

Volaris

Reiterate Buy on strong 2024 guidance

Reiterate Rating: BUY | PO: 14.90 USD | Price: 8.80 USD

Volaris publishes strong 2024 guidance

The company published 1Q24 and 2024 guidance, with 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 26% 2023 margin guidance reiterated). This comes as a positive surprise. We now see Volaris trading at a 5.0x Adj. EV/EBITDAR for 2024 (vs 7.0-7.5x historical levels). Assuming current FX, fleet plan and expected grounded aircraft, the market prices in an EBITDAR margin of 27.5% for 2025 (vs BofAe now at 30%), assuming a 7x Adj. EV/EBITDAR multiple.

EBITDAR up +9-17% in 24 despite capacity down -16-18%

Volaris is more-than-offsetting a ~30% capacity reduction (down 16-18% YoY) by: 1) a positive yield environment, driven by the reduction of flight frequencies and some switching from domestic to international routes (as Mexican airlines can now expand capacity in US-Mexico's routes following FAA upgrade of Mexico's air safety rating in September 2023); and 2) the compensation from Pratt & Whitney, which we estimate at US\$320mn in 4Q23-4Q25 (assuming operating lease expenses of grounded aircraft are compensated). In addition, the current oil price curve is also supportive to Volaris' 2024 profitability (+3.8pp in margin YoY if fully absorbed by the company, on our estimates).

VLRS PO up to US\$14.9/sh from US\$12.5; Reiterate Buy

We updated our numbers with the current oil price curve, with jet fuel price down to US\$2.7/gallon from US\$3.0 (vs guided US\$2.5-2.6), MXN current level, and increased yields, with Total revenue per available seat mile (TRASM) at US\$9.2 cents, +11.6% YoY, from US\$8.6 cents. Our 2024 EBITDAR margin expanded to 33% from 27% (vs guided 31-33%) while 2025 EBITDAR margin increased to 30% from 29%. Our local share PO increased to MXN26 (from MXN24). See Exhibits 1-2 for our new vs old numbers.

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)			(0.53)	(0.02)	1.70
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
Valuation (Dec)					
P/E	8.1x	NM	NM	58.7x	97.8x
EV / EBITDA*	4.4x	6.2x	4.4x	3.7x	3.6x
Free Cash Flow Yield*	43.9%	17.1%	16.8%	23.9%	30.1%

* For full definitions of *IQmethod*SM measures, see page 6.

12 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	12.50	14.90
2023E Rev (m)	3,242.9	3,216.1
2024E Rev (m)	2,725.1	2,936.9
2025E Rev (m)	3,352.2	3,334.0
2023E EPS	-0.49	-0.56
2024E EPS	-1.35	0.15
2025E EPS	-0.06	0.09

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Stock Data

Price (ADR / Common)	8.80 USD / 14.87 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)	975 USD
Free Float	0%
Average Daily Value	4.39 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%

FAA: US Federal Aviation
Administration

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 12 January 2024 06:31AM EST

iQprofileSM Volaris

iQmethodSM – 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

iQmethodSM – 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)
Net Income (Adjusted)	126	(31)	(65)	18	11
% Change	NM	NM	-109.1%	NM	-37.6%

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
Free Cash Flow	429	167	164	233	293
% Change	NM	-61.1%	-1.6%	42.3%	25.7%
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
Total Assets	3,983	4,468	5,130	4,536	5,546
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
Total Liabilities	3,671	4,233	4,960	4,348	5,347
Total Equity	312	235	170	188	199
Total Equity & Liabilities	3,983	4,468	5,130	4,536	5,546

* For full definitions of iQmethodSM measures, see page 6.

