Ishka Airfinance

Airline Credit Profile sample extract

BRITISH AIRWAYS

Country	United Kingdom
Alliance Membership	Oneworld
Business Model	Full-Service Carrier

	Financials	Traffic Growth (RPKs)	Yields	Macro Indicators	Competition
Ishka View in 2026				Watch: Developing	

Periodic Reviews

Week of 25-May-26

Key Takeaways

- 2025 was another strong year for BA, though moderate overall slowdown in UK-US demand will be a concern, while Iran war presents headwind on input costs and consumer sentiment.
- Operating margin over 2025 expanded mostly on cost management, with LFs down over 1%, passengers flat and constrained ASK growth.
- Forward looking Ishka Score maintained.

BA delivered another strong year in 2025, managing to widen operating margins 1% to over 15%. Notably, given flat revenue and operations, this was mainly due to cost management and a sanguine fuel price for much of the year. From Q2, this will change with the materially higher jet fuel costs triggered as a result of the Iran war. Peer AF-KLM put an initial estimate regarding higher input costs, noting an estimated US$2.4 b higher fuel bill. That US$1.1b of that is expected in Q2 highlights the higher for longer nature of the situation.

Nonetheless, BA has managed to continue registering strong results over a number of periods of economic sluggishness – including 2025. What will be of relative concern going forward should it be more pronounced over an extended period, is the cooling of overall UK-US demand. Total passengers between the two declined 1.3% in Jan-April 2026, per US Government data. This may be able to be offset with strong yields on the premium side, but a softness in overall demand is still a negative.

Elsewhere on the route network side, the APAC region has been strong and will likely be allocated further ASK increases in coming quarters following BA's announcement that frequencies to the Gulf, once they return in July, will be lower than pre crisis levels in an indication the carrier projects a somewhat slower return to normality.

Notably, 2025 was the first year since 2014 (excluding a pandemic distorted 2020 and 2021) that ASKs outstripped RPKs.

On the balance sheet, the strong results have improved leverage and overall position remains robust. Cash was also healthy at c. GBP1.8b (at the end of 2025) although set against an elevated (relative to that figure and previous years) GBP1.7b in payments due over 2026. However, the airline retains sizeable undrawn credit facilities and several avenues to raise more capital.

In conclusion, no change in the forward looking Ishka Score. BA is well positioned to face Iran war related headwinds, but they limit upgrade potential. Also worth monitoring over coming quarters is whether premium yields can continue to hold up what now appears to be moderately weakening overall demand for UK-US traffic, which represents a material proportion of BA's ASKs (and around 30% of IAG's total if including Europe).

Country and Regional Risk

FX Risk

The GBP followed numerous other major currencies in appreciating over the US$ over 2025, albeit with some more volatility owing to domestic fiscal concerns in early H2.

The onset of the Middle East crisis however, has led to US$ strength partially reversing this trend. It remains to be seen by how much, however.

Economic Risk

The UK's economic performance in recent years has been better than prior expectations. Nevertheless, the country does remain one of the weakest performers among mature economies with major structural challenges that need reforming. The economy nonetheless grew around 1.2% in 2025 and the IMF expected a 1.4% growth in 2026 (prior to the ME crisis). However, that compares to the 1.5% and 1.6% in 2025 and 2026 for the group the IMF terms as 'advanced economies'. Additionally, an initial report from the OECD projects that the UK could be the most affected major economies by the ME crisis owing to its international trade and energy import dependence.

Relatedly, since the pandemic, the UK savings rate has been among the highest in the G7, which highlights consumer caution around negative shocks and inflation.

Across Europe as a whole, the economic environment remained somewhat challenged following a stagnant 2024 and slow 2025. Within this, there have been varying growth rates across the region, with some CEE and southern European countries registering strong growth. Some analysts had been cautiously optimistic over a moderate bounce in 2026 – and especially in Germany – helped by the approval of unprecedented Government spending. The ME crisis however presents serious headwinds to this.

The impact of the trade and foreign policy changes is also still unfolding, and how it reshapes global economics and geopolitics is yet to be seen. This will also influence airline outlook in the near term, including the trajectory of FX and jet fuel prices (as already being witnessed).

Political/Social Risk

Politics in the UK remains fractured and volatile. While the 2024 elections saw a change in political leadership and a sizeable mandate for the centre-left Labour Party, many view the progress since then, to implement reforms to tackle long-term structural issues, as being slow. As of this writing, following local elections in May 2026, there are once again prospects of further changes in the leadership. Before the 2024 elections, the UK went through a period of intense political uncertainty which involved four different prime ministers since the 2016 Brexit vote.

