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26 September 2023

Update

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RATINGS

LATAM Airlines Group S.A (LATAM)

Domicile	Santiago, Chile
Long Term Rating	B1
Type	LT Corporate Family Ratings
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Carolina A Chimenti +55.11.3043.7318
Vice President - Senior Analyst
carolina.chimenti@moodys.com

Marcos Schmidt +55.11.3043.7310
Associate Managing Director
marcos.schmidt@moodys.com

LATAM Airlines Group S.A (LATAM)

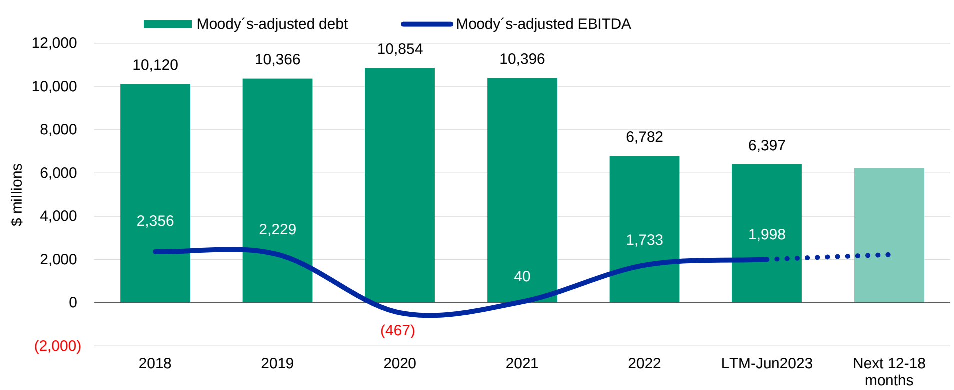
Update following upgrade to B1 with a stable outlook

Summary

LATAM Airlines Group S.A (LATAM)'s B1 rating reflects the company's scale and superior network connectivity, which translate into leading positions in the five domestic markets in which it operates and in intraregional flights in Latin America as of June 2023. The rating also reflects its well-diversified business portfolio of air transportation services and strategic alliances. The rating is also supported by LATAM's improved post-bankruptcy capital and cost structures, and adequate liquidity, which will allow the company to weather the volatile recovery of the industry.

The rating is constrained by LATAM's exposure to the volatility of the airlines industry, rising macroeconomic risks and increasing costs. LATAM will have to contend with higher costs derived from labor (denominated in local currencies), fuel and other US dollar-denominated inputs, which can hamper profitability despite firm demand and capacity discipline in its key markets.

Exhibit 1
LATAM improved its cost and capital structures, and EBITDA is recovering after bankruptcy
Moody's-adjusted debt and EBITDA



All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) or projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year end unless indicated. LTM = Last 12 months.
Sources: Moody's Financial Metrics™ and Moody's Investors Service

Credit strengths

» Leading market position in domestic markets, intraregional flights in Latin America and in South America-North America and South America-APAC routes

» Variable cost structure, which provides flexibility through recovery

» Positive outlook for air travel in the region after the coronavirus pandemic-induced slump, which supports the recovery in revenue passenger kilometers (RPK)

» Improved capital structure after bankruptcy

» Good post-bankruptcy liquidity

Credit challenges

» Exposure to the volatility of the airline industry

» Rising macroeconomic risks and increasing costs, which could hurt credit metrics

Rating outlook

The stable rating outlook reflects our expectation that LATAM’s credit metrics and liquidity will remain stable in the next 12-18 months, and that the company will maintain its conservative approach toward liquidity, costs and capacity management.

Factors that could lead to an upgrade

An upgrade of LATAM’s rating would require longer-term visibility into the company’s post-Chapter 11 recovery or strengthened credit metrics that provide a buffer for its credit quality under various stress scenarios. Quantitatively, an upgrade would require:

» Moody's-adjusted leverage (measured by total debt/EBITDA) below 4.5x on a sustained basis, and

» interest coverage (measured by funds from operations [FFO] + interest expense/interest expense) above 4x on a sustained basis.

A rating upgrade would also require adequate liquidity on a sustained basis.

Factors that could lead to a downgrade

We could downgrade the rating if the recovery of LATAM's credit metrics lag our expectations, with:

» adjusted leverage above 5.5x, and

» interest coverage below 1x.

A deterioration in the company's liquidity, or additional shocks to demand or profitability that lead to cash burn could also result in a rating downgrade.

