

**CREDIT OPINION**

27 January 2025

New Issue

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**RATINGS**

**Avianca Group International Limited**

Domicile	United Kingdom
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Positive

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**

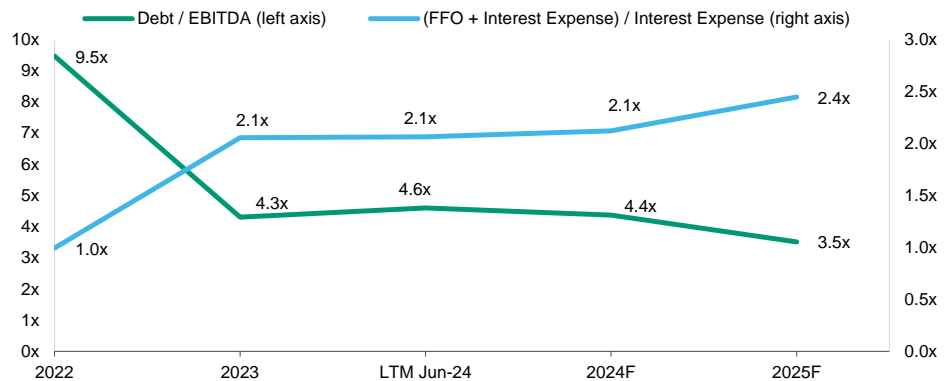
Update following outlook change to positive

**Summary**

[Avianca Group International Limited's](#) (Avianca) B2 rating reflects its leading position in the Latin American passenger airline industry and its favorable cost structure. Conversely, the rating reflects increasing competition, which could strain airfares; the inherent volatility in the airline industry; and the macroeconomic risks in its core markets: [Colombia](#) (Baa2 negative), and Central America, including [Costa Rica](#) (Ba3 positive), [El Salvador](#) (B3 stable) and [Guatemala](#) (Ba1 stable).

Exhibit 1

**Under Avianca's business model, credit metrics will recover fast through 2025**  
Leverage and coverage



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.

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 Ratings forecasts

## Credit strengths

- » Market leader in Colombia and strong share in other Latin American markets
- » Strong brand name and low cost structure
- » Solid domestic and international route network
- » Adequate liquidity

## Credit challenges

- » Execution risks still associated with incremental capacity
- » Macroeconomic risks that would strain global travel demand
- » High financial leverage

## Rating outlook

The positive outlook reflects our view that the increased financial flexibility will support Avianca's business strategy and allow for significant improvements to its credit profile through 2026. The company's business plan is focused on strategic fleet and route expansion through which it aims to capture growing passenger demand, optimize operational efficiency and drive revenue growth. The airline plans to expand its point-to-point network by adding new direct routes from key Colombian cities, and by increasing connectivity across Central America. The positive outlook also captures our expectation that the company will maintain adequate financial policies as it removes post-bankruptcy exit financing provisions that have acted as a guidepost since its emergence from bankruptcy and that liquidity will remain strong, with internal sources and cash generation comfortably covering cash requirements through 2026. We also expect Avianca to maintain cash balances close to historical levels.

## Factors that could lead to an upgrade

- » Growing 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
- » Recovery in credit metrics 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

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.

## Key Indicators

Exhibit 2

### Avianca Group International Limited's

(in \$ billions)	2019	2020	LTM Sep-21	2022	2023	LTM Sep-24	2024F	2025F
Revenue	4.6	1.7	1.7	4.0	4.8	5.1	5.3	5.7
EBIT Margin %	-1.6%	-34.4%	-45.8%	2.2%	14.0%	12.4%	12.9%	15.0%
Debt / EBITDA	9.5x	-114.9x	-23.2x	9.5x	4.3x	4.6x	4.4x	3.5x
RCF / Debt	5.3%	-6.9%	-8.0%	-0.1%	11.2%	13.5%	12.0%	16.9%
(FFO + Interest Expense) / Interest Expense	2.0x	-0.1x	0.0x	1.0x	2.1x	2.1x	2.1x	2.4x

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.

LTM = Last 12 months. From 2019 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).

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

Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

## 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 on international routes in North, Central and South America, Europe and the Caribbean. As of September 2024, Avianca's fleet comprised 163 aircraft including 124 Airbus 320s and 16 Boeing 787 Dreamliners, connecting to around 76 destinations in the Americas and Europe. The company also has a frequent flyer loyalty program, [LifeMiles Ltd.](#) (B2 positive), which has 14 million members and over 300 commercial partners worldwide.

