

## Daily Boarding

## GOL's chapter 11 potential impact on Azul

## Industry Overview

**Azul: Mixed impact on GOL's Chapter 11**

GOL has announced it is filing for US Chapter 11 bankruptcy protection. The company aims to carry out a financial restructuring and improve its capital structure to secure long-term operating sustainability. GOL also secured a US\$950mn debtor-in-possession (DIP) financing commitment to provide it with liquidity to continue operating during the Chapter 11 process. Potential impact: Mixed for Azul, on which we are Neutral rated.

At first, we think the company could benefit from a healthier yield environment in the short term, and some new route opportunities – especially if GOL reduces capacity in the first phase of its restructuring plan (prioritizing the most-profitable routes). Using ANAC's (Brazil Civil Aviation Agency) 2022 data, we calculate that 56% of Azul's transported passengers are on routes where GOL also operates. Nevertheless, if GOL emerges stronger from the Chapter 11 process – with lower debt and costs, competition could get fiercer in the long run. For instance, LATAM airlines - which concluded its Chapter 11 process in November 2022 - reduced its debt by 35% (debt holders became owners of 66% of the company's equity) while costs were cut significantly.

In addition, if significant capacity is reduced in the Brazilian market, we think that could attract ultra-low-cost carriers to Brazil. As a recap, the regulation already enables foreign airlines to fly domestically in the country. According to local news flow, JetSMART and Flybondi have already shown interest in coming to Brazil domestic market.

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Latin America  
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**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 6 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.**

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Timestamp: 26 January 2024 07:50AM EST

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

We rate as Buy: Localiza, Movida, Vamos, Rumo, Copa, Volaris, Hidrovias, Mills, and GPS; Neutral as Armac, Randon, Azul and WEG; and as Underperform Ecorodovias, CCR, Iochpe, Tupy

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
Localiza	1 - Buy	C-1-8	12,566	78.6	16.1x	12.3x	7.7x	6.8x	1.0%	1.5%
Movida	1 - Buy	C-1-8	712	9.4	9.9x	6.0x	4.8x	4.7x	0.1%	2.5%
Vamos	2 - Neutral	C-2-7	1,832	14.4	8.2x	6.1x	5.1x	4.7x	0.4%	3.0%
Mils	1 - Buy	C-1-7	661	2.1	9.5x	8.0x	4.6x	4.1x	2.6%	3.1%
Armac	2 - Neutral	C-2-7	1,016	2.0	15.8x	12.2x	7.6x	6.5x	3.2%	4.1%
<b>Rentals</b>			<b>16,787</b>	<b>106</b>	<b>15.3x</b>	<b>11.7x</b>	<b>7.4x</b>	<b>6.5x</b>	<b>1.1%</b>	<b>1.7%</b>
Rumo	1 - Buy	B-1-7	8,456	61.7	21.9x	17.5x	7.9x	6.9x	1.1%	1.4%
CCR	3 - Underperform	B-3-8	5,460	16.6	31.3x	17.3x	7.0x	6.1x	1.6%	2.9%
Ecorodovias	3 - Underperform	C-3-7	1,278	6.0	8.0x	7.2x	5.2x	4.8x	3.1%	3.5%
Hidrovias do Brasil	1 - Buy	C-1-7	581	6.0	14.5x	8.3x	6.8x	5.6x	0.0%	1.2%
<b>Infrastructure</b>			<b>15,774</b>	<b>90.3</b>	<b>23.6x</b>	<b>16.4x</b>	<b>7.5x</b>	<b>6.5x</b>	<b>1.3%</b>	<b>1.9%</b>
Azul	2 - Neutral	C-2-9	995	41.6	10.1x	8.5x	6.8x	6.2x	2.5%	3.0%
Azul (ADS)	2 - Neutral	C-2-9	995	12.6	10.1x	8.5x	6.8x	6.2x	2.5%	3.0%
Volaris (ADS)	1 - Buy	C-1-9	955	4.4	-6.1x	-139.5x	6.4x	6.2x	0.0%	0.0%
Volaris	1 - Buy	C-1-9	961	2.0	-6.1x	-139.5x	6.4x	6.2x	0.0%	0.0%
Copa	1 - Buy	C-1-7	4,273	29.5	7.7x	6.6x	5.6x	4.7x	5.3%	6.2%
<b>Airlines</b>			<b>6,223</b>	<b>90.1</b>	<b>6.3x</b>	<b>-12.1x</b>	<b>5.9x</b>	<b>5.1x</b>	<b>4.2%</b>	<b>4.9%</b>
Randon	2 - Neutral	C-2-7	771	4.3	7.6x	6.5x	3.7x	3.4x	6.6%	7.7%
Iochpe Maxion	3 - Underperform	C-3-8	372	3.1	6.5x	5.1x	3.4x	3.0x	1.2%	3.9%
Tupy	3 - Underperform	B-3-7	764	3.0	6.2x	5.4x	4.0x	3.6x	8.1%	9.3%
<b>Autoparts</b>			<b>1,907</b>	<b>10.3</b>	<b>7.0x</b>	<b>5.9x</b>	<b>3.7x</b>	<b>3.4x</b>	<b>5.8%</b>	<b>7.2%</b>
Weg	2 - Neutral	C-2-8	28,340	49.0	27.1x	24.9x	18.9x	17.1x	1.8%	2.0%
WEG (ADS)	2 - Neutral	C-2-8	28,332	0.5	27.1x	24.9x	18.9x	17.1x	1.8%	2.0%
<b>Industrials</b>			<b>28,340</b>	<b>49.5</b>	<b>27.1x</b>	<b>24.9x</b>	<b>18.9x</b>	<b>17.1x</b>	<b>1.8%</b>	<b>2.0%</b>
GPS	1 - Buy	C-1-7	2,607	6.8	18.6x	14.3x	9.9x	7.9x	2.7%	3.5%
<b>Outsourcing services</b>			<b>2,607</b>	<b>6.8</b>	<b>18.6x</b>	<b>14.3x</b>	<b>9.9x</b>	<b>7.9x</b>	<b>2.7%</b>	<b>3.5%</b>

