FitchRatings

FITCH RATES AVIANCA HOLDINGS' IDRS 'BB-'; UNSECURED NOTES 'B+/RR5'; OUTLOOK STABLE

Fitch Ratings-New York-24 April 2013: Fitch Ratings has assigned the following Issuer Default Ratings (IDRs) to Avianca Holdings S.A. (formerly known as AviancaTaca Holding S.A.) and its fully owned subsidiaries:

Avianca Holdings S.A. (Avianca Holdings):
--Long-term Issuer Default Rating (IDR) 'BB-';
--Long-term local currency IDR 'BB-'.

Aerovias del Continente Americano S.A. (Avianca):
--Long-term IDR 'BB-';
--Long-term local currency IDR 'BB-'.

Grupo Taca Holdings Limited (Grupo Taca):
--Long-term IDR 'BB-'.

Avianca Leasing LLC (Avianca Leasing):
--Long-term IDR 'BB-'.

The Rating Outlook is Stable.

Fitch has also assigned an expected senior unsecured rating of 'B+/RR5' to the proposed issuance of USD300 million of notes to be issued by Avianca Holdings and its subsidiaries Grupo Taca Holdings Limited (Grupo Taca) and Avianca Leasing LLC (Avianca Leasing). Avianca Holdings, Grupo Taca, and Avianca Leasing are jointly and severally liable under the notes as co-issuers. Avianca Leasing is a wholly owned subsidiary incorporated under the laws of Delaware, United States.

The notes will be senior unsecured obligations of each of the issuers and will rank equally with the other senior unsecured indebtedness of the issuers. The notes will be fully and unconditionally guaranteed - on an unsecured, senior basis - by three of Avianca Holdings' subsidiaries, Taca International Airlines S.A., LACSA S.A. and Trans American Airlines S.A. - Taca Peru. Avianca Leasing's obligations as a co-issuer of the notes will be unconditionally guaranteed - on an unsecured, senior basis - by Avianca Holdings' subsidiary Aerovias del Continente Americano S.A. (Avianca) up to an amount equal to the proceeds of the offering of the notes used by Avianca Leasing LLC to purchase aircraft, which is currently estimated to be approximately USD200 million. Proceeds from the note issuance will be used primarily to fund the company's fleet capital expenditure.

The IDR reflects Avianca Holdings' important regional market position as the leader carrier in Colombia and Central America, geographically diversified business model, stable EBITDAR margins, high gross adjusted leverage, and adequate liquidity. The ratings also consider the vulnerability of the company's cash flow generation to higher fuel prices and the inherent risks of the airline industry, balanced by the carrier's ability to maintain margins based on the leader position in the markets where it operates. The ratings incorporate the company's substantial fleet renewal plan and its expected impact in the company's competitive market position, margins, financial leverage and free cash flow. The company's adjusted net leverage is expected to be around 5.5x during the next two years ended in December 2014.

The 'B+/RR5' rating of the company's proposed unsecured notes incorporate the subordination of the proposed unsecured notes with respect to significant levels of secured debt, and below the average recovery prospects in the event of default.

The Stable Outlook reflects expectations that the company will expand its operations and withstand competitive pressure without weakening its credit profile.

KEY RATING DRIVERS:

Avianca Holdings has a dominant market position in Colombia's market, which is the third most important market in the region after Brazil and Mexico. Colombia's domestic and international passenger segments are estimated as approximately 17 million and 8 million, respectively, of passenger transported in 2012. The company's market participations in Colombia's domestic market and intra region Central America are 59%, and 77%, respectively. Avianca Holdings' market share as a percentage of transported passengers, in the home markets (Central America, Colombia, Ecuador, and Peru) toward North America, South America, the Caribbean, and Spain were 29%, 50%, 26%, and 28%, respectively, by the end of 2012. The company's market share in Peru's domestic market is 12%, while in the Ecuadorian domestic market is 29%.

EBITDAR margins expected around 17%. Avianca Holdings' financial performance has remained stable during the last three years when compared with other regional players - particularly in Brazil - that have reached material deterioration in margins due to increasing competition. This situation reflects the company's solid market position in its main markets - primarily Colombia and Central America - with limited competition - which allows it the pricing flexibility to transfer part of the increasing costs to the revenue structure.

Geographically diversified business supports load factors around 79.7%. Avianca Holdings' business model offers a good degree of geographic diversification, combining operations in Colombia, Central America and South America, which allows the company to deploy and rotate capacity according to the market conditions. The company's revenue structure is well-distributed by regions with Colombia's domestic market (27%), North America (22%), Lower South America (13%), Upper South America (12%), Central America (9%), and Europe (8%). Avianca Holdings' geographic diversification allows it to maintain consistently solid load factors of around 79.7% during the last three years, ended in December 2012.

