

Avianca Group International Limited

Avianca Group International Limited's (Avianca) rating reflects the industry's high cyclical risks, the company's solid market position in the Latin American airline passenger industry, lean cost structure, moderate leverage, with net debt/adjusted EBITDA remaining at 3.0x–4.0x within the rating horizon, and good liquidity position, yet limited financial flexibility.

Medium-term uncertainties include Avianca's ability to maintain its strong operating margins, while resuming its business growth, post the Chapter 11 process in the U.S., and under a more challenging business environment, and rising fuel prices. Ongoing execution risks related to its new business strategy moving toward a low-cost carrier are also embedded into the analysis but recent quarters' performance has shown good progress and favorable dynamics.

Key Rating Drivers

Above Average Industry Risks: The airline industry is inherently a high-risk sector, given that it is a cyclical, capital intensive business with various structural challenges and is prone to exogenous shocks. High fixed costs, combined with swings in demand and fuel prices, typically translate into volatile profitability and cash flows.

The exposure to foreign exchange fluctuations for Latin America competitors constitutes an additional risk, as the majority of costs are U.S. dollar denominated and a large part of operating cash flows are generally in local currency. In the case of Avianca, this risk is partially mitigated by its international operations, which represent around 81% of its revenue passenger kilometers (RPK) in 2023. The track record of several debt restructuring processes within the airline sector in the region over the past few years highlights the risks.

Diversified Regional Market Position: Avianca's business model combines a solid brand and large operations in Colombia, Central and South America. Geographic diversification allowed the company to rotate capacity within the region and maintain consistently solid average load factors of 80%–82% over the past few years.

The company's business diversification is viewed as adequate, with domestic passengers and international passengers representing around 46% and 31% of revenues in 9M23, while the cargo operations, and the loyalty program and other segments represented around 20% and 2% of total revenues. In the same period, around 43% of Avianca's revenues were originated within Colombia, 19% Central America, 17% U.S., 15% other South American countries and 6% the rest of the world.

New Business Strategy: Avianca is challenged in proving its new business model under different macroeconomic scenarios and fuel prices environments. The company is working to shift to a low-cost carrier model, focusing on a simplified and cost-efficient narrow-body operation, with limited exceptions. Increasing aircraft usage to around 12 hours a day, and fleet densification, with an around 20% increase in seats per aircraft, is a key pillar of its goal of achieving cask ex-fuel of 3.4 cents.

Due to foreign exchange valuations, inflationary pressures, changes in network and higher costs of leases the company already updated this initial guidance to 3.7 cents to 3.8 cents by YE 2023. As of Sept. 30, 2023, 100% of Avianca's narrowbody were already reconfigured and aircraft utilization was between 11 hours to 12 hours per day, and cask ex-fuel was 3.9 cents.

Stronger Operations: Fitch expects Avianca's operating cash flow to improve in 2023 due to solid domestic traffic levels, relatively lower fuel prices, cost efficiencies and capacity expansion. We forecast adjusted EBITDAR to move to around USD1.2 billion in 2023 and USD1.3 billion in 2024, an increase from USD639 million in 2022 and USD602 million in 2019 (pre-pandemic). On a 12-month rolling basis, as of Sept. 30, 2023, available seat kilometers (ASKs) and RPKs were just 6% lower compared with YE 2019.

Fitch estimates by YE 2023, Avianca will reach the same pre-pandemic capacity volume. The efficient cost base is driving higher EBITDAR margins, with our base case of 23.7% for 2023, higher than 15% in 2022 and 13% in 2019. We see adjusted EBITDA margins of 21%–22% in 2024–2025, in a scenario of less favorable fuel prices and investing in a growing competitive environment.

Ratings

Avianca Group International Limited

Long-Term Foreign Currency IDR	B
Long-Term Local Currency IDR	B

Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable

Avianca Midco 2 Limited

Senior Secured Debt – Long-Term Rating	B
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LifeMiles Ltd.

