ISSUER COMMENT
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Deutsche Lufthansa Aktiengesellschaft

Full consolidation of ITA Airways would strengthen operations without weakening credit metrics

On 12 May, Deutsche Lufthansa AG (Lufthansa, Baa3 stable) announced that it had exercised its call option to acquire an additional 49% stake in ITA Airways S.p.A., in which it currently holds a 41% interest, to take full control of the company. ITA is a fully restructured Italian airline that operates a young, all-Airbus fleet of about 100 aircraft from its hubs at Rome Fiumicino and Milan Linate. It generated revenue of about €3.4 billion in 2025. Under the terms of the original agreement with the Italian Ministry of Economy and Finance (MEF), Lufthansa will pay the MEF a fixed price of €325 million for the additional 49% stake. Lufthansa would fully consolidate ITA in its financials and take full control. Subject to merger approval and antitrust clearance, ITA would become a fully owned subsidiary of the Lufthansa Group, with consolidation assumed from 1 January 2027.

The proposed transaction is credit positive for Lufthansa. It would improve the company's business profile without impairing its credit metrics, and increase its access to the attractive Italian long-haul market from Rome Fiumicino. The deal would reinforce Lufthansa's traffic to Latin America and Africa – two relative weaknesses for the airline in the past, and compared with peers – while adding a sixth hub to its existing five in Frankfurt, Munich, Zurich, Vienna and Brussels.

We expect ITA to be margin accretive to the group. ITA's expected adjusted EBIT margin trajectory is fully aligned with Lufthansa Group's mid-term adjusted EBIT margin target of 8–10%. In addition, the transaction would not require external financing, because ITA's forecasted cash position at the end of 2026 is significantly above the €325 million call option exercise price, effectively creating net liquidity of about €500 million for the group.

ITA was established in 2020 as the successor to Alitalia, having acquired key assets from Italy's former flag carrier. It has demonstrated it can become a profitable carrier, having achieved a positive adjusted EBIT in 2025. ITA has new pilot and crew labour contracts, no pension liabilities and no funded financial debt. Its capital structure consists of about €2.3 billion of lease liabilities and €493 million of aircraft financings estimated for 2026. The call option exercise price of €325 million is modest in the context of Lufthansa's €7.7 billion cash and cash equivalents as of March 2026 (€10.3 billion including the undrawn revolving credit facility), and is more than covered by ITA's own cash on balance sheet.

However, the conflict in the Middle East poses risks to the group's operating performance, because the cancellation of routes to the region and potential escalation could disrupt flight operations, trigger spikes in jet fuel prices and create fuel supply shortages. We expect the effect on fuel costs to be mitigated by Lufthansa's high hedge ratio of about 78% for the remainder of 2026. In addition, we expect the company's large fleet renewal programme planned for 2026 and 2027 to be partly funded by additional debt issuance, which would likely result in a more gradual pace of deleveraging over the next 12-18 months. The risks are also mitigated by the company's ability to increase yields, streamline its continental network by removing unprofitable routes, and accelerate the shift toward higher-yielding intercontinental flights, which carry a significantly higher revenue per available seat kilometre (RASK). Additional mitigants include the continued ramp-up of ancillary revenues across the group and the ongoing Lufthansa Airlines turnaround programme.

The company's Baa3 rating and stable outlook are unaffected, reflecting the benefits of the transaction on the business profile and the limited impact on leverage. We expect Moody's adjusted gross leverage to remain around 3.0x over the next 12-18 months, positioning Lufthansa weakly in the rating category. Leverage evolution will be dependent on the company's capacity to pass through fuel price increases and on fuel supply conditions.

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