A fractured governing party has resulted in challenges to the leadership from candidates considered to the left of the current Prime Minister. This has spooked bond markets, which has led borrowing costs materially higher – a dynamic also partially informed by the Iran war.

On a global level, there are a number of stress points presenting headwinds and tailrisks for the global economy. Most pertinently as of H1 2026 is the Iran war, which is severely constraining oil (and by extension jet fuel) supplies – prompting an inflationary wave and reversal of a period of relatively sanguine energy costs.
The US administration is also markedly different to its predecessor in its more transactional approach. This has caused turbulence and uncertainties globally, including in Europe especially around tariffs.

Infrastructure Risk

Following the onset of the Iran war, apart from airspace closures and the significant spike in jet fuel prices, jet fuel supplies themselves have emerged as a potential risk especially for some import dependent regions/nations. A prolonging of the crisis would see this as a tailrisk, however, as of this writing, most European airlines and the UK government have said that near term fuel supplies remain stable.

Overcapacity and intensive competition were a major challenge for European airlines before the COVID-19 crisis. Recent years have seen significant moves in consolidation, but the market is still less consolidated than North America based on total seats available from the largest operators as a percentage of total seats available overall.

In the longer term – and for the UK – plans have been set in motion to expand capacity both at Gatwick and Heathrow (in the former case approval to utilise the standby runway full-time and in the latter case by adding a third runway). That said, timelines for both projects are very changeable ahead of concrete developments. The UK Government has also sanctioned an increase in capacity at Luton Airport.

Outside of operations, there have been a number of protests, particularly in Spain, at what is seen as tourism sector growing at an unsustainable level.

Sustainability

In the coming years, European airlines will be impacted by the EU's and the UK's carbon reduction initiatives. Both jurisdictions are aiming for substantial reductions (EU – 55% and the UK – 68% by 2030) in greenhouse gas emissions in the coming decades. And as one of the more carbon-intensive industries, aviation/airlines will be under greater scrutiny. Many of the exemptions currently available to the region's airlines are expected to be withdrawn in the coming years. Apart from the EU and UK SAF mandates, airlines will also need to contend with the phase-out of free carbon allowances by 2026 under the various Emissions Trading Schemes.

Route Network Analysis

Immediate ME crisis considerations

IAG, and by extension BA, is well hedged amid surging fuel costs – which offers some short term protection.

British Airways also announced it would boost frequencies to Asia, with capacity usually used for ME routes. The move could potentially deliver strong yields on the basis that supply has been cut by reduced frequencies from (and appetite in the short term around) the ME3.

While there is an element of ad-hoc arrangement to the move, the FT report that BA will then continue to increase Asia frequencies and have lower ME frequencies even when Gulf services resume (scheduled to be in July).

It should be noted though that a continued severe strain of jet fuel owing to the ME crisis could force reduced frequencies to certain locations either through economic rationalisation (as some especially short haul carriers have flagged) or through physical unavailability to refuel at some destination (AF-KLM have cited this as a possible scenario).

IAG peer AF-KLM have initially put their expected extra fuel costs for the FY2026 at US$2.4b, with US$1.1b of that falling in Q2, highlighting the higher for longer nature of the crisis.

Broader route network analysis

British Airways, UK's flag carrier, is one of the world's largest international airlines, serving a vast global network out of its base at London Heathrow Airport, one of the busiest airports in the world on passenger numbers. In 2025, BA held around 35% (in scheduled seat capacity) of the very lucrative Heathrow to New York JFK route. Post pandemic, there has been a surge in North Atlantic – Europe traffic, which has offered European aviation a bright spot in slightly more difficult recent quarters. That said, the trend looks to be cooling slightly after such strong growth. In Q1 2026, total passengers between the UK and US were actually down 0.4%. For FY 2025 for IAG: load factors between Europe and the US were down 1.6% and on the segment total passengers were down 0.5%, with ASKs nudging up 1.4%. That said, BA is still benefitting from the premiumisation trend, which is keeping overall yields robust.

Therefore it will be of continuing concern that after a period of very strong growth there appears to be a sentiment change given recent diplomatic developments between the US and Europe on one hand and potentially early signs of consumer pressure in the US in reaction to tariff uncertainty/Iran war fallout on the other.

