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Fitch Assigns Expected 'B-(EXP)' to Azul and Proposed USD1.2 B Exit Notes; Withdraws 'D' Ratings

Fitch Ratings - Rio de Janeiro - 28 Jan 2026: Fitch Ratings has assigned a 'B-(EXP)' to Azul Secured Finance LLP's proposed senior secured USD1.2 billion Exit Finance Notes and a Recovery Rating of RR4. At same time, Fitch has withdrawn Azul S.A.'s (Azul) FC and LC IDRs at 'D' and its National Scale Rating at 'D(bra)' and assigned expected Long-Term Local and Foreign Currency Issuer Default Ratings (IDRs) of 'B-(EXP)' to Azul, with a Stable Outlook. The notes will be secured by a first lien on Azul's Brand & IP and receivables and investments in selected subsidiaries. Proceeds from the Exit Notes, along with other initiatives, will be used refinance the USD1.57 billion DIP and pay restructuring expenses, and for general corporate purposes.

The assignment of final ratings is contingent on the receipt of final documentation conforming to the information received. Once the transaction is concluded, including Azul's emergence from Chapter 11, Fitch will convert the expected ratings to final ratings. The expected ratings will be reviewed for material changes prior to Fitch assigning final ratings. Material changes may include changes in the company's capital structure at emergence, any material deviations from current assumptions, as well as Fitch's issuance of updated criteria or criteria exposure draft.

The expected 'B-' rating reflects the material improvement in Azul's credit metrics, following an approximately 42% haircut on debt and reductions in fleet and lease costs. The rating remains constrained by the industry's high volatility and Azul's limited financial flexibility, including a lack of unencumbered assets, still-limited liquidity, and the company's post-restructuring debt.

Fitch has withdrawn Azul's 'D' ratings while the company remains in the Chapter 11 debt restructuring process.

Key Rating Drivers

Exit from Chapter 11: Azul is expected to emerge from Chapter 11 in February 2026, following completion of the current issuance. The notes will be secured by a first lien on Azul Brand & IP, and receivables associated with Azul Fidelidade, Azul Viagens and Azul Cargo.

Proceeds of the Exit Notes, together with an Equity Rights Offering (ERO) of USD650 million, USD100 million of additional investment from certain bondholders and USD100 million from United Airlines, Inc. (BB+/Stable Outlook), will support the DIP payment. An additional USD100 million from American Airlines, Inc. (B+/Stable Outlook) is still pending regulatory approval. The transaction will close into escrow with release of funds subject to Azul's Chapter 11 emergence.

Significant Deleveraging: Fitch expects Azul's EBITDA total and net leverage to decline to around 3.0x and 2.8x, respectively in 2026 and to trend to 2.8x and 2.5x by 2028. This represents a significant deleveraging from 6.2x and 6.0x and 6.0x and 5.8x at the end of 2024 and 2025, respectively, and reflects a debt reduction of about 42% by end-2026 versus 2025, leading to lower interest expense. Fitch forecasts Azul's debt at around BRL23 billion at end-2026, with leasing obligations accounting for roughly 60%.

Lower Fleet Burden. Azul has been working toward greater cost efficiency and fleet optimization. As part of the renegotiations, Azul has rightsized its fleet through discussions with lessors and the return of selected aircraft, materially reducing rent payments. The company is also streamlining its network by focusing on core hubs and high-demand leisure destinations, while exiting loss-making routes. Azul is maintaining a balanced fleet mix by slowing deliveries and retaining cost-efficient E1 aircraft. Under the agreed plan, Azul expects lease payments to decline by about 33% to USD557 million from USD827 million in the pre-filing budget.

Improving Cost Structure: Fitch expects Azul's operating cash flow to improve during 2026 due to solid domestic traffic levels, relatively lower fuel prices and cost efficiencies. Fitch forecasts Azul's adjusted EBITDAR to reach around BRL7.6 billion in 2026 and BRL7.8 billion in 2027, an increase from BRL5.2 billion in 2024 and BRL6 billion estimated for 2025. The more efficient cost base is driving to higher EBITDAR margins, with Fitch's base case reaching 33.3% during 2026, ranging around 34% in 2027-2028.

Moderate Growth to Drive FCF: Azul's fleet modernization and growth strategy will be key drivers of free cash flow. Assuming relatively favorable fuel and FX conditions, capex volumes will be the main determinant of FCF generation. In 2026, as the company executes its exit plan, working capital is also likely to absorb cash flow, alongside higher capex. Fitch estimates capex around BRL2.1 billion in 2026 and BRL2.5 billion in 2027, an increase from an average of BRL1.5 billion in 2024 and 2025. Fitch forecasts FCF generation to remain negative in 2026 (BRL865 million) and to turn marginally positive in 2027 (BRL30 million).

