Conference Call
4Q21 Earnings Results
February 24, 2022

Operator

Hello, everyone. And welcome to Azul's Fourth Quarter 2021 Results Conference Call. My name is Hennan, and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode until we conduct a question-and-answer session following the company's presentation.

I would like to turn the presentation over to Thais Haberli, Investor Relations Manager. Please proceed.

Thais Haberli

Thank you, Hennan. And welcome all to Azul's fourth quarter earnings call. The results that we are announced this morning, the audio of this call and slides that we'll reference are available on our IR website. Presenting today will be David Neeleman, Azul Founder and Chairman; and John Rodgerson, CEO; Alex Malfitani, our CFO; and Abhi Shah, our Chief Revenue Officer are also here for the Q&A session.

Before I turn the call over to David, I'd like to caution you regarding our forward-looking statements. Any statements discussed today that are not historical facts, particularly comments regarding the company's future plans, objectives and expected performance constitute forward-looking statements. These statements are based on a range of assumptions that the company believes are reasonable, but are subjected to uncertainties and risks that are discussed in detail in our CVM and SEC filings. Also during the course of the call, we will discuss non-IFRS performance measures, which should not be considered in isolation.

With that, I will turn the call over to David. David?

David Gary Neeleman

Thank you, Thais. Hi everyone, thank you for joining us for our fourth quarter 2021 earnings call. As always, I would like to start by thanking our incredible crewmembers. Thanks for their efforts, we delivered in Q4 another industry-leading quarter with record revenues and significant growth in our network and earnings.

Our competitive advantage led by our unique network and diversified fleet resulted in a record BRL 3.7 billion in net revenue for the fourth quarter well above 2019 levels. If you could remember back in the fourth quarter of 2019, that actually was our best revenue quarter ever until now. So the base was high and we are proud to be one of the few airlines worldwide to surpass pre-pandemic revenues in 2021.

More importantly, we earned over BRL1 billion in EBITDA during the quarter. With the BRL 5.58 and fuel around BRL 80 a barrel all with international and corporate travel still recovering. This gives you a clear indication as to the earning strength of our airline and why we are so excited for 2022 and beyond. While we did experience some short-term challenges from Omicron during the first quarter 2022 that wave now it's clearly behind us. In fact, we saw much lower hospitalizations versus previous infection waves. We had only one crewmember hospitalized in January 2022.

As you can see on Slide 4, we experienced a peak of sick calls that were seven times higher than normal. As a result, we adjusted our network for both January and February to maintain our operation. I'm happy to report that the wave which peaked during the middle of January is now as I said behind us and our operation is running normally, and our MPS scores for this month is the highest has been in last 12 months. With Omicron behind this and with the full confidence from the fourth quarter 2021, we're looking ahead.

Slide 5 remind you that Aviation Brazil has doubled over the past 10 years. And we were responsible for 60% of this growth. As I've been saying since we founded Azul in 2008, Brazil travel is significantly less than countries such as Colombia or Mexico, and we at Azul are doing our part to fix that. We are now flying to almost 150 destinations, a remarkable addition of more than 30 destinations compared to 2019 and there's much more to come. We still have more than a third of our flights flown by E1s. So there's a lot of capacity to be replaced by our next generation aircraft.

Here on Slide 6 we just want to remind you of all the upside from our fleet transformation. We have already reduced fuel consumption per ASK by almost 20% since we started the fleet transformation. We are going to continue. And as we continue replacing the E1s with next-generation aircraft, we're going to reduce fuel consumption for ASK, continue to significantly reduce our unit cost.

With that, I will pass the word over to John, who will give you more details on our outstanding fourth quarter. John?

John Peter Rodgerson

Thanks, David. I would also like to express how proud I am of our crewmembers. Who once again were responsible for delivering great results during the quarter. As David mentioned in the fourth quarter, our net revenue reached a record BRL 3.7 billion, more than double the fourth quarter of 2020. And then impressive 15% up compared to our pre-pandemic level in 2019. RASK increased 18% compared to 4Q 2019 and 43% compared to 4Q 2020.

During our third quarter call, we told you that trends were positive. Our unique network delivered record revenue performance from both leisure and corporate segments. The key drivers were disciplined capacity deployment and higher fares. In addition, our logistics business Azul Cargo also delivered record revenues.

On the cost side, as you can see on Slide 8. CASK in the quarter reached BRL 33.91, up 33% compared to the fourth quarter 2019. Mainly due to a 51% increase in jet fuel prices. The 35% depreciation of the Brazilian real against the dollar and 15% inflation over the last 24 months. Yes, FX and oil remain challenging and that's why we must remain focused on our productivity gains as we rebuild Azul as a more efficient airline.

Moving to Slide 9. We're clearly making progress and key efficiency metrics. In fourth quarter 2021, we generated 24% more domestic ASK per FTE compared to fourth quarter 2019. Our fleet transformation strategy is also contributing to our efficiency gains. As David already mentioned to you, we reduced our fuel consumption per ASK by almost 20% since we started our fleet transformation. As we continue replacing those E1s with next-generation aircraft, we're going to reduce even more our unit costs going forward.

The combination of strong revenue performance with the cost initiatives implemented, allowed us to achieve positive operating income and EBITDA in the quarter. As you can see on Slide 10, Our EBITDA was again the highest since the onset of the pandemic. Operating income was BRL 525 million in the quarter, representing a margin of 14.1%, while EBITDA already reached over BRL1 billion in the quarter, representing an impressive margin of 27.5%. This clearly demonstrates the earnings power and the potential of our business going forward as our annualized EBITDA exit rate is now over BRL 4 billion.

