Malaysian Aviation Commission
Suruhanjaya Penerbangan Malaysia
MAVCOM

COMMENTARY

MALAYSIA'S 2021 AIR PASSENGER TRAFFIC FORECAST REVISION | **APRIL 2021**

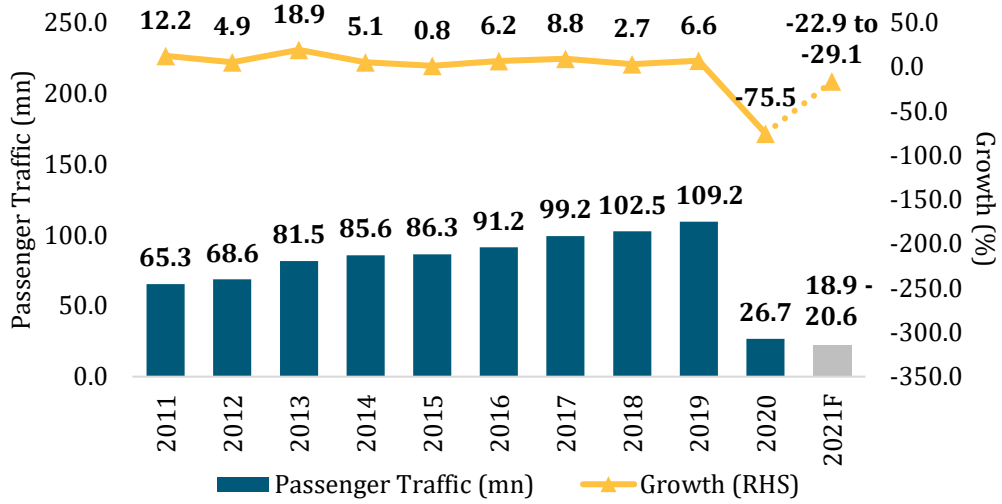
This Commentary discusses the Malaysian Aviation Commission's ("MAVCOM") 2021 air passenger traffic forecast revision and the challenges facing the aviation industry in Malaysia in its path to recovery.

MALAYSIA'S AIR PASSENGER TRAFFIC IN 2021

Air Passenger Traffic to Contract by 22.9% and 29.1% YoY in 2021

For the base case scenario, **MAVCOM revises downward its 2021 passenger traffic[1] forecast to contract by between 22.9% YoY and 29.1% YoY, which translates to 18.9mn – 20.6mn passengers** (see Figure 1). This is a significant downward revision as compared to MAVCOM's previous forecast made in its Waypoint December 2020 publication (see Table 1).

Figure 1: Malaysia's Passenger Traffic, 2011 – 2021



Source: MAVCOM, AOL Holders

Table 1: Malaysia's 2021 Passenger Traffic Forecast Revision

Scenarios	Previous Forecast (mn)	Revised Forecast (mn)
Best Case	70.5 – 72.7	23.6 – 25.5
Base Case	51.7 – 53.3	18.9 – 20.6
Worst Case	34.1 – 35.8	15.2 – 16.6

Source: MAVCOM

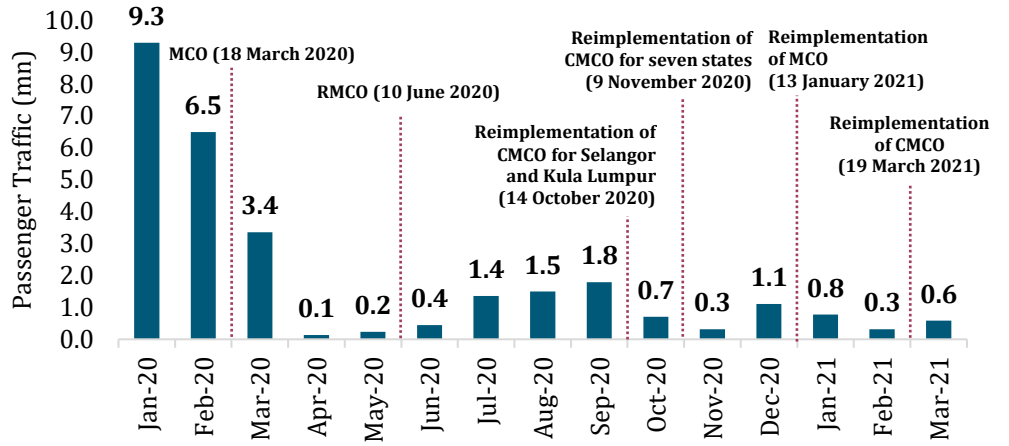
Resurgence in COVID-19 Cases and the Movement Control Order

The significant downward revision in the passenger traffic forecast was mainly due to the effects of the resurgence in Coronavirus Disease 2019 ("COVID-19") cases on the demand for air travel. The Government of Malaysia ("GOM") reimplemented the more stringent public health measures – the

[1] Passenger Traffic refers to the total number of passengers departing and arriving at airports in Malaysia.

