

Copa Holdings

Top Latin America Airlines

CPA US NYSE

BUY (+25%)

Current Price – USD112

Target Price – USD140

15th November 2014

Addressing Airlines Aversion

- *"How do you become a millionaire? Make a billion dollars and then buy an airline."* -- Warren Buffett
- Buffet's ideal holding period is forever
- Historically airlines has destroyed shareholder's capital more than it creates
- But there are hidden gems set for >30% gain in this industry as proven by open-minded investors

	1Y	2Y	3Y
International Airlines Group IAG (London)	+14%	+125%	+188%

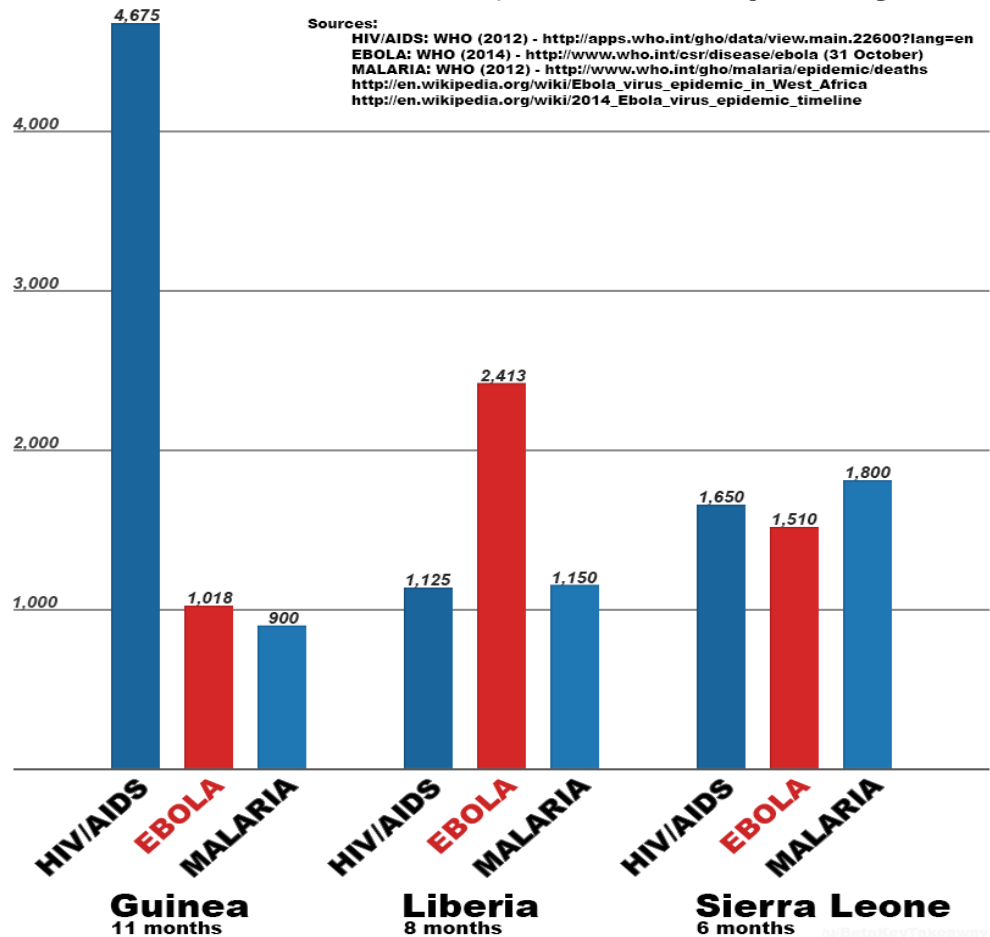
Addressing the Ebola risk

- Fears
- Sensationalize
- Evidence
- Rationalize

