# ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 1Q'20

## JANUARY 13, 2020

**Overview: From Within, From Without** – Dr. Walter Molano, Ph.D.
**EM Corporate Highlights** – Corporate Research
**Top Picks for 1Q20** – Corporate Research



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OUTPERFORM
UNDERPERFORM
SWAP

# OVERVIEW: From Within, From Without

Historians, sociologists, political scientists and economists will have a lot to analyze when they examine the last 30 years. The turn of the millennium marked a confluence of factors and changes in the forms of global organization. The collapse of the Soviet Union, starting in 1991, marked the end of the bipolar global order that had reigned for the latter part of the 20th century. Although the post-war period marked an era of relative prosperity for both sides, high defense spending, the rigidities of a planned economy, the costs of maintaining a constellation of satellite states and the collapse of oil prices during the late 1980s brought the Soviet Union to its knees. In the aftermath, the United States emerged as the hegemonic military and economic power, but internal and external forces would eventually lead to serious problems.

To begin with, instead of creating a confederation of satellite states, as Moscow had done, Washington decided to stitch together a network of political, economic and diplomatic organizations. From the IMF to NATO to the World Bank to the U.N. to the WTO, these organizations promoted U.S. interests. In return, Washington subsidized them, either directly, through budgetary mechanisms, or indirectly, through favorable trade deals, tariffs and quotas. The benefit of the system was its ability to keep the Soviets at bay. However, the USSR's demise left the U.S. bearing the cost, without reaping any of the benefits. The expenditures associated with being the world's policeman, coupled with the debilitating costs of its Middle East engagements, soon became a point of rancor for the country's electorate --something that the U.S. allies failed to appreciate. On top of that, the favorable trade concessions made by Washington led to a relative rise in prosperity for a wide range of countries, many of them former foes, which soon became unpalatable for the many Americans who were left behind. Misguided attempts to smooth the situation through the use of extremely loose monetary policy by the Fed or ridiculous tax cuts for U.S. corporations only made matters worse. It culminated in the financial crisis of 2008 and the subsequent deterioration of income distribution. As a result, the cost of maintaining the post-war system that had been established to check the expansion of the Soviet Union was one of the main culprits for its own demise. However, not all of the problems were internal. There was plenty of help from outside.

The poor treatment of Russia in the aftermath of the collapse of the Soviet Union was a serious mistake which only led to rancor, enmity and a need for revenge. Instead of being treated as the prodigal son who had returned to the fold after seeing the fallacy of communism, the country's corporate assets and natural wealth was picked apart by "economic consultants" from Ivy-League institutions and the leading investment banks who were "trying" to modernize it. While verbal promises were made not to expand NATO or the European Union eastward, the once shackled states begged for inclusion under the western umbrella. No attempt was ever made to include Moscow in the privileged club. President Obama even went as far as disparagingly insulting Russia as nothing more than a regional power with global ambitions. However, Russia should never have been dismissed. A landmass that stretches 11 time zones, with an incredibly well-educated elite, brimming with the commodity windfall of the last two decades and a serious score to settle, it is no surprise that a former KGB officer would make it his mission to strike revenge. Moscow has systematically exploited all of the West's weaknesses, from the growing class divisions across the globe due to decades of unrestrained capitalism, to the simmering rancor in the U.S. about globalization, to the inherent xenophobia in Europe, to the natural propensity of populism in democratic systems, and to the security weaknesses of social media. Armed with battalions of trolls, Moscow was able to pick apart the West's postwar institutional network. Although their fingerprints were in plain view, the fights decayed into partisan divisions that had always lingered below the surface. Hence, in the space of three decades, the global order has sequenced through a bipolar, then to a hegemonic and now a multipolar form of organization. Fortunately, the global economy has held up, so far. However, the expansion is reaching an apogee and it is only a matter of time until it reverses. It could be this year or maybe next? Nevertheless, we are in for a major economic convulsion that will mirror the general state of instability in the global order.

**Dr. Walter Molano, Ph.D.**
January 6, 2020

# EM HIGHLIGHTS 4Q'19

## Argentina

- With 48.24% of total votes, Alberto Fernandez was sworn in as the new President.  Term expires in December 2023.
- Martin Guzman was appointed Minister of Finance and will be leading the country's debt renegotiation talks
- Congress passed the 'Social Solidarity Law', which establishes, among others, a 30% tax for dollar purchases (including credit card expenses in foreign currencies), wealth tax increases, higher withholding taxes for exports, especially for agribusiness, and a temporary freeze on social security inflation indexation.
- The government decided to postpone all repayments of local short-term notes (Letes) maturing through August 2020, representing nearly US$9bn
- In 3Q19, GDP contracted 1.7% y/y, with a 2.5% y/y accumulated decrease for the first nine months of the year. Additionally, primary fiscal surplus ended at 0.1% of GDP for 9M19, with a total deficit of 3.0%. Monthly inflation reached 4.3% in Nov19. Trade balance reached a multi-year high of US$3bn in 3Q19, or 2.7% of GDP.
- Energy and gas tariffs were frozen for up to 180 days, during which the Integral Tarif Review settled by the previous administration will be reviewed
- Guillermo Nielsen was named as President of YPF. In Dec19 the government asked YPF to suspend a 5% increase in gasoline prices
- Axel Kicillof, newly elected governor of the province of Buenos Aires, said he would approach debtholders in order to reach a debt sustainability level
- In the last provincial elections of the year, Gustavo Saenz, who led a collation of center-right parties, was proclaimed governor of Salta with 54% of total votes
- Genneia announced it has received US$97mm corresponding to the first tranche of the US$131mm agreement signed with KfW for the financing of Chubut Norte III & IV wind farms. In November disbursements were temporarily halted given uncertainty over capital controls imposed.

# EM HIGHLIGHTS 4Q'19

**Brazil**

- Brazilian GDP grew another 0.6% y/y in the 3Q19
- Brazil's basic interest rates was cut by 0.5% in the latest October meeting (currently: 5%), while another cut of the same dimension is expected for the January meeting
- Brazil's supreme court ruled that defendants can only be imprisoned after all appeals to higher courts have been exhausted, resulting in the freedom of ex-president Luis Inácio Lula da Silva, after more than 18 months in prison
- Lower House leader Rodrigo Maia has reiterated that more reforms (administrative reform, tax reform, privatizations, etc.) are being set in motion
- The Brazilian coast, especially the Northeast region, suffered from a clandestine crude oil leak in the ocean that appeared in mid-September
- Although the accident was not the government's fault, the slow response and controversial statements by local authorities harmed Bolsonaro's reputation and questioned his environmental policy worldwide (which has been a topic of discussions since the Amazonian fires)
- Brazil's local equity index, Ibovespa, reached a new nominal record level (111.000 points)
- Pension Reform has been approved by the Senate and officially approved by President Bolsonaro for implementation
- From January to November Brazil registered a primary fiscal deficit of R$80.3bn, above Minister of Economy Paulo Guedes initial FY2019 R$80bn estimate, though seemingly below R$139bn projected by the federal government for FY2019

# EM HIGHLIGHTS 4Q'19

## China

- Vice Premier Liu He set out to sign Phase One trade deal with US.
- 6.0% GDP growth in 3Q and 6.2% in 9M19 were the lowest since 1992.
- Caixin manufacture PMI back to north of 51 in 4Q. Official numbers which were lower than Caixin's also showed improvement.
- In Dec 19, former PBoC chief commented that China should not enter the era of negative yield "too fast".
- On Jan 1, 2020, PBoC cut required reserve ratio by 50 bps to 12.5% for large banks and 10.5% for smaller ones. The last cut on reserve ratio was in Sept 2019.
- CPI increased from 2.5~2.8% to 3.8% in Oct and 4.5% in Nov, due to persisting pig fever and higher oil price.
- In 4Q, regulatory loosening on property sector was widely seen in all tiers of cities except Beijing and Shanghai. The central government had been repeating anti-speculation slogans but did not stop loosening moves at local levels. Now most restrictions are on land developers instead of homebuyers.
- Effective from Dec 2019, Ministry of Natural Resources of PRC opened onshore oil & gas exploration to local and foreign private companies. Before the change of policy, onshore exploration was only open to three state-owned companies.
- On Jan 6, 2020, three days after death of Soleimani and one day after Iraqi parliament's vote to remove US troops, Iraqi PM met Chinese ambassador on enhancing BRI cooperation. Friendly Iraqi political environment should benefit Antoil's local operation.

## Mexico

- Mexico's 3Q19 GDP growth was 0.1%, with the IMF later decreasing the 2019 economic growth rate estimate to 0.0%. By contrast, the Mexican Govt. expects a 4% GDP growth by the end of the AMLO admin., yet both S&P and Moody's decreased their 2019 and 2020 estimates
- Mexico's industrial activity decreased by 1.7% y/y in November 2019, registering 14 consecutive months in negative territory mainly due to construction, mining and manufacturing
- According to Mexico's Central Bank, 6M19 registered the second lowest foreign investment inflows over the last 10 years at US$4.3 bn
- The USMCA trade agreement was approved by both the US House of Representatives in December 2019

# EM HIGHLIGHTS 4Q'19

## Mexico (continued)

- The Mexican Govt. and the private sector presented a US$42 bn plan to boost the economy comprised of 147 infrastructure projects
- Mexico's Central Bank decreased the base interest rate by 25 bps to 7.25%. The inflation rate in December was 2.83% vs 3.0% target
- The Mexican Govt. completed its recurring annual oil-hedge at $49/bbl for 2020 with a total cost of US$1 bn
- Pemex updated its guidance to reach an upstream production of 1.75 mm bbls/d as well as reaching 0.9 mm bbls/d in downstream by year-end 2019
- Pemex announced the discovery of a 500 mboe 3P reserve field in Tabasco, the largest in 30 years. A second well could potentially increase 3P reserves by an additional 200 mboe. The current development plan is reach production of 69k bbls/d by next year and eventually reach 110k bbl/d by 2022 with an estimated investment of US$670 mm
- The Mexican Govt. had initially allowed CFE to issue Clean Energy Certificates (CELs) to fund its cogeneration plants, which implied changing the federal clean energy regulation. A private sector lawsuit led a district judge to grant a provisional suspension preventing the regulatory changes.

## Sub-Saharan Africa

- The Nigerian economy expanded 2.3% y/y in the third quarter of the year while South Africa GDP grew 0.1% y/y in 3Q19
- Inflation in Nigeria surged to 11.85% in November 2019, well above 6-9% Central Bank target
- The Nigerian government signed a law to increase the national minimum wage to N30k, a measurement that is being challenged by several states that have not yet implemented the measure despite the deadline set for Dec 31st
- IHS redeemed its 21s notes with the issuance of new 25s and 27s, while incorporating the group's other Nigerian assets into the restricted group that were previously not part of it under the old IHSHLD 21s
- Tullow bonds plummeted after its CEO and its Exploration Director resigned as the company disclosed a sharp decrease in its production targets in Ghana. Kosmos bonds were also hit as the company has a minority stake in the fields operated by Tullow in Ghana

# EM HIGHLIGHTS 4Q'19

### Sub-Saharan Africa (continued)

- Andre de Ruyter was named as new CEO of Eskom and will be in charge of the company's organizational restructuring. In December, the company expanded its rolling blackouts to the highest-ever level of 6,000MW after further technical problems, while it seeks a record tariff increase of 16% to become effective in April 2020. In November, Moody's cut the company's corporate family rating by one notch to B3.

### Russia

- Russia's FX reserves were US$542 billion as at end-November 2019 (vs. US$462 billion in November 2018) with share of gold holdings at 19.5% (or US$106 billion).
- Russia's 2019 inflation was 3%, the Central Bank of Russia (CBR) has been lowering the key interest rate in 2H19 as inflation was consistently below the CBR's target of 4%. The CBR's expectation for 2020 is that inflation will stay at ~3%.
- Russia continues to enjoy a healthy balance of payments surplus on the back of its raw material exports, mainly oil. The recovery of oil prices to ~US$60 – 65/barrel in 2019 helped (~US$40/barrel is needed for the budget to break even). A new OPEC agreement signed on Dec 9, 2019, is expected to support prices via production cuts.
- Russia's agro sector: grain exports brought in US$20 billion in 2018 and US$24 billion in 2019, following another good harvest
- Although Russia's economy is rather healthy and solid, it lacks growth – GDP gained just 1% in 2019 with a 2% growth expectation in 2020 and, possibly, 3% in 2021
- According to the CBR, the debt burden of the population in Russia increasing to 8.9% in October 2019 getting closer to the historic high of 9.3% in 2014. At the same time, the CBR notes a weak increase in people's disposable income.
- In early January 2020, the Moscow Court extended the house arrest of Mr. Michael Calvey, a US citizen and the founder of Baring Vostok until February 13, 2020. Baring Vostok and Mr. Arterm Avetisyan were involved in a bitter dispute for the control of Orient Express Bank

# EM HIGHLIGHTS 4Q'19

**Russia (continued)**

- Russia's most valuable digital company, Yandex, is considering launching its own mobile virtual network operator (MVNO) on the Tele2 network. The total MVNO market in Russia is estimated at ~10 mm subscribers (+40% during 2019) vs. 1% growth for traditional mobile companies.
- Forbes magazine named Sheremetyevo (SVO) airport as most punctual (with 95% on-time flights) and the best employer in Russia (out of 150 companies).

**Turkey**

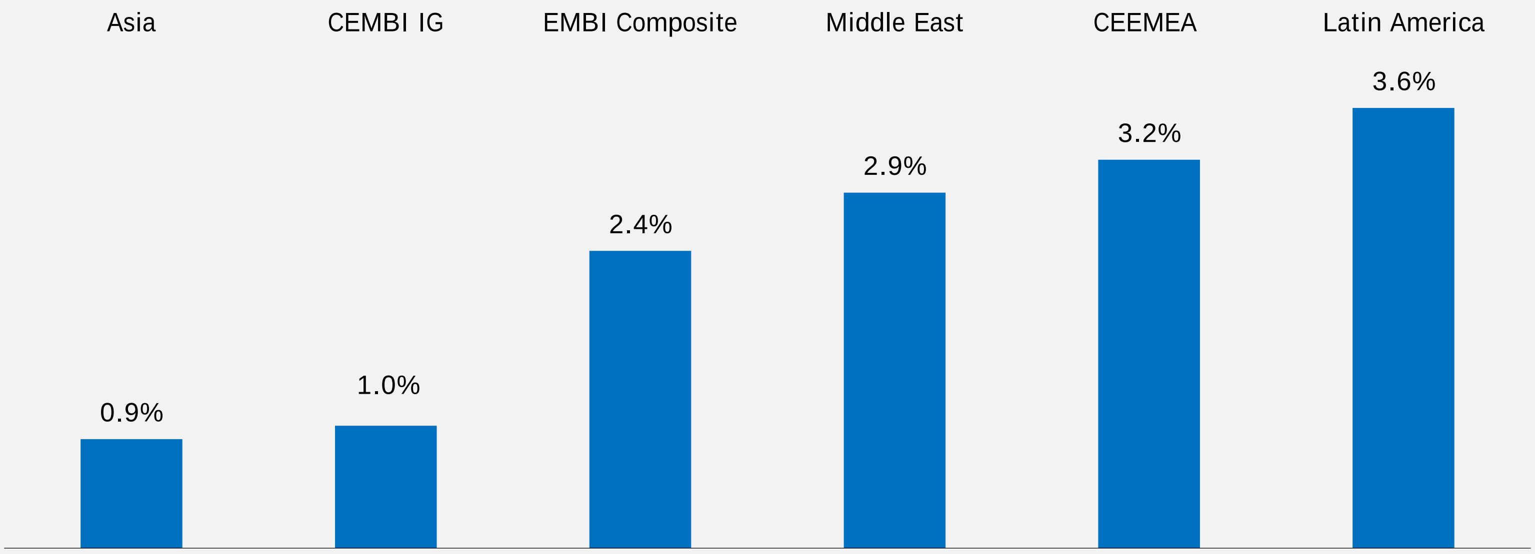
- GDP expanded 0.9% y/y in 3Q19 after three consecutive quarters of y/y contraction
- Central Bank continued with its strong monetary easing, having cut rates for four consecutive meetings for an aggregate of 12 p.p. since July. Furthermore, Erdogan stated that the country is heading to single-digit rates in 2020.
- Inflation increased to 10.6% in Nov19 after having decreased to a near three-year low of 8.6% in Oct19
- The Banking Regulation and Supervision Agency has given more discretion to banks on how they classify new NPLs after having ordered in Sep19 to reclassify nearly US$8.1bn of loans as NPLs, which resulted pushed non-performing loans of the system to more than 5%
- In an attempt to boost lending, the Central Bank has decided to change the ratios and the remuneration applied to bank reserves to a formula linked to their annual growth rates of lira-denominated loans
- In end-Dec, a US federal judge rejected the request made by state-controlled Hakbank to put on hold the federal prosecution that accused the bank of participating in a maneuver to violate prohibitions on Iran's access to the US financial system and the use of revenue from the country's oil and gas sales. Recall the bank was accused in Oct19, while in early December, US judge Richard Berman threatened to hold the bank in contempt and impose fines for refusing to acknowledge the charges filed, setting a Feb10 hearing date.
- State-controlled VakifBank announced the redemption of its US$500mm Tier II notes due 2025 at its call date of Feb20
- UniCredit agreed to terminate its joint-controlled over Yapi Kredit with Koc Holdings, by decreasing its stake to 32%, while Koc will increase its ownership to 50%

