

## Daily Boarding

## Volaris 4Q23 review

Industry Overview

**Volaris: Mixed 4Q23 results and strong 2024 guidance reiterated**

Volaris reported mixed results in 4Q23. Although revenue beat our forecast by +5%, EBITDAR missed our estimates by -3% and adjusted EBIT by -4%. This was driven by a mix of: 1) TRASM (Total Revenue per ASM - Available Seat Mile) 5% above our numbers, mainly driven by strong ancillary revenue (+35% YoY); and 2) Operating expenses (adjusted by one-off variable lease expenses) 7% above our estimates, mainly explained by higher maintenance, landing/take-off fees, and other operating expenses. Overall, we judge 4Q23 results as positive, with EBITDAR expanding +35% YoY despite a capacity drop of -1% YoY - driven by the engine recall from Pratt & Whitney. The reiterated 2024 guidance confirms our positive view on operating momentum and Volaris' appealing valuation levels - with the stock trading at 4.8x Adj. EV/EBITDAR for 2024E vs 7.0-7.5x historical levels. See details on [Volaris: Mixed 4Q23 results; strong 2024 guidance reiterated](#).

27 February 2024

Equity  
Latin America  
Daily Boarding

**Rogério Araujo >>**  
Research Analyst  
Merrill Lynch (Brazil)  
+55 11 2188 4255  
[rogerio.araujo@bofa.com](mailto:rogerio.araujo@bofa.com)

**Gabriel Frazao >>**  
Research Analyst  
Merrill Lynch (Brazil)  
+55 11 2188 4252  
[gabriel.frazao@bofa.com](mailto:gabriel.frazao@bofa.com)

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**Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 27 February 2024 07:18AM EST

**Exhibit 2: Summary table of our coverage**

We rate Copa and Volaris as Buy and Azul as Neutral

Company	Rating	Q-R-Q rating	Market cap (US\$mn)	Average daily traded value (US\$mn)	2024 P/E	2025 P/E	2024 EV/EBITDA	2025 EV/EBITDA	2024 Dividend Yield	2025 Dividend Yield
Azul	2 - Neutral	C-2-9	819	39.2	8.4x	7.1x	6.6x	6.1x	3.0%	3.6%
Azul (ADS)	2 - Neutral	C-2-9	818	10.7	8.4x	7.1x	6.6x	6.1x	3.0%	3.6%
Volaris (ADS) (US\$7.31)	1 - Buy	C-1-9	852	4.3	-5.4x	-124.5x	6.3x	6.1x	0.0%	0.0%
Volaris (R\$12.52)	1 - Buy	C-1-9	854	2.2	-5.4x	-124.5x	6.3x	6.1x	0.0%	0.0%
Copa	1 - Buy	C-1-7	4,274	29.5	6.7x	5.3x	5.0x	4.0x	6.1%	7.6%
<b>Airlines</b>			<b>5,945</b>	<b>85.8</b>	<b>5.4x</b>	<b>-10.1x</b>	<b>5.4x</b>	<b>4.5x</b>	<b>5.0%</b>	<b>6.2%</b>

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

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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.

## Analyst Certification

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.

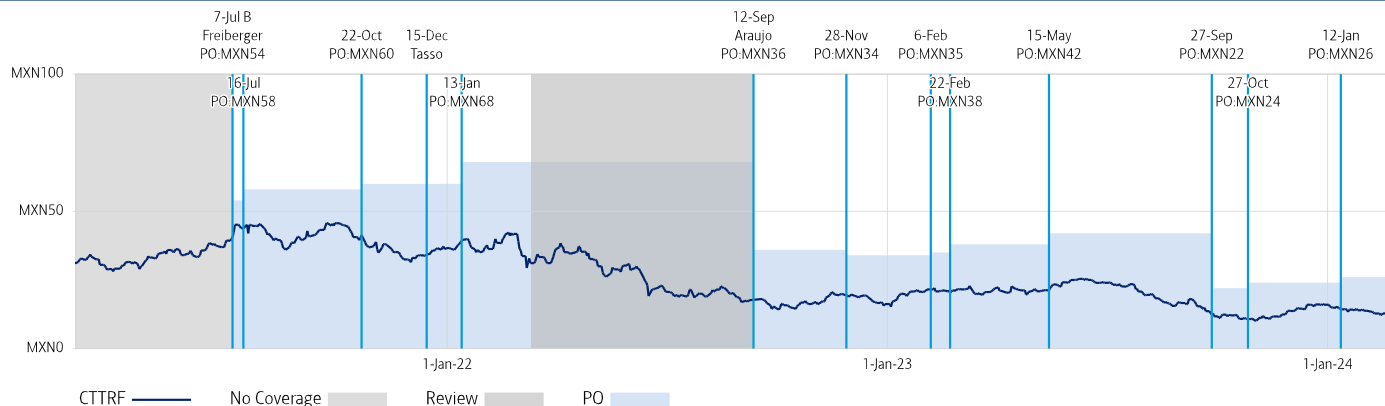
## Latin America - Capital Goods &amp; Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Copa	CPA	CPA US	Rogério Araujo
	GPS Participacoes e Empreendimentos S.A.	XKTRF	GGPS3 BZ	Rogério Araujo
	Hidrovias 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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	CCR	CDCRF	CCRO3 BZ	Rogério Araujo
	Ecorodovias	XVEDF	ECOR3 BZ	Rogério Araujo
	Iochpe-Maxion	IOCJF	MYPK3 BZ	Rogério Araujo
	Tupy	TPYSF	TUPY3 BZ	Rogério Araujo

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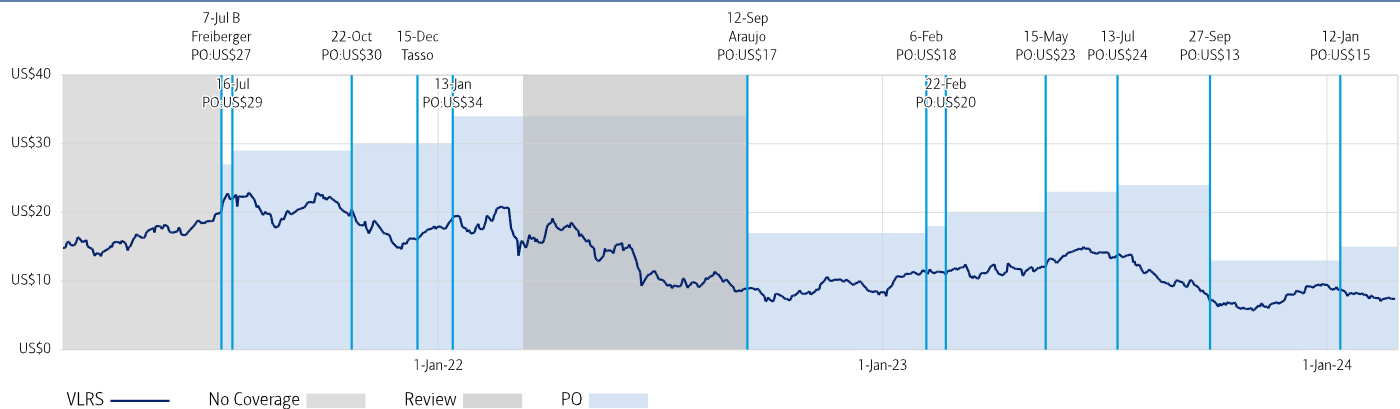
## Volaris (CTTRF) Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

## Volaris (VLRS) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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