

## Volaris

# Mixed 4Q23 results; strong 2024 guidance reiterated

Maintain Rating: BUY | PO: 14.90 USD | Price: 7.31 USD

## Higher costs more than offset TRASM expansion

Although Volaris' 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. We maintain our Buy rating.

## Blurred results: a few one-off impacts this quarter...

Variable lease expenses were positive at +US\$14mn (vs BofAe -US\$43mn). We attribute it to the extension of aircraft lease contracts, postponing re-delivery costs. Other operating expenses came in at US\$46mn, +64% QoQ, which we think is linked to one-off items. As for Pratt & Whitney's compensation, we estimated it at US\$17mn in 4Q23 (based on lease expenses of grounded aircraft), which was not disclosed by Volaris. We think this benefit was included in the Other operating income & maintenance lines.

## 1Q24 and 2024 guidance reiteration confirms optimism

Management stated in the release that "2024 holds promise, as Volaris' booking curves and total unit revenues indicate continuing favorable trends, aligned with its guidance", reiterating 1Q24 and 2024 guidance. As a recap, Volaris provided in January expectations of capacity dropping -16-18% YoY in both periods (mainly affected by Pratt & Whitney engine recall), and EBITDAR margins of 25-27% in 1Q24 (from 17% in 1Q23) and 31-33% in 2024 (from 25.2% in 2023) – see our note: [Reiterate Buy on strong 2024 guidance](#). Assuming current FX, fleet plan and expected grounded aircraft, we calculate the market prices in an EBITDAR margin of 27.0% for 2025.

Estimates(Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.09	(0.27)	(0.56)	0.15	0.09
EPS Change (YoY)	NM	NM	-107.4%	NM	-40.0%
Consensus EPS (Bloomberg)			(0.59)	0.11	1.43
DPS	0	0	0	0	0
Common EPS (MXN)	1.99	(0.49)	(0.86)	0.23	0.14
Common DPS (MXN)	0	0	0	0	0
<b>Valuation (Dec)</b>					
P/E	6.7x	NM	NM	48.7x	81.2x
EV / EBITDA*	4.2x	5.9x	4.2x	3.6x	3.5x
Free Cash Flow Yield*	52.9%	20.6%	20.2%	28.8%	36.2%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

27 February 2024

### Equity

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### Stock Data

Price (ADR / Common)	7.31 USD / 12.52 MXN
Price Objective	14.90 USD / 26.00 MXN
Date Established	12-Jan-2024 / 12-Jan-2024
Investment Opinion	C-1-9 / C-1-9
52-Week Range	5.52 USD - 15.05 USD
Market Value (mn)	810 USD
Free Float	0%
Average Daily Value	3.62 USD
Shares Outstanding (mn)	110.8 / 1,231.6
BofA Ticker / Exchange	VLRS / NYS
BofA Ticker / Exchange	CTTRF / MEX
Bloomberg / Reuters	VLRS US / VLRS.N
ROE (2023E)	-32.0%
Net Dbt to Eqty (Dec-2022A)	-186.8%

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 26 February 2024 10:41PM EST

# iQprofile<sup>SM</sup> Volaris

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	12.5%	0.7%	4.6%	4.2%	4.2%
Return on Equity	55.3%	-11.3%	-32.0%	9.8%	5.7%
Operating Margin	18.9%	1.5%	5.3%	9.7%	8.8%
Free Cash Flow	429	167	164	233	293

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	3.4x	NM	NM	13.3x	26.8x
Asset Replacement Ratio	0x	0x	0x	0x	0x
Tax Rate	19.8%	75.8%	1.8%	71.2%	84.6%
Net Debt-to-Equity Ratio	-139.7%	-186.8%	-84.9%	-43.0%	-37.6%
Interest Cover	32.3x	2.4x	4.6x	6.5x	6.8x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	2,214	2,845	3,216	2,937	3,334
% Change	114.5%	28.5%	13.0%	-8.7%	13.5%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	826	584	832	970	1,001
% Change	308.7%	-29.3%	42.4%	16.7%	3.2%
Net Interest & Other Income	(262)	(170)	(237)	(223)	(222)
<b>Net Income (Adjusted)</b>	<b>126</b>	<b>(31)</b>	<b>(65)</b>	<b>18</b>	<b>11</b>
<b>% Change</b>	<b>NM</b>	<b>NM</b>	<b>-109.1%</b>	<b>NM</b>	<b>-37.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	126	(31)	(65)	18	11
Depreciation & Amortization	269	320	359	347	328
Change in Working Capital	48	24	(203)	(49)	(131)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(14)	(147)	73	(83)	85
Capital Expenditure	0	0	0	0	0
<b>Free Cash Flow</b>	<b>429</b>	<b>167</b>	<b>164</b>	<b>233</b>	<b>293</b>
<b>% Change</b>	<b>NM</b>	<b>-61.1%</b>	<b>-1.6%</b>	<b>42.3%</b>	<b>25.7%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(90)	(23)	264	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	741	712	710	642	634
Trade Receivables	106	240	256	215	289
Other Current Assets	131	114	170	154	206
Property, Plant & Equipment	2,372	2,665	3,069	2,712	3,449
Other Non-Current Assets	633	737	925	813	968
<b>Total Assets</b>	<b>3,983</b>	<b>4,468</b>	<b>5,130</b>	<b>4,536</b>	<b>5,546</b>
Short-Term Debt	197	112	165	163	163
Other Current Liabilities	1,055	1,308	1,603	1,350	1,742
Long-Term Debt	108	161	401	398	396
Other Non-Current Liabilities	2,311	2,652	2,791	2,437	3,046
<b>Total Liabilities</b>	<b>3,671</b>	<b>4,233</b>	<b>4,960</b>	<b>4,348</b>	<b>5,347</b>
<b>Total Equity</b>	<b>312</b>	<b>235</b>	<b>170</b>	<b>188</b>	<b>199</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,983</b>	<b>4,468</b>	<b>5,130</b>	<b>4,536</b>	<b>5,546</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Airlines