Key indicators

Exhibit 2
LATAM Airlines Group S.A (LATAM)

USD millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	LTM (Jun-23)	Moody's forward view Next 12-18 months
Revenue	9,895.5	10,070.1	3,923.7	4,884.0	9,362.5	10,673.9	11,000 - 12,000
EBIT Margin %	9.9%	7.5%	-47.3%	-23.0%	-0.7%	7.8%	8.0% - 10.0%
Debt / EBITDA	4.3x	4.7x	-23.3x	257.5x	6.1x	3.2x	2.5x - 3.0x
RCF / Debt	11.3%	14.6%	-17.8%	-29.8%	2.4%	25.1%	20.0% - 30.0%
(FFO + Interest Expense) / Interest Expense	3.3x	3.8x	-2.6x	-3.1x	1.2x	3.0x	2.5x - 3.5x

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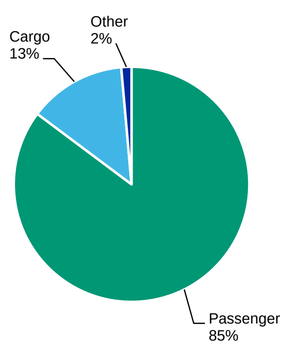
Sources: Moody's Financial Metrics™ and Moody's Investors Service

Profile

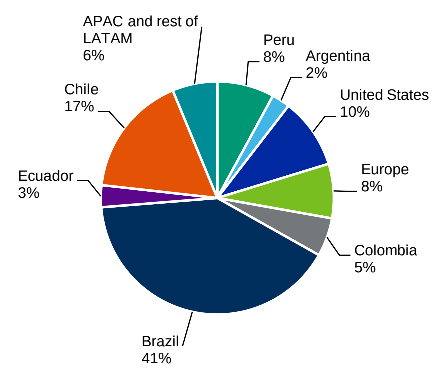
LATAM Airlines Group S.A (LATAM) is a Chile-based airline holding company formed by the business combination of LAN Airlines S.A. of Chile and TAM S.A. (TAM) of Brazil in June 2012. The company has domestic operations in Brazil, Chile, Peru, Ecuador and Colombia, and provides intraregional and international passenger services, in addition to cargo operations and a frequent flyer program. In the 12 months that ended June 2023, LATAM generated $10.7 billion in net revenue.

Exhibit 3
Revenue breakdown by business segment
For the six months that ended June 2023



Source: Company's financials

Exhibit 4
Revenue breakdown by country
For the six months that ended June 2023



Source: Company's financials

Detailed credit considerations

Good business profile and leadership position in Latin America

LATAM is the largest airline group in South America, with a local presence for domestic passenger services in five countries (Brazil, Chile, Peru, Ecuador and Colombia). The company also provides intraregional and international passenger services; has cargo operations that are carried out using belly space on passenger flights and a dedicated freighter service; and offers Latam Pass, the largest frequent flyer program in the region and seventh largest in the world in terms of the number of members. LATAM serves passengers in around 143 destinations in 25 different countries and provides cargo services to 156 destinations in 24 countries. As of the end of June 2023, the company had a fleet of 311 aircraft and a set of bilateral alliances.

The company's scale and superior network connectivity translate into leading positions in the five domestic markets in which it operates and in intraregional flights in Latin America as of June 2023. Also, the company has a well-diversified business portfolio of air transportation services and strategic alliances. LATAM's unique network connectivity, combined with capacity discipline in all its main markets in Latin America, provides it with strong pricing power in the current environment, and has allowed the company to preserve its profitability by passing through rising costs, namely those of jet fuel, to airfares.

Improved post-bankruptcy cost and capital structure

The changes to LATAM's cost and capital structure, as part of its reorganization plan, allowed it to achieve a fast recovery in credit metrics through 2023. The company restructured its cost base, simplified its fleet (by reducing its operating fleet, withdrawing the A350 aircraft and consolidating the Brazilian wide-body operations in the B777 and B787 aircraft), increased the share of variable costs (to about 80% of total costs through 2023), outsourced non-core activities and renegotiated more than 1,000 contracts, most of which do not contain step-up or termination clauses, making the improvements sustainable. Such initiatives led to a total reduction of about $1 billion in LATAM's annual operating costs and will allow for faster responses to volatility in demand and cash preservation. LATAM's CASK ex-fuel was $4.7 cents in the first half of 2023 ($4.1 cents excluding cargo operations), stable relative to 2019 levels, illustrating LATAM's cost-driven management despite the inflationary pressures faced by the region in the last two years. LATAM's CASK ex-fuel, excluding its cargo operations, of $4.5 cents in 2019 already compared favorably with that of regional and international low-cost and network carriers. LATAM intends to pursue further cost-cutting initiatives to preserve its profitability.

