

12 May 2020 | Downgrade

Fitch Downgrades Avianca's IDR to 'D'

Fitch Ratings-Chicago-12 May 2020:

Fitch Ratings has downgraded Avianca Holdings S.A.'s (Avianca) Foreign and Local Currency Issuer Default Ratings (IDRs) to 'D' from 'C'. Fitch has affirmed Avianca's senior unsecured bond issuance at 'C'/RR6' and the secured notes at 'C'. Fitch revised the Recovery Rating of the secured notes to 'RR6' from 'RR4', reflecting the impact of the coronavirus on the sector and diminished recovery values of aircraft that were used as collateral for the secured bonds.

The downgrades to 'D' follow Avianca's announcement that it has filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. This process will result in material changes in the terms and conditions of its debt. Once the airline exits the administration proceedings, Fitch will assess its new strategy and restructured financial profile and re-rate Avianca accordingly.

Key Rating Drivers

Voluntary Reorganization Proceedings: Avianca announced on May 10, 2020 that it had filed for bankruptcy protection from its creditors due to liquidity pressure it faces from the Covid-19 pandemic. Avianca did not pay USD67 million due on its outstanding unsecured bonds on May 10, 2020 and will not pay the coupon payment of its senior secured bonds due 2023.

Covid-19 Lockdown: Avianca has temporarily ceased to operate all regular passenger flight operations due to a decision by several governments to close airspace as of March 25, 2020. The return of operations is still uncertain. Avianca has offered a voluntary unpaid leave program, and around 14,000 employees have accepted this offer. This led to a decline in the company's revenues by more than 80% and has squeezed its liquidity position. Avianca's operating cash flow remains highly uncertain for 2020, as it is unknown when the company will be able to restart operations and what restrictions may be placed upon operations at that time.

Derivation Summary

The rating has been downgraded to 'D' as the company has entered voluntary administration.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

The recovery analysis is based on a liquidation approach given the high value of its aircraft fleet, which positively compares to the going concern approach under the current uncertain scenario for global aviation.

Fitch has assumed a 10% administrative claim.

Liquidation Approach:

The liquidation estimate reflects Fitch's view of the value of the aircraft that can be monetized in advance of 50%-70%. Considering Avianca's total debt waterfall, these assumptions result in a recovery rate for the secured notes and unsecured notes within the 'RR6' range, which generates a one-notch downgrade to the debt rating from the IDR. Nevertheless, considering the debt default, it is commensurate with a 'C' rating level.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

Fitch will rate Avianca following its exit from the administration proceedings based on its new strategy and financial profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

The company is rated 'D', and therefore there can be no negative rating action on the IDR.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/>

re/10111579.

Liquidity and Debt Structure

Limited Financial Flexibility: As of Dec. 31, 2019, Avianca had USD398 million in cash and USD872 million of short term obligations, USD237 million of which is related to lease agreements. Total adjusted debt was USD4.9 billion at YE 2019. Debt consists primarily of USD1.8 billion of aircraft loans, USD1.3 billion of corporate debt, USD0.5 billion of cross-border bonds and USD1.2 billion of on balance-sheet lease obligations.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

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 its complex shareholder structure. The current developments with United and Kingsland and other shareholders 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.

Aerovias del Continente Americano S.A. (Avianca); Long Term Issuer Default Rating; Downgrade; D
; Local Currency Long Term Issuer Default Rating; Downgrade; D
Grupo TACA Holdings Limited; Long Term Issuer Default Rating; Downgrade; D
Avianca Holdings S.A.; Long Term Issuer Default Rating; Downgrade; D
; Local Currency Long Term Issuer Default Rating; Downgrade; D
----senior secured; Long Term Rating; Affirmed; C
----senior unsecured; Long Term Rating; Affirmed; C

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Corporate Rating Criteria \(pub. 01 May 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Notching and Recovery Ratings Criteria \(pub. 14 Oct 2019\) \(including rating assumption sensitivity\)](#)

[National Scale Ratings Criteria \(pub. 18 Jul 2018\)](#)

[Parent and Subsidiary Rating Linkage \(pub. 27 Sep 2019\)](#)

Additional Disclosures

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