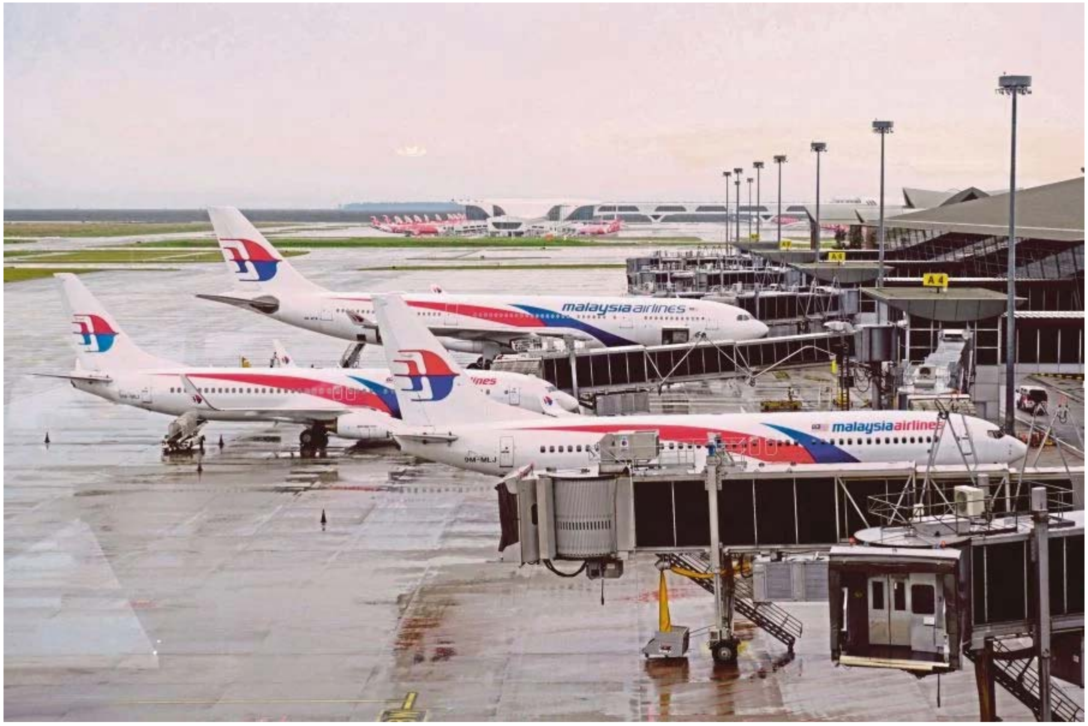
Airlines to endure tough first half of 2021: analysts


By Ayisy Yusof - December 28, 2020 @ 3:34am



Airlines will have to overcome a challenging first half of 2021 as they enter the new year in weak financial positions, following a dismal 2020 caused by Covid-19, said aviation analysts. Photographer: Samsul Said/Bloomberg

KUALA LUMPUR: Airlines will have to overcome a challenging first half of 2021 as they enter the new year in weak financial positions, following a dismal 2020 caused by Covid-19, said aviation analysts.

They said the pandemic had severely affected airlines' operations, hampering demand for air travel which was exacerbated by the closure of international borders to contain the virus infections.

This dented airlines' margins as they were bearing high fixed costs such as employees salaries, aircraft financing and aeronautical charges.

Additionally, most airlines incurred significant loss in fuel hedging as jet fuel dropped about 30 per cent year-on-year (YoY) with an average price of US$46 per barrel in 2020.

YOU MAY ALSO LIKE

- Budget 2021: Govt will continue helping SMEs recover
- Budget 2021: Malaysia awaits 'most important budget ever'
- Budget 2021: Q&A with Finance Minister Tengku Zafrul
- Budget 2021: 'Malaysia on path to economic recovery'

Sobie Aviation consultant and independent analyst Brendan Sobie said although 2020 might be the worse from a passenger volume and revenue perspective, 2021 might be slightly better.

He expects airlines' profitability to be possible in 2022 or 2023 at the earliest.

"The mountain of debts airlines will have by the time they turn the corner will take several years to pay off, potentially impacting the industry permanently," he told the New Straits Times (NST) recently.

Sobie said the air travel recovery would be "gradual and choppy" as airlines would need to continue boosting liquidity and securing government support as for most 2021 would be another "very unprofitable" year.

"Vaccines provide the light at the end of the tunnel but will take a long time to roll out and facilitate a recovery of international travel," he said.

Sobie said domestic markets would continue recovering but for most airlines it would be impossible to rely only on domestic travel.

"Leisure is likely to recover faster, particularly the VFR segment (visiting friends and relatives)," he said.

Sobie said international leisure would take time to return to pre-pandemic levels, adding that consumers need to regain confidence in travel and have sufficient discretionary income despite a recessionary economic environment.

PwC Malaysia's strategy and partner Edward Clayton said Covid-19 would continue to cause ad hoc disruption to travel until a significant number of vaccinations had taken place.

"Therefore, it is unlikely that we will see significant recovery in travel until mid-2021 except for domestic and possibly some limited bubbles between countries," he told the NST.

He said a major recovery in air travel would likely from the second half of 2021 (2H21) except for the domestic market, assuming the vaccination programme goes well.

However, he said even travel bubbles would be unlikely due to the resurgence of the third-wave of Covid-19 in the past two months.

"The virus can come roaring back very quickly. So constant control and vigilance is needed. Countries are now much less willing to re-open than they were in July-September," he said.

