GOL Linhas Aereas Inteligentes S.A. (GOL) (GOL-NYSE)

**SUMMARY**

GOL Linhas enjoys considerable command over the Brazilian air travel sector backed by its network expansion across markets, fleet restructuring, competitive pricing and enhancement of customer services. Various strategic partnerships and collaborations along with its loyalty program should allow the company to effectively serve customers. Further, international expansion will boost the company’s performance. Nevertheless, we stay on the sidelines owing to the company's wider than expected loss in the third-quarter of 2014. Additionally, GOL faces a number of headwinds including weak domestic economy, competitive sector scenario, imbalance in supply and demand ratio, and exposure to international business risks. Considering these factors, we retain our Neutral recommendation on GOL Linhas.

**SUMMARY DATA**

- **52-Week High**: $7.04
- **52-Week Low**: $2.48
- **One-Year Return (%)**: -41.99
- **Beta**: 2.16
- **Average Daily Volume (sh)**: 2,292,738
- **Shares Outstanding (mil)**: 281
- **Market Capitalization ($mil)**: 722
- **Short Interest Ratio (days)**: 1.97
- **Insider Ownership (%)**: N/A
- **Institutional Ownership (%)**: 6
- **Annual Cash Dividend**: $0.00
- **Dividend Yield (%)**: 0.00
- **5-Yr. Historical Growth Rates**
  - **Sales (%)**: 3.4
  - **Earnings Per Share (%)**: N/A
  - **Dividend (%)**: N/A
- **P/E using TTM EPS**: N/A
- **P/E using 2015 Estimate**: N/A
- **P/E using 2016 Estimate**: 28.6
- **Zacks Rank ***: Short Term
  - **1 – 3 months outlook**: 3 - Hold
- **Risk Level ***: Above Avg.,
- **Type of Stock**: Small-Growth
- **Industry**: Trans-Airline
- **Zacks Industry Rank ***: 68 out of 267

**ZACKS CONSENSUS ESTIMATES**

**Revenue Estimates**

<table>
<thead>
<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1,032 A</td>
<td>841 A</td>
<td>959 A</td>
<td>1,272 A</td>
<td>4,104 A</td>
</tr>
<tr>
<td>2014</td>
<td>1,125 A</td>
<td>1,044 A</td>
<td>960 A</td>
<td>827 E</td>
<td>3,956 E</td>
</tr>
<tr>
<td>2015</td>
<td>807 E</td>
<td>778 E</td>
<td>799 E</td>
<td>890 E</td>
<td>3,274 E</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3,690 E</td>
</tr>
</tbody>
</table>

**Earnings Per Share Estimates**

(EPS is operating earnings before non-recurring items, but including employee stock options expenses)

<table>
<thead>
<tr>
<th></th>
<th>Q1 (Mar)</th>
<th>Q2 (Jun)</th>
<th>Q3 (Sep)</th>
<th>Q4 (Dec)</th>
<th>Year (Dec)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>-$0.13 A</td>
<td>-$0.69 A</td>
<td>-$0.31 A</td>
<td>-$0.03 A</td>
<td>-$1.16 A</td>
</tr>
<tr>
<td>2014</td>
<td>-$0.21 A</td>
<td>-$0.27 A</td>
<td>-$0.14 A</td>
<td>-$0.15 E</td>
<td>-$0.77 E</td>
</tr>
<tr>
<td>2015</td>
<td>$0.02 E</td>
<td>-$0.14 E</td>
<td>-$0.07 E</td>
<td>-$0.15 E</td>
<td>-$0.34 E</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0.09 E</td>
</tr>
</tbody>
</table>

**Projected EPS Growth - Next 5 Years %**

N/A
OVERVIEW

GOL Linhas (GOL) has emerged as the first Brazilian low-fare airline. It started operations in 2001 and has grown rapidly ever since. The company’s strategy is to increase the size of the market by attracting new passengers through low fares, a young and modern aircraft fleet, targeted marketing, and simplified travel services. These can be accessed through a variety of optional payment mechanisms designed to make ticket purchase easier for customers belonging to a broad income group. The company has a diversified revenue base, with customers ranging from business passengers traveling between densely populated cities in Brazil such as Sao Paulo, Rio de Janeiro, and Belo Horizonte, to leisure passengers traveling across Brazil and to international destinations in the South American continent.

