

03 Feb 2026 | Comment

Fitch Ratings: Avianca's Tap Issuance Neutral to Ratings

Fitch Ratings-Rio de Janeiro/Sao Paulo-03 February 2026: Avianca Midco 2 PLC's USD150 million tap issuance on its existing senior secured notes due in 2031 does not impact the company's 'B+' Issuer Default Rating (IDR) or 'B+' senior secured instrument ratings with a Recovery Rating of 'RR4', according to Fitch Ratings. The transaction will be largely leverage neutral, as the company will use proceeds to address regular liability management strategy. The additional notes have the same interest rate, amortization schedule, indenture, and collateral as the 2031 secured notes. Fitch currently rates Avianca Group International Ltd.'s (Avianca) Long-Term Foreign Currency and Local Currency IDRs 'B+'. The Rating Outlook is Stable.

Avianca's rating reflects the industry's high cyclical risks and the company's solid market position in Latin America, lean cost structure, moderate leverage and good liquidity position. These strengths are tempered by limited financial flexibility due to an unencumbered asset base. The successful of the current bond issuance helps to reduce refinancing risks in the medium term following prepayment of part of the 2028 notes.

KEY RATING DRIVERS

Solidifying Business Strategy: Avianca has been optimizing its network and product offering to boost profitability amid more balanced market dynamics. The company has rationalized domestic capacity in Colombia, with continued network optimization. Avianca has launched 13 new international routes during 2025, with a footprint of 162 routes across 83 destinations. Avianca is focused on maintaining a leadership position in the strategic markets of Colombia, Central America and Ecuador while enhancing its international footprint and expanding business class offerings across the entire network to capture premium revenues.

Medium-term challenges for Avianca include maintaining strong operating margins in a more competitive environment and/or under different fuel price cycles while maintaining its adequate credit profile.

Diversified Regional Market Position: Avianca's business model combines a solid brand and with one of the largest operations in Latin America. The company's sound international routes, cargo operations and loyalty program support adequate business diversification. Avianca's flexible business model has allowed it to rotate capacity within the region and maintain solid load factors

of 80%-82% over the past few years.

During the LTM period ended Sept. 30, 2025, Fitch estimates around 34% of Avianca's revenue distribution (points of sale) was from Colombia, 19% from North America, 22% from Central America, 11% from Europe and the remainder from various jurisdictions.

Increasing Operations, Good Cost Structure: Fitch expects Avianca's operating cash flow to continue to improve in 2025 due to solid domestic traffic levels and better dynamics in the international segment, relatively lower fuel prices, cost efficiencies, and capacity expansion. Fitch forecasts adjusted EBITDAR averaging around USD1.6 billion in 2025 and in 2026, up from USD1.3 billion in 2024. The efficient cost base, business premium revenue and lower fuel prices are driving record EBITDAR margins, with Fitch's base case of 26%-27% in 2025-2026.

Positive FCF: Avianca's stronger operating cash flow generation is resulting in better-than-expected FCF. In its base case, Fitch now expects FCF to be positive after cash flow from operations grows to cover capex for fleet modernization and ongoing business growth. Fitch forecasts Avianca's FCF generation to be around USD68 million in 2025 and USD128 million in 2026 after increasing capex. We assumed capex of USD440 million in 2025 and USD560 million in 2026. As per the company's bond indenture limitations, Fitch does not foresee shareholder returns in the short to medium term.

Manageable Credit Metrics: Fitch's base-case scenario forecasts total and net EBITDAR leverage at around 3.4x and 2.6x, respectively, during 2025. That is an improvement from 4.4x and 3.5x, respectively, in 2024 and significant progress from its Chapter 11 exit year in 2022 (6.2x and 5.0x, respectively). For 2026 and 2027, total and net leverage should remain near 3.4x and 2.5x, respectively. Fitch expects Avianca to remain cautious regarding its inorganic growth strategy, as any M&A opportunities should be led by its parent company, ABRA Group Limited (ABRA).

Improved Refinancing Exposure: The success current bond issuance reduces medium-term refinancing risk following partial prepayment of the 2028 notes and complements Avianca's exchange of its tranche A-1 senior secured notes, due 2028, in early 2025. The company aims to simplify its capital structure as a performing carrier, removing restrictive Chapter 11-era covenants, releasing guarantees and discharging collateral. Fitch expects the company will maintain solid cash balances, with cash/LTM revenue of 15%-20% (21% in September). Avianca's liquidity position is enhanced by an undrawn USD200 million RCF due 2027.

Above-Average Industry Risks: The high-risk airline sector is cyclical and capital-intensive due to structural challenges, as well as being prone to exogenous shocks. High fixed costs combined with

swings in demand and fuel prices typically translate into volatile profitability and cash flows. Exposure to foreign exchange fluctuations for Latin America competitors constitutes an additional risk, as costs are mostly in U.S. dollars and a large part of the company's cash flows are in local currency. For Avianca, this risk is somewhat mitigated by its international operations (85% of capacity).

