ECONOMIC OUTLOOK AND EMERGING **MARKETS TOP PICKS: 2Q'20**

APRIL 06, 2020

Overview: Fighting The Wrong War – Dr. Walter Molano, Ph.D.
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OUTPERFORM
UNDERPERFORM
SWAP

OVERVIEW: FIGHTING THE WRONG WAR

Every year, governments around the world spend a combined total of more than $1.8 trillion on defense spending. The smartest minds in the world are deployed to develop new materials, software and weapons. The United States will spend a total of $738 billion on its military in 2020, This represented 15% of the total budget, before the onset of the coronavirus, as well as more than 3% of GDP. While, this is relatively small, when compared to the $3.6 trillion, or about 17% of GDP, that is spent on health care, it is an important use of resources that could be put to better use.

Of the $3.6 trillion that is spent on health care, a third, or $1.2 trillion, is spent on hospital care. Physicians and clinical services absorb 20% of the spending, while retail pharmaceutical drugs represent 9% of the outlays. The remaining amount is split between nursing homes, dental care, home health and other professional services. Durable equipment represents only 2% of the spending, or $55 billion. To be fair, the government pays less than half of the health spending. Moreover, the public expenditures on health are shared between the federal, state and municipal levels. Nevertheless, what is noteworthy is the relatively small amount that is spent on durable equipment. Meanwhile, the Pentagon spends $146 billion on military hardware. This includes $1.87 billion for 98 F-35 jet fighters and $12.8 billion for a new Ford Class aircraft carrier. Altogether, the Navy will spend $22.2 billion on the acquisition of a dozen new ships in 2020. There was even $40 billion set aside for the creation of a new Space Force. This is in sharp contrast to the $20,000 that it costs to build a ventilator. Even with price gouging, ventilators are selling for about $50,000 per unit. For the cost of one aircraft carrier, the Governor of New York could get the 30,000 ventilators he so badly needs—even if he pays jacked up prices.

The problem is that the country is gearing up its defenses to fight the wrong enemy. Even though military planners prepare for a two-front war, like the one they waged during the 1940s, the truth is that society has evolved way beyond that construct. The collapse of the Soviet Union, three decades ago, and the subsequent rise of globalization introduced a new form of international competition. Military conflict was eschewed for economic competition. The free flow of factors of production brought new prosperity for the world as a whole, but created challenges for previously privileged groups. It also introduced globalized risks, such as synchronized economic downturns, global financial crises, trade wars and the risks of pandemics. Policymakers took steps to prepare for some of these risks, by creating global institutions and response mechanisms, such as the G-7 and the G-20. These two groups of nations were put together in the aftermath of the recent global economic crisis in order to facilitate policy coordination at the highest levels of government. The International Monetary Fund (IMF) was capitalized and staffed with the resources needed to help countries with economic problems. The World Trade Organization (WTO) was organized to address trade issues and help resolve disputes. There were even protocols prepared to deal with the environmental problems produced by too much economic global prosperity. However, the issue of global health problems received much less attention. The World Health Organization (WHO) was an institution to provide information and coordination at the global level, but it was woefully underfunded and understaffed. Part of this was due to the mendacity that health problems were mainly the purview of developing countries. It is true that there had been several pandemics in the past, such as SARS, MERS, West Nile Virus and Zika, but most of the effects had been relegated to the Far East or the equatorial tropics of Africa and South America. In other words, they were far away from the comfort zone of Europe and North America. The WHO budget in 2020 is only $4.8 billion. Moreover, most of the money is for operations. There is very little set aside for equipment procurement. It is true that governments around the world are mobilizing to build new equipment and medical facilities. Billions are being poured into research in order to find a way to address the new coronavirus. This should become the new normal. Given that we are now in a globalized/cooperative setting, preparing for military conflict should be less pressing. The vast industrial infrastructure used to prepare for a military Armageddon that will never arrive should be rejigged to prepare for the possible Armageddon's of the globalized economy. Among them, there is the possibility of another pandemic. Therefore, we should stop fighting the wrong enemy and refocus our efforts on engaging the correct one

Dr. Walter Molano, Ph.D.
April 6, 2020

EM HIGHLIGHTS **1Q'20**

Argentina

- According to the INDEC, 4Q19 GDP contracted 1.1% y/y, bringing the total 2019 GDP contraction to 2.2%
- 2019 ended with inflation of 53.8% y/y, increasing from 47.6% in the previous year
- On March 17th, the government imposed a full lockdown in the country to respond to covid-19 pandemic, with only essential services to be exempted and which is currently in place until April 13th
- At the end of March, the government established the eligible debt to be restructured at US$83bn, which excludes the debt held by public organisms
- Bank of America and HSBC were selected as placement agents for the sovereign debt renegotiation offer, while Lazard was hired as financial advisor. Following the covid-19 crisis, Alberto Fernandez said the government will delay the restructuring proposal, originally scheduled for the second half of March20
- After seeking a four months deferral for the repayment of the Jan20 amortization of its outstanding 21s, the Province of Buenos Aires made full repayment in early February after failing to gather enough required support form bondholders
- The Province of Chubut signaled its intentions to conduct a debt renegotiation. However, no formal proposal has been made for the bonds, which are backed by oil and gas royalties.
- On March 30th, the Province of La Rioja paid 100% of the coupon of its outstanding 25s within the grace period after missing the payment at end-February.
- The national government officialized the pesification and reduction of base energy tariffs through resolution 31/2020, by which it intends to save up to US$350mm
- According to energy generators, there has been an increase in the receivables from Cammesa, which is currently having a payment delay of around 40/45 days. Similar delays are being seen for gas utility companies
- Oil production grew 4% y/y in 2019, mostly due to a 15% increase in Neuquen on higher tight oil production, while gas production increased 4% y/y. On the other hand, gas prices bottomed at US$1.7/MMBTU in Feb20 on vast oversupply

EM HIGHLIGHTS **1Q'20**

Brazil

- Brazilian GDP grew 1.1% y/y in the 4Q19
- Brazil's basic interest rates was cut by 50 basis points on March 16th to 3.75%, in attempt to reduce the negative economic impact of COVID-19
- Minister of Culture Roberto Avim was fired after a speech with Nazi references
- After closing low performing fertilizer subsidiary, Petrobras employees went on a strike that lasted 20 days (February 1st to February 21st)
- Brazil's local equity index, Ibovespa, plummeted from 116,000 to 63,500 points in March due to the Corona virus outbreak
- FX soared in the period breaking the barrier of R$5.00
- Petrobras announced it will cut production, workday period and salaries in attempt to minimize losses, as crude plummets.
- President Bolsonaro called his supporters to protest against the congress and the Brazilian supreme court, despite the quarantine recommendations
- Brazil has more than 5,717 cases of COVID-19 in all states and 201 confirmed deaths according to the Ministry of Health (as of March 31)
- Most of the cases are in São Paulo, followed by Rio de Janeiro
- Government measures to reduce the Coronavirus impact include: aid to small business, financial aid to states, flexibilization of labor legislation, extension of tax payments and a three month R$600,00 aid to informal workers and unemployed, among others
- Congress declared state of public calamity, meaning that the government can surpass budget spending
- Despite the Minister of Health's recommendations, President Jair Bolsonaro is dismissive of the Corona virus and is more concerned with the economic consequences

EM HIGHLIGHTS **1Q'20**

China

- In 2019, China's GDP grew 6.1%. GDP per capita reached US$10k. Manufacture contributed 5% of total growth. Retail & services contributed 45%. Construction and real estate contributed 10% and 11%, respectively.
- COVID-19 epidemic broke out in China in early January then developed into a global pandemic.
- PBoC cut 7-day MLF rate twice in 1Q from 2.50% to 2.20%. Excess reserve rate was cut first time since 2008 by 37bp to 0.35%.
- In 1Q, one-year LPR dropped 10bp to 4.05%. Five-year LPR dropped 5bp to 4.75%.
- The central government relaxed restrictions on fiscal deficit and released policy guidance on seven industries to encourage government spending.
- No major regulatory relaxation on property sector.
- In Jan & Feb, electricity usage in China decreased 8.8% y/y. Industrial corporate profits decreased 38.3% y/y. Export decreased 15.9% y/y.
- Residential property sales of top 100 land developers decreased 21% y/y in 1Q. Industry residential property sales decreased 35% y/y in Jan & Feb.
- In first three months, Caixin manufacture PMI was 51.1, 40.3, and 50.1. Caixin service PMI was 51.8, 26.5 and 43.0.
- With low oil prices, Sinopec planned to cut capex by 2.5% in 2020. CNPC's lowered its maximum capex by 0.6%.
- First-phase US-China trade agreement focusing on agriculture products went into effect from April 1.

Mexico

- Mexican Govt. decreased its 2020 economic growth estimate to a range between -3.9% and +0.1%. Additionally, Moody's and Fitch decreased their 2020 estimates and S&P downgraded Mexico's and Pemex credit rating to BBB with negative outlook.
- Manufacturing activity decreased by 1.9% y/y in March, registering 9 months in negative territory. Car sales also decreased by 26% y/y, its worst performance in 25 years.
- Canada completed USMCA agreement internal ratification process and the treaty will be effective on June 1st, yet the US senate suggested to postpone the date

EM HIGHLIGHTS **1Q'20**

Mexico (continued)

- Mexico's Central Bank decreased the base interest rate by 25 bps in February and 50 bps in March to 6.50%. The inflation rate reached its lowest level in 3 months during March to 3.25% vs the 3.0% target and the unemployment rate was 3.6% in February
- In January, Pemex refinanced 2020 debt issuing US$5 bn bonds covering half of their US$10.7 bn 2020 financial needs. In February, oil production in Mexico increased by 1.4% y/y to 1.72 mm bbls/d with Pemex's daily production at 1.69 mm bbls/d. Additionally in March, Pemex's director announced the development of 15 oil fields in addition to the 20 priority oil fields.
- On February 27th, 2020, Mexico reported its first COVID-19 case and in March 24th entered into Phase-2 as the epidemic advanced to local contagion. Mexican Govt. expects to enter Phase-3 on April 19th, however mentioned that a full lockdown is not viable due to millions of Mexicans with informal businesses
- On March 30th, 2020, Mexico was declared under health emergency until April 30th and suspended non-essential activities incl. the closing of shopping malls, hotels, breweries, among others.
- We note thee Mexican Govt. has a debt structure mostly in MXN and at a fixed rate, two lines of credit for US$70 bn and a US$60 bn Fed swap line, as well as a total of MXN$218 bn in Funds and oil hedges with a contract price of US$49 per barrel. As of April 6th, Banxico has auctioned US$6.6 bn using the Fed's swap line
- Mexican Govt. will give MXN$500 bn primarily to people with informal businesses, MXN$25 bn to SMEs and will not grant fiscal support to the larger private sector
- As of April 8th, 2020, Mexico's Govt. has reported 2,785 cases confirmed, 7,526 possible cases and 141 deaths

EM HIGHLIGHTS **1Q'20**

Sub-Saharan Africa

- The Nigerian economy expanded 2.3% y/y in 2019 and 0.6% y/y in 4Q19 while South Africa GDP grew 0.2% y/y in 2019 and contracted 1.4% q/q in 4Q19, officially entering in recession
- Unemployment rate in South Africa tops to a nearly 11 year high at 29.1%
- Inflation in Nigeria continues rising, ending at 12.2% y/y February 2020, well above 6-9% Central Bank target
- Standard and Poor's moved Nigerian outlook to negative following a decrease in its international reserves
- The government of South Africa imposed a 21-day lockdown to respond to covid-19 pandemic. As a result, Eskom said that given demand drop for electricity it does not anticipate load shedding during the lockdown after the record load shedding of last December
- Eskom saga continues unresolved, with government proposing to limit payroll increases to 1.5% while reviewing benefits, which was strongly opposed by unions
- Additionally, unions rejected plans to use Eskom pension plan as a tool to buy up to 254bn rand of Eskom debt
- Tullow released its 2020 business review, intending to cut workforce by 35%, cut capex by 30% an divest assets for US$1bn. Regarding its FY19 results, the Board has warned on the uncertainty of the company to remain as a going concern given covid-19 and recent oil price war. New CEO search continues

EM HIGHLIGHTS **1Q'20**

Russia

- As at March 20, 2020, Russia's FX reserves stood at US$551 billion
- Russia's 2020 GDP – is up in the air: ranging anywhere between stagnation to a 10% decline in the worst-case scenario. On March 19, 2020, Fitch cut Russia's 2020 GDP growth to 1% from 2% in December 2019
- In early March 2020, Russian and OPEC failed to reach an agreement sending oil prices into a tailspin. The situation has been exacerbated by a global COVID-19 pandemic, resulting in a US$30/barrel oil price (as of April 6, 2020), which is disastrous for Russia as the country heavily dependent on oil revenue and its budget is balanced at oil at US$40/barrel. However, the media reports suggest that OPEC+ deal is about to be reached
- Following the breakdown of the Russia – Saudi Arabia agreement to limit oil production, Russian Ruble (RUB) plummeted reaching a four-year low against the U.S. Dollar. RUB lost l~18% of its value in March 2020
- COVID-19: As of April 9, 2020, Russia with a population of 145.9 mm people (approximately half the size of the USA) has 10,131 confirmed cases of people infected with the COVID-19 with 76 fatalities. To slow down the spread of the COVID-19, Russia shut down its 2,600-mile border with China on January 30, 2020 and set up quarantine zones – on March 11, 2020, the World Health Organization (WHO) called the COVID-19 a pandemic. In mid-March 2020, Russia closed schools, some businesses and limited air travel. On March 30, 2020, a week-long country-wide vacation was offered to encourage people to stay inside and socially distance turned into shelter-in-place advisement (in effect, as of now, until April 30, 2020). Being outside is now restricted to doctor visits, buying food or medicines and walking a pet: all activities must be performed in a face mask.
- Alliance Oil (VOSTOK) - on April 3, 2020, the company, citing a worsening macroeconomic conditions in 1Q20 with lower oil prices and local currency depreciation, announced a restructuring proposal for its outstanding US$500 mm VOSTOK 7% 20s Eurobond.

EM HIGHLIGHTS 1Q'20

Turkey

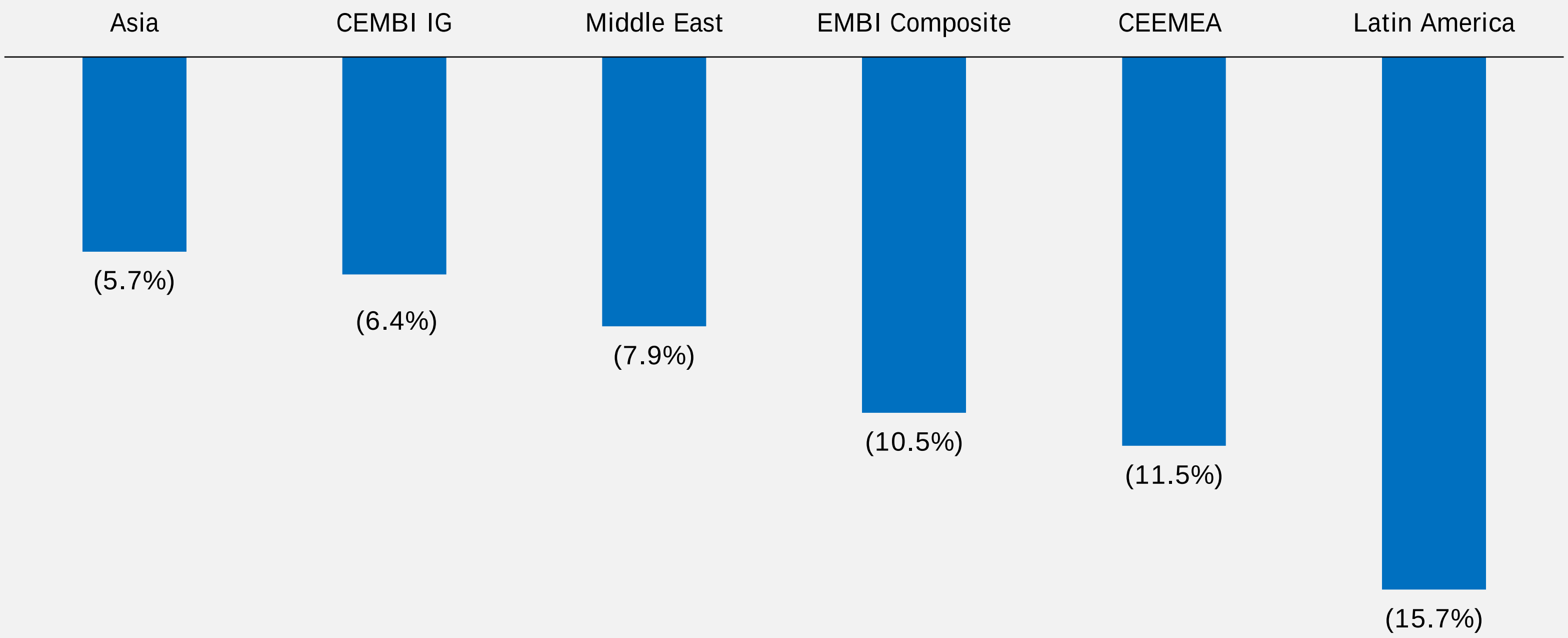
- GDP expanded 5.0% y/y in 4Q19 and 0.6% in 2019
- Central Bank continued with its strong monetary easing, having cut its rates by further 225bps during the quarter, with an accumulated 14.25 p.p. since July.
- Inflation continued rising, ending at 12.4% y/y in February 2020, marking the fourth consecutive month of inflation increase, while central government fiscal deficit ended at a multi-year high of 2.9% in 2019
- Confrontations continued with Russia and Europe between the Syrian war, as Erdogan and Putin back opposites sides, while Turkey recently decided to open the borders to allow refugees to flee to Europe through Greece and Bulgari. Erdogan and Putin relationships also deteriorated due to the Libyan conflict, where both governments back opposite side of the civil war as well
- A new regulation lowered fees banks earned on customer transactions as government intends to further boost credit lending. According to Central Bank, Fees and commissions account for about 12% of total bank revenue
- As a response to covid-19, on late March, curfew was imposed for citizens above 65 years, while on April 3 it was imposed on those below 20. International and domestic flights are suspended and social gatherings closed
- The government announced a shield package worth TRY100bn (2.1% of GDP), while state owned banks will provide loans up to 3 years at a 7.5% rate
- According to a January 2020 report, Fitch expects NPLs to rise to 7-8% by end-2020, while in late March, NPL provisioning was relaxed for banks
- In the midst of the covid-19 crisis, Akbank accessed a 1-year US$560mm Syndicated Term Loan at Libor + 225bps and Euribor + 200bps, improving spreads by 25-40bps compared to Mar19 terms
- After agreeing to answer allegations, in end-March Halbank pleaded not guilty to the criminal charges that it helped Iran evade U.S. sanctions
- In early March 2020, Yasar notified its irrevocable intention to redeem its outstanding 2020 at par on April 6th

