The spread of COVID-19 cases across the globe has caused air traffic demand to plunge in recent weeks. Unprecedented government travel restrictions and quarantine orders, which are rapidly tightening across the world in response to the pandemic, have led many airlines to temporarily ground large portions of their fleets and announce drastic cost-cutting measures.

The pandemic materially threatens the credit quality of European airlines and poses serious challenges for the global airline industry as a whole. There is significant uncertainty regarding the severity and longevity of the coronavirus outbreak, and as such our base-case forecasts are susceptible to possible revisions in the near term. Nonetheless, following flight cancellations, capacity cutbacks, and aircraft groundings across the industry we expect the airlines’ liquidity positions to deteriorate, and that lower revenues and cash flows will result in significantly weaker credit metrics in 2020 than our previous expectations.

Furthermore, we believe that significant downside risk remains, as we now forecast a global recession this year, with 2020 GDP rising just 1.0%-1.5%.

Therefore, we are lowering our ratings on easyJet PLC, Ryanair Holdings PLC, Deutsche Lufthansa AG, International Consolidated Airlines Group, S.A., British Airways PLC, Air Baltic Corp. AS, Turk Hava Yollari A.O., and SAS AB by one notch. In addition, we are placing all of these ratings on CreditWatch with negative implications.

We are also assigning our final ratings to Transportes Aéreos Portugueses, SGPS, S.A. and placing it on CreditWatch negative.

We expect to resolve the CreditWatch placements once we can assess the potential future impact of the outbreak on each company’s credit metrics and liquidity with more certainty. The ultimate impact of the coronavirus outbreak will depend on its duration and severity, and the type and rigorousness of measures airlines and government bodies take to mitigate it. These decisions will be partly informed by global, national and local health authorities’ advice on travel to highly affected areas.

FRANKFURT (S&P Global Ratings) March 20, 2020--S&P Global Ratings today lowered its ratings on eight European airlines by one notch and placed all of the ratings on CreditWatch with negative implications:
- easyJet PLC
- Ryanair Holdings PLC
We are assigning our 'B' long-term issuer credit rating to Transportes Aereos Portugueses, SGPS, S.A. and its core operating subsidiary Transportes Aereos Portugueses, S.A. We are also assigning our 'B' issue rating and '4' recovery rating to the €375 million senior unsecured notes due 2024, with recovery prospects of 45% issued by Transportes Aereos Portugueses S.A. The preliminary ratings, which we assigned on Nov 18, 2019 and maintained until today were two notches higher at 'BB-'.

Travel restrictions across most European countries have driven many airlines to temporarily suspend flight schedules to an unprecedented extent. President Donald Trump announced travel restrictions preventing anyone who has been in the Schengen Area (which includes 26 European states) or the U.K. and Ireland in the prior 14-day period from entering the U.S. These decisions will continue to be partly informed by the actions of governments and global, national and local health authorities' advice on travel to highly affected areas.

There is significant uncertainty regarding the severity and longevity of the coronavirus outbreak and related travel restrictions, and as such our financial forecasts are susceptible to possible revisions in the near term. That said our 2020 base-case assumptions for the industry, which we expect to constantly evolve, currently include:

- Overall passenger revenue declines of up to 30%, as air traffic demand will be extremely low for at least the next couple of months.
- Average ticket price declines by a low-to-mid-single digit percent due to expected overcapacity on long- and short-haul routes, competitive pressures, and lower average oil prices. We believe that airlines will allow lower yields to fill seats.
- Capacity (available seat miles or kilometers) declines equal to about half of the decline in passenger numbers, because it is difficult for airlines to reduce flying as much as lower traffic while still maintaining a viable flight schedule.
- Fuel costs linked to S&P Global Ratings' revised oil price assumptions in cases where an airline does not hedge fuel, but adjusted to account for hedging (which in this case means less savings from the lower fuel prices) where applicable and severe capacity adjustments.
- Flat to somewhat higher nonfuel costs per passenger.
- Deferral in capital expenditure (capex) for new aircraft and suspension of dividends and share buybacks.