Slide 11 shows some of our valuable drivers of profitability going forward. Our business units, Azul Cargo, TudoAzul and Azul Viagens. These are fast growing high margin businesses that will help us expand our margins. Moving to Slide 12. Azul Cargo are unmatched logistics solution, which now serves more than 4,500 cities and communities across the country. 2,000 of which we can deliver in 48 hours or less. Azul Cargo reached BRL1.1 billion in net revenue in 2021, surpassing our ambitious target to double cargo revenue compared to 2019, when we generated revenues of BRL 481 million. We recently announced the launch of the world's first Embraer Class-F Freighter fully developed in house, a unique logistic solution that would deliver competitive advantages for our clients.

On Slide 13, you can see how the new solution and how it more than doubles our cargo capacity on E1s. We currently have four E1s converted into this new configuration. Just as we helped transform the Brazilian passenger market, we strongly believe Azul Cargo will do the same in the logistics market. On slide 14, you can see how well-to-do Azul performed in the quarter. Our wholly owned loyalty program had a 34% increase in gross billings in the fourth quarter 21 compared to fourth quarter 2019, with almost 14 million members at the end of the year. We've been surprised by the engagement of our customers throughout the pandemic and even this year.

Slide 15 shows how well Azul Viagens performed in the quarter. Our vacations business is another important driver of margin expansion going forward. In 2021, we sold almost 30% more travel packages compared to 2019, mainly by leveraging the uniqueness of our network and the flexibility of our fleet. During weekends, for example, when utilization is normally low for airlines in Brazil, we dedicate 25% of our capacity to fly exclusive, leisure non-stop routes which are ideal for Azul packaging business. Our diversified fleet allows us to capture leisure demand with the right aircraft type.

As you can see on Slide 16. In the fourth quarter, our operation generated BRL 900 million in cash inflows minus operating expenses. During the quarter, we also made significant payments and leases, debt deferrals and CAPEX. It's important to highlight that we ended the quarter with immediate liquidity of BRL 4.1 billion, up 41% compared to the same period in 2019. And more than BRL 600 million above our guidance, mainly due to the strong revenue performance in the fourth quarter.

As a reminder, we ended 2019 with around BRL 2 billion in cash and we have no significant debt repayments over the next two years. This liquidity position ensures that we can focus on the many opportunities we have ahead of us in this market. Leverage also came in a turn better than our guidance on Azul Day. And we were made confident that we can end 2022 with leverage that starts with the five, actually with our annualized exit rate of over BRL4 billion and EBITDA in the fourth quarter we already have a five handle and we'll continue to reduce from here.

Moving to Slide 17. We know our business is a key driver of sustainable development for Brazil, by bringing people, businesses and communities closer together. ESG has long been a commitment of ours, and most recently we have been included in the Corporate Sustainability Index of the B3 Stock Exchange. At the same time, we also improved our CDP score to B, highlighting our engagement to environmental initiatives.

Finishing with Slide 18. Our strong fourth quarter results give us confidence in our business model. Our annualized EBITDA exit rate of over BRL 4 billion is 10% above our best EBITDA ever. Yes, FX and oil remain challenging, but even at yesterday's levels, we would have generated more than BRL 1 billion of EBITDA in the quarter. We are sharply focused on executing our business plan for 2022, with a full recovery of corporate and international demand still to come. We see exciting opportunities in our passenger loyalty and logistics business and look forward to sharing those with you throughout the year.

With that, David, Alex and Abhi and I will answer your questions as I turn the call back over to the operator for Q&A.

Questions And Answers

Operator

Ladies and gentlemen, thank you. We will now begin the question and answer session. Our first question comes from Savi Syth with Raymond James.

Savi Syth

Hey, good afternoon. Could you and maybe for Abhi, can you provide a little bit more granularity on what you saw in kind of the domestic market in terms of leisure and business, both kind of before Omicron, and as David mentioned, like lately, since the kind of the recent recovery following Omicron?

Abhi Manoj Shah

Yeah. Hey, Savi, sure. So our 4Q was strong in corporate and leisure, leisure with over 100% recovery as the demand came back post second wave. Our corporate recovery was around 70% of 2019 levels, which is good given that 2019 had a very high base at the end of the year. And our small and medium business category was actually over 100% as well. So I would say large corporates around 70%, small-medium business over 100% and then leisure over 100%.

The key, of course, was average fares and that we were talking about with you guys in 3Q call as well. And corporate discounts, we were very conservative and our level of corporate discounts is half right now. What it was pre-pandemic, I think the industry overall was disciplined in taking fare increases last year which helps and, of course, having our network the way it is, we're also able to manage that ourselves and control little bit our own destiny.

So I would say it's a pretty conservative playbook, but it worked really well post second wave demand and so that wasn't responsible for the higher RASK. What we're seeing right now is actually quite similar. Our January was messy because of the staffing issues with Omicron, but the last two weeks for example, we are seeing corporate revenue recover already close to the 70% number. Our corporate fares are actually much higher than 2019, 30% 40% higher than 2019.

The industry has made adjustments in response to the fuel prices in terms of capacity. Capacity has come down for March and April, which is very positive and the industry has pushed up fares as well. So I think the industry is doing what's needed to capture the demand and to prepare the market because we are right now in this pre-carnival period and we are pretty optimistic about return to work that got pushed off because of Omicron comes back, March 7th and onwards. And so, I think we are doing the right things when it comes to preparing the demand and revenue environment for taking advantage of the post-Omicron bounce. Brazil market is resilient. It rebounded nicely post first wave, rebounded even stronger post second wave and we're expecting that for March and April post-Omicron. So I think we're setting the stage to take advantage of that.

