AVIATION BUSINESSES DURING COVID-19: AIRASIA’S FINANCIAL CHALLENGES AND POSSIBLE WAY-OUTS

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ABSTRACT

\textbf{Purpose:} This paper aims to discuss the financial challenges faced by AirAsia and the possible way-outs in the wake of the company’s slumped performance caused by COVID-19.

\textbf{Design/Methodology/Approach:} The methods used are qualitative, in-depth company studies and articles.

\textbf{Findings:} The result of this study can be concluded that AirAsia has several financial challenges that the analysis can see of the company’s finances. AirAsia also strives to implement several strategies to cope with COVID-19’s impact despite enormous and competing challenges and uncharted solutions.

\textbf{Research Implications:} This article provides an overview of the strategy implemented by AirAsia after experiencing a downturn due to the COVID-19 pandemic.

\textbf{Keywords:} COVID-19; Aviation Business; AirAsia; Financial Challenges

INTRODUCTION

18 March 2020. The first Malaysian Movement Control Order (MCO) was implemented. Interstate and interdistrict travel are prohibited in all states. Masks are required in crowded locations. Schools were shuttered nationwide, and only essential businesses were allowed to reopen. Restaurants are closed, while hotels are only open for quarantine purposes. The situation worsened daily; more and more people lost their jobs; the same goes for businesses, where many companies reported going bankrupt and were forced to shut down permanently. The MCO situation changed to a Conditional Movement Control Order...
(CMCO), which came into effect on 4 May 2020, then was replaced by a Recovery Movement Control Order (RMCO), which went into effect on 10 June 2020 and is now back in the MCO again.

Today, one year into the COVID-19 pandemic, Tan Sri Tony Fernandes, AirAsia Group Bhd co-founder, sees the “hope and light” in sight. An interview was recorded between Tan Sri Tony Fernandes and a journalist.

Tan Sri Tony Fernandes: “Thank God, we are alive. Things are starting to look better than before. Vaccination programs are increasingly being implemented. This is a good sign for all”.

“A year has passed, and we are still living with this pandemic; I am sure AirAsia is trying to save the whole thing from the effects of COVID-19”.

“You know, the first thing that crossed my mind when the 1st MCO was announced was, how do we survive in this situation? You understand that the tourism and airline sectors must be closed temporarily. At that time, I thought the world was dark. There was no future for AirAsia anymore.

Journalist: “How is AirAsia now? Is it doing well?”

Tan Sri Tony Fernandes: “My team and I are still trying to save AirAsia. First thing, AirAsia needs to be saved! Many companies, including large companies, are forced to shut down permanently. We cannot give up. We will not let AirAsia go into financial distress for a long time. What we can hope for now is that there are white knights who can save us. We are trying to implement a recovery strategy to save AirAsia. An emergency meeting will be held this week to discuss AirAsia's future. We must make decisions as soon as possible to help AirAsia survive.”

Journalist: “All I can say is best of luck, Tan Sri. I hope you and your team can manage this situation.”

AirAsia is a Malaysian low-cost carrier located in Kuala Lumpur. Asia's most extensive, low-cost, no-frills airline operates scheduled domestic and international flights. This company was a pioneer in low-cost travel in Asia. It is the region's first airline to provide ticketless travel and unassigned seats. The Low-Cost Carrier Terminal (LCCT) at Kuala Lumpur International Airport is also its primary hub (KLIA). Its subsidiary airlines, Thai AirAsia and Indonesia AirAsia, operate from Thailand's Suvarnabhumi Airport and Indonesia’s Soekarno–Hatta International Airport. AirAsia was founded in 1993 and began operations in 1996. Tune Air Sdn Bhd (Tan et al.'s business) bought this airline from DRB-Hicom in 2001.

