

The Liquidity Runway

Airlines in Southeast Asia

Turnaround & Restructuring Insights | Q3-2021



The Liquidity Runway

Airlines in Southeast Asia are under pressure. The sector has been forced into unprecedented operational and financial restructuring in order to mitigate the disruption caused by the Covid-19 pandemic.

A full re-opening of international travel borders and a return to normal flight travel by the end of 2021 is looking more challenging. So what does this mean for airlines in Southeast Asia?

In this edition of T&R Insights, we use data to examine the extent and impact of the disruption, review the evolving financial capacity of airlines and suggest potential levers to reduce cash burn in order to extend the “liquidity runway”.

Contents	Page
1. Covid-19 in Southeast Asia	3
2. The Impact on the Airline Sector	4
3. Impact on Southeast Asian Airlines	5
4. Airline Financial Capacity in Southeast Asia	6
5. Airline Responses to Covid-19 in Southeast Asia	7
6. Indicative Liquidity Runway	8
7. Potential Cash Levers	9
8. Airline Case Study	10
9. Deloitte Turnaround & Restructuring	11
10. Key Contacts	12

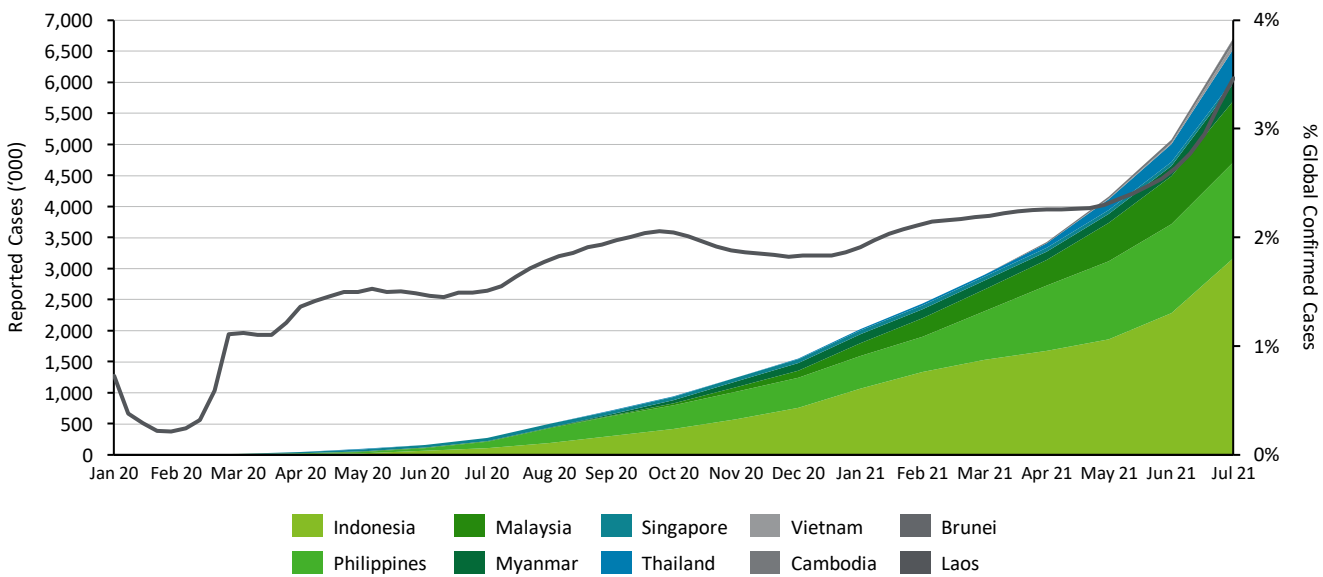


Covid-19 in Southeast Asia

Southeast Asia has recently experienced a surge in Covid-19 cases, which were fast approaching 7 million reported cases in July 2021, with new variants proving highly infectious.

In response, countries across Southeast Asia are (re)implementing tighter Covid-19 mitigation strategies, such as social distancing and lockdown measures, to control the spread of Covid-19 infection whilst simultaneously seeking to accelerate the roll out of vaccination programs.

Cumulative Reported COVID-19 Cases



Source: World Health Organization, Economist Intelligence Unit

Covid-19 Vaccination Roadmap (at 25 July 2021)

Vaccination target: Fully vaccinated (100%) Substantial population vaccinated (60%+) In progress (<60%)

Location	Days Since First Dose	Total Doses Administered ('000)	% Fully Vaccinated	Indicative Vaccination Timeline
Singapore	207	7,192	<div><div></div></div> 52.5%	80%+ by end 2021
Indonesia	193	62,376	<div><div></div></div> 6.6%	75% by mid 2022
Thailand	147	15,961	<div><div></div></div> 5.2%	70% by end of 2021
Malaysia	151	17,318	<div><div></div></div> 17.1%	80% by end of 2021
Vietnam	139	4,613	<div><div></div></div> 0.4%	50% by end of 2021
Philippines	146	17,066	<div><div></div></div> 5.5%	70% by end of 2021
Cambodia	165	11,223	<div><div></div></div> 26.8%	59% by end of 2021
Myanmar*	179	3,500	<div><div></div></div> 2.8%	50% by end of 2021
Laos**	175	1,895	<div><div></div></div> 11.4%	50% by end of 2021
Brunei	115	147	<div><div></div></div> 5.3%	70% by end of 2021