We expect that lower revenues and cash flows will result in significantly weaker credit metrics in 2020 relative to our previous (pre-coronavirus) expectations. We believe that EBITDA generation in 2020 could decline as much as 50%-70% for many operators, depending on the flexibility of their cost bases. The highest costs for airlines are typically fuel (about 25%-35% of operating costs) and staff costs (which are somewhat flexible, particularly since airlines have announced exceptional redundancies in recent days).
Timing of a recovery is highly uncertain, but we currently assume that the first quarter of the calendar year will be affected only by a much-weaker March, with the second quarter being the most challenging for operators (with heavy operating losses). We assume that the third quarter will see a slow recovery in traffic (over the crucial summer period), and that the fourth quarter of the year will approach normal market conditions. This recovery could be delayed though, further pressuring credit metrics. We anticipate negative free operating cash flow, even after the likely deferrals in aircraft delivery. Aggravating this is working capital requirements, which could escalate because of reduced bookings and refunds to customers as traffic comes to a near-standstill. As such, we expect airlines’ immediate focus to be on protecting their liquidity positions in the short term, which might include seeking certain types of government support.

For more information, see "Coronavirus' Global Spread Poses More Serious Challenges For Airlines," published March 12, 2020, on RatingsDirect).

easyJet PLC Ratings Lowered One Notch; Issuer Rating 'BBB'; On CreditWatch Negative

Primary analyst: Frank Siu

The downgrade reflects our view that easyJet's credit metrics will be considerably weaker than we previously expected in fiscal year (FY) 2020 (to Sept. 30, 2020). This is notwithstanding the important steps that easyJet is taking to offset the steep decline in demand for air travel, through both operational efficiency initiatives, and material reductions to capacity. easyJet has implemented a wide range of cost reduction measures, including budget cuts to administrative areas and cancellations of all discretionary spending, suspension of recruitment, promotion and pay freezes across the network, postponement of noncritical project and capex, unpaid leave for staff and halting nonmandatory training, further cost reductions with third-party suppliers, and aircraft reallocations for summer 2020.

We now expect that easyJet’s adjusted funds from operations (FFO) to debt could significantly decline toward 30% as of FY2020, compared with almost 180% in FY2019 (and our previous forecast for FY2020 of 85%-100%), assuming passenger traffic begins to recover later this year. We anticipate that easyJet's free operating cash flow will be materially negative in FY2020 unless it will be able to reduce capex considerably.

We understand that easyJet’s financial policy is to prioritize retaining its robust liquidity position. We now view the group's liquidity as strong (down from previously exceptional), indicating that we expect liquidity sources to cover uses by around 1.5x in the 2020 calendar year, and by around 2.0x in the following 12 months. The airline currently has about £1.6 billion of cash and $500 million (equivalent to about £390 million) of undrawn and committed credit facility, which expires in 2021. easyJet has no material financial debt maturities in FY2020 and FY2021 other than its finance lease repayments, which we estimate to be about £250 million–£300 million per year. We also acknowledge that easyJet should have flexibility to defer its planned capex program (related to new aircraft) and could suspend shareholder remuneration as necessary. easyJet has no maintenance financial covenants on its outstanding debt, and has unencumbered aircraft worth over £4 billion, as well as a large and valuable slot portfolio.

We placed the ratings on CreditWatch with negative implications, indicating that we could lower the ratings further. We expect to resolve the placement as we have more certainty regarding the severity and longevity of the coronavirus outbreak, and its impact on air traffic demand and easyJet's financial position and liquidity. While we currently don’t see liquidity as a near-term risk
for the group, we would lower the rating by at least one notch if management’s proactive actions
to significantly cut operating costs, reduce capital investments, and, if necessary, raise additional
funds, were insufficient to preserve an at least adequate liquidity position. We would also likely
lower the ratings if we expect adjusted FFO to debt to average below 45% over the FY2020-2021
period. This could occur if COVID-19 cannot be contained, resulting in prolonged air traffic
restrictions in Europe, and if passenger reluctance to fly drags on longer than expected. We could
also lower the rating if the industry fundamentals significantly and sustainably weakened,
hampering easyJet’s competitive position and profitability.