Long-Term Foreign Currency IDR	B
Long-Term Local Currency IDR	B

Outlooks

Long-Term Foreign Currency IDR	Stable
Long-Term Local Currency IDR	Stable

[Click here for Avianca Group International Limited's ratings](#)

2035 Climate Vulnerability Signal: 43

Applicable Criteria

[Corporate Rating Criteria \(November 2023\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(October 2023\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(June 2023\)](#)

Related Research

[Global Corporates Macro and Sector Forecasts](#)

[Latin American Transportation Infrastructure Outlook 2024 \(December 2023\)](#)

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Growth Appetite to Drive FCF: Avianca's stronger operating cash flow generation is likely to be consumed by fleet modernization and ongoing business growth. Fitch forecasts Avianca's FCF generation to be neutral in 2023 but negative at USD123 million in 2024 and USD174 million in 2025 after increasing capex. We considered capex of USD260 million in 2023, USD400 million in 2024 and USD575 million in 2025. Fitch expects Avianca to remain cautious on its inorganic growth strategy, as any M&A opportunities should be led by its parent company, ABRA Group Limited.

Manageable Leverage: Fitch's base case scenario forecasts total and net adjusted leverage/EBITDAR at around 3.9x and 3.1x, respectively, during 2023, an improvement from 6.2x and 5.0x in 2022. For 2024 and 2025, leverage should remain within 3.0x–4.0x. These metrics are considered relatively strong for the rating category. Avianca's ability to maintain these metrics within the next 18 months–24 months should benefit its credit profile assessment.

Limited Financial Flexibility: The ability to access new credit lines, seeking to refinance short-to-medium term obligations is also a key factor to support continuous improvement on its credit risk profile. Avianca has a weak unencumbered asset base and a large share of secured debt. Fitch expects Avianca to maintain solid cash balances, with cash/LTM revenue not below 15%–20%, seeking to reduce exposure to short-term refinancing risks under its industry high volatility.

Consolidated Approach: Fitch applies its *Parent and Subsidiary Rating Linkage Criteria* following the stronger parent path to Avianca and LifeMiles, which is 100% owned by Avianca. The legal incentive for support is considered high, the operational and strategic incentives are medium to high, resulting in equalization of the ratings. Fitch considers that there are some uncertainties in relation to Avianca's shift to a low-cost carrier and the sustainability of the LifeMiles business model. LifeMiles has a track record of around 20% contribution to EBITDA and represents less than 10% of Avianca's net debt position.

Financial Summary

(USD mil.)	2022	2023F	2024F	2025F
Gross revenue	4,047.9	4,738.4	5,868.4	6,324.2
EBITDAR	639.0	1,141.3	1,222.7	1,381.0
EBITDAR margin (%)	15.8	24.1	20.8	21.8
EBITDAR leverage (x)	6.2	3.9	3.8	3.5
EBITDAR net leverage (x)	4.9	3.1	3.1	3.0

F – Forecast

Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

Avianca's rating reflects its post-restructuring credit profile, good asset base compared with regional peers based in terms of fleet, network and route diversification as well as its important regional market position. The company's past quarters of continuous improvement on its cost structure and good operating margins are also incorporated into the analysis. Avianca's rating is above Azul S.A. (B–/Stable) and GOL Linhas Aereas Inteligentes S.A. (CCC–), mostly reflecting relatively lower leverage ratios and lower refinancing risks. The company's limited financial flexibility, in terms of its unencumbered asset base, and the industry's high risks remain as rating constraints.

Rating Sensitivities

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

- Ability to maintain strong cost structure, with adjusted EBITDA margin above 22% on a sustainable basis.
- Maintenance of a strong liquidity position (cash/LTM revenue consistently 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.
- Sustainable positive FCF generation.
- Continued solid rebound of Avianca's main markets air traffic.

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

- Liquidity deterioration or difficulties to continue to access credit lines.
- Gross and net leverage ratios consistently above 5.0x and 4.0x.
- EBITDA fixed-charge coverage sustained at or below 1.5x.
- Competitive pressures leading to severe loss in market-share or yield deterioration.
- Aggressive growth strategy leading to a consolidation movement financed with debt.

Liquidity and Debt Structure

Strong Liquidity Position: Avianca maintained a solid liquidity position that is strong for the rating category. Avianca had around USD1 billion in cash and cash equivalents, compared with USD348 million of short-term debt and USD253 million of leasing obligations as of Sept. 30, 2023. Avianca's total debt was USD4.7 billion, and mainly composed of USD2.3 billion of leasing, USD1.7 billion of Tranche A1 and A2 (exit-financing) due 2028, and LifeMiles Term Loan B (USD316 million) due 2026. Avianca's cash position was sufficient to cover maturities until 2025.

ESG Considerations

Avianca has an ESG Relevance Score of '4' for Group Structure due to the 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 the relatively new operational group (ABRA) that has lately demonstrated an aggressive financial policies, 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>.