Conditional Movement Control Order ("CMCO") in October 2020 and the Movement Control Order ("MCO") in January 2021. Figure 2 shows the impact of the implementation of the restrictions on movement on Malaysia's monthly passenger traffic.[2] The four key states—Penang, Selangor, Wilayah Persekutuan (Kuala Lumpur), and Sarawak—which comprise 70.3% of passenger market share in 2020 (2019: 75.7%), are still under the CMCO, thus, restricting interstate air travel.

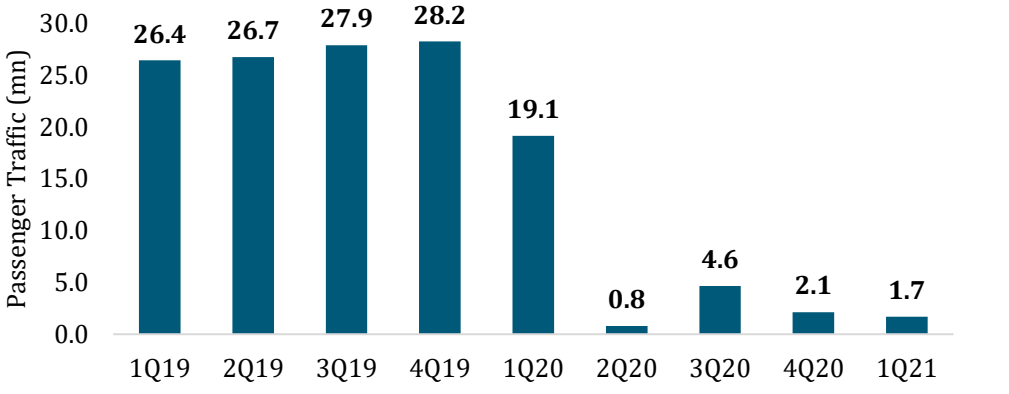
Figure 2: Malaysia's Monthly Passenger Traffic, 2020 – 2021



Source: MAVCOM, AOL Holders

The average monthly passengers in Malaysia after the reimplementation of the MCO was 771,139 between April 2020 and March 2021. This was significantly lower than the monthly passenger traffic average of 9.1mn in 2019. In 1Q21, the passenger traffic in Malaysia remained weak, recording only 1.7mn passengers (1Q19: 26.4mn) – see Figure 3.

Figure 3: Malaysia's Quarterly Passenger Traffic, 2019 – 2021



Source: MAVCOM, AOL Holders

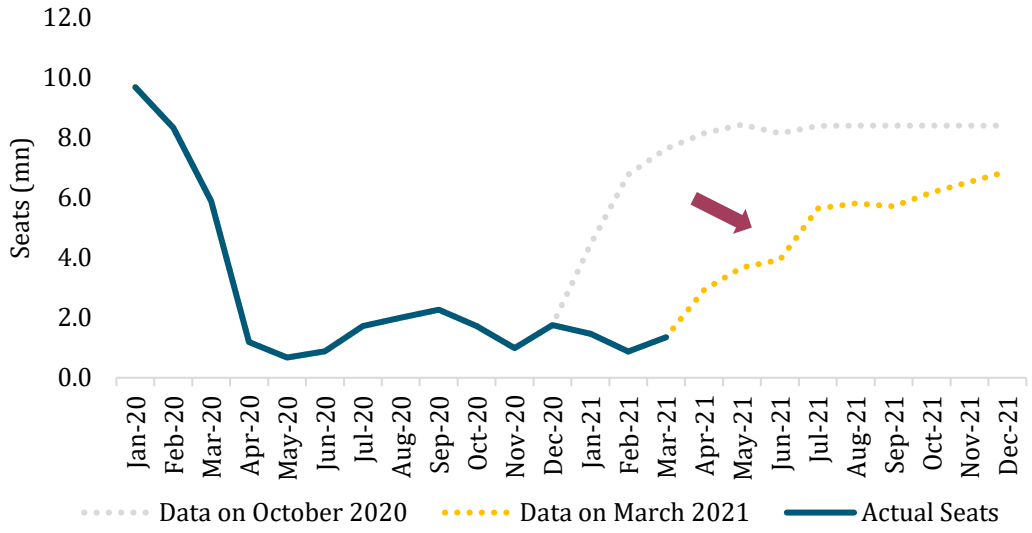
The low passenger traffic number in 1Q21 suggests that the total passenger traffic number in 2021 could be significantly lower than what was previously forecasted. With the reimplementation of the MCO, demand for air travel is expected to be low as travelling restrictions could still be in place throughout the year.