As part of its restructuring process, LATAM has also exited non-profitable markets such as domestic Argentina and is focusing on developing a new domestic hub in Fortaleza, Brazil, while expanding its presence in previously established hubs such as São Paulo, Santiago and Lima. The company intends to maintain its capacity discipline, preserving its profitability while defending its competitive position, and continue to increase its cargo operations efficiently.

LATAM's post-exit capital structure also improved, with total debt declining to around $6.4 billion as of the end of June 2023 from $11.6 billion as of September 2022, mainly reflecting the conversion of debt into equity. LATAM's total debt comprises $3.7 billion in fleet debt; $2.25 billion in new debt through a combination of term loans and notes; and about $500 million in other debt instruments. The company also raised $800 million through a new equity offering and $4.6 billion of new funds from the issuance of convertible notes. It has $1.1 billion in fully undrawn revolving credit facilities (RCFs).

Positive outlook for the airlines industry tempered by rising macroeconomic risks and increasing costs

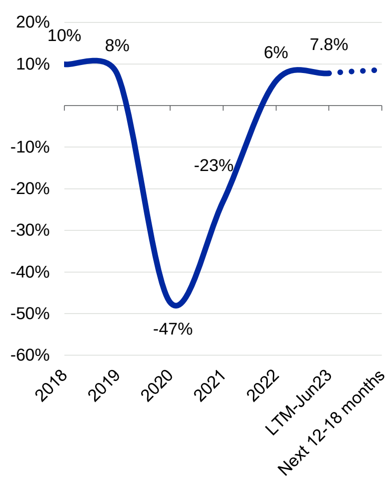
Our outlook for the global airlines industry remains positive as its recovery from the effects of the pandemic has room to run. In Latin America, demand for air travel continues to grow, and carriers will benefit from a more rational and consolidated market to keep airfares high. There is no labor shortage in the region, and little fuel hedging will support Latin American carriers' profitability if jet fuel prices decline. Also, in a recession, demand would decline, but so would the price of oil. The biggest risk to the industry would be a scenario where oil prices increase during a recession or if demand weakens.

The extensive rollout of the coronavirus vaccine in the region, and the reopening of all domestic markets, and international markets such as Argentina, the Caribbean and the US, supported a substantial increase in forward bookings for LATAM. These factors also translated into more passenger revenue and number of flights through 2023 — even as rising macroeconomic risks in the region threaten disposable income and consumer confidence. So far, air travel demand has remained robust in the region even amid stagnant economic growth and declining disposable income. LATAM's total RPK recovered to 96% of the 2019 level as of August 2023, with Brazil and Spanish-speaking countries' RPK at 114% and 94% of pre-pandemic levels, respectively, and the international RPK still lagging behind at 88%. LATAM's reorganization plan generated significant cost savings, which will support future profitability and cash generation even amid the volatility in passenger demand.

The consolidation of the industry and little room in balance sheets for aggressive commercial strategies in the Latin American aviation market will result in more rational competition and capacity, ultimately supporting higher airfares and the stronger profitability of all carriers in the region. The improved competitive dynamics and ability to pass through costs while catering to pent-up post-lockdown demand will preserve airlines' profitability and cash generation in the region. In 2022, Gol Linhas Aereas Inteligentes S.A.'s (Gol, Caa2 negative) and Avianca Group International Limited's (Avianca, B3 stable) shareholders announced a business combination of their stakes in the carriers, which will help rationalize intraregional competition. This deal adds to several transactions in Latin America since 2019 that have already translated into more rational competition in the region. In 2019, Avianca Brasil ceased operations in the Brazilian domestic market, improving the competitive landscape and allowing for higher fares on domestic routes for LATAM, Gol and Azul S.A. (Caa1 positive). In 2020, LATAM, Avianca and Grupo Aeromexico S.A.B. de C.V. (Aeromexico, B3 stable) filed for bankruptcy because of the adverse effects of the pandemic on their operations. The three carriers' post-bankruptcy plans include strict network and cash generation management, which will preserve the competitive landscape in their markets. For example, LATAM left the Argentine domestic market as part of its restructuring plan, and the Mexican low-cost carrier Interjet ceased domestic operations, improving competitive dynamics for the remaining operators in Mexico, which we expect to continue even if Interjet resumes service. The Colombian low-cost carrier Viva was liquidated and ceased operations in Colombia, which has improved the competitive dynamics in Colombia's domestic market as well.

