Q3 2019 Earnings Call

Company Participants

- Paulo Sergio Kakinoff, President and Chief Executive Officer
- Richard F. Lark, Executive Vice President, Chief Financial Officer and Investor Relations Officer

Other Participants

- Dan Mckenzie, Analyst
- Duane Pfennigwerth, Analyst
- Lucas Barbosa, Analyst
- Michael Linenberg, Analyst
- Petr Grishchenko, Analyst
- Rogerio Araujo, Analyst
- Savi Syth, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Welcome to the GOL Airlines Third Quarter 2019 Results Conference Call. This call is being recorded and all participants will be in a listen-only mode during the Company's presentation. After GOL's remarks, there will be a question-and-answer session. (Operator Instructions)

This event is also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir and the MZiQ platform at www.mziq.com. Those following the presentation via the webcast may post their questions on the platform and their questions will either be answered by the management during this call or by the GOL Investor Relations team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL's management and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

At this time, I will hand you over to Mr. Paulo Kakinoff. Please begin.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, ladies and gentlemen, and welcome to GOL Airlines' conference call. I am Paulo Kakinoff, Chief Executive Officer, and I'm joined by Richard Lark, our Chief Financial Officer.

Richard F. Lark {BIO 3484643 <GO>}

Good morning. It's my pleasure to be with you all today.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

This morning, we released our third quarter figures. Also, we've made available on GOL's Investor Relations website three videos with the results presentation, financial review and a preliminary Q&A.

We are very pleased to report that this was the 13th consecutive quarter in which the Company reported operating income as well, which had record net revenue, reflecting GOL's competitive leadership and financial discipline in managing its business. The passionate work of our team has been the main driver of our superior results.

Once again, we improved our operating indicators. Revenue per passenger kilometer, RPK, increased 12.8% totaling BRL11.1 billion, driven by a 13% growth in the number of transported passengers, while available seat kilometer, ASK, growth was 7.6%. The strong passenger demand and dynamic revenue management enabled GOL to offset the increase in operating unit costs. The Company achieved average yield per passenger of BRL0.315, an increase of 14.8% year-over-year; average load factor of 82.9%, an increase of 3.8 percentage points compared to the third quarter 2018; and on-time performance of 91.2% in this quarter according to Infraero and data from major airports.

We continue to drive strong revenue growth. Net revenue was BRL3.7 billion, the highest ever recorded by the Company and an increase of 28.3% year-over-year. GOL carried 9.8 million customers in the quarter, 13% growth over third quarter 2018. We have 9.2 million in the domestic market, 11.4% growth, and 0.6 million in the international market, up 48.6% year-over-year. Net revenue per available seat kilometer, RASK, was BRL0.2767, an increase of 19.2% versus same period of last year. Net passenger revenue per available seat kilometer, PRASK, was BRL0.2612, a 20.4% growth over third quarter 2018.

The net revenue guidance for 2019 is approximately BRL13.7 billion. We have used our fleet plan flexibility to accommodate the increased demand for our passenger transportation services and to manage the MAX delays and recent unplanned maintenance requirements on some of our NGs.

In the third quarter, we added five leased Boeing 737-800 to the fleet and reschedule the re-delivery of four of our NGs. We are working with the assumption of the MAX returns to service in our network in December 2019, and in parallel, we executed a plan to cover our capacity needs for the Brazilian summer high travel season of January and February and subleased seven aircraft.

To conclude, I would like to extend another [ph] thank you to all of our employees. I am very pleased with our company's results reached this quarter and proud of our team, who did an amazing job of minimizing the effects of MAX delays.

With that, I'm going to hand you over to Rich, who is going to take us through some additional highlights.

Richard F. Lark {BIO 3484643 <GO>}

Thanks Kaki. I'd like to begin by also adding my thanks to all of our traffic employees for their commitment and hard work.

Now, we'd like to comment about GOL's cost environment. Unit costs based on cost per available seat kilometer, CASK, excluding nonrecurring expenses, increased by 5.8% from BRL0.213 in the third quarter of 2018 to BRL0.225 in the third quarter of 2019, mainly due to higher personnel expenses, higher passenger costs and higher depreciation. Fuel costs per ASK decreased 6.7%, consequence of a reduction of fuel taxes, partially offset by additional fuel consumption due to the MAX delays.

CASK ex-fuel, excluding nonrecurring expenses, increased by 14.2% due to a number of factors: one, a 37.3% increase in depreciation due to the addition of six net aircraft in the fleet and a reduction in depreciable life of capitalized engine maintenance and large components; two, an 18.4% increase in personnel expenses, mainly due to an increase in the federal payroll tax rate to 20%, a 3.6% cost of living adjustment, and the hiring and training of 723 new employees due to the expansion of operations, new routes and new basis; and finally, increases in passenger costs, service provided, sales and marketing, and landing fees. GOL has the lowest unit costs in its markets. GOL's 2019 non-fuel CASK guidance is approximately BRL0.145.

Our margins remained solid due to strong cost control and yield management. The Company achieved a positive operating result for the 13th consecutive quarter. Third quarter 2019 demand enabled GOL to achieve an EBIT margin of 18.6% in the quarter, the highest since 2006. Operating income, EBIT, was BRL692 million in the quarter, BRL451 million higher year-over-year. EBITDA margin was 30.7%, an increase of 11.8 percentage points. GOL's 2019 EBIT margin and EBITDA margin guidance is approximately 17% and 29% respectively.

Lastly, we would like to share the continued success of our balance sheet strengthening. GOL reported operating cash flow generation of BRL1.1 billion in the quarter. Total liquidity was BRL4 billion, BRL370 million higher in comparison to June 30, 2019, and BRL1 billion higher than a year ago. GOL has effected BRL998 million of debt repayments in 2019.

The US dollar appreciated 4% in the period against the Brazilian rial, causing a net exchange rate and monetary variation losses of BRL623 million. Net debt excluding perpetual bonds to LTM EBITDA was 2.9 times as of September 30, 2019, slightly better versus June 30, 2019, which was 3.1 times.

Now, I would like to return to Kakinoff.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks Rich. In summary, our results this quarter reflects the new competitive levels achieved by our company. Our commitment to continuous improvement in results has proven the strategy effectiveness of offering a differentiated and high-quality product, while relentlessly focusing on cost efficiency. We remain committed in offering the best experience in the air transportation with exclusive services to customers on new and modern aircraft that connect our main markets with the most convenient schedules. We are focused on prudent management of the balance sheet and liquidity, maintaining cost leadership and continuing as the preferred airline for our customers, while driving sustainable margins and returns for shareholders.

