

VOLAR

Quarterly Report

March 3, 2022

Less profitability pressure due to cost control

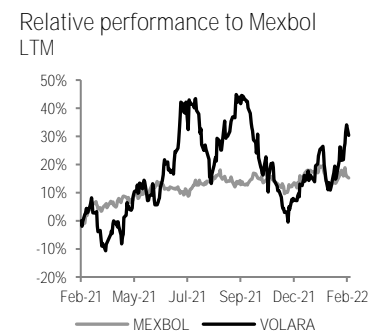
- **Volaris reported a good quarter, reflecting significant operational growth and better-than-expected profitability. The strengthening of the financial balance sheet (3.2x ND/EBITDAR) stands out**
- **The airline will continue to be one of the most benefited in the sector's recovery due to its leading position; however, evolution in oil prices must be monitored given the recent rise**

Significant advances in 4Q21. Solid demand performance and cost discipline boosted Volaris' figures. Available Seat Miles (ASMs) grew 34.2% y/y and total demand, measured in Revenue Passenger Miles (RPMs), rose 45.3% y/y, bringing the load factor to 86.9% (+6.6pp). Thus, annual increase in total passengers of 49.8%, coupled with a higher average fare (+24.8%) and an advance of 1.5% in ancillary revenue per passenger, led to an increase in total revenue of 72.6% y/y. This was partially offset by higher operating expense per available seat mile (CASM) of 13.5%, resulting in an EBITDAR growth of 71.3% y/y to MXN 5.161 billion (+45.4% vs. 4Q19), with a margin of 37.0% (-0.3pp). The depreciation of the peso/dollar y/y and especially higher fuel costs (+36% y/y per gallon), were partially offset by expense control, reflecting a lower pressure on profitability. At net level, there was a loss of a one-off, non-cash accounting charge (MXN 2.251 million) related to the termination of a non-derivative financial instrument. Incorporating the figures, the FV/EBITDAR multiple decreased from 7.0x to 6.1x. **Positive perspectives, but with challenges in the environment.** The airline reaffirmed its ASMs growth expectation of ~25% for 2022 and placed its total revenue guidance at \$2.6-\$2.8 billion, which we consider positive, since our estimate is in the low range. Although the outlook is promising, the main risk to consider is the rise in oil prices, affecting turbosine (33.8% of total expenses), so the stock volatility could continue.

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BUY	
Current Price	\$40.64
PT	\$56.00
Upside Potential	37.8%
ADS Price	US\$20.01
PT ADS	US\$25.69
Shares per ADS	10
Max – Min LTM (\$)	46.73 – 27.61
Market Cap (US\$m)	2,304.8
Shares Outstanding (m)	1,166.0
Float	68%
Daily Turnover (\$m)	55.0
Valuation metrics LTM	
FV/EBITDAR	6.1x
P/E	22.3x
MSCI ESG Rating*	N.A.



Financial Statements

	2019	2020	2021	2022E
Revenues	34,753	22,160	44,662	54,966
Operating Income	4,355	-3,306	8,066	8,612
EBITDAR	10,696	4,539	16,375	17,909
EBITDAR Margin	30.8%	20.5%	36.7%	32.6%
Net Income	2,639	-4,415	2,121	3,302
Net Margin	7.6%	-19.9%	4.7%	6.0%
Total Assets	63,277	68,221	82,103	84,905
Cash	7,980	10,103	15,255	15,642
Total Liabilities	57,827	65,424	75,571	75,071
Debt	45,493	49,518	55,927	56,514
Common Equity	5,450	2,796	6,532	9,834

Valuation and financial metrics

	2019	2020	2021	2022E
FV/EBITDAR	7.9x	22.0x	6.1x	5.4x
P/E	15.6x	-10.7x	22.3x	14.4x
P/BV	7.5x	16.9x	7.3x	4.8x
ROE	48.4%	-157.9%	32.5%	33.6%
ROA	4.2%	-6.5%	2.6%	3.9%
EBITDAR/ Interes ex	4.3x	1.0x	5.2x	4.5x
Net Debt/EBITDAR	4.1x	11.5x	3.2x	2.8x
Debt/Equity	8.3x	17.7x	8.6x	5.7x