Ryanair Holdings PLC Ratings Lowered One Notch; Issuer Rating 'BBB';
On CreditWatch Negative

Primary analyst: Izabela Listowska

Our downgrade reflects that while Ryanair is taking several steps to offset the severe air travel
demand drop in recent weeks through cost-saving and operational efficiency initiatives, as well as
capacity reductions, we expect these to be more than offset by sharply deteriorating traffic levels.
Based on the airline’s hedged fuel position---90% of its fuel requirement in FY2020 ending March
31 is hedged at $709 per metric ton and in FY2021 at $606 per metric ton---we do not expect it to
benefit considerably in the near term from the most recent significant drop in oil prices. We now
expect S&P Global Ratings-adjusted FFO to debt will decline to 40%-50% in FY2021 compared
with the 180%-190% we forecast in FY2020 and our previous FY2021 base case of 110%-120%,
assuming passenger traffic begins to recover later this year.

We now assess Ryanair’s liquidity as strong (previously exceptional) because of our expectation of
lower levels of cash generation over the next 24 months. We expect sources to exceed uses by
about 1.9x in the 2020 calendar year and by at least 1.3x in the following 12 months. We anticipate
that Ryanair’s free operating cash flows will likely be negative --even if it negotiated aircraft
delivery deferrals in FY2021--because working capital requirements could be material due to
fewer bookings and more refunds to customers.

That said, we view Ryanair as one of the financially strongest airlines in the industry, with €4.1
billion in cash on hand, industry leading unit costs, and a 90%-owned fleet, of which over 70% of
its aircraft are currently unencumbered. We also acknowledge Ryanair’s flexibility to defer
planned capex for new aircraft and suspend shareholder remuneration (which it did for FY2021).
Furthermore, Ryanair has no maintenance financial covenants in its outstanding debt.

We placed the ratings on CreditWatch with negative implications, indicating that we could lower
them further. We expect to resolve as we have more certainty regarding the severity and longevity
of the coronavirus outbreak and its impact on air traffic demand and Ryanair’s financial position
and liquidity. While we currently don’t see liquidity as a near-term risk, we would lower the rating
by at least one notch if management’s proactive actions to cut operating costs, reduce capital
investments, and raise additional funds, if necessary, are insufficient to preserve an at least
adequate liquidity position. A downgrade would also likely follow if we expect adjusted FFO to debt
to average below 45% over the FY2021-2022 period. This could occur if the coronavirus pandemic
cannot be contained, resulting in prolonged air traffic restrictions by governments and if the
general passenger reluctance to travel by air drags on longer than expected or takes longer to
recover. We could also lower the rating if industry fundamentals significantly and sustainably
weaken, impairing Ryanair’s competitive position and profitability.
British Airways PLC Ratings Lowered One Notch; Issuer Rating 'BBB-'; On CreditWatch Negative

Primary analyst: Frank Siu

Our downgrade follows the unprecedented government travel restrictions imposed across Europe and the global airline industry in recent weeks. President Trump’s announced temporary travel restrictions (see above) will be a significant disruptor to BA’s transatlantic network, which contributes to a large portion of its earnings. We expect that BA and its parent IAG will experience considerably weaker credit metrics in FY2020 (to Dec. 31, 2020), notwithstanding the drastic mitigating measures the company will implement in capacity cuts, as well as widespread operational efficiency initiatives.

We now expect S&P Global Ratings-adjusted FFO to debt could significantly decline toward 10%-15% in FY2020, compared with about 70% in FY2019 (and our previous FY2020 forecast of above 45%), assuming passenger traffic begins to recover later this year. We anticipate that BA’s free operating cash flows will be significantly negative in FY2020 even if it reduces capex to maintenance levels.

Nevertheless, BA's financial policy prioritizes retaining its robust liquidity position. We still view liquidity as strong, indicating liquidity sources will exceed uses by around 2.0x in FY2020, despite our expectations of reduced operating cash flows. BA has about £2.5 billion of cash on balance sheet and large committed aircraft financing facilities that could cover its maintenance capex in FY2020. We also acknowledge BA’s flexibility to defer planned capex for new aircraft (which we expect the company to implement successfully) and suspend shareholder remuneration as necessary. BA has no material financial debt maturities in FY2020 and FY2021 other than its finance lease repayments, which we estimate to be an average of £635 million for FY2020 and FY2021. Furthermore, BA has no maintenance financial covenants on its debt outstanding.

