

VOLAR

Quarterly Report

August 1, 2023

Strong growth and profitability expansion

- In 2Q23, the increase in capacity and passengers, combined with lower fuel costs, reflected important advances in line with our estimates. Meanwhile, higher margins were a highlight
- The solid report confirms the expectation of continued growth and a recovery in profitability amid a more beneficial cost backdrop going forward, which supports Volar as a [top pick](#)

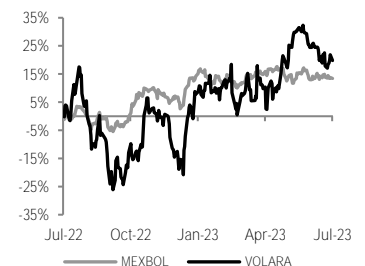
Margin expansion stands out. Volar's figures showed significant increases in sales and EBITDAR, highlighting the rise in profitability. Available seat-miles (ASMs) rose 18.1% y/y, and total demand, measured in reserved passenger-miles (RPMs), increased 16.7% y/y, with an occupancy factor of 84.6% (-1.0pp). The 12.2% y/y increase in total passengers and 25.0% increase in revenues from additional services per passenger were partially offset by a lower average fare (-15.1% y/y), which led to a 13.2% y/y growth in total revenues. Although operating expense per available seat mile (CASM) excluding fuel increased 14.8%, more significant was the reduction in fuel expense (-38.4% y/y in cost per gallon), reflecting a decrease in CASM of 12.9%. This resulted in an increase in EBITDAR of 97.5% y/y to \$212 million, with a notable margin expansion of 11.5pp y/y to 27.1%. **The outlook for recovery remains positive.** The company reiterated its revenue and EBITDAR margin guidance, confirming the expectation that demand will remain solid (with potential for additional momentum as aviation in Mexico returns to Category 1). While we will be watching the dynamics of average passenger fares in light of the increased supply in the market, the most important thing will continue to be the recovery in profitability going forward due to lower fuel cost pressures. This, combined with its leadership position in the sector and an attractive valuation, as the FV/EBITDAR multiple dropped from 7.9x to 7.1x (vs. 8.2x sector average), reaffirms Volar as one of our top picks.

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BUY	
Current Price	\$23.07
PT	\$27.00
Upside Potential	17.0%
ADS Price	US\$13.68
PT ADS	US\$15.00
Shares per ADS	10
Max – Min LTM (\$)	25.93 – 13.90
Market Cap (US\$m)	1,595.1
Shares Outstanding (m)	1,166.0
Float	68%
Daily Turnover (\$m)	56.0
Valuation metrics LTM	
FV/EBITDAR	7.1x
P/E	-33.9x
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.



Financial Statements

USD, milliom	2021	2022	2023E	2024E
Revenues	2,200	2,847	3,237	3,561
Operating Income	397	44	299	374
EBITDAR	807	586	947	1,103
EBITDAR Margin	36.7%	20.6%	29.3%	31.0%
Net Income	106	-80	28	91
Net Margin	4.8%	-2.8%	0.9%	2.6%
Total Assets	3,984	4,517	4,887	5,256
Cash	741	712	679	684
Total Liabilities	3,671	4,240	4,624	4,902
Debt	2,717	2,982	3,052	3,052
Common Equity	313	277	263	354

Source: Banorte with data from MSE

Valuation and financial metrics

	2021	2022	2023E	2024E
FV/EBITDAR	5.1x	8.0x	5.2x	4.5x
P/E	14.8x	-19.6x	55.5x	17.3x
P/BV	5.0x	6.7x	6.0x	4.4x
ROE	34.0%	-34.1%	10.8%	25.7%
ROA	2.7%	-1.8%	0.6%	1.7%
EBITDAR/ Interest exp.	5.2x	2.4x	3.5x	4.3x
Net Debt/EBITDAR	3.2x	5.4x	3.6x	3.1x
Debt/Equity	8.6x	12.7x	11.6x	8.6x

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Volar – Results 2023

USD, million

Concept	2022	2023	Var %	2023e	Diff% vs Estim.
Revenue	691	782	13.2%	790	-1.0%
Operating Income	-20	51	N.A.	49	4.3%
Ebitdar	107	212	97.5%	208	1.8%
Net Income	-49	6	N.A.	-5	N.A.
Margins					
Operating Margin	-2.8%	6.5%	9.4pp	6.2%	0.3pp
Ebitdar Margin	15.5%	27.1%	11.5pp	26.4%	0.7pp
Net Margin	-7.1%	0.8%	7.8pp	-0.7%	1.5pp
EPS	-\$0.042	\$0.005	N.A.	-\$0.005	N.A.

