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CREDIT OPINION
13 December 2022

New Issue

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RATINGS

Avianca Group International Limited

Domicile	United Kingdom
Long Term Rating	B3
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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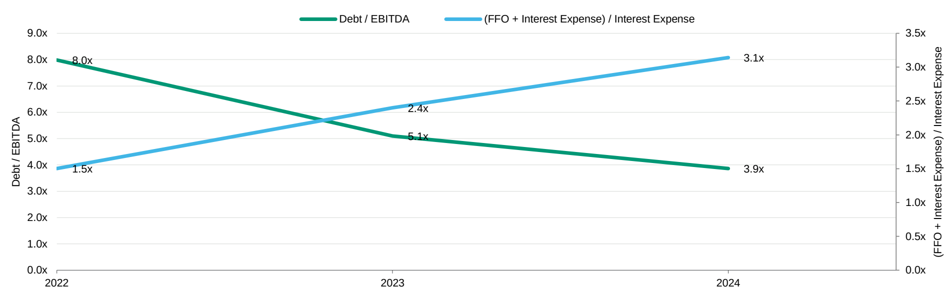
Avianca Group International Limited

Update to credit analysis

Summary

Avianca Group International Limited's (Avianca or Avianca Group) credit profile reflects its leading position in the Latin American passenger airline industry and favorable cost structure. The credit profile is constrained by the execution risks it faces in meeting the operating metrics targets under its business plan. Avianca expects to achieve significant improvements in its operating and credit metrics through 2024, upon fleet densification and simplification, a plan that is underway. Given the company's shift toward a low-cost airline business model, these efforts are key to generating sustained free cash flow (FCF) and steadily reducing leverage, particularly amid high fuel prices.

Exhibit 1
Under Avianca's business model, credit metrics will recover fast through 2024
Leverage and coverage



All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Investors Service based on Avianca

Credit strengths

» Leadership position in the Colombian market

» Strong brand name and low cost structure

» Solid domestic and international route structure

» Good liquidity

Credit challenges

» Execution risk under business plan through 2024

» Recession would deter global travel demand

» High financial leverage

Rating outlook

The stable outlook reflects our expectation that Avianca will continue to benefit from a strong demand recovery while maintaining its conservative financial practices for liquidity, costs and capacity management through 2024.

Factors that could lead to an upgrade

» Passenger demand rising close to the pre-pandemic levels and the company achieving revenue close to $4 billion

» Stronger credit metrics including:

 – EBITDA margin above 14%

 – Debt/EBITDA approaching 5x

 – Funds from operations plus interest/interest above 3.25x

Factors that could lead to a downgrade

» A significant deviation from the demand recovery assumptions under Avianca's business plan.

» Cash and revolver availability falling below $600 million

» Avianca experiencing an inability to strengthen its financial profile through 2024, with:

 – debt/EBITDA remaining above 6.5x on a sustained basis

 – funds from operations plus interest/interest remaining below 2.5x

 – EBIT margin remaining below 7.5%

Profile

Avianca Group International Limited (Avianca) is a privately held company domiciled in the UK, with operations in passenger and cargo airlines. Through its subsidiaries, Avianca is a leading Latin American airline serving more than 125 routes, both in the domestic markets of Colombia, Ecuador and Central America and international routes in North, Central and South America, Europe and the Caribbean. The company has an operating fleet of 115 aircraft, connecting to around 65 destinations in the Americas and Europe. The company also has a frequent flyer loyalty program, LifeMiles Ltd. (B3 stable), which features 11.2 million members. Before filing for bankruptcy, under Chapter 11, Avianca Holdings S.A. was listed on the New York Stock Exchange; after the emergence, in 2021, Avianca Holdings S.A. ceased to exist and was succeeded by Avianca Group International Limited (Avianca).

