
Commentary

Clear Skies Ahead: Airports Credit Outlook 2024 — Passenger Traffic Growth Normalizing in Most Regions

Morningstar DBRS

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Key Highlights

- Global air passenger traffic is projected to reach 9.4 billion passengers in 2024, and the global air passenger traffic in 2024 is projected to exceed the 2019 level by 2.5%.
- We believe there is greater potential for higher passenger growth in Asia-Pacific than Europe and North America primarily because China's international travel has yet to be fully restored to the 2019 level.
- The credit risk profiles for airport operators in our rated portfolio will remain relatively stable in 2024 on the backdrop of a steady return to full passenger traffic.

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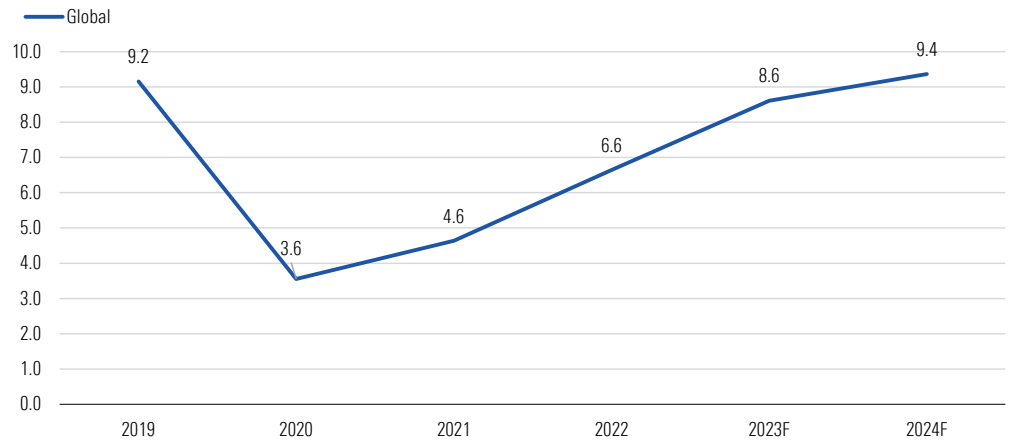
Passenger Traffic Growth Normalizing in Most Regions

According to Airports Council International World (ACI World), global air passenger traffic is projected to reach 9.4 billion passengers in 2024 from the current projection of 8.6 billion passengers in 2023. From a recovery perspective, the global air passenger traffic in 2024 is projected to exceed the 2019 level by 2.5%.

The recovery in global air passenger traffic began with domestic air travel, and it exhibited significant growth in 2021–23. In contrast, the recovery in international travel was a step behind primarily because of the timing difference in the relaxation of travel restrictions globally. However, the strength in transatlantic international travel and the resumption of flights to some Asia-Pacific countries have provided significant uplift to international passenger traffic in 2023. According to International Air Transport Association (IATA), international revenue passenger kilometers reached about 93% of the 2019 level in September 2023.

Heading into 2024, we believe there is greater potential for higher passenger growth in Asia-Pacific than Europe and North America primarily because China's international travel has yet to be fully restored to the 2019 level and the passenger growth projections in the other regions are normalizing. China is a significant aviation market in Asia-Pacific. The gradual resumption of international direct flights to China and favourable travel policies will likely provide further uplift to passenger traffic in the region.

Lastly, we believe the credit risk profiles for airport operators in our rated portfolio will remain relatively stable in 2024 on the backdrop of a steady return to full passenger traffic.

Exhibit 1 Global Passenger Traffic (in billion passengers)

F = forecast.

Source: ACI World.

Credit Profiles of Airport Operators

At this time, we don't expect to see significant growth-related capital expenditure pressure in 2024 mainly because the lost passenger traffic during the coronavirus pandemic is expected to take longer to recover to pre-pandemic growth projections.

According to ACI World, global passenger traffic was projected (prior to the pandemic) to reach 10.5 billion passengers in 2023 compared with the current projection of about 8.6 billion passengers in 2023 (-18% of lost passenger traffic). ACI World expects the percentage of lost passenger traffic to continue to decrease on a quarterly basis to -13% in Q4 2024 from -23% in Q1 2023.

Leverage should remain either relatively stable or improve modestly in 2024 under the assumption that the airport operators will continue to manage their capital programs prudently on the backdrop of a relatively more stable passenger traffic growth projection and to fund any capital expenditures primarily by utilizing their operating cash flows and liquidity.

Risks remain tilted toward the downside as the demand for travel has historically been sensitive to economic shocks. While labor markets in advanced economies remain tight and household balance sheets remain relatively healthy in most advanced economies, a rapidly deteriorating macroeconomic condition could reduce discretionary travel such as leisure and visiting friends and relatives (VFR) materially.

