

24 JUN 2026

Fitch Rates Avianca's Proposed Senior Secured Notes 'B+'/'RR4'

Fitch Ratings - Rio de Janeiro - 24 Jun 2026: Fitch Ratings has assigned Avianca Midco 2 PLC's proposed senior secured bonds benchmark-sized a 'B+' rating with a Recovery Rating of 'RR4'. Avianca Midco 2 PLC is a wholly owned subsidiary of Avianca Group International Ltd. (Avianca), which will unconditionally and irrevocably guarantee the issuance. Net proceeds will be used to redeem in full the 2028 notes and the tranche A-1 senior notes and for general corporate purposes. Fitch currently rates Avianca's Long-Term Foreign Currency and Local Currency Issuer Default Ratings '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 given weak unencumbered asset base. The new bond issuance will lower medium-term refinancing risk after Avianca prepays its 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 launched 13 new international routes during 2025, with a footprint of 162 routes across 83 destinations. Management aims to maintain a leading position in its strategic markets of Colombia, Central America, and Ecuador. Avianca has been expanding its international presence and business class offer across the network to increase premium revenue.

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

During the LTM period ended March 30, 2026, around 41% of Avianca's revenue distribution was from Colombia, 20% from North America, 13% from Central America, 15% from South America and 11% from Europe.

Resilience in a Challenging Environment: Due to the higher jet fuel price scenario, Fitch expects Avianca to prioritize margin protection through fare increases and other internal measures. The company has been vocal about its strategy to pass-through around 60% of incremental fuel prices. Under Fitch's base case, jet fuel prices average USD3.2 per gallon in 2026, with yields growing by 10%, supported by healthy traffic levels in the region and Avianca's good market position. During periods of fuel price volatility, Avianca operates derivative contracts. Currently, it hedges around 90% of volume from Mar-May at a cap of USD2.45 per gallon, and close to 100% Jun-Aug at USD4 cap.

Positive FCF: Fitch expects Avianca's operating cash flow (CFFO) to continue to improve in 2026 due to solid traffic levels, better yields, cost efficiencies, and capacity expansion. Fitch forecasts adjusted EBITDAR of around USD1.5 billion in 2026 and USD1.6 in 2027, with EBITDAR margins around 23%-25%. Fitch expects FCF to be positive after CFFO covers capex for fleet modernization and growth, at USD85 million in 2026 and USD133 million in 2027. We assumes capex of USD560 million in 2026 and USD670 million in 2027. 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 3.6x and 2.8x, respectively, during 2026 and 2027. Fitch expects Avianca to remain cautious regarding its inorganic growth strategy, as any M&A opportunities would be led by its parent company, ABRA Group Limited (ABRA).

Improved Refinancing Exposure: The current bond issuance reduces medium-term refinancing risk following prepayment of its tranche A-1 senior secured notes, due 2028. 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% (18% in March 2026). Avianca's liquidity position is enhanced by an undrawn USD200 million RCF due in November 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.

Fitch expects Avianca's net leverage to remain moderate at 2.6x and 2.5x in 2026 and 2027, respectively. Fitch forecasts LATAM's total and net adjusted leverage/EBITDAR ratios at around 2.3x and 1.4x during 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 2026 and 2027 includes an increase in available seat kilometers to 73,000 and 77,000 respectively;

--Load factors around 81% during 2026-2027;

--Steady cargo operations;

--Jet fuel ranging around USD3.2 in 2026 and USD2.7 in 2027;

--Capex of USD560 million in 2026 and USD670 million in 2027;

--No dividend distributions.

Corporate Rating Tool Inputs and Scores

Avianca Group International Limited

Fitch scored the issuer as follows, using our Corporate Rating Tool (CRT) to produce the Standalone Credit Profile (SCP):

- Business and financial profile factors (assessment, relative importance): Management (bb+, Moderate), Sector Characteristics (bb, Lower), Market and Competitive Positioning (bb-, Moderate), Diversification and Asset Quality (bb, Moderate), Company Operational Characteristics (bb-, Moderate), Profitability (bb+, Moderate), Financial Structure (bb-, Higher), and Financial Flexibility (bb-, Moderate).

- The quantitative financial subfactors are based on standard CRT financial period parameters: 20% weight for the latest historical year 2024, 40% for the forecast year 2025 and 40% for the forecast year 2026.

- The Governance assessment of 'Good' results in no adjustment.

- The Operating Environment assessment of 'bb+' results in no adjustment.

- The calibration adjustment applies and results in an adjustment of -1 notch(es).

- The SCP is 'b+'.

To derive the IDR:

-Fitch has made no adjustment to the SCP resulting in an FC and LC IDR of 'B+'.

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 March 30, 2026, Avianca had around USD1.0 billion in cash and cash equivalents, compared with USD515 million of short-term debt. During the same period, Avianca's total debt was USD5.3 billion, and was mainly composed of USD2.7 billion of leasing obligations, USD0.4 billion of exchange notes due 2028, USD1 billion of secured notes due 2030 and USD0.8 billion of secured notes due 2031.

Avianca's cash position of USD1.0 billion is sufficient to cover maturities until mid-2028. 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

27-Feb-2026

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.

Climate Vulnerability Signals

The Climate.VS for 2035 for Avianca is 50, indicating an elevated risk. This reflects the gradually growing costs linked to the decarbonization of the sector. Climate transition risks do not have a material influence on airline ratings at present because the potentially disruptive changes due to transition are unlikely to materialize in the next eight to ten years.

Any potential future impact on the rating may differ from the illustrative rating impact in the Climate.VS framework, reflecting the evolution of Fitch's assessment of the global risks, action the entity might take to adapt to or mitigate the exposure, and any other relevant factors.

For more detailed, sector-specific information on how Fitch perceives climate-related transition risks, see Climate Vulnerability Signals for Non-Financial.

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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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Avianca Midco 2 PLC			
• senior secured LT	B+	New Rating	RR4

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Corporate Rating Criteria \(pub.09 Jan 2026\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.20 Feb 2026\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.27 Jun 2025\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.09 Jan 2026\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Avianca Midco 2 PLC EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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