Detailed credit considerations

The outlook for the global airline industry remains positive

As the risk of recession rises, global airlines are looking increasingly countercyclical. Despite rising costs, passenger demand will remain strong through 2023 from growth in international long-haul and business travel. The recent lowering or removal of barriers to travel across Asia — except China — will promote growth in air travel demand. In Latin America, air travel demand continues to grow, and carriers will benefit from a more rational and consolidated market to keep airfares at high levels. There were no labor shortages in the region, and a little fuel hedging will support Latin American carriers' profitability if jet fuel prices decline. Additionally, constraints in the global commercial aviation supply chain, and labor shortages at the airlines and at key service providers like airports will keep the industry's capacity below demand for the next 12-18 months, sustaining airlines ability to sell tickets at prices that cover its costs.

Consolidation and bankruptcies support more rational competition, higher profitability in Latin America

Consolidation in the Latin American aviation market will result in more rational competition and capacity, ultimately leading to higher airfares and stronger profitability for all carriers in the region. Avianca has taken an active role in the consolidation of the market since its emergence from Chapter 11. In November, the controlling shareholders of Brazil's Gol (B3 stable) and Avianca received approval to combine their stakes into Grupo Abra, a new holding group. The entity will now work on a capital increase to strengthen the balance sheet position of Abra. During November, Avianca also announced it appealed Colombia's civil aviation authority rejection of the integration of Viva under the “failing firm” thesis. Earlier this year, Avianca announced economic interest in Viva, an ultra-low-cost carrier with operations in Colombia and Peru. The appeal includes Avianca's proposed solutions to the authority concerns including a reduction in the entities participation in El Dorado airport in Bogotá, to maintain Viva operations after the integration, to protect airfares in the routes in which all Abra's airlines have full operations as a result of the integration. Avianca and Viva also commit to increase regional connectivity and maintain connectivity agreements Viva has currently outstanding. With the appeal, both airlines look to move forward in the integration process, but the timing remains uncertain.

Several other transactions in Latin America support a more rational competitive landscape in the region. For instance, in 2019, Avianca Brasil ceased operations in the Brazilian market, and since its bankruptcy filing in 2021, Mexican airline Interjet has not resumed operations. However, the consolidation of its competitive position is key for Avianca amid rapid market reconfiguration in Latin America. The total closure of operations for several months in 2020, because of the pandemic, coupled with lack of government support, caused several leading airlines to file for Chapter 11 and undergo significant restructuring. However, Grupo Aeromexico S.A.B. de C.V. (B3 stable) and more recently LATAM Airlines Group S.A. (LATAM, B2 stable) have emerged from Chapter 11 with stronger credit profiles and more efficient operations.

Despite higher fuel prices, Avianca is well poised to meet its business plan target

During 2022, Avianca has been able to sustain revenue supported by capacity ramp-up in response to increasing demand, which has also supported higher average fares. Nevertheless, during Q2 2022, the company's results were hurt by higher fuel prices. As a result, its operating profit for the period was negative $112 million. Actions taken to offset the negative fuel price effect included fare increase, capacity adjustments and cost management strategies, which allowed the company to pass through 98% of the fuel price increase in the third quarter and to generate $241 million in EBITDAR, ahead of the business plan projections. In terms of operating profit, during Q3 2022, Avianca was able to recover to positive $90 million. Considering this rebound, the strong business prospects and favorable seasonality effect for the remainder of the year, Avianca is well poised to meet its target of close to $600 million annual EBITDAR in 2022.

