

27 March 2020

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

S&P Global Ratings Update

Virgin Australia Holdings (ASX: VAH & VAHHA) provides the attached S&P Global Ratings report for release to the market, revising its long term credit ratings for the Group.

ENDS

This announcement was authorised for release by Virgin Australia Group CEO and Managing Director, Paul Scurrah.

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Research Update:

Virgin Australia Holdings Downgraded To 'CCC' On Fleet Grounding; Placed On CreditWatch Developing

March 26, 2020

Rating Action Overview

We believe Virgin Australia Holdings Ltd.'s cash outflow and liquidity pressures have intensified following its decision to temporarily ground 125 aircraft, reduce domestic capacity by 90%, as well as suspend international flights and Tigerair Australia in response to government-led COVID-19-related restrictions. The airline will also suspend certain supplier payments.

Although our analysis does not incorporate any extraordinary support from the Australian government, we believe that the government may have an incentive to support Australian carriers given the temporary nature of this crisis. The prospect of Virgin Australia receiving timely and coordinated shareholder support appears unlikely given that its shareholder airlines are experiencing financial challenges to varying degrees.

On March 26, 2020, S&P Global Ratings lowered its issuer credit rating on Virgin Australia to 'CCC' from 'B-', and lowered its related issue ratings on the airline's debt to 'CCC-' from 'CCC+'. At the same time, we placed all ratings on CreditWatch with developing implications. Recovery ratings on the debt remain unchanged at '5'.

The CreditWatch developing placement reflects our view that a default or distressed exchange appears increasingly likely over the next 12 months, absent timely government or other support and/or a swift reversal of the COVID-19 outbreak.

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Rating Action Rationale

We lowered our ratings on Virgin Australia to reflect our view that the company's cash outflow and liquidity pressures have intensified. This follows Virgin Australia's decision to temporarily ground 125 aircraft, reduce domestic capacity by 90%, as well as suspend international flights and Tigerair Australia in response to heightened government-led COVID-19-related restrictions. The airline will also defer certain supplier payments.

Despite management initiating decisive measures to preserve cash, we nevertheless believe the scale of the COVID-19 exogenous shock has created an immediate and sizable cash outflow.

We estimate that up to half of Virgin Australia's operating costs are fixed and that a reduction in

variable costs will not offset the collapse in revenue. In addition, the positive working capital benefit provided by forward bookings and the Velocity Frequent Flyer business is now likely to partially unwind. As a consequence, Virgin Australia's previous A\$900 million unrestricted cash buffer is likely to materially reduce in the very near term.

The prospect of timely and coordinated equity support now appears unlikely. Virgin Australia is 90%-owned by Etihad Airways, Singapore Airlines, Nanshan Group, HNA Group, and Virgin Group. To varying extents, each shareholder is experiencing their own challenging industry conditions.

Our analysis does not incorporate any extraordinary support from the Australian government.

Given the temporary nature of this crisis, we believe that the government may have an incentive to support Australian carriers. We note that the government has taken steps to waive aviation fuel excise, air navigation charges, and security fees. In addition, the government has made public statements signaling that it is carefully considering further support measures. We note that Virgin Australia currently employs about 10,000 people, although about 8,000 have recently been stood down.

In our opinion, Virgin Australia is fundamentally well managed and that the Australian domestic market dynamic is fundamentally sound.

The airline has successfully repositioned itself as a full service carrier, has the youngest domestic fleet, a dual-brand strategy, and integrated frequent-flyer business. In our opinion, management has taken decisive action to improve the long-term viability of the airline, including resetting the cost base in loss-making parts of the business such as Tigerair Australia, as well as exiting underperforming international routes and operating bases. Absent the COVID-19 shock, we consider that management had appropriately focused its efforts on cash generation and maintained liquidity levels in line with most of its major Australian corporate and international airline peers'.

CreditWatch

The CreditWatch developing placement reflects our view that a default or distressed exchange appears increasingly likely over the next 12 months, absent timely government, or other support, and/or a swift reversal of the COVID-19 outbreak.

We could lower the rating if Virgin Australia's liquidity deteriorates to such an extent that a default or distressed exchange eventuates or appears almost certain.

Conversely, we could raise the rating if the Australian government or other parties provide timely financial support that buttresses the group's liquidity or there is a reversal of the COVID-19 outbreak to the extent that domestic passenger volumes swiftly recover.

Liquidity

We revised Virgin Australia's liquidity position to weak from adequate, reflecting a material deficit in sources and uses of liquidity over the next six to 12 months.

As of March 26, 2020, we expect Virgin Australia to have the following sources and uses of liquidity:

Principal liquidity sources:

- Unrestricted cash and short-term investments below the A\$900 million on its balance sheet as

of Dec. 31, 2019; and

- We no longer factor any availability of undrawn facilities.

Principal liquidity uses:

- Materially negative cash funds from operations after lease adjustments;
- Minimal debt maturities over the next 12 months;
- Capital expenditure constrained to between A\$200 million and A\$250 million; and
- No dividend distributions to shareholders.

We note the group's next material debt maturity is its US\$350 million bond due in October 2021, where Virgin Australia has allocated US\$350 million of its cash balance to act as a natural hedge.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry, Feb. 12, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Virgin Australia Holdings Ltd.		
Issuer Credit Rating	CCC/Watch Dev/--	B-/Watch Neg/--
Virgin Australia Holdings Ltd.		
Senior Unsecured	CCC-/Watch Dev	CCC+/Watch Neg

Research Update: Virgin Australia Holdings Downgraded To 'CCC' On Fleet Grounding; Placed On CreditWatch Developing

; CreditWatch/Outlook Action

	To	From
Virgin Australia Holdings Ltd.		
Senior Unsecured		
AUD\$250 mil 8.075% med-term nts ser 2 due 03/05/2024	CCC- /Watch Dev	CCC+ /Watch Neg
Recovery Rating	5(10%)	5(10%)
US\$350 mil 7.875% nts due 10/15/2021	CCC- /Watch Dev	CCC+ /Watch Neg
Recovery Rating	5(10%)	5(10%)
US\$425 mil 8.125% Callable nts due 11/15/2024	CCC- /Watch Dev	CCC+ /Watch Neg
Recovery Rating	5(10%)	5(10%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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