Savi Syth

That's really helpful. Thank you. And then, if I might just quickly, I might have missed this, but on the F Class Freighter, you have one now. Do you have idea of how many of those type of freighters you want to add to the fleet?

Abhi Manoj Shah

Yes. So we have four right now, three are flying, one is in conversion, should be ready very shortly. Our goal is to keep adding those as much as we can. We are showcasing them to potential customers. We have one large customer already flying and we are entering new markets. In fact, we're flying to cities that we don't even fly with our passenger network like, in the north-northwest of Brazil. So I'll be disappointed if this fleet doesn't grow. I think it has really important advantages in terms of trip cost and really good flexibility in terms of the infrastructure it can access, the secondary cities that it can access. So we certainly want to keep growing that fleet and we're on the road showing it off.

Operator

Our next question comes from Alejandro Zamacona with Credit Suisse.

Alejandro Zamacona

Hey. Hi. Thank you. Thank you for taking my questions. Just a quick comment, a quick question on yields. I mean you saw a strong yield environment in the quarter. So what can we expect for 2022 and how we see would you say it is for you as a company to do a pass through of higher fuel prices to customers?

Abhi Manoj Shah

Yeah. Hi, Alejandro. I think as I said, the industry is working in the right direction. Everybody is obviously looking at their results. In Azul, we have the competitive advantages of our network. So we are able to recover those yields faster in many ways.

Our corporate demand is much more diversified than the larger cities in Brazil. We have much more exposure to different parts of the country, especially small and medium businesses. So, I'm expecting that post carnival, I'm expecting that process to continue. As I said, our corporate fares right now, are significantly higher than they were during the same period of 2019. So I think that the trend should be similar, obviously you have to adjust a little bit for seasonality given first quarter and second quarter. But I think that we are major focused on making sure we recapture as much of this in terms of use, in terms of all our revenue businesses, whether it's cargo, whether it's loyalty, whether it's vacations and also on the passenger side as well.

So, the recent trends have been encouraging on the yield side and I expect that to continue as we come back from carnival and we have a good corporate month in March.

John Peter Rodgerson

Alejandro, the increase in fuel prices as well will drive a more disciplined market going forward with capacity across the entire industry. As many of you know, one of our competitors went away in the fourth quarter, went bankrupt, which was ITA, that also has helped to kind of make sure we have a more stable market going forward, and I think the industry as a whole is focused on increasing yields and getting to profitability.

Alejandro Zamacona

Okay. Thank you, John and Abhi. And second question if I may in terms of labor efficiency, I mean labor expense is 7% below pre-COVID with the capacity of 98% pre-COVID. So continuing the inflation for these couple of years, this is a meaningful bridge, right? So do you believe going forward to assume normalization at some point or do you believe that Azul can emerge more efficient after COVID in terms of labor?

Alexandre Wagner Malfitani

Alejandro, so the gains that you see are permanent, right? There's nothing temporary there, but there are certainly more that we're going to pursue. Where do the gains come from? A lot of it is the fleet transformation, so the upgauging does allow us to be more efficient. We can serve more customers with the same number of crewmembers, so that helps productivity. We're also investing a lot in technology. There's been a change in customer behavior, which we believe is also permanent, right? Now, customers have learned to buy more online, to check-in themselves. The process is becoming more and more streamlined, which also helps us to be more productive on the personnel front.

You're actually seeing some additional personnel in those numbers, because we have in-sourced a lot of maintenance activities, right? So, if we didn't have those in-sources, you would actually see in the salary line, you would actually see an even bigger reduction, right? But, it made total sense for us, because it's a lot cheaper, more efficient for us to do maintenance in-house. We reduce foreign currency exposure. We reduce the need to fly the aircraft abroad to do the maintenance event, so a lot of good things. But a lot of good things coming ahead of us as well, we're going to continue working on new processes, investing in technology and looking for every opportunity we have to be a more efficient airline, as we promised, we would be coming out of the pandemic.

John Peter Rodgerson

And I just want to give a shout out to a few of our team members. Our airports are 30% more efficient. That's pretty remarkable if you think about it, right? We're obvious but less flights in but more ASKs because of the upgauging, but our airports are more efficient, our call center is more efficient, our headquarters are more efficient. We've have 25% less Directors in this company than we had in 2019, and we're producing the same amount of ASK and actually more revenue, right? And so, we've gone through and have rebuilt this airline for a new environment, which has higher fuel prices and a devalued real. So no, absolutely we cannot get back to the level that we were in 2019 in terms of salaries. The math just doesn't work. Airlines need to be more efficient today, especially in Brazil from where they were, and that'll continue to be our focus moving forward.

Alejandro Zamacona

Okay. Very helpful. Thank you.

Operator

Our next question comes from Gabriel Inagaki with Itau BBA.

Gabriel Inagaki

Hey, David, John, Alex, and Abhi, good morning. We have two questions here. First, regarding the recent news flow on Ukraine and its impact and its impact on oil prices. It would be very helpful if you could walk us through and remind us, what are the assumptions behind your BRL4 billion EBITDA guidance for 2022? And if Omicron impacts in the first quarter as well as these higher oil prices could prevent you from achieving that figure.

And also, our second question regards aircraft leasing segment. You booked BRL 3.8 billion in your lease amortization schedule for 2022, that figure was at BRL 3.5 billion in the third quarter. Was this increase solely related to new aircraft joining our fleet or does it reflect potential payment postponing from 2021 as well? And also, would it be possible to negotiate some kind of deferral for this BRL 3.8 billion figure for 2022? Thanks.

John Peter Rodgerson

So there's a lot of questions in there. So I think Alex and I'll split it. But as we look at today's events, it's very disappointing, that our team worked really hard in the fourth quarter and then to wake up this morning and have a war in Eastern Europe is not the way we wanted to have an earnings call today.