Limited Financial Flexibility: Azul's weak unencumbered asset base and high share of secured debt remains a financial flexibility constraint. Fitch forecasts readily available liquidity of about BRL1.6 billion at end-2026 (around 6% of LTM revenue), which remains limited and provides little rating headroom. Fitch views lower short- to medium- term refinancing risks — supported by the post-emergence debt profile and reduced rental payments — as a partial offset to this weak liquidity position.

Strong Local Market Position: Fitch views Azul's business position as sustainable in the medium term, based on its solid market position in Brazil, with an average market of share of 30% over the past five years. The company has a differentiated regional strategy, focusing on underserved markets and fast-growing regions in Brazil. The company has a large footprint with less overlap of routes than its competitors. Azul is the leader in 92% of routes, and the only carrier in 84% of its market, with a strong presence in Brazil's busiest airports. GOL's cargo operations are also performing well and have shown strong resilience over the past few quarters.

Above-Average Industry Risks: The airline industry is inherently a high-risk sector given its cyclical, capital-intensive business with various structural challenges and exposure to exogenous shocks. High fixed costs combined with swings in demand and fuel prices typically translate into volatile profitability and cash flows. Foreign-exchange exposure is an additional risk for Latin American airlines, as most costs are U.S. dollar-denominated while a large portion of operating cash flow is generated in local currency.

Peer Analysis

Azul's 'B-' reflects its credit profile immediately after its Chapter 11 emergence, its solid position in the Brazilian airline market, moderate leverage, and still-limited liquidity and financial flexibility. Compared with Latin American peers, LATAM Airlines Group S.A. (LATAM; BB/Positive) is rated higher due to materially stronger liquidity, a larger pool of unencumbered assets, broader route diversification, and a clearer path to sustaining positive free cash flow and lower leverage.

Avianca Group International Limited (Avianca; B+/Stable) is rated above Azul, supported by ongoing deleveraging, improving profitability, and adequate liquidity with manageable refinancing risk following recent liability management actions. Gol Linhas Aereas Inteligentes S.A. (GOL; CCC+/Positive) remains weaker, reflecting high leverage, negative near-term free cash flow, and constrained financial flexibility.

Compared with North American peers, Azul's rating sits well below American Airlines, United Airlines and Air Canada (BB/Stable), all of which benefit from significant scale, global networks, robust liquidity and deeper access to capital markets, plus diversified revenue streams and extensive loyalty programs that support stronger credit metrics and shock absorption.

JetBlue Airways Corporation (Jetblue; B-/Negative), while smaller and more exposed to intense U.S. domestic competition, still exhibits liquidity and market-access advantages. Its cash balance and remaining unencumbered assets provide some flexibility to manage near-term demand weakness, but projected FCF is negative in the near term.

Fitch's Key Rating-Case Assumptions

- Fitch's base case during 2026 and 2027 includes a marginal increase in ASK of around 2%-3%;
- Load factors around 80%-81%% during 2026-2027;
- Jet fuel ranging around USD2.40-2.45 in 2026- 2027;
- Capex of BRL2.1 billion in 2026 and BRL2.4 billion in 2027;
- No dividends payments during 2025 and 2026.

Corporate Rating Tool Inputs and Scores

Fitch scored Azul as follows, using our Corporate Rating Tool (CRT) to produce the Standalone Credit Profile (SCP).

The business and financial profile factors are assessed (in the format of the 'assessment', followed by relative importance) as follows: Management ('b+', moderate), Sector Characteristics ('b+', moderate), Market and Competitive Positioning ('bb', moderate), Diversification and Asset Quality ('bb', moderate), Company Operational Characteristics ('bb-', moderate), Profitability ('b-', moderate), Financial Structure ('b-', high), and Financial Flexibility ('b-', high).

The quantitative financial subfactors are assessed based on custom financial period parameters of 20% weight for the latest historical fiscal year 2024 and 40% for forecast fiscal years 2025 and 2026.

The governance assessment of 'good' results in no adjustment.

The operating environment assessment of 'bb' results in no adjustment.

The SCP is 'b-(EXP)'.

Recovery Analysis

The recovery analysis assumes that Azul would be considered a going concern in bankruptcy and that the company would be reorganized rather than liquidated. Fitch has assumed a 10% administrative claim.