GOL Linhas is one of the most profitable low-cost airlines in the world and the most lucrative in South America. It is also the only low-fare, low-cost airline providing frequent services on routes connecting the major cities of Brazil as well as those in Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay. The company crossed the mark of 160 million passengers carried in just 10 years of operations, representing the highest growth in the history of Brazilian commercial aviation. GOL Linhas offers nearly 910 daily flights to 65 destinations across 10 countries in the South America, the Caribbean and the United States. During 2013, passenger revenues represented about 90.7% of total revenue, while cargo constituted the balance.

REASONS TO BUY

➤ GOL has been fortifying its foothold in the aviation industry with the restructuring of its domestic operations along with the expansion of its international business. To date, the carrier has signed nine code share and 78 interline agreements. The company expects consolidation of strategy and improvement of products to deliver better performance in 2014. GOL witnessed a surge in demand owing to the 2014 FIFA World Cup which drew supporters from all over the world to Brazil. Moreover, over the last few months, the company has increased the number of cities served and inaugurated new terminals to ensure better service and convenience for passengers. In the third quarter of 2014, Revenue passenger kilometers (RPK) – implying revenue generated per kilometer per passenger – improved 9.2% year over year to 9,459 million. International RPK spiked 30.3% while domestic RPK rose 6.8%. For 2014, the company raised its operating margin outlook to 4–6% from 3–5%.

➤ With the target of stretching its operational wings, GOL has approached the National Civil Aviation Agency for permission to upgrade its activities at Viracopos Airport, Campinas. With a bigger base in the Campinas airport, the company intends to attract passengers from cities such as Limeira, Jundiaí, Piracicaba, Itu and Sorocaba. The carrier wants to increase the frequency of daily flights between Sao Paolo and Rio de Janeiro via the Campinas and Santos do Dumont airports to 130. Further enhancing its U.S. exposure, GOL received the permission from the Brazilian National Civil Aviation Agency (ANAC) to run a regular service between Campinas and Miami, with a scheduled stop at Santo Domingo. The company has also won the necessary approval to renew its Sao Paolo-Santiago route in Chile and has already launched direct flights between Fortaleza-Buenos Aires in Argentina and Punta Cana. In Jul 2014, GOL also made a formal request to ANAC to operate four weekly flights to Carajás and three weekly ones to Altamira. These initiatives are expected to boost the company's top line.

➤ GOL remains focused on fleet restructuring with the aim of bringing in advanced and young aircraft that will help offset the effect of rising fuel prices. At the end of the third quarter of 2014, the
company had 130 firm aircraft orders worth R$32.7 billion ($14.2 billion) with Boeing to replace its existing fleet. The company expects delivery of R$1,764.9 million ($776 million) worth of aircraft during the year. Moreover, the carrier’s GOL+ seating facility service is reaping favorable results as it ensures greater comfort and experience for passengers. At present, 94% of its carriers have adopted this service while the company expects to cover all flights with it, going ahead. Further, GOL retains its target of fleet rationalization with a future fleet plan of 137 in 2014, 140 in 2015 and 140 in 2016. The airline ended the quarter with an operational fleet comprising 133 aircraft.

