MOODY'S RATINGS

CREDIT OPINION

27 September 2024

Update

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RATINGS

LATAM Airlines Group S.A (LATAM)

Domicile	Santiago, Chile
Long Term Rating	Ba2
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.

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LATAM Airlines Group S.A (LATAM)

Update following upgrade to Ba2; outlook stable

Summary

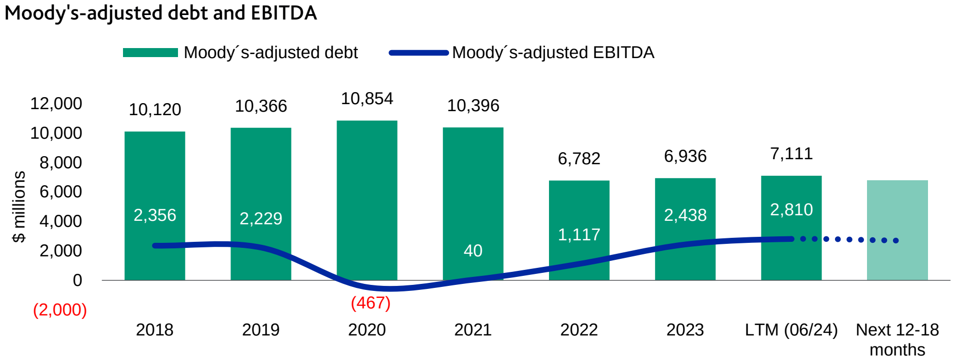
LATAM Airlines Group S.A (LATAM)'s Ba2 rating reflects the company's scale and superior network connectivity, which translate into leading positions in the five domestic markets in which it operates, in intraregional flights in Latin America and in international long-haul flights as of June 2024. The rating also reflects its well-diversified business portfolio of air transportation services and strategic alliances. The rating is also supported by LATAM's improved capital and cost structures, and good liquidity, which will allow the company to weather the volatility of the industry.

The rating is constrained by LATAM's exposure to the airline industry, and to macroeconomic risks and oil prices. 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.

On September 26th, we upgraded LATAM's ratings to Ba2 following the announcement of a new bond issuance that will reduce its average debt cost, and reflecting the company's track record of strong operating and financial performance during 2023-24 and strong traffic figures for the third quarter of 2024, which give us visibility into the sustainability of current credit metrics and liquidity levels. The company generated $968 million of free cash flow since the beginning of 2023 and $616 million in the 12 months that ended June 2024. LATAM's Moody's-adjusted debt/EBITDA improved to 2.8x as of year-end 2023 from 6.1x in 2022, and was 2.5x as of the 12 months that ended June 2024. We expect LATAM's leverage to remain within 2.0x-2.5x in the next two years, which provides a buffer to the company's credit quality. We also expect LATAM to pursue additional liability management initiatives to reduce debt costs and strengthen its interest coverage.

Exhibit 1

LATAM improved its cost and capital structures, and EBITDA recovered after bankruptcy
Moody's-adjusted debt and EBITDA



All figures and ratios are calculated using our estimates and standard adjustments. The forecasts (f) or projections (proj.) are our 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 Ratings

Credit strengths

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

» Variable cost structure and low unit cost, which provide flexibility through recovery

» Robust air travel demand in the region after the coronavirus pandemic-induced slump, which supports revenue passenger kilometers (RPK)

» Improved capital structure after bankruptcy

» Good liquidity

Credit challenges

» Exposure to the volatility of the airline industry

» Exposure to macroeconomic risks and oil prices, which could hurt credit metrics

Rating outlook

The stable outlook reflects our expectations that LATAM's credit metrics and liquidity will remain strong in the next 12-18 months, and that the company will maintain its conservative approach toward liquidity, costs and capacity management. The outlook also reflects our expectation that LATAM will continue to pursue liability management initiatives to reduce its debt cost further.

Factors that could lead to an upgrade

LATAM's ratings could be upgraded if the company strengthens its balance sheet and liquidity further, such that the company builds cushion in credit metrics under stress scenarios.