[2] The stringency of the MCO is as follows: Enhanced MCO ("EMCO"), MCO, CMCO, Recovery MCO ("RMCO"), with EMCO being the most stringent and RMCO being the least stringent. The EMCO is only implemented in targeted areas whereas other measures are implemented at state or nationwide level.

Lower Seat Capacity Deployed and Lower Load Factor Now Forecasted

MAVCOM's passenger traffic forecast is based on the estimation of the seat cancellation by airlines and an estimation of the average load factor for the year. During this period of high uncertainty, the situation remains fluid with airlines having to make quick and sudden changes to their seat capacity based on their expectations on changes in demand. Additionally, they have also significantly reduced their seat capacity compared to what they had originally planned for 2021 (see Figure 4).

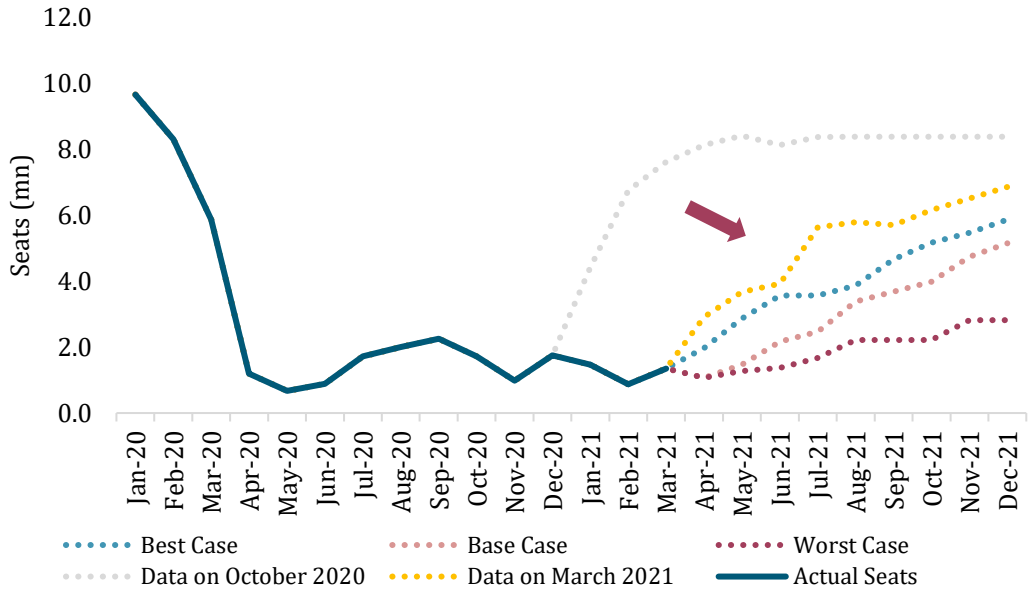
Figure 4: Malaysia's Monthly Seat Capacity Plan, 2020 – 2021



Source: AirportIS

Figure 4 shows the monthly seat capacity for 2021, as planned by airlines in October 2020 and March 2021, which had reduced drastically in the span of five months. **MAVCOM estimates a further reduction in seat capacity in the following months of 2021** as shown in Figure 5.

Figure 5: Malaysia's Monthly Seat Capacity Plan, 2020 – 2021



Source: MAVCOM, AirportIS

Downward Revision to the 2021 Passenger Traffic Forecast

In MAVCOM's previous forecast, the average annual load factor was assumed to range between 60.0% and 67.0%. This assumption was made before the resurgence in COVID-19 cases in Malaysia. During the latest MCO period, the domestic load factor averaged only 31.3% whilst the international load factor averaged at 22.3%. **As such, MAVCOM has made downward revision for the estimated load factors for all three scenarios.** Table 2 shows the assumptions underlying MAVCOM's 2021 revised forecast.