# EM HIGHLIGHTS 4Q'19

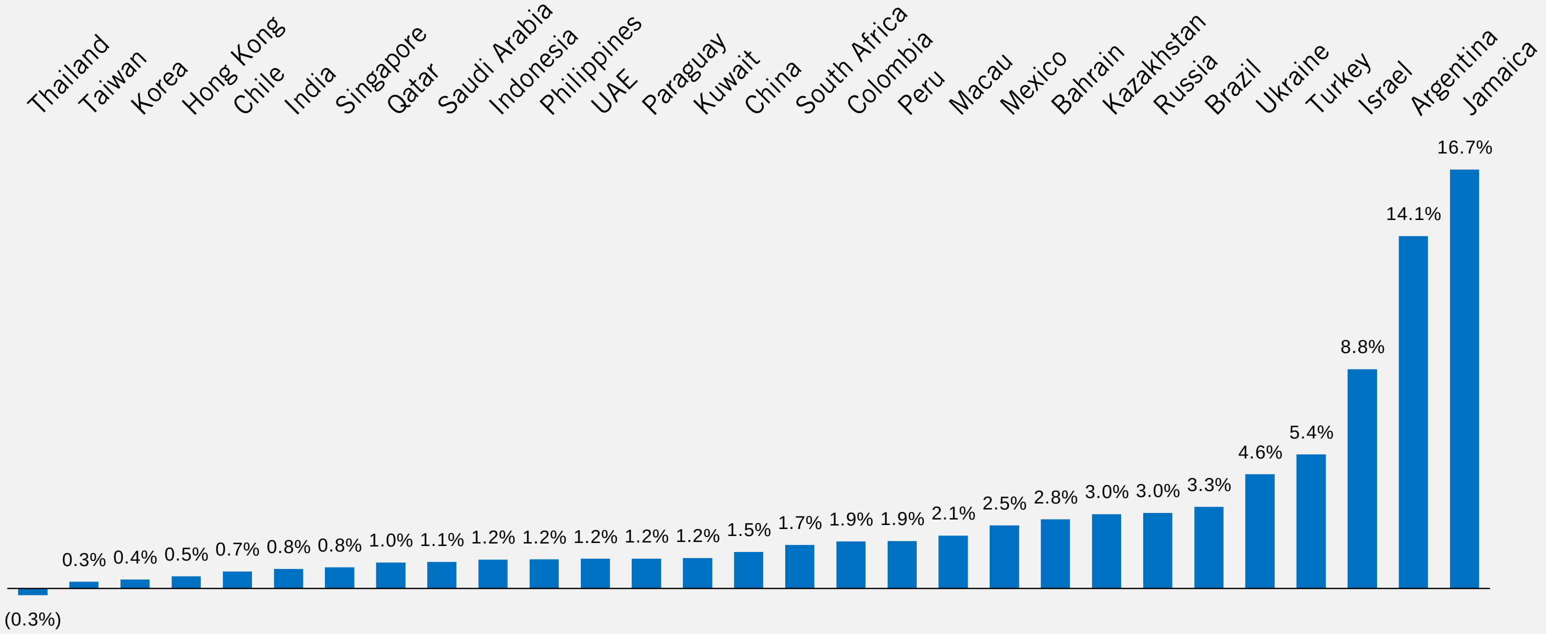
## Ukraine

- According to the National Bank of Ukraine (NBU), Ukraine's FX reserves grew by 22% in 2019 to US$25.3 billion, the highest number in seven years
- The NBU has been successful in bringing down the inflation, as the Ukrainian Hryvnia (UAH) strengthened by ~17% in 2019, making it one of the best performing currencies globally
- In December 2019, the IMF has conditionally agreed to lend Ukraine US$5.5 billion over a three-year period.
- The Ministry of Finance of Ukraine raised US$4.2 billion in the bond markets and plans to raise the same in 2020
- In 2019 the Ukrainian capital market was connected to Clearstream and foreign investors bought US$4.5 billion worth of the Ukrainian local market bonds – a new source of funding for the government
- Ukraine's land reform – at the moment, farmland sales are prohibited in the country (since 2001), which covers about 70% of the country's territory. A draft of the land bill was passed in its first reading in December 2019 and the remaining two readings are scheduled for the beginning of 2020. It is expected that the land market will be operational as of October 1, 2020 – the government has already excluded foreign participation.
- Interpipe, Ukraine's vertically integrated pipe and railway products producer, completed its third restructuring lowering its debt from US$1.4 billion to US$400 mm. In early January 2020, the company called US$98.5 mm (or ~one third) of its INTHOL 10.25% 24s Eurobond, issued as a result of the restructuring.

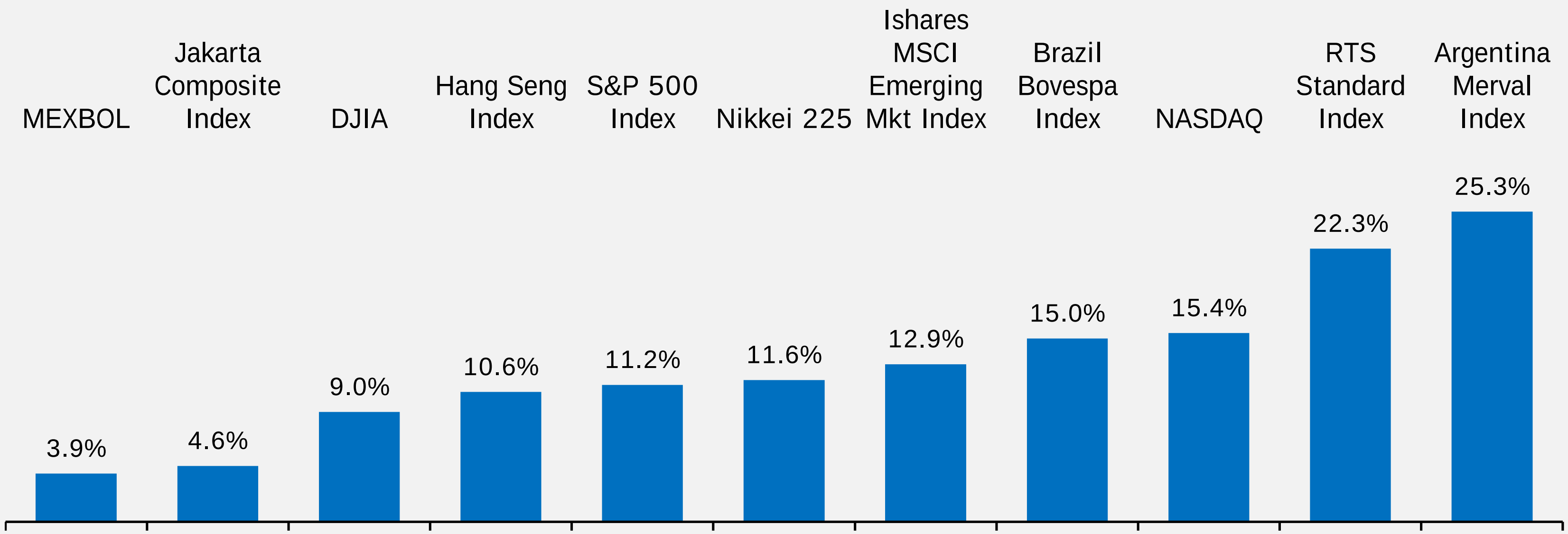
# OVERVIEW
# EMBI INDEX RETURNS 4Q'19
## EMBI BROAD COMPOSITE INDEX REVIEW



# OVERVIEW
# CEMBI INDEX RETURNS BY COUNTRY 4Q'19



# OVERVIEW
# GLOBAL EQUITY INDEX RETURNS 4Q'19



# 4Q'19 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 =** | **5.62%** | **0.84%** |
| AEROAR 27 | AEROPUERTOS ARGENT 2000 | Engineering&Construction | Argentina | USD | 10/07/19 | 01/10/20 | 95 | 92.8 | 97.0 | 6.88% | 4.6% | 6.4% | 1.6% |
| GOLLBZ 25 | GOL FINANCE SA | Airlines | Brazil | USD | 10/07/19 | 01/10/20 | 95 | 99.9 | 103.6 | 7.00% | 3.7% | 5.5% | 0.7% |
| UNIGEL 26 | UNIGEL LUXEMBOURG SA | Chemicals | Brazil | USD | 10/07/19 | 01/10/20 | 95 | 100.1 | 103.9 | 8.75% | 3.7% | 6.1% | 1.3% |
| CARINC 21 | CAR INC | Commercial Services | China | USD | 10/07/19 | 01/10/20 | 95 | 94.6 | 94.1 | 6.00% | (0.5%) | 1.1% | (3.7%) |
| GTE 25 | GRAN TIERRA ENERGY INTL | Oil&Gas | Colombia | USD | 10/07/19 | 01/10/20 | 95 | 89.8 | 93.8 | 6.25% | 4.5% | 6.1% | 1.3% |
| DOCUFO 24 | DOCUFORMAS SA | Diversified Finan Serv | Mexico | USD | 10/07/19 | 01/10/20 | 95 | 99.3 | 103.1 | 10.25% | 3.9% | 6.6% | 1.8% |
| POGLN 22 | PETROPAVLOVSK 2016 | Mining | Russia | USD | 10/07/19 | 01/10/20 | 95 | 99.0 | 104.6 | 8.13% | 5.7% | 7.8% | 3.0% |
| VAKBN 22 | TURKIYE VAKIFLAR BANKASI | Banks | Turkey | USD | 10/07/19 | 01/10/20 | 95 | 97.0 | 100.7 | 6.00% | 3.8% | 5.4% | 0.6% |
| **UNDERPERFORM** | | | | | | | | | | | **Average Return =** | **(4.43%)** | **0.35%** |
| ARCOR 23 | ARCOR SAIC | Food | Argentina | USD | 10/07/19 | 01/10/20 | 95 | 88.6 | 98.3 | 6.00% | (10.9%) | (12.5%) | (7.7%) |
| KLAB 27 | KLABIN FINANCE SA | Packaging&Containers | Argentina | USD | 10/07/19 | 01/10/20 | 95 | 102.9 | 104.9 | 4.88% | (2.0%) | (3.3%) | 1.5% |
| TELVIS 26 | GRUPO TELEVISA SAB | Media | Brazil | USD | 10/07/19 | 01/10/20 | 95 | 107.0 | 105.5 | 4.63% | 1.4% | 0.1% | 4.9% |
| VEDLN 22 | VEDANTA RESOURCES LTD | Mining | Chile | USD | 10/07/19 | 01/10/20 | 95 | 98.8 | 99.3 | 6.38% | (0.4%) | (2.1%) | 2.7% |
| | | | | | | | | | | | **Total Average Return =** | **2.27%** | **0.68%** |

| | From | Until | Days | Px at Recomm. | Px End | Total Return |
|---|---|---|---|---|---|---|
| CEMBI | 10/07/19 | 01/10/20 | 95 | 455.2 | 477.0 | 4.8% |

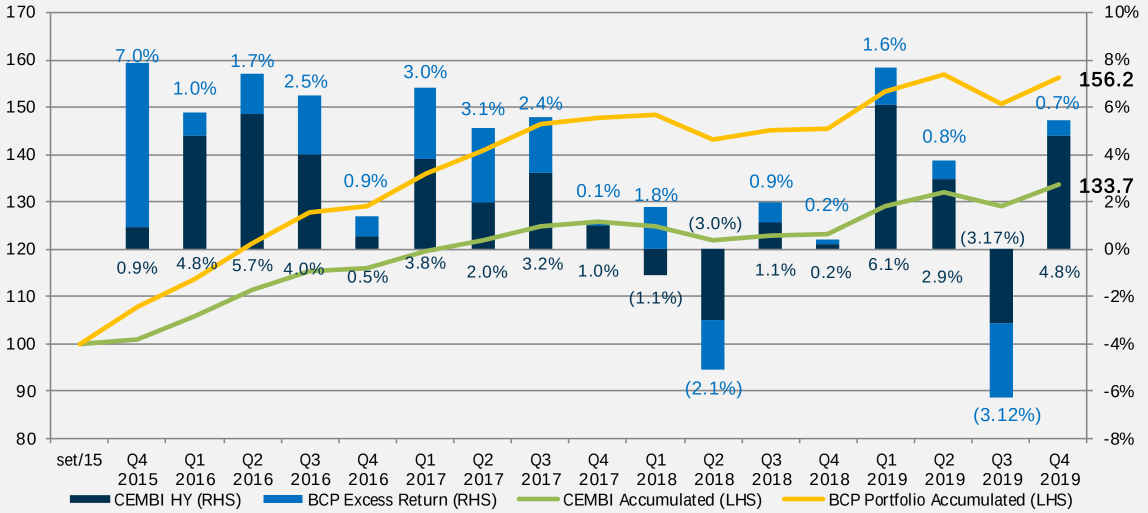
Source: Bloomberg as of 01/10/2019

# 4Q’19 TOP PICKS
# PORTFOLIO REVIEW

## REVIEW AND DISCUSSION OF PERFORMANCE

- BCP’s Top Picks generated positive excess return of 68 bps vs. our CEMBI HY benchmark. Outperforms returned 562bps on average, above the index by positive 84bps. Underperforms appreciated 443bps, 35bps less than the benchmark
- We were pleased by ability to generate excess performance on both long and short calls.
- Our top performers were TELEVIS 26s and POGLN 22s, with excess return of 4.9% and 3.0% respectively.
- VEDLN 22s was also a highlight, generating 2.7% excess performance.
- ARCOR 23s and CARINC 21s were biggest disappointments, negative excess performance of 7.7% and 3.7%, respectively.
- Over the past 15 quarters, BCP Top Picks have generated compounded excess return of 22.5% vs. the CEMBI HY Index.

## PORTFOLIO PERFORMANCE THROUGH JANUARY 10th 2019



# 1Q'20 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 | $363 | Caa1 *-/ B-/ - | 6.88% | 02/01/2027 | 7.43% | 97.00 |
| PAMPAR 27 | PAMPA ENERGIA SA | Electric | Argentina | USD | $687 | Caa1 *-/ B-/ CCC+ | 7.50% | 01/24/2027 | 10.58% | 85.00 |
| DLLTD 24 | DIGICEL INTL FINANCE LTD | Telecommunications | Carribean | USD | $600 | B3/ -/ B- | 8.75% | 05/25/2024 | 9.24% | 98.25 |
| ANTOIL 22 | ANTON OILFIELD SERV GRP | Oil&Gas Services | China | USD | $300 | B1/ -/ - | 7.50% | 12/02/2022 | 10.10% | 93.50 |
| CARINC 21 | CAR INC | Commercial Services | China | USD | $300 | B1/ B+/ WD | 6.00% | 02/11/2021 | 11.97% | 94.12 |
| KAISAG 22 | KAISA GROUP HOLDINGS LTD | Real Estate | China | USD | $1,147 | -/ -/ B | 8.50% | 06/30/2022 | 8.36% | 100.30 |
| GTE 25 | GRAN TIERRA ENERGY INTL | Oil&Gas | Colombia | USD | $300 | -/ B+/ B | 6.25% | 02/15/2025 | 7.76% | 93.75 |
| DOCUFO 24 | DOCUFORMAS SA | Diversified Finan Serv | Mexico | USD | $300 | -/ BB-/ BB- | 10.25% | 07/24/2024 | 9.39% | 103.13 |
| FINDEP 22 | FINANCIERA INDEPENDENCIA | Diversified Finan Serv | Mexico | USD | $250 | -/ BB-/ BB | 8.00% | 07/19/2024 | 8.00% | 100.00 |
| **Underperform** | | | | | | | | | | |
| LIGTBZ 23 | LIGHT SERVICOS ENERGIA | Electric | Brazil | USD | $390 | Ba3/ -/ BB- | 7.25% | 05/03/2023 | 4.67% | 107.81 |
| KLAB 27 | KLABIN FINANCE SA | Packaging&Containers | Brazil | USD | $500 | -/ BB+/ BB+ | 4.88% | 09/19/2027 | 4.12% | 104.94 |
| TELVIS 26 | GRUPO TELEVISA SAB | Media | Mexico | USD | $300 | Baa1/ BBB+/ BBB+ | 4.63% | 01/30/2026 | 3.60% | 105.51 |
| VEDLN 22 | VEDANTA RESOURCES LTD | Mining | India | USD | $1,000 | B2/ B/ - | 6.38% | 07/30/2022 | 6.70% | 99.25 |
| CENSUD 27 | CENCOSUD SA | Food | Chile | USD | $975 | Baa3/ -/ BBB- *- | 4.38% | 07/17/2027 | 4.45% | 99.50 |
| MHPSA 26 | MHP LUX SA | Agriculture | Ukraine | USD | $550 | -/ B/ B+ | 6.95% | 03/04/2026 | 5.76% | 106.00 |

Source: Bloomberg as of 01/10/2020

# MARKET OUTPERFORM

## ARGENTINA

AEROAR 6.875% 27s
PAMPAR 7.50% 27s

## CARIBBEAN

DLLTD 8.75% 24s

## CHINA

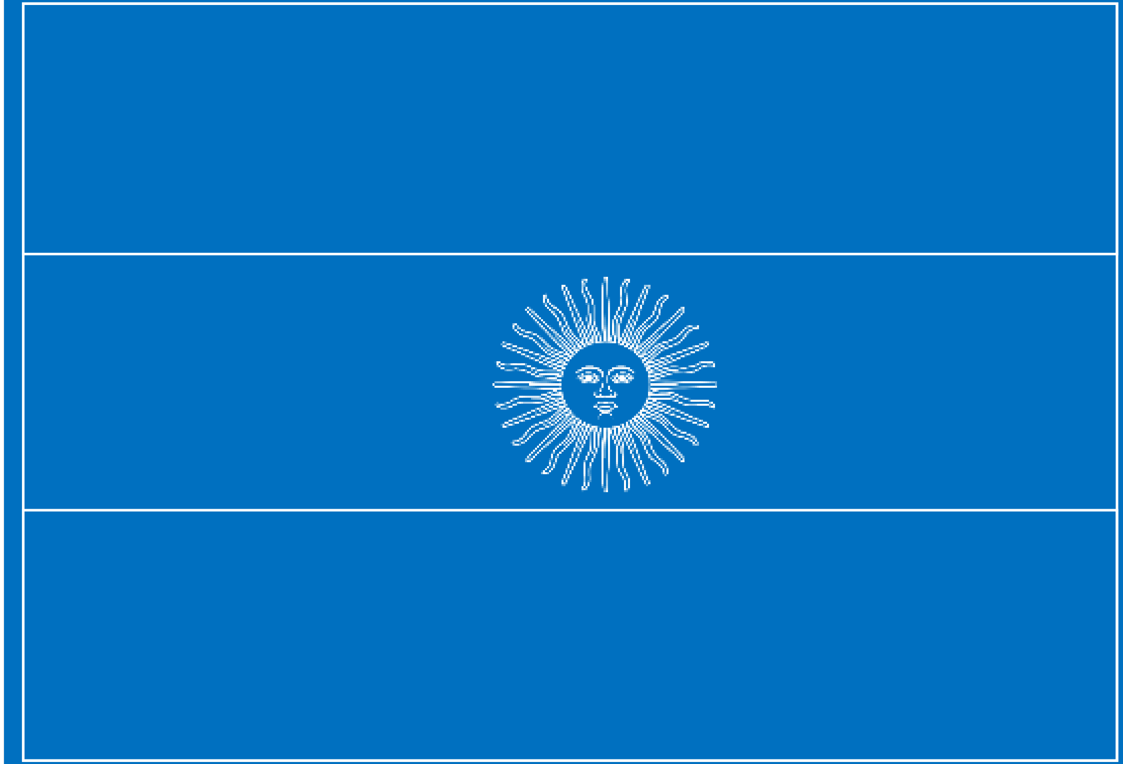
ANTOIL 7.50% 22s
CARINC 6.00% 21s
KAISAG 8.50% 22s

## COLOMBIA

GTE 6.25% 25s

## MEXICO

DOCUFO 10.25% 24s
FINDEP 8.00% 24s



# ARGENTINA

MARKET OUTPERFORM (ARGENTINA):

# AEROAR 6.875% 27s

| Description | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|
| AEROAR 6.875% 2/1/2027 | $375 | Caa1 / B- / - | 97.00 | 7.43% |

**Aeorpuertos Argentina** is the operator of 33 out of the 34 airport terminals in Argentina. In 2018 it transported 38.4mm passengers and handled more than 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. We view the credit as one that should be able to survive a sovereign credit event as we think tariffs on international flights will remain denominated in USD as they were under the previous Kirchner administration. Additionally, sinkable feature of bonds provides the company with a smoother debt amortization, which is more than covered by current tariff collection that serves as collateral for bonds (2.8x coverage in 9M19).