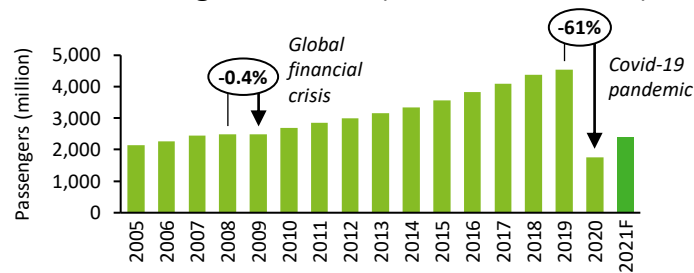
Source: Our World in Data (OWID), Deloitte Research and Analysis

Notes: Myanmar* latest available data represents Total Doses Administered as at 1 July 2021 and % Fully Vaccinated as at 5 June 2021. Laos** date of first vaccine administration has been reported as the end of January 2021 (absent specific date) and accordingly is assumed to be 31 January 2021.

The Impact on the Airline Sector

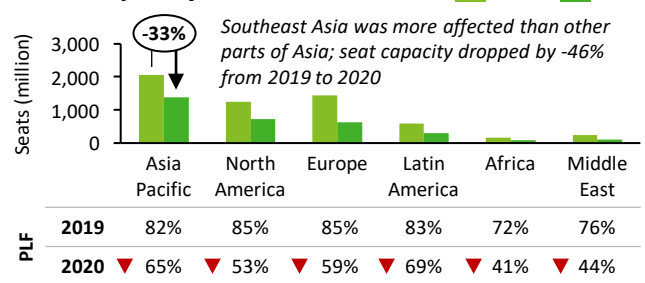
The airline sector is facing a crisis. Passenger levels declined by 61% in 2020 compared to 2019. For context, Covid-19 has resulted in a significantly more pronounced impact than the global financial crisis which led to a 0.4% decline in passenger levels between 2008 and 2009. In response, airlines have slashed routes and capacity, grounded aircraft and sought to pivot assets to cargo routes. Naturally the decrease in utilisation has had a severe impact on profitability (down 205%) and operating cash flows (down 165%) for airlines in Southeast Asia between 2019 and 2020.

Global Passenger Air Traffic (2005-2021 forecast)



Source: Statista (May 2021 data release)

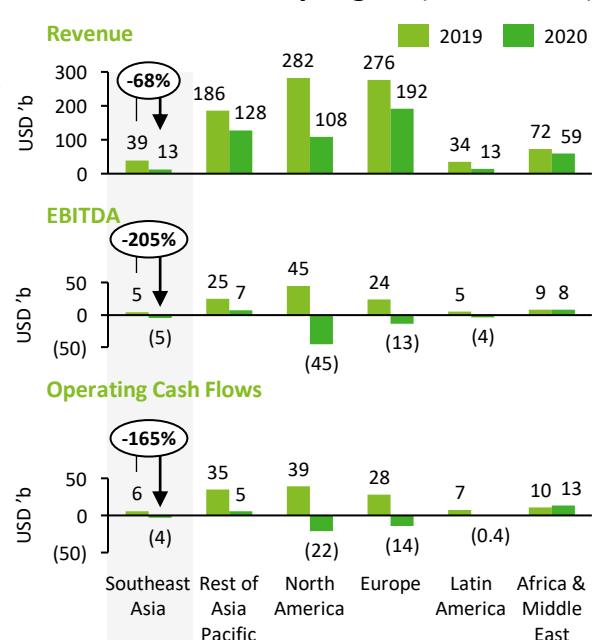
Seats Capacity and Utilisation



Source: IATA, OAG

Note: PLF (Passenger Load Factor) is a utilisation measure based on Revenue Passenger Kilometres (demand) divided by Available Seats Kilometre (capacity).

