



Fitch Downgrades SriLankan Airlines' Government-Guaranteed Bonds to 'B'

Fitch Ratings - Colombo - 05 December 2018: Fitch Ratings has downgraded the rating on SriLankan Airlines Limited's (SLA) USD175 million government-guaranteed bonds due in June 2019 to 'B' from 'B+'.

This follows the downgrade of Sri Lanka's Long-Term Foreign and Local-Currency Issuer Default Ratings to 'B' with a Stable Outlook (see 'Fitch Downgrades Sri Lanka to 'B'; Outlook Stable', dated 3 December 2018). The national carrier's bonds are rated at the same level as SLA's parent, the state of Sri Lanka, due to the unconditional and irrevocable guarantee provided by the state. The Sri Lankan government held 99.5% of SLA at end-2017 through direct and indirect holdings

RATING ACTIONS					
ENTITY/DEBT	RATING			PRIOR	
HIDE RATING ACTIONS					
SriLankan Airlines Limited					
senior unsecured	LT	B	Downgrade	B+	
VIEW ADDITIONAL RATING DETAILS					

KEY RATING DRIVERS

Heightened Refinancing Risk: The downgrade of the sovereign reflects heightened external refinancing risks, an uncertain policy outlook, and the risk of a slowdown in fiscal consolidation as a result of an ongoing political crisis. Fitch believes the ongoing political upheaval, which has disrupted the normal functioning of parliament, exacerbates the country's external financing risks, which are already heightened by the tightening of global monetary conditions amid a heavy external debt repayment schedule between 2019 and 2022. Fitch also expects fiscal slippages as the current political climate is likely to lead to delays in setting policy priorities and to disruption in progress on future reforms.

DERIVATION SUMMARY

Fitch has rated SLA's US dollar-denominated bonds at the same level as the sovereign due to the unconditional and irrevocable guarantee provided by the government. The rating is not derived from its issuer's standalone credit profile and thus is not comparable to its industry peers.

RATING SENSITIVITIES

The main factors that individually, or collectively, could trigger a positive rating action are

- An upgrade of the sovereign rating

The main factors that, individually or collectively, could trigger negative rating action are:

- A downgrade of the sovereign rating

For the sovereign rating of Sri Lanka, the following sensitivities were outlined by Fitch in its Rating Action Commentary of 3 December 2018

The main factors that individually, or collectively, could trigger a positive rating action are:

- Improvement in external finances supported by higher non-debt inflows, or a reduction in external sovereign refinancing risks from an improved liability profile
- Improved policy coherence and credibility
- Stronger public finances underpinned by a credible medium-term fiscal strategy

The main factors that, individually or collectively, could trigger negative rating action are:

- Further increases in external funding stresses that threaten the ability to repay external debt
- Continued political uncertainty that contributes to a loss of investor confidence, possibly affecting the macroeconomic outlook
- A deterioration in policy coherence and credibility that leads to an increase in general government debt and deficit levels

Criteria Variation

The rating on SLA's bonds is derived from the rating of an entity covered by a group that does not assign Recovery Ratings. As a result, no Recovery Rating was assigned to SLA's bond.

DATE OF RELEVANT COMMITTEE

04-Dec-2018

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 23 Mar 2018)

Sector Navigators (pub. 23 Mar 2018)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

Government-Related Entities Rating Criteria (pub. 25 Oct 2018)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

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