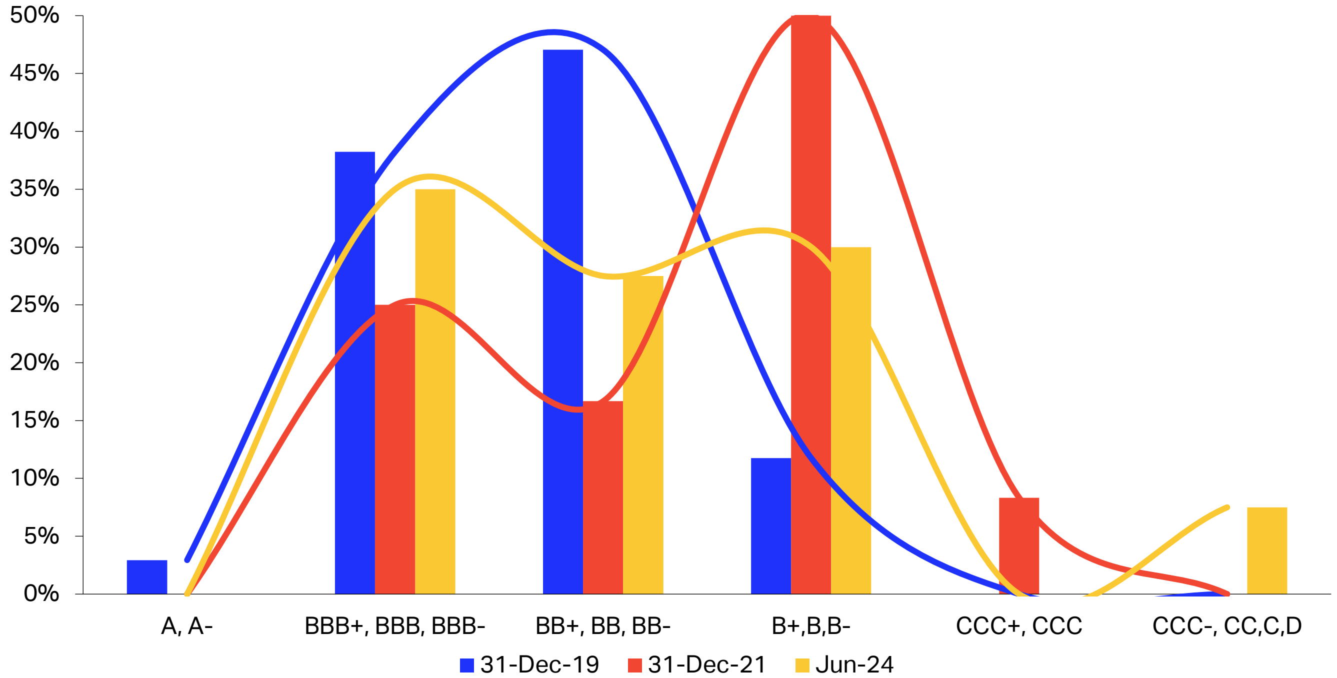
Chart of the Week

16 August 2024

Credit ratings improve but are still below 2019 levels

Airlines' credit rating evolution, rating distribution, % of the total number of rated airlines



Source: IATA Sustainability and Economics, Refinitiv. NB: Credit ratings go from AAA to D with AAA to BBB being considered "investment grade", implying lower risk, and BB to D are not investment grade and therefore associated with higher risk.

- The airline industry has recovered gradually in terms of credit ratings since the financial turbulence experienced during the covid pandemic. An analysis of long-term default ratings by leading rating agencies such as S&P, Moody's, and Fitch shows that across a sample of around 40 monitored airlines the share of investment-grade rated airlines (A to BBB-) increased from 25% at the end of 2021 to 35% in June 2024. This salutary evolution, however, falls short of the 41% observed at the end of 2019. At the lower end of the credit rating scale, the number of airlines rated highly speculative (CCC- to D) has fallen compared to 2021. That good news is also tempered by the fact that there are currently still more airlines with this low credit rating than in 2019.
- As airlines were forced to take on more debt during the pandemic, their credit ratings were downgraded, which in turn brought about higher borrowing costs for the downgraded airlines. This challenging scenario was aggravated by the increase in interest rates since 2022. Now, not only are credit ratings improving, but the industry's financial health is also on the mend. Moreover, preliminary financial assessments for this year suggest a decrease in nominal debt levels to slightly above those in 2019, with an estimated adjusted net debt/EBITDAR ratio of 3.8x, marginally better than the 2017-2019 average of 4x. The reduced nominal debt level will still leave airlines with an elevated debt-service cost, because of the significantly higher interest rates. Nevertheless, these gradual credit rating upgrades testify to the industry's growing financial strength.

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