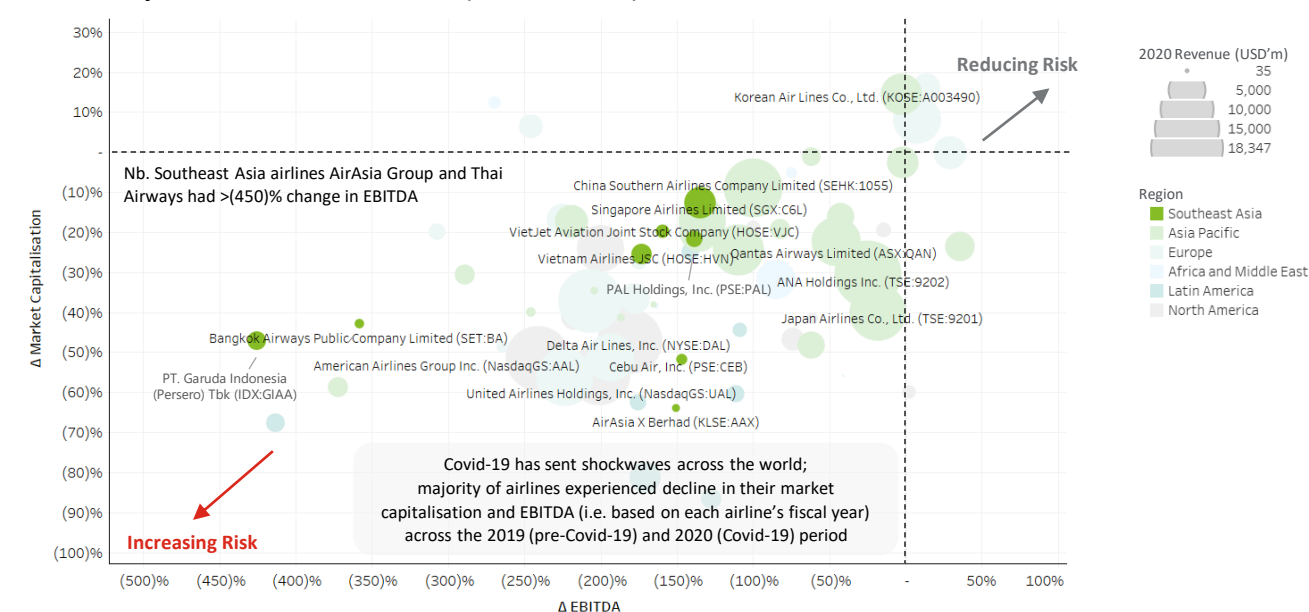
Airline Financials by Region (2019 v 2020)



Source: S&P Capital IQ

Note: Southeast Asia consists of a sample size of ten companies, for which Jan-Dec financials are available for 2019 and 2020.

Market Capitalisation and EBITDA (2019 v 2020)



Source: S&P Capital IQ

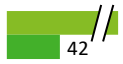
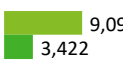


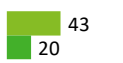



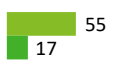
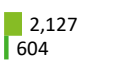


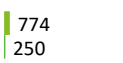







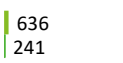



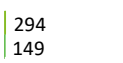





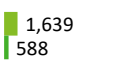


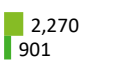



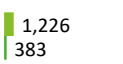


Note: Change in market capitalisation is based on the average market capitalisation for the period March to December in each calendar year.

Impact on Southeast Asian Airlines

Notwithstanding significantly reduced network capacity in Southeast Asia, planned capacity remained materially in excess of passenger demand. The unprecedented decline in operational efficiency has translated into negative earnings across the board. Insufficient operating cash flows to meet financial debt servicing obligations have also triggered the need for external recapitalisation, consensual debt restructuring and in some cases formal insolvency proceedings. The continuing uncertainty about the full reopening of international borders is likely to translate to yet another difficult year ahead.

Airline Operating and Financial Metrics (9M 2019 v 9M 2020)

9M 2019 9M 2020

Airline	Operational Metrics			Financial Metrics		
	Available Seats Capacity (billion KM)	Passenger Load Factor (%)	Fleet Count (% In Service) (at Jul-21)	Revenue (USD'm)	EBITDA (USD'm)	Operating Cash Flow (USD'm)
Singapore Airlines	 42 / 132	84% → ▼ 66%	215 aircraft (58% in service)	 3,422 / 9,092	 (927) / 1,521	 (1,835) / 1,996
Garuda Indonesia	 20 / 43	73% → ▼ 50%	131 aircraft (28% in service)	 1,139 / 3,540	 (521) / 376	 111 / 392
AirAsia Group	 17 / 55	86% → ▼ 76%	270 aircraft (17% in service)	 604 / 2,127	 (565) / 194	 (274) / 581
AirAsia X Group	Data not available	81% → Data not avail.	33 aircraft (18% in service)	 250 / 774	 (65) / 147	 18 / 86
Thai Airways	 20 / 63	79% → ▼ 68%	61 aircraft (28% in service)	 1,360 / 4,425	 (583) / 89	 (231) / 237
Bangkok Airways	 2 / 5	68% → ▼ 62%	37 aircraft (14% in service)	 241 / 636	 (63) / 32	 (125) / 36
Nok Air	 3 / 5	87% → ▼ 74%	22 aircraft (9% in service)	 149 / 294	 (127) / (45)	 (14) / (117)
Vietnam Airlines	Data not available	Data not available	122 aircraft (34% in service)	 1,381 / 3,228	 (283) / 338	 (267) / 338
VietJet Air	Data not available	Data not available	89 aircraft (15% in service)	 588 / 1,639	 (120) / 195	 (158) / (100)
PAL Holdings (parent company of Philippine Airlines)	Data not available	Data not available	87 aircraft (52% in service)	 901 / 2,270	 (82) / 384	 (36) / 409
Cebu Pacific	 6 / 22	85% → ▼ 79%	66 aircraft (58% in service)	 383 / 1,226	 (135) / 348	 (197) / 417

Source: Airline annual reports and investor presentations

Note: December 2020 quarter operational and financial data is not available for all airlines; accordingly, to allow for consistent comparison across airlines and across metrics, a 9-month comparison (i.e. January to September) is shown above.

