

# Prolonged Credit Turbulence for Global Airlines

September 2021



Air travel is currently running at about 50% of its [pre-pandemic peak](#) and the JETS Global Airline equity ETF is about 20% down from its recent high in March 2021. The sector still faces uncertainty from new virus variants, a patchy recovery in tourist traffic and a possibly permanent shift in business travel norms.

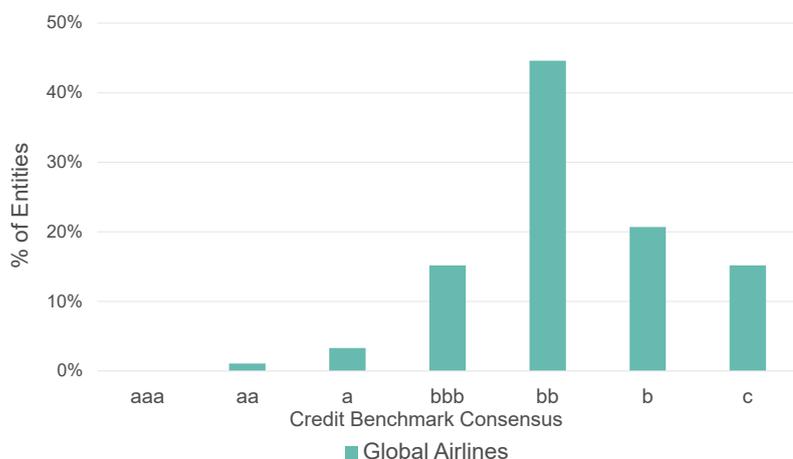
Airlines are now setting out their post-pandemic strategies – some are launching new low-cost carriers to compensate for the lack of business traffic; those with strong balance sheets are looking to acquire fleets and slots from weaker competitors.

Figure 1 shows the two-year trend and consensus credit distribution for more than 100 airlines and related businesses.

**Figure 1: Credit trends and distribution for Global Airlines and related companies**



Source: Credit Benchmark



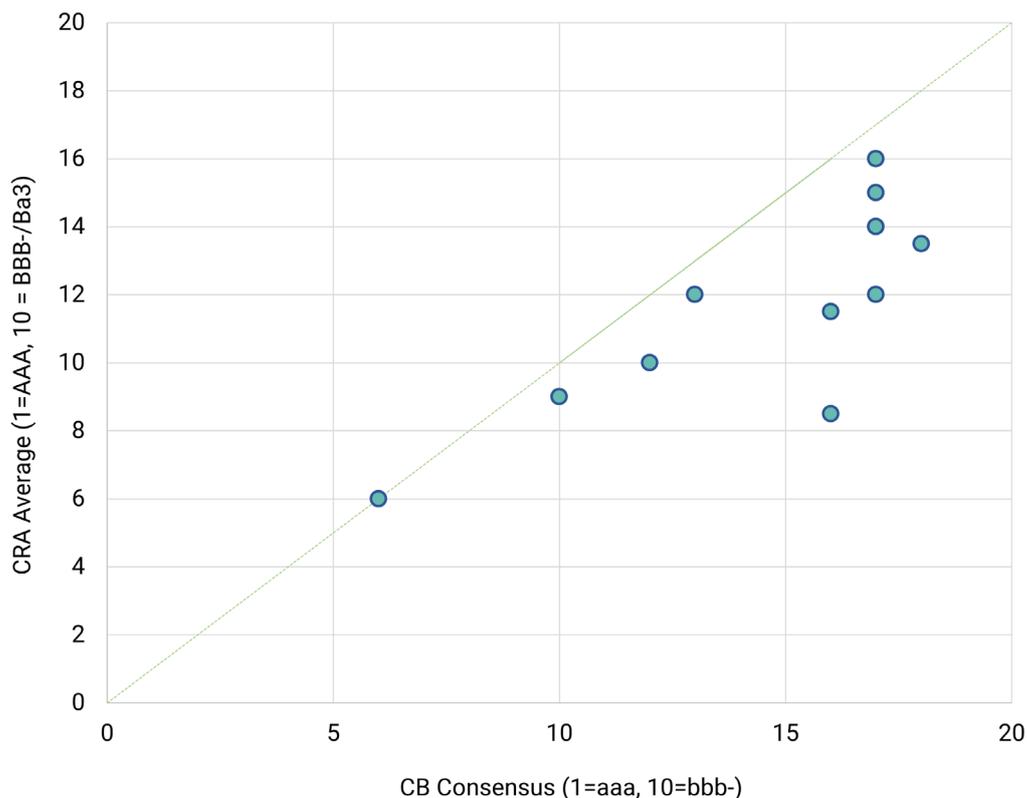
Source: Credit Benchmark

During the pandemic, global airline credit risk more than tripled from 48 Bps in February 2020 to 165 Bps in July 2021. This steady decline in credit quality shows tentative signs of stabilising, but 80% of the sector is now below investment grade. The **b** category represents 20% of all firms with 15% in the **c** category.