Climate Vulnerability Considerations

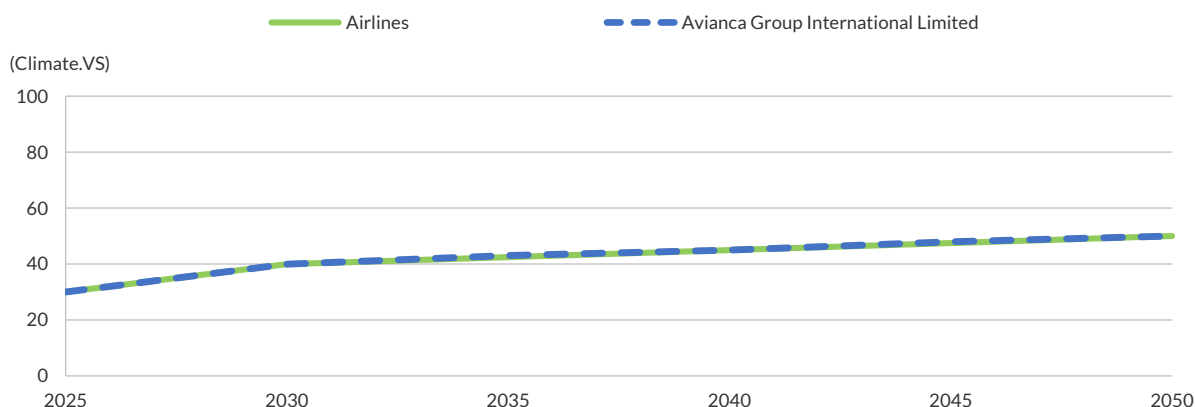
Fitch uses Climate Vulnerability Signals (Climate.VS) as a screening tool to identify sectors and Fitch-rated issuers that are potentially most exposed to credit-relevant climate transition risks and, therefore, require additional consideration of these risks in rating reviews. Climate.VS range from 0 (lowest risk) to 100 (highest risk). For more information on Climate.VS, see Fitch's [Corporate Rating Criteria](#).

The 2023 revenue-weighted Climate.VS for Avianca for 2035 is 43, suggesting moderate exposure to climate-related risks in that year. Avianca does not have a formal policy or target in place regarding carbon emissions, yet the company is working on several initiatives. Emissions that could not be reduced due to different factors were managed by offsetting emissions, where 90% of emissions from domestic flights in Colombia were offset, which make up 19% of the air operations of the entire Avianca group.

The company is in the process of renewing its fleet and, as of Sept. 30 2023, only 19% of its fleet was composed of next generation Airbus 320 family aircraft, which burn less fuel relative to older models. For further information on how Fitch perceives climate-related risks in the airlines sector see our [Transportation – Long-Term Climate Vulnerability Signals Update](#).

Climate.VS Evolution

As of Dec. 31, 2022



Source: Fitch Ratings

Liquidity and Debt Maturities

Liquidity Analysis

(USD 000)	2023F	2024F
Available liquidity		
Beginning cash balance	822	446
Rating case FCF after acquisitions and divestitures	-25	-123
Total available liquidity (A)	798	322
Liquidity uses		
Debt maturities	-352	-425
Total liquidity uses (B)	-352	-425
Liquidity calculation		
Ending cash balance (A+B)	446	-103
Revolver availability		
Ending liquidity	446	-103
Liquidity score (x)	2.3	0.8

F – Forecast

Source: Fitch Ratings, Fitch Solutions, Avianca Group International Limited

Scheduled Debt Maturities^a

(USD Mil)	9/30/23
2023	15
2024	182
2025	77
2026	265
2027 and Later	1,795

^aOnly corporate debt.

Source: Fitch Ratings, Fitch Solutions, Avianca Group International Limited

Key Assumptions

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

- Fitch's base case during 2023 and 2024 includes an increase in ASK by 31% and 29%.
- Load factors around 80%–81% during 2023–2024.
- Brent crude prices average USD85/barrel through the forecast.
- Capex of USD280 million in 2023 and USD400 million in 2024.