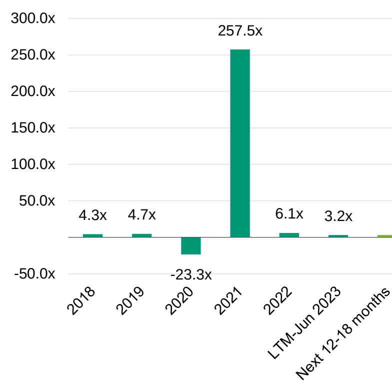
With the continued demand recovery and after the implementation of all initiatives and the downsizing of financial and operating costs, LATAM's operating performance was stronger than expected. The company will outperform its business plan in 2023. The company's better-than-expected operating and financial performance during 2023 allowed it to strengthen its credit metrics and liquidity. LATAM's Moody's-adjusted EBIT margin recovered to 10% in H1 2023, compared with 7.5% in 2019, and adjusted leverage declined to 3.2x, already below the pre-pandemic levels of 4.7x. Interest coverage — measured as Moody's-adjusted FFO + interest expense/interest expense — improved to 3.0x for the 12 months ended in June 2023, and we expect the ratio to stabilize at this level in 2024. We expect LATAM's leverage to remain at 2.5x-3.0x and its cash position to amount to 15%-20% of revenues in the next two years, which provide a buffer for the company's credit quality even under stress scenarios. LATAM's strong operating performance and strengthened credit metrics reflect sustained improvements in the company's cost and capital structures, which provide LATAM with the flexibility to withstand the volatility in market conditions.

Exhibit 5
LATAM's improved cost structure increased the company's margins back to pre-pandemic levels
Moody's-adjusted EBIT margin



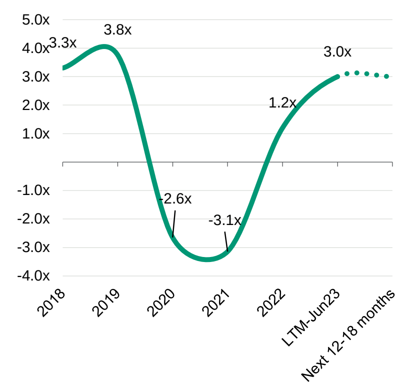
Source: Moody's Investors Service

Exhibit 6
Leverage is already below pre-pandemic levels because of the improved capital structure
Moody's-adjusted debt/EBITDA



Source: Moody's Investors Service

Exhibit 7
Interest coverage will stabilize at the current levels
Measured by (FFO + interest expense)/interest expense



Data includes Moody's standard adjustments.
Source: Moody's Investors Service

Exposure to currency volatility

The US dollar is LATAM's functional currency for the pricing of most of its products, the composition of its balance sheet and the effects on its operating results. However, the company is exposed to foreign-currency volatility to the extent that its revenue is higher or lower than its expenses in a foreign currency and that its assets are higher or lower than its liabilities in currencies different from an entities' functional currency. The company is primarily exposed to the Brazilian real and the Chilean peso, which have been experiencing significant volatility. To mitigate its balance-sheet exposure to foreign-currency volatility, LATAM has been working to reduce its balance-sheet mismatch. The company's exposure to the US dollar in TAM's balance sheet has decreased significantly since 2012, mainly through the transfer of aircraft, debt and other US liabilities to LATAM's balance sheet. Additionally, the company uses derivative hedging strategies that involve hedging monthly cash flow with foreign-currency forwards and derivative options instruments. LATAM's finance committee meets on a monthly basis to discuss the company's risk management policy.

ESG considerations

LATAM Airlines Group S.A (LATAM)'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 8
ESG Credit Impact Score

CIS-3
Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

CIS-3. LATAM's CIS-3 indicates that ESG considerations have a limited impact on the current credit rating with potential for greater negative impact over time. This reflects limited credit impact to date, but the potential for carbon transition and related social risk factors to pressure the rating over time. That said, given that current technologies do not support a rapid carbon transition scenario for airlines and there are limited substitutes in most markets, the credit risk to most airlines is long-term in nature. Governance risks are incorporated in the rating and mainly relate to the recent bankruptcy process, the existence of dual class of shares within the corporate structure and somewhat complex organizational structure derived from previous limitations on foreign ownership for Brazilian airlines, balanced by its board independence and track record of adequate financial management.