This company has received many awards and recognition thanks to AirAsia's good performance and excellent services. At the 2012 World Airline Awards presented at the Farnborough Air Show, AirAsia was voted the World's Best Low-Cost Airline, and AirAsia is recognised for the 11th year in a row and has been named the World's Best Low-Cost Airline. Today, AirAsia is well-known as Malaysia's low-cost carrier and Asia's most enormous, no-frills airline. Its slogan, “Now Everyone Can Fly,” makes AirAsia known widely. In line with its mission “To allow everyone to fly,” AirAsia provided world-class service at low rates to over 600 million passengers across the Asia Pacific, demonstrating that low cost does not equal bad quality and that air travel is not expensive.
LITERATURE REVIEW
Ownership of AirAsia

Interestingly, AirAsia owns various entities. A shareholder, sometimes known as a stockholder, is a person, entity, or institution holding at least one company share. Thus, shareholders are corporate owners. As company owners, shareholders are subject to several rights and benefits. Chewtha and Arya (2018) point out several advantages of shareholders in corporate governance. Firstly, shareholders can access and examine corporate records and data about the element's administration and financial performance. Aside from that, all partnerships must have at least one class of shares representing ownership enthusiasm for the company. The necessary proprietorship share is known as "ordinary stock" in several partnerships. These concepts include voting rights for the investor. So, shareholders enjoy the right to vote in the company. Additionally, investors have the opportunity to select executives during the annual meeting. The names of the appointed executives are recorded on an intermediate proclamation, which is then sent to investors. The investors may vote in favour of the nominated leader or against him. Last but not least, confident investors have the right to suggest certain business moves during corporate gatherings. This is generally accomplished by including these plan elements in corporate intermediary explanations.


<table>
<thead>
<tr>
<th>Directors’ shareholdings</th>
<th>Direct (% of Issued Shares)</th>
<th>Indirect (% of Issued Shares)</th>
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<tbody>
<tr>
<td>Tan Sri Anthony Francis Fernandes</td>
<td>0.04</td>
<td>26.90</td>
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<tr>
<td>Datuk Kamarudin bin Meranun</td>
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<td>26.90</td>
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<tr>
<td>Dato’ Abdel Aziz @ Abdul Aziz bin Abu Bakar</td>
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<td>-</td>
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<tr>
<td>Dato’ Fam Lee Ee</td>
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<td>-</td>
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<tr>
<td>Stuart L Dean</td>
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<td>-</td>
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<tr>
<td>Dato’ Mohamed Khadar bin Merican</td>
<td>0.01</td>
<td>-</td>
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<tr>
<th>Top 5 Largest Shareholders</th>
<th>(% of Issued Shares)</th>
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<tbody>
<tr>
<td>HSBC Nominees (Tempatan) Sdn. Bhd.</td>
<td>13.55</td>
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<tr>
<td>RHB Capital Nominees (Tempatan) Sdn. Bhd.</td>
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<tr>
<td>HSBC Nominees (Tempatan) Sdn. Bhd.</td>
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<td>Positive Boom Limited</td>
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<td>Kenanga Nominees (Asing) Sdn. Bhd</td>
<td>4.33</td>
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COVID-19 Pandemic

Coronavirus disease 2019 (COVID-19) is a disease caused by a new coronavirus currently known as severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2; also known as 2019-nCoV), which was discovered after an epidemic of respiratory sickness cases in Wuhan City, Hubei Province, China. On 31 December 2019, it was first reported to the World Health Organization (WHO), and on 30 January 2020, this pandemic was recognised as a global health emergency. The first outbreak of COVID-19 was identified in Malaysia on 25 January 2020 and was traced back to three Chinese nationals who had previously had close contact with an infected individual in Singapore. Since then, the dark history of Malaysia began, and this pandemic has wrecked many industries and lost many lives. Nations affected by unforeseen and unexpected diseases have seen a decline in general economic activity, consequently impacting companies. The economy's recession would begin with a decrease in the travel and tourism industries, affecting all airlines worldwide.

RESEARCH METHODS

In this study, qualitative data was employed. The observation period covers from 2008 to 2021. Both primary and secondary sources were considered. Observational methods were employed to gather primary resources, supplemented by data and information from newspapers, websites, and published reports for secondary sources.

RESULT AND DISCUSSION

Malaysia's government, led by Prime Minister Mahiaddin Yassin, implemented a countrywide lockdown known as the Movement Control Order (MCO) on 18 March 2020 (see Appendix 3). The Malaysian government has decided to impose a national Movement Control Order, which includes restrictions on movement and assembly across the country and a ban on all foreign visitors and tourists entering the country. Additionally, on 17 March 2020, the Malaysian Government signed an order declaring all states and federal territories in Malaysia as infected areas of the COVID-19 illness as part of preventing and controlling infectious diseases (Declaration of Infected Local Areas). This was followed by the Prevention and Control of Infectious Diseases (Measures within the Infected Local Areas) Regulations 2020, which formalised the control of citizen movement, prohibition of any gatherings, whether for religious, sports, or recreational purposes, as well as the imposition of a health examination requirement for Malaysian citizens and permanent residents returning from overseas (Chong, 2020).