Financial Data

(USD mil.)	2022	2023F	2024F	2025F
Summary income statement				
Gross revenue	4,048	4,738	5,868	6,324
Revenue growth (%)	—	17.0	23.9	7.8
EBITDA after associates and minorities	414	1,050	1,186	1,381
EBITDAR	639	1,141	1,223	1,381
EBITDAR margin (%)	15.8	24.1	20.8	21.8
Gross interest expense	-398	-247	-271	-287
Pretax income including associate income/loss	-313	805	918	1,096
Summary balance sheet				
Readily available cash and equivalents	822	929	876	768
Debt	3,985	4,411	4,631	4,848
Lease-adjusted debt	3,985	4,411	4,631	4,848
Net debt	3,162	3,482	3,755	4,080
Summary cash flow statement				
EBITDA	414	1,050	1,186	1,381

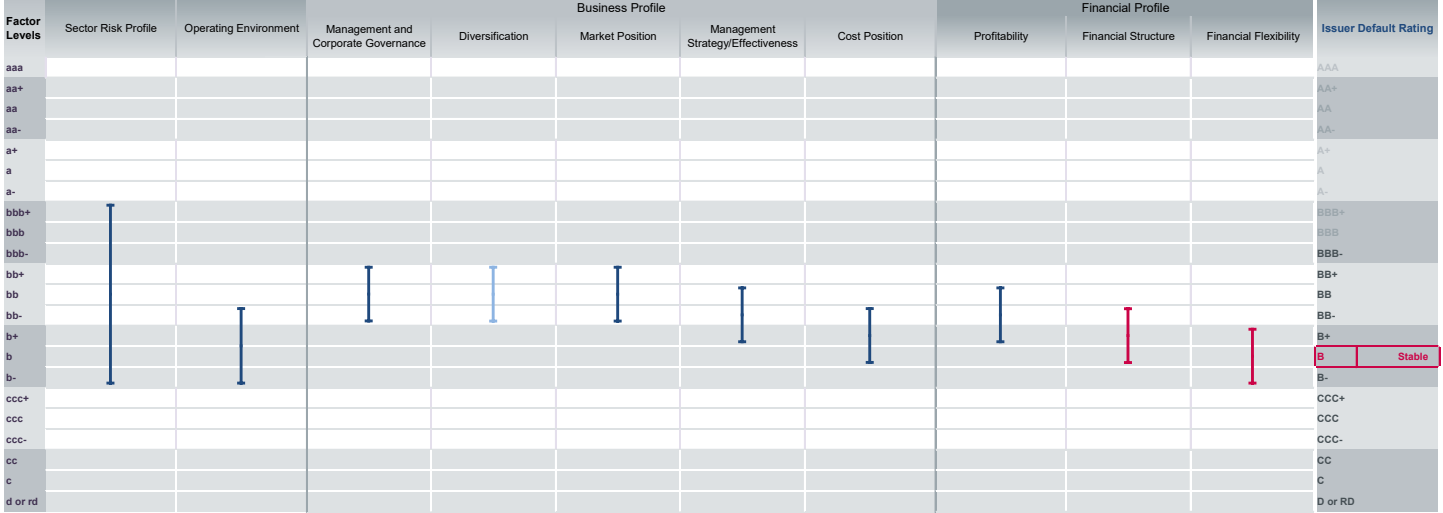
(USD mil.)	2022	2023F	2024F	2025F
Cash interest paid	-286	-247	-271	-287
Cash tax	-70	-55	-61	-67
Dividends received less dividends paid to minorities (inflow/outflow)	—	—	—	—
Other items before FFO	32	-380	-500	-550
FFO	92	370	357	479
FFO margin (%)	2.3	7.8	6.1	7.6
Change in working capital	-119	-135	-80	-79
CFO (Fitch-defined)	-28	235	277	400
Total non-operating/nonrecurring cash flow	—	—	—	—
Capex	-318	—	—	—
Capital intensity (capex/revenue) (%)	7.9	—	—	—
Common dividends	—	—	—	—
FCF	-346	—	—	—
FCF margin (%)	-8.5	—	—	—
Net acquisitions and divestitures	480	—	—	—
Other investing and financing cash flow items	-417	-250	-150	-150
Net debt proceeds	-179	426	220	217
Net equity proceeds	—	—	—	—
Total change in cash	-463	152	-53	-108
Leverage ratios (x)				
EBITDAR leverage	6.2	3.9	3.8	3.5
EBITDAR net leverage	4.9	3.1	3.1	3.0
EBITDAR net fixed-charge coverage	1.3	3.4	4.0	4.8
FFO adjusted leverage	6.6	6.2	7.0	6.3
FFO adjusted net leverage	5.3	4.9	5.7	5.3
FFO leverage	10.6	7.2	7.4	6.3
FFO net leverage	8.4	5.7	6.0	5.3
Calculations for forecast publication				
Capex, dividends, acquisitions and other items before FCF	161	-260	-400	-575
FCF after acquisitions and divestitures	134	-25	-123	-175
FCF margin after net acquisitions (%)	3.3	-0.5	-2.1	-2.8
Coverage ratios (x)				
FFO interest coverage	1.3	2.5	2.3	2.7
FFO fixed-charge coverage	1.2	2.1	2.2	2.7
EBITDAR fixed-charge coverage	1.3	3.4	4.0	4.8
EBITDA interest coverage	1.4	4.3	4.4	4.8
Additional metrics (%)				
CFO-capex/debt	-8.7	-0.6	-2.7	-3.6
CFO-capex/net debt	-10.9	-0.7	-3.3	-4.3
CFO/capex	-8.7	90.6	69.2	69.7