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	499,178
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

Key Changes

(MXN)	Previous	Current
Price Obj.	24.00	26.00
2023E EPS	-0.75	-0.86
2024E EPS	-2.06	0.23
2025E EPS	-0.09	0.14

Exhibit 1: Volaris' old vs new estimates

Volaris' 2024 EBITDAR increased to US\$970mn (33.0% margin) from US\$742mn (27.2% margin)

	2023 New	2023 Old	Diff. (%)	2024 New	2024 Old	Diff. (%)	2025 New	2025 Old	Diff. (%)
Operating Figures									
RPM Total (mn)	33,449	33,375	0%	27,546	27,236	1%	34,380	35,629	-4%
ASM Total (mn)	38,889	38,861	0%	31,815	31,521	1%	39,757	41,281	-4%
Load factor	86.0%	85.9%	0.1pp	86.6%	86.4%	0.2pp	86.5%	86.3%	0.2pp
Yield (US\$ Cents)	9.2	9.3	-1%	10.2	9.6	7%	9.3	9.0	3%
# of aircraft	111.0	111.0	0%	89.0	89.0	0%	140.0	140.0	0%
PRASM (US\$ Cents)	7.9	8.0	-1%	8.8	8.3	7%	8.1	7.8	3%
TRASM (US\$ Cents)	8.3	8.3	-1%	9.2	8.6	7%	8.4	8.1	3%
CASM (US\$ Cents)	7.8	7.9	-1%	8.3	8.4	-1%	7.7	7.5	2%
CASM Ex-Fuel (US\$ Cents)	4.8	4.8	1%	5.7	5.5	4%	5.2	4.8	8%
Main Financials									
Net Revenues	3,216	3,243	-1%	2,937	2,725	8%	3,334	3,352	-1%
Passenger	3,078	3,101	-1%	2,809	2,602	8%	3,203	3,214	0%
Cargo & Other	138	142	-3%	128	123	4%	131	138	-5%
Operating Expenses	-3,045	-3,061	-1%	-2,653	-2,652	0%	-3,041	-3,082	-1%
Salaries	-387	-384	1%	-408	-384	6%	-448	-422	6%
Aircraft Fuel	-1,167	-1,194	-2%	-835	-919	-9%	-978	-1,104	-11%
Aircraft & other assets' Rent	-160	-159	0%	-147	-131	12%	-167	-161	4%
Landing, take-off and navigation expenses	-487	-482	1%	-404	-396	2%	-541	-520	4%
Other Operating Income	12	12	-2%	29	27	8%	33	34	-1%
Sales, marketing and distribution expenses	-169	-166	2%	-150	-136	10%	-167	-168	-1%
Maintenance, materials and repairs	-94	-94	0%	-81	-81	0%	-99	-99	0%
Depreciation and amortization	-501	-501	0%	-540	-537	1%	-542	-527	3%
Other	-92	-92	0%	-117	-95	23%	-133	-116	15%
EBIT	171	182	-6%	283	74	285%	293	270	8%
EBIT Margin	5.3%	5.6%	-0.3pp	9.7%	2.7%	7.0pp	8.8%	8.1%	0.7pp
EBIT ex-IFRS 16	23	35	-32%	223	13	1580%	69	46	48%
EBIT Margin ex-IFRS 16	0.7%	1.1%	-0.3pp	7.6%	0.5%	7.1pp	2.1%	1.4%	0.7pp
EBITDAR	832	842	-1%	970	742	31%	1,001	958	5%
EBITDAR Margin	25.9%	26.0%	-0.1pp	33.0%	27.2%	5.8pp	30.0%	28.6%	1.5pp
Net Income (loss)	-65	-57	n.m.	18	-155	n.m.	11	-7	n.m.
Net Margin	-2.0%	-1.8%	-0.3pp	0.6%	-5.7%	6.3pp	0.3%	-0.2%	0.5pp

Source: Volaris, BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 2: Volaris' 2024 EV/EBITDA

Breakdown of PO calculation (US\$/sh). We take 2025 numbers to estimate Volaris' Price Objective as we see 2024 as a non-recurring year.

