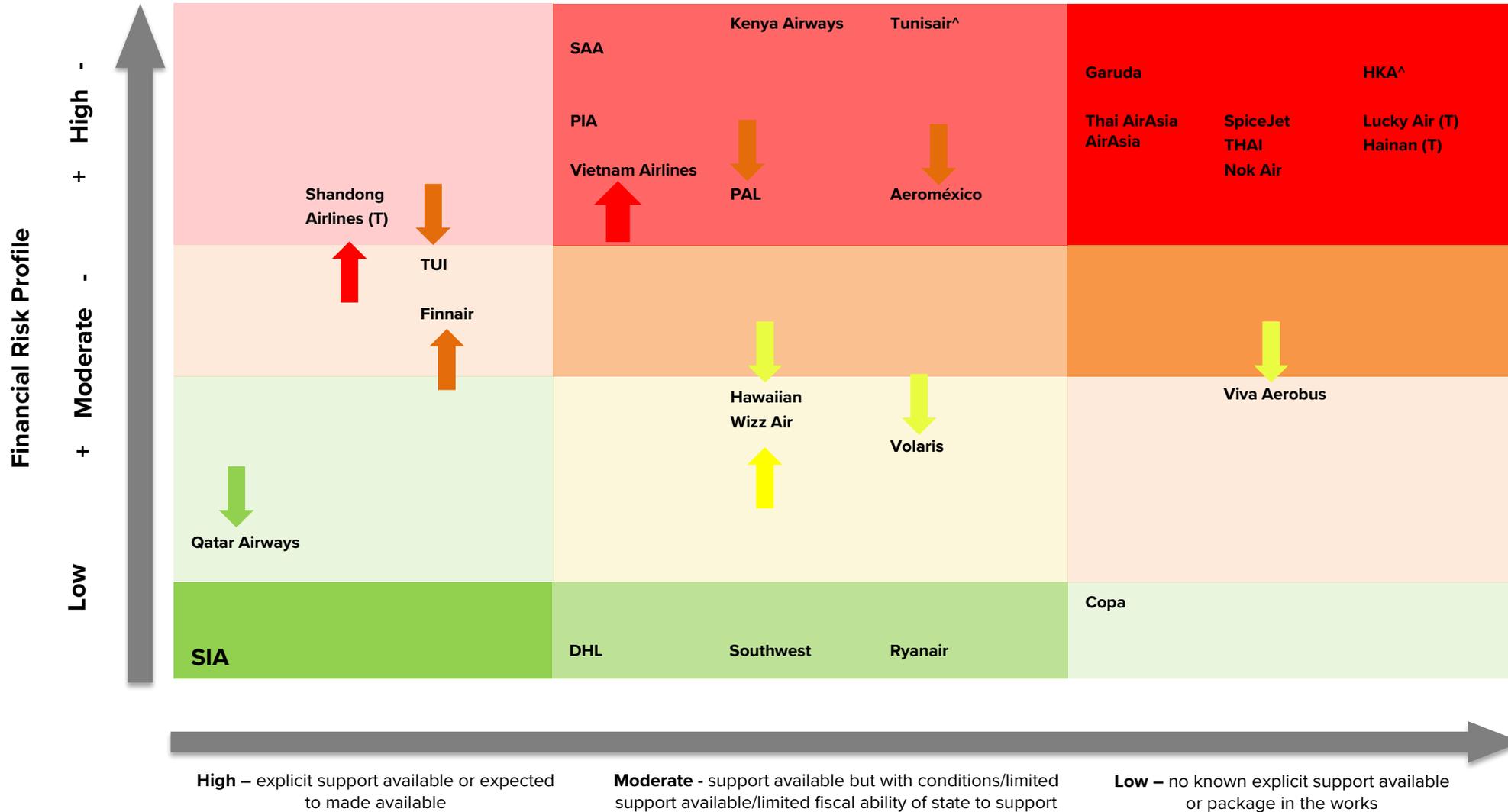
Source: Bloomberg

How are airlines positioned to manage the challenges?

Ishka Airline Vulnerability Matrix – Highlights



Source: Ishka Airline Credit Profiles & Ishka Insights. To be read in conjunction with the full airline credit profiles. Airlines will move across these blocks if and when circumstances change e.g. if they secure external support or if their financial health deteriorates or improves. Information as of Week of 31st October 2022. *Airlines 'Under Review' ^Estimate T - In Transit



High – explicit support available or expected to be made available

Moderate - support available but with conditions/limited support available/limited fiscal ability of state to support

