



## Fitch Downgrades Avianca Holdings to 'B-' on Rating Watch Negative

Fitch Ratings-Chicago-12 June 2019: Fitch Ratings has downgraded Avianca Holdings S.A.'s Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'B-' from 'B' and its USD550 million senior unsecured notes to 'CCC+'/'RR5' from 'B-'/'RR5'. Fitch has placed all of Avianca's ratings on Rating Watch Negative. A full list of rating actions follows at the end of this release.

The rating downgrade reflects deterioration of Avianca's credit profile as a result of persistently high leverage ratios, limited financial flexibility and high refinancing risks. The ongoing macroeconomic and FX volatilities in the region associated with increasing competition from LCCs are negative headwinds and challenge the company's ability to improve leverage levels during 2019. Fitch expects Avianca's total debt/EBITDAR to be around 6.7x at 2019 and 6.3x by 2020, which compares to 6.6x in 2018 and 7.5x in 2017. The ratings also consider the vulnerability of the company's cash flow generation to fuel price variations and the inherent risks of the airline industry.

The Rating Watch Negative reflects the increasing refinancing risks the company faces with its USD550 million unsecured bonds due May 2020. As of March 31 2019, the company reported USD357 million of cash and USD626 million of short-term debt (excluding rental obligations). If the company is able to complete the bond refinancing, Fitch would consider removing the Rating Watch Negative.

The recent changes at the controlling shareholder level may help support the company in its refinancing efforts, but the terms and time of execution remain uncertain. Fitch views as positive the announcement from United Airlines, Inc. (United, IDR 'BB'/Stable) that it had exercised certain rights under the Loan Agreement (USD456 million) with BRW Aviation LLC (BRW), Avianca's main shareholders (78.1% of voting rights). United had granted independent authority to Kingsland Holdings Limited (Kingsland, 21.9%) as well as the offer of USD150 million in loans to Avianca, after certain conditions are met. Kingsland would also add USD100 million in financing. It is not clear yet the terms of the financial support, but this new credit line could help Avianca to succeed in its refinancing plan and maintain the company's rating at 'B-'.

### KEY RATING DRIVERS

**Change in Shareholder Structure:** If executed as planned, the new shareholder structure at Avianca could be supportive to its refinancing strategy as well as to support its transformational plan. Fitch assesses Avianca on stand-alone basis, with no link to United's ratings, but the presence of United as a strategic partner and the USD150 million loan are credit positive. Avianca needs to amend contracts and request waivers from several ECAs (Export Credit Agency) that are the creditors on around USD1.1 billion of Avianca's debt (total of USD4 billion as of Dec. 31 2018). The amendments and waivers refer to changes in the shareholder structure: add United as permitted holder of Avianca' shares and removal of Synergy Group from being a guarantor in the ECAs contracts.

**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 allows the company to maintain consistently solid average load factors of 82% during 2015-2018. 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. Avianca's dominant position in the Colombian market is positively incorporated into the ratings. The announcement of a joint business agreement with United and Copa Airlines (not rated) should only benefit Avianca's competitive business position in the medium to long term. Regulatory approval for this transaction is expected to take approximately 12 to 18 months.

**Challenge to Improve EBIT Margins:** Fitch expects Avianca's EBIT margin decrease about 5.5%-7.0% during 2019 and 2020, driven primarily by rationalization of its route network and several costs cutting initiatives. This compares with the 6.0% adjusted EBIT margin of 2018. Avianca has announced the removal of E190 aircrafts and eliminations of unprofitable routes, mainly in Peru and in selected regional markets in Colombia, while focusing on its points of network strength. Higher fuel prices and currency devaluation(s) remain as ongoing concerns. The scenario of increasing competition from smaller players in Avianca's main markets is a concern and may pressure the company's solid load factor and yields levels, as observed during 1Q19.

**Fleet Management Key to Restore FCF:** Avianca's strategy to rightsizing its fleet delivery plan is key to improving its cash flow generation. The high capex level of USD659 million in 2018 was a major driver for the negative FCF of USD248 million during 2018. The company announced the revision of its aircraft backlog, aiming to defer up to 35 narrow-body aircraft while cancelling the delivery of another 17. In its base case scenario, Fitch forecasts Avianca's FCF to be neutral to slightly negative during 2019 and 2020, up to USD50 million negative. Capex for 2019 and 2020 is expected to be USD441 million and USD500 million, respectively. Fitch also expects Avianca to remain disciplined on its dividends distributions, maintaining minimum level payouts to avoid further leverage deterioration.

**Leverage to Decline By 2020:** Avianca's high leverage has pressured its ratings, and the challenging operating environment in 2019 should delay any deleveraging to 2020. Fitch expects Avianca's total adjusted leverage to improve to around 6.3x by 2020 from 6.7x in 2019. Avianca's total adjusted debt/EBITDAR was 6.6x during 2018 and 7.5x in 2017. Fitch base case does not incorporate any major non-core assets sales besides those already announced, including the Embraer's fleet.