Border News (...a moving target)



Singapore looks to relax its border rules once vaccination rate hits 80%



Effective from 1 August 2021, Thailand opened-up Phuket to domestic and international tourists, however travellers must produce a special tourist visa, be fully vaccinated, provide a negative Covid-19 test result and undergo a mandatory quarantine period.

Source: Deloitte research



Indonesia aims to gradually reopen its economy in September as the government announces an extension on movement restrictions

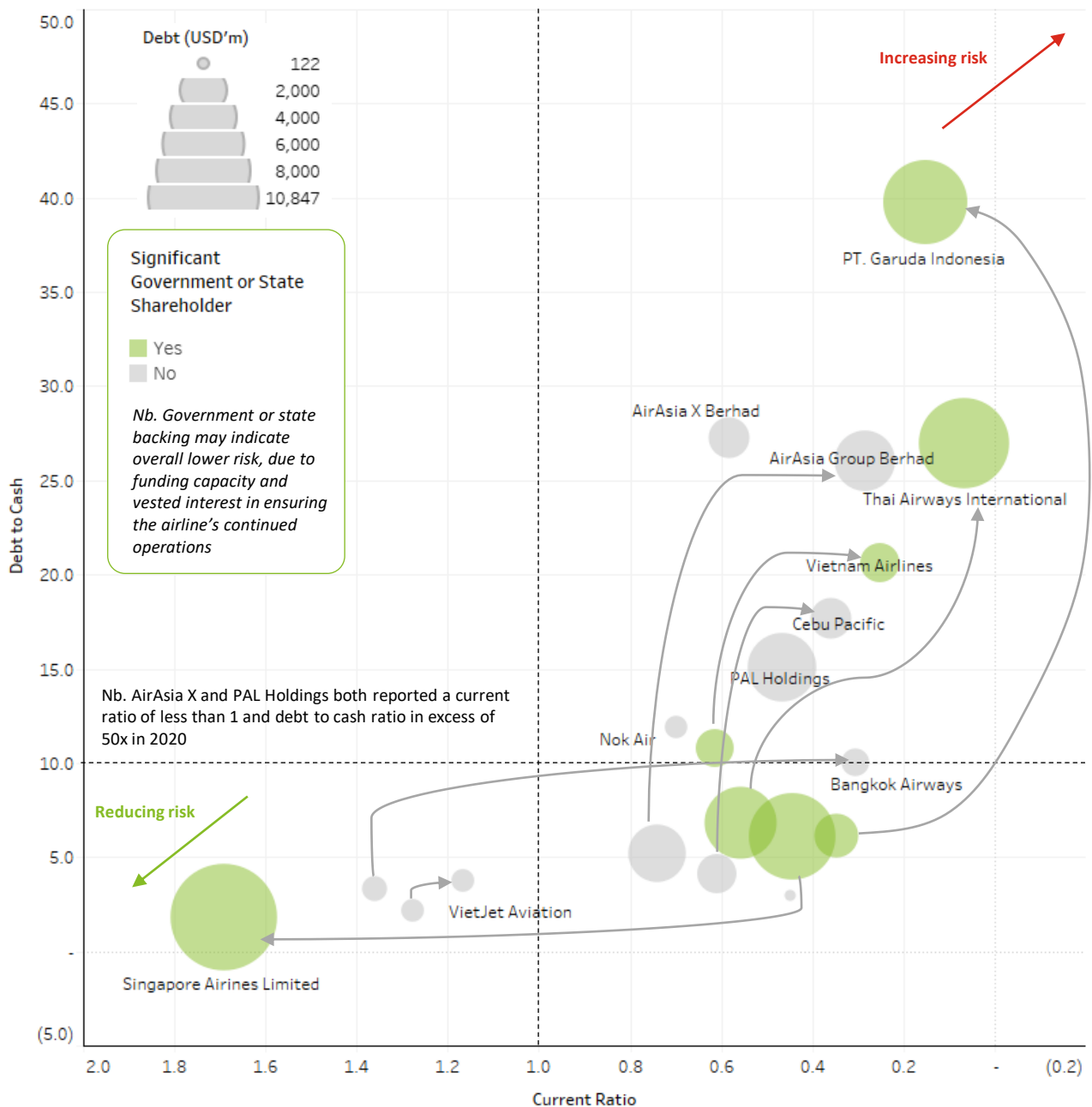


Airline Financial Capacity in Southeast Asia

The operational disruptions are exacerbating financial challenges. The majority of airlines in Southeast Asia reported a current ratio below 1 and also a material increase in debt to cash.

