

Daily Boarding

BZ Airlines support to be announced

Industry Overview

BZ airlines: R\$6bn support fund could be announced soon

According to Valor newspaper, Mr. Silvio Costa Filho (Brazil's ports and Airports minister) stated that the government should announce a R\$6bn fund to support Brazilian airlines after the Carnival holiday, which ends on February 13th. The fund should count with BNDES (Brazilian National Development Bank) financing lines. The government is also studying changes in Brazil's excessive regulation – especially on consumer protection laws, which causes heavy consumer litigation on companies, as well as jet fuel prices reduction (which has higher taxes than abroad). Finally, “Voa Brasil” program – which intends to offer flights to consumers at competitive fares - should be announced after the Carnival holiday too. Potential impact: Mixed to Azul. While the approval of financing lines, reduction in litigation expenses and jet fuel prices are clearly positive measures to Azul, we think it could also attract ultra-low-cost carriers to Brazil, as elevated litigation expenses and jet fuel prices are the main bottlenecks that curb their entrance in Brazil's domestic flights (the regulation already enables foreign airlines to fly domestically in the country). According to local news flow, JetSMART and Flybondi have already showed interest on coming to Brazil domestic market. We have a Neutral on Azul on a fair risk-return.

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Equity
Latin America
Daily Boarding

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Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.

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Timestamp: 05 February 2024 08:14AM EST

Exhibit 2: Summary table of our coverage

We rate as Buy: Copa, Volaris; Neutral as Azul

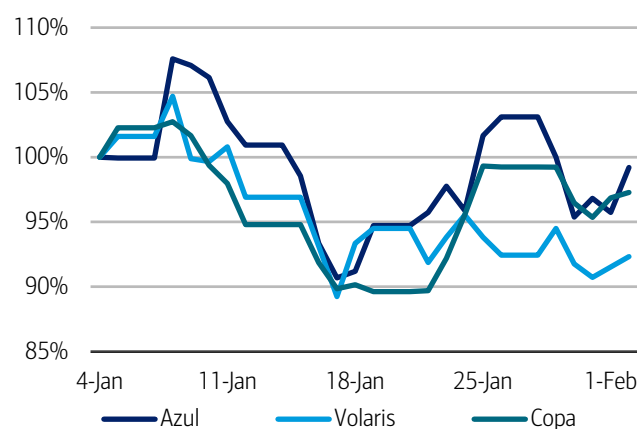
Company	Rating	Q-R-Q rating	Market cap (US\$m)	Average daily traded value (US\$m)	2024 P/E	2025 P/E	2024 EV/EBITDA	2025 EV/EBITDA	2024 Dividend Yield	2025 Dividend Yield
Azul	2 - Neutral	C-2-9	962	42.5	9.9x	8.3x	6.7x	6.2x	2.5%	3.1%
Azul (ADS)	2 - Neutral	C-2-9	958	12.5	9.9x	8.3x	6.7x	6.2x	2.5%	3.1%
Volaris (ADS)	1 - Buy	C-1-9	940	4.5	-6.0x	-137.3x	6.4x	6.2x	0.0%	0.0%
Volaris	1 - Buy	C-1-9	942	2.1	-6.0x	-137.3x	6.4x	6.2x	0.0%	0.0%
Copa	1 - Buy	C-1-7	4,186	30.4	7.6x	6.5x	5.5x	4.7x	5.4%	6.3%
Airlines			6,087	92.1	6.1x	-12.1x	5.8x	5.1x	4.3%	5.0%

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

BofA GLOBAL RESEARCH

Exhibit 7: Airlines companies' price evolution

Azul stock performance improved this week



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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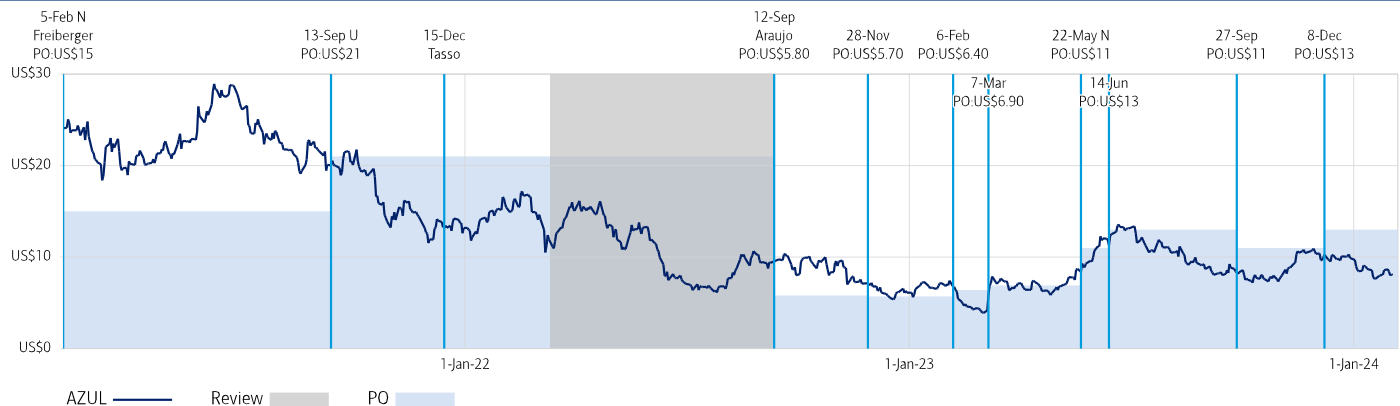
Latin America - Capital Goods & Transportation Coverage Cluster

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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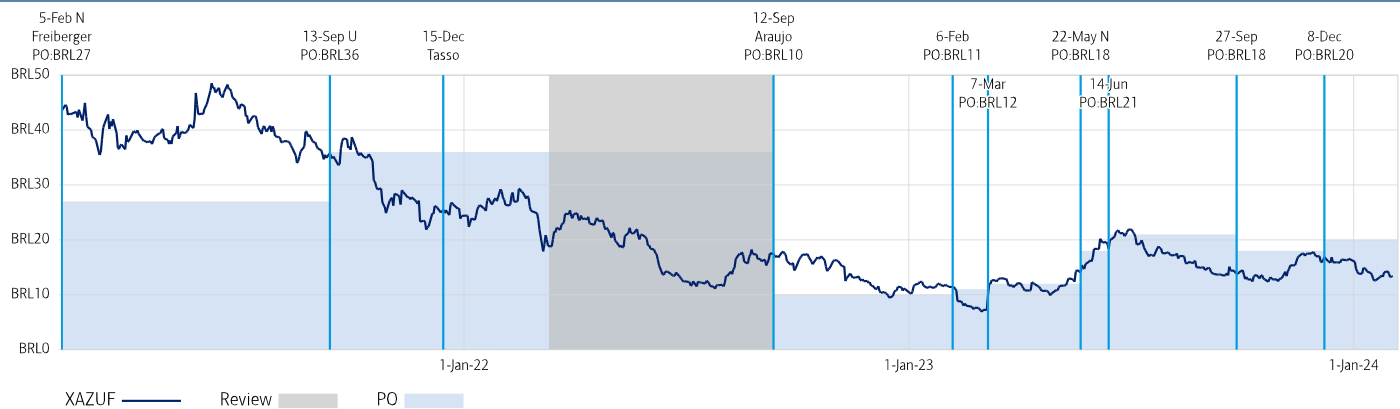
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Azul (AZUL) Price Chart



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

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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 ^{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%

^{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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