» adjusted leverage — measured by total debt/EBITDA) — to remain below 3.0x

» interest coverage — measured by (funds from operations [FFO] + interest expense)/interest expense — to be above 5.5x on a sustained basis

Maintenance of adequate liquidity, with positive free cash flow even during times of fleet expansion, would also be required for an upgrade.

Factors that could lead to a downgrade

The rating could be downgraded if credit metrics deteriorate, with:

» adjusted leverage remaining above 4.0x

» interest coverage remaining below 4.0x on a sustained basis

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

Key indicators

Exhibit 2
LATAM Airlines Group S.A (LATAM)

LATAM Airlines Group S.A (LATAM)

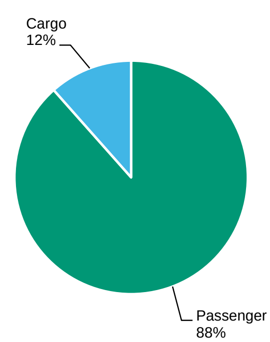
US Millions	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	LTM (Jun-24)	Moody's Forward View for the next 12-18 months (as of Sep-24)
Revenue	10,070.1	3,923.7	4,884.0	9,362.5	11,640.5	12,486.5	13,594.7
EBIT Margin %	7.54%	-47.31%	-23.03%	-0.67%	10.59%	11.95%	12.3% - 12.5%
Debt / EBITDA	4.7x	-23.3x	257.5x	6.1x	2.8x	2.5x	2.2x -2.3x
(FFO + Interest Expense) / Interest E	3.8x	-2.6x	-3.1x	3.7x	3.5x	3.6x	3.2x -4.3x
RCF / Net Debt	16.32%	-21.14%	-33.13%	44.66%	32.62%	33.23%	36.1% -56.7%

All figures and ratios are calculated using our estimates and standard adjustments. The forecasts (f) or projections (proj.) are our 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 Ratings

Profile

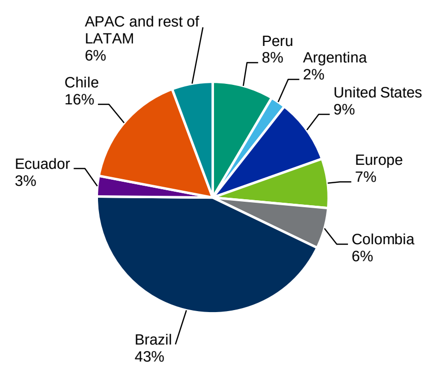
LATAM Airlines Group S.A (LATAM) is a Chile-based airline holding company formed by the business combination of LAN Airlines S.A. of Chile and TAM S.A. (TAM) of Brazil in June 2012. The company has domestic operations in Brazil, Chile, Peru, Ecuador and Colombia, and provides intraregional and international passenger services, in addition to cargo operations and a frequent flyer program. As of the 12 months that ended June 2024, LATAM generated around $12.5 billion in net revenue, with an adjusted EBITDA margin of 22.5%.

Exhibit 3
Revenue breakdown by business segment
For the 12 months that ended June 2024



Source: Company's financials

Exhibit 4
Revenue breakdown by region
For 2023



Based on point of sale.
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 146 destinations in 26 different countries; provides cargo services to 160 destinations in 33 countries; and as of June 2024, had a fleet of 319 passenger aircraft and 21 dedicated cargo aircraft and a set of bilateral alliances.

