

Research Update:

DRAFT: Avianca Holdings S.A. Ratings Cut To 'D' On Chapter 11 Bankruptcy Filing

May 11, 2020

Rating Action Overview

- Colombia-based air transportation company Avianca Holdings S.A. and certain subsidiaries have initiated a voluntary petition to preserve and reorganize their businesses under Chapter 11 bankruptcy filing in New York. This follows the company's missed \$65.6 million principal payment on its 8.375% senior unsecured notes due May 10, 2020.
- Due to the coronavirus's global outbreak, the company grounded its entire passenger service fleet on March 25, 2020, which led Avianca to crimped its cash generation.
- On May 11, 2020, S&P Global Ratings lowered its issuer credit rating on Avianca to 'D' from 'CCC-' and issue-level rating to 'D' from 'CCC-' on its 9.0% senior secured notes due 2023. We also lowered our issue-level rating to 'D' from 'CC' on its 8.375% senior unsecured notes due May 10, 2020.

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Rating Action Rationale

Avianca initiates voluntary reorganization proceedings under Chapter 11 bankruptcy filing. On May 10, 2020, Avianca and some of its subsidiaries and affiliates voluntarily filed for bankruptcy under Chapter 11 in New York to preserve business structure amid severe impact from COVID-19's outbreak on the global air transportation industry. The company aims to restructure its debt and lease liabilities by entering into a restructuring support agreement with most of its creditors to withstand the effects of current economic downturn. This follows the company's missed \$65.6 million principal payment on its 8.375% unsecured notes due on May 10, 2020. Therefore, we lowered our issuer credit and issue-level ratings on Avianca to 'D'.

Avianca grounded its entire passenger operating fleet on March 25, 2020, following a 22.7% drop in the number of passengers serviced during the first quarter of 2020, compared with the first quarter of 2019, pressuring its cash generation. We expect further deterioration in Avianca's finances amid operational disruptions stemming from the coronavirus and a steep downturn in the air transportation industry. We believe Avianca will continue seeking extraordinary support from the Colombian government, which together with its current available cash, will support the business during reorganization proceedings.

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LifeMiles is excluded from Avianca's business reorganization. Avianca owns 70% of LifeMiles LTD, and Advent International (not rated) owns the remaining 30%. As we reported in "Avianca Downgraded To 'CCC' And On Watch Negative On Tightening Liquidity; LifeMiles Downgraded To 'B-', Outlook Stable", published on March 20, 2020, we limit LifeMiles ratings at 'B-' given its status as an insulated subsidiary of Avianca. Such a status reflects the following factors:

- LifeMiles won't engage in any bankruptcy proceedings that could jeopardize its operating activities or compromise its assets according to Avianca's Chapter 11 bankruptcy filing.
- LifeMiles doesn't guarantee--directly or indirectly--any of Avianca's financial obligations.
- LifeMiles' financial performance and funding prospects are separate from those of the parent, so that even if other core entities of the latter encounter severe setbacks, LifeMiles' relative strengths would remain nearly intact.
- We believe that Avianca has a compelling economic incentive to preserve LifeMiles' credit strength, because it's an important source of passenger traffic for the airline.

Environmental, social, and governance (ESG) credit factors for this rating change:

- Health and safety

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.

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 | 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: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Ratings List

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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