It will be important for airlines to maintain continued support from their stakeholders and financiers, as they undertake restructuring and / or recapitalisation efforts to lengthen their liquidity runway.

Pre and Post Covid-19 Financial Capacity (2019 v 2020)

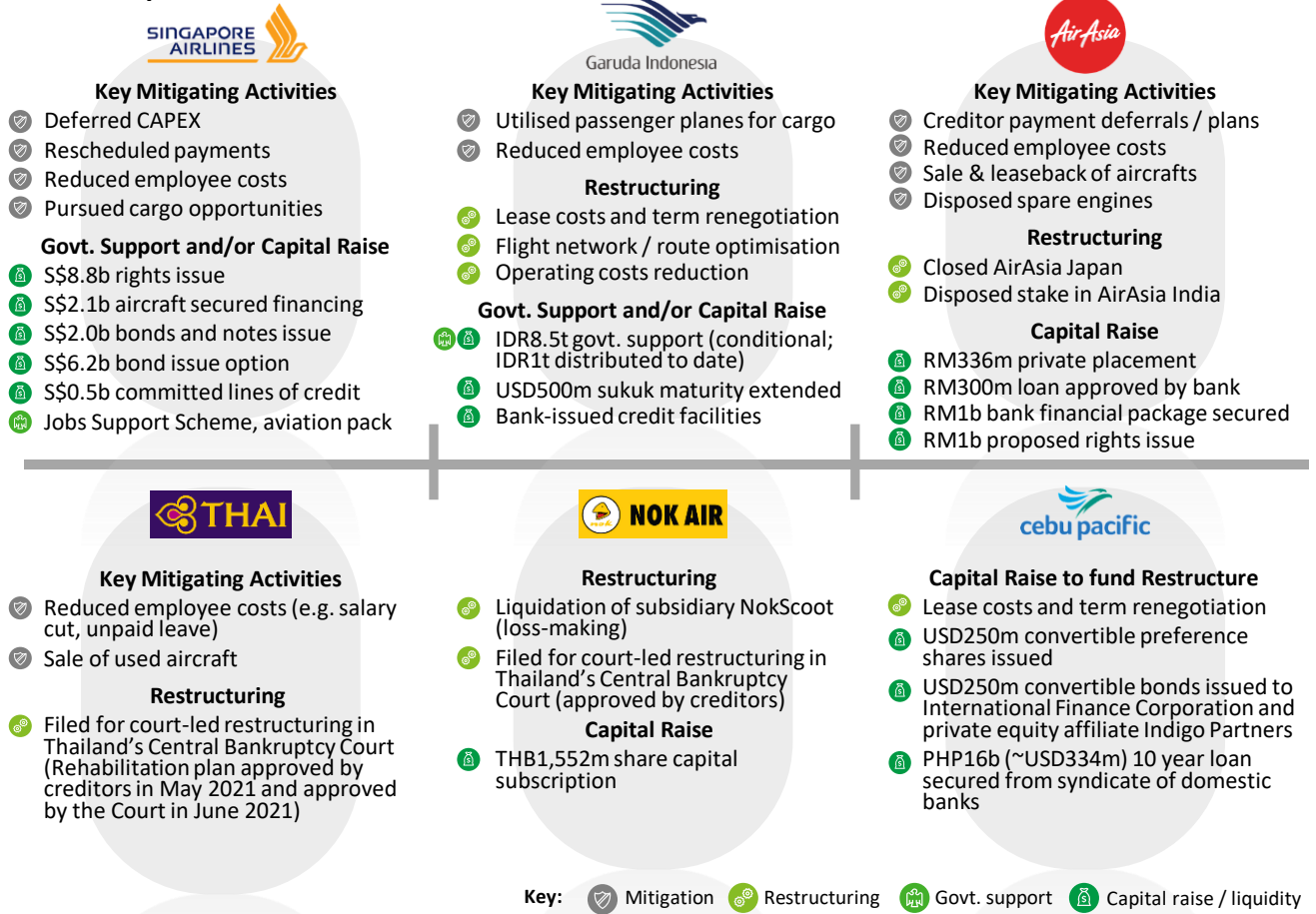


Source: S&P Capital IQ, Airline annual reports and investor presentations
Note: Covid-19 Impacted Financial Capacity ratios for Nok Airlines is shown as at 30 September 2020, as December 2020 quarter results are not yet available. The balance of airlines are shown as at 31 December 2020.

