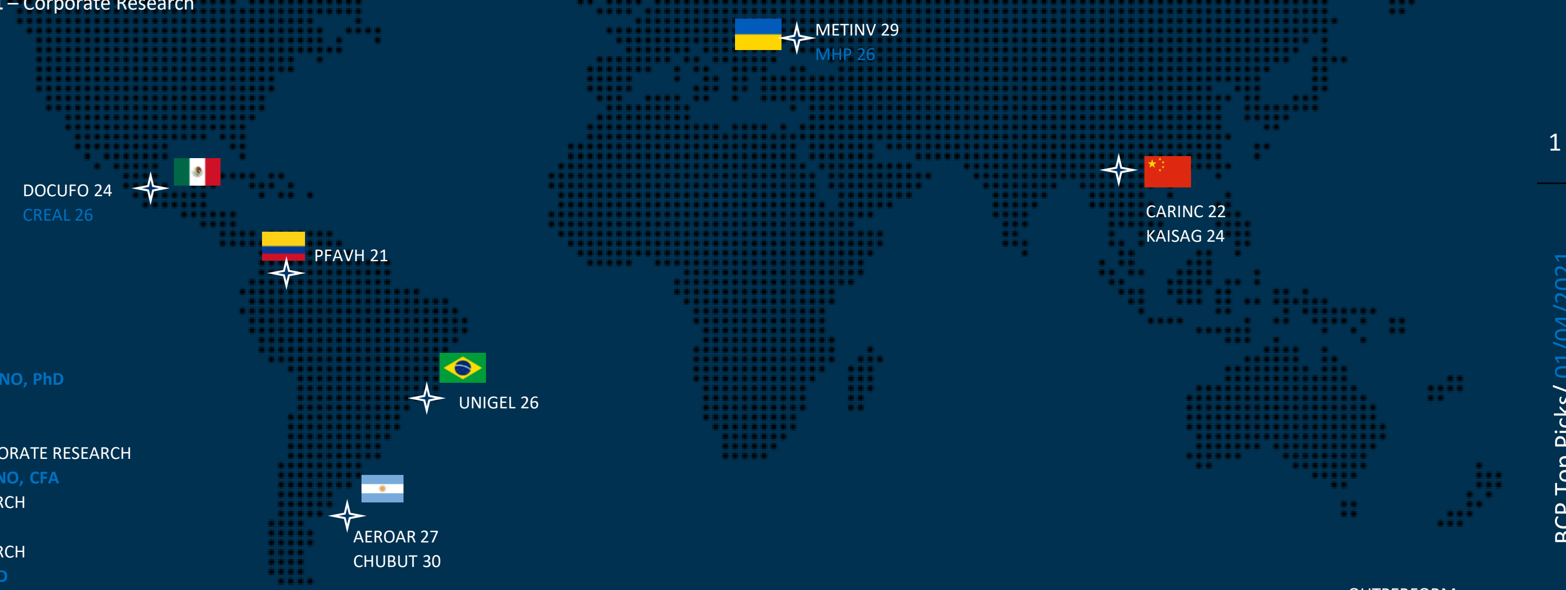
ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 1Q'21

January 4, 2021

Overview: 2021 Outlook – Dr. Walter Molano, Ph.D.
EM Corporate Highlights – Corporate Research
Top Picks for 1Q21 – Corporate Research



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OUTPERFORM
UNDERPERFORM
SWAP

2021 OUTLOOK

After being broadsided in 2020, by an endless barrage of Black Swan events, we are looking for more optimism in 2021. All indications suggest that 2021 should be a very good year. There are some commentators that are predicting that it could be the start of a new Roaring 20's, which is an allusion to the economic bonanza that marked the end of World War I. Clearly, it was a period of great prosperity for many people in both North and South America. The reconstruction of Europe, following the devastation of the war increased the demand for commodities. Sao Paulo, Rio de Janeiro, Buenos Aires, Montevideo and Mexico City enjoyed a long period of opulence, much still on architectural display. Large defense companies beat their swords into plowshares, converting their production of tanks, electronics equipment and fighter planes into automobiles, appliances and airliners. Years of deprivation and rationing had led to a large increase in the personal savings rate. At the same time, banks redirected their resources away from defense industries to new consumer lending programs for houses, cars and appliances.

We should witness the start of a similar economic boom in 2021. A year of lock downs and quarantine has led to a sharp increase in the personal savings rate. Between January and November 2020, the personal savings rate in the U.S. jumped more than 50%, reaching 12.9 from a level of 7.6. It is true that millions of people have been severely affected by the pandemic, especially in the services sector. Food banks are reporting sharp increases in demand. However, the pandemic relief programs have helped mitigate the aggregate pain. Moreover, pent-up demand, particularly for services, will lead to an explosion of economic activity. Households will run out to spend on the stuff they could not do for most of 2020, such as going on vacations and dining out. This will be particularly good for sovereigns that are highly dependent on tourism, such as the Dominican Republic, Bahamas, Costa Rica and Jamaica. With the savings rate so high and interest rates so low, banks will be flush with cash and ready to lend at favorable terms. This will flower into a virtual reconstruction period.

There will also be a major technological revolution. After every major conflict, there are important technological developments. World War I allowed for improvements in the mass production of vehicles and arms, which were later applied to automobiles, trucks and appliances. Advances in electronics resulted in the commercialization of radios, telephones and electricity. World War II allowed for quantum leaps in nuclear power, jet technology, airplane design, electronics and rocketry. Today, the billions of dollars that have been invested in virology and vaccinations, an area which pharmaceutical companies and scientists often ignored due to their low profitability, will lead to fantastic advances in medicine. The ground-breaking advances in techniques, such as Messenger RNA, will be applied to a plethora of human ailments that will extend life-expectancy and raise labor productivity. All of this will lead to increases in economic activity and output. Likewise, the advances in technological applications for remote-working and learning will lead to huge advances in productivity and sharp reductions in costs. Remote activity will become a viable option for many businesses, workers and students. This will reduce overhead costs, by eliminating the need for costly real-estate. It will reduce or eliminate commuting costs for many workers, and open the possibility of relocating to much cheaper regions which can offer better quality of life. Of course, this could lead to environmental benefits, as the need for mass transportation declines. There will be some dissonance and pain as the effects of dislocation spread through the economy. There will be winners and losers. Traditional businesses, such as those restaurants serving the lunch-trade, may suffer. Yet, it will also offer new opportunities for other industries, which we still have not identified, to thrive. Last of all, investors will look for opportunities further afield as valuations in the developed markets soar. To use an accounting term, emerging markets are like LIFO (Last in, First Out) goods. They are the last ones to feel the benefit of a rally, but they are the first ones to feel the pain when the markets begin to collapse. Given that the Fed will continue to keep interest low for the foreseeable future, regardless of what happens to inflation, they will eventually feel the benefits of the monetary largess. This has already occurred in the fixed income market, but it will soon spread to equities and local currency instruments. Therefore, we may be at the start of another Roaring 20's. The only caveat is that the Gatsby era was followed by the Great Depression and World War II. But, that will be the topic of the next Black Swan event.

Dr. Walter Molano, Ph.D.
January 4, 2021

EM HIGHLIGHTS 4Q'20

Argentina

- According to the INDEC, 3QGDP contracted 10.2% y/y while improving 12.8% q/q. The latest inflation data as of Nov showed prices increased 31% y/y and 3.2% m/m
- Central Bank's gross international reserves dropped a further US$2.1bn in 4Q20 to US$39.2bn
- Total covid-19 cases reached 1.6mm, with 43k deaths and nearly 12k new cases per day recently. The Russia-developed Sputnik-V vaccination started in end-Dec 2020
- After the sovereign restructuring, CHUBUT, CORDOBA (City), MENDOZ, NEUQUE and PRN restructured their bonds
- On the other hand, PDCAR and BUENOS have outstanding restructuring offers which have been rejected by Ad-hoc groups
- ALBAAR, ARCOR, BHIP, IRSA, CRESUD, GENNEIA all managed to refinance local maturities following the Communication 7106 guideline
- After months of debate, the Gas Plan 4 was approved for 2020-2024, at an average price of US$3.5/MMBTU and a volume of 68mm cubic meters/day. Pampa, YPF, Tecpetrol, CGC and PANAME were all awarded different volumes
- In November, domestic flights were restarted as well as those from neighboring countries, although the latter were suspended in end December until Jan 8, 2021. Daily flights to Europe, US and other destinations were resumed as well
- At end-Dec, Pampa announced an agreement to sell its 51% stake in Edenor to local businessmen Vila and Manzano for US$100mm in three installments. Proceeds will be used to finance the company's US$250mm committed capex for the Plan Gas 4. The agreement is still pending approval form shareholders and regulators
- As a result of the Edenor sale, the change of control put clause will be triggered. Within 30 days after the sale, Edenor will have to offer bondholders to repurchase their bonds at par, which should become effective between 30 and 60 days after the sale
- In November, MSU Energy successfully commissioned the closing cycle of its Barker plant. The three plants now operate under combined cycle, finalizing its investment cycle that started upon its founding.
- In end-Nov, AEROAR reached an agreement to extend the airports concession by ten years to 2038, committing to an initial capex plan of US$500mm in 2022-2027
- In end-Dec, Clisa extended the concession to operate the City of BA's subway for another twelve years
- In November, Banco Macro's Chairman and shareholder Jorge Britto tragically passed away, being replaced in its functions by Ezequiel Carballo

EM HIGHLIGHTS 4Q'20

Brazil

- Brazilian GDP contracted 3.4% y/y in 3Q20 (last data available)
- Market expects 4.36% y/y GDP contraction for 2020, according to the Central Bank of Brazil
- Brazil's basic interest rate SELIC ended 2020 at its lowest historical level, 2.0%
- Inflation rate of November 2020 LTM was 4.31%, same as 4.31% in December 2019
- Country has seen gradual loosening from lockdown restrictions despite new rise in COVID registered cases in the country for 4Q20
- Brazil has more than 7,619,200 cases of COVID-19 and 193,875 confirmed deaths according to the Ministry of Health (as of December 30)
- The country also has 6,814,092 recovered patients (as of December 30)
- Government measures to reduce the Coronavirus impact sum R$607bn and includes financial aid packages to workers and more affected sectors of the economy
- Ministry of Health plans to begin vaccination between January 20 and February 10
- Approval rates of the Bolsonaro administration increased to 35%, compared to 29% in December 2019
- Tensions increased between the Minister of Economy Paulo Guedes and the President of the Chamber of Deputies Rodrigo Maia
- After a fire at its main energy substation the state of Amapá, on the border with French Guiana, suffered a three week long blackout beginning November 3
- Mayor of Rio de Janeiro Marcelo Crivella was arrested under corruption charges
- Municipal elections took place in November throughout the country with seemingly lower support for Bolsonaro backed candidates

Colombia

- During 3Q20, Colombia's GDP decreased by 9.0% y/y. The IMF expects GDP to contract by 8% during 2020.
- Colombia's benchmark interest rate decreased from 4.25% to 1.75% in 2020.
- During November 2020, Colombia's inflation rate decreased to 1.49% vs 3.84% in 2019.
- In November, the unemployment rate was 13.3%, the lowest level since the pandemic began and close to pre-pandemic levels.

EM HIGHLIGHTS 4Q'20

Colombia (continued)

- Colombia's energy ministry announced in November that the hydrocarbon sector will attract at least US$3.4 bn investments in 2021, vs US$4.0 bn in 2020.
- As of January 3, 2021, Colombia had 1.7 million confirmed covid-19 cases and 44 thousand deaths
- Mass vaccination in Colombia will begin in February 2021. Colombia will receive 1.7 million vaccines from Pfizer.
- International travelers are required to present a negative COVID-19 test to enter the country

China

- In Nov and Dec, China concluded negotiations on RCEP with ASEAN & APAC economies and CAI with EU, promising less restriction on imports, foreign investment, more restriction on SOEs, subsidies, and technology transfer.
- CNPG (Sinopharm)'s two-dose inactivated COVID-19 vaccine showed 79% efficacy in phase-3 trial and is offered to the public for free on Dec 31. Four other Chinese vaccines have not finished phase-3 but some have been offered to 4.5 million people since June 2020.
- Caixin manufacture PMI in Oct, Nov and Dec was 53.6 and 54.9 and 53.0. Caixin service PMI was 56.8 and 57.8 in Oct and Nov,
- In Oct and Nov, exports increased 11.4% and 14.9% y/y. The trade surplus in 11 months increased 24.6% y/y.
- CBIRC and PBOC set limits to Chinese bank exposure to property financing and developers over a 2 to 4 year transition period. Most big banks have not breached limits.
- Yongcheng Coal and Brilliance Auto's defaults in the local bond market raised concerns on implicit government guarantee, SOE governance and onshore auditors' credibility, triggering an onshore sell-off of energy-backed provincial names as well as other weak SOEs.

Mexico

- Mexico's Central Bank maintained the base interest rate at 4.25% during 4Q20.

EM HIGHLIGHTS 4Q'20

Mexico (continued)

- The Chamber of Deputies postponed the discussion on Banxico's Bill until February. The bill would require Banxico to buy foreign currency that commercial banks cannot repatriate. According to Moody's, passage could weaken the bank's autonomy and compliance with international anti money laundering regulations.
- During December's first fortnight, Mexico's inflation rate stood at 3.22% and within Banxico's target rate of 3.0% +/-1%. In November, the unemployment rate was 4.5% vs 4.7% registered in October
- Mexico's 2020 GDP estimate by the IMF improved to negative 9.0% vs negative 10.5% forecasted in 2Q20. During October, Mexico's economic activity increased by 1.6% m/m registering its fifth month in positive territory, yet still decreasing by 4.9% on a y/y basis.
- In October, the Govt. announced an investment of MXN$297 bn (US$15 bn) in 39 infrastructure projects, mainly road and transport. Additionally, in December a second investment of MXN$228 bn (US$11 bn) was announced. The latter being 51% in MXN terms directed to energy projects mainly developed by CFE.
- As of December 31, 2020, Mexico had 1.4 million confirmed covid-19 cases and 124 thousand deaths.
- In June 2020, Mexico's Govt. implemented a color-coded reopening plan for allowed activities based on the level of contagion in each state. As of late December, five states returned to the maximum risk level (including Mexico City) and only essential activities are allowed. In Mexico City, eight out of ten restaurants are expected to close and hotel occupancy could decrease to 5%.
- In December, the first batch of Pfizer-BioNtech vaccines arrived in Mexico. Mexico will receive 1.4 million vaccines through January 31, 2021.
- In November 2020, Pemex upstream production was stable at 1.6 million bbls/d vs October decreasing by 3.7% y/y.
- Mexico's approved 2021 Federal Budget decreased CFE's budget by 9% to MXN$417 bn, whilst Pemex's budget will be 4% higher at MXN$545 bn vs 2020.
- Braskem-Idesa will take legal action after the federal Govt.'s decided not to renew their contract for natural gas transportation services.

EM HIGHLIGHTS 4Q'20

Sub-Saharan Africa

- The Nigerian economy contracted 3.6% y/y in 3Q20, while Ghana's economy in turn decreased 1.1% y/y and South African economy shrunk 6.0% y/y
- South Africa was downgraded further into junk by Moody's (Ba2) and Fitch (BB-)
- Eskom corporate family rating was further downgraded to Caa1 from B3 by Moody's, maintaining the negative outlook
- According to the Central Bank of Nigeria, Nigerian lenders would fail to meet minimum capital levels under the stress test conducted
- Mr Nana Akufo-Addo was relected as president of Ghana for a new four-year term
- Nigerian telco IHS was said to have hired an equity advisor, in advance of what is said might be the biggest Africa IPO in the US
- Kosmos Energy announced its plan to reach first gas by 2023 in its major offshore gas project in Senegal and Mauritania, which will require an estimated US$720mm in capex. An additional phase 2 plan was also announced, to double the production and to be started at the time of first gas of phase 1
- In addition, Kosmos completed the farm down of exploration assets to Shell for US$95mm plus future contingent payments of US$200mm. Initial proceeds were allocated to new projects in the Gulf of Mexico
- In November, Tullow completed its US$575mm sale of Uganda's assets to Total, with US$500mm having been received
- Seplat completed its US$210mm equity share funding of ANOH project, reaffirming its guidance of commissioning in 4Q21

Turkey

- 3Q20GDP expanded 6.7% y/y and 15.6% q/q
- After years of debate, the US imposed milder than expected sanctions on Turkey with regards to its S-400 missile system purchases to Russia, which include a ban on US export license to the Presidency of Defense Industry, as well as asset freezes and visa restrictions on officers from the organization
- In early November, Erdogan replaced the Central Bank governor with Naci Agbal, a more orthodox economist. A day after, his son-in-law Beret Albayrak resigned as Ministry of Finance and Treasury

EM HIGHLIGHTS 4Q'20

Turkey (continued)

- Following his appointment, Agbal increased the Central Bank policy rate by 375bps in mid-November and 200bps in late December to the current 17%
- Additionally, after reaching an all time high of 8.51 in early November, the TRY recovered to current levels of 7.43
- Inflation continued on the rise, with December 2020 reaching 14.6% y/y, the highest since Aug-19
- Istanbul Metropolitan Municipality issued a US$580mm 5yrs Eurobond at 6.375%, the first local government issuance in the country in the past thirty years, while in end-November the sovereign issued US$2.25bn 31s at 5.95% and in early December Vakif priced a US$750mm 5yr sustainability bond at 6.625%
- In late November, the Central Bank abolished the asset-ratio introduced last year, which had forced lenders to significantly lending
- Arcelik announced the purchase of 60% of Japanese Hitachi assets outside Japan for US$300mm (~7x EV/EBITDA), a deal expected to close in April 2021
- Global Port Holdings announced an agreement to sell its Port Akdeniz assets to Qatari Terminals for an EV of US$140mm and which net proceeds excluding debt at the subsidiary will be used for the partial repayment of the outstanding US$250mm 21s. As of Dec19, there were US$33mm in secured debt at the port.
- Fitch downgraded Tupras by one notch to B+, with negative outlook, due to its weaker cash flow generation and profitability following covid-19

Ukraine

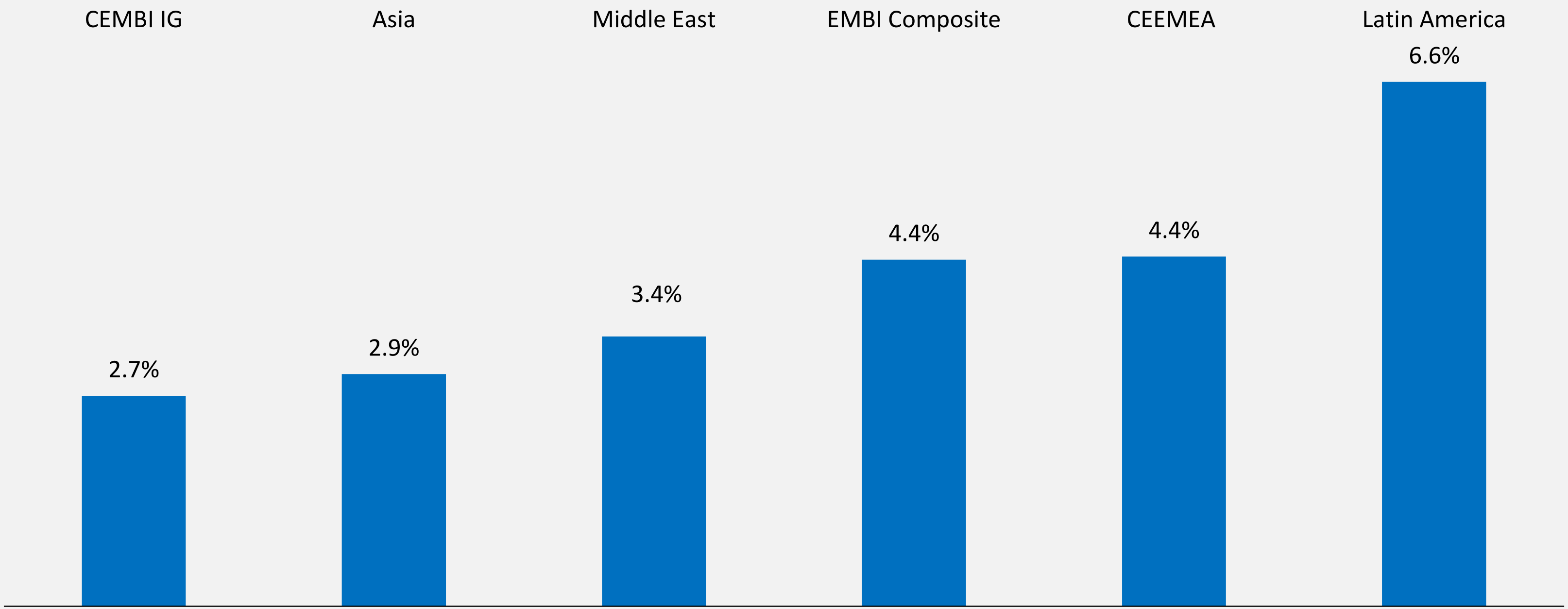
- Ukraine's FX reserves are at just over US$28.5 billion (+13% YTD), according to Mr. Bohdan Danylyshyn, Head of the Council of the National Bank of Ukraine (NBU)
- In 2021, Ukraine is expected to repay US$16.1 billion in foreign debt, a similar level to 2020 as the country repaid US$16.9 billion. 2022 and 2023 are expected to be a bit easier as the country will have to repay US$8.6 billion and US$8.9 billion, respectively
- Ukraine real GDP declined 5.2% y/y in 10M20 improving from a 5.5% y/y decline in 9M20, according to the Ukrainian Ministry of Economic Development. In 10M20, GDP dropped 6% y/y improving from a 6.2% y/y decline in 9M20. The trends improved in transportation, trade and construction; while declining in agriculture. The ministry expects 4Q20 GDP to decline 2.2% y/y vs. 3.6% y/y in 3Q20. Ukraine's GDP is expected to finish 2020 at ~4.6% decline vs. 3.2% growth in 2019; while returning to growth of ~4.6% in 2021 – in line with other forecasts: IMF expecting a 3.4% growth in 2021 for Ukraine's economy, while EBRD is more optimistic with a 5.6% forecast

