

# VOLAR

Quarterly Report

May 4, 2023

## Further recovery in profitability to come

- **Passenger growth and a more normalized cost base for jet fuel reflected significant advances in 1Q23; however, there was slight pressure on profitability, which was below expectations**
- **Despite a slightly more moderate start to the year vs. our expectations, the coming quarters will be of greater recovery in a more beneficial cost environment, which reaffirms the company as a favorite**

**Revenues continue to rise, although expenses grew by almost the same amount.** Volar's figures showed double-digit increases in sales and EBITDAR, although a slight pressure on profitability, coming in below estimates. Available Seat Miles (ASMs) increased 17.7% y/y and total demand, measured in Revenue Passenger Miles (RPMs), rose 19.9% y/y with a load factor of 85.0% (+1.6pp). Thus, the 17.1% year-on-year increase in total passengers, coupled with a higher average fare (+2.3%) and a 20% increase in ancillary revenues per passenger, led to a 28.9% y/y rise in total revenues. In turn, operating expenses per available seat mile (CASM) increased by 8.2% due to higher fuel costs (+11.6% y/y per gallon). Meanwhile, CASM excluding fuel rose 5.7% due to the rise in salaries and benefits (+35.8%) and selling, marketing and distribution expenses (+40%). This, led to a 26.8% y/y growth in EBITDAR to \$123 million, with a margin of 16.8% (-0.2pp y/y). **Volar's growth outlook continues to be positive**, considering a demand that will remain solid –and could be boosted further if aviation in Mexico returns to Category 1 soon–, as well as a notable recovery in profitability due to lower fuel cost pressures and a benefit in dollarized expenses (50% of the total) due to the strength of the peso. This, coupled with its leadership position in the sector and an attractive valuation (FV/EBITDAR of 7.5x vs. 9.2x sector average), make us reiterate our positive outlook for Volar.

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BUY	
Current Price	\$21.25
PT	\$27.00
Upside Potential	27.1%
ADS Price	US\$11.75
PT ADS	US\$14.40
Shares per ADS	10
Max – Min LTM (\$)	35.83 – 13.90
Market Cap (US\$m)	1,370.0
Shares Outstanding (m)	1,166.0
Float	68%
Daily Turnover (\$m)	63.4
Valuation metrics LTM	
FV/EBITDAR	7.5x
P/E	-13.4x
MSCI ESG Rating*	N.A.

Relative performance to Mexbol  
LTM



### Financial Statements

USD, milliom	2021	2022	2023E	2024E
Revenues	2,200	2,847	3,258	3,586
Operating Income	397	44	308	386
EBITDAR	807	586	953	1,111
EBITDAR Margin	36.7%	20.6%	29.3%	31.0%
Net Income	106	-80	54	77
Net Margin	4.8%	-2.8%	1.7%	2.2%
Total Assets	3,984	4,517	4,842	5,071
Cash	741	712	702	715
Total Liabilities	3,671	4,240	4,511	4,663
Debt	2,717	2,982	2,982	2,982
Common Equity	313	277	331	408

Source: Banorte with data from MSE

### Valuation and financial metrics

	2021	2022	2023E	2024E
FV/EBITDAR	4.9x	7.7x	4.8x	4.2x
P/E	12.9x	-17.1x	25.3x	17.8x
P/BV	4.3x	4.9x	4.1x	3.4x
ROE	34.0%	-29.0%	16.4%	18.9%
ROA	2.7%	-1.8%	1.1%	1.5%
EBITDAR/ Interest exp.	5.2x	2.4x	3.7x	4.7x
Net Debt/EBITDAR	3.2x	5.4x	3.4x	3.0x
Debt/Equity	8.6x	10.8x	9.0x	7.3x

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## Volar – Results 1Q23

USD, million

Concept	1Q22	1Q23	Var %	1Q23e	Diff% vs Estim.
Revenue	567	731	28.9%	739	-1.0%
Operating Income	-31	-31	N.A.	-21	N.A.
Ebitdar	97	123	26.8%	141	-13.2%
Net Income	-49	-71	N.A.	-12	N.A.
<b>Margins</b>					
Operating Margin	-5.5%	-4.3%	1.2pp	-2.8%	-1.5pp
Ebitdar Margin	17.0%	16.8%	-0.2pp	19.1%	-2.3pp
Net Margin	-8.6%	-9.7%	-1.1pp	-1.6%	-8.1pp
EPS	-\$0.042	-\$0.061	N.A.	-\$0.010	N.A.