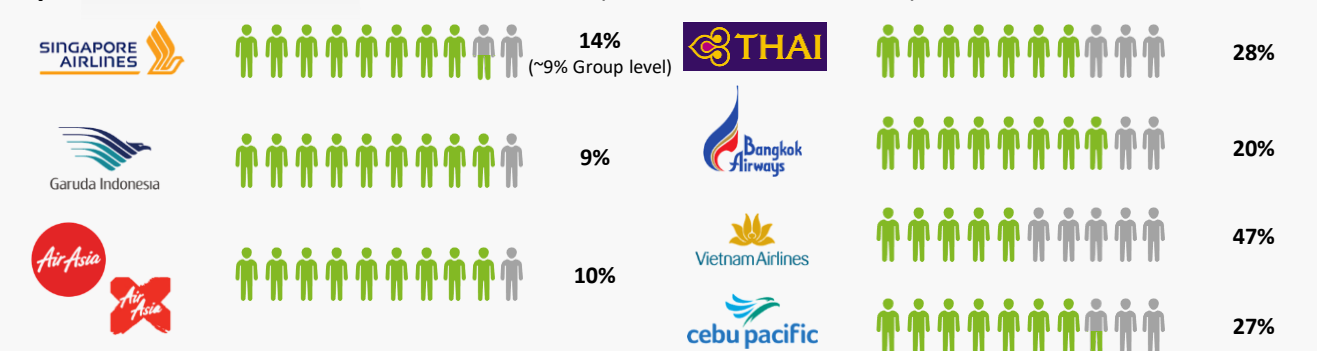
Airline Responses to Covid-19 in Southeast Asia

The sector has undertaken various actions to reduce cash burn and bolster liquidity amidst severe liquidity and leverage challenges faced by airline operators. These actions have included pivots to cargo services, operating cost reductions such as staff redundancies of between 9% and 47% of the pre Covid-19 workforce, and restructuring and capital raises. However, if the travel disruptions continue throughout 2021/2022, a deeper “second wave” restructuring of the industry may be required.

Airline Responses to Covid-19



Reported Airline Staff Redundancies in 2020 (as % of 2019 workforce)



Source: S&P Capital IQ, Airline annual reports and investor presentations, Deloitte research

Indicative Liquidity Runway

In our data sample of 68 airlines, 25 airlines generated negative net cash flows in FY20. Assuming the cash burn rate continues ceteris paribus through FY21 (i.e. in the absence of an improvement in trading conditions or the implementation of liquidity optimisation and recapitalisation measures), some regions scored an Indicative Average Liquidity Runway of approximately six months. These scores point to the severity of the crisis for the airline industry and the urgent need for accelerated and material remedial action.



Please turn to **Page 9** to read more about the **Potential Cash Levers** for airlines

Region	No. of Airlines in Sample Set	Total Revenue FY20 (USD'm)	Total Debt FY20 (USD'm)	No. of Airlines with Negative Net Cash Flow FY20	Indicative Average Liquidity Runway for Airlines Generating Negative FY20 Net Cash Flow <i>(from 1 August 2021)</i>	
Southeast Asia	 11	13,140	40,864	10		~6 months
Rest of Asia	 17	54,332	115,945	6		~26 months
Europe	 12	47,604	86,104	3		~22 months
Africa and Middle East	 7	20,617	53,891	4		~16 months
Central America	 7	11,063	32,345	2		~6 months
North America	 14	104,073	216,479	-	All airlines in sample are cash flow positive 	

Source: S&P Capital IQ

Key:  Cash Flow Negative  Cash Flow Positive






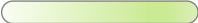
Notes

- The indicative average liquidity runway comprises airlines that generated negative net cash flow in FY20.
- The indicative average liquidity runway has been calculated as $[A] \div [B]$ and adjusted forward by 7 months, where:
 - [A] is total closing cash as at 31 December 2020; and
 - [B] reflects the total FY20 net cash flow movement for airlines in each region divided by 12 months.
- The indicative average liquidity runway analysis is an illustrative estimate only which is intended for discussion purposes and does not take into account various important factors such as shareholder support, access to capital markets and post information date events.

Potential Cash Levers

The road to recovery is long. We explore illustrative potential cash levers that airline management teams, owners and financiers can consider to generate cash (or reduce cash burn). Many airlines have already initiated these efforts but the case for expansion and acceleration of cash focused initiatives is clear.



