ASX RELEASE

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ASX Market Announcements Office
Australian Securities Exchange
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Fitch Ratings Update

Virgin Australia Holdings (ASX: VAH & VAHHA) provides the attached Fitch Ratings Update for release to the market.

ENDS

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22 Apr 2020 | Downgrade

Fitch Downgrades Virgin Australia to 'D' on Voluntary Administration

Fitch Ratings-Sydney-21 April 2020:

Fitch Ratings has downgraded Virgin Australia Holdings Limited's (VAH) Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'D' from 'CCC-', following the carrier's announcement it has entered voluntary administration.

VAH said on 21 April 2020 it will continue to seek financial assistance - but to date has not successfully secured the required support - to shore up its liquidity and ongoing financial position as the majority of its planes remain grounded due to the travel restrictions imposed in Australia to combat the coronavirus. We understand that the administrators and the Australian state and federal governments, alongside VAH, are seeking a new buyer for the airline to ensure two viable airlines remain in Australia, although we expect the footprint of VAH emerging from the administration proceedings to differ from its historical form.

Fitch expects VAH's balance sheet to be restructured as part of this process, and creditors will likely be required to take a haircut on its outstanding debt. Once the airline exits the administration proceedings, we will assess its new strategy and restructured financial profile and re-rate VAH accordingly.

Key Rating Drivers

Entering Voluntary Administration Proceedings: VAH's formal announcement it is entering voluntary administration proceedings follows the exhaustion of all potential sources of funding as it faced substantial liquidity stress due to the COVID-19 shutdown. A third party could purchase the airline as part of the process and allow it to remain the second carrier in Australia, but Fitch believes VAH's balance sheet will undergo inevitable restructuring and creditors will likely have to take a haircut on outstanding debt. Our downgrade of VAH's rating to 'D' reflects the increased probability of this occurring.

Coronavirus-Related Impact: Liquidity stress was unmanageable following quarantine measures that effectively prohibit all non-essential travel between cities in Australia. VAH suspended international operations and all domestic flights, aside from the government-subsidised minimum domestic network. As a result, VAH's cash flow has been limited since March 2020 and it has to date been unable to secure fresh third-party financial support to ensure it is able to survive the duration of the travel restrictions and subsequent return of confidence to travelling in Australia once they are lifted.

Reset of Strategy: VAH's restructuring would need to result in the airline's profitability and cash generation improving in order to secure financing from a third party and enable the airline to continue as a going concern. We believe that, in this case, the airline will focus on bringing back profitable routes and realigning its cost structure to its revenue base while in administration. In our view, the airline and potential third-party new owners will be committed to taking the necessary action to achieve these goals to ensure the airline's financial profile can support its ongoing operations.

Derivation Summary

The rating has been downgraded to 'D' as the company has entered voluntary administration.

Key Assumptions

Fitch's Previous Key Assumptions Within Our Rating Case for the Issuer Included:

- COVID-19-related assumptions: Domestic available seat kilometres (ASK) to reduce by over 90% in the fourth quarter of the financial year ending June 2020 (FY20). ASK capacity cuts to reduce during 1HFY21, with load factors and prices to recover towards FY19 levels by FY22. Domestic ASK to reflect FY19 levels in FY22

- International ASK to reduce by 100% in 4QFYE20. ASK capacity to gradually recover from December 2020, but overall ASK to remain below historical levels. Load factors and prices to recover to FY19 levels from FY22.

- Associated cost savings from grounding of aircraft to be achieved, with aircraft returning to service in 1HFY21 in line with ASK reinstatements.

- Group capacity to expand by low single digits in FY23 across all group airlines, with group-wide load factors to improve to around 82.5% by FY23.

- Velocity revenue to fall by 60% in FY21 and increase to historical levels from FY22.

- Jet fuel requirements to move in line with changes in ASK. Prices are based on Gulf Coast Jet Fuel

Platts swap prices from September 2019 to February 2023.

- VAH to realise guided annual AUD75 million in employee cost savings and other supplier savings by FYE21.

- Capex of AUD400 million in FY20, AUD326 million in FY21, AUD367 million in FY22 and AUD367 million in FY23.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- We will rate VAH following its exit from the administration proceedings based on its new strategy and financial profile.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- The rating cannot be downgraded from 'D', as this is the lowest rating on the scale.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Administration Entered to Secure Liquidity: VAH's liquidity stresses led to it entering voluntary administration. Fitch expects the administrators to work towards securing third-party financing to shore up the airline's ongoing financial profile. As part of the restructuring, we expect creditors to be required to take a haircut on outstanding debt.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING
The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations
ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Virgin Australia Holdings Limited; Long Term Issuer Default Rating; Downgrade; D

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Additional information is available on www.fitchratings.com

Applicable Criteria

Corporate Rating Criteria (pub. 27 Mar 2020) (including rating assumption sensitivity)
Corporates Notching and Recovery Ratings Criteria (pub. 14 Oct 2019) (including rating assumption sensitivity)
Sector Navigators-Addendum to the Corporate Rating Criteria (pub. 27 Mar 2020)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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Endorsement Status
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