Avianca is on track to fully recover its credit metrics by 2023

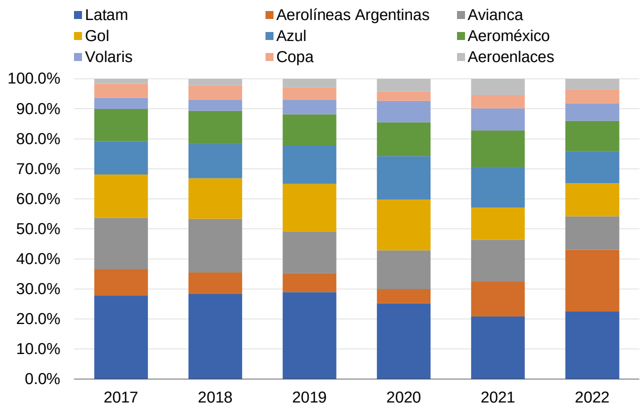
Avianca significantly improved its capital structure after its bankruptcy organization. The company's shift toward a low-cost airline business model is key to generating sustained FCF and steadily reducing leverage. Since 2019 and through Q3 2022, Avianca has achieved $403 million in cost reductions, that together with structural changes to the fleet and network, should allow it to compete better amid the ongoing challenges in the industry.

Under the new business model, credit metrics will recover fast. We continue to focus our credit analysis on liquidity strength and projected credit metrics through 2023. Avianca emerged with cash of more than $1.0 billion and, as of 30 September 2022, it remained strong even after about $260 million spent in capital spending, mainly to densify and reconfigure its aircraft as set forth by its business plan. For 2022, we expect Avianca to generate positive cash from operations and to become FCF positive in 2023. As a result, leverage will decline, with debt/EBITDA approaching 5x by the end of 2023.

Exhibit 2

Avianca has held on to its position as one of Latin America leading airlines ...

Market share of the top Latin American airlines

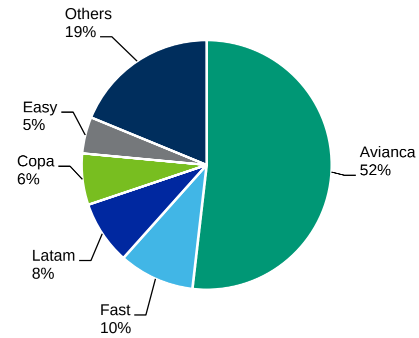


Company retail value (RSP) share.
Source: Euromonitor

Exhibit 3

... and is the strongest company in Colombia

Market share % in Colombia in 2022



Retail value RSP.
Source: Euromonitor

Criticality of LifeMiles loyalty program, the largest contributor to the collateral package

LifeMiles has around 11.2 million members and agreements with about 100 banks, including 24 co-branded credit card agreements, more than that of any other loyalty program in the region. LifeMiles' single-largest contributor to gross billings is Avianca, which, together with its air partners, accounts for around 21% of total gross billings. Lifemiles benefits from Avianca's leading market position in Colombia and Central America. Gross billings from co-branded credit cards have shown significant growth over the past few years and have a strong potential upside, given the low levels of credit penetration in Latin America. LifeMiles' largest market is Colombia, where it derives about half of its gross billings. Other countries in which the company operates account for less than 15% each, including Costa Rica, El Salvador, Honduras, Guatemala and the US.

Rising oil prices will not significantly hinder the recovery of airline profitability through 2023

Since mid-2022, when Avianca reported fuel cost pressures on its profitability, oil prices have declined significantly, although are still trading above Avianca's business plan levels. However, the current geopolitical tensions might lead to higher-than-expected oil prices. The biggest risk to the airline industry would be a scenario where oil prices increase during a recession. Based on historical trends, oil prices decline in a recession, mitigating some of the impact on airlines' profitability during demand troughs. If airline revenue were to fall 10% or 20% versus 2022 because of lower demand, lower fuel costs would offset 40% to 50% of those declines. However, even if demand were to decline during a recession, Avianca has proved its ability to rapidly reduce service and manage capacity to lower its variable costs. Also positive for the airlines sector is our expectation that crack spreads will moderate in 2023. Crack spreads are the difference between the price of a barrel of crude oil and the wholesale prices of the refined petroleum products that result from refining a barrel of oil. We expect refining crack spreads to moderate given the extraordinarily high levels of 2022, modestly lowering jet fuel prices if oil prices hold steady.