Source: Banorte with data from MSE

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Volar – Results 4Q21

MXN, million

Concept	4Q20	4Q21	Var %	4Q21e	Diff% vs Estim.
Revenue	8,086	13,954	72.6%	13,934	0.1%
Operating Income	960	3,032	215.9%	2,366	28.1%
Ebitdar	3,013	5,161	71.3%	4,628	11.5%
Net Income	897	-200	N.A.	1,177	N.A.
Margins					
Operating Margin	11.9%	21.7%	9.9pp	17.0%	4.7pp
Ebitdar Margin	37.3%	37.0%	-0.3pp	33.2%	3.8pp
Net Margin	11.1%	-1.4%	-12.5pp	8.4%	-9.9pp
EPS	\$0.77	-\$0.17	N.A.	\$1.01	N.A.

Income Statement					
Year	2020	2021	2021	Change	Change
Quarter	4	3	4	% y/y	% q/q
Net Revenue	8,085.6	12,804.5	13,953.7	72.6%	9.0%
Cost of goods sold	0.0	0.0	0.0	N.A.	N.A.
Gross profit	8,085.6	12,804.5	13,953.7	72.6%	9.0%
General expenses	7,125.8	9,681.7	10,921.9	53.3%	12.8%
Operating Income	959.7	3,122.8	3,031.7	215.9%	-2.9%
Operating Margin	11.9%	24.4%	21.7%	9.9pp	(2.7pp)
Depreciation	1,545.7	1,680.6	1,823.1	17.9%	8.5%
EBITDA	2,505.4	4,803.4	4,854.9	93.8%	1.1%
EBITDA Margin	31.0%	37.5%	34.8%	3.8pp	(2.7pp)
EBITDAR	3,012.6	5,234.6	5,160.7	71.3%	-1.4%
EBITDAR Margin	37.3%	40.9%	37.0%	(0.3pp)	(3.9pp)
Interes income (expense) net	402.7	(958.0)	(3,631.9)	N.A.	279.1%
Interest expense	653.8	744.0	882.4	35.0%	18.6%
Interest income	8.4	20.2	18.4	119.3%	-9.0%
Other income (expenses)	0.0	0.0	0.0	N.A.	N.A.
Exchange Income (loss)	1,048.1	(234.3)	(2,768.0)	N.A.	>500%
Unconsolidated subsidiaries	0.0	0.0	0.0	N.A.	N.A.
Income before taxes	1,362.4	2,164.8	(600.2)	N.A.	N.A.
Income taxes	465.4	649.4	(400.5)	N.A.	N.A.
Discontinued operations	0.0	0.0	0.0	N.A.	N.A.
Consolidated Net Income	897.1	1,515.3	(199.7)	N.A.	N.A.
Minorities	0.0	0.0	0.0	N.A.	N.A.
Net Income	897.1	1,515.3	(199.7)	N.A.	N.A.
Net margin	11.1%	11.8%	-1.4%	(12.5pp)	(13.3pp)
EPS	0.769	1.300	(0.171)	N.A.	N.A.