As the largest airline owned by IAG, we consider BA integral to the group’s overall strategy. Although there is no firm commitment from IAG, we believe that IAG is likely to support BA under any foreseeable circumstances and remains a "core" subsidiary of the group. As such, we equalize our issuer credit rating on BA with that on IAG, which is one notch above BA's 'bb+' stand-alone credit profile (SACP; which we have also lowered by one notch as part of this review).

We expect to resolve the CreditWatch when we have more certainty regarding the severity and longevity of the coronavirus, and its impact on air traffic demand and IAG's financial position and liquidity. We would likely lower the ratings if we expect adjusted FFO to debt to average below 30% over the FY2020-FY2021 period. While we currently don’t see liquidity as a near-term risk, we would lower the rating by at least one notch if management proactive actions to cut operating costs and capital investments, and to raise additional funds were insufficient to preserve an at least adequate liquidity position. This could occur if COVID-19 cannot be contained (or at least neutralized) resulting in air movement restrictions by governments, potential prolonged closing of airports, and general passenger reluctance to air travel dragging on longer than expected.
Primary analyst: Aliaksandra Vashkevich

Our downgrade reflects that while Lufthansa is taking several drastic steps to offset the severe air travel demand drop in recent weeks through cost-saving and operational efficiency initiatives, as well as capacity reductions (including reducing flight capacity further by up to 80%-90% from the original schedule), we expect these to be more than offset by sharply deteriorating traffic levels. Based on the airline’s hedged fuel position (about 70% of fuel requirement in FY2020 to Dec. 31), we do not expect Lufthansa to considerably benefit from the recent significant drop in oil prices in the near term. That said, we anticipate a more sizable positive contribution to EBITDA from a lower fuel bill in FY2021 compared with FY2020. We also believe that Lufthansa’s maintenance, repair, and overhaul (MRO) operations (which accounted for about 20% of the group’s total EBITDA in FY2019) will positively contribute to Lufthansa’s earnings, having no direct exposure to passenger volumes. We now expect S&P Global Ratings-adjusted FFO to debt could decline toward 20% in FY2020, compared with 30%-35% expected in our previous FY2020 forecast, assuming passenger traffic begins to recover later this year.

We are revising our liquidity assessment to adequate (from strong) based on the company’s expected reduced cash flow generation. We anticipate that Lufthansa’s free operating cash flows will likely be negative even if we do not foresee any investments in new planes this year. This is because its working capital requirements could be material over the next few months due to fewer bookings and refunds to customers. Considering several funding arrangements completed so far this year, we expect liquidity sources to exceed uses by 1.4x-1.5x in FY2020. Lufthansa has raised funds of about €600 million in recent weeks and currently has liquidity of about €4.3 billion. In addition, unused credit lines maturing beyond 12 months total about €800 million. Lufthansa is raising additional funds via aircraft financing. The airline owns 86% of its fleet, of which about 90% is unencumbered and corresponds to a book value of about €10 billion. Lufthansa has no maintenance financial covenants in its debt outstanding.

We placed the ratings on CreditWatch with negative implications, indicating that we could lower them further. We expect to resolve as we have more certainty regarding the severity and longevity of the coronavirus outbreak and its impact on air traffic demand and Lufthansa’s financial position and liquidity. We would lower the rating by at least one notch if management’s widespread actions to cut operating costs and capital investments, and to raise additional funds as necessary are insufficient to preserve at least an adequate liquidity position. A downgrade would also likely follow if we expect adjusted FFO to debt to average below 25% over the 2020-2021 period. This could occur if COVID-19 cannot be contained, resulting in prolonged air traffic restrictions by governments, and if general passenger reluctance to travel by air drags on longer than expected.

International Consolidated Airlines Group S.A. (IAG) Ratings Lowered One Notch; Issuer Rating ‘BBB-’; On CreditWatch Negative

Primary analyst: Izabela Listowska

Our downgrade reflects that while IAG is executing measures to mitigate the collapse in air travel demand in recent weeks, such as cost saving and operational efficiency initiatives and drastic capacity reductions, as well as benefit from a moderately lower fuel bill based on its current hedged position (90% of the FY2020 fuel requirement is locked in) and the latest drop in jet fuel prices, we expect this will all be more than offset by sharply deteriorating traffic levels. We now
expect that S&P Global Ratings-adjusted FFO to debt could decline toward 20% in FY2020 (to Dec. 31, 2020), compared with 50%-60% expected in our previous FY2020 forecast and 65% achieved in FY2019, assuming passenger traffic begins to recover later this year.