We note the contractual and regulatory framework can be fundamentally different for airports with varying degrees of autonomy in managing their operations and finances. A relatively more stringent contractual and regulatory framework could be an impediment to mitigating some of the macroeconomic risks such as elevated inflation and refinancing risks. In cases where these risks are material in the absence of other mitigating measures, we believe the financial performance of these airport operators are likely to be negatively affected.

In addition, we believe the current climate-related policies are likely to have minimal impact on airport operators in the near-to-medium term. As electrification intensifies in the coming years, we believe airport operators will continue to transition to renewable energy power sources, not only to reduce their facilities' own carbon emissions but also to further reduce energy costs.

North America

1. U.S.

According to ACI World and IATA, passenger traffic in North America is projected to fully recover to the 2019 level in 2023. ACI World projects North American passenger traffic to increase to 2.1 billion passengers in 2024 from a current projection of 2.0 billion passengers in 2023. This represents a growth rate of about 4%, which is below the average growth rate of about 39% in 2021–23.

U.S. domestic travel has essentially returned to the 2019 level according to the U.S. Department of Transportation's passenger traffic data up to September 2023. The robust recovery in domestic travel in the past several years provided considerable uplift to the total passenger traffic. However, we noticed the pace of growth in domestic travel has slowed to about 7% in Q2 2023 and Q3 2023 from about 16% in Q1 2023, on a year-over-year-basis, despite a very resilient U.S. economy in 2023.

We believe this could be attributed to a shift in demand for international travel. Based on recent data, international passenger traffic increased by 15% in Q3 2023 (24% in Q2 2023 and 55% in Q1 2023) compared with the same period in 2022. Moreover, airlines that largely focused on the U.S. market have been adversely affected by a greater shift in demand for international travel.

We believe the agreement to increase direct flights between China and the U.S., to 70 flights per week from 48 during the winter-spring flight season (October 29, 2023, to March 30, 2024)¹ and increase the number of round-trip flights that Chinese airlines can operate, will not only provide a boost to the international passenger traffic, but may also result in lowering the air fare between the two countries.

Despite the positives, international passenger traffic in 2019 represented only about 23% of the total passenger traffic in the U.S. Therefore, a relatively more modest growth in domestic travel will likely lead to a steady growth in the overall passenger traffic.

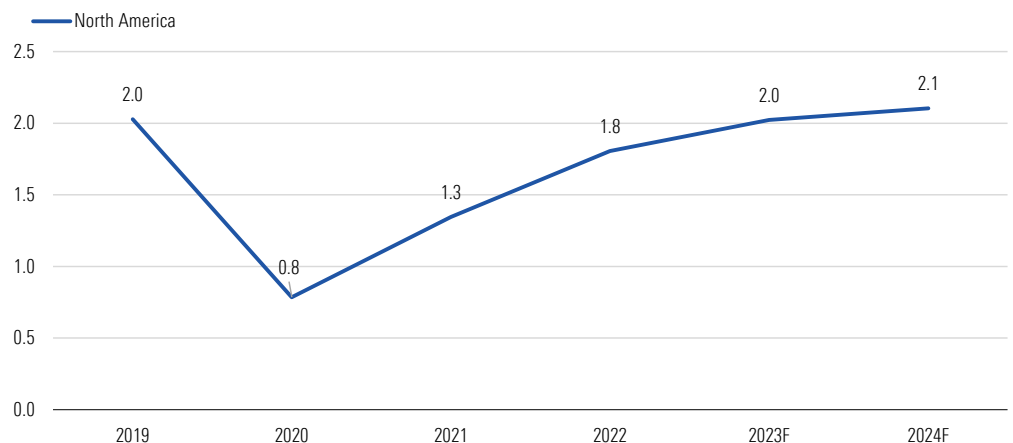
1. <https://news.cgtn.com/news/2023-11-01/China-US-direct-passenger-flights-to-increase-with-price-drop-of-50--1onwL4d9ss/index.html>.

2. Canada

In Canada, some airports are likely to have surpassed their 2019 total passenger traffic levels by the end of 2023. The level of recovery varies across the country. In general, airports with a larger proportion of Asia-Pacific flights have recovered slower than other airports with a greater proportion of transatlantic flights. Nevertheless, the passenger traffic growth in Asia-Pacific is trending positively following the restoration of direct flights to some countries in the region.

Similar to the U.S., domestic travel is unlikely to have the same growth potential as that of international travel. This could be attributed to a shift in consumer demand, a relatively more mature domestic travel market, and a projected low economic growth outlook in Canada in 2024. Overall, we believe passenger traffic will increase in 2024 but at a moderate pace compared with 2021–23.