EM HIGHLIGHTS 4Q'20

Ukraine (continued)

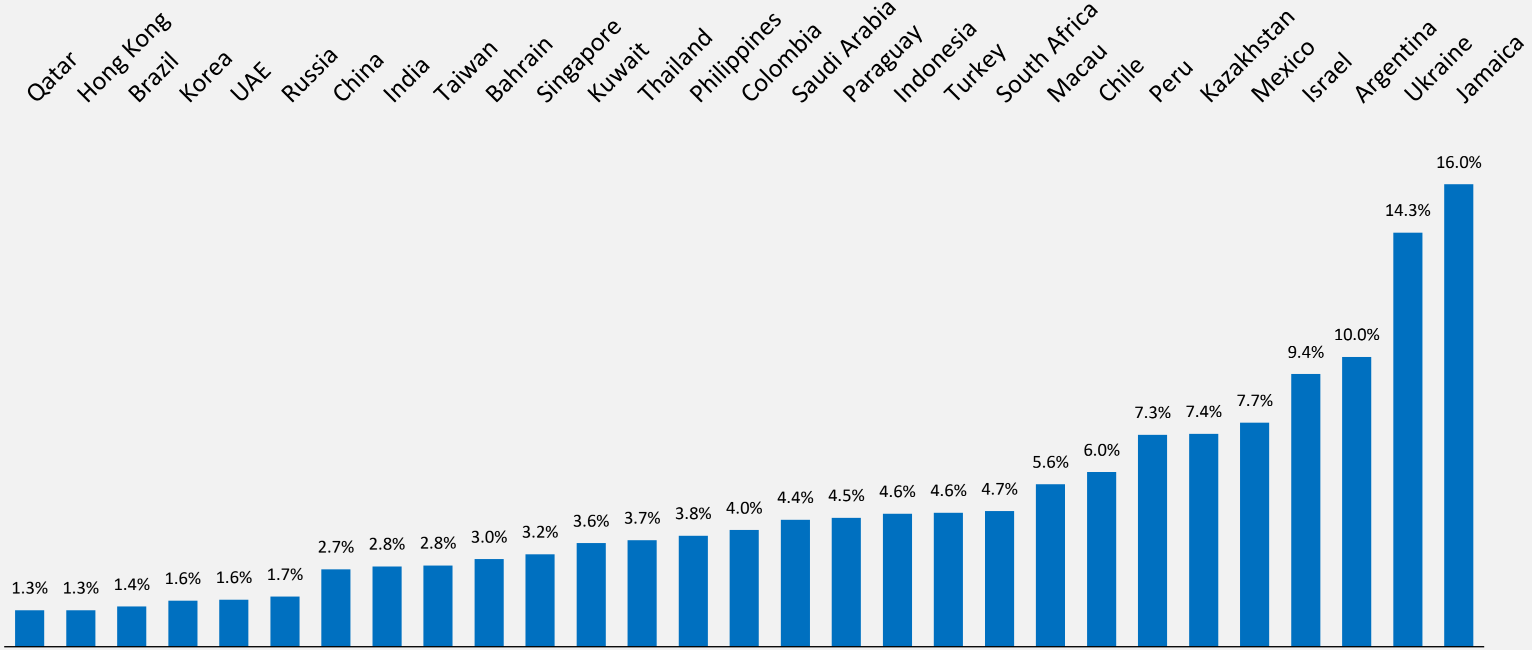
- On Dec 25, 2020, President Zelenskiy signed the 2021 national budget, which is envisages GDP growth of 4.6%, inflation of 7.3% and public debt to GDP at 65% with FX of UAH29.10 per USD1.00 vs. UAH28.32 (Dec 31, 2020). Budget spending is at US$46.5 billion vs. revenues of US$38.2 billion, including US$432 mm from privatization. The US$8.3 billion deficit is at 5.5% of GDP, which is forecast at US$150 billion. Defense spending is budgeted at US$9.6 billion, while expenditures on medicine is set at US$5.7 billion. Ukraine's 2021 budget allocates US$5.4 billion for the road infrastructure development program
- During the 2020 Fall, a number of Ukrainian entities successfully completed debt reprofiling exercises: Metinvest, Kernel and Ukreximbank
- DTEK Energy, which is yet to agree with its bondholders upon debt restructuring, is poised to launch in 1Q21 Ukraine's first energy storage system, according to the company's 2030 New Strategy meeting hosted in Dec 2020: DTEK Energy is building together with the US Honeywell a 1MW lithium-ion batteries-based energy storage system near its Zaporizhia Power Plant (Southeastern Ukraine), which is design to manage peaks and lows of solar power
- As of Dec 31, 2020, confirmed COVID-19 cases reached 1,076,880 with 19,058 deaths. Ukraine contracted to buy 1.8mm doses of China's Sinovac vaccine, which are to be delivered in Feb 2021

OVERVIEW
EMBI INDEX RETURNS 4Q20
EMBI BROAD COMPOSITE INDEX REVIEW

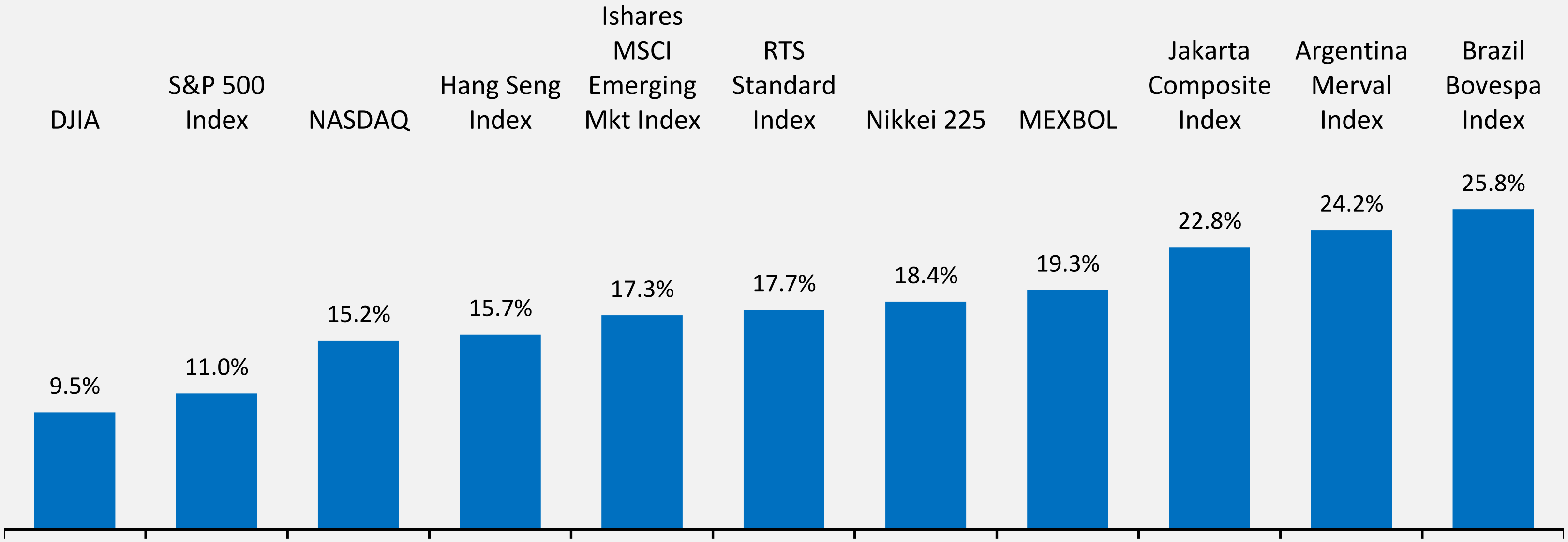


OVERVIEW

CEMBI INDEX RETURNS BY COUNTRY 4Q20



OVERVIEW
GLOBAL EQUITY INDEX RETURNS 4Q20



4Q20 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 =**	**11.36%**	**5.86%**
PAMPAR 27	PAMPA ENERGIA SA	Electric	Argentina	USD	10/02/20	01/01/21	91	76.5	88.3	7.50%	15.4%	17.3%	10.5%
LILAK 24	LIBERTY LATIN AMERICA	Media	Caribbean	USD	10/02/20	12/04/20	63	83.3	93.6	2.00%	12.5%	12.8%	8.0%
KAISAG 22	KAISA GROUP HOLDINGS LTD	Real Estate	China	USD	10/02/20	01/01/21	91	98.2	102.7	8.50%	4.6%	6.7%	(0.0%)
JBSSBZ 28	JBS USA LUX/JBS USA FIN	Food	Brazil	USD	10/02/20	01/01/21	91	108.9	112.0	6.75%	2.8%	4.5%	(2.2%)
METINV 25	METINVEST BV	Iron/Steel	Ukraine	USD	10/02/20	01/01/21	91	93.6	103.8	5.63%	10.8%	12.3%	5.5%
TCZIRA 22	TC ZIRAAT BANKASI AS	Banks	Turkey	USD	10/02/20	01/01/21	91	97.8	100.4	5.13%	2.7%	4.0%	(2.8%)
UNICMR 24	GRUPO UNICOMER CO LTD	Retail	El Salvador	USD	10/02/20	01/01/21	91	97.5	104.5	7.88%	7.2%	9.2%	2.4%
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	10/02/20	01/01/21	91	74.0	92.0	10.25%	24.3%	26.9%	20.1%
NEUQUE 30	PROVINCE OF NEUQUEN	Regional(state/provnc)	Argentina	USD	11/16/20	01/01/21	46	75.5	91.5	5.17%	21.2%	21.9%	17.9%
UNIGEL 26	UNIGEL LUXEMBOURG SA	Chemicals	Brazil	USD	12/01/20	01/01/21	31	102.6	108.8	8.75%	6.0%	6.7%	4.5%
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	12/01/20	01/01/21	31	85.5	87.1	9.38%	1.9%	2.7%	0.5%
UNDERPERFORM											**Average Return =**	**(10.48%)**	**(3.71%)**
MHPSA 24	MHP SE	Agriculture	Ukraine	USD	10/02/20	01/01/21	91	104.8	110.3	7.75%	(5.3%)	(7.2%)	(0.4%)
CREAL 26	CREDITO REAL SAB DE CV	Diversified Finan Serv	Mexico	USD	10/02/20	01/01/21	91	97.0	108.0	9.50%	(11.3%)	(13.7%)	(7.0%)
											Total Average Return =	**8.00%**	**4.39%**

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	10/02/20	01/01/21	91	472.0	503.9	6.8%

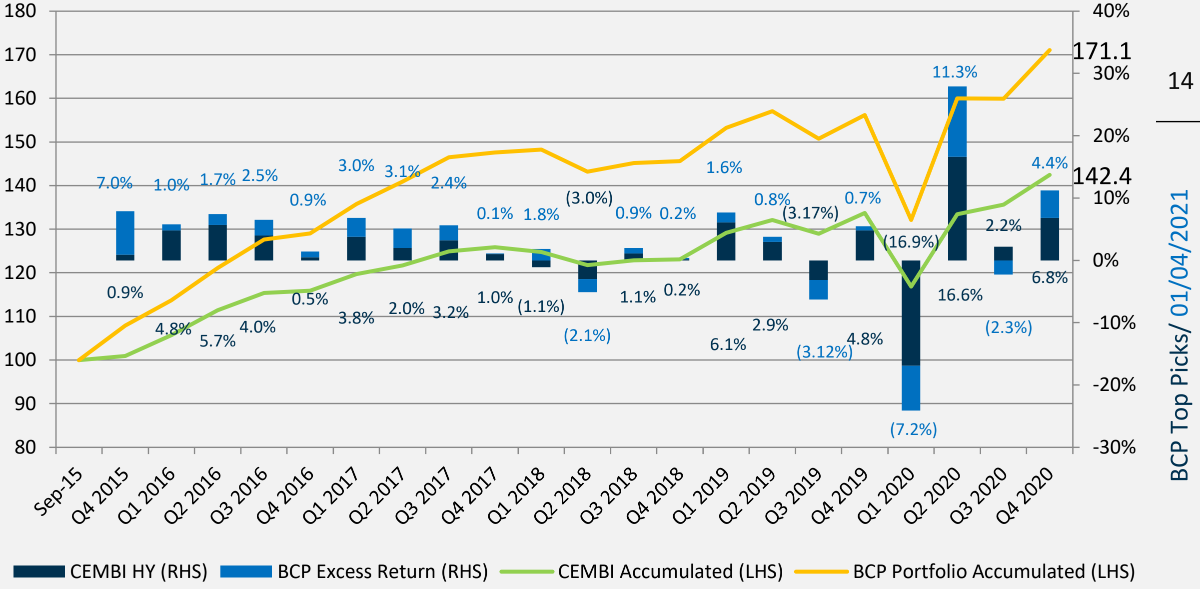
Source: Bloomberg as of 01/01/2021

3Q20 TOP PICKS
PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated positive excess return of 439 bps vs. our CEMBI HY benchmark. Outperforms returned positive 586 bps on average vs. 677 bps for the index.
- Our top performers were DOCUFO 24s and NEUQUEN 30s, with excess return of 20.1% and 17.9% respectively.
- CREAL 26s underperform was the biggest disappointment, generating negative excess performance of 7.0%
- Over the past 21 quarters, BCP Top Picks have generated compounded excess return of 28.70% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH JANUARY 1, 2021



1Q21 TOP PICKS
PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform										
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	$319	Caa3/ CCC+/ -	9.38%	01/02/2027	16.20%	87.13
CHUBUT 30 (*)	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	$623	Ca/ -/ CC	7.75%	26/07/2026	17.00%	81.00
KAISAG 24	KAISA GROUP HOLDINGS LTD	Real Estate	China	USD	$3,052	B2/ -/ -	9.38%	30/06/2024	10.34%	97.25
UNIGEL 26	UNIGEL LUXEMBOURG SA	Chemicals	Brazil	USD	$420	-/ B+/ B+	8.75%	01/10/2026	6.93%	108.50
METINV 29	METINVEST BV	Iron/Steel	Ukraine	USD	$500	-/ B/ BB-	7.75%	17/10/2029	6.30%	109.63
CARINC 22	CAR INC	Commercial Services	China	USD	$372	Caa1/ CCC/ -	8.88%	10/05/2022	11.38%	96.93
PFAVH 21	AVIANCA HOLDINGS SA	Airlines	Colombia	USD	$358	-/ -/ -	11.00%	10/11/2021	13.94%	97.48
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	$300	-/ B/ B+	10.25%	24/07/2024	13.14%	92.00
Underperform										
MHPSA 24	MHP SE	Agriculture	Ukraine	USD	$500	-/ B/ B+	7.75%	10/05/2024	4.42%	110.25
CREAL 26	CREDITO REAL SAB DE CV	Diversified Finan Serv	Mexico	USD	$400	-/ BB/ BB+	9.50%	07/02/2026	7.57%	108.00

(*) New CHUBUT STEP UP 30s not yet priced, old 26s in table for reference

Source: Bloomberg as of 01/04/2021

MARKET OUTPERFORM

ARGENTINA

AEROAR 9.38% 27s

CHUBUT STEP UP 30s

BRAZIL

UNIGEL 8.75% 26s

COLOMBIA

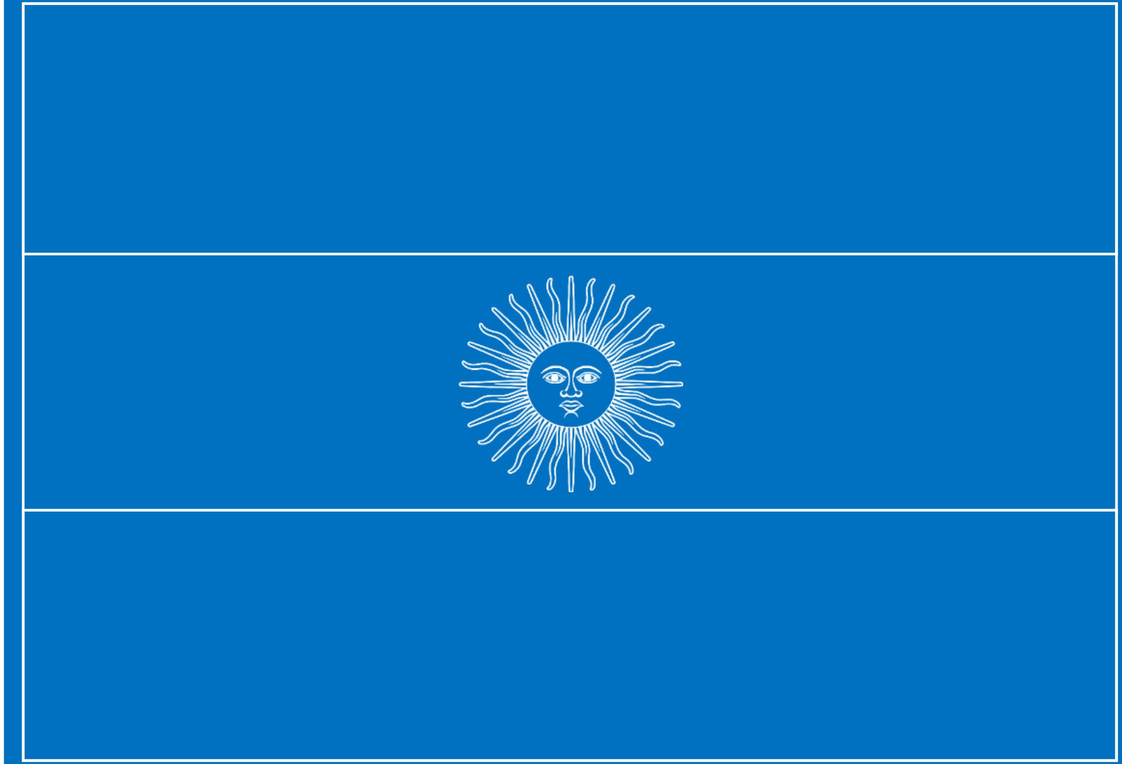
PFAVH L+10.50% 21s

MEXICO

DOCUFO 10.25% 24s

UKRAINE

METINV 7.75% 29s



ARGENTINA

CONGRATULATIONS TO MATIAS CASTAGNINO

MARKET OUTPERFORM (ARGENTINA):

AEROAR 9.365% 27s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
AEROAR 9 3/8 02/01/2027	319	Caa3/CCC+/-	87.13	16.20%

Aeorpuertos Argentina is the largest airport operator in Argentina, operating 34 airport terminals, including the two largest airports (Ezeiza and Aeroparque). In 2019 it transported 41.2mm passengers and handled nearly 429 thousand flights. The company is majority owned by Corporacion America, an Argentine holding controlled by the Eurnekian family, one of the wealthiest in the country.