PROS:

- Strong and recognized shareholder
- Operates almost all of Argentine airports, including the two main ones (Ezeiza and Aeroparque), with concession maturing in 2028 after full bond amortization
- Notes backed by tariff collection with sound debt service coverage (2.8x in 9M19 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
- Transported passengers and airplane movements have remained sound despite a weaker local environment
- Sound net leverage ratio (9M19 annualized: 1.8x)

CONS:

- New capital controls imposed in Argentina can result in a significant decrease in passengers transported or a switch to domestic travel, where tariffs are denominated in ARS
- Covenants allow for the issuance of additional pari passu debt as long as next debt service coverage is 1x
- Client concentration: Aerolineas Argentina and Latam together account for nearly 25% of revenue
- High capex program has been driving FCF to negative territory, although we think capex should ease considerably as works in the new terminal of Ezeiza are mostly completed. FCF should return to positive territory in 2020.

MARKET OUTPERFORM (ARGENTINA):

# AEROAR 6.875% 27s

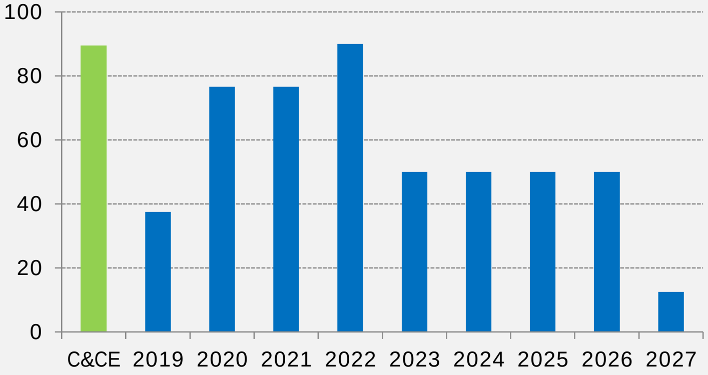
## STRONG LIQUIDITY

- Cash and equivalents position at Sep 30, 2019 ended at US$89mm, compared to a ST debt of US$74mm
- ST corresponds mainly to the capital amortization of the secured bonds. Recall 27s are sinkable and with 32 equal quarterly capital amortizations that started in May19

| US$mm | Sep19 |
|---|---|
| Cash and cash equivalents | 89 |
| Short term debt | 74 |
| Bonds | 57 |
| Bank loans | 14 |

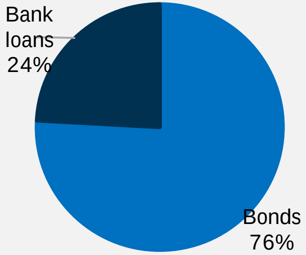
AMORTIZATION SCHEDULE 09.30.2019

US$MM




TOTAL DEBT PER CURRENCY (SEP19)


TOTAL DEBT BY INSTRUMENT (SEP19)



MARKET OUTPERFORM (ARGENTINA):

# AEROAR 6.875% 27s

ANALYSIS OF 3Q19 RESULTS

- Quarterly revenue in real terms decreased 6% y/y to AR$8,541mm
- For the nine month period, revenue increased 3% y/y, with a 10% increase in passengers transported and 1% increase in airplanes movements
- EBITDA, which we could only calculate on an accumulated basis due to lack of D&A inflation adjusted figure for previous quarter, decreased 8% y/y to AR$10,101mm
- EBITDA margin for 9M19 contracted 5 p.p. y/y to 40%
- Simplified free cash flow, only reported on an accumulated basis, was negative AR$6,602mm due to high capex driven by the works on the Ezeiza terminals, which are nearly completed for which we expect capex to be lower going forward and FCF to return to normalized levels
- Net debt as a result increased 56% since Dec18 to AR$23,918mm, including IFRS 16 debt
- Recall the 27s started paying quarterly capital amortizations in May19, having to date repaid three installments of US$25mm
- During the quarter, the company signed two bank loans for US$120mm (US$85mm at a 9.75% rate and US$35mm at a LIBOR + 5.0% rate), which will mature in three years with nine quarterly repayments starting in one year
- Annualized net leverage for the first nine of the year deteriorated to 1.8x from 1.2x in December and 1.1x in 1H19
- Interest coverage remained very strong at 7.2x, while we estimate a total debt service coverage including the quarterly capital repayments of 2.8x

| AEOROAR (AR$MM) | 3Q19 | 3Q18 | y/y | 9M19 | 9M18 | y/y |
|---|---|---|---|---|---|---|
| Revenue | 8.541 | 9,072 | (6%) | 25,219 | 24,523 | 3% |
| EBITDA | n/a | n/a | | 10,101 | 11,005 | (8%) |
| EBITDA margin | n/a | n/a | | 40% | 45% | |

| AEOROAR (AR$MM) | Sep19 | Dec18 | q/q |
|---|---|---|---|
| Total Debt | 29,071 | 21,049 | 38% |
| Cash and Equivalents | 5,153 | 5,689 | (9%) |
| Net Debt | 23,918 | 15,360 | 56% |
| Leverage (Total Debt/ EBITDA) | 2.2 | 1.6 | |
| Net leverage (Net Debt/ EBITDA) | 1.8 | 1.2 | |

| AEOROAR (AR$MM) | 9M19 | 9M18 |
|---|---|---|
| EBITDA | 10,101 | 11,005 |
| Working capital | (2,005) | (392) |
| Capex | (12,983) | (6,777) |
| Interest paid | (1,1130) | (822) |
| Taxes paid | (602) | (967) |
| **FCF** | **(6,602)** | **2,048** |

MARKET OUTPERFORM (ARGENTINA):

# AEROAR 6.875% 27s

PASSANGERS TRANSPORTED (y/y)

| Airport | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 1Q19 | 2Q19 | 3Q19 |
|---|---|---|---|---|---|---|---|---|---|
| Aeroparque | 8% | 7% | 8% | 6% | 19% | (3%) | (5%) | (6%) | (9%) |
| Ezeiza | (4%) | 1% | 6% | 8% | 0% | 4% | 5% | 19% | 22% |
| Others | 2% | 4% | 7% | 7% | 11% | 0% | (1%) | 5% | 4% |
| **Total** | **4%** | **5%** | **9%** | **6%** | **14%** | **7%** | **7%** | **12%** | **8%** |

AIRPLANE MOVEMENTS (y/)

| Airport | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 1Q19 | 2Q19 | 3Q19 |
|---|---|---|---|---|---|---|---|---|---|
| Aeroparque | (1%) | 2% | 4% | 1% | 10% | (3%) | (7%) | (19%) | (15%) |
| Ezeiza | (4%) | 1% | 1% | 3% | (3%) | 12% | 12% | 18% | 14% |
| Others | (2%) | 1% | 3% | 2% | 6% | 2% | 0% | (5%) | (4%) |
| **Total** | **3%** | **(2%)** | **1%** | **0%** | **8%** | **6%** | **3%** | **1%** | **1%** |

## MARKET OUTPERFORM (ARGENTINA):

# PAMPAR 7.50% 27s

| Description | Amt (US$ MM) | Ratings M/SP/F | Mid Price | Mid YTM |
|---|---|---|---|---|
| PAMPAR 7.500% 01/24/2027 | $750 | Caa1 /B- /CCC+ | 85.00 | 10.58% |

**Pampar Energia** is an energy conglomerate and one of the largest private sector groups in Argentina. It is one of the largest electricty generators, with 12% market share of installed capacity. Through Edenor, it is the largest electricity distributor, with more than 3mm clients. It is also an upstream oil and gas player, with production of 50kboepd. The company is majority controlled by Marcelo Mindlin, one of the wealthiest entrepreneurs in the country, and is listed in the NYSE and the local exchange, with a market cap of US$1.1bn.

PROS:

- One of the largest conglomerates in the country, with diversified, energy focused businesses
- Recognized shareholder and professional and skilled management
- Long USD: Its electricity generator business benefits from USD-linked revenues, with many long-term fixed price contracts signed with national government, while oil and gas prices are denominated in USD
- Positive prospects for non-conventional gas exploration in Vaca Muerta
- Strong cash position, with cash and equivalents enough to cover debt maturities through 2023, with 89% of its cash held in USD which we understand is mostly held offshore in UST
- 26% interest in TGS (US$1.3bn total market cap) and Transener (US$150mm total market cap)
- Per our stress case, we estimate net leverage at the recourse group to remain manageable at 2.6x

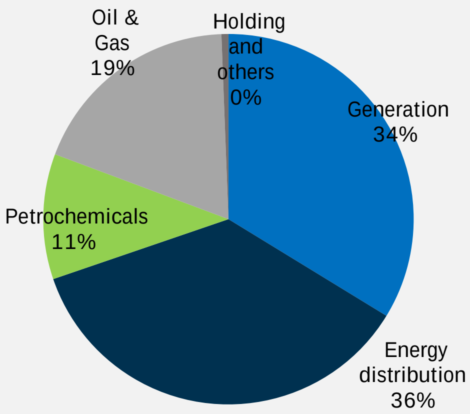
CONS:

- The company operates in heavily regulated business, which may be subject to government intervention (i.e. base energy can be pesified through a presidential decree while tariffs on energy distribution will been frozen for up to 180 days)
- F/X mismatch in its main subsidiary Edenor, as revenues are in ARS vs USD debt
- Edenor is a non-obligor for PAMPAR bonds
- The company's gas production, 90% of total O&G production, does not benefit from national subsidies after the end of Plan Gas 2, which resulted in average sale prices dropping to US$3.3/MMBTU in 3Q19 from US$4.7/MMBTU in 2018 and US$6.3/MMBTU in 2017

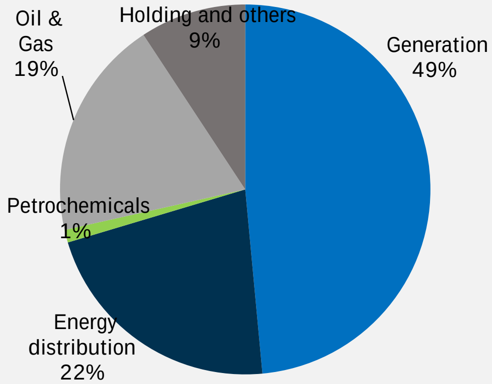
MARKET OUTPERFORM (ARGENTINA):

# PAMPAR 7.50% 27s

CONSOLIDATED REVENUE BY SEGMENT (3Q19)




CONSOLIDATED EBITDA BY SEGMENT (3Q19)




*Source: Pampa 3Q19 Earnings Release*

Energy generation: USD-linked revenue with a vast portion of ARS costs

Oil and gas: USD-linked revenue with a portion of ARS costs

Electricity distribution: ARS revenue with mostly ARS costs. Business non-recourse for PAMPAR bonds

Petrochemicals: USD-linked revenue with mostly USD costs

MARKET OUTPERFORM (ARGENTINA):

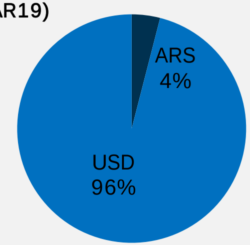
# PAMPAR 7.50% 27s

## STRONG CASH POSITION

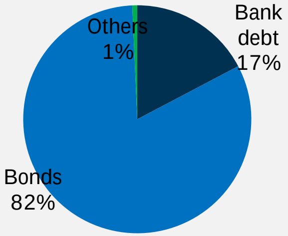
- Consolidated cash position at Sep 30, 2019 ended at US$584mm, compared to a ST debt of US$238mm, which mostly refers to bank debt, which we see easier to refinance
- Excluding positions at Edenor, which is a non-recourse subsidiary, cash position at Sep 30, 2019 ended at US$529mm, compared to a ST debt of US$205mm
- With its cash position, the company has enough funds to cover debt maturities through 2023, when the first of the three bonds outstanding comes due

| US$mm | Sep19 |
|---|---|
| Cash and cash equivalents | 584 |
| Ex – cash and equivalents at Edenor | 529 |
| Short term debt | 238 |
| Ex – ST debt at Edenor | 205 |

TOTAL DEBT PER CURRENCY (MAR19)

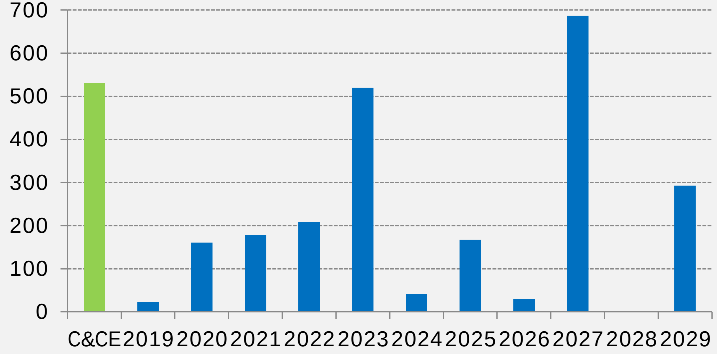



TOTAL DEBT BY INSTRUMENT (MAR19)




AMORTIZATION SCHEDULE 03.31.2019

US$MM




*Source: Pampa Energia Dec19 Presentation. C&CE and 2019 debt outstanding accounts for US$55mm debt redeemed post 3Q19*

MARKET OUTPERFORM (ARGENTINA):

# PAMPAR 7.50% 27s

STRESS CASE

- We assume 50% inflation on COGS for next twelve months
- We value the fx debt at an ARS of 86 (50% depreciation from ARS closing at Sep30, in order to consider full pass through of depreciation into inflation assumption)
- We pesified energy generation business at an ARS of 57.6 (ARS as of Sep30, 2019)
- For PPAs signed in 2016 & 2017 we assume contracted price is reduced by one third
- We assume a 50% passthrough of inflation into all regulated revenue (accordingly, we increased 3Q19 revenue by 25%)
- We keep gas prices in dollars at US$3.3/MMBTU

| US$mm – Exclduing Edenor (non recourse) | |
|---|---|
| Revenue in 3Q19 | 421 |
| Revenue under stressed scenario | 348 |
| | |
| EBITDA in 3Q19 | 211 |
| EBITDA under stressed scenario | 118 |
| Annualized | 470 |
| | |
| Recourse net debt at Sep30, 2019 | 1,242 |
| Net leverage under stressed scenario | 2.6x |

# CARIBBEAN

## MARKET OUTPERFORM (CARIBBEAN):

# DLLTD 8.75% 24s

**Digicel** is the Caribbean's largest mobile phone operator. It was founded in 2001 by current Chairman Denis O'Brien. Digicel Group Limited's (DGL) Caribbean operations are held at subsidiary, Digicel Limited (DL), where it serves ~14 mm subscribers across 33 markets, holding a leading position in the majority of its mature 2-3 player markets. The company also operates in several smaller Asian markets, primarily Papua New Guinea, under its subsidiary, Digicel Pacific Limited (DPL). The company currently has US$7.5 bn in outstanding debt, US$5.8 bn of which is international bonds, issued under DGL, DL and issuing vehicle DIFL. The holdco (DGL) is largely dependent on distributions from DL (~US$920 LTM EBITDA, ~US$90 mm cash on hand) to service its debt.

| Description | Issuer | Ticker | Coupon | Maturity | Amt (US$MM) | Rating (M/SP/F) | Mid Price | Mid Yield |
|---|---|---|---|---|---|---|---|---|
| Holdouts senior notes 8.25% | DGL3 | DLLTD | 8.25% | Sep-20 | 63 | WR/ -/ CC | 67.0 | 76.61% |
| Holdouts senior notes 7.125% | DGL3 | DLLTD | 7.13% | Apr-22 | 21 | Caa3/ -/ CC | 24.8 | 92.40% |
| Senior notes 8.25% | DGL2 | DLLTD | 8.25% | Sep-22 | 937 | Caa3/ -/ CC | 24.5 | 80.35% |
| Senior notes 9.125% | DGL2 | DLLTD | 9.13% | Apr-24 | 983 | -/ -/ CC | 15.5 | 77.90% |
| Senior secured notes 8.25% | DGL1 | DLLTD | 8.25% | Dec-22 | 1,000 | Caa1/ -/ B- | 57.3 | 31.47% |
| Senior notes 6.00% | DL | DLLTD | 6.00% | Apr-21 | 1,300 | B3/ -/ B- | 78.5 | 27.41% |
| Senior notes 6.75% | DL | DLLTD | 6.75% | Mar-23 | 925 | B3/ -/ B- | 59.5 | 26.60% |
| Senior secured notes 8.75% | DIFL | DLLTD | 8.75% | May-24 | 600 | B1/ -/ B | 98.3 | 9.24% |

**Pros:**

- Underlying strategic value remains compelling relative to Digicel's LTM net leverage at market (pro-forma IFRS) for DGL2 22s (6.0x) and DL 21s (4.4x) and DIFL 24s (2.5x)
- Carve outs and financial performance exemplify company's ability to continue servicing interest payments
- Positive 2Q20 financial results across structure:
  - Improved ARPU at DGL and DL, in line with company objectives
  - Stable revenues, despite f/x fluctuation. Mobile trends stabilizing with mobile offsetting data for second quarter in a row
  - Improved EBITDA q/q with 40% EBITDA margins. Fairly stable LTM EBITDA performance (-8% y/y)
  - FCF+ US$43 mm at DL (opco)
  - Capex-to-revenue of 15% in line with company guidance, signaling easing of competitive pressures
- Investments in Panama are capped at US$61mm