Low – no known explicit support available or package in the works

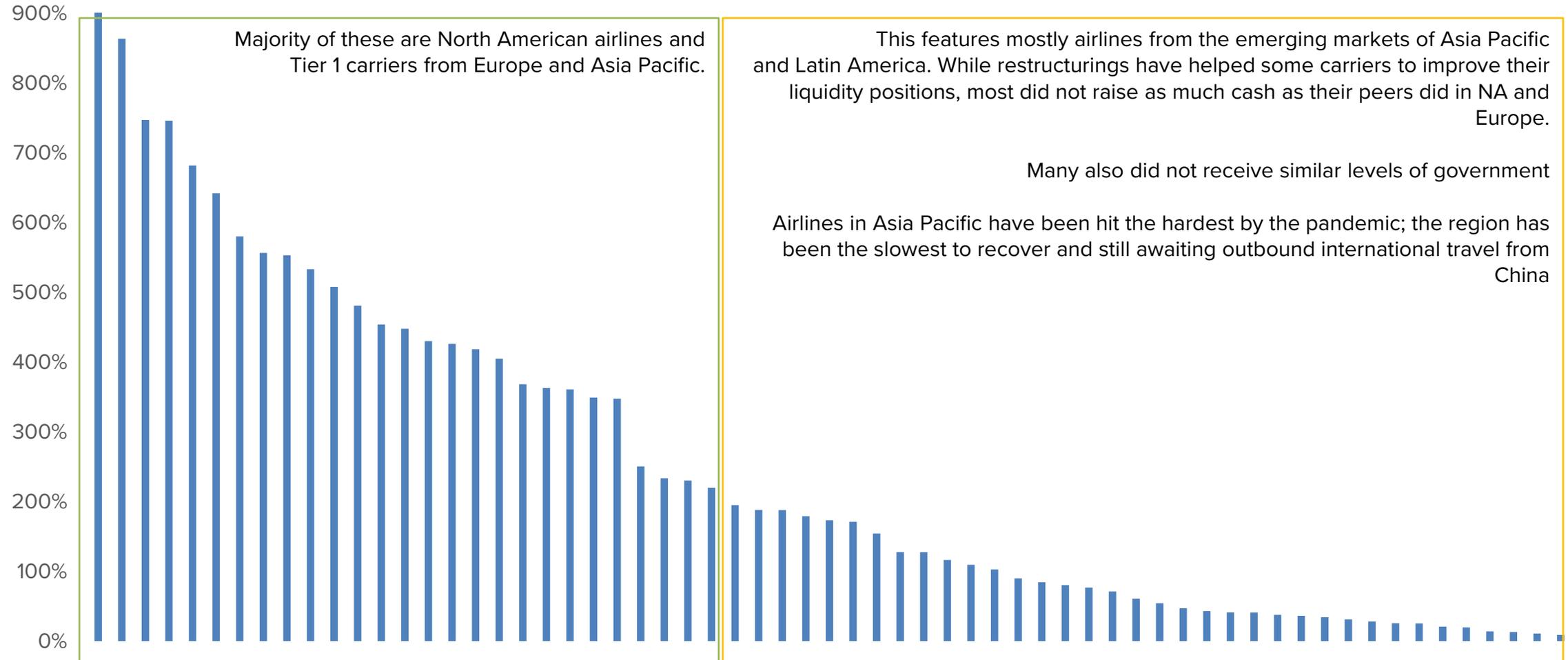
Government/Shareholder Support



Cash is still king...



Cash as a percentage of Short-Term Debt and Lease Obligations as of the end of June 2022



Source: Bloomberg, Airline Credit Profiles and Ishka Calculations. Each bar represents an airline. Sample Size – 63 airlines. Short-Term means debt and lease obligations due within a year from June 2022.

Summary



- Pent-up demand
- Airlines have been reporting that near-term forward bookings are holding up
- Not all regions are facing similar economic challenges
- Significant upside potential in Asia Pacific
- Although inflation remains and is expected to remain high, many believe a peak has been reached
- In response, the US\$ rally might be easing
- Low unemployment, cash reserves provide some buffers



- High uncertainty
- Record inflation level is impacting discretionary spending
- Leading indicators show deteriorating confidence among businesses and consumers
- Recessionary environment in many advanced economies and slowdown in others
- Heightened geopolitical tensions
- Supply side constraints putting additional inflationary pressures on airline cost base
- Balance sheet improvement is a gradual process and requires sustained profits and cash flows – but the above will make it harder to achieve that

Q4 Aviation Market Update

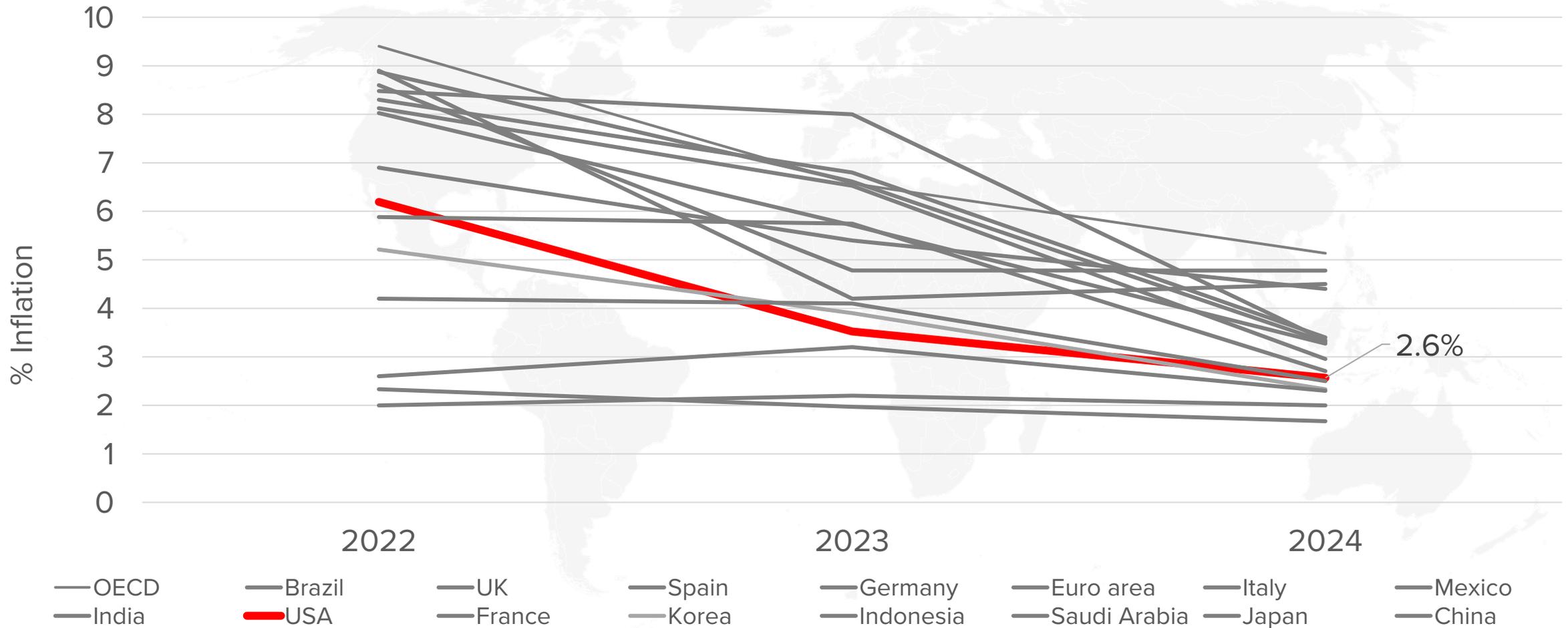
Paul O'Driscoll, Ishka Americas Head of Advisory and ISTAT Certified Appraiser