ESG considerations

Avianca Group International Limited's ESG Credit Impact Score is Highly Negative CIS-4

Exhibit 4
ESG Credit Impact Score

CIS-4
Highly Negative

For an issuer scored CIS-4 (Highly Negative), its ESG attributes are overall considered as having a discernible negative impact on the current rating. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-3.

Source: Moody's Investors Service

Avianca's ESG Credit Impact Score is Highly Negative (**CIS-4**). This reflects limited credit impact to date, but the potential for carbon transition and related social risk factors to pressure the rating over time. That said, given that current technologies do not support a rapid carbon transition scenario for airlines and there are limited substitutes in most markets, the credit risk to most airlines is long-term in nature. Governance risks mainly relate to Avianca's status as a privately held company, a concentrated ownership and limited track record of the management operating under the current configuration. Somewhat limiting governance risk are post-bankruptcy provisions that will act as a guidepost for financial policy and an experienced management and board with practices that are strong for a privately held company.

Exhibit 5
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	**S-4**	**G-4**
Highly Negative	Highly Negative	Highly Negative

Source: Moody's Investors Service

Environmental

Avianca's risks related to environmental factors is high (IPS E - 4), mainly due to the overall sector's exposure to high environmental risk due to carbon transition. This will primarily depend on evolving global decarbonization policies and regulations which may increase operating costs for airlines. Further, the desire to reduce carbon emissions may lead to reduced travel, in particular for business purposes, much of which can effectively be done virtually, as demonstrated during the pandemic. Aligned with the best practices in the sector, Avianca has implemented different actions with the objective of making a low-carbon transition. These actions include i) Aircraft densification, through the reconfiguration of the cabins of its A320 fleet, which allows us them to offer 20% more capacity per aircraft and reduce CO2 emissions per customer transported by 13%; Avianca will also add 88 A320neo aircraft to its fleet between 2025 and 2030. The A320neo incorporates the latest technologies, which together offer 20% fuel savings and CO2 reductions compared to the previous generation Airbus aircraft. ii) increased efficiency through more than 24 operational initiatives, of which 6 with the most significant potential to minimize emissions were prioritized, managing to avoid the emission of 43,039 tons of CO2 during 2021, iii) renewable energy generation through the installation of solar panels at the Maintenance, Repair, and Operations (MRO) facility in Colombia, Avianca was able to generate through solar energy approximately 40% of the energy consumed by the MRO. As an airline, Avianca is committed to the objectives established by the aviation sector in terms of climate change, which is why in 2022 it updated its more demanding efficiency goals, aligning itself with the 2% annual reduction in the generation of emissions per passenger transported by 2030. Having its operational hubs in Latin America, Avianca faces lower regulatory pressures than its peers based in Europe and the US. Nevertheless, is committed to different efforts against climate change. In the framework of CORSIA, since 2019, the company aligned to definitions of compliance in voluntary countries with compensation scheme according to the definition of the International Civil Aviation Organization's (ICAO). In compliance the EU ETS, Avianca complies with the compensation of emissions generated on intra-European routes, which do not exceed 60 ton of CO2 produced per year. In Colombia, where Avianca operates the most of routes, 91% of CO2 emissions from domestic operations are offset.

Social

We consider social risk across the industry and for Avianca to be high. This reflects our view of a linkage between carbon transition and demographic and societal policies. The high score indicates the potential for policies and/or trends that lead to lower travel volumes or higher costs, or both. Overall, the industry, also have moderate human capital risk because of the potential shortfall in skilled labor (pilots and mechanics), which would negatively affect operations and or increase costs. Although in the past Avianca faced operational disruptions due to strikes, we believe those risks have diminished in Latin America as some airlines went out of the market during the pandemic and consolidation is ongoing. We regard the coronavirus pandemic as a social risk under our ESG framework, given the substantial implications for public health and safety. Avianca, after having entered a restructuring process under the US bankruptcy law in May 2020, reached an agreement with the pilots' union Colombian Association of Civil Aviators (Asociación Colombiana de Aviadores Civiles), which resulted in paycuts but ensures job security for the next four years for more than 1,200 pilots in total. The current agreement eases risks related with labor. The company emerged Chapter 11 with an overhauled business model that allows it to better respond to specific consumer needs and that has been instrumental in the rapid recovery reported in 2022.