Area	Illustrative Potential Cash Levers (not exhaustive)
Customers and Revenue Opportunities 	<ul style="list-style-type: none">• Offer future bookings now (rather than suspending ticket availability)• Explore opportunities in cargo freight services and charter flights• Discount fares or leverage loyalty programs• Short term liquidity enhancing merchandising
Workforce Structure and Scheduling 	<ul style="list-style-type: none">• Explore options for furlough / unpaid leave, voluntary redundancies, early retirement packages, short term payroll compression• Shift to a casual employee structure to create flex in workforce scheduling to enable employee costs to be scaled in line with demand• Redeploy idle staff or subcontract to other businesses• Right-size FTE headcount in line with future business requirements
Fleet Management and Lease Arrangements 	<ul style="list-style-type: none">• Route optimisation based on adjusted profitability in “disrupted” operating environment• Renegotiation and / expansion of commercial cargo arrangements• Rescheduling of aircraft maintenance in line with reduced workload• Explore options with aircraft manufacturer to defer deliveries and new aircraft orders and / or reschedule or discount payments• Negotiate options with aircraft lessors:<ul style="list-style-type: none">– Payment holidays for grounded aircraft– Power by the hour arrangements– Reduced maintenance costs and requirements based on reduced usage– Lease returns / exits to right-size fleet• Explore aircraft sale and leaseback or sublease options• Liquidate parts or fuel inventories and / or divest unused aircrafts
Working Capital and Cash Management 	<ul style="list-style-type: none">• Renegotiate payment terms with credit card providers to shorten cash cycle• Offer non-cash alternatives in lieu of cash refunds (e.g. frequent flyer points or future booking credits)• Review, consolidate and negotiate supplier payment terms to ensure alignment with policy and industry seeking deferrals and discounts• Review inventory fuel hedging approach and risk tolerance
Capital Structure and Funding 	<ul style="list-style-type: none">• Explore recapitalisation options to raise new money• Explore options to refinance, reschedule or restructure debt and leasing facilities• Renegotiating merchant arrangements• Explore Government support packages e.g. jobs support schemes, aviation relief packages, tax deferrals etc.• Explore M&A / exit options for non-core assets or segments
Potential Cash Impact: Low High 	

Airline Case Study

In 2020, Deloitte took a lead role in restructuring a major international airline. The business generated +\$6 billion revenue in FY19 but was experiencing trading losses due to a complex fleet structure, unprofitable routes and operating inefficiencies. The situation was exacerbated by Covid-19 disruptions which fast-tracked the need for restructuring in 2020. Administration was used as a mechanism to restructure operations and balance sheet, and to recapitalise the business. Our work enabled the airline to simplify its operating model, optimise its fleet and network, and reposition as a robust airline with renewed growth prospects.

Background

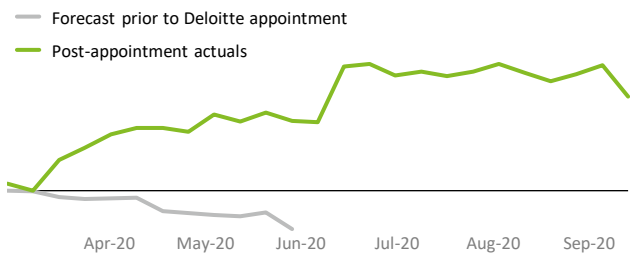


Creditors and Liabilities (# and \$)

72	Aircraft financiers & lessors	\$3.4b
6,500	Bondholders	\$1.9b
+1m	Customers	\$600m
38	Other financial creditors	\$519m
63	Landlords	\$302m
1,437	Trade creditors	\$237m
9,022	Employees	\$129m

Deloitte-Assisted Outcomes

Liquidity Optimisation (cash balance)



Restructuring Activities (~\$50m annualised savings)

Fleet and Maintenance

- Right-sized and simplified the fleet. 65 aircraft leases were terminated to create a unified B737 fleet with simplified staffing and maintenance requirements
- Arranged power by the hour arrangements and agreed reduced maintenance protocols with aircraft lessors to create cost flexibility in line with aircraft usage

Workforce and Scheduling

- Workforce reduction and enterprise agreement negotiations to reduce workforce cost and align workforce to the airlines revised fleet and schedule requirements

Premises and Operations

- Deep dive of property and supplier agreements to better align to current and expected future operations. Contracts either exited, renegotiated or retained to alleviate legacy burdens. Flexibility also improved through scalable supplier agreements

Overall Impact



Airline **continued to operate during Covid-19**



Complex sale and recapitalisation completed rapidly and for value in challenging aviation industry conditions



Maintained **6,000 jobs**



Successfully restructured to breakeven trading throughout the administration



2.0 business plan developed; a go-forward blueprint for transformation and initiatives to be executed. It gave **stakeholders confidence to support and recapitalise the business**