F –Forecast. CFO – Cash flow from operations.
Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented above is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance

Higher Importance

Average Importance

Lower Importance

Bar Arrows = Rating Factor Outlook

Positive

Negative

Evolving

Stable

Operating Environment

bb	Economic Environment	bbb	Average combination of countries where economic value is created and where assets are located.
bb-	Financial Access	b	Weak combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	bb	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'bb'.
b-			
ccc+			

Diversification

bb-	Network Diversity	bb	Extensively diversified domestic/regional network. Limited international network. Some network enhancement through joint ventures or partnerships.
bb+	Hub Structure	bb	Most hubs/bases are profitable and/or located in strategic markets.
bb			
bb-			
b+			

Management Strategy/Effectiveness

bb+	Fleet Strategy	bb	Adequate fleet management. Mostly efficient/young aircraft, some obsolete/inefficient models, heavy upcoming deliveries.
bb	Fuel Hedging	bb	Employs less consistent or effective fuel mitigation strategies (less consistent hedging, weaker liquidity, older fleet).
bb-	Growth Strategy		
b+			
b			

Profitability

bb+	EBITDAR Margin	bb	20%
bb	EBIT Margin		n.a.
bb-	FFO Margin	bb	10%
b+	FCF Margin	bb	Neutral to negative across the cycle.
b	Volatility of Profitability	bb	Higher volatility of profits than industry average.

Financial Flexibility

bb-	Financial Discipline	b	No financial policy or track record of ignoring it. Opportunistic behavior.
b+	Liquidity as % of LTM Revenue	b	10%
b	EBITDAR Fixed Charge Coverage	bb	3.0x
b-	FX Exposure	b	Large FX exposure. No significant/ineffective hedging in place.
ccc+	Capital Market Access; Unencumbered Asset Base	b	Limited access to capital or limited history of accessing capital markets; minimal unencumbered assets.

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Management and Corporate Governance

bbb-	Management Strategy	bb	Strategy generally coherent but some evidence of weak implementation.
bb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bb	Group Structure	bb	Complex group structure or non-transparent ownership structure. Related-party transactions exist but with reasonable economic rationale.
bb-	Financial Transparency	bb	Financial reporting is appropriate but with some failings (eg lack of interim or segment analysis).
b+			

Market Position

bb-	Position in Key Markets	bb	Strong presence in some key markets. Carriers may exhibit secondary/weaker positions in a portion of markets served.
bb+	Cost Leadership	bb	Low cost carrier leader in some markets.
bb			
bb-			
b+			

Cost Position

bb	Cost Structure	bb	Moderate fixed-cost structure. CASM in line with peers.
bb-	Cost Flexibility	b	Limited or no ability to reduce costs quickly relative to peers.
b+	Pensions		n.a.
b	Labor Relations	b	Unionized or inflexible work rules/difficult labor relations.
b-			

Financial Structure

bb	EBITDAR Leverage	b	4.3x
bb-	FFO Adjusted Leverage	b	4.3x
b+			
b			
b-			

Credit-Relevant ESG Derivation

					Overall ESG	
Avianca Group International Limited has 2 ESG rating drivers and 8 ESG potential rating drivers						
key driver	0	issues	5			
driver	2	issues	4			
potential driver	8	issues	3			
not a rating driver	0	issues	2			
	4	issues	1			

Showing top 6 issues

Credit-Relevant ESG Derivation

Avianca Group International Limited has 2 ESG rating drivers and 8 ESG potential rating drivers

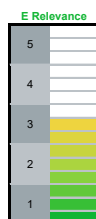
- ➔ Avianca Group International Limited has exposure to board independence risk which, in combination with other factors, impacts the rating.
- ➔ Avianca Group International Limited has exposure to group transparency risk which, in combination with other factors, impacts the rating.
- ➔ Avianca Group International Limited has exposure to emissions regulatory risk but this has very low impact on the rating.
- ➔ Avianca Group International Limited has exposure to energy productivity risk but this has very low impact on the rating.
- ➔ Avianca Group International Limited has exposure to extreme weather events but this has very low impact on the rating.
- ➔ Avianca Group International Limited has exposure to customer accountability risk but this has very low impact on the rating.

