

CREDIT OPINION

17 January 2024

New Issue



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RATINGS

Avianca Group International Limited

Domicile	United Kingdom
Long Term Rating	B2
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 following upgrade to B2 with a stable outlook

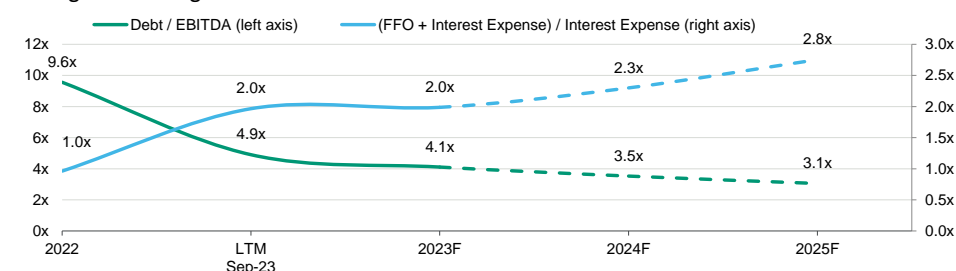
Summary

[Avianca Group International Limited's](#) (Avianca) 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 given the recently added capacity; although Avianca expects demand to increase in line with the additional capacity, increasing competition pressures air fares down. Also, the company is exposed to the inherent volatility of the airline industry and rising macroeconomic risks and costs. Although fuel price has declined since its peak in 2022, volatility persists, threatening Avianca's profitability despite firm cost control measures.

Exhibit 1

Under Avianca's business model, credit metrics will recover fast through 2025

Leverage and coverage



All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year end unless indicated. LTM = Last 12 months. Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts.

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 risks associated with its business plan through 2024
- » Macroeconomic risks would deter global travel demand
- » High financial leverage

Rating outlook

The stable outlook reflects our expectation that Avianca's credit metrics will continue to strengthen as recently added capacity ramps-up and that liquidity will remain strong in the next 12-18 months, and that the company will maintain its conservative approach towards liquidity, costs and capacity management.

Factors that could lead to an upgrade

- » Sustained increase in passenger demand allowing the company to sustain revenue growth
- » Stronger credit metrics, including:
 - Debt/EBITDA below 4.0x
 - Funds from operations plus interest/interest above 3.5x
- » The maintenance of an adequate liquidity profile

Factors that could lead to a downgrade

- » A deterioration in the company's liquidity profile or additional shocks to demand or profitability that lead to cash burn
- » Credit metrics recovery falling behind our expectations, with:
 - debt/EBITDA remaining above 5.0x on a sustained basis
 - funds from operations plus interest/interest remaining below 2.0x

Key Indicators

Avianca Group International Limited

US Millions	Dec-18	Dec-19	Dec-20	LTM (Sep-21)	Dec-22	LTM (Sep-23)	Dec-23	Dec-24	Dec-25
Revenue	4,890.8	4,621.5	1,711.6	1,740.2	4,047.9	4,568.7	5,160.3	5,712.2	6,380.0
EBIT Margin %	7.4%	-1.6%	-34.4%	-45.8%	2.1%	11.6%	11.8%	13.4%	15.3%
Debt / EBITDA	6.1x	9.5x	-114.9x	-23.1x	9.6x	4.9x	4.1x	3.5x	3.1x
RCF / Debt	7.3%	5.3%	-6.9%	-8.0%	-0.4%	9.8%	11.8%	15.8%	20.6%
(FFO + Interest Expense) / Interest E	2.6x	2.0x	-0.1x	0.0x	1.0x	2.0x	2.0x	2.3x	2.8x

All figures and ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Periods are fiscal year end unless indicated. LTM = Last 12 months. From 2018 to 2020, figures and ratios are based on Avianca Holdings S.A. After emerging from Chapter 11, Avianca Holdings S.A. ceased to exist and was succeeded by Avianca Group International Limited (Avianca). Moody's forecasts are Moody's opinion and do not represent the views of the issuer.

Chapter 11 is a part of the U.S. Bankruptcy Code that allows businesses and individuals to reorganize their debts while still operating. It's typically used by corporations that need time to restructure their debts.

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

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 132 routes, both in the domestic markets of Colombia, Ecuador and Central America, and the international routes in North, Central and South America, Europe and the Caribbean. As of September 2023, Avianca's fleet was comprised of 159 aircraft including 126 Airbus 320 and 16 Boeing 787 Dreamliner, connecting to around 72 destinations in the Americas and Europe. The company also has a frequent flyer loyalty program, [LifeMiles Ltd.](#) (B2 stable), which features 12 million members and 400 commercial partners worldwide.