Table 2: 2021 Passenger Traffic Revised Forecast According to Scenarios

Scenario	Estimated seats (mn)	Load Factor Assumptions (%)		Passenger Traffic (mn)	YoY Growth
		Domestic	International		
Best	29.7	54.0 – 58.0	34.0 – 38.0	23.6 – 25.5	-4.5% to -11.6%
Base	25.9	50.0 – 54.0	30.0 – 34.0	18.9 – 20.6	-22.9% to -29.1%
Worst	20.9	46.0 – 50.0	26.0 – 30.0	15.2 – 16.6	-37.8% to -43.1%

Source: MAVCOM

For the base case scenario, the passenger traffic is estimated to contract between 22.9% YoY and 29.1% YoY, translating to 18.9mn – 20.6mn passengers. This revised forecast assumes an average annual load factor of between 50.0% and 54.0% for domestic flights and an average annual load factor of between 30.0% and 34.0% for international flights. This revised forecast also assumes a further 41.7% seat cancellations than originally scheduled by the airlines.

If the spread of COVID-19 is successfully contained and the domestic travel restrictions are lifted in 2Q21, MAVCOM's best case scenario forecasts a slight contraction of between 4.5% YoY and 11.6% YoY. This assumes a gradual recovery in the domestic markets starting 3Q21.

However, if the spread of COVID-19 is not contained and the travel restrictions prolong, MAVCOM's worst case scenario estimates that the passenger traffic in 2021 will contract by between 37.8% YoY and 43.1% YoY, translating to 15.2mn – 16.6mn passengers. This is based on lower load factors and a further 58.9% seat cancellations than originally scheduled by airlines.

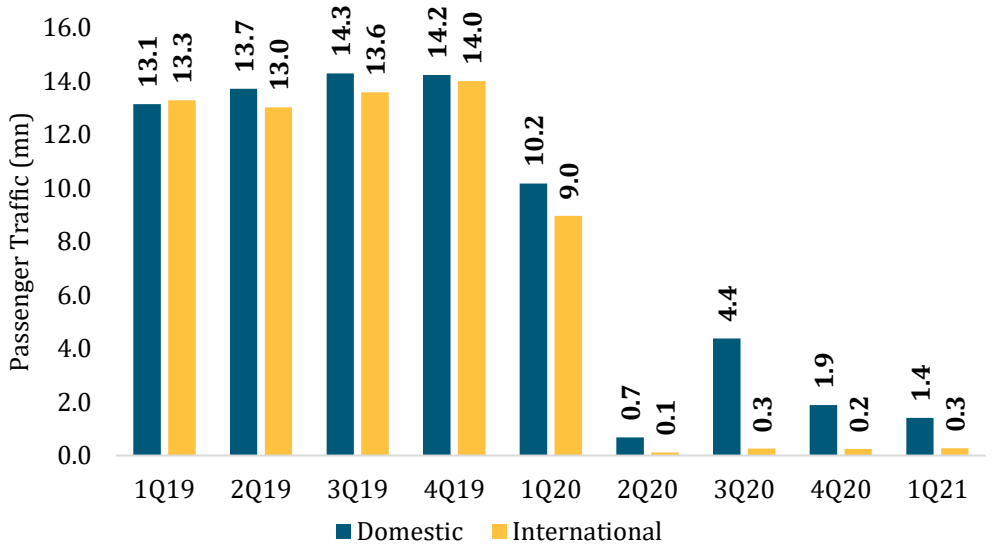
Passenger Traffic Recovery to be Driven by Domestic Passengers

Post-MCO implementation, Malaysia's passenger traffic was mainly contributed by the domestic market (see Figure 6). **The domestic market is expected to be the key driver for the recovery of the aviation industry should the travel bubble between the RMCO states remain.[3] However, these are still subject to the containment of the spread of COVID-19**.

[3] New Straits Times, Tourism Travel Allowed between RMCO States from Tomorrow, https://www.nst.com.my/news/nation/2021/03/672437/tourism-travel-allowed-between-rmco-states-tomorrow-updated (9 March 2021).

The Ministry of Tourism, Arts and Culture Malaysia, through Tourism Malaysia, had introduced the Tourism Recovery Plan in November 2020[4] to revive the domestic tourism industry. The plan focuses on strategic collaborations with local airline companies, other tourism-related agencies, including services, hospitality, transportation, and private companies, as well as collaborations with non-government organisations such as the Malaysian Association of Hotels and Malaysia Budget Hotel Association.

Figure 6: Breakdown of Malaysia's Passenger Traffic by Quarter, 2019 – 2021



Source: MAVCOM, AOL Holders

[4] Ministry of Tourism, Arts and Culture Malaysia, MOTAC Rolls Out Recovery Plan in Collaboration with Industry Players to Revive Malaysia's Tourism Sector, http://www.motac.gov.my/en/media/release/motac-rolls-out-recovery-plan-in-collaboration-with-industry-players-to-revive-malaysia-s-tourism-sector (23 November 2020).

