# VOLAR

Quarterly Report

## Outperforms expectations in 1Q19

- **In 1Q19, Volaris reported positive results with growth in operating revenue, in line with expectations, but with a higher-than-expected EBITDAR**
- **The solid passenger increase (+16.4% yoy) and the surge in total operating revenue per passenger (+5.6%), boosted the airline's operating revenue**
- **We highlight the airline's strict control on costs and expenses, which reflected on a higher EBITDAR margin (+7.1pp). We rate this report as positive and will be performing an upward estimate revision**

**In 1Q19, Volaris showed double-digit growth in operating revenue and EBITDAR, with a considerable EBITDAR margin expansion.** The airline rose 22.9% in revenue vs. 1Q18 and reported an 83.3% jump in EBITDAR. The solid increase in passengers and a higher average airfare yoy boosted the company's fare revenue. In addition, the company reported a sharp rise in total ancillary revenue per passenger. Furthermore, despite higher fuel expenditure and the depreciation of the peso against the U.S. dollar, a strict control on costs and expenses was reflected on a significant EBITDAR margin expansion (+7.1pp to 21.5%).

**The airline's growth outlook improves onwards.** Solid results reported during the first quarter of the year came hand in hand with a higher-than-expected growth in capacity for full year 2019. The company expects an available seats-mile (ASMs) increase of around 15% in 2019 (vs. the previous estimate of 9%-12%). Moreover, we believe the airline will move forward with its control on costs, which will be reflected on higher margins. Derived from the latter, we will be revising our 2019 estimates.

**May 2, 2019**

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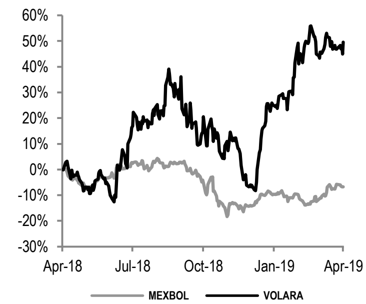
| **HOLD** | |
|---|---|
| Current Price | $16.92 |
| **PT 2019** | **$18.00** |
| Dividend | 0.0 |
| Dividend Yield (%e) | 0.0% |
| Upside Potential | 6.4% |
| ADS Price | US$9.00 |
| PT2019 ADS | **US$8.45** |
| Shares per ADS | 10 |
| Max – Min LTM (MXN$) | 17.79 – 9.78 |
| Market Cap (US$m) | 904.9 |
| Shares Outstanding (m) | 1,011.9 |
| Float | 56% |
| Daily Turnover (MXN$m) | 15.1 |
| **Valuation metrics TTM** | |
| FV/EBITDAR | 8.5x |
| P/E | 18.0x |

**Relative Performance to Mexbol**
LTM




**Financial Statements**

| MXN, million | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| Revenues | 24,788 | 27,305 | 31,705 | 35,228 |
| Operating Income | -39 | -881 | 522 | 796 |
| EBITDAR | 6,584 | 5,937 | 7,761 | 8,567 |
| EBITDAR Margin | 26.6% | 21.7% | 24.5% | 24.3% |
| Net Income | -652 | -687 | 477 | 742 |
| Net Margin | -2.6% | -2.5% | 1.5% | 2.1% |
| | | | | |
| Total Assets | 22,666 | 22,321 | 25,584 | 28,447 |
| Cash | 6,951 | 5,863 | 5,870 | 6,549 |
| Total Liabilities | 12,635 | 13,138 | 15,577 | 17,297 |
| Debt | 3,483 | 3,646 | 3,767 | 3,952 |
| Common Equity | 10,031 | 9,182 | 10,007 | 11,150 |

Source: Banorte with data from MSE

**Valuation and financial metrics**

| | 2017 | 2018 | 2019E | 2020E |
|---|---|---|---|---|
| FV/EBITDAR | 8.5x | 9.9x | 7.9x | 7.5x |
| P/E | -26.2x | -24.8x | 35.7x | 23.0x |
| P/BV | 1.7x | 1.9x | 1.7x | 1.5x |
| | | | | |
| ROE | -7.0% | -7.6% | 5.2% | 7.4% |
| ROA | -3.1% | -3.1% | 2.0% | 2.8% |
| EBITDAR/ Interes exp. | -338.7x | -184.0x | -341.7x | -226.4x |
| Net Debt/EBITDA | 5.9x | 7.1x | 5.7x | 5.5x |
| Debt/Equity | 0.3x | 0.4x | 0.4x | 0.4x |

