



# FITCH AFFIRMS VA 2013-1 CLASS A NOTES; UPGRADES CLASS B, C & D NOTES

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**Fitch Ratings** has affirmed the class A notes at 'A' and upgraded class B (to 'BBB' from 'BB+'), **class C** (to 'BB' from 'B+') and class D (to 'B+' from 'B') notes for Virgin Australia Holdings Limited's (VAH, not rated publically) enhanced equipment notes (EEN) series 2013-1. Fitch's ratings cover approximately \$595 million of outstanding senior and subordinated notes. A complete list of rating actions is provided at the end of this release.

The upgrades to all of the subordinated tranches are driven by the general improvement of VAH's corporate credit profile in Fitch's view, while the upgrades of the B and C subordinated tranches are also driven by an increase in the recovery prospects due to rapid amortization of the notes and the corresponding decline in the transaction's loan-to-value (LTV).

Since Fitch's last review of VA 2013-1 in October 2014 there has been substantial amortization of outstanding debt; debt was paid down \$136.8 million. In addition, the initial pool featured two 737-700s which have subsequently been removed from the pool as the equipment notes and the corresponding EEN debt were repaid in full over the past two years.

Key ratings considerations include the quality of the aircraft collateral, significant overcollateralization, the Australian and New Zealand insolvency regimes coupled with the transaction's underlying structure, the liquidity facilities, VAH's credit quality, and various additional structural elements.

Fitch also noted such positive credit factors as low balloon payments for all tranches, short remaining expected maturities for the subordinated note classes, and rapid amortization of the notes resulting in significant expected LTV improvements for all tranches within the next several years.

VA 2013-1 is the first EETC-type transaction relying on the Australian insolvency regime, which differs in key aspects when compared to Section 1110 and the Cape Town Convention (CTC; which incorporates most elements of Section 1110 protection in countries that have ratified the treaty) legal frameworks seen in most EETCs. Even though Australia signed the CTC into law in late June 2013, its implementation was not completed prior to the issuance of the notes.

The CTC rules do not apply retroactively and Fitch expects VA 2013-1 notes will be governed under the Australian insolvency law until maturity. New Zealand is a CTC signatory and the CTC covers the six aircraft in this transaction that are leased in New Zealand. Fitch believes Australia's legal framework, combined with the structure of this transaction, create a situation similar to Section 1110/CTC as it allows creditors access to collateral in the event of insolvency.

## KEY RATING DRIVERS

The A-tranche rating is primarily driven by a top-down analysis which evaluates the level of overcollateralization and likely recovery in a stress scenario. The ratings are supported by a strong collateral package consisting of Tier 1 aircraft with vintages ranging from 2003 to 2011. Market values for the remaining collateral aircraft (777-300ER and 737-800) have performed in line with Fitch's expectations since the launch of the transaction. The class A notes benefit from rapid principle amortization of the notes which outpaces the depreciation of the collateral value resulting in a relatively rapid decline in the transaction's LTV.

Fitch's 'A' level stress scenario produces the maximum remaining LTV of 85%, down from 95.1% as of October 2014. The decline is in line with Fitch's initial expectations. The stressed LTV of 85% implies a good amount of cushion for senior tranche noteholders. The A tranche has a remaining weighted average life of 3.1 years. Unlike many other EETC transactions which feature smooth and constant LTV declines, LTV values of VAH 2013-1 are expected to increase on several occasions as older vintage aircraft are paid off and removed from the collateral pool.

The largest increase in LTV is expected to occur in October 2018 when seven 2004 vintage 737-800s and the 777-300ER will be fully paid off. The eight aircraft will represent approximately 50% of the pool's value and their exclusion from the collateral will increase Fitch's forecast base LTV to 51.5% as of October 23, 2018, up from 36.9% as of July 23, 2018. Fitch anticipates the 'A' level stressed LTV values will not exceed 80%. The ratings are also supported by an 18-month liquidity facility provided by Natixis.

The ratings for the subordinated tranches are driven by Fitch's view of VAH's corporate credit profile, a high affirmation factor, availability of the liquidity facility for the Class B notes, collateral coverage and the rights of each subordinated class noteholder to purchase all of the senior notes in certain cases. The ratings are also supported by seniority of interest payments for all subordinated notes over the principal distributions to the senior notes.

The affirmation factor for this pool is considered high as both aircraft types in the transaction are core to VAH's fleet plan. The relatively large percentage of the company's primary aircraft type contained in this transaction makes it unlikely that the company would reject the pool in the case of administrative proceedings, in Fitch's view. The 737-800 is VAH's main aircraft type, fitting well with the airline's primarily short-haul business profile. The transaction's percentage of the fleet is projected to decline to below 4% beginning 2021, weakening the affirmation factor of the remaining pool. However, this is mitigated by the low LTV values expected by that time. Fitch believes that the likelihood of these aircraft being affirmed in a restructuring scenario effectively reduces the probability of default of subordinated tranches compared to VAH's credit profile.

Each note is fully cross-collateralized, and all indentures are fully cross-defaulted from the date of the issuance of each applicable note. Fitch believes these provisions in VA 2013-1, which are standard enhancements of the modern EETC template, increase the likelihood that VAH would affirm these notes and the underlying aircraft and continue to make payments on the notes in the case of administrative proceedings. Taken together, these provisions treat all the aircraft as one pool of assets as the collateral supporting this transaction.

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