



AFTER A DARK NIGHT COMES A SUNRISE

An update on the outlook for aviation

UPDATE AS OF 19TH FEBRUARY 2021

EXECUTIVE SUMMARY

- The Coronavirus has hit the industry in unprecedented dimensions with traffic down by 65 percent.
- Airlines continuing government support is crucial to the industry's resilience and recovery from the crisis which will take 4 to 5 years.
- The summer of 2020 has shown that passenger demand can return quickly and airlines are ready to react accordingly.
- With the increasing availability of powerful vaccines, recovery is on the horizon and domestic markets will lead the way.

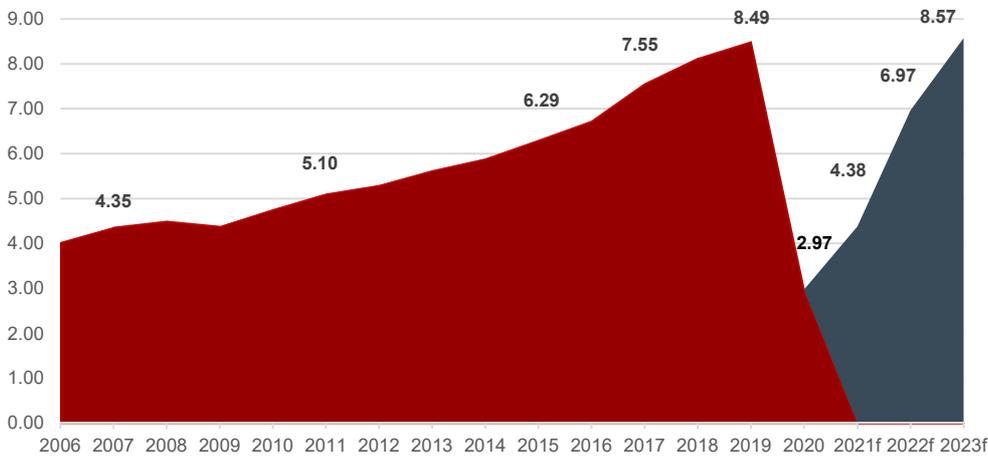
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PASSENGER AIR TRAFFIC

The year 2020 will go down in aviation history as the sharpest decline in passenger traffic volumes of unprecedented proportion. The COVID-19 Pandemic brought our industry unparalleled challenges in the form of strict travel controls and closed borders leading to what is being termed as depressed passenger confidence.

Figures currently being published calculate a circa 65% fall in passenger traffic for the year 2020 (according to IATA passenger traffic plunged -66% in 2020¹). In spite of the magnitude of the drop in passenger traffic, the industry's resilience in the face of these challenges has been praiseworthy and government financial support provided to the industry is one of the keys to its resilience.

PASSENGER VOLUMES MEASURED IN REVENUE PASSENGER KILOMETERS (RPKS IN TRILLIONS)



Source: Oxford Economics. February 3, 2021

In spite of the dimensions of the damage done to both global operations and the global economy, industry experts see a light at the end of a three year tunnel when it comes to passenger traffic.

A CLOSER LOOK AT Q4

As highlighted above, the current crisis is unprecedented and based on real economic data, this pandemic already triggered economic recessions as early as Q1 of 2020 in various industrial countries. Although the beginning of Q4 did bring some optimism as travel restrictions in various regions were loosened and passenger traffic was improving going into the month of October, this optimism was short-lived as the late summer recovery in travel demand was hit by the spread of

¹ IATA. Air Passenger Monthly Analysis - Dec, February 3 2021

new Coronavirus variants. This resulted in the fact that both November and December realized a stagnation in total market passenger traffic noted at -70.3% and -69.7% respectively.²

AIR PASSENGER MARKET OVERVIEW – DECEMBER 2020

	World share ¹	December 2020 (% year-on-year)				2020 calendar year (% year-on-year)			
		RPK	ASK	PLF (%-pt) ²	PLF (level) ³	RPK	ASK	PLF (%-pt) ²	PLF (level) ³
TOTAL MARKET	100.0%	-69.7%	-56.7%	-24.6%	57.5%	-65.9%	-56.5%	-17.8%	64.8%
International	45.7%	-85.3%	-74.5%	-34.7%	47.0%	-75.6%	-68.1%	-19.2%	62.8%
Domestic	54.3%	-42.9%	-25.7%	-19.1%	63.7%	-48.8%	-35.7%	-17.0%	66.6%

¹% of industry RPKs in 2020 ²Year-on-year change in load factor ³Load factor level