**High Refinancing Risks:** Avianca's ability to proceed with their refinancing plan is crucial to avoid an additional downgrade. As of March 31, 2019, the company had USD357 million in cash. USD626 million of debt will come due in the short term (excluding operating leases), and USD568 million of its unsecured notes are due in May 2020. Excluding the bonds, the majority of its obligations are aircraft related, which the company is expected to refinance with ongoing secured loans. Fitch considers that the company has some financial flexibility to raise additional cash using part of its unencumbered aircraft fleet. Nonetheless, ongoing discussion at the shareholder level has led to some uncertainties and concerns that the company's debt will be impacted by changes of control clauses.

**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 is well positioned in the 'B' rating category relative to its regional peers based on its network, route

diversification and important regional market position. 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 'B-' rating is below LATAM Airlines S.A. (LATAM, B+/Positive) and GOL Linhas Aereas Inteligentes S.A. (GOL, B/Stable), which have recently showed improvements in credit metrics. The ratings distinction among the three airlines reflects differences in the financial strategies, credit access, operational performance volatility and business diversification.

Avianca's 2018 adjusted EBIT margin of 6% compares poorly to 9% and 7% for GOL and LATAM, respectively. Fitch expects Avianca to maintain operational margins in the 5.5% to 7.0% range during 2019-2020. These levels are below those expected for LATAM and GOL during the same period. Avianca's ratings are constrained by its high gross adjusted leverage (6.6x), which is at the high end of its peer group. LATAM and GOL ended 2018 with gross adjusted leverage metrics of 5.0x and 5.8x, respectively.

Avianca has maintained a low cash position relative to its annual revenues. Given the company's limited financial flexibility at the moment, the percentage has declined to 7%. This level is below Fitch's previous expectation of 12% for 2019. This liquidity position is lower than those levels expected by LATAM (18%) and GOL (15%) during the same period. Due to its debt payment schedule and currently limited access to capital market, Fitch views Avianca Holdings' financial flexibility as weaker than LATAM and GOL.

## KEY ASSUMPTIONS

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

- Neutral to low single-digit yield growth;
- Load factor in the 80%-82% range;
- 2019-2020 EBIT margin moving around 5.5%-7.0%;
- Capex of USD441 million in 2019 and USD500million in 2020

## KEY RECOVERY RATING ASSUMPTIONS

- 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 realized in advance rate of 70%, 75% account receivables due high percentage of credit card receivables and 50% inventories.
- These assumptions result in a recovery rate for the unsecured bonds within the 'RR5' range, which generates a one-notch downgrade to the debt rating from the IDR.

## RATING SENSITIVITIES

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

Fitch would review the Rating Watch Negative if the company successfully completes the refinancing of its USD550 million senior unsecured notes.

- Adjusted gross leverage below 6.5x on sustainable basis;
- EBIT margin consistently above 6.5%;
- Coverage ratio, measured as total EBITDAR/(interest expense plus rents) ratio, consistently above 2x;
- Liquidity, cash/LTM revenues, consistently above 10%.

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

- Failure to proceed with current refinancing strategies in order to reduce the high refinancing risks;
- Adjusted gross leverage above 7.5x;
- EBIT margin consistently below 5%;
- Coverage ratio, measured as the total EBITDAR/(interest expense + rents), consistently below 1.5x;
- Liquidity, cash/ LTM revenues, consistently below 8%.

### LIQUIDITY

Limited Financial Flexibility: As of March 31, 2019, the company had USD357 million in cash. USD626 million of debt will come due in the short term (excluding operating leases), and USD568 million of its unsecured notes are due in May 2020. Total adjusted debt was USD5.9 billion at YE 2018. Debt consists primarily of USD4 billion of on-balance-sheet debt, most of which is secured, and an estimated USD1.9 billion of off-balance-sheet debt associated with lease obligations, per Fitch's criteria. Avianca's cash position in percentage of its last 12 months has deteriorated to 7.3% as March 31 2019 from 10.3% in December 2018.

### FULL LIST OF RATING ACTIONS

Fitch has downgraded and placed the following ratings on Rating Watch Negative:

#### Avianca Holdings S.A.

- Long-Term Issuer Default Rating (IDR) to 'B-' from 'B';
- Long-Term Local Currency IDR to 'B-' from 'B';
- USD550 million unsecured notes due in 2020 to 'CCC+'/'RR5' from 'B-'/'RR5'.

#### Aerovias del Continente Americano S.A.

- Long-Term IDR to 'B-' from 'B';
- Long-Term Local Currency IDR to 'B-' from 'B'.

#### Grupo Taca Holdings Limited

- Long-Term IDR to 'B-' from 'B'.

Avianca Holdings, Grupo Taca, and Avianca Leasing are co-issuers of the USD550 million unsecured notes.

### Contact:

#### Primary Analyst

Debora Jalles  
Director  
+1-312-606-2338  
Fitch Ratings, Inc.  
70 West Madison Street  
Chicago, IL 60602

#### Secondary Analyst

Jorge Yanes  
Director  
+571-326-9999 Ext. 1170

#### Committee Chairperson

Daniel R. Kastholm, CFA

Managing Director  
+1-312-368-2070

Media Relations: Elizabeth Fogerty, New York, Tel: +1 212 908 0526, Email:  
elizabeth.fogerty@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com). For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

#### Applicable Criteria

Corporate Rating Criteria (pub. 19 Feb 2019)  
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)  
National Scale Ratings Criteria (pub. 18 Jul 2018)  
Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018)

#### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form  
Solicitation Status  
Endorsement Policy

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be

accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

## Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)