Obviously, fuel going to $100 a barrel, it's not normal. We don't expect it to last. We saw a great movement in the Brazilian real which yesterday was 10% stronger than it was on December 31. So we need to put things in perspective, right? Things were getting significantly better in Brazil. So even with crude prices going up to around $90 a barrel, the Brazilian real actually traded below 5 yesterday and so we're not going to manage our business based on one day today.

But what we want to show you is Abhi increased our unit revenue by 18% in the fourth quarter without all of his corporate demand back. He was able to do that with about 40% of our international network flying, right? This is the business model that we have, that's quite unique and different than any other airline in the world, right?

And so, as we look forward, obviously, we don't update our model based on the last 2 hours, right? But we were very confident in our ability to execute. Obviously, Omicron had an impact in our first quarter results. We pulled some flying down, we had to cancel some flights, but I want to talk about what's a normalized Azul going forward and I think what you saw in the fourth quarter is a normalized Azul.

What most likely will happen is the real will probably be a bit stronger than it was in fourth quarter and WTI will be a bit higher and we wanted to highlight that. If you looked at yesterday's WTI and yesterday's exchange rate, we still would have delivered over a BRL 1 billion in the fourth quarter. And that's before we continue to go forward with our fleet transformation plans. And so, I'll let Alex, kind of talk to the lease payments and where we're at, but I think we've got very good partners that believe in our business and we're going to continue executing upon our plan.

Alexandre Wagner Malfitani

Yeah. Hey, Gabriel. Yeah. So just complimenting on the modeling. You guys know sort of what assumptions we normally use for our forecasting. We use the Bloomberg curve for oil. We use the Central Bank focus survey for FX. But you always have to talk about three things together, fuel, FX and fares, right?

They all go together. You can't have an assumption for one without having an assumption for the other. And as we've demonstrated over the last 14 years and counting, we have the ability to pass through cost increases to fares. It's not immediate, but it is certainly something that we've been able to count over all these years and like we said, we were more profitable with the real at 4 than we were with the real at 3. And we had record revenues with the real at 5.60 because they are correlated.

So you always have to think about those assumptions together. We talked about this on the call, right? Even with yesterday's levels for fuel and FX, we would have had over a BRL 1 billion of EBITDA in the fourth quarter. So these numbers are all related, but it's clear that we can generate profitability and high EBITDA even in a challenging fuel and FX environment.

Regarding aircraft lease payments, yes, the majority of those lease payments are translated from dollar to real at an exchange rate of 5.58, right? Much higher than it is even today with the volatility in the Ukraine. So, the actual number that we're going to pay, it depends 100% on what the exchange rate is going to be.

But one thing that I think we also demonstrated over the last two years of the pandemic is that, like John said, we have great market partners, right? The partnership between us and our lessors is a long-term relationship where it has to be sustainable for both of us, right? We have the ability to pay. We have to honor our commitments as we have done over the life of the pandemic and even before. But if we need their support, we know that we can count on them. So, it's something that has to be sustainable, has to be agreeable to both.

But one thing that we don't need to worry about is, whether we will have enough cash, because we've demonstrated that we have the ability to count on support of our suppliers. We have the ability to count on the capital markets regardless of what conditions are. So obviously, we're not going to discuss sort of what our strategy is going to be exactly regarding future deferrals, but it's something that if you can look at the last two years to see that we're going to do what needs to be done and works for us and works for our suppliers and partners.

John Peter Rodgerson

And I think we built enormous credibility over the last two years with our partners, right? We've been very upfront, we've been very transparent and we'll continue to do that. And when we had to access capital in the market we did that, we communicated that to them. And so, credibility matters and we continue to manage this business for all of our stakeholders.

Gabriel Inagaki

Okay. Got it. Very clear. Thanks, John and Alex.

Operator

Our next question comes from Mike Linenberg with Deutsche Bank.

Michael Linenberg

Oh, yeah, hey. Good morning, everyone. Can you hear me right?

John Peter Rodgerson

Yeah.

Michael Linenberg

Great. Hey, just following up, I guess, John on Gabriel's question just a few minutes ago, you did highlight sort of what your EBITDA was kind of annualized with what you did in the fourth quarter, your exit rate. I noticed in the piece there was no sort of forecast for what you thought you could do for 2022. I know the EBITDA forecast has sort of been better than '20. What was done in 2019, I think was BRL 3.6 billion and it seemed sort of the squiggly line at BRL 4 billion. Is it because of just the events over the last 12 hours or so and the surge in energy prices and we've had a lot of volatility with FX that you didn't feel comfortable putting a forecast out there? Or when you think about sort of the puts and takes and the various levers that you can utilize that for 2022 that BRL 4 billion is still very much within reach? If you can comment on that. Thank you.

John Peter Rodgerson

Yeah, Mike. I think the events over the last 12 hours kind of you know I think in my script I mentioned BRL 4 billion probably four or five times, right? So that's where we're focused on. Obviously, some of the impact in the first quarter may make that slightly less. What if Abhi continues to outperform as he has done, maybe we're above it, but that's our focus. We don't want to stick it out there at this time, just because there's way too much volatility, but that's what we're marching towards.

And so, we wanted to show in the fourth quarter without corporate demand fully back, without our international network fully deployed, we produced BRL 1 billion of EBITDA. On the last week of December, we received five aircrafts, Mike, and those five aircrafts, they're next generation aircraft, there's two A321s in there. They're going to help us produce more EBITDA in 2022. And so yeah, I just think putting it out there right now with everything that's going on, we're happy to talk to it, we're right around that number, right? Is it BRL100 million less or BRL100 million more, that's about where we're at right now and we're focused as a team to getting there.