Showing top 6 issues

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	2	issues	4
potential driver	8	issues	3
	0	issues	2
not a rating driver	4	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	3	Emissions and noise pollution	Management Strategy/Effectiveness
Energy Management	3	Fuel use in operations	Management Strategy/Effectiveness; Cost Structure; Profitability; Financial Flexibility
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	3	Extreme weather conditions (e.g. hurricanes, volcanoes) on operations	Financial Flexibility



How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

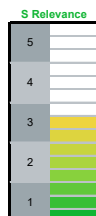
The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

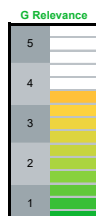
Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; safety regulations	Management Strategy/Effectiveness; Market Position; Profitability; Financial Flexibility
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction; workforce diversity	Management and Corporate Governance; Cost Structure; Profitability; Financial Structure
Employee Wellbeing	3	Worker safety and accident prevention; prescriptive working conditions	Management and Corporate Governance; Cost Structure; Profitability; Financial Structure
Exposure to Social Impacts	1	n.a.	n.a.



Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	4	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	4	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance



CREDIT-RELEVANT ESG SCALE

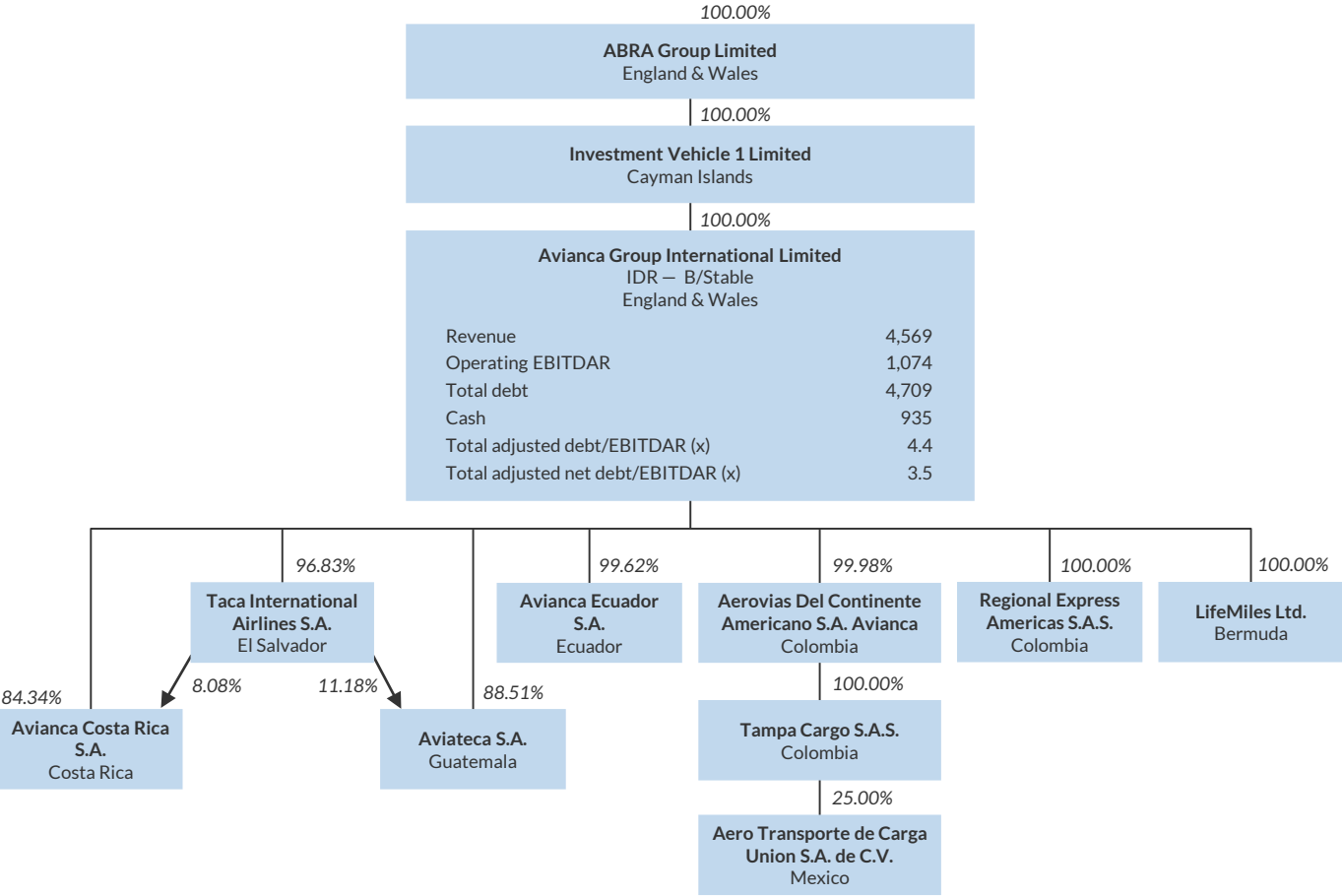
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram

Organizational Structure

USD 000, LTM as of Sept. 30, 2023



IDR – Issuer Default Rating
Source: Fitch Ratings, Fitch Solutions, Avianca Group International Limited

Peer Financial Summary

Company	Issuer Default Rating	Financial statement date	EBITDAR margin (%)	Capex (USD mil.)	EBITDAR (USD mil.)	FCF margin (%)	EBITDA net leverage (x)
Avianca Group International Limited	B						
	—	2022	15.8	-318	639	-8.5	7.6
GOL Linhas Aereas Inteligentes S.A.	CCC-						
	B-	2022	18.8	-167	557	1.5	49.0
	B-	2021	-33.6	-139	-439	-13.7	-5.1
	CCC+	2020	14.4	-128	178	-16.2	-15.6
Azul S.A.	B-						
	CCC+	2022	20.3	-282	628	-10.9	33.0
	CCC+	2021	5.2	-137	92	-28.9	-11.3
	CCC+	2020	-6.1	-87	-68	-5.4	-8.5

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

(\$ 000, as of Dec. 31, 2022)	Notes and formulas	Standardized values	Other adjustments	Adjusted values
Income statement summary				
Revenue		4,047,856	—	4,047,856
EBITDAR	(a) = (c-b)	638,965	—	638,965
Lease expense for capitalized leased assets	(b)	-225,343	—	-225,343
EBITDA	(c)	413,622	—	413,622
Depreciation and amortization		-333,534	—	-333,534
EBIT		80,088	—	80,088
Balance sheet summary				
Debt	(d)	3,984,835	—	3,984,835
Of which other off-balance-sheet debt		—	—	—
Lease-equivalent debt	(e)	—	—	—
Lease-adjusted debt	(f) = (d+e)	3,984,835	—	3,984,835
Readily available cash and equivalents	(g)	777,504	—	777,504
Not readily available cash and equivalents		39,212	—	39,212
Cash flow summary				
EBITDA	(c)	413,622	—	413,622
Dividends received from associates less dividends paid to minorities	(h)	—	—	—
Interest paid	(i)	-285,642	—	-285,642
Interest received	(j)	1,721	—	1,721
Preferred dividends paid	(k)	—	—	—
Cash tax paid		-69,952	—	-69,952
Other items before FFO		32,152	—	32,152
FFO	(l)	91,901	—	91,901
Change in working capital		-119,485	—	-119,485
CFO	(m)	-27,584	—	-27,584
Non-operating/nonrecurring cash flow		—	—	—
Capex	(n)	-318,471	—	-318,471
Common dividends paid		—	—	—
FCF		-346,055	—	-346,055
Gross leverage (x)				
EBITDAR leverage	f / (a+h)	6.2	—	6.2
(CFO-capex)/debt (%)	(m+n) / d	-8.7	—	-8.7
Net leverage (x)				
EBITDAR net leverage	(f-g) / (a+h)	5.0	—	5.0
(CFO-capex)/net debt (%)	(m+n) / (d-g)	-10.8	—	-10.8
Coverage (x)				
EBITDAR fixed-charge coverage	(a+h) / (-i-b)	1.3	—	1.3