Ebola virus epidemic 2014

31 Oct

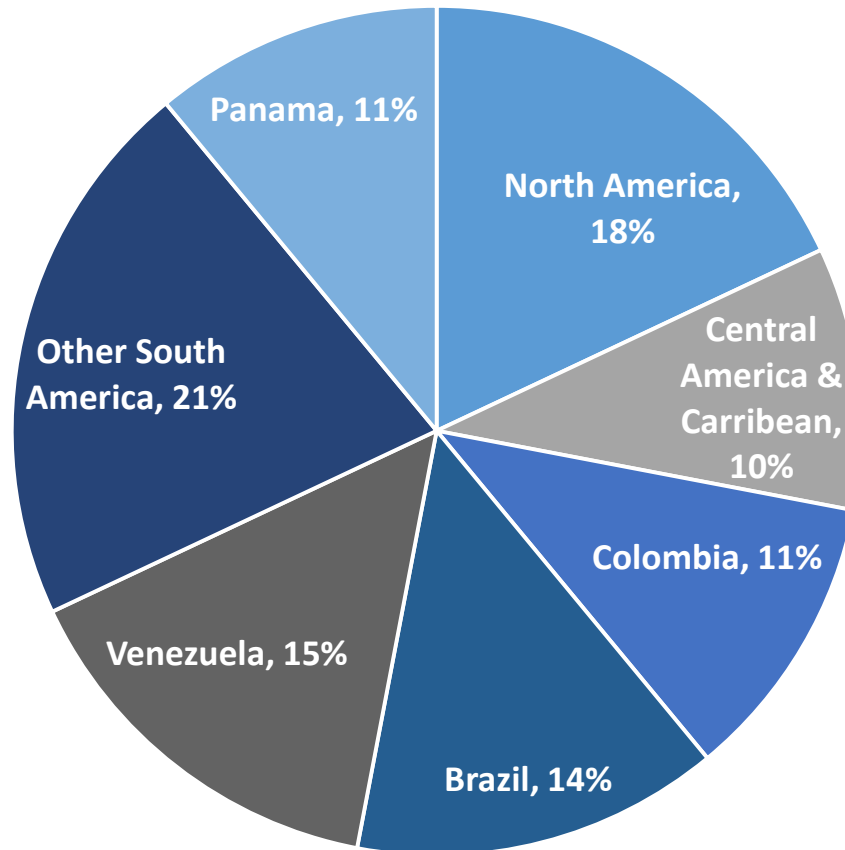
Deaths caused by HIV/AIDS, Ebola & Malaria since the first cases of Ebola in GIN, LBR & SLE respectively.



What is Copa Holdings?

- Panama flag carrier
 - 97 planes
 - 69 destinations & 30 countries
 - A profitable airline since 2001
- Main base of operations in Tocumen Intl Airport
 - Is currently adding +30-40% capacity by 2016-18
- Strategic location for medium-haul flights
 - New York / California to Brazil using Panama as transit
- Tocumen is Central America's busiest airport
 - Passenger traffic CAGR of 16% from 2010-13
- Copa controls 80% of passenger traffic in Tocumen in 2013

Revenue Breakdown (FY13)