We continue to assess the group's liquidity as strong despite expected reduced cash flow generation. We anticipate that IAG's free operating cash flows will be negative this year even considering a substantial capex cut for new planes. This is because of the expected working capital outflows due to fewer bookings and refunds to customers. That said, considering several funding arrangements completed so far this year, we expect liquidity sources to exceed uses by around 1.6x in FY2020. IAG had available cash, cash equivalents and interest-bearing deposits of €7.35 billion as of March 12, 2020. In addition, undrawn general and committed aircraft backed financing facilities maturing beyond 12 months amounted to €1.9 billion, resulting in total liquidity of €9.3 billion. The group has no maintenance financial covenants in its outstanding debt.

We expect to resolve the CreditWatch when we have more certainty regarding the severity and longevity of the coronavirus, and its impact on air traffic demand and IAG's financial position and liquidity. We would likely lower the ratings if we expect adjusted FFO to debt to average below 30% over the FY2020-FY2021 period. While we currently don't see liquidity as a near-term risk, we would lower the rating by at least one notch if management proactive actions to cut operating costs and capital investments, and to raise additional funds were insufficient to preserve an at least adequate liquidity position. This could occur if COVID-19 cannot be contained (or at least neutralized) resulting in air movement restrictions by governments, potential prolonged closing of airports, and general passenger reluctance to air travel dragging on longer than expected.

Air Baltic Corporation AS Ratings Lowered One Notch; Issuer Rating 'B+'; On CreditWatch Negative

Primary analyst: Aliaksandra Vashkevich

The downgrade reflects the expected impact of the Latvian government's recent COVID-19-related travel restrictions, including the cancellation of international passenger transport through airports and ports (as well as bus and rail transport), as of March 17, 2020, until at least April 14, 2020. As a result, government-owned Air Baltic has temporarily suspended all international connections during this period, including services from Estonia and Lithuania.

We now forecast that Air Baltic’s adjusted FFO to debt for FY2020 (to Dec. 31) will be below the 6% level expected in FY2019. The reduction in debt leverage we expected previously hinges on gradual EBITDA improvements, driven by further fleet modernization and solid passenger growth, which will be now delayed.

We understand that the Latvian airline will take wide-ranging measures to partially offset the impact from the collapse in traffic through deferrals of launches of all new routes (until at least the beginning of July 2020) and temporary reduction of capacity and workforce costs until June, while also seeking labor cost savings, such as not extending probation time, unpaid leave, and redundancies.

We have revised Air Baltic's liquidity assessment to less than adequate (from adequate), which now include several months of negative operating cash flow generation. We forecast liquidity sources to uses will be less than 1.2x in FY2020. At the start of FY2020 we estimate that the Latvian airline had about €124 million of cash on hand compared with debt maturities of €25 million–€30 million over the full year, consisting of only finance leases (on a pre-IFRS 16 basis) and
net capex needs of about €60 million.

We expect to resolve the CreditWatch placement as we learn more about the impact of the coronavirus outbreak on Air Baltic’s financial position and liquidity. We would further lower our ratings if the group’s liquidity deteriorates such that the ratio of liquidity sources to uses reflects a material deficit over the next 12 months.

SAS AB Ratings Lowered One Notch; Issuer Rating 'B'; On CreditWatch Negative

Primary analyst: Aliaksandra Vashkevich

Our downgrade reflects our view that, because of the collapse in demand for air travel because of COVID-19, SAS’ EBITDA will drop to the extent, resulting in credit measures commensurate with a 'B' rating, with S&P Global Ratings-adjusted debt to EBITDA averaging at 6.0x–7.0x, as compared with 4.7x in FY2019. This follows the company's announcement that it temporarily suspended most of its flights amid country border closures in its main markets until conditions for commercial aviation improve and demand for air travel resumes, at least partly. SAS has limited capacity to significantly lower its cost base in the short term, which makes its earnings particularly vulnerable to demand shifts in its core Scandinavian market. The company is looking to temporary lay off 90% of its total workforce, but we believe these measures may not be sufficient to avoid liquidity erosion.