## Company Description

Volaris is the main ultra-low-cost carrier in Mexico and a leader in domestic market share. As a subsidiary of Indigo Partners - who holds interests in other low-cost airlines like Frontier Airlines, Wizz Air and JetSmart - Volaris inaugurated operations in Mexico in 2006, reducing industry fares and contributing to stimulate the demand. Volaris has one of the lowest CASM in the world. This competitive advantage enables the company to fly routes that legacy carriers are not able to.

## Investment Rationale

We have a Buy rating as we see the stock as attractive and skewed to the upside, although we recognize a risk of the company having pressure results in upcoming quarters due to a higher oil price, as well as aircraft being grounded due to mandatory engine recalls.

## Stock Data

Average Daily Volume	494,562
Shares / Common	0.09

## Quarterly Earnings Estimates

	2022	2023
Q1	-0.42A	-0.61A
Q2	-0.43A	0.05A
Q3	0.35A	-0.34A
Q4	0.24A	0.34E

**Exhibit 1: Volaris 4Q23 earnings summary – (US\$mn)**

Volaris EBITDAR and adj. EBIT missed our estimates by 3% and 4%, respectively

Operating Figures	4Q23A	4Q23E	AvsE	4Q22A	YoY	1Q23 consensus	vs market consensus	3Q23A	QoQ
<b>RPM Total (mn)</b>	<b>8,288</b>	<b>8,288</b>	<b>0%</b>	<b>8,300</b>	<b>0%</b>			<b>8,745</b>	<b>-5%</b>
<b>ASM Total (mn)</b>	<b>9,401</b>	<b>9,401</b>	<b>0%</b>	<b>9,504</b>	<b>-1%</b>			<b>10,126</b>	<b>-7%</b>
Load factor	88.2%	88.2%	0.0pp	87.3%	0.8pp			88.2%	0.0pp
<b>Yield (US\$ Cents)</b>	<b>5.4</b>	<b>5.5</b>	<b>-2%</b>	<b>5.7</b>	<b>-5%</b>			<b>4.8</b>	<b>12%</b>
# of operating aircraft fleet	129.0	111.0	16%	117	10%			125	3%
<b>PRASM (US\$ Cents)</b>	<b>9.2</b>	<b>8.7</b>	<b>6%</b>	<b>8.3</b>	<b>10%</b>			<b>8.0</b>	<b>15%</b>
<b>TRASM (US\$ Cents)</b>	<b>9.6</b>	<b>9.1</b>	<b>5%</b>	<b>8.6</b>	<b>11%</b>			<b>8.4</b>	<b>14%</b>
<b>CASM (US\$ Cents)</b>	<b>7.8</b>	<b>7.9</b>	<b>-1%</b>	<b>8.0</b>	<b>-2%</b>			<b>8.0</b>	<b>-2%</b>
<b>CASM Ex-Fuel (US\$ Cents)</b>	<b>4.9</b>	<b>4.9</b>	<b>-1%</b>	<b>4.4</b>	<b>11%</b>			<b>4.9</b>	<b>-1%</b>
<b>CASM Ex-Fuel (US\$ Cents) adj. by one-off RENT expenses</b>	<b>(5.5)</b>	<b>(4.9)</b>	<b>11%</b>	<b>(4.4)</b>	<b>25%</b>			<b>(4.9)</b>	<b>12%</b>
Main Financials	4Q23A	4Q23E	AvsE	4Q22A	YoY	1Q23 consensus	vs market consensus	3Q23A	QoQ
<b>Net Revenues</b>	<b>899</b>	<b>855</b>	<b>5%</b>	<b>820</b>	<b>10%</b>	<b>877</b>	<b>3%</b>	<b>848</b>	<b>6%</b>
Passenger	865	819	6%	792	9%			812	7%
Cargo & Other	34	36	-6%	28	21%			36	-6%
<b>Operating Expenses</b>	<b>(735)</b>	<b>(743)</b>	<b>-1%</b>	<b>(760)</b>	<b>-3%</b>			<b>(809)</b>	<b>-9%</b>
Salaries	(101)	(101)	0%	(79)	28%			(99)	2%