EM HIGHLIGHTS **1Q'20**

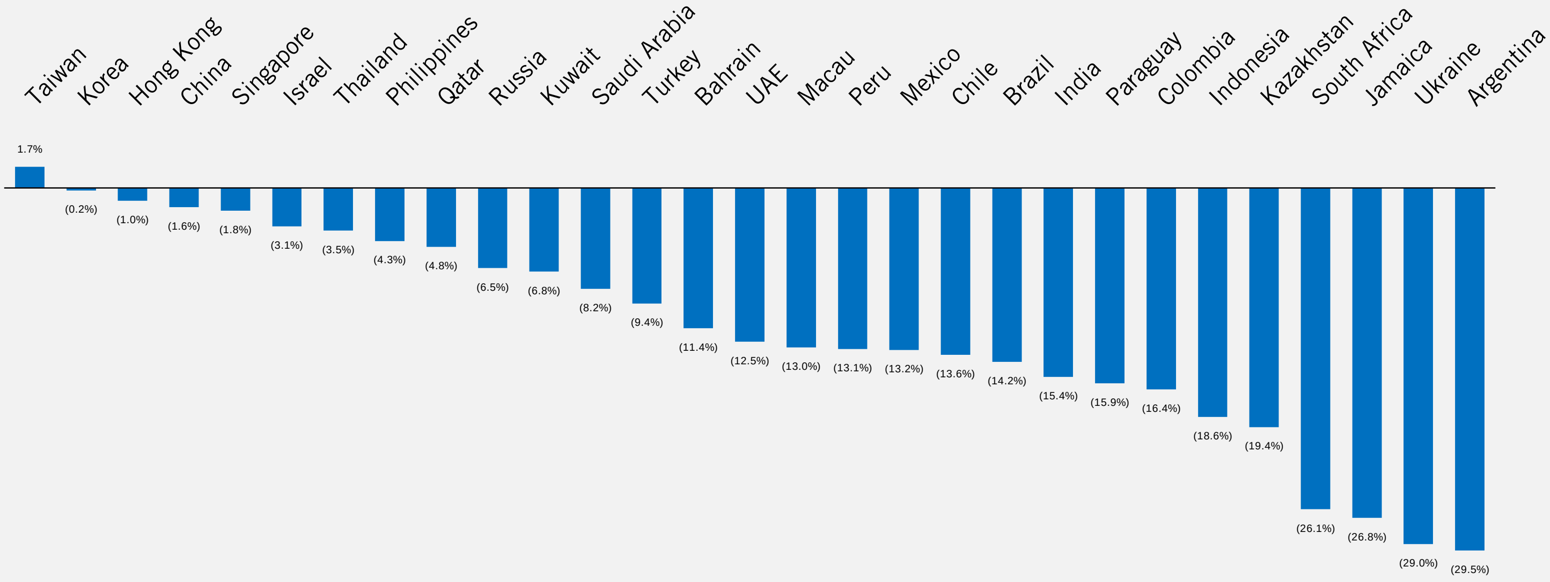
Ukraine

- On March 30, 2020, Ukraine's Economy Ministry downgraded its 2020 macroeconomic forecast: from 3.7% growth in 2020 to 3.9% decline; a notable swing is about half as bac as the 2014 economic contraction of 15%.
- In mid-March 2020, the yield on UKRAIN 28s USD-denominated Eurobonds surged to over 10% effectively shutting the country out of the international capital markets as it faces more than US45 billion in debt repayments in 2020
- The IMF may increase its assistance to Ukraine to a total of US$49.5 billion by drawing on a US$50 billion emergency fund that the multinational lender established to help low-income countries to cope with the shock of the global COVID-19 pandemic
- Ukraine's FX reserves grew by 22% in 2019 to US$25.3 billion, the highest number in seven years, currently at US$25 billion
- The Ukrainian Hryvnia (UAH) weakened by ~7.4% in March 2020
- DTEK: in late March 2020, announced that in light of the current situation and the need to 'combine forces in the fight against the COVID-19 pandemic', it was developing a proposal for a debt restructuring and a standstill agreements for its Eurobonds as well as bank debt. DTEK Renewables became the first Ukrainian company to issue Green Bonds. DTEK Energy (DTEKUA) and DTEK Renewables (DTEREN) are subsidiaries of DTEK B.V.
- COVID-19: As of April 9, 2020, Ukraine with a population of 43.7 mm people (roughly the size of Spain (~46.7mm people)) has 1,668 people infected with the COVID-19 with 52 fatalities. To slow down the spread of the COVID-19, Ukraine imposed a number of restrictions on March 18, 2020, including closing of all train stations and passenger rail service across the country, bus service as well as domestic flights. On April 6, 2020, an already tight quarantine was further adjusted to include highway checkpoints and a requirement to wear a mask when on the street. Being outside is limited to essential trips (store, pharmacy, walking a pet, etc.) with a requirement to carry an ID.

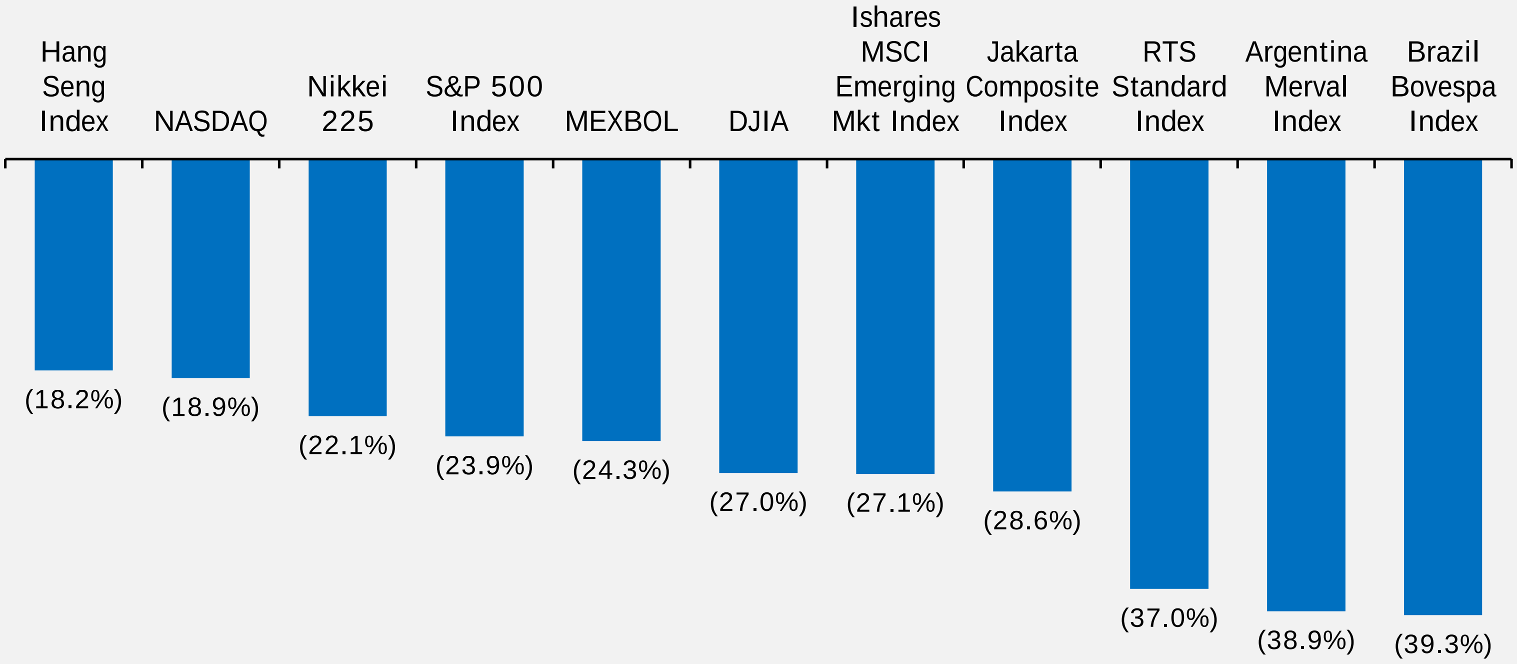
OVERVIEW
EMBI INDEX RETURNS 1Q'20
EMBI BROAD COMPOSITE INDEX REVIEW



OVERVIEW
CEMBI INDEX RETURNS **BY COUNTRY 1Q'20**



OVERVIEW
GLOBAL EQUITY INDEX **RETURNS 1Q'20**



1Q'20 TOP PICKS

PORTFOLIO REVIEW

	Company	Industry	Country	Currency	From	Until	Days	Px at Recomm.	Px End	CPN	Price Appreciation	Total Return	Excess return
OUTPERFORM											Average Return =	(27.86%)	(12.47%)
PFAVH 23	AVIANCA HOLDINGS SA	Airlines	Colombia	USD	01/13/20	04/02/20	80	98.8	18.5	9.00%	(81.3%)	(79.3%)	(62.4%)
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	01/13/20	04/02/20	80	97.0	62.5	6.88%	(35.6%)	(34.0%)	(17.2%)
PAMPAR 27	PAMPA ENERGIA SA	Electric	Argentina	USD	01/13/20	04/02/20	80	85.5	67.0	7.50%	(21.6%)	(20.0%)	(3.1%)
DLLTD 24	DIGICEL INTL FINANCE LTD	Telecommunications	Carribean	USD	01/13/20	04/02/20	80	98.3	87.0	8.75%	(11.5%)	(9.5%)	7.3%
ANTOIL 22	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	01/13/20	04/02/20	80	93.6	69.1	7.50%	(26.1%)	(24.5%)	(7.6%)
CARINC 21	CAR INC	Commercial Services	China	USD	01/13/20	04/02/20	80	94.3	77.8	6.00%	(17.5%)	(16.1%)	0.7%
KAISAG 22	KAISA GROUP HOLDINGS LTD	Real Estate	China	USD	01/13/20	04/02/20	80	100.8	83.6	8.50%	(17.1%)	(15.2%)	1.6%
GTE 25	GRAN TIERRA ENERGY INTL	Oil&Gas	Colombia	USD	01/13/20	02/28/20	46	93.9	89.0	6.25%	(5.2%)	(4.4%)	(3.7%)
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	01/13/20	04/02/20	80	103.1	72.5	10.25%	(29.7%)	(27.4%)	(10.6%)
FINDEP 22	FINANCIERA INDEPENDENCIA	Diversified Finan Serv	Mexico	USD	01/13/20	04/02/20	80	100.8	51.5	8.00%	(48.9%)	(47.1%)	(30.3%)
ANDRGI 24	ANDRADE GUTIER INT SA	Engineering&Construction	Brazil	USD	01/27/20	04/02/20	66	104.5	72.5	9.50%	(30.6%)	(28.9%)	(12.0%)
UNDERPERFORM											Average Return =	16.97%	1.17%
LIGTBZ 23	LIGHT SERVICOS ENERGIA	Electric	Brazil	USD	01/13/20	03/13/20	60	107.8	98.5	7.25%	8.6%	7.4%	(1.6%)
KLAB 27	KLABIN FINANCE SA	Packaging&Containers	Brazil	USD	01/13/20	04/02/20	80	105.1	92.5	4.88%	12.0%	10.9%	(6.0%)
TELVIS 26	GRUPO TELEVISA SAB	Media	Mexico	USD	01/13/20	04/02/20	80	105.4	108.0	4.63%	(2.5%)	(3.5%)	(20.4%)
VEDLN 22	VEDANTA RESOURCES LTD	Mining	India	USD	01/13/20	04/02/20	80	99.4	38.0	6.38%	61.7%	60.3%	43.5%
CENSUD 27	CENCOSUD SA	Food	Chile	USD	01/13/20	03/26/20	73	99.5	82.0	4.38%	17.6%	16.7%	(0.6%)
MHPSA	MHP LUX SA	Agriculture	Ukraine	USD	01/13/20	04/02/20	80	106.6	84.0	6.95%	21.2%	19.7%	2.8%
BUEAIR 21	CITY OF BUENOS AIRES	Municipal	Argentina	USD	01/13/20	04/02/20	80	101.0	91.6	8.95%	9.3%	7.3%	(9.6%)
											Total Average Return =	(10.42%)	(7.16%)

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	01/13/20	04/02/20	80	477.0	396.6	(16.9%)

Source: Bloomberg as of 04/02/2020

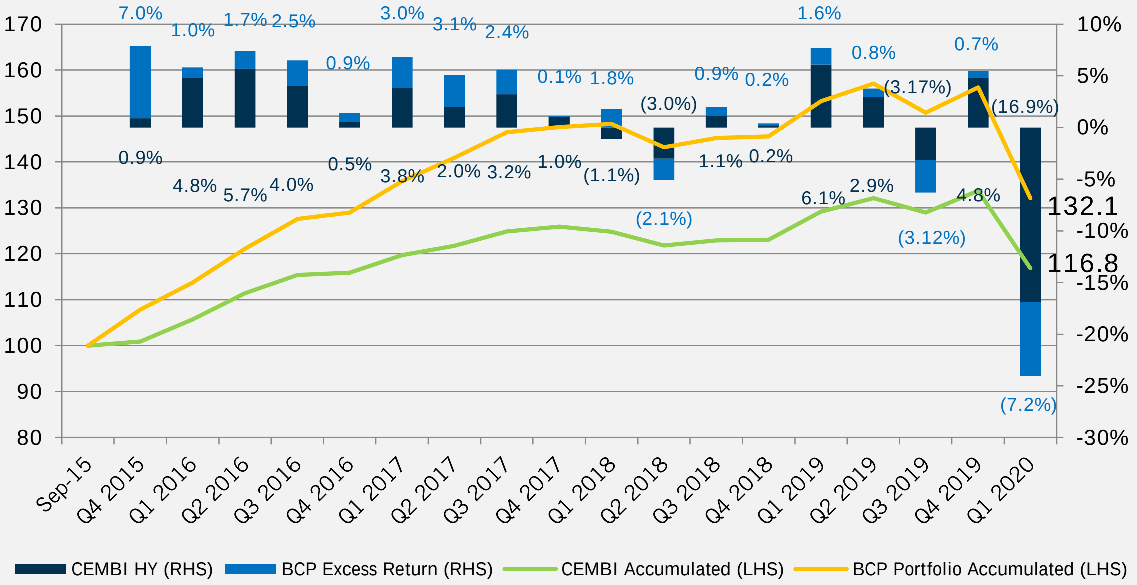
1Q'20 TOP PICKS

PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated negative excess return of 716 bps vs. our CEMBI HY benchmark. Outperforms returned negative 2,786bps on average, below the index by negative 1,247bps. Underperforms depreciated 1,697bps, 117bps more than the benchmark
- Our top performers were VEDLN 22s and DLLTD 24s, with excess return of 43.5% and 7.3% respectively.
- PFAVH 23s and FINDEP 22s were biggest disappointments, negative excess performance of 62.4% and 30.3%, respectively.
- Over the past 18 quarters, BCP Top Picks have generated compounded excess return of 15.3% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH APRIL 02nd 2020



BCP Top Picks/ 04/06/2020

2Q'20 TOP PICKS
PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform										
CSNABZ 28	CSN ISLANDS XI CORP	Diversified Finan Serv	Brazil	USD	$1,000	B2/ -/ B	6.75%	01/28/2028	16.7%	57.50
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	$450	-/ BB/ BB+	6.25%	10/04/2027	12.7%	69.50
CWCLN 27	C&W SENIOR FINANCING DAC	Telecommunications	Carribean	USD	$1,220	B2/ B+/ B+	6.88%	09/15/2027	9.3%	87.00
GOLLBZ 24	GOL EQUITY FINANCE SA	Airlines	Brazil	USD	$425	B2 *-/ -/ -	3.75%	07/15/2024	33.0%	35.50
KAISAG 22	KAISA GROUP HOLDINGS LTD	Real Estate	China	USD	$1,147	-/ -/ B	8.50%	06/30/2022	18.1%	83.00
KUOBMM 27	GRUPO KUO SAB DE CV	Food	Mexico	USD	$450	-/ BB/ BB	5.75%	07/07/2027	10.9%	74.50
MRFGBZ 26	NBM US HOLDINGS INC	Food	Brazil	USD	$1,000	-/ BB-/ BB-	7.00%	05/14/2026	9.3%	89.50
NEUQUE 28	PROVINCE OF NEUQUEN	Regional(state/provnc)	Argentina	USD	$349	-/ -/ CCC	8.63%	05/12/2028	16.5%	65.00
TCZIRA 22	TC ZIRAAT BANKASI AS	Banks	Turkey	USD	$600	B2/ -/ B+	5.13%	05/03/2022	9.8%	91.50
TRAGAS 25	TRANSPORT DE GAS DEL SUR	Pipelines	Argentina	USD	$500	Caa1 *-/ B-/ -	6.75%	05/02/2025	14.5%	72.75

Source: Bloomberg as of 04/06/2020

MARKET OUTPERFORM

ARGENTINA

TRAGAS 6.75% 25s

NEUQUE 8.625% 28s

BRAZIL

CSNABZ 6.75% 28s
GOLLBZ 3.75% 24s

MRFGBZ 7.00% 26s

CARIBBEAN

CWCLN 6.88% 27s

CHINA

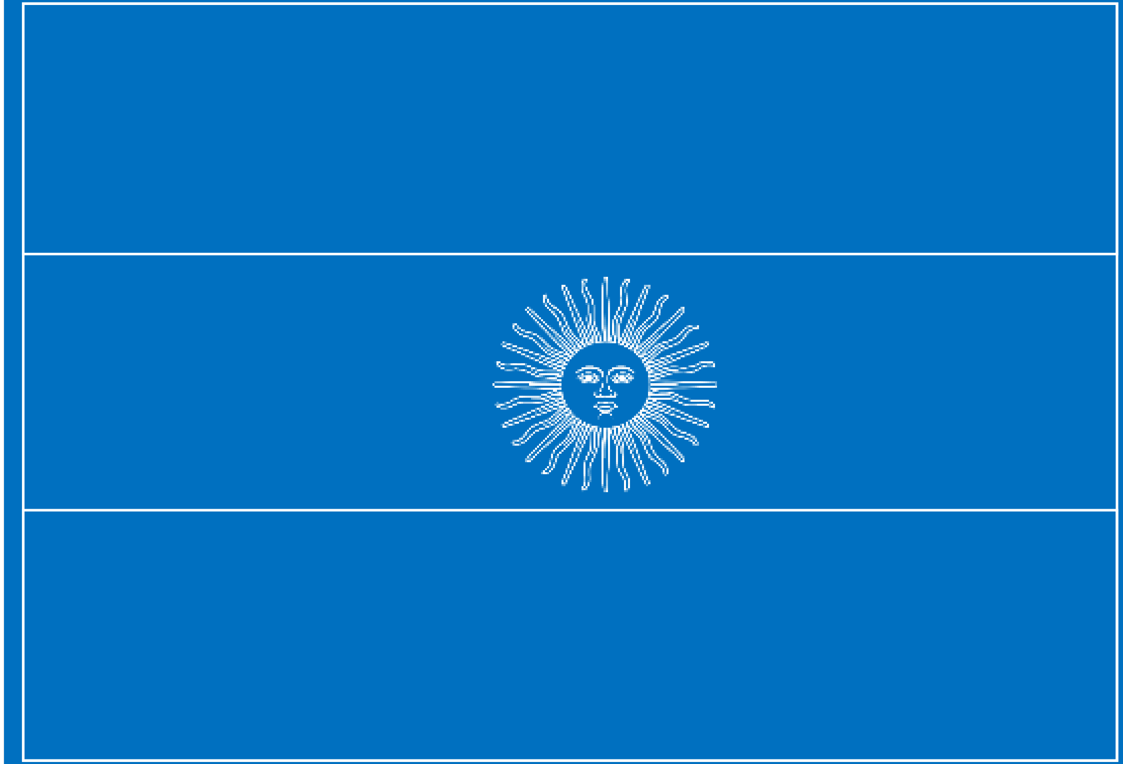
KAISAG 8.50% 22s

MEXICO

CYDSA 6.25% 27s
KUOBMM 5.75% 27s

TURKEY

TCZIRA 5.13% 22s



ARGENTINA

MARKET OUTPERFORM (ARGENTINA):

TRAGAS 6.75% 25

TRAGAS is the biggest gas pipeline service provider of the country, transporting nearly 60% of gas consumed, and operating the largest pipeline system of Latin America of close to 10 thousand km. It operates in the center and southern regions of Argentina, connecting the main O&G basins to the consuming regions. It also commercializes natural gas liquids, sold locally or exported. TRAGAS is majority controlled by CIESA, ultimately controlled by the Werthein group.