## Detailed credit considerations

### Ongoing refinance plan will improve Avianca's financial flexibility and coverage for bondholders

Avianca is undergoing a refinance plan that includes an exchange offer for its tranche A-1 senior secured notes due 2028, a new issue of senior secured global notes with proceeds used to repay \$584 million under the tranche A-2 of the senior secured notes also due 2028 and LifeMiles' \$365 million senior secured first-lien term loan. The transaction, likely to be completed by mid-February, will be largely debt neutral but will streamline Avianca's capital structure and will improve its financial flexibility as the company intends to eliminate certain restrictive covenants, amend certain events of default and release the liens on certain assets constituting collateral, securing the existing notes, subject to meeting a minimum asset coverage ratio. Also, given the positive operating performance since 2021 and the benefit of a first-priority lien on the assets of LifeMiles, the collateral coverage of rated debt will improve significantly. Newly performed appraisals estimate the collateral value at \$6.3 billion, well above the \$3.0 billion at the emergence from bankruptcy. In a liquidation scenario, its value could be lower given its reliance on assets that are more difficult to value, such as intangibles and LifeMiles' ties with the airline. However, liquidation risk is lower given Avianca's positive operating performance since its emergence from bankruptcy.

### Avianca's credit profile will improve significantly through 2026 based on strategic expansions

Through strategic fleet and route expansion, Avianca aims to capture growing passenger demand, optimize operational efficiency and drive revenue growth. The airline will continue to expand its point-to-point network by adding new direct routes from key Colombian cities, and by increasing connectivity across Central America. Avianca's strategy also includes the reintroduction of the Narrowbody Business service on 34 selected routes to capture premium revenue. The company also recently launched Insignia, its enhanced Business Class service to Europe.

Since its emergence from bankruptcy, Avianca has executed its business plan well. For the 12 months that ended September 2024, EBITDA including standard adjustments at \$1.1 billion and EBIT margin at 12.4%, well above our original expectations of close to \$900 million and 9%, respectively, for 2024 and aligned with the company's business plan. In 2023, Avianca announced a plan to accelerate capacity increases with a \$473 million investment to add close to 16 aircraft to its fleet between 2023 and 2024. Operations for the new aircraft started gradually between October and December 2023 and continued throughout 2024. Avianca also increased the number of pilots, crew and personnel accordingly. Because of the increase in debt related to the capacity expansion, however, leverage peaked in 2024. Gross debt/EBITDA, including our standard adjustments, was 4.6x as of September 2024, still below our expectation

of 5.0x for the full year. Because 2025 will be the first full operational year of this additional capacity, we expect leverage to decline rapidly toward 3.5x.

### **Operating prospects in Latin America remain stronger than for the overall global airline industry**

[In September 2024, we changed the airline industry sector outlook to stable from positive](#), reflecting our expectation that operating profit for the airlines we rate will fall 12% in 2024, in all regions, except Latin America. The stable outlook and the projected decline in operating profit for most regions, except Latin America, suggest that Avianca might benefit from better market conditions compared with other regions. The rationalized aircraft fleets and improved cost structures following bankruptcy reorganizations could help the company capitalize on these favorable conditions. However, rising labor costs and potential excess capacity in the global market could pose challenges. In the US domestic market, excess capacity has led to discounting and reduced profit margins. Avianca will need to ensure that capacity aligns with demand at all times and continue to manage costs carefully to maintain profitability.

Rising labor costs are another critical concern. We expect labor expenses for US airlines to increase significantly, with pilot pay likely to rise by 35%-50% between 2022 and 2025. Although this projection is specific to the US, similar trends could affect Avianca, especially if unions in Latin America push for higher wages. Managing these costs will be essential for airlines to maintain their competitive edge.

