AVIATION FINANCE AND COVID-19: HARD TIME FOR AIR TRANSPORT

News / Airlines, Finance

The Covid-19 pandemic and disease-containment measures by governments, most drastically the US ban on flights from most of Europe, will shake up the aviation finance sector as airlines struggle to conserve cash amid a collapse in international traffic. Scope Ratings says the rising risk of airlines defaulting on their debt payments – see Airlines: coronavirus outbreak accelerates industry consolidation; conserving cash key to survival (5 March) - will lead to a steep decline in aircraft values across the board.

“Investors need to brace themselves for a direct hit on aircraft values which will increase the credit risk of aircraft-financing transactions. Investors exposed to some highly leveraged transactions are likely to see a loss” says Helene Spro, aviation finance analyst at Scope. One caveat concerns the degree to which governments, particularly in Europe, will be willing to provide financial support for airlines – notably national carriers - to ensure their survival through the crisis.

Aircraft-leasing companies also face challenging times, sure to find it harder to efficiently remarket their fleets. The largest lessors, which have diverse customer bases and the cash resources to cushion their finances from a prolonged grounding of aircraft, will have some measure of

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protection from the market turbulence. Small lessors which do not have in-house, technical asset management capacity will be hit the hardest.

“The sector at large will find it hard to escape the consequences of a rapid slowdown in global economic growth and recessions in some major economies,” says Spro.

Aircraft makers Boeing Co. and Airbus Group also face repercussions from the pandemic. For Boeing, the timing of return of the B737MAX jetliner to commercial service may be one casualty if regulators turn their attention to pandemic-related travel issues rather than focus on the recertification of the aircraft. If the crisis results in many airlines defaulting, the B737MAX might be recertified amid a glut of aircraft on the market - at least for a short period.

Airbus and Boeing face the additional headache that long-haul travel is proving particularly vulnerable to the efforts to contain the virus. “This could mean a quicker end to the service life of A380 superjumbos than previously expected,” says Spro.

The decision by US President Donald Trump to ban flights from Friday from much of Europe, including the Nordic region which is home to specialist long-haul airlines such as Norwegian Air Shuttle and Finnair, will lead to the grounding of even more widebody aircraft.

“We expect older widebody aircraft such as the A330-300, B777-200 and B777-300 will see a significant decline in value, with potentially the retirement of some older models, whereas latest designs B787 and the A350 are likely to fare better even if their valuations will decline too,” says Spro.

The pandemic might also lead to regulatory changes to improve health safety on airlines, leading to design changes for aircraft coming to market in the future. “New improved aircraft models typically result in increased depreciation of earlier models, though this is only something we will be able to judge fully after Covid-19 is deemed to be under control,” says Spro.

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