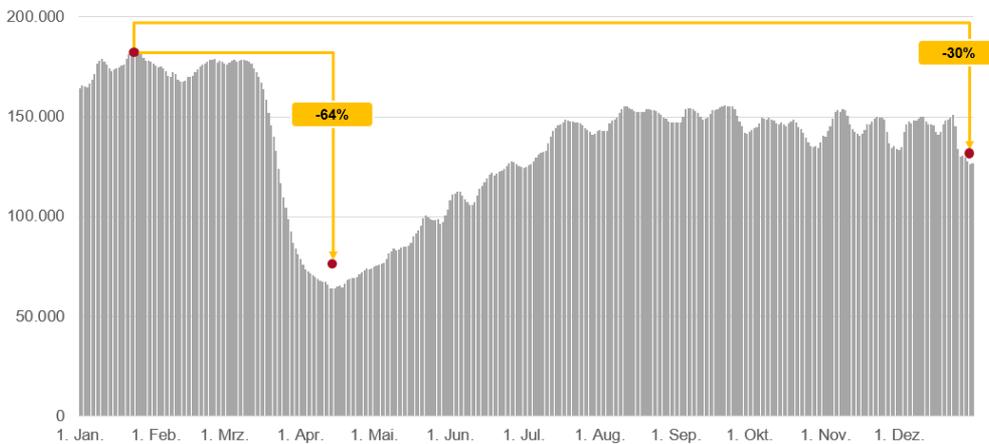
Source: IATA. Air Passenger Monthly Analysis – Dec, February 3 2021

DEVELOPMENTS IN THE OPERATIONAL AVIATION RAMP-UP PHASE

The domestic operations of its national airlines has been and continues to be a major priority for many governments around the world. In fact, various governments including the U.S. and China linked certain aspects of their very comprehensive financial support packages to the continued operations of their domestic flight networks. In viewing the chart below, one could get the impression that the industry was not as severely hit as the statistics above show. The 7-day moving averages of flights tracked in 2020 visually depict a stronger recovery of flights operated compared to the recovery in actual passenger traffic. Without considering important aspects such as Passenger Load Factors (PLF) and passenger seat capacity per flight, the raw data could easily be misinterpreted.

Available Seat Kilometres (ASK), a measure of passenger capacity, was down -56.5% for the year 2020 (see table above). Additionally, PLF, a measurement of the efficiency of an airline’s operations, were down only a surprising -17.8% for the year. In considering these facts, the chart below would reflect that the stronger ramp-up of operated flights for the year is linked to the fact that many airlines around the world materially down-sized the aircraft they put into operations during the year 2020. In this manner, most flights continued operations servicing (domestic) networks without seeing PLFs materially suffer while also keeping operating costs at a minimum.

TOTAL NUMBER OF FLIGHTS TRACKED 2020 / 7-DAY MOVING AVERAGES



Source: KGAL Research. Flightradar 24, January 7, 2021

² IATA. Air Passenger Monthly Analysis - Nov and Dec, January 7 and February 3 2021

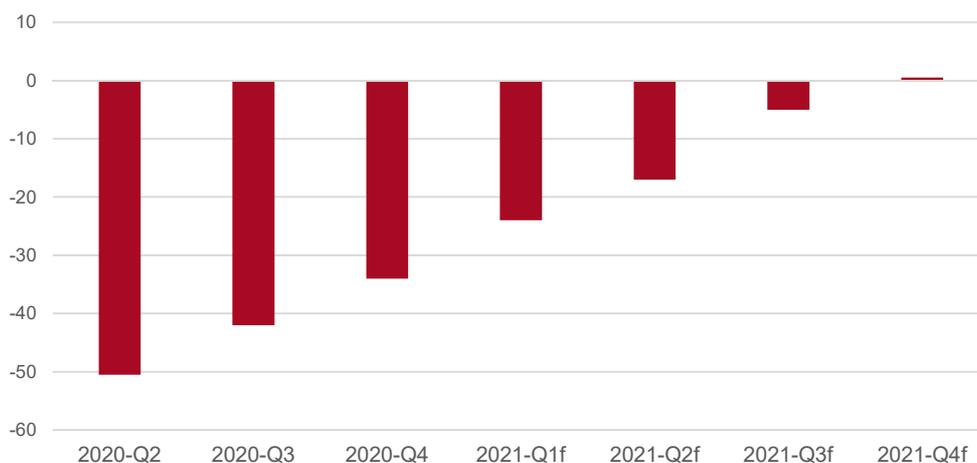
Functioning flight networks (e.g. low risk of disruption coupled with on-time arrival) are critically important for the industry at this time. One of the biggest challenges the industry has is to address the change in passenger behaviour. Building trust in its operations and services is one of the keys to addressing passenger behaviour. The industry is taking this challenge very seriously and, in light of the dynamic environment, is making impressive progress in maintaining a functioning network of flights. For example, according to a review published by Cirium, already in the month of September, the airline industry's on-time performance was circa 14% higher (>90% performance measured at key airports and regions) than figures published back in September of 2019³.