The Malaysian government gradually eased lockdown restrictions, commencing with the Conditional Movement Control Order (CMCO) on 4 May 2020. On 10 June 2020, the Recovery Movement Control Order (RMCO) will be issued. The Malaysian government decided to stop RMCO at the end of August 2020; however, owing to the ongoing discovery of imported cases, measures were delayed until the end of the year, with several sectors remaining restricted and stringent travel restrictions in place. Today, MCO is reintroduced throughout most Malaysian states and federal territories. As a result, in 2020, Transport Minister Datuk Seri Wee Ka Siong argued Malaysian aviation sector is expected to lose RM13 billion because of the COVID-19 outbreak and ongoing foreign travel restrictions (Aziz, 2020) and anticipates a 75.6% drop in passenger numbers to 26.6 million, down from 109.2 million in 2019 (Reuters, 2020). This proves that 2020 the aviation industry will face a severe crisis due to COVID-19.

The drastic reduction in demand for passenger air transport is jeopardising the sustainability of many businesses in the air transport sector and the rest of the aviation industry. Due to that, Tan Sri Tony Fernandes took action by holding an emergency meeting to discuss the future and turnaround plans for the company. Several essential decisions have
been made to ensure business continuity and reduce financial distress. AirAsia acknowledged the layoff of 10% of its 24,000 employees (Bernama, 2020a). A fresh wave of layoffs involving hundreds of its employees must ensure the company's continuing survival in a sector badly impacted by the COVID-19 issue. The Board of Directors also decided to protect AirAsia's future business by implementing various cost-containment measures, including pay cuts, suspensions of accessible munch and external training, duty travel restrictions, and cancellations of major social events for the year (AirAsia, 2020a).

Furthermore, to recapitalise, AirAsia aims to propose a private placement with gross proceeds of up to RM454,51 million. The company intends to enhance the Group’s financial position with a marginal increase in the net assets and an improvement in the gearing of the Group. On the other hand, AirAsia strives to expand its digital pillar, which consists of e-commerce, logistics, and finance across the ASEAN region via airasia.com. It will capitalise on the app's enormous reach and cheap customer acquisition cost (AirAsia, 2020b). AirAsia expects such efforts to help reduce financial risk and ensure business viability to overcome the economic downturn caused by COVID-19.

**Financial History of AirAsia**

Since the spread of COVID-19 began, AirAsia faced a financial crisis that caused massive losses, and the company's performance plummeted. Referring to Appendix 1 regarding AirAsia's income statements for the financial year 2018 until 2020, overall, there are significant changes to the profit earned by AirAsia. A drastic downward trend was recorded compared to the profit earned before COVID-19 (2018-2019) and during the onset of the COVID-19 (2020) crisis. The fate and future of AirAsia are even more worrying as the company has recorded a massive loss for the financial year because of the pandemic.

![Trend of AirAsia Net Profit for The Financial Year](source: AirAsia Group Berhad Annual Report)

According to Figure 1 and Appendix 1, AirAsia's net profit 2018 was positive, reaching RM 1,695,394,000. However, by the end of 2019, it can be seen that the trend was declining, and the company faced a net loss of - RM283,223,000. The situation worsened when, by the end of 2020, the net loss borne by AirAsia rose to - RM5,887,928,000. This
indicates that the company earned a net profit before the COVID-19 pandemic (2018). Its performance plummeted when COVID-19 emerged in 2019 and worsened when this pandemic was declared a global health emergency in 2020. This situation was contributed to by the significant decline in net operating profit since COVID-19, where the pandemic has obstructed the tourism sector worldwide, causing AirAsia to be unable to earn net operating profit as in previous years.