UNCERTAINTIES REMAIN FOR PATH TO RECOVERY

Rate of Recovery Depends on the Vaccination Rollout Plan

The GOM had introduced the National COVID-19 Immunisation Programme[5] on 24 February 2021. The rollout is to be implemented in three phases. Phase I, which lasts until April 2021, involves 500,000 health and non-health frontliners. In Phase II, from April to August 2021, the high-risk groups, namely the senior citizens, vulnerable individuals with comorbidities, and disabled persons are given priority for vaccination. The rest of the adult population will be vaccinated in Phase III, which runs from May 2021 until February 2022.

In a pre-pandemic environment, air travellers were mostly healthy adult population. However, as highlighted above, they would be the last to be vaccinated, and so affecting the demographic of potential air travellers. Also, the vaccine rollout for this group in Malaysia, which spans from May 2021 to February 2022, is slower than those of other countries. For example, United Kingdom is vaccinating its healthy adult population from April to July 2021.[6] Indeed, by July 2021, almost 80.0% of its entire population would have been vaccinated. Already Indonesia and Singapore are vaccinating their healthy adult population in April 2021.

Public Disregarding Public Health Measures

As vaccination efforts intensify, people may start ignoring the public health guidance, and thus, causing a potential new wave of infections. Negligence in observing the government-imposed standard operating procedures ("SOPs") by the public is likely as even before the COVID-19 vaccine was introduced, they had breached the SOPs when the number of cases was down.[7] Unfortunately, another new wave of cases will only delay the industry recovery like it did last year.

Public Less Willing to Travel by Air

Apart from the risk of contracting COVID-19 when travelling, refunding issues that occurred during the pandemic period may affect the public willingness to travel by air. At the start of the pandemic last year, many flights were cancelled due to the sudden closures of both international and interstate borders. These flight cancellations, as well as the refunding issues that ensued, were sources of great inconvenience to passengers. In fact, the top three complaints (62.8%) from passengers received by MAVCOM in 2H20 were on the processing of refunds, flight cancellations, and flight rescheduling.[8] In view of these potential problems,

[5] Malaysia's National COVID-19 Immunisation Programme Booklet, https://www.vaksincovid.gov.my/pdf/National_COVID-19_Immunisation_Programme.pdf (18 February 2021).
[6] UK Department of Health and Social Care, https://www.gov.uk/government/publications/priority-groups-for-coronavirus-covid-19-vaccination-advice-from-the-jcvi-30-december-2020 (30 December 2020).
[7] New Straits Times, Health DG: Don't Ignore SOP, https://www.nst.com.my/news/nation/2020/09/623681/health-dg-dont-ignore-sop (11 September 2020).
[8] MAVCOM's Ninth Consumer Report, https://www.mavcom.my/wp-content/uploads/2021/03/Bi-annual-Consumer-Report-for-2H20-Final-v2-1.pdf (18 March 2021).

passengers may be reluctant to fly until either the pandemic is over, or a herd immunity is created.

Timeline for International Border Reopening is Still in Doubt

The reopening of Malaysia's international borders is subject to the approval by the National Security Council, as well as the latest situation of the COVID-19 pandemic in Malaysia and in other countries. **However, for borders to be reopened and international travel to commence once again, the verification of vaccination certificates as well as the implementation of quarantine SOPs must be accepted worldwide.**

Malaysia is looking at the implementation of a digital health pass, such as the International Air Transport Association (IATA) Travel Pass to facilitate post-pandemic travels.[9] The travel pass informs passengers on the tests, vaccines, and other measures they require prior to travel, details on where they can get tested, and gives them the ability to share their tests and vaccination results in a verifiable, safe, and privacy-protecting manner. Adopting the IATA Travel Pass would be a booster particularly for international passenger movements.

Furthermore, the implementation of air travel bubbles between green zone countries could increase the international passenger traffic.

CONCLUSION

MAVCOM's downward revision of its 2021 passenger traffic forecast highlights the difficulties in assessing the underlying challenges faced by the industry as uncertainties regarding the vaccine rollout timeline, implementation of (stricter/relaxed) public health measures, opening of international borders to air travel, and changes in demand for air travel, among others, remain. MAVCOM will continue to monitor and assess the development in the aviation services market for Malaysia and the government's latest efforts to address the COVID-19 pandemic.

[9] Business Traveller, Malaysia Airlines Debuts IATA Travel Pass, https://www.businesstraveller.com/business-travel/2021/02/26/malaysia-airlines-debuts-iata-travel-pass/ (26 February 2021).

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