



Rating Action: Moody's upgrades Lufthansa's CFR to Ba1; outlook stable

22 May 2023

Frankfurt am Main, May 22, 2023 – Moody's Investors Service (Moody's) has today upgraded the corporate family rating (CFR) and probability of default rating (PDR) of Deutsche Lufthansa Aktiengesellschaft (Lufthansa or the company) by one notch to Ba1 from Ba2 and Ba1-PD from Ba2-PD respectively. Concurrently the rating agency has upgraded Lufthansa's senior unsecured ratings to Ba1 from Ba2 and its senior unsecured MTN program rating to (P)Ba1 from (P)Ba2. The outlook on all ratings remains stable.

RATINGS RATIONALE

The upgrade of Lufthansa's CFR has been prompted by a very swift deleveraging path over the last 12 months supported by a strong traffic recovery, a strong yield environment and an adjusted debt reduction (both from a lower pension deficit and gross debt repayments). Credit metrics of Lufthansa improved markedly as illustrated by a Moody's adjusted gross debt/EBITDA moving from a negative number in 2021 to 4.4x at fiscal year end 2022 and 4.2x as per LTM March 2023. Credit metrics of Lufthansa are now commensurate with a Ba1 rating also taking into account the company's more comfortable liquidity position than pre-pandemic with cash / revenue of around 25% at year-end 2022 versus below 10% at the end of fiscal year 2019.

We expect 2023 to be a strong year for Lufthansa's passenger airlines business with a continued improvement in traffic and a strong yield environment with no signs that inflationary pressures will weigh on unit pricing. The concerns we had in H2 2022 that the strong yield environment would weaken in 2023 as a result of a weakening consumer sentiment in the aftermath of the invasion of Ukraine and the gas crisis in Europe has not materialised. Passenger yields in Q1 2023 were around 20% above pre-pandemic levels and Lufthansa has publicly indicated that yields for Q2 23 will be 25% above pre-pandemic levels. We expect yields for the peak summer season to remain very strong as capacity is constrained and demand is very firm. Cargo yields have come down from record levels but remain 60% above pre-pandemic levels.

Today's rating action is also supported by Lufthansa's commitment to continue improving its credit profile through operational improvements and debt reduction. Lufthansa will continue to sell assets (Lufthansa AirPlus Servicekarten GmbH and minority stake in MRO division Lufthansa Technik AG) to support its objective. The Ba1 rating incorporates the expectation that latest improvements in performance and capital structure are sustainable and can be maintained accordingly. With Lufthansa seeking to lock in its net pension deficit at around €2 billion will remove volatility in its capital structure and is therefore supportive of the rating.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook is underpinned by Moody's expectation that Lufthansa will continue to benefit from a recovery in passenger traffic and a strong yield environment for its passenger business whilst its cargo business will still post a €500 million adjusted EBIT in 2023. The stable outlook also encompasses the expectation that Lufthansa will maintain its prudent financial policy and focus on deleveraging.

LIQUIDITY

Lufthansa's liquidity position is strong. The company had approximately €8.4 billion of cash on balance sheet at 30 March 2023 and full availability under its €2.0 billion sustainability-linked revolving credit facility. Total liquidity (excluding credit lines) accounts for around 24% of LTM March 2023 revenue. This compares to €3.4 billion of cash (unused

credit lines of €800mio) as per December 2019 or 9.3% of revenue (excluding credit lines) at that time. The company generated a Moody's adjusted FCF of €2.1 billion for the LTM to March 2023. Lufthansa has established a new liquidity corridor of €8 billion to €10 billion, which is materially higher than pre-pandemic. Lastly, Lufthansa has a well spread maturity profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive pressure would build on Lufthansa's rating if its gross debt/EBITDA would move towards 3.0x, its operating profit margin would trend towards 8% and the company would maintain a conservative financial policy and strong liquidity.

On the contrary an interruption in the traffic recovery leading to a gross debt/EBITDA of Lufthansa staying sustainably above 4.0x, an EBIT margin dropping below 5%, and a deterioration in the company's liquidity profile could lead to negative pressure on the ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Passenger Airlines published in August 2021 and available at <https://ratings.moodys.com/rmc-documents/74345>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Deutsche Lufthansa Aktiengesellschaft, headquartered in Cologne, Germany, is the leading European airline in terms of revenue. During the 12 months ended March 2023, it generated revenue of €34.8 billion and a Moody's adjusted EBITDA of €4.1 billion.

The company's revenue is derived principally from three business segments: Passenger Airlines (Lufthansa German Airlines, Swiss, Austrian Airlines, Brussels Airlines and low cost airline Eurowings); Logistics, a cargo provider focusing on the airport-to-airport business; MRO, a supplier of maintenance, repair and overhaul services for civil aircraft.

As of December 2022, Lufthansa carried 101.8 million passengers on 826,379 flights. Pre-pandemic the route network of the company's Network Airlines comprised around 273 destinations in 86 countries. At the end of 2022, the company's fleet consisted of 710 aircraft, with an average age of 13.1 years.

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For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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