MOODY'S
RATINGS

Rating Action: Moody's affirms Nordic Aviation Capital DAC's B2 corporate family rating and senior secured ratings, outlook is stable

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New York, March 26, 2024 -- Moody's Ratings (Moody's) has affirmed the B2 corporate family rating (CFR) of Nordic Aviation Capital Designated Activity Company (NAC) and the backed B2 ratings of the senior secured notes and senior secured Term Loan B of NAC Aviation 29 Designated Activity Company (NAC 29). The outlook remains stable.

RATINGS RATIONALE

Moody's affirmed NAC's B2 CFR based on the company's able execution of its ongoing business transformation since emerging from bankruptcy in 2022, led by its experienced management team, which has strengthened its financial position. The affirmation also reflects NAC's prospects for good operating results in 2024 and its effectively managed capital and liquidity positions. The ratings affirmations also consider the company's credit challenges, including its shorter average remaining lease term compared to peers, which weakens revenue transparency; its high reliance on secured debt sources that encumbers its aircraft fleet and contributes to debt maturity concentrations in 2026; and its concentration among its top three customers.

Governance considerations are also a key driver of the ratings, relating to NAC's board-directed evaluation of strategic alternatives to maximize shareholder value, leading to uncertainty regarding NAC's continuity of ownership, strategy, and financial priorities, as well as offsetting positive performance developments in the past year.

NAC continues to execute its strategy of improving fleet composition by divesting certain non-core regional aircraft and investing in narrow-body jets. The company has a strong position as a lessor of turboprop and regional jet aircraft, but its ongoing plan to gain share in the leasing of narrow-body aircraft, while positive for both fleet and customer diversity, nevertheless exposes it to strong competition from well-established and able competitors that have solid financial standing and lower cost of funding. The average age of NAC's fleet improved moderately to 8.1 years at 31 December 2023, while its average remaining lease term improved by about one-half year to 3.9 years, both as a result of divestitures of older aircraft and acquisition of newer models, but both measures still compare unfavorably to peers. The company has a relatively high 45% top 10 customer concentration (net book value basis), mostly attributable to its sizeable relationships with operators Indigo, LOT and Airlink, which together total over 25%, increasing operating risks, but NAC has succeeded in growing its total customer count in the past year.

NAC produced respectable profitability in 2023, its first full year of results after emerging from bankruptcy reorganization. The company's ratio of net income to average managed assets was 1.92% for the year, better than the median for rated peers. Earnings were aided by higher-than-anticipated rental revenues and gains from aircraft trading, both reflecting strong leased aircraft demand from airlines, which has strengthened utilization, lease rates and aircraft values. Moody's expects that air travel growth and strengthening airline finances will continue to aid NAC's leasing volumes and earnings prospects, though earnings and profitability in 2024 could decline as the company continues to pare the fleet of less-strategic aircraft, reducing revenues.

NAC's capital is adequate to cushion performance and execution risks, given the revaluation of its fleet in connection with its reorganization and rising values since then, as well as the company's ongoing efforts to improve fleet composition and operational productivity. NAC's debt-to-tangible equity ratio was 3.4x at 31 December 2023, whereas investment-grade rated peers have measures below 3.0x. However, on a net debt basis, NAC's debt-to-tangible equity ratio improves to 2.5x, reflecting the firm's strong cash position.

NAC's liquidity position is aided by strong cash collections, aircraft sale proceeds, and increased credit availability from its upsized $650 million warehouse line. The company retired about $105 million of debt during 2023 through its buyback program. However, NAC has a concentrated refinancing burden with approximately $1.8 billion of senior secured debts maturing in 2026, which increases risks to its liquidity profile. NAC also has a high reliance on secured debt that encumbers its fleet, resulting in a secured debt-to-assets ratio of 62% at 31 December 2023, significantly higher than peers.

The B2 backed senior secured rating assigned to NAC 29's approximately $1.57 billion secured term debt (split between fixed-rate senior secured notes and floating rate term loan B) reflects the senior secured priority of these obligations in NAC's organizational hierarchy and capital stack, their adequate asset coverage, and the guarantee provided by parent NAC.

The outlook for NAC is stable, reflecting the company's ongoing and well-executed plan to improve cash flows and earnings, including through new aircraft investments while also exiting non-core aircraft. The stable outlook also considers the company's adequate capital position and near-term liquidity, but looming 2026 maturities. NAC's board's exploration of strategic alternatives is a governance risk to financial stability that offsets positive performance developments in the past year.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

NAC's ratings could be upgraded if the company: 1) strengthens profitability and cash flow through improved collection performance, fleet utilization and cost management; 2) effectively manages existing aircraft fleet and lease risks, resulting in improved fleet average age and average remaining lease term; 3) diversifies its funding and reduces debt maturity concentrations; 4) maintains strong liquidity and debt-to-equity leverage below 3.5x; and 5) reduces governance risks by satisfactorily resolving its evaluation of strategic alternatives.

NAC's ratings could be downgraded if the company: 1) produces deteriorating operating performance, reflecting weakness in underlying revenue drivers; 2) increases debt-to-equity leverage above 4x; 3) materially weakens its liquidity coverage; or 4) increases financial or governance risks resulting from its pursuit of strategic alternatives.

The principal methodology used in these ratings was Finance Companies Methodology published in November 2019 and available at https://ratings.moodys.com/rmc-documents/65543 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

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