

# Risk and Recovery in the Aviation Industry

## Is Government support really a lifeline for airlines?



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While the COVID-19 pandemic has hit the whole world extremely hard in many ways, we are seeing some movement in the financial figures as the wheels of many industries have started to turn once again... with the exception of aviation and tourism. In the second quarter of 2020, we witnessed an economic recession on an unprecedented scale, something we have not witnessed since World War II and now in the third quarter, we are seeing signals of revitalization in commercial activities even with the complicated data from macroeconomic indicators such as growth,

industrial production, employment, etc. Despite the ongoing COVID-19 pandemic, the expectations for economic growth has increased.

Although many sectors have started to show signs of recovery, the ongoing ambiguity concerning the COVID-19 pandemic has been damaging to the aviation industry with every passing day. The failure to make adequate projections regarding the sector also hampers many plans involving investments, aircraft production and human resources training. No matter how soon the crisis is resolved, the damage already caused to the aviation industry will take many years to recover from.

On the other hand, with China's relaunching of domestic flights and their support of the sector with the stabilization of the virus, Chinese domestic airline activity figures have started to match 2019 figures. There is a prevailing belief in the aviation industry and in financial markets that China's aviation sector will recover faster than other countries. This may put China's aviation industry in a better position than it was before the pandemic. We will see together whether the COVID-19 pandemic will create an advantage for China in the aviation industry and other sectors. The qualified workforce failing to find job opportunities in their own countries or regions may relocate to China and

nearby countries in the region. As I also mentioned in my previous article, a capacity transfer may come up resulting from the transfer of unused aircraft to regions where flights are in demand and continue to take place. Additionally, there are also efforts to sign agreements for the relaunch of flights between certain countries in the Asia-Pacific region.

Surely, the lower seat occupancy rates and reduced number of destinations that has occurred during the pandemic will have a major impact. Airline companies with leased aircraft in their fleets are planning to return the planes to the owners. In this case, the lessors will have to include their





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While reviewing the status of airline companies, the matrix also provides us with an opportunity to view said companies from a different angle. For instance, we are able to identify the most successful and unsuccessful airline companies within this matrix. On the bottom and right end of the matrix, Air Canada, Cebu Pacific, IndiGo, Pegasus, Ryanair and Wizzair stand out as successful airline companies that maintained their financial position without taking any support or funds from the government or fund holders. Other successful companies in the matrix are Qantas, Southwest Airlines, Alaska Air, EVA Airways, JetBlue, IAG, easyJet, ANA and Japan Airlines; these companies are being funded at the medium level. It would not be false to say that Air New Zealand, Emirates, Finnair, Lufthansa, Saudi Airlines, SIA Group and China Airlines - companies that have received stimulus packages from states and investors are the luckiest and most advantageous companies (except Lufthansa); however we do not clearly know if their positive status is based on their own achievements or due to state aid. Airline companies such as Aeroflot, FlyDubai, TAP, Garuda, Malaysia Airlines, Rossiya, Asiana, Korean Air and Cathay are in poor



condition comparatively speaking, despite backup from governments & fund holders and thus may be regarded as unsuccessful.

In the case of companies receiving state aid that fail to recover their poor financial status in the upcoming period, they may be nationalized or merged with public airline companies.

In this matrix, we see Turkish Airlines positioned in the group with moderate financial risk, which receives high state/fund holder support, Sunexpress placed in the low financial risk group receiving average state/fund holder support, and Pegasus Airlines, a company with a robust financial structure (with low financial risk) without any state/fund holder support.

When we consider the course of the COVID-19 crisis, we see that two alternatives stand before the industry. The first alternative, which has a low likelihood, is the sudden elimination of the crisis in the next six-month period;

in the event that this alternative takes shape, the airline companies that have low financial risks according to the matrix study of Ishka and OAG and those that receive state or investor funds would embrace a more advantageous position and further increase their pre-COVID-19 market share. Powerful airline companies will have the opportunity to gain the routes and passengers of the weaker ones. No matter how painful it would be for them, the remaining airline companies would start to recover upon the stimulation of demand. However, restoration to their pre-pandemic state will invariably constitute a long process lasting well until 2024; that is if they adopt favorable strategies.

The second alternative concerning how the COVID-19 crisis plays out is a scenario where the struggle ends in the medium and long run; no matter how much we wish to avoid this, this scenario has a high probability. In

this alternative we will witness the bankruptcy or hand-over of the airline companies with weak financial structures which do not have the support of the governments/fund holders, or we will see mergers with other airline company will emerge throughout this process. On the other hand we will see companies not being able to effectively navigate the existing circumstances, subsequently downsizing by taking more radical steps to decrease the size of their fleet and eventually their staff.

The aviation industry's focus solely on the resolution of its own problems will not be sufficient in this rapidly changing world; a world that must be reinvented due to the crisis caused by the COVID-19 pandemic. Thus, by reviewing their long-term strategies, aviation companies need to approach the future through a broader vision and with a new perspective 🔄