

Aviation Outlook for Australia



ATE21
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Dr. Tony Webber

au.linkedin.com/in/drtonywebber

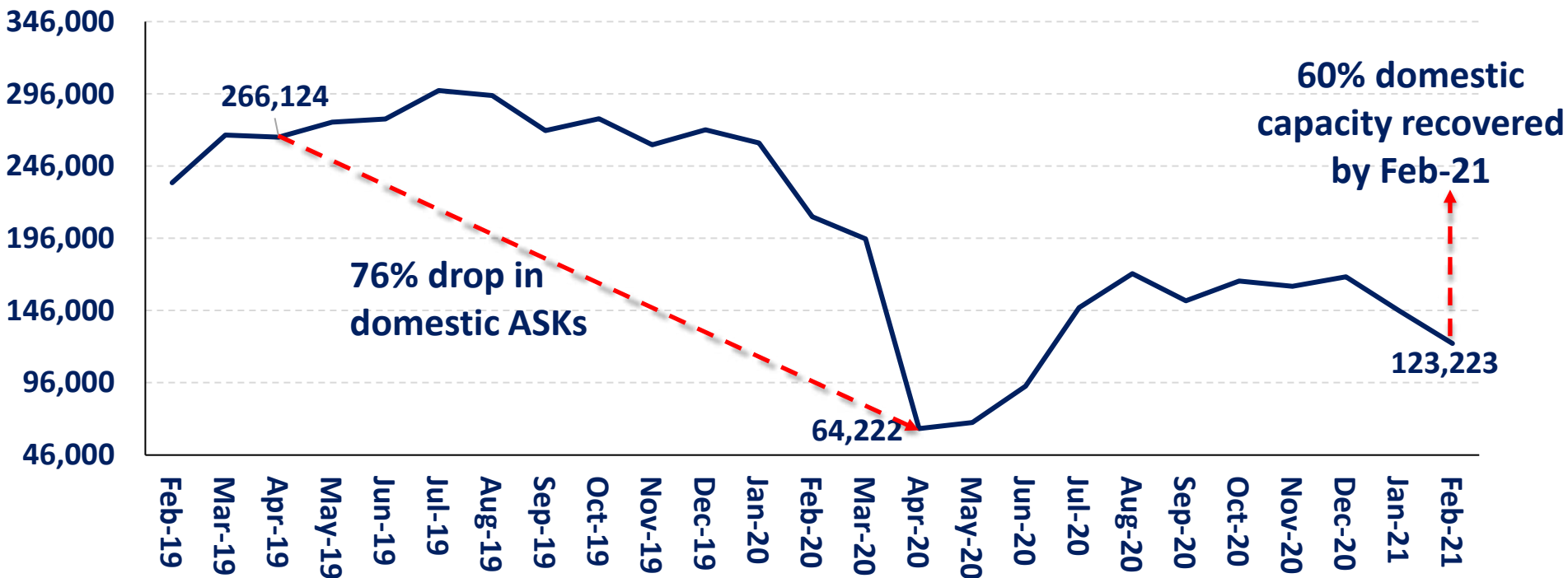
Agenda

- **Aviation status quo**
 - Global
 - Regional (Asia, Europe, Americas)
 - Oceania
- **Global aviation outlook**
- **Regional aviation outlook**
- **Australian domestic aviation landscape**

Global Status Quo

Global **domestic** aviation 76% drop in passenger capacity (ASKs) to April 2020 bottom; market recovered 60% of pre-Covid levels by February 2021

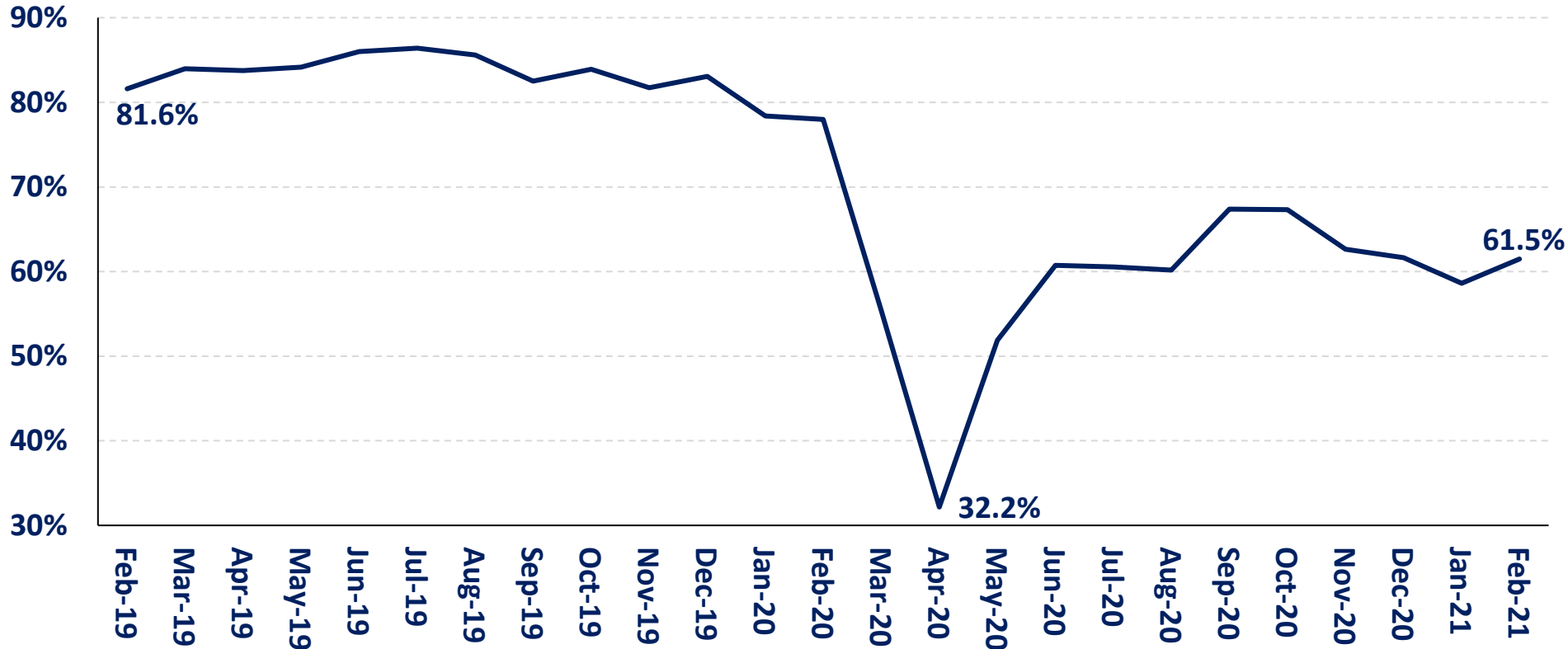
Sample Monthly
Global DOM
Available Seat Kms
(m)





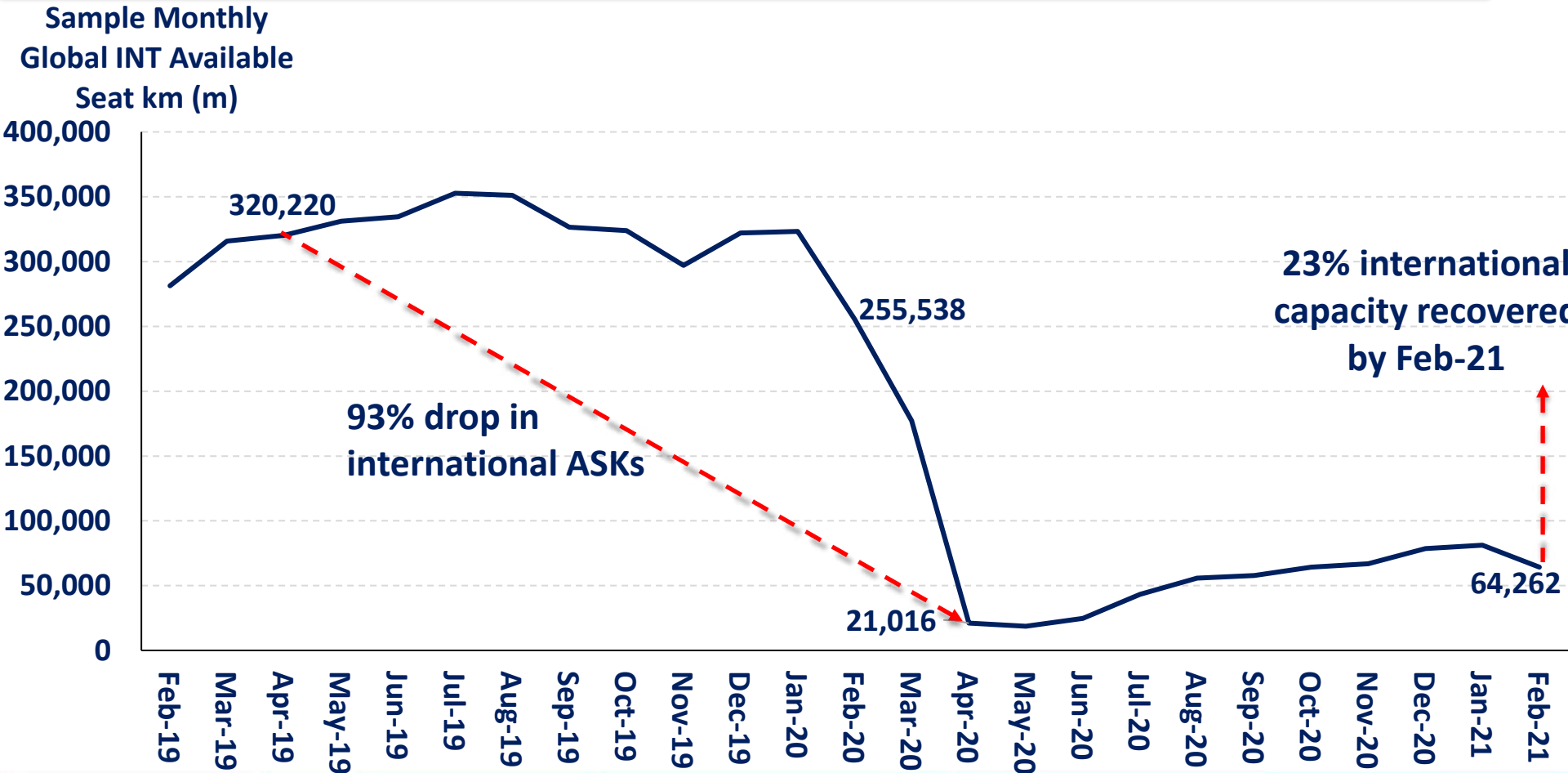
Going into Covid, **domestic** capacity wasn't pulled out of the market quick enough; post Covid, the reverse is occurring

Sample Monthly
Global DOM Seat
Factor



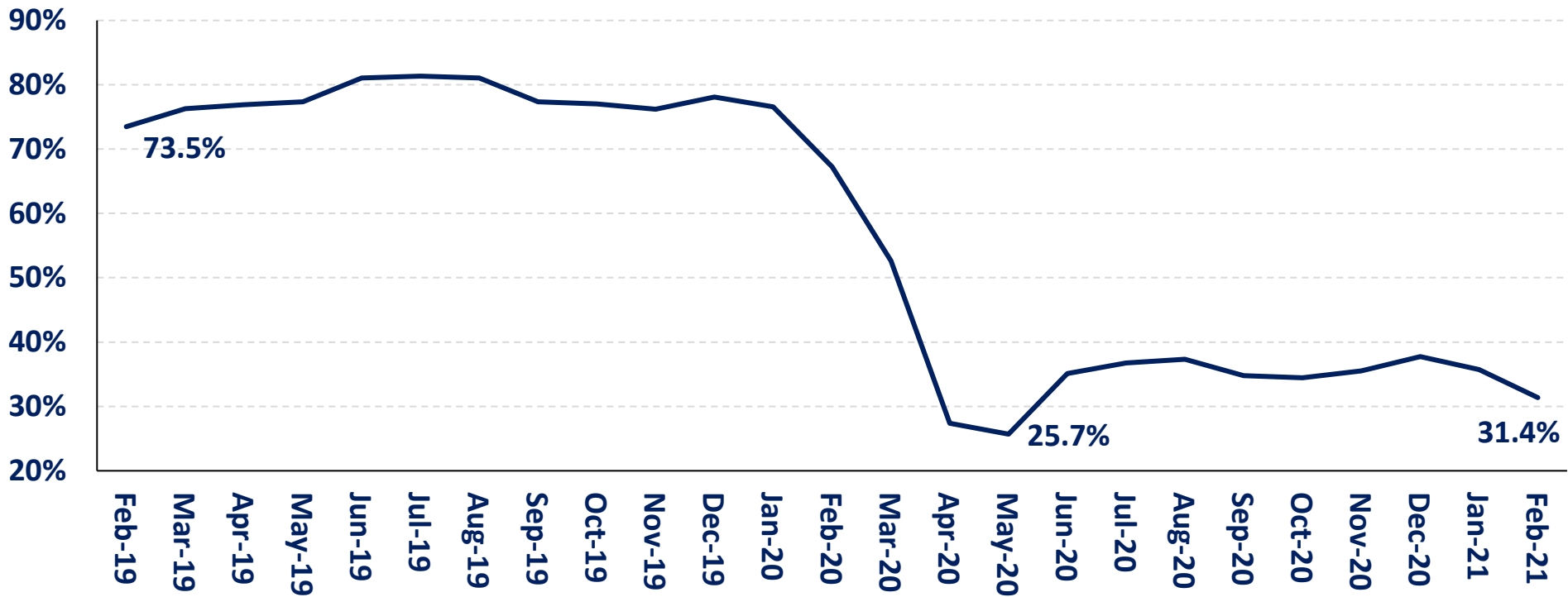


Global **international** aviation 93% drop in ASKs to April 2020 bottom; market recovered 23% of pre-Covid levels by February 2021



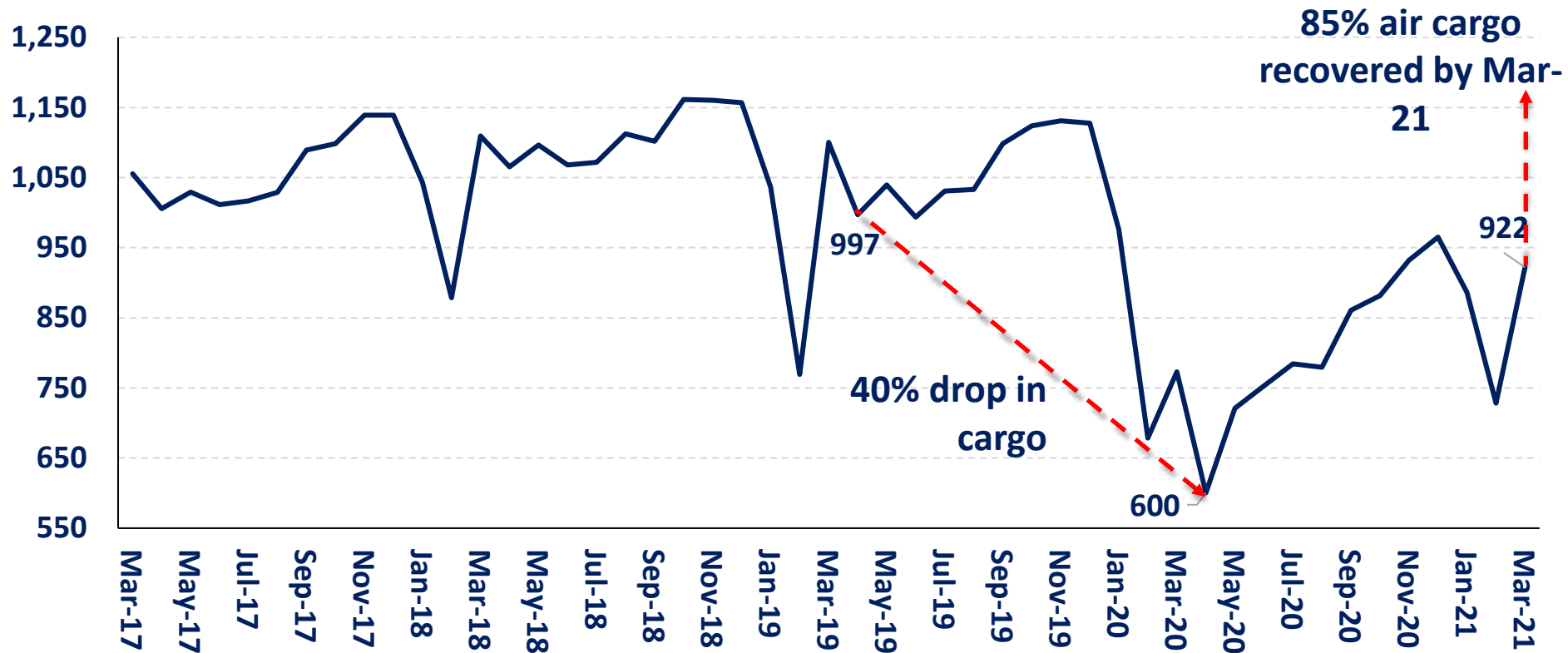
International seat factor hasn't recovered from Covid impact; still plenty of vacant seats on international flights globally

Sample Monthly
Global INT Seat
Factor



Global air cargo 40% drop to April 2020 bottom; market recovered 85% of pre-Covid levels by March 2021.

