CORPORATE CREDIT · LATAM AIRLINES · COLOMBIA / PAN-REGIONAL

Avianca — Extending the Runway

New USD Secured Notes Priced, 10.25% 2032

New-issue concession on offer. Avianca Midco 2 PLC priced a new USD senior secured note (10.25% Jan-2032) at 100 to yield ~10.25% — ~+588bp over the curve and, critically, +26bp of yield and +15bp of spread over the existing 9.50% 2031 at shorter duration. With a genuine concession to its own secondary, B1 ratings and the LifeMiles / brand-IP collateral package, we initiate the new 2032 at Overweight as the preferred entry on the AVIAGP curve. We pair it with a constructive read on the credit's de-leveraging trajectory (Avianca Net Debt/EBITDAR ~2.7x, Abra group ~3.1x).

THE KHORLAN VIEW

OVERWEIGHT (new 10.25% 2032) — priced with concession to its own curve. The new secured 2032 printed at ~10.26% (99.97/100.10), **+26bp of yield and +15bp of spread over the existing 9.50% 2031 at shorter duration** — a rare intra-curve new-issue concession. The note carries B1 ratings and shares the LifeMiles + brand-IP collateral of the established AVIAGP secured stack. **Positioning.** Overweight the new 2032 as preferred entry; it is the cheapest point on the AVIAGP curve on a duration-adjusted basis. Across the LatAm secured-airline complex Avianca screens widest at B1 — ~330bp wide of LATAM (Ba2) and inside Azul (B2) — leaving room for compression as group de-leveraging continues.

Issuer / curve	**Avianca Midco 2 PLC (AVIAGP)**	Adj. EBITDAR (1Q26, AV)	**USD 348m (+11% YoY)**
New issue	**10.25% · 7-Jan-2032**	Total revenues (1Q26, AV)	**USD 1,510m (+14% YoY)**
Reoffer / yield	**~99.97 / ~10.26%**	EBITDAR margin (AV)	**23.0%**
Spread (Bloomberg)	**~+588bp**	Liquidity (AV)	**USD 1.25bn (21% LTM rev)**
Ratings (issue)	**B1 (Moody's)**	Net leverage (AV)	**2.7x Net Debt/EBITDAR**
Format / collateral	**Sr secured · LifeMiles + brand IP**	Net leverage (Abra grp)	**3.1x Net Debt/EBITDAR**
Guarantor	**Avianca Group Int'l Ltd.**	Liquidity (Abra grp)	**USD 2.3bn (23% LTM rev)**
Preferred bond	**AVIAGP 10.25% 2032 (new)**	Recommendation	**OVERWEIGHT**

Source: Bloomberg (bid/ask, YTM, spread, duration); Abra Group 1Q26 results presentation (May 2026); company disclosures; Khorlan Capital. Spread vs UST per Bloomberg. For professional investors only — see Important Disclosures.

EXECUTIVE SUMMARY

Avianca Midco 2 PLC — the secured financing entity of Avianca Group International Limited, in turn part of the Abra Group — has priced a new USD senior secured note maturing 7-Jan-2032 with a 10.25% coupon, quoted at 99.97/100.10 to yield ~10.26%. The note is the third point on the AVIAGP secured curve, joining the 9.625% 2030 and the 9.50% 2031, and shares the same collateral package: a security interest in the LifeMiles loyalty program and Avianca's brand intellectual property, with a full guarantee from Avianca Group International Limited as parent.

The defining feature of the print is a **genuine new-issue concession to Avianca's own secondary**. The new 2032 yields ~10.26% versus ~10.00% on the existing 9.50% 2031 — **+26bp of yield and +15bp of spread — yet at a shorter modified duration (3.22 vs 3.50)**. There is no fundamental basis for a longer-dated, identically secured obligation to offer both more yield and more spread at less duration; this is concession, not curve. We initiate the new 2032 at **Overweight** as the preferred entry point on the AVIAGP curve.

The macro and credit backdrop supports the call. At the group level, Abra delivered 1Q26 Adjusted EBITDAR of USD 792m (+34% YoY pro forma) at a 29.7% margin, with Net Debt/EBITDAR improving to 3.1x. Avianca standalone posted Adjusted EBITDAR of USD 348m (+11% YoY) at a 23.0% margin and held Net Debt/EBITDAR stable at 2.7x, while continuing to term out its maturity profile — the new secured issuance extends the curve and refinances the 9.00% 2028s rather than adding net leverage.