Summary of Aircraft Valuations in the Current Market



- Funding environment
- Impact on lease rates
- Impact on funding option for airlines
- Future of ABS market?

Core inflation treading down – especially in the US

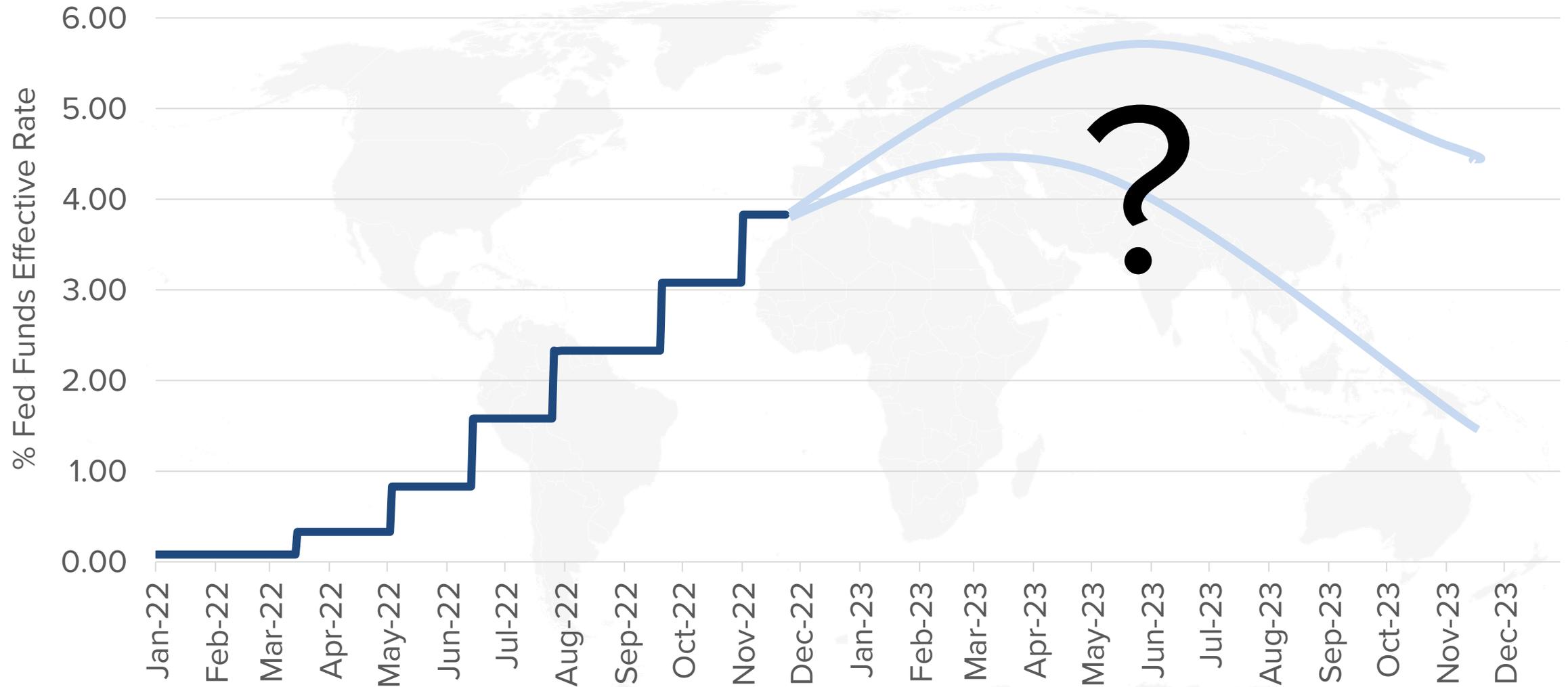


Source: OECD Forecast November 2022; Core Inflation

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QT creates a highly challenging environment to price aircraft

