

Copa

22% of capacity temporarily grounded after Alaska flight; Maintain Buy

Reiterate Rating: BUY | PO: 150.00 USD | Price: 103.02 USD

737 MAX-9 partial fleet grounded by FAA

On January 5th, Alaska Airlines performed an emergency landing after the left mid-aft fuselage panel and interior sidewall panel blew out after takeoff. In response to the incident involving a 3-month old Boeing 737 MAX-9, Alaska proactively grounded its 65 737 MAX 9 aircraft for inspection, then the FAA ordered a temporary grounding of the global MAX 9 fleet for further inspection (see [737 MAX-9 partial fleet grounded by FAA after fuselage panel loss mid flight](#) and [What we know following ALK flight 1282](#)).

Copa grounds 21 aircraft, 22% of its seat capacity

In our LatAm coverage, only Copa operates the 737 MAX 9. The company announced it has temporarily suspended the operations of 21 737 MAX 9 aircraft for technical revisions, representing 22% of its seat capacity.

Financial impact will depend on grounding time

We do not know how long this grounding will last, but BofA Global Research US Airlines analyst Andrew Didora stated that Alaska expects to complete inspections by the middle of this week, while BofA Aerospace/Defense analyst Ronald Epstein wrote that this appears to be a manufacturing quality escape as opposed to a design issue, saying that door plugs are commonly used on commercial airframes. We should wait for more clarity on the issue before estimating the impact on Copa, but at first it seems to be a marginal impact.

We reiterate Buy; Copa is one of our top picks for 2024

While we expect the stock to be weak on the news, we maintain our Buy rating, as, at first, we do not expect this current issue to have a material impact to our 2024 financial forecast. As a recap, Copa Airlines is listed among our 3 top picks in the LatAm Transportation & Capital Goods sector for 2024 due to a highly-discounted valuation and strong earnings momentum - which we think is sustainable (see Year-Ahead: Our preferences for 2024 & 2023 wrap up).

08 January 2024

Equity

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Stock Data

Price	103.02 USD
Price Objective	150.00 USD
Date Established	16-Nov-2023
Investment Opinion	C-1-7
52-Week Range	78.12 USD - 121.20 USD
Mkt Val (mn) / Shares Out (mn)	3,273 USD / 31.8
Free Float	99.8%
Average Daily Value (mn)	26.06 USD
BofA Ticker / Exchange	CPA / NYS
Bloomberg / Reuters	CPA US / CPA.N
ROE (2023E)	27.2%
Net Dbt to Eqty (Dec-2022A)	34.1%
ESGMeter™	Low

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FAA: US Federal Aviation Administration

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Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 08 January 2024 06:37AM EST

Price objective basis & risk

Copa (CPA)

We derive our US\$150 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.

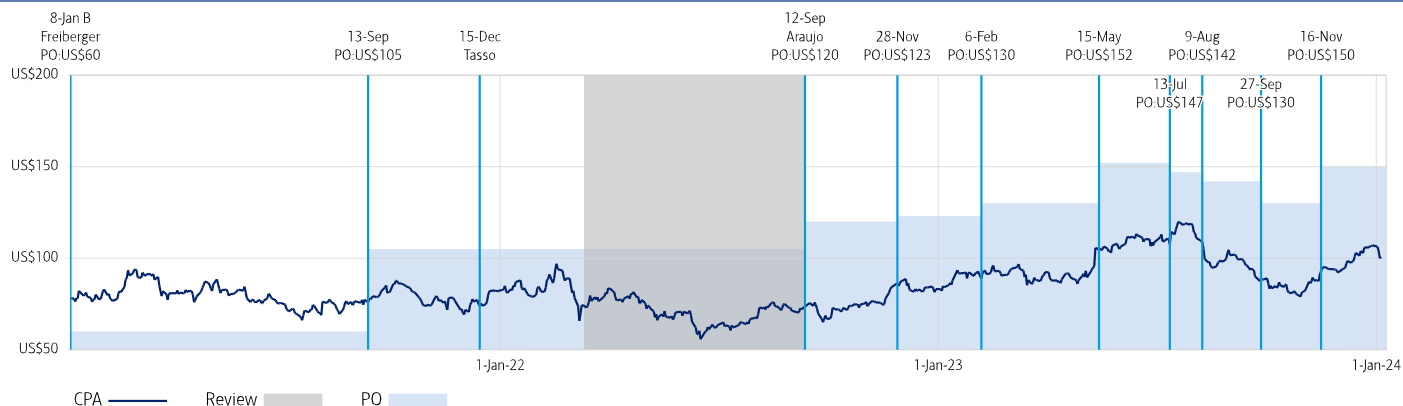
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Copa (CPA) Price Chart



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

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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
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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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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