Latam Airlines Says High Fuel Costs Expected to Restrain Growth



A Latam Airlines Group SA plane on the tarmac in Sao Paulo, Brazil. *Photographer: Victor Moriyama/Bloomberg*

By Valentine Hilaire

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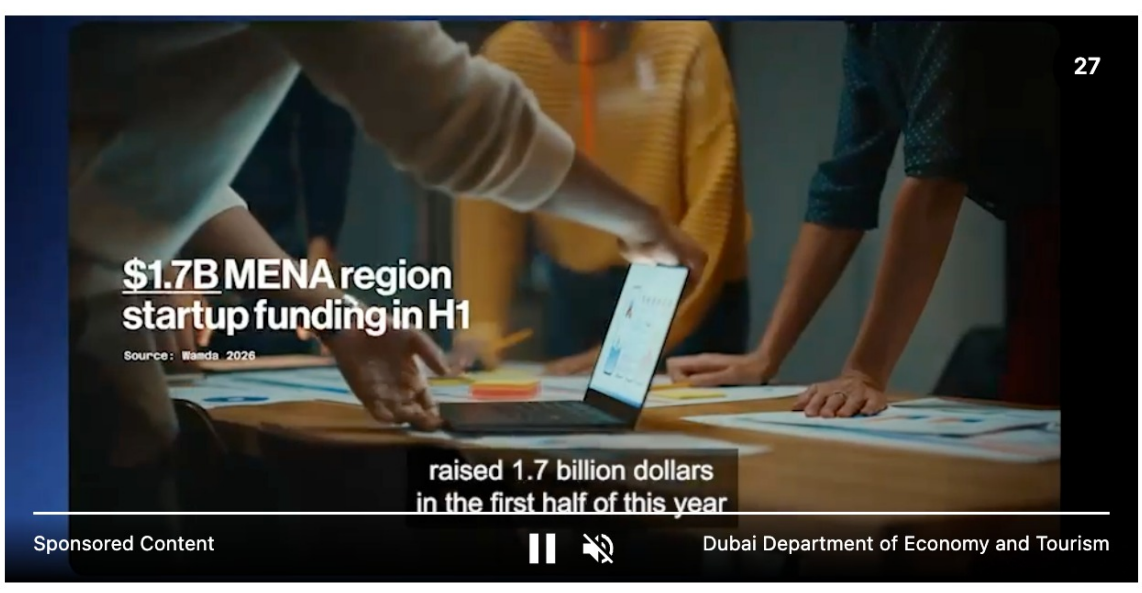
Takeaways by Bloomberg AI Hide

- Latam Airlines Group SA warns that energy costs could remain elevated even if tensions in the Middle East ease, leading to slower capacity growth for the carrier.
- Chief Executive Officer Roberto Alvo said the market still faces refining constraints and is looking for a sustained resolution for the conflict.
- Demand has remained resilient despite higher fares, with travelers prioritizing travel and experiences over other purchases, and Latam's focus on higher-value passengers has helped cushion a slight decline in plane occupancy.

Latam Airlines Group SA warns that energy costs could remain elevated even if tensions in the Middle East ease, leading to slower capacity growth for the carrier.

Chief Executive Officer Roberto Alvo said the market still faces refining constraints and is looking for a sustained resolution for the conflict. Latam had assumed jet fuel at $147 a barrel for the third quarter and $130 for the fourth quarter, well below the roughly $190 it's trading at now.

Alvo declined to say how higher costs will affect Latam's outlook ahead of its third-quarter results on Nov. 3. Latam cut its full-year adjusted Ebitda guidance, a measure of profitability, in May. It then provided a slightly more upbeat outlook in August when it lowered its fuel-price assumptions.



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Demand has remained resilient despite higher fares, Alvo told Bloomberg News. "Travelers may be replacing cars or televisions less frequently" to prioritize travel and experiences, he added.

Latam's focus on higher-value passengers has also helped cushion a slight decline in plane occupancy, as the weakness is concentrated among more price-sensitive travelers. Alvo said the carrier is willing to tolerate having fewer passengers for higher overall revenue.

Still, the company's plane occupancy, or load factor, has lagged year-earlier levels since April. September capped a quarter in which load factor declined to 83.7%, 1.7 percentage points lower than a year earlier. Citi expects the measure to remain subdued as higher fuel costs push up fares and weigh on demand, according to a note this month.

As the Santiago-based airline pursues a broader expansion in Brazil, Mexico offers another avenue for growth. Incoming extra-long-range Airbus jets could make routes to Monterrey and Guadalajara more viable, Alvo said, extending Latam's service beyond its current flights to Mexico City and Cancún.

Connectivity between Mexico and Brazil remains surprisingly limited, with only two flights a day, leaving room for new flights from the capital and other Mexican cities.

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