And to conclude, we remain optimistic for the last quarter of 2019, with the scenario of demand recovery, the aviation industry in the country and our continuous capacity discipline. Now, I would like to initiate the Q&A session.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions)

Today's first question comes from Duane Pfennigwerth of Evercore ISI. Please go ahead.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey, thanks. Just curious, there were some media reports that the FAA was in Brazil this week. Did GOL have an opportunity to speak with them, and did you get any insights into how they are thinking about a return to service timing, not Boeing, but the FAA specifically?

A - Richard F. Lark {BIO 3484643 <GO>}

Yeah, Duane, yeah, thanks. Hi. Yeah, they -- we had -- I'll tell you, we had the annual ALTA Conference in -- Latin American Airline Association Conference in Brazil this week, a lot of conversations with a lot of the industry players. But nothing different than the guidance that we've also received -- similar to what we received from Boeing, which is an expectation that during the month of December, the work there would be finalized. So we have no new information from that specifically. As you know, GOL and the Brazilian ANAC participate in various committees that are dealing with -- on behalf of the airlines and the regulators, very, very actively involved in the process. And our understanding also is that the ANAC, since they're so very closely involved with the process and what the FAA is doing, that there would be a very short lead time between a decision by the FAA and the -- and what the ANAC is doing specifically.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay, appreciate that color. And then just following on the Delta announcements with LATAM, can you characterize the level of interest that you're getting from other global airlines? And what are the attributes of an ideal partner for GOL from here?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, good morning. Kakinoff here. We are now back on to our regional strategy, which was do [ph] not belong to any kind of alliance and make the most out of our own assets. You know that we are holding, at the moment, 38% of the Brazilian market. We have a huge a capability to feed partners and also to transport the passengers arriving in Brazil at both international airports, mainly Guarulhos and Galeao. And therefore, our behavior from now on is to resume the traditional -- or the regional strategy, which is to code share -- either code share or interline with the largest possible number of partners, which give us a sizable opportunity, which is ahead of us. If you consider the North American carriers coming to Brazil and those potentially could code share with us, we could easily double the number of seats available in both ways to the specific customers, North American and Brazilians, by either code sharing or interlining with them. And this is -- this kind of possibility is on the table at the moment, and this is what we're analyzing.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Thank you. And just for a follow-up there, looking back over the years, are there any product changes or on-board service changes that you pursued as a result of your prior relation -- I don't want to say, forced into, but are there product attributes that you now have the flexibility to change going forward? And thanks for taking the questions.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Actually, we have that flexibility before. We were solely deciding on our products and services every time. We are permanently refining our customers proposition, and you could expect minor improvements because the basic product seems to be the most effective and possibly the most successful [ph]. If you analyze our market penetration in both larger segments, the leisure and the business travelers, we are leading the market with a considerable advantage in comparison to the second competitor. And we have, in practical terms, two different airlines within the same airplane. I mean that we are offering one of the best economy class experiences for a domestic airline, even comparing ourselves to other international carriers, and at the same time that we have been able to -- last year, to give you an example, to sell around 20 million tickets at the average fare of $50. So, the product and the services are now delivering the desired balance between low fares and high value customers effectively [ph].

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay, thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

And our next question today comes from Michael Linenberg of Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. Hey, Rich, Kaki. So, I saw the release out that -- where you indicated that the Delta agreement was less than a percent of your revenue. But as that winds down, what are we going to see? Is it going to show up in revenue? Is there anything on the cost side? I know that the relationship went beyond revenue. Should we -- as we think about over the next quarter or two, how does that show up, if at all? Maybe it's de minimis the impact.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Michael. Firstly, we value this partnership. I believe that -- I strongly believe that both companies learned from each other. There were several interactions, and we could also contribute with the same amount of knowledge that they had contributed first. As I mentioned before, Delta had a really small penetration -- has a small penetration in the Brazilian market. It is the third among the three main players. And we were -- we had an exclusivity agreement with them. So there are only one alternative if not by exclusively operating with Delta, which is to have partners potentially that are bigger and larger. So considering the revenue aspects, it can only be more meaningful to our company in case that we would either interline over code share with these two potential partners.

At the cost side, there was no either negative or positive effect by code sharing with them. The more we could increase our number of passengers distributed by us in Brazil coming from the United States, naturally, we are -- we would be enhancing our gain of scales. And therefore, as a derivative, the cost dilution would be higher. So -- but direct costs or regarding structure [ph], there is nothing specific.

Perhaps, Richard would like to --

A - Richard F. Lark {BIO 3484643 <GO>}

I was going to say, it is just one of the -- as you know, one of our big cash flow items, as we've been doing the overhauls of the engines, has been engine overhauls. And majority of that business is done through a contract with DTO, and so we have some more flexibility there; pricing, payment terms. That's been -- we've had a lot of investment in that component. You've also seen that show up indirectly in our results through the depreciation component. And we still have another year to year and a half, phasing out a lot of the engine overhauls.

But another thing I would -- and maybe kind of complementing the last question, over the last couple of years, GOL has made a lot of investment in the product and the service, which has been part of the key in becoming the leader in the corporate market. But that also applies to the product we're offering to our international code share and interline partners. And so that was developed to work with any airline that would value having the premium domestic service. So, if you're a business class passenger flying down from where you are, New York to Sao Paulo, and you want to connect on to Curitiba out of the Guarulhos Airport, you can travel in the GOL Comfort Class with differentiated boarding. And so, that investment that we have made -- that this company has made in the product was not only available for the -- as you were saying, the 0.3% of our passengers that were coming off of Delta aircraft, they were also applying to the almost 6% of the passengers on our network that are coming from these almost 90 code shares and interlines. To the extent that that's relevant for a partner, where they want to have the local premium kind of the last mile -- the average flight in Brazil, as you know, is an hour and 10 minutes. And so that product -- that's an attribute we have to the product, which makes it -- makes us, in addition to the network, which is the key attribute what makes us very attractive to any partners that want to plug into our network in Brazil.

Q - Michael Linenberg {BIO 1504009 <GO>}

That's helpful, Rich. And then just on a second, I know Duane brought up the fact that there was a meeting in Brazil earlier in the week and we had a lot of announcements from some of the regulators and the aviation authority of Brazil, things like talking about the 100% foreign ownership and the reduction in the fuel tax, which is obviously helping you. I also believe there was something out about the government talking about doing away with this international passenger tax. I think maybe it's on flights within the region to Brazil in year-one, and as it plays out over the next few years, it will include longer haul flights like to the US. So curious about initial take that tax, how much does it help someone like GOL? And is that in your guidance for 2020? Do you have some of those tax benefits flowing through and driving that better P&L? If you could just -- any commentary around that, since a lot was said this week, it would be great. Thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Michael. Yeah, that could be beneficial to our passenger flow, considering that we are -- specifically for international travelers. Our international network, we are carrying more leisure travelers than business. So they are more price-sensitive, and $18 tax reduction could be meaningful to them. So we are not considering that -- we will not consider that this year for sure. But when we are talking about 2020 and the guidance that we have already disclosed today, this effect is already built in.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. That's actually very helpful. But it does sound like it could even be more stimulative than we realized.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yeah.