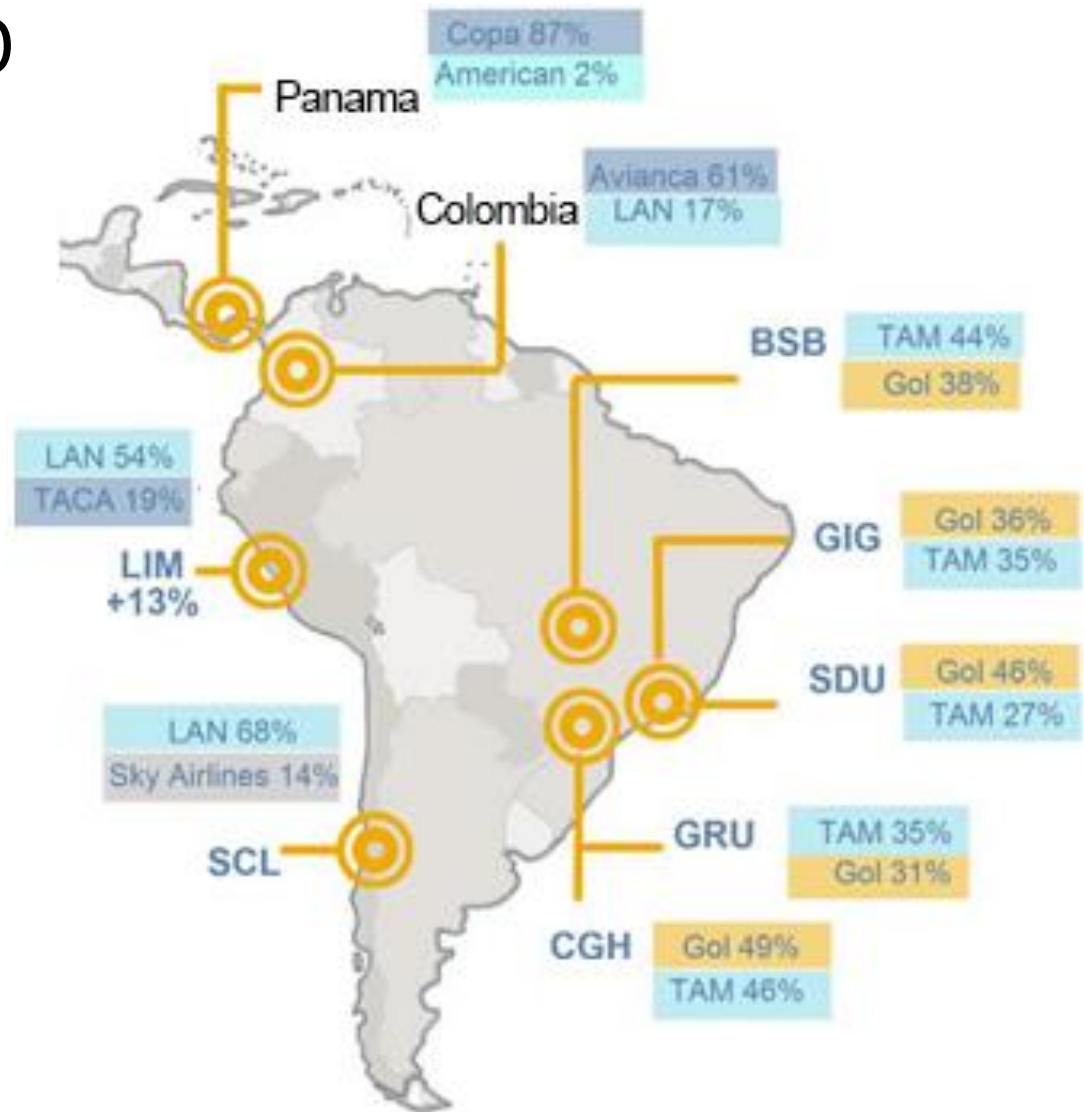


Regional Map

- Copa has the highest concentration in its airport at 87%
- Lack of strong LCC presence in Central America and Upper South America

Country	Flight time from Panama
Colombia	1.5 hr
Miami, USA	3.0 hr
Mexico	4.0 hr
Texas, USA	4.3 hr
Rio de Janeiro, Brazil	7.0 hr

Source: Expedia



Source: FACTS 2013

Copa Holdings & Peers 1

- **Avianca Holdings – A Colombian flag carrier**
 - An airline that loses money running a business can hardly expand with 124% gearing for FY13
 - Copa has -3.0% gearing
- **Gol Linhas Aereas – Brazilian airline**
 - Weakened Brazilian economy and runaway cost leading to widen losses
 - Domestically driven by intra-continent routes
- **Latam Airlines Group – Chilean airline**
 - Originally Chile's LAN merged with Brazil's TAM to form LATAM in 2012
 - Exposure and proximity to Argentina a risk