Description	Amt. (US$ MM)	Rating (M/SP/F)	Mid Price	Mid YTM
TRAGAS 6 3/4 05/02/25	500	Caa1 *-/ B-/ -	72.25	14.53%

PROS:

- Recognized shareholder (Werthein group). Pampa Energia also owns a 26% stake
- Strong fundamentals with sound EBITDA margins in the transportation segment (54% at 4Q19) and liquids commercialization (38% in 4Q19)
- Gas transport revenues are based mostly on take or pay agreements
- Its liquids commercialization business is mostly based on international prices in USD, and part of it is exported, while most of the costs are in ARS, although almost its entire debt is in USD
- With the recent ramp up of the new pipeline in Vaca Muerta in Dec19 the company does not have any significant near-term capex, expected at US$100mm this year
- Very strong liquidity profile, with no near-term significant amortizations until bond maturity and more than 80% of cash position held offshore in USD
- We expect the company to remain cash positive in 2020 even under this weaker environment

CONS:

- Gas transport revenues (40% of consolidated revenue and 49% of EBITDA in 4Q19) are set in ARS
- Tariffs have remained frozen since Apr19, expected to remain frozen at least until Jun20 following the Social Solidarity and Productive Reactivation Law. Current covid crisis could result in further tariff increase delays
- Delays in Cammesa's receivable could significantly deteriorate working capital levels. We understand currently Cammesa has a 45 days delay. Still, we recall during the Kirchners time the delays reached six months and the company was still able to maintain its operations.
- Propane and butane prices have significantly dropped following the crude plunge, although still above breakeven levels
- The new Vaca Muerta pipeline is based on private contracts with producers, where only around 10% of capacity is contracted
- During 2H19 the company had significant constraints on its ethane sales, as its only offtake PBB shut down its plant due to an incident. We understand situation has been remediated and operations are currently running normally

MARKET OUTPERFORM (ARGENTINA):

TRAGAS 6.75% 25

2020 CASH FLOW EXPECTATION

- Initial expectation was US$320mm EBITDA, compared to around US$420mm in 2019
- Following the crude collapse due to Covid and its impact on butane and propane prices, the company expects an approximate US$80mm impact on EBITDA, while new Vaca Muerta pipeline is expected to provide US$20mm in EBITDA
    - We understand current pricing is around US$240/tn compared to US$200/tn costs for the liquids business
- Capex for 2020 is expected at US$100mm, with US$50mm on expansion projects, with US$20mm referring to pending works on its Vaca Muerta pipeline project, and US$30mm for the expansion of the gas treatment plant situated at the end of this pipeline. Recall the gas treatment plant capacity is currently at 5mm cubic meters compared to 60mm cubic meters of capacity of the pipeline, while this expansion work would increase capacity to 7.5mm cubic meters
    - Maintenance capex is expected to be significantly cut from US$110mm in 2019 as following the Social Solidarity and Productive Reactivation Law of Dec19 the company is no longer subject to the regulatory capex agreed as part of the Macri tariff review program
- Coupon payments of US$40mm, mostly referring to the outstanding 25s
- According to management, the company expects further US$50mm in share repurchases and around US$10mm in dividend payments
- Free cash flow as a result is expected at US$46mm
- We highlight that this free cash flow expectation is before working capital, which can be significantly impaired if Cammesa further delays tariff payments. In 2019, working capital had an impact of around US$100mm on free cash flow, mostly driven by higher receivables. We think the company can reduce its share repurchase program in case of a deterioration in its working capital position

US$mm	2020 Expected
EBITDA	240
Expansion capex	50
Maintenance capex	50
Interest expense	40
Share repurchases	60
Free cash flow pre working capital	46

MARKET OUTPERFORM (ARGENTINA):

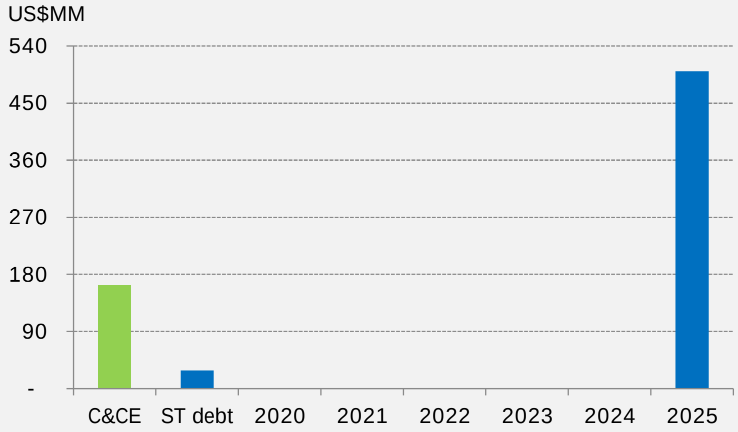
TRAGAS 6.75% 25

VERY STRONG LIQUIDITY

- Cash position at Dec 31, 2019 ended at US$181mm, which is mostly hold offshore in dollars, compared to a ST debt of US$29mm
- Amortization schedule is comfortable as most of its debt refers to outstanding 25s

US$mm	Dec19
Cash and cash equivalents	181
Short term debt	29

AMORTIZATION SCHEDULE 12.31.2019



MARKET OUTPERFORM (ARGENTINA):

TRAGAS 6.75% 25

ANALYSIS OF 4Q19 RESULTS

- Revenue in real terms decreased 8% y/y to AR$12,845mm
- Natural gas transportation revenue (40% of total), decreased 12% y/y as during the year only one tariff increase was granted in April 19 for 26%
- We recall the Macri administration originally postponed the tariff increase that was expected for Sep19 to Jan20. Subsequently, due to the Social Solidarity and Productive Reactivation Law from December 2019, electricity and gas tariffs are to remain frozen for a period of up to 180 days while beginning a review of the Integral Tariff Review that was conducted by the Macri administration
- Liquid revenues, 54% of total, decreased 5% y/y, impacted by the decrease in international reference prices, which resulted in lower revenue of AR$1.0bn, and the 18% y/y decrease in ethane in volumes, mostly due to the incident that disrupted production in Polisur's (PBB) plant, which is the local buyer of ethane, and which resulted in lower revenue of AR$834mm. These was partially offset by the ARS depreciation, which positively impacts propane and buthane sales. Recall half of the segment sales are related to exports
  - According to management, PBB returned to normal operations in Oct19. On a quarterly basis, ethane volumes recovered 1,385%
- EBITDA increased 2% y/y to AR$5,767mm, mostly driven by the decrease in natural gas costs and lower fees paid to third parties
- EBITDA margin strengthened 440bps y/y to 44.9%
  - Despite tariff freeze, transportation business continues with a sound EBITDA margin of 49%, compared to 57% one year ago
- On a full-year basis, EBITDA dropped 7% y/y to AR$23,454mm, with a margin of 48.3%
- Simplified free cash flow for the full year (no quarter inflation adjusted figures available) was negative AR$4,200mm before shareholders distributions on high capex disbursements as the company moved forward with midstream investments and gas commissioning plant in Vaca Muerta, and AR$16,462mm after dividend payments and share repurchases
- The company announced that the 56km pipeline of North Tranch in Vaca Muerta was commissioned in Dec19
- Net debt ended at US$380mm, basically unchanged q/q
- Cash position, which is mostly held in USD, ended at US$180mm, compared with US$29mm in ST debt
- LQA net leverage deteriorated to 1.3x from 0.3x one year ago

TRAGAS (ARSMM)	4Q19	4Q18	y/y	FY19	FY18	y/y
Revenue	12,845	13,912	(8%)	48,562	52,400	(7%)
EBITDA	5,767	5,628	2%	23,454	25,351	(7%)
EBITDA margin	44.9%	40.5%		48.3%	48.4%	

TRAGAS (ARSMM)	Dec19	Sep19*	Dec18	y/y	q/q
Total Debt	33,583	31,893	31,685	6%	5%
Cash and Equivalents	10,809	10,393	25,614	(58%)	4%
Net Debt	22,774	21,500	6,071	275%	6%
Leverage (Total Debt/LQA EBITDA)	1.5	2.0	1.4		
Net leverage (Net Debt/LQA EBITDA)	1.0	1.3	0.3		

(*) Not inflation adjusted

TRAGAS (ARSMM)	FY19	FY18
EBITDA	23,454	25,351
Working capital	(4,801)	(522)
Capex	(15,932)	(12,497)
Interest paid	(2,040)	(1,393)
Taxes paid	(4,881)	(4,273)
FCF pre dividends	(4,200)	6,665
Shareholders distributions	(12,262)	(8,845)
FCF post dividends	(16,462)	(2,180)

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

The Province of Neuquén is situated in the Patagonia region, with a population of nearly 550 thousand and a poverty rate of 26.3% in its main urban areas (Plottier – 50% of total population) according to IDEC at Jun-19. The province is the highest gas and third largest oil producer, with a total production of 470kboepd, and 134kbpd in the first ten months of 2019, respectively, with proven reserves of near 1,146mmboe of gas and 463mmbbl of oil at Dec-18, resulting in an average life of nearly ten years of oil and seven years of gas. The vast portion of Vaca Muerta is located in the province.

Description	Amt. (US$ MM)	Rating (M/SP/F)	Mid Price	Mid YTM
NEUQUE 8 1/4 12/05/28	349	-/-/CCC	65.00	16.55%

PROS:

- Notes backed by oil & gas royalties, a USD indexed payment stream
- Largest gas and third largest oil producer, containing the vast majority of Vaca Muerta's reserves
- Strongest debt service coverage among peers, which we estimate at 2.6x at current production and oil and gas prices
- Oil and gas production has grown sharply due to the focus on non-conventional production
- Oil sold at a premium to Chubut's crude on better quality
- Amortizing bond with quarterly principal payments starting 2020, reducing duration and easing refinancing risks

CONS:

- Recent plummet in oil prices and previous gas prices decrease due to vast oversupply have considerably reduced debt service coverage, although we continue to see sound over coverage
- Oil collapse will significantly hurt capex levels and production
- While bonds are under NY law, trust in charge of royalties' collection was created under Argentine law, which we think eventually can provide a way to locally breach the bond structure
- Conflicts with oil worker unions have led to several strikes in the past
- Maintains its own deficit generating social security administration

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

Province of Neuquen (AR$MM)	2019	2018	y/y (AR$)	y/y (%)	2020 budget
Current income	137,728	91,092	46,636	51%	157,155
Local tax revenues	37,120	23,587	13,533	57%	44,115
National taxes	25,787	17,290	8,497	49%	38,123
Current transfers	1,914	2,047	(133)	(7%)	7,744
Royalties	33,337	22,166	11,171	50%	50,478
Social security	22,091	14,153	7,938	56%	Not included
Other current income	17,479	11,850	5,629	48%	22,115
Current expenses	(128,707)	(79,501)	49,206	62%	(132,667)
Personnel expenses	(70,425)	(43,820)	26,605	61%	(87,764)
Current transfers	(19,610)	(12,804)	6,806	53%	(24,611)
Good and services	(13,693)	(8,544)	5,149	60%	(20,291)
Social security	(24,670)	(14,117)	10,553	75%	Not included
Capital income	1,876	1,990	(114)	(6%)	1,646
Capital expenditures	(12,579)	(8,642)	3,937	46%	(17,554)
Primary surplus / (deficit)	(1,682)	4,939	(6,621)		8,580
as % of current income	(1%)	5%			6%
Interest	(6,678)	(4,534)	2,144	47%	(7,539)
Total surplus / (deficit)	(8,360)	405	(8,765)		1,041
as % of current income	(6%)	0%			1%

Province of Neuquen	2019	2018
Gross debt (AR$mm)	75,368	47,766
Gross debt (US$mm)	1,259	1,268
National government	14%	11%
Local market debt	17%	7%
International markets debt	61%	60%
Multilateral agencies	0%	7%
ARS	11%	18%
Foreign currencies	89%	82%
Gross debt / Current income (*)	65%	62%
Interest / Current income (*)	6%	6%

(*) Current income excluding social security receipts

Government: current governor is Omar Gutierrez, who was reelected with 40% of votes for a second four-year term until 2023. Gutierrez belongs to the MPN, a center party which has governed the province 50 of the last 55 years.

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

Basic structure

- US$235MM Tranche 1 and US$114MM Tranche 2 resulted from the exchange of 2021 notes.
- Quarterly interest payments and quarterly principal payments starting May-20.
- Secured by the Argentine Collateral Trust whose assets are the assigned royalties payable to the province under the Primary Dedicated Areas and those royalties under the Additional Dedicated Areas securing the 2021 notes in the percentage of total amount exchanged for the 24s (70%). Subject to the full repayment of the 2021s, 100% of royalties under the Additional Dedicated Areas will secure the notes.
- The notes are direct, general, unconditional and unsubordinated obligations of the Province of Neuquén.
- Not a true sale: the Province agrees to irrevocably and unconditionally transfer to the Argentine Collateral Agent its right to collect the Specified Royalties for the benefit of the bondholders.
- Primary Dedicated Areas account for nearly 45% of Neuquen's gas production and Additional Dedicated Areas account for nearly 55% of Neuquen's oil production.
- Royalties paid by concessionaires to Neuquén are 12% of wellhead price. Assigned Royalties are deposited in a Collateral Account and represent 100% of total royalties of Primary and Additional Dedicated Areas until Nov-17, then, as long as the Adjusted Royalties Coverage Amount is at least 3x, it will be reduced by 2.5% each year for four years, then by up to 7.5% on the fifth year, and then by up to 10% each year until maturity as long as the ratio is at least 6x.

<u>COVENANTS</u>

- <u>Trigger Event:</u> if coverage falls below 1.35x, the Collateral Agent shall convert all excess royalties to USD and transfer them to the Trigger Event Prepayment Account until the trigger event ceases to exist. As long as a trigger event exists, the notes will be paid in reverse order of maturity (last installment shall be paid first)
- Same procedure in case of any Default Event
- <u>Accordingly, under a trigger event or event of default, the Province would not collect any excess royalties</u>

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

ESTIMATED DEBT SERVICE COVERAGE AT US$30 BRENT, US$2.3/MMBTU GAS AND CURRENT PRODUCTION

'US$000	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Feb-23
Interest payment	7,519	7,293	7,068	6,842	6,616	6,391	6,165	5,940	5,714	5,489	5,263	5,038
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	17,979	17,754	17,528	17,303	17,077	16,852	16,626	16,401	16,175	15,949	15,724	15,498
Estimated royalties (*)	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881
Debt Service Coverage	2.6	2.6	2.7	2.7	2.7	2.8	2.8	2.9	2.9	2.9	3.0	3.0

'US$000	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24	Nov-24	Feb-25	May-25	Aug-25	Nov-25	Feb-26
Interest payment	4,812	4,586	4,361	4,135	3,910	3,684	3,459	3,233	3,007	2,782	2,556	2,331
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	15,273	15,047	14,822	14,596	14,370	14,145	13,919	13,694	13,468	13,243	13,017	12,792
Estimated royalties (*)	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881
Debt Service Coverage	3.1	3.1	3.2	3.2	3.3	3.3	3.4	3.4	3.5	3.5	3.6	3.7

'US$000	May-26	Aug-26	Nov-26	Feb-27	May-27	Aug-27	Nov-25	Feb-28	May-28
Interest payment	2,105	1,879	1,654	1,428	1,202	977	751	526	300
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	13,947
Total debt service	12,566	12,340	12,114	11,889	11,663	11,438	11,212	10,987	14,248
Estimated royalties (*)	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881	46,881
Debt Service Coverage	3.7	3.8	3.9	3.9	4.0	4.1	4.2	4.3	3.3

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

ESTIMATED DEBT SERVICE COVERAGE AT US$30 BRENT, US$2.3/MMBTU GAS AND 50% DROP IN CURRENT PRODUCTION

'US$000	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Feb-23
Interest payment	7,519	7,293	7,068	6,842	6,616	6,391	6,165	5,940	5,714	5,489	5,263	5,038
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	17,979	17,754	17,528	17,303	17,077	16,852	16,626	16,401	16,175	15,949	15,724	15,498
Estimated royalties (*)	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050
Debt Service Coverage	1.5	1.5	1.5	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.7	1.7

'US$000	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24	Nov-24	Feb-25	May-25	Aug-25	Nov-25	Feb-26
Interest payment	4,812	4,586	4,361	4,135	3,910	3,684	3,459	3,233	3,007	2,782	2,556	2,331
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	15,273	15,047	14,822	14,596	14,370	14,145	13,919	13,694	13,468	13,243	13,017	12,792
Estimated royalties (*)	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050
Debt Service Coverage	1.8	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.1	2.1

'US$000	May-26	Aug-26	Nov-26	Feb-27	May-27	Aug-27	Nov-25	Feb-28	May-28
Interest payment	2,105	1,879	1,654	1,428	1,202	977	751	526	300
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	13,947
Total debt service	12,566	12,340	12,114	11,889	11,663	11,438	11,212	10,987	14,248
Estimated royalties (*)	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050	27,050
Debt Service Coverage	2.2	2.2	2.2	2.3	2.3	2.4	2.4	2.5	1.9

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28

ESTIMATED DEBT SERVICE COVERAGE AT US$40 BRENT AND US$2.3/MMBTU GAS AND CURRENT PRODUCTION

'US$000	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Feb-23
Interest payment	7,519	7,293	7,068	6,842	6,616	6,391	6,165	5,940	5,714	5,489	5,263	5,038
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	17,979	17,754	17,528	17,303	17,077	16,852	16,626	16,401	16,175	15,949	15,724	15,498
Estimated royalties (*)	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495
Debt Service Coverage	2.9	3.0	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.4

'US$000	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24	Nov-24	Feb-25	May-25	Aug-25	Nov-25	Feb-26
Interest payment	4,812	4,586	4,361	4,135	3,910	3,684	3,459	3,233	3,007	2,782	2,556	2,331
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	15,273	15,047	14,822	14,596	14,370	14,145	13,919	13,694	13,468	13,243	13,017	12,792
Estimated royalties (*)	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495
Debt Service Coverage	3.4	3.5	3.5	3.6	3.7	3.7	3.8	3.8	3.9	4.0	4.0	4.1

'US$000	May-26	Aug-26	Nov-26	Feb-27	May-27	Aug-27	Nov-25	Feb-28	May-28
Interest payment	2,105	1,879	1,654	1,428	1,202	977	751	526	300
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	13,947
Total debt service	12,566	12,340	12,114	11,889	11,663	11,438	11,212	10,987	14,248
Estimated royalties (*)	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495	52,495
Debt Service Coverage	4.2	4.3	4.3	4.4	4.5	4.6	4.7	4.8	3.7

BRAZIL

MARKET OUTPERFORM (BRAZIL):

CSNABZ 6.75% 28s

CSN is a Brazilian integrated steel producer operating throughout the entire steel production chain, from the mining of iron ore to the production and sale of a diversified range of high value-added steel products. CSN is divided into five segments: steel, mining, cement, logistics and energy. The depressed steel EBITDA in recent quarters from a scheduled furnace stoppage resulted in mining EBITDA accounting for nearly 80% of the total. Though we expect near-term weakness with net leverage at 7.9x at current iron ore and steel spot prices, CSN has substantial collateral value at its mining subsidiary to secure refinancing or new financing if needed as well as favorable WK dynamics benefiting FCF. We suspect the resilient iron ore spot at US$79/t is due in part as blast furnaces in China remained open with supply constraints from Brazil. With CSN's cash costs at US$27/t, iron mining should continue to offset the weaker steel business.