Q - Michael Linenberg {BIO 1504009 <GO>}

So maybe there's potentially upside there. But that's good to know.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yeah, definitely.

Q - Michael Linenberg {BIO 1504009 <GO>}

Great, thanks, everybody.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

And our next question today comes from Dan McKenzie of Buckingham Research. Please go ahead.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Hey, thanks, good morning, guys. A couple of housecleaning questions here. First, the fourth quarter CASK ex-fuel outlook of up 4% to 6%, I'm just wondering what the exact bases that you're using from the fourth quarter of 2018. And then the second one, the slightly reduced EBIT margin outlook for the full year, I'm just wondering if you can clarify that a little bit. Is that just simply a function of reduced ancillary revenue, higher-margin ancillary revenue? Is it perhaps higher depreciation? Or is it less growth or something else? I'm just wondering if you can clarify sort of the bigger drivers behind that.

A - Richard F. Lark {BIO 3484643 <GO>}

Sure. Yeah, the first question, Dan, the number -- because we're -- because you have -- as you -- maybe just even before that, we've been providing the -- where relevant, providing the quarter, for the previous year 2018, in the IFRS 16 methodology. And so you'll see that in the table in the release, and also the comparisons in this -- in the quarter release are versus a pro forma 2018 for IFRS 16. That's a lot of work to do, but it's all apples-to-apples. But the -- you're asking for the recurring ex-fuel CASK for -- if I understood the question, the recurring ex-fuel CASK in the comparison for our fourth quarter 2018 would be 15.17, so to the reference there, if you -- because that's the number that's referencing.

The other question on the -- as you saw, actually our EBITDA is -- our EBITDA guidance, if you will, is performing a little bit better than expected. And the -- we put the EBIT, the operating margin guidance down a little bit. There's really two -- a couple of reasons there. One is that, as we highlighted, there is -- this year, there were some changes in some of the estimates of the depreciable life on capitalized maintenance. And so those -- the depreciation numbers went up a bit. Obviously, no impact on EBITDA, and an impact on the depreciation number, which has gone up. But within that, in addition to the accounting (inaudible) change, there's two kind of sub impacts. One is that a chunk of that depreciation is dollarized because there are dollarized assets. So the higher FX also has the indirect effect of increasing a little bit the depreciation.

And as you know, in the year, we recently -- right now, since beginning of October and it'll kind of run into the beginning of December, we're doing unplanned maintenance on some of our older NGs due to the maintenance on the pickle fork, which has been wisely -- widely disclosed. Those unplanned maintenances -- a portion of that also goes into -- indirectly into some of the capitalized components of that maintenance. So there's also a little bit of pressure there because of that issue on depreciation. But the main effect was the change in the depreciable life, and then there's this two sub-effects of the dollar -- the high -- the weaker -- or the stronger dollar and then a little bit the unplanned maintenance on the pickle fork on some of the older 737s that, as you see, is happening now, not just with us, with Southwest and Qantas and some other airlines.

And so those changed our -- increased our depreciation in Q3 as -- some of those effects, as well as they're going to have a little bit higher weight in the Q4 of this year and also next year. As you saw, kind of across the board in 2019 and '20, we took the EBITDA guidance that we provided you guys up by 1 point. But in 2019, we took the EBIT guidance down by 1 point and we kept the 2020 flat. That's -- the root of that is the effects I just described to you.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Yeah, understood. Okay, that's helpful. And with respect to the pickle fork, I did see the higher cost called out in the release. I'm not sure if there is a revenue loss that you'd want to put with that as well. But just with respect to my second question here, I'm thinking the return of the MAX should drive a nice CASK ex tailwind next year. Yet, that doesn't seem to be embedded in the 2020 cost outlook. And so, I'm just wondering, from where you sit today, as you look at the kind of the guidance for next year, what the bigger cost pressures are that might be offsetting some of the goodness that you're getting from bringing the MAX back? Or if perhaps just there's some conservatism next year in that outlook just from where you sit today?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yeah, regarding the pickle fork, the revenue impact is already considered into our 2019 guidance. Revenue-wise, it has been minimized by our capability to enhance block time, aircraft block time, and also further increased the load factors. So we were more affected in October due to the short period of time to inform and re-accommodate our customers, which made our fare curves being affected, mainly considering the short -- fewer clarity [ph] in the departure sales. That was the most affected portion of our revenue curve because we had to re-accommodate our passengers majoritily [ph] in our own flights.

So from November on, and this is basically November because we are considering to have the fleet, the NG fleet, fully operational about the second week of December. In November, we had more time to properly re-accommodate the passengers, and the booking curve was not so advanced as we had in the beginning of October. So, I would say that considering the potential hurt, the potential heat, we were able to mitigate it to a very low level. It shows how resilient this business model is, because to any other line, find itself -- from (inaudible) with 10% less planes in each fleet. Then it was planned and then it was predicted and basically go through that without no noise and not affecting significantly our results. It's possibly one of the best examples on how robust, resilient this business model is.

Regarding the 2020 CASK ex-fuel, you can imagine that we have been pretty conservative in almost everything which touches [ph] the MAX. You can -- assuming -- and this is our premise at this moment that the MAX might be ungrounded by the third week of December. We are also considering that we will (inaudible) reintroduce those planes in operation, and then we can get some CASK upside on top of what has been already disclosed by speeding up the market reintroduction process. But this is something which cannot be considered as definitive because the MAX situation is still somehow unclear.

A - Richard F. Lark {BIO 3484643 <GO>}

And then let me complement what Kaki was saying because there's been a lot going on this year, obviously. Last year, we had the trucking strike. You guys saw how we dealt with the trucking strike. We only had 12 canceled flights during that period of time, where our competitors each had over 500. And that's been a part of the GOL operating model. For a variety of reasons, it gives us flexibility to deal with a lot of different types of disruptions. This year, we had the capacity shock of Avianca going out of the market. We had these significant delays on the deliveries of the MAXs. And then we've had the unplanned maintenance on some of the old NGs. It's been an enormous amount of aircraft that have had to be re-planned this year. But let me just -- maybe I'll highlight a couple of effects for you which are in this.