Furthermore, by referring to Appendix 2 regarding Statements of Financial Position for the financial year of 2018 until 2020, with the beginning of COVID-19 in 2019 until it hit the aviation business in 2020, AirAsia's statements of financial position recorded a declining figure compared to 2018 before the pandemic. In 2018, AirAsia succeeded in obtaining RM6,185,265,000 in Statements of Financial Position. By the end of 2019, on the other hand, it was recorded at only RM2,910,740,000, and the situation worsened at the end of 2020 by recording - RM3,569,794,000. This figure is contributed by a decrease in total assets and, at the same time, an increase in total liabilities and deficits in shareholders’ funds.

Apart from that, it is essential to highlight the position of shares of AirAsia before COVID-19 and during COVID-19. For three consecutive years, 2018, 2019, and 2020, AirAsia maintained outstanding shares of 3,341,974,000 units. However, what needs to be noted is the market price of the shares. Undeniably, COVID-19 has been detected in almost every area of the globe, prompting the implementation of significant, government-imposed measures to prevent or minimise its spread, such as travel restrictions, testing regimes, border closures, “stay at home” orders, and company closures. As a result, for the period ending 31 December 2020, AirAsia recorded a net loss of RM5,888 million, with current liabilities exceeding current assets by RM5,902 million. In addition, AirAsia recorded an RM1,214 millions shareholders’ deficit. This fact affects the market price of AirAsia shares. Figure 2 demonstrates the declining market prices for AirAsia shares before the COVID-19 outbreak (2018-2019) and during the COVID-19 outbreak (2020).

**Figure 2. Trend of Market Price of AirAsia Shares**

![Market Price of AirAsia Shares](source: Bursa Malaysia, 2021)

By observing Figure 2, it shows the decline in the market price of AirAsia shares. In 2018, the market price per share was RM2.97, but at the end of 2019, when the pandemic began, the market share price per share dropped to RM1.70, and the figure plummeted.
further at the end of 2020 when it recorded only RM0.89 per share. Although the outstanding shares of AirAsia maintained at 3,341,974,000 units before COVID-19 and during COVID-19, the market price of the company’s shares is declining. The particular reason for this situation is the painful net loss that directly impacts AirAsia’s shares. Park (2021) revealed that AirAsia shares plummeted after the company revealed a massive loss due to COVID-19 restrictions affecting international and domestic travel demand. The summary of the market price per share of AirAsia is illustrated in Table 2.

### Table 2. Summary of Market Price of AirAsia Share

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<tr>
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<th>2020 (RM)</th>
<th>2019 (RM)</th>
<th>2018 (RM)</th>
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<tbody>
<tr>
<td>Market price per share</td>
<td>0.86</td>
<td>1.7</td>
<td>2.97</td>
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**Alternative Solutions**

Two alternative solutions can be implemented to assist AirAsia in continuing its aviation business during the COVID-19 pandemic: new revenue streams and government incentives.

**New Revenue Streams**

In a situation of movement constraints due to the spread of COVID-19, the aviation business must look for creative ways to generate new revenue streams. Millions of company owners faced a similar dilemma when the pandemic shut down, and consumers stayed at home to prevent the virus's spread. In aviation businesses, never before in the history of the aviation business has there been such a severe and continuous fall in air passenger demand. As a result, predicting when airlines will be able to resume operations and when flight operations and passenger demand will recover to pre-COVID-19 levels becomes extremely difficult. Current predictions place the restoration of global traffic to 2019 levels between 2023 and 2025 (Garrow & Lurkin, 2021). Due to the uncertainty of the future prediction of aviation businesses, the company must wisely plan and look for opportunities to generate new revenue other than relying on aviation. Additionally, Ahlstrom (2010) quoted Dodgson’s statement in his article, stating that companies that can produce growth in both established and emerging economies by releasing inventive new goods can start new businesses and enter new markets. In other words, finding new revenue streams is a golden opportunity for aviation businesses to start and enter new markets.

**Government Incentives**

In some countries, the government incentivises economic regeneration in the aviation sector. For example, the Greek government incentivised aviation businesses to resume operations. European Commission announced that it had decided to approve EUR 120 million for Aegean Airlines to compensate the flight for direct losses caused by COVID-19 and travel restrictions imposed by Greece and other destination nations to prevent the virus's spread (Practical Law Competition, 2020). Meanwhile, in China, the method used by the government to help the aviation business is by purchasing 500,000 flight tickets directly from the city's airlines as part of a billion-dollar stimulus package for the city's crippled aviation sector (Lee, 2020). According to IATA (Mistry, 2020), government incentives are required to enhance the much-needed market-stimulating measures. Some relevant methods that can be adopted are (1) reducing charges, taxes, and fees, (2) purchasing airline tickets in
advance, and (3) introducing travel subsidy programs. Next, the government can increase air transport supply by (1) subsidising essential airline routes and (2) providing financial incentives to carriers to operate flights.

