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# Fitch Rtgs: Improving Metrics Support Path to Airport, Airline Rating Stabilization

Fitch Ratings-New York/Chicago/Austin-21 April 2021: A number of key rating considerations for airport and airline credits are improving, providing a steadier operating environment and basis for potential rating stabilization, Fitch Ratings says. Fitch is monitoring a number of conditions that could contribute to ratings stability and warrant a return to Stable Outlook for most US airport and airline credits. Currently, airports are better positioned for stable rating positioning by year-end compared with airlines, due to their more limited financial exposures incurred since the start of the pandemic.

All US airports were placed on either Rating Watch Negative or Negative Outlook, and two were downgraded in spring 2020, reflecting the unprecedented steep loss in traffic that severely affected operations. Airline downgrades in 2020 were accompanied by Negative Outlooks. Two airline Outlooks were recently revised to Stable, although these were accompanied by single-notch downgrades. Most airport and airline ratings retain Negative Outlooks, reflecting depressed traffic levels and uncertainty around recovery timing.

The most salient factor that would drive ratings stabilization is increasing evidence of a sustainable recovery in air travel continuing or improving at the current pace. For airport credits in particular, we would look for reported traffic levels performing to our current rating case recovery forecasts, with enplaned traffic levels exceeding 50% of pre-crisis levels, and continuing to rise in the coming months. Containing coronavirus variants and lifting travel restrictions would provide more visibility to airports and airlines, allowing for improved operations planning and capital management.

Airports that can fully apply the sound recovery frameworks of their respective airline agreements, coupled with improving revenue generation derived from non-aeronautical sources, are better placed for a return to financial and cost metrics in line with pre-crisis expectations. Fitch will assess whether airline and tenant performance under contracts is stable or improving, particularly when existing payment waiver or deferral periods expire. As traffic levels move closer to normalized levels, assisted by prudent use of federal aid, airports should be in position to charge airlines and tenants according to their respective agreements, after the existing accommodations to waive/ defer charges and payments end.

Absent any new setbacks to aviation, Fitch anticipates that airport key credit metrics can be progressively restored to pre-pandemic forecast levels within the next four years. In most circumstances, cash reserves have been maintained at near historical averages and are likely to further improve as the recovery progresses. Ample federal support to airports as part of the three major federal stimulus bills provided substantial cashflow and liquidity and reduced the need to support finances through borrowing or equity.

Federal aid also helped sustain liquidity for some airlines, but some airlines are not expected to achieve credit metrics that support higher ratings until 2023 or later. Airlines will need to focus on cost control and expense reduction to enable a return to pre-pandemic margin levels. Fitch will look for increased financial flexibility, with a return to or sustained positive cash flow, as evidence of improvement in airport credit profiles. Airlines have increased leverage during the pandemic and some are heavily indebted; decreasing leverage will be necessary for ratings stabilization. This is more challenging for airlines with high capital spending needs, particularly airlines with older fleets.

Airlines with predominantly domestic routes and reliance on leisure travel are better positioned to recover, while those with material exposure to business and international travel will lag. Passenger traffic remains more than 40% below 2019 levels, but we expect it to return to 70%-75% of pre-pandemic levels by YE 2021, driven by increased traveller confidence and pent up demand. Fitch assumes that enplanements will return to 100% of 2019 levels by 2024.

Contact:

Seth Lehman
Senior Director, Infrastructure and Project Finance
+1 212 908-0755
Fitch Ratings, Inc.
Hearst Tower
300 W. 57th Street
New York, NY 10019

Joseph Rohlena
Senior Director, Corporates
+1 312 368-3112

Fitch Ratings
One North Wacker
Chicago, IL 60606

Jeffrey Lack
Director, Infrastructure and Project Finance
+1 312 368-3171

Sarah Repucci
Senior Director, Fitch Wire
+1 212 908-0726

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

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