Ticker	Coupon	Maturity	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CSNABZ	6.500%	07/21/2020	171	B2/ B/ B	99.00	9.96%
CSNABZ	7.625%	04/17/2026	600	B2/ -/ B	59.50	19.27%
CSNABZ	6.750%	01/28/2028	1,000	B2/ -/ B	57.50	16.67%
CSNABZ	7.000%	PERP	1,000	B2/ B/ B	55.50	12.61%

PROS:

- One of the largest integrated flat steel and iron producers in Brazil and LatAm
- Global footprint, with domestic revenues being only 45% of the total
- Steel sales were 4.5k tons, accounting for 55% of the total revenue in 2019
    - Internal steel production normalizing as furnace is fully operational
- Iron ore sales were 39% of total revenue, with CSN producing 33 mm tons out of the 39 mm tons sold in 2019
    - Resilient iron ore spot at US$79/t, with CSN cash costs at US$27/t
    - High quality iron mine and operating full dry-stacking
- LTM FCF generation, partially through US$750 mm in export prepayments
- Substantial collateral value in mining subsidiary to secure refinancing or new financing

CONS:

- Depressed steel EBITDA margins in recent quarters due to the steel furnace stoppage, expected to normalize as the furnace ramps-up
- Weaker steel demand from COVID-19 industry stoppages, incl. the automotive sector that accounts for 31% of CSN steel sales volumes
- Heavy rainfall significantly impacted 1Q20 iron ore mining volumes
- Challenging maturity profile with R$11 bn due within three years, of which R$3 bn are due in 2020
- Weak covenants, as USD bonds are effectively junior to all other debt, with CSN having an unlimited secured financing basket
- Strong local entrepreneur likely to be a challenging counterparty in any restructuring discussions
- Near term weakness at current spot prices, we see net leverage at 7.9x

MARKET OUTPERFORM (BRAZIL):

CSNABZ 6.75% 28s

Highlights:

- In 2019, steel sales were 4.5k tons, accounting for 55% of the total revenue
  - Internal steel production should normalize and ramp-up back to 4k tons as the furnace is now fully operational
- Iron ore sales were 39% of total revenue through 38.5k tons sold
- Substantial collateral value in mining subsidiary to secure refinancing or new financing

Base Case:

- Steel – assuming current steel reference price at US$518/t
  - Realized steel price historically around 116% of spot
  - Reduced third party steel purchases
  - Cash costs normalizing at 2018 levels at US$702/t
  - Steel EBITDA would be negative, mainly from lower steel prices
- Iron ore mining – assuming current spot at US$79/t
  - Realized iron ore price has been around 71% of spot
  - Stable mining cash costs at US$27/t
- Consolidated EBITDA would decrease by 53% y/y to US$865 mm
  - EBITDA margin at 17% vs 31% in 2019
- Slight FCF burn mainly from WK dynamics
- Net leverage would increase to 7.9x

Downside Case:

- Iron ore and internal steel production volumes declining by 20% y/y
- EBITDA would decrease by 61% y/y to US$724 mm
- Net leverage would increase to 9.3x

CSN (US$ MM)	FY18	FY19	Pro-Forma	Downside
Steel Spot (US$/t)	833	604	518	
Steel Volumes (k tons)	5,069	4,525	3,996	3,197
Volume Change y/y		(11%)	(12%)	(29%)
Iron Ore Spot (US$/t)	69	93	79	
Iron Ore Volumes (k tons)	34,781	38,545	38,545	30,836
Volume Change y/y		11%	0%	(20%)
Revenue				
Steel	4,220	2,734	2,394	1,915
Iron Ore	2,023	2,901	2,156	1,725
Logistics	486	397	397	397
Total Revenue	6,729	6,031	4,947	4,037
EBITDA	1,597	1,844	865	724
Interest paid	(590)	(543)	(543)	(543)
Capex	(357)	(557)	(360)	(360)
Working capital	150	715	111	297
Taxes paid	(89)	(293)	(138)	(115)
FCF	711	1,166	(65)	3
Total Debt	7,724	7,250	7,250	7,250
Cash	846	525	459	527
Net Debt	6,878	6,725	6,790	6,722
Gross Leverage	4.8x	3.9x	8.4x	10.0x
Net Leverage	4.3x	3.6x	7.9x	9.3x
EBITDA Margin %	24%	31%	17%	18%

MARKET OUTPERFORM (BRAZIL):

CSNABZ 6.75% 28s

Recent Highlights – 4Q19 – Mixed:

- 4Q19 Revenue increased by 9% q/q to R$6.5 bn (US$1.6 bn), beating the BBG consensus by 6%
    - Steel sales were flat q/q at R$3.3 bn, as lower steel prices were offset by higher volumes in the domestic market
    - Iron ore sales were 8% higher q/q at R$2.5 bn, from higher exports and tons sold to CSN's steel ops as production ramped up
    - Despite the avg. iron px decreasing by 13% q/q to US$89/dmt, CSN's realized px was relatively stable q/q at US$72/dmt as quotation periods normalized
    - Foreign revenues were 58% of the total, vs 55% last quarter
- Adj. EBITDA was 1% higher q/q at R$1.6 bn, managing to beat the BBG consensus by 2%
    - Steel EBITDA was 70% higher at R$177 mm, as slab production ramped up as furnace #3 resumed ops, expected to be normalized fully in 1Q20
    - Mining EBITDA was 5% lower q/q at R$1.3 bn, due to higher third party purchases as production decreased by 20% q/q from heavy rainfall
    - As a result, the mining EBITDA margin contracted to 51%, vs 58% last quarter
    - The total EBITDA margin contracted to 24%, vs 26% last quarter
- FCF generation was R$0.9 bn (US$0.2 bn), due WK contraction from lower inventories
- Total debt decreased to R$29.2 bn (US$7.3 bn), while cash decreased to R$2.1 bn (US$0.5 bn)
    - Q/Q debt decline was driven by debt paydown during the quarter
- The annualized gross and net leverage ratios are 4.6x and 4.3x, respectively
- Recent highlights:
    - In January 2020, CSN issued US$1.0 bn in 6.75% senior unsecured bonds due 2028 for refinancing purposes
    - Proceeds were used to call most of the 20s and refinance maturities due in 2023

CSN (R$ MM)	4Q19	BBG consensus	% dif	3Q19	4Q18	q/q	y/y
Total Revenue	6,524	6,132	6%	6,006	6,051	9%	8%
Adj. EBITDA	1,580	1,552	2%	1,567	1,560	1%	1%
Adj. EBITDA margin	24%	25%	-	26%	26%	-	-

CSN (R$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Total Debt	29,217	30,558	29,890	(4%)	(2%)
Cash & Equivalents	2,114	2,981	3,274	(29%)	(35%)
Net Debt	27,103	27,577	26,616	(2%)	2%
Total Debt / LQA EBITDA	4.6x	4.9x	4.8x	-0.3x	-0.2x
Net Debt / LQA EBITDA	4.3x	4.4x	4.3x	-0.1x	0.0x

CSN (R$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Adj. EBITDA	1,580	1,567	1,560	1%	1%
Interest paid	(457)	(628)	(434)	27%	(5%)
Capex	(839)	(603)	(509)	(39%)	(65%)
Working capital	837	1,992	210	(58%)	299%
Taxes paid	(210)	(602)	(136)	65%	(55%)
FCF	911	1,726	691	(47%)	32%

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 3.75% 24s

GOL, is a Brazilian low cost carrier, founded in 2000 and focused primarily on business travelers. The company has the highest domestic market share among Brazilian airlines (36% by passengers), and operates under a single-fleet model, with 137 Boeing 737 aircraft in its fleet (Dec '19). In the wake of COVID-19, Gol benefits from its low international exposure and leverage, alongside high margins solid liquidity. In addition, the grounding of Max's have provided an unexpected tailwind, allowing for flexibility of capacity to better navigate the drop-off in bookings. We think these elements, in addition to lease and interest deferrals, could be adequate to preserve liquidity until demand recovers. Gol bonds remain cheap to peer Azul (60c), who continues to trade at a premium, despite anticipated liquidity pressures. Convertible GOLLBZ 24s (36c) offer a virtually free option of the equity, trading 22% cheap to fair value (54c) and below their 38c bond floor. Additionally, despite being pari-passu, converts trade at a 9pt discount to GOLLBZ 25s (38c). Given the superior risk v reward, we upgrade GOLLBZ 3.75% 24s to 'Market Outperform''.

Issuer	Interest	Maturity	Amt (US$MM)	Ratings (M/SP/F)	Mid Price	Mid Yield
GOLLBZ	3.75%	7/15/2024	345	B2/ -/ -	35.5	33.01%
GOLLBZ	7.00%	1/31/2025	650	-/ B-/ B	44.0	29.48%
GOLLBZ	8.75%	Perp	154	B2/ -/ B	42.0	20.83%

PROS:

- High profit margins and liquidity balance, paired with low leverage and international exposure
- Ability to manage capacity through short term leases
- Potential to access WK financing via Brazilian gov't (BNDES)
- Potential liquidity boost from Boeing Max settlement

CONS:

- Impact of COVID-19 accross the global airlines sector
- Potential decision to forego WK funding from gov't BNDES could have negative impact if COVID-crisis persists
- Ongoing grounding of Maxs, currently less than 6% of Gol's fleet, negotiations with Boeing ongoing
- Jet fuel and aircraft leasing denominated in USD

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 3.75% 24s

Recent Highlights – 4Q19 – Positive & Persistent Tailwinds:

- RPKs increased 6% y/y to 10.8 bn. ASKs also grew 6% y/y to 13.3 bn
- Load factor contracted 0.4 pp y/y to 81.5% in 4Q19
  - We note January's preliminary traffic figures show a load factor of 83.9% in January '20 (+0.4 pp y/y) and an LTM lean factor of 82% (+2.1 pp y/y)
- Revenue increased 10% y/y and decreased 1% q/q to US$924 mm, despite continued grounding of the MAX and, subsequently, unexpected maintenance of NGs which have remained in the fleet in the interim
- EBITDA of US$356 mm increased 160% y/y and 24% sequentially, with y/y results benefitting from the increased in RASK, which outpaced CASK (ex-fuel)
- EBITDA margins expanded 2,220 bps y/y and 777 bps q/q to 39%
- Free cash flow was a robust US$201 mm, benefitting from EBITDA performance, WK generation and lower interest payments (based on payment schedule), which outweighed elevated cash lease payments and capex
  - Capex expanded 22% q/q to US$74 mm
  - Cash leases contracted 18% q/q to US$96 mm
  - The company generated working capital of US$38 mm in 4Q19, up 38% q/q
- Cash and equivalents were 3% higher q/q at US$755 mm
- Net debt was 3% higher q/q at US$2,833 mm
- LTM pro-forma net leverage was 2.6x

Gol (US$MM)	4Q19	3Q19	2Q19	1Q19	Restated 4Q18 *	y/y	q/q
Revenue	924	935	801	852	840	10%	(1%)
Net Income *	182	(23)	(31)	9	32	472%	(882%)
(-) Income Taxes	30	(2)	6	19	20	55%	(2005%)
(-) Net Financial Result	33	199	107	106	(5)	(742%)	(84%)
EBIT	244	174	81	134	46	428%	40%
(-) D&A	111	113	106	108	91	23%	(1%)
EBITDA	356	287	187	242	137	160%	24%
EBITDA margin	39%	31%	23%	28%	16%	2,220bps	777bps

Gol (US$MM)	4Q19	3Q19	2Q19	1Q19	Restated 4Q18 *	y/y	q/q
EBITDA	356	287	187	242	137	160%	24%
Capex	(74)	(60)	(66)	(27)	(7)	983%	22%
Interest paid	(10)	(50)	(10)	(50)	(34)	(70%)	(79%)
Taxes paid	(13)	(11)	(29)	(6)	(2)	672%	21%
Cash lease	(96)	(117)	(103)	(94)	(92)	5%	(18%)
FCF before WK	163	49	(21)	65	3	5,482%	231%
Working capital	38	9	(61)	(63)	(16)	-	338%
FCF	201	58	(82)	2	(13)	-	247%

** Restated in line with IFRS 16 accounting policies*

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 3.75% 24s

Gol (US$MM)	4Q19	3Q19	2Q19	1Q19	Restated 4Q18	y/y	q/q
LTM EBITDA	1,072	854	731	676	709	51%	26%
Gross Debt	3,888	3,784	3,853	3,905	3,609	8%	3%
Short-term borrowings	631	596	306	282	285	122%	6%
Long-term debt	1,456	1,396	1,677	1,678	1,378	6%	4%
LTM Aircraft Rents x 7 years	1,802	1,792	1,870	1,945	1,946	(7%)	1%
Cash and Cash Equivalents	755	735	622	694	549	38%	3%
Cash and cash equivalents	408	302	260	483	213	91%	35%
Financial assets	237	283	208	91	123	92%	(16%)
Restricted cash ST	76	129	106	91	34	120%	(41%)
Restricted cash LT	35	21	48	30	178	(81%)	63%
Net Debt	3,133	3,049	3,232	3,211	3,060	2%	3%
LTM Gross Leverage (Gross Debt / LTM EBITDA)	3.6x	4.4x	5.3x	5.8x	5.1x	(1.5x)	(0.8x)
LTM Net Leverage (Net Debt / LTM EBITDA)	2.9x	3.6x	4.4x	4.7x	4.3x	(1.4x)	(0.6x)
Gross Debt (incl. op leases)	3,588	3,485	3,542	3,581	3,285	9%	3%
Short-term borrowings	631	596	306	282	285	122%	6%
Long-term debt	1,456	1,396	1,677	1,678	1,378	6%	4%
Aircraft Financing **	1,502	1,493	1,559	1,621	1,622	(7%)	1%
Cash and Cash Equivalents	755	735	622	694	549	38%	3%
Net Debt (incl op leases)	2,833	2,750	2,920	2,887	2,736	4%	3%
Pro Forma Gross Leverage (incl op leases) / Trailing LTM EBITDA	3.3x	4.1x	4.8x	5.3x	4.6x	(1.3x)	(0.7x)
Pro Forma Net Leverage (incl op leases) / Trailing LTM EBITDA	2.6x	3.2x	4.0x	4.3x	3.9x	(1.2x)	(0.6x)

** Net Income adjusted for non-recurring expenses*

*** Prior to 4Q18 = LTM Aircraft Rents x 7 years (80%)*

SOUTH AMERICAN AIRLINES
COVID-19 STRESS TEST

Capacity Cuts and Liquidity

- Dramatic capacity cuts have been announced amidst a collapse in demand
- Yet, given the high fixed costs in the industry, liquidity is still limited
- Our analysis generally agrees with issuer indications that liquidity can last three to six months (Stress Test case, p 20)

Key Point: Ability to Defer Leasing and Financing Payments

- We are seeing a global collapse in traffic demand and the airline industry
- As such, we feel strongly aircraft lessors and financing providers will not look to take aircraft back
    - Aircraft would at best sit idle with associated storage costs
    - Finding a new customer for the aircraft is uncertain, costly and time consuming
- At the same time, industry participants work under the assumption demand should normalize in one to three quarters
- Accordingly, the sector needs working capital support
    - This could possibly come in the form of government assistance
    - However, we are assuming each issuer ceases payment on leasing obligations and interest
    - These payments would become capitalized and (remain) senior to unsecured bonds

Framing the Risk vs. Reward Discussion

- Our analysis seeks to define which issuers could preserve adequate liquidity by deferring payments through 2020
- This is detailed in our Stress Case WK Support on page 20
- The deferred payments, capitalized as debt, result in a Pro Forma net debt
- We can then view the Pro Forma balance sheet vs. historic profitability as an estimate of debt sustainability

SOUTH AMERICAN AIRLINES
COVID-19 STRESS TEST

OUR APPROACH:

INCOME STATEMENT

- FY20 consensus revenue and EBITDA refers to (pre crisis) BBG estimates
- FY20 aircraft fuel expense adjusted based on jet fuel price (YTD avg. and current spot)
- Revenue bottoms in 2Q, down 98%, recovering to down 30% in 4Q.
- Stress Test revenue, fuel and ground operations adjusted based on revenue decline
- Other operating expenses adjusted down -30-50% 2Q-4Q20

CASH FLOW

- Capex adjusted down 70% y/y 2Q- 4Q20
- Interest and lease payments flat y/y, adjusted for f/x
- Taxes paid flat y/y
- Working capital based on estimated inflow/(outflow) of A/R, inventories, A/P, etc.
- Stress Test (Base Case) assumes no financial support from gov't or private lenders
- Stress Test (WK Support) assumes deferment of 2Q-4Q interest and lease payments

BALANCE SHEET

- Stress Test (WK Support) debt and cash reflect capitalized interest and lease payments

SOUTH AMERICAN AIRLINES COVID-19 STRESS TEST

bcp

STRESS TEST APPROACH: Revenue bottoms 2Q (-98% y/y), recovering 4Q (-30% y/y). Base Case = Ø financial support. WK Support = Defer interest/lease paid (2Q-4Q20)

INCOME STATEMENT: Revenue, ground ops and fuel (adj. jet fuel px) in line w/ bookings decline. Other op expenses adj. down -30-50% (2Q-4Q20).
CASH FLOW: Capex -70% y/y (2Q-4Q20), tax, interest, lease payments flat (f/x adjusted), WK = est. BS inflow/(outflow).
BALANCE SHEET: Stress Test (WK Support) debt and cash reflect capitalized interest and lease payments.