On the revenue side, it's pretty difficult to kind of estimate what the net effect of all these things have been because of the power of the capacity shock. But clearly, the MAX delays, which have much greater revenue productivity than our current fleet, and as we go into the high season here with the unplanned maintenance on the older NGs and what we've had to do to re-supply those -- and we kind of highlighted this, if you go to the video presentation, which is on the website, we've put a slide in there which kind of shows how we dealt with this resourcing issue. A 100% we had less -- we weren't optimizing revenues given what we had to do there with all these issues. Having said that, we're delivering what we promised pretty much across the board in terms of revenues, costs and margins and profitability. And if I -- even better, especially on the cash flow and deleveraging. And so, how we get there? There is a lot of complexity on that; number one, on the revenue side. So definitely, there has been a revenue impact, but it would be highly complex to specifically specify it at this point in time. We also need to wait till we get on the other side of the MAX and the pickle fork. And then when the dust settles, we can provide some clear visibility on what we may have or may not have lost on that in terms of revenues.

Now, on the cost side, a couple of things, especially as it relates to the exact same issues, and as we can talk about 2020. This year, we would have given our fleet plan on the MAX when [ph] we expected to have in operation already in the second half of this year. It was really the second half of this year, starting in July, when the bulk of our orders would start to come in. That would have already provided us a 3% to 5% lower (inaudible) this lower unit cost. We didn't get that this year. We're going to catch up next year. And so we -- the plan is to be back by the end of next year to at least 32 MAXs at the end of next year in the fleet. And so we're definitely going to have the benefit of that, which in our calculations, will be probably a little bit in excess of that 5% potentially once we get back to the clarity on the MAX deliveries. That's kind of one point overall.

And there's some additional components as well, just as you compare 2019 to '20. One is that the significant reduction that we had in the ICMS jet fuel tax. We'll have the full year effect of that next year. This year, it was just a half-year effect because it really kicked in in the second half. Another component that can affect this is that this year, we've continued to have very strong demand out of business. And we've built up close to 40% market share in that market during the second and third quarters of this year, and we'll get the full effect of that next year. And so that will also be something that is a slight difference from 2019 to '20.

Another point, we still have 11 NG -- owned NG aircraft in the -- in our portfolio, which have around -- which have at least $100 million of off-balance sheet equity. If we didn't have the situation with the MAX and these other issues this year, we would have continued our modernization plan of those aircraft, and so we postponed that. We plan to re-initiate that at some point next year. And then finally, as I was mentioning previously in the question on depreciation, we had some additional -- some higher, if you will, depreciation costs this year on NGs because of the MAX situation. And so there's been a variety of effects this year, some of which we've highlighted as non-recurring, but there's a bulk of these that -- they're not non-recurring because they're part of the general operations of the business that we have today, but many of them will either reduce or be optimized next year as we get back on the track of transforming the fleet. And so I just wanted to maybe highlight some of those points and cover kind of all the ground that can be impacting our revenues, not just this year, but also next year, and also the impact on the 2020 CASK overall, not just the CASK ex-fuel, but also on the fuel side of the equation.

And also, as we highlighted, an additional point, right now, we're consuming -- we're having a higher consumption of -- on the volume side of jet fuel because we're operating NGs versus plan in lieu of MAXs. And that will also come in next year. But I think we'll have better clarity on all these things probably in January of next year, and so when we discuss Q4 -- most likely we'll discuss Q4 at the end of February -- we'll be able to give you guys better specificity on all of these things as it relates to 2020.

We're providing a lot of guidance there, a lot of details to help people understand how we're thinking about managing the business. It's guidance. By definition, it's guidance. It's what we're thinking about. It's not conservative. It's not aggressive. It's the guidance. And so that's what we're working towards, and as we have better clarity on a variety of these uncertainties right now, we'll be able to maybe answer some -- give some more clarity, granularity on what's going on with both the unit revenues and the unit costs as we transition. But as Kaki mentioned right now, there is still some uncertainty about when exactly we're going to have -- get back on track with the fleet transformation. And so, as soon as we have that, that's going to be a trigger for us to assume some more definitive positions on a lot of these questions we're getting, not just today, but for a couple of months now, and we're going to keep getting them for another couple of months, I suspect.

Q - Dan Mckenzie {BIO 15071178 <GO>}

Understood. Thanks so much for the comprehensive answer.

Operator

Our next question today comes from Savi Syth of Raymond James. Please go ahead.

Q - Savi Syth {BIO 17476219 <GO>}

Hey, thanks for the time. Kaki, you had mentioned on the prepared recording the fleet flexibility and then the MAX are, being in the high season, probably not much of an issue. But it sounded like you should be able to get the MAX that's grounded up in the air pretty quickly. I know some of the US carriers have talked about kind of one to two months to get them ready and back up. Just wondering if you could talk a little bit about once we do get the recertification, how quickly the MAX can -- that's onsite can come back on and how many kind of MAX can you get delivered from Boeing, how many can you induct in a get any given month if Boeing is willing to deliver?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Savi. Thank you very much for the question. Actually, we are, in Brazil, under the -- our own regulator rules, which is called the ANAC. ANAC has already probably [ph] positioned itself saying that they would act in accordance with the FAA, so we do expect the kind of simultaneous release of both agencies at more or less at the same time, so I don't predict any kind of disturbance in that process once FAA say that the plane is allowed to be ungrounded. Nevertheless, what we have done to guarantee our -- recapture of our revenue opportunities along the high season is to recompose our -- (inaudible) rebuilding our fleet availability by bringing more NGs to -- operational NGs to our fleet. So we are having now, for the high season, only six planes from Transavia. You know that traditionally, we are sending them from four to six planes every year during the European summer, and now this year, we are also having the benefit of this long-lasting partnership and bringing these planes at the same lease costs, same lease rates that we were asking them to operate during the Brazilian high season.

Also, we have leased some other five short-term leased aircraft. By short term, I mean one to two years. And they're -- through this movement, we are now forecasting our high season without the need of the 727 MAX being operational again. If this would happen, we can further enhance our operational performance and also address opportunities to like additional flights or new frequencies on the most demanding -- demanded routes during the high season. But the guidance that you have already in place for 2019 and 2020 does not depend on the MAX return along the Brazilian high season. We took that action in order to avoid that any postponement in this ungrounding process -- on this ungrounding process would jeopardize our fiscal [ph] results.

A - Richard F. Lark {BIO 3484643 <GO>}

Just to complement what Kaki said, Savi, if the MAXs are ungrounded prior to or during the high season, call it, December, January, February, we can take -- we have ways of -- normally we -- during the high season, we have a lot of extra flights we put into certain places in our network or extra frequencies for those flights, especially in -- from kind of mid-December until mid-February.