Aircraft Fuel	(277)	(279)	-1%	(343)	-19%			(312)	-11%
Aircraft & other assets' RENT	14	(43)	-133%	(34)	-141%			(42)	-133%
Landing, take-off and navigation expenses	(137)	(120)	14%	(102)	34%			(130)	5%
Other Operating Income	12	9	40%	7	71%			-	n.m.
Sales, marketing and distribution expenses	(45)	(47)	-4%	(42)	7%			(49)	-8%
Maintenance, materials and repairs	(24)	(20)	18%	(23)	4%			(23)	4%
Depreciation and amortization	(131)	(135)	-3%	(114)	15%			(126)	4%
Other operating expenses	(46)	(7)	572%	(30)	53%			(28)	64%
<b>EBIT</b>	<b>164</b>	<b>112</b>	<b>46%</b>	<b>60</b>	<b>173%</b>	<b>129</b>	<b>27%</b>	<b>39</b>	<b>321%</b>
EBIT Margin	18.2%	13.1%	5.1pp	7.3%	10.9pp	14.7%	3.5pp	4.6%	13.6pp
<b>EBIT ex-IFRS 16</b>	<b>119</b>	<b>87</b>	<b>38%</b>	<b>27</b>	<b>339%</b>			<b>-2</b>	<b>n.m.</b>
EBIT Margin ex-IFRS 16	3.3%	3.3%	0.0pp	3.3%	0.0pp			-0.3%	3.6pp
<b>EBITDAR</b>	<b>281</b>	<b>290</b>	<b>-3%</b>	<b>208</b>	<b>35%</b>	<b>262</b>	<b>7%</b>	<b>207</b>	<b>36%</b>
EBITDAR Margin	31.3%	33.9%	-2.6pp	25.4%	5.9pp	29.9%	1.4pp	24.4%	6.8pp
<b>Net Income (loss)</b>	<b>112</b>	<b>39</b>	<b>186%</b>	<b>28</b>	<b>300%</b>	<b>43</b>	<b>n.m.</b>	<b>(39)</b>	<b>n.m.</b>
Net Margin	9.0%	3.4%	5.5pp	2.6%	6.3pp	4.9%	4.1pp	-3.3%	12.2pp
<b>One-off revenue - BofAe</b>	<b>57</b>								
One-off RENT expenses - BofAe	57								
<b>Adj. EBIT</b>	<b>107</b>	<b>112</b>	<b>-4%</b>	<b>60</b>	<b>79%</b>	<b>129</b>	<b>-17%</b>	<b>39</b>	<b>175%</b>
Adj. EBIT margin	11.9%	13.1%	-1.2pp	7.3%	4.6pp	14.7%	-2.8pp	4.6%	7.3pp
<b>Adj net debt/EBITDAR</b>	<b>5.4x</b>	<b>5.3x</b>	<b>-0.1x</b>	<b>6.1x</b>	<b>-0.7x</b>			<b>5.9x</b>	<b>-0.5x</b>

Source: Volaris, BofA Global Research estimates, 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.

## 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 & Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Copa	CPA	CPA US	Rogerio Araujo
	GPS Participacoes e Empreendimentos S.A.	XKTRF	GGPS3 BZ	Rogerio Araujo
	Hidrovias do Brasil	XDXXF	HBSA3 BZ	Rogerio Araujo
	Localiza	LZRFF	RENT3 BZ	Rogerio Araujo
	Mills	MLSTF	MILS3 BZ	Rogerio Araujo
	Movida	XMBDF	MOVI3 BZ	Rogerio Araujo
	Rumo	RUMOF	RAIL3 BZ	Rogerio Araujo
	Volaris	VLRS	VLRS US	Rogerio Araujo
	Volaris	CTTRF	VOLARA MM	Rogerio Araujo
<b>NEUTRAL</b>				
	Armac	XCVZF	ARML3 BZ	Rogerio Araujo
	Azul	XAZUF	AZUL4 BZ	Rogerio Araujo
	Azul	AZUL	AZUL US	Rogerio Araujo
	Randon	RPRTF	RAPT4 BZ	Rogerio Araujo
	Vamos	XPLPF	VAMO3 BZ	Rogerio Araujo
	WEG	WGSEF	WEGE3 BZ	Rogerio Araujo
	WEG	WEGZY	WEGZY US	Rogerio Araujo
<b>UNDERPERFORM</b>				
	CCR	CDCRF	CCRO3 BZ	Rogerio Araujo
	Ecorodovias	XVEDF	ECOR3 BZ	Rogerio Araujo
	Iochpe-Maxion	IOCJF	MYPK3 BZ	Rogerio Araujo
	Tupy	TPYSF	TUPY3 BZ	Rogerio Araujo