Copa Holdings & Peers 2

Airlines	Passenger Load Spread (%)	EBITDA Margin		Opr Profit per ASM (USD)	Profit	Gearing (%)
	2013	2012	2013	2013	2013 (USDm)	2013
COPA HOLDINGS	17.0%	21.9%	25.1%	2.3	427	-3.3%
AVIANCA HOLDINGS SA	-8.2%	10.6%	12.0%	-0.9	257	124.0%
GOL LINHAS AEREAS	2.1%	-4.8%	9.2%	-1.2	-370	229.6%
LATAM AIRLINES GROUP	7.2%	10.5%	12.6%	2.2	-281	135.3%

- Larger profits among much bigger players in the region
- EBITDA remains superior (x2 of Avianca)
- Low gearing leaving room for possible expansion into LCC segment

Risk

- Entry of a entrant (possibly Low-cost carrier)
 - “Moat” – Airport & Government
 - Copa can easily emulate LCC with an ageing fleet
- Emerging economies risk
 - Venezuela economy remains uncertain from oil squeeze
 - Re-allocating capacity away from Venezuela
- A new infectious air-borne lethal virus

Why Copa Holdings?

- **Robust & consistent operational performance**
 - World class leading EBITDAR margins at 22-29%
 - Consistent profitability – achieving profits since 2001
 - Low gearing ratio (net cash as of FY13) compared to peers
- **“Moat” – Tocumen International Airport**
 - Rapidly expanding capacity
 - Flag carrier working relationship with Government and Airport
- **Currency stability of using USD as official currency**
 - Colombian Pesos, Brazilian Real and Chilean Peso depreciates by **10%** against USD since 1Q2014
 - USD to Panama dollar 0% change. Pegged to USD.

Price Target

- We forecast a 8.0x EV/EBIDTAR & 13.0x P/E for FY15
- Target Price of 140 USD from 112 USD
- Potential upside of at least 25%
- We recommend a **Buy**

Thank You

Q&A

Price History – 5Y



Operating Metrics Comparison

Airlines	Ticker	Profit	Gearing (%)		ROE (%)		Passenger Load Factor Spread (%)	Opr Profit per ASM (USD)	Taxation (%)
		2013 (USDm)	2013	2013	2014E	2015E	2013	2013	2013
COPA HOLDINGS SA-CLASS A	CPA US	427	-3.3%	25%	22%	19%	17.0%	2.3	13%
AVIANCA HOLDINGS SA-SPON ADR	AVH US	257	124.0%	22%	11%	21%	-8.2%	-0.9	16%
GOL LINHAS AEREAS INTEL-ADR	GOL US	-370	229.6%	-115%	-28%	22%	2.1%	-1.2	-
LATAM AIRLINES GROUP-SP ADR	LFL US	-281	135.3%	-5%	2%	8%	7.2%	2.2	-

Airlines	EBITDA Margin		Mcap	Ave Volume
	2012	2013	US\$m	US\$m
COPA HOLDINGS SA-CLASS A	21.9%	25.1%	5,001	\$77.9
AVIANCA HOLDINGS SA-SPON ADR	10.6%	12.0%	1,756	\$2.5
GOL LINHAS AEREAS INTEL-ADR	-4.8%	9.2%	1,458	\$5.2
LATAM AIRLINES GROUP-SP ADR	10.5%	12.6%	6,601	\$6.9

Fuel Sensitivity – FY14

Diff		Change in Fuel Prices	Fuel Expense	Net Income		
-82	Rise	10%	-904	287	-21%	
-41		5%	-863	324	-10%	
0	Base	0%	-822	362		
41		-5%	-781	397	10%	
82	Fall	-10%	-740	433	20%	
		For every 5% change in fuel prices, net income changes by 10%				
		1% fuel price change 2% of net income				

CPA US - revenue by region

Revenue by Region

<u>Region</u>	<u>Year Ended December 31,</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
North America(1)	18.0%	16.7%	16.9%
South America	63.6%	60.8%	57.9%
Central America(2)	13.7%	17.8%	19.3%
Caribbean(3)	4.7%	4.7%	5.9%

(1) The United States, Canada and Mexico.

(2) Includes Panama.