Carnival is late this year. Carnival at the end of February. So to take advantage of the Brazilian summer season, where you've got a lot of traffic, especially intensively on Friday through Monday, going to the beaches and other places on the week end, so we can easily put those into the network and generate some additional revenues, taking advantage of the Brazilian high season. If, for some reason, that would go beyond the Brazilian high season, in other words, where we go beyond February -- as you know, during the March, April, May low season, we -- the way we do our network management during the course of the year, intra-year, we vary our capacity down around 10%, and so we'll put 12 to 14 aircraft on the ground in maintenance roughly in the second quarter anyway. And so if that extends, we would then be putting the MAXs flying during the low season and then taking another 12 to 14 aircraft out of service anyway for activity in maintenance. And as Kaki was saying, we've covered that gap to bridge us through our high season, and there would be some upside there if the MAX is freed up to be producing revenues sooner. But through the tools we use, for example, as Kaki mentioned, the subleasing tool we have, summer lease, winter lease tools we have, we've covered our risk on that to be able to satisfy demand, which, as you've been following across the board in Brazil, not just in our sector now but in other sectors as well, is starting to pick up from an economic perspective, and that will provide some pretty buoyant demand for air travel here over the next couple of months.

Q - Savi Syth {BIO 17476219 <GO>}

That's helpful. Thanks. And during the kind of the 2020 outlook, there was kind of a mention of royalty revenues that being a bit softer. What's driving that?

A - Richard F. Lark {BIO 3484643 <GO>}

There's a couple of things. One is, I think we -- this shouldn't be news, and I think it was probably a year ago that, as demand for air travel has been picking up and given the good rational capacity management, there is a counter-cyclical component in different components of the businesses just because of how it works. One is a derivative of the other. And so, that's one. And then the other component that we highlighted as well a couple of quarters ago was the expectation of increasing competition, I would say, increasing non-price competition resulting from the reintegration and merger of the various loyalty program activities that LATAM has. As they finalized their process -- I think it was in -- sometime in the second quarter -- that's basically happening now in terms of higher competition in that space, as well as higher demand from -- you can see it reflected in the load factors on not just GOL, but the sector as a whole. So a combination of those factors creates a little bit of that trade-off, but that's a normal part of that business. We've -- Smiles just celebrated its 25th year anniversary. We've been with that business since 2007, so 12 years now. And that business also has competitive and cyclical aspects, which is the symbiotic nature of those different businesses that we have. But on a separated carved-out standalone basis, you see the effects of that, which effectively is the cost of goods sold of our loyalty program increases in this part of the cycle, and on the cost side of that business, if you will, which is consolidated out in our results because what's cost for one is revenue for the other.

But then on the revenue side, there is higher competition in the point space. And so that has had a -- already started to have an impact in the margin. But this is something I think we highlighted over a year ago in terms of what we expected from a Group perspective, and it seems to me more or less [ph] happening along the lines and timing that we expected. And so -- and that -- so that -- in our business, our consolidated results, we're seeing those effects as well in our consolidated results versus previous expectation. So there is a slight adjustment there in the expectations of the revenues that are generated from that ancillary revenue, non-passenger revenue, and then also some adjustments on the minority interest as well in the expectations over the next couple of quarters.

Q - Savi Syth {BIO 17476219 <GO>}

Thanks for that reminder. Sorry, I forgot about that. Just on -- just a housekeeping question is the last one I have. On the non-reoccurring that you called out in the operating income, the BRL78.9 million, could you provide a little clarity on what's included in that?

A - Richard F. Lark {BIO 3484643 <GO>}

Yeah, there's a variety of items in there, and we're not -- we're just separating things out there that are really one-time effects, not related to disruptions, right, specifically. But there's some effects there related to the MAX. There's also some effects there related to some investments, short-term investments we've made in consulting and other projects to deal with things that are really not at the airline operating level; they are more at the holding company level. And then there is a chunk there that relates to the return of aircraft, which generally has been provisions when we make decisions on returning aircraft, specific dates and so on. We're maintaining provisions on those. But as we've been changing around a lot the actual return days because of the MAX situation and because of the unplanned maintenance of the NGs, that has created a little bit more, let's say, volatility on our ability to get accurate provisions on what we expect on the aircraft return costs.

And so all of those are in there. It's kind of divided among all of those. As I was saying before, in terms of what's specifically related to the MAX and some of these other -- and the NG issues, I think that's something that, when we get on the other side of the delays on the MAX, we can provide some more clarity on what that ended up costing us from an expense as well as cash flow perspective. But there is -- obviously, there is a little bit of affect there on -- in the system on additional types of expenses that we have on us because of having to reschedule the network and re-plan -- reschedule flights, take flights out of the network, reorganize -- have to pay -- there's certain costs there that we have to do with reimbursing passengers and things like that, a variety of costs there that come in as it relates to the overall business, that would not have happened if we were not reorganizing the maintenance schedule and the aircraft return schedule and dealing with the re-planning of the fleet.

This year -- and you can probably see this in the chart in the presentation that's the video -- if you were to do a -- by the end of this year, when all the dust settles, this company will effectively have rescheduled intra-year over 40 aircraft to deal with the various types of aspects [ph] of disruptions that we've had to deal with that. And so that's equivalent to about one-third our fleet, and so that creates a lot of attrition in all the components of the business and has impacts -- second and -- secondary and tertiary impacts on a lot of differ components where we've also had to spend additional money to keep chugging along in terms of producing our revenues and profitability.

So as I was saying, there is a weight in there that's weighing on that -- those results. We've tried to separate out some of that, which is clearly identifiable. But there's other effects that are in the recurring cask [ph], which are also related to that. And so that's what I would say at this point in time. But I think, when we talk about Q4 at the end of February, I think we'll be able to provide some more clarity on that in terms of what our 2020 unit costs are, excluding these effects, which -- some of which have been excluded as non-recurring and then others which are creating the attrition on the overall unit cost.

Q - Savi Syth {BIO 17476219 <GO>}

That's helpful color. Thank you.

Operator

Your next question comes from Stephen Trent of Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Good day, gentlemen, and thanks very much for taking my question. You've already provided some very comprehensive detail on top line and what have you, and really appreciate that. So you've largely already answered my inquiry, but just a tiny follow-up, if I may, on Dan McKenzie's question from earlier. When I think about 4Q, at least heading in the 4Q year-on-year, thinking about unit revenue, clearly, you guys mentioned the MAX and having to rebook passengers. When I think about sort of the year-on-year -- the normalized year-on-year trend, is there any stage length related inputs I should factor in there?

A - Richard F. Lark {BIO 3484643 <GO>}

Hi, Steve. You're saying just in general on Q4 or a specific item?

Q - Stephen Trent {BIO 5581382 <GO>}

Yeah, just broadly speaking on Q4, when I think about -- recognizing that there's a great deal of noise with the MAX, as you guys have highlighted, how should I think about -- to the extent you're allowed to tell me, what I should consider from a stage length adjusted -- excuse me, average stage length adjustments kind of year-on-year? And I saw you were launching up third international flight, for example, to the US.