PROS:

- Strong and recognized shareholder
- Operates the most important Argentine airports, including the two main ones (Ezeiza and Aeroparque)
- Recently agreed with government to extend all concessions by 10 years to 2038, providing a runway should passenger traffic recovery take longer than expected
- Recent debt reprofiling cleared debt amortizations through May20
- Notes backed by tariff collection with sound debt service coverage (4.1x in 1Q20 including capital amortizations). Sinkable bond, which gives the company a smoother debt amortization load.
- Long USD: tariffs on international flights, which account for the vast portion of revenue, are set in USD (can be paid in USD or ARS at the respective f/x rate), while most of its costs are in ARS
- Sound capital structure with low net leverage (pre covid-19 crisis) of 1.9x (FY19)
- Proven access to the local market despite the reduced activity levels: in Aug20 the company placed US$40mm in dollar-linked notes at 0% rate

CONS:

- Covid-19 and lockdown measures have significantly reduced operations, although activity resumed in recent weeks, albeit at lower levels
- We estimate the company needs at least 65% of pre-covid passenger traffic in order to pay for the May21 debt service without tapping its cash balance
- The new covid-19 strain and the increasing cases detected locally could result in new travel restriction measures
- Per the recent concession extension, the company has new committed capex requirements of US$500mm for the period 2022-2027, which may require additional debt at some point. Covenants allow for the issuance of additional pari passu debt provided next debt service coverage is 1x
- Capital controls imposed in Argentina could impact the ability to repay principal amortizations if they are extended beyond current deadline of Mar21
- Following capital controls, the company must repatriate its offshore tariff collections

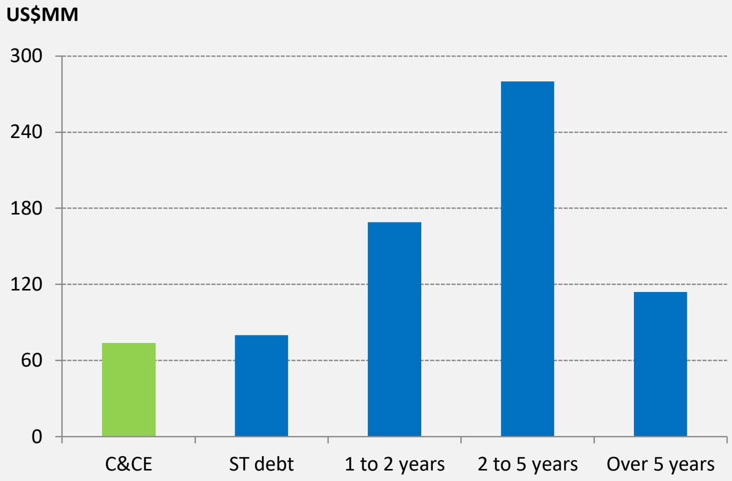
MARKET OUTPERFORM (ARGENTINA):

AEROAR 9.365% 27s

EXCHANGE OFFER

- The company offered par for par of new 2027s for those participating before early deadline of May 1st, 2020
- For those participating after and until final deadline of May 18th, 2020 the company offered 90c
- Collateral remained unchanged, while holdouts were stripped of minor covenants but retain collateral
- 1% of the coupon of May 1st was paid in cash while remaining was PIK'ed
- Coupons due in August 1st 2020, November 1st 2020 and February 1st 2021 will be PIK'ed at an increased rate of 9.375%
- Principal amortizations that are due on May 1st 2020, August 1st 2020, November 1st 2020 and February 1st 2021 under the old bonds will be deferred, with quarterly principal repayments restarting in May 1st, 2021
- Participation rate before early tender was 85.23% and total participation was around 90%
- Exchange became effective May 20th, 2020

PRO FORMA DEBT AMORTIZATION SCHEDULE 06.30.2020 (*)



(*) Including 0% 2yrs US$40mm local note issued in 3Q20

MARKET OUTPERFORM (ARGENTINA):

AEROAR 9.365% 27s

MINIMUM TRAFFIC LEVELS:

- We base our stress test on 1Q20 results
- Our results are based in real terms of ARS as of 1Q20
- We split opex between fixed and variable
- We reduce revenue and variable costs by the same amount
- We maintain fixed expenses unchanged
- We estimate the company will generate enough cash flow to serve the May21 debt amortization with 65% traffic level in the first four months of 2021 compared to pre-pandemic levels (1Q20)
- We estimate to serve the coupon only, the company would need 55% of the traffic level
- We highlight that any shortfall can be covered by the company's US$74mm cash position
- We think the concession extension provides a runway for a principal extension beyond 2027 if traffic recovery takes longer than expected
- We note that during the months of lockdowns the company managed to be free cash flow neutral despite the significantly reduced activity levels. We also note that our analysis does not assume any possible reduction in fixed expenses after the crisis

AEOROAR (AR$MM)	1Q20	Fixed / Variable	Jan-21 to Aprl21 (4 months)	
Reduction in traffic			35%	45%
Revenue	8,961		7,766	6,572
Salary expenses	1,579	Fixed	2,105	2,105
Specific income assigned to state	1,330	Variable	1,153	975
Airport maintenance	1,329	Fixed	1,772	1,772
Taxes	590	Variable	511	433
Fees and public services	235	Fixed	313	313
Office expenses	197	Fixed	263	263
Other cash expenses	125	Variable	167	167
TOTAL CASH EXPENSES	5,385		6,284	6,028
OPERATIONAL CASH FLOW	**3,567**		**1,482**	**544**
USDmm @ exchange rate at Mar20	**60**		**23**	**8**
May 2021 full debt service			19	19
May 2021 coupon only			5	5
	Mar20		Sep20	Sep20
Cash position (US$mm)	**35**		**74**	**74**

MARKET OUTPERFORM (ARGENTINA):

AEROAR 9.365% 27s

ANALYSIS OF 3Q20 RESULTS:

- Revenue in real terms decreased 77% y/y to AR$2,662mm
- Passenger transported decreased almost 100% y/y while airplane movements dropped 84% y/y, with most of the movement comprised of cargo transports
- EBITDA for the quarter was negative AR$354mm, or around US$5mm
- Importantly, the Minister of Tourism confirmed that in November, the country will open its borders for tourists from neighboring countries
- Additionally, cabotage flights have also been resumed, although at a first stage that allows only for essential workers and other targeted people with special requirements
- Free cash flow for the first nine months of the year (no quarterly figures in real terms available) was negative AR$281mm (nearly US$3mm)
- Net debt in USD terms grew US$6mm q/q to US$451mm
- Cash position closed at US$74mm, of which US$21mm were hold in USD, this latter unchanged q/q
- In addition, in Aug20 the company placed US$40mm in local dollar-linked notes at a 0% interest rate and with a bullet repayment in Aug22
- Noticeably, for the recent payment to holdouts in early November, the Central Bank authorized the purchase of 100% of the required USD at the official exchange rate for the payment

AEOROAR (AR$MM)	3Q20	3Q19	2Q20*	y/y	q/q
Revenue	2,662	11,688	2,514	(77%)	6%
EBITDA	(354)	3,640	(241)		
EBITDA margin	(13.3%)	31.1%	(9.6%)		

* Estimated using a 7.5% inflation

AEOROAR (AR$MM)	3Q20	4Q19	2Q20*	YTD	q/q
Total Debt	39,963	35,900	33,862	11%	18%
Cash and Equivalents	5,600	2,503	2,515	124%	123%
Net Debt	34,363	33,397	31,347	3%	10%
Leverage (Total Debt/LTM EBITDA)	6.8	2.0	3.4		
Net leverage (Net Debt/LTM EBITDA)	5.9	1.9	3.2		

* Not inflation adjusted

AEOROAR (AR$MM)	9M20	9M19
EBITDA	3,167	13,822
Working capital	3,651	(2,741)
Capex	(5,593)	(17,095)
Interest paid	(1,500)	(!,523)
Taxes paid	(6)	(824)
FCF	**(281)**	**(8,361)**

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

The Province of Chubut is situated in the Patagonia region, with a population of nearly 510 thousand people and a poverty rate of around 31.3% in its main urban areas according to INDEC at Dec-19. The province is the highest oil and fourth largest gas producer, with a total production of 144kbpd, and 51kboepd in the first eleven months of 2020, respectively, with proven reserves of nealyr 1,052mmbbl of oil and 204mmboe of gas as of Dec-18.

Description	Amt. (US$ MM)	Rating (M/SP/F)	Mid Price	Mid YTM
CHUBUT 7.75% 7/26/2026 (*)	623	Ca/-/CC	81.00	17.00%

(*) To be modified to step-up 30s

PROS:

- Largest crude and fourth largest gas producer, with access to exports
- Notes backed by oil & gas royalties, a USD indexed payment stream
- Following the province's irrevocable instructions given to concessionaries, royalties are paid directly to a local trust account
- Structure proved to be resilient throughout the restructuring despite the significant fiscal deficit
- Recent restructuring provided additional concessions royalties of which will serve as collateral once BODIC bonds are fully repaid by Mar21. We estimate coverage at current production and prices should remain above 1.5x throughout the life of the bonds
- Coupon structure was broadly maintained in the restructuring, with a slight reduction in 2021 which was offset by the consent fee provided
- The global reduction in heavy oil production has significantly reduced price differentials vs. light oil
- Governor Arcioni is one of the closest allies of Alberto Fernandez

CONS:

- A significant portion of the production is heavy oil, historically sold at lower prices than Neuquen's light oil
- Debt service coverage is subject to crude prices and production
- Lower debt service coverage than Neuquen given its higher debt burden
- While bonds are under NY law, trust in charge of royalty collection was created under Argentine law, which may provide a way to locally breach the bond structure
- Royalties per law are paid onshore and in ARS. As a result, Central Bank regulations may limit the access to USD and the transfer of funds offshore
- PAE concessions mature in 2027, although they can be extended for another 20 years upon satisfaction of certain activity levels
- Fiscal balance has significantly deteriorated since 2019
- Historical union confrontations
- Restructured bonds, although with practically no NPV haircut

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

ESTIMATED DEBT SERVICE COVERAGE OF CHUBUT 2030 AT **US$45 CRUDE,** US$2.5/MMBTU GAS **AND PRODUCTION AS OF NOV2020**

'US$000	Jan-21	Apr-21	Jul-21	Oct-21	Jan-22	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23
Interest payment	12,069	12,006	11,943	11,880	11,817	11,625	11,433	11,241	11,049	10,671	10,293	9,915
Principal payment	3,250	3,250	3,250	3,250	9,913	9,913	9,913	9,913	19,500	19,500	19,500	19,500
Total debt service	15,319	15,256	15,193	15,130	21,730	21,538	21,346	21,153	30,549	30,171	29,793	29,415
Estimated royalties	47,439	49,200	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059
Estimated Debt Service Coverage	**3.1**	**3.2**	**3.6**	**3.6**	**2.5**	**2.5**	**2.5**	**2.6**	**1.8**	**1.8**	**1.8**	**1.8**

'US$000	Jan-24	Apr-24	Jul-24	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25	Jan-26	Apr-26	Jul-26	Oct-26
Interest payment	9,538	9,053	8,568	8,083	7,598	7,113	6,629	6,144	5,659	5,174	4,689	4,204
Principal payment	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025
Total debt service	34,563	34,078	33,593	33,108	32,623	32,138	31,654	31,169	30,684	30,199	29,714	29,229
Estimated royalties	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059
Estimated Debt Service Coverage	**1.6**	**1.6**	**1.6**	**1.6**	**1.7**	**1.7**	**1.7**	**1.7**	**1.8**	**1.8**	**1.8**	**1.8**

'US$000	Jan-27	Apr-27	Jul-27	Oct-27	Jan-28	Apr-28	Jul-28	Oct-28	Jan-29	Apr-29	Jul-29	Oct-29
Interest payment	1,780	1,339	980	621	262	219	175	131	1,780	1,339	980	621
Principal payment	22,750	18,525	18,525	18,525	2,259	2,259	2,259	2,259	22,750	18,525	18,525	18,525
Total debt service	24,530	19,864	19,505	19,146	2,521	2,477	2,434	2,390	24,530	19,864	19,505	19,146
Estimated royalties	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059	54,059
Estimated Debt Service Coverage	**2.2**	**2.7**	**2.8**	**2.8**	**21.4**	**21.8**	**22.2**	**22.6**	**2.2**	**2.7**	**2.8**	**2.8**

CHUBUT STEP-UP 30s

DECEMBER 2020 RESTRUCTURING

- No principal haircuts
- New maturity July 26, 2030
- Coupon structure:

7.24% from October 26, 2020 (last payment date) until October 26, 2021
7.75% from October 26, 2021 until maturity

- 50bps consent fee
- New amortization schedule comprised of 40 quarterly installments of:

4.1666% that was paid October 26, 2020
4 installments starting January 26, 2020 of 0.5% of the initial aggregate principal (US$650mm)
Next 4 installments 1.525%
Next 4 installments 3.0%
Next 16 installments 3.85%
Next 1 installment 3.5%
Next 3 installments 2.85%
Next 4 installments 0.3475%
Next 3 installments 0.2311%

- Include as collateral the royalties from the concessions that serve to back the BODIC 2 bonds, once these bonds are fully repaid
- Include a new Surplus Coverage Trigger Event that will require the province to redeem, in the case that starting October 2022 the debt service coverage exceeds 2.0x within 180 days, the lower of US$33.8mm of bonds and 50% of the difference between the aggregate Specified Royalties deposited in the collateral account during the applicable period and the amount of royalties corresponding to a coverage of 2.0x
- Debt Service Reserve Account will be considered fully funded as long as in the local peso bank account there are enough funds to repay:

From first payment date to the 14th collection period, the full amount of the interest due on the next payment date
To the 15th collection period, full interest and 33% of principal amortization due on the next payment date
To the 16th collection period, full interest and 66% of principal amortization due on the next payment date
Thereafter until maturity, full interest and principal due on the next debt service

- A trigger event will occur if the coverage falls below 1.35x or if the debt reserve account is not fully funded, which will result in all royalties getting trapped in the reserve accounts and being converted into dollars and to be used to repay the principal owed in reverse order of maturity
- We note that the new maturity in 2030 is beyond the expiration of the concession granted to PAE, which occurs in 2027
- At maturity, the concessions will be subject to the control of Petrominera Chubut SE
- Upon satisfaction of certain activity levels, which include investments of US$1bn from 2017 to 2026 and having reserves equivalent to at least two years of production, PAE will have the right to operate the concessions for another 20 years

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

Province of Chubut (AR$MM)	1H20	1H19	+/-	%	2019	2018
Current income	37,246	28,794	8,452	29%	62,830	43,616
Local tax revenues	8,364	6,985	1,379	20%	15,471	10,872
National taxes	12,142	9,491	2,651	28%	20,574	14,060
Current transfers	4,267	2,878	1,389	48%	5,777	3,978
Royalties	9,387	7,593	1,794	24%	17,195	11,829
Other current income	3,086	1,847	1,239	67%	3,813	2,877
Current expenses	(41,571)	(28,906)	12,665	44%	(67,287)	(37,703)
Personnel expenses	(33,090)	(22,185)	10,905	49%	(49,480)	(26,838)
Current transfers	(4,112)	(2,759)	1,353	49%	(7,402)	(4,248)
Good and services	(1,841)	(1,578)	263	17%	(4,244)	(2,836)
Interest and others	(2,528)	(2,384)	144	6%	(6,161)	(3,781)
Capital income	412	452	(40)	(9%)	2,377	2,670
Capital expenditures	(3,835)	(3,2220	613	19%	(7,081)	(6,186)
Total surplus / (deficit)	**(7,748)**	**(2,882)**	**(4,866)**	**(169%)**	**(9,161)**	**2,397**
as % of current income	(21%)	(10%)			(15%)	5%
Total deficit w/ ppal amortization (*)	(8,628)					
as % of current income	(23%)					
Gross debt (AR$mm)	**66,725**				**404**	**(7,920)**
Gross debt (US$mm)	947				935	997
Gross debt / current income	90%				86%	81%

(*) Excluding US$13mm principal repayments in 2021

Government: current governor is Mariano Arconi from the center CST party, who was reelected in June 2019 for a four-year term and who has been one of the closest allies of the Alberto Fernandez presidential campaign.

BRAZIL

MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

Unigel is the largest acrylics and styrenics producer in LatAm. Its vertically integrated operations allow flexibility for final product mix, as well as feedstock purchases and its own feedstock production usage. Styrenics products are styrene, polystyrene and latex together accounting for 50% of revenue focused on packaging, disposables, electrodomestics and construction. Acrylics products are acrylonitrile, MMA and acrylic sheets focused on fibers, plastics and automotive sectors. Despite the challenging petrochemical product demand in 2020 with the pandemic, we note the issuer generated positive FCF. The higher demand for hygiene and packaging products has helped a fast recovery in Unigel's main segments. EBITDA is expected to be flat vs 2019. We highlight sound liquidity with current cash above ST debt and the bonds due only in 2026. The fertilizer plants are expected to start operations in 1H21 which could potentially reduce leverage to under 3.0x. With the favorable spread outlook on both styrencis and acrylics, coupled with FCF generation and sound liquidity, we **maintain Unigel 26s as "Market Outperform" in our Top Picks.**

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
UNIGEL	10.50%	1/22/2024	5	- / BB- / B+	100.00	10.50%
UNIGEL	8.75%	10/1/2026	420	- / B+ / B+	108.50	6.93%

Pros

- Largest Acrylics and Styrenics producer in LatAm. Unigel is the sole producer of Acrylonitrile and MMA, as well as the second largest in styrene and polystyrene
- Vertically integrated operations allow flexibility for final product mix, as well as feedstock purchases and its own feedstock production usage
- Styrenics (50% of sales) are styrene, polystyrene and latex. Domestic revenue is 60%, whilst exports are 40%. Favorable packaging and disposables demand
- Acrylics (50% of sales) are acrylonitrile, MMA, EMA and acrylic sheets. Domestic revenue is 40%, whilst exports are 60% incl. Mexico's operations
- Favorable domestic environment as Brazil import tariffs are 10% to 14%
- Natural hedge as revenues are either in USD or USD linked
- Resilient and recurrent positive FCF despite mixed spread dynamics withing both styrenics and acrylics and the covid-19 impacts through 2020
- Sound liquidity, as well as a very manageable maturity profile with bonds due 2026
- The two fertilizer plants leased from PETBRA are expected to restart operations in 1H21 with an incremental US$50 mm EBITDA per annum
    - Net leverage could fall below 3.0x in 2021

Cons

- Low control on petrochemical product pricing given commodity nature
- Exposed to the economic recovery in domestic market, as well as inherent risks regarding Govt. policies on import/export tariffs
- Operating margins are dependent on raw material and energy prices, as propylene, benzene and ethylene account for 50% of total feedstock costs
- Key feedstock suppliers have had or are having supply constraints
    - Ammonia shortfall from Petbra and propane shortfall from Pemex
- Impacted by spread volatility as covid-19 impacted product demand in both styrenics and acrylics sectors
- Increased product supply as large styrene and MMA projects are coming online
- As of 3Q20, 95% of gross debt is USD. Yet, we note only 54% is not hedged
- Labor unions account for 19% of Brazilian and 76% of Mexican employees

MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

Recent highlights:

- Unigel closed 3Q20 with all its productive plants operating back to full capacity
- Despite the pandemic impacting EBITDA in 2Q20, LTM FCF was positive US$28 mm
- Healthy production outlook for 4Q20
    - Styrenic domestic volumes recovering from construction, home appliances
    - Positive acrylic exports
- Both styrenic and acrylic spreads are recovering faster than other petrochemical spreads
- Est. mid-point EBITDA at US$105 mm for 2020
    - Essentially flat vs 2019
- The two fertilizer plants leased from PETBRA are expected to restart operations in 1H21
    - Est. US$25 mm capex
    - US$50 mm EBITDA expected per year
    - Dependent on the nat. gas costs
- Assuming the guided 2020 EBITDA run-rate
    - Net leverage could fall below 3.0x in 2021
- Sound liquidity with current cash above ST debt
    - Very manageable maturity profile

(US$ MM)	UNIGEL	BRASKEM	BAKIDE	CYDSA	ALPEK	ORBIA
	3Q20	3Q20	3Q20	3Q20	3Q20	3Q20
Total Revenue	172	2,972	201	129	1,325	1,639
Adj. EBITDA	33	696	79	30	160	362
Interest paid	(6)	(237)	(22)	(8)	(38)	(120)
Capex	(9)	(85)	(2)	(8)	(28)	(43)
Working capital	(4)	(104)	(3)	(1)	66	(5)
Taxes paid	0	(18)	(0)	(3)	4	(70)
FCF	**13**	**253**	**52**	**9**	**163**	**124**
Total Debt	545	11,098	2,465	705	1,754	4,509
Cash	104	2,768	191	277	519	1,245
Net Debt	440	8,330	2,274	428	1,235	3,264
LQA Gross Leverage	4.2x	4.0x	7.8x	5.9x	2.7x	3.1x
LQA Net Leverage	3.4x	3.0x	7.2x	3.6x	1.9x	2.3x
Adj. EBITDA margin	19%	23%	39%	23%	12%	22%
Rating	-/B+/B+	-/BB+/BB+	-/B/B+	-/BB/BB+	Baa3/BB+/BBB-	Baa3/BBB-/BBB
Maturity	2026	2028	2029	2027	2029	2027
Mid YTM	6.93%	3.66%	8.33%	5.27%	3.27%	2.23%

MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

3Q20 Earnings - Positive

- 3Q20 Revenue increased by 79% q/q to US$172 mm, yet it was 21% lower y/y mainly due to FX depreciation
    - Styrenic revenue was 89% higher q/q at US$86 mm, due to similar volume growth q/q as demand recovered in both styrene and polystyrene
    - Acrylic revenue was 71% higher q/q at US$86 mm, as volumes increased q/q with the acrylonitrile plant resuming operations in late July
- Adj. EBITDA doubled q/q to US$33 mm, increasing by 24% y/y
    - Styrenic EBITDA was 4x higher q/q at US$17 mm, due to higher volumes, styrene spreads turning positive and higher polystyrene spreads due to cheaper feedstock
    - Acrylic EBITDA increased by 43% q/q to US$15 mm, driven by the volume recovery as acrylonitrile spreads contracted q/q
    - As a result, the EBITDA margin expanded to 19% vs 15% last quarter (excl. Covid-19 shutdown expenses in 2Q20)
- FCF generation was US$13 mm, due to higher EBITDA and partially offset by WK expansion from higher A/R
- Total debt increased to US$545 mm, with cash increasing to US$104 mm
    - Q/Q debt growth was from Unigel drawing US$35 mm mainly from two 1-year local banking lines
    - As of 3Q20, the issuer's only relevant debt maturity until the 2026 bond are the US$57 mm due in 2021, mostly the aforementioned lines
- Annualized gross and net leverage ratios improved to 4.2x and 3.4x, respectively

UNIGEL (US$ MM)	3Q20	2Q20	3Q19	q/q	y/y
Total Revenue	172	96	217	79%	(21%)
Adj. EBITDA	33	15	26	122%	24%
EBITDA margin	19%	15%	12%	-	-

UNIGEL (US$ MM)	3Q20	2Q20	3Q19	q/q	y/y
Total Debt	545	480	458	14%	19%
Cash & Equivalents	104	66	53	59%	98%
Net Debt	440	414	405	6%	9%
Total Debt / LQA EBITDA	4.2x	8.2x	4.4x	-4.0x	-0.2x
Net Debt / LQA EBITDA	3.4x	7.1x	3.9x	-3.7x	-0.5x

UNIGEL (US$ MM)	3Q20	2Q20	3Q19	q/q	y/y
Adj. EBITDA	33	15	26	122%	24%
Interest paid	(6)	(23)	(19)	73%	69%
Capex	(9)	(4)	(14)	(103%)	33%
Working capital	(4)	15	4	-	-
Taxes paid	0	0	(0)	-	-
FCF	**13**	**3**	**(3)**	415%	-

COLOMBIA

MARKET OUTPERFORM COLOMBIA):

PFAVH L+10.5% (12% PIK) 21s

Avianca is a Colombia-based international airline, with dominant market share in Colombia. Avianca underwent an an extensive reprofiling and debt restructuring prior to the pandemic, resulting in implementation of cost-cutting measures, and stronger liquidity, relative to peers. The company's Chapter 11 filing (May '20) has served to further streamline fleet and operating costs, accelerating Avianca's shift towards an LCC model. Meanwhile, US$1.9 bn in support from DIP lenders bolsters cash as traffic ramps-up. The new Debtor in Possession (DIP) Tranche A loan matures 2021, with a Libor + 10.5% (12% PIK) coupon and a senior 1st priority lien on nearly all of Avianca's assets. We anticipate cash burn will continue in the near-term, with the potential for future cash generation if '22 adj. EBITDA projections are achieved. Nevertheless, even conservative adj. EBITDA estimates imply manageable leverage below 4x, which, alongside solid liquidity and slowly improving fundamentals, support our upgrade of PFAVH 21s to Market Outperform.

Issuer Name	Ticker	Cpn	Maturity	M/SP/F	Amt Out (US$MM)	Mid Px	Mid YTM	Rank
AVIANCA HOLDINGS S.A.	PFAVH	LIBOR + 10.5% cash / 12% PIK	11/10/2021	-/ -/ -	358	97.48	13.94%	1st Lien
AVIANCA HOLDINGS S.A.	PFAVH	LIBOR + 10.5% cash / 12% PIK	11/10/2021	-/ -/ -	41	96.35	n/a	1st Lien
AVIANCA HOLDINGS S.A.	PFAVH	9%	12/31/2023	-/ D/ C	484	11.50	n/a	Sr. Secured

Pros:

- PFAVH 21s have 1st lien on collateral, located in the most senior part of the capital structure
- Chapter 11, under New York law process, notable for transparency and favorable treatment of creditor rights
- Anticipated ~30% overall projected fleet reduction (-50% wide bodies, -30% narrow body) under Chapter 11, alongside shift to operating leases with low debt per plane
- Management seeking to replicate LCC model and margins via reduction in fleet cost, labor and fuel
- Steadily improving operating results in Oct '20, with higher RPKs, expanded 70%+ LF, and increased yields
- ~3.7x increase in passenger revenues in Oct '20 (v. 3Q19), with positive adj. EBITDA US$11 mm
- US$1.0 bn in liquidity (57% liquidity to LTM revenue) and est. US$1.3 bn in undrawn DIP funding (Oct '20 MOR) to support near-term cash burn
- Base case recovery to pre-COVID adj. EBITDA levels (US$500 mm) at 6x TEV/adj. EBITDA implies US$1.3 bn market cap, adequate to cover Tranche B equity conversion at LTM net leverage < 4x
- Upside, based on 6x TEV to projected US$1.0 bn+ in '22 adj. EBITDA (v. US$522 FY19), suggests future market cap of US$4.5 bn, at pro-forma LTM net leverage < 2x

Cons:

- Reduced traffic, driven by international exposure and COVID-19 travel restrictions, and resulting in sharp reduction in passenger revenues
- Anticipated near-term cash burn on weak adj. EBITDA, and higher capex and working capital requirements related to capacity ramp-up
- Elevated Oct '20 LTM run-rate net leverage (36.6x), reflecting depressed adj. EBITDA
- Interest in IP and fleet collateral retained by holdout PFAVH '23s, though they are subordinated to the US$2.0 bn 1st lien DIP financing

MARKET OUTPERFORM COLOMBIA):

PFAVH L+10.5% (12% PIK) 21s

Operating Measures	2017	2018	2019	1Q20	2Q20	3Q20	OCT '20
RPK (mm)	40,243	44,267	44,460	8,687	83	179	367
ASK (mm)	48,401	53,310	54,410	11,325	112	284	524
Load Factor	83.1%	83.0%	81.7%	76.7%	73.9%	63.0%	70.1%
CASK (US$c)	7.99	8.16	8.63	8.26	337.41	130.76	32.64
CASK ex-Fuel (US$c)	6.09	5.89	6.41	6.25	320.17	121.57	29.76
Yield (US$c)	8.80	9.20	8.80	8.96	4.51	9.60	17.02

Total Debt (US$MM)	FY19	3Q20
Operating Leases	1,199	1,353
Financial Leases	1,831	1,879
Total Fleet Financing	**3,030**	**3,232**
Bonds	531	574
Bank and Other	1,295	1,376
Total Corporate Debt	**1,826**	**1,950**
Total Debt	**4,856**	**5,182**
Net Debt	**4,514**	**4,881**

Fleet	FY19	3Q20	BCP Estimate
Total Fleet	**171**	**146**	**114**
Wide Body	37	32	22
Narrow Body	134	114	93
Owned/Fin. Lease	113	84	0
Operating Lease	58	62	114

US$MM	2017	2018	2019	1Q20	2Q20	3Q20	OCT '20
Passenger	3,550	4,074	3,905	778	4	17	63
Cargo & Other	892	816	717	166	233	190	75
Total Revenue	**4,442**	**4,891**	**4,621**	**944**	**236**	**207**	**138**
Operating Costs	2,435	2,774	2,483	477	100	85	98
SG&A and Other	1,400	1,495	1,629	324	151	151	29
Total Expenses	**3,835**	**4,269**	**4,112**	**801**	**251**	**236**	**127**
Adj. EBITDA	**886**	**889**	**522**	**148**	**(7)**	**(37)**	**11**
D&A & Leases	592	618	605	144	143	119	44
Impairment	-	39	471	-	-	-	-
EBIT	294	232	(554)	4	(151)	(156)	(34)
Financial Costs, Net	192	211	316	111	73	115	21
Taxes	20	20	24	14	8	12	4
Net Income/(Loss)	82	1	(894)	(121)	(232)	(284)	(59)
Adj. EBITDA	**886**	**889**	**522**	**148**	**(7)**	**(37)**	**11**
Interest Paid	(162)	(209)	(275)	(56)	(20)	(1)	(7)
Taxes Paid	(39)	(48)	(46)	(6)	(2)	(3)	1
Aircraft Rents Expense	(279)	(268)	(12)	(5)	(8)	8	-
FCF (excl. WK and Capex)	**406**	**365**	**190**	**81**	**(36)**	**(33)**	**5**
Working Capital	(1)	283	(68)	(105)	81	48	n/a
Capex	(334)	(542)	(268)	(26)	(37)	(0)	n/a
FCF	**71**	**106**	**(146)**	**(50)**	**8**	**15**	**n/a**
A/R	243	294	237	189	175	138	193
Inventory	97	90	88	89	87	85	84
A/P	502	667	534	475	538	520	492
Net WK	(162)	(282)	(209)	(197)	(276)	(297)	(216)
Cash and Equivalents	509	273	342	424	298	254	787
ST Investments	5	5	-	50	48	48	42
Cash	**514**	**278**	**342**	**474**	**346**	**302**	**828**
A/R	243	294	237	189	175	138	193
Liquidity	**757**	**573**	**580**	**663**	**521**	**439**	**1,021**
Cash / LTM Revenue (1)	12%	6%	7%	11%	10%	12%	46%
Liquidity / LTM Revenue (1)	17%	12%	13%	15%	15%	17%	57%
Net Debt	**5,190**	**5,603**	**4,514**	**4,883**	**4,767**	**4,881**	**4,957**
LTM Net leverage (1)	**5.9x**	**6.3x**	**8.6x**	**9.8x**	**10.9x**	**23.8x**	**36.6x**

(1) LTM revenue and adj. EBITDA for OCT '20 reflects Oct. '20 run-rate

MARKET OUTPERFORM COLOMBIA):

PFAVH L+10.5% (12% PIK) 21s

DIP FINANCING TERMS:

Collateral:

- Superpriority claim status over any/all other claims
- Perfected 1st priority lien on all cash accounts
- COP-denominated credit card receivables (2nd lien security, 1st lien CC sales)
    - FY19 US$42 mm avg. monthly balance of COL-denom. CC receivables
- Avianca Trademarks
- Freighter fleet and spare engines
- Residual interest in a portion of Avianca's passenger aircraft fleet
- Liens on Operating Company equity
- Avianca Interest in LifeMiles (89.9% stake + option to purchase remaining 10.1%)
    - August '20 independent valuation of equity stake of US$1,550 – 2,600 mm

Select Conditions Precedent to Tranche B Conversion:

- Approved Reorganization Plan confirmed by Bankruptcy Court
- Reduction of at least US$2 bn aircraft debt and lease obligations
- $\geq$ 50% of aircraft post-Ch. 11 remains on PBH Agreements
- If converted to equity: reflects $\geq$ 72% of fully diluted shares
- If converted to alternate exit facility: new facility secured by 1st priority perfected lien on all assets and property of the reorganized obligors, and rank pari passu for payment purposes and vote separately by tranche

	Tranche A-1 Financing (Loans and Notes)	Tranche A-1 Financing (Loans and Notes)	Tranche B Financing
Debtor	Avianca Holdings S.A.	" "	" "
Aggregate Amount	Loans: $591,449,000 Notes: $437,601,000	Loans: $176,450,000 Notes: $64,000,000	US$722,918,000
Interest Rate	Cash: LIBOR + 10.5% Payment in Kind: LIBOR + 12%	" " " "	" " " "
Maturity (1)	November 10, 2021	" "	" "
Rank (2)	1st Lien	" "	1st Lien (subordinated)
Guarantor	Aerovías del Continente Americano	Avianca and other Avianca Holdings S.A. subsidiaries in Chapter 11 proceedings	Avianca and other Avianca Holdings S.A. subsidiaries in Chapter 11 proceedings
Guarantees / Collateral	The Guarantors guarantee, on a joint and several basis, all of Avianca Holdings S.A.'s obligations.	" "	" "
Description of Lenders	Certain holders of the debtor's 2023 notes and U.S. and non-U.S. accredited investors	" "	United Airlines Inc., an affiliate of Kingsland Holdings Limited, Citadel Advisors LLC, other lenders under the debtor's stakeholder facilities and other qualified investors
Key Covenants	Consolidated cash maintenance $\geq$ $400 mm and limit on cumulative cash burn.	" "	" "
Conversion Rights	n/a	n/a	Only if reorganization plan doesn't provide for repayment of Tranche B loans in cash

(1) Option to extend 60 days
(2) All DIP financing ranks pari-passu in senior-most part of the capital structure

MARKET OUTPERFORM COLOMBIA):

PFAVH L+10.5% (12% PIK) 21s

Pro-Forma Results (from DIP Marketing Materials):

- We expect formalized projections to be disclosed within Avianca's Approved Reorganization Plan
- Based on the following, we estimate US$1.3 bn of the DIP remains available for drawdown:
  - Avianca's Oct' 20 MOR, which discloses the draw down of $634 mm from its DIP facility as of end-Oct. '20 (MOR) v. US$828 mm in cash, implying US$102 mm in cash burn in 10M 20
  - Partial cash payment to purchase additional LifeMiles stake (US$26.5 mm)
- Preliminary projections, supported by Avianca's shift to a LCC model, anticipate US$3.4 bn in revenue and US$1.0bn+ in adj. EBITDAR generation (30%+ margins) by '22
- We anticipate ongoing near-term cash burn in relation to the ramp up, supported by further drawdown of DIP funding (est. US$600 mm), which would allow for additional liquidity, should Avianca elect to amortize Tranche B using cash on hand
- We expect the remaining US$1.3 bn Tranche A DIP will be refinanced upon emergence from Chapter 11
- Meanwhile, the estimated US$2 bn + in financial lease debt reductions is expected to reduce debt to US$2.9 bn by '22 implying healthy pro-forma net leverage of 1.8x v. 30% cash to LTM revenue by end-FY22

Pro-Forma (US$MM)	FY19	LTM 3Q20	10M 2020	FY20E	FY21E	FY22E
Revenue	**4,621**	**2,539**	**1,525**	**1,800**	**2,322**	**3,383**
EBIT	**(554)**	**(582)**	**(337)**	**(404)**	**16**	**422**
EBIT margin (%)	*(12%)*	*(23%)*	*(22%)*	*(22%)*	*1%*	*12%*
Adj. EBITDAR (1)	**510**	**195**	**122**	**144**	**490**	**1,046**
EBITDAR margin (%)	*11%*	*8%*	*8%*	*8%*	*21%*	*31%*
Adj. EBITDA (1)	**522**	**205**	**114**	**135**	**479**	**1,035**
EBITDA margin (%)	*11%*	*8%*	*7%*	*8%*	*21%*	*31%*
Interest paid	(275)	(167)	(84)	(97)	(275)	(199)
Taxes paid	(46)	(20)	(11)	(13)	(48)	(48)
Rents expense (1)	(12)	(10)	(5)	(5)	(279)	(279)
FCF (excl. Capex and WK)	**189**	**8**	**14**	**21**	**(122)**	**510**
Working Capital	(68)	(124)	n/a	(166)	(1)	(1)
Capex	(268)	(114)	n/a	(151)	(268)	(268)
Free Cash Flow (2)	**(146)**	**(230)**	**(102)**	**(295)**	**(391)**	**241**
Cash and cash equivalents	342	254	787	491	700	940
ST investments	55	48	42	42	42	42
Cash	**398**	**302**	**828**	**533**	**742**	**982**
Est. Available DIP (3)	**-**	**-**	**1,331**	**1,331**	**731**	**731**
DIP - Tranche A	-	-	1,269	1,269	1,269	1,269
DIP - Tranche B (3)	-	-	723	723	-	-
Aircraft Financing (4)	1,831	1,879	1,879	1,879	-	-
Aircraft Rentals (4)	1,199	1,353	1,453	1,453	1,135	1,135
Shareholder + LifeMiles	773	773	239	239	239	239
Other Debt	1,053	1,177	222	222	222	222
Gross Debt	**4,856**	**5,183**	**5,785**	**5,785**	**2,865**	**2,865**
Net Debt	**4,458**	**4,881**	**4,957**	**5,252**	**2,123**	**1,883**
Gross Leverage	**9.3x**	**25.3x**	**42.7x**	**42.7x**	**6.0x**	**2.8x**
Net Leverage	**8.5x**	**23.8x**	**36.6x**	**38.8x**	**4.4x**	**1.8x**
Cash to LTM Revenue	**9%**	**12%**	**54%**	**30%**	**32%**	**29%**
Liquidity to LTM Revenue	**14%**	**17%**	**67%**	**40%**	**40%**	**35%**

(1) Based on DIP cleansing materials, company disclosures and prior period results (post-IFRS 16)
(2) Est. free cash flow for 10M 20 based on MOR disclosure of US$787 mm cash and drawdown of US$634 mm in proceeds from loans and borrowings
(3) Est. available from DIP for 10M 20 reflects US$634 mm drawdown of proceeds, plus US$26.5 mm cash payment to acquire LifeMiles stake. Assumes Tranche B amortized via equity conversion, with option for Avianca to pay in cash
(4) Based on rejection of aircraft and reduction of at lease US$2 bn of aircraft debt and lease obligations under Chapter 11 process, as disclosed in DIP cleansing materials. DIP cleansing material projections capitalized at 7.0x annual rent

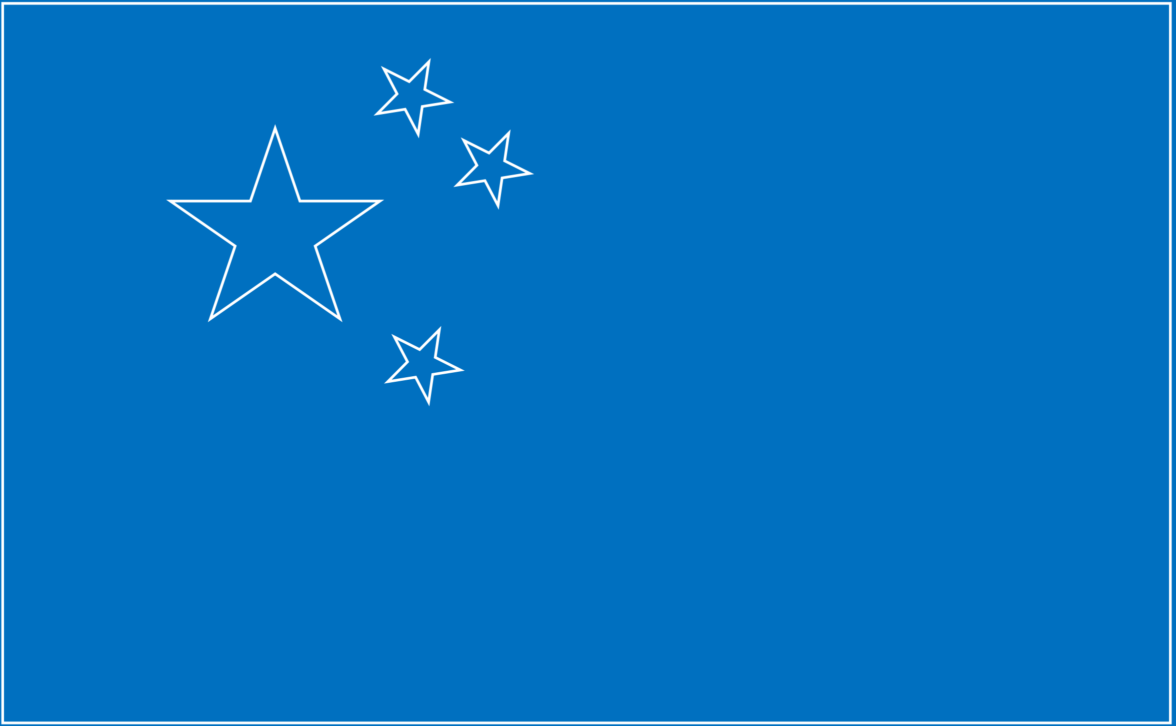
MARKET OUTPERFORM COLOMBIA):

PFAVH L+10.5% (12% PIK) 21s

Pro-Forma Results (from DIP Marketing Materials, cont'd):

- The streamlining of operating costs and fleet under Ch. 11 has provided Avianca the opportunity to accelerate its's shift away from a legacy carrier to an LCC model
- Having recently undergone an extensive reprofiling, the company had already begun implementing cost-cutting measures
- Additionally, as a result of its coinciding debt restructuring, the airline entered the crisis with robust liquidity (US$635 mm), relative to other peers
- Nevertheless, the exercise resulted in depressed adj. EBITDA of US$522 mm, which contributed to higher cash burn, and the composition of fleet (owned, wide body), and international exposure, resulted in excess capacity v. a sharp decline in traffic
- Prior to the reprofiling, Avianca traded at US$500 mm+ market cap and ~7.1x TEV / adj. EBITDA (FY18)
- Reaching historical US$500 mm adj. EBITDA levels, under our base case scenario, implies ~US$955 mm in equity consideration for Tranche B
- Achieving projected adj. EBITDA of US$1.0 bn+ by FY22 at a multiple of 6x would imply a US$4.5 bn market cap, or US$3.3 bn in equity consideration (72%) for Tranche B holders
- Under both scenarios, we anticipate the airline will have adequate liquidity to support ramp-up in operations until it can begin to generate cash, backed by significant improvements to fleet and cost structures, and anticipated future cash generation, to support healthy pro-forma FY22 net leverage below 4x

US$MM	FY17	FY18	FY19	LTM 3Q20	Pro-Forma '22	Pro-Forma '22
					Base Case	Upside
TEV / Adj. EBITDA	**7.0x**	**7.1x**	**8.2x**	**22.8x**	**6.0x**	**6.0x**
Adj. EBITDA	**886**	**889**	**522**	**205**	**500**	**1,035**
TEV	**6,209**	**6,351**	**4,256**	**4,675**	**3,000**	**6,212**
Minority Interest	(76)	(178)	(202)	(206)	(206)	(206)
Net Debt	6,285	6,529	4,458	4,881	1,883	1,883
Market Cap	**985**	**509**	**554**	**52**	**1,324**	**4,535**
Tranche B DIP					723	723
Equity Conversion Rate (%)					72%	72%
Implied Equity Consideration					**953**	**3,265**
Cash					**982**	**982**
Est. Available from DIP (3)					**731**	**731**
Gross Debt					2,865	2,865
Net Debt					**1,883**	**1,883**
Net Leverage					**3.8x**	**1.8x**



CHINA

MARKET OUTPERFORM (CHINA):

CARINC 8.875% 22s

Car Inc (699 HK) is the largest car rental company in China with 17% market share. The company was founded by Lu Zhengyao in 2007 and was impacted by the founder's Luckin Coffee scandal in July 2020. After the event, UCAR, a major shareholder which is affiliated with the founder, made four attempts to sell its Car Inc stake, and will most likely seal the deal with MBK Partners, a South Korean PE. Assuming completion of the announced transaction, MBK would hold a 20.86% stake in Car Inc, Warburg Pincus would hold 14.75% and Legend Holdings would hold 26.59%. MBK will also subscribe US$175mm convertible bond from the company, who will then have enough resources to address the US$300mm CARINC 21 maturity.