In late 2024, the carrier announced they would be suspending flights to Beijing with close to immediate effect and roughly halving capacity to Hong Kong. In 2025 however, Asia traffic made a partial recovery (though remains below pre Covid levels) as BA added a Bangkok winter schedule and returned to Kuala Lumpur.

Regarding the cut back from China operations, reasons cited include an issue Lufthansa have also voiced – that potential passengers are put off the offering due to Western carriers needing to circumvent Russian airspace, at the cost of hours added to the journey time. Chinese carriers, which still operate in Russian airspace, avoid this issue. They have been significantly adding capacity to the UK/Europe over recent years – and boosted their network again when the initial US-Israeli strikes prompted the shutdown of airspace in much of the Gulf. When also framed in the context of a slowing Chinese economy (which has severely weakened domestic confidence) and elevated rhetoric around tariffs, the lack of profitability and demand is understandable.

In 2025, the APAC region more broadly however was a key driver for BA growth. ASKs were up 6.4% - much higher than the overall 2.4% growth.

Elsewhere, BA are strongly positioned in terms of flights from Europe to India. On the routes it operates, it has higher capacity shares, on average, than Air India, Virgin Atlantic and Vistara. Broadly, the country is on a strong trajectory for aviation demand, though there has been industrywide softness seen in recent years, and the economy is in the short term vulnerable from the energy crisis sparked by the Iran war.

BA is also a leading airline by seats offered between London and Europe. While it is not able to compete with the LCCs on price, being the dominant premium player for short haul routes hits a certain demand of customers wanting a level of service above that provided by LCCs – a sentiment that could trend upwards at more certainty around the UKs political (and therefore economic) landscape takes hold post July election.

Cargo had a mixed year in 2025 for IAG overall, initially benefitting from the Red Sea disruption before weakening slightly in H2. For the FY, revenue was flat, on both very moderately higher CTKs and lower yields. Cargo revenue for BA accounted for around 5% of BA revenue in 2025.

Cape Town Convention Coverage

The UK is a ratified member of the Protocol to the Convention on International Interests in Mobile Equipment on Matters specific to Aircraft Equipment.

ishka View

BA has been a central pillar in IAG's run of strong results, contributing the largest operational profit and the largest operational profit increase to the Group in 2023, 2024 and 2025. IAG clearly sees BA as a key player in its portfolio, meanwhile the Group itself boasts a strong liquidity position.

Very strong FY margins in 2025 belied some broader weakness in certain market segments, highlighting a degree of resilience against some more negative economic conditions. This same logic may mean BA is able to pass some of the materially higher fuel costs on to its customers.

BA's more premium short haul offering could continue to perform well in a broader observable trend of premiumisation. Its long haul operations, especially on the UK-US side, still appear solid albeit likely having seen their limit in terms of material growth.

As outlined opposite, the UK economy is sluggish. However, it should be noted that UK households have been the among the highest savers in the G7 since 2022. The run of positive results from BA within that timeframe highlights how it has managed to brush off this negative sentiment.

China is a weak spot that should be of concern for BA (as detailed further in opposite section). However, the broader Asian market also holds positives. BA has a strong footing in the continually promising India market and Japan has seen a boost in popularity over recent years, a trend which could continue on a still historically weak yen.

In 2025, BA's strong operating profits were nudged wider by cost management, rather than materially higher revenues. This dynamic could mean those margins are squeezed by the hike in costs fuel inputs will bring.

While BA successfully offset a degree of weakness at the economy segment level on US-UK traffic with their premium offerings, that weakness could be even further realised with the onset of inflationary effects from the Iran war.

Relatedly, while traffic between the UK-US has not weakened as much as some of the worst case scenarios feared, there could yet be hurdles. Q1 2026 total traffic between the two was moderately down, highlighting what must be sluggish overall demand following years of post pandemic growth.

Like many in mainland Europe, the UK economy was sluggish in 2025. The OECD puts it as one of the worst affected major economies of the Iran war. This may hurt consumer appetite for BA.

While it has found new markets/additional frequencies to offset it, the China market being so impacted by the Chinese airlines' ability to traverse Russian aerospace will still be a frustration.

Being part of IAG, BA will benefit from economies of scale with SAF. But its elevated cost, coupled with an increased ETS will add to the carrier's cost base at a time of increased price sensitivity experienced in some markets. There will also be additional cost implications from CORSIA implementation for the airline's long-haul focussed operations.