FITCH AFFIRMS AVIANCA HOLDINGS' IDRS AT 'BB-' & UNSECURED NOTES AT 'B+/RR5'; OUTLOOK TO NEGATIVE

Fitch Ratings-New York-26 March 2015: Fitch Ratings has affirmed the ratings of Avianca Holdings S.A.'s (Avianca Holdings) and its subsidiaries as follows:

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

Avianca Leasing LLC
--USD550 million unsecured notes due in 2020 at 'B+/RR5'.

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-'.

The Rating Outlook for the corporate ratings has been revised to Negative from Stable.

The Negative Outlook reflects the deterioration in the company's gross adjusted leverage and low liquidity as well as the view that it would be challenging to the company to improve its leverage and liquidity metrics during the next quarters at levels previously incorporated in the ratings. The company's gross adjusted leverage, measured by total adjusted debt/EBITDAR ratio, was 6.7x at December 2014, which is not consistent with the current rating category. Expectations previously factored in the ratings considered the company's adjusted gross leverage to remain in the 5x to 5.5x range during 2014 with additional business deleverage taking place in the following years.

The company's inability to significant rebuild its liquidity position - through the monetization of assets sales - and improve profitability during the next several quarters will result in a rating downgrade.

Avianca Holdings' IDRs consider its important regional market position as the leader carrier in Colombia and Central America, geographic diversification, stable margins, high gross adjusted leverage, and low liquidity. The ratings also consider the vulnerability of the company's cash flow generation to fuel price variations 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 'B+/RR5' rating of the company's unsecured notes incorporate the subordination of the company's unsecured notes with respect to significant levels of secured debt, and below the average recovery prospects in the event of default. The unsecured notes are co-issued by Avianca Holdings SA, Grupo TACA Ltd, and Avianca Leasing LLC.

RATING DRIVERS:

High Adjusted Gross Leverage

The company's gross adjusted leverage, as measured by total adjusted debt/EBITDAR was 6.7x at the end of December 2014. This level represents deterioration over the 2013 adjusted gross leverage metrics of 5x. Fitch expects the company's gross adjusted leverage ratio will trend to levels around 6x by the end of 2015, driven by better operational margins, although still weak for the rating category. The company's cash generation, as measured by EBITDAR was USD784 million during 2014 - USD828 million during the 2013 - with an EBITDAR margin of 16.7%. The company had approximately USD5.2 billion in total adjusted debt at the end of December 2014. This represents an increase from USD4.2 billion in adjusted debt as of Dec. 31, 2013. The company's debt - as of Dec. 31, 2014 - consists primarily of USD3.2 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 2014 were USD299 million.

Low Liquidity

The company's liquidity has weakened during 2014 period due to its cash position related to Venezuelan operations and the negative FCF trend resulting from business growth. Excluding its exposure to Venezuela economy - trapped cash in Venezuela as of Dec. 31, 2014 was USD280 million - the company's ready available cash is estimated at USD360 million, which represents 7.8% of its LTM revenues by Dec. 31, 2014. Expectations previously incorporated in the ratings were for Avianca Holdings to maintain liquidity levels and cash targets - excluding exposure to Venezuela - above 10% of its LTM revenues. In addition, the company faces debt payment of USD459 million and USD300 million due during 2015 and 2016, respectively, which adds pressure to the company's financial flexibility. In 2014, the company's FCF generation was negative in USD199 million, resulting in FCF margin (LTM FCF/ LTM Revenues) of -4.2%. The 2014 FCF calculation considers USD137 million, USD296 million, and USD39 million in cash flow from operations, net capex, and paid dividends, respectively.

Improvement in EBIT Margin Key

The company's 2015 EBIT margin is expected to be around 9%. The company ended 2014 with a total revenue level of USD4.7 billion, an increase of 2% over 2013. During 2015, the company's revenue is expected to remain flat due to the increase in number of passenger being offset by lower yields. The company's passenger transported increased by 6.5% and 6.6% during 2013 and 2014, respectively, and it is expected to increase around 9% in 2015. The company's capacity increase in 2015 is estimated around 8%, while load factor should remain around 80%. The company is anticipated to benefit during 2015 from lower fuel prices, but its hedge position will partially limit the company's fuel cost reduction.

Regional Market Position Incorporated

Avianca Holdings' business model combines operations in Colombia, Central America, and South America, which allows the company to rotate capacity according to market conditions. Its geographic diversification allows the company to maintain consistently solid load factors of around 80% during the last three years, ended in December 2014. The company's business diversification is viewed as adequate with international passengers, domestic passengers, cargo operations, and the loyalty program and other segments representing approximately 59%, 23%, 12%, and 6% of the company's total revenues. Avianca Holdings dominance in the Colombian market is positively incorporated into the ratings.

Credit Linkages and Notes' Guarantees Structure Incorporated

The ratings also reflect Avianca Holdings' corporate structure and the credit linkage with its subsidiaries, Avianca and Grupo Taca. Combined, these two operating companies represent the main source of cash flow generation for the holding company. 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 companies. Avianca

Holdings, Grupo Taca, and Avianca Leasing are jointly and severally liable under the USD550 million unsecured notes as co-issuers. Avianca Leasing is a wholly owned subsidiary incorporated under the laws of Delaware, United States. Avianca Leasing's obligations as a co-issuer of the notes is unconditionally guaranteed on an unsecured, senior basis by Avianca up to 2/3 of the total issuance amount.

KEY ASSUMPTIONS:
Fitch's key assumptions within the rating case for the issuer include:

--8% annual capacity increased in 2015
--2015 EBIT margin around 9%
--Gross Leverage trending to levels around 6x by the end of 2015
--Neutral to slightly negative free cash flow (FCF) in 2015

RATING SENSITIVITIES:
Positive Rating Actions: The prospect of Avianca Holdings' Outlook returning to Stable will require the company's material business deleverage trending to level in the 4.5x to 5x range over a 12-24 month period; and liquidity levels, measured as total cash to LTM revenues, trending to levels consistently above 10% by the end of 2015.

Negative Rating Actions: Conversely, a negative rating action could be considered if the company's credit profile (FCF, financial adjusted leverage or liquidity position) does not reach a major improvement during the next quarters. Deterioration in the company's credit metrics, resulting in gross adjusted leverage consistently above 6x coupled with limited improvement in its liquidity position during the next few quarters.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage' (May 28, 2014);
--'Airlines: Ratings Navigator Companion' (March 9, 2015).

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Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
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