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# Brazilian Airline Azul S.A. Downgraded To 'CCC-' From 'CCC+' On Elevated Default Risk; Outlook Negative

- Brazilian-based airline company Azul S.A.'s liquidity continues to erode due to material cash burn in the first quarter of 2025.
- The company faces material cash outflows related to high lease and financial expenses, and we think access to additional financing is highly restricted following two debt restructurings in recent years.
- Therefore, we lowered our issuer credit rating on Azul to 'CCC-' from 'CCC+'. At the same time, we lowered our issue rating on the company's senior unsecured notes due 2026 to 'CC' from 'CCC-'; the '6' recovery rating is unchanged. We also lowered our national scale rating to 'brCCC-' from 'brBB+'.
- The negative outlook reflects the increased likelihood of a default in the next six to 12 months.

SAO PAULO (S&P Global Ratings) May 20, 2025-- S&P Global Ratings today took the rating actions listed above.

**The downgrade reflects our view that Azul's very tight liquidity increases default risk within the next few months.** As of March 31, 2025, Azul's cash and liquid investments amounted to approximately R\$655 million. Although the company successfully raised R\$600 million in additional funding from bondholders, this is a short-term bridge financing with a 120-day maturity.

While Azul's debt maturities are not particularly substantial--totaling around R\$730 million over the next 12 months--the company's obligations related to operating lease payments, interest expenses, working capital, and capital expenditures (capex) are considerable. We estimate these needs are R\$7.4 billion-R\$7.8 billion over the same period.

**Azul raised R\$3.0 billion through new superpriority notes during its debt restructuring earlier this year but still reported cash burn of almost R\$750 million in the first quarter.** In the first three months of the year, the company reported an operating cash flow deficit of R\$313 million, driven

by substantial interest expenses, working capital outflows, and restructuring-related costs. Additionally, Azul paid slightly over R\$1.0 billion in leases and about R\$1.9 billion in debt maturities.

**Azul's operating results in the first quarter fell short of our expectations, and we now forecast material negative free operating cash flow (FOCF) after lease payments.** The main reasons for the weaker performance were depreciation of the Brazilian real (R\$) and rising fuel prices. We do anticipate healthy demand, alongside lower fuel prices and a more favorable exchange rate for the remainder of the year, which should contribute to revenue and EBITDA growth in 2025.

We now estimate approximately 10% revenue growth for 2025, with EBITDA expected to rise to about R\$6.8 billion this year, up from R\$5.9 billion in 2024. However, given the substantial lease payments, working capital requirements, other financial expenses, and capx, we forecast significant FOCF deficits after lease payments of R\$1.6 billion-R\$1.8 billion for 2025.

**Over the past two years, Azul has undergone two debt restructurings, neither of which has provided adequate relief to its capital structure and cash flows.** Despite reporting strong operating margins, the company's high debt burden and lease expenses leave it highly vulnerable to downturns in the industry or broader macroeconomic challenges. We believe until Azul can demonstrate improved cash flow generation and liquidity, access to capital markets (either for new financing or equity follow-on) is largely restricted.

Azul is working on potential new financing using a guarantee from the Brazilian Export Guarantee Fund (FGE) to finance fuel purchases. This financing could amount to up to R\$2.0 billion and could provide some liquidity relief and facilitate negotiations with investors.

The negative outlook reflects the increased short-term liquidity pressures and our view that we could lower our ratings on Azul if it pursues a new debt restructuring within the next six to 12 months or is unable to pay its financial obligations.

We could downgrade Azul if:

- We believe a default is a virtual certainty;
- The company announces or undertakes another distressed restructuring that we could consider equivalent to a default; or
- The company pursues a legal restructuring.

A positive rating action could result from significant liquidity relief amid stronger-than-expected recovery in its cash flows. It could also stem from new cash proceeds from new long-term funding--for instance, if the company manages to get financing with FGE guarantees.

## Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), April 4, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [General Criteria: National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [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: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#), Oct. 1, 2012
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

## Related Research

- [Brazilian Airline Azul S.A. Downgraded To 'SD' Following Distressed Debt Exchange](#), Jan. 29, 2025

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