That said, the most recent government support providing a financial guarantee of SEK3 billion for the airline results in the ratio of liquidity sources to uses staying above 1.2x over the next 12 months starting from Jan. 31, 2020. As of that date, the Scandinavian airline had about 6.6 billion Swedish krona (SEK) of cash on hand, which combined with SEK3 billion financial guarantee supporting new bank funding compares well against next 12 months' debt maturities of SEK600 million (excluding IFRS 16 debt) and estimated capex needs (mainly in the form of prepayments) of about SEK3 billion.

The rating is also on CreditWatch with negative implications given substantial uncertainty regarding the severity and longevity of the current coronavirus outbreak, potentially resulting in prolonged air traffic restrictions by governments and general passenger reluctance to travel. We expect to resolve the CreditWatch as we learn more about the impact of the coronavirus on SAS’ financial position and liquidity. As a part of our CreditWatch resolution, we may also reconsider our current GRE status of SAS and the likelihood of government support.

Turk Hava Yollari A.O. (Turkish Airlines) Ratings Lowered One Notch; Issuer Rating 'B'; On CreditWatch Negative

Primary analyst: Frank Siu

We have lowered our ratings on Turkish Airlines to reflect the collapse in demand for air travel as a result of the outbreak of COVID-19. While Turkish Airlines is taking many measures to help mitigate the adverse impact of materially reduced passenger numbers, we believe this will still lead to significantly weaker credit metrics in 2020 than we had previously forecast.

The coronavirus has led to a severe decline in air traffic in recent weeks, with many European
airlines already being forced to cut capacity by up to 90%. While Turkish Airlines is taking steps to offset declining demand through redeploying its aircraft to more resilient routes, cutting capacity, and focusing on cost-saving initiatives, in our revised forecasts we now expect S&P Global Ratings-adjusted FFO to debt to decline toward 5% in 2020, compared with about 15% in 2019. We also anticipate that Turkish Airlines’ free operating cash flows will be significantly negative in 2020 unless it is willing and able to substantially reduce its capital expenditure.

We view liquidity as adequate and assess that sources will cover uses by about 1.2x over the 12-month period starting Jan. 1, 2020. The airline has about $2.5 billion of cash and about $460 million undrawn portion of the committed revolving credit facilities, which could cover about $1.7 billion of short-term debt maturities and about $1 billion of finance lease repayments. However, the airline exhibits very high capital spending on new aircraft and the new Istanbul airport. Nevertheless, the group has the flexibility to reduce capital spending to maintain sufficient liquidity in 2020.

We placed our ratings on the company on CreditWatch with negative implications, indicating that we could lower ratings further. We expect to resolve this as soon as we have more clarity regarding the severity and longevity of the coronavirus, and its impact on air traffic demand and Turkish Airlines’ financial and liquidity positions. We would likely lower the ratings if we expected adjusted FFO to debt to average below 6% over the FY2020-2021 period, or liquidity weakened over the next 12 months. This could occur if Turkish Airlines does not sufficiently reduce capex to retain liquidity, and COVID-19 cannot be contained and general passenger reluctance to air travel drags on longer than expected.

Transportes Aereos Portugueses, SGPS, S.A. Ratings Assigned; Issuer Rating ‘B’; On CreditWatch Negative

Primary analyst: Aliaksandra Vashkevich

We are assigning our ‘B’ long-term issuer credit rating to Transportes Aereos Portugueses, SGPS, S.A. and its core operating subsidiary, Transportes Aereos Portugueses S.A. The ratings include two notches of uplift due to our view of a moderately high likelihood of extraordinary support from the Portuguese government in case of financial distress. We are also assigning our ‘B’ issue rating and ‘4’ recovery rating to the €375 million senior unsecured notes due 2024.

Our SACP on TAP of ‘ccc+’ reflects the risk of a liquidity shortfall in the near term absent support from the Portuguese government. The global spread of COVID-19 has significantly reduced demand for air travel in recent weeks, and while TAP is pursuing counterbalancing measures, including cost-saving initiatives and heavy capacity reductions, we expect them to be more than offset by sharply deteriorating traffic levels and drag on the airline’s cash flow generation. We anticipate that TAP’s free operating cash flows will be negative this year even considering a substantial cut of capex for new planes. This is aggravated by a significant deterioration in EBITDA and working capital outflow due to fewer bookings and refunds to customers.