Detailed credit considerations

Strong execution, exceeding projections and accelerated capacity expansion

The upgrade of Avianca's rating to B2 from B3 reflects the strong execution of its business plan after emergence from restructure under Chapter 11. In the third quarter of 2023, the company reported EBITDAR that exceeded projections by \$63.7 million. For the 12 months that ended September 2023, we estimate an EBIT margin of 11.6%, above the original expectation of 11.1%. Recently, the company accelerated its plan to increase capacity, adding around 12 new aircraft and is expecting five more before year-end 2023. Avianca also increased the number of pilots, crew and personnel accordingly. Despite rise in debt due to increase in fleet size and no cash benefit because the fleet was not yet flying during the quarter, in the last twelve months that ended in September Avianca's gross debt/EBITDA, including Moody's standard adjustments for the period, was 4.9x, still below our expectation of 5.1x. Through 2024, the ramp-up of additional capacity will allow Avianca to reduce its leverage toward 3.5x.

The outlook for the global airline industry remains positive reflecting passenger demand extended recovery

Aggregate operating profit for the sector continues to expand given a broader recovery of passenger demand, favorable pricing, operating leverage that accompanies higher passenger volumes, and cost management and efficiency gains. Passenger demand will continue to recover across all regions through 2024 as carriers cope with capacity constraints. Despite cost pressures on consumers, passenger demand will likely remain strong as the sector benefits from consumers prioritizing spending on experiences over tangible purchases. Flexible work arrangements will also support demand. However, a shortage of aircraft, pilots and air traffic controllers will limit capacity to below desired levels that would better serve demand. The imbalance in capacity and demand will help mitigate downward pressure on fares amid macroeconomic challenges.

More rational competition and consolidation leads to higher profitability in Latin America

Avianca's operating performance has been stronger than anticipated on the back of a strong comeback of Latin America's air-passenger demand. According to the International Air Transport Association, air-traffic in the region reached 94% of 2019 levels in 2022 and 100% in 2023. Additionally, several transactions since 2019 have also helped rationalize airline competition within the region, allowing Latin American airlines to profit on high air fares. In 2022, Abra Group Limited (ABRA, Caa1 stable) formed a partnership that included a 54% stake in Gol Linhas Aereas Inteligentes S.A. (Gol, Caa2 negative), a financial investment in Sky Airlines S. A. (SKY), a Chilean low-cost domestic carrier, and 100% of Avianca, a move that helped rationalize intraregional competition. Positive market dynamics resulted in Avianca recovering revenues to 2019 levels but with a more profitable business. Revenues for the LTM ended in September 2023 were already at the \$4.6 billion reported in 2019, but with a healthy EBIT margin at 11.6%. Unit revenue metrics outperformed projections. Passenger Revenue per Available Seat Kilometer (PRASK) in the Q3 2023 was 7.25, well above the 5.45 originally expected, yield for the period at 8.49 was also well above the 6.62 under Avianca's business plan. Load factor also strengthened throughout the year reaching 85.5% in the Q3 2023. Under the currently robust demand environment, Avianca should be able to sustain PRASK and load factor as it deploys additional capacity in 2024.

Given increased efficiencies, Avianca is well poised to meet its business plan target

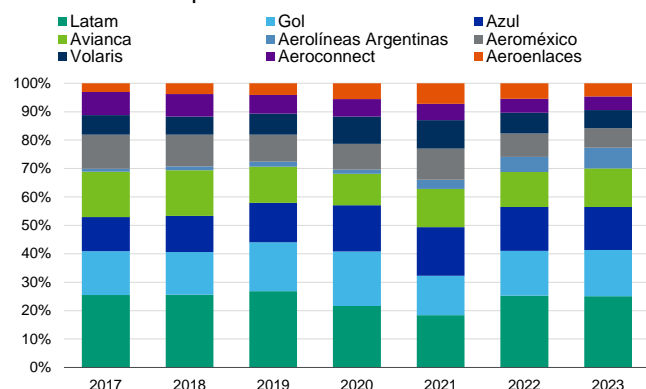
Avianca emerged from Chapter 11 with a lower cost and capital structure as well as a shift in its business model from full-service hub and spoke towards a hybrid low cost model with a narrow body focus in a point-to-point operation. As a result, cost savings against 2019 structure have been around 40%. Currently, Avianca's Passenger Cost per Average Seat Kilometer excluding fuel (PaxCASK ex-fuel) of 3.9 cents is well below the 6.2 cents reported in 2019 and positively compares with industry peers. Given increased efficiencies, Avianca's improvements should be sustained longer term as it has cushion against stress scenarios. After jet fuel prices peaked in 2022, Avianca increased fares, adjusted capacity and implemented cost-management strategies, passing its higher fuel costs to customers and generating \$721 million in EBITDAR in 2022—well above its \$676.9 million target. Given recently added capacity and stable

business prospects, we expect Avianca to end 2023 with positive free cash flow and to continue to strengthen its cash generation through 2025.