The company's scale and superior network connectivity translate into leading positions in three out of the five domestic markets in which it operates and in intraregional flights in South America as of August 2024. In addition, 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 and mid-2024. The company restructured its cost base, simplified its fleet[1], increased the share of variable costs (to about 70% 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. These initiatives led to a total reduction of about $1.3 billion in LATAM's annual operating costs, and will allow for faster responses to volatility in demand and cash preservation. LATAM's adjusted cost per available-seat-kilometer (CASK) ex-fuel was $4.8 cents in the 12 months that ended June 2024. This metric, around 41% lower than the industry average, illustrates LATAM's cost-driven management despite the inflationary pressures faced by the region in the last four years. LATAM's adjusted CASK ex-fuel, excluding its cargo operations, of $4.2 cents in the same period, 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 nonprofitable markets such as domestic operations in Argentina, and is focusing on strengthening its domestic hub in Fortaleza, Brazil, while expanding its presence in previously established hubs such as São Paulo, Santiago and Lima.

LATAM's post-exit capital structure has also improved, with total debt declining to around $7.1 billion as of June 2024 from $11.7 billion as of September 2022, mainly reflecting the conversion of debt into equity. The company also raised $800 million through a new equity offering. LATAM's total debt as of June 2024 comprised $4.4 billion in fleet debt; $1.15 billion in notes; $1.1 billion in a term loan; and about $500 million in other debt instruments. It also has $1.55 billion in fully undrawn revolving credit facilities (RCFs) currently.

Stable outlook for the airline industry, tempered by rising macroeconomic risks and increasing costs

Our outlook for the global airline industry is stable. In Latin America, demand for air travel continues to grow, and carriers will benefit from a more rational and consolidated market, which will help 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 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 and the first two quarters of 2024 — even as 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 lower disposable income. In year-to-date July 2024, LATAM's total RPK grew to 120% of the 2023 level (105% of the 2019 level), with Brazil and Spanish-speaking countries' RPKs at 121% and 116% of pre-pandemic levels, respectively, and international RPKs at 104%. 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, supply chain bottlenecks that prevent major fleet expansion 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 and Avianca Group International Limited's (B2 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. (Caa2 negative). In 2020, LATAM, Avianca and Grupo Aeromexico, S.A.P.I. de C.V. (B2 positive) 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 carriers Viva and Ultra were liquidated and ceased operations in Colombia, which improved the competitive dynamics in Colombia's domestic market as well. In February 2024, Gol filed for Chapter 11, preventing major capacity increases in the Brazilian domestic market as well.

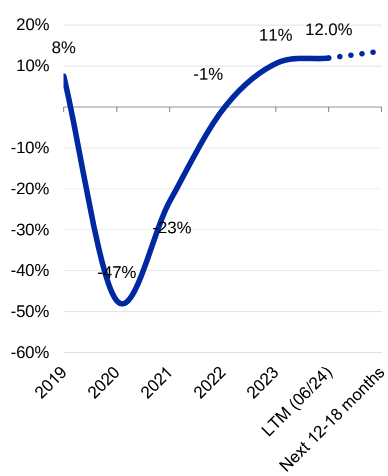
With the continued recovery in demand, the implementation of all initiatives, and the downsizing of financial and operating costs, LATAM's operating performance was stronger than expected. The company outperformed its business plan in 2023, and continued to post stronger metrics in H1 2024. The company's better-than-expected operating and financial performance in 2023 and 2024 creates a track record and visibility into the sustainability of the current credit metrics and liquidity levels. LATAM's Moody's-adjusted EBIT margin recovered to 12.0% in the 12 months that ended June 2024, from 7.5% in 2019, and adjusted leverage declined to 2.5x, below the pre-pandemic level of 4.7x. Interest coverage — measured as (Moody's-adjusted FFO + interest expense)/interest expense — improved to 3.6x in the 12 months that ended June 2024, and we expect the ratio to improve further to 4.0x-4.5x in 2024. On September 26th, LATAM announced a new bond issuance, which is part of its liability management strategy. Proceeds from the issuance will be used to prepay the company's $1.1 billion senior secured term loan B, thus reducing LATAM's average cost of debt and not affecting the company's debt protection metrics.

We expect LATAM's leverage to remain at 2.0x-2.5x and its cash position to amount to more than 15% of revenue in the next two years, providing a buffer to the company's credit quality even under stress scenarios. We also expect LATAM to pursue liability management initiatives to reduce debt costs and strengthen its interest coverage further after the expensive issuance of its exit financing. LATAM's strong operating performance and strengthened credit metrics reflect sustained improvements in the company's cost and capital structures, providing LATAM with the flexibility to withstand the volatility in market conditions.

