FitchRatings

28 MAY 2024

Fitch Publishes LATAM Airlines 'BB-' IDRs; Positive Outlook

Fitch Ratings - Rio de Janeiro - 28 May 2024: Fitch Ratings has published LATAM Airlines Group S.A.'s 'BB-' (LATAM)'s Long-Term Foreign and Local Currency Issuer Default Rating (IDR). Fitch currently rates LATAM's National Long-Term Rating at 'BBB+(cl)'. The Rating Outlook is Positive.

LATAM's ratings are supported by its strong market position in Latin America and diversified business model, with operations both domestically and internationally, as well as a cargo business unit. LATAM's credit metrics are strong for its rating level; this is tempered by the industry's high cyclicality, foreign exchange (FX) risks, and by its post-restructuring capital structure profile (high financial costs and large secured debt basis). Fitch forecasts total and net leverage ranging around 2.4x and 1.8x for 2024 and 2025. LATAM's robust liquidity and solid undrawn committed revolving facilities are also embedded into the ratings.

The Positive Outlook reflects Fitch's expectations that a continued solid operating performance and cash flow generation in the next 12 months-18 months as well as some progress on the debt refinancing would likely further benefit LATAM's ratings.

Key Rating Drivers

Improving Operating Cash Flow: Fitch expects LATAM's operating cash flow to improve during 2024 due to continued passenger traffic recovery trends on its international and Spanish speaking countries markets, solid growth in the Brazilian market, cost efficiencies, including fleet cost, and capacity expansion. LATAM's more efficient cost structure following the past years of restructuring process, including completion of Chapter 11 Process (4Q22), has been key to sustain profitability gains and positive FCF generation.

Fitch forecasts LATAM's adjusted EBITDA to reach around USD2.8 billion in 2024 and USD3 billion in 2025, an increase from USD2.5 billion in 2023, USD1.3 million in 2022 and USD2.2 billion during 2019 (pre-pandemic). The more efficient cost base is driving to higher EBITDA margins, with Fitch's base case reaching 22% during 2024, and important expansion from 14% in 2022. For 2025, Fitch expects adjusted EBITDA margins to range from 20%-21% in a scenario of a less favorable fuel prices and a more competitive environment weakening yields.

Deleveraging Trend: LATAM´s leverage is expected to continue to decline throughout 2024 supported by growth on its operations, passenger traffic recovery and cost efficiencies, despite higher capex and dividends distribution. Fitch's base case scenario forecasts the company's total and net adjusted leverage/EBITDAR ratios at around 2.4x and 1.8x, respectively, during 2024 and 2025, an improvement from the 2022 levels of 6.4x and 5.3x and 2.7x and 2.1x in 2023. Those metrics are considered relatively strong for the rating category.

As of March 31, 2024 LATAM's total debt (including IFRS 16) was USD7.1 billion and it is expected to remain relatively flat in 2024, but still much lower than USD10.4 billion of debt as of 2019. At the end of Chapter 11 process, LATAM reduced around 35% of its debt.

Growth Appetite to Drive FCF: LATAM´s commitment to manage cautiously its growth opportunities in order to not deteriorate its credit metrics will be key to its ratings. LATAM's stronger operating cash flow generation is likely to be consumed by fleet modernization and ongoing business growth. Fitch forecasts LATAM's FCF generation to be positive during 2024 at USD445 million and USD163 million in 2025 after increasing capex. Fitch considered capex of USD1.2 billion in 2024 and USD1.5 billion for 2025 and dividends distributions of USD175 million on average. Fitch considers that LATAM has some flexibility to differ those elevated capex levels in a scenario of downturn of the industry.

Market Position and Diversification: Fitch views LATAM's strong business position as sustainable in the medium term, based on its diversification within Latin America and in the international routes between Latin America and either North America, Europe or Oceania. The analysis also incorporates the company's strong market position in Brazil's domestic market and its position as the leader among Brazilian companies in international markets, strong market-share in other key markets and its more recent joint-venture with Delta Air Lines, Inc. (BB+/Positive). LATAM's cargo business operations is also solid and has demonstrated important business resilience during the past quarters.

International Market Recovering: LATAM has a track record of large exposure to long haul international routes, which before the pandemic used to represent around 51% of its revenues. During 2023 RPK of international market was at 83% of 2019 level, while Spanish speaking Country Market was 7% lower in the same period. The operations in Brazil has been presenting faster recovery since early 2022, and LATAM has increased 8% its RPK compared to 2019. Fitch expects both international and SSC markets to fully recover during 2024, and the Brazil operations to continue to post solid results.

Above Average Industry Risks: The airline industry is inherently a high-risk sector, given that it is a cyclical, capital-intensive business with various structural challenges and is also prone to exogenous shocks. High fixed costs combined with swings in demand and fuel prices typically translate into volatile profitability and cash flows. The exposure to FX fluctuations for the Latin America players constitutes an additional risk, as the majority of its costs are dollar denominated and large part of their operating cash flow are generally in local currency. The track record of several debt restructurings processes within the airline sector in the region over the past years highlights the risks.