Exhibit 3

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

Market share of the top Latin American airlines



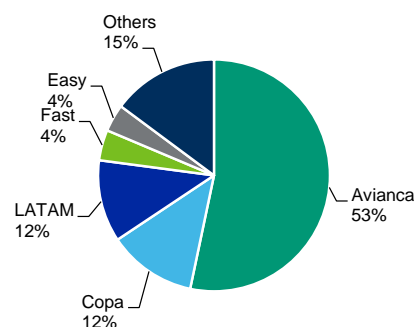
Company retail value (RSP) share.

Source: Euromonitor

Exhibit 4

... and is the strongest airline in Colombia

Market share (%) in Colombia in 2023



Retail value (RSP).

Source: Euromonitor

Strong credit fundamentals of LifeMiles loyalty program, the largest contributor to the collateral package

The ratings also include structural considerations between Avianca and LifeMiles. LifeMiles is fully owned by Avianca and is the sole operator of its frequent flyer program. Given its close to 20% contribution to Avianca's EBITDA, LifeMiles is important to the airline business. Moreover, the stake of LifeMiles is part of Avianca's rated exit financing notes collateral package.

Since 2021 Lifemiles gross billings recovered from the pandemic-induced decline in air travel. In the LTM ended in Q2 2023 the company generated \$220 million in gross billings, well above the \$183 million reported in the same period of 2022 and we expect the positive trend to continue through 2024. As a result, credit metrics have improved since the end of 2021, when EBITA margin was 38.3% and Moody's adjusted leverage (gross debt / EBITDA) was 5.0x. For the LTM ended in September 2023, LifeMiles EBITA margin and leverage were 43.5% and 2.8x, respectively. The rating also considers LifeMiles good liquidity and corporate policies that require leverage to be maintained at 2.0x - 3.0x adjusted cash EBITDA, and a minimum cash balance equivalent to six months of rewards plus two quarters of debt service (~\$100 million).

ESG considerations

Avianca Group International Limited's ESG credit impact score is CIS-3

Exhibit 5

ESG credit impact score

CIS-3



ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time.

Source: Moody's Investors Service

Avianca's **CIS-3** indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. Carbon transition risk reflects that current aircraft propulsion technologies and very limited supply of sustainable aviation fuel will not support a rapid carbon transition scenario for the airline industry. Potential policy responses including more onerous regulations are possible and a social risk. However, the credit risk to airlines is long-term in nature.

Exhibit 6

ESG issuer profile scores



Source: Moody's Investors Service

Environmental

Avianca has exposure to carbon transition. This will primarily depend on evolving decarbonization policies around the globe and regulations which may increase operating costs for airlines. Further, the desire by some to reduce carbon emissions may lead to reduced travel, in particular, corporations seeking to reduce their carbon footprints.

Social

We consider social risk across the industry and for Avianca to be high. This reflects our view of a linkage between demographic and societal policies and carbon transition. 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.

Governance

Avianca's governance risks are incorporated in the rating and reflect the company's status as privately-held, with 100% of its shares owned by Abra Group Limited ("Abra") – incorporated in the UK in February 2022 and holding entity of the Avianca group since April 2023 – a platform company that (i) indirectly holds 52.74% of the economic rights in Gol, one of Brazil's leading domestic low-cost carriers, and (ii) indirectly holds a loan agreement with Sky Airline, a Chilean low-cost carrier, which contemplates the potential conversion of the debt into a minority stake in Sky. Abra's main shareholders are Mobi – Gol's former controlling shareholder (with a 32.3% stake) –, Kingsland group (with a 15.8% stake), South Lake One (with a 14.5% stake), Elliott (with a 11.8% stake), and United Airlines (Ba1 stable) (with a 8.6% stake). This risk is balanced by a highly qualified management team, with experience in the airline sector, and a board of directors that is also highly qualified, has 4 committees and 12 directors (of the original independent directors, 4 continue to serve on the current board). 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 a similar fashion to public entities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.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.

