COPA HOLDINGS, S.A. (CPA)

Price	$95.47	Net Earnings	$449 million
Market Cap	$4.23 billion	Price/Earnings Ratio	9.45
52 Week Range	95.17 - 162.83	Return on Equity	22.61
Dividend Yield	4.02%	Debt/Equity	0.54
Exchange	NYSE	Intrinsic Value	$160
Industry	Airlines	Upside potential	67%
Website	copaair.com	Max Purchase Price	$112

PITCH

A highly profitable South American airline company with unique geographical advantages and plenty of growth potential which is currently experiencing some temporary headwind due to political instability.

BUSINESS MODEL

The first company on the list might surprise you. Copa Holdings, S.A. (CPA) is a Panama based airline providing passenger and cargo services in Latin America. The company offers around 300 daily flights to more than 120 destinations from its Panama City Hub. In 2014 Copa's fleet consisted of 98 passenger aircraft with an average age of around 6 years, which is considered relatively young in the airline industry.

While Warren Buffett is known for seriously disliking airline companies, Copa possesses several unique advantages over its competitors, which will be discussed in detail later on. In addition, the company recently experienced a massive selloff due to political issues between Venezuela and Panama. This quarrel froze up $509 million in cash which Copa had stored in Venezuela.

While this is a big blow for the company, Copa has been one of the only companies in the airline industry to consistently earn money. In fact, the company multiplied its revenue 6-fold over the last 9 years and saw a 500% increase in earnings per share. Copa might just be the exception to the rule, an outlier.

FUNDAMENTAL ANALYSIS

As mentioned before, Copa possesses several unique and sustainable competitive advantages, of which many are of a geographical nature. For starters, Panama only charges Copa a 10% tax rate, while most of its competitors are taxed in the 35% or higher range. This has a powerful and continuous positive impact on their bottom line, which shows in their healthy 16.3% net margin versus the industry average of just 2.4%.

Besides, Copa controls 80% of the air traffic on the Panama City airport, which means the company can service North, Central and South America with little to no competition and is able to consolidate traffic, allowing them to service destinations which are uninteresting to competitors due to smaller demand. In addition, the economy of Panama has been growing fast and is expected to grow at 7% for the next two years at least.

Air traffic in the Latin America region is expected to grow at about the same pace, 6.9%, for the coming 20 years. The only region in the world that grows faster is the Middle East. The recent drop in fuel prices will also greatly benefit the company, since this expense accounts for a whopping 30% of revenue. The company's CEO, Pedro Heilbron, has been in charge since 1988. During that time the company has performed exceptionally well.

Over the last 10 years, Copa's Return on Equity has consistently been above 20%. Their debt/equity ratio of 0.54 is relatively low in the airline industry and has been getting lower over the years, which is a very healthy sign. On the other hand, the current ratio has been increasing to 1.3. While we prefer to see a current ratio of 2 or higher, 1.3 is still pretty good compared to an average current ratio of 0.89 for the airline industry as a whole. For those of you who like a steady dividend, Copa's 4% dividend yield might be interesting.

Copa's annual EPS growth rate has been around 25% for the last 5 years. However, analysts polled by Yahoo Finance expect a *negative* 1.75% growth for the next 5 years. This seems a highly unlikely scenario based on the analysis above. If we assume a still conservative 10% growth rate, the intrinsic value of Copa Holdings is estimated at around $160, implying a 67% upside potential from current price levels. All of the above mentioned factors indicate Copa has a bright future ahead!

RISK FACTORS

Obviously not all is fine and dandy with Copa Holdings. The current political instability between Panama and Venezuela is having a significant impact on the company. Not only does the company have several hundred million dollar parked in Venezuela, which they might or might not get back, but Copa might also have to replace some of their high-margin traffic to Venezuela with lower-margin destinations.

However, it is important to keep in mind that the risk of not getting any of their cash out of Venezuela is limited thanks to a hedging facility they've put in place. And the reduction in high-margin traffic will most likely lead to a decrease in net earnings of no more than 10%, which is much less than the 40% drop in price the company's stock experienced recently.

Still, it is likely that Copa's earnings will take a hit in 2015, but based on their strong cash flows and powerful competitive advantages, Copa seems like a great long-term bet if you are willing to take the political instability in South America for granted.