



RATING ACTION COMMENTARY

Fitch Downgrades Avianca Holdings to 'C'

Thu 02 Apr, 2020 - 5:51 PM ET

Fitch Ratings - Chicago - 02 Apr 2020: Fitch Ratings has downgraded Avianca Holdings' Long-Term Foreign and Local Currency Issuer Default Rating (IDR) to 'C' from 'CCC-'. The ratings have been removed from Rating Watch Negative. This downgrade follows the announcement by Avianca that it has deferred payments on principal for certain loan obligations, in addition to lease agreements. No repayment acceleration has been requested.

KEY RATING DRIVERS

Covid-19 Lockdown: Avianca announced it has temporarily ceased to operate all regular passenger flight operations until at least April 12, 2020, following a local Government announcement closing Colombian airspace as of March 25, 2020. Seeking to preserve cash, the company has announced the payment deferrals and a cut in all non-essential capital expenditures, and is working on agreements with its key suppliers, strategic lenders and others creditors to restructure its payments under the new cash flow scenario. Avianca has offered a voluntary unpaid leave program and around 14,000 employees have accepted this offer.

Debt Deferral: The announcement of loan payment deferrals indicates a default process has begun, which is commensurate with a 'C'. This rating further reflects Fitch's view that Avianca's USD66 million of outstanding unsecured bonds coming

due in May 2020 will likely not be paid in a timely manner. Besides the loan obligations, the company has also announced leasing agreement deferrals, which have been common practice within the airlines industry amid the current pandemic. 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.

Limited Access to Funding: Avianca has just emerged from a debt restructuring process in late Dec. 2019, when it completed its 2023 secured bond exchange offer, and received USD324 million of loans with United Airlines, Kingsland Holdings Limited and private investors. Fitch considers that Avianca has limited financial flexibility, with no availability of unencumbered assets that could be monetized .

Strong Regional Market Position: Avianca's business model combines operations in Colombia, Central and South America, allowing it to rotate capacity according to market conditions. Its geographic diversification allowed the company to maintain consistently solid average load factors of 81% during 2015-2019. The company's business diversification is viewed as adequate with international passengers, domestic passengers, cargo operations, and the loyalty program and other segments representing approximately 42%, 41%, 13%, and 4% of its total revenues. The announcement of a joint business agreement with United and Copa Airlines (not rated) are still pending regulatory approvals and should only benefit Avianca's competitive business position in the medium to long term.

Credit Linkages and Notes' Guarantees Structure Incorporated: The ratings also reflect Avianca's corporate structure and credit linkage with its subsidiaries, Aerovias del Continente Americano S.A. (Avianca) and Grupo Taca. Combined, these two operating companies represent the main source of cash flow generation for the holding company. The significant legal and operational linkages between the two operating companies are reflected in the existence of cross-guarantee and cross-default clauses relating to the financing of aircraft acquisitions for both companies.

DERIVATION SUMMARY

Avianca's 'C' rating reflects the announcement of deferred payments on certain long-term leases and deferred principal payments on certain loan obligations. In terms of business profile, the company has a good asset base and is relatively well positioned to regional peers based on its network, route diversification and important regional market positions. Nevertheless, these factors are tempered by

the company's higher gross adjusted leverage and refinancing risks, weaker liquidity and financial flexibility relative to peers.

Avianca's rating is below its regional peers LATAM Airlines S.A. (LATAM, 'B+'/'RWN'), AZUL S.A (AZUL, 'B'/'RWN) and GOL Linhas Aereas Inteligentes S.A. (GOL, 'B'/'RWN). The ratings distinction among the three airlines reflects differences in the financial strategies, credit access, operational performance volatility and business diversification.

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.

Fitch has assumed a 10% administrative claim.

Liquidation Approach:

-The liquidation estimate reflects Fitch's view of the value of aircraft and other assets that can be monetized in advance at a rate of 70%, 75% account receivables due to high percentage of credit card receivables and 50% inventories.

-These assumptions result in a recovery rate for the unsecured bonds within the 'RR6' range, which generates a one-notch downgrade to the debt rating from the IDR. Nevertheless, considering the current debt deferral, it is commensurate with a 'C' rating level.

RATING SENSITIVITIES

Developments That May, Individually or Collectively, Lead to Positive Rating Action

-- An upgrade of the ratings for Avianca will occur following the completion of its refinancing with creditors.

Developments That May, Individually or Collectively, Lead to Negative Rating Action

--Avianca's ratings will be downgraded to 'RD' if the company announces a debt restructuring (DDE), or to 'D', if the company formally files for bankruptcy protection.

BEST/WORST CASE RATING SCENARIO

Best/Worst Case Rating Scenarios Non-Financial Corporate:

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 <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. Fitch estimates that around USD50 million of debt is overdue. Avianca's has around USD66 million of outstanding unsecured bonds coming due in May 2020. 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.

ESG

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, adds 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

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 listed below. In addition, the following sources of information which are not discussed in the criteria were used:

RATING ACTIONS

ENTITY/DEBT	RATING			RECOVER
Aerovias del Continente Americano S.A. (Avianca)	LT IDR	C	Downgrade	
	LC LT IDR	C	Downgrade	
Avianca Leasing LLC				
● senior unsecured	LT	C	Downgrade	RR6
Grupo TACA Holdings	LT IDR	C	Downgrade	

[VIEW ADDITIONAL RATING DETAILS](#)

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[National Scale Ratings Criteria \(pub. 17 Jul 2018\)](#)

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

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

[Country-Specific Treatment of Recovery Ratings Rating Criteria \(pub. 27 Feb 2020\)](#)

[Corporate Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)

ADDITIONAL DISCLOSURES

[Dodd-Frank Rating Information Disclosure Form](#)

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ENDORSEMENT STATUS

Aerovias del Continente Americano S.A. (Avianca)	EU Endorsed
Avianca Holdings S.A.	EU Endorsed
Avianca Leasing LLC	EU Endorsed
Grupo TACA Holdings Limited	EU Endorsed

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