KROLL BOND RATING AGENCY RELEASES ITS FIRST SECTOR OUTLOOK ON AIRLINES

News / Finance

Kroll Bond Rating Agency (KBRA) releases its first sector outlook on airlines. The overview of the airline sector is KBRA's view on key themes for the airline industry in 2016. While much of the focus is on the U.S. aviation market as the largest in the world, this comment provides a general view of non-U.S. airlines as well.

KBRA rates a number of airlines (to date, on an unpublished basis) to support ratings on Enhanced Equipment Trust Certificates and other secured-aircraft transactions either directly issued by airlines or for lease-backed transactions with airlines as lessees.

U.S. airlines have continued to enjoy the windfall from the large decrease in fuel costs since mid-2014 and have reported healthy margins throughout 2015. Most U.S. airlines have reaped the benefits of higher margins by strengthening their balance sheets, limiting their ex-fuel costs increases, and becoming increasingly more adept at pricing and capacity discipline while

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continuing to develop ideas for generating ancillary revenues.

KBRA believes that overall credit metrics for many U.S. airlines are steadily improving. Though cyclicality, vulnerability to fuel prices, and competition remain key challenges for the sector, KBRA's view is that most U.S. airlines and some non-U.S. names are managing these challenges well, as illustrated by the trend and quality of their operating margins and cash flow.

Overall, the significant reduction in debt and legacy liabilities over the past several years have been long-term credit positives that will enhance the airlines' ability to better withstand shocks and cyclical downturns. However, recent positive results for the airlines aside, KBRA notes continued headwinds related to competitive pricing and capacity management, higher ex-fuel costs, and lower margins in select regions from currency weakness against the dollar, as well as lower economic activity in some regions. Terrorist attacks on key travel destinations or aircraft are also areas of concern for the year ahead and one that could change the dynamics of passenger travel and airline earnings as well.

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