### **More rational competition and consolidation drive profitability up in Latin America**

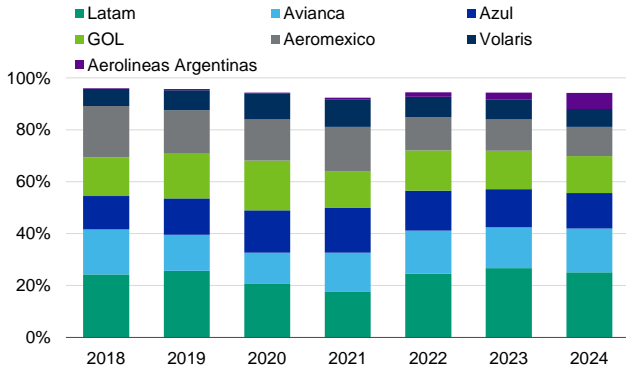
Avianca has outperformed our original expectations for operating performance on the back of a strong revival of air-passenger demand in Latin America. Additionally, several transactions since 2019 have also helped rationalize airline competition within the region, allowing Latin American airlines to profit on high airfares. In 2022, [Abra Group Limited](#) (ABRA, Caa1 stable) formed a partnership that included a 54% stake in Gol Linhas Aereas Inteligentes S.A. (Gol), 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. More recently, ABRA and [Azul S.A.](#) (Caa1 negative) signed a nonbinding memorandum of understanding (MoU) to explore a combination of their businesses in Brazil. Gol and Azul's networks and fleet are complementary on almost 90% of the routes, so the parties expect that a business combination would result in efficiencies and cost reductions. The closing of the transaction is subject to the parties agreeing on the economic terms of the transaction and regulatory approvals, among others, but it showcases potential for further consolidation in the region. These positive market dynamics have resulted in Avianca recovering revenue to 2019 levels but with a more profitable business. Revenue for the 12 months ended September 2024 was already higher than the \$4.6 billion reported in 2019, but with a healthy EBIT margin of 12.4%.

As a result of the recent fleet additions, average seat kilometers (ASKs) increased 17.7% in 2024 and load factor at 81.4% was slightly below the 2023 level. As increased capacity deployment continues, load factor levels should strengthen through 2026. Also during 2024, demand remained strong, as reflected by revenue passenger kilometers (RPKs), which were at 52.4 billion, 16.3% higher than in 2023. Although the pace of capacity increase will slow through 2026, additions and replacements with newer, more-efficient fleets will gradually support a lighter cost structure.

### **Given increased efficiencies and market position, Avianca is well poised to meet its business plan target**

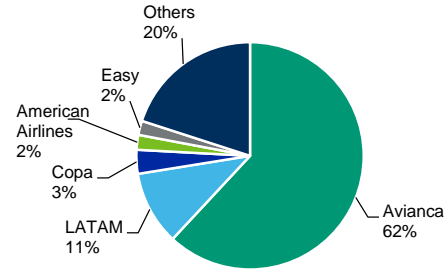
Ever since Avianca emerged from Chapter 11, its point-to-point narrow-body operations have been at the core of its business strategy following a low-cost carrier model. Additionally, because of its superior market position (see Exhibits 3 and 4), Avianca has the ability to optimize for revenue. Because of increase in efficiencies, Avianca's operating and credit metrics improvements should be sustained in the longer term as it has buffers 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. In view of the recently added capacity and stable business prospects, we expect Avianca to end 2025 with positive free cash flow and to continue to strengthen its cash generation through 2026.

Exhibit 3  
**Avianca has held on to its position as one of Latin America's leading airlines ...**  
 Market share breakdown of the top Latin American airlines



Company retail value (RSP) share.  
 Source: Euromonitor

Exhibit 4  
**... and is the strongest airline in Colombia**  
 Market share breakdown in Colombia (2024)



Retail value (RSP).  
 Source: Euromonitor

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

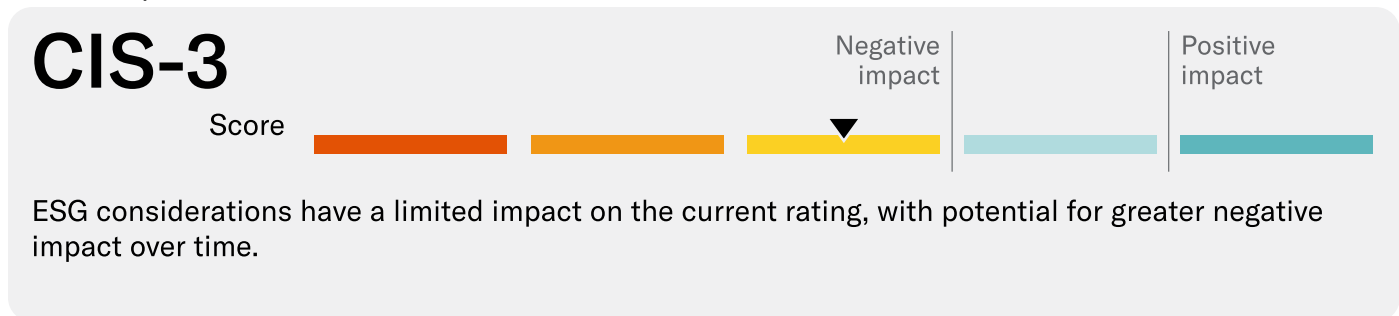
The ratings also consider the relationship between Avianca and LifeMiles. LifeMiles is fully owned by Avianca and is the sole operator of its frequent flyer program. Moreover, the stake of LifeMiles is part of Avianca's rated exit financing notes collateral package. The rating of [LifeMiles Ltd.](#) (B2 positive) and its senior secured term loans reflects its diversified and sticky base of commercial partners, growth in co-branded credit cards and strong market position in the territories in which it operates. Despite the structural subordination of Avianca's exit notes to LifeMiles term loan, there is no rating notching because Lifemiles contributes only to close to 20% to Avianca's EBITDA and total debt.