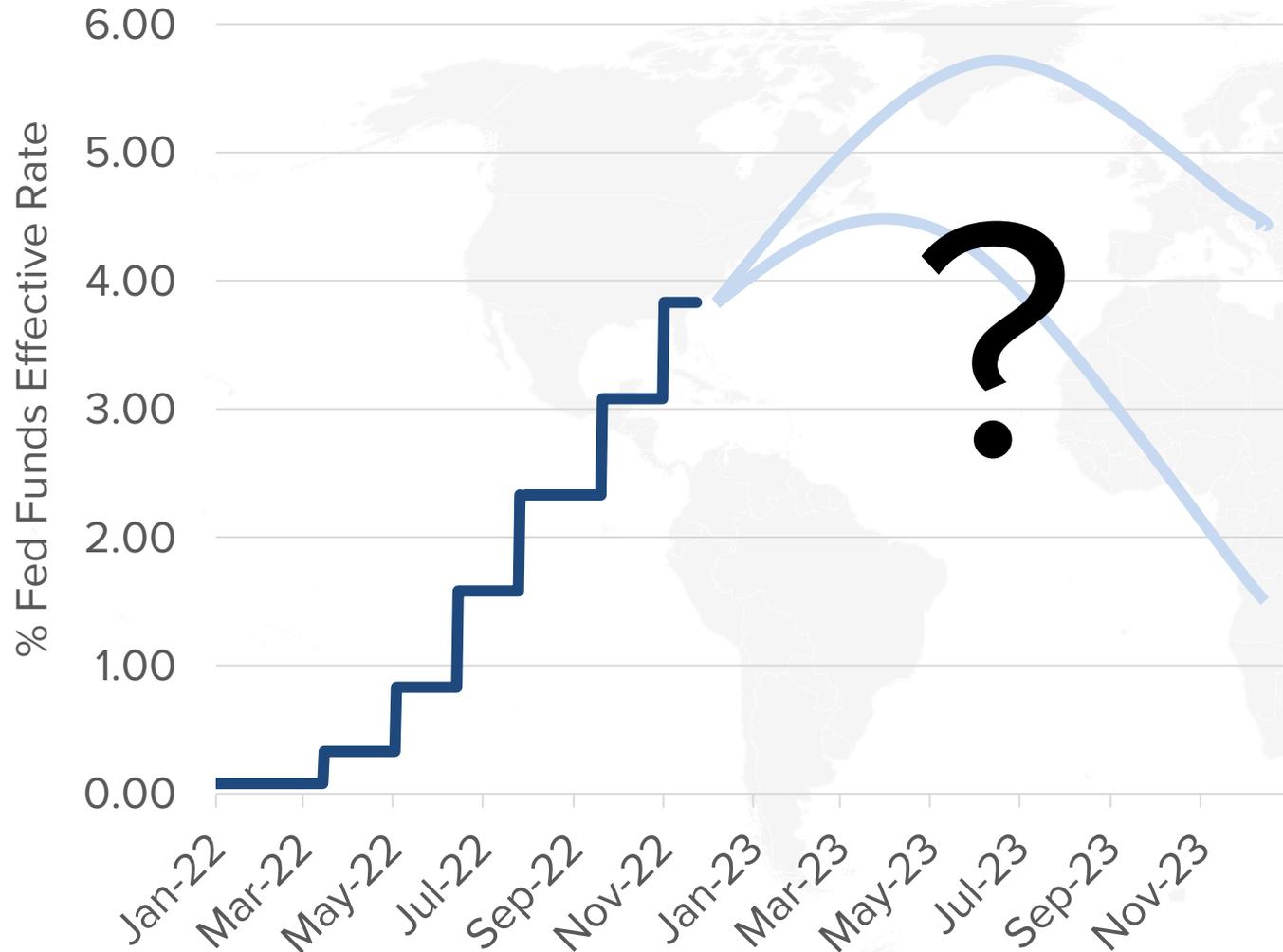


Source: St Louis Fed, Fed Funds Overnight Rate; Ishka Analysis

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Will increased cost of capital be passed on to airlines?



Example 1 \$50m New Tech Narrow Body

At the end of 2021 LRF ~ 0.55
⇒ \$275K monthly lease payments

Increase in the risk-free rate
⇒ **Implied** increase in monthly lease payments to \$440K

