

19 Sep 2019 | New Issue

Fitch Assigns SriLankan Airlines' Guaranteed USD Bonds 'B' Final Rating

Fitch Ratings-Singapore/Colombo-19 September 2019:

Fitch Ratings has assigned a final 'B' rating to SriLankan Airlines Limited's (SLA) USD175 million government-guaranteed 7% unsecured bonds due 25 June 2024. The final rating on the bonds is in line with the expected rating assigned on 19 June 2019, and follows the receipt of final documents conforming to information received earlier.

The issuance proceeds were used to repay the company's USD175 million bond due 27 June 2019.

Key Rating Drivers

The bonds are rated at the same level as the bonds issued by SLA's parent, the government of Sri Lanka (B/Stable), due to the unconditional and irrevocable guarantee provided by the government. The government's bonds are, in turn, rated in line with the sovereign's Long-Term Issuer Default Rating (IDR) of 'B'. The payment obligations arising under the guarantee rank pari passu with all other present and future, unconditional, unsecured and unsubordinated obligations of the government. The state held 99.5% of SLA as of end-May 2019 through direct and indirect holdings

Derivation Summary

Fitch has rated SLA's US dollar bonds at the same level as the sovereign rating due to the unconditional and irrevocable guarantee provided by the government. The rating is not derived from SLA's Standalone Credit Profile and thus is not comparable with that of its industry peers.

RATING SENSITIVITIES

The rating of the bond would be sensitive to any changes in Sri Lanka's Long-Term IDR.

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- An upgrade of the sovereign Long-Term IDR

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- A downgrade of the sovereign Long-Term IDR

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

17-Jan-2019

Public Ratings with Credit Linkage to other ratings

The rating of SLA's government-guaranteed bond is linked to the credit quality of the Sri Lanka sovereign, the guarantee provider. A change in Fitch's assessment of the credit quality of the Sri Lanka sovereign would automatically result in a change in the rating on SLA's government-guaranteed bond. Any change in Fitch's view on the contract of guarantee, or

deterioration of the credit quality of the counterparties may result in a downgrade to the notes.

SriLankan Airlines Limited

---senior unsecured; Long Term Rating; New Rating; B

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Corporate Rating Criteria - Effective from 23 March 2018 to 19 February 2019 \(pub. 23 Mar 2018\)](#)

[Corporates Notching and Recovery Ratings Criteria \(pub. 23 Mar 2018\)](#)

[Government-Related Entities Rating Criteria \(pub. 25 Oct 2018\)](#)

[Sector Navigators \(pub. 23 Mar 2018\)](#)

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