Strong Liquidity: LATAM has a track record of maintaining strong cash balances and this is a key rating consideration. The company's financial flexibility is enhanced by revolving credit facilities of total amount of USD1.1 billion that are fully undrawn. Fitch expects LATAM to maintain solid cash balances, with cash + revolving credit facilities (RCFs) to LTM revenues not below 20%, seeking to reduce exposure to short-term refinancing risks and industry volatility. Fitch expects LATAM to remain proactive on its liability management strategy that includes opportunities to early refinance its 2027 Term Loan B (USD1.1billion) during 4Q24 and potentially other refinancing throughout 2025 to avoid large exposure to refinancing during 2027.

Derivation Summary

LATAM's 'BB-' ratings reflects its diversified business model, significant regional market position, strong capital structure and robust liquidity position. These positive factors are tempered by the industry's high business risks and exposure to exogenous shock, as well as LATAM's post restructuring debt profile, with high financial costs and limited financial flexibility in terms of terms of unencumbered asset base. LATAM's rating is above Avianca Group International Limited (B/Stable), Azul S.A. (B-/Stable) and GOL Linhas Aereas Inteligentes S.A. (D), mostly reflecting relatively lower leverage ratios and lower refinancing risks.

Within North American global players, LATAM is rated lower than Delta Air Lines (BB+/Positive) primarily due to the company's lower business scale, track record of higher financial leverage and weaker financial flexibility. LATAM is rated at same level of United Airlines Holdings, Inc. (BB-/Stable), and 1 notch above American Airlines Group, Inc. (B+/Stable), due to better capital structure. Liquidity continues to be a credit positive, as LATAM has consistently maintained a stronger liquidity position, measured as cash plus committed credit lines over LTM revenues, compared with regional peers.

Key Assumptions

Fitch's Key Assumptions Within The Rating Case for the Issuer:

--Fitch's base case during 2024 and 2025 includes an increase in ASK by 12% and 8%;

--Load factors around 81%-82% during 2024-2025;

-- Limited Jet Fuel Prices volatility in 2024 and 2025.

--Capex of USD1.1 billion in 2024 and USD1.5 billion in 2025

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- Gross and Net leverage below 2.5x and 2.0x, on a sustainable basis

-- Sustainable positive FCF generation;

-- Ability to maintain strong cost structure, with adjusted EBITDAR margin above 20% on a sustainable basis

-- Ability to refinance its high cost debt at more attractive terms and improvement on a secured and unsecured mix

-- Maintenance of strong liquidity position (RCF + cash above 20% LTM Revenues) and well-spread debt amortization profile with no major refinancing risks in the medium term;

--EBITDAR fixed-charge coverage sustained at or above 2.5x;

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Liquidity deterioration and/ or difficulties to continue to access credit lines;

--Gross and net leverage ratios consistently above 4.0x and 3.5x;

--EBITDA fixed-charge coverage sustained at or below 1.0x;

--Competitive pressures leading to severe loss in market-share or yield deterioration;

--Aggressive growth strategy or M&A seeking industry's consolidation movement financed with debt.

Liquidity and Debt Structure

Strong Liquidity: Fitch views the company's liquidity position as key rating factor and Fitch expects LATAM to remain proactive on its liability management strategy in order to avoid refinancing risks. LATAM held cash of USD1.9 billion as of March 31, 2024, compared with short-term debt of USD365 million, excluding USD312 million of leases obligations. LATAM has in place two senior secured RCFs of total USD1.1 billion Including the RCF, the company's level of liquidity, measured as total cash and marketable securities plus unused committed credit lines over LTM revenue, was 24.3% as of March 31 2024.

LATAM does not face significant debt amortizations in the next two years, but at 2027 (USD1.7 billion), that relates to USD1.1 Term Loan B, USD450 million cross-border notes and Spare Parts debt at USD266 million.

Issuer Profile

LATAM is the largest airline group in Latin America, with expansive passenger and cargo operations and the largest frequent flyer program. Along this line, it has domestic operations in five South American countries: Brazil, Chile, Colombia, Ecuador and Peru. LATAM covers 148 destinations in 26 countries with its passenger operations, and 166 destinations in 33 countries with its cargo operations. At March 2024, the company's total fleet of 336 aircraft was mostly concentrated in Airbus (258), with remaining related to Boeing (78).

Date of Relevant Committee

22 May 2024

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
LATAM Airlines Group S.A.	LT IDR	BB- ⊕	Publish		WD
	LC LT IDR	BB- ⊕	Publish		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◈
NEGATIVE	⊖	◈
EVOLVING	◇	◆
STABLE	◯	

Applicable Criteria

Corporate Rating Criteria (pub.03 Nov 2023) (including rating assumption sensitivity)

Metodología de Calificaciones en Escala Nacional (pub.22 Dec 2020)

Metodología de Calificación de Finanzas Corporativas (pub.22 Dec 2023)

Metodología de Clasificación de Acciones en Chile (pub.10 Aug 2021)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.03 Nov 2023)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

LATAM Airlines Group S.A.	EU Endorsed, UK Endorsed

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