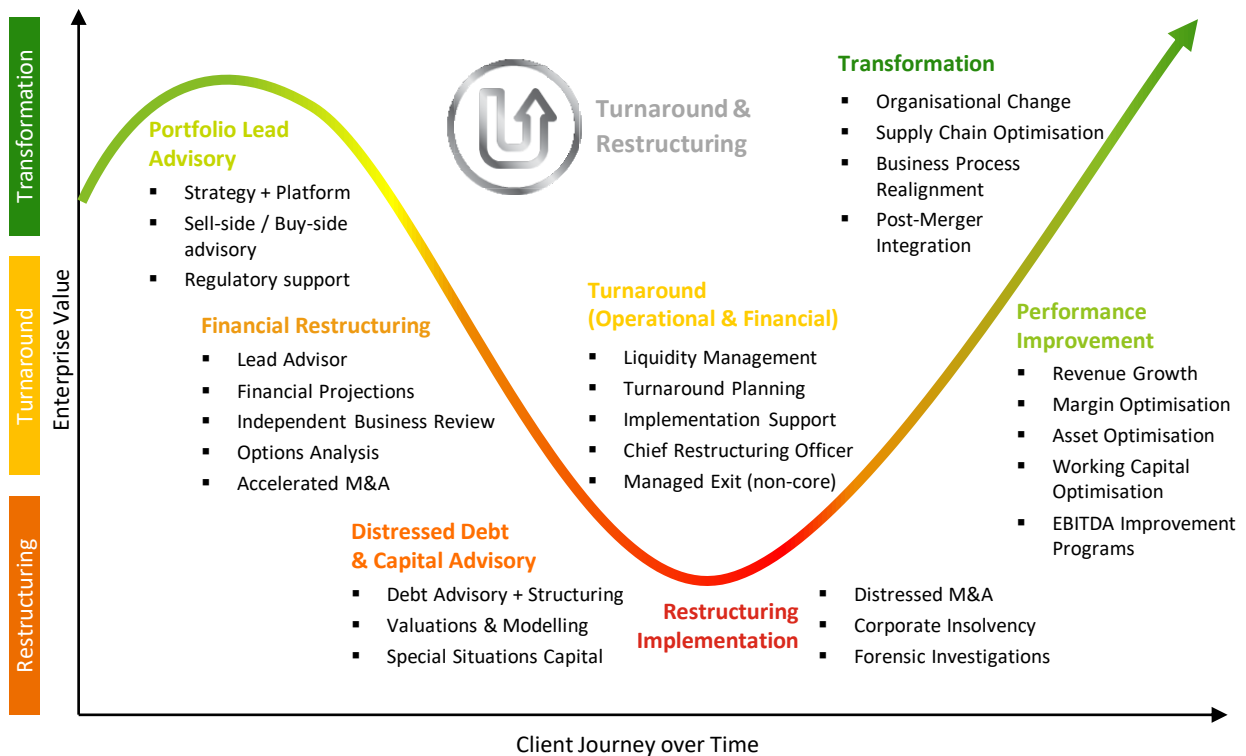


Ensured **customer tickets were honoured**

Deloitte Turnaround & Restructuring

We work with clients to improve outcomes across the stress spectrum ranging from companies seeking to turnaround short term underperformance to those in deep financial distress requiring crisis management. We are actively helping businesses in Southeast Asia to turnaround, transform and grow their businesses and to successfully navigate the financial impact of Covid-19.

Deloitte Turnaround & Restructuring



- **Portfolio Lead Advisory** deleveraging and loan portfolio sale transactions acting sell-side / buy-side and providing strategic advice to maximize value from non-core assets
- **Financial Restructuring** business reviews and options assessment to establish a foundation to assist stakeholder negotiations in corporate refinancing, restructuring and M&A situations
- **Distressed Debt & Capital Advisory** accelerated capital raising, M&A, debt advisory and structuring assistance in complex cross-border multi-stakeholder special situations
- **Turnaround (Operational & Financial)** hands on restructuring assistance and implementation support to drive cash and earnings generation for underperforming and / or financially stressed businesses...fast
- **Restructuring Implementation** where a consensual restructuring is not possible; providing assistance to debtors and creditors through formal corporate insolvency processes
- **Performance Improvement** using proven restructuring and private equity techniques to drive revenue, EBITDA and liquidity improvement programs
- **Transformation** driving organisational change and operational efficiency for businesses who need to respond and adapt to changing market and business conditions

Key Contacts



Andrew Grimmatt
SEA Restructuring Leader
T: +65 6530 5555
E: agrimmett@deloitte.com



Matt Becker *Author*
SEA Turnaround Leader
T: +65 8332 1977
E: mbecker@deloitte.com



Richmond Ang
SEA Debt Advisory & Restructuring Leader
T: +65 6216 3303
E: rang@deloitte.com



Justin Lim
Singapore Restructuring Partner
T: +65 6216 3269
E: juslim@deloitte.com



Wei Cheong Tan
Singapore Restructuring Partner
T: +65 6531 5046
E: wtan@deloitte.com



Kamolwan Chunhagsikarn (Minnie)
Thailand Restructuring Partner
T: +66 2034 0162
E: kchunhagsikarn@deloitte.com



Siew Kiat Khoo
Malaysia Restructuring Leader
T: +60 3 7610 8861
E: skkhoo@deloitte.com



Soo Earn Keoy
SEA Financial Advisory Leader
T: +65 6216 3238
E: skeoy@deloitte.com



Edy Wirawan
Indonesia Financial Advisory Leader
T: +62 21 5081 9200
E: ewirawan@deloitte.com



Phong Le
Vietnam Financial Advisory Leader
T: +84 28 3521 4080
E: phongle@deloitte.com

Global Contacts | Navigating the Financial Impact of Covid-19



Andrew Grimstone
Global T&R Leader
T: +44 20 7007 2998
E: agrimstone@deloitte.co.uk



Jiak See Ng
APAC Financial Advisory Leader
T: +65 6531 5088
E: jsng@deloitte.com



Richard Hughes
Global T&R Aviation Leader
T: +61 7 3308 7279
E: richughes@deloitte.com.au



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.