EV / EBITDA Target	2024E	2025E
EBITDAR	970.5	1,001.3
Capitalized maintenance costs	0.0	0.0
Provision expenses related to aircraft return	0.0	0.0
Adjusted EBITDAR	970.5	1,001.3
Target Adj EV/EBITDAR Multiple	7.0x	7.0x
If adj. for maintenance cost capitalization	0.0x	0.0x
If adj. for provisions on returned aircraft	0.0x	0.0x
Adjusted target multiple	7.0x	7.0x
If adjustment for IFRS 16	-1.4x	-1.9x
Adjusted target multiple	5.6x	5.1x
Target Adjusted EV	6,793	7,009
Adjusted Net debt	3,800	4,955
Cash	(642)	(634)
Gross debt	561	559
P&W further compensation beyond RENT expenses	-	-
Financial leases	-	-
Lease expenses' NPV	3,881	5,030
Lease payments to debt multiple	7.0x	7.0x
Annual lease payment (2023)	554	719
Lease liability	2,545	3,158
Lease liability/lease payment multiple	4.6x	4.4x
NPV vs lease liability	1.5x	1.6x
Target Equity value YE24 (US\$'000)		2,054
Target Equity value N12M (US\$'000)		1,714
COE		12.8%
Number of outstanding shares		115.2
Price objective ADS - USD		14.9
Price objective local share - MXN		26.0

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

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
BUY				
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	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
NEUTRAL				
	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
UNDERPERFORM				
	CCR	CDCRF	CCR03 BZ	Rogerio Araujo
	Ecorodovias	XVEDF	ECOR3 BZ	Rogerio Araujo
	Gol Linhas Aereas Inteligentes S.A.	GOL	GOL US	Rogerio Araujo
	Gol Linhas Aereas Inteligentes S.A.	XGOLF	GOLL4 BZ	Rogerio Araujo
	lochpe-Maxion	IOCJF	MYPK3 BZ	Rogerio Araujo
	Tupy	TPYSF	TUPY3 BZ	Rogerio Araujo

IQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

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

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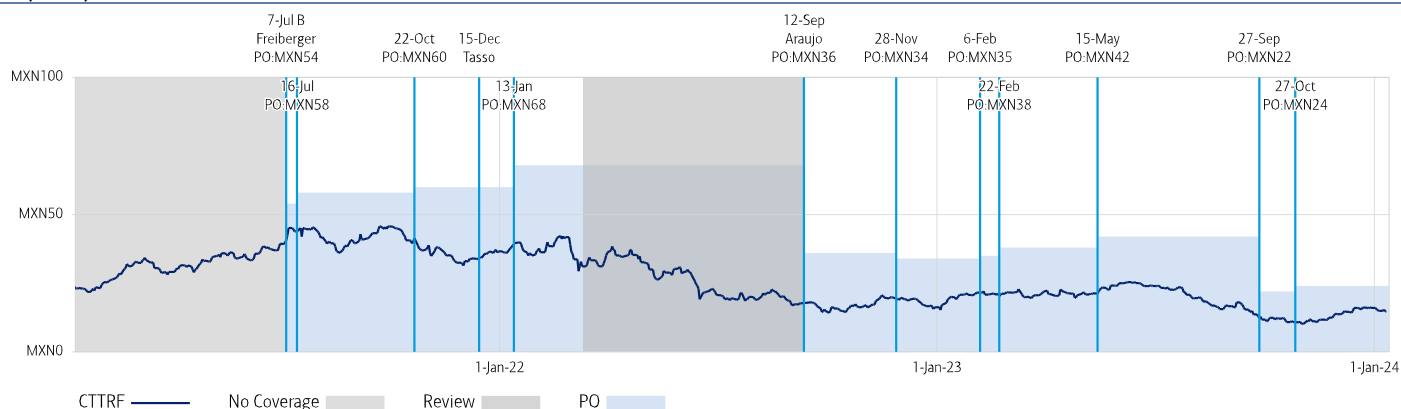
Important Disclosures

Volaris (VLRS) Price Chart



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 (CTTRF) Price Chart



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.

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%

^{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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