

Aviation Sector

Flash: US downgrades Mexico aviation safety assessment

The Federal Aviation Administration (FAA) downgraded Mexico's aviation safety assessment to Category 2 from Category 1, for failing to meet the minimum safety standards of the International Civil Aviation Organization (ICAO). As a result, Mexican airlines flying to the US may continue to operate under the conditions prior to this downgrade; however, they are now prevented from launching new routes, increasing or reducing frequencies, and code-share programs are also affected (restricted). It should be recalled that in 2010, the FAA downgraded Mexico's aviation safety assessment, and after 4 months, it was able to regain Category 1 status.

Negative implication: We believe that this action by the FAA will affect the recovery pace of international passenger demand in Mexico, taking into account that the US is our main tourist supplier. While we believe the short-term impact could be relatively limited, given the current restrictions on air travelers by the US (anti-pandemic measure), when these are lifted, the impact on the expected potential growth in traffic will be greater. The statement certainly has a more negative tone for Mexican airlines, but also on the evolution of passenger traffic in airport groups, although in our opinion a little more moderate, as foreign airlines could be capturing international travelers. Of the companies we cover, in 2020 the international portion in Volaris represented 17.1% of the total, while in the airport groups (of the airports operated in Mexico), Asur is the group with the largest exposure (44% of the total), followed by Gap (33%) and, finally Oma, with a small share (11%). We expect that, as last time, Category 1 will be regained in the short term; however, we expect volatility in the prices of the sector's companies.

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