Example 2: \$150m New Tech Wide Body

At the end of 2021 LRF ~ 0.65
⇒ \$ 975K monthly lease payments

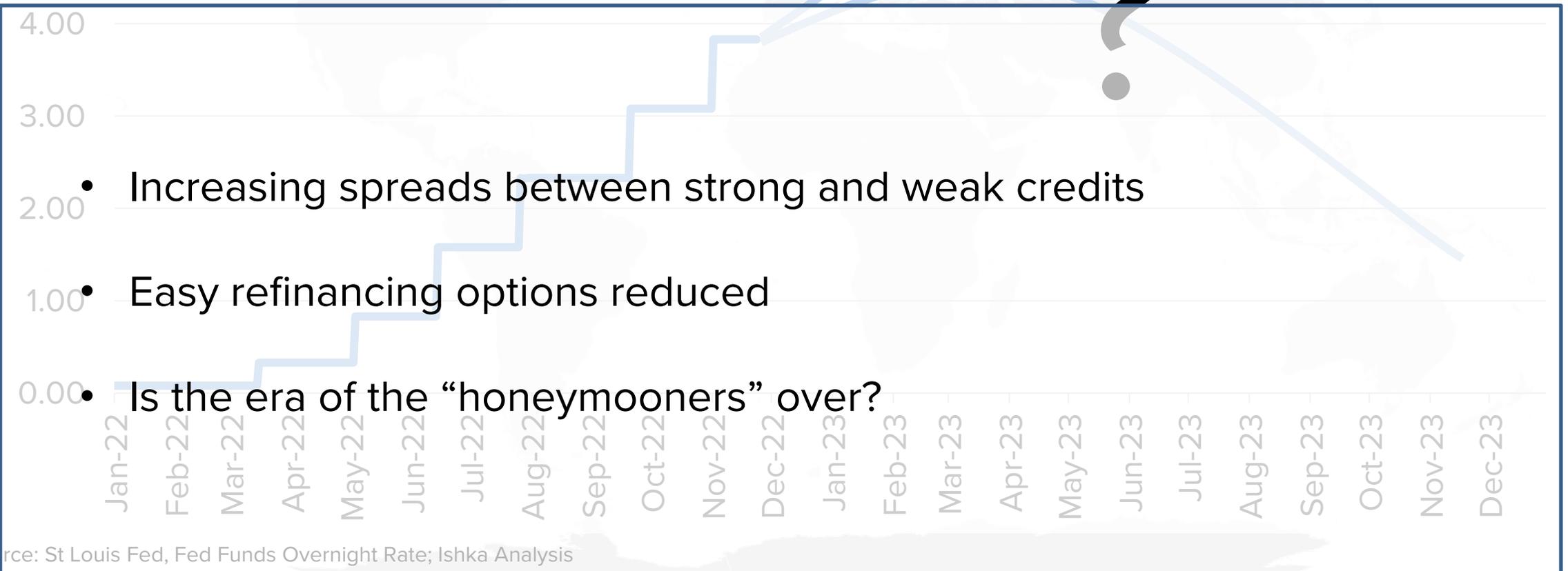
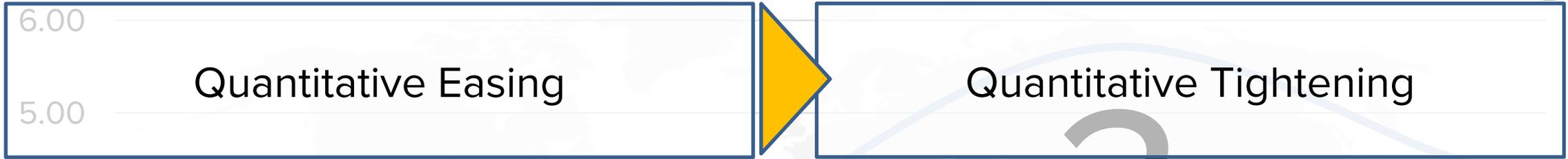
Increase in the risk-free rate
⇒ **Implied** increase in monthly lease payments to \$1.55M

Source: St Louis Fed, Fed Funds Overnight Rate; Ishka Analysis

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QT creates a highly challenging environment to price

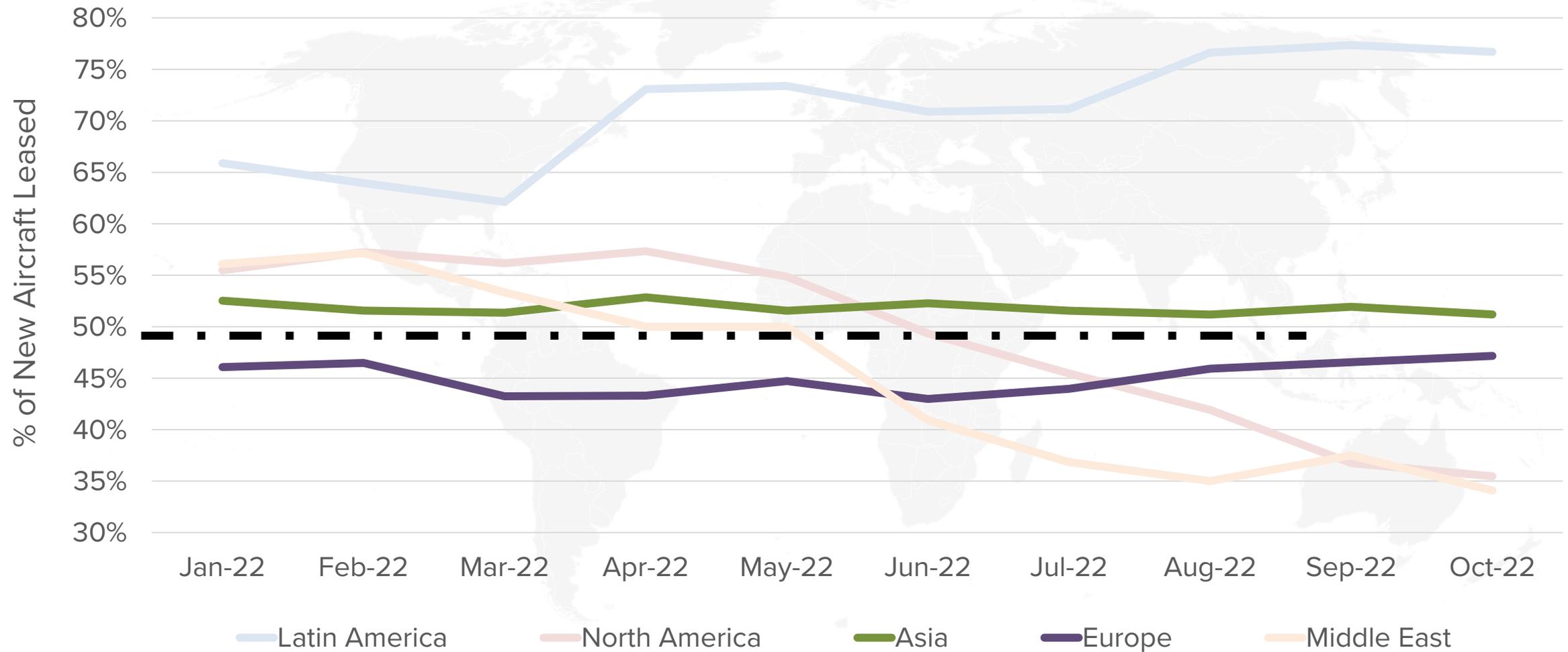


Source: St Louis Fed, Fed Funds Overnight Rate; Ishka Analysis

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What can the % of leased aircraft tell us about funding?