Since 2021, LifeMiles' gross billings recovered from the pandemic-induced decline in air travel. In the 12 months ended September 30, 2024, the company generated \$283 million in gross billings, well above the \$229 million reported in the same period in 2023, and we expect the growth to continue through 2025. 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 12 months ended in June 2024, LifeMiles' EBITA margin and leverage were 40.3% and 2.7x, respectively. In September 2024, LifeMiles had a \$100 million add-on to its term loan, increasing leverage to close to 3.7x. However, given its strong cash generation and the requirement to pay \$40 million of debt annually, we expect a rapid decline in leverage.

**ESG considerations**

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

Exhibit 5  
 ESG credit impact score

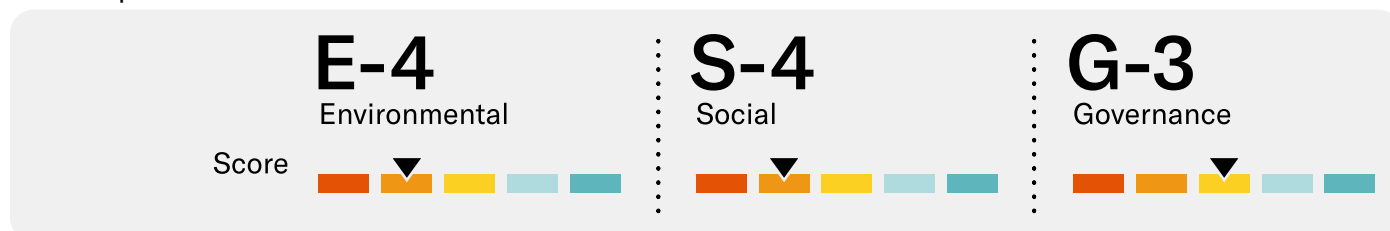


Source: Moody's Ratings

Avianca's 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 Ratings

#### 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. Potential for policies and/or trends that lead to lower travel volumes or higher costs, or both, increase risks for the sector. 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

The Board of Directors is composed of 12 members, including one woman, with diverse professional backgrounds and expertise. The company follows best practices in corporate governance, including the establishment of various committees such as the Audit Committee, the Nominations and Corporate Governance Committee, and the Compensation and Talent Committee. Avianca has a robust compliance program that includes a Code of Ethics, anti-corruption policies, and mechanisms for reporting and addressing ethical concerns. The company also emphasizes the importance of transparency and accountability in its operations. Additionally, the report mentions the establishment of a Sustainability Committee, which oversees the implementation of the company's sustainability strategy and ensures alignment with global standards and best practice.

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.

