

European airlines

Recent airline defaults point to tough outlook for Europe's smaller airlines



Europe's niche airlines have had a grim summer. Primera Air, VLM, Small Planet, Azur and SkyWork have all ceased operations. Expect more casualties from rising fuel prices and overcapacity unless carriers find shelter through mergers or takeovers.

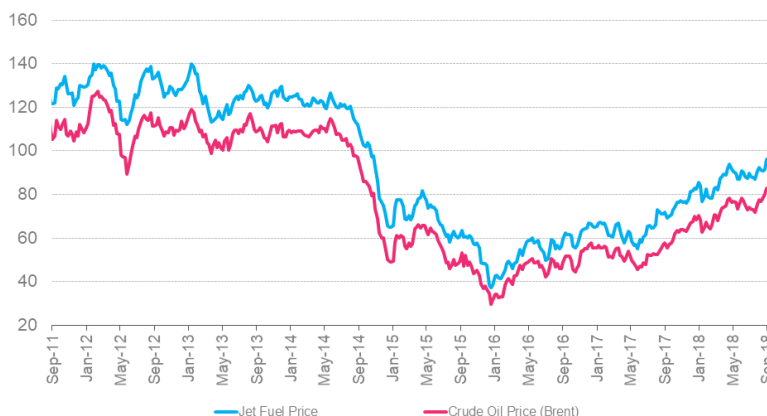
Scope Ratings says fierce competition within a widely saturated European market and elevated fuel prices, made worse by a strong dollar, are squeezing profit margins given it is difficult for airlines to pass on rising costs to passengers through higher fares in these circumstances. Fuel prices are at their highest levels in dollar terms since May 2015.

For Europe's smaller airlines, the cost pressure is more severe when they experience significant flight delays and passengers reclaim air fares under EU regulation.

The airlines which recently ceased operations had fleets of fewer than 10 aircraft, making it hard to defend market share against larger groups with greater economies of scales unless they have narrow niches or work in cooperation with bigger rivals. One option is for smaller airlines to tie up together. The recent merger plan of two regional carriers Air Nostrum and CityJet makes strategic sense, given their complementary route networks and aircraft fleets (see Scope's commentary [Air Nostrum-CityJet merger plan shows European airlines are buckling up for a bumpier ride](#)). The alternative may be to catch the eye of Europe's active consolidators such as IAG, Lufthansa Group or Ryanair.

Primera Air's insolvency announced earlier this week shows that even budget carriers are vulnerable to this mix of adverse factors, with strains also appearing in the performance of market leaders such as Ryanair or Wizz Air. Growth prospects are diminishing partly because the biggest players are increasingly encroaching on each other's markets. According to the data of OAG Aviation Worldwide Limited, even larger low-cost carriers show an overlap of more than 40% within their route networks. Primera Air's struggle also points to certain limitations of the low-cost approach to long-haul connections, a strategy that Norwegian Air Shuttle has started to expand massively in 2018 with initial failures on certain routes. However, Norwegian has the size and capacity to balance those failures with the short-haul business of the group.

Figure 1: IATA jet fuel monitor – Jet fuel and crude oil (in USD/barrel)



Source: IATA, Platts, Oanda

The marginalisation of smaller airlines and more consolidation appears inevitable. Scope predicted earlier this year that the European sector has entered another turbulent phase in which it might be difficult for all but the biggest players to survive ([Europe's airlines brace for more consolidation](#), June 2018), hence pressure on smaller carriers to bulk up or seek the embrace of larger companies.

Analysts

Sebastian Zank, CFA
+49 30 27891 225
s.zank@scoperatings.com

Werner Stäblein
+49 69 6677389 12
w.staebelin@scoperatings.com

Media

Matthew Curtin
+33 6 22763078
m.curtin@scoperatings.com

André Fischer
+49 30 27891 147
a.fischer@scoperatings.com

Related Research

[Air Nostrum-CityJet merger plan shows European airlines are buckling up for a bumpier ride](#), Jul 2018

[Europe's airlines brace for more consolidation](#), Jun 2018

[Trump tax reform to spur competition on transatlantic routes](#), Feb 2018

[Growing Need for Consolidation?](#), Sep 2017

Scope Ratings GmbH

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP



European airlines

Recent airline defaults point to tough outlook for Europe's smaller airlines

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389-0

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Paris

33 rue La Fayette
F-75009 Paris

Phone +33 1 82 88 55 57

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

info@scoperatings.com

www.scoperatings.com

Disclaimer

© 2018 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.

Scope Ratings GmbH, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Torsten Hinrichs.