



Fitch Rates Avianca's Exchange Offer 'C'

Fitch Ratings-Chicago-01 November 2019: Fitch Ratings has assigned a 'C'/RR4' rating to Avianca Holdings S.A.'s (Avianca) USD550 million senior secured notes due 2020. These notes are being received in exchange for USD550 million of senior unsecured notes due 2020. The new issuance will be secured by a pledge of the AVIANCA brand and certain other intellectual property and unencumbered aircraft. The note holder will also receive a residual interest in all aircraft, except for aircraft currently expected to be sold or subject to third-party leases. The aggregate value of the aircraft in the collateral is approximately USD1.0 billion. Fitch currently rates Avianca's Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) 'RD'/Outlook Stable.

This exchange offer is part of Avianca's refinancing strategy that also consists of a USD250 million secured loan to be provided by United Airlines Holdings, S.A (United; BB/Stable) and Kingsland Holdings, which, if concluded, will be followed by a mandatory exchange by Dec. 31, 2019. This mandatory exchange will extend the maturity of the senior secured notes to 2023 from 2020 and will have a step-up in interest to 9.000% from the current 8.375%. As of Oct. 31, 2019, the company received a conversion rate of 88.1% (USD484 million) for the exchange offer. The outstanding balance should remain due May 2020.

Avianca had USD5.1 billion of total debt as of June 30, 2019, and remains in default on approximately USD2.5 billion of debt related to working capital banking lines and aircraft obligations. The company is working to renegotiate these debt agreements. Once Avianca completes its full refinancing, Fitch will re-asses its debt and risk profile and a positive rating action may follow.

Avianca's recovery assessment is based on a liquidation approach given the high value of its aircraft fleet, which positively compares to the going concern approach. Fitch applies a waterfall analysis to the post-default enterprise value based on the relative claims of the debt in the capital structure. These assumptions result in a recovery rate for the secured bonds within the 'RR3' range, but due to the soft cap of Colombia at 'RR4', Avianca's senior secured notes due 2020 are rated at 'C'/RR4'.

KEY RATING DRIVERS

Solid Regional Market Position: Avianca's business model combines operations in Colombia, Central and South America, allowing it to rotate capacity according to market conditions. Its geographic diversification allowed the company to maintain consistently solid average load factors of 82% during 2015-2018. The company's business diversification is viewed as adequate with international passengers, domestic passengers, cargo operations, and the loyalty program and other segments representing approximately 42%, 41%, 13% and 4% of its total revenues. The announcement of a joint business agreement with United and Copa Airlines (not rated) should only benefit Avianca's competitive business position in the medium to long term. Regulatory approval for this transaction is expected to take approximately 12 to 18 months.

Shareholder Disputes Remain a Concern: The ongoing disputes between Avianca's main shareholders may pose challenges for the company's long-term business strategy and also for the debt renegotiation process. The completion of its refinancing strategy depends on the USD250 million secured loan to be provided by the current shareholders.

Challenge to Improve Margins: Fitch expects Avianca's EBIT margin to decrease to 4.5% in 2019 from 4.9% in 2018. Amidst a scenario of tough competition and currency depreciation, Avianca has been facing a decline in yields and this has been pressuring its operating margins. To face this challenges, the company is trying to cut costs by rationalizing its route network; has announced the removal of its E190 aircrafts from service and is eliminating unprofitable routes, mainly in Peru and in selected regional markets in Colombia, while focusing on its points of network strength.

High Leverage to Persist: Avianca's high leverage has pressured its ratings, and the challenging operating environment in 2019 delayed any deleveraging to late 2020 and 2021. Fitch expects Avianca's total adjusted leverage to increase to around 7.2x in 2019 and 6.5x in 2020. Avianca's total adjusted debt/EBITDAR was 6.6x during 2018 and 7.5x in 2017. Fitch base case does not incorporate any major non-core asset sales besides those already announced, including the Embraer's fleet.

DERIVATION SUMMARY

Avianca's 'RD' rating reflects the announcement of deferred payments on certain long-term leases and principal payment on certain loan obligations. In terms of business profile, the company has a good asset base and is relatively well positioned to its regional peers based on its network, route diversification and important regional market position. Nevertheless, these factors are tempered by the company's higher gross adjusted leverage and refinancing risks, weaker liquidity and financial flexibility relative to peers.

Avianca's rating is below LATAM Airlines S.A. (LATAM; BB-/Stable) and GOL Linhas Aereas Inteligentes S.A. (GOL; B+/Stable), which have recently showed improvements in credit metrics. The ratings distinction among the three airlines reflects differences in the financial strategies, credit access, operational performance volatility and business diversification.

KEY ASSUMPTIONS

- Low single-digit yield decline;
- Load factor in the 80%-82% range;
- 2019-2020 EBIT margin moving to 4.5%-5.5%;
- Capex of USD441 million in 2019 and USD500 million in 2020.

The recovery analysis is based on a liquidation approach given the high value of its aircraft fleet, which positively compares with the going concern approach.

-Fitch has assumed a 10% administrative claim.

Liquidation Approach

The liquidation estimate reflects Fitch's view of the value of aircraft and other assets that can be realized in advance rate of 70% and 75% account receivables due high percentage of credit card receivables.

Fitch applies a waterfall analysis to the post-default enterprise value based on the relative claims of the debt in the capital structure. The agency's debt waterfall assumptions take into account the company's total debt at June 30, 2019. These assumptions result in a recovery rate for the secured bonds within the 'RR1' range, but due to the soft cap of Colombia at 'RR4', Avianca's senior secured notes due 2020 are rated 'C'/RR4'.

RATING SENSITIVITIES

A positive rating action may follow after Fitch completes the assessment of the company's credit profile post-completion of its new debt profile.

LIQUIDITY

Weak Liquidity: As of June 30, 2019, the company had USD261 million in cash. USD3.8 billion of debt will come due in the short term, including USD147 million of leases obligations. The USD584 million of its unsecured notes are due in May 2020. Total adjusted debt was USD5.1 billion at the same period. Debt consists primarily of USD4 billion of on-balance-sheet debt, most of which is secured, and an estimated USD1.1 billion of off-balance-sheet debt associated with lease obligations. Avianca's cash position in percentage of its LTM has deteriorated to 7.3% as March 31, 2019 from 10.3% in December 2018.

ESG

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

Avianca Holdings S.A. has an ESG score of 4 for Group Structure due to complex shareholder structure. The current developments with United and Kingsland add complexity to the case.

Avianca Holdings S.A. has an ESG score of 4 for Labor Relations & Practices reflecting significant pilot strikes that affected the company.

FULL LIST OF RATING ACTIONS

Fitch has assigned the following ratings:

Avianca Holdings S.A.

--USD550 million secured notes due in 2020 'C'/RR4'.

Fitch currently rates Avianca as follows:

Avianca Holdings S.A.

--Long-Term Foreign Currency Issuer Default Rating (IDR) 'RD';

--Long-Term Local Currency IDR 'RD';

--USD550 million unsecured notes due in 2020 'C'/RR5'.

Aerovias del Continente Americano S.A.

--Long-Term Foreign Currency IDR 'RD';

--Long-Term Local Currency IDR 'RD'.

Grupo Taca Holdings Limited

--Long-Term IDR 'RD'.

Avianca Holdings, Grupo Taca, and Avianca Leasing are co-issuers of the USD550 million unsecured notes.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)

Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 18 Jan 2019)

Additional Disclosures

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