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CARINC	6%	2/11/2021	300	Caa1 / CCC / WD	99.19	14.13%
CARINC	8.875%	5/10/2022	372	Caa1 / CCC / -	96.93	11.38%

Pros

- Better shareholder profile after MBK investment.
- CB issuance to MBK improves liquidity versus 21s maturity.
- Largest car rental company in China with strong brand recognition.
- Flexibility to expand / shrink fleet size.
- Positive FCF during pandemic despite weak travel in 2020 and 2021.
- High LTM EBITDA margin. High % of self-service transactions (87%).
- Reasonable LTM leverage despite depressed EBITDA.
- In 2020 there will be 470 million licensed car drivers in China and the number is growing by 30 million per year. But there are only 365 million cars, growing by 21 million per year. There is a growing shortage of cars for licensed drivers.
- Traffic ticket reform making rental cars more attractive for non-local users.

Cons

- Declining RevPAC and shrinking fleet.
- COVID-19's impact on tourism.
- Cars are not easily pledged to obtain secured financing.
- Competition from developed public transport and Didi car service.
- Uncertainties lie in used vehicle market and realizable value of fleet vehicles in a soft car market.
- MBK has not concluded share purchase from Warburg Pincus and Legend Holdings. If MBK does not have >50% voting rights before Jan 12 (extendable), the share offer will lapse. MBK currently holds a 21% stake.

MARKET OUTPERFORM (CHINA):

CARINC 8.875% 22s

2Q20 Financials

- Total revenue decreased 27% y/y to US$202mm.
  - Rental revenue decreased 42% y/y to US$121mm.
  - Sales of used cars increased 17% y/y to US$81mm.
  - In 1Q, total revenue decreased 31% y/y and rental revenue decreased 37% y/y.
- Reported adj EBITDA decreased 70% y/y to US$38mm.
- Gross margin sharply decreased y/y from 44% to 11%. LTM EBITDA margin decreased y/y from 45% to 19%.
  - Lower margin were driven by aggressive pricing adjustments in 2Q.
  - ADDR decreased 26% y/y. RevPAC decreased 40% y/y.
- FCF was positive US$128mm on WK cash inflow.
- WK investment improved y/y from US$57mm outflow to US$136mm inflow driven by fleet reduction.

Income Statement (US$ mm)	2Q20	1Q20	2Q19	yoy	qoq
Revenue	202	190	277	(27%)	7%
- rental revenue	121	136	208	(42%)	(11%)
- sales of used cars	81	54	69	17%	49%
Reported adj EBITDA	38	78	126	(70%)	(51%)
EBITDA margin	19%	41%	45%	(2,658 bps)	(2,244 bps)
LTM EBITDA margin	37%	43%	50%	(1,307 bps)	(585 bps)
Gross margin	11%	32%	42%	(3,066 bps)	(2,043 bps)

FCF (US$ mm)	2Q20	1Q20	2Q19	yoy	qoq
Reported adj EBITDA	38	78	126	(70%)	(51%)
WK investment	136	44	(57)	(339%)	206%
Capex - PPE	(2)	(5)	(5)	(71%)	(67%)
Tax paid	(14)	(8)	(20)	(31%)	80%
Net interest paid	(30)	(30)	(22)	39%	1%
Investment in affiliates	0	0	(10)	(100%)	-
Deposits for borrowings	0	0	(9)	(102%)	-
FCF	128	80	3	3858%	60%

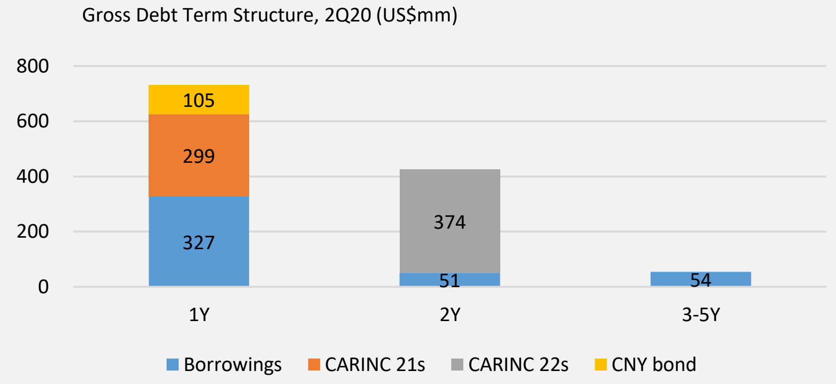
MARKET OUTPERFORM (CHINA):

CARINC 8.875% 22s

2Q20 Financials

- Gross debt decreased 27% q/q to US$1,211mm on less loans.
- Gross debt included:
    - US$432mm loans. (41% lower q/q).
    - US$673mm USD bonds.
    - US$105mm CNY bond.
- The company reported US$732mm STD, including US$327mm in loans, the US$300mm CARINC 21s and the US$105mm CNY bond.
    - On Aug 27, Car Inc obtained a waiver from lenders for US$143mm ST club loans to extend maturity. Excluding US$143mm, the company had US$184mm ST loans.
- Total cash decreased 72% q/q to US$131mm.
- Net debt decreased 9% q/q to US$1,080mm.
- LTM gross leverage decreased q/q to 3.5x. LTM net leverage increased q/q to 3.1x.

Debt (US$ mm)	2Q20	1Q20	2Q19	yoy	qoq
Gross debt	1,211	1,650	1,877	(35%)	(27%)
- STD	732	634	722	1%	15%
- LTD	479	1,015	1,155	(58%)	(53%)
Total cash	131	466	542	(76%)	(72%)
- cash & equivalents	130	466	458	(72%)	(72%)
- restricted cash	1	-	83	(99%)	-
Net debt	1,080	1,183	1,335	(19%)	(9%)
LTM gross leverage	3.5x	3.8x	3.6x	(0.2x)	(0.3x)
LTM net leverage	3.1x	2.7x	2.6x	0.5x	0.4x
LQA gross leverage	8.0x	5.3x	3.7x	4.2x	2.7x
LQA net leverage	7.1x	3.8x	2.7x	4.4x	3.3x



MARKET OUTPERFORM (CHINA):

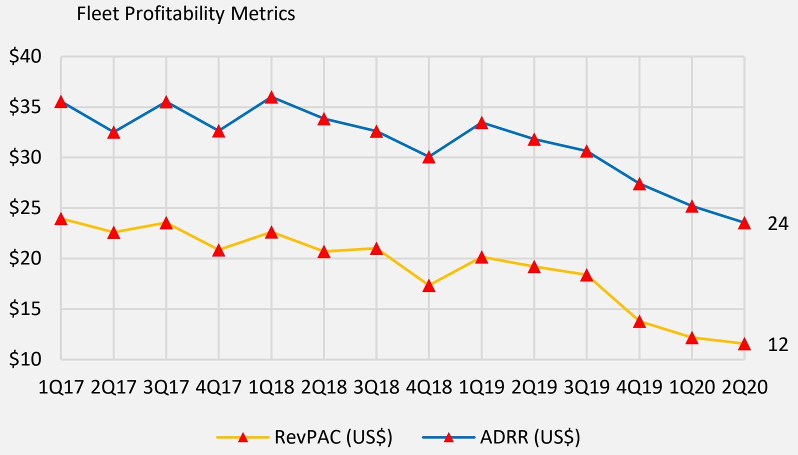
CARINC 8.875% 22s

2Q20 Operations

- Fleet size decreased 7% q/q to 132k.
    - Number of cars sold increased 39% q/q to 8,982. In 1H, the company sold 15,451 cars, and expected to sell 15,000~20,000 in 2H.
    - ASP of cars disposed increased 9% q/q.
- The company has no plan to acquire new vehicles in 2020 and has disposed 15,451 vehicles in 1H20. The target is to dispose 35,000 in 2020, or 15000~20,000 in 2H20. Management estimated US$134mm cash inflow from car disposal in 2H20.
- RevPAC and ADDR have been decreasing since 1Q19. The management decided not to raise prices in 4Q19 amid economic slowdown, in order to defend market share.
    - According to third-party statistics, Car Inc is the largest car rental company in China with 17% market share. Its competitors Ehi has 7% and iZuche (Shouqi) 3%.

Fleet (US$ mm)	2Q20	1Q20	2Q19	yoy	qoq
Fleet size as at period end	132,221	141,708	147,388	(10%)	(7%)
Vehicles disposed	8,982	6,469	6,011	49%	39%
Disposal loss (cumulative)	2.70%	3.10%	4.30%	(160 bps)	(40 bps)

Ratios (US$ mm)	2Q20	1Q20	2Q19	yoy	qoq
Rental revenue (US$ mm)	121	136	208	(42%)	(11%)
Fleet size as at period end	132,221	141,708	147,388	(10%)	(7%)
Average daily fleet	110,736	113,325	106,232	4%	(2%)
ADRR (US$)	24	25	32	(26%)	(7%)
Utilization rate	49%	48%	60%	(1,110 bps)	80 bps
RevPAC (US$)	12	12	19	(40%)	(5%)



CARINC 8.875% 22s

MBK In, UCAR Out

- On November 10, Car Inc announced its major shareholder UCAR (20.86%) agreed to sell all its interest to MBK Partners for US$228mm, or HK$4 per share.
- Jinggangshan BAIC, the previous bidder, will not acquire UCAR's shares in CARINC and appears unlikely to pursue a purchase of Warburg Pincus' interest in the company. Car Inc was trading at HK$3.74 per share at market-close last week.
- In August, media reported that MBK was negotiating with Car Inc to take it private, but Car Inc denied the news. MBK also has an interest in eHi Car, the second largest car rental company in China. Assuming completion of the announced transaction, MBK would hold a 20.86% stake in Car Inc, Warburg Pincus would hold 14.75% and Legend Holdings would hold 26.59%. While scandal plagued UCAR's exit from the company would be a positive, the absence of a state-background shareholder in Car Inc may not provide the same boost to lender confidence, particularly among onshore banks.
- On Dec 3, Car Inc announced that it intended to issue **US$175mm convertible bond** to MBK as part of an effort to refinance US$405mm of existing notes. The convertible bond will have a five-year maturity, one-year lock-up period, 5% coupon, HK$4 conversion price, and a put option that would create a 12% IRR for the holders. MBK will nominate one director to the board. The successful issuance is conditional on completion of UCAR-MBK share sale transaction. Car Inc will use the proceeds to help refinance the US$300mm USD-denominated bond that matures on Feb 11, 2021, and a US$105mm CNY-denominated bond that matures on April 4, 2021. The company reportedly decided not to launch an exchange offer for the dollar bond.
- MBK seems committed in Car Inc and the Chinese car rental business in general. It has acquired a 20.86% stake in Car Inc from scandal-plagued UCAR and has extended the offer to all shareholders. The target is to have more than 50% of voting rights before Offer Closing Date on Jan 12, which can be extended by Car Inc and MBK. Accordingly, the issuer amended the CoC clause of the CNY bond and two dollar bonds, replacing the key shareholder UCAR with MBK. Other terms still apply, namely the CoC put in case of downgrade which appears quite unlikely.
- On the last earnings call, management expected US$134mm in car sales and US$149mm debt repayment in 2H20. We assume US$100mm EBITDA in 2H20 (vs management guidance of US$179~224mm). Considering US$130mm unrestricted cash in 1H20, if successful the US$175mm CB issuance will bring Car Inc's cash position to around US$390mm at year end, **sufficient to address the US$300mm CARINC 21 maturity.**

Date	UCAR	Warburg Pincus	MBK Partners	Legend Holdings	Others
Jun 23, 2020	20.86%	14.76%	0.00%	26.59%	37.79%
Dec 15, 2020	0.00%	14.76%	20.86%	26.59%	37.79%

MARKET OUTPERFORM (CHINA):

KAISAG 9.375% 24s

Kaisa Group Holdings (1638 HK) is a Chinese residential property developer that focuses on the affluent Greater Bay Area in southern China and other Tier 1 & 2 cities in eastern China, with high ASP of US$2,416 per sqm. Kaisa is renowned for its profitable Urban Renewal Projects ("URP") that are not included in land bank. URPs contribute one third of contracted sales, with higher gross margin relative to common residential projects. In 2015, the company was implicated 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 2019, the attributable contracted sales increased 26% y/y, while most other developers had much slower growth. In 11M20, it increased 4.4% y/y. In 1H20, EBITDA increased 13% y/y. Total Funded Liabilities / Land Bank decreased h/h to 82%. The company achieved positive FCF and expected breakeven FCF for 2020. 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%. 35% is free float.

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
KAISAG	9.375%	06/30/2024	3,052	B2/ - / -	97.25	10.34%

Pros

- Higher profit margins than peers.
- Valuable URP not included in land bank provides high quality land bank in tier 1 & 2 cities.
- Faster-than-expected URP conversion.
- Low net WK as % net debt.
- Cash in excess of STD.
- Leverage steadily decreases.
- Political risk boils down.

Cons

- Leverage remains high relative to peers.
- URP business relies on government relations and has inherent political risk.
- Default history.

MARKET OUTPERFORM (CHINA):

KAISAG 9.375% 24s

1H20 Financials

- Attributable contracted sales were flat y/y at US$5,120mm.
    - Cash collection (from gross contracted sales) improved h/h from 75% to 87%.
- GFA increased 8% y/y to 2.1 million sqm. ASP decreased 7% y/y to US$2,416 per sqm – still high relative to peers.
- Revenue increased 7% y/y to US$3,168mm.
- Calculated EBITDA increased 13% y/y to US$1,573mm.
- Gross and LTM EBITDA margin both increased y/y to 34% and 42%, respectively.
- Roughly one-third of the revenue and contracted sales is contributed by high-margin URPs. Kaisa's relative advantage of high profit margins will be even greater after PBOC's "345 Rule", which forces property developers to cut ASP to boost cash collection.

Contracted sales (US$ mm)	1H20	2H19	1H19	y/y	h/h
Attributable contracted sales	5,120	7,605	5,112	0%	(33%)
y/y	0%	17%	29%	(99%)	(99%)
GFA (m sqm)	2.1	2.7	2.0	8%	(21%)
ASP	2,416	2,835	2,608	(7%)	(15%)
					-

Income Statement (US$ mm)	1H20	2H19	1H19	y/y	h/h
Revenue	3,168	3,973	2,963	7%	(20%)
EBITDA calculated	1,573	1,397	1,396	13%	13%
Gross margin	34%	26%	33%	45 bps	830 bps
EBITDA margin	50%	35%	47%	252 bps	1,448 bps
LTM EBITDA margin	42%	40%	41%	65 bps	131 bps

KAISAG 9.375% 24s

1H20 Land Bank Financing

- Land bank increased 4% h/h to US$26,108mm.
- Net WK liability increased 4% h/h to US$5,143mm.
- Non-controlling interest increased 4% h/h to US$4,793mm.
- Excess book value increased 17% h/h to US$4,729mm.
    - Another US$448mm cash inflow generated from changes in LT financial assets FVPL, LT A/R, prepaid taxes and income tax payable.
- Net WK / Net Debt increased h/h to 45%.
- Total Funded Liabilities / Land Bank continued to decrease h/h to 82%.

1H20 Land Bank & URP Reserve

- The company has 27 million sqm GFA land bank.
    - Land bank GFA is equal to 5.6x LTM contractually sold GFA.
    - 14 million of the land bank locate in GBA with constant population net inflow.
- Outside land bank, Kaisa has 42 million sqm (site area) Urban Renewal Project reserve, most of which is located in GBA.
- In 1H20, 0.71 million sqm URP was converted into land bank, versus 0.72 in FY19. Kaisa revised annual conversion target from 0.72 to 1.6.

Land Bank Financing (US$ mm)	1H20	2H19	1H19	y/y	h/h
Sellable inventories	1,937	1,868	2,435	(20%)	4%
A/R	5,771	4,805	3,798	52%	20%
A/P	(2,225)	(2,082)	(1,821)	22%	7%
Other A/P	(3,939)	(3,879)	(3,769)	4%	2%
Customer advances	(6,688)	(5,657)	(6,603)	1%	18%
Net WK balance	(5,143)	(4,944)	(5,960)	(14%)	4%
				-	-
PUD	14,307	13,252	13,067	9%	8%
Land	2,867	2,965	3,271	(12%)	(3%)
Investment properties	5,086	5,071	5,207	(2%)	0%
Equity investment	3,848	3,736	3,387	14%	3%
Land bank	26,108	25,023	24,932	5%	4%
				-	-
Net WK balance	(5,143)	(4,944)	(5,960)	(14%)	4%
Net debt	(11,443)	(11,744)	(12,654)	(10%)	(3%)
NCI	(4,793)	(4,307)	(3,026)	58%	11%
Land bank	26,108	25,023	24,932	5%	4%
Excess book value	4,729	4,028	3,292	44%	17%
Funded liabilities / land bank	82%	84%	87%	(491 bps)	(202 bps)
Total cash / customer advances	86%	90%	63%	2,303 bps	(373 bps)
Net WK / net debt	45%	42%	47%	(216 bps)	285 bps

Land & URP Reserve (msqm)	1H20	2H19	1H19	y/y	h/h
Land bank, GFA	27	27	26	4%	0%
- from URP	14	7	7	93%	-
URP land reserve, site area	42	40	32	32%	6%
- in GBA:	42	39	32	30%	6%

MARKET OUTPERFORM (CHINA):

KAISAG 9.375% 24s

1H20 Debt Profile

- Guarantee to homebuyers' mortgages increased 3% h/h to US$4,830mm, which was equal to 28% of gross debt. The company did not report any guarantee to affiliates' borrowings.
- Gross debt increased 2% h/h to US$17,207mm, including:
  - US$4.646mm onshore bank loans.
  - US$2,753mm onshore non-bank loans.
  - US$688mm offshore bank loans.
  - US$9,120mm USD bonds.
  - No local bond. CNY bond issuance is unlikely under "refi only" rule.
- Total cash increased 13% h/h to US$5,765mm.
- Net debt decreased 3% h/h to US$11,443mm.
- LTM gross and net leverage both decreased h/h to 5.8x and 3.9x, respectively.
- Net Debt / Equity continued to decreased to 1.3x.

