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Fitch Rtgs: Coronavirus Places Limited Pressure on Airport Revenues

Fitch Ratings-New York-31 January 2020: Most US, EMEA and LATAM airports are able to absorb the effects of air traffic interruptions due to the Wuhan coronavirus, says Fitch Ratings, although a prolonged suspension of Chinese air travel will depress passenger volumes and may pressure airport revenues. While Fitch believes airports are well positioned to handle such event risks, the situation is rapidly evolving, as a growing number of countries with exposure to this latest outbreak are causing additional flight cancellations and border closures. The duration of the health crisis and associated travel restrictions will determine if the virus will have longer-lasting effects on business and leisure air traffic.

Travel bans will primarily affect large hub and international gateway airports but these airports should be able to absorb a short-lived reduction in air traffic as they have strong cash reserves and can adjust rates to recover costs. As more companies suspend Chinese operations and airlines cancel and reduce flights, air traffic reductions may take longer to recover to pre-epidemic levels. A stall in overall traffic growth or a sustained dip in volumes could pressure airports to take defensive actions to protect their cash flows or reserves.

Flight cancellations by carriers, due to reduced passenger demand because of government imposed travel restrictions or negative travel sentiment, will slow traffic growth. However, the effects on costs and operations of most airports are expected to be minimal because of the stronger financial profiles of international airports, as air traffic is generally geographically diversified at these airports.US airports with non-stop service to China, namely San Francisco, Los Angeles, Seattle, Chicago O'Hare, and JFK, currently do not have a high dependence on this market segment, typically less than 10%, and China is not a major market pair for any US airport. A prolonged service interruption could certainly constrain growth compared with expectations and some airport revenue streams could face pressure such as terminal concessions.

Currently we expect the effect on European airport traffic to be temporary and limited due to low exposure to Asia. Direct flights to China constitute a small share of EMEA airport traffic, ranging from 0.2% to around 6.0%. The APAC region in general represents from 1.5% to 14.0% of total traffic. Some airlines such as British Airways and Lufthansa have suspended all flights to and from China, whereas others such as Hainan Airlines and Air France-KLM plan to cut the frequency of flights.

As a developing market, China's air traffic has grown faster than most markets, although growth slowed slightly in 2019 due to trade tensions with the US. Given the number of Chinese travellers increased dramatically since the SARS outbreak in 2003, the effect of travel bans and flight suspensions on air traffic to and from the country will have a greater effect than past outbreaks. Nevertheless, based on past event risks, including viral outbreaks, air travel should rebound, but at this point the timing remains uncertain.

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