Why the new issue is attractive

- **Concession to its own curve.** The new 2032 offers +26bp/+15bp of yield/spread over the 9.50% 2031 at shorter duration — the cheapest point on the AVIAGP secondary on a duration-adjusted basis.
- **Robust collateral and guarantee.** Secured on the LifeMiles program and Avianca brand IP and guaranteed by Avianca Group International, the note ranks with the established secured stack rather than as unsecured paper.
- **De-leveraging trajectory.** Avianca held net leverage at 2.7x in 1Q26 and the Abra group improved to 3.1x; robust EBITDAR growth and a serial, maturity-extending issuance program underpin gradual re-rating.

Spread opportunity and curve positioning

- Priced at **~10.26% / ~+588bp** over UST, the new 2032 is the widest point on the AVIAGP secured curve and sits well wide of the investment-grade-adjacent LATAM (Ba2) and Aeromexico (Ba3) complexes — fair-to-cheap compensation for a B1 secured Colombian/pan-regional airline credit.
- On the AVIAGP curve we prefer the **new 10.25% 2032 over the 9.50% 2031**: +26bp of yield and +15bp of spread at flat-to-shorter duration is an unjustified intra-curve concession we would capture at the break.

Macro backdrop and catalysts

The operating backdrop is constructive. Avianca leads Colombia and Central America with #1 seat share at Bogotá's El Dorado, a stage-length-adjusted cost base ~24% below LatAm peers and ~142% below US legacy carriers, and a diversified passenger/cargo/loyalty model. Group-level catalysts include the GOL consolidation and Rio de Janeiro international-hub build-out, continued premium-cabin monetization, fuel-cost recapture into 2H26, and — most directly for spreads — the ongoing de-leveraging trajectory at both Avianca and Abra. The principal offset is fuel-price volatility, partially hedged (~60% of passenger consumption capped at $4.00/gl through August).

COMPANY & STRUCTURE PROFILE

Avianca Group International Limited ("Avianca") is the leading airline group in Colombia and Central America, operating a pan-Latin American network of ~160 routes to 83 destinations across 27 countries as of 1Q26, complemented by an award-winning LifeMiles loyalty program and the second-largest cargo franchise in Latin America. Avianca emerged from Chapter 11 reorganization and is now part of the Abra Group, the holding company that also consolidates Brazil's GOL following the June 2025 business combination.

Restructuring history. Clients should read the credit through the lens of its successful balance-sheet reset. Avianca filed for Chapter 11 in the U.S. Bankruptcy Court (Southern District of New York) on 10 May 2020 as the pandemic halted global travel, and ran a largely consensual, ~18-month court-supervised process. It raised roughly USD 1.7bn of new investment, converted its debtor-in-possession facilities into exit financing, simplified its fleet and leases, and eliminated more than USD 1bn of net debt, emerging on 1 December 2021 — the first Latin American carrier of the 2020–21 wave to exit Chapter 11 — with over USD 1bn of liquidity and a materially lighter capital structure. Post-emergence it formed the Abra Group with Brazil's GOL. The AVIAGP secured notes are therefore obligations of a reorganized, recapitalized issuer rather than a pre-restructuring balance sheet; the de-leveraging trajectory discussed below builds on that reset rather than working against a legacy debt overhang.

The bonds are issued by **Avianca Midco 2 PLC**, a dedicated financing subsidiary, and are **senior secured** on a defined collateral package — most notably the LifeMiles loyalty program and Avianca's brand intellectual property — with an unconditional guarantee from Avianca Group International Limited as ultimate parent and from certain subsidiaries. This structure ranks the AVIAGP notes ahead of unsecured group obligations and ties recovery to two of the franchise's most durable, cash-generative assets.

Competitive positioning

- **Core-market leadership.** #1 seat share in Colombia, Core Central America and Ecuador, with ~2.7x the seat share of its nearest competitor at Bogotá — Latin America's most-connected airport.
- **Structural cost advantage.** Stage-length-adjusted passenger CASK ex-fuel of ~4.6¢ in 1Q26 sits well below LatAm and US legacy peers, the product of fleet simplification (A320 family), cabin reconfiguration and network redesign that lifted utilization to ~11.3 block hours/day.

- **Diversified, synergetic revenue.** Ancillary revenue ~29% of passenger revenue; LifeMiles third-party cash EBITDA growing double digits; Avianca Cargo the #1 carrier in Colombia, all reinforcing EBITDAR resilience.

