

Research Update:

Latam Airlines Group Upgraded To 'BB' On Solid Performance And Cash Flow; Outlook Stable

February 28, 2025

Rating Action Overview

- Latam Airlines Group S.A. reported very strong results in 2024. We expect resilient air traffic demand in South America and Latam's lean cost structure will support stronger credit metrics through 2026.
- As a result, S&P Global Ratings raised its issuer credit rating on Latam to 'BB' from 'BB-'.
- At the same time, we raised our issue rating on the company's secured debt to 'BBB-' from 'BB+'. The recovery rating on the notes remains '1', indicating our expectation for very high (rounded estimate: 95%) recovery in the event of payment default.
- The stable outlook reflects our expectation that Latam will maintain sound operating performance and that credit metrics will remain commensurate with the rating, with funds from operations (FFO) to debt above 40% through 2026.

Rating Action Rationale

Latam Airlines has registered strong 2024 results, and we forecast credit metrics to remain in line with a 'BB' rating. Latam posted record results for 2024 despite some adverse developments such as the flooding of Rio Grande do Sul, a more competitive environment in Colombia, significant domestic currencies depreciation (particularly Chilean peso and Brazilian real), and somewhat softer yields.

Furthermore, we forecast that Latam will have solid results for the coming two years and maintain stronger credit metrics with some headroom in case of macroeconomic or industry volatility. We estimate net FFO to debt of 42%-45% and S&P Global Ratings adjusted debt to EBITDA of about 1.7x in the next two years.

Latam has a favorable cost structure and positive growth prospects. In the past three years, Latam has streamlined its overall cost structure, resulting in relatively stable CASK (the cost of operating a seat per kilometer) excluding fuel of about 4.8 cents, which compares favorably with many other global full-service carriers. We believe this is a clear competitive advantage for the company and should result in more resilient performance if yields soften.

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The streamlined cost structure, coupled with healthy growth prospects for air travel demand in the region, will support above-average profitability in the coming years, with EBITDA margins of 23%-24%. Travel demand in Latin America still lags well behind developed markets, and we foresee high-single-digit growth (between 5% and 8%) in the next couple of years. Considering these, we forecast EBITDA above \$3.2 billion in 2025 and \$3.3 billion in 2026, compared with \$3.0 billion in 2024.

Furthermore, we envision the company will generate free operating cash flow (FOCF) after lease payments between \$500 million and \$800 million in the next two years.

We expect positive free cash flow despite growing lease expenses and relatively high capital expenditures (capex) in the next two years. We expect Latam will receive 23 narrow-body and one wide-body aircraft in 2025 to grow and renew part of its fleet with more efficient aircraft. These deliveries should support capacity. We expect capacity to increase about 8% in 2025 and 5%-6% in 2026, but capex should remain relatively high, between \$1.3 billion and \$1.6 billion per year.

However, amid strong operational performance, we continue to expect healthy FOCF in the forecasted period. While Latam has not faced any material aircraft delivery delays or issues with engines, these remain a risk and could curtail capacity growth, but on the other hand imply lower capex and stronger cash flows.

Latam has publicly updated its financial policy, which we view as prudent. The airline aims to maintain net debt to EBITDA below 2.0x, which is in line with our base-case scenario. Additionally, it contemplates maintaining liquidity (measured as cash and equivalents and undrawn revolving facilities) equivalent to 21%-25% of last-12-months revenues. We believe this target, coupled with no significant amortization through 2028, should underpin our strong liquidity assessment.

We understand that Latam intends to increase returns to shareholders beyond the 30% legal minimum payout ratio, but we would expect this to be consistent with the company's recently announced net leverage and liquidity target.

Finally, we expect the company to complete the refinancing of its post-default emergence capital structure with better conditions and lower cost during 2025.

Outlook

The stable outlook reflects our expectation that Latam will post sound operating performance and that credit metrics will remain commensurate with the rating, with FFO to debt above 40% through 2026. We expect the company will generate higher revenue and sound profitability thanks to gradual increases in capacity coupled with healthy yields.

Downside scenario

We could lower the ratings in the next 12 months if Latam's FFO-to-debt ratio falls below 30%, free cash flow is consistently negative, or EBITDA margin drops to well below 20%. This could occur if demand deteriorates amid much weaker-than-expected economic conditions, taking a toll on revenue. The ratio could also drop if the company's EBITDA falls considerably, for instance, stemming from much higher fuel prices, leading to lower-than-expected margins.