In terms of business segment, Avianca Holdings' passenger and cargo segments represent approximately 86.3% and 11%, respectively, of its total revenues. The company's diversification by business segments is not expected to materially change over the short to medium term.

The ratings incorporate the expected improvement in the cost structure and savings generated by the company's significant capital expenditures (capex) plan as well as the overcapacity risk and limited free cash flow (FCF) generation over the next two years ended in December 2014. Avianca Holdings' capex plan considers renewing an important portion of its fleet during the next three years ended in 2015. The company's capex related to aircraft equipment for 2013, 2014, and 2015 is expected to reach levels of USD490 million, USD835 million, and USD288 million, respectively.

Avianca Holdings' available seat kilometers (ASK) was 36.5 billion by the end of December 2012, and it is expected to increase in 11%, 8%, 9% during 2013, 2014, and 2015, respectively, driven by the fleet capex plan. The company's significant capex plan will limit its free cash flow generation during the next few years. During 2012, the company reached levels of cash flow from operations (CFO), capex, and paid dividends of UDS401 million, USD594 million, and USD25 million, respectively, resulting in a negative FCF of USD218 million. The company's FCF generation is expected to be negative during the next two years based on the execution of its capex plan.

The ratings consider that the company will maintain its financial policy of keeping cash targets around 13% of its last 12-month period (LTM) revenues. The company ended December 2012 with a cash position of USD453 million, 2x its short-term debt of USD231 million and representing 11% its total revenues for the year 2012. The company faces maturing debt payments of USD257 million and USD298 million during 2013 and 2014, respectively, covered by its current cash and marketable securities balance (USD453 million) and unused credit lines for approximately USD60 million.

High financial leverage constrains the ratings. The company's cash generation, as measured by EBITDAR was USD695 million during the 2012, with an EBITDAR margin of 16.4%. The company had approximately USD3.9 billion in total adjusted debt at the end of December 2012. This debt consists primarily of USD1.8 billion of on-balance-sheet debt, most of which is secured, and an estimated USD2.1 billion of off-balance-sheet debt associated with lease obligations. The company's rentals payments during 2012 were USD287 million. The company's gross and net adjusted leverage, as measured by total adjusted debt/EBITDAR and total adjusted debt net of cash/EBITDAR, were 5.5x and 4.9x at the end of December 2012.

The ratings factor in the view that the company's net leverage will remain around 5.5x during the next two years ended in December 2014; deleveraging is not expected as the company is implementing a significant, and largely debt-funded, capex plan during the next three years resulting in negative free cash flow for the period. Over the next two years, higher capital expenditures for fleet renewal is likely to put pressure over the FCF and thus increase Avianca Holdings' leverage, even though it is expected that the company will benefit from an increase in EBITDAR, coming from higher revenues for adding more efficient capacity in the next years, as well as the cost reduction program (other than fuel cost) that the company will be carrying.

The ratings incorporate the credit profile of the holding's fully controlled subsidiaries Avianca and GTH. Combined, these two operating companies represent the main source of cash flow generation for the holding company. Avianca's cash generation, as measured by EBITDAR was USD593 million during the last 12 months (LTM) period ended December 2012. Avianca's EBITDAR margin was 22% and 21% during 2011 and 2012, respectively, and its gross adjusted leverage, as measured by the total adjusted debt/EBITDAR ratio, was 4.3x at the end of December 2012. GTH's cash generation, as measured by EBITDAR was USD145 million during 2012, respectively. GTH's EBITDAR margin was 9.7%% and 5.7% during 2011 and 2012, respectively. GTH's gross adjusted leverage, as measured by total debt/EBITDAR, was 15.3 times (x) at the end of December 2012.

The ratings also factor in the credit linkage among the holding company and its operating companies - Avianca and GTH. The significant legal and operational links between the two operating companies are reflected in the existence of cross-guarantee and cross-default clauses related to the financing of aircraft acquisitions for both operating companies. Likewise, the IDR considers that dividends and/or intercompany loans between the two entities will be unrestricted.

RATING SENSITIVITIES:

Fitch could consider a positive rating action if Avianca Holdings generates margins and FCF higher than the expected levels incorporated in the ratings, resulting in lower financial adjusted leverage and improved its liquidity profile in terms of cash position. Conversely, a negative rating action could be considered if the company's credit profile - in terms of FCF, financial adjusted leverage or liquidity position - weakens, especially in a fuel spike or falling demand scenario.

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Applicable Criteria and Related Research:
--'Corporate Rating Methodology' Aug. 8, 2012;
--'Parent and Subsidiary Rating Linkage' Aug. 8, 2012;
--'National Ratings Criteria' Jan. 19, 2011;
--'Rating Airline Companies, Sector Credit Factors' Dec. 14, 2012.

Applicable Criteria and Related Research
National Ratings Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=595885
Rating Airline Companies
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Corporate Rating Methodology
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