Sample of Global Air Freight Carried ('000 tonnes)



Which airlines have best weathered the Covid storm?

- Strong freight business
- Significant domestic business
- Located in jurisdictions with excellent Covid performance
- Secured government support

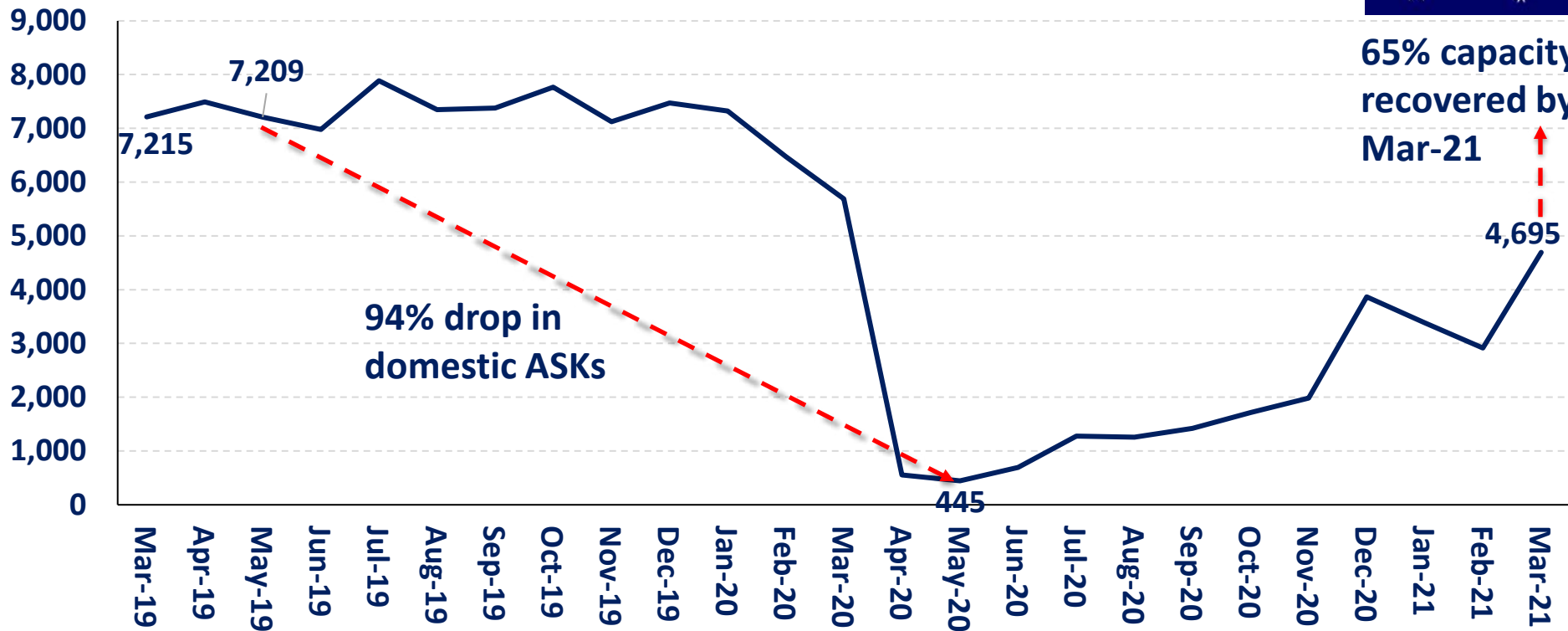
Oceania Status Quo - Australia

94% drop in **domestic** Australian air capacity due to Covid-19, bottoming in May 2020; recovered to 65% of pre-Covid levels by March 2021 (most recent available data)

Monthly Australian DOM Available Seat kms (m)

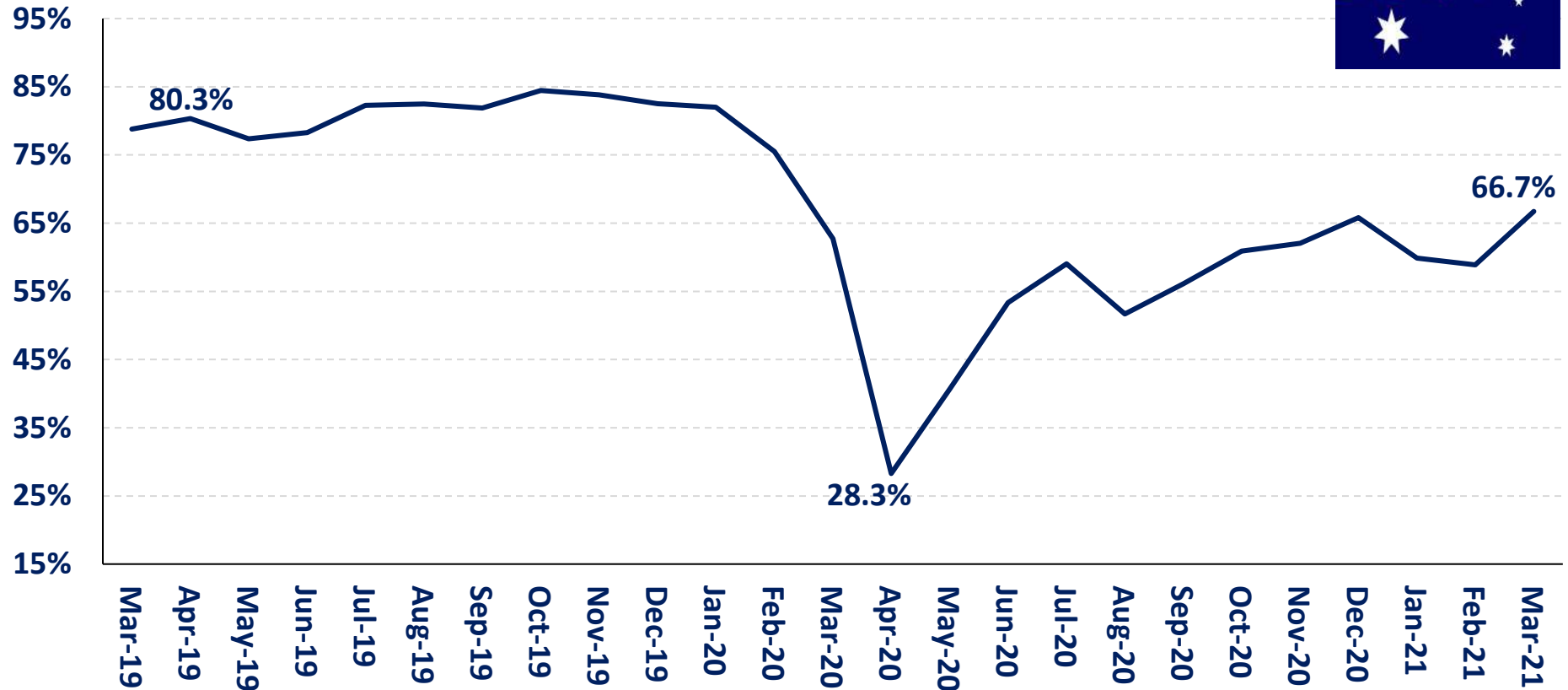


65% capacity recovered by Mar-21



Trajectory of **domestic** passenger seat factor in Australia is strong post-Covid, suggesting capacity post-Covid is growing at a slower pace than demand, as expected

Monthly Australian Domestic Seat Factor

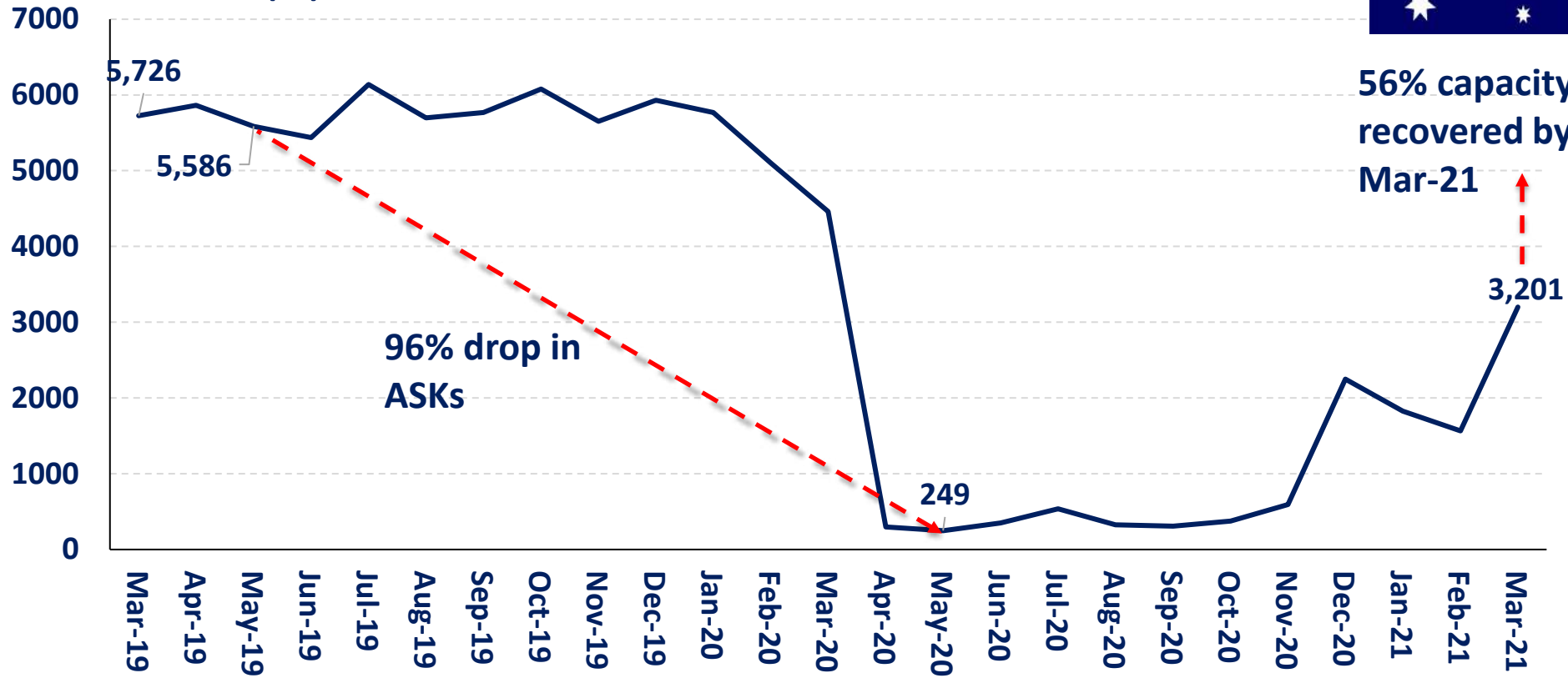


Interstate travel fell 99% during Covid-19 to a May-20 bottom; has recovered 56% by Mar-21

Australian DOM Interstate ASKs (m)

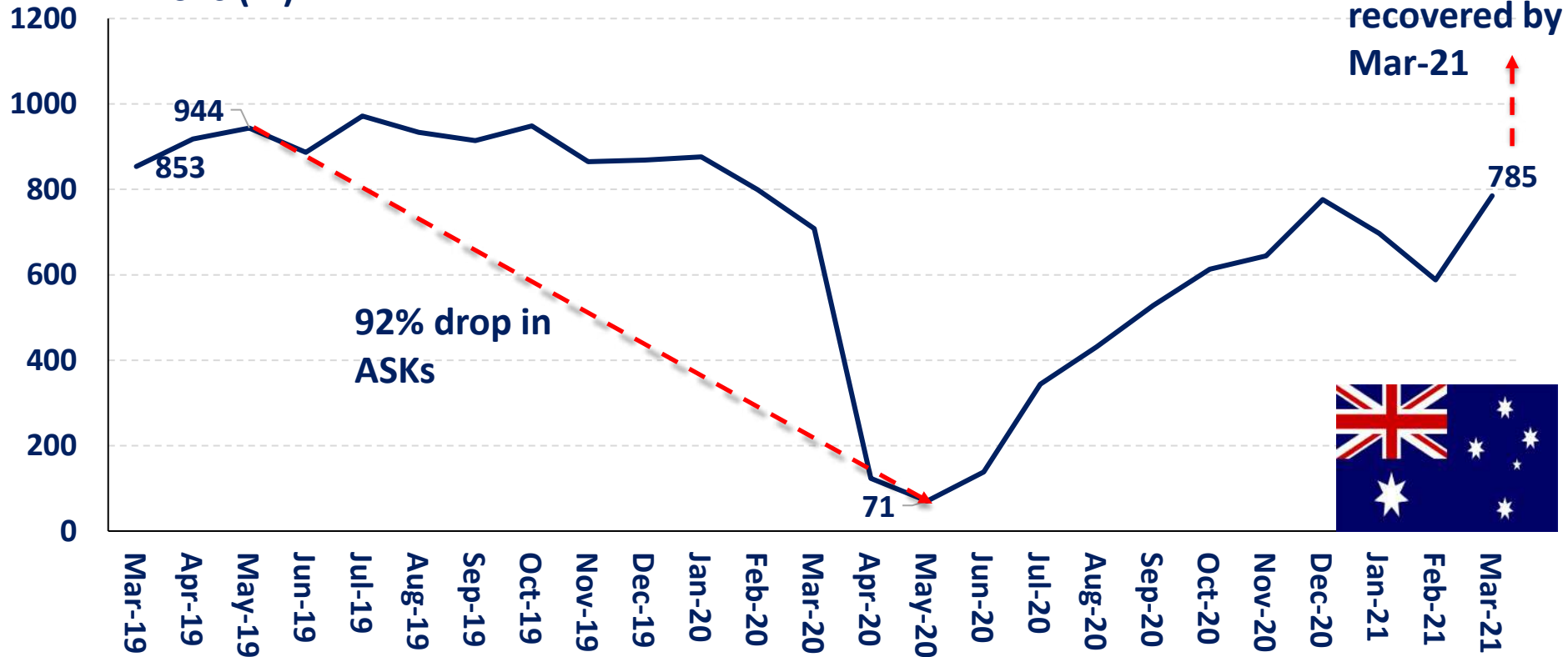


56% capacity recovered by Mar-21



Intrastate recovery well advance of interstate, heavily influenced by state border closures and confidence attributable to the threat of state border closures