Upside scenario

We could raise the ratings in the next 12 months if Latam delivers stronger-than-expected results amid higher yields and demand. Specifically, we would look for FFO to debt consistently above 45% and relatively stable profitability with EBITDA margins comfortably above 20%.

Company Description

Latam is a Chilean airline holding company that primarily transports passengers and cargo. Latam is Latin America's leading airline group, with a presence in five domestic markets: Brazil, Chile, Colombia, Ecuador, and Peru, along with international operations across Latin America and connecting the region with Europe, North America, Africa, and Oceania.

Latam has an operating fleet of 347 aircraft and a set of bilateral alliances (Delta Airlines and Qatar Airways, among others). After relisting on the New York Stock Exchange and a secondary offering, Latam's main shareholders are:

- Sixth Street Partners Management Co. (24.5%),
- Strategic Value Partners (14.0%),
- Delta Air Lines (10.0%),
- Qatar Airways (10.0%),
- Cueto Group (5.0%), and
- Other minor shareholders (36.4%).

Our Base-Case Scenario

Assumptions

- Chile GDP growth of 2.2% in 2025 and 2.4% in 2026, and Brazil GDP growth of 1.9% in 2025 and 2.1% in 2026.
- Chile average inflation of 4.0% in 2025 and 3.7% in 2026, and Brazil average inflation of 4.2% in 2025 and 3.7% in 2027.
- Average exchange rate of Brazilian real (R\$) 5.8 per \$1 in 2025 and R\$5.85 in 2026, and Chilean peso (CLP) 985 per \$1 in 2025 and CLP980 in 2026. Local currency depreciation usually translates into lower revenues and margins because the pricing of the tickets in Brazil and Chile is in domestic currencies.
- Fuel prices in line with our Brent oil price deck (and relatively stable crack spreads) of \$75/barrel in 2025 and 2026.
- Available seat kilometer growth of 8% in 2025 and 5%-6% in 2026, reflecting the company's fleet plan and further growth in domestic markets.
- Revenue passenger kilometers growth in tandem with capacity, according to expected demand growth in all markets of operation.
- Available seat kilometer and revenue passenger kilometer growth driving load factor to 83%-84% in 2025 and 2026.

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- Cargo operations: Available ton kilometer growth of about 4% in both years, and revenue ton kilometer expanding 3%-5%.
- A yield of 8.45-8.50 cents in 2025 and 2026, compared with 8.40 cents in 2024.
- Capex of about \$1.3 billion in 2025 and \$1.6 billion in 2026, supporting growth, the fleet, and intangibles.
- Dividend payout ratio of 30% of the previous year's net income, in line with the Chilean legal minimum.

Key metrics

Latam Airlines Group S.A.--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027	Dec-31-2028
(Mil. \$)	2021a	2022a	2023a	2024a	2025e	2026f	2027f	2028f
Revenue	4,884	9,363	11,641	12,833	13,839	14,454	15,191	16,088
Gross profit	1,086	2,439	4,029	4,715	4,833	4,981	5,225	5,627
EBITDA (reported)	(2,260)	2,391	2,284	2,989	3,247	3,343	3,543	3,914
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	1,612	(1,429)	131	4	4	--	--	--
EBITDA	(648)	962	2,415	2,993	3,252	3,343	3,543	3,914
Less: Cash interest paid	(112)	(532)	(604)	(745)	(651)	(663)	(684)	(691)
Less: Cash taxes paid	(9)	(14)	(18)	(43)	(118)	(220)	(313)	(379)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	(770)	415	1,792	2,204	2,482	2,460	2,546	2,845
EBIT	(1,792)	835	1,335	1,688	1,873	1,881	1,896	2,170
Interest expense	813	953	708	909	639	650	672	682
Cash flow from operations (CFO)	(287)	(417)	1,758	2,480	2,519	2,559	2,636	3,012
Capital expenditure (capex)	668	820	854	1,392	1,262	1,622	1,714	1,729
Free operating cash flow (FOCF)	(955)	(1,237)	904	1,087	1,257	936	922	1,283
Dividends	--	--	--	175	293	266	283	282
Discretionary cash flow (DCF)	(955)	(1,237)	904	912	765	434	639	1,001
Debt (reported)	7,442	4,565	3,970	3,788	3,785	3,937	3,723	3,569
Plus: Lease liabilities debt	2,961	2,216	2,968	3,363	4,045	4,349	4,619	4,831
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid investments	(1,148)	(1,206)	(1,711)	(1,954)	(2,398)	(2,538)	(2,483)	(2,792)
Plus/(less): Other	662	0	7	13	--	--	--	--
Debt	9,916	5,576	5,234	5,210	5,432	5,748	5,860	5,609
Equity	(7,067)	31	438	711	1,106	1,548	2,203	3,058
FOCF (adjusted for lease capex)	(1,495)	(1,622)	(112)	435	157	186	172	533
Interest expense (reported)	806	942	698	882	611	622	645	654
Capex (reported)	676	831	864	1,420	1,290	1,650	1,742	1,757