GOL has entered into a number of collaborations to expand its operating base as well as offer better services to customers. In April 2013, GOL struck an investment agreement, worth R$400 million, with the private equity firm General Atlantic. Soon after, the airline entered into a codeshare agreement with Della Air Lines, whereby the two carriers will maximize the connecting routes in the Brazil–United States passage. The collaboration also allows both carriers to share knowledge and information of products and services. The carriers have attained their immediate goal of expanding the code share agreement, thus efficiently serving GOL customers on long haul flights. GOL also got the board and regulators’ approval for its exclusive strategic partnership with Air France-KLM SA, which is aimed at expanding operations between Brazil and Europe. Air France-KLM will invest $100 million in GOL as part of the alliance, which will include code, sharing, joint sales activities and other enhanced offerings through loyalty programs. The partnership will particularly strengthen GOL’s position in Europe – one of the most popular destinations for Brazilians. In Jul 2014, GOL inked a code share agreement with UAE-based Etihad Airways that will enhance the international offerings of both the carriers.

**REASONS TO SELL**

- According to the International Monetary Fund, Brazil’s expected economic growth rate to be slow in 2014 owing to weak confidence and tighter financial conditions. GOL reiterates Brazil’s GDP growth rate forecast in the range of 1.5%–2.0% for 2014. The company also faces stiff fare competition from the existing players. Recently, Brazil’s third most popular carrier Azul SA decided to operate 75 Airbus jets to the U.S. Azul is continuously expanding its fleets in order to compete with GOL and TAM, the other two leading carriers in the domestic market. This poses a threat to the company’s flow of income. This trend is expected to continue given the economic weakness persisting in Brazil. Further, in 2014, sluggish U.S. GDP growth remains a concern for GOL, as the country remains the largest intercontinental market for Brazil. The global fuel price volatility may pose a significant challenge for GOL.

- GOL’s Available Seat kilometers (ASK) in the reported quarter, declined 2% year over year to 12,201 million. ASK in the domestic market reduced 4.2% against 15.5% growth internationally. For 2014, the company expects a negative 1–3% variation in domestic capacity. GOL’s earnings will be affected by the quantum of operations done internationally. The lack of international capacity as compared to demand has led southern European airline companies to partake the opportunity provided by the 2014 FIFA World Cup hosted in Brazil. The company declared that it might further reduce its domestic operations in 2014 due to the slow economic growth in Brazil, instead augmenting its international presence. The company expects its supply to vary between negative 1% and 3% in 2014 within the domestic market. In the process, the company is exposed to currency fluctuation risk. Depreciation of Brazilian real against the U.S. dollar could also be a major worry for GOL, tending to impact its profitability. Moreover, operating costs related to aircraft rent, maintenance, and promotional activities have put margins under pressure.
The company is highly dependent on the products of certain big suppliers like Boeing 737-700/800 Next Generation aircraft and CFM 56-7B engines. A shift in loyalty among suppliers may negatively affect the company's profitability going forward. GOL has been facing huge loans and liabilities which increased the company's debt and subsequently led to a weaker balance sheet. Additionally, the carrier remain exposed to country risk in Venezuela, as airlines have to incur considerable losses to transfer funds owing to the country's currency control system. Further, devaluation of the Venezuelan bolivar as against the dollar also impacted GOL's third-quarter cash position by around $58.4 million. These unavoidable factors continue to increase our anxiety regarding the stock.

The efficiency of airline firms like GOL depends largely on technological improvements. This requires significant capital investments on the part of the company to deploy up-to-date technology that will help in reducing costs and enhancing customer service in order to remain competitive. The profitability of GOL may be adversely affected by technology failure or if the company is unable to continue to invest in new technologies.

**RECENT NEWS**

**GOL Linhas January Traffic Rises on High Domestic Demand – Feb 23, 2015**

GOL Linhas posted a significant rise in air traffic for the month of January, this year. Traffic – measured in Revenue Passenger kilometres (RPK) – came in at 4.15 billion, up 6.5% from 3.64 billion recorded in the comparable month a year ago. On a year-over-year basis, consolidated capacity (or available seat miles/ASMs) inched up 6.5% to 4.99 billion.

Meanwhile, the load factor or percentage of seats filled by passengers increased to 84.1% from 78.2% recorded in Jan 2014. A strong 12% growth in domestic demand has resulted in the significant improvement in load factor.