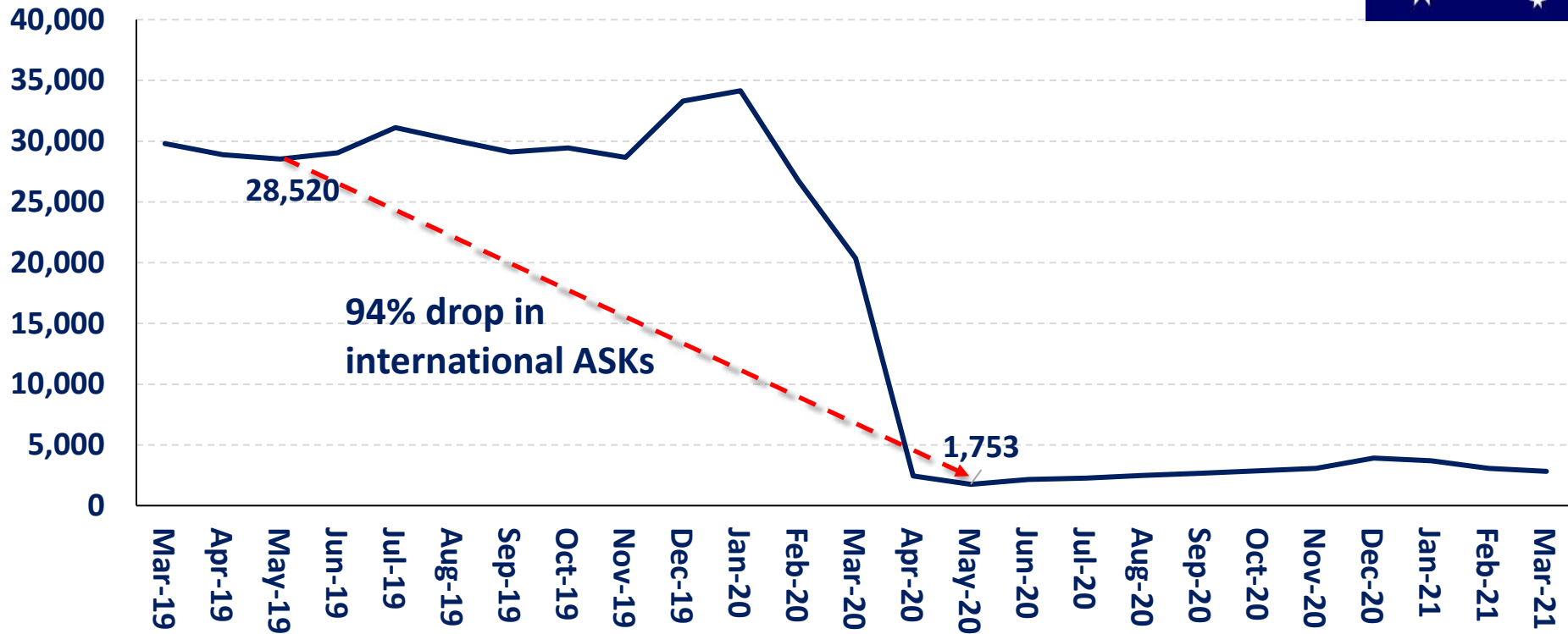
Australian DOM Intrastate ASKs (m)



Australian **international** aviation capacity dropped 94% bottoming in May-21, with that capacity still at repatriation levels only. Will not improve until international borders re-open.

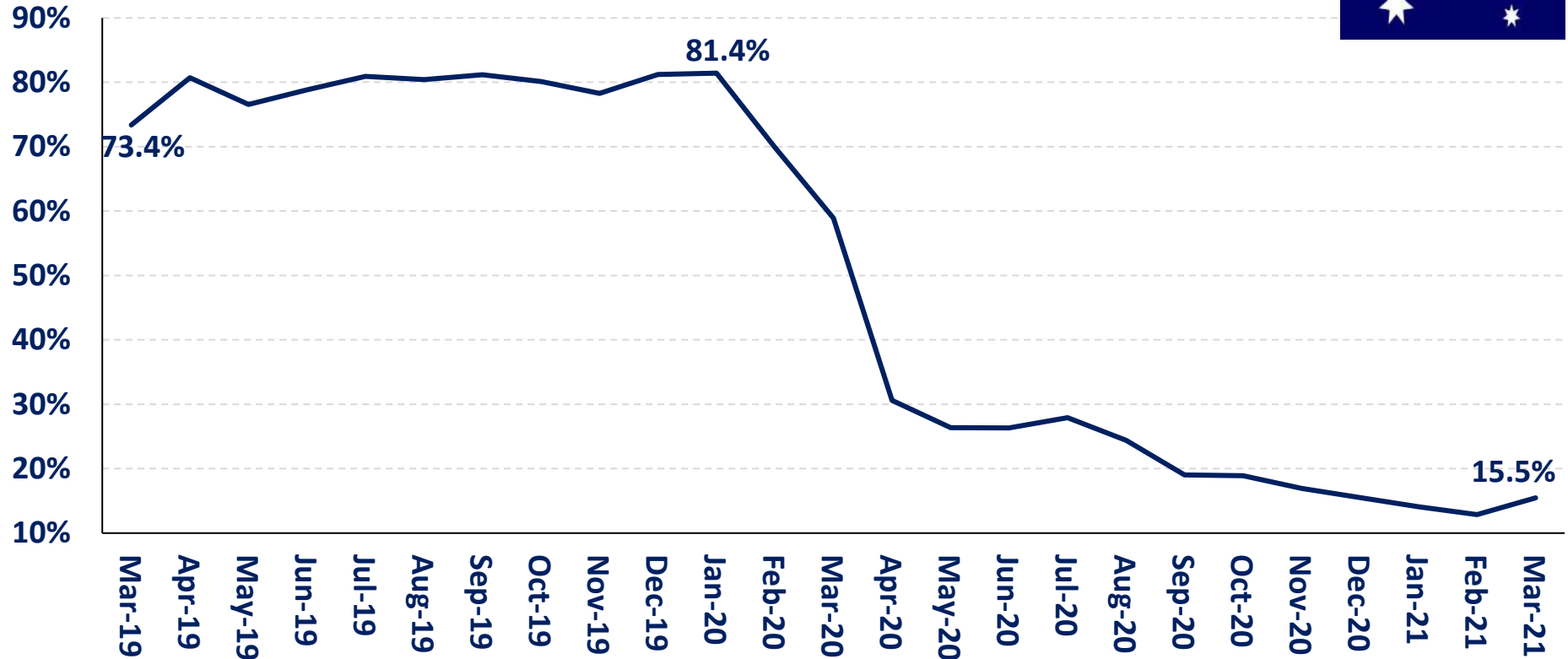


Monthly Australian INT Available Seat kms (m)



Different story with international passenger seat factor compared to domestic, with the trajectory downward as repatriation supply exceeds restricted demand

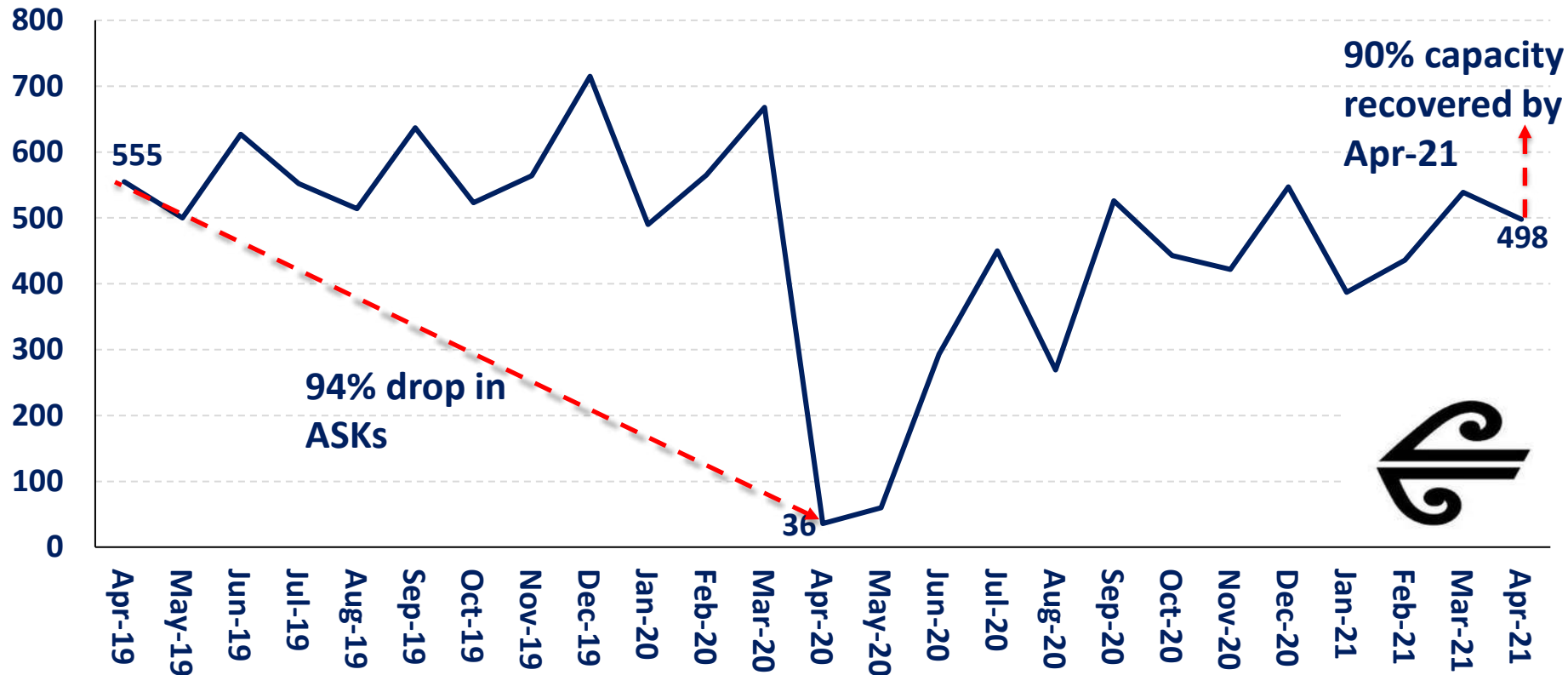
Monthly Australian International Seat Factor



Oceania Status Quo – New Zealand

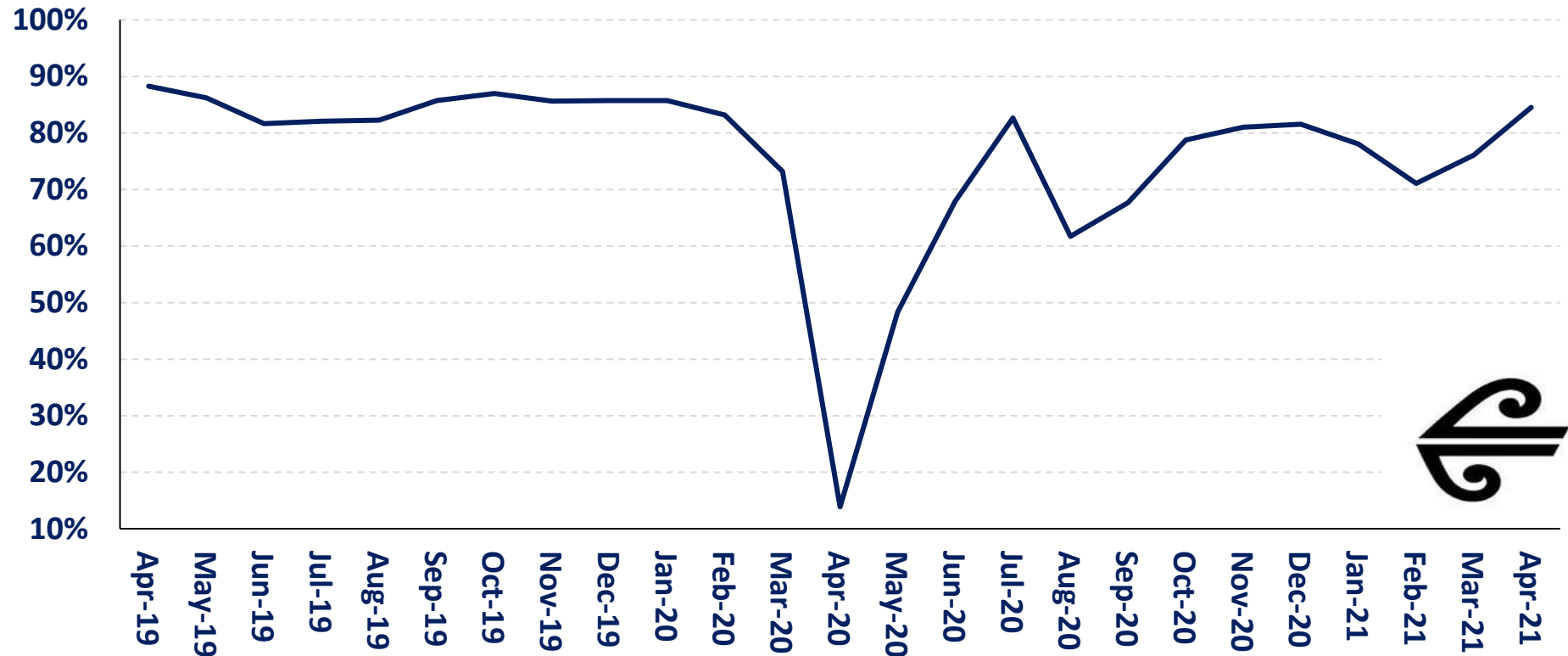
94% drop in Air New Zealand **domestic** ASKs to Covid low in April 2020; April 2021 capacity 90% of Pre-Covid levels

Monthly Air NZ DOM
Available Seat kms (m)



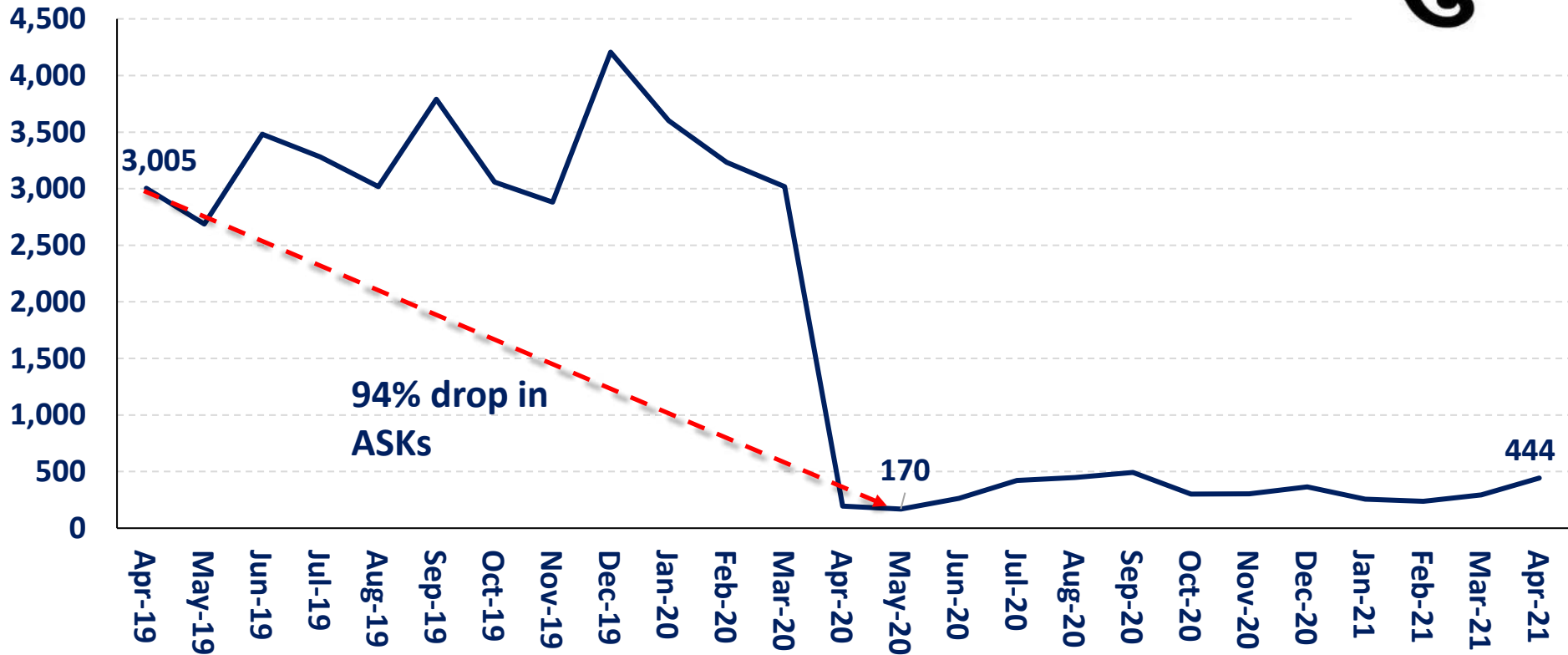
Textbook return of Air New Zealand domestic passenger seat factor to around pre-Covid levels, suggests perfect trajectory of capacity out of Covid.