Income Statement					
Year	2022	2023	2023	Change	Change
Quarter	2	1	2	% y/y	% q/q
Net Revenue	691	731	782	13.2%	7.0%
Cost of goods sold	0	0	0	N.A.	N.A.
Gross profit	691	731	782	13.2%	7.0%
General expenses	710	762	731	3.0%	-4.1%
Operating Income	(20)	(31)	51	N.A.	N.A.
Operating Margin	-2.8%	-4.3%	6.5%	9.4pp	10.8pp
Depreciation	102	119	121	18.8%	1.7%
EBITDAR	107	123	212	97.5%	72.9%
EBITDAR Margin	15.5%	16.8%	27.1%	11.5pp	10.3pp
Interest income (expense) net	(61)	(65)	(43)	-29.5%	-33.6%
Interest expense	44	58	57	29.5%	-0.4%
Interest income	2	7	9	350.0%	25.9%
Other income (expenses)	0	0	0	N.A.	N.A.
Exchange Income (loss)	(18)	(14)	5	N.A.	N.A.
Unconsolidated subsidiaries	0	0	0	N.A.	N.A.
Income before taxes	(81)	(96)	8	N.A.	N.A.
Income taxes	(32)	(25)	2	N.A.	N.A.
Discontinued operations	0	0	0	N.A.	N.A.
Consolidated Net Income	(49)	(71)	6	N.A.	N.A.
Minorities	0	0	0	N.A.	N.A.
Net Income	(49)	(71)	6	N.A.	N.A.
Net margin	-7.1%	-9.7%	0.8%	7.8pp	10.5pp
EPS	(0.042)	(0.061)	0.005	N.A.	N.A.

Balance Sheet (Million pesos)					
Total Current Assets	1,160	1,099	1,073	-7.5%	-2.4%
Cash & Short-Term Investments	759	704	655	-13.7%	-7.0%
Long Term Assets	3,257	3,566	3,716	14.1%	4.2%
Property, Plant & Equipment (Net)	402	562	636	58.1%	13.1%
Intangible Assets (Net)	12	12	13	10.7%	4.7%
Total Assets	4,417	4,665	4,789	8.4%	2.7%
Current Liabilities	1,461	1,649	1,632	11.7%	-1.0%
Short Term Debt	330	500	501	51.8%	0.2%
Accounts Payable	833	156	187	-77.6%	20.0%
Long Term Liabilities	2,746	2,852	2,985	8.7%	4.6%
Long Term Debt	2,508	2,552	2,641	5.3%	3.5%
Total Liabilities	4,207	4,501	4,617	9.8%	2.6%
Common Stock	211	164	172	-18.3%	4.8%
Preferred Stock	0	0	0	N.A.	N.A.
Total Equity	211	164	172	-18.3%	4.8%
Liabilities & Equity	4,417	4,665	4,789	8.4%	2.7%
Net Debt	2,080	2,347	2,487	19.6%	5.9%

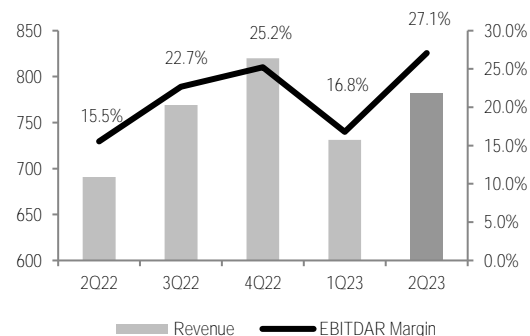
Cash Flow					
Cash Flow from Operating Activities	158	208	159		
Cash Flow from Investing Activities	30	(109)	(102)		
Cash Flow from Financing Activities	(183)	(109)	(109)		
FX effect on cash	4	3	3		
Change in Cash Balance	9	(7)	(49)		

Source: Banorte, MSE. / EBITDAR = EBITDA + Aircraft and engine rent expense.

*Variations may show certain differences due to the change in functional currency to dollars.

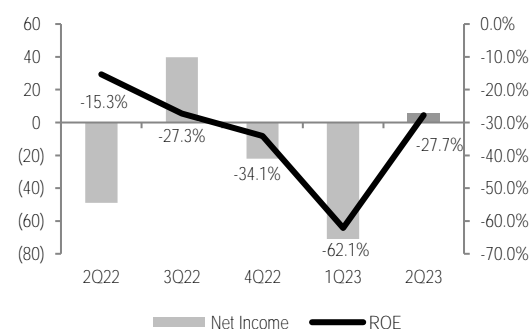
Revenue & EBITDA Margin

USD, million



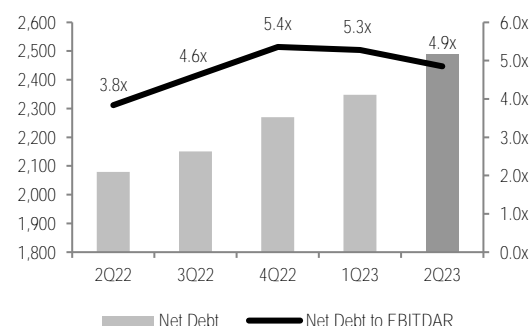
Net Income & ROE

USD, million



Net Debt & Net Debt to EBITDAR ratio

USD, million



Adjusted Net Debt = Net Debt + (Aircraft and engine rent expense) * 7

Certification of Analysts.

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 Thalia 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 Cuatencos 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 A	07/21/2022	BUY	\$27.00
VOLAR A	07/16/2021	BUY	\$56.00
VOLAR A	01/14/2021	BUY	\$31.00
VOLAR A	08/25/2020	BUY	\$20.00

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD	AVERAGE			LEADER		

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

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