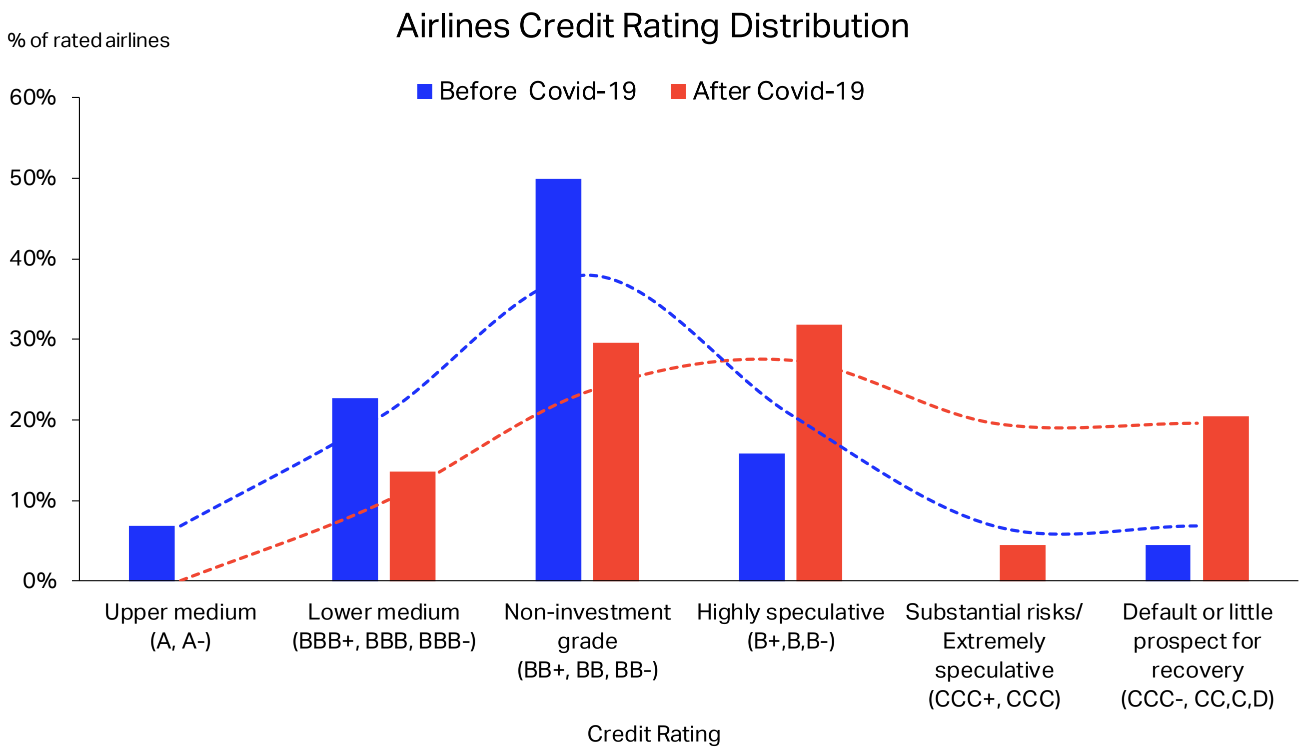
IATA Economics' Chart of the Week

21 August 2020

COVID-19 lowers airline credit ratings and raises the cost of debt



Source: IATA Economics using data from Thomson Reuters Datastream

- In this week's chart, we look at the credit rating changes (using S&P and Egan-Jones data) in a sample of more than 40 of the world's major airlines before and after the global outbreak of COVID-19. The airline industry is one of the sectors most significantly affected by the pandemic due to its exposure to border closures and travel restrictions. This impact has, in turn, raised concerns about the credit quality of the sector and has resulted in a number of rating downgrades, across all regions.
- Prior to the crisis, 80% of the airlines in our sample had a rating which exceeded the 'highly speculative' grade (B+) and the median airline had a rating in the range of BB+ to BB-. Even though the industry responded quickly to the crisis by taking significant cost cutting measures to preserve cash, the sharp decline in travel demand resulted in considerable cash burn and a deterioration in the financial outlook. Since the outbreak, the median airline rating has shifted to the 'highly speculative' category, reversing the improvement in ratings seen in the past decade. In addition, more airlines have been re-classified into the lowest ratings categories, pointing to substantial investor risk or even potential default.
- Airlines have utilized various sources of liquidity including government support, accessing credit lines, and bond issuance. This raised a total of $204 bn of new debt, with $41 bn (almost 10% of the total airline debt stock in 2019) of this coming from capital markets. While the availability of capital market financing is positive, reflecting some confidence in the industry, the credit downgrades have raised the cost of borrowing in an era of low treasury yields. As a consequence, airlines will exit the worst of the crisis not only with higher levels of debt but also with a higher cost of debt.

IATA Economics
economics@iata.org