(US$ MM)	Aeromexico	Avianca	Azul	Gol	LATAM
Country	Mexico	Colombia	Brazil	Brazil	Chile/Brazil
Ticker	AERMEX	PFAVH	AZULBZ	GOLLBZ	LTMCI
Coupon	7.00%	9.00%	5.875%	7.00%	6.875%
Maturity	2/5/25	5/10/23	10/26/24	1/31/2025	4/11/24
Amt out (US$MM)	400	484	400	650	700
Rank	Sr. Unsecured	Sr. Secured	Sr. Unsecured	Sr. Unsecured	Sr. Unsecured
Ratings (M/SP/F)	B3 *-/ B+/ -	-/ CCC/ C	B2 *-/ B/ B *-	B2 *-/ -/ -	-/ B-/ B+ *-
Mid Price (4/6/2020)	30.0	20.0	59.5	35.5	42.5
Mid YTM (4/6/2020)	41.81%	86.77%	19.78%	33.01%	34.32%

	Aeromexico					Avianca					Azul					Gol					LATAM				
	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020
Source	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test		Reported	Consensus	Stress Test	Stress Test
				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support
Revenue	3,653	3,573	3,176	1,397	1,397	4,891	4,615	4,272	2,241	2,241	2,479	2,901	2,661	1,097	1,097	3,123	3,516	3,063	1,264	1,264	10,368	10,431	10,520	5,163	5,163
*Domestic (%) ** *	*34%*	*34%*	-	-	-	-	*52%*	-	-	-	*75%*	*77%*	-	-	-	*87%*	*87%*	-	-	-	-	*54%*	-	-	-
*International (%) ** *	*50%*	*51%*	-	-	-	-	*37%*	-	-	-	*25%*	*23%*	-	-	-	*13%*	*13%*	-	-	-	-	*46%*	-	-	-
EBITDA	656	777	766	(184)	(184)	876	774	763	(45)	(45)	678	919	851	(17)	(17)	664	1,078	914	(104)	(104)	2,249	2,212	2,225	(272)	(272)
EBITDA margin	*18%*	*22%*	*24%*	*(13%)*	*(13%)*	*18%*	*17%*	*18%*	*(2%)*	*(2%)*	*27%*	*32%*	*32%*	*(2%)*	*(2%)*	*21%*	*31%*	*30%*	*(8%)*	*(8%)*	*22%*	*21%*	*21%*	*(5%)*	*(5%)*
Capex	(230)	(240)	(157)	(157)	(157)	(542)	(268)	(208)	(208)	(208)	(310)	(362)	(204)	(204)	(204)	(217)	(229)	(55)	(55)	(55)	(661)	(1,277)	(1,037)	(311)	(311)
Interest paid	0	(187)	(187)	(187)	(43)	(209)	(275)	(275)	(275)	(46)	(216)	(246)	(246)	(246)	(61)	(154)	(119)	(119)	(119)	(29)	(540)	(551)	(551)	(551)	(101)
Taxes paid	(7)	(14)	(11)	(11)	(11)	(48)	(46)	(46)	(46)	(46)	(327)	(325)	(506)	(506)	(0)	(227)	(410)	(345)	(345)	(47)	(29)	(45)	(45)	(45)	(45)
Cash lease	(326)	(651)	(652)	(652)	(148)	0	(1,080)	(1,080)	(1,080)	(270)	(327)	(325)	(506)	(506)	(127)	(227)	(410)	(345)	(345)	(86)	(373)	(399)	(399)	(399)	(94)
Working Capital	12	98	(28)	(168)	(168)	262	(153)	(21)	(111)	(614)	(152)	119	(1)	(41)	(409)	152	(73)	40	(286)	(322)	-	375	(66)	(66)	(66)
Simplified FCF	105	(216)	(270)	(1,360)	(713)	339	(1,046)	(866)	(1,764)	(1,228)	(655)	(221)	(613)	(1,521)	(818)	(8)	(163)	89	(1,255)	(644)	-	315	126	(1,645)	(890)
Net Leverage	4.1x	3.9x	5.7x	NM	NM	5.3x	5.8x	7.5x	NM	NM	3.8x	3.8x	5.3x	NM	NM	4.3x	2.9x	4.3x	NM	NM	4.0x	4.2x	4.9x	NM	NM

*** Non-IFRS 16 presented on like-for-like basis*

SOUTH AMERICAN AIRLINES COVID-19 STRESS TEST

(US$ MM)	Aeromexico	Avianca	Azul	Gol	LATAM
Country	Mexico	Colombia	Brazil	Brazil	Chile/Brazil
Ticker	AERMEX	PFAVH	AZULBZ	GOLLBZ	LTMCI
Coupon	7.00%	9.00%	5.875%	7.00%	6.875%
Maturity	2/5/25	5/10/23	10/26/24	1/31/2025	4/11/24
Amt out (US$MM)	400	484	400	650	700
Rank	Sr. Unsecured	Sr. Secured	Sr. Unsecured	Sr. Unsecured	Sr. Unsecured
Ratings (M/SP/F)	B3 *-/ B+/ -	-/ CCC/ C	B2 *-/ B/ B *-	B2 *-/ -/ -	-/ B-/ B+ *-
Mid Price (4/6/2020)	30.0	20.0	59.5	35.5	42.5
Mid YTM (4/6/2020)	41.81%	86.77%	19.78%	33.01%	34.32%

	Aeromexico					Avianca					Azul					Gol					LATAM				
	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020	2018* *	2019	2020	2020	2020
Source	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test	Reported	Reported	Consensus	Stress Test	Stress Test		Reported	Consensus	Stress Test	Stress Test
				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support				Base Case	WK Support
EBITDA	656	777	766	(184)	(184)	876	774	763	(45)	(45)	678	919	851	(17)	(17)	664	1,078	914	(104)	(104)	2,249	2,212	2,225	(272)	(272)
EBITDA margin	*18%*	*22%*	*24%*	*(13%)*	*(13%)*	*18%*	*17%*	*18%*	*(2%)*	*(2%)*	*27%*	*32%*	*32%*	*(2%)*	*(2%)*	*21%*	*31%*	*30%*	*(8%)*	*(8%)*	*22%*	*21%*	*21%*	*(5%)*	*(5%)*
Lease & interest Paid / LTM Revenue	9%	23%	26%	60%	14%	4%	29%	32%	60%	14%	22%	20%	28%	69%	17%	12%	15%	15%	37%	9%	9%	9%	9%	18%	4%
Cash / Revenue	12%	10%	10%	(54%)	(9%)	6%	7%	2%	(38%)	8%	18%	15%	2%	(60%)	(9%)	14%	12%	7%	(29%)	1%	10%	10%	11%	(11%)	4%
Liquidity / Revenue	21%	19%	18%	(42%)	4%	12%	13%	8%	(32%)	15%	29%	25%	11%	(46%)	5%	21%	21%	15%	(16%)	13%	22%	22%	23%	6%	21%
Net Debt	2,698	3,008	3,267	4,330	4,330	4,667	4,514	4,770	5,713	5,713	2,578	3,452	3,781	4,488	4,488	2,849	3,164	3,386	3,921	3,888	9,072	9,343	9,217	10,989	10,989
Net Leverage	4.1x	3.9x	5.7x	NM	NM	5.3x	5.8x	7.5x	NM	NM	3.8x	3.8x	5.3x	NM	NM	4.3x	2.9x	4.3x	NM	NM	4.0x	4.2x	4.9x	NM	NM
Pro-Forma Net Leverage (at par)	6.6x	5.6x	5.7x	NM	NM	6.5x	7.4x	7.5x	NM	NM	6.6x	4.9x	5.3x	NM	NM	5.4x	3.4x	4.3x	NM	NM	4.9x	5.0x	4.9x	NM	NM
Pro-Forma Net Leverage (at mkt)	6.2x	5.2x	5.3x	NM	NM	6.5x	7.3x	7.4x	NM	NM	6.6x	4.9x	5.2x	NM	NM	5.6x	3.5x	4.1x	NM	NM	4.5x	4.6x	4.6x	NM	NM

AEROMEXICO (AERMEX): High international and f/x exposure, alongside higher starting point for leverage and weak liquidity position. Inadequate liquidity in our deferral case.

AVIANCA (PFAVH):. Recent liquidity bolstered by shareholder support. Lease and interest deferrals could be adequate to preserve liquidity until demand recovery. Elevated Pro Forma leverage of 7x. Bond collateral is a positive.

AZUL (AZULBZ): Even with lease and interest deferrals liquidity looks thin. Pro Forma leverage is manageable but competitors Gol and Latam appear better positioned.

GOL (GOLLBZ): Best positioned with lowest international exposure, high margins, low interest/lease payments (as % revenue), solid liquidity, and the lowest starting leverage. We think lease and interest deferrals could be adequate to preserve liquidity until demand recovers.

LATAM (LTMCI): High starting point for leverage, but lease and interst deferrals may be sufficient to preserve liquidity. High long-haul international exposure.

*** Non-IFRS 16 presented on like-for-like basis*

SOUTH AMERICAN AIRLINES COVID-19 STRESS TEST

CONCLUSION:

(A) Switch from AERMEX and AZULBZ to GOLLBZ 25s or GOLLBZ 24s (convts)

(B) Switch from GOLLBZ 25s to the cheaper, shorter dated GOLLBZ 24s (convts) with **equal priority and virtually free option on GOL equity…**

…WHY?

1. RECOVERY PROSPECTS: We think GOL is best positioned to reach recovery in demand without government support. It entered the crisis with high liquidity and margins, and low leverage and international exposure.

2. SUPERIOR RISK v REWARD: At 36c (33% YTM), converts are 22% cheap to Fair Value (54c) and trading BELOW THE BOND FLOOR (38c)

3. CHEAP EQUITY: Gol equity is the cheapest among peers relative to 2019 EBITDA

4. SUBSTANTIAL UPSIDE: The 24s Convertible bonds trade 9 pts cheap to the later-dated pari-passu GOLLBZ 25s 44c (29% YTM), while offering a virtually free option on the GOL equity

CONVERTIBLE BOND	GOL EQUITY FINANCE SA
Country of Risk	Brazil
Industry Group	Airlines
Ticker	GOLLBZ
Coupon	3.75%
Maturity	7/15/2024
Amount Out (mm)	425.0
Rank	Sr Unsecured
Mid Price	35.5
Mid YTM	33.1%
Share Conversion Price	20.25
Parity	19.26
Premium	22.74
EQUITY	**GOL US**
Share Price as of 04/06/2020 (USD)	3.90
Current Market Cap (US$ bn)	0.7
Net Leverage (Net Debt / LTM EBITDA)	2.9x
BCP Credit Spread Estimate	2,790
Realized Share Volatility (100D)	159.1%
Implied Volatility	n/a
Fair Value (vs 100D realized vol)	54.0
(Rich)/Cheap %	22.3%
Delta	92.7%
Bond Floor	38.3
Implied Share Volatility (ATM 30D listed calls)	162.3%

Bond Price as of close 4/6/2020

MARKET OUTPERFORM (BRAZIL):

MRFGBZ 7.00% 26s

Marfrig is a US and Brazilian Beef producer with operations in the food and food service sectors around the world. Business has recently gone through a turnaround with the acquisition of US Beef operations "National Beef" (now at a 82% stake) and the sale of "Keystone", US chicken business. Marfrig is now focused in becoming a single protein company. We were long skeptical on positive cash generation and leverage understatement, as we thought NB full consolidation into results, at only 51% ownership, drove improvement in numbers, underlying credit weakness. Although, recent increase in NBs stake, solidifies credit improvement. We think strong US beef margins should continue to support results on positive demand/supply, further helped by ASF tailwinds. Company deleveraged significantly, at a decent position to navigate crisis through a defensive sector with none operations interruptions reported. Accordingly, we upgrade MRFGBZ 26s to "Market Outperform".

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
MRFGBZ 7.00% 05/14/26	1,000	-/BB-/BB-	89.50	9.29%
MRFGBZ 6.625% 08/06/29	500	-/BB-/BB-	91.00	8.01%

PROS:

- Strong US beef margins should continue to support consolidated results on strong demand vs supply, with spreads improving given increased short term demand amid the Covid crisis
- Defensive sector, at a deleveraged stage of the cycle, while ASF tailwinds should support results further
- No operational nor logistics interruptions reported
- Stronger results have lead to continued deleveraging, while increased stake in NB (which we think has driven results) diminishes leverage understatement on consolidated basis
- EBITDA have become more consistent with OCF, at 111% in 4Q19 for example
- Naturally less exposed to Asia in 1Q, that should alleviate Covid-19 negative impacts in the region
- Only significant maturity coming up for 2020 is the NB acquisition bridge loan (~US$500mm) that has already been negotiated to a 3 year extension
- Not negotiating extra credit lines with banks for the moment, feels liquidity is adequate, nor revising capex plans amid crisis

CONS:

- Product concentration on beef, in recessive economy we can see a shift towards cheaper proteins on demand
- Marfrig Beef (South America Ops.) standalone is significantly weaker than consolidated credit
- Less exposed to Asia than peers, regarding upcoming ASF tailwinds

MARKET OUTPERFORM (BRAZIL):

MRFGBZ 7.00% 26s

Recent Highlights – 4Q19 – Strong:

- 4Q19 revenue, pro forma, totaled US$3.5bn, in USD terms, above consensus by 9%, up 8% q/q and 39% y/y
    - Higher prices in the North America (+7% y/y), on continued high demand and increased volumes (+3% y/y), led top line y/y and sequential improvement
- 4Q19 Adj. EBITDA increased 70% y/y and 4% q/q, to US$394mm, beating consensus by 9%
    - Better spreads in North America, as sales price increase outpaced cattle costs, improved margins, now at double digits
    - South American operations posted solid results with Adj. EBITDA at US$111mm from US$35mm in 4Q18, following tailwinds from the ASF (Asian Swine Flu)
    - OCF at US$437bn, 111% of adjusted EBITDA in the period
- Cash generation at US$91mm driven by stronger EBITDA despite capex uptick
- Gross debt increased by 16% q/q, reaching US$5.6bn, including capitalized financial leases, as per IFRS 16
- Increase in debt is mainly due to acquisition of additional interest in National Beef, resulting in R$3.5bn (US$858mm) additional debt
    - Marfrig completed in the period a primary offering for 90.1mm shares, generating R$900mm (US$220mm) in proceeds
    - Net leverage increased to 2.2x in annualized terms, from 1.8x in Q2, given additional debt
- We estimate LTM net leverage at 2.8x, from 2.6x last quarter

Marfrig (US$MM)	4Q19	BBG consensus	+/-	3Q19	4Q18	q/q	y/y
Revenue	3,459	3,166	9%	3,210	2,488	8%	39%
EBITDA	394	361	9%	378	231	4%	70%
EBITDA margin	11.4%	11.4%		11.8%	9.3%		

Marfrig (US$MM)	4Q19	3Q19	4Q18	q/q	y/y
Total Debt	5,519	4,759	3,938	16%	40%
Cash	2,087	2,024	1,858	3%	12%
Net Debt	3,432	2,735	2,079	25%	65%
Gross leverage (Total Debt/LQA EBITDA)	3.5	3.2	4.3		
Net leverage (Net Debt/LQA EBITDA)	2.2	1.8	2.2		

Marfrig (US$MM)	4Q19	3Q19	2Q18	q/q	y/y
EBITDA	394	378	231	4%	70%
Capex	(78)	(33)	(43)	137%	81%
Interest paid	(73)	(72)	(71)	2%	4%
Taxes paid	0	0	0		
FCF before WK	242	273	117	(11%)	106%
Working capital	(151)	(16)	(117)	867%	29%
FCF	91	257	0	(65%)	

CARIBBEAN

MARKET OUTPERFORM (CARIBBEAN):

CWCLN 6.875% 27s

Cable & Wireless is the lead fixed-line telephony service provider in the majority of its Caribbean markets. It provides mobile services to 21 of its 22 markets through its mobile brands (BTC, C&W Seychelles, Flow and Más Móvil). Cable and Wireless is a direct competitor of Digicel Group Limited with substantial crossover in their respective markets. In addition, both companies operate content on their RUSH channel, via a joint venture. The company is wholly-owned owned by publicly traded convertible bonds issuer, Liberty Latin America ("LILAK"), to whom it contributes 62% of consolidated revenues and 59% of consolidated EBITDA. Recent FY19 results have been strong, backed by stable APRU, robust EBITDA margins, and strong cash flows, balanced by net leverage of 4.1x. While we continue to like DIFL 24s, who currently trade around the same level (87c), we favor C&W's healthy liquidity and strong capital structure, which we think make it a more attractive pick in the current market environment, and therefore upgrade CWCLN 6.875% 27s to "Market Outperform".

Issuer Name	Ticker	Cpn	Maturity	M/SP/F	Amt Out (US$MM)	Mid Px	Mid YTM	Rank
LIBERTY LATIN AMERICA	LILAK	2.00%	7/15/2024	-/ -/ -	403	75.0	9.21%	Sr Unsecured
C&W SENIOR FINANCING DAC	CWCLN	7.50%	10/15/2026	B2/ B+/ B+	500	91.3	9.31%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	Ba3/ BB-/ BB-	550	93.3	6.93%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.88%	9/15/2027	B2/ B+/ B+	1,220	87.0	9.34%	Sr Unsecured
VTR FINANCE BV	VTRFIN	6.88%	1/15/2024	B1/ B+/ BB-	1,260	94.0	8.78%	1st lien

Pros:

- Operating primarily in mature 2-player markets (vs. Digicel) with bundled offering
- Support of parent company, Liberty Latin America ("LILAK")
- 50,000 km of fiber optic cable w/ 3+ terabit per second (Tbps) capacity
- Robust OIBDA margins (42%) and FCF US$126 mm at 4Q19
- Strong liquidity balance:
    - US$435 mm in cash and equivalents
    - US$728 mm in undrawn debt facilities at 4Q19

Cons:

- Highly competitive environment in CWCLN's core Caribbean markets
- Recent uptick in capex-to-revenue (16%, +270 bps q/q) could signal increase in competitive pressures
- FX risk – High exposure to fluctuation of Jamaican dollar, T&T dollar and Colombian Peso. Revenue predominantly denominated in local currencies.
- Economic impact of COVID-19
- Higher net leverage (4.1x) than Digicel subsidiary, DIFL (2.4x)

TELECOM COMPS

HOW DOES CABLE & WIRELESS MEASURE UP?