Exhibit 5

LATAM's margins are higher than pre-pandemic levels

Moody's-adjusted EBIT margin

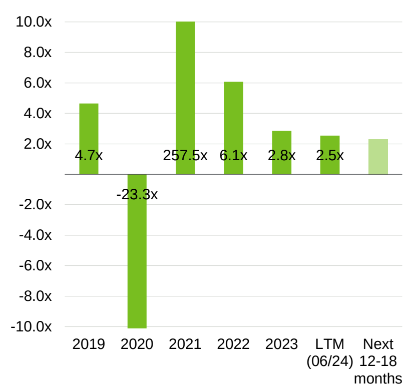


Source: Moody's Ratings

Exhibit 6

Leverage is below pre-pandemic levels because of the improved capital structure

Moody's-adjusted debt/EBITDA

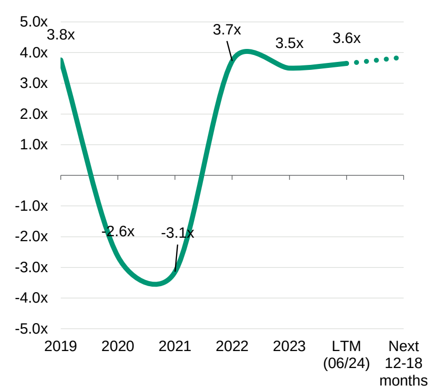


Source: Moody's Ratings

Exhibit 7

Interest coverage will improve as the company reduces its cost of debt

Measured by (FFO + interest expense)/interest expense



Data includes our standard adjustments.
Source: Moody's Ratings

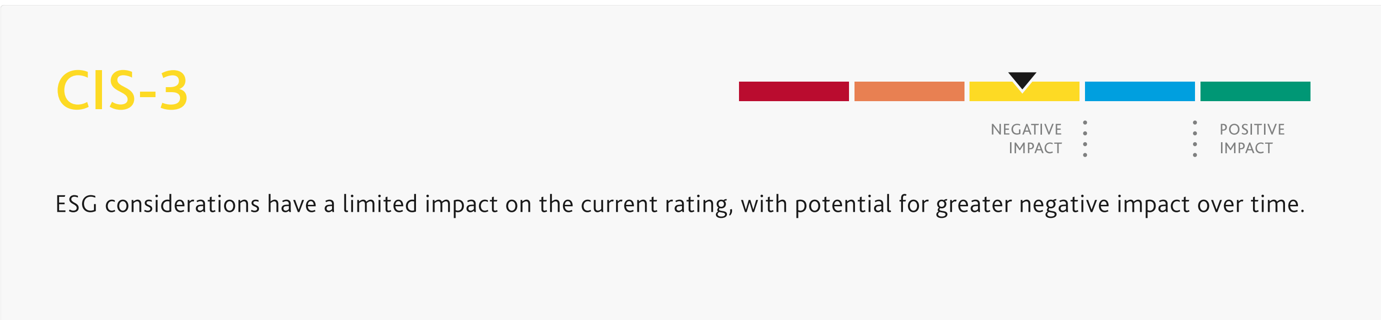
Exposure to currency volatility

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 the entity's 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 the 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 CIS-3

