Bulletin

China Airlines' Credit Metrics To Recover More Quickly On Strong Passenger Demand

March 14, 2023

PRIMARY CREDIT ANALYST

Jin Dong, CFA
Taipei
+886-2-2175-6821
jin.dong
@spglobal.com
jin.dong
@taiwanratings.com.tw

SECONDARY CONTACT

Irene Lai
Taipei
+886-2-2175-6825
irene.lai
@spglobal.com
irene.lai
@taiwanratings.com.tw

A stronger rebound in passenger aviation demand than we expected could offset a decline in air cargo demand and sustain our issuer credit ratings on China Airlines Ltd. (CAL; twBBB+/Stable/twA-2) at the current level.

Air passenger demand has been recovering at a faster pace since December 2022 than we anticipated. CAL's revenue passenger kilometer in January and February 2023 recovered to 63% and 72% of the levels in January and February 2019, compared with our previous forecast of around 50%. Furthermore, stronger passenger demand is likely to help sustain passenger yield at an elevated level for a longer period of time.

We now forecast the carrier's revenue passenger kilometer for 2023 will be 63%-67% of the 2019 level, up from 56%-60% that we previously estimated. We also project a higher passenger yield of New Taiwan dollar (NT$) 2.7-NT$3.0 per revenue passenger kilometer, compared with our forecast of NT$2.3-NT$2.6. As a result, we increased the revenue projection from passenger aviation to NT$88 billion-NT$94 billion for 2023, representing 80%-84% of the level in 2019.

However, demand for air cargo fell at a faster pace during January and February 2023, with freight revenue ton kilometers declining by 34.5% and 20.7% year on year, respectively, during the two months. Freight rate also declined more rapidly amid subsiding global trade and normalization of supply chains after pandemic-control measures were loosened. We now forecast CAL's freight revenue ton kilometers will decline by 17%-21% in 2023, compared with our previous projection of a 10%-14% decline.

Meanwhile, freight rate could experience a deeper decline of 38%-42% during 2023, down from our previous expectation of a 30%-33% decrease. As a result, CAL's cargo revenue for 2023 could decline by 48%-54%. Nonetheless, this would still be 15%-30% higher than the pre-COVID levels.

At the company level, CAL's revenue pickup in the passenger segment should more than offset the decline in revenue from the cargo segment in 2023, in our assessment. Accordingly, the carrier could achieve revenue growth of 5%-7% in 2023 if air passenger demand continues to accelerate. However, the company's EBITDA margin for 2023 could decline by 1.7%-2.1% due to higher expenses associated with sales, administration, and passenger services. As a result, China Airlines' EBITDA for 2023 could or slightly decline from 2022. This is stronger than our previous projection of a decline of 10%-15% in EBITDA. The company's credit metrics remain commensurate with the current rating level, in our view, considering current market conditions and our updated forecasts.