US$MM	LILAK (Consolidated)	Cable & Wireless	VTR (Standalone)	DGL	DL	DIFL	TSTT	WOM S.A.	America Movil	Colombia Telecom.	Millicom	Oi S.A.
Country	Caribbean/ Colombia	Caribbean	Chile	Caribbean	Caribbean	Caribbean	T&T	Colombia	Latin America	Colombia	Africa/ Latin America	Brazil
Rating	-/ -/ -	B2/ B+/ B+	B1/ B+/ BB-	Ca/ -/ C	Caa2/ -/ C	B3/ -/ CCC+	B2/ BB-/ -	B1/ B+/ BB-	A3/ BBB+/ A-	-/ BB+/ BBB-	Ba2/ -/ BB+	-/ B/ B-
Bond Ticker	LILAK	CWCLN	VTRFIN	DLLTD (DGL2)	DLLTD (DL)	DLLTD (DIFL)	TCMSTT	WOMCHI	AMXLMM	TELEFO	TIGO	OIBRBZ
Coupon	2.00%	6.88%	6.875%	8.250%	6.000%	8.750%	8.875%	6.875%	3.125%	5.375%	6.000%	10.000%
Maturity	7/15/2024	9/15/2027	1/15/2024	9/30/2022	4/15/2021	5/25/2024	10/18/2029	11/26/2024	7/16/2022	9/27/2022	3/15/2025	7/27/2025
Amt Out (US$MM)	403	1,220	1,260	937	1,300	600	400	510	1,600	750	500	1,654
Rank	Sr Unsecured	Sr Unsecured	1st lien	Sr Unsec'd	Sr Unsec'd	1st lien	Secured	Sr Unsec'd	Sr Unsec'd	Sr Unsec'd	Sr Unsec'd	Sr Unsec'd
Mid Price (4/7/2020)	75.0	87.0	97.8	17.0	60.8	87.0	79.5	81.5	101.2	96.0	99.0	66.0
Mid YTM (4/7/2020)	9.2%	9.3%	7.6%	115.2%	65.2%	12.9%	12.6%	12.2%	2.6%	7.2%	6.2%	20.9%
Reporting Period (Calendar Year)	FY19	FY19	FY19	FY19	FY19	FY19	LTM 2Q19	LTM 3Q19	FY19	FY2019		FY19
Mobile subscribers (mm)	3.66	3.36	0.03	13	10	10	879	6	278	16	40	34
Mobile ARPU (USD):	14.37	13.93	18.87	10.60	10.40	10.40	n/a	-	9.51	n/a	7.30	R$16.16
Revenue	3,867	2,390	661	2,282	1,792	1,792	362.16	731.92	52,334.17	1,666.00	4,336.00	16,494.05
Adjusted EBITDA	1,541	913	257	982	779	791	136	174	16,300	583	1,530	1,472
Adjusted EBITDA margin	*40%*	*38%*	*39%*	*43%*	*43%*	*44%*	*38%*	*24%*	*31%*	*35%*	*35%*	*9%*
Interest paid	(445)	(251)	(76)	(513)	(267)	(158)	n/a	n/a	(2,844)	(80)	(485)	(235)
Taxes paid	(130)	(58)	(44)	(151)	(120)	(120)	" "	" "	(2,587)	(63)	(114)	(62)
Working capital	(164)	(32)	(130)	26	9	7	" "	" "	(1,610)	435	(143)	(192)
Capex	(589)	(339)	(104)	(367)	(321)	(321)	(64)	" "	(7,889)	(238)	(1,193)	(1,980)
Free cash flow	214	233	(97)	(23)	80	200	n/a	" "	1,371	637	(405)	(996)
Gross Debt	8,557	4,316	1,198	7,476	4,250	2,000	492	809	39,355	1,231	8,631	6,553
Cash and Equivalents	187	139	20	126	84	83	40	20	3,565	125	1,393	563
Net Debt	8,370	4,177	1,178	7,350	4,166	1,916	453	789	35,790	1,106	7,238	5,990
LTM Gross leverage	5.6x	4.7x	4.7x	7.6x	5.5x	2.5x	3.6x	4.6x	2.4x	2.1x	5.6x	4.5x
LTM Net leverage	5.4x	4.6x	4.6x	7.5x	5.3x	2.4x	3.3x	4.5x	2.2x	1.9x	4.7x	4.1x
Capex-to-revenue	15%	14%	16%	16%	18%	18%	18%	n/a	15%	14%	28%	12%

CABLE & WIRELESS

MARKET OUTPERFORM (CARIBBEAN):

2Q20 Results Cable & Wireless – Positive:

- Homes Passed: 2.11 mm, +7 y/y
- RGUs: 1.87 mm, +12% y/y
- ARPU: US$46.79, +3% y/y but -1% q/q
- Mobile Subscribers: 3.4 mm, up 3% y/y on revitalized propositions in Jamaica
- Mobile ARPU: US$13.95, -1% y/y, +1% q/q
- Revenue: US$617 mm, +6% y/y and +4% q/q, benefitting from strong results in B2B and residential fixed, which were offset by softer mobile revenues
- Adj. OIBDA: US$257 mm, +13% y/y and +15% q/q, primarily as a result of reduced content costs
- Adj. OIBDA Margin: 42%, +269 bps y/y and +427 bps q/q
- Free Cash Flow: US$126 mm in cash flows increased on reduced holding taxes to suppliers
  - Interest Paid: US$46 mm, -40% q/q
  - Taxes Paid: US$15 mm, - 5% q/q
  - WK Generation (+): US$29 mm
  - Capex: US$99 mm, +24% q/q
  - Capex-to-Revenue: 16%, +270 bps q/q
- Net Debt: US$3,742 mm, +1% q/q
  - At end-4Q19, Cable & Wireless has US$728 mm in undrawn debt available
- LTM Net Leverage: 4.1x, contracted slightly q/q

Cable & Wireless (US$MM)	4Q19	3Q19	2Q19	1Q19	4Q18	y/y	q/q
Homes passed (mm)	2.11	n/a	n/a	n/a	1.96	7%	-
Revenue generating units (RGUs, mm)	1.87	" "	" "	" "	1.67	12%	-
Broadband internet subscribers	0.75	" "	" "	" "	0.65	14%	-
Video subscribers	0.45	" "	" "	" "	0.42	8%	-
Fixed line telephony subscribers	0.67	" "	" "	" "	0.60	13%	-
ARPU (USD):	46.79	47.18	47.67	46.61	45.23	3%	(1%)
Mobile subscribers (mm)	3.36	n/a	n/a	n/a	3.25	3%	-
Mobile ARPU (USD):	13.95	13.87	14.03	13.86	14.11	(1%)	1%
Revenue	617	596	607	570	583	6%	4%
Operating income	109	(140)	61	52	(520)	(121%)	(178%)
Impairment, restructuring and other operating items, net	14	204	5	8	591	(98%)	(93%)
Share-based compensation expense	-	-	-	-	-		
Depreciation & amortization	134	159	156	151	157	(14%)	(15%)
Adjusted OIBDA	257	223	222	211	227	13%	15%
Adjusted EBITDA margin	*42%*	*37%*	*37%*	*37%*	*39%*	*269 bps*	*427 bps*
Interest paid	(46)	(76)	(48)	(82)	(42)	9%	(40%)
Taxes paid	(15)	(16)	(16)	(11)	(24)	(39%)	(5%)
Working capital	29	(48)	29	(42)	(47)	-	-
Capex	(99)	(80)	(66)	(94)	(103)	(4%)	24%
Free cash flow	126	3	122	(18)	10	-	-
Gross debt*	4,316	4,267	4,187	4,206	4,188	3%	1%
Cash and equivalents	435	432	389	325	416	4%	1%
Net debt	3,882	3,835	3,798	3,881	3,772	3%	1%
LTM Gross leverage	4.7x	4.8x	4.8x	4.9x	4.8x	(0.1x)	(0.1x)
LTM Net leverage	4.3x	4.3x	4.4x	4.5x	4.3x	(0.1x)	(0.1x)
Capex-to-revenue	16%	13%	11%	17%	18%	(162 bps)	270 bps

** Gross debt includes operating and finance lease obligations and excludes premiums, discounts, and deferred financing costs*
*** Cable & Wireless ("C&W) consolidated results include 100% of revenues and expenses of each of its subsidiaries (excl. those related to TSTT), representing C&W's majority voting control. Subsidiaries with less than 100% ownership include: Cable & Wireless Panama, S.A. (C&W Panama, 49.0%, The Bahamas Telecommunications Company Limited (C&W Bahamas, 49.0%), Cable & Wireless Jamaica Limited (C&W Jamaica, 92.3%) and Cabletica (through our 80% ownership of its parent company, LBT CT).*

LIBERTY LATIN AMERICA (LILAK)

THROUGH THE STRUCTURE:

FY19 (US$MM)	LILAK (Consolidated)	LILAK (Standalone)	Cable & Wireless **	VTR/Cabletica	VTR (Standalone)	Cabletica (Standalone)	Leo Cable
Ownership (%)			100%	100%	100%	100%	100%
Homes passed (mm)	7.52	-	2.11	4.30	3.70	0.60	1.11
Revenue generating units (RGUs, mm)	6.05	-	1.87	3.39	2.96	0.43	0.79
Broadband internet subscribers	2.61	-	0.75	1.51	1.32	0.19	0.35
Video subscribers	1.98	-	0.45	1.31	1.10	0.21	0.22
Fixed line telephony subscribers	1.46	-	0.67	0.57	0.55	0.02	0.21
ARPU (USD):	48.45	-	47.06	46.13	CLP 32,973	CRC 23,914	76.65
Mobile subscribers (mm)	3.66	-	3.36	0.30	0.03	-	-
Mobile ARPU (USD):	14.37	-	13.93	18.87	18.87	-	-
Revenue	3,867	(8.40)	2,390	1,074	661	413	412
Operating income	354	n/a	82	n/a	132	n/a	101
Impairment, restructuring and other operating items, net	259	" "	231	" "	14	" "	5
Share-based compensation expense	58	" "	-	" "	-	" "	-
Depreciation & amortization	871	" "	599	" "	111	" "	85
Adjusted OIBDA	1,541	4	913	434	257	177	192
Adjusted OIBDA margin	*40%*	-	*38%*	*40%*	*39%*	*43%*	*46%*
Interest paid	(445)	n/a	(251)	n/a	(76)	n/a	(70)
Taxes paid	(130)	" "	(58)	" "	(44)	" "	(5)
Working capital	(164)	" "	(32)	" "	(130)	" "	13
Capex	(589)	" "	(339)	" "	(104)	" "	(76)
Free cash flow	214	" "	233	" "	(97)	" "	53
Gross Debt *	8,557	2,776	4,316	1,323	1,198	125	142
Cash and Equivalents	1,184	563	435	136	123	14	50
Net Debt	7,374	2,214	3,882	1,186	1,075	111	92
LTM Gross leverage	5.4x	n/a	4.6x	3.7x	5.7x	0.7x	11.3x
LTM Net leverage	4.7x	" "	4.1x	3.4x	5.3x	0.6x	11.1x
Capex-to-revenue	15%	n/a	14%	n/a	16%	n/a	18%

** Gross debt includes operating and finance lease obligations (excl. Cabletica, data unavailable), and excludes premiums, discounts, and deferred financing costs*

*** Cable & Wireless ("C&W) consolidated results include 100% of revenues and expenses of each of its subsidiaries (excl. those related to TSTT), representing C&W's majority voting control. Subsidiaries with less than 100% ownership include: Cable & Wireless Panama, S.A. (C&W Panama, 49.0%, The Bahamas Telecommunications Company Limited (C&W Bahamas, 49.0%), Cable & Wireless Jamaica Limited (C&W Jamaica, 92.3%) and Cabletica (through our 80% ownership of its parent company, LBT CT).*

MARKET OUTPERFORM (CARIBBEAN):

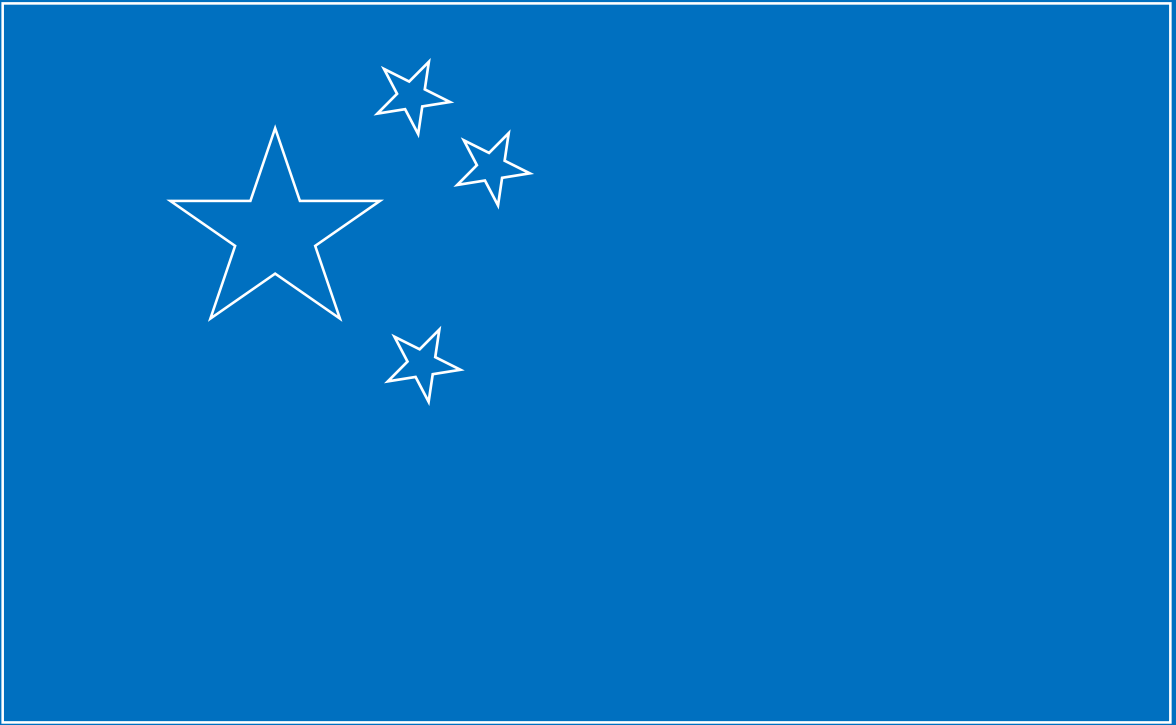
CWCLN 6.875% 27s

Cable & Wireless - FY19 (US$MM)	Currency	Interest	Maturity	Unused Capacity	Debt Outstanding
C&W Notes & Credit Facilities:					4,126
C&W Notes:				-	2,120
2027 C&W Senior Secured Notes	*USD*	*5.75%*	*9/7/27*	-	*400*
2026 C&W Senior Notes	*USD*	*7.5%*	*10/15/26*	-	*500*
2027 C&W Senior Notes	*USD*	*6.875%*	*9/15/27*	-	*1,220*
C&W Credit Facilities:					2,006
C&W revolving credit facility	*USD*	*LIBOR + 3.25%*	*6/30/23*	*625*	-
C&W term loan B-4 facility	*USD*	*LIBOR + 3.25%*	*1/31/26*	-	*1,640*
C&W regional facilities	*USD & T&T*	*4.463%*	*'20 - '38*	*103*	*366*
Vendor Financing					71
Total Notes, Credit Facilities & Vendor Financing					4,197
Premiums, discounts and deferred financing costs, net					(23)
Total carrying amount of debt					4,175
Finance lease obligations					2
Operating lease liabilities					139
Total Debt at C&W					4,316
Cash and Equivalents					435
Net Debt at C&W					3,882
LTM EBITDA					913
Gross Leverage					4.6x
Net Leverage					4.1x

** US$ 728 mm in undrawn debt facilities*

Liberty Latin America - FY19 (US$MM)	Currency	Interest	Maturity	Unused Capacity	Debt Outstanding
LILAK					403
Convertible Notes	USD	2%	7/15/24	-	403
C&W					4,126
C&W Notes:					2,120
2027 C&W Senior Secured Notes	*USD*	*5.75%*	*9/7/27*	-	*400*
2026 C&W Senior Notes	*USD*	*7.5%*	*10/15/26*	-	*500*
2027 C&W Senior Notes	*USD*	*6.875%*	*9/15/27*	-	*1,220*
C&W Credit Facilities:					2,006
C&W revolving credit facility	*USD*	*LIBOR + 3.25%*	*6/30/23*	*625*	-
C&W term loan B-4 facility	*USD*	*LIBOR + 3.25%*	*1/31/26*	-	*1,640*
C&W regional facilities	*USD & T&T*	*4.463%*	*'20 - '38*	*103*	*366*
VTR/Cabletica					1,616
VTR					1,491
VTR Finance Senior Notes	USD	6.875%	1/15/24	-	1,260
VTR Credit Facilities					231
VTR TLB-1 facility	*CLP*	*ICP + 3.80%*	*'22 & '23*	-	*187*
VTR TLB-2 facility	*CLP*	*7%*	*5/23/23*	-	*44*
VTR RCF-A	*CLP*	*TAB + 3.35%*	*5/23/23*	*60*	-
VTR RCF-B	*USD*	*LIBOR + 2.75%*	*3/14/24*	*185*	-
Cabletica					125
Cabletica Credit Facilities					125
Cabletica term loan B-1 facility	*USD*	*LIBOR + 5%*	*4/23 & 10/23*	-	*49*
Cabletica term loan B-2 facility	*CRC*	*TBP + 6%*	*4/23 & 10/23*	-	*76*
Cabletica revolving credit facility	*USD*	*LIBOR + 4.25%*	*10/5/23*	*15*	-
Liberty Puerto Rico					2,200
LPR Senior Secured Notes					1,200
LPR Credit Facilities					1,000
2019 LPR revolving credit facility	*USD*	*LIBOR + 3.5%*	*10/15/25*	*125*	-
2026 SPV credit facility	*USD*	*LIBOR + 5%*	*10/15/26*	-	*1,000*
Vendor Financing				-	168
Total Notes, Credit Facilities & Vendor Financing					8,513
Premiums, discounts and deferred financing costs, net					(146)
Total carrying amount of debt					8,366
Finance lease obligations					4
Operating Lease liabilities					187
Total Debt at LILAK					8,557
Consolidated Cash & Equivalents					1,184
Net Debt at LILAK					7,374
LTM EBITDA					1,541
Gross Leverage					5.6x
Net Leverage					4.8x

** US$ 1,113 mm in undrawn debt facilities*



CHINA

MARKET OUTPERFORM (CHINA):

KAISAG 8.5% 22

	Ranking	Amt Out (US$ mm)	Ratings (M/SP/F)	Mid Price	Mid YTM (%)
KAISAG 7 1/4 06/30/20	Sr Unsecured	540	-/ -/ -	98.13	15.47
KAISAG 6 3/4 02/18/21	Sr Unsecured	400	-/ -/ -	94.37	13.88
KAISAG 7 7/8 06/30/21	Sr Unsecured	400	-/ -/ -	91.00	16.22
KAISAG 10 1/2 07/14/21	Sr Unsecured	100	-/ -/ -	-	-
KAISAG 11 3/4 02/26/21	Sr Unsecured	400	B2/ -/ -	98.50	13.57
KAISAG 8 1/2 06/30/22	Sr Unsecured	1,147	-/ -/ B	83.00	18.08
KAISAG 11.95 10/22/22	Sr Unsecured	600	B2/ -/ B	106.50	9.02
KAISAG 11 1/4 04/09/22	Sr Unsecured	550	B2/ -/ -	90.00	17.37
KAISAG 10 7/8 07/23/23	Sr Unsecured	450	B2/ -/ B	81.38	18.68
KAISAG 11.95 11/12/23	Sr Unsecured	300	B2/ -/ B	83.50	18.41
KAISAG 11 1/2 01/30/23	Sr Unsecured	700	B2/ -/ B	85.00	18.56
KAISAG 9 3/8 06/30/24	Sr Unsecured	3,052	B2/ -/ -	76.25	17.55
KAISAG 9.95 07/23/25	Sr Unsecured	300	B2/ -/ B	77.75	16.38
KAISAG 10 1/2 01/15/25	Sr Unsecured	500	B2/ -/ B	77.56	17.63

Kaisa Group Holdings (1638 HK) is a Chinese residential property developer that focuses on the affluent Greater Bay Area[(1)] in southern China and other Tier 1 & 2 cities in eastern China, with high ASP of US$2,835 per sqm. Kaisa is renowned for its profitable city gentrification projects (or Urban Renewal Projects, "URP") that are not included in land bank. URPs contribute 38% of contracted sales, with higher gross margin relative to common residential projects. In 2015, the company was involved in an anti-corruption campaign against Jiang Zunyu, a former high-ranking official in Shenzhen, and Kaisa projects were briefly prohibited from being sold. As a result, Kaisa became the first PRC developer to defaulted on offshore borrowings. Bonds were exchanged on par for par plus accrued basis. In March 2017, Kaisa stock resumed trading. In FY19, the attributable contracted sales increased 26% y/y, while most other developers had much slower growth. Current market cap is US$2.3bn.