FINANCIAL ANALYSIS

Avianca standalone delivered 1Q26 total revenues of **USD 1,510m (+14% YoY)** and Adjusted EBITDAR of **USD 348m (+11% YoY)** at a 23.0% margin, with PRASK up 8.5% YoY to 6.5¢ on a 6-point load-factor expansion to 82.4%. Passenger CASK ex-fuel rose to 4.6¢ (+24% YoY) chiefly on higher fuel and the Wamos consolidation, partially offset by cost discipline; EBIT was USD 111m (7.4% margin). At the Abra group level, 1Q26 revenues reached USD 2,670m (+17% YoY pro forma) and Adjusted EBITDAR USD 792m (+34% YoY pro forma) at a 29.7% margin, with GOL's post-restructuring earnings ramp the principal swing factor.

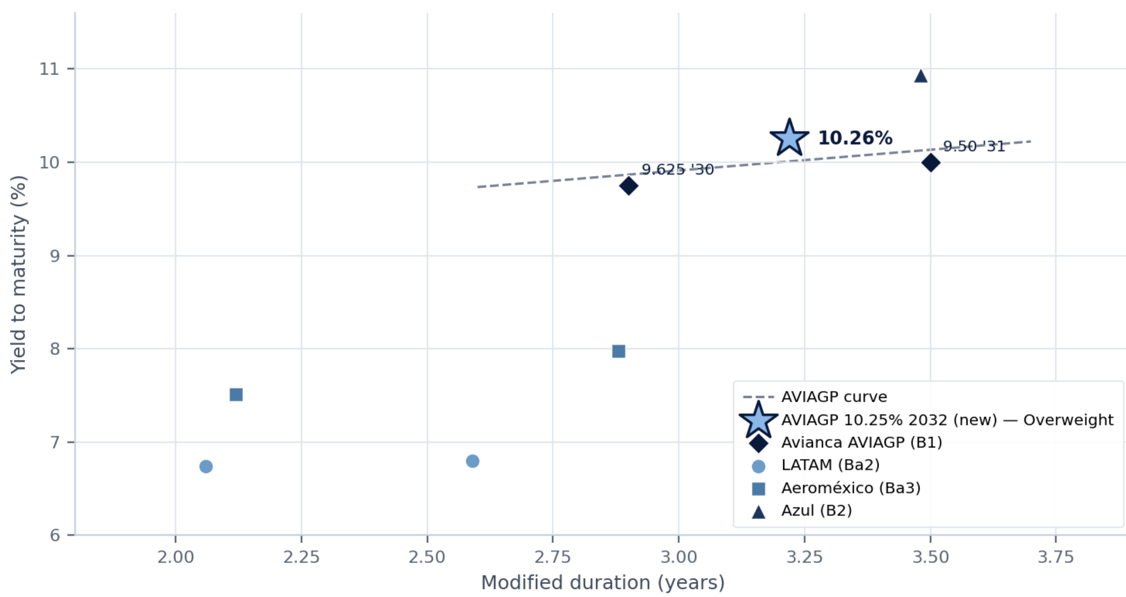
Leverage, liquidity and maturity profile

Leverage is moving in the right direction. Avianca held Net Debt/EBITDAR at **2.7x** in 1Q26 (net debt ~USD 4,237m incl. Wamos), while the Abra group improved to **3.1x** (net debt ~USD 8,997m) on robust earnings. **Liquidity is ample**: Avianca carried USD 1.25bn (21% of LTM revenues), including ~USD 1,047m cash and a USD 200m undrawn revolving credit facility; the group held USD 2.3bn (23% of LTM revenues). During 1Q26 Avianca issued USD 750m of senior secured notes due 2031 and used proceeds to partially redeem the Tranche A-1 secured notes due 2028 — the same liability-management logic underpinning the new 2032: **extension and refinancing, not incremental leverage.**

The principal pressure on near-term margins is fuel. The group has layered hedges (~60% of passenger fuel consumption capped at $4.00/gl for June–August), short-term capacity management and a stated objective to pass through the bulk of higher fuel costs by year-end (recapture rates of at least 60%). We treat the modest 1Q26 EBIT-margin give-back as cyclical fuel noise against an intact EBITDAR-growth and de-leveraging trajectory.