**GOL’s Q3 Loss Wider than Expected despite Revenue Growth---- Nov 11, 2014**

GOL reported third-quarter 2014 net loss per share of approximately $0.14, wider than the Zacks Consensus Estimate of a loss of $0.09. The loss, however, compared favorably with the year-ago loss of $0.31 per share. A decline in domestic supply hurt the quarter’s results. The company reported third-quarter net loss of R$245.1 million (approximately $96 million), substantially wider than the year-ago net loss of R$197 million (approximately $77.1 million).

**Revenues**

Net revenue increased 10.4% year over year to R$2,461.7 million (approximately $960 million), missing the Zacks Consensus Estimate of $962 million by a small margin. Increased demand and load factor in addition to the company’s efforts to enhance service for its customers accounted for the year-over-year growth. Passenger revenues grossed R$2,189.3 million ($856.4 million) while cargo revenues totaled R$272.3 million ($106.5 million).

**Operational Statistics**

Revenue passenger kilometers (RPK) – implying revenue generated per kilometer per passenger – improved 9.2% year over year to 9,459 million. International RPK spiked 30.3% while domestic RPK rose 6.8%. Available Seat kilometers (ASK) – that measures an airline’s passenger carrying capacity – declined 2% year over year to 12,201 million. ASK in the domestic market reduced 4.2% against 15.5% growth on the international front. During the reported quarter, the company’s total load factor stood at
77.5%, up 790 basis points (bps) from the year-ago quarter. Domestically, load factor moved up 810 bps while internationally, it rose 830 bps.

Margins

Operating costs and expenses in the quarter increased 5.3% to R$2,309 million (approximately $903.2 million). Third-quarter 2014 operating income (EBIT) improved to R$152 million (approximately $59.5 million).

Financials

Exiting the third quarter of 2014, GOL had cash and cash equivalents of R$1,942.3 million (approximately $760 million) against R$1,635.7 million (approximately $640 million) at the end of 2013. Long-term debt came in at R$4,840.4 million (approximately $1,893.4 million) in the reported quarter as against R$5,148.6 million (approximately $2,013.9 million) at the end of 2013.

Outlook

For 2014, the company expects a negative 1–3% variation in domestic capacity, while growth in international market is projected at around 8%. GOL expects Brazil's GDP growth rate in the range of 1.5–2.0% for 2014. The company expects RASK (revenue per available seat kilometer) growth of 10% or above and CASK (cost of available seat kilometer) growth, excluding fuel growth, of around 10% or below. In keeping with these views, GOL projects EBIT margin of 3–6% for 2014.

VALUATION

GOL is currently incurring losses and therefore it is not possible to value the stock on P/E multiple basis for fiscal 2015. However, with respect to our fiscal 2016 earnings estimate, the stock is trading at 28.6x, a premium to both the S&P 500 and the industry average.

We believe GOL's long-term business strategy of route expansion, strong customer experience and agreements with other companies are likely to create significant operational synergies. Also, the company's focus on operational cost reduction, continued enhancement of fleet efficiency and ancillary service offerings should also increase customer demand and profitability. However, fierce competition, shrinking domestic supply and depreciation of the Brazilian real are nagging concerns that weigh on the stock. Hence, we have a Neutral rating with a target price of $2.75, based on P/B multiple of 12.4.
### Key Indicators