Exhibit 2 North American Passenger Traffic (in billion passengers)



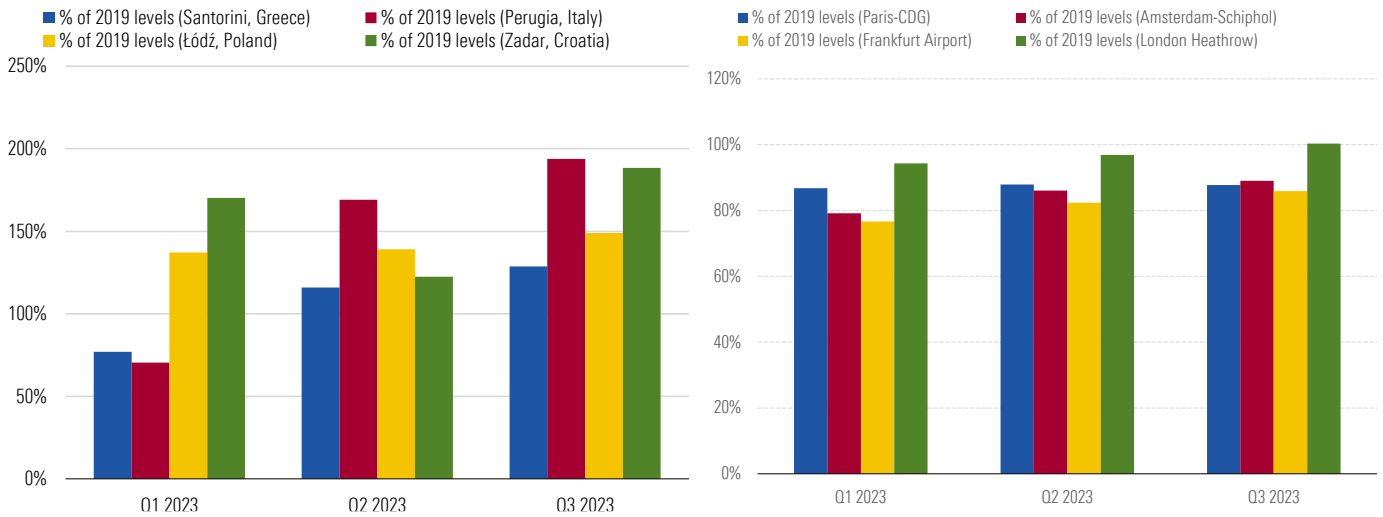
F = forecast.
Source: ACI World.

Europe

The demand for travel remained strong and resilient despite high air fares, elevated inflation and high interest rates, and geopolitical risks in 2023. According to Airports Council International Europe (ACI Europe), air fares for intra-European routes were 36% higher in October 2023 compared with the same period in 2019.

As can be seen in the charts below, passenger traffic in some of the regional and smaller airports in Europe have well exceeded the 2019 levels based on Q3 2023 data. ACI Europe noted this could be attributed to the strategic capacity expansion of the ultra-low-cost carriers and the demand for leisure and VFR. In contrast, the major hubs have not enjoyed nearly the rapid recovery as that of the smaller and regional airports, which could be partially explained by the slower recovery in business travel and flight capacity limitations on routes to China.

Exhibit 3 Regional and Smaller Airports in Europe: Passenger Traffic Recovery **Exhibit 4** Major Airports in Europe: Passenger Traffic Recovery

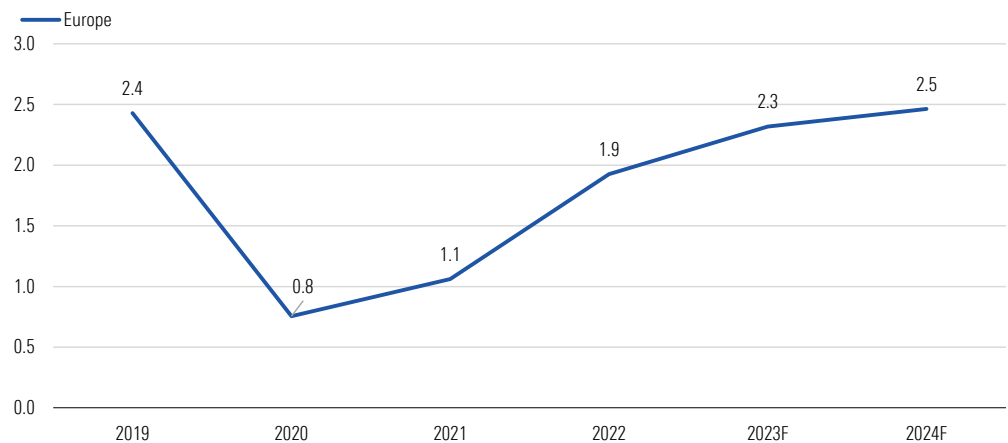


Sources: Airport websites

Paris-CDG = Paris Charles de Gaulle Airport.
Sources: airport websites.