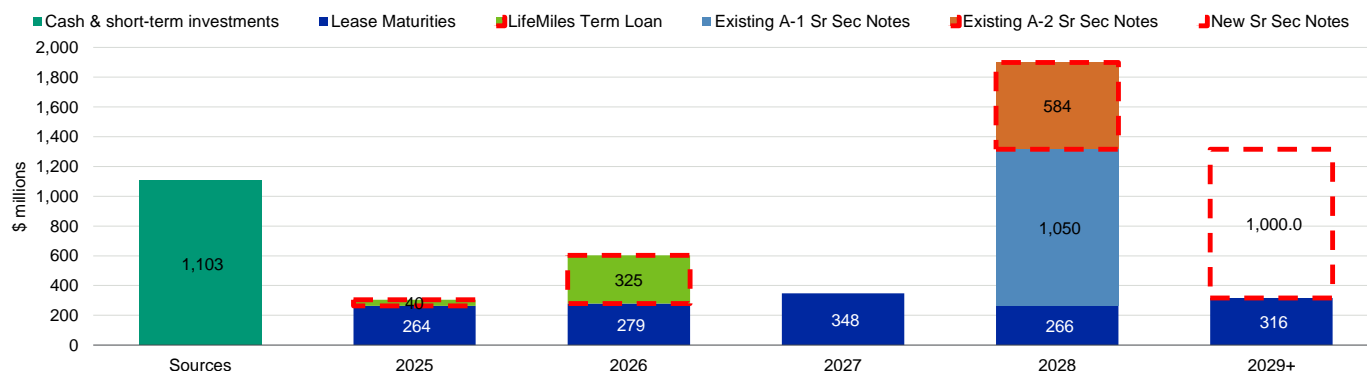
#### Liquidity analysis

Avianca's liquidity is strong. As of 30 September 2024, cash and short-term investments were at \$1.1 billion. We expect adjusted cash from operations at more than \$1 billion annually and free cash flow to remain positive through 2026. Avianca's liquidity also benefits from a comfortable maturity profile, with the bulk of its debt maturing in 2028 or later. Pro forma for the liability management plan, \$365 million in debt related with the LifeMiles term loan and \$584 million related to tranche A-2 of the existing senior secured exit notes will be refinanced with proceeds from the up to \$1 billion proposed backed senior secured global notes with long term maturity, further reducing refinancing risk (see Exhibit 7).

Exhibit 7

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

As of September 2024



Source: Company filings

**Structural considerations**

Avianca's exit financing notes are secured by its 100% stake in 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. Following the repayment of the LifeMiles term loan, bondholders of the exchanged tranche A-1 senior secured notes and bondholders of the new senior secured notes will benefit of a first-priority lien on the assets of LifeMiles, which, along with the updated appraisal value of the collateral package, will result in a significant improvement in the collateral coverage of the rated debt. Newly performed appraisals estimate the collateral value at \$6.3 billion, well above the \$3.0 billion at emergence. In a liquidation scenario, its value could be lower given its reliance on assets that are more difficult to value, such as intangibles and LifeMiles' ties with the airline. However, liquidation risk is lower given Avianca's positive operating performance since emergence.

## Methodology and scorecard

Exhibit 8 shows Avianca's scorecard-indicated outcome using our Passenger Airlines rating methodology, with data for the 12 months that ended 30 September 2024 and on a forward-looking basis. The actual rating assigned is two notches below the scorecard-indicated outcome, mainly as a result of the execution risk related to the recently added capacity.

Exhibit 8

### Rating factors

Avianca Group International Limited's

	Current LTM Sep-24		Moody's 12-18 month forward view	
Passenger Airline Industry Scorecard	Measure	Score	Measure	Score
<b>Factor 1 : Scale (10%)</b>				
a) Revenue (\$ billions)	5.1	B	5.7	B
<b>Factor 2 : Business Profile (25%)</b>				
a) Market Position and Network Strength	Ba	Ba	Ba	Ba
<b>Factor 3 : Profitability and Efficiency (10%)</b>				
a) EBIT Margin	12.4%	Ba	15%	Baa
<b>Factor 4 : Leverage and Coverage (40%)</b>				
a) Debt / EBITDA	4.6x	B	3.5x	Ba
b) (FFO + Interest Expense) / Interest Expense	2.1x	B	2.4x	B
c) RCF / Net Debt	13.5%	B	16.9%	B
<b>Factor 5 : Financial Policy (15%)</b>				
a) Financial Policy	Ba	Ba	Ba	Ba
<b>Rating:</b>				
a) Scorecard-Indicated Outcome		B1		Ba3
b) Actual Rating Assigned				B2

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LTM = Last 12 months. From 2019 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).

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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 Ratings forecasts



## Ratings

Exhibit 9

<b>Category</b>	<b>Moody's Rating</b>
<b>AVIANCA GROUP INTERNATIONAL LIMITED</b>	
Outlook	Positive
Corporate Family Rating	B2
Senior Secured	B2
<b>PARENT: ABRA GROUP LIMITED</b>	
Outlook	Stable
Corporate Family Rating	Caa1
<b>LIFEMILES LTD.</b>	
Outlook	Positive
Corporate Family Rating	B2
Sr Sec Bank Credit Facility	B2
<b>AVIANCA MIDCO 2 PLC</b>	
Outlook	Positive
Bkd Senior Secured	B2

Source: Moody's Ratings

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