Monthly Air New Zealand Domestic Seat Factor



94% reduction in international flying by Air New Zealand with little prospect of recovery until widespread international border reopening

Monthly Air NZ INT
Available Seat kms
(m)



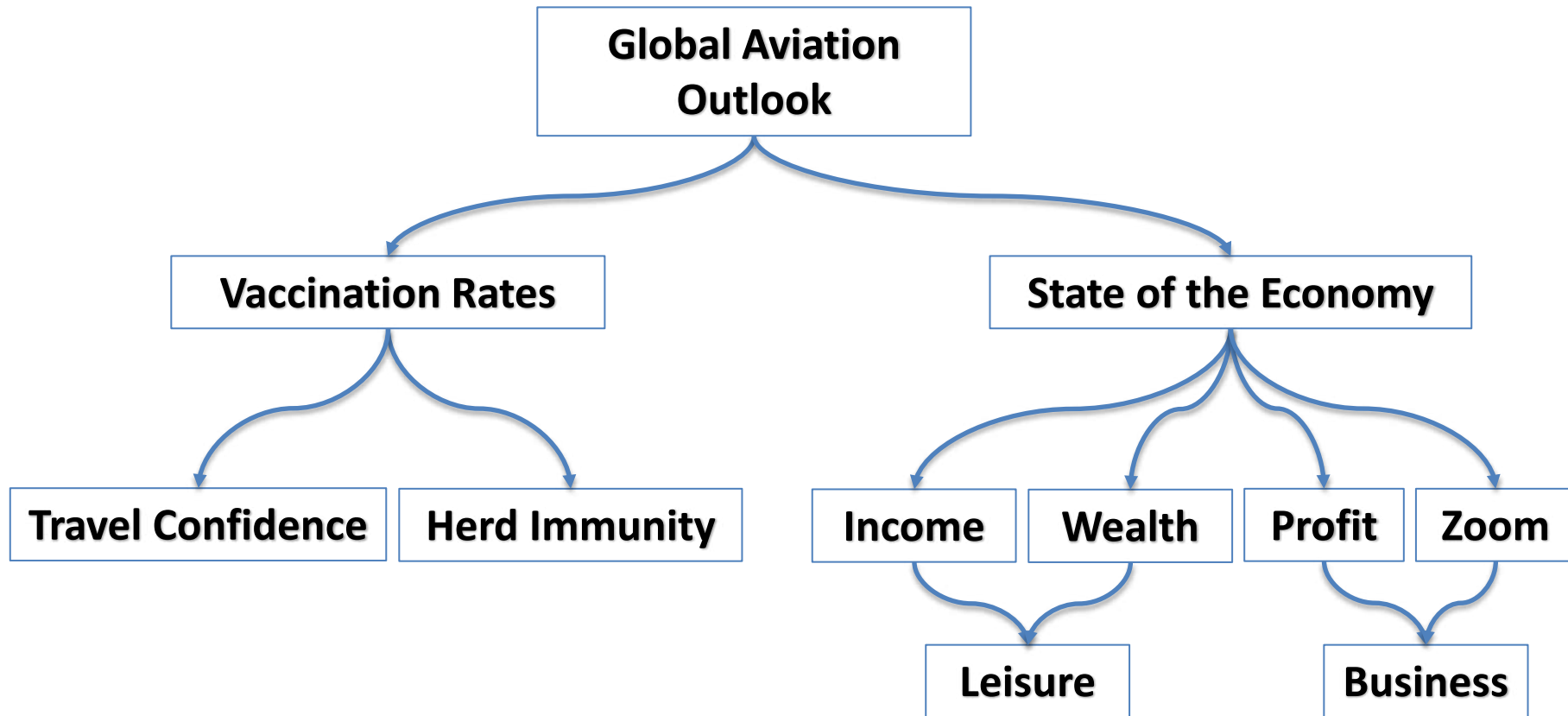
Regional Status Quo - Summary

Biggest drop in capacity Asia and Europe international followed by China international & Europe domestic; China DOM strongest recovery

Region and Sector	Drop in Capacity due to Covid	Covid bottom	Recovery %	Recovery Point
Asia	98%	Apr-20	42%	Apr-21
China DOM	75%	Apr-20	87%	Apr-21
China INT	96%	Apr-20	No recovery	
USA DOM	76%	May-20	60%	Feb-21
USA INT	93%	May-20	30%	Feb-21
Lat. Amer. DOM	89%	May-20	70%	Apr-21
Lat. Amer. INT	94%	Apr-20	24%	Apr-21
Europe DOM	96%	May-20	20%	Mar-21
Europe INT	98%	May-20	29%	Mar-21

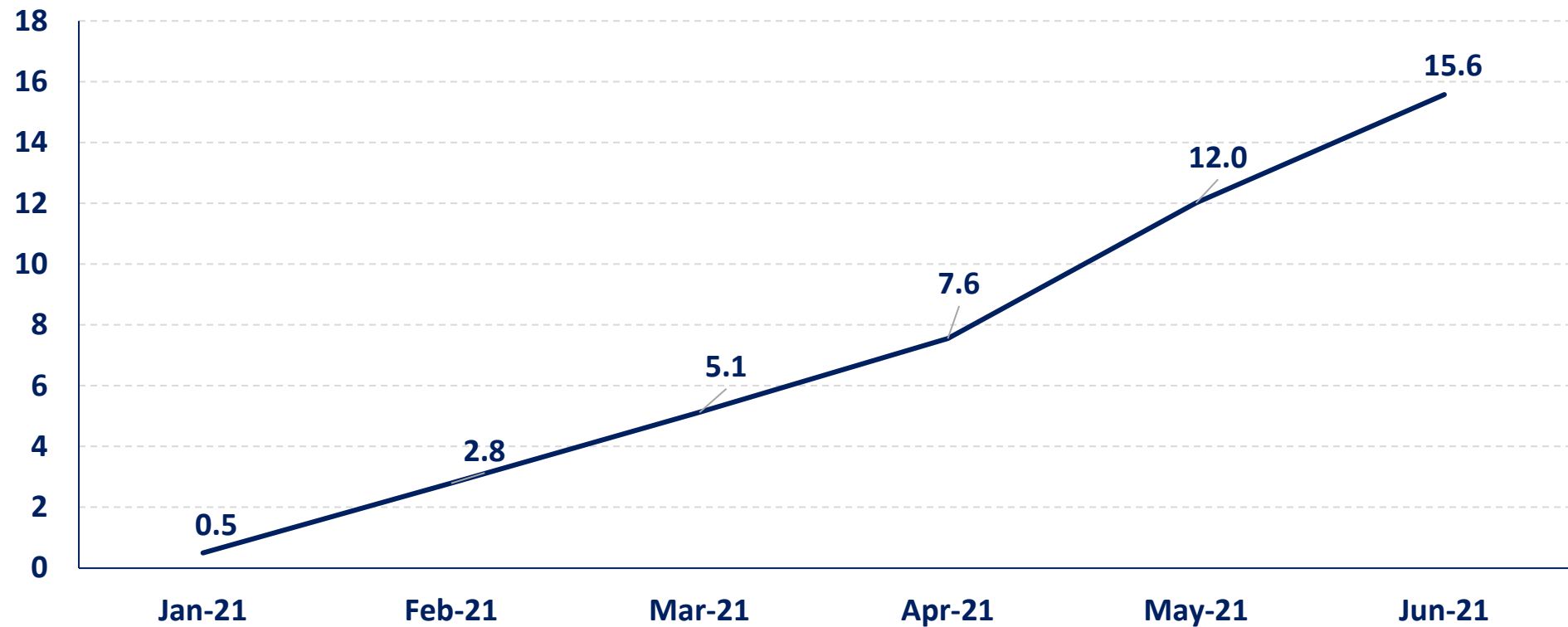
Global Aviation Outlook

Outlook for aviation generally depends on two major forces – vaccination rates and thus herd immunity and ability of passengers to pay for travel



The percentage of the global population vaccinated as at June 9, 2021 is 15.6%.

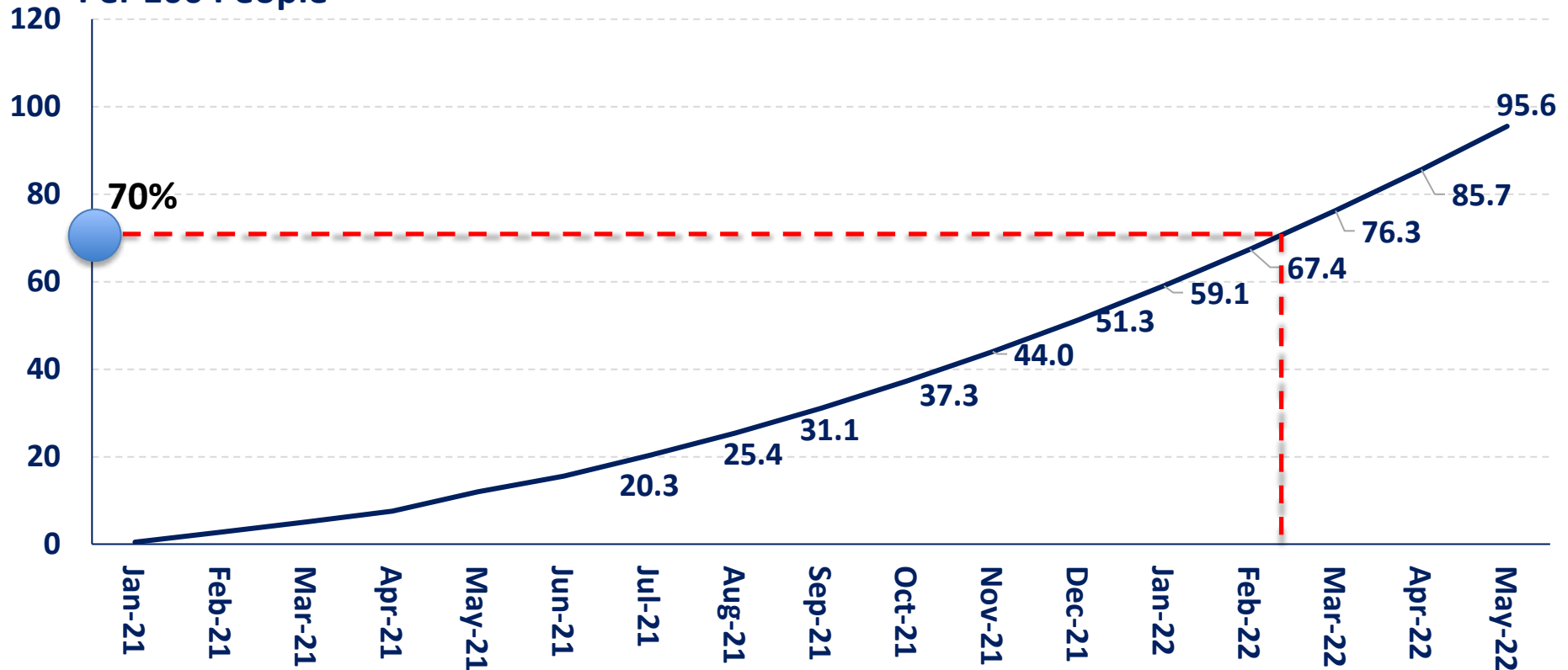
Global Fully Vaccinated Per 100 People



According to the Australian Government, 60% to 70% of people must be vaccinated to reach herd immunity. At current rates of global vaccination, global herd immunity is not reached until 1st Qtr 2022