Governance

Avianca's exposure to governance factor is highly negative. This primarily reflects the company's status as a privately held company with shareholder concentration as 100% of shares owned privately by DIP financing Tranche B creditors and general unsecured creditors. Governance risk also reflects a limited track record of the management operating under the current configuration. These risks are balanced by a highly qualified management team, with experience in the airline sector and a board of directors that is also highly qualified and has 4 independent members and 4 committees. Also limiting governance risk is our consideration that post-bankruptcy exit financing provisions will act as a guidepost for the financial policy of the pro-forma company, including debt incurrence limitations and restricted payments and investments. Despite being a privately held company, we expect Avianca to follow compliance and reporting practices in line with public entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

Avianca has good liquidity. As of September 2022, Avianca's cash and equivalents totaled $826 million; the main difference with the $1.2 billion at bankruptcy exit is related to close to $400 million debt repayments and $200 million in capital spending, net from reimbursements, in line with fleet densification efforts drawn in Avianca's business plan. Given the operational recovery in Q3 2022, efficiencies and efforts to accommodate capacity, the favorable seasonality effect in Q4 and lower oil prices, Avianca will be able to improve its cash position by the end of the year. Although capital spending will continue at the current level in 2023, cash generation is likely to accelerate, allowing Avianca to become cash flow positive. Because the bulk of Avianca's debt is the $1.6 billion under post-exit global senior notes maturing in 2028, its cash position is adequate to face internal needs including interests, leases and capital spending.

Structural considerations

Exit financing notes are secured by Avianca's 100% stake in the loyalty program LifeMiles, pledge of the cargo business, first-lien pledge on brand intellectual property and first-lien pledge on certain COP-denominated credit card receivables. Appraisals estimated the collateral value at $3.0 billion at bankruptcy exit. However, the collateral coverage relies heavily on assets that are more difficult to value, such as intangibles. Although the collateral value provides strong coverage relative to the exit facility on an ongoing concern basis, in a liquidation scenario, its value could be lower given its ties with the airline. Nevertheless, more than 70% of LifeMiles' gross billings are not related to Avianca but are sales to third parties including banks and retailers, which limits this risk.

Rating methodology and scorecard factors

The following table shows Avianca's scorecard-indicated outcome using our Passenger Airlines rating methodology, with data as expected for the full year 2022 and on a forward-looking basis. The rating outcome is one notch below the scorecard-indicated outcome, mainly as a result of its execution risk.

Exhibit 6
Avianca Group International Limited

Passenger Airline Industry Scorecard [1][2]	2022E		Moody's 12-18 Month Forward View As of 11/28/2022 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$3.1	Caa	$3.9	Caa
Factor 2 : Business Profile (25%)				
a) Market Position and Network Strength	Ba	Ba	Ba	Ba
Factor 3 : Profitability and Efficiency (12.5%)				
a) EBIT Margin (EBIT / Revenue)	5.1%	B	11.1%	Ba
Factor 4 : Leverage and Coverage (37.5%)				
a) Debt / EBITDA	8.0x	Caa	5.1x	B
b) RCF / Debt	3.9%	Caa	11.6%	B
c) (FFO + Interest Expense) / Interest Expense	1.5x	Caa	2.4x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		B2		Ba2
b) Actual Rating Assigned		B3		B3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] [3] Both 2022 FY and Forward looking view based on Avianca's business plan post-Chapter 11 emergence.
Source: Moody's Financial Metrics™

Ratings

Exhibit 7

Category	Moody's Rating
AVIANCA GROUP INTERNATIONAL LIMITED	
Outlook	Stable
Corporate Family Rating	B3
Senior Secured	B3

Source: Moody's Investors Service

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