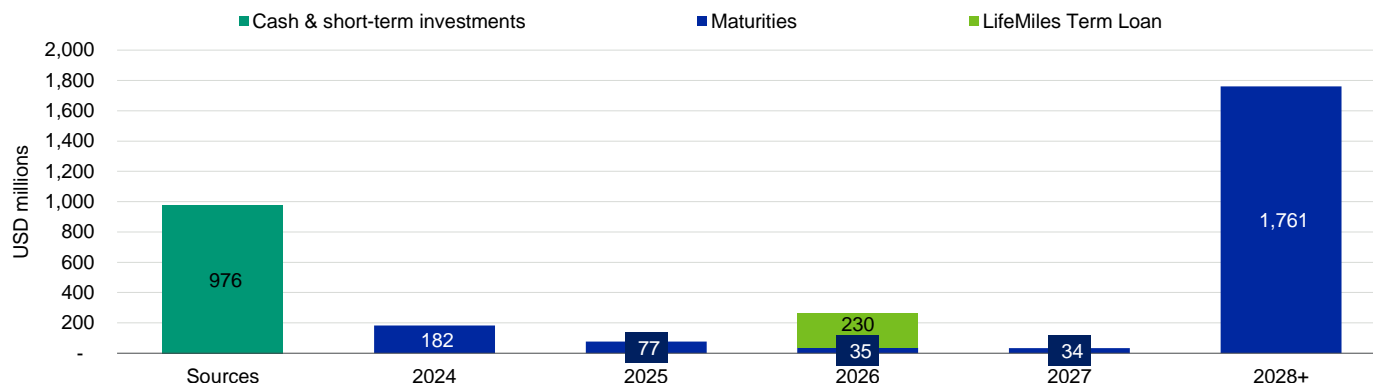
Liquidity analysis

Avianca's liquidity is strong. As of 30 September 2023, cash and short term investments amounted \$976 million. The company generated \$45 million in Q3 2023 before considering debt repayments. In terms of FCF, Avianca generated \$204 million in the 12 months that ended September 2023 after capital spending of around \$430 million. Avianca's liquidity also benefits from a comfortable maturity profile with only \$182 million and \$77 million in debt maturities during 2024 and 2025, respectively. We expect Avianca's

cash generation to continue to strengthen through 2025 as cash from operations grow in line with the ramp-up of additional capacity, while capital spending will remain close to \$470 million annually on average during the period.

Exhibit 7

Avianca's strong liquidity is supported by a comfortable maturity profile



Source: Avianca

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 Colombian peso-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 because of 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.

Methodology and scorecard

Exhibit 7 shows Avianca's scorecard-indicated outcome using our [Passenger Airlines](#) rating methodology, with data as expected for the 12 months that ended 30 September 2023 and on a forward-looking basis. The rating outcome is two notches below the scorecard-indicated outcome, mainly as a result of its execution risk.

Exhibit 8

Avianca Group International Limited

Passenger Airline Industry Scorecard [1][2]			Current LTM 9/30/2023		Moody's 12-18 Month Forward View [3]	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$4.6	Caa	\$5.7	B		
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)	11.6%	Ba	13.4%	Ba		
Factor 4 : Leverage and Coverage (37.5%)						
a) Debt / EBITDA	4.9x	Ba	3.5x	Ba		
b) RCF / Debt	9.8%	B	15.8%	Ba		
c) (FFO + Interest Expense) / Interest Expense	2.0x	Caa	2.3x	B		
Factor 5 : Financial Policy (15%)						
a) Financial Policy	Ba	Ba	Ba	Ba		
Rating:						
a) Scorecard-Indicated Outcome		B1		Ba3		
b) Actual Rating Assigned				B2		

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] [3] Both the last-12-month (LTM) and forward-looking views are based on Avianca's business plan after the Chapter 11 emergence.

Sources: Moody's Financial Metrics™ and Moody's Investors Service forecasts

Ratings

Exhibit 9

Category	Moody's Rating
AVIANCA GROUP INTERNATIONAL LIMITED	
Outlook	Stable
Corporate Family Rating	B2
Senior Secured	B2
PARENT: ABRA GROUP LIMITED	
Outlook	Stable
Corporate Family Rating	Caa1
LIFEMILES LTD.	
Outlook	Stable
Corporate Family Rating	B2
Sr Sec Bank Credit Facility	B2

Source: Moody's Investors Service

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