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**Research Update:**

## Avianca Holdings S.A. Downgraded To 'CCC+' And LifeMiles To 'B', And Placed On Watch Negative On Higher Refinancing Risk

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## Research Update:

# Avianca Holdings S.A. Downgraded To 'CCC+' And LifeMiles To 'B', And Placed On Watch Negative On Higher Refinancing Risk

## Rating Action Overview

- Avianca Holdings S.A.'s plan to refinance its \$550 million senior unsecured notes due May 10, 2020, has taken longer than expected, thus we believe the company faces a higher refinancing risk.
- On May 13, 2019, S&P Global Ratings lowered its issuer credit rating on Colombia-based airline operator to 'CCC+' from 'B' and its issue-level ratings to 'CCC' from 'B-'. Additionally, we lowered our issuer credit rating on LifeMiles LTD and our issue-level rating on the company's senior secured term loan to 'B' from 'BB-'. We placed all ratings on CreditWatch with negative implications.
- The negative CreditWatch listing reflects a potentially additional downgrade stemming from the uncertainty about the timing and outcome of the company's plan to address its 2020 debt maturities.
- We will resolve the CreditWatch listing within the next 90 days. We could lower our ratings if the company fails to refinance its senior unsecured notes due May 2020 within the next three months.

## Rating Action Rationale

Avianca's plans to refinance its \$550 million senior unsecured notes has taken longer than expected, given several reasons. These include delays to clear certain contractual proceedings with Avianca's shareholders associated with a breach of covenants by BRW Aviation LLC (Avianca's main shareholder) under the November 2018 loan agreement between it and United Airlines Inc., which are necessary to prevent a breach of the company's financial commitments. We believe Avianca faces a higher refinancing risk due to the approaching maturity of its \$550 million senior unsecured notes on May 10, 2020, and potential implications in the cost of financing associated with the reputational risk that stems from the bankruptcy filing of related party Oceanair Linhas Aereas S.A. (not rated), a Brazilian airline that licenses the trademark Avianca Brasil. The refinancing risk leaves the company dependent on favorable economic conditions to meet its financial commitments despite the management's progress toward completing a potential refinancing of the notes. However, if end-market demand deteriorates or financial markets weaken, we believe Avianca would face difficulties securing new financing.

We're also revising our liquidity assessment on Avianca to weak from less than

adequate, given that we expect the company's sources of liquidity to be sharply lower than its uses in the next 12 months, well below 1.0x, reflecting a wide deficit as a result of its now \$550 million short-term debt maturity. Avianca could face liquidity pressures if it's unable to refinance these notes in the next 12 months. However, we still believe that Avianca has a relatively solid bank relationships in Colombia and internationally.

The negative implications reflects the potential to lower the rating of up to one notch amid the uncertainty about the timing and potential outcome of its plan to address its 2020 debt maturities. The company is addressing this refinancing risk to improve its debt maturity profile and liquidity prospects. However, there is no certainty as to whether any of these financing plans will bear fruit and refinancing risk continues to increase as the maturities approach rapidly.

Avianca owns 70% of LifeMiles, and Advent International (not rated) owns the remaining 30%. The downgrade and CreditWatch placement of LifeMiles reflects the two-notch rating differential between it and its parent company, Avianca, given LifeMiles' position as insulated subsidiary. For further information on the issuer credit rating on LifeMiles, see "LifeMiles 'BB-' Ratings Affirmed On Proposed \$75 Million Add-On To Existing Credit Facility, Outlook Still Stable" published on Jan. 25, 2019, and "LifeMiles' Planned Upsizing Of Its Recent Term Loan Add-On To \$100 Million Won't Weaken Its Credit Metrics" published on Jan. 29, 2019.

## **CreditWatch**

The placement of our ratings on Avianca and LifeMiles on CreditWatch negative reflects our view of a potentially additional downgrade amid the uncertainty about the timing and outcome of the company's plan to address its 2020 debt maturities. We will resolve the CreditWatch listing within the next 90 days. We could lower our ratings if the company fails to refinance its senior unsecured notes due May 2020 within the next three months.

We could raise our ratings on Avianca and LifeMiles if Avianca successfully refinances its 2020 notes.

## **Company Description**

Avianca, through its subsidiaries, engages in the passenger and cargo air transportation services, aircraft maintenance, airport services to other carriers, travel-related services to its customers, and ground operations for third-party airlines in hub airports. Moreover, Avianca is the main shareholder of LifeMiles, a loyalty rewards program company. Avianca is Colombia's largest airline. It has operations in 27 countries and flies to 105 destinations in the U.S., Latin America, and Europe. Avianca was founded in 1919 and is headquartered in Panama City, Panama.

## **Issue Ratings - Subordination Risk Analysis**

### **Capital structure**

As of Dec. 31, 2018, Avianca's capital structure primarily consisted of \$2.4 billion in financial leases related to aircraft purchases, \$1 billion of corporate debt mainly related to about \$400 million of unsecured revolving credit lines, LifeMiles' term loan of about \$400 million, and about \$200 million in other bank loans. The remaining amount of total debt consists of the \$550 million rated senior unsecured notes due 2020 and the \$28.1 million senior secured local bonds.

LifeMiles' capital structure consists of the first-lien senior secured term facility for an original amount of \$300 million due 2022 and the incremental facility of \$95 million. As of Dec. 31, 2018, the outstanding amount of this term facility was \$341 million. In January 2019, LifeMiles issued a second incremental term loan of \$100 million under the same term facility.

### **Analytical conclusions**

We rate Avianca's senior unsecured notes at 'CCC', one notch lower than our issuer credit rating, reflecting the structural subordination of the notes to existing secured debt. Under our criteria, aircraft financings are assumed to be senior secured obligations with priority of payment relative to unsecured debt. We exclude operating leases from the calculation. Currently, Avianca's debt priority ratio is about 80% of total debt, leading to a one notch downward adjustment.

We rate the first lien senior secured term facility at 'B', the same level as the issuer credit rating on LifeMiles, because the company and its direct and indirect subsidiaries will unconditionally guarantee the proposed debt instrument on a senior secured basis. The security package will consist of a first priority interest in all tangible and intangible assets (including capital stock of subsidiaries) of the respective borrower and guarantors.

## **Related Criteria**

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Business And Consumer Services Industry, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Lowered; Placed on CreditWatch

	To	From
Avianca Holdings S.A.		
Issuer Credit Rating	CCC+/Watch Neg/--	B/Stable/--
Senior Unsecured	CCC/Watch Neg/--	B-
LifeMiles LTD		
Issuer Credit Rating	B/Watch Neg/--	BB-/Stable/--
Senior Secured	B/Watch Neg/--	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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