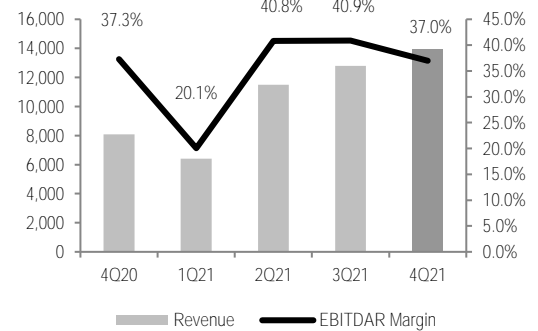
Balance Sheet (Million pesos)					
Total Current Assets	14,433.8	18,232.4	20,183.3	39.8%	10.7%
Cash & Short Term Investments	10,103.4	12,667.8	15,254.9	51.0%	20.4%
Long Term Assets	53,786.8	57,041.0	61,920.0	15.1%	8.6%
Property, Plant & Equipment (Net)	7,281.2	8,066.2	9,357.3	28.5%	16.0%
Intangible Assets (Net)	191.6	161.1	260.0	35.7%	61.4%
Total Assets	68,220.6	75,273.4	82,103.2	20.3%	9.1%
Current Liabilities	21,325.6	24,939.4	25,761.0	20.8%	3.3%
Short Term Debt	8,403.8	10,253.2	9,895.4	17.7%	-3.5%
Accounts Payable	10,483.3	10,834.8	11,400.7	8.8%	5.2%
Long Term Liabilities	44,098.8	45,673.9	49,809.9	13.0%	9.1%
Long Term Debt	39,879.5	41,004.8	43,807.7	9.9%	6.8%
Total Liabilities	65,424.4	70,613.2	75,570.9	15.5%	7.0%
Common Stock	2,796.2	4,660.1	6,532.3	133.6%	40.2%
Preferred Stock	0.0	0.0	0.0	N.A.	N.A.
Total Equity	2,796.2	4,660.1	6,532.3	133.6%	40.2%
Liabilities & Equity	68,220.6	75,273.4	82,103.2	20.3%	9.1%
Net Debt	38,179.9	38,590.2	38,448.2	0.7%	-0.4%

Cash Flow					
Cash Flow from Operating Activities	1,550.7	4,220.4	5,089.5		
Cash Flow from Investing Activities	76.8	(378.9)	(1,385.4)		
Cash Flow from Financing Activities	883.4	(1,876.3)	(1,811.5)		
FX effect on cash	(609.0)	168.6	694.5		
Change in Cash Balance	1,901.8	2,133.8	2,587.1		

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

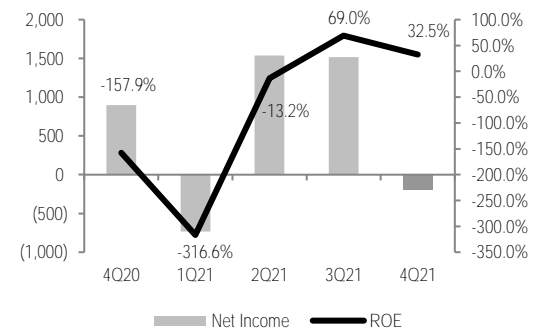
Revenue & EBITDA Margin

MXN, million



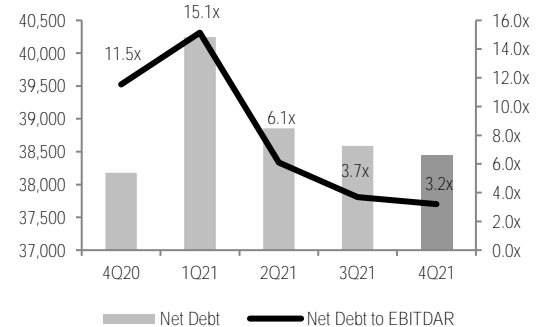
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDAR ratio

MXN, 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, Francisco José Flores Serrano, Katia Celina Goya Ostos, José Luis García Casales, Yazmín Selene Pérez Enríquez, José Itzamna Espitia Hernández, Carlos Hernández García, Paola Soto Leal, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Daniela Olea Suárez, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo and Isaías Rodríguez Sobrino, 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.
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History of PT and ratings

Stock	Date	Rating	PT
VOLAR A	07/16/2021	Buy	\$56.00
VOLAR A	01/14/2021	Buy	\$31.00
VOLAR A	08/25/2020	Buy	\$20.00
VOLAR A	04/01/2020	Under review	Under review

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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