(3) Cuba, Dominican Republic, Haiti, Jamaica, Puerto Rico, Aruba, Curaçao, St. Martin, Bahamas and Trinidad and Tobago.

CPA US - revenue by countries

29. Segment reporting

Information concerning operating revenue by principal geographic area for the period ended December 31 is as follows (in millions):

(In USDm)			2013	%
North America			468.1	18%
Central America & Carribean			271.2	10%
Colombia			291	11%
Brazil			357	14%
Venezuela			396.4	15%
Other South America			535.2	21%
Panama			289.4	11%
Total			2608.3	100%

A cut in 50% of Venezuela revenue will imply a 7% fall in revenue.
Margins will be pressurized too due to reallocation.

Avianca Holdings – cash & regions

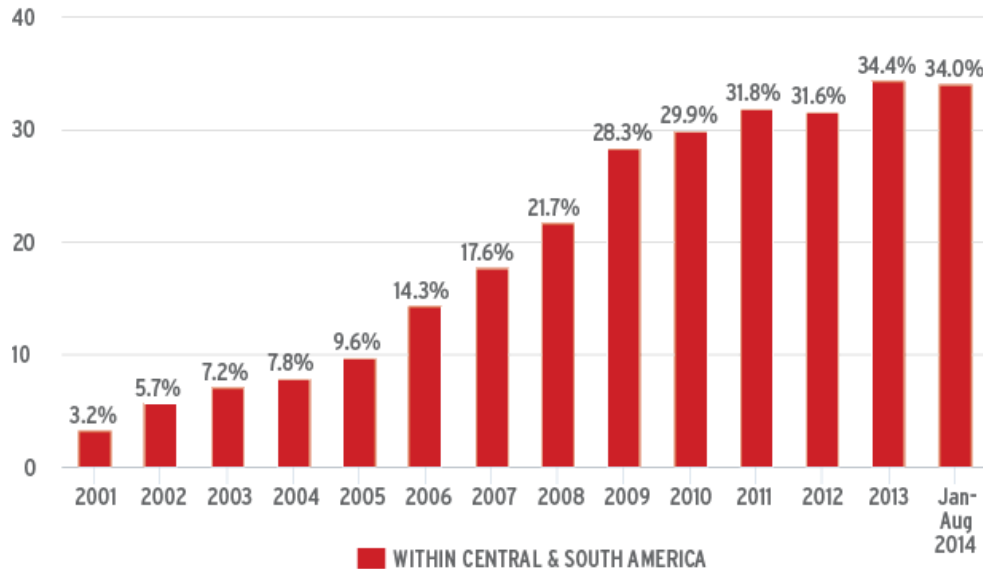
	Al 31 de diciembre de 2013 / December 31, 2013						
	USD USD	Pesos Colombianos Colombian Pesos	Bolívars Venezuelan Bolivares	Pesos Argentinos Argentinean Pesos	Reales Brasileños Brazilian Reals	Otros Others	Total Total
Efectivo y equivalentes de efectivo Cash and cash equivalents	\$ 293.040	\$ 93.104	\$ 311.016	\$ 15.016	\$ 8.292	\$ 15.109	\$ 735.577

	2013
América del Norte / North America	\$ 650.374
Centroamérica y el Caribe / Central America and the Caribbean	619.851
Colombia / Colombia	1.841.984
América del Sur (excepto Colombia) / South America (ex-Colombia)	1.167.728
Otros / Other	329.667
Total ingresos operacionales Total operating revenue	\$4.609.604

42% of cash is in Bolivares for FY13

25% Revenue from South America

LCC Share



LCC capacity share (% of total seats) within Latin America: 2001 to 8M2014

Source: CAPA – Centre for Aviation & OAG

Note: Central America includes Mexico but excludes the Caribbean

Copa CEO Pedro Heilbron recently concluded that his airline and VivaColombia **serve different market needs**. VivaColombia is a point-to-point airline and Copa's strength is leveraging **Tocumen** as a **transit point** for other destinations throughout Latin and North America.