Shareholders

- Founder's family (Kwok Ying Shing's family) holds 39% interest. Funde Sino Life Insurance, which controlled by its founder Zhang Jun, holds 25%. The rest 35% floating.

Notes:

(1) The idea was brought out in 2015 as part of Belt & Road Initiative, area including Guangdong Province, Hong Kong and Macau.

Pros

- Valuable URP not included on balance sheet provides high quality land bank in tier 1 & 2 cities.
- High ASP amid COVID-19 epidemic stands out among peers.
- Low net WK as % net debt.
- Cash in excess of STD.
- Leverage steadily declining.
- Political risk has subsided.

Cons

- Leverage remains high relative to peers.
- USD bonds accounted for half of capital structure.
- URP business relies on government relations and has inherent related risk.
- Higher Pledged Assets / Gross Debt than peers.

MARKET OUTPERFORM (CHINA):

KAISAG 8.5% 22

2H19 Preliminary Financials

- In 2019, 34% of contracted sales was in Shenzhen, 27% was in GBA excluding Shenzhen.
- In 2H19, attributable contracted sales increased 17% y/y to US$8bn. GFA increased 11% y/y to 3m sqm. ASP increased 5% y/y to US$2,835 per sqm.
    - According to the management, 61% of annual contracted sales came from GBA, and 38% came from URP.
    - Contracted sales guidance for 2020 was US$14bn, representing 13% y/y growth.
- Revenue increased 15% y/y to US$3,973mm. Reported EBITDA increased 3% y/y to US$1,224mm.
- Gross and EBITDA margin both declined y/y to 26% and 31%. According to the management the margin decline was due to recognition of sales from low-margin projects
- Guarantee to homebuyers' mortgages increased 5% h/h to US$4,671mm, which was equal to 28% of gross debt, compared with 29% in 1H19.

Contracted Sales (US$ mm)	2H19	1H19	2H18	y/y	h/h
Attributable contracted sales	7,605	5,112	6,521	17%	49%
y/y	17%	29%	95%	(82%)	(42%)
GFA (msqm)	2.7	2.0	2.4	11%	37%
ASP (US$ per sqm)	2,835	2,608	2,694	5%	9%

Income Statement (US$ mm)	2H19	1H19	2H18	y/y	h/h
Revenue	3,973	2,963	3,451	15%	34%
COGS	(2,959)	(1,974)	(2,519)	17%	50%
SG&A	(469)	(303)	(306)	53%	55%
D&A	54	52	33	67%	5%
EBITDA reported	1,224	1,198	1,185	3%	2%
Gross margin	26%	33%	27%	(148 bps)	(785 bps)
EBITDA margin	31%	40%	34%	(355 bps)	(963 bps)

Guarantees (US$ mm)	2H19	1H19	2H18	y/y	h/h
Mortgage guarantee	4,671	4,874	4,458	5%	(4%)
Guarantee / Gross debt	28%	29%	28%	(44 bps)	(122 bps)

MARKET OUTPERFORM (CHINA):

KAISAG 8.5% 22

2H19 Land Bank Financing

- Excess book value increased 22% h/h to US$4,028mm on less WK liabilities and net debt.
    - Net WK balance decreased 17% h/h to US$4,944mm on less customer advances and more A/R.
    - Land bank was flat h/h at US$25,023mm.
    - Sequential decrease in PUD was offset by increase in JVs and prepayments。
- The company had total US$76bn saleable resources including US$26bn in 2020.
    - 66% of total saleable and 55% of 2020 saleable resources located in GBA.
    - 26% of saleable resources in 2020 was to be converted from URP.

2H19 Land Bank & URP Reserve(1)

- In 2H19, the company had URP with 39.9 m sqm site area, most located in GBA. GFA of land bank was 26.7 m sqm, 6.7 m of which was converted from URP.
- In 2019, 0.72 m sqm GFA URP was converted into land bank and 0.87m sqm to be converted in 2021. Annual target was 0.8 ~ 1 m sqm.
    - Guided ASP of 0.72 m sqm URP conversion in 2019 was US$6,928, equal to 2.6x Kaisa's overall ASP.

Land bank financing (US$ mm)	2H19	1H19	2H18	y/y	h/h
Sellable properties	1,868	2,435	1,909	(2%)	(23%)
A/R	4,805	3,798	3,286	46%	27%
A/P	(2,082)	(1,821)	(1,832)	14%	14%
Other A/P	(3,879)	(3,769)	(2,896)	34%	3%
Customer advances	(5,657)	(6,603)	(5,692)	(1%)	(14%)
Net WK balance	(4,944)	(5,960)	(5,225)	(5%)	(17%)
				-	-
PUD	9,144	9,759	9,415	(3%)	(6%)
Deposits for land acquisition	2,857	3,173	2,827	1%	(10%)
Prepayments	3,415	2,849	2,774	23%	20%
Investment properties	5,071	5,207	5,224	(3%)	(3%)
PPE	692	458	444	56%	51%
Land use rights	108	98	97	11%	10%
Investment in associates	1,712	1,789	1,028	66%	(4%)
Investment in JVs	2,024	1,598	1,261	60%	27%
Land bank	25,023	24,932	23,071	8%	0%
				-	-
Net WK balance	(4,944)	(5,960)	(5,225)	(5%)	(17%)
Net debt	(11,744)	(12,654)	(12,490)	(6%)	(7%)
NCI	(4,307)	(3,026)	(2,137)	-	42%
Land bank	25,023	24,932	23,071	8%	0%
Excess book value	4,028	3,292	3,219	25%	22%
Funded liabilities / land bank	84%	87%	86%	(214 bps)	(289 bps)
Net WK / net debt	42%	47%	42%	27 bps	(500 bps)

Land & URP(1) Reserve (msqm)	2H19	1H19	2H18	y/y	h/h
Land bank GFA	26.8	25.8	24.0	11%	4%
- converted from URP	6.7	7.3	-	-	(8%)
URP land reserve site area	39.9	32.2	30.1	33%	24%
- in GBA:	39.5	32.2	29.9	32%	23%

Notes:
(1) URP (Urban Renewal Project) reserve is not included land bank because the company is still negotiating with residents to buy their land use right.

MARKET OUTPERFORM (CHINA):

KAISAG 8.5% 22

2H19 Debt Profile

- All senior notes were secured by shares of subsidiaries outside PRC. Since almost all Kaisa's assets and operations were inside PRC, senior notes should be considered as unsecured and subordinated to onshore debt.
- According to the management, Kaisa has the following off-balance-sheet debt & cash:
    - US$3.1bn gross debt including US$1.5bn attributable.
    - US$0.5bn cash.
- Gross debt was flat h/h at US$16,831mm, including:
    - US$8bn USD bonds, representing 49% of gross debt.
    - US$6bn bank borrowings, mostly onshore secured.
    - US$3bn other borrowings, mostly onshore secured.
    - US$117mm convertible bond and affiliated borrowings.
    - Offshore debt was 51% of gross debt. The percentage was 36% in 2017.
- Total cash (excluding LT bank deposits) increased 22% h/h to US$5,087mm.
- Net debt decreased 7% h/h to US$11,744mm.
- LTM gross and net leverage both decreased h/h to 7.0x and 4.8x.
    - Considering the stated off-balance-sheet cash & debt, LTM gross and net leverage would be 7.2x and 5.2x.

Debt (US$ mm)	2H19	1H19	2H18	y/y	h/h
Gross debt	16,831	16,826	15,812	6%	0%
- ST	4,580	3,269	2,466	86%	40%
- LT	12,251	13,557	13,346	(8%)	(10%)
Total cash	5,087	4,172	3,322	53%	22%
Net debt	11,744	12,654	12,490	(6%)	(7%)
				-	-
Gross debt/equity	2.1x	2.6x	3.0x	(0.9x)	(0.5x)
Net debt/equity	1.5x	1.9x	2.4x	(0.9x)	(0.5x)
LTM gross leverage	7.0x	7.1x	6.9x	0.0x	(0.1x)
LTM net leverage	4.8x	5.3x	5.5x	(0.6x)	(0.5x)

Debt Profile (US$ mm)	2H19	1H19	2H18	y/y	h/h
Gross debt	16,831	16,826	15,812	6%	0%
(1) funding sources				-	-
Senior notes	8,102	6,751	5,776	40%	20%
Secured bank borrowings	5,243	6,105	5,495	(5%)	(14%)
Unsecured bank borrowings	504	566	1,183	(57%)	(11%)
Secured other borrowings	2,324	2,683	2,457	(5%)	(13%)
Unsecured other borrowings	540	538	706	(24%)	0%
Unsecured loans from affiliates	16	16	16	(1%)	(1%)
Unsecured loans from associates	1	69	180	(100%)	(99%)
Convertible bond	101	98	-	-	3%
(2) onshore/offshore					
Onshore bank borrowings	5,554	6,394	6,325	(12%)	(13%)
Onshore non-bank borrowings	2,693	3,365	3,479	(23%)	(20%)
Offshore bank borrowings	337	337	158	113%	0%
Offshore bonds	8,247	6,730	5,851	41%	23%

MARKET OUTPERFORM (CHINA):

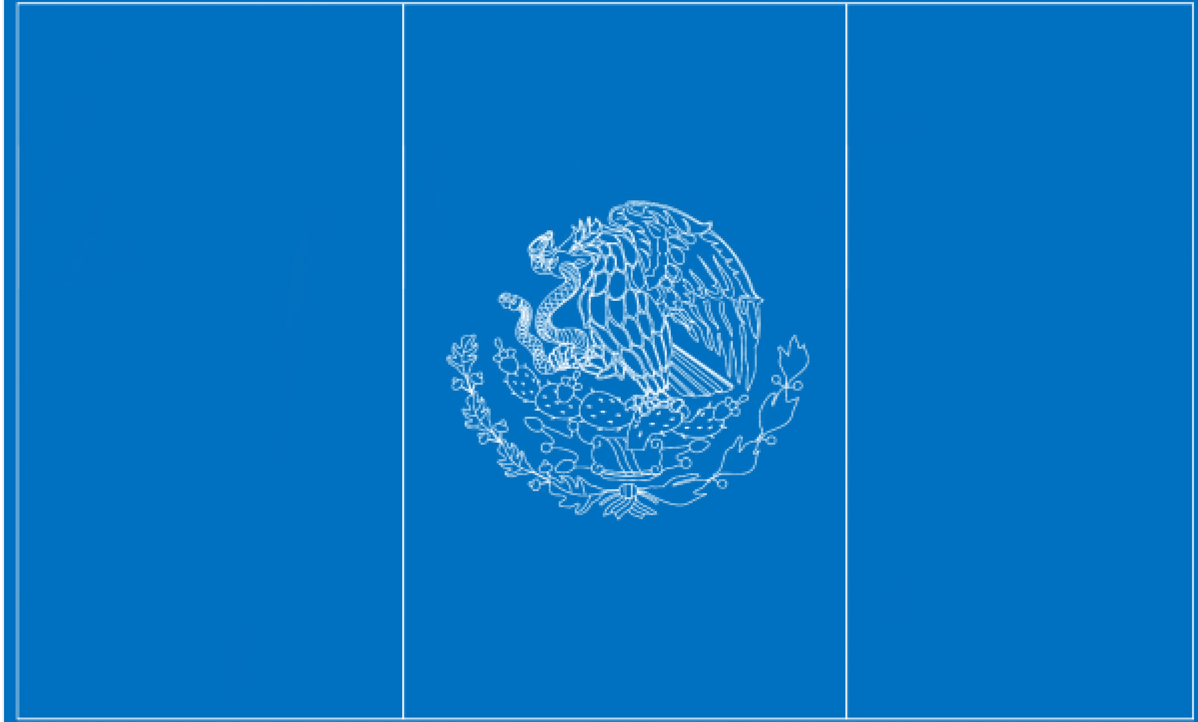
KAISAG 8.5% 22

2020 Cash Flow Guidance

- On earnings call, the management gave guidance on 2020 cash flow statement.
- Net OCF was expected to be breakeven in 2020, with less land acquisition relative to cash collected from contracted sales.
- Gross CFF inflow was expected to decrease 26% in 2020 to US$4,714mm. Net CFF was expected to decrease 95% to US$143mm.
- Cash including LT deposits at the end of 2020 was expected to be flat y/y.
- According to the management, in 2019, US$1.9bn debt was deconsolidated through project companies, resulting in the difference between 2019 cash flow statement and net debt changes.

Cash Flow Guidance (US$ mm)	2020 Guidance	2019 Actual	y/y
Contracted sales	10,714	9,000	19%
Other inflow	571	500	14%
Total op. inflow	11,286	9,500	19%
Land acquisition	(4,643)	(4,314)	8%
- as % of presales cash	*43%*	*48%*	-
Construction costs	(3,143)	(3,000)	5%
SG&A	(786)	(743)	6%
Interest	(1,714)	(1,643)	4%
Taxes	(786)	(614)	28%
Dividend	(143)	(100)	43%
Total op. outflow	(11,214)	(10,414)	8%
Net CFO	71	(914)	(108%)
Net CFI	(214)	(229)	(6%)
CFF inflow	4,714	6,386	(26%)
CFF outflow	(4,571)	(3,243)	41%
Net CFF	143	3,143	(95%)
Total cash changes	0	2,000	(100%)
Beginning cash	5,286	3,286	61%
Ending cash	5,286	5,286	0%

MEXICO



MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Cydsa is a chemical producer and distributor of household and industrial salt, chlorine, caustic soda and refrigerant gases, as well as having an underground LPG storage cave. All businesses are considered essential during Mexico's health emergency. CYDSA's own salt production is the main feedstock for the chemical processes, as well as having two cogeneration plants supplying its electricity needs. Revenue has increased with improved EBITDA margins due to the completion of its capex plan. EBITDA growth was mainly from fitting of an old salt cave to store 1.8 mm bbls of LPG. FCF burn has been driven by the capex plan, which has been deferred, including the construction of a new membrane chlorine-caustic soda plant funded by the US$120 mm re-tap of the 27s. In 2018, the LPG cave raised non-recourse project financing and as such we estimate the LTM net leverage at 1.9x at the obligor group. We see CYDSA well positioned as the stable salt demand and LPG midstream businesses should offset the weaker caustic soda pricing and refrigerant gases under our base case, as well as having over US$200 mm in cash. We see the pro-forma net leverage increasing to a very manageable 2.6x at the obligor group.

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CYDSA	6.25%	10/4/2027	450	- / BB / BB+	69.50	12.68%

Pros

- Vertically integrated model with access to raw materials for salt production, the main raw material for Cydsa's petrochemical processes (chlorine and caustic soda)
- Market leader in household and industrial salt in Mexico, as well as benefiting from domestic deficit in caustic-soda production
- 95% of total revenues are domestic with little to none raw material imports
- Revenues are in USD or USD linked with the exception of the household salt business
- CYDSA has one of the highest petrochemical EBITDA margins under our overage, as well as two operational cogeneration plants covering its entire energy needs
- LPG storage cave accounts for 25% of EBITDA, although its currently not part of the restricted group, with a total capacity of 1.8 mm bbls
    - The LPG sub. has a US$154 mm non-recourse project financing
    - Our pro-forma LTM net leverage at the obligor group is 1.9x

Cons

- Low product pricing control across its portfolio given its commodity nature
- Only 5% of total revenues are exports
- Dependent on Pemex for the natural gas supply for the cogeneration plants
- As of March 2020, no delayed LPG storage payments by Pemex, though inherent risk exists should Pemex defer payments to suppliers
- Significant lag if migrating to new technologies or products is required
- Capex intensive operations for both improvements and new projects, highlighted by the recent US$120 mm bond re-tap for a new chlorine caustic soda plant
- Increased environmental regulations, as well as dependency on current water supply concessions
- Reduced hedged amt. to US$225 mm, from the previous US$330 mm

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Assumptions for 2020:

- All businesses were considered essential during Mexico's health emergency
- Salt – stable household and industrial salt demand at 700k tons per year
- Chlorine & caustic soda – a 15% decline y/y avg. prices, with caustic soda volumes at 190k tons per year and chlorine by-products at 146k tons per year
- Refrigerant gases – a 25% decline in revenue
- LPG storage – keeping tariffs flat at US$2.4/bbl, which is independent of volumes used by Pemex on the 1.8 mm bbls of storage capacity
- We assume LPG cash costs are flat y/y, as well as maintaining fixed costs flat y/y

Base Case:

- On a pro-forma basis, consolidated EBITDA would be 19% lower y/y at US$129 mm
    - Restricted group EBITDA would be 25% lower y/y at US$89 mm
- The consolidated EBITDA margin would be 27% vs 29% in 2019
- FCF would be break even, as maintenance capex is US$25 mm
    - The recent US$120 mm bond re-tap was to fund the construction of a new membrane chlorine-caustic soda plant, which will be deferred
- In terms of liquidity, CYDSA had US$198 mm in cash as of 4Q19
    - We note the issuer drew around 50% of its available MXN$1.9 bn revolving committed unsecured bank line during 1Q20
    - CYDSA currently has US$225 mm hedged until 2027
    - For reference, virtually all revenues are in USD or USD linked with the exception of the household salt business
- Net leverage would increase to 3.0x
    - The net leverage at the restricted group would be 2.6x

CYDSA (US$ MM)	FY17	FY18	FY19 (*)	Pro-Forma
Revenue				
Salt	117	126	148	155
Chlorine & Caustic Soda	206	227	197	168
Refrigerant Gases	144	151	148	111
Restricted Group Revenue	467	504	492	434
LPG Storage	15	47	51	51
Total Revenue	482	551	543	485
Restricted Group EBITDA	113	125	119	89
LPG Storage EBITDA	7	37	40	40
Total EBITDA	120	162	159	129
Interest paid	(25)	(35)	(37)	(37)
Capex	(88)	(79)	(80)	(25)
Working capital	(19)	(34)	(9)	(30)
Taxes paid	(16)	(32)	(33)	(27)
FCF	(28)	(17)	(1)	11
EBITDA Margin %	25%	29%	29%	27%
Total Debt	378	476	597	597
LPG Project Finance Loan	-	157	154	154
Total Debt (Restricted Group)	378	319	443	443
Cash	66	129	198	209
Net Debt (Restricted Group)	313	190	245	234
Total Gross Leverage	3.1x	2.9x	3.8x	4.6x
Total Net Leverage	2.6x	2.1x	2.5x	3.0x
At Restricted Group				
Gross Leverage	3.3x	2.5x	3.7x	5.0x
Net Leverage	2.8x	1.5x	2.1x	2.6x

(*) FY19 estimated revenue per segment

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Recent 4Q19 Earnings – Mixed