**Cons:**

- 2Q20 FCF negative at DGL on heavy interest burden, which we expect will ease in the next quarter
- High leverage levels, mainly at DGL3 and DGL2 (7.3x)
- US$1.1bn in senior secured RCFs and term loan facilities
- Potential for new money raise at DIFL level, which would expand leverage at DIFL
- Competitive environment in DGL's core Caribbean markets, which show no signs of abating
- FX risk – revenue is predominantly denominated in local currencies. Political unrest in Haiti continues to have negative impact on f/x and thus revenues
- Negative shareholders' equity
- High risk of customer churn from prepaids

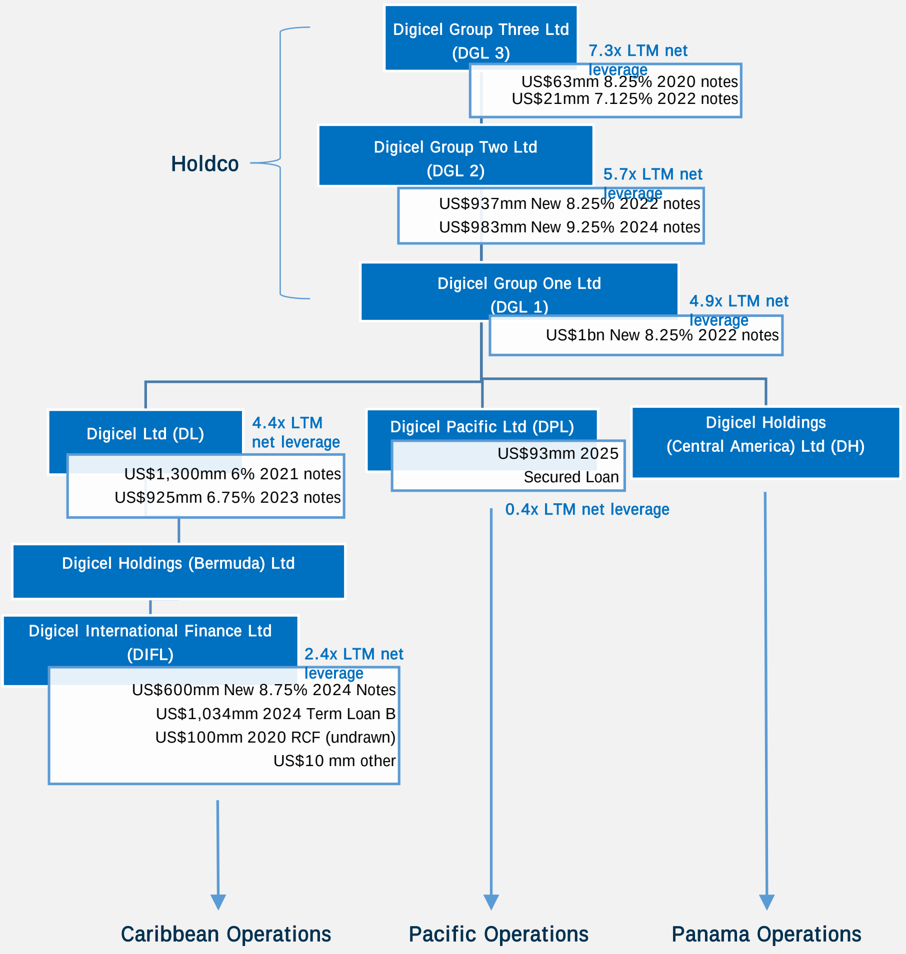
MARKET OUTPERFORM (CARIBBEAN):

# DLLTD 8.75% 24s

CORPORATE STRUCTURE

*Digicel's January 2019 coercive exchange added two new layers to the DGL (holdco) level of its capital structure*

- **DGL3** was the holdco and remains the issuer for exchange holdouts
- **DGL2**, subsidiary of DGL3, is the issuer for the New 22s (unsecured) and Old 22s (New 24s unsecured)
- **DGL1**, subsidiary of DGL2, is the issuer for Old 20s (New 22s secured)
- **Digicel Ltd (DL, Opco)**, subsidiary of DGL1, is issuer/guarantor of the 21s and 23s
- **Digicel International Finance Limited (DIFL)**, debt issuing vehicle and subsidiary of DL, is the issuer/guarantor of 1st Lien 24s, a US$1.0 bn term loan maturing in '24, a US$100 mm undrawn revolving credit facility maturing in '20 and US$10 mm in other debt
- **Digicel Pacific Limited (DPL)**, subsidiary of DGL1, holds Digicel's Asian operations (primarily PNG) and has a US$93 mm secured loan maturing in '25



## MARKET OUTPERFORM (CARIBBEAN):

# DLLTD 8.75% 24s

| | DGL3 20s | DGL3 22s | DGL2 22s | DGL2 24s | DGL1 22s | DL 21s | DL 23s | DIFL 24s |
|---|---|---|---|---|---|---|---|---|
| **BCP Rating** | - | - | **Positive (HO)** | - | - | **Positive (HO)** | - | **Market Outperform (TP)** |
| Coupon | 8.25% | 7.125% | 8.25% | 9.25% (7.125% cash + 2% PIK) | 8.25% | 6.00% | 6.75% | 8.75% |
| Maturity | 9/30/2020 | 4/1/2022 | 9/30/2022 | 4/1/2024 | 12/30/2022 | 4/15/2021 | 3/1/2023 | 5/25/2024 |
| Mid Price | 67.0 | 24.7 | 57.3 | 15.5 | 24.5 | 78.5 | 59.5 | 98.3 |
| Mid Yield | 74.43% | 91.69% | 31.34% | 77.67% | 31.34% | 27.08% | 26.49% | 9.24% |
| Amount Outstanding (US$MM) | 63 | 21 | 937 | 983 | 1,000 | 1,300 | 925 | 600 |
| Rank | Sr. Unsecured | Sr. Unsecured | Sr. Unsecured | Sr. Unsecured | 1st Lien | Sr. Unsecured | Sr. Unsecured | 1st Lien |
| Collateral: | - | - | DGL1 pledged collateral if (1) DGL1 22s repaid in full -or- (2) pledged collateral is sold (see next slides) | | (1) All capital stock of DPL and Digicel (Central America) Limited and (2) DGL1's receivable under Digicel (CA) Limited) | - | - | Security over shares and assets of DGL and its subs. |
| Guaranteed by: | - | - | - | - | - | DH, DIFL and their subs. (on subordinated basis) | | DH, DIFL and thier subs. |
| Covenants/Restrictions | - * | - * | Limitation on Debt Incurrence (DLG2 Levg. Ratio < 6.0x, DGL1, DL and DPL Levg. Ratio < 4.5x) | | Limitation on Debt Incurrence (DLG2 Levg. Ratio < 6.0x, DGL1, DL and DPL Levg. Ratio < 4.5x) | Limitation on Debt Incurrence (DLG2 Levg. Ratio < 6.0x, DGL1, DL and DPL Levg. Ratio < 4.5x) | | Limitation on Debt Incurrence (LTM Total Debt to EBITDA < 4.5x. Debt at DH, DIFL and subs. capped at US$2.3bn. Additional incurrence permitted if 1st Lien net leverage > 1.25x) |
| <u>LTM 2Q20 Pro-Rata Financial Results:</u> | | | | | | | | |
| **Revenue** | **2,193** | **2,193** | **2,193** | **2,193** | **2,193** | **1,719** | **1,719** | **1,719** |
| **Adj. EBITDA** | **991** | **991** | **991** | **991** | **991** | **794** | **794** | **794** |
| Capex | (404) | (404) | (404) | (404) | (404) | (344) | (344) | (344) |
| Interest paid | (561) | (561) | (561) | (561) | (561) | (233) | (233) | (233) |
| Taxes paid | (142) | (142) | (142) | (142) | (142) | (110) | (110) | (110) |
| Working Capital | (2) | (2) | (2) | (2) | (2) | (23) | (23) | (23) |
| **FCF** | **(117)** | **(117)** | **(117)** | **(117)** | **(117)** | **84** | **84** | **84** |
| Gross Debt | 7,480 | 7,417 | 7,396 | 6,459 | 5,476 | 4,280 | 2,980 | 2,027 |
| Cash | 180 | 180 | 180 | 180 | 180 | 92 | 92 | 92 |
| Net Debt | 7,299 | 7,236 | 7,215 | 6,278 | 5,295 | 4,188 | 2,888 | 1,935 |
| **Gross Leverage** | **7.5x** | **7.5x** | **7.5x** | **6.5x** | **5.5x** | **5.4x** | **3.8x** | **2.6x** |
| **Net Leverage** | **7.4x** | **7.3x** | **7.3x** | **6.3x** | **5.3x** | **5.3x** | **3.6x** | **2.4x** |
| **Net Leverage at market** | **7.3x** | **7.3x** | **5.7x** | **5.5x** | **4.9x** | **4.4x** | **3.2x** | **2.4x** |

** Net Leverage at market based on Mid Px as of open 01/13/2020. Exchange consent solicitations stripped bonds of nearly all restrictive covenants and events of default. DGL3 bonds now structurally subordinated to all subsidiary debt. Subsidiaries have no obligation to make payments on interest or principal at DGL3.*

## MARKET OUTPERFORM (CARIBBEAN):

# DLLTD 8.75% 24s

- US$1 bn of 8.25% senior secured 2022
- Senior to all other international bonds in the structure and pari-passu to the US$1.0 bn DIFL senior secured '24 Term Loan B
- Guaranteed on senior secured basis by Digicel Holdings (Bermuda) Limited ("DH"), DIFL and their subsidiaries
- Secured by 1st priority lien on collateral, which represents ~75% of DGL's (holdco) consolidated EBITDA and ~85% of DGL's (holdco) assets and includes:
  - 100% of capital stock of DH, DIFL and their subsidiaries
  - DH and DIFL property and assets
- Limitation on Debt Incurrence:
  - LTM Total Debt to EBITDA < 4.0x
  - Incurrence of up to US$2.3 bn under credit facilities, including new notes (currently US$1.7 bn in debt under DIFL)
    - US$2.3 bn represents US$1,450 mm +US$850 mm
    - Additional debt may be incurred if First Lien Net Leverage is $\leq$ 1.25x

| | Current Pro-Rata (2Q20) | | | | |
|---|---|---|---|---|---|
| | DGL3 | DGL2 | DGL1 | DL | DIFL |
| **Revenue** | **2,193** | **2,193** | **2,193** | **1,719** | **1,719** |
| **Adj. EBITDA** | **991** | **991** | **991** | **794** | **794** |
| Capex | (404) | (404) | (404) | (344) | (344) |
| Interest paid | (561) | (561) | (561) | (233) | (233) |
| Taxes paid | (142) | (142) | (142) | (110) | (110) |
| Working Capital | (2) | (2) | (2) | (23) | (23) |
| **FCF** | **(117)** | **(117)** | **(117)** | **84** | **84** |
| Gross Debt | 7,480 | 7,396 | 5,466 | 4,280 | 2,027 |
| Cash | 180 | 180 | 180 | 92 | 92 |
| Net Debt | 7,299 | 7,216 | 5,285 | 4,188 | 1,935 |
| **Gross Leverage** | **7.5x** | **7.5x** | **5.5x** | **5.4x** | **2.6x** |
| **Net Leverage** | **7.4x** | **7.3x** | **5.3x** | **5.3x** | **2.4x** |
| **Net Leverage at market** | **7.3x** | **5.7x** | **4.9x** | **4.4x** | **2.4x** |

** Net Leverage at market based on Mid Px as of open 01/13/2020*

# DIGICEL

## OTHER BCP RATED DIGICEL BONDS:

### DL 6% 04/15/2021

### (BCP HIGH OCTANE - POSITIVE)

- US$163 mm in upcoming maturities ahead of DL 21s
- Subordinated to US$1.7 bn in senior secured debt
- Appropriate covenants to reaffirm its seniority vs DGL
- Recent covenant changes open avenue for issuer to address upcoming '21 and possibly '23 maturities
- Ability to address 65c of upcoming DL 21 maturity with:
  - Est. US$280 mm (22c) in liquidity, which could be partially deployed in refinancing or exchange offer
    - US$180 mm recent cash balance
    - US$100 mm in additional liquidity via the undrawn DIFL revolving credit facility
  - US$555 mm (43c) in additional secured financing capacity at DIFL
    - According to covenants, DIFL can incur US$2.3 bn under credit facilities, including new notes (currently US$1.7 bn in utilized debt under DIFL)
- Recent refinancing, issuance at DIFL and available cash sources indicate co. has means to creatively address upcoming DL maturities
- Sufficient est. cash flow to service interest payments
- 5.3x net leverage, but 4.4x net leverage at market

| Digicel Limited Pro-Rata 2Q20 Results (US$MM) | US$MM |
|---|---|
| **Revenue** | **1,719** |
| **Adj. EBITDA** | **794** |
| Capex | (344) |
| Interest paid | (233) |
| Taxes paid | (110) |
| Working Capital | (23) |
| **FCF** | **84** |
| Gross Debt | 4,280 |
| Cash | 92 |
| Net Debt | 4,188 |
| **Gross Leverage** | **5.4x** |
| **Net Leverage** | **5.3x** |
| **Net Leverage at market** | **4.4x** |

** Net Leverage at market based on Mid Px as of open 01/13/2020*

# DIGICEL

## OTHER BCP RATED DIGICEL BONDS:

### DGL2 8.25% 09/30/2022

### (BCP HIGH OCTANE - POSITIVE)

- US$937 mm of 8.25% senior unsecured 2022
- US$5.1 bn of consolidated debt structurally senior to DGL2 2022
- Collateral: Should DGL1 22s be repaid in full, pledged collateral (stakes in Pacific/CentAm and Panama's receivable, which we estimate to be worth US$0.6 – 1.2 bn consolidated) will be transferred to DGL2 22s and DGL2 24s
- Asset sale: In case of asset sale of DGL1 collateral, if proceeds exceed US$50 mm, and if DGL1 and restricted subsidiaries have greater than US$300 mm of unrestricted cash, the first US$350mm shall be used to make an offer to purchase DGL2 2022 at par before such proceeds are used to make an offer to purchase DGL1 2022 and DGL2 2024
- Net leverage of 7.3x, but 5.7x at market (assuming all senior debt at par and DGL2 at market)
- While 5.7x net leverage (at market) is attractive versus our view of Total Enterprise Value, important risks remain
    - New money round: if DLLTD defaults we may have a bondholder led restructuring
        - This likely would entail a junior slice of the capital structure attempting to control the process
        - The typical means to do so would be through committing new money on a highly dilutive (expensive basis)
        - New money could bolster Digicel market positioning through expanded capex if needed
        - As such, valuation through DGL2 22s could be materially higher than 5.7x after the new money raise
    - Additionally, despite relative LTM EBITDA stability (-8% y/y) stability, any further decline in EBITDA would impact DGL2 22s negatively

| 2Q20 (US$MM) | Base Case (US$MM) * | Upside Case (US$MM) ** |
|---|---|---|
| **Subscribers (mm):** | | |
| Papua New Guinea | 2.61 | " " |
| Other Pacific | 0.64 | " " |
| **Total Subscribers (ex Panama)** | **3.25** | " " |
| | | |
| TEV Papua New Guinea | $550 | $740 |
| TEV Other Pacific | 136 | 183 |
| **Est. TEV (ex Panama)** | **$686** | **$922** |
| Carrying Value of Panama Loan | $79 | $79 |
| **Est TEV + carrying value of Panama loan (ex Panama)** | **$765** | **$1,001** |
| | | |
| **EBITDA (ex Panama)** | **193** | " " |
| **TEV/EBITDA (ex Panama)** | **4.0x** | **5.2x** |

** TEV based on TEV/Subscriber at TIM Brasil as of TIM Brasil's 3Q19 fiscal quarter*
*** TEV based on TEV/Subscriber at Millicom as of Millicom's 3Q19 fiscal quarter*

| Digicel Group Two Pro-Rata 2Q20 Results (US$MM) | US$MM |
|---|---|
| **Revenue** | **2,193** |
| **Adj. EBITDA** | **991** |
| Capex | (404) |
| Interest paid | (561) |
| Taxes paid | (142) |
| Working Capital | (2) |
| **FCF** | **(117)** |
| Gross Debt | 7,396 |
| Cash | 180 |
| Net Debt | 7,216 |
| **Gross Leverage** | **7.5x** |
| **Net Leverage** | **7.3x** |
| **Net Leverage at market** | **5.7x** |

** Net Leverage at market based on Mid Px as of open 01/13/2020*

# DIGICEL

## OTHER EXCHANGED NOTES:

### New DGL1 8.25% 12/30/2022

**(Old DGL3 8.25% 09/30/2020)**

- US$1 bn of 8.25% senior secured 2022
- Collateral: we estimate around US$765 – 1,000 mm in value
  - All capital stock of Digicel Pacific Limited (US$685 - 920 mm - BCP's estimate)
  - All capital stock of Digicel (CA) Limited, unrestricted subsidiary (US$0 mm - BCP's estimate)
  - DGL1's receivable under Digicel (Central America) Group Limited Credit Facility (US$80 mm carrying value)
- US$4.1 bn of consolidated debt structurally senior to DGL1 2022
- Net leverage at market of 4.9x, compared to net leverage at market for Old 20s of 7.3x

### New DGL2 9.125% cash/PIK 04/01/2024

**(Old DGL3 7.125% 04/01/2022)**

- US$979 mm of 9.125% senior unsecured cash pay/PIK 2024 (7.125% cash + 2% PIK)
- DGL2 is the issuer
- US$6.0 bn of consolidated debt structurally senior to DGL2 2024
- Net leverage at market of 5.5x, compared to net leverage at market for Old 22s of 7.3x

**Collateral arrangements** – after DGL1 22s are repaid in full, collateral will be transferred to DGL2 22s and DGL2 24s

**Consent solicitations** – removed substantially all of the covenants, restrictive provisions and events of default from holders of existing DGL3 notes