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Cash and short-term investments (reported)	1,148	1,720	1,890	2,025	2,398	2,538	2,483	2,792
Adjusted ratios								
Debt/EBITDA (x)	(15.3)	5.8	2.2	1.7	1.7	1.7	1.7	1.4
FFO/debt (%)	(7.8)	7.5	34.2	42.3	45.7	42.8	43.4	50.7
FFO cash interest coverage (x)	(5.9)	1.8	4.0	4.0	4.8	4.7	4.7	5.1
EBITDA interest coverage (x)	(0.8)	1.0	3.4	3.3	5.1	5.1	5.3	5.7
CFO/debt (%)	(2.9)	(7.5)	33.6	47.6	46.4	44.5	45.0	53.7
FOCF/debt (%)	(9.6)	(22.2)	17.3	20.9	23.1	16.3	15.7	22.9
DCF/debt (%)	(9.6)	(22.2)	17.3	17.5	14.1	7.5	10.9	17.9
Lease capex-adjusted FOCF/debt (%)	(15.1)	(29.1)	(2.1)	8.3	2.9	3.2	2.9	9.5
Annual revenue growth (%)	24.5	91.7	24.3	10.2	7.8	4.4	5.1	5.9
Gross margin (%)	22.2	26.0	34.6	36.7	34.9	34.5	34.4	35.0
EBITDA margin (%)	(13.3)	10.3	20.7	23.3	23.5	23.1	23.3	24.3
Return on capital (%)	(36.1)	19.7	23.7	29.1	30.1	27.2	24.7	25.9
Return on total assets (%)	(12.4)	6.3	9.6	11.3	11.7	10.8	10.3	11.2
EBITDA/cash interest (x)	(5.8)	1.8	4.0	4.0	5.0	5.0	5.2	5.7
EBIT interest coverage (x)	(2.2)	0.9	1.9	1.9	2.9	2.9	2.8	3.2
Debt/debt and equity (%)	348.1	99.5	92.3	88.0	83.1	78.8	72.7	64.7
Debt fixed-charge coverage (x)	(0.8)	1.0	3.4	3.3	2.1	3.8	4.0	4.7
Debt/debt and undepreciated equity (%)	348.1	99.5	92.3	88.0	83.1	78.8	72.7	64.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Liquidity

We assess Latam's liquidity as strong based on the track record and expectation of strengthened cash generation and the larger revolving credit facilities (RCFs). We also expect sources of liquidity to cover uses of liquidity by over 2x in the next 12-24 months.

We believe Latam has been strengthening its position in capital markets and relationships with banks, while refinancing and reducing debt cost. During 2024, Latam refinanced most of its post-emergence capital structure (all except 2029 notes), increased and extended its RCFs, and was relisted on the New York Stock Exchange.

Latam holds a comfortable cash position, which, coupled with RCFs totaling \$1.75 billion, would provide support if the company faced an unexpected drop in cash flows. Additionally, Latam holds a very comfortable debt maturity profile with no material amortization until 2029.

Finally, the company does not have leverage or coverage financial covenants.

Principal liquidity sources

- Cash position of roughly \$2.0 billion as of Dec. 31, 2024;
- Expected FFO cash generation of about \$2.1 billion in the next 12 months; and
- RCFs with full availability of \$1.75 billion, due in 2029.

Principal liquidity uses

- Short-term debt of \$272 million as of Dec. 31, 2024;
- Maintenance and fleet capex of about \$1.3 billion in the next 12 months; and
- 2025 dividend payout of 30% of 2024 net income, about \$293 million in the next 12 months.

Covenants

Latam must maintain minimum liquidity of \$750 million on a consolidated basis and \$400 million on a stand-alone basis (for both its Latam Chile and Tam subsidiaries) any time it draws on its RCFs. The company was in compliance with these covenants as of Dec. 31, 2024, and we expect it to remain so.

Senior secured notes and RCFs also include a collateral coverage covenant, which must be equal to or higher than 1.6x. Based on current collateral value provided by the company, we expect Latam should comfortably be able to comply with this covenant.

