Industry Top Trends Update

Transportation

Airlines see slow traffic recovery, while shipping thrives

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What's changed?

European air travel is coming back, but sluggishly. Domestic and short-haul leisure travel will provide support, but a full recovery depends on long-haul and corporate traffic, which will take time to return. Stronger airlines tapped capital markets for fresh liquidity, while additional government support has poured in for vulnerable carriers. Much of it needs to be repaid though, resulting in more leveraged balance sheets and a longer path to recovery.

The global container shipping industry is flourishing. A strong pickup in e-commerce, consumer spending shifting to tangible goods from services, congestion in major maritime ports, and disruption of logistical supply chains is tying up containership capacity. Freight rates are reaching record highs as a result. We've taken numerous positive rating actions on container shipping companies we rate, and more are likely to follow.

Dry bulk trade rebounded quickly, and COVID-19-related disruptions lend support to shipping charter rates. New vessel deliveries will diminish, underpinned by the current all-time-low order book and marginal new ship ordering in the year to date. Simultaneously, China's imports of dry bulk commodities remain healthy.

How is recovery taking shape?

A meaningful rebound in air travel is delayed to after the lucrative summer season. Local travel restrictions amid new virus strains and uneven national vaccination rates have hampered air travel. European borders are gradually opening to vaccinated travelers, but the pace varies by country. Low-cost airlines and leisure carriers will be the first to recover, while the legacy carriers will take longer because they rely more on intercontinental and corporate traffic, which lags.

We see upside to container liners' 2021 earnings. Notwithstanding the recent spike in new ship orders, containership supply growth is unlikely to surpass firm demand growth in the coming quarters, propping up freight rates, which we forecast will gradually moderate from current record-highs from late 2021 at the earliest, as the pandemic's impact on container shipping eases.

Dry bulk shipping displays solid fundamentals, while oil shipping lags. The Chinese government's stimulus measures to prop up the country's economy amid the pandemic translate to a need for dry bulk commodities, such as iron ore. Meanwhile, global demand for minor bulk and grains is solidifying, and new ship supply growth is tightening. We expect 2021 tanker charter rates will lag 2020 levels, but remain profitable.

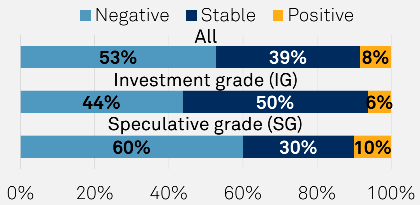
What are the key risks around the baseline?

Vaccine hesitancy and refusal disrupting a fragile recovery in air travel. A meaningful return to flying hinges on vaccination reaching critical mass and existing vaccines preventing serious illness and hospitalization. If unemployment continues to rise, consumers' willingness to travel will drop.

Elevated fuel prices persisting longer than we currently expect. This could disrupt the path to recovery for airlines and strong trading momentum for container liners as well as trim their profitability unless the cost inflation is successfully passed through to customers. Dry bulk ship and tanker operators are less exposed.

A surge in new builds threatening capacity utilization. Given the shipping sector's historically poor supply discipline, there is a risk that the ordering of new vessels intensifies, destabilizing improving supply-demand conditions in the medium term.

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	16	22	38
Downgrades	0	2	2
Upgrades	2	5	7

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Transportation - Airlines	
Estimated recovery to 2019 credit metrics	>2024
Potential negative long-term industry disruption	Yes

2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
>50%	>60%	>25%

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
>50%	>50%

Transportation - Shipping	
Estimated recovery to 2019 credit metrics	No decline
Potential negative long-term industry disruption	--

2020 Estimates Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
No decline	No decline	No increase

2021 Estimates Versus 2019	
Revenue decline	EBITDA decline
>2019	>2019