<table>
<thead>
<tr>
<th>GOL LINHAS-ADR (GOL)</th>
<th>P/E F1</th>
<th>P/E F2</th>
<th>Est. 5-Yr EPS Gr%</th>
<th>P/CF TTM</th>
<th>P/E 5-Yr High TTM</th>
<th>P/E 5-Yr Low TTM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Average</td>
<td>12.2</td>
<td>10.3</td>
<td>18.9</td>
<td>7.8</td>
<td>27.2</td>
<td>8.7</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>16.6</td>
<td>15.4</td>
<td>10.7</td>
<td>14.5</td>
<td>18.2</td>
<td>18.4</td>
</tr>
<tr>
<td>ALASKA AIR GRP (ALK)</td>
<td>11.0</td>
<td>10.5</td>
<td>15.6</td>
<td>10.3</td>
<td>16.2</td>
<td>16.2</td>
</tr>
<tr>
<td>JETBLUE AIRWAYS (JBLU)</td>
<td>11.2</td>
<td>10.4</td>
<td>9.8</td>
<td>26.7</td>
<td>51.7</td>
<td>10.4</td>
</tr>
<tr>
<td>SKYWEST INC (SKYW)</td>
<td>18.0</td>
<td>12.9</td>
<td>3.1</td>
<td>198.2</td>
<td>438.5</td>
<td>8.5</td>
</tr>
<tr>
<td>COPA HLDGS SA-A (CPA)</td>
<td>11.3</td>
<td>10.2</td>
<td>9.2</td>
<td>7.6</td>
<td>9.3</td>
<td>16.2</td>
</tr>
</tbody>
</table>

TTM is trailing 12 months; F1 is 2015 and F2 is 2016, CF is operating cash flow

<table>
<thead>
<tr>
<th>GOL LINHAS-ADR (GOL)</th>
<th>P/B Last Qtr.</th>
<th>P/B 5-Yr High</th>
<th>P/B 5-Yr Low</th>
<th>ROE (TTM)</th>
<th>D/E Last Qtr.</th>
<th>Div Yield Last Qtr.</th>
<th>EV/EBITDA (TTM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry Average</td>
<td>3.4</td>
<td>3.4</td>
<td>3.4</td>
<td>14.9</td>
<td>1.2</td>
<td>0.8</td>
<td>9.3</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>6.2</td>
<td>9.8</td>
<td>3.2</td>
<td>25.4</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Earnings Surprise and Estimate Revision History

GOL LINHAS-ADR (N)
Price
EPS Surprises


GOL LINHAS-ADR (N)
EPS ($/sh) 2015 Consensus 2014 Consensus
2013 Consensus 2012 Consensus 2011 Consensus


ZACKS
Equity Research
GOL | Page 7
DISCLOSURES & DEFINITIONS

The analysts contributing to this report do not hold any shares of GOL. The EPS and revenue forecasts are the Zacks Consensus estimates. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts’ personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**: Zacks expects that the subject company will outperform the broader U.S. equity market over the next six to twelve months. **Neutral**: Zacks expects that the company will perform in line with the broader U.S. equity market over the next six to twelve months. **Underperform**: Zacks expects the company will underperform the broader U.S. Equity market over the next six to twelve months. The current distribution of Zacks Ratings is as follows on the 1130 companies covered: Outperform - 15.1%, Neutral - 75.0%, Underperform – 9.0%. Data is as of midnight on the business day immediately prior to this publication.

Our recommendation for each stock is closely linked to the **Zacks Rank**, which results from a proprietary quantitative model using trends in earnings estimate revisions. This model is proven most effective for judging the timeliness of a stock over the next 1 to 3 months. The model assigns each stock a rank from 1 through 5. Zacks Rank 1 = Strong Buy, Zacks Rank 2 = Buy, Zacks Rank 3 = Hold, Zacks Rank 4 = Sell, Zacks Rank 5 = Strong Sell. We also provide a **Zacks Industry Rank** for each company which provides an idea of the near-term attractiveness of a company's industry group. We have 264 industry groups in total. Thus, the Zacks Industry Rank is a number between 1 and 264. In terms of investment attractiveness, the higher the rank the better. Historically, the top half of the industries has outperformed the general market. In determining **Risk Level**, we rely on a proprietary quantitative model that divides the entire universe of stocks into five groups, based on each stock's historical price volatility. The first group has stocks with the lowest values and are deemed **Low Risk**, while the 5th group has the highest values and are designated **High Risk**. Designations of **Below-Average Risk**, **Average Risk**, and **Above-Average Risk** correspond to the second, third, and fourth groups of stocks, respectively.