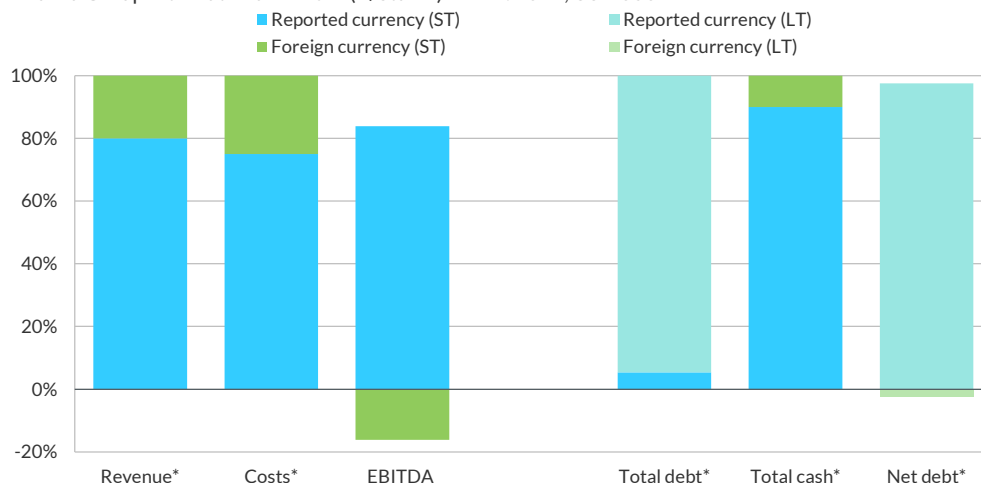
CFO – Cash flow from operations. Note: The standardized items presented above are based on Fitch's taxonomy for the given sector and region. Reported items may not match the Fitch taxonomy but they are captured into corresponding lines accordingly. Debt includes other off-balance-sheet debt.

Source: Fitch Ratings, Fitch Solutions, Avianca Group International Limited

FX Screener

Fitch FX Screener

Avianca Group International Limited (B/Stable) — Dec. 2022, USD 000



* Post hedge, absolute figures displayed are Fitch's analytical estimates, based on publicly available information

Source: Fitch Ratings, Fitch Solutions

Recovery Analysis

Issuer	Avianca Group International Limited
Issuer Default Rating	B
Sector	Transportation
Country	Colombia
As of	30 Sep 23
Currency	USD Mil.
Country group	D

Going concern enterprise value		Liquidation value	Book Value	Advance Rate (%)	Available to Creditors
Going concern EBITDA	500,000	Cash	1,013,227	0	—
EBITDA multiple (x)	5.5	Accounts receivable	238,234	80	190,587
Going concern value from alternative method	—	Inventory	—	50	—
Additional value from affiliates, minority interest, other	—	Net property, plant and equipment	2,862,988	50	1,431,494
Going concern enterprise value	2,750,000	Liquidation value of off-balance sheet	—	100	—
		Additional value from affiliates, minority interest, other	—	100	—
Enterprise value for claims distribution					
Greater of going concern enterprise or liquidation value	2,750,000	Total liquidation value			1,622,081
Less administrative claims	275,000				
Total enterprise value	2,475,000				
Distribution of value					

Priority	Amount	Concession allocation (%)	Value recovered	Recovery (%)	Before country-specific considerations			After country-specific considerations		
					Recovery Rating	Notching	Rating	Recovery Rating	Notching	Rating
Tranche A1 and A2	1,695,808	0	1,695,808	100	RR1	+3	BB	RR4	0	B
LifeMiles	316,546	0	316,546	100	RR1	+3	BB	RR4	0	B
Other corporates	354,416	0	354,416	100	RR2	+2	BB-	RR4	0	B

Source: Fitch Ratings, Fitch Solutions, Avianca Group International Limited

Key Recovery Rating Assumptions

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

Going Concern Approach: Avianca's going concern EBITDA is USD500 million which incorporates EBITDA post-pandemic, adjusted by lease expenses, plus a discount of 20%. This correlates to the average of USD561 million during 2016–2019, reflecting intense volatility in the airline industry in Latin America. The going-concern 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.

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 first lien secured debt within the 'RR1' range and second-lien secured debt within 'RR2' range, but due to the soft cap of Colombia at 'RR4', Avianca's senior secured debt is rated at 'B'/'RR4'. For unsecured debt, the recovery would likely be within the 'RR5' range, resulting in a rating downgrade from the Issuer Default Rating.

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