Exhibit 9
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-4	S-4	G-3
Highly Negative	Highly Negative	Moderately Negative

Source: Moody's Investors Service

Environmental

E-4. LATAM faces environmental risk due to carbon transition. This will primarily depend on the evolving global decarbonization policies and regulations, which may increase operating costs for airlines. Further, the desire to reduce carbon emissions may lead to reduced travel, in particular for business purposes, much of which can effectively be done virtually, as demonstrated during the pandemic.

Social

S-4. LATAM faces industrywide social risks related to demographic and societal policies for reducing carbon emissions.

Governance

G-3. LATAM's governance risks are incorporated in the rating and mainly relate to the recent bankruptcy process, the existence of dual class of shares within the corporate structure and somewhat complex organizational structure derived from previous limitations on foreign ownership for Brazilian airlines, balanced by its board independence and track record of adequate financial management. LATAM remains a publicly held company after exiting Chapter 11, with shares traded on the Santiago stock exchange. About 66% of the company's shares are held by creditors and the remaining 34% are held by existing shareholders supporting the restructuring plan, including the Cueto Group, Delta Air Lines Inc. (Baa3 stable) and Qatar Airways. The creditors group appoint five out of nine board members, and the remaining four are appointed by the other shareholders. The company's pre-existing governance practices will remain unchanged following the Chapter 11, but board approval requirements for certain matters will temporarily increase.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

LATAM has a good liquidity profile with $1.7 billion in cash and $1.5 billion in debt maturing until year-end 2024. The company's cash balance covers short-term financial debt maturities of $534 million by 3.2x. The company's debt amortization schedule is comfortable, with most of the upcoming maturities represented by the exit financing, namely the term loans and notes, due beyond 2026. The company also has two secured undrawn RCFs amounting to $1.1 billion, and it generated $352 million of free cash flow (FCF) in H1 2023.

The company's cash generation benefits from a reduction of about 40% in annual fleet cash costs from 2019 levels following the renegotiation of the fleet contracts done during CH11. Also, the company continues to have flexibility in terms of fleet capital spending. We expect LATAM to generate about $1.7 billion in cash flow from operations annually, which is sufficient to cover annual capital spending needs by about 1.0x-1.5x, including fleet renewal and expansion. We also expect neutral-to-positive FCF from 2023, reflecting flexibility in maintenance capital spending and costs. Finally, we expect LATAM to proactively pursue liability management initiatives to further lengthen its debt tenor and reduce funding costs. The company also has other potential liquidity sources, including unencumbered assets that could be used in potential secured financing transactions.

LATAM also has financial covenants under part of its credit facilities based on the asset coverage ratio, which should not be less than 1.6x (measured on a semiannual basis), as well as consolidated liquidity of not less than $750 million as of the close of each business day.

Structural considerations

LATAM's debt mainly comprises secured debt instruments, except the $172 million local bonds that are unsecured and subordinated to the rest of the financial debt, with collaterals represented by aircraft in the case of leases and fleet debt; engines, components and aircraft in the case of the RCFs; and intangible assets — such as intellectual properties, brand, routes and slots, cargo business, and other assets — in the case of term loans and secured notes. All debt, except the local bonds, rank pari passu, and there is no notching of debt instruments relative to the corporate family rating.

Methodology and scorecard

LATAM's scorecard-indicated outcome under our Passenger Airlines rating methodology maps to a Ba2 rating for the 12 months that ended 30 June 2023, two notches above the current assigned rating. The scorecard-indicated outcome reflects the improvement across all quantitative subfactors stemming from a recovery in operating performance, LATAM's improved capital structure after bankruptcy and the correlated impact on the issuer's credit metrics, while the assigned rating is constrained by the lack of track record after the bankruptcy and the company's exposure to the volatility of the airline industry. Our 12-18-month forward view maps to a Ba1 rating.

