

Avianca Holdings

LifeMiles deal announced; Positive development

Advent to pay US\$343.7mn for a 30% stake in LifeMiles

Avianca announced it has entered into an investment agreement with Advent International to sell a 30% minority stake in LifeMiles (LM), AVH's frequent flyer subsidiary. More specifically, Advent should pay US\$343.7mn for a 30% stake in the business, valuing LM at US\$1.15bn (above our bullish expectations that LM could be worth ~US\$1bn). Avianca Holdings will receive US\$343.7mn and will maintain a 70% stake in LifeMiles.

Value unlocking + bolstering balance sheet

Although we still do not have more details regarding operating contracts / shareholders agreement / tax implications from the transaction (all of which should be key to assess the ultimate implications from the transaction), we see this as a very positive development, both from (1) a value unlocking standpoint - AVH's market cap is \$1.4bn, the holco trades at a single digit P/E multiple and we expect LM to be priced at a large premium; and (2) a balance sheet standpoint - the reported proceeds amount (\$344mn) is 79% (gross) of AVH's cash & equivalents excluding Venezuela, and balance sheet liquidity has been seen as one key risk, especially in light of AVH's robust capex plan.

A glimpse of LifeMiles

LifeMiles is now, excluding Brazilian programs, the leading loyalty company in the region, with more than 6mn members as of Q1. As per public presentations by AVH, LM had third-party sales of US\$142mn in 2013 and, based on recent info, we estimate potential 2014 sales to third parties of ~US\$170mn. LM has significant positives, such as geographical and client diversification, high growth profile and limited competitive pressure (esp. relative to the Brazilian market). The company will host a conference call tomorrow at 9am EST in which additional details will be provided. We reiterate AVH as one of our top picks.

Valuation	12/2012	12/2013	12/2014E	12/2015E	12/2016E
RoIC (EBIT) %	25.1	20.1	12.3	14.3	16.2
EV/EBITDA	-	6.5	7.3	5.9	4.9
P/E	-	7.8	13.3	5.2	3.8
Net dividend yield %	-	0.3	0.1	1.3	2.9

Financials (US\$m)	12/2012	12/2013	12/2014E	12/2015E	12/2016E
Revenues	4,339	4,610	4,721	4,591	4,967
EBITDA	466	555	503	634	785
Net Income	92	249	110	248	340
EPS (US\$)	0.74	1.99	0.88	1.98	2.71
Net DPS (US\$)	0.00	0.04	0.01	0.13	0.30
Net (debt) / cash	(1,607)	(1,641)	(2,212)	(2,406)	(2,557)

Source: Company reports, Bovespa, BTG Pactual S.A. estimates. / Valuations: based on the last share price of the year; (E) based on a share price of US\$10.37, on 10 July 2015.

Rating	Buy
12m Price Target	US\$20.00
Price	US\$10.37
RIC: AVH.N, BBG: AVH US	

Trading Data and Return Forecasts

52-wk range	US\$16.71-9.87
Market cap.	US\$1,298m
Shares o/s (m)	125.2
Free float	34%
Avg. daily volume('000 Shares)	180
Avg. daily value (US\$ m)	2.0
Forecast price appreciation	+92.9%
Forecast dividend yield	0.4%
Forecast stock return	+93.2%

Stock Performance (US\$)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 2

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The figures contained in performance charts refer to the past; past performance is not a reliable indicator of future results.

BTG Pactual Rating	Definition	Coverage *1	IB Services *2
Buy	Expected total return 10% above the company's sector average.	43%	45%
Neutral	Expected total return between +10% and -10% the company's sector average.	51%	46%
Sell	Expected total return 10% below the company's sector average.	6%	29%

1: Percentage of companies under coverage globally within the 12-month rating category.

2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Absolute return requirements

Besides the abovementioned relative return requirements, the listed absolute return requirements must be followed:

- a Buy rated stock must have an expected total return above 15%
- a Neutral rated stock can not have an expected total return below -5%
- a stock with expected total return above 50% must be rated Buy

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Statement of Risk

Specific risks to Avianca Holdings include capacity additions by competitors and macro-economic and political conditions in its main markets of Colombia, Peru and Ecuador. Additional risks - common to all airlines - include fuel price increases, exchange exposure, business traffic volatility, significant operating and financial leverage, and risks of terrorism. Any of the above could significantly impact our earnings estimates and price target.

Valuation Methodology

AVIANCA HOLDINGS SA [COAVH] (Primary) - Our 12-month TP is based on a fair EV/EBITDAR multiple.

Company Disclosures

Company Name	Reuters	12-mo rating	Price	Price date
Avianca Holdings ^{1, 2, 4, 6, 9, 18, 20}	AVH.N	Buy	US\$10.37	10-7-2015

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Avianca Holdings



Source: BTG Pactual and Economica. Prices as of 10 July 2015

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