A - Richard F. Lark {BIO 3484643 <GO>}

Sorry, you're asking specifically on stage length, is that what you said? Okay.

Q - Stephen Trent {BIO 5581382 <GO>}

Yes.

A - Richard F. Lark {BIO 3484643 <GO>}

That would be around 1,100 kilometers for the Q4. That would be the expected stage length. Not a whole lot of change on that versus expectation because, as you know, we're -- we've slowed down significantly the rollout of the international destinations because of the delays on the MAX deliveries, and so -- especially in the routes where it was specifically required the MAX for that mission such as Miami, Orlando. We are rolling out still, as you saw, shorter haul destinations such as Lima from Brazil and Orlando from (inaudible). And we're doing our Cancun flights, but -- so that -- yeah, that expansion there, which will have an impact on the cost.

As I was saying that, that will get caught up as soon as we have the MAX is working again. So the seven MAXs we have grounded, the missions that they can be deployed on are specifically related to these longer-haul markets, which, as we said in our planning, can happen as early as the Q1 of next year, but not before. So that that's not going to be expanding until that point in time.

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful, Rich. And just one other final very quick question. It seems kind of once again, at least in news flow, that elements of the government seem to continue trying to entice foreign carriers to launch service, but it really seems like nobody is betting [ph] with, aside from competition, consumer and other laws that a foreigner could find onerous. Is my view on that reasonable? Or are you hearing anything differently in terms of what the competition landscape is, how it's evolving?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Steve. Kakinoff here. The market is now open. There are several news, rumors, things like this. And you probably know, and you should remember that GOL always support the foreign capital lift in the market, which was finally approved, showing that we have the appreciation for the competition and no fear to compete. And I can't tell at the moment whether some of these rumors will be translated into a concrete movement. They might be. But I think that we are well prepared for any kind of competition. They have mentioned too many times the low-cost carriers. And when you compare our current CASK -- you have this data available in our pack. If you compare our current CASK with the international benchmarks, there is more room to have somebody else coming to Brazil and operate at a lower level, which is somehow protecting our business model. So they could come. There's a lot of marketing on this kind of subject. But competing exactly in the same scenario, in the same environment, I don't think that sustainably another competitor could create or produce a much lower CASK than ours. If so -- so, I mean, that might be more harmful to some of our competitors than to ourselves.

Q - Stephen Trent {BIO 5581382 <GO>}

Very helpful, Kaki. And I will leave it there. Thanks very much.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

And our next question today comes from Rogerio Araujo of UBS. Please go ahead.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hi, Richard. Hi, Kakinoff. Thanks for the opportunity. A couple of questions here. First, if you could provide an update on the industry deployment from GOL and also the other players in upcoming months? What does you -- what does GOL expect in terms of competitive environment in the upcoming quarters?

And also second question, a follow-up on Delta kind of relationship. If I'm not mistaken, there was also some relationships on the maintenance front. And could you give some color on how that agreement worked? I think it was also -- it also had some working capital related, especially payables, on that maintenance, if I'm not mistaken. If you could provide more color on how the agreement worked and how could this change now? And that's my questions. Thank you.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Rogerio. Thank you very much for the questions. Regarding capacity, I believe that the industry will continue to behave rational. We have still -- that's something clearly [ph] coming from one specific player, which is Azur. We know that they are upgrading some of the fleet. But also there are -- a portion of this capacity being added by them, which is not so clear the motivation behind it. But in an overall perspective and considering and assuming that the Brazilian economy in next year could produce a GDP between 2% to 3% growth, I think that all the capacity projections that we have go access based on the press or also the competitors saying, plus our own, I think that the industry will have another healthy year with regards to the capacity rationality.

A - Richard F. Lark {BIO 3484643 <GO>}

And we're -- we manage our business to try to grow at or below our sustainable growth rate. I think that's the key to create value for our shareholders. That's what our shareholders want. And we're growing at that rate, which is right around -- it's probably a little bit higher than the historical elasticity, but we have a little bit of repressed demand and it's catching up. So if you look at our normalized capacity growth rate, we're kind of around a 3 times GDP run rate -- GDP growth rate here, let's say normalized throughout the year from a seasonal perspective, which for us is around, call it, 7% in the domestic market. I think it's important to separate domestic from international because they have different impacts.

And so the growth rate of Brazil over this next part of the cycle should be around that 7%, which is around the 2.5 -- roughly 2.5 times GDP elasticity. You could have a little bit more than that in the short term, maybe as much as 8%, and I'm saying kind of throughout the year. In the next couple of months, because of seasonality, we're probably going to see low-teens growth. Those are the demand (technical difficulty), and Azur is about three times that. And so the law of supply-demand applies to all of us, and so then you'd have to ask, if, on the demand side, you're a glass-half-full guy, which I know you are Rogerio, or you're a glass-half-empty guy? If you're a glass-half-full guy, the incremental inventory that's coming into the market, dovetailing with a better economic growth -- I've been hearing some people talk about potentially 4% GDP growth in Brazil next year -- it is possible that we could have a very nice demand uptick to match that capacity growth with no impact on the yield environment. And if that doesn't happen, there would have to be something that would pay for that, pay for that excess capacity, or the capacity growth would have to slow down.

I think we're only going to see that in the second quarter of next year. As you know, we're going to the high season now, which kind of go through February, and so I think second quarter next year will be a test of that in terms of how each company and the industry and how we will manage through that, and that will be a function of what the demand environment is in the second quarter of next year. But recently -- when I say recently, last couple of weeks, last maybe as much as two months, there has been a lot of leading indicators that are showing a pickup in domestic market demand in Brazil in a lot of sectors, retail, real, estate, retail banking, things like that, which you guys also look at, and obviously, it's early days on that. Brazil is also making a lot of progress on -- I should say, the Brazilian government is making a lot of progress on what they've been promising in terms of reforms. And so there's more positive indicators currently than have been maybe in the first half of this year. But our perspective on that is, especially six months out, we're matching our capacity growth with what's going on in demand. As the largest airline of Brazil, we're the biggest determinant of that. We don't manage our business based on market share. We manage it based on sustainable growth, self-financed growth, earnings growth, things like that. And that's how we're thinking about it at this company. And that's what I'd say on that.

On your second question on the company, what was said previously, on the -- on our maintenance work, a large portion of what we do on the maintenance side is done with Delta TechOps. And one of the effects of the unwinding of our partnership there, that would give us much more flexibility to bid out those -- that business to other maintenance providers and give us a little bit more flexibility to negotiate better terms. And -- but I'd say, Delta TechOps has been an important partner for us on the maintenance of our CFM engines. If I'm not mistaken, the last numbers that I looked at on Delta TechOps, we were the largest customer of Delta TechOps in terms of the amount of annual revenues we generate for that business. And so I think I expect they will continue to be a supplier of ours, but we wouldn't necessarily have the same constraints on us vis-a-vis seeking other deals, given the large volume of business that we have every year out in the market, which is going to continue for the next couple of years.

