

Research Update:

# Avianca Downgraded To 'CCC-' And Remains On CreditWatch Negative Amid Tightening Liquidity And Upcoming Debt Maturities

May 5, 2020

## Rating Action Overview

- Colombia-based air transportation company Avianca Holdings S.A. (Avianca) serviced more 2.5 million passengers during 2019 with an average load factor of 80.8%. Due to the current economic downturn and the total grounding of its fleet as of March 25, 2020, the number of passengers the company serviced decreased 22.7% during the first quarter of 2020 (compared to the first quarter of 2019) and its load factor fell to 76.7% from 82.0%. As a result of the global coronavirus outbreak, we expect Avianca's operations to shrink further during April and May 2020.
- The company faces \$65.6 million in principal and around \$2 million in interest payments on its 8.375% senior unsecured notes due May 10, 2020. As of Feb. 20, 2020, Avianca's liquidity remained at \$540 million. However, elevated debt maturities in the upcoming months could impair the company's ability to withstand the sharp drop in demand for global air transportation services.
- On May 4, 2020, S&P Global Ratings lowered its issuer credit rating on Avianca to 'CCC-' from 'CCC'. We also lowered our rating on its 9.0% senior secured notes due 2023 to 'CCC-' from 'CCC' and on its 8.375% senior unsecured notes due 2020 to 'CC' from 'CCC-'. We also kept the ratings on CreditWatch with negative implications.
- The CreditWatch negative listing reflects our view that the weakening of Avianca's liquidity and the absence of extraordinary financial support from shareholders or the Colombian government could force the company to default on the repayment of its 8.375% senior unsecured notes due 2020.

### PRIMARY CREDIT ANALYST

**Humberto Patino**  
Mexico City  
+ 52 55 5081 4485  
humberto.patino  
@spglobal.com

### SECONDARY CONTACT

**Fabiola Ortiz**  
Mexico City  
(52) 55-5081-4449  
fabiola.ortiz  
@spglobal.com

## Rating Action Rationale

**Avianca's ability to absorb low-probability adversities is eroding further amid high debt maturities and non-manageable fixed costs.** As the global coronavirus outbreak continues hitting the economy and demand for air transportation services, the company's liquidity fell to

\$540 million as of Feb. 20, 2020. Given that the company bears high fixed costs of \$40 million - \$50 million monthly, including interest expenses, we don't believe Avianca could meet its senior unsecured debt repayment on May 10, 2020. We believe the company is at a stage where it has to prioritize the allocation of available cash between debt repayments or to cover fixed operating costs while revenue has vanished. We believe this grim scenario will continue impairing Avianca's ability to restart its operations once airports reopen and restrictions on air travel are lifted.

The likelihood of potential default or debt restructuring is rising.

Avianca's \$65.6 million (out of the original \$550 million) of its 8.375% senior unsecured bond mature on May 10, 2020, after

12% of bondholders didn't participate in the exchange offer in December 2019. We believe Avianca faces the higher likelihood of default on these notes unless it receives extraordinary support from shareholders or the Colombian government. As many other companies suffering from the economic hit, Avianca is in conversations with the Colombian government to receive financial support. However, as of this report's date, neither the company nor the government have made any public comments regarding future financial aid or the extent of it. Unless the company receives extraordinary support, we believe Avianca could enter into a distressed debt refinancing or a miss the debt payment.

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

- Health and safety

## **CreditWatch**

The CreditWatch negative listing reflects a further weakening of Avianca's liquidity position amid debt repayments maturing within this month. We believe that even though Avianca maintains sufficient cash to meet upcoming debt obligations, the company may deploy it to cover current operating costs in the event of a prolonged suspension of operations. We expect to resolve our CreditWatch listing within the next 90 days or so, once we have more clarity on Avianca's debt repayment strategy and potential extraordinary support from shareholders or the Colombian government.

## **Downside scenario**

We could lower the ratings if:

- Avianca announces a missed payment on its next interest or principal debt obligations.
- Avianca intends to undertake an exchange offer or any restructuring strategy on its debt or lease obligations.
- We conclude that the company faces a virtual default scenario or potential filing for bankruptcy petition.

## **Upside scenario**

Although unlikely, we could assign a stable outlook if Avianca receives sufficient extraordinary financial support from shareholders or the Colombian government, enabling the company to fully meet its debt and lease maturities. Additionally, we could assign a stable outlook if the company

strengthens its liquidity position in order to withstand the fallout from the suspension of operations amid the coronavirus outbreak.

## **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.

## **Liquidity**

We continue to assess Avianca's liquidity as weak, 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.

Principal Liquidity Sources:

- Cash and short-term investments of about \$540 million as of Feb. 20, 2020.

Principal Liquidity Uses:

- Short-term debt maturities of \$883 million as of Dec. 31, 2019;
- FFO of about \$84 million for the next 12 months;
- Maintenance and committed capital expenditures of about \$201 million for the next 12 months;
- Working capital outflows for about \$103 million in the next 12 months; and
- Dividend payments of \$12 million in the next 12 months.

## **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: 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

	To	From
<b>Avianca Holdings S.A.</b>		
Issuer Credit Rating	CCC-/Watch Neg/--	CCC/Watch Neg/--
Senior Secured	CCC-/Watch Neg	CCC/Watch Neg
Senior Unsecured	CC/Watch Neg	CCC-/Watch Neg

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.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.