PEER ANALYSIS

Avianca's rating is below LATAM Airlines Group S.A.'s (BB/Positive) due to relatively higher leverage and weaker market diversification and financial flexibility. Avianca's business and credit profile is stronger than GOL Linhas Aereas Inteligentes S.A.'s (CCC+/Positive), a sister company also owned by Abra. Avianca is more diversified, has a stronger capital structure and a higher liquidity position. Its ratings are constrained by limited financial flexibility in terms of an unencumbered asset base and the industry's high risks.

Fitch expects Avianca's net leverage to remain moderate at 2.6x and 2.5x in 2025 and 2026, respectively, while GOL's leverage is expected to remain high during 2025 at 5.4x and to decline to 4.1x in 2026 and 3.5x by 2027. Fitch forecasts LATAM's total and net adjusted leverage/EBITDAR ratios at around 2.1x and 1.4x during 2025 and 2026, with robust cash balances (cash plus RCF to LTM revenues on average above 25%).

Relative to North American peers, Avianca's rating is lower due to structural and financial factors. American Airlines, Inc. (B+/Stable), United Airlines, Inc. (BB+/Stable), and Air Canada (BB/Stable) all benefit from significant scale, global route networks, relatively lower leverage, stronger liquidity, and greater access to capital markets.

Fitch's Key Rating-Case Assumptions

- Fitch's base case during 2025 and 2026 includes an increase in available seat kilometers to 71,000 and 74,000 respectively;
- Load factors around 80.5% during 2025-2026;
- Steady cargo operations;
- Jet fuel ranging around USD2.65-USD2.75 in 2025-2026;
- Capex of USD440 million in 2025 and USD560 million in 2026;
- No dividend distributions.

RECOVERY ANALYSIS

The recovery analysis assumes Avianca would be considered a going concern (GC) in bankruptcy and the company would be reorganized rather than liquidated. Fitch has assumed a 10% administrative claim.

Avianca's GC EBITDA is USD500 million which incorporates EBITDA post-pandemic, adjusted by lease expenses, plus a discount of 20%. This correlates to an average of USD561 million during 2016-2019, reflecting intense volatility in the airline industry in Latin America. The GC EBITDA estimate reflects our view of a sustainable, post-reorganization EBITDA level upon which we base the valuation of the company. The enterprise value (EV)/EBITDA multiple applied is 5.5x, reflecting Avianca's strong market position in Colombia, Central America and Ecuador.

Fitch applies a waterfall analysis to the post-default enterprise valuation based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt. These assumptions result in a Recovery Rate for the secured debt within the 'RR1' range, but due to the soft cap of Colombia at 'RR4', Avianca's senior secured debt is rated 'B+'/'RR4'.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Dividend distributions eroding the company's credit metrics;
- Liquidity deterioration to cash LTM revenues below 15%;
- Gross and net leverage ratios consistently above 4.0x and 3.5x, respectively;
- EBITDA fixed-charge coverage sustained at or below 1.8x;
- Competitive pressures leading to severe loss in market share or yield deterioration;
- Aggressive growth strategy leading to a consolidation movement financed with debt.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Total and net leverage below 3.5x and 3.0x, respectively, on a sustainable basis.
- Sound business strategy within Avianca's main markets' air traffic, supported by healthy yields and load factors;
- Ability to maintain a strong cost structure, with adjusted EBITDAR margins above 25% on a sustainable basis across varying fuel price environments;
- Maintenance of a strong liquidity position (cash/LTM revenue consistently above 20%) and a well-spread debt amortization profile with no major refinancing risks in the medium term;
- EBITDAR fixed-charge coverage sustained at or above 2.5x;
- ABRA's ability to improve its capital structure and refinancing exposure, reducing pressures on

Avianca per dividends upstream.

LIQUIDITY AND DEBT STRUCTURE

Avianca has maintained a solid liquidity position that is strong for the rating category. As of Sept. 30, 2025, Avianca had around USD1.2 billion in cash and cash equivalents, compared with USD493 million of short-term debt. During the same period, Avianca's total debt was USD5.3 billion, and was mainly composed of USD2.8 billion of leasing obligations, USD1.1 billion of exchange notes due 2028, and USD1 billion of new secured notes due 2030.

Avianca's cash position of USD1.2 billion is sufficient to cover maturities until mid-2027. Avianca's liquidity position is further strengthened by an undrawn revolving credit facility due 2027 in the amount of USD200 million.

ISSUER PROFILE

Avianca is the leading airline in Colombia, Ecuador and Central America, with one of the largest operations in Latin America. Avianca operates passenger and cargo transportation, with international operations representing 83% of total capacity.

Date of Relevant Committee

28 October 2025

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Sector Forecasts Monitor data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

Avianca has an ESG Relevance Score of '4' for Group Structure due to its relatively new and larger

airline operational group (ABRA), which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

Avianca has an ESG Relevance Score of '4' for Governance Structure due to ABRA's aggressive financial policies of late, which has a negative impact on the credit profile and is relevant to the rating in conjunction with other factors.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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