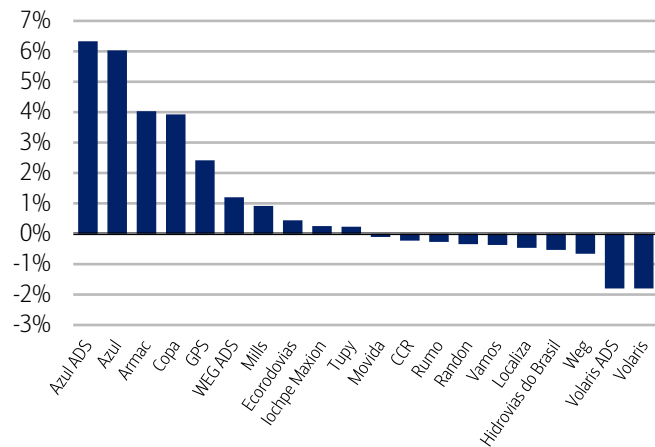
Source: Bloomberg, BofA Global Research estimates. (\*) For airlines, we use EV/EBITDAR

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**Exhibit 3: Daily variation of stock prices (%)**

Azul was the company with the best performance in our coverage

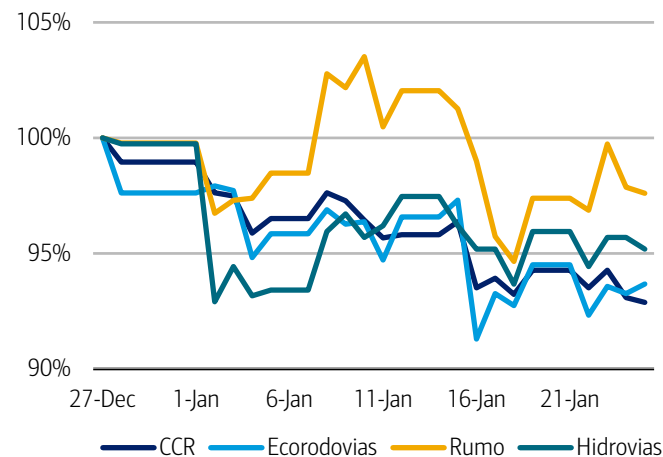


Source: BofA Global Research, Bloomberg

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**Exhibit 5: Infrastructure companies' price evolution**

CCR and Ecorodovias are underperforming Rumo and HBSA

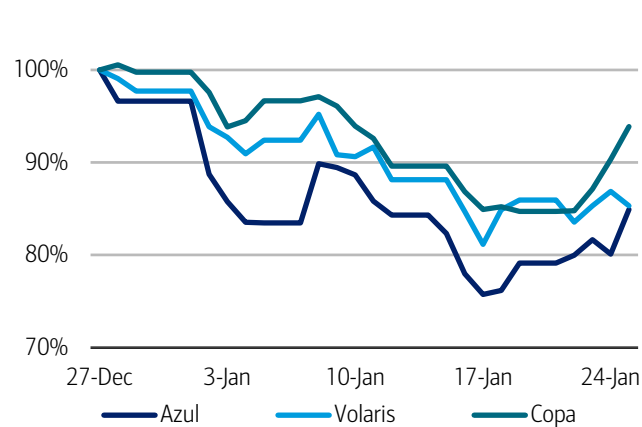


Source: BofA Global Research, Bloomberg

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**Exhibit 7: Airlines companies' price evolution**