Impressive progress in maintaining a functioning network of flights.

AIRLINE INDUSTRY CASH-BURN: RELIEF ON THE HORIZON

The massive drop in passenger traffic lead to a circa 60% drop in forecasted industry revenues (USD 510 billion)⁴. The Q2 government inspired stringent lock-downs and triggered travel restrictions resulted in a reported industry cash-burn of slightly over USD 50 billion⁵. Flight operations for many airlines literally stopped from one week to another. Liquidity quickly became the top priority of the industry's airlines. Airline management focussed on both raising additional forms of capital / support and measures to reduce costs.

AIRLINE INDUSTRY QUARTERLY CASH-BURN FORECAST (IN USD BILLIONS)



Source: IATA. COVID-19 Report, January 12, 2021

Although continued industry cash-burn is anticipated over the next three quarters, Q1 2021 forecasts anticipate a 50% reduction in cash-burn figures over Q2 2020 figures. As aircraft are down-sized to bring efficiencies into flight operations, fuel purchase obligations expire and domestic passenger traffic improves, the industry predicts quarterly cash generation already by the end of the year.

³ Cirium. The Cirium Airline Insights Review 2020, January 2021.

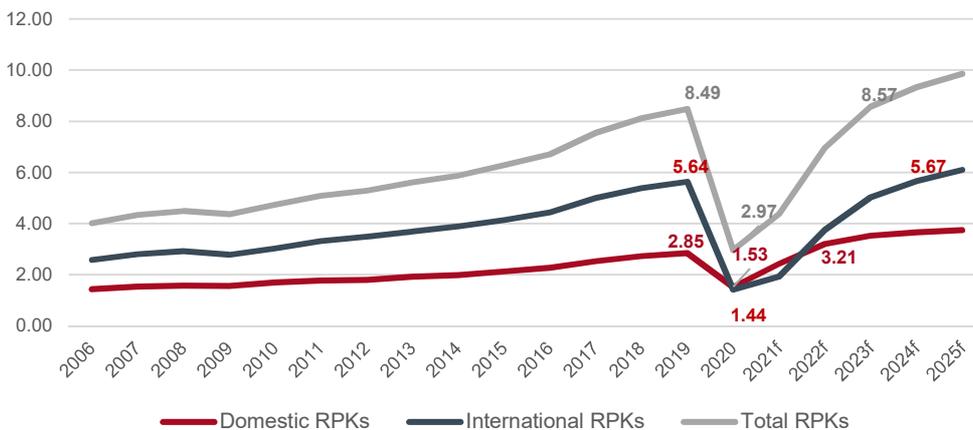
⁴ IATA. Industry Statistics Fact Sheet, November 2020

⁵ IATA. COVID-19 Report, January 12, 2021

THE DOMESTIC FLIGHT RAMP-UP TO LEAD THE WAY

As was stated above, the anticipated recovery in total market passenger traffic for Q4 was disappointing. Nevertheless, in viewing the monthly figures in more detail, there was, in fact, a silver lining worthy of noting. -50.1% (Oct), -49.3% (Nov.) and -48.8% (Dec.) were the percentage year-to-date domestic RPK figures for Q4. A month-for-month improvement in spite of all the challenges demonstrates the resilience of the domestic passenger market and the hope of an imminent recovery.

COMPARISON OF DOMESTIC AND INTERNATIONAL RPKS (IN TRILLIONS)



Source: Oxford Economics. February 3, 2021

The chart above breaks down the forecast RPK numbers into domestic, international and total figures. With countries such as Russia (Q3 2020) and China (Q4 2020) having already reached near 2019 RPK levels in 2020, it should be no surprise to see industry experts forecast a Domestic RPK traffic recovery by year-end 2022 (see chart above). Going forward, the key to full Domestic RPK traffic recovery will be the U.S.A. With reports of circa 1.5 million Covid vaccines now being administered in the U.S.A. per day and over 54 million doses administered⁶, America's domestic recovery is headed in the right direction.

The key to full recovery will be the U.S.A.

The positive trends now being monitored on a domestic passenger level, will need to take root on the international level to reach a full RPK industry recovery by year-end 2023. Logically experts do not see a strong ramp-up in International RPKs materializing until 2022; allowing ample time for vaccines to be administered on a global level. In fact, a full recovery in international passenger traffic is not forecasted until year-end 2024; in roughly 4 years. In spite of this base case prognosis, on the back of a strong recovery in Domestic RPKs, industry experts are now forecasting a passenger traffic recovery, measured in total RPKs, by year-end 2023.

⁶ Bloomberg, February 7 2021. Covid-19 Tracker

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