Environmental, Social, And Governance

Social factors are a negative consideration in our credit analysis of Latam because of the pandemic-related financial hit to the industry. Its EBITDA and cash flow deteriorated, prompting the company to file for bankruptcy to protect liquidity and overhaul operations. Additionally, a significant portion of Latam's capacity and revenue comes from international travel, which took longer to recover. Latam surpassed domestic pre-pandemic travel levels by the end of 2023, and international traffic fully recovered in 2024.

Environmental factors are a negative consideration in our credit rating analysis of Latam. All airlines face long-term risk from potentially tighter regulation of greenhouse gas emissions. Latam's average fleet age is in line with the global average of 10-12 years. During bankruptcy, Latam rejected several lease contracts and signed new ones to accelerate its fleet renewal plan, which will reduce fuel consumption, greenhouse gas emissions, and the average fleet age.

Issue Ratings--Recovery Analysis

Key analytical factors

The 'BBB-' rating on the 2029 and 2031 senior secured notes is two notches above the issuer credit rating. This is based on a '1' recovery rating, indicating our view that lenders could expect very high (rounded estimate: 95%) recovery of principal in the event of payment default.

The two debt instruments are secured by intangible assets, including intellectual property; a frequent flyer program; the cargo business; and certain slots, gates, and routes (among other assets). In our opinion, under a new stress scenario for Latam, it would again seek to restructure under U.S. laws, since these constitute a specialized framework for companies with international investors and have a precedent of such a restructuring.

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We valued the company on a going concern basis using a discrete asset valuation method, per our assessment for airlines. Our valuations reflect our estimate of the value of the various assets at default based on net book value for current assets and appraisals for aircraft and route authorities, adjusted for expected realization rates in a distressed scenario.

Simulated default assumptions

- Simulated default scenario in 2030, caused by consistently low air passenger volumes, low rates from a steep decline in demand, limited ability to raise ticket prices in a highly competitive environment, and difficult economic conditions. This scenario could hurt Latam's EBITDA and limit its capacity for debt repayment, as was the case in 2020.
- At the moment of default, the company would have used 60% of its RCFs, totaling \$945 million.
- Available and restricted cash would plummet by 80% because Latam would have liquidated most of its cash before defaulting on its debt.
- We apply a 25% dilution rate to receivables because we believe they would be realized only if the company grants discounts.
- Given that inventory includes spare parts, we apply a 49% haircut given our belief that under pressure, the company could still sell them at a discount.
- We assumed a 50% realization rate for building assets.
- We haircut spare engines, advanced maintenance, and flight equipment by 56%. This incorporates our view that under a stressed scenario, the company's capex wouldn't be aggressive, or it would issue additional debt funding. Therefore, Latam would use available inventory to address operational needs.
- For slots, we use a 25% realization rate, considering that these slots are in the company's main Brazilian and Peruvian airports. Airports in both countries have a limited number of takeoff and landing slots because of infrastructure limitations.
- For routes, we assume that about 50% of the total are international routes, to which we apply a 50% realization rate in line with slots, resulting in an effective realization rate of 25%.
- We expect a mixed realization rate on the company's owned unencumbered aircraft of 55%-75%, depending on age and asset type, mainly consisting of 99 aircraft that average almost 16 years old.
- We don't include the company's pledge of the cargo business, brand intellectual property, and interest in the frequent flyer program because we think those values are embedded in the attractiveness of the company's routes, slots, and aircraft.

Simplified waterfall

- Net enterprise value (after 5% administrative costs): \$6.1 billion
- Total senior secured debt: \$3.7 billion (including senior secured notes, 60% of RCF, the spare engine facility, and other secured debt as of December)
- Recovery expectations: 90%-100% (rounded estimate 95%)

Rating Component Scores

Rating Component Scores

Rating Component Scores	
Component	
Foreign currency issuer credit rating	BB/Stable/--
Local currency issuer credit rating	BB/Stable/--
Business risk	Fair
Country risk	Intermediate Risk
Industry risk	High Risk
Competitive position	Satisfactory
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bb
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Strong
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings list

Upgraded; Outlook Action

	To	From
Latam Airlines Group S.A.		
Issuer Credit Rating	BB/Stable/--	BB-/Positive/--

Upgraded; Recovery Ratings Unchanged

	To	From
Latam Airlines Group S.A.		
Senior Secured	BBB-	BB+
Recovery Rating	1(95%)	1(95%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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