Clayton concurred that initial travel was likely to be VFR, business, work and education segments, while mass tourism will come later.

"Countries have already closed down their tourism sectors and it is unlikely they will risk opening them up again quickly.

"Therefore, we expect 2021 to be a year of two halves with travel continuing to be depressed until mid-year, and, if vaccinations are working well, a significant pick-up in travel in the second half (but still with restrictions)," he said.

Clayton said one of the restrictions on travel would be the extra cost of tests, vaccination certificates and gaining permission to travel.

IThese are likely to depress travel as it will be "too hard" for some travellers.

"People have learnt that it is risky to travel as there is a possibility you will be stranded away from home if you do, due to short notice government rule changes.

"Hence, they will tend to think twice before getting on a flight. Many believe that flying has a high risk of Covid-19 exposure. That's not actually true, but many believe it and would rather avoid flying," he said.

Clayton said historically, after disruptions such as 9-11, the global financial crisis in 2008 and the Gulf War in 1991, there had been major recoveries after an initial traffic reduction.

"Therefore it is possible that 2022 will be as strong as, if not stronger, than 2019 on the demand side.

"However, many airlines have retired aircraft and staff, so it is likely that there will be capacity shortages once the recovery starts, slowing down the pace of recovery," he said.

This could result in higher air fares as airlines will likely to have a profitable period once the recovery gets fully under way - although this will by far not be enough to compensate for their losses in 2020-2021.

He said most likely, based on current scenarios and economic forecasts, demand would continue to be strong throughout 2022 to 2023, assuming that the vaccination programme results in Covid-19 no longer being an issue.

However, if there was an economic slowdown, this could result in a slower air traffic recovery too, he cautioned.

The International Air Transport Association (IATA) forecast a return to 2019 traffic levels by 2024.

But this may come back earlier in Southeast Asia due to the fast developing economies here than in the West.

"I would expect 2023 passenger numbers to exceed 2019 in this region, and 2024 to be a record year, assuming that there is sufficient airline capacity," Clayton said.

AirAsia Group founder and chief executive officer Tan Sri Tony Fernandes estimated that it might take another two years for the group's revenue to return to the pre-Covid-19 levels, but it saw some good things coming from its other branches of business.

"Obviously, I don't think travel will return to the 2019-level for a couple of years. We will be a bit smaller, but if travel really comes back, there are lots of pilots and planes," he said.

AirInsight partner and co-founder Addison Schonland expects leisure segment first to recover as people were desperate to simply "getaway" from home lockdowns.

"Before any airline planners get excited, there has to be a clear and predictable vaccine delivery solution. For each market: who gets it first? When can regular travellers (especially business travellers) get it?

"Only once this becomes clear does it make sense for any airline to start planning for a restart. For many airlines they have very little time left as they run out of money. I fear the vaccine cannot come fast enough," he told the NST.

The US-based consulting group focused on commercial aviation and aerospace said capital, employees, and customers (travellers) were of concern to airlines in restarting their operations.

"It depends on how much longer can airlines survive and will there be enough capital to restart?

"Employees are depressed and most laid off. Can airlines get them to come back and pay them?Customers – will they come back? How cheap do airfares have to be?

Schonland said running an airline was an exercise in supply management that puts the supply on the market and hopes the market reacts.

RELATED ARTICLES

NATION Nov 6, 2020 @ 10:31pm
Economic Outlook 2021: Protecting lives and livelihoods

NATION Nov 28, 2020 @ 8:00pm
Budget 2021: All eyes now on opposition

BUSINESS Dec 1, 2020 @ 11:54pm
CPO to trade lower in 2021: Fitch

BUSINESS 11 hours ago
CPO prices to decline in 2021: Fitch

MOST POPULAR

LATEST

MOST READ

- 2h Mega UN meetings may herald 'super' year for nature
- 3h Manufacturing sector needs new master plan to enhance competitiveness
- 3h Kudos to NGOs for helping the needy
- 3h A 'vaccine' for climate change
- 3h NST Leader: Leave no stone unturned
- 3h 18 Premier League players, staff test Covid-19 positive
- 3h Wuhan's Covid-19 cases may have been 10 times higher

RECOMMENDED

Experts: Do not extend CMCO

Helping Malaysians mentally weather the ravages of Covid-19

[Happy students make happier teachers]

[China's lunar probe lands on Moon: Xinhua]

[Saudi Arabia opens airspace to Israeli airliners]

ACROSS NEW STRAITS TIMES

WORLD 7 hours ago

Legendary fashion designer Pierre Cardin dies aged 98

NATION Dec 28, 2020 @ 9:15pm

Ipoh traders revel in horde of foodie tourists

GROOVE Dec 28, 2020 @ 9:12pm

US actress Loughlin released from prison

NATION Dec 28, 2020 @ 5:24am

Proton Iswara family wants donations to stop

BUSINESS Dec 27, 2020 @ 10:58pm

Blacklisted contractor bids for TM's RM400mil 5G tender?

NEW STRAITS TIMES

GET MOBILE APP

NEWS
Crime & Courts
Exclusive
Govt / Public Policy
Nation
Politics

BUSINESS
Business Times
Property
Cars Bikes Trucks

LIFE & TIMES
Sunday Vibes
Bots
Heal
Flair
Jom!
Groove

SPORTS
Football
Badminton
Tennis
Cycling
Golf
MMA
MotorSport
Cricket
Others

WORLD
World
Region

OPINION
Columnists
Letters
Leader

GALLERY
Photos
Infographics

NSTTV
EDUCATION
VOUCHER