Guarantees (US$ mm)	1H20	2H19	1H19	y/y	h/h
Mortgage guarantee	4,830	4,671	4,874	(1%)	3%
Mortgage Guarantee/Gross debt	28%	28%	29%	(90 bps)	32 bps

Debt (US$ mm)	1H20	2H19	1H19	y/y	h/h
Gross debt	17,207	16,831	16,826	2%	2%
- ST	4,466	4,580	3,269	37%	(2%)
- LT	12,741	12,251	13,557	(6%)	4%
Total cash	5,765	5,087	4,172	38%	13%
- cash & bank balances	4,535	3,852	3,065	48%	18%
- ST bank deposits	233	364	51	-	(36%)
- ST financial assets FVPL	210	6	39	-	-
- restricted cash	787	864	1,018	(23%)	(9%)
Net debt	11,443	11,744	12,654	(10%)	(3%)
LTM gross leverage	5.8x	6.0x	6.4x	(0.6x)	(0.2x)
LTM net leverage	3.9x	4.2x	4.8x	(1.0x)	(0.4x)
Gross debt/equity	2.0x	2.1x	2.6x	(0.6x)	(0.1x)
Net debt/equity	1.3x	1.5x	1.9x	(0.6x)	(0.2x)

Debt Profile (US$ mm)	1H20	2H19	1H19	y/y	h/h
Gross debt	17,207	16,831	16,826	2%	2%
Onshore bank borrowings	4,646	5,554	6,394	(27%)	(16%)
Onshore non-bank borrowings	2,753	2,693	3,365	(18%)	2%
Offshore bank borrowings	688	337	337	105%	104%
Offshore bonds	9,120	8,247	6,730	36%	11%
<1y	4,469	4,581	3,262	37%	(2%)
1-2y	4,611	3,734	5,811	(21%)	23%
2-5y	7,652	8,172	7,223	6%	(6%)
>5y	481	345	524	(8%)	40%

MARKET OUTPERFORM (CHINA):

KAISAG 9.375% 24s

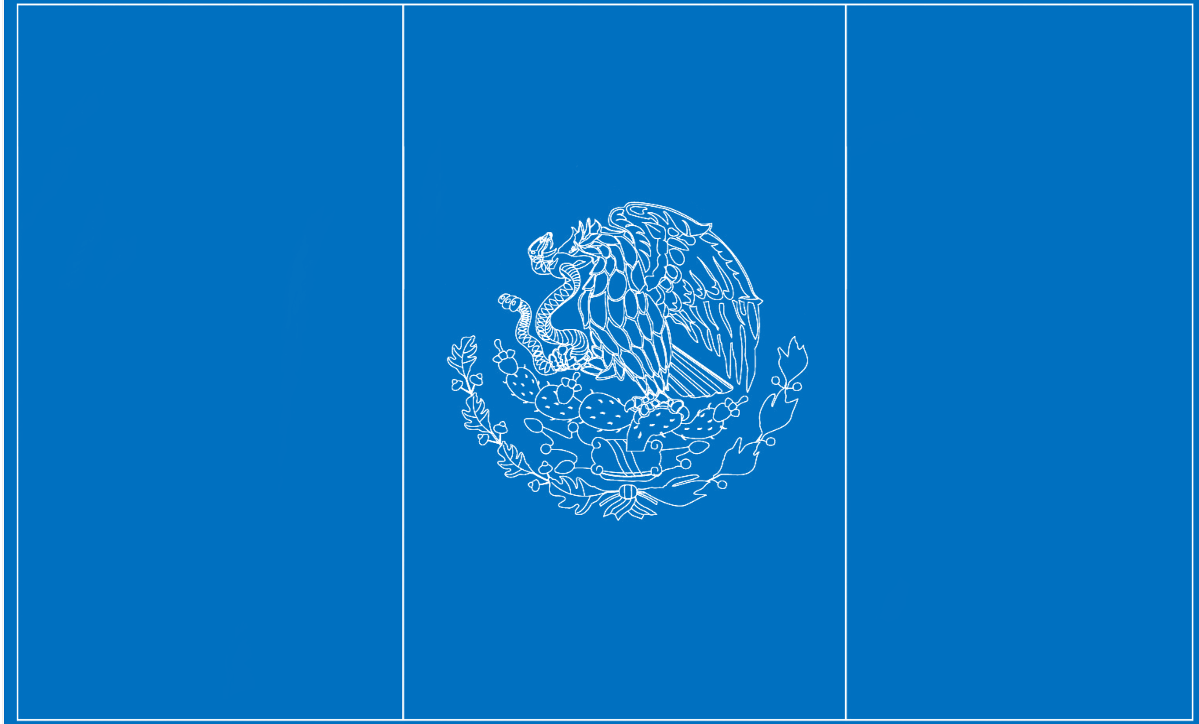
1H20 Cash Flow

- According to the management, Land Acquisition / Cash Collection was high at 58%.
- Equity investment decreased significantly y/y to US$187mm.
- FCF pre WK maintains positive at US$487mm.

2020 Cash Flow Guidance

- US$71mm net operating cash inflow, US$214mm net investing cash outflow, US$143mm net financing cash inflow.
- Negative FCF and breakeven cash changes for the whole year.
- Land Acquisition / Cash Collection at 43%.

FCF (US$ mm)	1H20	2H19	1H19	y/y	h/h
EBITDA reported	1,293	1,224	1,198	8%	6%
Income tax paid	(127)	(132)	(126)	0%	(4%)
Net interest paid	(747)	(684)	(582)	28%	9%
Net dividend paid	-	(89)	-	-	-
Equity investment	(187)	(253)	(946)	(80%)	(26%)
Affiliated lending & repayment	(232)	338	331	-	-
PP&E, investment properties	(137)	(117)	(103)	33%	17%
Key CFI	(556)	(33)	(717)	(22%)	-
FCF pre WK	487	1,594	600	(19%)	(69%)



MEXICO

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

Mexarrend is one of Mexico's largest independent leasing companies with a core focus on SMEs. Similar to Unifin, Mexarrend is well positioned to take advantage of the large underserved SME market. Despite the economic slowdown in Mexico pre-covid, Mexarrend had managed to increase its portfolio through stable cash deployment after the 2024 bond issuance. Though the issuer's avg. SME target is smaller vs other leasing peers, we note the loan portfolio has low exposure to hard hit sectors such as tourism, energy, and retail highlighted by only 1% of the portfolio requesting forbearance extensions. Although the halt in origination was a welcome development, the issuer offered the forbearance to all its customers and as a result 45% of the portfolio accepted in 2Q20. We continue to see sound fundamentals, with net debt to net loans at 89% (incl. hedges), fully hedged USD debt, only 8% secured debt and current cash position healthy vs short-term debt. Additionally, the unsecured bonds are most of gross debt. Per our estimates, we see a very manageable 8% of gross debt re-financing gap through 2021 which is effectively covered by the new US$45 mm DFC loan raised in 4Q20. Though the 24s have rallied since our upgrade at 56c, we continue to see upside at the current 92c and 13% mid-ytm given the addressed refinancing gap, low secured debt and stable net debt to loans. As a result, we **reaffirm DOCUFO 24s as "Market Outperform" in our BCP Top Picks.**

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
DOCUFO	9.25%	10/11/2022	31	- / B / B+	87.50	17.78%
DOCUFO	10.25%	7/24/2024	300	- / B / B+	92.00	13.14%

Pros

- One of the largest independent SME leasing companies in Mexico by portfolio size
- As of 3Q20, leasing loans were 82% of the portfolio, leased real estate 12% and the remaining 6% being mostly factoring loans
- Industrial, consumer disc. and healthcare are 33%, 37% and 10% of the portfolio
- Low exposure to hard hit sectors such as retail, auto, tourism and energy, as only 1% of the portfolio requested additional relief after the initial forbearance
- Secured debt is only 8% of gross debt and USD debt is fully hedged
- PE shareholders have an option to capitalize the issuer with US$20 mm
- Prudent liquidity management, essentially halting origination in 2Q and cautious origination since. Effectively maintaining portfolio collections above originations
- In 2Q20 and 3Q20, provisioning and charge-offs were below 1%
- Per our estimates, we saw a US$30 mm (8% of gross debt) re-financing gap through 2021. Should be covered by the new US$45 mm DFC loan raised in 4Q20

Cons

- Though the halt in origination was a welcome development, the issuer offered the forbearance to all its customers. As a result, 45% of the portfolio accepted in 2Q20
- Soft economic activity in Mexico pre-covid, in part from Govt. underinvesting
- Slower macroeconomic recovery post-covid as Mexico did not have stimulus package
- Exposure to macroeconomic factors such as NAFTA that can affect SME's
- Target SMEs are relatively smaller with lower avg. ticket sizes vs other leasing peers, which could eventually be more impacted by covid-19
- Concentrated portfolio with 70% located in Mexico City and the State of Mexico
- Historically, the issuer's average cost of funding has been above peers
- High consolidated NPL ratio of 6.5% vs peers, however leasing NPLs are in line
- As of 3Q20, tangible capitalization was 9%

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

- Per DOCUFO's guidance, we estimate a 14.3% quarterly origination of net portfolio in 2019
- We estimate the current net loan amortization schedule is 14.6% per quarter
  - Cash collections (portfolio amortization plus interest) decreasing by 15% in 2020
  - Cash collections normalizing in 2021
- 2020 consolidated SME origination would be 25% lower vs 2019
  - DOCUFO guided to recovering originations in 3Q and 4Q, as they essentially halted origination in 2Q20 per mgmt.'s discretion
- Per historical charge-off %'s, we impair the SME portfolio by 1.5% per quarter
- Assuming opex remains flat at 2Q20 levels given the reduced loan origination

Base Case:

- The lower origination would decrease the portfolio by 2% to US$346 mm by 4Q20
  - Yet, FCF would be essentially breakeven
- As of 2Q20, current cash levels were US$64 mm
- The maximum origination prior to increasing gross debt in 2021 would be 10% lower vs 2019
  - **We do not see DOCUFO able to ramp-up origination without incremental debt**
  - The total portfolio would increase by 8% y/y to US$372 mm
  - The 10% lower origination would result in a US$28 mm FCF outflow for the year
  - Cash would be US$10 mm by year-end 2021
- **As a result, we see a US$30 mm financing gap through 2021**
  - An implied 8% of total debt, however all US$30 mm are refinancing needs
  - We note secured debt would only be 3%, we suspect the refinancing is manageable
- Net debt would be US$371 mm in 2021, an implied 100% net debt to net loans
  - Incl. hedges, net debt would decrease to US$337 mm, an implied 90% to net loans

DOCUFO (US$ MM)	3Q20	4Q20	2021
Consolidated Collections	**(15%)**	**(15%)**	**0%**
Consolidated Origination	**(25%)**	**(25%)**	**(10%)**
Leasing	289	292	307
Credit and Factoring	5	3	3
Services	2	2	2
Real Estate	47	50	61
Net Loan Portfolio	**343**	**346**	**372**
Loan Growth %	(3%)	1%	8%
Initital Cash	64	48	37
Interest Income	14	14	68
Portfolio Amortization	44	31	140
Total Cash Collection	**58**	**45**	**209**
Portfolio Origination	(39)	(39)	(188)
Admin Expenses	(2)	(2)	(9)
Interest Expense	(19)	(2)	(39)
FCF	**(3)**	**2**	**(28)**
Debt (Amortization)	(13)	(13)	(30)
Financing Gap	**-**	**-**	**30**
Final Cash	**48**	**37**	**10**
Bonds	331	331	331
Bank Debt	62	49	49
Total Debt	**393**	**380**	**380**
Secured Debt %	6%	3%	3%
Net Debt	344	343	371
Net Debt / Total Loans	**100%**	**99%**	**100%**
Derivative Assets	34	34	34
Net Debt (incl. hedge)	310	308	336
Net Debt / Total Loans	**90%**	**89%**	**90%**

bcp

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

<u>**"Normal" Origination in 2021 Estimate:**</u>

- Assuming DOCUFO's consolidated origination recovers to 2019 levels in 2021
- In 2021, the total portfolio would increase by 13% y/y to US$389 mm
    - The normal origination would mean a US$44 mm FCF outflow for the year
    - Cash at US$8 mm by year-end 2021
- <u>**We see a total US$45 mm financing gap through 2021**</u>
    - An implied 12% of the current total debt
    - Refinancing gap at US$30 mm
    - New incremental debt to fund origination would be US$15 mm
    - We suspect new debt would be secured, raising the secured debt to 6% total debt
- Net debt would be US$387 mm in 2021, an implied 99% net debt to net loans
    - Incl. hedges, net debt would decrease to US$352 mm
    - An implied 90% net debt to net loans

DOCUFO (US$ MM)	3Q20	4Q20	2021
Consolidated Collections	**(15%)**	**(15%)**	**0%**
Consolidated Origination	**(25%)**	**(25%)**	**0%**
Leasing	289	292	321
Credit and Factoring	5	3	3
Services	2	2	2
Real Estate	47	50	63
Net Loan Portfolio	**343**	**346**	**389**
Loan Growth %	(3%)	1%	13%
Initital Cash	64	48	37
Interest Income	14	14	70
Portfolio Amortization	44	31	144
Total Cash Collection	**58**	**45**	**214**
Portfolio Origination	(39)	(39)	(209)
Admin Expenses	(2)	(2)	(9)
Interest Expense	(19)	(2)	(40)
FCF	**(3)**	**2**	**(44)**
Debt (Amortization)	(13)	(13)	(30)
Financing Gap	**-**	**-**	**45**
Final Cash	**48**	**37**	**8**
Bonds	331	331	331
Bank Debt	62	49	64
Total Debt	**393**	**380**	**395**
Secured Debt %	6%	3%	6%
Net Debt	344	343	387
Net Debt / Total Loans	**100%**	**99%**	**99%**
Derivative Assets	34	34	34
Net Debt (incl. hedge)	310	308	352
Net Debt / Total Loans	**90%**	**89%**	**90%**

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

3Q20 Actual vs 3Q20 Estimate:

- 3Q20 net portfolio was US$371 mm, 8% higher vs our US$343 mm estimate
- We estimate actual FCF was US$1 mm, vs our expected negative US$3 mm
  - Using DOCUFO's US$20 mm origination guidance
    - We estimated US$18 mm in portfolio amortizations
    - However, cash excess implies actual amortizations were US$24 mm
  - As a result, our estimated actual FCF is US$1 mm
- Cash stood at US$45 mm, in line with our US$48 mm estimate incl. debt paydown
  - Gross debt was stable q/q, decreasing by US$13 mm with neutral FX
  - We also see a US$8 mm WK expansion due to lower A/P
- 3Q20 portfolio collections were below our estimates
  - Mainly as forbearance was offered to the entire portfolio
  - As well as amortization schedules modified after forbearance
- However, overall portfolio collections remain above originations – a welcomed trend
  - Breakeven FCF
- Our estimated funding gaps are now covered
  - Raised a new US$45 mm loan, as well as working on additional facilities
  - Funding gaps are US$30 mm "re-financing" gap (8% of gross debt)
  - Potentially US$45 mm gap at "normal" origination (12% of gross debt)
- Shareholders have a US$20 mm capitalization option
- Net debt to loans at 98% (89% incl. hedges)
- Essentially no secured debt

DOCUFO (US$ MM)	3Q20 Actual	3Q20 BCP Est.
Net Loan Portfolio	**371**	**343**
Interest Income	16	14
Implied Portfolio Amortization	24	44
Total Cash Collection	**40**	**58**
Portfolio Origination	(20)	(39)
Admin Expenses	(2)	(2)
Interest Expense	(17)	(19)
Est. FCF	**1**	**(3)**
Total Debt	408	393
Final Cash	45	48
Net Debt	**363**	**344**
Net Debt / Net Loans	**98%**	**100%**
Net Debt (incl. hedges) / Net Loans	**89%**	**90%**
Est. FCF	1	
Debt (neutral FX)	(13)	
WK Expansion	(8)	
Est. FCF	**(21)**	
Net Debt Difference vs 2Q20	**21**	

UKRAINE

MARKET OUTPERFORM (UKRAINE)

METINV 7.75% 29s

Description	Amt (USD MM)	Ratings M/SP/F	Mid-Price	Mid YTM
METINV 7.75% 10/17/2029	500 MM	-/ B/ BB-	109.63	6.30%

Metinvest (B2/B/BB-) - Ukraine's leading steel and iron ore producer and the 42nd largest steel producer globally with a 7.5 mm tons produced in 2019 (has a capacity to produce up to 15mm tons annually). Controlled by Mr. Rinat Akhmetov via System Capital Management (SCM) Group (71.24%). Metinvest is self-sufficient in coking coal (49%), metallurgical coke (97%) and iron ore raw materials (343%)

PROS:

- Majority owner – Mr. Rinat Akhmetov (71.24%), Ukraine's wealthiest individual with a net worth of ~US$5.7 billion
- Ukrainian 'blue chip' – Metinvest is one of the largest private companies in Ukraine – the largest steel producer and one of the largest employers with over 65,000 employees
- Global player – Metinvest is 13th largest among Central and Eastern Europe steel producers and 42nd largest steel producer globally
- Vertical integration – the company's business model and self sufficiency in raw materials allows for flexibility and rapid response to an ever-changing market situation
- Successfully completed – debt reprofiling exercise repaying METINV 21s & partially METINV 23s via a new issuance of METINV 27s

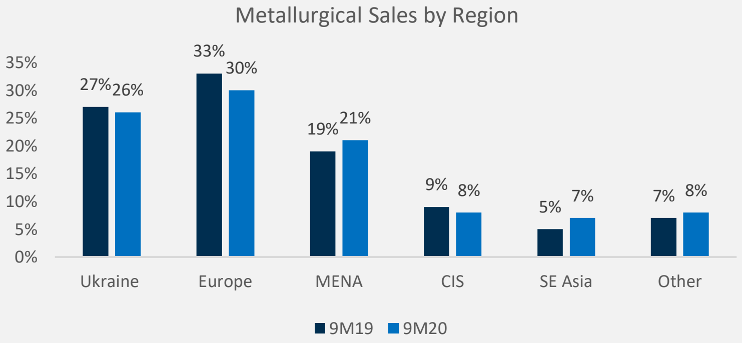
Rather good 3Q20 financial results with revenue up sequentially (+9% q/q) and EBITDA almost doubling (+94% q/q) on strong iron ore prices (+30% q/q). On LQA basis, net leverage improved to 0.9x. FCF positive. High iron ore price is excellent for Metinvest – it has been above US$115/ton since mid-August 2020, closer to US$160, a level not seen since Feb 2013, hence, in our view, a strong possibility for solid 4Q20 results. Taking all into account, we upgrade to 'Outperform' the METINV 29s.