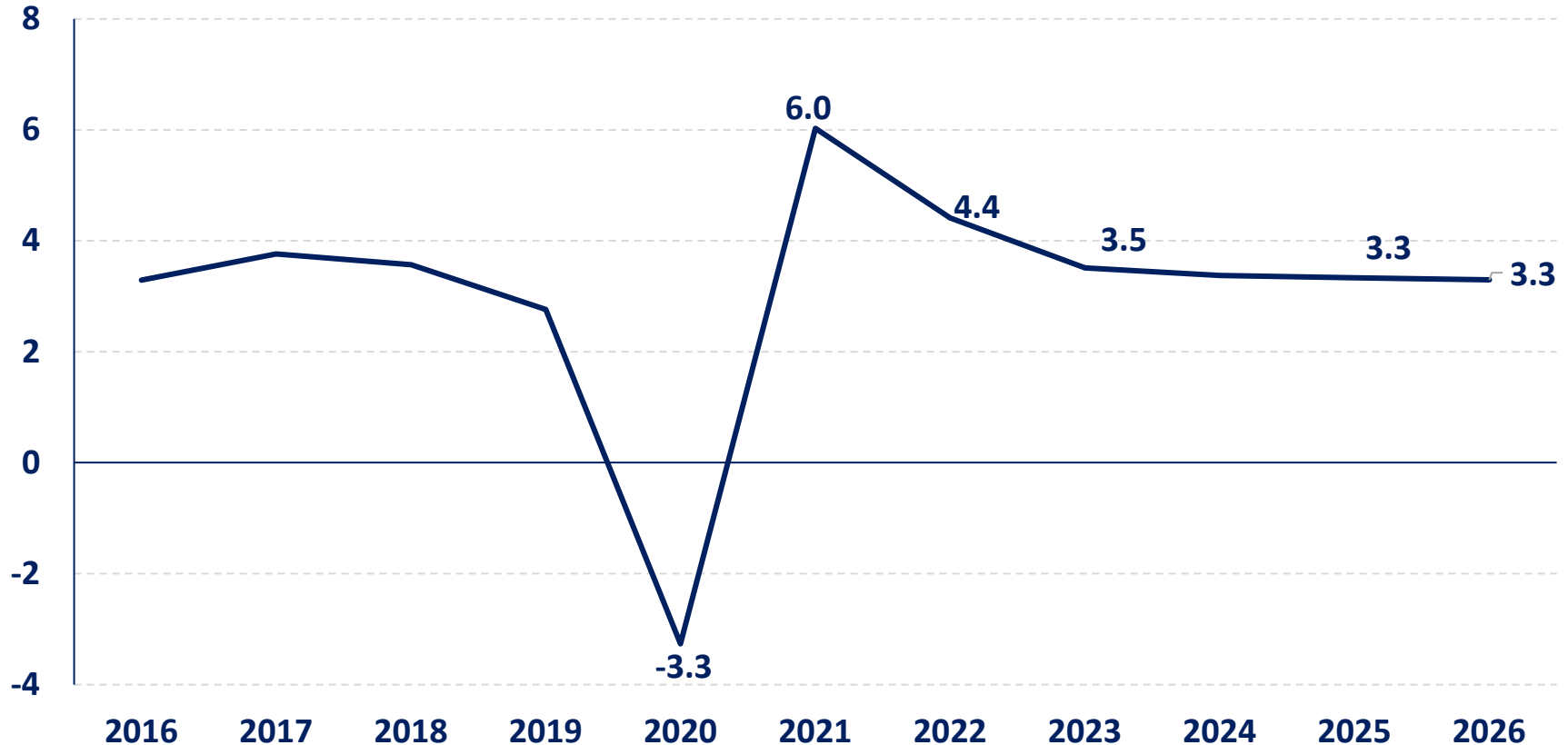
Global Fully Vaccinated Per 100 People

$$\text{Rate of Vaccination} = -0.814 + 1.156 \times t + 0.265 \times t^2$$



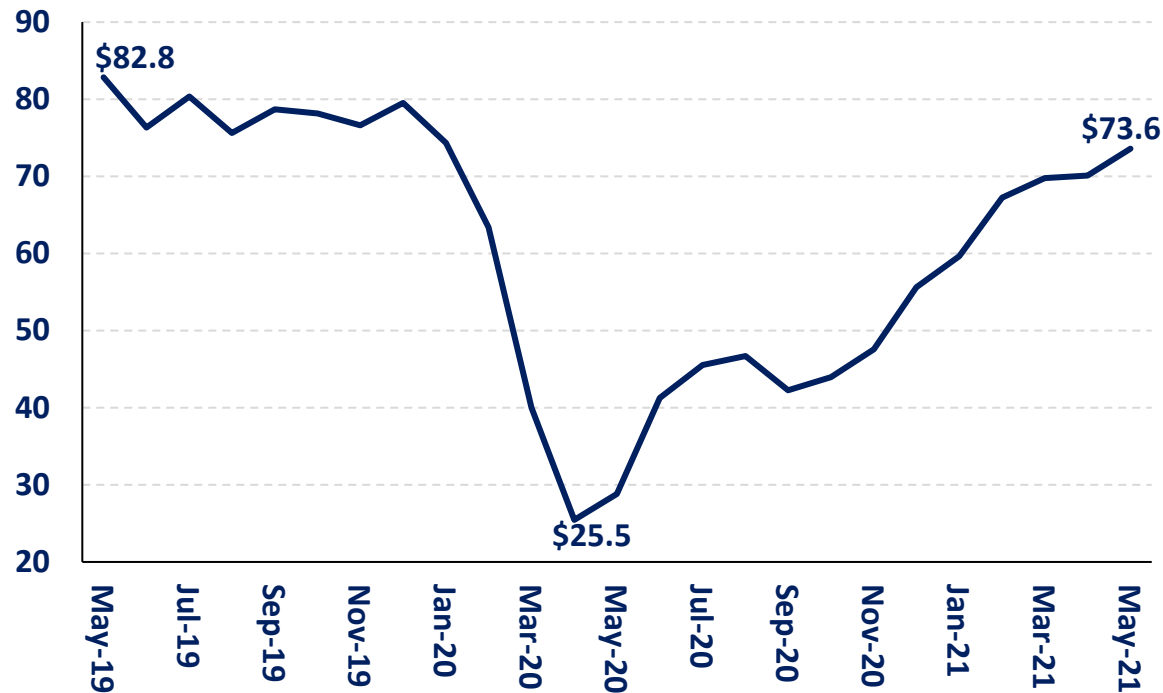
A return to Global aviation normality will also depend on the state of the global economy. The global economy contracted 3.3% in 2020 according to the IMF. It is expected to take a year to return demand to pre-Covid levels

IMF World Economic Growth



There is a -95% correlation between global airline EBIT and the spot price of jet fuel between 2012 and 2019, thus the outcome for the spot jet fuel price is important for determining the trajectory of capacity recovery

Jet Kerosene Prices (US\$ / bbl)



Jet Fuel Price



Airline Earnings



Airline Capacity



Airline Passenger Volumes

Aviation Demand

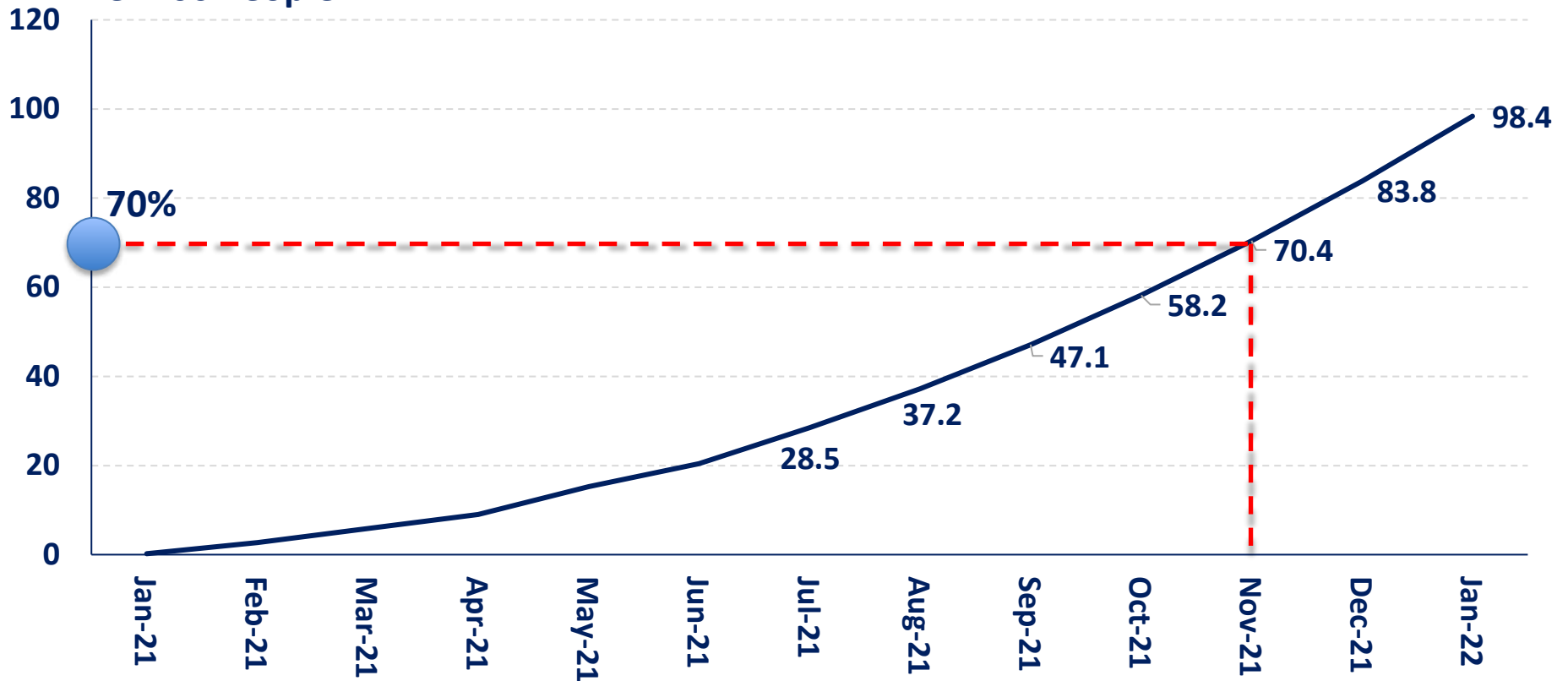


Regional Aviation Outlook - Europe

Herd immunity in Europe expected towards the end of 2021 if vaccination rates continue at current pace

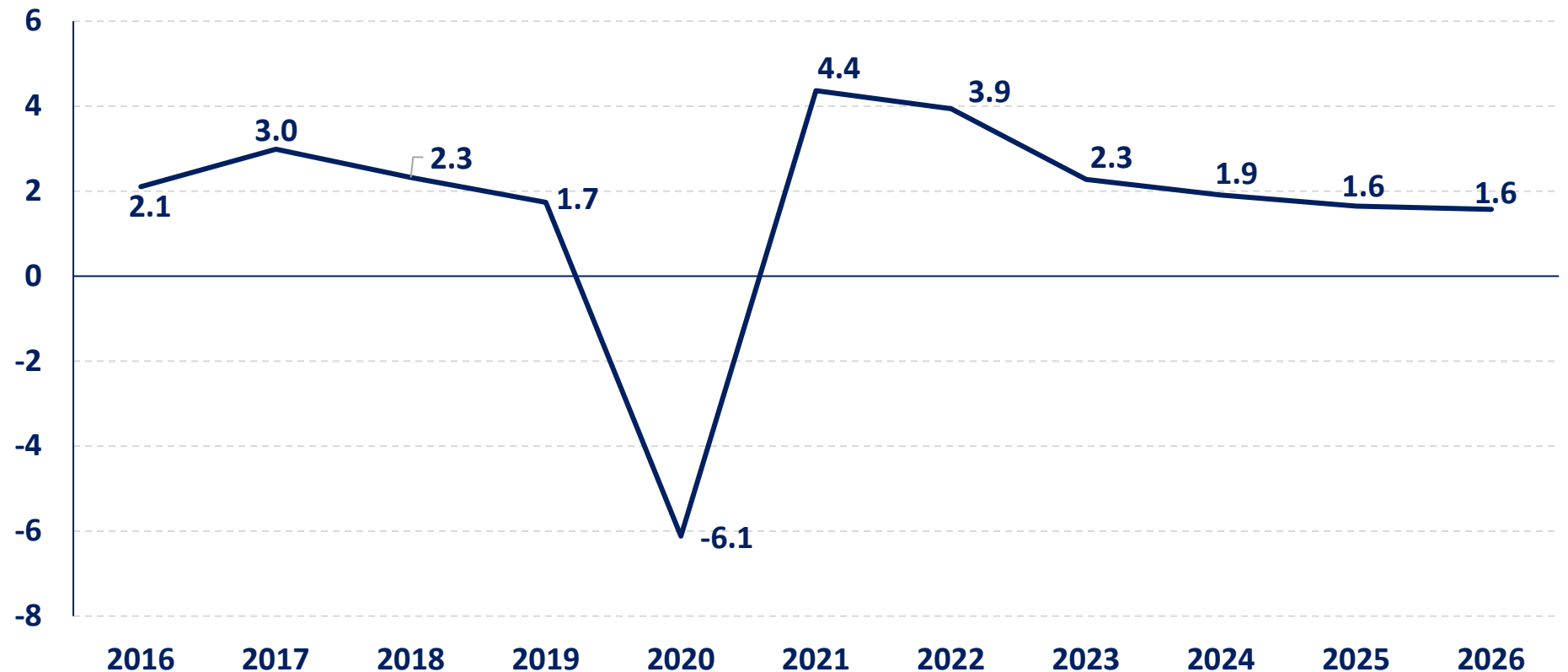
Europe Fully Vaccinated Per 100 People

Rate of Vaccination = $0.582 \times t^2$



Europe not expected to return to pre-covid income levels for two years. This will delay aviation demand recovery.

European Union GDP Growth Outlook

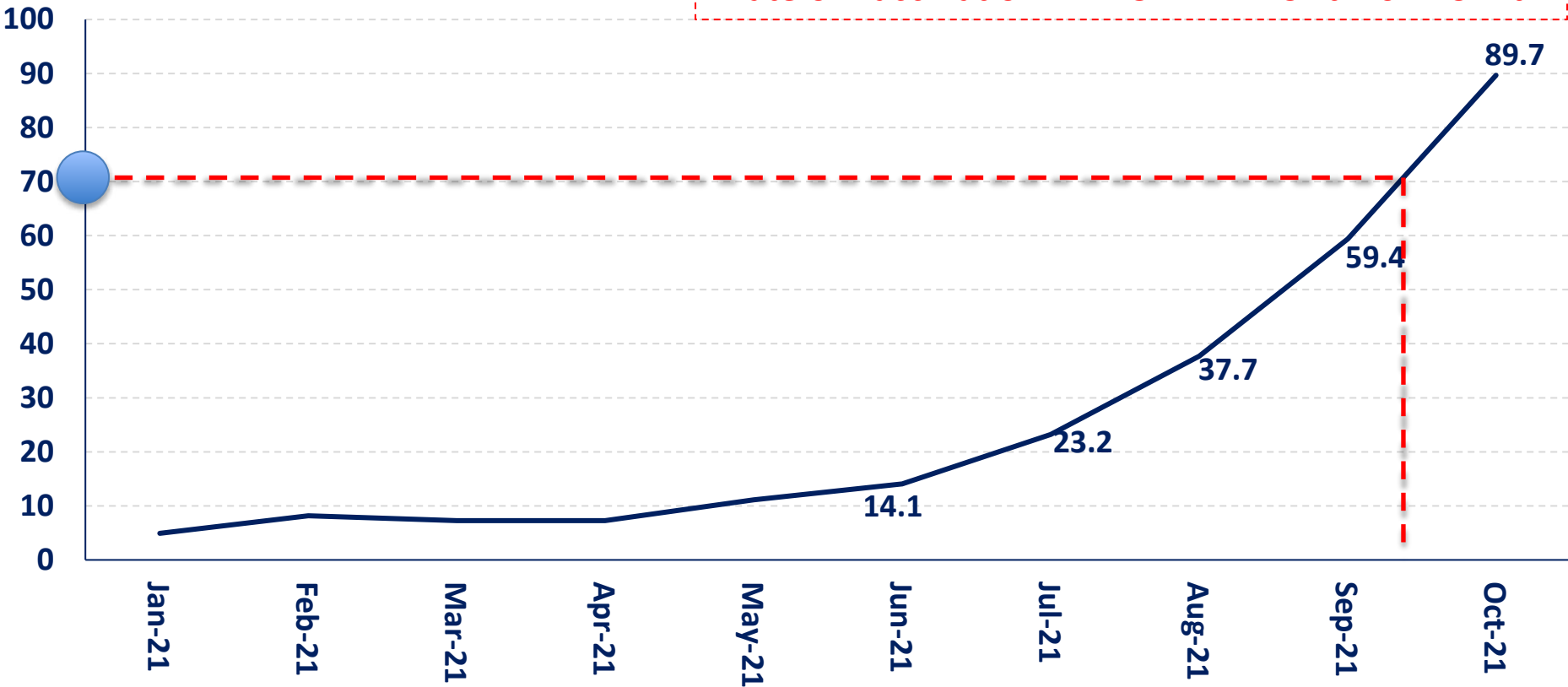


Regional Aviation Outlook - Asia

Herd immunity in Asia also expected towards the end of 2021 if vaccination rates continue at current pace.

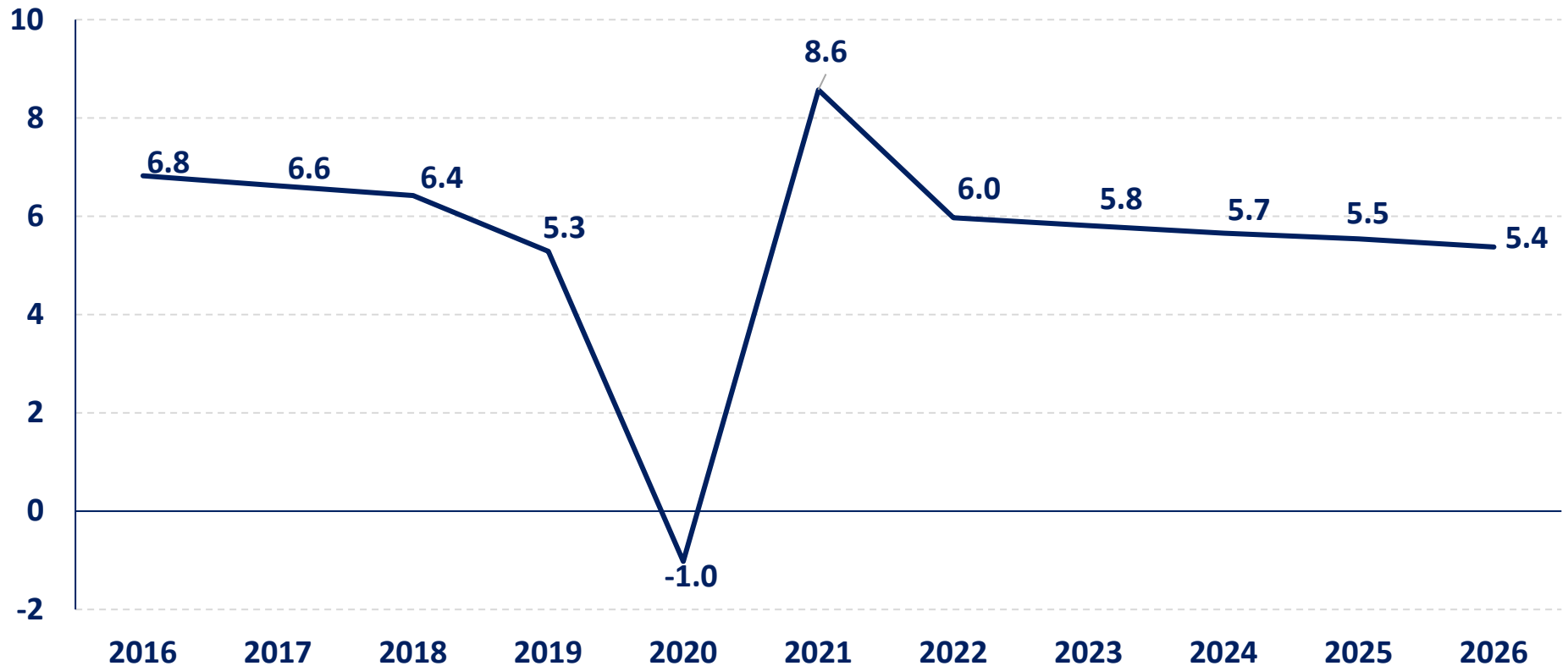
Asia Fully Vaccinated Per 100 People

$$\text{Rate of Vaccination} = 7.154 - 2.249 \times t + 0.243 \times t^2$$



Developing Asia is expected to return to pre-Covid income levels quickly. The state of the economy is not expected to cause any impediments to growth.