### VOLAR – Results 1Q19

MXN, million

| Concept | 1Q18 | 1Q19 | Var % | 1Q19e | Diff % vs Estim. |
|---|---|---|---|---|---|
| Revenue | 5,850 | 7,192 | 22.9% | 6,951 | 3.5% |
| Operating Income | -545 | 26 | N.A. | -453 | N.A. |
| Ebitdar | 843 | 1,545 | 83.3% | 1,273 | 21.4% |
| Net Income | 461 | 519 | 12.5% | -322 | N.A. |
| **Margins** | | | | | |
| Operating Margin | -9.3% | 0.4% | 9.7pp | -6.5% | 6.9pp |
| Ebitdar Margin | 14.4% | 21.5% | 7.1pp | 18.3% | 3.2pp |
| Net Margin | 7.9% | 7.2% | -0.7pp | -4.6% | 11.9pp |
| EPS | $0.46 | $0.51 | 12.5% | -$0.32 | N.A. |

| **Income Statement** | | | | | |
|---|---|---|---|---|---|
| **Year** | **2018** | **2018** | **2019** | **Change** | **Change** |
| Quarter | **1** | **4** | **1** | **% YoY** | **% QoQ** |
| **Net Revenue** | **5,850.2** | **7,908.7** | **7,192.4** | **22.9%** | **-9.1%** |
| Cost of goods sold | 0.0 | 0.0 | 0.0 | N.A. | N.A. |
| Gross profit | 5,850.2 | 7,908.7 | 7,192.4 | 22.9% | -9.1% |
| General expenses | 6,394.8 | 7,553.9 | 7,166.5 | 12.1% | -5.1% |
| **Operating Income** | **(544.6)** | **354.8** | **25.9** | **N.A.** | **-92.7%** |
| **Operating Margin** | **-9.3%** | **4.5%** | **0.4%** | **9.7pp** | **(4.1pp)** |
| Depreciation | 1,071.5 | 129.8 | 1,292.0 | 20.6% | >500% |
| **EBITDA** | **526.9** | **484.6** | **1,317.9** | **150.1%** | **171.9%** |
| **EBITDA Margin** | **9.0%** | **6.1%** | **18.3%** | **9.3pp** | **12.2pp** |
| **EBITDAR** | **843.0** | **2,107.3** | **1,545.0** | **83.3%** | **-26.7%** |
| **EBITDAR Margin** | **14.4%** | **26.6%** | **21.5%** | **7.1pp** | **(5.2pp)** |
| **Interes income (expense) net** | **1,202.3** | **437.1** | **689.3** | **-42.7%** | **57.7%** |
| Interest expense | 0.0 | 29.9 | 0.0 | N.A. | N.A. |
| Interest income | 33.7 | 83.1 | 37.8 | 12.2% | -54.5% |
| Other income (expenses) | (395.1) | 0.0 | (502.5) | 27.2% | N.A. |
| Exchange Income (loss) | 1,563.7 | 383.9 | 1,154.0 | -26.2% | 200.6% |
| Unconsolidated subsidiaries | 0.0 | 0.0 | 0.0 | N.A. | N.A. |
| **Income before taxes** | **657.7** | **791.9** | **715.2** | **8.7%** | **-9.7%** |
| Income taxes | 196.3 | 280.5 | 196.0 | -0.2% | -30.1% |
| Discontinued operations | 0.0 | 0.0 | 0.0 | | |
| **Consolidated Net Income** | **461.4** | **511.4** | **519.3** | **12.5%** | **1.5%** |
| Minorities | 0.0 | 0.0 | 0.0 | N.A. | N.A. |
| **Net Income** | **461.4** | **511.4** | **519.3** | **12.5%** | **1.5%** |
| **Net margin** | **7.9%** | **6.5%** | **7.2%** | **(0.7pp)** | **0.8pp** |
| **EPS** | **0.456** | **0.505** | **0.513** | **12.5%** | **1.5%** |