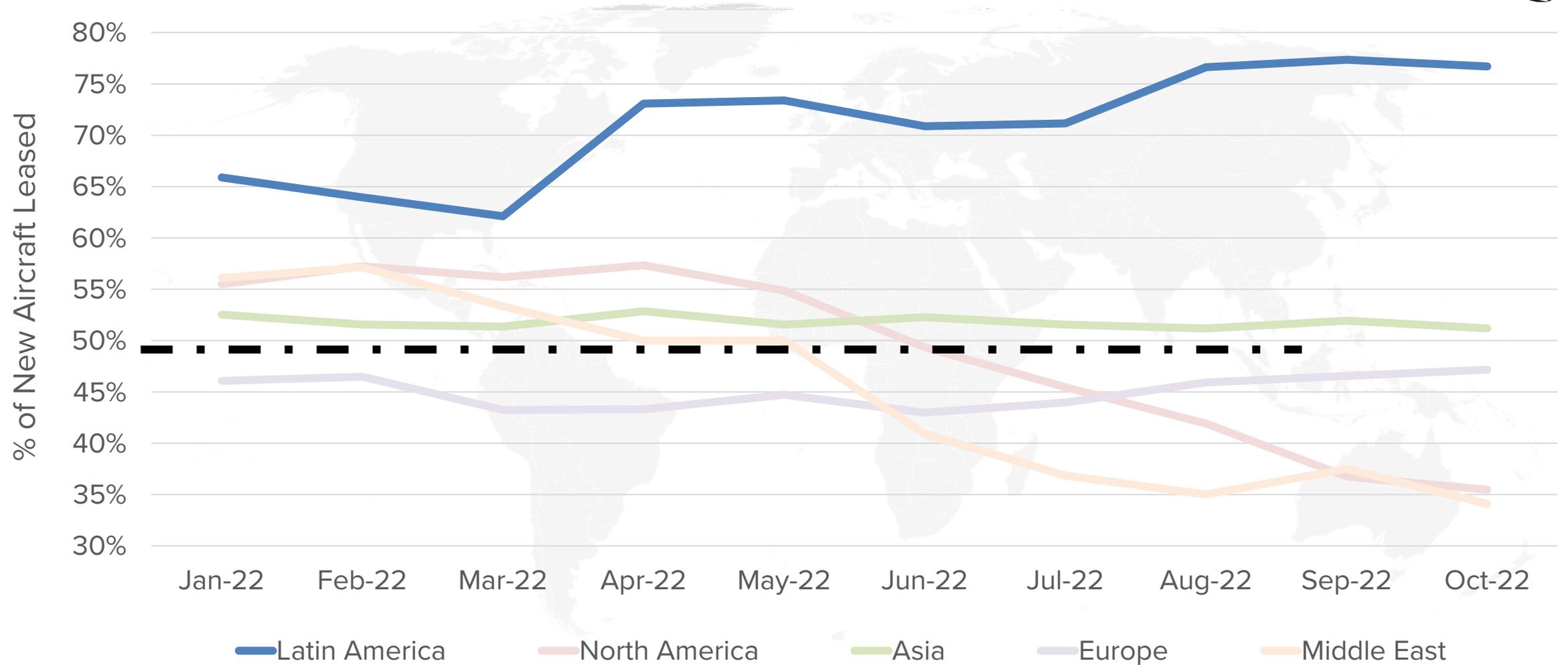


Source: CAPA Fleet Database Leased v's Owned aircraft, trailing twelve months

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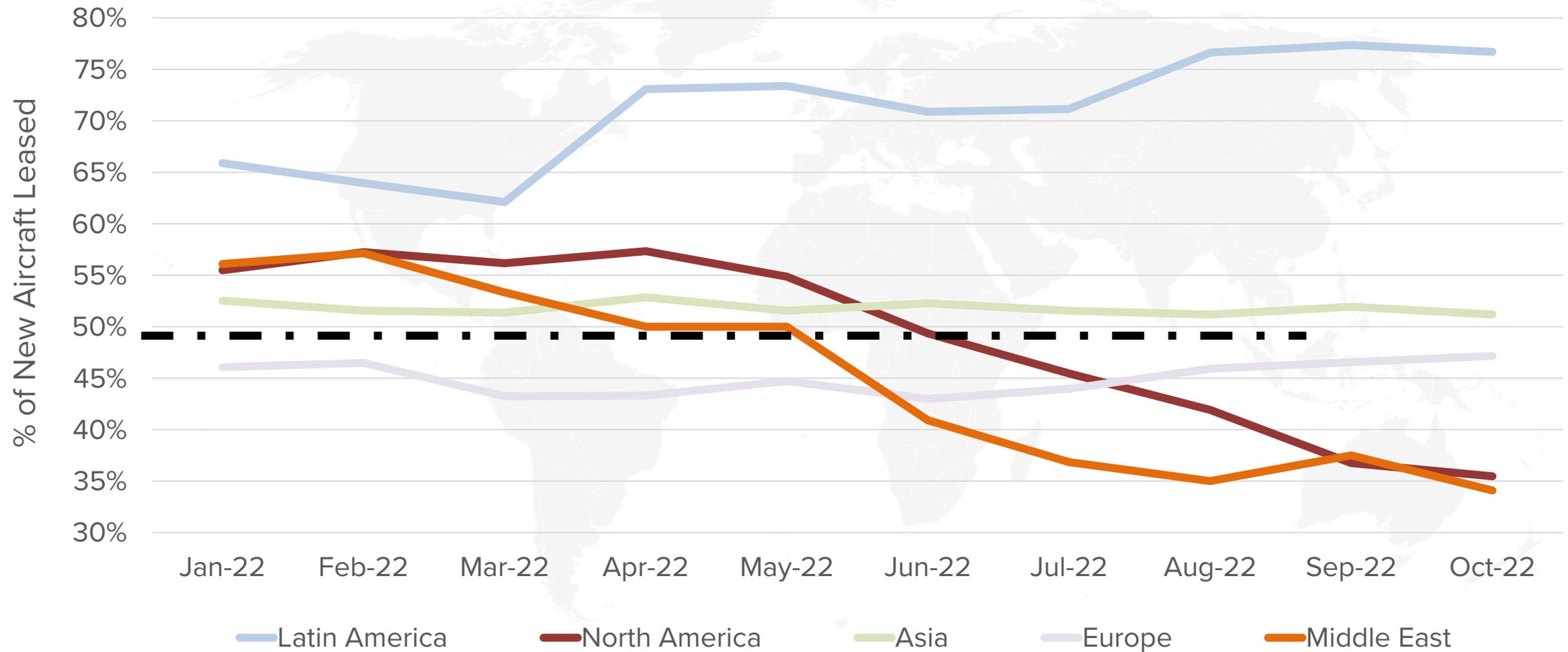