Developing Asia GDP Growth Outlook

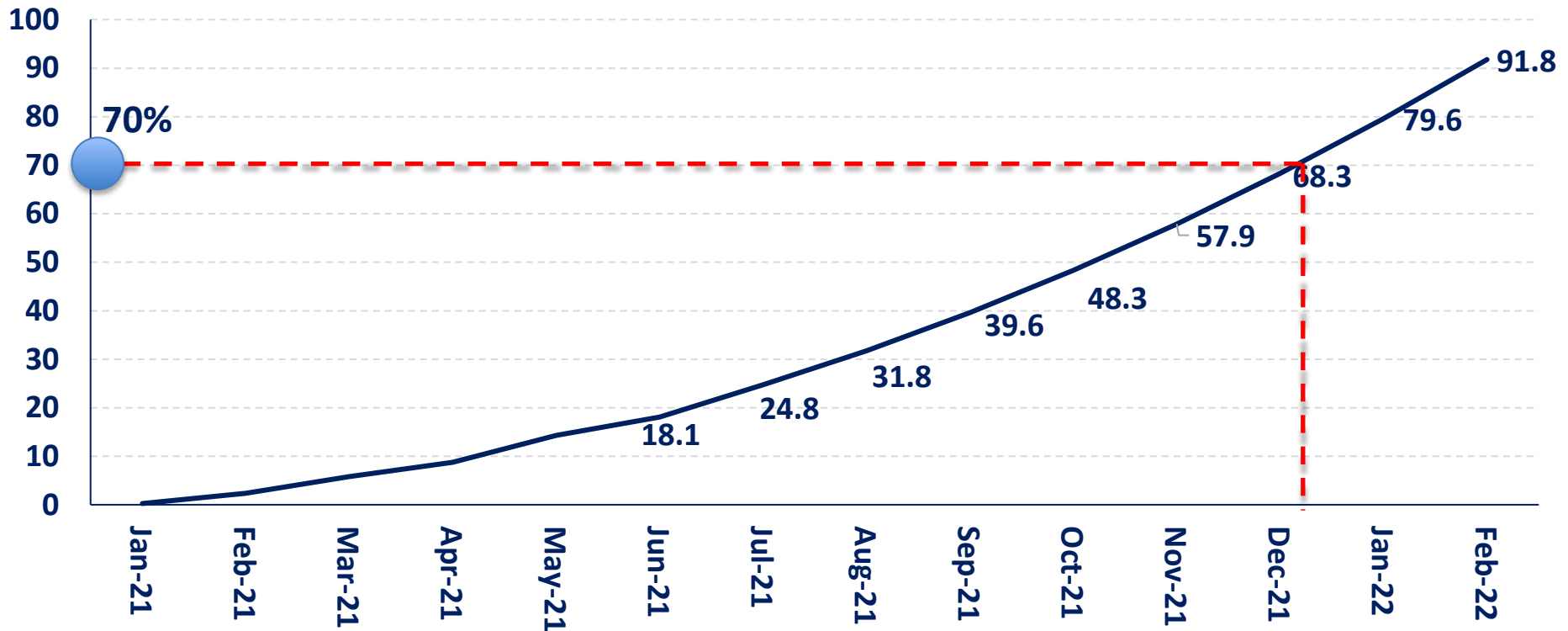


Regional Aviation Outlook – North America

Herd immunity in North America is expected early in 2022 if vaccination rates continue at current pace.

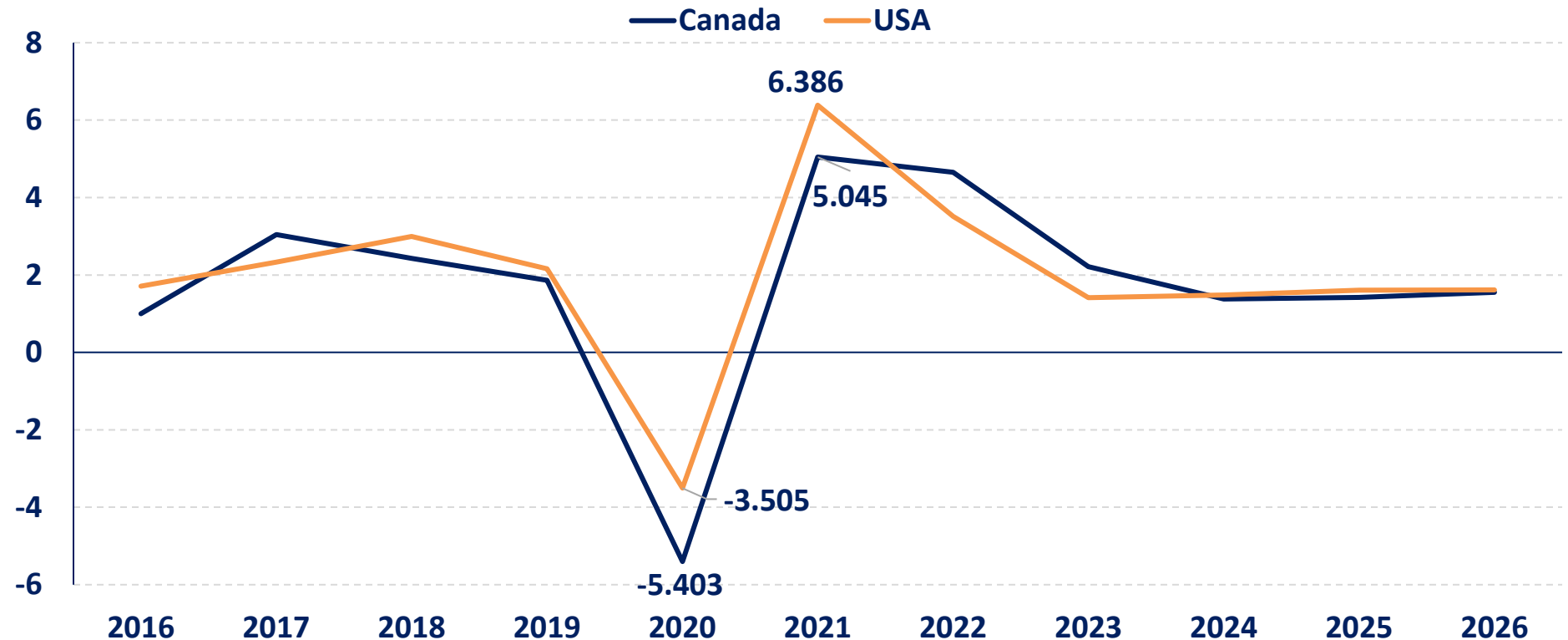
North America Fully Vaccinated Per 100 People

$$\text{Rate of Vaccination} = 7.154 - 2.249 \times t + 0.243 \times t^2$$



USA and Canadian economic growth highly correlated. Growth for North America expected to return to pre-covid levels by 2022, although slower for Canada. Unlikely to represent an impediment to aviation.

North America GDP Growth Outlook

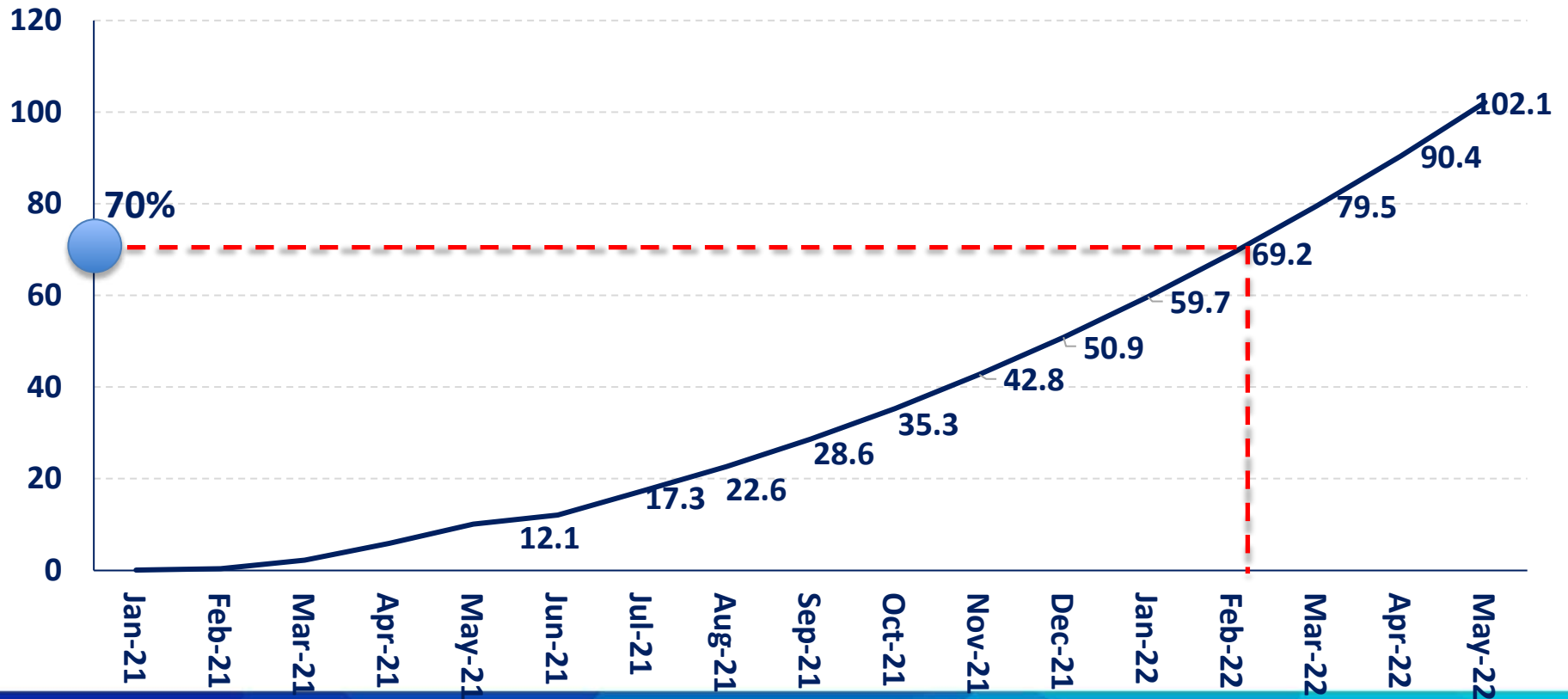


Regional Aviation Outlook – South America

Herd immunity in South America is expected early in 2022 if vaccination rates continue at current pace.

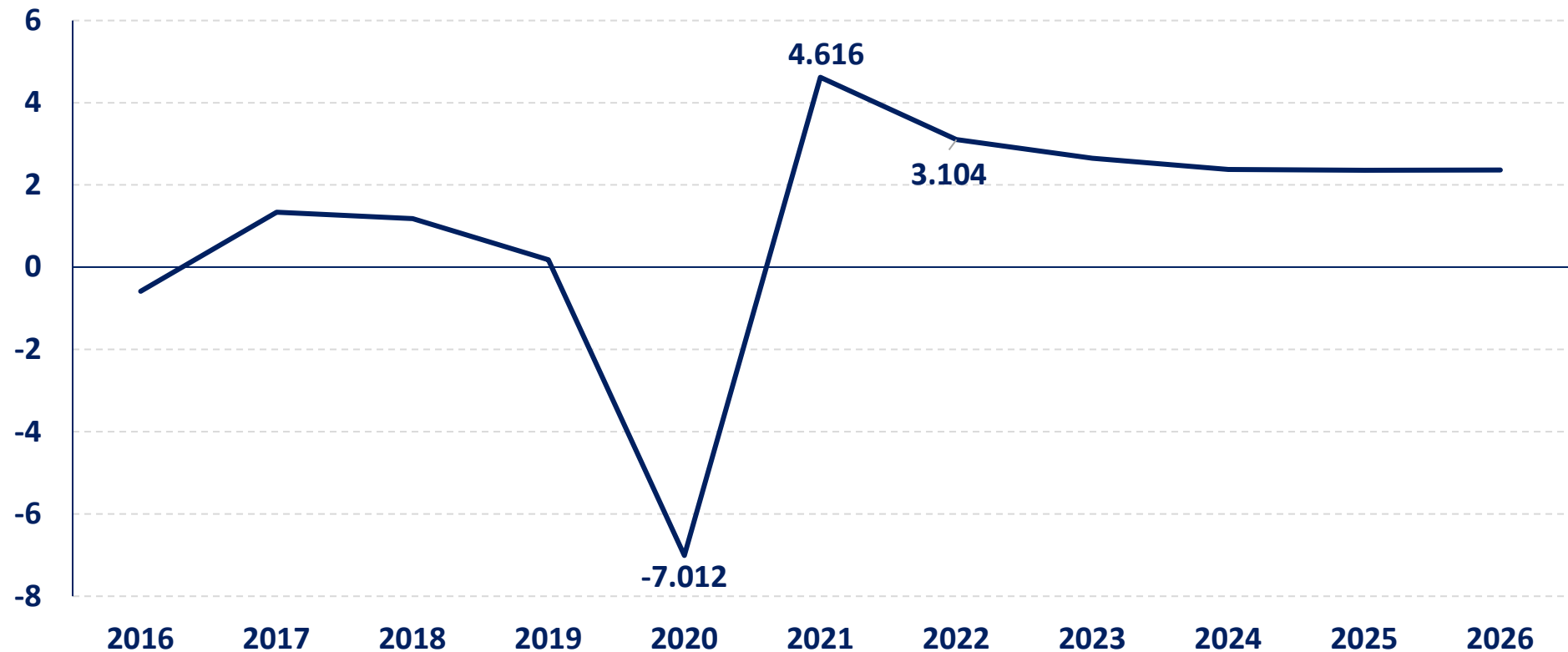
South America Fully Vaccinated Per 100 People

$$\text{Rate of Vaccination} = 0.353 \times t^2$$



Income not expected to reach pre-Covid levels until the end of 2022. This is expected to place some constraints on aviation demand over the year and a half ahead.