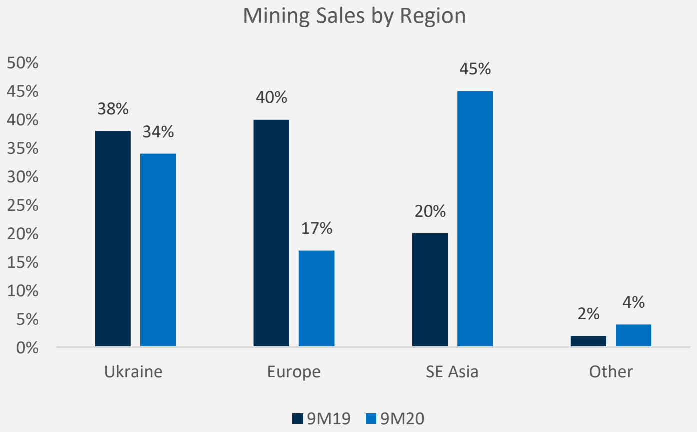
CONS:

- Politics – From time to time, Mr. Akhmetov's name is mentioned in the local press along the name of his nemesis, Mr. Ihor Kolomoisky (former owner of Privatbank, who's 1+1 Media Group aired a TV series featuring the future Ukrainian President, Mr. Volodymyr Zelensky). The latest well publicized encounter was following the liberalization of the energy market in July 2019
- EU tariffs – in July 2018, the EU imposed a 25% steel tariff, which remain in place at least until 2021. EU steel demand has dropped by ~50% since March 2020 (COVID-19)
- Sales to Southeast Asia – Metinvest had to re-direct its sales to Southeast Asia, which doubled to 15% in 9M20 vs. 8% in 9M19. Higher transportation cost have a negative impact on margins
- Iron Ore Price Sensitivity – Metinvest is doing well as long as iron ore prices stay above $90/ton

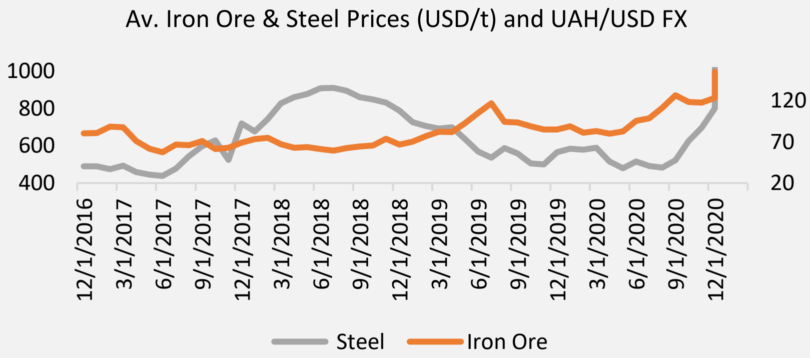
MARKET OUTPERFORM (UKRAINE)

METINV 7.75% 29s





- *Steel price continued a solid climb (at the moment ~$1,000/ton) reaching Feb 2013 level and so did iron ore (~$154/ton at present), or July 2017 level*
- *Prices appear rather elevated to us, but for the time being, with the company's cash costs at~$300 – 330/ton for steel and ~$25/ton for iron ore, Metinvest enjoys generous margins*
- *As at end of Oct 2020, Metinvest already surpassed its 2019 EBITDA by 33%. Given that contracts are written at least 30 days in advance and iron ore price remain high (US$90/ton or higher), we expect sound 4Q20 results and a decent outlook for 1Q21*



MARKET OUTPERFORM (UKRAINE)

METINV 7.75% 29s

Depending on demand, Metinvest is rather flexible in switching its sales between the metallurgy segment (steel) and the mining one (iron ore)

Metinvest Sales, kt	2019	2018	y/y	3Q20	2Q20	3Q19	q/q	y/y	Oct-20	Sep-20	m/m	Aug-20
Metallurgy												
Semi	5,151	5,393	-4%	1,657	1,563	1,166	6%	42%	426	484	-12%	567
Pig iron	2,075	2,717	-24%	613	683	446	-10%	37%	227	179	27%	223
Slabs	1,940	1,319	47%	667	452	441	48%	51%	151	190	-21%	235
Billets	1,136	1,357	-16%	377	428	278	-12%	36%	48	115	-58%	109
Finished	9,265	9,617	-4%	2,461	2,214	2,254	11%	9%	782	866	-10%	756
Flat	7,674	7,981	-4%	1,947	1,841	1,846	6%	5%	626	686	-9%	578
Long	1,427	1,494	-4%	473	335	357	41%	32%	144	166	-13%	164
Coke	1,882	2,008	-6%	586	558	459	5%	28%	189	203	-7%	201
Total	16,298	17,018	-4%	4,703	4,335	3,869	8%	22%	1,397	1,552	-10%	1,524
Mining												
Iron Ore	17,748	15,436	15%	4,680	5,187	4,510	-10%	4%	1,490	1,491	0%	1,534
Merch. Ore	10,697	7,335	46%	3,511	4,022	2,180	-13%	61%	1,170	1,115	5%	1,129
Pellets	7,051	7,085	0%	1,169	1,165	2,330	0%	-50%	320	376	-15%	405
Coking Coal Conc.	752	385	95%	195	151	242	29%	-19%	51	42	21%	37
Total	18,400	15,868	16%	4,875	5,337	4,752	-9%	3%	1,540	1,533	0%	1,571

MARKET OUTPERFORM (UKRAINE)

METINV 7.75% 29s

3Q20 Results – rather good on strong iron ore price in 3Q20 (+30% q/q) offsetting negative effect of increased transportation expenses on increased sales to Southeast Asia

- Revenue – US$2.66 billion (0% y/y and +9% q/q) – up sequentially on strong iron ore prices (+30% q/q) despise lower q/q sales in mining segment (-9% q/q) and stable steel prices (+0% q/q) and higher sales in metallurgy segment (+8% q/q)
    - Steel – av. price flat q/q to US$498/ton – below the $570+ pre-COVID-19 level; however, since then the steel price climb to ~ US$1,000/ton, a level not seen since July 2017
    - Iron Ore – av. price increased 30% q/q to US$116/ton: has been above US$90/ton ever since May 19, 2020; at the time of writing at US$157/ton, a level not seen since Feb 2013
    - As we expected, 3Q20 turned out to be rather good; given that contracts are written at least 30 days in advance and iron ore price above $115 since mid-Aug 2020 (so far, for the current quarter), we reckon, 4Q20 results are going to be rather solid
- EBITDA - almost doubled y/y and q/q to US$ 664 mm (+93% y/y and +94% q/q) – despite higher transportation expenses on increased sales to Southeast Asia: 15% in 9M20 vs. 8% in 9M19
    - High iron ore prices helped (+30% q/q to US$116/ton) and stable quarterly prices from steel (0% q/q at just under US$500/ton)
- EBITDA margin – 25% (+12pp y/y and +11pp q/q)
- Capex – US$124 mm (-40% y/y and -34% q/q) – kept in check in line with the company's plans to conduct crucial maintenance and completed ongoing strategic projects
- FCF Positive (pre- and post-working capital) on higher profitability and working capital release of US$60 mm
- Liquidity – US$649 mm in cash and equivalents (+40% q/q) as at end of 3Q20 with plans to maintain the level of liquidity at ~US$300 mm; as at end-Oct 2020, the company had US$712 mm in cash & equiv.
- Net Leverage – on LQA basis, improved to 0.9x vs 1.9x in 2Q20 on better EBITDA and lower net debt (-10% q/q)
- Debt Management
    - Sept 2020 - the company successfully completed a debt reprofiling exercise repaying the METINV 21s and METINV 23s (partially) though a new issuance of the METINV 27s
    - Dec 2020 – Metinvest repaid another US$45 mm part of its pre-export financing, ahead of schedule

MARKET OUTPERFORM (UKRAINE)

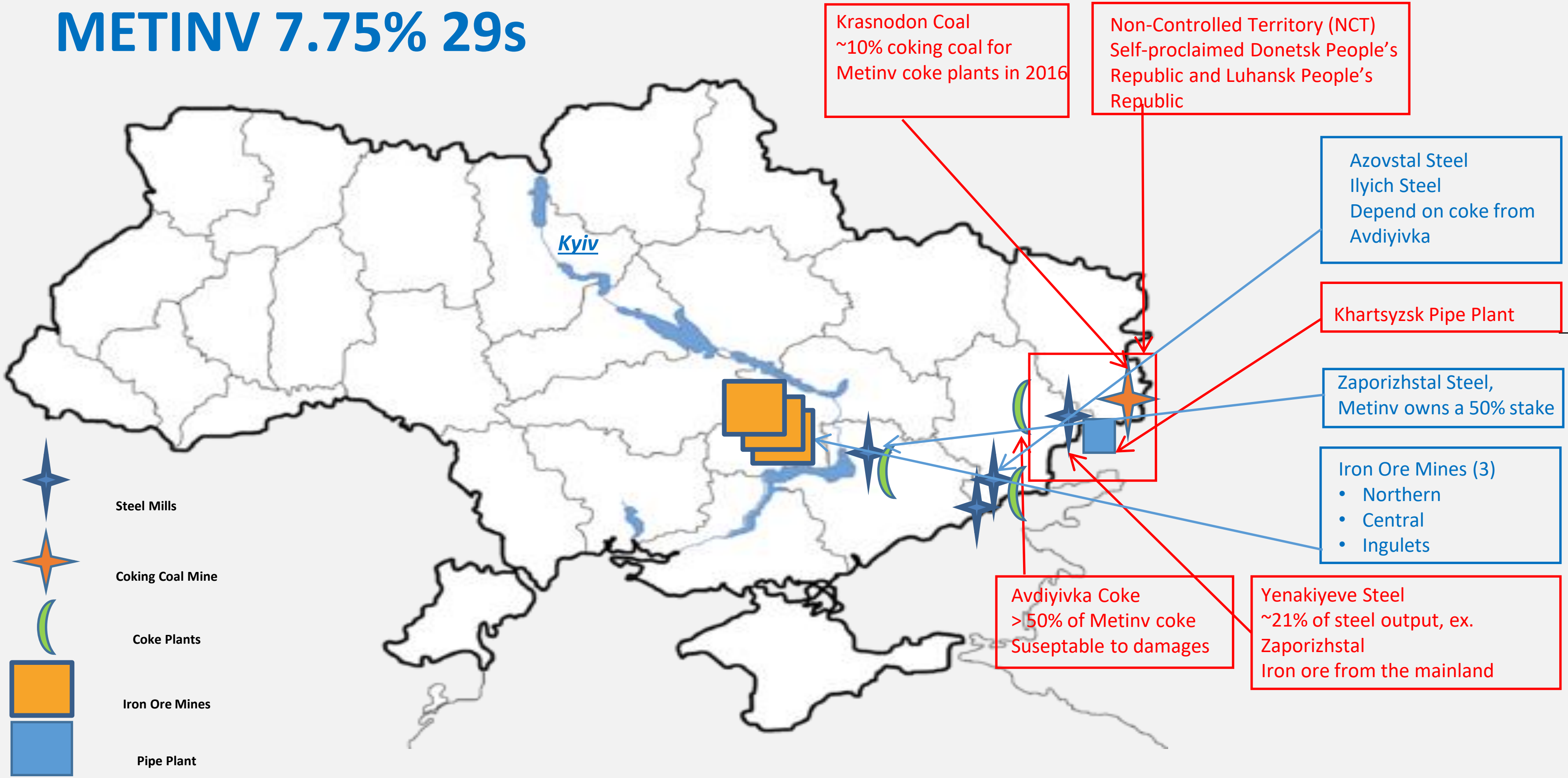
METINV 7.75% 29s

The company's published expectedly good 3Q20 results with revenue up (+9% q/q) and EBITDA almost doubling (+94% q/q) on higher iron ore prices (+30% q/q)

Metinvest, USD MM	2019	2018	y/y	3Q20	2Q20	3Q19	q/q	y/y	Oct-20	Sep-20	m/m	Aug-20
Revenue	10,757	11,880	-9%	2,660	2,432	2,672	9%	0%	868	912	-5%	838
EBITDA	1,213	2,513	-52%	664	342	344	94%	93%	240	244	-2%	216
Interest	240	288	-17%	30	74	54	-59%	-44%	35	5	600%	22
Capex	1,055	898	17%	124	188	208	-34%	-40%	50	65	-23%	54
Taxes	240	315	-24%	46	10	62	360%	-26%	11	3	267%	43
FCF (pre-WC)	(322)	1,028	n/a	464	70	20	563%	2220%	144	171	-16%	97
Net Change in Working Capital (WC)	163	(500)	n/a	60	124	2	-52%	2900%	(33)	93	-135%	(63)
FCF (post-WC)	(159)	1,528	n/a	524	194	22	170%	2282%	111	264	-58%	34
EBITDA margin	11%	21%	(10pp)	25%	14%	13%	11pp	12pp	28%	27%	1pp	26%
Gross Debt	3,032	2,682	13%	2,927	3,010	2,656	-3%	10%	2,932	2,927	0%	3,017
Cash	274	218	26%	649	465	198	40%	228%	712	649	10%	523
Net Debt	2,758	2,464	12%	2,278	2,545	2,458	-10%	-7%	2,220	2,278	-3%	2,494
Leverage, LHA/LQA/LMA	2.5x	1.1x	134%	1.1x	2.2x	1.9x	-50%	-43%	1.0x	1.0x	2%	1.2x
Net Leverage, LHA/LQA/LMA	2.3x	1.0x	132%	0.9x	1.9x	1.8x	-54%	-52%	0.8x	0.8x	-1%	1.0x
FX end of period:	23.56	27.48	-14%	28.42	26.71	24.36	6%	17%	28.47	28.42	0%	27.54
Av. price iron ore, $/ton	90.40	66.34	36%	116.03	89.44	101.66	30%	14%	118.36	123.12	-4%	119.58
Av. price steel, $/ton	602.73	829.45	-27%	497.92	499.70	561.95	0%	-11%	644.50	544.43	18%	469.10

MARKET OUTPERFORM (UKRAINE)

METINV 7.75% 29s



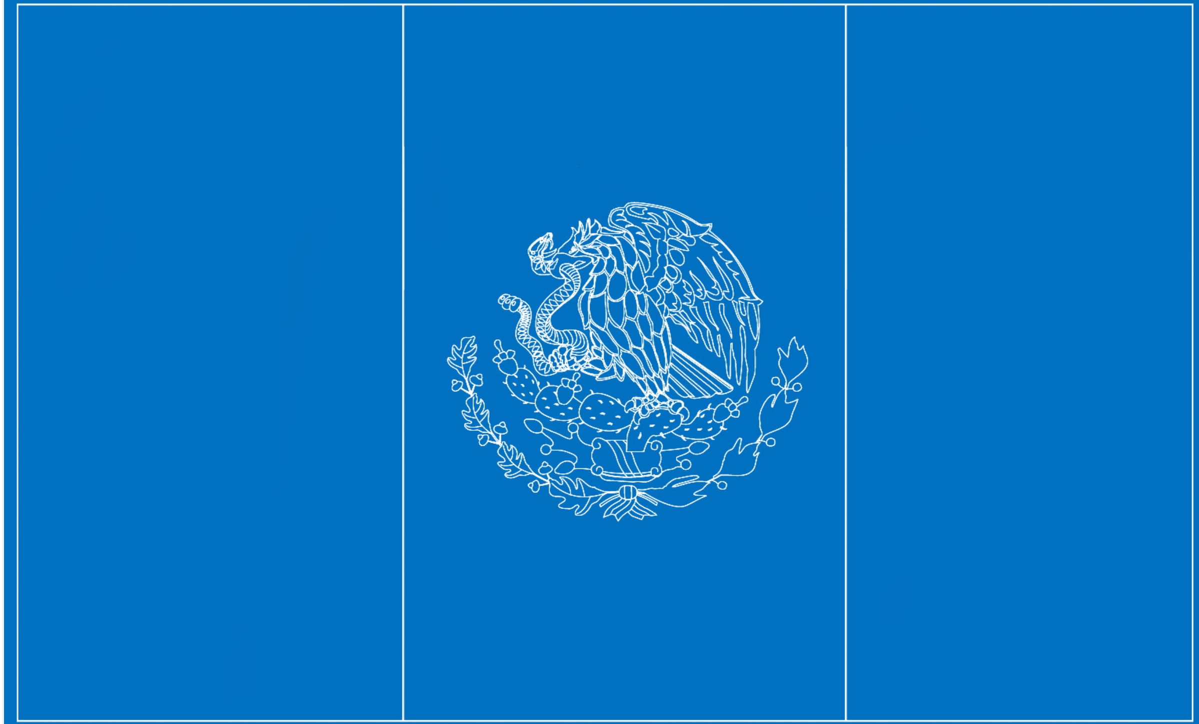
MARKET UNDERPERFORM

MEXICO

CREAL 9.5% 26s

UKRAINE

MHPSA 7.75% 24s



MEXICO

MARKET UNDERPERFORM (MEXICO):

CREAL 9.50% 26s

Crédito Real is the largest non-bank payroll lender in Mexico with a MXN$4.9 bn market cap. Traditionally a payroll lender with 56% of the total portfolio, focused on Federal Education, IMSS and both Federal and State Govt. entities. The current low Mexican Govt. employee turnover during the pandemic should result in stable PDL performance, though we note some agencies did impose forbearance. Namely Mexico's IMSS that represents 18% of CEAL's portfolio. Consolidated NPLs remain low yet we have seen deterioration in a local securitization and increased provisioning and charge-off trends during the pandemic. We suspect weakness in SMEs, now 25% of the portfolio, contributed to the portfolio yield decreasing to 21% vs 30% a year ago. Our main concern is the large funding needs, particularly given 3Q20 portfolio originations being at pre-pandemic levels – which we suspect includes portfolio extensions. Per our estimates we see the issuer having a US$450 mm refinancing gap (26% of gross debt) with origination levels being 33% lower vs 2019. The funding gap increases to US$1.1 bn (44% of gross debt) at "normal" pre-pandemic origination through 2021. Although we recognize the issuer's strong banking relationships and access to capital markets in the past, the large financing gap will be challenging in our view in conjunction with secured debt being around 25% of the portfolio. Despite this, bonds are trading a premium and as a result we **maintain CREAL 26s as Market Underperform.**

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CREAL	7.25%	7/20/2023	427	- / BB / BB+	101.50	6.60%
CREAL	9.50%	2/7/2026	400	- / BB / BB+	108.00	7.57%
CREAL	9.13%	PERP	230	- / B / BB-	98.00	7.78%

Pros

- One of the largest non-bank lenders in Mexico by loan portfolio
- Low Mexican Govt. employee turnover should result in stable PDL performance
- Traditionally a PDL lender accounting for 56% of the portfolio; however, SMEs now account for 25% of the portfolio after the CRA leasing consolidation in 2Q20
- Central America portfolio stands at 10%, whilst the US portfolio at 8%
- As of 3Q20, the consolidated NPLs were 1.6% and one of the lowest vs peers, in part as distributors manage collections and are partially liable for missed payments
- Strong banking relations and access to capital markets, highlighted by having low funding costs and recurrent refinancing deals
- Net debt to net loans (incl. hedges) stands at 96%
- Founding family members still hold 33% of the issuer's equity

Cons

- The Mexican Govt. dictates policies on unionized state and federal public sector organizations, subject to continuing uncertainty
- Rotation of administrators within Govt. entities and labor unions may affect current and future award of contracts, highlighted by recent developments in Chiapas
- NPLs at a local securitization reached 4.7% in November 2020
- In 3Q20, the portfolio yield was 21% vs 30% a year ago. We suspect the decline comes from proportional income to originators and weakness in the SME portfolio
  - The SME interest income is recorded on a cash-basis
- 26% of gross debt is due through 2021, secured debt stands at 25% of portfolio
- Per our estimates:
  - We see a US$640 mm (26% of gross debt) re-financing gap through 2021
  - However, aggressive origination at pre-pandemic levels would increase the funding gap to US$1.1 bn (44% of debt)
  - Additionally, we suspect origination figures include portfolio extensions

MARKET UNDERPERFORM (MEXICO):

CREAL 9.50% 26s

- CREAL originated 14.8% of its net portfolio per quarter during 2019
- We estimate the current net portfolio amortization schedule is 8.1% per quarter
  - Cash collections (portfolio amortization plus interest) decreasing by 10% in 2020
  - Cash collections normalizing in 2021
- 2020 consolidated origination would be 27% lower vs 2019
  - Non-SME PDL origination being 20% lower, with SME origination 50% lower
  - Per issuers guidance, asset quality deterioration driven by their SME portfolio
- Per historical charge-offs, we impair Mexico PDLs by 1.0% per quarter
  - SME loans impaired at 1.5% per quarter
  - Central America loans are impaired at 5.0% per quarter
- Assuming opex remains flat at 2Q20 levels given the reduced loan origination

Base Case:

- Despite lower origination, the portfolio would be 5% higher reaching US$2,285 mm by 4Q20
  - FCF burn would be roughly US$55 mm per quarter
- As of 2Q20, current cash levels were US$127 mm
- The maximum origination prior to increasing gross debt in 2021 would be 33% lower vs 2019
  - **We do not see CREAL able to ramp-up origination without incremental debt**
  - The total portfolio would increase by 1% y/y to US$2,305 mm
  - The 33% lower origination would mean FCF breakeven for the year
  - Cash would be US$35 mm by year-end 2021
- **As a result, we see a US$637 mm financing gap through 2021**
  - An implied 26% of total debt, all being refinancing needs
  - With secured debt at 22%, high among peers, adds to the challenge
- Net debt would be US$2,454 mm in 2021, an implied 106% net debt to net loans
  - Incl. hedges, net debt would decrease to US$2,172 mm
  - An implied 94% net debt to net loans

