South China Morning Post
scmp.com

Monday, November 08, 2010

Funding for new aircraft likely to top US$70b

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Nov 05, 2010

Some US$70 billion will be needed to fund global scheduled aircraft delivery next year, compared with US$60 billion this year, because of the larger number of aircraft and higher demand for widebody planes, according to aircraft credit rating consultancy Ascend.

In light of the sharp upturn in air traffic demand, most airlines were positive on finding the funds for the new aircraft for next year, said Paul Sheridan, head of risk advisory for Europe, the Middle East and Africa at London-based Ascend. But he warned of risks in the industry that might hinder the liquidity in the market next year.

Some 1,250 aircraft, including those manufactured by Boeing and Airbus as well as the regional and private jets produced by smaller manufacturers, will be delivered next year, compared with 1,100 this year. Widebody aircraft, such as the Airbus 380 and Boeing 777, will increase to about 280 from 190 last year, according to Ascend data.

The biggest uncertainty in the aircraft financing market is a possible tightening of export credit funding in the United States and Europe for aircraft next year.

The proportion of government export credit in aircraft financing increased to 35 per cent this year from 20 per cent before the global financial crisis. Four governments - the United States, Germany, France and Britain - have advanced loans to aircraft buyers at rates lower than market rates in a bid to revitalise the aircraft manufacturing industry in their respective countries.

"What we will see next year is margins from export funding increasing and that will affect the aircraft finance market," Sheridan said.

The carriers from these countries, Lufthansa in particular, have been protesting against the preferential interest rates provided to their competitors while they are banned from using the export credit funding, as agreed by their governments.

"The argument is that export credit funding, which is supposed to be the lending of last resort, has become the first choice among carriers because of the lower lending cost," Sheridan said. And banks are still sceptical about aviation lending. "It runs against banks' instincts to lend money to airlines as most carriers still don't have investment-grade credit," he said.

The memory of the serial bankruptcies of airlines in the 1990s as well as the recent collapse of Japan Airlines is still fresh and only reinforces the nagging doubt among bankers that aviation loans are inherently riskier.

To banks, aircraft leasing companies are more reliable borrowers than airlines themselves since the former have a more stable business cycle.

Also, the airline industry is perennially exposed to the volatility in oil prices. If oil prices increased abruptly, fuelled by a turnaround in the economy in the US and Europe, the recovery in the airline industry would be stalled, he said. "The aircraft funding in that case won't be as ample or easy."