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

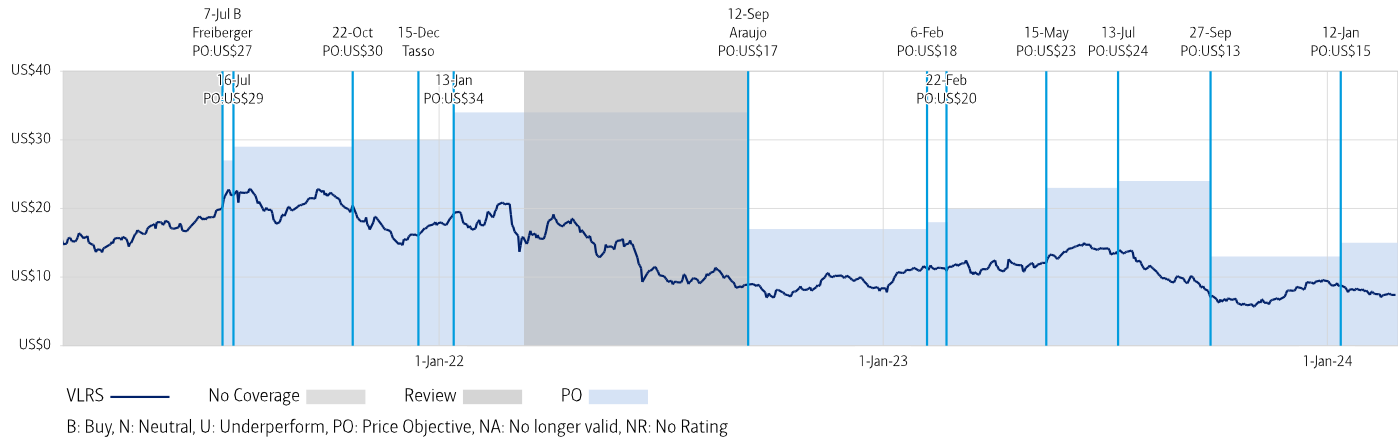
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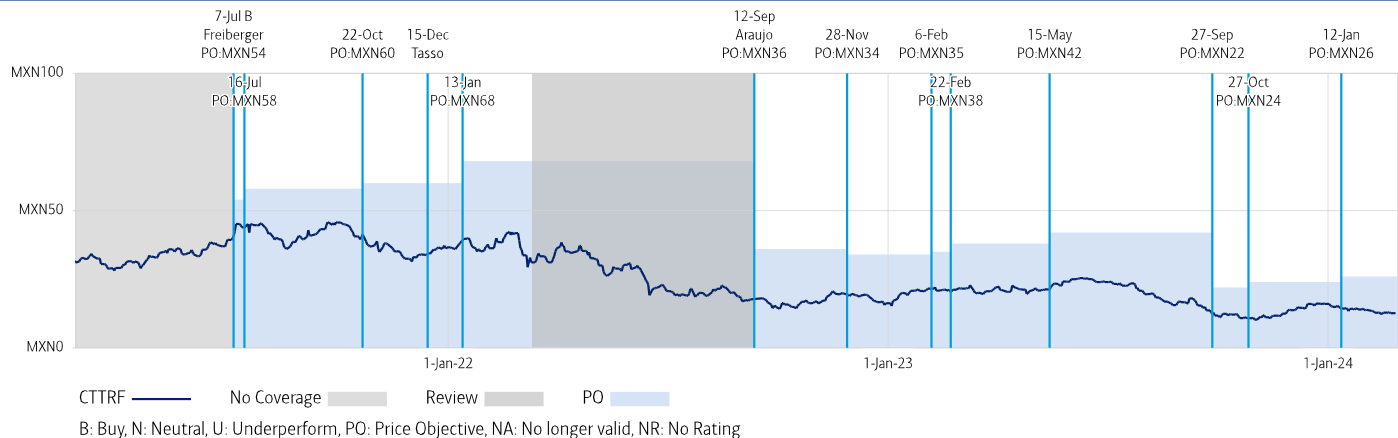
# Disclosures

## Important Disclosures

### Volaris (VLRS) Price Chart



### Volaris (CTTRF) Price Chart



### 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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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