Michael Linenberg

Okay, makes sense. And then just my second question to Alex. Look, you had great EBITDA in the quarter. Obviously, interest expense is high. What was it over BRL 900 million, but I'm sure FX was a big driver of that. If we think about just the kind of size it with the real versus the dollar recently trading down 5, it looked like it was actually going to break through 5 and today, it's just above 5. If we think about maybe 5 versus 5.6, what would be what would that number be? Would that be something on the order of BRL 600 million? I mean, I'm just looking for a back of the envelope to get a sense of how we think about interest expense for the rest of the year. Thanks.

Alexandre Wagner Malfitani

Yes. That's a great question, Mike, and a good thing to highlight, because as we pointed out between the end of Q4 and where fuel and FX were trading yesterday, EBITDA is kind of neutral even for the year, but cash is much, much better, right? And that's one thing that IFRS16 confuses things a little bit because it's harder for you to see if you're just looking at the P&L. But yeah, real at 5 or 5.10 is a lot better and helps us a lot more on cash than the oil at $90 a barrel or more. So, yes, we're talking about something in the magnitude of what you said, in terms of help towards cash using a lower real for sure.

Michael Linenberg

Okay. Thanks.

Alexandre Wagner Malfitani

Lower from the real.

John Peter Rodgerson

But again, Mike, you're talking about interest expense, but you also get the help significantly on the operating leases as well, right?

Michael Linenberg

Yeah.

Alexandre Wagner Malfitani

Yeah, we get help on lease, we get help on CAPEX, we get help on deferred leases, we get help on you know we are exposed to the dollars. We're essentially an imported service, right? And so, when the real gets stronger, our cost gets a lot lower and our cash improves a lot.

Michael Linenberg

Absolutely. And I I'll just add on, you guys did a fantastic job on the revenue performance. I know that didn't show up in my questions, but that type of RASK growth on sort of your capacity basis, probably leading among all carriers that we've seen report thus far. So well done. Thank you.

John Peter Rodgerson

Now we're paying for Abhi's Subway sandwich today.

Operator

Our next question comes from Dan Mackenzie with Seaport Global.

Daniel McKenzie

Hey. Good morning, guys. It's a good afternoon actually. It's a heck of a day to report honestly, but it's great to have you visible. And I echo Mike's sentiment on the revenue performance, great job. I guess, with respect to the outlook this year, could you just clarify what the growth rate is this year that you're contemplating at least as of today and then the CASK ex-fuel that's embedded in that outlook. And just given the volatility in the depreciation line item, can you clarify what the full year depreciation ultimately is going to look like?

Abhi Manoj Shah

Hey, Dan. In terms of capacity, obviously we're adjusting as the events unfold. Like I said, we have brought down March and April in response to you know every airline has the best starting rote P&L and as fuel goes up, and one good thing a little bit about the higher fuel if you can manage it, right? You can actually adjust capacity.

So, I would say that our focus is going to be domestic growth. We don't have a full year ASK guidance out there. But what I can say is that domestic growth relative to 2019 are similar to what you saw 4Q annualized. So if you take the 4Q domestic ASKs and annualize that, it will come down a little bit because of Omicron in January and February and because of some cuts that we made in March and April due to fuel. So, around what you are seeing in 4Q and what you see in the traffic reports in January and February in terms of domestic ASK, so kind of like in the 20s if you will. Internationally, again, we can adjust that. Our international recovery so far has been very conservative, about 40% recovery, 45% recovery. I don't expect that to change too much and so around 50%. It depends on how fuel goes. If it comes back down towards the end of the year, we can bring that up. But we're not expecting major changes to international throughout the year. So I would say domestic, what you're seeing right now in the 20s versus 2019 and international about 45% recovery versus 2019.

Daniel McKenzie

Got it. And then, CASK ex-fuel?

Alexandre Wagner Malfitani

So, CASK ex-fuel should remain kind of where it is. Well, we as you know, Dan, we don't like to look at CASK ex-fuel. We like to talk about CASK assuming a certain level of fuel and FX. So CASK controlled for fuel and FX know compared to 2019 is actually obviously a lot lower than what we're seeing and it's going to depend a lot on what assumptions you have for fuel and FX. But what I can tell you is, the additional growth that we're going to have as you annualize our capacity. As we get bring in more international capacity, that reduces CASK as well, right? Longer stage lengths and international CASK is lower than domestic CASK. The productivity gains that we're going to continue to deploy throughout the organization, all that is going to help.

And one thing that we're discussing here to try to provide more granularity to everyone, there's more than two centavos of CASK that comes from cargo, right? There's more than 3.5 centavos of RASK that comes from cargo. So cargo is obviously very profitable. But when you look at CASK alone, the tremendous growth that we've had in cargo and all the success that we had with that business unit, it does add almost 7% of CASK to our number without producing. It adds cost, but it doesn't add ASKs, right? So that's something also worth highlighting that when you compare our current CASK to our 2019 CASK, obviously, there is dollar, there is fuel, there's two years of inflation, but there's also a very good outcome. There are very good result, which is the growth that we've had in our cargo business.

Daniel McKenzie

Very helpful. That's terrific. And then a second question here, Abhi, if we could go back to 2019 and just peel apart domestic and international pricing, so not precise, just if you could help us ballpark it or just remind us if the international flying was lower or higher yielding versus domestic? And then looking ahead, as we see international begin to come back, how should we think about the yields netting out? Again is that international flying is restored?