Exhibit 8
ESG credit impact score



Source: Moody's Ratings

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

Source: Moody's Ratings

Environmental

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

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

Governance

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 who became shareholders 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 $1.9 billion in cash and $650 million in debt maturing before the end of 2026. The company's cash balance covers short-term financial debt maturities of $214 million by 9x. The company's debt amortization schedule is comfortable, with most of the upcoming maturities represented by the exit financing notes and the new proposed notes, due beyond 2026. The company also has two secured, undrawn revolving committed credit facilities amounting to $1.1 billion since November 2022, which were upsized to $1.55 billion in July 2024 and extended until July 2029, and generated $968 million of free cash flow since the beginning of 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 Chapter 11, and the company continues to have flexibility in terms of fleet and non-fleet capital spending. We expect LATAM to generate about $2.0 billion-$2.5 billion in cash flow from operations annually, which is sufficient to cover annual capital spending needs by about 1.5x, including fleet renewal and expansion. We also expect neutral-to-positive free cash flow from 2024 onward, reflecting flexibility in maintenance capital spending and costs. The company also has other potential liquidity sources, including unencumbered assets that could be used in potential secured financing transactions.

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 some of its credit facilities. These include an asset coverage ratio of not less than 1.6x (measured on a semiannual basis) and 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 $160 million local bonds that are unsecured and subordinated to the rest of the financial debt, with collateral represented by aircraft in the case of leases and fleet debt; engines, components and aircraft in the case of the $800 million RCF; and intangible assets — such as intellectual property, brand, routes and slots, cargo business and other assets — in the case of term loans, the $750 million RCF and the secured notes. All debt, except the local bonds, ranks 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 Ba1 rating for the 12 months that ended 30 June 2024, one notch above the current assigned rating. The scorecard-indicated outcome reflects the improvement across all quantitative subfactors, driven by 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 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)

Methodology: Passenger Airline published on 30 Jun 2024	Current LTM (Jun-24)		Moody's Forward View Next 12-18 months (as of Sep-24)	
Factor 1: SCALE (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	12.49	Ba	13.59	Ba
Factor 2: BUSINESS PROFILE (25%)				
a) Market Position and Network Strength	**Baa**	**Baa**	**Baa**	**Baa**
Factor 3: PROFITABILITY AND EFFICIENCY (10%)				
a) EBIT Margin	11.95%	Ba	12.40%	Ba
Factor 4: LEVERAGE AND COVERAGE (40%)				
a) Debt / EBITDA	2.53x	Baa	2.20x	Baa
b) (FFO + Interest Expense) / Interest Expense	3.65x	B	3.75x	B
c) RCF / Net Debt	33.2%	Baa	46.4%	Baa
Factor 5: FINANCIAL POLICY (15%)				
a) Financial Policy	Ba	Ba	Ba	Ba
Rating Outcome:				
a) Scorecard Indicated Outcome		Ba1		Ba1
b) Actual Rating Assigned		Ba2		Ba2

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations. [2] As of 12/31/2023. [3] This represents our forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestures.
Sources: Moody's Financial Metrics™ and Moody's Ratings

Ratings

Exhibit 11

Category	Moody's Rating
LATAM AIRLINES GROUP S.A (LATAM)	
Outlook	Stable
Corporate Family Rating	Ba2
Sr Sec Bank Credit Facility	Ba2
Senior Secured	Ba2

Source: Moody's Ratings

Appendix

Exhibit 12

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	FYE Dec-23	LTM (06/24)
As Reported Debt	**10,119.8**	**10,365.7**	**10,853.9**	**10,396.5**	**6,781.9**	**6,936.2**	**7,111.1**
Pensions	0.0	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	0.0
Moody's-Adjusted Debt	**10,119.8**	**10,365.7**	**10,853.9**	**10,396.5**	**6,781.9**	**6,936.2**	**7,111.1**

Source: Moody's Financial Metrics™

Exhibit 13

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	FYE Dec-23	LTM (06/24)
As Reported EBITDA	**2,317.1**	**2,181.3**	**-1,456.7**	**-2,170.8**	**3,437.4**	**2,484.8**	**2,810.4**
Unusual	38.9	47.6	990.0	2,211.2	-2,320.7	-46.8	-0.7
Non-Standard Adjustments	0.0	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**	**2,438.0**	**2,809.8**

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

Endnotes

1 LATAM reduced its operating fleet, withdrawing the A350 aircraft and consolidating the Brazilian wide-body operations in the B777 and B787 aircraft.

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