MOODY'S LIFTS QANTAS BACK UP TO INVESTMENT GRADE CREDIT RATING

News / Finance



A second ratings agency has lifted its assessment of Qantas stock back to investment grade, sending the airline's stock up more than one per cent in afternoon trade on a flat day for the broader market.

Ratings agency Moody's on Monday upgraded its senior unsecured ratings of Qantas to "Baa3" from "Ba1", restoring an investment-grade rating that was lost after Moody's downgraded the company in January 2014. In 2013/14, Qantas posted a $2.8 billion statutory net loss after writing down the carrying value of the fleet.

The decision from Moody's follows Standard and Poor's move to upgrade Qantas back to investment grade in November 2015. One benefit from an improved credit rating is the ability to borrow at lower interest rates.

Moody's vice president and senior analyst Ian Chitterer said the return to investment grade reflected Qantas's reduced debt, the low fuel price environment and the company's efforts to cut costs.

Further, the focus on return on invested capital indicated Qantas was taking the necessary steps to address volatility, periods of sustained weak demand and high fuel prices.

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“The upgrade of the senior unsecured rating to Baa3 is based on the significant reduction in leverage since FY2015, on the back of lower fuel prices and continued success of its transformation programme as well as a reduction in debt by AUD1 billion from the level in FY2014,” Chitterer said in a statement.

Qantas reported statutory net profit after tax for the six months to December 31 2015 of $688 million, more than three times the $203 million net profit in the prior corresponding half.

Revenue rose five per cent to $8.46 billion, Qantas’s first half results released on February 23 showed.

Moody’s said the recent declines in fuel prices were expected to lower Qantas’s fuel bill by $1 billion in 2015/16, compared with 2013/14.

“Based on Moody’s forecast prices for Brent and aircraft fuel, along with Qantas’ hedging policy, the agency expects Qantas to benefit from historically low fuel prices for the next several years,” Moody’s said.

Moody’s also noted Qantas’s transformation plan, which aims to reduce costs by $2 billion in the three years to 2016/17.

Qantas said on February 23 it had achieved $1.36 billion in savings to date, including $261 million in the first half of the current financial year.

“We view continued implementation of this program as critical to improving the competitiveness of Qantas’ operations over the long term, while maintaining its premium service levels,” Moody’s said.

“As such, we expect Qantas to continue focusing on its transformation agenda post 2017, through operational and fleet-enabled efficiencies.”

Qantas chief executive Alan Joyce welcomed the Moody’s announcement.

“Moody’s decision to restore our investment grade rating is a reflection of the hard work to get our balance sheet in good shape and to put the Qantas Group in a sustainably strong position,” Joyce said in a statement.

“The Transformation Program has been key to achieving a permanent shift in both our cost base and our competitive position.”

While a number of airlines carry an investment grade credit rating, including Air New Zealand, Alaska Airlines, Delta Air Lines, Easyjet, Lufthansa, Qantas, Ryanair, Southwest and WestJet, Qantas noted only it, Easyjet and Southwest held investment grade ratings from both Moody’s and S&P.

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