Source: CAPA Fleet Database Leased v's Owned aircraft, trailing twelve months

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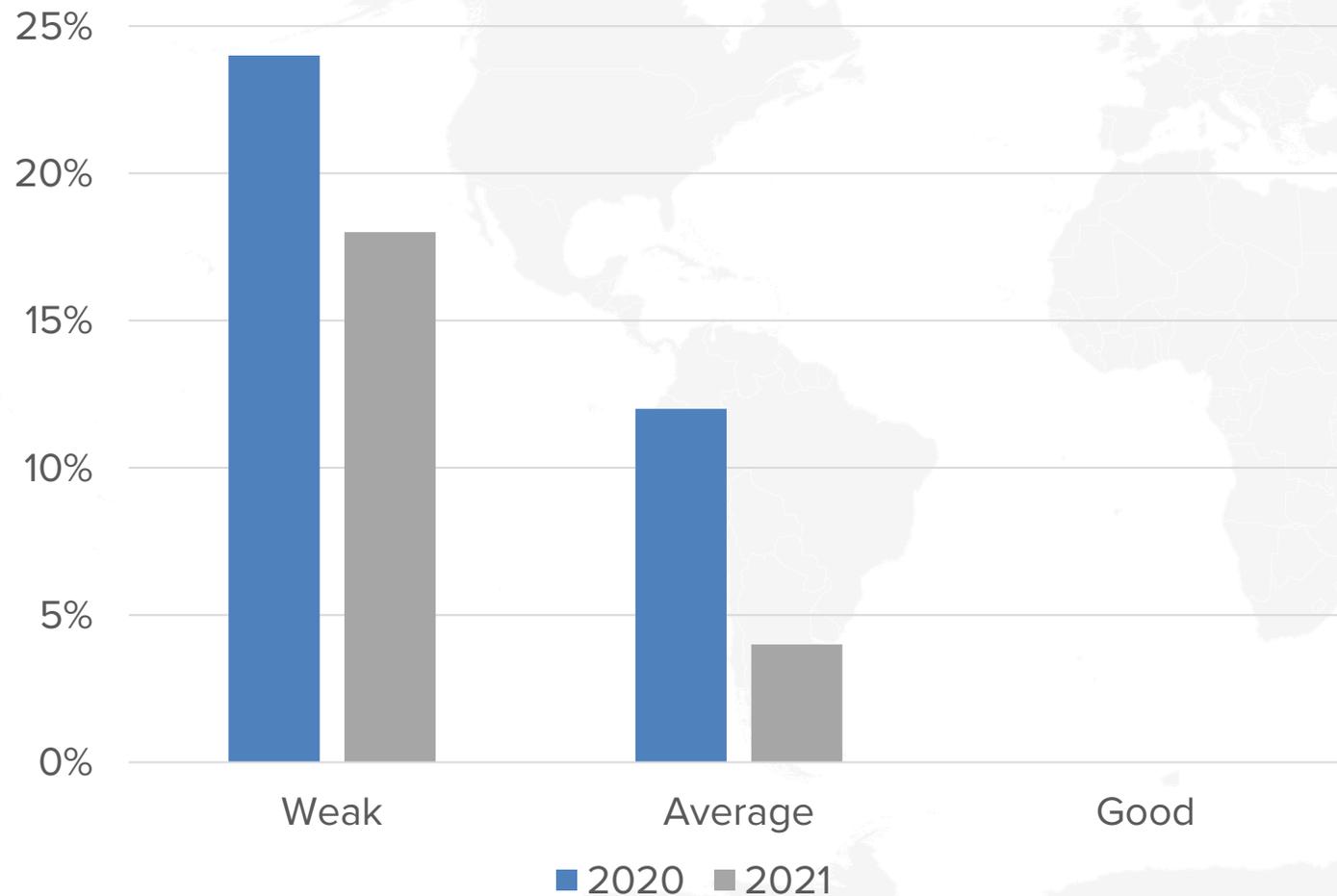
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What can the % of leased aircraft tell us about funding?



Average Implied Haircut in 2020 and 2021 by Lessee Credit Quality



- Many lessors restructured lessees during COVID
- The extend of these restructurings is largely unknown
- Valuing junior debt and equity in ABS is very difficult – meaning there is no trade for this instruments



Can more transparency bring liquidity back to the ABS secondary market?