BOND CURVE ANALYSIS

The AVIAGP secured curve trades as the widest cluster within the LatAm secured-airline complex, reflecting Avianca's B1 rating and post-emergence credit profile. The three secured points run 9.75% (2030) / 10.00% (2031) / 10.26% (new 2032) on yield, across 2.9–3.5y duration. The notable feature is that the **new 2032 prints wide of the 2031 on both yield and spread despite carrying shorter duration** — the new-issue concession. Relative to the broader complex, LATAM (Ba2) trades ~330bp tighter and Aeromexico (Ba3) ~230bp tighter on yield, while Azul (B2, Brazil) trades ~68bp wide of Avianca — placing AVIAGP at the wide end of the higher-quality secured names and inside the most distressed.



Yield vs modified duration. Light-blue star: new AVIAGP 10.25% 2032 (Overweight); navy diamonds: existing AVIAGP secured curve; dashed line: fitted AVIAGP term structure. Source: Bloomberg, deal terms, Khorlan Capital.

Bond	Cpn	Maturity	Bid	Ask	YTM	Spr (bp)	Dur	Rating
AVIAGP 10.25 2032 (new)	**10.25**	**7-Jan-32**	**99.97**	**100.10**	**10.26**	**~588**	**3.22**	**B1**
AVIAGP 9.625 2030	**9.625**	**14-Feb-30**	**99.60**	**99.83**	**9.75**	**543**	**2.90**	**B1**
AVIAGP 9.50 2031	**9.50**	**28-Jan-31**	**98.16**	**98.43**	**10.00**	**573**	**3.50**	**B1**
LTMCI 7.875 2030	7.875	15-Apr-30	103.74	103.99	6.74	170	2.06	Ba2
LTMCI 7.625 2031	7.625	7-Jan-31	103.19	103.39	6.80	209	2.59	Ba2
AEROMX 8.25 2029	8.25	15-Nov-29	102.15	102.42	7.51	297	2.12	Ba3
AEROMX 8.625 2031	8.625	15-Nov-31	102.76	102.98	7.98	330	2.88	Ba3
AZUBBZ 9.875 2031	9.875	15-Feb-31	96.18	96.52	10.94	669	3.48	B2

LatAm secured-airline USD complex; AVIAGP 10.25% 2032 at reoffer. Bid/ask, YTM, spread (vs UST) and modified duration per Bloomberg; ratings Moody's where shown (new 2032 expected B1). Source: Bloomberg, deal terms, Khorlan Capital.

Rich / cheap and curve positioning

- **New-issue concession (preferred entry).** The new 10.25% 2032 yields +26bp and is +15bp wider than the 9.50% 2031 at shorter duration. With identical collateral and guarantor, there is no fundamental basis for the gap; we own the new 2032 as the cheap point and would rotate out of the 2031 to pick up yield and spread at less duration.
- **Placement vs the 2030.** The new 2032 offers +51bp of yield and +45bp of spread over the 9.625% 2030 for ~0.3y of incremental duration — attractive carry-plus-extension within the secured stack for investors able to hold the modestly longer point.
- **Carry and rolldown.** All three AVIAGP points sit in the ~2.9–3.5y bucket at a ~10% yield, offering high absolute carry; the new 2032 combines the highest carry on the curve with the concession, making it the best risk-adjusted entry.

RELATIVE VALUE

We benchmark the new AVIAGP 2032 against the secured/quasi-secured LatAm airline cohort — LATAM, Aeromexico and Azul — spanning the Ba2–B2 ratings band at comparable 2–3.5y duration. The conclusion is consistent: on a ratings- and duration-adjusted basis the new issue screens cheap within its own curve and fairly valued-to-cheap against the complex.

Comparable	YTM	Spr (bp)	Dur (y)	Khorlan read
AVIAGP 10.25 '32 (new)	**10.26**	**~588**	**3.22**	**Concession to own curve — Overweight, preferred entry**
AVIAGP 9.50 2031	**10.00**	**573**	**3.50**	**Existing curve; rotate into the new 2032 for +26bp at less duration**
LTMCI 7.625 2031	6.80	209	2.59	Higher-rated (Ba2) benchmark; AVIAGP ~330bp wide
AEROMX 8.625 2031	7.98	330	2.88	Ba3 peer; AVIAGP ~230bp wide on yield
AZUBBZ 9.875 2031	10.94	669	3.48	B2 Brazil; trades ~68bp wide of AVIAGP — the cheap tail

Ratings/duration-adjusted relative value. YTM, spread (vs UST) and duration per Bloomberg. Source: Bloomberg, Khorlan Capital estimates.