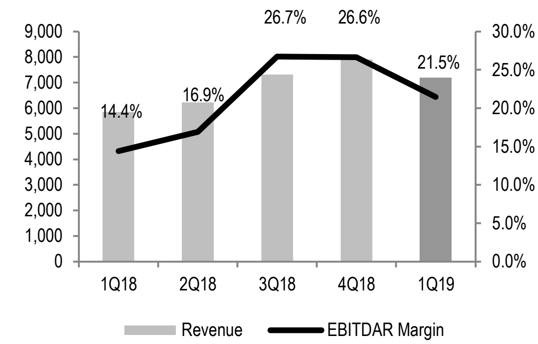
| **Balance Sheet (Million pesos)** | | | | | |
|---|---|---|---|---|---|
| **Total Current Assets** | **11,756.6** | **9,273.9** | **10,390.4** | -11.6% | 12.0% |
| Cash & Short Term Investments | 7,317.4 | 5,862.9 | 7,070.7 | -3.4% | 20.6% |
| **Long Term Assets** | **11,084.1** | **13,046.9** | **48,259.7** | 335.4% | 269.9% |
| Property, Plant & Equipment (Net) | 4,567.1 | 5,782.3 | 6,052.4 | 32.5% | 4.7% |
| Intangible Assets (Net) | 172.6 | 179.1 | 169.7 | -1.6% | -5.2% |
| **Total Assets** | **22,840.7** | **22,320.8** | **58,650.2** | **156.8%** | **162.8%** |
| **Current Liabilities** | **11,428.6** | **9,243.4** | **16,905.0** | **47.9%** | **82.9%** |
| Short Term Debt | 2,542.4 | 1,335.2 | 6,111.9 | 140.4% | 357.8% |
| Accounts Payable | 1,076.4 | 1,100.5 | 8,126.4 | >500% | >500% |
| **Long Term Liabilities** | **2,462.1** | **3,895.0** | **38,121.1** | **>500%** | **>500%** |
| Long Term Debt | 880.8 | 2,310.9 | 36,328.6 | >500% | >500% |
| **Total Liabilities** | **13,890.7** | **13,138.4** | **55,026.1** | **296.1%** | **318.8%** |
| Common Stock | 8,950.0 | 9,182.4 | 3,624.0 | -59.5% | -60.5% |
| Preferred Stock | 0.0 | 0.0 | 0.0 | N.A. | N.A. |
| **Total Equity** | **8,950.0** | **9,182.4** | **3,624.0** | **-59.5%** | **-60.5%** |
| **Liabilities & Equity** | **22,840.7** | **22,320.8** | **58,650.2** | **156.8%** | **162.8%** |
| **Net Debt** | **(3,894.2)** | **(2,216.8)** | **35,369.8** | **N.A.** | **N.A.** |

| **Cash Flow (Million pesos)** | | | |
|---|---|---|---|
| FX differences in cash & equivalents | | | |
| Cash Flow from Operating Activities | 1,092.8 | 102.1 | 3,697.0 |
| Cash Flow from Investing Activities | (313.4) | (748.2) | (378.5) |
| Cash Flow from Financing Activities | 65.0 | 150.8 | (2,062.8) |
| **Change in Cash Balance** | **366.5** | **(218.7)** | **1,289.5** |