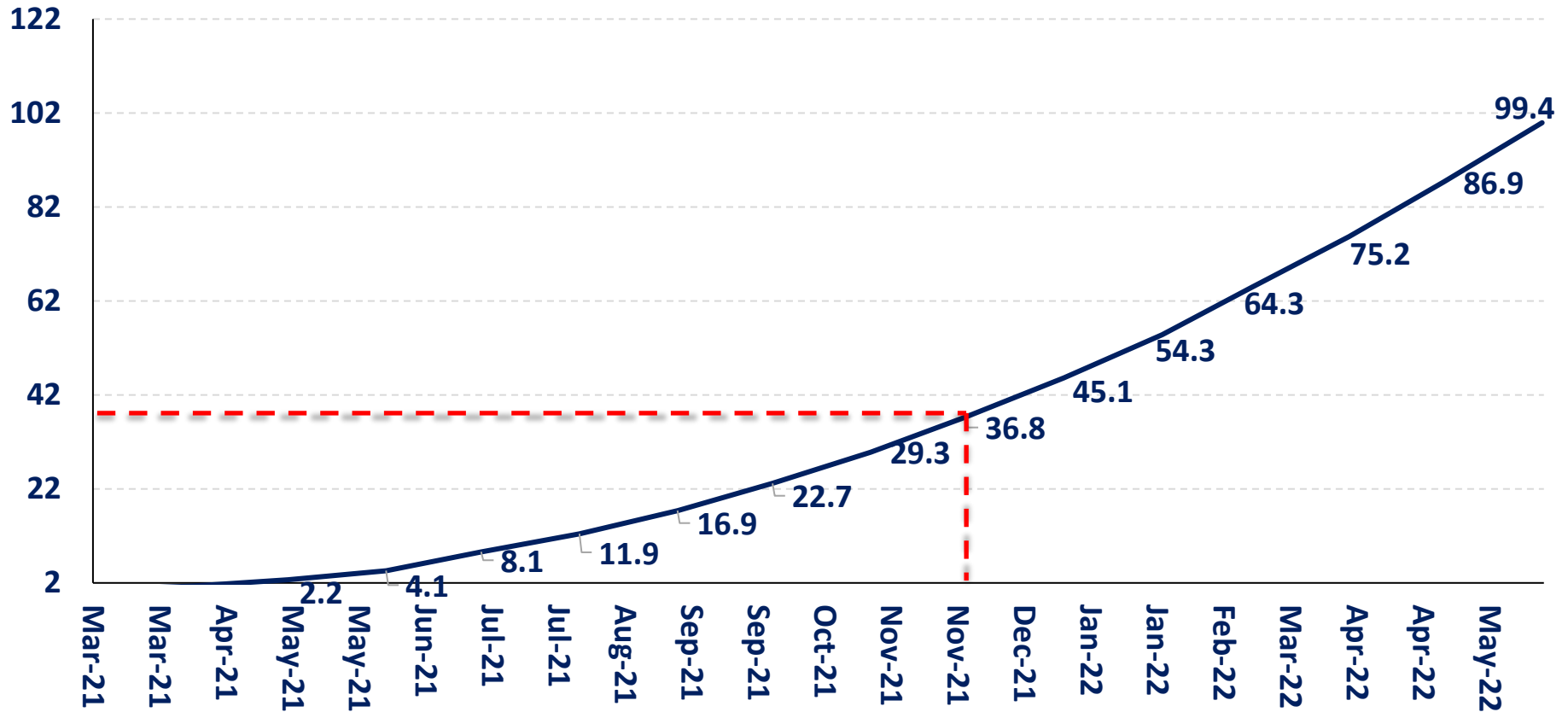
Latin America & Caribbean GDP Growth Outlook



Australian Aviation Outlook and Domestic Developments

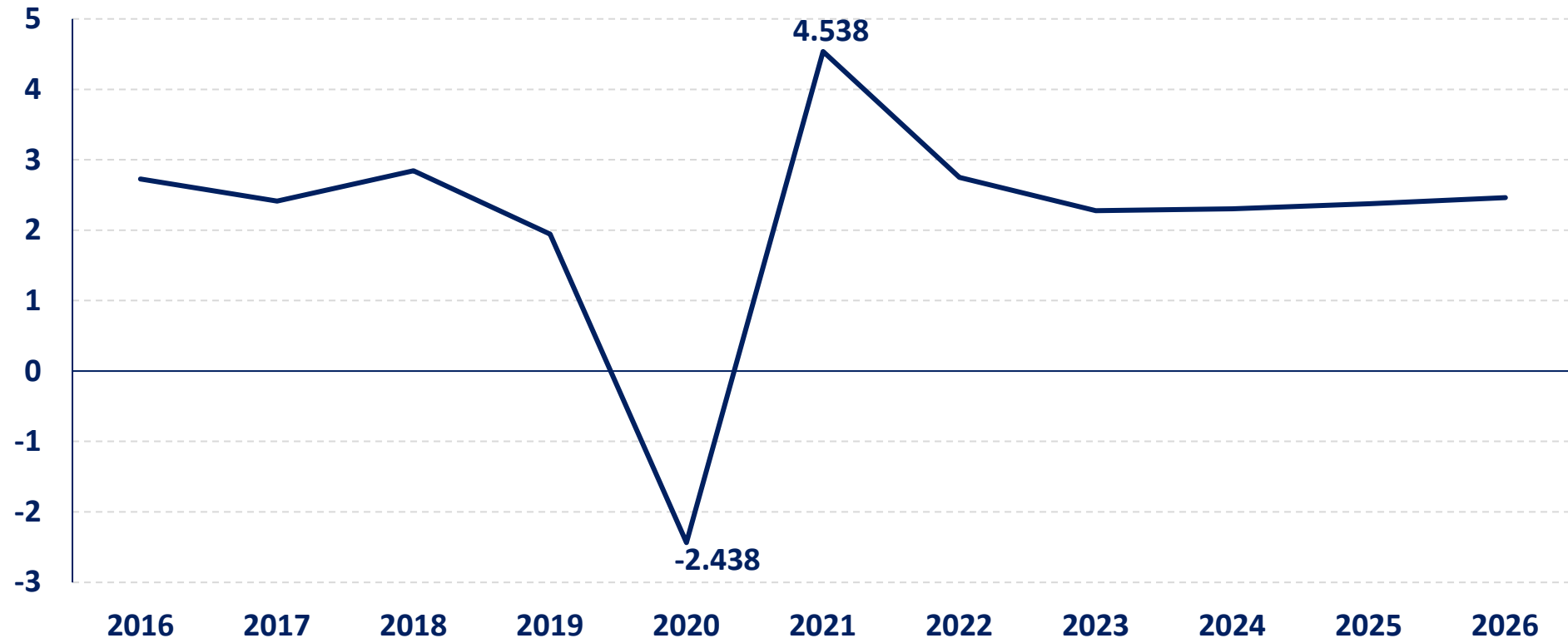
Herd immunity (around 36m doses) expected in Australia by the end of calendar 2021 according to current trajectory of growth.

Australian Vaccine Doses (m)



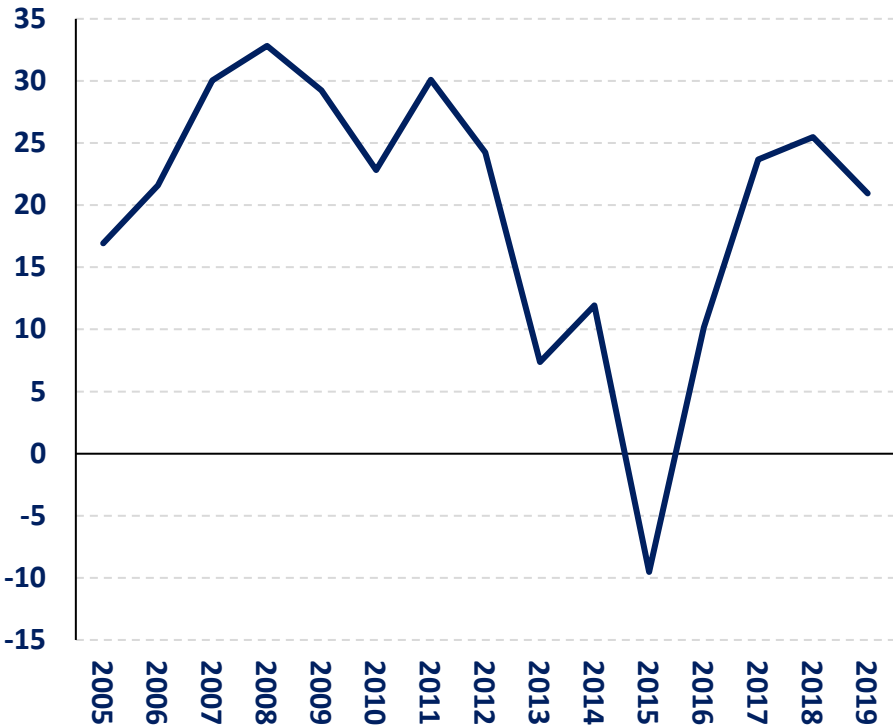
After the decline in growth in 2020, the Australian economy has responded exceptionally well and won't represent an impediment to the return of aviation

Australian GDP Growth Outlook

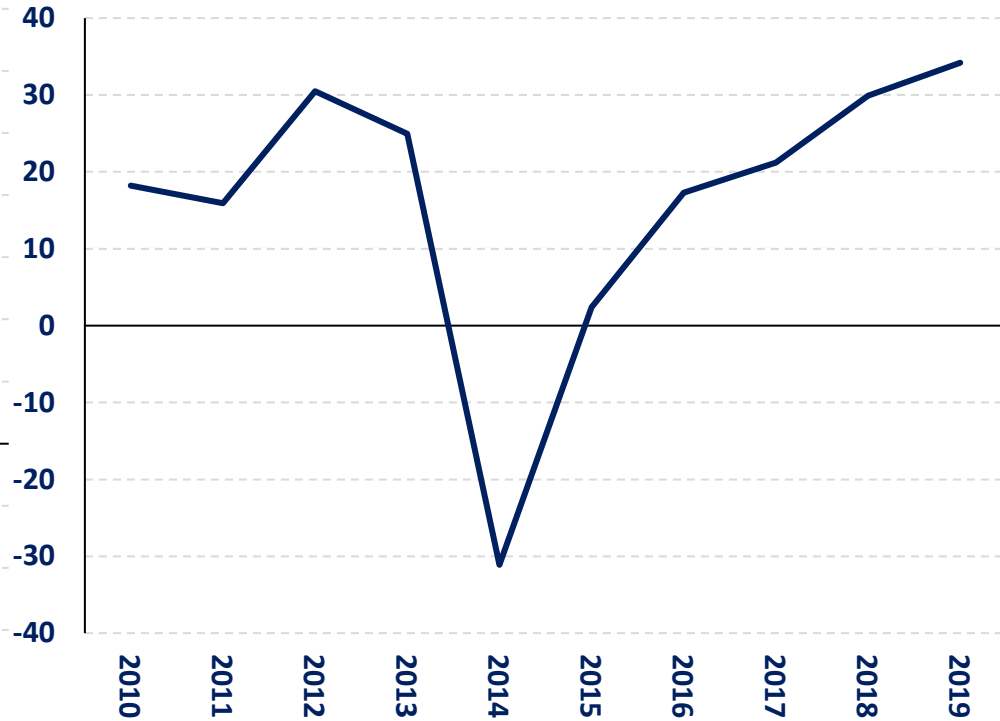


Two of the most enduringly profitable domestic airlines (except 2014/15) over the past decade have decided to expand their footprint – Rex Express and Alliance Airlines

Rex Express
PBT (A\$ m)



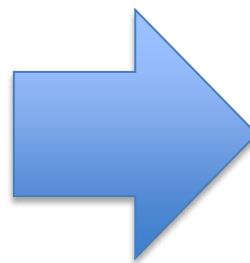
Alliance Airlines
PBT (A\$ m)



Rex to introduce services on key domestic trunk routes flying B737-800 NG aircraft.

rex.

- Launched services on **SYD-MEL** from 1 March 2021
- Launched **MEL-OOL** Services 29 March 2021
- Launched **MEL-ADL** Services 31 March 2021
- Launched **SYD-OOL** Services 1 April 2021
- Launched **ADL-OOL** Services 1 April 2021

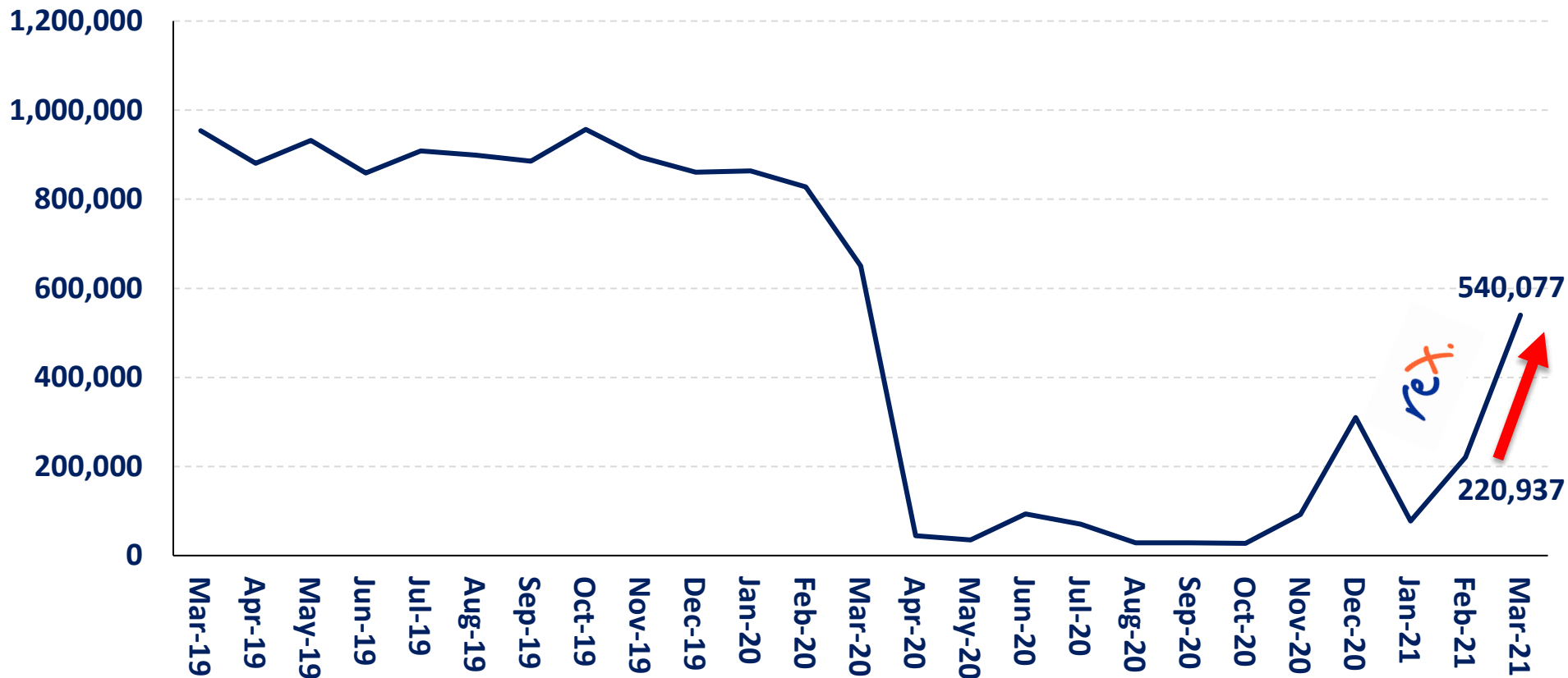


6 × B 737-800 NG



More than doubling of seats in the SYD-MEL market between February and March, contributed significantly by the start of Rex services

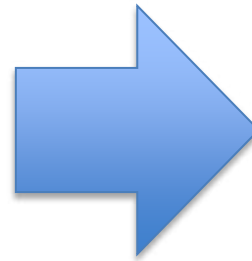
SYD-MEL Seats



Alliance to introduce RPT services on new domestic Australian routes using E190 and Fokker aircraft