CREAL (US$ MM)	3Q20	4Q20	2021
Consolidated Collections	**(10%)**	**(10%)**	**0%**
Consolidated Origination	**(27%)**	**(27%)**	**(33%)**
MX - Payroll	1,177	1,138	959
MX - SMEs	283	308	373
MX - Used Cars	66	74	92
MX - Others (durable goods, group loans)	77	129	271
Central America - Instacredit	244	245	228
USA - Used Cars	125	137	170
USA - SMEs	70	65	50
MX - CRA Leasing	194	187	162
Net Loan Portfolio	**2,237**	**2,285**	**2,305**
Loan Growth %	2%	2%	1%
Initital Cash	127	71	20
Interest Income	112	114	507
Portfolio Amortization	159	162	735
Total Cash Collection	**271**	**276**	**1,243**
Portfolio Origination	(245)	(245)	(897)
Admin Expenses	(34)	(34)	(135)
Interest Expense	(49)	(49)	(195)
FCF	**(56)**	**(51)**	**15**
Debt (Amortization)	(163)	(68)	(406)
Financing Gap	**163**	**68**	**406**
Final Cash	**71**	**20**	**35**
Bonds	1,557	1,557	1,557
Bank Debt	932	932	932
Total Debt	**2,490**	**2,490**	**2,490**
Secured Debt %	22%	22%	22%
Net Debt	2,418	2,470	2,454
Net Debt / Total Loans	**108%**	**108%**	**106%**
Derivative Assets	283	283	283
Net Debt (incl. hedge)	2,136	2,187	2,172
Net Debt / Total Loans	**95%**	**96%**	**94%**

bcp

MARKET UNDERPERFORM (MEXICO):

CREAL 9.50% 26s

"Normal" Origination in 2021 Estimate:

- Assuming CREAL's consolidated origination recovers to 2019 levels in 2021
- In 2021, the total portfolio would increase by 22% y/y to US$2,785 mm
    - The normal origination would mean US$450 mm FCF outflow for the year
    - Low cash at US$20 mm by year-end 2021
- **We see a total US$1,087 mm financing gap through 2021**
    - An implied 44% of the current total debt
    - Refinancing gap at US$637 mm
    - New incremental debt to fund origination would be US$450 mm
    - We suspect new debt would be secured, raising the secured debt to 34% total debt
- Net debt would be US$2,940 mm in 2021, an implied 105% net debt to net loans
    - Incl. hedges, net debt would decrease to US$2,637 mm
    - An implied 95% net debt to net loans

CREAL (US$ MM)	3Q20	4Q20	2021
Consolidated Collections	**(10%)**	**(10%)**	**0%**
Consolidated Origination	**(27%)**	**(27%)**	**0%**
MX - Payroll	1,177	1,138	1,023
MX - SMEs	283	308	562
MX - Used Cars	66	74	108
MX - Others (durable goods, group loans)	77	129	348
Central America - Instacredit	244	245	264
USA - Used Cars	125	137	196
USA - SMEs	70	65	70
MX - CRA Leasing	194	187	214
Net Loan Portfolio	**2,237**	**2,285**	**2,785**
Loan Growth %	2%	2%	22%
Initital Cash	127	71	20
Interest Income	112	114	552
Portfolio Amortization	159	162	808
Total Cash Collection	**271**	**276**	**1,361**
Portfolio Origination	(245)	(245)	(1,463)
Admin Expenses	(34)	(34)	(135)
Interest Expense	(49)	(49)	(214)
FCF	**(56)**	**(51)**	**(450)**
Debt (Amortization)	(163)	(68)	(406)
Financing Gap	**163**	**68**	**856**
Final Cash	**71**	**20**	**20**
Bonds	1,557	1,557	1,557
Bank Debt	932	932	1,382
Total Debt	**2,490**	**2,490**	**2,940**
Secured Debt %	22%	22%	34%
Net Debt	2,418	2,470	2,920
Net Debt / Total Loans	**108%**	**108%**	**105%**
Derivative Assets	283	283	283
Net Debt (incl. hedge)	2,136	2,187	2,637
Net Debt / Total Loans	**95%**	**96%**	**95%**

MARKET UNDERPERFORM (MEXICO):

CREAL 9.50% 26s

3Q20 Actual vs 3Q20 Estimate:

- 3Q20 net portfolio was US$2,298 mm, 3% higher vs our US$2,237 mm estimate
- We estimate actual FCF burn was US$51 mm, in line with our expected US$56 mm burn
  - Using CREAL's stated originations at US$359 mm
    - We estimated US$356 mm in portfolio amortizations
    - However, cash position implies actual amortizations were US$280 mm
  - As a result, our estimated actual FCF burn would be US$51 mm
- Cash (incl. securities) stood at US$115 mm, above our US$71 mm estimate
  - Gross debt increased q/q, decreasing by US$26 mm with neutral FX
  - We also see a US$7 mm WK expansion due to PP&E purchases
- Though 3Q20 Portfolio FCF burn was line with our estimates
  - PDL origination is now at pre-pandemic levels, yet the PDL portfolio was flat q/q
  - We suspect stated origination figures include portfolio extensions
  - We note NPLs at local securitization were 4.7% in November
  - Weakness in SME portfolio persisted with q/q growth in avg. balances
- Additionally, we note FCF burn was partially offset by a US$62 mm derivative inflow
- Our estimated funding gaps are
  - US$640 mm "re-financing" gap (26% of debt)
  - However, since origination is reportedly at pre-pandemic levels
  - **The "normal origination" financing gap increases to US$1.1 bn (44% of debt)**
- As of 3Q20, secured debt was 22% of gross debt
- Net debt to loans at 106% (96% incl. hedges)

CREAL (US$ MM)	3Q20 Actual	3Q20 BCP Est.
Net Loan Portfolio	**2,298**	**2,237**
Interest Income	114	112
Implied Portfolio Amortization	280	159
Total Cash Collection	**394**	**271**
Portfolio Origination	(359)	(245)
Admin Expenses	(36)	(34)
Interest Expense	(50)	(49)
Est. FCF	**(51)**	**(56)**
Total Debt (incl. PERP)	2,561	2,490
Final Cash	115	71
Net Debt	**2,446**	**2,418**
Net Debt / Net Loans	**106%**	**108%**
Net Debt (incl. hedges) / Net Loans	**96%**	**95%**
Est. FCF	(51)	
Debt (neutral FX)	(26)	
WK Expansion	(7)	
Est. FCF	**(84)**	
Net Debt Difference vs 2Q20	**84**	

UKRAINE

MARKET UNDERPERFORM (UKRAINE):

MHPSA 7.75% 24s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
MHPSA 7.75% 05/10/2024	$500	- / B / B+	110.25	4.42%

MHP (B2/ B/ B+) - Ukraine's largest poultry producer with ~50% domestic market share of industrially produced poultry. Controlled by its founder and CEO, Mr. Yuriy Kosiuk (65%) and listed on the London Stock Exchange (LSE) since 2008. In recent years, MHP grew organically (Vynnitsya project) and through acquisitions (Perutnina Ptuji (Slovenia), 2019).

Increased export elevated the company's revenue (+29% q/q). EBITDA, although boosted by non-cash bio asset gains (IAS 41), declined sequentially (-18% q/q) on higher costs: a combination of a record low corn yield and higher prices. Net debt edges upward. Working capital investment is expected to double to US$200 mm. We maintain our 'Market Underperform' on the MHPSA 24s as, in our view, the bond prices are being supported by the company's very solid reputation rather than its fundamentals.

PROS:

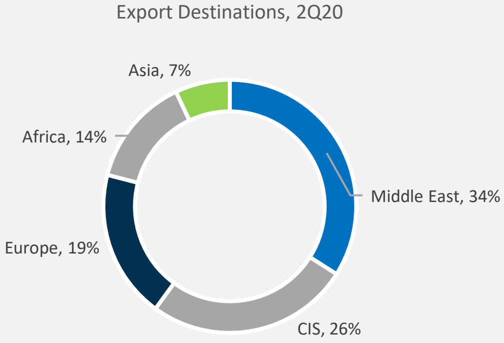
- Majority Owner – Mr. Yuriy Kosiuk (65%) with a net worth of ~US$1 billion, according to Forbes; the Top 10 richest people of Ukraine list
- Ukrainian 'blue chip' – MHP is the top producer and exporter of poultry (2019) with 729,000 tons of poultry produced (+18% y/y) and 53% of sales exported; domestic market share – over 50% of industrial output
- The LSE-listed (since 2008) - market cap of US$644 mm; 35% free-float
- Vertical-integration – produces 100% of its fodder (three mills; total crop area ~360,000 ha); produces hatching eggs and broilers (four chicken farms serviced by two breeder farms)
- Successful navigation of trading landscape – MHP has trading agreements with over 80 countries world-wide; established JV in Europe and exploring the UAE market

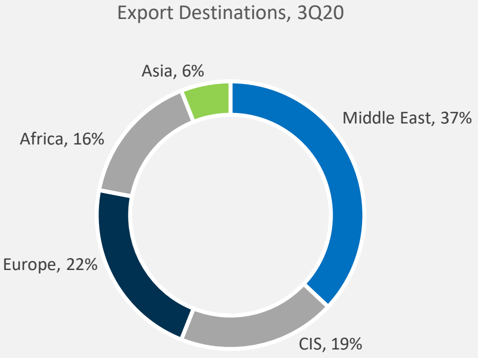
CONS:

- Large, leased land bank – 370,000 ha: a notable impact on the company's net leverage once the company presents its numbers with IFRS 16; plans to further increase to 550,000 ha
- Large Scale investment project in Ukraine – Vynnitsya Poultry Farm's total capacity (once fully commissioned in the next two years) will be 260,000 tons of poultry/year; Vynnitsya Phase I has been completed and Vynnytsya Phase II is under way (12 brigades); paused due to the COVID-19 outbreak
- Rapid Expansion in Europe – a JV in Netherlands, processing plant in Slovakia and an acquisition of Perutnina Ptuji in Slovenia in 2019
- Consistently generous dividend – of at least US$80 mm annually
- Grain – is the largest component in poultry production (~60%): lower harvest and higher prices (up 40%) will negatively impact the company's profitability

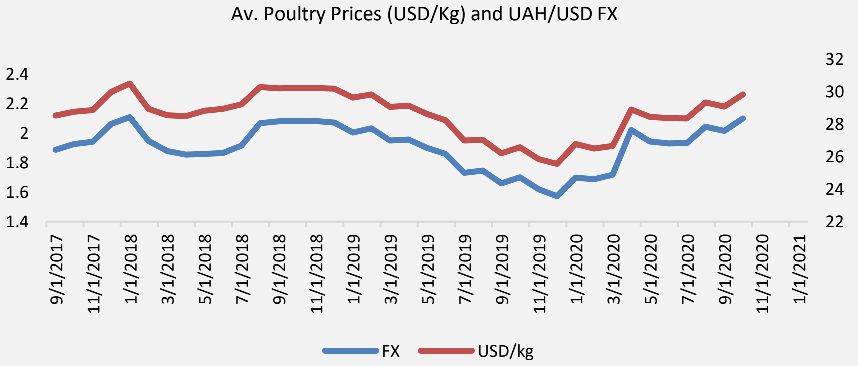
MARKET UNDERPERFORM (UKRAINE):

MHPSA 7.75% 24s





- *MHP Export Revenue (56% of the total revenue vs. 53% in 2Q20) – serves as a natural FX hedge: export revenue in full covers debt service expenses*
- *At the moment, there are no export restrictions, following the restrictions imposed by the EU, Saudi Arabia and MENA regions due to outbreak of an avian flue (H5N1) in Ukraine (Vinnytsia region) in Jan 2020; 3Q20 all facilities worked at full capacity*
- *Although, poultry prices continued to recover from the low of US$1.3/kg (April 2020), they remain 17.5% lower than in 4Q19, when they were ~US$1.89kg. With lower corn harvest and the need to buy at least 200,000 tons of corn for internal consumption and at a higher prices as well as soya and sunflower, expenses will grow, which would likely, in our opinion, result in further reduction in profitability, contractions of margins as well as elevated leverage.*



MARKET UNDERPERFORM (UKRAINE):

MHPSA 7.75% 24s

3Q20 IFRS Financial Results

MHP, USD MM	3Q20	3Q19	y/y	2Q20	q/q	2019	2018	y/y
Revenue	547	560	-2%	425	29%	2,056	1,556	32%
Adj. EBITDA	106	109	-3%	129	-18%	427	450	-5%
Adj. EBITDA margin	19%	19%	flat	30%	(11pp)	21%	29%	(8pp)
Adj. EBITDA (net of IFRS 16)	86	83	4%	126	-32%	376	450	-16%
Adj. EBITDA margin (net of IFRS 16)	16%	15%	1pp	30%	(14pp)	18%	29%	(11pp)
EBITDA (BCP est)	88	85	4%	86	3%	382	415	-8%
EBITDA margin (BCP est)	16%	15%	1pp	20%	(4pp)	19%	27%	(8pp)
Interest	(15)	(26)	-44%	(61)	-76%	(135)	(93)	45%
Tax	(10)	(3)	242%	(1)	707%	(12)	(13)	-14%
Capex	(20)	(40)	-51%	(17)	14%	(113)	(252)	-55%
FCF (pre-WC)	44	16	172%	7	541%	123	57	117%
Working Capital (WC), Net Change	65	(6)	n/a	(7)	n/a	192	(45)	n/a
FCF (post-WC)	109	10	969%	(0)	n/a	315	12	2618%
Short-Term Debt	115	143	-19%	85	36%	111	157	-29%
Long-Term Debt	1,563	1,625	-4%	1,597	-2%	1,593	1,206	32%
Gross Debt	1,678	1,768	-5%	1,682	0%	1,704	1,362	25%
Cash	305	288	6%	185	65%	341	212	61%
Net Debt	1,373	1,480	-7%	1,496	-8%	1,363	1,151	19%
EBITDA LTM (net of IFRS 16)	345	436	-21%	345	0%	379	450	-16%
Leverage LTM	4.9x	4.1x	20%	4.9x	0%	4.5x	3.0x	49%
Net Leverage LTM	4.0x	3.4x	17%	4.3x	-8%	3.6x	2.6x	41%
EBITDA LTM (BCP est)	312	424	-26%	355	-12%	382	415	-8%
Leverage (BCP est)	5.4x	4.2x	29%	4.7x	14%	4.5x	3.3x	36%
Net Leverage (BCP est)	4.4x	3.5x	26%	4.2x	5%	3.6x	2.8x	29%
FX (UAH/USD)	28.42	24.36	17%	26.71	6%	23.81	27.48	-13%

3Q20 IFRS Financial Results:

- Revenue – US$547 mm (-2% y/y and +29% q/q) – up q/q on higher sales (+14% q/q) and better domestic prices (+18% q/q) with export prices staying generally the same (+1% q/q)
  - Export revenue (56% (+4pp q/q) of the total revenue) – US$309 mm (+44% q/q): serves as a natural FX hedge
  - In 3Q20 all production facilities in Ukraine were operating at full capacity as there were no export restrictions in place
- EBITDA – declined sequentially on higher expenses: grain is the largest component (~60%) in poultry production while non-cash bio asset gains (IAS 41) helped
  - Adj. EBITDA (net of IFRS 16) – US$86 mm (+4% y/y and -32% q/q)
  - Adj. EBITDA – US$106 mm (-3% y/y and -18% q/q)
- EBITDA (BCP est. without taking into account IAS 41) – US$88 mm (-7% y/y and +3% q/q) – IAS 41 (net change of bio assets and agro produce)

MARKET UNDERPERFORM (UKRAINE):

MHPSA 7.75% 24s

3Q20 IFRS Financial Results (continued):

- Capex – US$20 mm (-51% y/y and +14% q/q) – mostly for Perutnina Ptuj (PP)
  - 2020 Capex is expected at a level of US$100 mm with - if necessary, the company can reduce its capex by 20 – 30%
  - The VPF2 was postponed for the time being - be revisited by end-2020: would require US$170 – 200 mm
- FCF Positive (pre- and post-working capital)
  - Working capital - management now expects 2020 working capital investment to be in a range of US$200 mm, up from the previous guidance of US$100 – 120 mm, an increase due to:

1) higher investments in inventory (soya and sunflower) designated for internal consumption – as the company decided to have a 5-month inventory instead of usual 2-month as prices are growing – for sunflower prices are up by 60%
2) lowest ever for the company corn harvest – the company would need additional 200,000 – 250,000 tons for internal consumptions and corn prices are up by 40%

- Liquidity – as at end-2Q20, MHP had US$305 mm in cash and equivalents (+65% q/q) vs. US$115 mm in short-term (ST) debt (incl. leases)
- Total debt - unchanged sequentially at US$1.7 billion
- Net Leverage – at 4.0x based on the reported EBITDA (incl IFRS 16) and 4.4x based on our estimates (w/o bio assets);
  - For covenant purposes (ex IFRS 16) net debt/LTM EBITDA ratio was at 3.3x remaining just over the Eurobond covenant of 3.0x; resulting in limitations on restricted payments, such as dividends
  - The company presents its net debt numbers net of IFRS 16 (in accordance with covenants in MHP's bond and loan agreements), hence, net debt/LTM EBITDA ratio is at 3.3x, according to the company
  - Eurobond covenant is at 3.0x – resulting in a limitation on various restricted payments (dividends, share buybacks and investments into and loans to third parties, etc.) – the restrictions came into effect on April 14, 2020
- Management Expectations:
  - 2020 EBITDA – lower than 2019 EBITDA on higher expenses
  - Net leverage as at end of 2020 - to be at 3.5x – 3.6x on lower EBITDA; previously, management expected for net leverage to reach 3.0x – 3.5x by the end of 2020; earlier in the year, management planned to reach 2.8x by the end of 2020

MARKET UNDERPERFORM (UKRAINE):

MHPSA 7.75% 24s

Poultry export continues to grow (+23% q/q) while prices remain unchanged (+1% q/q)

MHP Operational Results	3Q20	3Q19	y/y	2Q20	q/q	2019	2018	y/y
Poultry Production, tons	181,661	186,555	-3%	181,291	0%	728,917	617,943	18%
Sales to 3rd parties, tons	195,119	165,963	18%	170,912	14%	669,964	593,527	13%
Domestic, tons	86,647	86,774	0%	82,407	5%	312,531	306,680	2%
Export, tons	108,472	79,189	37%	88,505	23%	357,433	286,846	25%
Av. Price per kg net of VAT, USD	1.36	1.53	-11%	1.27	7%	1.47	1.47	0%
Av. Price per kg net of VAT, UAH - Ukraine	37.56	38.58	-3%	31.82	18%	38.06	39.86	-5%
Av. Price per kg net of VAT, USD - export	1.41	1.53	-8%	1.40	1%	1.49	1.59	-6%
Sunflower Oil Sales, tons	84,877	89,975	-6%	82,646	3%	384,150	315,079	22%
Soybean Oil Sales, tons	11,511	15,758	-27%	10,841	6%	51,774	50,044	3%
FX (UAH/USD)	28.42	24.36	17%	26.71	6%	23.81	27.48	-13%

- Note on Land reform – On March 31, 2020, the Ukrainian Rada voted for the law on agricultural land market. The Law will lift the current moratorium with effect from July 1, 2021, including the prohibition to change land designation. The government has already excluded foreign participation, which should support local buyers

- Management Expectations (continued):
  - Working Capital investment of US$200 mm vs. the previous plan of working capital investment of US$100 – 120 mm – due to the need to buy corn on poor 2020 harvest and higher grain price

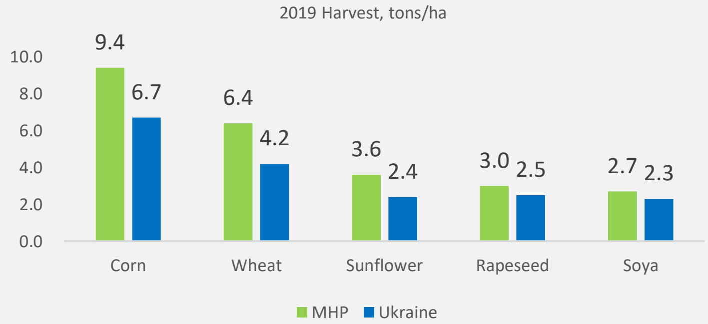
MARKET UNDERPERFORM (UKRAINE):

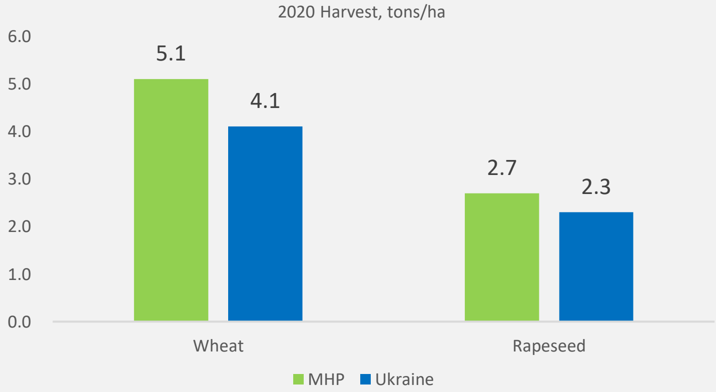
MHPSA 7.75% 24s

MHP (B2 /B / B+) LSE-listed with a market cap of US$ 644M

Grain Growing Operations – 360,000 ha leased landbank vs 370,000 ha in 2019

- 2020 - lowest ever for the company corn harvest
- MHP would need additional 200,000 – 250,000 tons for internal consumptions
- Corn prices are up by 40%





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