

03 APR 2025

Fitch Upgrades LATAM Airlines to 'BB'; Outlook Remains Positive

Fitch Ratings - Rio de Janeiro - 03 Apr 2025: Fitch Ratings has upgraded LATAM Airlines Group S.A.'s (LATAM) Long-Term Foreign and Local Currency Issuer Default Ratings (IDRs) to 'BB' from 'BB-', its Long-Term National Scale Rating to 'A(cl)' from 'BBB+(cl)' and its unsecured and subordinated local issuances to 'A-(cl)' from 'BBB(cl)'. Fitch has also upgraded LATAM's Equity Rating to 'Primera Class Nivel 2(cl)' from 'Primera Class Nivel 3(cl)'. The Rating Outlook remains Positive.

The upgrade reflects LATAM's improving credit metrics driven by growing profitability, operating cash flow generation and debt repayment as well as enhancements in financial flexibility. LATAM's FY25 credit metrics (total and net leverage of 2.2x and 1.5x, respectively) are strong for its rating, tempered by high industry cyclicality and its post-restructuring profile. LATAM has benefited from mild fuel prices and strong recovery of passenger traffic and yields of late. The company's ability to navigate different economic cycles and maintain its current solid credit profile should benefit the ratings, which supports the Positive Outlook.

Key Rating Drivers

Robust Operating Cash Flow: Fitch expects LATAM's operating cash flow to continue to improve during 2025 underpinned by solid traffic level, cost efficiencies, including fleet cost, and capacity expansion. Fitch forecasts LATAM's adjusted EBITDAR to reach around USD3.5 billion in 2025 and USD3.6 billion in 2026. The most efficient cost base led to higher EBITDAR margins of 23.8% during 2024 and important expansion from 21% in 2019. For 2025-2027, Fitch expects adjusted EBITDAR margins to range from 23%-24% in a scenario of less favorable fuel prices, lower demand growth and a more competitive environment that weakens yields.

Positive FCF Generation: LATAM's commitment to manage cautiously its growth opportunities in order to not deteriorate its credit metrics remains key. Upcoming capital expenditures related to fleet modernization and modest growth and modest dividends are well covered by LATAM's operating cash flow generation. Fitch forecasts LATAM's free cash flow generation to be positive during 2025 and 2026 around USD410 million after increasing capex. Fitch considered capex of USD1.65 billion in 2025 and in 2026 and dividends of USD225 million on average. Fitch considers that LATAM has some flexibility to defer those elevated capex levels in a scenario of downturn of the industry.

Deleveraging Trend: LATAM's leverage is expected to continue to decline in 2025, despite higher capex and dividends. Fitch's base case scenario forecasts the company's respective total and net adjusted leverage/EBITDAR ratios at around 2.2x and 1.5x during 2025 and 2.2x and 1.4x for 2026, a continued improvement from the respective 2023 levels of 2.7x and 2.1x and 2.3x and 1.7x in 2024. Those metrics are considered strong for the rating category. As of Dec. 31, 2024 LATAM's total debt was USD7.1 billion and it is expected to rise to USD7.5 bn in 2025, but still much lower than USD10.4 billion of debt as of 2019. During the Chapter 11, LATAM was able to reduce around 35% of its debt.

Improving Financial Flexibility: LATAM has a record of maintaining strong cash balances, a key rating consideration. The company's financial flexibility is enhanced by revolving credit facilities of USD1.575 billion that are fully undrawn, as well as a pool of unencumbered asset base of USD1.5 billion, including aircraft and additional engines. Fitch expects LATAM to maintain solid cash balances, with cash plus RCF to LTM revenues on average above 25%, as it seeks to reduce exposure to short-term refinancing risks and industry volatility. Fitch expects LATAM to remain proactive on its liability management strategy, as it seeks to reduce financial costs or improve its secured/unsecured debt profile basis.

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 the international routes between Latin America and either North America, Europe, Africa 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 joint venture with Delta Air Lines, Inc. (BBB-/Stable). LATAM's cargo business is also solid and has demonstrated important business resilience in recent years.

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 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 foreign exchange fluctuations for the Latin American players constitutes an additional risk, as most of its costs are dollar denominated and large part of their operating cash flow is generally in local currency. The history of several debt restructurings within the airline sector in the region over the past years highlights the risks.

Equity Rating: Fitch rates LATAM's shares at 'Primera Clase Nivel 2(cl)' based on its solvency and free float of 55%, according to its ownership structure. In terms of liquidity, it has 100% market presence and an average daily volume traded in the last month of USD17 million, based on information as of March 2025.

Peer Analysis

LATAM's 'BB' ratings reflect its diversified business model, in terms of product and geographic footprint, significant regional market position, strong capital structure, robust liquidity and financial flexibility. These positive factors are tempered by the industry's high business risks and exposure to exogenous shocks.

