

Daily Boarding

Volaris January traffic figures

Industry Overview

Volaris January traffic figures

Volaris (VLRS) reported traffic figures for January, with total ASM (Available Seats Mile) down -11% YoY (domestic ASM down -24% YoY and international up +19% YoY), +50% vs 2019, while RPM (Revenue Passenger Mile) decreased -9% YoY (domestic RPM down -20% YoY and international up +15% YoY), +45% vs 2019, yielding a load factor of 88%. Potential impact: Neutral to Volaris. We see the capacity reduction as fully expected, explained by Pratt & Whitney's engine recall. In addition, the switching of capacity from domestic to international routes is linked to Mexico's Category 1 regain of US FAA (Federal Aviation Agency) safety standards in September 2023, which we think will be favorable to consolidated yields as the company shifts capacity from less profitable domestic routes to higher-yield US flights. As a recap, the engine recall is expected to affect 52% of Volaris' fleet in the next 2-3 years, positively impacting company's fares as it shifts capacity to more profitable routes and reduces the number of routes' frequencies. We have a Buy rating (PO: US\$12.5/MXN24.0) on Volaris on an appealing valuation and potential for surprisingly decent 2024 results despite the ~30% capacity impact due to the recall.

06 February 2024

Equity
Latin America
Daily Boarding

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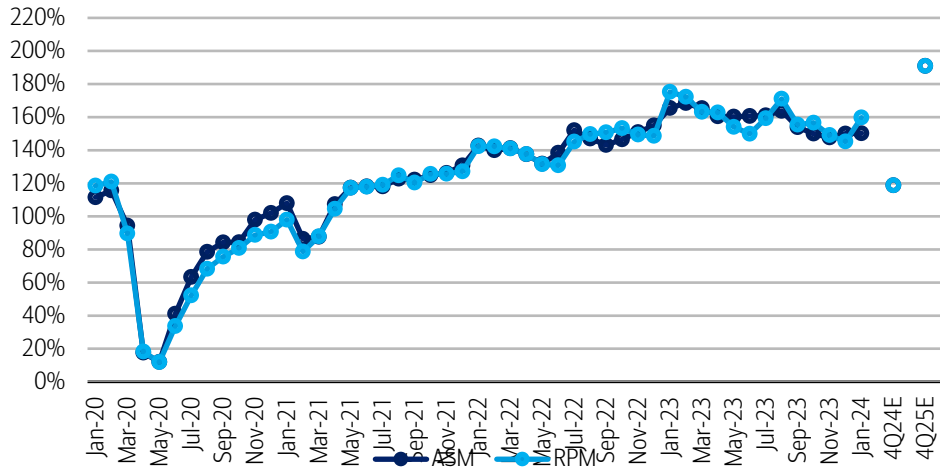
Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Exhibit 1: Volaris traffic figures evolution – vs 2019 levels

Volaris ASM and RPM are 50% and 60% above 2019 levels



Source: Volaris, BofA Global Research Estimates

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Exhibit 2: Summary table of our coverage

We rate as Buy: Copa, Volaris; Neutral as Azul

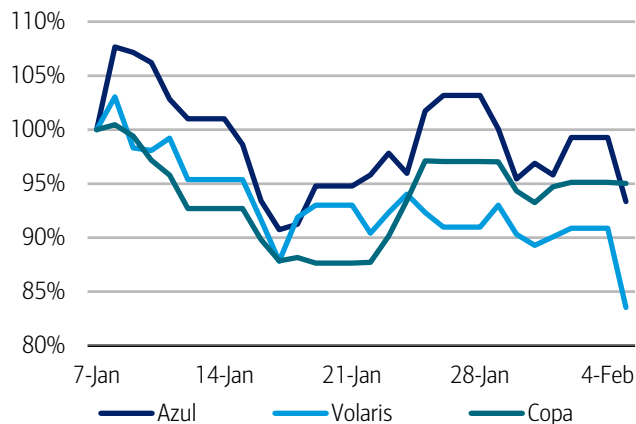
Company	Rating	Q-R-Q rating	Market cap (US\$m)	Average daily traded value (US\$m)	2024 P/E	2025 P/E	2024 EV/EBITDA	2025 EV/EBITDA	2024 Dividend Yield	2025 Dividend Yield
Azul	2 - Neutral	C-2-9	901	42.4	9.3x	7.8x	6.7x	6.2x	2.7%	3.3%
Azul (ADS)	2 - Neutral	C-2-9	900	12.6	9.3x	7.8x	6.7x	6.2x	2.7%	3.3%
Volaris (ADS)	1 - Buy	C-1-9	864	4.5	-5.5x	-126.2x	6.3x	6.1x	0.0%	0.0%
Volaris	1 - Buy	C-1-9	940	2.1	-5.5x	-126.2x	6.3x	6.1x	0.0%	0.0%
Copa	1 - Buy	C-1-7	4,181	30.3	7.6x	6.4x	5.5x	4.7x	5.4%	6.3%
Airlines			5,947	92.0	6.2x	-9.6x	5.8x	5.0x	4.4%	5.1%