Going-Concern Approach: Azul's going concern EBITDA is BRL2.5 billion which incorporates the company's EBITDA post-restructuring, adjusted by lease expenses, plus a discount of 20%. The going-concern EBITDA estimate reflects Fitch's view of a sustainable, post reorganization EBITDA level, upon which Fitch bases the valuation of the company. The enterprise value (EV)/EBITDA multiple applied is 5.5x, reflecting Azul's strong market position in Brazil.

Fitch applies a waterfall analysis to the post-default EV based on the relative claims of the debt in the capital structure. The debt waterfall assumptions consider the company's total debt. These assumptions result in a Recovery Rating for the first lien secured debt within the RR1 range, but due to the soft cap of Brazil at RR4, Azul's senior secured debt will be rated at 'B-/RR4'. Currently, 100% of Azul's debt falls under first-priority lien class.

RATING SENSITIVITIES

Following the completion of the Chapter 11 process and the planned issuance of the Exit Notes, Fitch expects to assign a final rating of 'B-/RR4' to the new Exit Notes, and to convert the expected IDRs to final IDRs of 'B-'.

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

--Sustained liquidity weakening, with cash-to-LTM revenue consistently below 6%;

--Gross and net leverage consistently above 4.0 and 3.5, respectively;

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

- Competitive pressure resulting in a material loss of market share or yield deterioration;
- An aggressive growth strategy (including consolidation) funded primarily with debt.

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

- Gross and net leverage consistently below 2.5 and 2.0x, respectively;
- Sustainably neutral FCF;
- Sustained cost discipline, with adjusted EBITDAR margins above 33%;
- Continued ability to refinance high-cost debt on more favorable terms and improve the secured and unsecured mix;
- Maintenance of strong liquidity (cash above 10% of LTM revenue) and an extended debt maturity profile with no material medium-term refinancing risks;
- EBITDAR fixed-charge coverage sustained above 1.2x.

Liquidity and Debt Structure

Azul's pro forma post-emergence liquidity is expected to improve, reflecting a higher cash balance and reduced near-term refinancing risks. Under the plan, Azul will receive around USD850 million of new equity, comprising a USD650 million backstopped ERO and USD200 million from both United and certain bondholders. An additional USD100 million investment from American Airlines remains subject to regulatory approval and it is not incorporated into Fitch's forecasts.

Pro forma debt is expected to decline to about USD3.8 billion from USD7.3 billion pre-emergence. Part of the reduction reflects the use of proceeds to prepay certain obligations, in addition to supporting liquidity. Post-emergence debt is expected to consist mainly of USD1.2 billion new Exit Notes due 2031, USD132 million of drawn secured letters of credit, USD87 million of local debentures, and USD69 million of aircraft debt.

Fitch forecasts readily available liquidity of BRL1.6 billion at end-2026, up from BRL0.6 billion as of Sept. 30, 2025 and BRL1.2 billion at end-2024 (pre-Chapter 11 filing). Despite the improvement, liquidity remains limited and provides modest rating headroom to absorb industry volatility. Fitch views the pro forma short- to medium-term refinancing risk, together with lower lease payments, as partially offsetting this constraint.

Azul also cites other liquidity sources — accounts receivable (BRL2.6 billion) and security deposits (BRL4.4 billion) as of Sept. 30, 2025 — which are not included in Fitch's liquidity and net leverage metrics.

Further liquidity improvement will depend on continued access to new credit lines and stronger free cash flow generation supported by a prudent growth strategy.

Issuer Profile

Azul is one of Brazil's largest airlines, dominating the regional market and serving as the sole carrier on 84% of its routes. For the LTM ended September 2025, 93% of its revenue came from passengers and 7% from cargo/other.

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 Sector Forecasts Monitor 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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY		PRIOR
Azul S.A.	LT IDR	WD	Withdrawn		D
	LT IDR	B-(EXP) 	Expected Rating		
	LC LT IDR	WD	Withdrawn		D
	LC LT IDR	B-(EXP) 	Expected Rating		
	NatI LT	WD(bra)	Withdrawn		D(bra)
Azul Secured Finance LLP					
<div>• senior secured</div>	LT	B-(EXP)	Expected Rating	RR4	

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.09 Jan 2026\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.02 Aug 2024\) \(including](#)

[rating assumption sensitivity](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.03 Mar 2023\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.09 Jan 2026\)](#)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.2.0 [\(1\)](#) [\(2\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Azul 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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