TAP had available cash of about €267 million as of Dec. 31, 2019 (pro forma the €159 million February 2020 loan amortization payment), which compared to debt/finance lease amortization of about €60 million and €300 million–€350 million in rent obligations under its operating leases, could trigger a liquidity shortfall in times when TAP’s operating cash flow generation is constrained. This situation makes TAP dependent on the government to provide timely and sufficient financial support. We understand that TAP will comply with its net leverage maintenance covenant on its senior secured bond tested in July 2020 based on 2019 financial
results. That said, we believe that without corrective actions, the company might breach this
covenant tested further at the beginning of 2021 taking into account the weak EBITDA generation
in first-half 2020.

The Portuguese government has extended extraordinary financial support to TAP Group in the
were approved by the EU Competition Authorities and accounted for as capital in 1997. However,
any further financial support will be strictly scrutinized under the EU competition framework and
be potentially subject to European Commission rulings. That said, the Portuguese government
could at any point extend a market-based loan to TAP Group at an interest rate on par with the
prevailing market rate. Such a loan would not, in our understanding, be classified as EU state aid.

We acknowledge TAP's important role in the Portuguese economy and understand that the
government views the airline as a strategic asset that is important to economic development and
tourism. TAP serves as one of the largest employers in the country and is the largest exporter of
domestic services. Furthermore, the airline provides reasonable air connectivity to major trade
partners' cities (apart from Spain), given the peripheral geographic location of Portugal in Europe,
which would otherwise be less efficiently accessible by alternative modes of transport.

We expect to resolve the CreditWatch within the next three months after assessing how TAP is
addressing the deteriorating liquidity. We will likely lower the rating if we conclude that TAP's
liquidity position would deteriorate further absent timely and sufficient government support.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And
Assumptions, March 8, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March
28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate
Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March
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- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global
Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry,
Feb. 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporative And Government Ratings:
Ratings On European Airlines Lowered And Placed On CreditWatch Negative Due To Coronavirus Outbreak

Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Corporates | Industrials: Criteria For Rating Aircraft-Backed Debt And Enhanced Equipment Trust Certificates, Sept. 12, 2002

Related Research
- COVID-19 Macroeconomic Update: The Global Recession Is Here And Now, March 17, 2020
- COVID-19 Credit Update: The Sudden Economic Stop Will Bring Intense Credit Pressure, March 17, 2020
- Coronavirus’ Global Spread Poses More Serious Challenges For Airlines, March 12, 2020
- Coronavirus Impact: Key Takeaways From Our Articles, March 11, 2020
- Unrestrained Supply Swamps Oil Outlook: S&P Global Ratings Revises Oil & Gas Assumptions, March 9, 2020
- COVID-19’s Wider Reach Darkens Shadow Over Global Credit Conditions, Report Says, March 3, 2020
- SARS 2.0? Aviation Faces Risks From Coronavirus, Jan. 29, 2020

Ratings List

** Air Baltic Corp AS **

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** British Airways PLC **

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<td>International Consolidated Airlines Group, S.A.</td>
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<td>BBB-/Watch Neg/--</td>
</tr>
<tr>
<td>Ryanair Holdings PLC</td>
<td></td>
<td>BBB+/Watch Neg/--</td>
</tr>
<tr>
<td>SAS AB</td>
<td></td>
<td>B/Watch Neg/--</td>
</tr>
</tbody>
</table>
Ratings On European Airlines Lowered And Placed On CreditWatch Negative Due To Coronavirus Outbreak

<table>
<thead>
<tr>
<th>Issuer Credit Rating</th>
<th>Senior Unsecured</th>
<th>Recovery Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>B/Watch Neg/--</td>
<td>B/Watch Neg</td>
<td>4(45%)</td>
</tr>
</tbody>
</table>

**Transportes Aéreos Portugueses, S.A.**

**Issuer Credit Rating**

- B/Watch Neg/--

**Equipment Trust Certificates**

- BB/Watch Neg
- BB+

**easyJet PLC**

**Issuer Credit Rating**

- BBB/Watch Neg/--
- BBB+/Stable/--

**Senior Unsecured**

- BBB/Watch Neg
- BBB+

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