<b>Income Statement</b>					
Year	2022	2022	2023	Change	Change
Quarter	1	4	1	% y/y	% q/q
Net Revenue	567	820	731	28.9%	-10.8%
Cost of goods sold	0	0	0	N.A.	N.A.
Gross profit	567	820	731	28.9%	-10.8%
General expenses	598	760	762	27.4%	0.2%
Operating Income	(31)	60	(31)	N.A.	N.A.
Operating Margin	-5.5%	7.3%	-4.3%	1.2pp	(11.6pp)
Depreciation	95	113	119	25.1%	4.9%
EBITDAR	97	207	123	26.8%	-40.8%
EBITDAR Margin	17.0%	25.2%	16.8%	(0.2pp)	(8.5pp)
Interest income (expense) net	(33)	(32)	(65)	97.0%	104.6%
Interest expense	47	55	58	23.4%	5.3%
Interest income	1	7	7	>500%	4.1%
Other income (expenses)	0	0	0	N.A.	N.A.
Exchange Income (loss)	13	17	(14)	N.A.	N.A.
Unconsolidated subsidiaries	0	0	0	N.A.	N.A.
Income before taxes	(65)	28	(95)	N.A.	N.A.
Income taxes	(16)	(0)	(25)	56.3%	>500%
Discontinued operations	0	0	0	N.A.	N.A.
Consolidated Net Income	(49)	28	(71)	N.A.	N.A.
Minorities	0	0	0	N.A.	N.A.
Net Income	(49)	28	(71)	N.A.	N.A.
Net margin	-8.6%	3.4%	-9.7%	(1.1pp)	(13.1pp)
EPS	(0.042)	0.024	(0.061)	N.A.	N.A.

<b>Balance Sheet (Million pesos)</b>					
Total Current Assets	1,039	1,066	1,099	5.7%	3.1%
Cash & Short-Term Investments	750	712	704	-6.1%	-1.1%
Long Term Assets	3,026	3,451	3,566	17.9%	3.3%
Property, Plant & Equipment (Net)	436	479	562	29.0%	17.4%
Intangible Assets (Net)	12	13	12	-0.6%	-5.7%
Total Assets	4,065	4,517	4,665	14.8%	3.3%
Current Liabilities	1,329	1,420	1,649	24.1%	16.1%
Short Term Debt	424	448	500	17.8%	11.7%
Accounts Payable	66	774	177	169.0%	-77.1%
Long Term Liabilities	2,477	2,820	2,852	15.2%	1.1%
Long Term Debt	2,256	2,534	2,552	13.1%	0.7%
Total Liabilities	3,805	4,240	4,501	18.3%	6.2%
Common Stock	313	277	164	-47.6%	-40.8%
Preferred Stock	0	0	0	N.A.	N.A.
Total Equity	313	277	164	-47.6%	-40.8%
Liabilities & Equity	4,118	4,517	4,665	13.3%	3.3%
Net Debt	1,931	2,270	2,348	21.6%	3.4%

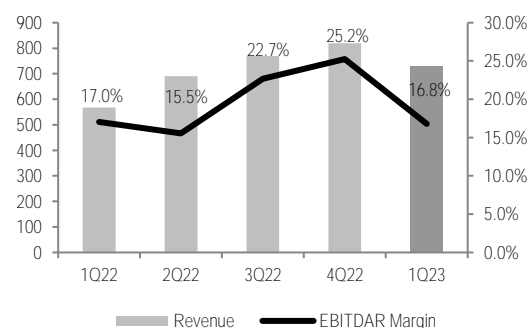
<b>Cash Flow</b>			
Cash Flow from Operating Activities	196	168	208
Cash Flow from Investing Activities	(6)	(104)	(109)
Cash Flow from Financing Activities	(183)	(102)	(110)
FX effect on cash	2	(0)	3
Change in Cash Balance	9	(38)	(8)

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

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

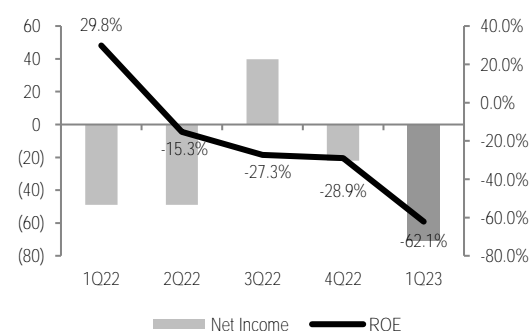
## Revenue & EBITDA Margin

USD, million



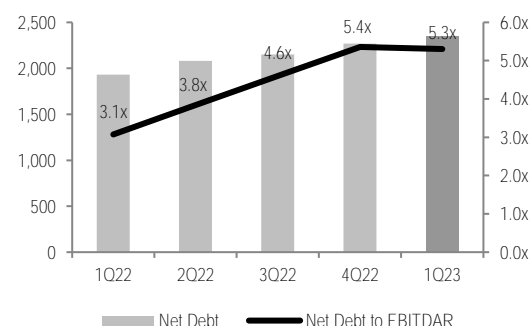
## Net Income & ROE

USD, million



## Net Debt & Net Debt to EBITDAR ratio

USD, million



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

\*Estimated indicators from 4Q21 due to the change in functional currency to dollars.

## 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 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, Paola Soto Leal, Daniel Sebastián Sosa Aguilar 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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<b>HOLD</b>	When the share expected performance is similar to the MEXBOL estimated performance.
<b>SELL</b>	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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