Airlines stocks are down in the last 30-days

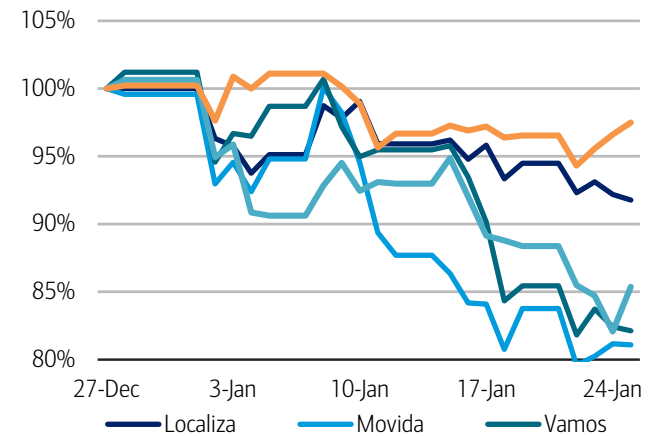


Source: BofA Global Research, Bloomberg

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**Exhibit 4: Rentals companies' price evolution (%)**

Mills and Localiza are outperforming other rentals

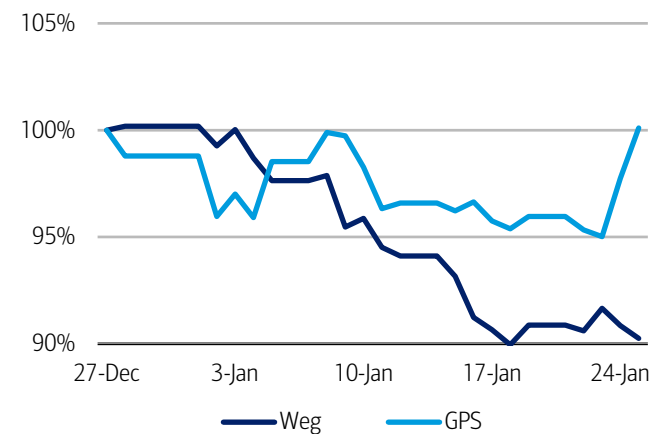


Source: BofA Global Research, Bloomberg

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**Exhibit 6: Industrials' share price evolution (%)**

GPS performance improved recently

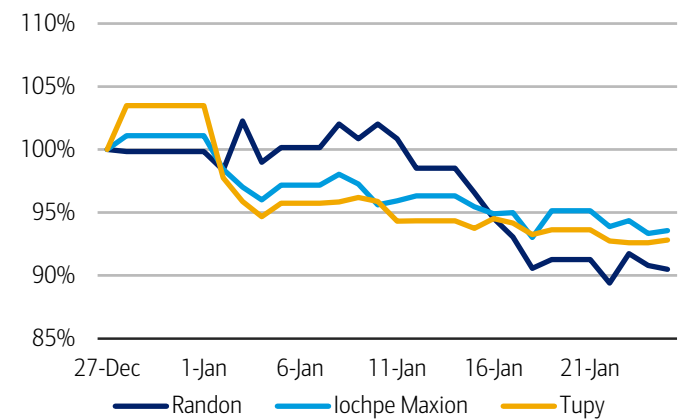


Source: BofA Global Research, Bloomberg

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**Exhibit 8: Auto parts' companies' price evolution**

Auto parts stock performance is down on a 30-day basis



Source: BofA Global Research, Bloomberg

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## Price objective basis & risk

### Azul (XAZUF / AZUL)

We derive our R\$20.0 (US\$12.5) price objective from a 2024 Adjusted EV/EBITDAR target of 7.0x (in line with historical levels pre-COVID 19). In order to have consistency among the sector and historical valuation levels, we do two valuation adjustments on Azul that we judge as fair: 1) we assume 7x RENT as a proxy for operating leases NPV (economic value of aircraft), and 2) we adjust EBITDA for capitalized maintenance costs (about -R\$350m/year)

Downside risks are 1) increases in oil price, 2) weakening of economic growth and air demand, 3) BRL depreciation, expanding its debt and costs in USD, also reducing the willingness of Brazilians to fly to the US, 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) solvency risks due to current high-leverage, especially on a scenario of high BRL and oil volatility, or depressed demand.

Upside risks are 1) further increase of fares and yields, supporting cash flow generation and faster recovery than expected, 2) decrease in oil prices and 3) BRL appreciation, 4) improving macroeconomic scenarios supporting demand.

## Analyst Certification

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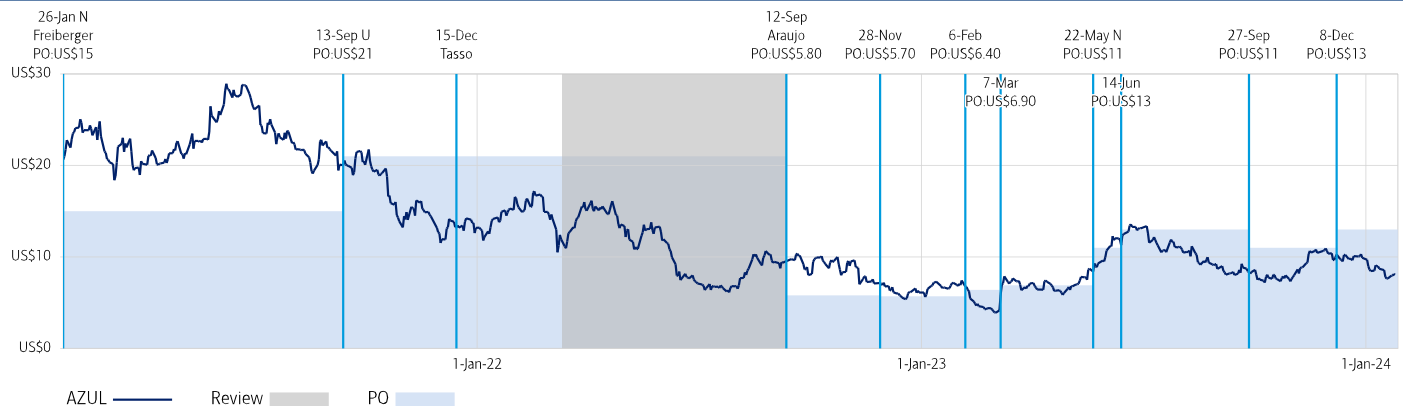
## Latin America - Capital Goods &amp; Transportation Coverage Cluster

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	MOVI3 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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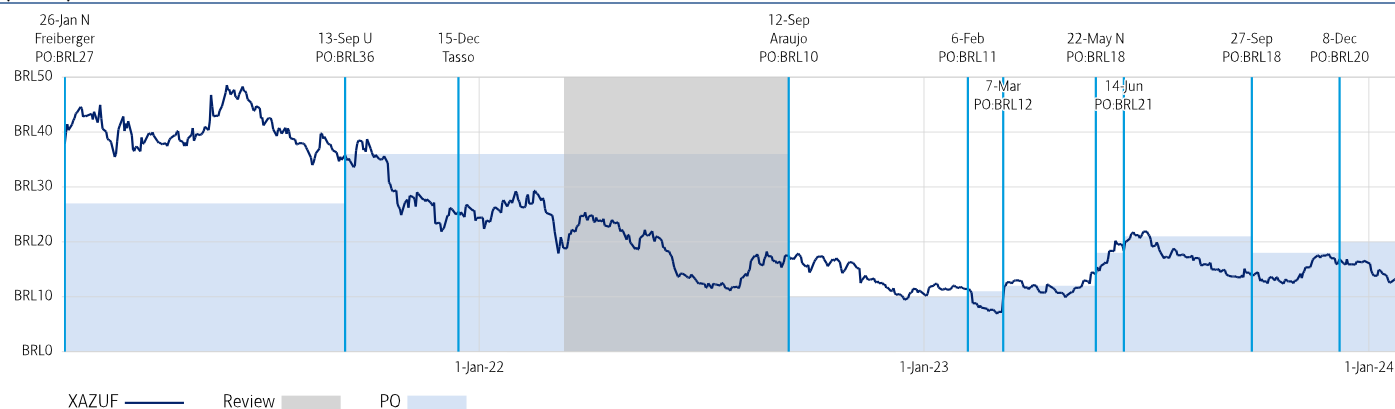
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## Azul (AZUL) Price Chart



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.

**Azul (XAZUF) 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 <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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