**Restricted payments** – Investments in Panama capped at US$61mm

# DIGICEL

## MARKET OUTPERFORM (CARIBBEAN):

<u>2Q20 Results DGL (Holdco):</u>

- **ARPU:** Improved ARPU (US$10.5 at DGL, +5% y/y and 1% q/q), consistent w/ mgmt. objectives
- **Subscribers:** Mobile subscribers decreased 6% y/y and 1% q/q to 12.9 mm on a 499k reduction in mobile subscribers in PNG following requirement for subscribers to register SIMS, alongside a 127k reduction in mobile subscribers in Jamaica, and a 64k reduction in El Salvador on increased competition
- **Revenue:** Stable across structure. Within mobile revenues (71% of DGL revenues), data growth offset voice declines for second Q in a row - a welcome development
- **EBITDA:** Improved sequentially, margin expansion to 40.4% at DGL and 42.0% at DL
- **Capex Discipline:** 15% capex-to-revenue at DGL (vs. 19% in 1Q20), in line w/ guidance
- **Free Cash Flow:** Negative US$7 mm at DGL (stronger EBITDA, WK generation and capex discipline balanced by heavy interest) – should improve next quarter on lower interest, FCF+ at DL (US$43 mm) for third quarter sequentially
- **LTM Net Leverage at Market:** 7.3x
- **DGL FY20 Guidance (pre-IFRS 16 impact):** Single dig. Rev and EBIT growth, EBITDA margin in line w/ FY19, Capex-to-revenue upper end of 13-15%, WK flat to slightly positive, Cash balance of US$100-120, Gross reported levg. ratio of ~7x

| Digicel Group Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|
| Total Subscribers (mm) | 13.3 | 13.4 | 14.1 | **(6%)** | **(1%)** |
| Mobile Subscribers | 12.9 | 13.0 | 13.7 | (6%) | (1%) |
| ARPU (USD) * | 10.5 | 10.4 | 10.0 | 5% | 1% |
| | | | | | |
| **Service Revenues** | **554** | **539** | **558** | **(1%)** | **3%** |
| - Mobile | 408 | 407 | 412 | (1%) | 0% |
| Voice | 187 | 195 | 208 | (10%) | (4%) |
| Data | 221 | 212 | 204 | 8% | 4% |
| - Business Solutions | 63 | 58 | 60 | 5% | 9% |
| - Cable TV, Broadband & Fixed | 51 | 50 | 48 | 6% | 2% |
| - Other Revenue | 32 | 24 | 38 | (16%) | 33% |
| **Total Revenues** | **574** | **564** | **582** | **(1%)** | **2%** |
| - Handset/Equipment Revenue | 20 | 25 | 24 | (17%) | (20%) |
| | | | | | |
| **EBITDA** | **232** | **225** | **251** | **(8%)** | **3%** |
| *EBITDA margin* | *40.4%* | *39.9%* | *43.2%* | *(274 bps)* | *52 bps* |
| Adjustment for leases/contracts | 18 | 19 | 19 | (5%) | (5%) |
| **EBITDA (pro-forma IFRS)**** | **250** | **244** | **270** | **(7%)** | **2%** |
| *EBITDA (ex-leases/contracts) margin* | *43.6%* | *43.3%* | *46.4%* | *(287 bps)* | *29 bps* |
| **LTM EBITDA (pro-forma IFRS)**** | **991** | **1,012** | **1,075** | **(8%)** | **(2%)** |

| | *IFRS 16* | *IFRS 16* | | | |
|---|---|---|---|---|---|
| Digicel Group Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
| Total Debt | 7,480 | 7,477 | 6,790 | 10% | 0% |
| Finance Facilities & Sr. Notes | 6,966 | 6,968 | 6,790 | 3% | (0%) |
| - Senior Debt | 1,736 | 1,738 | 1,565 | 11% | (0%) |
| Lease Obligations | 514 | 509 | n/a | - | 1% |
| Cash | 180 | 214 | 268 | (33%) | (16%) |
| Net Debt (IFRS 16) | 7,299 | 7,263 | 6,522 | 12% | 0% |
| | | | | | |
| LQA Gross Leverage (pro-forma IFRS 16) | 7.5x | 7.7x | n/a | - | (0.2x) |
| LQA Net Leverage (pro-forma IFRS 16) | 7.3x | 7.4x | n/a | - | (0.1x) |
| LTM Net leverage (pro-forma IFRS) | 7.4x | 7.2x | n/a | - | 0.2x |

| | *IFRS 16* | *IFRS 16* | | | |
|---|---|---|---|---|---|
| Digicel Group Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
| **EBITDA (pro-forma IFRS)**** | **250** | **244** | **270** | **(7%)** | **2%** |
| Working capital | 8 | 0 | (14) | - | - |
| Capex | (85) | (102) | (80) | 6% | (17%) |
| Interest paid | (140) | (102) | (61) | 130% | 37% |
| Taxes paid | (40) | (42) | (52) | (23%) | (4%) |
| **Free Cash Flow** | **(7)** | **(2)** | **63** | **(111%)** | **284%** |

** ARPU before 4Q18 includes business solutions, cable TV, broadband and fixed*

*** Assumes flat lease and contract impact q/q*

bcp

# DIGICEL

## MARKET OUTPERFORM (CARIBBEAN):

<u>2Q20 Results DL (Opco) and DIFL (Issuing Entity):</u>

- **ARPU:** Improved ARPU of US$10.3, flat y/y and 2% q/q
- **Subscribers:** Mobile subscribers decreased 3% y/y and 1% q/q to 10.4 mm on a 127k reduction in mobile subscribers in Jamaica, and a 64k reduction in El Salvador on increased competition
- **Revenue:** US$448 mm, down 1% y/y but up 1% sequentially
- **EBITDA:** US$205 mm on a headline basis, down 9% but up 5% q/q. EBITDA margin of 45.8%
- **Capex Discipline:** US$74 mm reflected a 2Q20 capex-to-revenue of 19% compared to 21% in 1Q20
- **Free Cash Flow:**
  - **DL:** US$43 mm, benefitting from strong EBITDA, working capital inflow and capex reduction
  - **DIFL:** US$76 mm, benefitting from strong EBITDA, and reduction in capex
- **Net Debt and LTM Net Leverage (pro-forma IFRS 16):**
  - **DL:** US$4,188 (+2% q/q), 5.3x
  - **DIFL:** US$1,935 mm (+4% q/q), 2.6x

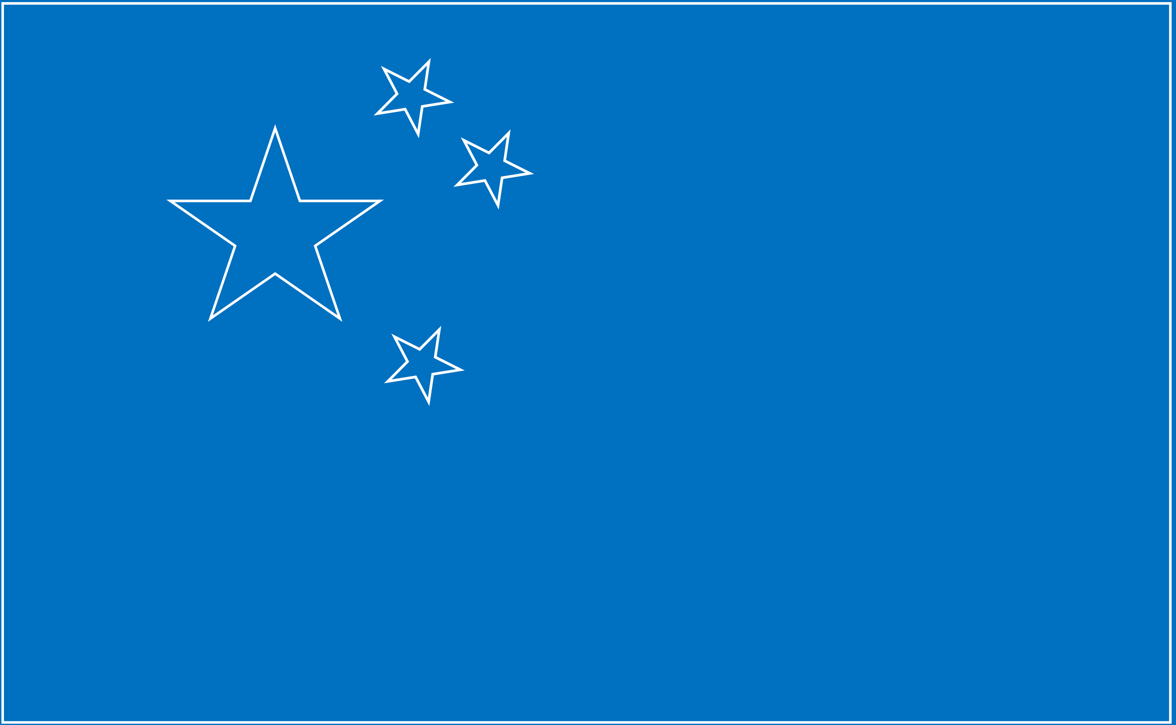
| | *IFRS 16* | *IFRS 16* | | | |
|---|---|---|---|---|---|
| Digicel Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
| Total Subscribers (mm) | 10.6 | 10.7 | 10.9 | **(3%)** | **(1%)** |
| Mobile Subscribers | 10.4 | 10.5 | 10.7 | (3%) | (1%) |
| ARPU (USD) * | 10.3 | 10.1 | 10.3 | 0% | 2% |
| | | | | | |
| **Service Revenues** | **431** | **426** | **437** | **(1%)** | **1%** |
| - Mobile | 321 | 321 | 331 | (3%) | 0% |
| Voice | 149 | 159 | 176 | (15%) | (6%) |
| Data | 172 | 162 | 155 | 11% | 6% |
| - Business Solutions | 46 | 44 | 43 | 7% | 5% |
| - Cable TV, Broadband & Fixed | 42 | 41 | 40 | 5% | 2% |
| - Other Revenue | 22 | 20 | 23 | (4%) | 10% |
| **Total Revenues** | **448** | **447** | **458** | **(2%)** | **0%** |
| - Handset/Equipment Revenue | 17 | 21 | 21 | (19%) | (19%) |
| | | | | | |
| **EBITDA** | **188** | **180** | **208** | **(10%)** | **4%** |
| *EBITDA margin* | *42.0%* | *40.3%* | *45.5%* | *(353 bps)* | *170 bps* |
| Adjustment for leases/contracts | 17 | 16 | 16 | 6% | 6% |
| **EBITDA (pro-forma IFRS)**** | **205** | **196** | **224** | **(9%)** | **5%** |
| *EBITDA (ex-leases/contracts) margin* | *45.8%* | *43.8%* | *49.0%* | *(323 bps)* | *191 bps* |
| **LTM EBITDA (pro-forma IFRS)**** | **794** | **814** | **898** | **(12%)** | **(2%)** |

| | *IFRS 16* | *IFRS 16* | | | |
|---|---|---|---|---|---|
| Digicel Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
| Total Debt | 4,280 | 4,256 | 3,695 | 16% | 1% |
| Finance Facilities & Sr. Notes | 3,869 | 3,868 | 2,225 | 74% | 0% |
| - Senior Debt | 1,644 | 1,643 | 1,470 | 12% | 0% |
| Lease Obligations | 411 | 388 | n/a | - | 6% |
| Cash | 92 | 156 | 68 | 35% | (41%) |
| Net Debt (IFRS 16) | 4,188 | 4,100 | 3,627 | 15% | 2% |
| | | | | | |
| LQA Gross Leverage (pro-forma IFRS 16) | 5.2x | 5.4x | n/a | - | (0.2x) |
| LQA Net Leverage (pro-forma IFRS 16) | 5.1x | 5.2x | n/a | - | (0.1x) |
| LTM Net leverage (pro-forma IFRS 16) | 5.3x | 5.0x | n/a | - | 0.2x |

| | *IFRS 16* | *IFRS 16* | | | |
|---|---|---|---|---|---|
| Digicel Limited (US$MM) | 2Q20 | 1Q20 | 2Q19 | y/y | q/q |
| **EBITDA (pro-forma IFRS)**** | **205** | **196** | **224** | **(9%)** | **5%** |
| Working capital | 1 | (1) | (18) | - | - |
| Capex | (74) | (89) | (68) | 10% | (17%) |
| Interest paid | (56) | (63) | (59) | (6%) | (12%) |
| Taxes paid | (33) | (31) | (45) | (27%) | 5% |
| **Free Cash Flow** | **43** | **12** | **35** | **24%** | **259%** |

** ARPU before 4Q18 includes business solutions, cable TV, broadband and fixed*

*** Assumes flat lease and contract impact q/q*



# CHINA

MARKET OUTPERFORM (CHINA):

# ANTOIL 7.5% 22

| | Ranking | Amt (US$mm) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|---|
| ANTOIL 9.75% 12/05/2020 | Company Guarnt | 300 | B1/-/B | 100.87 | 8.69% |
| ANTOIL 7.5% 12/02/2022 | Sr Unsecured | 300 | B1/-/- | 93.50 | 10.10% |

**Anton Oilfield Services Group** (3337 HK) is a Chinese oil & gas service provider founded in 1999. The company provides drilling, well completion and oil production services to oil & gas producers under traditional contracts as well as a management fee structure. In 1H19, 48% of total service revenue came from Iraq and 43% from PRC. In July 2018, Antoil obtained a two-year service contract in Majnoon oilfield, Iraq, which was insured by Sinosure under Belt & Road Initiative ("BRI"). The company recently refocused on China's onshore market, especially in Sichuan Basin and Xinjiang Province in west China. The shift of strategy is based on the management's expectation that drillers' capex will increase after cool-down of anti-corruption campaign within large state-owned oil & gas companies and China's intention to decrease dependence on oil imports. Antoil has implemented its asset-light business model in a shale gas project in Sichuan Basin, where equipment is leased from a local provider. Cash flow is expected to further improve on lower capex. In March 2019, Moody's upgraded Antoil from B2 to B1. In Nov 2019, the company issued ANTOIL 7.5% 22s proceeds of which will be used to redeem the 20s.

**Pros**

- More than half of revenue is denominated in USD.
- Capex of Chinese state-owned oil & gas companies is expected to grow.
- Management's focus is on increasing positive FCF.
- Favorable WK swing at year end.
- 27-month long contract in Chad will generate US$53mm revenue per year, starting from Sept 2019.
- Iraqi contract has been insured by Sinosure against possible war damage.

**Cons**

- Bond price has been highly sensitive to Brent volatility.
- Two biggest customers account for 41% of total service revenue.
- Modest backlog relative to annual revenue (1.9x).

MARKET OUTPERFORM (CHINA):

# ANTOIL 7.5% 22

**1H19 Financials**

- Revenue decreased 10% h/h but increased 29% y/y to US$229mm, due to decrease in provision of services.
    - Revenue in Iraq was flat h/h but increased 66% y/y to US$110mm. revenue in PRC increased 6% h/h and 67% y/y to US$99mm.
    - In 1H19, new orders in PRC increased 70% y/y to US$240mm, supported by a doubling of new orders in the Tarim Basin in Xinjiang.
    - From 6M19 to 9M19, backlog increased from estimated US$666~700mm to US$827mm.
- Reported EBITDA decreased 12% h/h but increased 17% y/y to US$99mm.
- Gross margin and EBITDA margin both decreased h/h to 34% and 43%.
- Reported FCF decreased 65% h/h to US$9mm, due to decrease in net OCF.
    - Capex increased 41% h/h to US$10mm. But it had decreased significantly relative to US$81mm capex in 2017.
- WK balance increased 10% h/h to US$312mm on more A/R.
    - A/R increased 14% h/h to US$397mm. A/R days increased 26% h/h to 311 days.
    - The company's client in Ethiopia, a Top 5 customer, delayed payment due to liquidity issues.

| Income Statement (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Revenue from goods & services | 229 | 254 | 178 | 29% | (10%) |
| - sales of goods | 22 | 13 | 23 | (5%) | 69% |
| - provision of services | 207 | 241 | 154 | 34% | (14%) |
| - PRC | 99 | 94 | 60 | 67% | 6% |
| - Iraq | 110 | 109 | 66 | 66% | 0% |
| - other countries | 21 | 51 | 52 | (61%) | (60%) |
| Revenue from rental | 14 | 4 | 5 | 155% | 268% |
| COGS | (161) | (163) | (111) | 45% | (1%) |
| SG&A, R&D, surcharges | (25) | (39) | (22) | 17% | (35%) |
| EBITDA reported | 99 | 113 | 85 | 17% | (12%) |
| Reported EBITDA margin | 43% | 44% | 48% | (448 bps) | (100 bps) |
| Gross margin | 34% | 37% | 39% | (556 bps) | (305 bps) |

| FCF (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Reported FCF | 9 | 26 | (21) | (144%) | (65%) |
| - Net operating cash flow | 39 | 55 | 7 | 452% | (28%) |
| - Cash Interest Payments | (20) | (21) | (21) | (3%) | (7%) |
| - Capital Expenditures | (10) | (7) | (8) | 34% | 41% |

MARKET OUTPERFORM (CHINA):

# ANTOIL 7.5% 22

### 1H19 Financials

- Gross debt was flat h/h at US$470mm. Total cash including restricted cash slightly increased h/h to US$151mm.
- Net debt decreased 3% h/h to US$319mm.
- LHA gross and net leverage both increased h/h to 2.4x and 1.6x, due to sequential decline in EBITDA.

### Growing Capex of Large Chinese Oil & Gas Producers

- There are three major state-owned oil & gas companies in China: China Petroleum & Chemical Corporation ("Sinopec"), China National Petroleum Corporation, ("CNPC") and China National Offshore Oil Corporation ("CNOOC").
- Increased capex by the three Chinese state-owned oil producers, in line with China's energy security strategy, has been a positive signal for Antoil's domestic business. In 1H19, capex of all three Chinese state-owned oil producers increased by double digits.

| Debt (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Gross debt | 470 | 475 | 456 | 3% | (1%) |
| - ST | 134 | 142 | 142 | (5%) | (5%) |
| - LT | 336 | 334 | 314 | 7% | 1% |
| Total cash | 151 | 148 | 130 | 16% | 2% |
| - cash | 92 | 100 | 68 | 35% | (8%) |
| - restricted cash | 59 | 48 | 62 | (5%) | 23% |
| Net debt | 319 | 328 | 326 | (2%) | (3%) |
| LHA gross leverage | 2.4x | 2.1x | 2.7x | (0.3x) | 0.3x |
| LHA net leverage | 1.6x | 1.5x | 1.9x | (0.3x) | 0.2x |

| Capex* of SOE Land Drillers (US$ bn) | Petro China | y/y | Sinopec | y/y | CNOOC | y/y |
|---|---|---|---|---|---|---|
| 1H18 Capex | 11 | | 3 | | 3 | |
| 2H18 Capex | 26 | | 13 | | 6 | |
| FY18 Capex | 36 | | 17 | | 9 | |
| 1H19 Capex Reported | 12 | 12% | 6 | 81% | 5 | 60% |
| 2H19 Capex Guidance | 31 | 19% | 13 | (1%) | 6 | (1%) |
| FY19 Capex Guidance | 42 | 17% | 19 | 16% | 11 | 20% |

### Recent Developments

- Effective from Dec 2019, the Ministry of Natural Resources of PRC opened onshore oil & gas exploration to local and foreign private companies. Before the change of policy, onshore exploration was only open to three state-owned companies mentioned above.
- On Jan 6, 2020, three days after death of Soleimani and one day after Iraqi parliament's vote to remove US troops, the Iraqi PM met the China's ambassador on enhancing BRI cooperation. Friendly Iraqi political environment will benefit Antoil's local operation.
- In June 2020, the company's service contract in Majnoon oilfield in Iraq will end. It will be reviewed in 2Q20 for possible one-year extension. The contract is also insured by Sinosure under BRI for any damage caused by war, Iraqi politics or foreign sanction.