Most of the companies in this universe are unrated by traditional agencies. There are many agency ratings for individual bonds and notes, with a number of national carrier issues underwritten by their governments. But these guarantees only apply to note holders and bond investors – suppliers and trade creditors take credit risk directly with the issuer.

Figure 2 shows a comparison between agency ratings and consensus for 12 major airlines.

**Figure 2: Comparison between average CRA rating and consensus**



All the plotted points are on or to the right of the dotted 45° line, implying that agency ratings are more optimistic than the consensus; in some cases by a significant number of notches.

Traditional credit rating agencies have made some major adjustments during the pandemic – many of the airlines that they cover are now rated as non-investment grade. But there are a number of consensus estimates in the c categories compared with B or BB from the agencies.

In the airline sector, distressed credit ratings often lead to equity capital raising or a wave of mergers / takeovers. Many airlines have good asset backing in the form of planes and landing slots; they have also shown themselves to be adept at raising capital when the market conditions are favourable.

But there are also good credit risks. Airlines with explicit or implicit government backing, such as Temasek-owned Singapore Airlines, have strong investment grade ratings. Ryanair is in the enviable position of being investment grade despite having no government backing. Some of the non-investment grade firms include traditional airlines – such as British Airways – with high value routes and slots. Many airlines in this category are members of large conglomerates; the individual asset-rich operating members can be higher credit quality than the conglomerate holding company.

Figure 3 (overpage) shows some examples of the airline and related companies across 5 broad credit categories.

Figure 3: Selected airlines and related companies by broad credit category

Credit Category*	Examples (from coverage of c.100)
<b>Upper Investment Grade</b> <b>IG 1</b> <b>aaa to a</b>	ETIHAD AIRWAYS PJSC SCOOT TIGERAIR PTE LTD SINGAPORE AIRLINES LTD
<b>Lower Investment Grade</b> <b>IG2</b> <b>a- to bbb</b>	ANA HOLDINGS INC RYANAIR HOLDINGS PLC CNAC CENTURY HK CO LTD JATO AVIATION LTD VINCI AIRPORTS SAS
<b>Crossover</b> <b>X0</b> <b>bbb- to bb+</b>	AIR CHINA LTD EMIRATES AIRLINE CHINA EASTERN AIRLINES CORP LTD QANTAS AIRWAYS LTD VIRGIN AMERICA INC
<b>Upper High Yield</b> <b>HY1</b> <b>bb to bb-</b>	BRITISH AIRWAYS PLC CATHAY PACIFIC AIRWAYS LTD EASYJET PLC JET2 PLC VUELING AIRLINES SA
<b>Lower High Yield</b> <b>HY2</b> <b>b+ to c</b>	UNITED AIRLINES INC AMERICAN AIRLINES INC DELTA AIR LINES INC UNITED AIRLINES HOLDINGS INC SCANDINAVIAN AIRLINES SYSTEM SAS

\* More detailed credit estimates available on Bloomberg in 21 or 100 categories

The highest category has just three companies – Etihad, Scoot TigerAir, and Singapore Airlines. The lower investment grade group includes ANA and Ryanair. The crossover category covers companies in the **bbb-** and **bb+** notches and includes Emirates and Qantas. The upper high yield group includes British Airways, Easyjet and Jet2. Mainstream US carriers – United, American and Delta – are all in the lower high yield category.

The Credit Benchmark web app gives details of the consensus for the full list of unrated airlines and related companies – contact us for a trial. This data is also now available on Bloomberg.

#### About Credit Benchmark

Credit Benchmark brings together internal credit risk views from 40+ of the world's leading financial institutions. The contributions are anonymized, aggregated, and published in the form of entity-level consensus ratings and aggregate analytics to provide an independent, real-world perspective of risk. Consensus ratings are available for 60,000 financials, corporate, funds, and sovereign entities globally across emerging and developed markets, and 90% of the entities covered are otherwise unrated.

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