Reading the relative value

- **vs higher-rated peers (LATAM / Aeromexico).** Avianca trades ~230–330bp wide of the Ba2/Ba3 secured names. A wide basis is warranted by the one-to-two-notch rating gap and post-emergence profile, but Avianca's improving leverage (2.7x standalone, 3.1x group) and structural cost advantage argue the gap over-compensates over a 6–12m horizon.
- **vs Azul (B2).** Avianca yields ~68bp inside Azul despite similar duration, consistent with Avianca's stronger rating, leadership in defensible core markets and the secured collateral package — we view AVIAGP as the better risk-adjusted carry in the high-single-/low-double-digit-yield airline bucket.
- **Within the curve.** The decisive call is intra-curve: the new 2032's concession to the 2031 is the clearest dislocation on the screen and the highest-conviction expression.

STRATEGIC ANALYSIS

- **Sector outlook.** Latin American air travel remains structurally under-penetrated, with passenger growth CAGRs above GDP and demographic tailwinds in Avianca's core markets. Low-cost, network-leading carriers with diversified ancillary, loyalty and cargo streams are best positioned — Avianca's profile.
- **Group consolidation.** The Abra structure (Avianca + GOL) adds scale, synergy capture and a Rio de Janeiro international-hub build-out. GOL's post-Chapter-11 earnings ramp (1Q26 group Adjusted EBITDAR +34% YoY pro forma) is a direct de-leveraging engine, though it also concentrates the credit's exposure to Brazilian macro and FX.
- **Liability management.** The new 2032 is a constructive LM step — terming out the secured curve beyond the 2030/2031 stack and following the 1Q26 redemption of 2028 paper. Use of proceeds is refinancing/extension and general corporate purposes; we expect continued opportunistic secured issuance.
- **Collateral durability.** Tying the notes to LifeMiles and brand IP anchors recovery to assets that proved resilient through restructuring and the pandemic, supporting the secured rating uplift versus unsecured group debt.
- **Rating migration.** With leverage trending lower and liquidity ample, rating risk is asymmetric to the upside; sustained de-leveraging toward the low-2x area at Avianca would be the clearest spread-compression catalyst.

KEY RISKS

- **Fuel volatility.** Jet-fuel spikes compress margins during the recapture lag; hedges cover only part of consumption and roll off after August. A sustained fuel shock is the primary near-term EBITDAR risk.
- **Leverage / execution.** Group net leverage of 3.1x is moderate but not low; integration of GOL, fleet growth and capex could slow de-leveraging if earnings disappoint.
- **Brazil / FX exposure.** GOL consolidation increases sensitivity to Brazilian macro, demand and BRL volatility, adding beta to the group credit beyond Avianca's core USD-linked markets.
- **Demand / competition.** Domestic Colombia capacity discipline is improving, but a demand downturn or aggressive competitor capacity would pressure PRASK and load factors.
- **Collateral / structural.** Recovery depends on the realizable value of LifeMiles and brand IP under stress; secured status ranks ahead of unsecured group debt but valuation of intangible collateral is inherently uncertain.
- **Refinancing / market access.** Avianca is a serial issuer dependent on open primary markets; a prolonged risk-off shutdown would raise refinancing cost on a ~10%-coupon curve.

CONCLUSION

With the new Avianca Midco 2 secured 10.25% 2032 priced at **~10.26% / ~+588bp — +26bp of yield and +15bp of spread over the existing 9.50% 2031 at shorter duration — we initiate it at Overweight** as the preferred entry on the AVIAGP curve. The print carries a genuine new-issue concession to Avianca's own secondary, an unusual and exploitable dislocation for an identically secured, identically guaranteed obligation. Underlying credit risk is cyclical (fuel, demand, Brazil beta) rather than solvency: Avianca held net leverage at 2.7x and the Abra group improved to 3.1x in 1Q26, both on ample liquidity, and the issuance extends rather than expands the debt stack. We see scope to compress ~25–50bp over 6–12 months as de-leveraging and group synergy capture play out.

THE KHORLAN VIEW	**Preferred trade.** Overweight the new 10.25% 2032 at the break as the cheapest, highest-carry point on the AVIAGP curve; rotate out of the 9.50% 2031 to pick up +26bp of yield and +15bp of spread at shorter duration. **What changes the call.** More constructive on sustained de-leveraging toward the low-2x area at Avianca, accelerated GOL synergy capture, or fuel-cost normalization; more cautious on a sustained fuel shock, a Brazilian macro/FX deterioration that lifts group leverage, or a prolonged primary-market shutdown that raises refinancing cost on the ~10%-coupon curve.

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