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

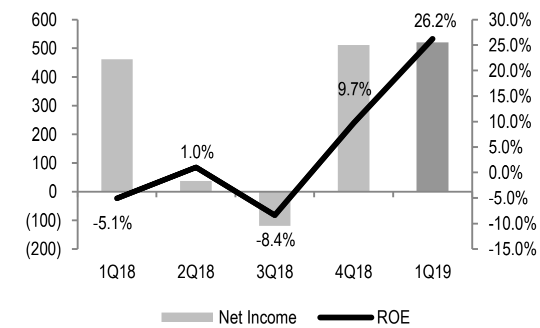
### Revenue & EBITDAR Margin

MXN, million



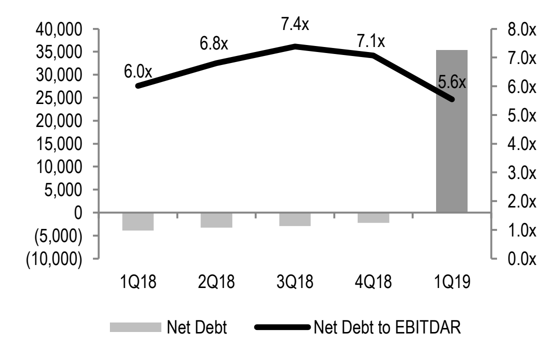

### Net Income & ROE

MXN, million




### Net Debt & Adjusted Net debt to EBITDAR ratio

MXN, million




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

**The airline group expands its fleet in 1Q19.** Volaris incorporated one A321 neo aircraft to its fleet and during the quarter, there were no aircraft returns to its lessors. The company closed the first quarter of the year with 78 aircrafts vs.70 in 1Q18, with an average age of 4.8 years. The increase in available seat miles (ASM) was of 12.8% vs. 1Q18.

**A solid 16.4% passenger growth was reported with a higher load factor (+1.0pp to 83.2%). A rise in the average fare was reported and total ancillary revenues underwent a sharp increase.** In 1Q19, Volaris registered a solid 16.4% total passenger surge, consisting of an 18.3% steep climb in domestic and a 9.0% increment in international passengers. Total demand, measured in terms of revenue passenger miles (RPMs), was up by 14.2% and the company's load factor stood at 83.2% (+1.0pp vs. 1Q18). The company began operations in 16 new domestic routes to and from its largest cities; Mexico City, Guadalajara, Tijuana and others. In addition, Volaris launched 17 new routes, 10 domestic and 7 international. Passenger fare revenues rose 19.1%, due to a solid climb in the number of passengers, coupled with a higher average fare (+2.3% yoy). Moreover, total ancillary revenues reported a sharp 30.5% increase. Total ancillary revenues per passenger escalated 12.1% yoy. Hence, total operating revenue reported a 22.9% addition vs. the year-ago period. It should be noted that TRASM rose 9.0% yoy (MXN$126.1 cents), RASM grew 5%%, while RPM yield jumped 4.4%.

**EBITDAR underwent a considerable increase despite an upturn in the price of fuel and the depreciation of the peso against the U.S. dollar.** Volaris reported MXN$26 million in operating profit, vs. a MXN$545 million loss in 1Q18. Additionally, EBITDAR presented an 83.3% increase, closing at MXN$1.5 billion (+21% vs. our estimate). Thus, EBITDAR margin underwent a solid 7.1% expansion to stand at 21.5%. Moreover, the peso's depreciation against the U.S. dollar (which has an impact on dollar-denominated expenses such as the leasing of aircrafts and engines, airport service costs and maintenance expenses) and a higher cost of fuel (average cost per gallon rose 14.8% vs. 1Q18), were the main factors that led to a 12.1% yoy increase in operating expenses for Volar; however, a strict control on cost implemented by the airline more than offset such increment. Therefore, CASM reported a 0.7% drop and CASM excluding fuel fell 5.8% vs. 1Q18.

**The company reported MXN$519 million in net profit during the period (+12.5% vs. 1Q18).** The latter due to the airline's operating profit (vs. a loss in 1Q18), partially offset by a lower benefit in comprehensive financing result (-26.2% vs. 1Q18), primarily from lower FX gains.

**A drop in the leverage indicator qoq.** By 1Q19, the company reported MXN$3.0 billion in financial debt; cash and temporary investments totaled MXN$7.0 billion. The Adjusted Net Debt/ /EBITDAR ratio is of 5.6x vs.7.1x in 4Q18. It should be mentioned that the company reported MXN$39.4 billion in lease liabilities with the incorporation of the IRFS 16 standard, which we have included within this quarter's leverage indicator.

## Certification of Analysts.

**We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer, Jorge Antonio Izquierdo Lobato and Leslie Thalía Orozco Vélez, 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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|---|---|
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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 | 02/22/2019 | Hold | MXN$18.00 |
| VOLAR A | 01/22/2019 | Hold | MXN$16.30 |
| VOLAR A | 10/26/2018 | Hold | MXN$15.00 |
| VOLAR A | 07/20/2018 | Sell | MXN$12.50 |

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