Exhibit 10

Rating factors

LATAM Airlines Group S.A (LATAM)

Passenger Airline Industry Scorecard [1][2]	Current LTM 6/30/2023		Moody's 12-18 Month Forward View As of 09/21/2023 [3]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$10.7	Ba	$11.0 - $12.0	Ba
Factor 2 : Business Profile (25%)				
a) Market Position and Network Strength	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (12.5%)				
a) EBIT Margin (EBIT / Revenue)	7.8%	B	8.0% - 10.0%	B
Factor 4 : Leverage and Coverage (37.5%)				
a) Debt / EBITDA	3.2x	Ba	2.5x - 3.0x	Baa
b) RCF / Debt	25.1%	Baa	20.0% - 30.0%	Baa
c) (FFO + Interest Expense) / Interest Expense	3.0x	B	2.5x - 3.5x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating:				
a) Scorecard-Indicated Outcome		Ba2		Ba1
b) Actual Rating Assigned				B1

[1] All ratios are based on adjusted financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 6/30/2023(L). [3] This represents Moody's forward view, not the view of the issuer unless noted in the text, does not incorporate significant acquisitions and divestures.
Source: Moody's Financial Metrics™ and Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
LATAM AIRLINES GROUP S.A (LATAM)	
Outlook	Stable
Corporate Family Rating	B1
Sr Sec Bank Credit Facility	B1
Senior Secured	B1

Source: Moody's Investors Service

Appendix

Exhibit 12
Peer Comparison

(in USD millions)	LATAM Airlines Group S.A. B1 Stable			Gol Linhas Aereas Inteligentes Caa2 Negative			Azul S.A. Caa1 Positive			American Airlines Group Inc. B1 Stable		
	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23	FYE Dec-21	FYE Dec-22	LTM Jun-23
Revenue	$4,884	$9,363	$10,674	$1,380	$2,949	$3,452	$1,852	$3,094	$3,405	$29,882	$48,971	$52,894
Operating Profit	-$1,119	-$121	$694	-$712	$108	$389	-$158	$63	$157	-$530	$2,394	$5,547
EBITDA	$40	$1,117	$1,998	-$455	$464	$741	$126	$524	$654	$3,103	$5,927	$9,360
Total Debt	$10,396	$6,782	$6,397	$4,069	$4,393	$4,543	$4,472	$4,398	$4,607	$50,396	$45,841	$44,736
Cash & Cash Equiv.	$1,130	$1,699	$1,710	$87	$32	$52	$552	$127	$128	$273	$440	$614
EBIT / Int. Exp.	-1.5x	-0.1x	1.0x	-1.7x	0.2x	0.5x	-0.2x	0.1x	0.2x	-0.2x	0.9x	2.0x
Debt / EBITDA	257.5x	6.1x	3.2x	-9.3x	9.7x	5.7x	36.8x	8.6x	6.6x	16.2x	7.7x	4.8x
FCF / Debt	-10.2%	-20.2%	-11.8%	-6.7%	-3.7%	-2.3%	-11.6%	-7.7%	-3.9%	1.2%	-1.2%	4.1%

Source: Moody's Financial Metrics™

Exhibit 13
Moody's-adjusted debt breakdown
LATAM Airlines Group S.A (LATAM)

(in USD millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Ending Jun-23
As Reported Debt	**10,119.8**	**10,365.7**	**10,853.9**	**10,396.5**	**6,781.9**	**6,397.4**
Pensions	0.0	0.0	0.0	0.0	0.0	0.0
Operating Leases	0.0	0.0	0.0	0.0	0.0	0.0
Moody's-Adjusted Debt	**10,119.8**	**10,365.7**	**10,853.9**	**10,396.5**	**6,781.9**	**6,397.4**

Source: Moody's Financial Metrics™

Exhibit 14
Moody's-adjusted EBITDA breakdown
LATAM Airlines Group S.A (LATAM)

(in USD millions)	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22	LTM Ending Jun-23
As Reported EBITDA	**2,317.1**	**2,181.3**	**-1,456.7**	**-2,170.8**	**3,437.4**	**4,484.0**
Unusual	38.9	47.6	990.0	2,211.2	-2,320.7	-2,485.8
Non-Standard Adjustments	0.0	0.0	0.0	0.0	0.0	0.0
Moody's-Adjusted EBITDA	**2,356.1**	**2,228.9**	**-466.7**	**40.4**	**1,116.7**	**1,998.3**

[1] Reported EBITDA was calculated according to Moody's standards and would not necessarily be the same as reported in the company's press releases.
Source: Moody's Financial Metrics™

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Contacts

Carolina A Chimenti +55.11.3043.7318
Vice President - Senior Analyst
carolina.chimenti@moodys.com

Danilo Arashiro +55.11.3956.8721
Associate Analyst
danilo.arashiro@moodys.com

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