Source: Bloomberg, BofA Global Research estimates. (*) For airlines, we use EV/EBITDAR

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Exhibit 7: Airlines companies' price evolution

All airlines are down on a 30-day basis



Source: BofA Global Research, Bloomberg

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Price objective basis & risk

Volaris (VLRS / CTTRF)

We derive our US\$14.9 (MXN26.0) price objective from a 2025 Adjusted EV/EBITDAR target of 7.0x (slightly below historical levels pre-Covid 19). In order to have consistency among the sector and historical valuation levels, we do one valuation adjustment for Volaris that we judge as fair: 1) we assume 7x peers as a proxy for operating leases' NPV, as we calculate this reflects the economic value of leased aircraft better than lease liability (100% of Volaris' fleet has been done through operating leases).

Downside risks to our price objective are: 1) increases in oil price, 2) weakening of economic growth and air demand, 3) MXN depreciation, which could reduce the willingness of Mexicans to fly to the US, and also expand Volaris' costs in USD (mainly aircraft rent, fuel and aircraft maintenance), 4) stronger-than-expected competition and potential oversupply, 5) other pandemic crisis, closing countries' borders for international passengers, or reducing the willingness of people from traveling, 6) slower-than-expected or higher-than-expected impacts from aircraft engine recalls.

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We, Rogerio Araujo and Gabriel Frazao, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

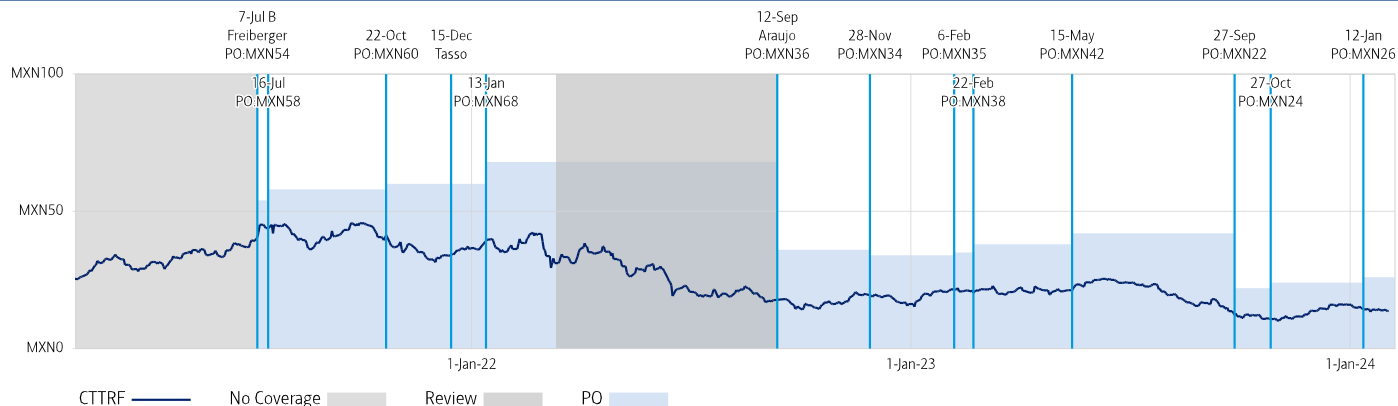
Latin America - Capital Goods & Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Copa	CPA	CPA US	Rogério Araujo
	GPS Participacoes e Empreendimentos S.A.	XKTRF	GGPS3 BZ	Rogério Araujo
	Hidroviás do Brasil	XDXXF	HBSA3 BZ	Rogério Araujo
	Localiza	LZRFF	RENT3 BZ	Rogério Araujo
	Mills	MLSTF	MILS3 BZ	Rogério Araujo
	Movida	XMBDF	MOV13 BZ	Rogério Araujo
	Rumo	RUMOF	RAIL3 BZ	Rogério Araujo
	Volaris	VLRS	VLRS US	Rogério Araujo
	Volaris	CTTRF	VOLARA MM	Rogério Araujo
NEUTRAL				
	Armac	XCVZF	ARML3 BZ	Rogério Araujo
	Azul	XAZUF	AZUL4 BZ	Rogério Araujo
	Azul	AZUL	AZUL US	Rogério Araujo
	Randon	RPRTF	RAPT4 BZ	Rogério Araujo
	Vamos	XPLPF	VAMO3 BZ	Rogério Araujo
	WEG	WGSEF	WEGE3 BZ	Rogério Araujo
	WEG	WEGZY	WEGZY US	Rogério Araujo
UNDERPERFORM				
	CCR	CDCRF	CCRO3 BZ	Rogério Araujo
	Ecorodovias	XVEDF	ECOR3 BZ	Rogério Araujo
	lochpe-Maxion	IOCJF	MYPK3 BZ	Rogério Araujo
	Tupy	TPYSF	TUPY3 BZ	Rogério Araujo

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Volaris (CTTRF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Volaris (VLRS) Price Chart



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Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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