Alliance
AIRLINES

- Launched services on **ADL-ASP** from 25 May 2021
- Launched **ADL-DRW** Services 25 May 2021
- Launched **ASP-DRW** Services 25 May 2021
- Launched **MCY-CBR** Services 23 October 2020
- Launches **BNE-MOV** Services 15 August 2021
- Launches **CNS-MCY** Services 17 July 2021
- Launches **BNE-PPP** Services 22 June 2021



14 × E 190 + Option for 5



- Launched services on **SYD-Griffith** from 1 Mar 2021
- Launched **MEL-Newcastle** Services 1 Feb 2021
- Launched **MEL-Merimbula** Services 1 Mar 2021
- Launched **MEL-Mount Gambier** Services 28 Mar 2021
- Launched **MEL-WGA** Services 28 Mar 2021
- Launched **MEL-Albury** Services 28 Mar 2021
- Launched **ADL-Mount Gambier** Services 28 Mar 2021



“They (Rex) have presided over the worst launch of a new jet airline in Australia’s aviation history, with empty aircraft and announced routes never flown”

<https://www.afr.com/companies/transport/qantas-boss-joyce-says-rival-s-insolvency-claim-baseless-20210422-p57lh8>



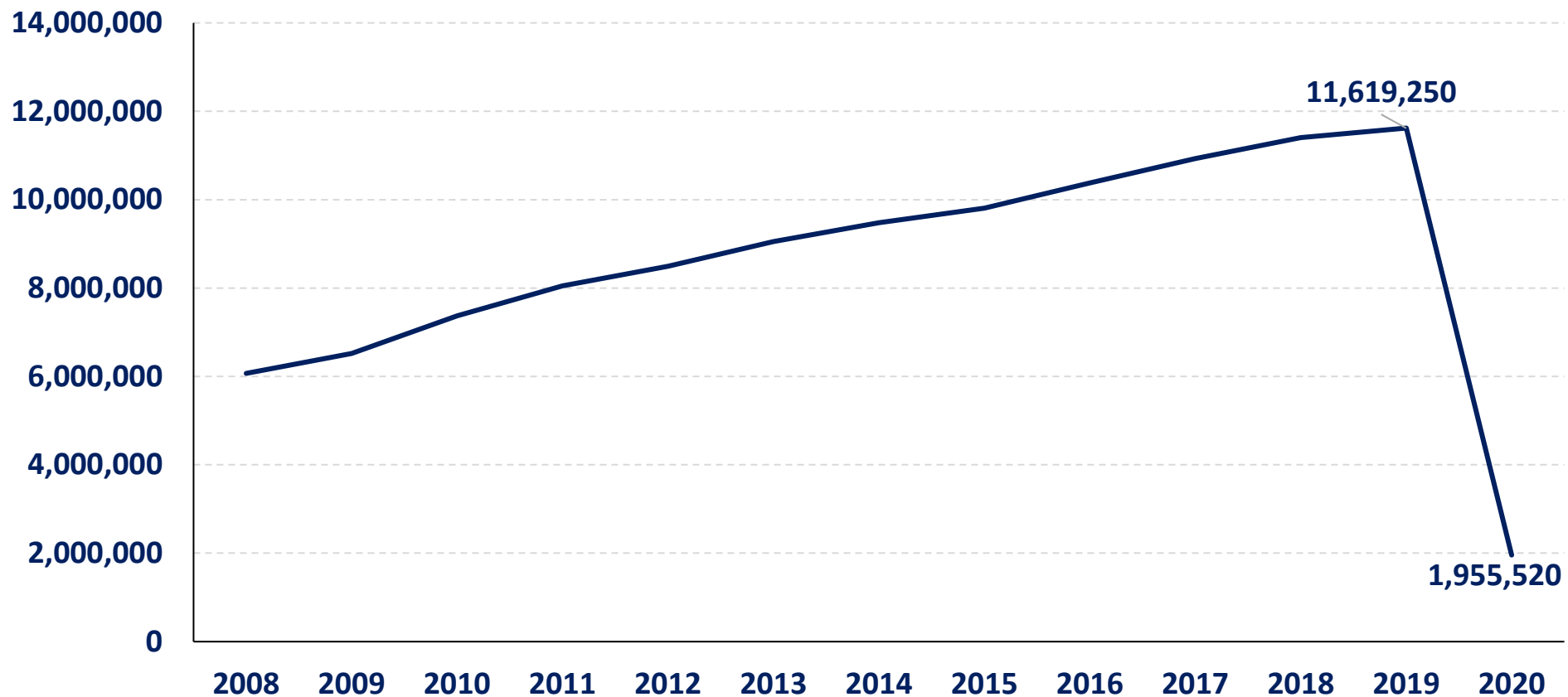
“Qantas has clearly embarked on a deliberate strategy of moving into Rex’s routes that can only support one regional carrier in an attempt to intimidate and damage Rex”

<https://www.smh.com.au/business/companies/rex-to-cut-routes-in-face-of-qantas-intimidation-20210222-p574k4.html>

- Launches services on **ADL-CNS** from 17 August 2021
- Launches **ADL-OOL** Services 25 June 2021
- Launches **ADL-Hobart** Services 24 Sep 2021 2021
- Launches **ADL-TSV** Services 16 August 2021 2021
- Launched **Ayers Rock (Uluru)-SYD** Services 27 Mar 2022
- Launches **BNE-Cooma (Snowy Mountains)** Services 1 July 2021
- Launches **Brisbane-Cooma (Snowy Mountains)** Services 1 July 2021
- Launches **Burnie-MEL** Services 19 July 2021
- Launches **CBR-DRW** Services 21 June 2021
- Launches **OOL-PER** Services 18 September
- Launches **MEL-TSV** Services 13 September

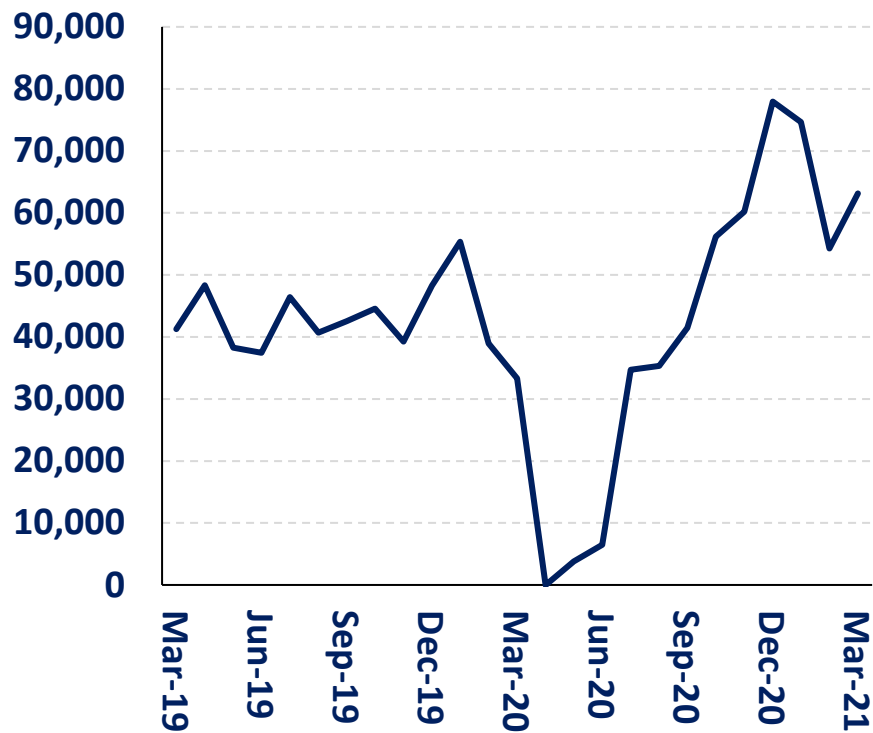
The surge in domestic leisure travel in Australia is attributable to, in part, the inability to engage in outbound leisure travel; Up to 11.6m travelers now looking for a holiday in Australia

AUS Resident Short Term Departures

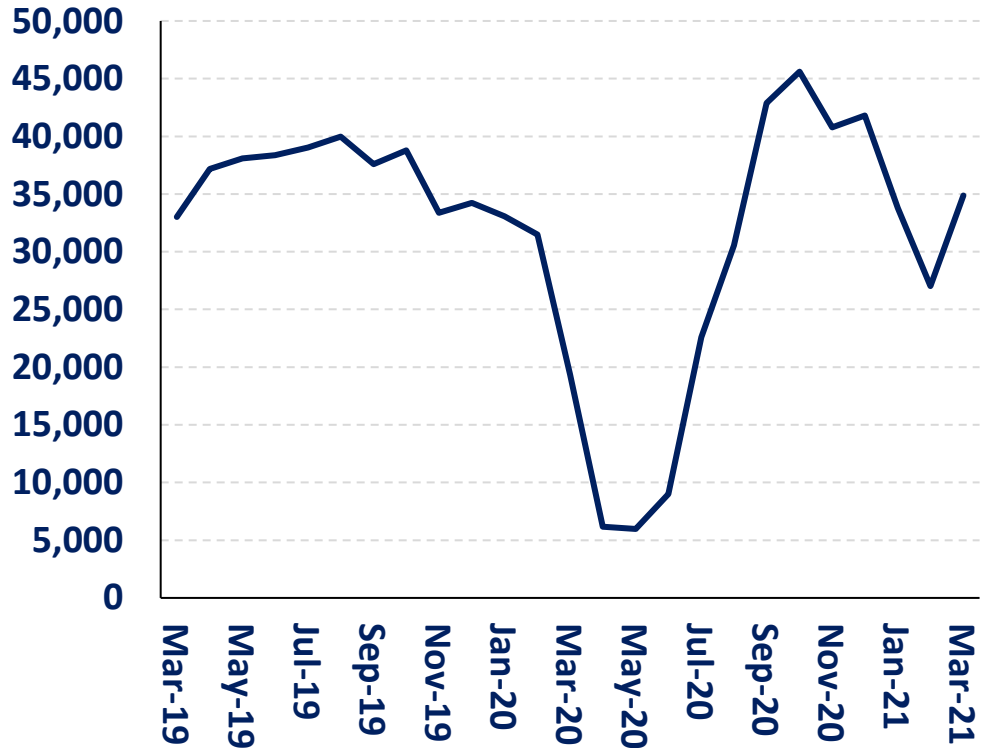


The key beneficiaries to date are intrastate leisure city pairs, such as Sydney-Ballina and Perth-Broome

SYD-Ballina Seats

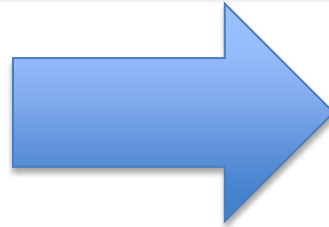


PER-Broome Seats



Competition on SYD-MEL, one of the thickest routes in the world, has led to a price war

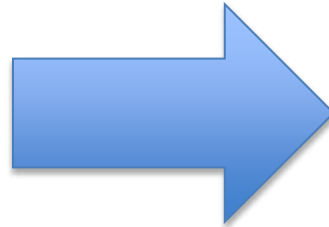
rex.



\$39 Fares

Matched by

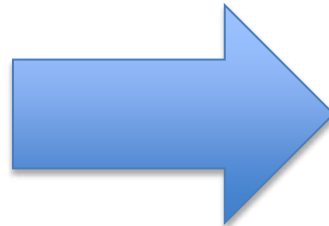
 **australia**



\$39 Fares

Bettered by

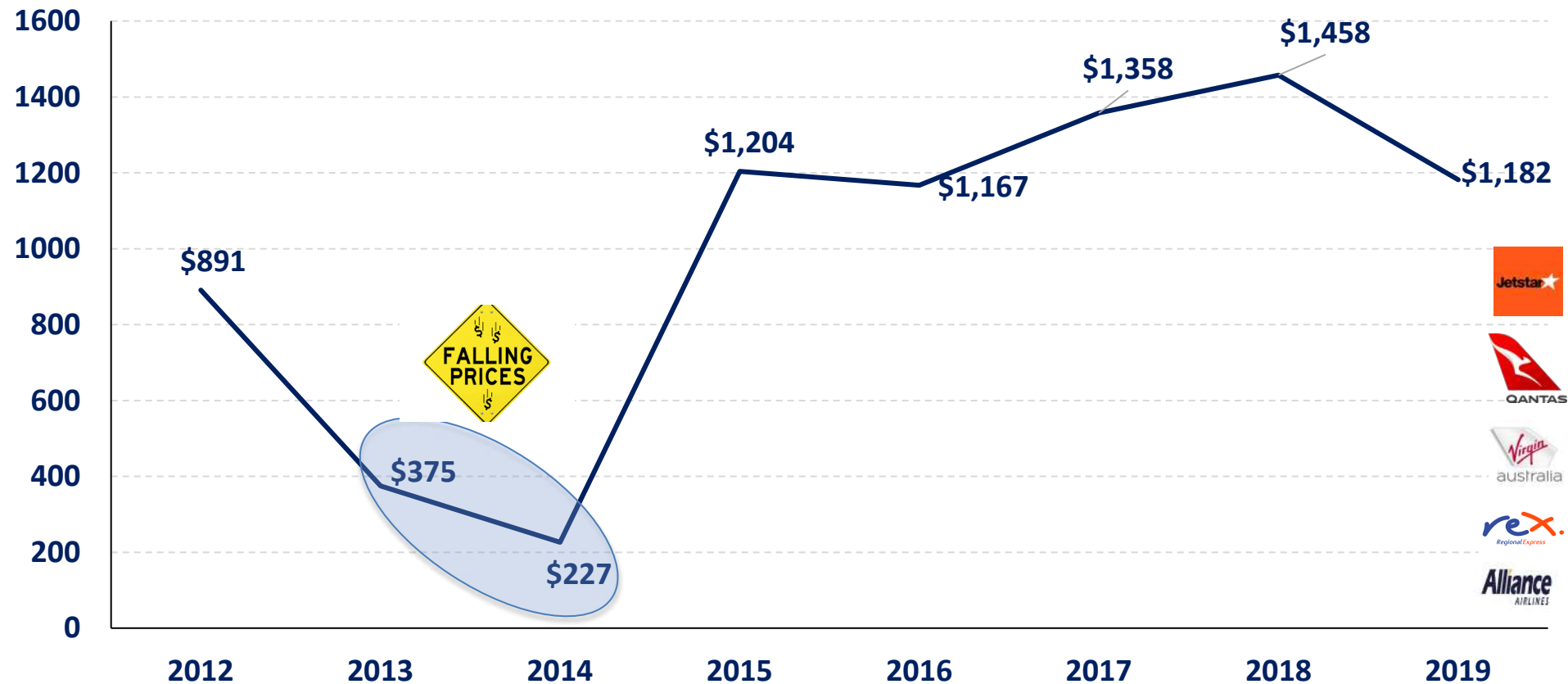
Jetstar 



\$30 Fares

Last time there was a price-war in Australia domestic air travel, the impact on domestic earnings was devastating

AUS Domestic Market Airline EBIT (A\$ m)



In a sign that domestic aviation is returning in Australia, one of the best indicators is the number of airline job ads. Google “Australian aviation jobs” 12 June 2021 Search

 Senior Manager Group Strategy	 Principal Assurance	 Systems Analyst/Developer	 Airworthiness Officer
 Principal Commercial Analyst, Airports	 Fleet Reliability Engineer	 Customer Manager – Group Procurement	 Strategy & Planning Analyst
 Market Manager	 Business Analyst	 Solutions Architect	 Network Planning Analyst
 Market Pricing Specialist	 Financial Analyst	 Product Owner – Customer Technology	 Business Analyst (Automation)
 Route Performance Analyst	 Procurement Category Manager	 Cloud Specialist	 Supply Officer
 Training Advisor	 Power Plant Engineer	 Business Transform. Manager	 Data Architect
 Senior Analyst, Commercial Strategy & Insights	 National Account Manager	 Senior Business Partner Operations	
 Audience Analyst	 Procurement Category Specialist	 Manager Tax	

Questions