*Note: * Including Capex in exploration & production, refining, pipeline etc.*

MARKET OUTPERFORM (CHINA):

# CARINC 6% 21

| | Ranking | Amt Out (US$ mm) | Ratings (M/SP/F) | Mid Price | Mid YTM (%) |
|---|---|---|---|---|---|
| CARINC 6.125% 04/02/2020 | Sr Unsecured | 328 | B1/B+/- | 99.52 | 14.78% |
| CARINC 6.00% 11/02/2021 | Sr Unsecured | 300 | B1/B+/- | 94.12 | 11.97% |
| CARINC 8.875% 05/10/2022 | Sr Unsecured | 372 | B1/B+/- | 93.59 | 12.11% |

**Car Inc** (699 HK) is the largest car rental company in China with 17% market share. The company's fleet is approximately 156k vehicles, expected to expand in 2019 200k with ~US$400mm annual Capex. Founded by Lu Zhengyao in 2007, the company is now owned by the founder (30%), Legend Holdings (27%) and Warbug Pincus (10%). Car Inc's parent company UCAR is also involved in the car-sharing business, which now requires no additional investment according to management. In 3Q19, 95% of rentals were self-serve with the help of Car Inc's mobile app and GPS devices, reducing costs of human resources and rental offices. In April 2019, the company issued US$372mm '22 senior notes, US$172mm of which was exchanged from the '20s through a par-plus-cash offer. Management is guiding to lower fleet expansion and cash generation to reduce net leverage in 2020.

**Pros**

- Market-leading position and strong brand recognition.
- There are 380 million licensed drivers in China and the number is growing by 24m per year. But there are only 340m individually owned cars, growing by only 10m per year. There is a growing shortage of cars for licensed drivers.
- High EBITDA margin. High percentage of self-service transactions (87%).
- Minimal WK investment other than fleet expansion.
- Fleet is unsecured. Simple capital structure.
- Decreasing impact from car sharing business.
- Traffic ticket reform making rental cars more attractive for non-local users.
- The management decided to slow down expansion and prioritize profitability in 2020.

**Cons**

- Capital intensive business due to fleet growth and maintenance required investments.
- Uncertainties lie in used vehicle market and realizable value of disposed vehicles in a soft car market.
- Cars are not easily pledged and as a result secured financing is less available.
- Founder's other cash-burning businesses may restrain resources available for Car Inc.
- USD bonds structurally subordinated to onshore borrowings of US$622 (mostly CNY unsecured) and US$256bn CNY bonds.
- In Dec 2019, bonds downgraded by S&P from BB- to B+ due to lower EBIT interest coverage

MARKET OUTPERFORM (CHINA):

# CARINC 6% 21

### 3Q19 Financials

- Fleet size increased 6% q/q to 155,780. ADRR decreased 6% y/y to US$31. RevPAC decreased 12% y/y to US$18.
- On the call, management said they intended to take measures to raise ADRR next year as price pressure is expected to ease due to lower car share competition.
- The company planned to dispose 30,000 vehicles in 2019 but only achieved 17,153 in first nine months due to weak auto sales in China. Current plans are to sell 25,000 cars through 2019 year end.
- 95% of fleet has been equipped with self-service devices and 87% of transactions were executed through Car Inc's cellphone app.
- Total revenue increased 8% y/y to US$280mm.
  - Rental revenue decreased 3% y/y to US$218mm.
  - Sales of used vehicles increased 83% y/y to US$62mm.
  - The company reported a 4.4% loss on used cars disposal, higher loss than typical approx. negative 1% gross margin
- Reported adj EBITDA was flat q/q and y/y at US$139mm. EBITDA increased 3% y/y in CNY terms.
- Gross and EBITDA margin both decreased y/y to 44% and 50%. Growth in revenue was not translated to growth in EBITDA.
- Cash burn increased y/y to US$22mm, driven by fleet expansion which can be uneven on a quarterly basis.
  - WK investment increased 41% y/y to US$131mm. Capex on fleet expansion increased y/y from only US$1mm to US$137mm.
  - Most 2018 capex took place in 2Q18.
  - In 2019, capex in first three quarters was US$102mm, US$100mm, and US$137mm.

| Income Statement (US$ mm) | 3Q19 | 2Q19 | 3Q18 | yoy | qoq |
|---|---|---|---|---|---|
| Revenue | 280 | 277 | 258 | 8% | 1% |
| - rental revenue | 218 | 208 | 225 | (3%) | 5% |
| - sales of used rental vehicles | 62 | 69 | 34 | 83% | (11%) |
| Costs | (156) | (161) | (128) | 22% | (3%) |
| Reported adj EBITDA | 139 | 126 | 139 | 0% | 10% |
| | | | | | |
| Reported EBITDA margin | 50% | 45% | 54% | (405 bps) | 413 bps |
| LTM reported EBITDA margin | 49% | 50% | 46% | 244 bps | (99 bps) |
| Gross margin | 44% | 42% | 50% | (626 bps) | 216 bps |
| | | | | | |
| EBIT | 55 | 59 | 78 | (29%) | (6%) |
| EBIT margin | 20% | 21% | 30% | (1,047 bps) | (155 bps) |
| EBIT interest coverage | 1.6x | 1.3x | 2.5x | (0.8x) | 0.3x |

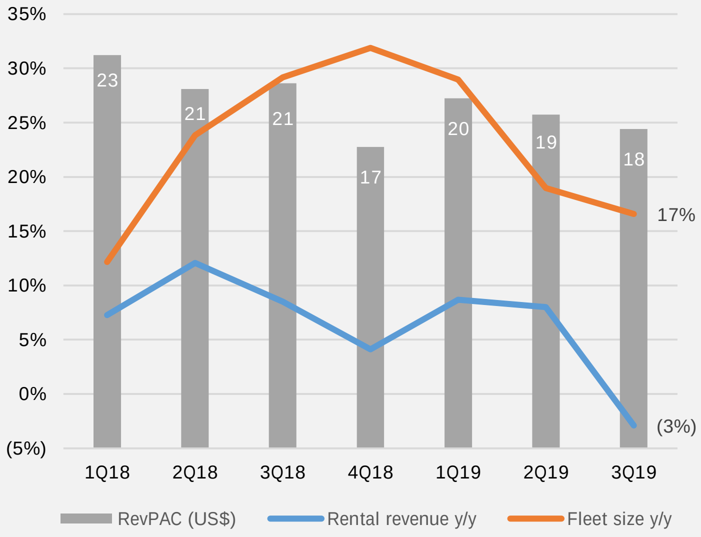
| FCF (US$ mm) | 3Q19 | 2Q19 | 3Q18 | yoy | qoq |
|---|---|---|---|---|---|
| Reported adj EBITDA | 139 | 126 | 139 | 0% | 10% |
| WK investment | (129) | (57) | (94) | 37% | 127% |
| - net vehicle expansion | (134) | (101) | (1) | 21503% | 33% |
| - inventories | 1 | (23) | 12 | (93%) | (103%) |
| - A/R | 35 | (45) | (106) | (133%) | (178%) |
| - A/P | (31) | 112 | 1 | (3362%) | (127%) |
| Capex - PPE | (6) | (5) | (12) | (50%) | 15% |
| Net interest paid | (25) | (22) | (36) | (30%) | 15% |
| Acquisition & investment in associate | 0 | (10) | 0 | - | (100%) |
| Deposits for borrowings | 0 | (9) | 0 | - | (100%) |
| Calculated FCF | (22) | 23 | (4) | 431% | (196%) |

MARKET OUTPERFORM (CHINA):

# CARINC 6% 21

**3Q19 Fleet Investment**

- Over 9M19, Car Inc acquired 34,990 cars and sold 17,153, expanding the fleet by 17,837 cars.
- Net fleet capex for 2020, management expects to grow the fleet by 10k cars. We assume 35k cars purchased at average cost of US$16k and 20k cars sold at US$10k. Gross and net capex in FY20 would be US$548mm and US$349mm, respectively, approximately US$50mm lower than usual.
- Gross and net fleet capex in 9M19 was US$512mm and US$332mm
- We see FCF for 9M19 as mildly negative (approx. US$4mm) once incorporating cash interest expense which - appears excluded from management's calculation.
- However, we note the large capex associated with expansion as estimated above.
- We believe this business model, with high margins and flexible fleet management, can generate ample free cash flow if management moderates growth ambitions.
- On a conference call after S&P downgrade, the management said they would slow down expansion in 2020 and purchase less cars. Net addition was revised down to 10k.



MARKET OUTPERFORM (CHINA):

# CARINC 6% 21

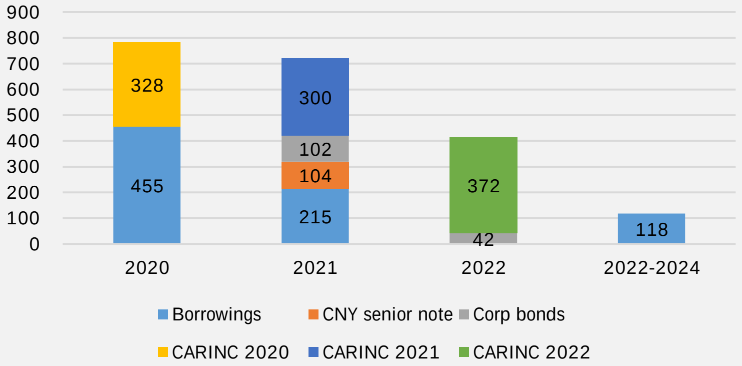
### 3Q19 Debt Profile

- Gross debt increased 8% q/q to US$2,024mm. Total cash increased 15% q/q to US$625mm. Net debt increased 5% to US$1,399mm.
- Gross debt included:
    - US$789mm borrowings.
    - US$247mm CNY bonds.
    - US$988mm USD bonds.
- On the earnings call, the management announced plans to redeem CARINC 2020 with US$350mm offshore money by year's end, including US$170mm offshore deposits, US$100mm to be received from an offshore club loan, and US$100mm onshore cash balance to be transferred offshore.
- LTM gross and net leverage both increased q/q to 3.9x and 2.7x.
- The company also has a backup plan to securitize A/P, extending payment terms to auto OEMs. US$429mm quota has been approved by the regulator.

| 3Q19 Debt Profile (US$ mm) | 2020 | 2021 | 2022 | 2022-2024 |
|---|---|---|---|---|
| Borrowings | 455 | 215 | - | 118 |
| CNY senior note | - | 104 | - | - |
| CNY corp bonds | - | 102 | 42 | - |
| CARINC 2020 | 498 | - | - | - |
| CARINC 2021 | - | 295 | - | - |
| CARINC 2022 | - | - | 195 | - |



Gross Debt Term Structure, 3Q19 (US$ mm)



MARKET OUTPERFORM (CHINA):

# CARINC 6% 21

**Recent Developments**

- On Sept 10, Ministry of Public Security of PRC simplified the process for drivers to settle their traffic violation tickets through a cellphone app, making it more convenient for people to use rented vehicles. For example, before the reform, a Beijing driver who rents a car in Shanghai had to report to Shanghai police if he/she received a ticket in Shanghai. In many cases the driver only finds out when he/she has returned the rented vehicle and left Shanghai, and many are discouraged to rent cars. In 2017, 69% of rented cars in China were used for tourism and vacation.
- Lu Zhengyao, founder & shareholder of Car Inc, has two other ventures: UCAR and Luckin Coffee. Lu's family owns 10% of UCAR (which owns 29% of Car Inc) and 31% of Luckin Coffee. Even though both entities are listed, they are in expansion phase and require substantial amount of investment. On earnings call, Car Inc's management stated the company its operations are fully independent from UCAR.
- In Dec 2019, S&P downgraded CARINC from BB- to B+ with stable outlook. S&P'S primary focus is EBIT interest coverage which has been sustainably below 2.2x. As a result, management decided to slow down expansion and capex and prioritize profitability, FCF and deleveraging in 2020. We acknowledge recent decline in EBIT margins as D&A per vehicle is higher due to lower vehicle residuals in a softer used car market. However, EBIT is still above levels of two years ago and EBITDA is significantly higher due to impressive margin expansion through 2018 and early 2019.

MARKET OUTPERFORM (CHINA):

# KAISAG 8.5% 22

| | Rankings | Amt Out (US$ mm) | Ratings | Mid PX | Mid YTM (%) |
|---|---|---|---|---|---|
| KAISAG 11.95% 22/10/2022 | Sr Secured | 600 | B2/ -/ B | 107.87 | 8.68% |
| KAISAG 9.375% 30/06/2024 | Sr Secured | 3,052 | B2/ -/ - | 99.23 | 9.59% |
| KAISAG 8.5% 30/06/2022 | Sr Secured | 1,147 | -/ -/ B | 100.83 | 8.11% |
| KAISAG 10.875% 23/07/2023 | Sr Secured | 450 | B2/ -/ B | 104.50 | 9.35% |
| KAISAG 11.5% 30/01/2023 | Sr Secured | 700 | B2/ -/ B | 106.30 | 9.08% |
| KAISAG 7.25% 30/06/2020 | Sr Secured | 540 | -/ -/ - | 100.53 | 6.05% |
| KAISAG 11.25% 09/04/2022 | Sr Secured | 550 | B2/ -/ - | 106.82 | 7.85% |
| KAISAG 7.875% 30/06/2021 | Sr Secured | 400 | -/ -/ - | 101.22 | 6.98% |
| KAISAG 11.75% 26/02/2021 | Sr Secured | 400 | B2/ -/ - | 105.68 | 6.37% |
| KAISAG 11.95% 12/11/2023 | Sr Secured | 300 | B2/ -/ B | 107.63 | 9.51% |
| KAISAG 11.95% 22/10/2022 | Sr Secured | 600 | B2/ -/ B | 107.87 | 8.68% |

**Kaisa Group Holdings** (2168 HK) is a Chinese residential property developer that focuses on the affluent Greater Bay Area(1) in southern China and other Tier 1 & 2 cities in eastern China, with high ASP of US$2,608 per sqm. Kaisa is renowned for its profitable city gentrification projects (or Urban Renewal Projects, "URP") that are not included in land bank. URPs contribute around one-third of contracted sales, with higher gross margin relative to common residential projects. In 2015, the company was involved in an anti-corruption campaign against Jiang Zunyu, a former high-ranking official in Shenzhen, and Kaisa projects were briefly prohibited being sold. As a result, Kaisa became the first PRC developer to defaulted on offshore borrowings. Bonds were exchanged on par for par plus accrued basis. In March 2017, Kaisa stock resumed trading. In FY19, the attributable contracted sales increased 26% y/y, while most other developers had much slower growth. Current market cap is US$312mm.

**Shareholders**

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

**Pros**

- Valuable URP not included on balance sheet provides high quality land bank in tier 1 & 2 cities.
- High growth in contracted sales in 1H19 stands out among peers.
- Low net WK as % net debt.
- Cash in excess of STD.
- Leverage steadily declining.
- Political risk has subsided.

**Cons**

- Leverage remains high relative to peers.
- Effected by sluggish contracted sales before, revenue in 2H18 decreased y/y.
- URP business relies on government relations and has inherent related risk.
- Higher Pledged Assets / Gross Debt than peers.

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

MARKET OUTPERFORM (CHINA):

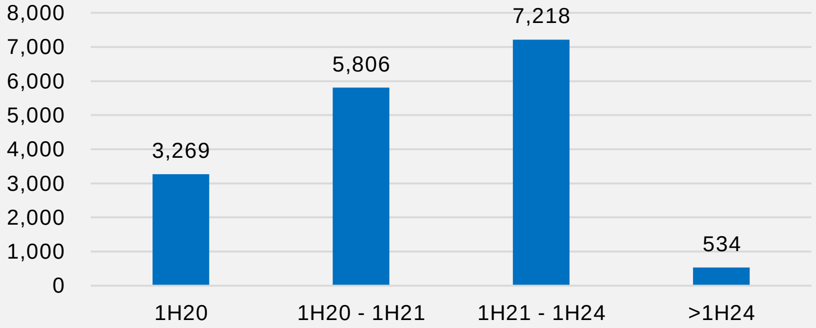
# KAISAG 8.5% 22

### 1H19 Debt Profile

- Senior notes, mostly USD bonds, increased 17% h/h to US$6,751mm and accounted for most of debt increase.
- All senior notes were secured by shares of subsidiaries outside PRC. Since almost all Kaisa's assets and operations were inside PRC, senior notes should be considered as unsecured and subordinated to onshore debt.
- H/H increase in secured bank loan (mostly onshore) was US$610mm, while decrease in unsecured bank loan (mostly onshore) was US$617mm. The company appears to have refinanced unsecured bank loans with secured loans.
- Same trend was also observed in other borrowings. Secured other borrowings increased US$226mm h/h, while unsecured other borrowings decreased US$168mm.
- But pledged assets for bank and other borrowings decreased 5% h/h from US$10,748mm to US$10,222mm.
- All onshore borrowings (US$6,394mm) were floating rate linked to PBoC's benchmark rate.

| Debt Profile (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Gross debt | 16,826 | 15,812 | 16,557 | 2% | 6% |
| | | | | | |
| STD | 3,269 | 2,466 | 2,765 | 18% | 33% |
| LTD | 13,557 | 13,346 | 13,792 | (2%) | 2% |
| | | | | | |
| Senior notes | 6,751 | 5,776 | 5,434 | 24% | 17% |
| Secured bank borrowings | 6,105 | 5,495 | 6,162 | (1%) | 11% |
| Unsecured bank borrowings | 566 | 1,183 | 489 | 16% | (52%) |
| Secured other borrowings | 2,683 | 2,457 | 3,444 | (22%) | 9% |
| Unsecured other borrowings | 538 | 706 | 872 | (38%) | (24%) |
| Unsecured loans from a related company | 16 | 16 | 16 | (4%) | 0% |
| Unsecured loans from associates | 69 | 180 | 141 | (51%) | (62%) |
| CB | 98 | - | - | - | - |

Gross Debt Term Structure (US$ mm)



