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VOLAR (Buy)

Current price: $17.43, PO $27.00

Flash: Risks in the environment impact share price

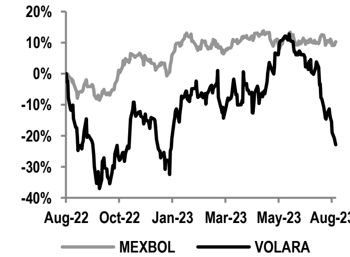
Volaris has recorded a significant cumulative drop since its 2Q23 earnings report (July 24, 2024), of ~24% in the share's price. In our opinion, the main factors that have affected the stock's performance are as follows: **(1) A rebound in fuel prices since July**, although still lower on a y/y comparison; **(2) the uncertainty about the evolution of the average fare per passenger**, after a decrease of ~15% y/y in the 2Q23, due to a greater supply in the market; and **(3) the news that the engines of A320 NEO aircrafts, manufactured from 2015 to 2021, have an earlier-than-anticipated attrition issue**, which derived on more maintenance than anticipated, and in that sense, affecting the expected growth in capacity. *RTX Corp.*, the parent company of *Pratt & Whitney*, which makes the engines, said it will perform accelerated teardowns and inspections on about 200 of all its customers' engines starting next month and reaching ~1,000 by next year.

Regarding the first point, the expectation aims at an improvement in rates for the second half of the year, which is seasonally stronger; however, we will closely monitor the dynamics of the pricing environment. As for the third factor, even if the company could adjust downward the guidance in terms of capacity (+13%e in 2Q23 vs. +10%e previously), we do not believe that the update will be significant, since the largest increase occurred in 1H23 (+18% y/y), and compensation from the supplier is not ruled out. In the meantime, we will be monitoring any information on the situation, since the airline has a fleet of 123 aircraft and ~42% could be subject to a gradual inspection, thus the impact on the operation should not be so relevant.

In our view, at current price levels, valuation already incorporates these risks (6.5x FV/EBITDAR vs. 6.9x sector average). Likewise, **although volatility in the share´s price could continue,** the outlook remains strong on growth, accompanied by a **recovery in profitability**, coupled with the company's leadership position in the industry. This leads us to reiterate our Buy recommendation on Volaris.

BUY	
Current Price	$17.43
PT	**$27.00**
Upside Potential	54.9%
ADS Price	US$10.10
PT ADS	US$15.00
Shares per ADS	10
Max – Min LTM ($)	25.93 – 13.90
Market Cap (US$m)	1,177.6
Shares Outstanding (m)	1,166.0
Float	68%
Daily Turnover ($m)	61.4
Valuation metrics LTM	
FV/EBITDAR	6.5x
P/E	-24.7x
MSCI ESG Rating*	**N.A.**

Relative performance to Mexbol
LTM



Winners of the 2023 award for the best economic forecasters in Mexico, awarded by Focus Economics.

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Document for distribution among public

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We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Juan Carlos Mercado Garduño, Daniel Sebastián Sosa Aguilar, Jazmin Daniela Cuautencos Mora and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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	Reference
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HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

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History of PT and Ratings

Stock	Date	Rating	PT
VOLAR	07/21/2022	Buy	$27.00
VOLAR	07/16/2021	Buy	$56.00
VOLAR	01/14/2021	Buy	$31.00
VOLAR	08/25/2020	Buy	$20.00

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	

*The MSCI ESG Rating is an indicator that evaluates companies in Environment, Society and Governance (ESG) metrics.

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