We've also -- we're not in the engine maintenance business. But we're also continuing to invest in our own maintenance business, which today is focused mostly on airframes, and is also now providing services to third parties. We are -- we have clients in our portfolio now including leasing companies that are doing maintenance with us in our 1.6 million square foot maintenance center in the Confins airport in Minas Gerais. Not engines. We still have to third party our engine maintenance, but at the same time, we're also advancing in terms of developing our own standalone MRO facility, which is already generating revenues. We're certified by the FAA to maintain a variety of aircraft, and we're also pursuing that. I think the way to think about that as you think about GOL is that we're going to have more flexibility to maximize the economics we have on what is still our largest CapEx item per year. And so -- and that will not be present this year but could be present in our numbers next year, as we will define what we're doing, regarding the unwinding of that partnership in the coming period.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Very clear. Thanks very much, Richard and Kaki.

A - Richard F. Lark {BIO 3484643 <GO>}

Okay.

Operator

(Operator Instructions) Today's next question comes from Petr Grishchenko of Barclays. Please go ahead.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Hi, good afternoon, gentlemen, and thanks for taking my question. Obviously, a lot of them were already answered. So I guess I'll just follow up on Delta-LATAM partnership. So the way it seems you evaluated the partnership from revenue standpoint, obviously, it was not very significant. But I guess, I would argue that Delta played a much more important role, particularly during the downturn, and I guess the loan maturing next August, I believe, is a good example for that. So from a credit standpoint, I think there is a much bigger significant sort of partnership beyond just the percentage of revenue. So with that, I just wanted to understand, is it fair to say that you're looking for a partner, or at least considering entering new partnership? And if so, if you can give us any time and expectations, it'll be great and helpful.

A - Richard F. Lark {BIO 3484643 <GO>}

Sure, Petr. But just to understand, what do you mean from a creditor perspective? What -- maybe a little bit more just so I understand, and I'll answer the question. What do you mean from a creditor perspective?

Q - Petr Grishchenko {BIO 19084897 <GO>}

Well, during the last recession, clearly Delta provided support for the Company. And as I mentioned, there is $300 [ph] million loan that they guaranteed a while back is an example for that. So --

A - Richard F. Lark {BIO 3484643 <GO>}

You mean maybe -- I think [ph] you're specifically talking about the term loan where we raised money from US high-grade [ph] investors at a cost of 6.5% per year with Delta co-signing, where Delta got the guarantee of Smiles shares and counter guarantee. That's what you're referring to?

Q - Petr Grishchenko {BIO 19084897 <GO>}

Precisely.

A - Richard F. Lark {BIO 3484643 <GO>}

Okay. If you see -- you'd see, our bonds today are trading at near 6.5%, GOL's unsecured bonds, and those were paying probably about 325 basis points over Delta risk. And those investors, they are not co-investors. We don't even -- those are Delta -- those are, if you will, high-grade, investment-grade US investors who don't invest in GOL, don't invest in high-yield bonds. They're not really part of our capital structure. And we pay a significant membership [ph] to Delta on that. And so that's why our plan is to -- it amortizes next year in, I guess, August. That's the maturity. It's callable partly in February, and we've already worked to reserve the cash to get rid of that, and that has a significant negative impact on our earnings. And I don't see why you would view that as a negative. But I think what's your question is, if we would be -- because that kind of -- that's not -- let's say, that's not what we would be looking at in a commercial partner credit support. That's not what we'd be looking for. I think what -- as Kaki was saying as well, we are focused on maximizing our revenues and profitability, and we've got the largest network in Brazil with a lot of complementarity, connectivity and synergies with a variety of partners. You see, we continue to announce code shares and interlines almost every month. We've got close to 90 now. And so that's a commercial issue.

In terms of strategic partner, no, we have nothing planned in that respect, nor is it -- does it really play into our strengths in terms of what we can offer to potential partners at this point. And so -- and I don't think from a creditor perspective, as you're saying, that would come into the box as a positive in name only in that respect. I think from our perspective, it would have to be based on specific strategic reasons to do that, which can take a while to develop and can take a long term. It would not be necessarily a short-term component. As you know, the -- our space -- our larger space, which is South America, is also going through a bit of a reorganization in terms of how the alliances are communicating with South America, and that's kind of a work in progress.

And I don't know if you want to comment, Kaki [ph], anything on that. I mean -- yeah.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I think (multiple speakers).

A - Richard F. Lark {BIO 3484643 <GO>}

They're very separate issues. The commercial, the maintenance and what we might do strategically are really separate issues. As we said, we have a network today, which is generating over 6% of our revenues from close to 90 code shares and interlines. And in the case of American and United, we're already working with them on interline basis for a while, and I think we're going to continue to pursue that.

I think specifically, you're referring to when -- there were a lot of ways back in 2015 that when GOL -- very responsibly -- when the economy attracted -- contracted 3.5% in 2015 and then ended up contracting another 3.5% in 2016, in the third quarter of 2015, GOL developed a plan to reduce the size of its assets and balance sheet and sold nine aircraft, returned another 20, took 29 aircraft out of the fleet in a six-month period, and it needed some short-term liquidity to do that. Majority of it came from our controlling shareholder family, and then a small portion of that came out of that -- from Delta in terms of the equity capital that was put in the Company back in October last year. But the main support came out of the controlling shareholder, and Delta as a partner teamed up with the Constantino family and helped out with that and definitely provided a lot of support and their experience of having gone through a right-sizing a while ago, and that had huge value in what Gol was doing in terms of navigating that really tough environment, and they provided the co-signing along with our holding company on the term loan. And so that was an enormous help to get liquidity into the Company at that time. And all that liquidity, the equity that came in, about $150 [ph] million, as well as the $300 million term loan and some other things was used to kind of get the wheel going to -- in addition to the nine aircraft that GOL sold out of its own equity, that whole part was used to downsize the Company, if you will, very early on in the cycle. Really, if you think, it was very at the beginning of that trough. Now, we had some other companies that we know that didn't do it, and they're doing it now, arguably three years late, and some didn't make it. And so that was in an enormous help that came from a shareholder perspective and very much in a partnership way at that time that helped effect that downsizing. But GOL today is generating positive, not just operating cash flow, net cash flow, but also there's some cash to equity there.

