S&P Global Ratings

Aerospace and Defense

Demand soars while supply chain drags

This report does not constitute a rating action.

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What's changed?

Airbus has revised its 2024 guidance but its credit quality remains solid. Despite lowering its guidance on aircraft deliveries and EBIT for 2024, we expect Airbus to maintain healthy cash flows and a comfortable net cash position, leaving solid ratings headroom.

Defense players showcase their platforms and services. Governments are raising their defense budgets and modernizing their militaries in light of the continuation of the Russia-Ukraine and Israel-Hamas wars. S&P Global Ratings-rated defense issuers evidence a clear competitive advantage on many products and services, which improves profitability.

We assigned our public 'BBB+' long-term issuer credit rating on Saab AB, a Sweden-based defense company. This followed shortly after Sweden became a full member of NATO. We consider SAAB to be well placed to benefit from rising defense expenditure in Sweden and by its NATO allies.

What to look out for?

Elections. In 2024 there are elections in more than 60 countries around the world (including the EU). Changing governments could result in a change in defense policy, potentially affecting budget levels and reprioritizing which defense platforms and projects budgets are allocated to.

Escalation or spillover of existing conflicts. Escalation of the Russia-Ukraine or Israel-Hamas wars into their wider respective regions could cause higher demand for certain aerospace and defense products such as munitions, radar, or air defense systems. This would come at a time when stockpiles of some products are exhausted, and production stretched.

The balance between Airbus and Boeing is unlikely to radically shift. While Boeing grapples with well documented quality control challenges and regulatory oversight, Airbus cannot fully capitalize and increase its market share due to supply chain constraints.

What are the key risks around the baseline?

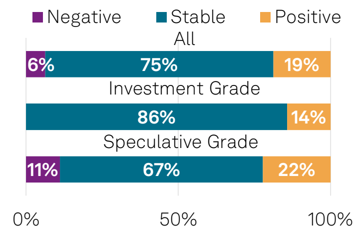
Supply chain. The well documented challenges in the civil aerospace sector are likely to persist but defense supply chains should hold up better.

Financial policy. Any aggressive merger and acquisition activity or share buybacks could weigh on credit metrics.

Quality control. Boeing's challenges mean that many aerospace and defense management teams have focused intently on maintaining or improving quality control, as failure to do so could have significant financial consequences.

Rating Trends

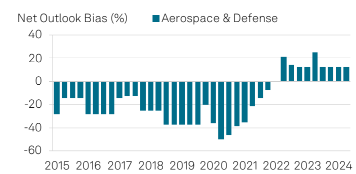
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	7	9	16
Downgrades	0	0	0
Upgrades	1	1	2

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	7.1	21.5
EBITDA growth (Y/Y%)	14.3	51.4
EBITDA margin (%)	14.3	16.9
Capex growth (Y/Y%)	8.2	-6.3
Debt/EBITDA (x)	0.8	5.8
FFO/Debt (%)	71.3	11.2
FOCF/Debt (%)	45.2	2.9

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Airbus Can Accommodate Announced Operating Setbacks, June 26, 2024

Saab AB Assigned 'BBB+' Rating; Outlook Stable, June 4, 2024