

QANTAS RETURNS TO INVESTMENT GRADE CREDIT RATING

News / Airlines



Qantas has received a welcome 95th birthday gift in the form of a **return to an investment grade credit rating** that chief executive Alan Joyce describes as a “welcome endorsement” of the hard work from everyone at the airline in recent times.

Ratings agency Standard & Poor’s on Tuesday upgraded its long-term corporate credit and issue ratings on Qantas to ‘BBB-’ from ‘BB+’, ending a near-two-year period when the airline was ranked as below investment grade.

“Underpinning the corporate credit rating on Qantas is its dominant position in Australia’s duopoly-like domestic aviation market where the airline’s dual brands comprise about 63 per cent of domestic capacity,” S&P analysts Graeme Ferguson and Paul Draffin said in a research note dated November 17.

“The group’s strong balance sheet, conservative approach to capital management, dominant domestic market position, and a more benign domestic competitive environment, will underpin credit quality at the ‘BBB-’ level.

“The rating incorporates our expectation that Qantas will realise an enduring benefit from previously announced restructuring initiatives while limiting pressure on its balance sheet.”

S&P said it upgraded Qantas's credit rating after the airline told an investor conference in Sydney on Tuesday it would maintain "a ratio of funds from operations to debt of more than 45 per cent throughout the cycle".

"We view this framework to be materially more prudent and creditor-friendly than previously announced policies," S&P said.

"Qantas's revised financial framework is more formal, forward-looking and preemptive. It places greater emphasis on acting preemptively to protect the balance sheet when the airline anticipates periods of financial stress."

S&P's decision means Qantas joins six other global carriers with investment grade credit ratings – Air New Zealand, Alaska Airlines, Lufthansa, Ryanair, Southwest and WestJet.

Qantas lost its investment grade credit rating in December 2013, in a year where the company also handed down a \$2.853 billion statutory loss after writing down the carrying value of its fleet. Since then the airline has embarked on a series of measures – closing unprofitable routes, retiring older aircraft, reducing its workforce and lowering its cost base – to return to profitability and improve its financial metrics.

The turnaround resulted in a return to profitability in 2014/15, with Qantas posting a full year statutory net profit of \$557 million and delivering a \$505 million capital return to shareholders.

Joyce said Qantas was in a good position to reinvest in the business while considering the return of surplus capital to shareholders.

"Our focus has been getting the business to an optimal capital position and to keep it there throughout the cycle. Our approach to fuel hedging, to increasing revenue through better aircraft utilisation and to cutting overheads has all been part of this," Joyce said in a statement.

"This decision by S&P recognises that our strategy is delivering."

Qantas shares were up about four per cent at \$3.70 in afternoon trade on Tuesday, compared with a one per cent rise in the overall market. Virgin Australia was up about 1.6 per cent at 43.7 cents.

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