As you saw, this year up until September, we've amortized close to BRL1 billion of debt. We've got about BRL4 billion of cash on the balance sheet. So all this is kind of within this plan to get us to the appropriate capital structure, which we are at right now, which should improve in the next couple of years, given the cycle. But in the bigger picture, I think, the Company today is very well prepared for the next part of the cycle, which is more of a secular growth cycle. And then I think three, four years from now, I think that question you're asking is perhaps the more relevant question in terms of how prepared we are in terms of balance sheet and competitivity to deal with what will be the next downcycle at some point, four, five, six years from now and so on. But at this point in time, we have more reasons to just focus more on operations and on the other side of our fleet transformation and then potentially see what we may or may not want to do in terms of participating in any strategic work in Brazil or a larger work in the South American region.

But that's how I'd kind of contextualize that to you in terms of how we're thinking. That's kind of how we're thinking about it today. But I think there still are some other pieces to -- of the puzzle to kind of evolve over the course of next year, I think, before it becomes clear on things like industry structure and competition and things like that. So we're not running in any external direction at this point in time. We're just focused on operations, on balance sheet, on everything that we've been talking about, and trying to prepare the Company the best we can right now for next -- to take advantage of next year in terms of growth, fleet transformation, international expansion, things along those lines.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Great. Thanks for a very comprehensive response. And just to follow up on one thing. You mentioned the maturity -- loan maturity next year. Did I get it right? Are you basically ruling out issuing -- like tapping on the bond market, either local or international, to refinance that? Or you just -- what you're saying is, you're just not going to raise that in basically the first half of next year? I just want to a little bit better understand your (multiple speakers).

A - Richard F. Lark {BIO 3484643 <GO>}

Yeah, we have -- yeah, that's a good question. That's a good question. We have the cash resources if we wanted to exercise the call in February next year and do that with cash and effect a -- not just the gross debt, but a net debt reduction, we can do it if we want. So specifically, as it relates to the term loan, no, we would not be raising any -- we'd not be refinancing that, no.

Currently, as we sit today, we have no plans to be doing anything in the fixed income markets next year, either in dollars, in yen, in euros or in reais, no plans to do that because we have to have use of proceeds to do that. It's not just about raising cash. If we're going to raise cash, increase cash on the balance sheet, it would be through non-fixed income mechanisms such as internal cash generation or equity, and we don't have any plans to raise equity, and so most of our cash building up is going to be coming from internal operations.

Having said that, as an airline, you're always -- and as CFO of an airline, my -- part of my job is to always be looking at ways to reduce the cost of capital, improve the balance sheet, and so always monitoring opportunities. I think the convertible bond we issued this year was an example of that. For us, it was an equity transaction to put some additional cash on the balance sheet. It was a way of monetizing the volatility in our stock and creating a new source of capital for the Company. So those kind of things we're always looking at. But right now, we have no plans specifically, but we have to be always kind of looking at ways to improve our balance sheet strength and financial flexibility, so always looking at things along those lines. But right now, no, we have no plans. So the plan on the term loan would be within our policies, which is in terms of what we want to have in terms of maximum leverage, WACC minimization and liquidity measures, everything is going to be done in the context of that. And so whatever we do, of course, is not going to put the Company in a constrained liquidity situation. And so based on our plans and so on, you can expect that we're going to continue to maintain or improve our credit ratios because, as you know, we have an objective, from a WACC optimization perspective, getting the company back to a BB- in the near term. And so that's going to guide us on how we approach capital structure and how we do -- what will effectively end up being the last major piece of liability management that we've been doing over the last three years.

And so, once we get on the other side of the term loan, now the next fixed maturity in US dollars is 2025, which is the bonds we have trading outstanding, which are trading a little over 6.5% in the market. And as you know, also we've been -- we're almost finalized with -- within the next year, we'll be finalized with amortizing our Brazilian rial debentures. Just to comment on that, Brazilian interest rates also are at record lows. There really doesn't exist a true high-yield fixed income capital market unsecured -- for unsecured issues in Brazil. And so, it doesn't exist for us the opportunity to lengthen out our maturities in the local markets, capital markets. For us and for companies like us in Brazil, non-investment grade really only exists with the bank market and which are short-term maturities, for us, maximum three years. So even though our Brazilian rial borrowing cost today is around 6.5% in reais versus around 6% in dollars overall, it is not a viable market for us to be buying long-term US dollar-denominated aircraft assets financed in a long-term market in Brazil. That market doesn't exist. If it were to develop, if the Brazilian fixed income capital market were to develop over the next year or two, that is something we could potentially look at, but right now, it doesn't exist, so we're not looking at it.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Got it. Thank you very much and best of luck to you guys.

Operator

And our next question today comes from Lucas Barbosa of Morgan Stanley. Please go ahead.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning Kakinoff and Rich. Thanks for taking my question and congratulations on the results. I just wanted to check in if there is any developments on a potential incorporation of Smiles in the overall corporate restructuring. If you have any color on timing and potential structures, that will be great. Thank you.

A - Richard F. Lark {BIO 3484643 <GO>}

Sure. What was the second part of the question, sorry, what structures?

Q - Lucas Barbosa {BIO 20835372 <GO>}

If you have any color on timing or any potential structures that you would be thinking on incorporating Smiles?

A - Richard F. Lark {BIO 3484643 <GO>}

Yeah, okay. It's related to that, okay. Well, yeah, our intention is to effect a take-in of that. We're in the process of that. The Smiles Board and their governance there has been working on a variety of issues over the last couple of months. And so, really have no news on it today. As soon as we have news, we would communicate that, but we're basically at this point kind of in a holding pattern here, awaiting discussions that are happening at the Smiles Board level. We would like to move forward on that, but we have to wait for now for some of the discussions that are happening at that level. And so I have no -- nothing to say on that at this point of time. But our intention is to continue the same and the same reasons. It's very important for the -- it's not just a question of cash flow and results optimization, but it's really a question of long-term competitivity and the maintenance and improvement of not just the value of the GOL product, but also the Smiles product. It's very important that we move forward on that. But as soon as we have any news on that, we would communicate that, but I don't expect it's going to be in the short term here, given what we're waiting on from the -- Smiles has to finalize before we can move forward on what we want to do.

Q - Lucas Barbosa {BIO 20835372 <GO>}

That makes a lot of sense. Thank you very much.

A - Richard F. Lark {BIO 3484643 <GO>}

Thank you.

Operator

And ladies and gentlemen, this concludes today's question-and-answer session. I would like to invite Mr. Kakinoff to proceed with his closing remarks. Please go ahead, sir.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Okay. Ladies and gentlemen, I hope you found our presentation and the Q&A session helpful. Our investor relations team is available to speak with you as needed. So thank you all very much. Have a nice day, bye-bye.

Operator

This concludes the GOL Airlines conference call for today. Thank you very much for your participation and have a nice day.