- 4Q19 Revenue decreased by 11% q/q to US$127 mm, decreasing by 2% on a y/y basis
  - Salt, caustic soda & refrigerant gases sales were US$76 mm, decreasing q/q primarily from lower chemical pricing
  - Energy & LPG storage sales were US$51 mm, increasing by 12% y/y mainly from higher cogeneration energy sold to third parties
  - Domestic sales were 95% of the total revenue, vs 91% last quarter as lower export sales were due to weaker chlorine demand
- However, EBITDA was flat q/q at US$37 mm and actually increasing by 10% y/y
  - Q/Q EBITDA margin improvement was due to an improvement in COGS despite the lower revenue
  - As a result, the EBITDA margin improved to 30%, vs 26% last quarter
- FCF burn was US$16 mm, driven by WK expansion and higher capex
  - WK contracted from higher inventories, with capex increasing during the quarter
- Total debt increased to US$597 mm, with cash increasing to US$198 mm
  - In December 2019, CYDSA reopened the US$330 mm 27s for an additional US$120 mm under the same terms and conditions
  - Proceeds will be used to fund the construction of a new chlorine and caustic soda plant in Veracruz
  - CYDSA currently has US$225 mm hedged until 2027
- Total debt is essentially the now US$450 mm bonds and a US$154 mm non-recourse project financing at the LPG subsidiary
  - Our pro-forma LTM net leverage at the obligor group is 1.9x (excl. LPG storage EBITDA and project finance)
- Annualized gross and net leverage are 4.0x and 2.7x, respectively

CYDSA (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Total Revenue	127	142	129	(11%)	(2%)
EBITDA	37	37	34	0%	10%
EBITDA margin	30%	26%	26%	-	-
CYDSA (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Total Debt	597	481	476	24%	25%
Cash & Equivalents	198	105	129	89%	53%
Net Debt	399	376	347	6%	15%
Total Debt / LQA EBITDA	4.0x	3.2x	3.5x	0.8x	0.5x
Net Debt / LQA EBITDA	2.7x	2.5x	2.5x	0.1x	0.1x
Pro-Forma LTM Net Leverage	1.9x	1.8x	1.4x		
CYDSA (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
EBITDA	37	37	34	0%	10%
Interest paid	(15)	(4)	(17)	(286%)	13%
Capex	(21)	(12)	(43)	(81%)	51%
Working capital	(13)	4	(28)	-	53%
Taxes paid	(4)	(5)	(3)	14%	(23%)
FCF	(16)	22	(57)	-	72%

MARKET OUTPERFORM (MEXICO):

KUOBMM 5.75% 27s

Grupo KUO is a Mexican conglomerate with three major revenue streams: consumer, chemical and automotive. The aggressive capex plan was focused on expanding the consumer pork capacity, as well as developing a DCT transmission in the automotive sector, which has been slashed and deferred. The consumer segment (pork meat and Herdez frozen and packaged food) has benefited from strong international pork demand given the swine fever outbreak in China, yet higher raw material costs at Herdez have partially offset earnings. Both businesses are considered essential under Mexico's health emergency. Chemical margins remain depressed, primarily from lower volumes and spread contraction in both synthetic rubber and polystyrene businesses. However, polystyrene spreads appear to be improving significantly in 1Q20 from cheaper styrene feedstock. New DCT transmissions were recently launched, yet with OEMs stopping production results will be impacted. Assuming no EBITDA at the automotive businesses and continued rubber weakness, the strong pork and Herdez demand should mitigate the negative covid impact. We see a pro-forma net leverage at 2.9x with sufficient liquidity. We note that assuming no recovery in polystyrene, the net leverage would still be a manageable 3.5x.

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
KUOBMM	5.75%	7/7/2027	450	- / BB / BB	74.50	10.93%

Pros

- Strong consumer business with vertically integrated pork operations and a strong brand recognition in salsas and guacamole (Herdez)
    - Recent capex plan increased pork sows to 90k
- Chemical business is amongst largest rubber and polystyrene Mexican producers
- Automotive business recently launched its new DCT transmissions for high-performance GM and Ford, though both OEMs have stopped production
- 75% of total sales are in USD. With 50% total sales being exports primarily to the US and Asian markets
- Consumer segment has benefited from higher prices and volumes derived from the swine fever outbreak in China
- Historically positive FCF generation, offset by the aggressive capex plan
- Next large maturity is due in 2024, with US$300 mm in available bank lines

Cons

- Capex plans have been deferred, with Kuo allocating 85% of total capex to growth projects pre-covid, primarily to double the pork business and develop new automotive technology
- 65% of consolidated costs are in USD, primarily raw materials imports such as maize and soy for the consumer business and feedstock for the chemical business
- Higher avocado raw material costs have partially offset consumer margins
- Weak synthetic rubber business from exposure to construction, as well as the automotive sector being stagnant from OEMs stopping production
- FCF burn has driven the LTM gross and net leverage to 3.5x and 2.8x
- The SMCA trilateral trade deal lifted some uncertainty, yet the complex export logistics (particularly automotive) and overall margins can still be impacted

MARKET OUTPERFORM (MEXICO):

KUOBMM 5.75% 27s

Assumptions for 2020:

- Pork meat – 90k sows, processing 2.5 mm pigs per year with flat prices y/y
- Herdez JV – assuming stable demand, with 4% revenue growth y/y
- Polystyrene – spot prices are lower at US$1,020/t, yet styrene feedstock costs are significantly cheaper y/y and should benefit spreads
- Synthetic Rubber JV – 20% decline in revenue y/y given exposure to infrastructure
- Transmission – 50% decline in revenue y/y as OEMs have stopped production
- Aftermkt autoparts – 25% decline in revenue y/y
- Maintaining fixed costs flat y/y

Base Case:

- On a pro-forma basis, consolidated EBITDA would be 5% lower y/y at US$235 mm
  - Strong pork meat, herdez and polystyrene offsetting EBITDA declines in synthetic rubber and the automotive businesses
- The consolidated EBITDA margin would be 12% vs 11% in 2019
  - Mainly from a recovery in polystyrene
- FCF would be break even, as the issuer slashed capex by half to US$60 mm
- In terms of liquidity, KUO had US$183 mm in cash as of 4Q19
  - The issuer had US$300 mm in available committed bank lines from the total revolving line of US$575 mm
- We note that 75% of total sales are in USD. With 50% total sales being exports primarily to the US and Asian markets
- Net leverage would increase to 2.9x
- Downside case:
  - Assuming no recovery in Polystyrene, pro-forma net leverage would be 3.5x

GRUPO KUO (US$ MM)	FY17	FY18	FY19	Pro-Forma
Revenue				
Pork Meat	558	603	680	765
Herdez JV	474	480	500	521
Polystyrene	344	432	336	270
S. Rubber JV	721	751	623	498
Transmissions	225	215	256	128
Aftermkt Autoparts	159	160	162	122
Total Revenue	2,077	2,213	2,194	1,977
EBITDA (*)				
Pork Meat	79	87	91	102
Herdez JV	49	52	49	52
Polystyrene	47	50	35	56
S. Rubber JV	47	57	38	31
Transmissions & Aftermkt	50	36	23	(6)
Total EBITDA	283	283	249	235
Interest paid	(24)	(41)	(70)	(70)
Capex	(211)	(286)	(151)	(60)
Working capital	24	(53)	(53)	(51)
Employee benefits paid	(33)	(28)	(24)	(24)
Taxes paid	(56)	(30)	(25)	(24)
FCF	(17)	(155)	(75)	6
Total Debt	556	794	876	876
Cash	98	144	177	183
Net Debt	458	651	699	693
Gross Leverage	2.0x	2.8x	3.5x	3.7x
Net Leverage	1.6x	2.3x	2.8x	2.9x
EBITDA Margin %	14%	13%	11%	12%

(*) Estimated EBITDA per sub-segments

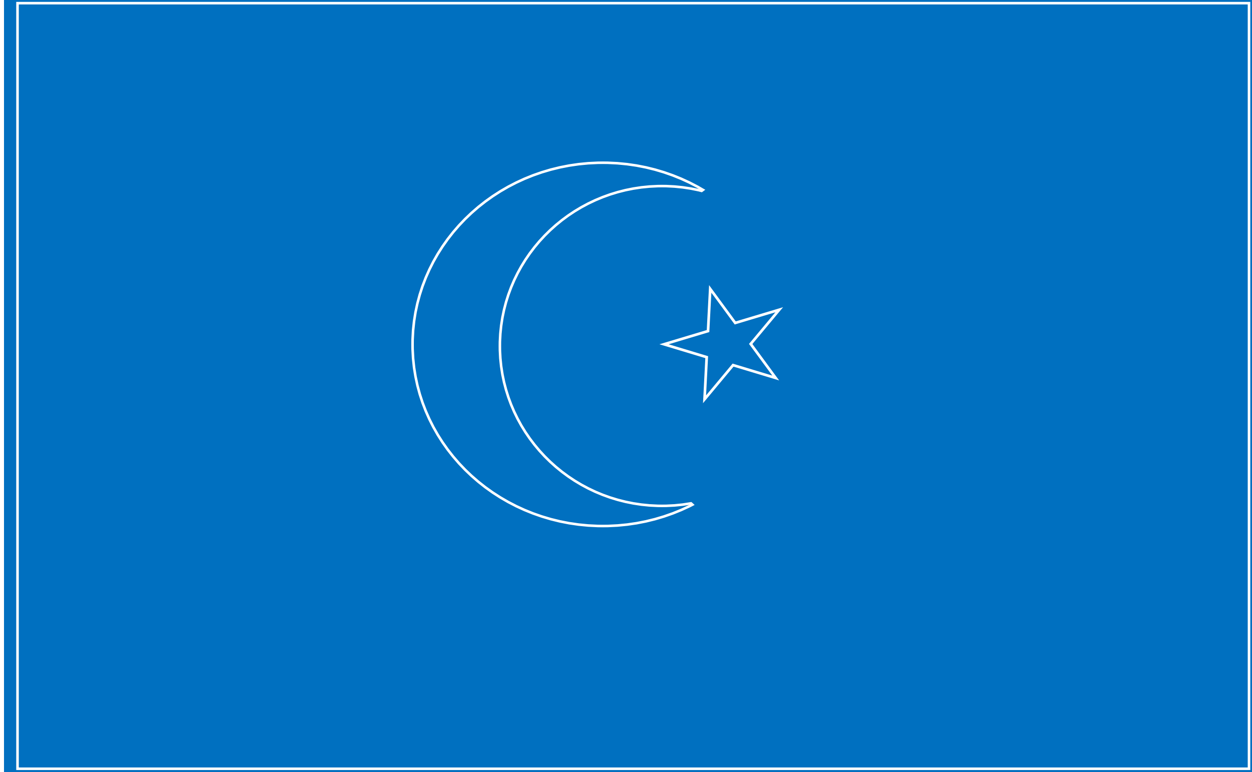
MARKET OUTPERFORM (MEXICO):

KUOBMM 5.75% 27s

Recent 4Q19 Earnings – Mixed

- 4Q19 Revenue was flat y/y at US$553 mm, decreasing by 1% sequentially
    - Consumer sales were US$298 mm, 11% higher y/y by the strong pork volume and pricing, as well as higher domestic volumes in Herdez
    - Chemical sales were US$145 mm, 14% lower q/q due to continued depressed pricing and volumes in both rubber and PS businesses
    - Automotive sales were US$107 mm, 22% higher y/y as the DCT transmissions business ramps-up
- Consolidated EBITDA was US$52 mm, decreasing by 11% y/y and 29% sequentially
    - Consumer EBITDA was US$46 mm, increasing by 28% y/y in line with the strong pork business with stable raw material costs
    - Chemical EBITDA was US$10 mm, more than halving q/q following the lower revenue and spread contraction
    - Automotive EBITDA was negative US$5 mm, due delays in the DCT transmission launch and delays from GM and Volvo strikes
    - As a result, the consolidated EBITDA margin contracted to 9%, vs 10% in 4Q18
- FCF generation was US$65 mm, as the lower EBITDA was offset by WK contraction due to higher supplier A/P
    - Capex levels appear to be normalizing, focused on the pork and transmission businesses
- Total debt decreased to US$876 mm, while cash increased to US$177 mm
    - Q/Q debt decline was due to debt paydown during 4Q19 partially offsetting FCF
- Annualized gross and net leverage ratios are 4.2x and 3.4x, respectively

GRUPO KUO (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Consumer	298	274	268	9%	11%
Chemical	145	169	197	(14%)	(26%)
Automotive	107	113	87	(5%)	22%
Total Revenue	553	558	554	(1%)	(0%)
EBITDA	52	73	58	(29%)	(11%)
EBITDA margin	9%	13%	10%	-	-
GRUPO KUO (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
Total Debt	876	916	794	(4%)	10%
Cash & Equivalents	177	134	144	32%	23%
Net Debt	699	782	651	(11%)	7%
Total Debt / LQA EBITDA	4.2x	3.2x	3.4x	1.1x	0.8x
Net Debt / LQA EBITDA	3.4x	2.7x	2.8x	0.7x	0.6x
GRUPO KUO (US$ MM)	4Q19	3Q19	4Q18	q/q	y/y
EBITDA	52	73	58	(29%)	(11%)
Interest paid	(13)	(24)	(5)	48%	(142%)
Capex	(26)	(39)	(70)	33%	62%
Working capital	58	(23)	12	-	380%
Employee benefits paid	(2)	(7)	(8)	65%	69%
Taxes paid	(3)	(6)	(5)	42%	27%
FCF	65	(26)	(18)	-	-



TURKEY

MARKET OUTPERFORM (TURKEY):

TCZIRA 5.125% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
TCZIRA 5.125% 05/03/2022	$600	B2 / - / B+	91.50	9.76%

Established in 1863 and wholly owned by the national government through the Turkish Wealth Fund, Ziraat is the largest bank in Turkey. For decades, the bank has been the main lender to the agribusiness industry and it is also a leader in the mortgage business, while also having presence in other commercial and consumer businesses

PROS:

- Largest Turkish bank, with a network of more than 1,800 branches.
- The sole bank distributing government subsidized agro-loans with 61% of market share in agribusiness while also a leader in the mortgage business with a 32% market share
- Sound stated asset quality with NPL of 2.8% - about half the sector average and lowest among commercial banks, and with the lowest share of stage II loans
- Sound capitalization with CET of 14.1%, one of the highest in the industry
- Strong liquidity, in line with the Turkish banking industry as a whole
- Highest NIM among the state-banks and one of the highest among banks
- Turkish state has proven its support through the subscription of AT1s in 2019

CONS:

- As part of covid-19 response, state owned banks are to provide loans of up to 3 years at a 7.5% rate (currently 225bps below CBT policy rate)
- A new regulation lowered fees banks earned on customer transactions as government intends to further boost credit lending. In Ziraat, Fees and commissions accounted for 13% of total bank revenue in 2019
- Highest Cost / Income among peers at 40.8% in 2019

MARKET OUTPERFORM (TURKEY):

TCZIRA 5.125% 22s

PEER TABLE

(TRYbn)	Ziraat	Isbank	Yapikredi	Akbank	Garanti	Vakif
	4Q19	4Q19	4Q19	4Q19	4Q19	4Q19
Senior bond maturity	2022	2022	2022	2022	2022	2022
Senior bond yield	9.7%	8.1%	8.1%	8.5%	8.0%	9.3%
Spread to sovereign	160	0	0	50	(10)	120
Gross loans	449	286	266	203	295	273
NPLs (%)	2.8%	6.5%	7.6%	6.0%	6.8%	5.2%
Stage 2 loans	7%	14%	15%	14%	14%	12%
Deposit base	447	296	231	236	277	230
Loans to deposits	100%	97%	115%	91%	106%	119%
BCP liquidity ratio (*)	35%	41%	42%	46%	39%	38%
NIM	5.0%	4.9%	4.0%	5.0%	5.5%	4.1%
Cost / Income	40.8%	38.8%	37.5%	34.0%	39.4%	38.4%
ROAA	1.1%	1.4%	0.3%	1.4%	1.5%	0.6%
ROAE	10.1%	11.4%	2.6%	10.8%	12.4%	6.9%
Total CAR	17.0%	17.9%	16.7%	19.5%	17.8%	17.0%
CET1	14.1%	15.0%	12.4%	16.7%	15.4%	10.6%
Interest collected / Interest accrued	90%	95%	92%	85%	97%	90%

Yields per BBG as of April 2nd, 2020

(*) Cash and equivalents to deposits + funds received + securities issued

MARKET OUTPERFORM (TURKEY):

TCZIRA 5.125% 22s

Analysis of 4Q18 results

- Gross loans increased 4% q/q to TRY449mm (US$75.4bn), driven by higher TRY lending, particularly in the manufacturing (+8%) and mortgage businesses (+11%)
- NPLs increased 50bps q/q to 2.8%, remaining far lowest among direct peers
- Share of stage II loans in total is also the lowest at 7%, 90bps higher q/q
- Provisioning doubled y/y while growing 120% q/q to TRY3,154mm, with total cost of risk of 110bps for FY19
- As a result, coverage of NPLs remained sound at 103%
- Interest collected per cash flow statement represented 85% of interest accrued, with 90% ratio YTD
- Deposit base grew 11% q/q to TRY447bn (US$75.2bn)
- Loan to deposit decreased 7 p.p. q/q to 100%
- As with the industry as a whole, cash liquidity remains high, with cash and equivalents representing 42% of total deposits and 35% of deposits plus loans and market debt, although this ratio among the lowest within peers
- According to management, the company has 150% short term FX liquidity over redemptions, with FX LCR of 494% at Dec19
- Net Interest Income before provisions increased 51% q/q to TRY8,627mm (US$1,488mm) due to a sharp drop in financial expenses (-25% q/q), mostly on lower TRY cost of deposits
- NIM in 2019 was unchanged y/y at 5.0%
- Net income from services increased 29% q/q and 54% y/y TRY1,114mm (US$192mm)
- Opex increased 11% q/q and 30% y/y to TRY2,604mm (US$449mm)
- Cost / Income for the whole year increased 650bps y/y to 40.8%
- Net income grew 128% q/q to TRY2,342mm (US$404mm), broadly unchanged y/y
- ROAE for FY19 as a result dropped 410bps y/y to 10.1%, while improving from 8.1% in 9M19
- Total CAR increased 10bps q/q to 17.0%
- CET1 in turn grew 10bps q/q to 14.1%

ZIRAAT (TRY MM)	4Q19	4Q18	3Q19	y/y	q/q
Financial income	16,528	16,474	16,309	0%	1%
Financial expenses	(7,901)	(11,031)	(10,603)	(28%)	(25%)
Net interest income before provision	8,627	5,444	5,706	58%	51%
Provisions	(3,154)	(1,553)	(1,433)	103%	120%
Income from services, net	1,114	726	863	54%	29%
Operating expenses	(2,604)	(2,000)	(2,338)	30%	11%
Net income	2,342	2,316	1,029	1%	128%
NIM	5.0%	5.0%	4.4%		
Efficiency ratio	40.8%	34.3%	47.0%		
ROAA	1.1%	1.6%	0.8%		
ROAE	10.1%	15.2%	8.1%		

ZIRAAT (TRY MM)	4Q19	4Q18	3Q19	y/y	q/q
Loans	448,928	380,256	432,735	18%	4%
Total deposits	447,251	331,066	403,507	35%	11%
NPL/ loans	2.8%	2.0%	2.3%		
Loans to Deposits	100.4%	114.9%	107.2%		
Cash and equivalents to deposits	42.0%	42.8%	42.3%		
Interest collected to accrued	85%	104%	90%		
Capital Ratio	17.0%	14.8%	16.9%		
CET1	14.1%	13.8%	14.0%		

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"Market Perform" – The bond's total return is expected to be in line with the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

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