MARKET OUTPERFORM (CHINA):

# KAISAG 8.5% 22

## 1H19 Financials

- Attributable contracted sales increased 29% y/y to US$5,112mm. GFA increased 38% y/y to 2m sqm. ASP decreased 7% y/y to US$2,608 per sqm.
  - URP accounted for 33% of total contracted sales in 1H19.
  - Assuming 75% cash collection ratio, contracted sales in 1H19 generated US$3,834m cash.
- Revenue increased 26% y/y to US$2,963mm. High growth in contracted sales in 2018 was converted to revenue growth.
- Reported EBITDA increased 15% y/y to US$1,198mm.
- Gross margin increased y/y to 33%. EBITDA margin decreased y/y to 40%.
- Gross debt increased 6% h/h to US$16,826mm. Total cash increased 26% h/h to US$4,172mm. Net debt slightly increased h/h to US$12,654mm.
- Total cash as % of STD had been declining sequentially to 128%.
- Net WK as % net debt increased h/h from 42% to 47%, a low percentage among peers.
- LTM gross and net leverage (using reported EBITDA) both decreased h/h to 6.9x and 5.2x.

| Contracted Sales (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Attributable contracted sales | 5,112 | 6,521 | 3,975 | 29% | (22%) |
| y/y | 29% | 95% | 22% | 696 bps | - |
| GFA (m sqm) | 2.0 | 2.4 | 1.4 | 38% | (19%) |
| ASP | 2,608 | 2,694 | 2,807 | (7%) | (3%) |

| Income Statement (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Revenue | 2,963 | 3,451 | 2,359 | 26% | (14%) |
| COGS | (1,974) | (2,519) | (1,616) | 22% | (22%) |
| SG&A | (303) | (306) | (277) | 9% | (1%) |
| EBITDA reported | 1,198 | 1,235 | 1,043 | 15% | (3%) |
| | | | | | |
| Gross margin | 33% | 27% | 32% | 184 bps | 636 bps |
| EBITDA margin | 40% | 36% | 44% | (378 bps) | 466 bps |

| Guarantees (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Mortgage guarantee | 4,874 | 4,458 | 4,712 | 3% | 9% |
| Mortgage guarantee as % gross debt | 29% | 28% | 28% | 51 bps | 77 bps |

| Debt (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Gross debt | 16,826 | 15,812 | 16,557 | 2% | 6% |
| - ST | 3,269 | 2,466 | 2,765 | 18% | 33% |
| - LT | 13,557 | 13,346 | 13,792 | (2%) | 2% |
| Total cash | 4,172 | 3,322 | 3,919 | 6% | 26% |
| - cash & bank balances | 3,065 | 2,250 | 2,378 | 29% | 36% |
| - ST bank deposits | 51 | 37 | 6 | 689% | 38% |
| - ST financial assets | 39 | 48 | 10 | 306% | (19%) |
| - restricted cash | 1,018 | 987 | 1,525 | (33%) | 3% |
| Net debt | 12,654 | 12,490 | 12,637 | 0% | 1% |
| | | | | | |
| Gross debt/equity | 2.6x | 3.0x | 3.4x | (0.8x) | (0.4x) |
| Net debt/equity | 1.9x | 2.4x | 2.6x | (0.7x) | (0.4x) |
| LTM gross leverage (reported EBITDA) | 6.9x | 6.9x | 7.6x | (0.7x) | (0.0x) |
| LTM net leverage (reported EBITDA) | 5.2x | 5.5x | 5.8x | (0.6x) | (0.3x) |

MARKET OUTPERFORM (CHINA):

# KAISAG 8.5% 22

### 1H19 Land Bank Financing

- Negative net WK balance increased 14% h/h to US$5,960mm on more A/P and customer advances.
- Land bank increased 8% h/h to US$24,932mm on more investment in associates & JVs.
  - The company reported US$2,286m land acquisition in 1H19, which was equal to 60% of calculated cash inflow from contracted sales, a high percentage among peers.
  - Annual budget for land acquisition in 2019 was US$3,950m.
- Minority shareholders' interest in the company increased 42% h/h to US$3,026mm.
- Total funded liabilities (net WK + net debt + NCI) as % of land bank increased h/h from 86% to 87%.

### 1H19 Land Bank & URP Reserve(1)

- The company had URP with 32 m sqm site area, most located in GBA. GFA of land bank was 26 m sqm, 7 m of which was converted from URP. The market value (based on Kaisa's estimate) of the 7 m sqm GFA was US$28bn and 9x the book value.
- In 1H19, 0.2 m sqm GFA URP was converted into land bank, and 0.5 m sqm to be converted in 2H19. Annual target was 0.8 ~ 1 m sqm.
- In 1H19, 0.7 m sqm GFA of sellable inventories was converted from URP with US$5.7bn market value. In 2H19, 0.5 m sqm GFA is expected to be converted into sellable inventories with US$4.7bn market value.

| Land Bank Financing (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Sellable inventories | 2,435 | 1,909 | 1,951 | 25% | 28% |
| A/R | 3,798 | 3,286 | 2,918 | 30% | 16% |
| A/P | 1,821 | 1,832 | 1,753 | 4% | (1%) |
| Other A/P | 3,769 | 2,896 | 2,402 | 57% | 30% |
| Customer advances | 6,603 | 5,692 | 5,191 | 27% | 16% |
| Net WK | (5,960) | (5,225) | (4,478) | 33% | 14% |
| | | | | - | - |
| PUD | 9,759 | 9,415 | 8,878 | 10% | 4% |
| Deposits for land acquisition | 3,173 | 2,827 | 3,077 | 3% | 12% |
| Prepayments for proposed development projects | 2,849 | 2,774 | 2,708 | 5% | 3% |
| Investment properties | 5,207 | 5,224 | 5,056 | 3% | (0%) |
| PPE | 458 | 444 | 426 | 8% | 3% |
| Land use rights | 98 | 97 | 60 | 62% | 1% |
| Investment in associates | 1,789 | 1,028 | 820 | - | 74% |
| Investment in JVs | 1,598 | 1,261 | 1,135 | 41% | 27% |
| Land bank | 24,932 | 23,071 | 22,160 | 13% | 8% |
| | | | | - | - |
| Net WK | (5,960) | (5,225) | (4,478) | 33% | 14% |
| Net debt | (12,654) | (12,490) | (12,637) | 0% | 1% |
| NCI | (3,026) | (2,137) | (1,760) | 72% | 42% |
| Land bank | 24,932 | 23,071 | 22,160 | 13% | 8% |
| Excess book value | 3,292 | 3,219 | 3,285 | 0% | 2% |
| Funded liabilities / land bank | 87% | 86% | 85% | 162 bps | 75 bps |
| Total cash / customer advances | 63% | 58% | 75% | (1,232 bps) | 481 bps |
| Net WK / net debt | 47% | 42% | 35% | 1,167 bps | 527 bps |

| Land & URP Reserve | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| Land bank GFA (m sqm) | 26 | 24 | 22 | 16% | 7% |
| URP land reserve site area (m sqm) | 32 | 30 | 27 | 20% | 7% |
| Est URP GFA (m sqm) | 97 | 90 | 80 | 20% | 7% |

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

MARKET OUTPERFORM (CHINA):

# KAISAG 8.5% 22

### 1H19 Cash Flow Analysis

- Negative FCF pre WK decreased 86% y/y to US$228mm, on more cash injection from non-controlling interest, less tax and interest payment and less investment in land and investment properties.
- Cash injection from non-controlling interest increased y/y from US$40mm to US$828mm. No detail disclosed.
- Tax and interest payment together decreased 34% y/y to US$708mm.
- Investment in land and properties, including addition to land and investment properties, decreased 77% y/y to US$48mm.

| FCF Pre WK (US$ mm) | 1H19 | 2H18 | 1H18 | y/y | h/h |
|---|---|---|---|---|---|
| EBITDA reported | 1,198 | 1,235 | 1,043 | 15% | (3%) |
| | - | - | - | | |
| Income tax paid | (126) | (131) | (359) | (65%) | (4%) |
| Net interest paid | (582) | (889) | (716) | (19%) | (35%) |
| Net dividend paid | - | (107) | - | | |
| Cash injection from NCI | 828 | 425 | 40 | 1973% | 95% |
| | | | | | |
| Investment in land, properties | (48) | (321) | (207) | (77%) | (85%) |
| Capex | (55) | (35) | (22) | 155% | 57% |
| Equity invesment | (946) | (240) | (819) | 15% | 293% |
| Investment from/to affiliates | (496) | (408) | (596) | (17%) | 22% |
| Land investment | (1,545) | (1,004) | (1,642) | (6%) | 54% |
| | | | | | |
| FCF pre WK | (228) | (472) | (1,635) | (86%) | (52%) |

| FCF (US$ mm) | FY18 | FY17 | FY16 | y/y |
|---|---|---|---|---|
| EBITDA reported | 2,185 | 1,649 | 251 | 33% |
| | | | | |
| Income tax paid | (461) | (292) | (178) | 58% |
| Net interest paid | (1,542) | (1,175) | (740) | 31% |
| Net dividend paid | (106) | 3 | 3 | (3315%) |
| Cash injection from NCI | 458 | 1 | | - |
| | | | | |
| Investment in land, properties | (508) | (504) | (503) | 1% |
| Capex | (55) | (229) | (27) | (76%) |
| Equity invesment | (993) | (1,442) | (1,097) | (31%) |
| Investment from/to affiliates | (953) | (59) | (150) | 1518% |
| Land investment | (2,509) | (2,235) | (1,778) | 12% |
| | | | | |
| FCF pre WK | (1,974) | (2,048) | (2,442) | (4%) |
| | | | | |
| Customer advances | 2,243 | 227 | 2,024 | 888% |
| A/P | 1,058 | 527 | (1,459) | 101% |
| A/R | (488) | (536) | 1,153 | (9%) |
| Prepayments | (1) | (251) | (549) | (100%) |
| PUD | 82 | 598 | 1,519 | (86%) |
| Restricted cash, financial assets | (11) | (12) | (711) | (14%) |
| WK investment | 2,884 | 554 | 1,976 | 421% |
| | | | | |
| FCF | 910 | (1,494) | (466) | (161%) |

# COLOMBIA

## MARKET OUTPERFORM (COLOMBIA):

# GTE 6.25% 25s

| Description | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|
| GTE 6.25% 2/15/2025 | $300 | - / B+ / B | 93.75 | 7.76% |

**Gran Tierra** is an upstream oil and gas company, with production of nearly 33kbpd in 3Q19 (28kboepd after royalties), mostly comprised of crude oil. Operations are focused in Colombia, while contracts for exploratory blocks were recently signed in Ecuador. Bonds dropped in 2H19 given production disappointments driven by farmer blockades in the Suroriente area and electric submersible pump failures in the Acordionero field in June 2019. However, we welcome the operational update of December 2019, when production was reported to have recovered to above 35kbpd, although still below peak levels. The company is listed in the NYSE and the TSX, with a market cap of US$484mm.

PROS:

- Efficient cost structure, with an operating netback of US$27/boe in 3Q19 and estimated development costs under US$10/boe
- The company is the sole operator of the vast majority of its blocks, allowing the it to potentially decrease capex under a lower crude price environment
- Ample level of 2P reserves of 120mmboe at Dec18 (9 years of average life)
- Comfortable liquidity, with no debt amortizations until 2025 and untapped revolving credit facilities of US$300mm
- Production recovered in end-2019, reported at 35kbpd in Dec19 after bottoming at 29kbpd in Jun19. 2020 mid-guidance stand at 36.5kbpd
- 2020 to focus on cash generation, with US$60-80mm FCF guided, to be used to pay down the outstanding credit facilities

CONS:

- Small scale, mostly concentrated in the Acordionero field, where production has been unstable after the failures in the electric submersible pump from last Jun19, while farmers blockades in Suoriente, the second most important field, interrupted production for further 4.5kbpd in the same months
- Low proven reserves, with 4 years of average reserve life and 2.8 years of PDP
- Current production and 2020 guidance is still below the peak production of 38.2kbpd reached in 1Q19
- Farmer blockades in Suoriente were resolved through government commitments to increase investment in the area. If the government fails to comply with its commitments, unrest could resume.

MARKET OUTPERFORM (COLOMBIA):

# GTE 6.25% 25s

SMALL CAP EMERGING MARKETS B/BB E&P PEER TABLE

| (US$ MM) | Gran Tierra | Frontera | Geopark | Medco | Tecpetrol | Seplat | Tullow | Kosmos |
|---|---|---|---|---|---|---|---|---|
| Country | Colombia | Colombia | Chile | Indonesia | Argentina | Nigeria | Pan African | Pan African |
| Mid yield (%) | 8.26% | 7.57% | 4.86% | 6.29% | 4.92% | 6.84% | 11.24% | 6.40% |
| Rating (M/SP/F) | -/B+/B | -/BB-/B+ | -/B+/B+ | B2/B/B+ | B2/-/BB+ | B2/B-/B- | Caa1/B/- | B2/BB-/BB |
| Bond maturity | 2025 | 2023 | 2024 | 2025 | 2022 | 2023 | 2025 | 2026 |
| Amt Out (US$mm) | 300 | 350 | 425 | 500 | 500 | 350 | 800 | $650 |
| | **3Q19** | **3Q19** | **3Q19** | **2Q19** | **3Q19** | **3Q19** | **1H19** | **3Q19** |
| Oil & Gas prod (kboed) | 32.9x | 70.2 | 39.6 | 96.0 | 114.0 | 47.2 | 86.3 | 62.6 |
| Revenue | 132 | 278 | 151 | 342 | 366 | 140 | 902 | 357 |
| EBITDA | 75 | 126 | 87 | 183 | 260 | 96 | 758 | 216 |
| FCF | (58) | 57 | 57 | (428) | 73 | 16 | 300 | 91 |
| Gross debt | 638 | 356 | 435 | 3,508 | 1,532 | 357 | 4,591 | 2,106 |
| Net debt | 624 | 43 | 353 | 2,259 | 1,440 | (97) | 4,229 | 1,903 |
| LQA Gross leverage | 2.1x | 0.7 | 1.3x | 4.8x | 1.5x | 0.9 | 2.8 | 2.4 |
| LQA Net leverage | 2.1x | 0.1 | 1.0x | 4.1x | 1.4x | na | 2.6 | 2.2 |

Source: Bloomberg as of 06/01/2020

MARKET OUTPERFORM (COLOMBIA):

# GTE 6.25% 25s

2020 GUIDANCE

| (US$ MM) | Base Case | High Case |
|---|---|---|
| Brent | 60 | 65 |
| Production (kboe/d) | 35.5-37.5 | 35.5-37.5 |
| EBITDA | 330-350 | 380-400 |
| Cash flow | 270-290 | 310-330 |
| Capex | 200-220 | 200-220 |
| Free cash flow | 60-80 | 100-120 |
| Net leverage (1) | 1.4x | |

(1) Target for 4Q20

- Management focus in 2020 will be towards cash generation instead of production expansion
- To achieve this, the company is significantly reducing its capex levels to US$200-220mm. In 9M19, capex was US$388mm
- 2020 guided capex is almost two thirds of guided EBITDA
- Total free cash flow generation is expected at US$60-80mm
- Usage of FCF will be to pay down the outstanding credit facilities, which had a balance of US$57mm at Sep19, and for share repurchases, with priority being given to the former.
- Additionally, the company extended its credit facility to November 2022, with borrowing base of US$300mm confirmed until next redetermination in May 2020
- Targeted net leverage by year-end is 1.4x

MARKET OUTPERFORM (COLOMBIA):

# GTE 6.25% 25s

ANALYSIS OF 3Q19 RESULTS

- Revenue decreased 16% q/q to US$132mm, driven by a 12% q/q decrease in realized prices and a 5% drop in sales volumes
- Production in the quarter averaged 32.9kbpd, a decrease of 7% q/q, given replacement of the electric submersible pump on the Acordionero field after the failures encountered in June
- According to management, this impacted production by around 3kbpd, while current production was reported at 34.0kbpd
- EBITDA, excluding FX results and interest income, declined 23% q/q to US$75mm
- Operating netback per barrel decreased 32% q/q to US$27.3/boe
- Simplified free cash flow was negative US$58mm from negative US$43mm in previous quarter
- As a result, net debt increased 14% q/q to US$624mm
- LQA net leverage deteriorated to 2.1x from previous 1.4x

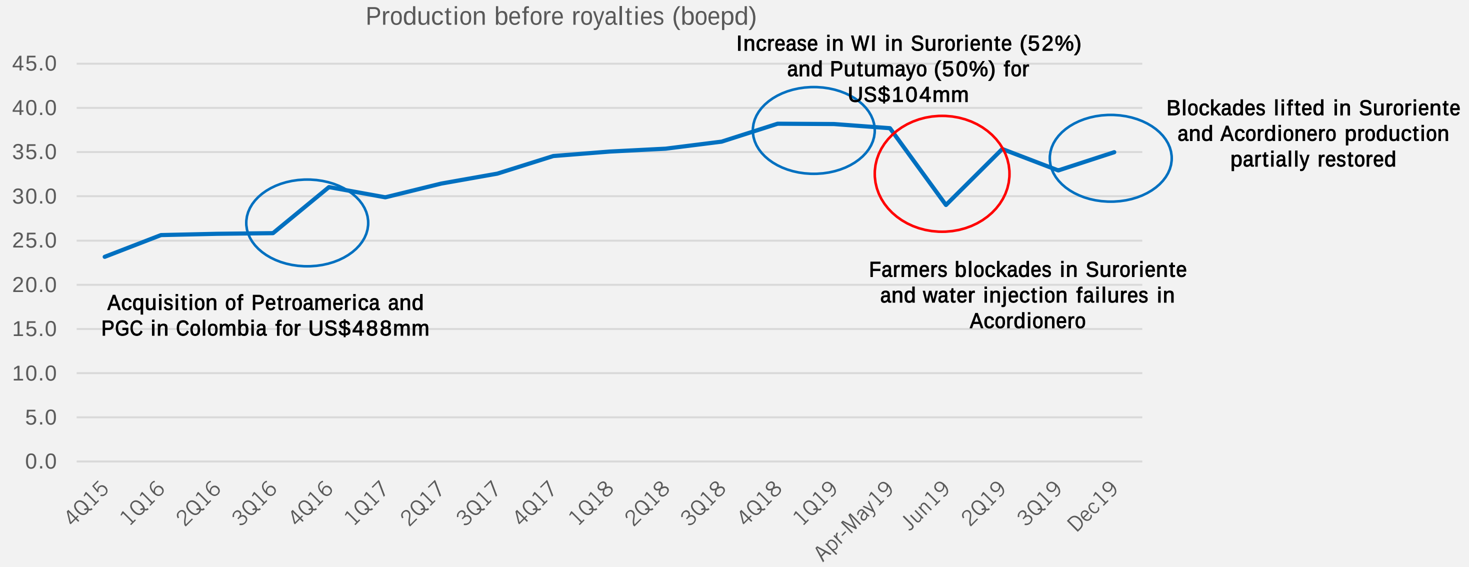
| GTE (US$MM) | 3Q19 | 3Q18 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|
| Revenue | 132 | 175 | 158 | (24%) | (16%) |
| EBITDA | 75 | 112 | 98 | (33%) | (23%) |
| EBITDA margin | 57% | 64% | 62% | | |