Abhi Manoj Shah

Yeah. So in general because of stage length, right, you're talking about 4,000 mile stage length at least for us internationally because we don't have right now any short-haul international. We have one route basically. We are flying to Buenos Aires anytime soon. So because of stage lengths, the yields are lower but international pricing has actually been you know our international fares, I would say right now are double what they were in 2019. And so, it's actually been resilient at least in the market that we fly, which is Florida and Portugal which are big, big local markets for Brazilians. And I do expect sometime in the next month or two, a reduction in the pre-departure testing requirements. France has done that, Italy has done that, the UK has done that, and that should help further as well. So I think that I think they're going to be pretty resilient actually and we only will add the capacity that's warranted, right? So, if we can get the yields that are similar or at least in terms of the contribution to domestic, then we'll add capacity, but we don't have to. We are using our A330s, for example, in March, 5x a week to Brussels for cargo. And we actually sacrificed the Orlando route a little bit to ensure we can continue the Brussels route, because that was a long-term contract, they're paying in dollars and we passed a few through completely to our customers.

So we do have options when it comes to our long-haul network. And we will only bring back the capacity to make sure that the margin contributions are similar to what we're seeing domestically. And domestically, as I said, corporate fares right now, last couple of weeks are 30%, 40 % above 2019 levels, the same week in 2019. So I think, we are being very aggressive on the fare side in a good way or conservative. And obviously our network helps us to do that and I think the industry overall is trying as well. I think the last couple of weeks, the industry is trying to set the stage for a good revenue recovery in March and beyond. So I think overall the right things are being done.

Daniel McKenzie

That's terrific. Great job, you guys. Thanks.

John Peter Rodgerson

Thanks, Dan.

Operator

Our next question comes from Felipe Newson with Citibank.

Analyst

Hello, everyone. Good morning or afternoon. Depends on where everyone is. But I have two questions on my side. I'll start with the first one. I wanted to ask regarding price and tariffs that you're seeing in low density routes and the mainline routes. Is this growth in tariffs is sustainable, is going to keep occurring during 2022 and beyond? And how is the difference between low density routes and mainline routes in terms of tariffs? And is there any competitor trying to be aggressive in pricing at this time in the market?

Abhi Manoj Shah

Yeah. That certainly is our intention and I think us and the industry have no choice. As John talked about efficiencies, airlines have to be more efficient. I think we have to be more aggressive in terms of fares and lower discounts. And yeah, I think it will continue. You have some seasonality, of course, but I think the customer adjusts, the customer adjusted last year, and I think they will adapt as well to the new environment. I think people want to travel by air, they see the value in it, the convenience of it. So, I think the customer will adapt. We have a different network than our competitors and so that allows us to behave differently. We do take fair premiums in our markets, that strategy has not changed and will continue and I think that actually brings discipline overall to the market as well.

And in terms of competitive nature, I think that everybody realizes what needs to be done and is going to be disciplined. We look at the capacity that was reduced in March. In April, I think that the airlines are focusing on their hubs, they're focusing where they are strong, avoiding unnecessary interactions with other airlines and I think that's the best way to get the best results honestly. Take Guarulhos as an example. We had 55 departures a day in 2019. Today, we have 20, maybe 18, and we have absolutely no desire to increase that number because we are focused in our network that brings the best results and I think our competitors are focusing in what works for them as well.

Analyst

Great. I had a second question. It's regarding to Azul loyalty program. What are the earnings contributed from this loyalty program to the revenues in the coming years? And what is the incremental revenue opportunity for that business in terms of revenues?

Alexandre Wagner Malfitani

Hey, Felipe. So the story with TudoAzul is very similar with all of our sort of high growth, high margin businesses, right? They leverage the network presence that we have and they take advantage of the structure that we already have in place to fly our passenger network.

So TudoAzul, Azul Cargo, Azul Viagens, they are all higher margin business than the airline itself. We don't break up the profitability of each individual one. But as the revenue for anyone of those businesses grows, you will see margin expansion, right? Cargo certainly, like I said, just from what I said in terms of how much cargo helps RASK and how much it increases CASK, you can kind of see what kind of profitability you get from these additional businesses and they will certainly continue growing and outpacing the growth of the airline, because they are all kind of below what their fair market share would be.

TudoAzul is very strong, obviously, where we fly, but loyalty in Brazil is primarily still a Sao Paulo, Rio Brasilia phenomenon, but there's no reason why people in Belo Horizonte or Campinas or Curitiba or Campo Grande don't want to fly for free by using their credit card, right? So, as they become more and more familiar with those mechanics, we see the growth in TudoAzul to Azul Cargo getting closer and closer to its fair share and helps us expand margins as it does so. And we also have a lot of new products that we want to launch in TudoAzul, a lot of products that we launched fairly recently, like our new cobranded credit card, which is doing tremendously. And there are a lot of more products that we want to launch in TudoAzul to take advantage of the relationship that we have with our customers and network presence that we have in Brazil.

Analyst

Great. Very clear. Thank you very much for the answer.

Alexandre Wagner Malfitani

Thank you.

Operator

Our next question comes from Pablo Monsivais with Barclays.

Pablo Monsivais

Hi, guys. Thanks for taking my question. I just have a quick one. Can you please share with me your CAPEX estimate for 2022 and 2023? Thank you.

Alexandre Wagner Malfitani

So in terms of CAPEX or sort of the recurrent level of CAPEX for the airline, is similar to what we had in 2019, which is in the neighborhood of BRL 1.5 billion. A lot of that depends on demand and a lot of that depends on the dollar. So we have some flexibility to go up or down to spend, to accelerate maintenance events or to postpone maintenance events depending on the demand and depending on the dollar. But you can use sort of that as a recurrent number that doesn't include sort of the deferrals or any kind of one-time projects.

