S&P Global Ratings

Transportation

On the right course with potential for rough seas

This report does not constitute a rating action.

Rachel Gerrish
London
rachel.gerrish@
spglobal.com
+44 207 176 6680

What's changed?

Robust demand for air passenger travel continues. Airlines benefit from elevated ticket prices, supported by constrained aircraft supply. Pre-bookings point to a good summer for European air travel. However, wage inflation persists across the aviation network and fuel costs remain high. Catch-up on capital expenditure and investments in new, more fuel-efficient aircraft will weigh on cash flows, despite potential delivery delays. The rated European airlines portfolio has recovered remarkably after the COVID-19 pandemic. However, higher debt levels are keeping ratings on average one notch lower than in February 2020.

Freight rates have improved compared with late 2023. Almost all container ships are rerouting away from the Red Sea and around the Cape of Good Hope, following Yemen-based Houthi rebels attacking ships in the region. Interruption to the shipping network, longer journey times, the recent rise in global trade volumes, and port congestion (notably in Asia and the Middle East) support freight rates. Uncertainty prevails, but the ongoing disruption could cushion the impact from new tonnage deliveries into the fourth quarter of 2024.

Credit conditions are easing. Inflation is receding and interest rates are falling. However, financing costs remain high, particularly for lower-rated issuers.

What to look out for?

Any softening in air fares. We assume flat to slightly higher air passenger ticket prices in our base-case forecasts for 2024 for most European airlines. Travel demand has so far appeared largely resilient to macroeconomic headwinds. However, increased capacity in the sector, due to the delivery of additional aircraft over the next few years, could pressure the current supply-and-demand dynamics.

Red Sea disruption easing. It is unclear when ships will safely navigate the Suez Canal again. However, once disruption eases, we think a widening supply/demand imbalance will decrease freight rates in the container shipping industry. We forecast that decent demand growth will compete with faster ship supply growth in the next few years because substantial deliveries of new ships--particularly ultralarge container ships--will come online. We expect the Asia-Europe and Asia-U.S. lanes, where mega-container ships tend to operate, will be hit hardest.

Environmental regulations will increase costs. Particularly as costs rise in relation to the EU's Emissions Trading System in the airline and shipping sectors.

What are the key risks around the baseline?

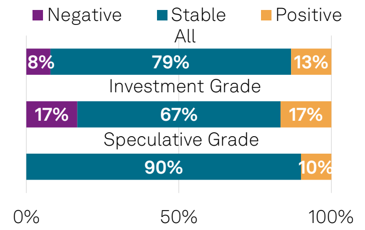
Prolonged period of weak economic growth. This could weigh on consumer spending as household savings are eroded.

Geopolitical and political risks. Jet fuel prices will remain unpredictable, but if the two regional wars in Europe and the Middle East escalate further they could become even more volatile. Demand for travel could also decrease.

A rebound in inflation. Although inflation is receding, labor and fuel costs remain high.

Rating Trends

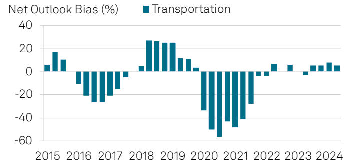
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	18	20	38
Downgrades	0	0	0
Upgrades	1	3	4

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.5	2.1
EBITDA growth (Y/Y%)	-0.3	3.5
EBITDA margin (%)	18.2	24.2
Capex growth (Y/Y%)	13.5	12.0
Debt/EBITDA (x)	2.0	3.9
FFO/Debt (%)	40.4	17.6
FOCF/Debt (%)	9.8	8.6

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Global Airlines Outlook: Clear Skies, For Now, April 30, 2024

E-fuels: A Challenging Journey To A Low-Carbon Future, March 25, 2024

CreditWeek: How Will The Red Light In The Red Sea Affect Supply Chains And Inflation?, Jan. 18, 2024