

Research Update:

Avianca Unsecured Note Ratings Cut To 'CC' From 'CCC' And Off CreditWatch; New Secured Notes Assigned 'CCC-' Rating

November 5, 2019

Rating Action Overview

- Colombian airline operator Avianca faces higher risk of a failure to conclude the renegotiation process on its financial leases within expected timeframes. We believe this could also delay Kingsland and United's \$250.0 million contribution under a senior secured convertible loan to Avianca, increasing a possible default scenario of its senior notes in May 2020.
- On Nov. 5, 2019, S&P Global Ratings lowered its issue-level rating on Avianca's 8.375% senior unsecured notes due May 2020 to 'CC' from 'CCC' and removed the rating from CreditWatch negative.
- At the same time, we assigned a 'CCC-' issue-level rating to Avianca's new 8.375% senior secured notes due May 2020.

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Rating Action Rationale

The 'CCC-' issue-level rating we assigned to Avianca's new 8.375% senior secured notes due May 2020 reflects the company's nearing debt maturity. Under adverse conditions where the company fails to renegotiate its operating and finance lease obligations, it could default on its debt obligations by May 2020. At the same time, the issue-level downgrade to 'CC' from 'CCC' on its 8.375% senior unsecured notes due May 2020 reflects our subordination analysis, where approximately 77.4% of Avianca's total debt is secured. We believe that secured debt will have relatively higher priority than unsecured debt.

As of Nov. 1, 2019, Avianca Holdings S.A. (SD/--/--) reached an acceptance rate of about 88.1% on its existing 8.375% senior unsecured notes due May 2020 to be validly tendered for exchange and not validly withdrawn. The 88.1% represents about \$484.4 million of the principal amount of the existing notes (out of outstanding \$550 million). The remaining 11.9% isn't subject for an exchange, and will still mature in May 2020 under the initial conditions.

According to the terms and conditions for the new senior secured notes, Avianca has offered to

exchange the notes at par value with a higher coupon rate (9%) due May 2023 upon the closing of an investment of up to \$250 million of new equity or convertible debt from United Airlines Inc. (United; BB/Positive/--) and Kingsland Holdings (not rated). The new notes will include additional collateral that consists of certain intellectual property, including the "Avianca" brand, and stock representing the residual value after debt and other liabilities of the company's aircraft fleet, estimated at about \$1 billion, which we believe could compensate creditors.

Moreover, on Oct. 4, 2019, Kingsland and United reiterated their willingness to provide up to \$250.0 million under a senior secured convertible loan to Avianca if it successfully completes the exchange offer transaction and renegotiates its lease agreements. We expect that these parties will finalize the operating and finance lease renegotiation process within the next few weeks; however, we believe Avianca faces a potential delay of this transaction that could increase its risk of default on its senior notes.

We expect to revise our issuer credit and issue-level ratings on Avianca once the company renegotiates its operating and finance lease agreements, so that we can review its new capital structure and credit standing.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, 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
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Ratings List

Downgraded; CreditWatch Action

	To	From
Avianca Holdings S.A.		
Senior Unsecured	CC	CCC/Watch Neg

New Rating

Avianca Holdings S.A.

Senior Secured	CCC-	
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