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Fitch: Most U.S. Airports Resilient So Far Amid Coronavirus Fallout

Fitch Ratings-New York-17 June 2020: Most U.S. airports are expected to have the financial capability of withstanding large passenger traffic declines likely to persist at least for the remainder of 2020, according to stress tests conducted by Fitch Ratings of its entire portfolio of rated U.S. airports. The results are detailed in a series of reports published today.

A key question that will dictate performance of all rated airports over time, however, will be "How long will these seismic declines in passenger traffic and subsequent revenue declines last?" While most Fitch-rated airports have safeguards in place that will protect them by and large from coronavirus-fueled losses, each subset has pockets of concern.

Fitch's rating case contemplates enplanement declines of approximately 50% in calendar year 2020 (relative to 2019), with a recovery of 85% in 2021, 95% in 2022, and 100% in 2023 (relative to 2019). Fitch also modelled two more severe coronavirus downside cases to reflect an additional quarter period of severe traffic declines as well as prolong timeframe to recover back to 2019 levels.

LARGE AIRPORTS AND CONCENTRATED HUBS

Fitch revised the Rating Outlook for the vast majority of its rated large airports to Negative due to the virtual stoppage of air traffic brought on by the pandemic. Key credit metrics of Fitch-rated large airports would remain largely stable over the medium term against the numerous stresses Fitch applied. That said, "Large airports that serve as fortress hubs for a single carrier may have greater vulnerabilities with regards to recovering its connecting segment of passengers when compared to O&D traffic," said Director Jeffrey Lack. Among the large airports with elevated risk include Charlotte, Chicago-Midway and Dallas-Love Field. Another notable anomaly is New York's LaGuardia Airport, which saw passenger volumes decline substantially from coronavirus-related service reductions despite serving one of the strongest markets in the U.S. This led Fitch to place LaGuardia's central terminal development bonds on Rating Watch Negative.

REGIONAL AIRPORTS

The same level of resiliency applies to most of Fitch's rated regional airports. "Airline revenues for regional airports tend to be better protected against volume declines as they are closely tied to cost recovery mechanisms under lease agreements," said Jeffrey Lack. However, some regional airports, particularly those with a more limited underlying traffic base, would be susceptible to downgrades under Fitch's more severe stress scenario. This includes airports in Buffalo, Burlington, Dayton, Fresno and Harrisburg, all of which Fitch placed on Rating Watch Negative as a result of the coronavirus fallout.

INTERNATIONAL GATEWAY AND PRIMARY HUB AIRPORTS

The international gateway airports included in Fitch's review typically benefit from a high degree of franchise strength with many serving as primary destinations for foreign-flag carriers with direct service into major U.S. markets and can also serve as a "primary hub" for the respective airlines. They also however, tend to operate with more leverage. Further, single terminal projects tend to have relatively low liquidity cushions relative to entire airport facilities. A notable example is New York's JFK Airport. Fitch downgraded its Terminal One and Terminal Four project bonds. "Both terminals have more limited revenue pledges to support costs depending on carrier payments and terminal concessions," said Lack.

SPECIAL REVENUE BONDS

Performance of the airport consolidated car rental (CONRAC) and parking system projects, fuel facilities, and passenger facility charge (PFC) backed bonds issued by medium- and large-hub airports have been more of mixed bag. Reason being is these projects are exposed to volume risk, and to some extent, counterparty performance. Notable cases are Baltimore's (BWI) passenger facility charge bonds, which diluted its financial profile with additional debt last year only to have the effects compounded by coronavirus volume losses. As a result, Fitch downgraded BWI bonds. The same type of pressure holds true for Philadelphia Parking, which Fitch placed on Rating Watch Negative as the precipitous shock to demand coupled with limited balance sheet liquidity could create a need to tap into the debt service reserve fund and creates uncertainty around future borrowing plans.

The following reports are all available at 'www.fitchratings.com'.

–'Coronavirus Stress Test: U.S. Regional Airports';
–'Coronavirus Stress Test: U.S. Large Airports and Concentrated Hubs';
–'Coronavirus Stress Test: U.S. International Gateway and Primary Hub Airports';
–'Coronavirus Stress Test: U.S. Airports – Special Revenue Bonds'.

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