In Malaysia, Bernama (2020b) reported that the Malaysian Aviation Commission (Mavcom) suggests that the government's financial support to airlines during the COVID-19 epidemic must be managed appropriately. It should only be used as a last option. However, given the government's economic constraints, aviation operators must exhaust all other options first, including aid from their respective shareholders, before engaging the government. 2020 Economic Stimulus Package (see Appendix 4) is a government effort to assist aviation businesses and other tourism-related industries. Waivers and payment deferrals are the most common forms of assistance introduced. Through the stimulus packages, RM500 million is also earmarked to give a temporary 15% reduction in power costs to people in the tourist sector, including airlines, simultaneously (Siti Farhana, 2020). This shows that although the government does not offer many incentives to aviation businesses, the measures taken by the government can help aviation businesses continue to survive in the environment of COVID-19 contagion. Thus, the government incentive is one alternative solution that successfully assists aviation businesses in coping with this pandemic.

**New Airline Routes**

Referring to Allianz (2021), over 1,400 new air routes are scheduled to operate in 2021, more than those added in 2016, which bodes well for regional airports in the post-COVID-19 environment. This is driven by Europe (over 600 routes), where many previously unserved routes connect regional airports, and Asia Pacific (over 500). Due to growth, over 200 new routes have been added to China's domestic market, and the United States has 235 new routes. This fact aligns with the argument by Olaganathan (2021), who stated that once airlines have determined when and where their operations should begin, they must determine the degree of demand for cities and countries to which passengers wish to fly. The airlines must determine which cities/countries have the highest demand among those specified destinations. In this way, aviation businesses can meet the demand of people by offering flight services to destinations with a high demand to visit. This is a wise move that AirAsia can implement, where AirAsia can take advantage of people's demand and, at the same time, venture into new routes for AirAsia flights. AirAsia can utilise the demand of people to gain better insights into developing a strategic plan to cope with COVID-19. This company may devote its marketing, sales, and operational emphasis to promoting these routes first to recoup and grow its revenues after correctly designing the air route.

**CONCLUSION**

Turning to the primary purpose, this writing is intended to discuss the financial challenges ahead for AirAsia and possible way-outs in the wake of the company's slumped performance due to COVID-19. Looking at the above information and data, it is clear that there was a critical decline in the financial performance of AirAsia before the outbreak of COVID-19 and during the spread of COVID-19 hit the aviation business. This proves that this aviation company has been affected shoddily since the onset of this pandemic. However, to combat the negative impact of the pandemic on the company's performance and for the sake of business continuity, Tan Sri Tony Fernandes and his team have prepared initiatives as a recovery plan for the company. This wise and brave move is to be commended as AirAsia's management works assiduously to save the company and curb the COVID-19 crisis. Thus, to ensure the initiative's effectiveness, all parties involved must work to support and implement the plan successfully.
Epilogue

After over a year of MCO, the COVID-19 disaster has grounded airlines and suspended air travel worldwide, with economic ramifications extending far beyond the industry. Even if travel restrictions lighten, the global economic slump and travellers’ fear of acquiring the virus will continue to weigh on passenger numbers. Business travel is also anticipated to continue slowly, and it took a long time to get back active in the industry. Taking time to calm himself down, Tan Sri Tony Fernandes and his team decided to focus on the recovery strategy planned for AirAsia. They were optimistic about that strategy to ensure AirAsia could enter the business sector actively. Undoubtful, COVID-19 has had severe effects on the company's performance; however, from a positive perspective, Tan Sri Tony Fernandes agrees that this pandemic allows AirAsia to focus on enhancing the overall performance and operations and, at the same time able to focus on building digital businesses. In addition, this crisis also allowed AirAsia to venture into new things to strengthen the company’s position while ensuring its viability in the aviation business. With hope and faith, Tan Sri Tony Fernandes believes AirAsia can survive and become the best low-cost airline in Asia again.

REFERENCES


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