

# United takes remedial action on Synergy loan breach

---

Heini Nuutinen

31/05/2019

Rather than take control of Colombia's Avianca Holdings (AVH) after its majority shareholder breached covenants on a guaranteed \$456 million loan, United Airlines has removed voting rights from the offending party – BRW Aviation, a unit of Brazil's Synergy Group – and passed those rights to AVH's largest minority shareholder, Kingsland Holdings.

As part of the restructuring, United and Kingsland have promised Avianca a new loan of up to \$250 million, if needed and requested by the carrier.

This is a clever move that allows BRW/Synergy and the Efromovich brothers to keep their substantial ownership stake in AVH (51% of total shares and 78% of voting stock), while ensuring that decision-making is in the hands of an independent, more trusted third party.

Kingsland, which holds 14% of AVH's total shares and 22% of its voting stock, represents the Kriete family, former owners of TACA, which merged with Avianca in 2010.

At AVH, Kingsland has frequently clashed with Synergy on strategic issues, amid allegations that minority shareholders were not receiving the same treatment as the controlling shareholder.

Poor corporate governance has been an issue frequently mentioned by analysts and rating agencies. Consequently, United's closer involvement at Avianca has been welcomed by the financial community.

It all started in November 2018 when United, COPA and Avianca agreed on a three-way joint business agreement (JBA) for US-Latin America routes.

The JBA will take at least 18-24 months to become effective but should bring significant benefits to Avianca. The airline secured the strategic partner it had long sought and should be able to better take advantage of its formidable market presence in Colombia and Central America and become a bigger player globally.

In conjunction with the JBA, United agreed to provide a \$456 million, seven-year loan to Synergy, which used the proceeds to pay back another loan but pledged its 516 million shares in Avianca (held through BRW) as security. Avianca did not receive any of the proceeds.

The terms of the loan from United to Synergy outline multiple paths for United to potentially become a part or full owner of AVH.

The loan bears interest at 3% annually and is payable in five annual instalments from 2021 to 2025. Synergy may pay up to 25% of any instalment in AVH shares. United also has an option to acquire up to 77.4 million AVH shares from Synergy, and United will get a board seat if the stake reaches 5%.

At that time United also signed a separate agreement with Kingsland that makes the latter's shares in AVH available to United in certain circumstances (on favourable terms to Kingsland).

The JBA and closer relationship with United led to almost immediate corporate governance improvement at Avianca. Earlier this year Avianca unveiled reforms to the structure of its board, aimed at ensuring "impartial decision-making" and "balanced involvement and input" from all shareholders. The reforms included a new "board executive committee", more independent directors and United sitting in meetings as an observer.

But just four months after the loan was signed, BRW was in breach of at least one covenant (the collateral coverage ratio), which led to United delivering it a notice of default in April.

On 24 May United began to “exercise remedies”, also citing a recent downgrade of Avianca’s credit ratings by S&P and the need to protect the value of its collateral.

Subsequently, in an “extraordinary meeting held via telephone conference”, Avianca’s shareholders unanimously approved major changes to the carrier’s by-laws, board of directors and leadership.

German and Jose Efromovich, who own Synergy and BRW, along with four other directors appointed by BRW, have been removed from Avianca’s board, and six new directors chosen by Kingsland have been brought in.

According to its SEC filings, United granted Kingsland “independent authority to manage BRW”, meaning that Kingsland now has 100% of the vote at Avianca.

Kingsland’s Roberto Kriete has been named Avianca’s president (a new position), while current interim chief executive officer Renato Covelo “will continue in his role as executive president (CEO)”.

All of that is great news for Avianca, giving it a real chance to become financially successful. The airline is already a success in the marketplace, thanks to its strong brand and superior customer service.

United’s move could also pave the way for the refinancing of the [Avianca \\$550 million of bonds maturing in May 2020](#), which has been delayed by problems associated with the loan covenant breach.

“Kingsland’s task will be to continue working to achieve good and transparent corporate governance at Avianca Holdings that ensures the stability and financial sustainability of the company in the long term”, Avianca said in a securities filing.

Kingsland also stated that it “supports Avianca in the implementation of its transformation plan”, which was launched last year and has made promising progress.

Under that plan, Avianca has shifted its focus from growth to profitability. Among other things, it has eliminated unprofitable routes, restructured its huge orderbook with Airbus and sold many non-core business units.

*Thank you for printing this article from Airfinance Global, your essential intelligence resource for aviation finance. If you have been given this article by a subscriber, you can contact us through email at [accountmanager@airfinanceglobal.com](mailto:accountmanager@airfinanceglobal.com) or call us on +44 (0)20 7779 8015 to discuss our subscription options.*