John Peter Rodgerson

And there's also a good portion of that that's financeable as well, right? It's talking about engine overhauls and stuff and so. I think offline analysis and kind of walk you through the possibility to finance some of that CAPEX going forward.

Alexandre Wagner Malfitani

Yeah, those are gross numbers, not necessarily net numbers. So yeah, we can certainly provide more detail if that's not clear.

Pablo Monsivais

Okay. And just a follow-up, trying to understand Abhi's answer about yields. It's incredible how resilient your yields are. And it will be key if we see a higher oil price for this year, it is fair to assume that you're at a higher yield environment for you depend on your ability to expand into different markets. Because, Abhi said that you're also adding new cities?

And when you're adding new cities, you're probably testing the water and having a high yield. Is that fair to assume that the higher yield environment depends on you adding to new destinations, or it's under the same routes that you already operate, in which you have a high market share? Thank you.

Abhi Manoj Shah

Yeah, thanks. So we so we are adding new cities. You are correct. Many of the cities are small markets that we're adding with either our ATRs or our Caravan operation. Those do help on the yield side. But primarily we're adding those cities to provide incremental demand to our network, and some of that demand is actually very small right now, but it is how we want to grow the market in the future by bringing new demand to our market. And yes, every time you add demand to your network that does give you a little bit of more pricing power that does allow you to grow your yields as well. So I would say that is a small part of it. But the other part of it is just the connectivity we have in our network and these have access to different types of demand we have whether it's small, medium businesses, whether it's different sectors.

I'll give you an example in 4Q21, financial services segment of our demand recovered 50%, but construction recovered over a 100%, oil and gas was 85%. And so because our network is so diversified and has access to such different parts of the country, we have ability to access different types of demand and that's what gives us the resiliency on our yields.

Pablo Monsivais

Perfect. Thank you very much. Very clear.

Operator

Our next question comes from Nicolas Fabiancic with Jefferies.

Nicolas Fabiancic

Hi, guys. Thank you to the Azul team for the clear disclosure and congrats on the results. Just a comment on the bonds, which are still trading at stress levels for whatever reason, I think it'd be useful to really emphasize the point around your liquidity. If you could give us some more color there, breakdown of your liquidity position, sources of additional liquidity and how we should be thinking about some of the near medium term maturities like the 2024 bonds or the converts?

And then just a follow-up question, you mentioned this BRL 4 billion squiggly line EBITDA and we talked about the CAPEX. Could you walk us through the rest of free cash flow, lease payments, tax dividends, working capital for this year so we could help dimension the cash burn? Thanks.

Alexandre Wagner Malfitani

Sure. Yeah, they all go together. So it's good to kind of walk you through the cash proceeds and use. So yeah, we're going have so we have the squiggly line of about BRL 4 billion in EBITDA. But for example, if you look, compare our revenue to our cash inflows, which we have on the chart on the presentation, that cash inflow outpaces revenue, right? So there's an actual working capital good guy from the fact that we're recovering our network, we still have capacity to add.

So we're always selling an airline that's slightly bigger than the airline that we're flying. The opposite happens when you shrink the airline. But when you grow the airline, you actually have a good guy on the capital side. So that you're going to be above BRL 4 billion in terms of operating cash generation. We have the rent which is in the neighborhood of BRL 4 billion. So with the operational cash flow, we can pay for rent. We can pay for finance leases. We can pay for interest, and that leaves you with essentially CAPEX, it leaves you with debt repayment and deferral repayment. The rent, again BRL 4 million is sort of a number that's tied to the exchange rate of 5.58, right? And so, if you're thinking about 5, the BRL 4 billion is going to be significantly lower and the cash is going to be dramatically better, like we mentioned to Mike earlier. So you have to kind of figure out what your FX assumption is to estimate a lot of these numbers.

And like John said, for example, CAPEX we can finance or we can decide to do or not do depending on the demand environment. If the demand environment is good, and I need the aircraft and probably I can't finance CAPEX, right? If I can't finance CAPEX, that probably means the demand environment is bad and I don't need the aircraft.

So they all kind of go together. And they they're sort of a natural hedge in terms of cash needs, as we kind of bring the capacity back or need to have the resources to fly our network. Debt, for example, bank debt is very low. And we were able to roll over bank debt when the situation was much more complicated than what it is today, right, before we had vaccines, before we were flying our network the way we were flying, before we were producing BRL 1 billion in EBITDA.

So we're very confident that if we need to roll over bank debt we can do it. And we also have a very strong cash position. We ended the year with BRL 4.1 billion, and as we mentioned on the call our cash position going into the pandemic was around BRL 2 billion. So I can also kind of go back to more normal levels of liquidity as the situation also goes back to normal, and use some of that money to pay the obligations that we have.

So, I think it's clear when you saw our, what we call the management plan, right, to get through the pandemic. Remember, Azul did not have any help from the Brazilian government as American and European and Canadian airlines had. We did not file for Chapter 11, as multiple airlines in the region did. And so we had to, create our own credit and working capital, and we were able to count on the support of all of our stakeholders. But we preserved, our bonds, obviously, right, because we want to have access to the capital markets.

And our stakeholders want us to have access to the capital markets. So, I agree that the bonds, if you ask me personally, I do think they are, trading much lower than they should, because, we're going to, obviously, continue with the same approach that we had, and we're in a situation that's much better now than when we, for example, issued our 2026 bonds, at essentially, 7.5 yield. So that's how we're going to continue managing our cash, our cash position.

Nicolas Fabiancic

Thanks, guys. Congrats again.

Alexandre Wagner Malfitani

Thank you.

John Peter Rodgerson

Thank you.

Operator

Our next question comes from Victor Mizusaki with Bradesco BBI.

Victor Mizusaki

Hi. Congrats for the 4Q numbers. I have two questions here. The first one I mean, it's kind of a follow-up on the cargo business. I mean, I'd like to understand what is next for these operations. I mean a lot of news talking about some M&A is happening in the sector. So if you see an opportunity here? And the second one, in our recent meetings with ANAC, the regulator said that maybe in the second quarter, they may release new rules for reports like distribution in Brazil. So if it happens, how important is this for Azul?

Abhi Manoj Shah

Yes, I can take those sure, Victor. So regarding Azul Cargo, so we've been pretty open that we want to keep evolving our capabilities in the sector, right? Of course, we have our route network, which carries 80% of our cargo. We have our 737, but now we have our Embraer E1s as well. But we want to keep building out our capabilities. And that includes, first mile, middle mile, last mile, we have no intention of buying trucks or anything like that.

But we definitely want to have deeper relationships with our ground transport providers on all sides of the logistics chain. And so, we are looking at all opportunities, there's nothing to announce, nothing to say. But we want to be the FedEx of Brazil, and that FedEx has done in the U.S. and that means having closer ties with different partners. We already have a network of 300 representatives around the country.

And we want to make those ties even stronger so that we have access to the capacity that we need for pickups and deliveries and in all geographies around the country, whether it's the South, North, Sao Paulo, Rio, all those kinds of things. So we definitely want to keep building out our logistics capability so we can deliver to more cities even faster. And so, that's something that we're going to keep looking at and we'll do what makes sense.

Regarding the slot distribution rules you are correct, ANAC is reviewing the rule process. Obviously, we are very engaged, as are other interested parties like the other airlines in Brazil, the one that the airport that it impacts the most is Congo Aeneas, because that is an airport that is completely saturated and also closed, right? It's saturated, closed and concentrated, in our opinion and those were the arguments that we have made.

And we will make those arguments, very similar to what we made when the Avianca Brazil slots were up for grabs back in 2019. So no major change to our position and we will see what happens. None of that is in our baseline plan. Whatever is a result of that will be an addition to what we are planning for 2022. We have no expectations, but certainly we are making the arguments for that similar to what we made in 2019. And really, what we are focused on is Congonhas.

Right. And in terms of the overall capacity of the airport, there is room to increase capacity. So, we're taking from anybody would be more capacity for we are keeping more option.

Victor Mizusaki

Okay. Thank you.

Operator

Our next question comes from Isabella Lomas with UBS.

Analyst

Hi, all, and congratulations on your result. I have two questions here. The first one is follow-up on CASK ex-fuel. Specifically, on the dynamics for this quarter because as we saw ASK into that 9% quarter-to-quarter, we weren't expecting it would help us come across as well. However, we saw an increase in CAPEX yield quarter-over-quarter of around 9%. And we were wondering what could be the reason for this situation? And how we could behave in the next year? I would appreciate if you could give us some color on this matter.

And the second question is on the extent of adjustment regarding the vision at around BRL 600 million, could you please give us some more detail of what exactly it is about and the possibilities as we're not expecting this? Thank you very much once again.

Alexandre Wagner Malfitani

So the bad guys in CASK, what was the dynamic in CASK, right? We are certainly more productive now, more efficient now than we were before and what's offsetting that is more than offsetting unfortunately, is dollar FX and inflation and cargo, like I said, right? Dollar FX, inflation, obviously, are bad guys and the whole industry needs to deal with those, and that's one of the drivers, one of the reasons why we are all trying to pass through cost increases to fares. If you control for all of those, you would see CASK going down for sure. You also have to look at stage length again. We mentioned the domestic international mix, but if you could look at the core CASK and just see as it relates to the cost of operating the airlines, you certainly would see improvement every quarter has to be at capacity that from the reduction of 100 of flights.

John Peter Rodgerson

We still have more than 100 of flights from Campinas to Brussels in the fourth quarter. No ASKs associated with that obviously that helped our revenue overall, that's why you see a big gap up between the PRASK and the overall ASK, Alex mentioned it responding to a previous question, but that BRL 1.1 billion of revenue that we produced for our dedicated flights. And that also has a component that impacts our CASK.

Alexandre Wagner Malfitani

Correct. Yes, like I said, we're going to try to provide more you know cargo has become such an important and relevant business that it's producing things like the one we mentioned for most people, we can model that and understand what's actually helping the CASK. Because again, as we mentioned before, our airports are 30% more expensive, right? Our fleet transformation are more efficient. Our fleet transformation dramatically reduces CASK again, and that's why we don't like to use CASK ex-fuel because one of the big advantages of having a modern Next Generation Fleet like ours is the dramatic reduction in fuel. So you should look at constant fuel prices CASK as opposed to CASK ex-fuel price, deserving and not capturing the dramatic reduction in fuel burn that we've had, since we started the fleet transformation, being able to 20% lower fuel burn with the aircraft that we have today. And in terms of the provision, what's worth highlighting there was the adjustment for a gain of R$ 104, the reported numbers were worse than the accounting numbers. The big number there is the reversal of the one impairment and offsetting that partially, it's all non-cash one-time revisions to provisions and COVID related expenses. So absolutely, they should be one off and non-recurrent and they are all non-cash as well.

Analyst

That's perfect guys. Thank you. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's question-and-answer session. I would like to invite John to proceed with his closing statement. Please sir, go ahead.

John Peter Rodgerson

Thank you for joining us today. If you have any follow-up questions, feel free to reach out to our Investor Relations team. And we will be happy to answer any questions you may have. Thank you.

Operator

Ladies and gentlemen, that does conclude the Azul's audio conference for today. Thank you very much for your participation and have a good day.