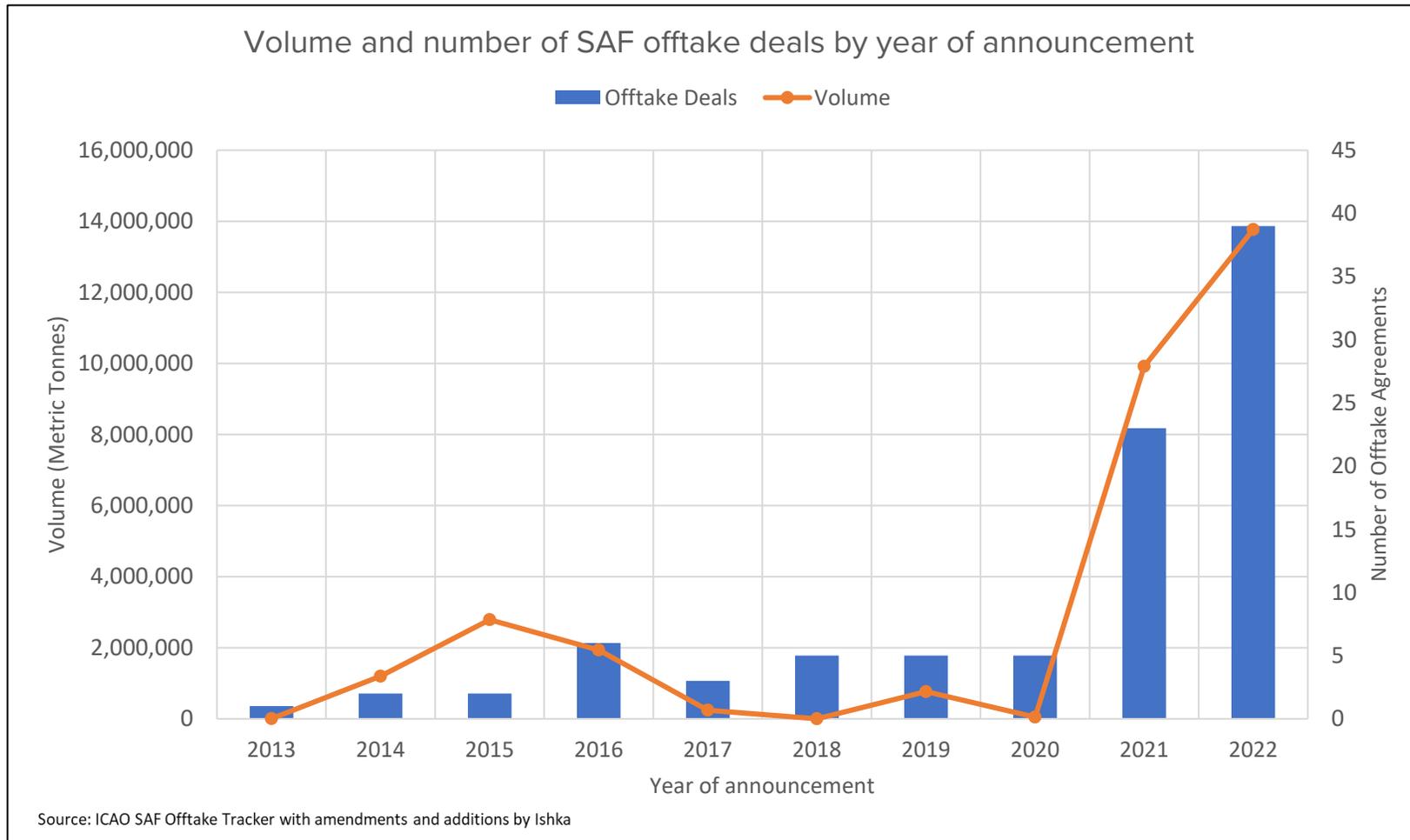
Source: Ishka analysis

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Airline Sustainability Progress

Stuart Flaye, Senior Consultant

The Rise in Offtake Agreements



Airline	Number of Offtake Agreements in 2022
IAG	3
Ryanair	2
JetBlue	2
Alaska Airlines	2
Delta	2
Lufthansa Group	2
Finnair	2
United Airlines	2
Virgin Atlantic	2
Air France-KLM	2
Japan Airlines	2
Wizz Air	1
Singapore Airlines	1
DHL	1
Iberia	1
Etihad	1
Cathay Pacific	1
Qatar Airways	1
Cebu Pacific	1
SEA Milan Airports	1
Korean Air	1
Sunweb Group	1
American Airlines	1
Boeing	1
oneworld	1
Boom	1
Qantas	1

Airline Sustainability Initiatives

It's not all about SAF...



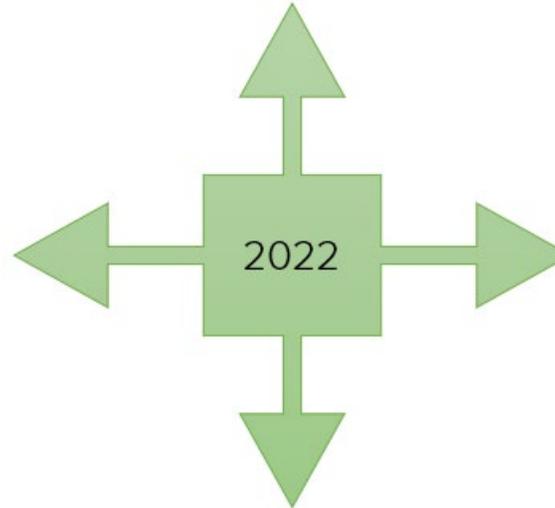
Lufthansa Technik



AeroSHARK technology



Zero-emissions
air travel



Contrail
prevention



Global Sustainable Fuel Declaration



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