LATAM is rated lower than global player Delta Air Lines (BBB-/Stable) primarily due to the company's lower business scale, diversification and financial flexibility. LATAM is rated at same level of United Airlines Holdings, Inc. (BB/Positive) and two notches above American Airlines Group, Inc. (B+/Stable) due to better capital structure. In terms of the Latin American players, LATAM's rating is above Avianca Group International Limited (B/Stable) and AZUL S.A. (CCC/Positive) due to greater business diversification, stronger capital structure and liquidity.

Key Assumptions

--Fitch's base case during 2025 and 2026 includes an increase in ASK by 8% and 5%, respectively;

--Load factors around 82%-83% during 2025-2026;

-- Jet fuel at USD2.65 in 2025 and USD2.75 in 2026;

--Capex of USD1.65 billion in 2025 and 2026.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Liquidity deterioration or difficulties continuing to access credit lines;
- Gross and net leverage ratios consistently above 3.0x and 2.5x, respectively;
- EBITDAR fixed-charge coverage sustained at or below 2.0x;
- Competitive pressures leading to a severe loss in market share or yield deterioration;
- Aggressive growth strategy or M&A seeking industry consolidation financed with debt;
- Shareholder-friendly dividend distribution.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Gross and net leverage below 2.0x and 1.5x, respectively, on a sustainable basis;
- Sustainable positive FCF generation across different economic cycles;
- Ability to maintain strong cost structure, with adjusted EBITDAR margins above 26% on a sustainable basis;
- Continued ability to refinance its high-cost debt at more attractive terms and improvements on a secured and unsecured mix;
- Maintenance of strong liquidity position (cash above 20% LTM revenues, besides RCF) and well-spread debt amortization profile with no major refinancing risks in the medium term;
- EBITDAR fixed-charge coverage sustained above 3.5x.

Liquidity and Debt Structure

LATAM's robust liquidity position is a key rating factor and Fitch expects the company to remain proactive on its liability management strategy in order to continue to reduce financial costs, improve its debt profile mix and, ultimately, avoid refinancing risks. LATAM held cash close to USD2.0 billion as of Dec. 31, 2024, compared with short-term debt of USD635 million, including USD363 million of lease obligations. LATAM has two senior secured revolving credit facilities (RCFs), fully undrawn, of USD1.575 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 27.1% as of Dec. 31, 2024.

The majority of LATAM's USD 7.2 billion of debt is fleet related, with lease liability representing 47% of the total amount. Non-fleet debt is USD2.375 billion, with no amortizations in the next three years. Nevertheless, its 2029 bonds (USD700 million) are callable in October 2025. In 2028, LATAM will have non-fleet debt amortization of USD275 million, USD700 million in 2029 and 1.4 billion in 2030.

Issuer Profile

LATAM is the largest airline group in Latin America, with expansive passenger and cargo operations and the largest loyalty program. At December 2024, the company's fleet of 347 aircraft mix was concentrated in Airbus (77%) and Boeing (23%).

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

[Click here](#) to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Fitch Ratings Analysts

Debora Jalles

Senior Director

Primary Rating Analyst

+55 21 4503 2621

Fitch Ratings Brasil Ltda. Av. Barão de Tefé, 27 – Sala 601 Saúde Rio de Janeiro, RJ 20220-460

Francisco Mercadal

Associate Director

Secondary Rating Analyst

+56 2 3321 2912

Rogelio Gonzalez Gonzalez

Senior Director

Committee Chairperson

+52 81 4161 7034

Media Contacts

Maggie Guimaraes











São Paulo

+55 11 4504 2207








maggie.guimaraes@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
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ENTITY/DEBT	RATING		RECOVERY	PRIOR
LATAM Airlines Group S.A.	LT IDR	BB 	Upgrade	BB- 
	LC LT IDR	BB 	Upgrade	BB- 
	Natl LT	A(cl) 	Upgrade	BBB+(cl) 
	Nat Equity Rating	Primera Clase Nivel 2	Upgrade	Primera Clase Nivel 3
• senior unsecured	Natl LT	A-(cl) 	Upgrade	BBB(cl) 
• subordinated	Natl LT	A-(cl) 	Upgrade	BBB(cl) 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Chilean Equity Rating Criteria \(pub.22 Jul 2024\)](#)

[Corporate Rating Criteria \(pub.06 Dec 2024\) \(including rating assumption sensitivity\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub.22 Dec 2020\)](#)

[Metodología de Calificación de Finanzas Corporativas \(pub.14 Feb 2025\)](#)

[Metodología de Clasificación de Acciones en Chile \(pub.19 Jul 2024\)](#)

[National Scale Rating Criteria \(pub.22 Dec 2020\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.06 Dec 2024\)](#)

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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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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