According to ACI World, passenger traffic in Europe is projected to reach 2.3 billion passengers in 2023 or about 95% of the 2019 level. This is an increase of about 20% from 2022. In 2024, ACI World projects passenger traffic to reach about 2.5 billion passengers, an increase of about 6% from 2023 level.

Exhibit 5 Europe Passenger Traffic (in billion passengers)



F = forecast.
Source: ACI World.

Asia-Pacific

The recovery in Asia-Pacific has lagged behind other regions primarily because it had some of the world's strictest travel restrictions during the pandemic (China announced the removal of most of the remaining travel restrictions in December 2022). In addition, most international travellers require a visa to enter China and China did not resume the issuance of visas until March 2023.

As a result of the restoration of flights to some Asia-Pacific countries, passenger traffic is projected to increase significantly to 2.9 billion passengers² in 2023 from about 1.8 billion passengers in 2022. This represents an increase of about 67% in 2023.

We believe 2024 will build on recent momentum as international travel to China will likely benefit from the gradual restoration of the foreign airlines' capacity (because of flight capacity limitations) to serve the international routes to China. In addition, recent accommodative travel policy announced by China, such as the visa waiver that covers several countries in Europe and Malaysia that came into effect on December 1, 2023, and ends on November 30, 2024,³ will likely further boost the demand for international travel. IATA noted international travel in Asia-Pacific is still 40%⁴ below the 2019 levels. Therefore, there is still a lot of pent-up demand that has yet to be materialized.

Nevertheless, the airlines are facing some constraints in increasing their capacity for international routes because of shortages of both new and used widebody aircraft (for further reference, please see Morningstar DBRS's November 30, 2023, commentary titled *In It for the Long Haul - Widebody Aircraft Market Continues to Recover Benefiting Lessors*), and significant rerouting required to fly from U.S. and Europe to China because of restricted Russian airspace.

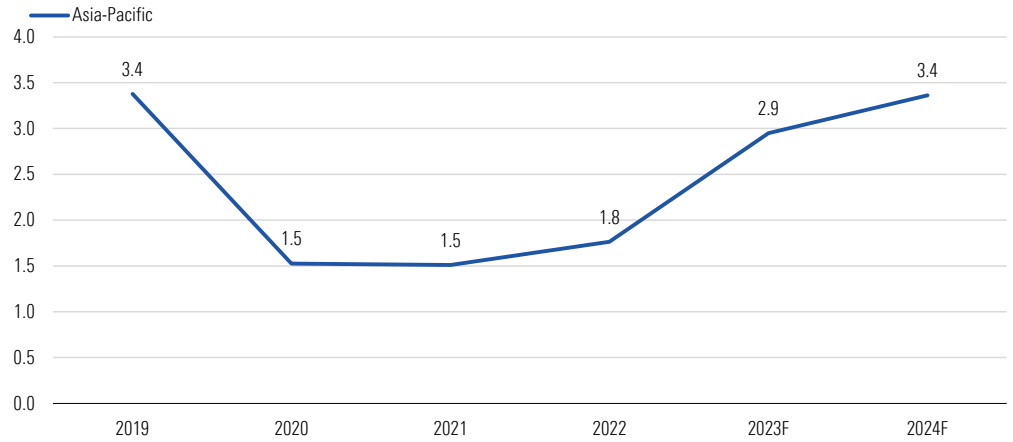
Despite these challenges, ACI World is projecting passenger traffic in Asia-Pacific to reach nearly 3.4 billion passengers in 2024, an increase of about 14% from 2023.

2. ACI World.

3. http://gy.china-embassy.gov.cn/eng/zytz/202311/t20231128_11188664.html.

4. IATA: *Global Outlook for Air Transport—A local sweet spot*, December 2023.

Exhibit 6 Asia-Pacific Passenger Traffic (in billion passengers)



F = forecast.
Source: ACI World.

Significant Passenger Traffic Growth in 2021–23 Unlikely to be Repeated in 2024

We believe global passenger traffic will continue to increase in 2024 but at a more moderate pace compared with 2021–23. Most regions are either close or have fully recovered to their 2019 passenger traffic levels. Based on recent data and announcements, we believe international travel (especially international routes to Asia-Pacific) is likely to have the greatest growth potential in 2024.

Note:
All figures are in U.S. dollars unless otherwise noted.

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