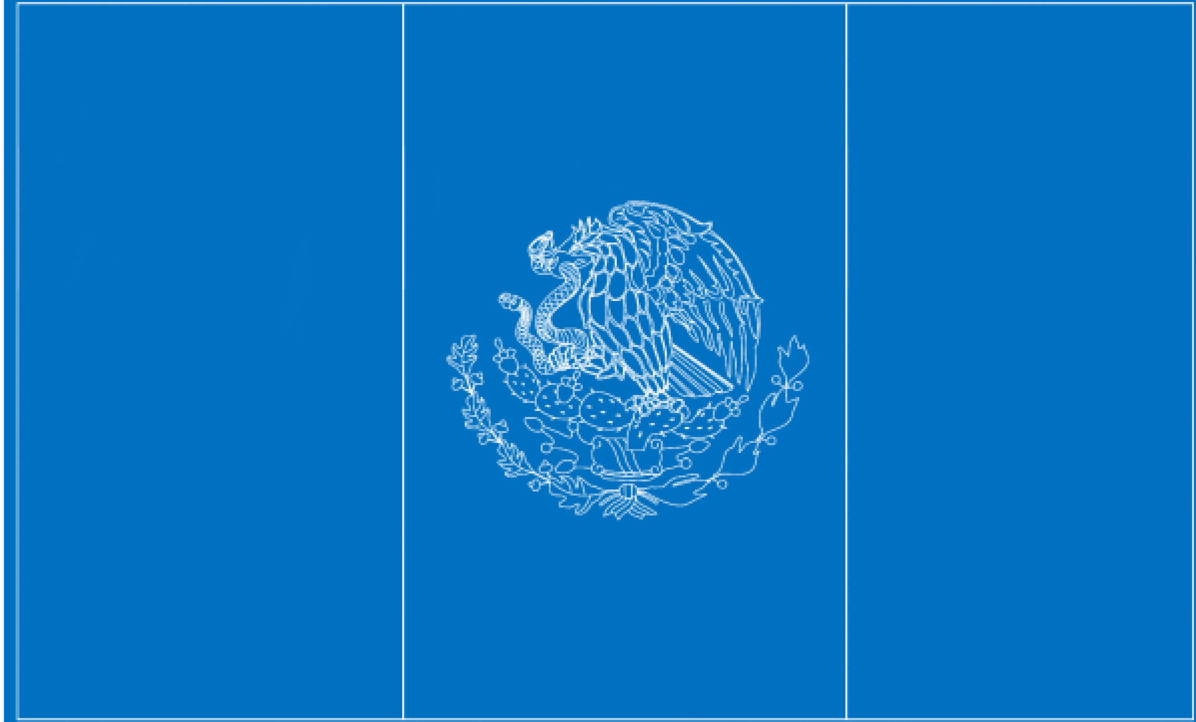
| GTE (US$MM) | 3Q19 | 3Q18 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|
| Total Debt | 638 | 399 | 693 | 60% | (8%) |
| Cash and Equivalents | 14 | 130 | 148 | (89%) | (91%) |
| Net Debt | 624 | 269 | 545 | 132% | 14% |
| Leverage (Total Debt/LQA EBITDA) | 2.1 | 0.9 | 1.8 | | |
| Net leverage (Net Debt/LQA EBITDA) | 2.1 | 0.6 | 1.4 | | |

| GTE (US$MM) | 3Q19 | 3Q18 | 2Q19 |
|---|---|---|---|
| EBITDA | 75 | 112 | 98 |
| Working capital | (4) | 36 | (27) |
| Capex | (116) | (118) | (104) |
| Interest expense | (12) | (7) | (11) |
| **FCF** | **(58)** | **22** | **(43)** |

MARKET OUTPERFORM (COLOMBIA):

# GTE 6.25% 25s





# MEXICO

## MARKET OUTPERFORM (MEXICO):

# DOCUFO 10.25% 24s

**Mexarrend** is Mexico's third largest independent leasing company with a core focus on SMEs. Similarly to Unifin, Mexarrend is well positioned to take advantage of the large SME market. Despite the economic slowdown in Mexico, Mexarrend has managed to increase its loan book in line with client and avg. ticket size growth. The improvement in funding costs have kept the NIM relatively stable given the yield contraction. The new US$300 mm bond is fully hedged, though the company expects to incur a negative carry as it deploys the excess cash. Mexarrend offers a substantial pick up vs Unifin. With the net debt to loans at 82%, the lowest amongst non-bank peers, we continue to see room for loan growth. Unaffected by regulatory proposals and further removed in our view given its core SME focus.

| Description | Coupon | Maturity | Amt Out (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|---|---|
| DOCUFO | 10.25% | 7/24/2024 | 300 | - / BB- / BB- | 103.13 | 9.39% |

PROS

- Third largest independent leasing company in Mexico by loan book, focused on SMEs
- As of 3Q19, leasing loans accounted for 80% of total loans, whilst real estate 11% and the remainder in factoring loans and transportation and other services
- Industrial and consumer disc. clients account for 30% and 27% of loans
- Mexico's SMEs represented 50% of GDP in 2018, yet SMEs remain underserved as they represent only 25% of bank loans. Non-bank SME loans are below 1% of GDP
- 60% of origination is done in-house and 15% from recurring vendor agreements
- Net debt to loans ratio is 82%, the lowest amongst non-bank peers
- Secured debt was 31% of total debt in 1Q19 (prior to new unsecured bond)
- 100% of the new US$300 mm bond is fully hedged back to MXN
- Not impacted by recent banking fee regulatory proposals in Mexico
- Mexarrend had no Govt. related loans as of 3Q19
- PE shareholders made a US$27 mm equity capitalization. PE firms Colony Capital and Alta Growth own 50% and 36%. Colony Capital acquired Abraaj's LatAm PE in 2019

CONS

- Exposure to macroeconomic factors such as NAFTA, that can affect client profit margins and therefore their ability to pay leasing contracts
- Slow economic activity in Mexico, in part from Govt. underinvesting
- Concentrated clients, as 64% of revenue is derived from Mexico City and neighboring State of Mexico area
- Portfolio yield has contracted over recent quarters
- Expensive USD issuances may represent underlying local funding concerns
- Mexarrend will incur negative carry until excess cash from new bond issuance is deployed and converted into loans
- High NPL ratio of 5.9% vs peers. The ratio increases to 7.5% excl. the real estate portion of the loans

## MARKET OUTPERFORM (MEXICO):

# DOCUFO 10.25% 24s

**Net Debt to Net Total Loans**

- Main metric we monitor given the non-bank nature
- Mexarrend 82% ratio is the lowest amongst non-bank peers
    - Historically, Mexarrend ratio has been between high 60s and high 70s
    - For comparison, Unifin's historical ratio under IFRS has been above 100% (incl. the PERP)
    - Given the low ratio, we continue to see room for loan growth as Mexarrend deploys their excess cash
- We note Mexarrrend 5.9% NPLs are higher vs peers
- Prior to the new US$300 mm unsecured bond, only 31% of total debt was secured debt
- Furthermore, Mexarrend NIM compares favorably to Unifin's
- Substantial pick up at DOCUFO 24s

| (MXN MM) | DOCUFO | UNIFIN | ALPHSA | CREAL | FINDEP |
|---|---|---|---|---|---|
| Ratings (M/SP/F) | - /BB-/BB- | - /BB/BB | B1/B+/ - | - /BB+/BB+ | - /BB-/BB |
| Maturity | 2024 | 2023 | 2022 | 2023 | 2024 |
| Coupon | 10.25% | 7.25% | 10.00% | 7.25% | 8.00% |
| Mid Price | 102.13 | 104.90 | 103.00 | 106.13 | 98.00 |
| Mid YTM | 9.66% | 5.76% | 8.81% | 5.32% | 8.54% |
| | 3Q19 | 3Q19 | 3Q19 | 3Q19 | 3Q19 |
| Interest Income | 438 | 2,851 | 714 | 2,950 | 1,364 |
| Interest Expense | 267 | 1,911 | 494 | 1,195 | 208 |
| Net Interest Income | 171 | 940 | 220 | 1,755 | 1,155 |
| Admin. Expenses | 60 | 252 | 251 | 930 | 790 |
| Net Operating Profit | 72 | 591 | 57 | 512 | 114 |
| Total Assets | 10,922 | 74,755 | 17,761 | 57,392 | 12,532 |
| Total Debt (incl. PERP) | 8,600 | 64,448 | 14,074 | 41,674 | 7,514 |
| Cash & Equivalents | 2,932 | 5,682 | 1,770 | 658 | 333 |
| Net Debt | 5,668 | 58,766 | 12,304 | 41,015 | 7,181 |
| Total Loan Portfolio | 6,894 | 54,024 | 9,451 | 43,472 | 8,753 |
| **Net Debt / Net Total Loans** | **82%** | **109%** | **136%** | **97%** | **88%** |
| Equity | 1,282 | 9,809 | 2,234 | 16,484 | 4,328 |
| Equity / Total Assets | 12% | 13% | 13% | 29% | 35% |
| Total Debt / Equity | 671% | 657% | 630% | 227% | 174% |
| NIM | 8% | 6% | 10% | 17% | 33% |
| Efficiency Ratio (excl. provisions) | 35% | 29% | 72% | 46% | 60% |
| NPL % | 5.9% | 4.0% | 3.1% | 1.7% | 5.6% |
| LQA Provision % | 0.9% | 0.5% | 1.8% | 3.9% | 19.0% |
| LQA Charge-offs % | 0.6% | (0.2%) | 1.6% | 3.6% | 18.9% |

## MARKET OUTPERFORM (MEXICO):

# DOCUFO 10.25% 24s

**Recent 3Q19 Earnings – Sound**

- 3Q19 Loan portfolio increased by 9% q/q to MXN$6,894 mm (US$349 mm), increasing by 27% on a y/y basis
    - Leasing loans were 8% higher q/q, due to double digit growth q/q in the main industrials, services and healthcare sectors
    - Real estate loans were 10% higher q/q, which were offset by a decrease in credit and factoring loans
    - Leasing and real estate loans account for 80% and 11% of the total loans, respectively
- Total revenue was 25% higher q/q at MXN$438 mm (US$18 mm), driven primarily by strong real estate income q/q
    - The avg. yield increased to 25%, vs 22% last quarter
- Interest expense was 58% higher q/q at MXN$267 mm (US$14 mm), primarily from the negative carry on the undeployed cash
- The NIM contracted to 8.1%, vs 10.3% last quarter, mainly from the negative carry
- The efficiency ratio remained at 35%, as the lower NIM was offset by an improvement in admin. expenses
- Total debt increased to MXN$8,600 mm (US$436 mm), with cash also increasing to MXN$2,932 mm (US$149 mm)
    - During 3Q19, Docufo issued a new US$300 mm senior unsecured bond with a 10.25% coupon due 2024
    - Proceeds were used to tender US$120 mm of the 22s at 101.5c, as well as addressing the company's short term debt
    - The current cash position will be used to fund loan growth over the next 12 months
    - We note that both the principal and the coupon payments on the new 24s are fully hedged
    - As of 3Q19, short term debt was reduced to 16% of the total

| DOCUFORMAS (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Total Revenue | 438 | 350 | 396 | 25% | 11% |
| Interest Expense | 267 | 169 | 256 | 58% | 4% |
| Net Financial Margin | 171 | 181 | 140 | (6%) | 22% |
| Net Operating Profit | 72 | 92 | 53 | (22%) | 36% |
| **DOCUFORMAS (MXN MM)** | **3Q19** | **2Q19** | **3Q18** | **q/q** | **y/y** |
| Total Assets | 10,922 | 8,029 | 6,798 | 36% | 61% |
| Total Debt | 8,600 | 5,612 | 4,328 | 53% | 99% |
| Cash & Equivalents | 2,932 | 714 | 578 | 311% | 407% |
| Net Debt | 5,668 | 4,898 | 3,750 | 16% | 51% |
| Total Loan Portfolio | 6,894 | 6,320 | 5,447 | 9% | 27% |
| **Net Debt / Net Total Loans** | **82%** | **78%** | **69%** | | |
| Equity | 1,282 | 1,502 | 1,062 | (15%) | 21% |
| Equity / Total Assets | 12% | 19% | 16% | | |
| Total Debt / Equity | 671% | 374% | 408% | | |
| NIM | 8% | 10% | 10% | | |
| Efficiency Ratio (excl. provisions) | 35% | 35% | 39% | | |
| NPL % | 5.9% | 6.0% | 5.7% | | |
| LQA Provision % | 0.9% | 0.9% | 1.2% | | |
| LQA Charge-offs % | 0.6% | (0.4%) | 0.4% | | |

## MARKET OUTPERFORM (MEXICO):

# DOCUFO 10.25% 24s

**Recent 3Q19 Earnings – Continued:**

- Net debt outpaced loans as the ratio increased to 82%, vs 78% last quarter – remaining well below peers
- Equity / Total assets decreased to 12%, vs 19% last quarter
- Per our calculations – the NPL ratio improved slightly to 5.9% vs 6.0% last quarter, with NPLs (excl. real estate) also improving to 7.5%
- Recent highlights:
    - In November 2019, Docuformas merged its subsidiaries to improve operational efficiency
    - Furthemore, the new corporate name became "Mexarrend" to reflect the leasing business in Mexico
    - In May 2019, Alejandro Monzo (Mexarrend's shareholder and CEO) was appointed as the new Docuformas CEO
    - Adam Wiaktor will remain in the board of directors

| DOCUFORMAS (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Total Revenue | 438 | 350 | 396 | 25% | 11% |
| Interest Expense | 267 | 169 | 256 | 58% | 4% |
| Net Financial Margin | 171 | 181 | 140 | (6%) | 22% |
| Net Operating Profit | 72 | 92 | 53 | (22%) | 36% |
| DOCUFORMAS (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
| Total Assets | 10,922 | 8,029 | 6,798 | 36% | 61% |
| Total Debt | 8,600 | 5,612 | 4,328 | 53% | 99% |
| Cash & Equivalents | 2,932 | 714 | 578 | 311% | 407% |
| Net Debt | 5,668 | 4,898 | 3,750 | 16% | 51% |
| Total Loan Portfolio | 6,894 | 6,320 | 5,447 | 9% | 27% |
| **Net Debt / Net Total Loans** | **82%** | **78%** | **69%** | | |
| Equity | 1,282 | 1,502 | 1,062 | (15%) | 21% |
| Equity / Total Assets | 12% | 19% | 16% | | |
| Total Debt / Equity | 671% | 374% | 408% | | |
| NIM | 8% | 10% | 10% | | |
| Efficiency Ratio (excl. provisions) | 35% | 35% | 39% | | |
| NPL % | 5.9% | 6.0% | 5.7% | | |
| LQA Provision % | 0.9% | 0.9% | 1.2% | | |
| LQA Charge-offs % | 0.6% | (0.4%) | 0.4% | | |

MARKET OUTPERFORM (MEXICO):

# FINDEP 8.00% 24s

**Financiera Independencia** was one of the first microfinance personal lenders in Mexico and has current market cap of US$95 mm. The targeted large low income population remains unattended by banks, allowing FINDEPs Mexico's loan portfolio to increase with one of the highest yields in the industry. We note the strong US operations have driven loan growth, accounting for 26% of total loans as of 3Q19. US loans offer lower yields, yet improve overall asset quality. We note that FINDEP USA compares well vs peers with a 75% net debt to loans ratio and lower NPLs and charge-offs. The lending and collection network is labor intensive, resulting in the consolidated admin. expenses regularly offsetting much of the high net interest margin. The elevated provisioning and charge offs have been inherent in the business model given the targeted sectors. Regulatory risks are a concern, as any potential interest rate cap would severely affect FINDEP given its elevated portfolio yield. However, we have not seen any mention of this as a priority for the current Administration.



| Description | Coupon | Maturity | Amt Out (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|---|---|
| FINDEP | 8.00% | 7/19/2024 | 250 | - / BB- / BB | 100.00 | 8.00% |

PROS

- FINDEP's target market is the large portion of the Mexican low-income population still unattended by banks
- Current Govt. programs assist FINDEP in reaching the target market, as they use FINDEP's infrastructure and facilitate funding through NAFINSA
- FINDEP's current portfolio yield is 62%, one of the highest in the industry
- Formal sector loans outpacing informal loans, accounting for 70% of gross loans
- US ops have lower net debt to loans and charge-off ratios, compare well vs peers and now account for 26% of gross loans as of 3Q19
- Slowly improving fundamentals and asset quality
- Loan growth has outpaced net debt in recent quarters, with the ratio decreasing to 88% in 3Q19 vs a historical ratio in the 90%'s
- The entire USD denominated is fully hedged, both principal and coupon
- Recent reference rate cuts in Mexico should improve funding costs

CONS

- FINDEP is highly susceptible to any potential interest rate cap regulation if Mexico were to follow other LatAm countries
- Very expensive operations as admin. expenses still account for 87% of the gross profit from the lending operations
- Domestic inflation impacts the low income population
- The bid to improve asset quality has reduced the approval rate to 20%, with both domestic and Brazil clients decreasing, yet having higher avg. loan balances
- Profitability is largely impacted by very high provisioning and charge-off percentages. In 3Q19, both were 19% of total loans

MARKET OUTPERFORM (MEXICO):

# FINDEP 8.00% 24s

**Recent 3Q19 Earnings – Mixed**

- 3Q19 Loan portfolio increased by 4% q/q to MXN$8,753 mm (US$444 mm), increasing by 10% y/y as well
  - Mexico's loans were MXN$6,110 mm, 2% higher q/q due to formal sector loans, yet the number of clients continued to decrease q/q
  - US loans were MXN$2,253 mm, 12% higher q/q driven by client growth with higher avg. loan balances
    - US loans increased by 41% y/y, now accounting for 26% of Findep's total loans
  - Formal sector loans represent 70% of the total book
- