

Daily Boarding

Copa 4Q23 results

Industry Overview

Copa: Strong results; 24 guidance evidence of margin sustainability

Copa reported strong results in 4Q23, with EBIT and Adj. net profit beating our estimates by 11% and 15%, respectively. EBIT margin came in at 23.9% vs BofAe 22.3%, mostly due to higher-than-expected yields, at US\$14 cents (-7% YoY, + 3% vs BofAe) - with Copa internalizing part of fuel cost reduction (-13% YoY). Costs came roughly in line with our estimates (+4% YoY; +1% vs BofAe), with sales & marketing as the main highlight (-10% YoY) mainly due to a higher penetration of direct sales.

Although Copa's management highlighted a potential fiercer competition for 2024 in 3Q23 conference-call, 2024 guidance brought a 10% capacity increase and RASM at a healthy US\$12.2 cents level (-3% YoY; +6% vs BofA previous number), CASM ex-fuel of US\$6 cents, and an EBIT margin of 21-23% (vs historical average of 15.8% in 2010-23, and BofA 19% previous assumption). The strong guidance already includes the one-off impacts from the grounding of 21 737 MAX-9 aircraft from 6th January to 29th January. We think Copa will likely operate at higher margins going forward, as margin gains since pre-Covid have been mostly driven by cost efficiencies rather than strong fares (up only 12% vs 2019, less than inflation). Therefore, we expect not only positive consensus earnings revision, but also a potential stock re-rating closer to historical levels. Copa currently trades at 5.0x 2024 Adj. EV/EBITDA (vs 8x historical level), a -14% discount to US peers vs historical premium of +47% (explained by a higher cash-conversion of Copa's EBITDA). Lastly, Copa's Board approved dividends of US\$6.44/sh for 2024, a 6.4% yield. 2024 P/E is at only 6.4x. We have a Buy rating on Copa on attractive valuation. Earlier today we raised our PO to US\$170 (from US\$150) – more details on [Copa: Strong 4Q23 results; 2024 guidance is evidence of high margin sustainability](#).

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Equity
Latin America
Daily Boarding

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 08 February 2024 07:41AM EST

Exhibit 1: 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	912	42.3	9.4x	7.8x	6.7x	6.2x	2.7%	3.3%
Azul (ADS)	2 - Neutral	C-2-9	914	12.4	9.4x	7.8x	6.7x	6.2x	2.7%	3.3%
Volaris (ADS)	1 - Buy	C-1-9	888	4.5	-5.7x	-129.8x	6.3x	6.1x	0.0%	0.0%
Volaris	1 - Buy	C-1-9	893	2.1	-5.7x	-129.8x	6.3x	6.1x	0.0%	0.0%
Copa	1 - Buy	C-1-7	4,309	30.7	7.8x	6.6x	5.6x	4.8x	5.2%	6.1%
Airlines			6,109	92.1	6.3x	-9.9x	5.9x	5.1x	4.3%	5.0%

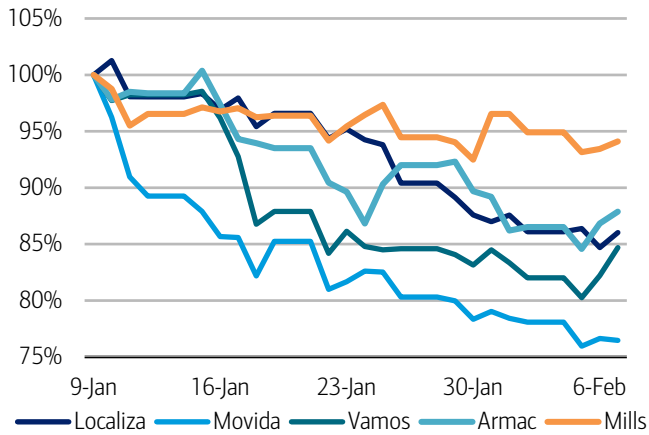
Source: Bloomberg, BofA Global Research estimates. (*) For airlines, we use EV/EBITDAR

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Exhibit 2: Rentals companies' price evolution (%)

Rentals stock performance worsened in the last month



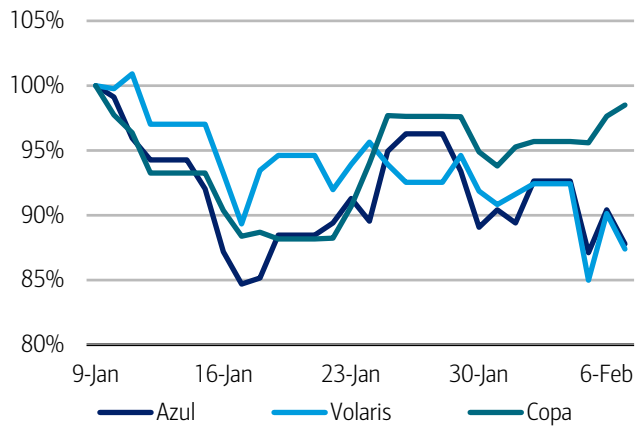
Source: BofA Global Research, Bloomberg

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Exhibit 3: Airlines companies' price evolution

Airlines are down on a 30-day timespan



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk**Copa (CPA)**

We derive our US\$170 price objective from a 2024 Adjusted EV/EBITDAR target of 8.0x (in line with historical levels pre-COVID 19). In order to have consistency among the sector and historical valuation levels, we do one valuation adjustment for Copa that we judge as fair: 1) we assume 7x rent as a proxy for operating leases' NPV, as we calculate this reflects the economic value of leased aircraft better than lease liability (especially for Copa, who has lease contracts much shorter than other airlines in the region).

Downside risks to our price objective are: 1) increases in oil price, 2) weakening of economic growth and air demand, 3) FX depreciation in Latin American countries, which could reduce the willingness of local population to fly to the US (traffic is more outbound than inbound in the region), 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) potential changes in Panama's regulation, opening up foreigner airlines to connect passengers in Tocumen airport.

Analyst Certification

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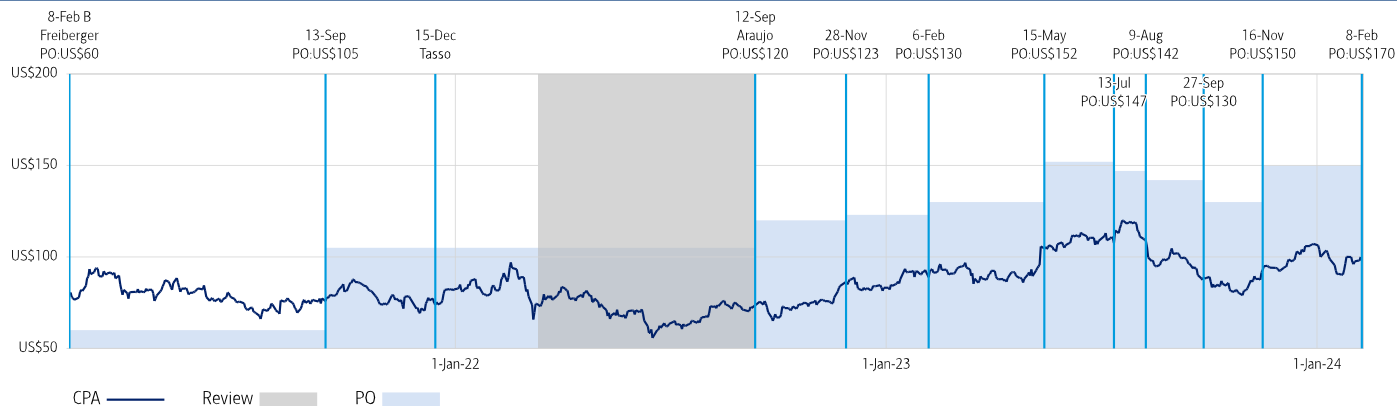
Latin America - Capital Goods & Transportation Coverage Cluster

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
	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
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
	Iochpe-Maxion	IOCJF	MYPK3 BZ	Rogério Araujo
	Tupy	TPYSF	TUPY3 BZ	Rogério Araujo

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Copa (CPA) 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}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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