DELTA’S FINANCIALS HAVE IMPROVED SO MUCH ITS DEBT RATING IS NO LONGER JUNK

News / Airlines, Finance

Delta Air Lines Inc. achieved its longstanding goal of regaining investment-grade credit, following through on a priority of retiring Chief Executive Officer Richard Anderson.

Moody’s Investors Service raised the airline’s senior unsecured debt rating to Baa3, the lowest investment-quality level and higher than the junk grades of rival carriers American Airlines Group Inc. and United Continental Holdings Inc. Discounter Southwest Airlines Co. is already investment grade.

The upgrade Thursday should lower Delta’s borrowing costs and enhance its ability to sell debt that isn’t backed by aircraft or other collateral, said Moody’s analyst Jonathan Root. The accomplishment gives a boost to Anderson, who will retire in May and repeatedly has talked of wanting to change investors’ poor perception of airlines.

“It’s been a long time coming,” said Vicki Bryan, senior bond analyst at Gimme Credit. “Delta’s had the credit quality in my view that was more than ample to meet investment grade.”

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The upgrade validated Delta's performance and financial strategy, the Atlanta-based airline said in a statement. Shares rose 0.3 percent to $42.83 at 11:52 a.m. in New York.

Lower Debt

In upgrading Delta, Moody's cited the carrier's efforts to reduce liabilities. The airline had about $6.8 billion in long- term debt and capital leases as of Dec. 31, according to its most recent annual report, down from more than $13 billion in 2010. The carrier hasn't had an investment-grade rating since well before it entered bankruptcy in 2005.

"Airlines that have not reduced their debt burden as Delta has, are unlikely to sustain the currently strong credit metrics without the benefit of low fuel prices, especially in an environment likely to have fare as well as labor cost pressures," Moody's said in a statement.

Airlines historically haven't sought investment-grade ratings as aggressively as companies in other industries, according to Savanthi Syth, an analyst at Raymond James Financial. That's because their aircraft typically serve as collateral for debt and creditors figured they could go after the jetliners in a default, Syth said.

"It's a good signal from a legacy carrier," she said.

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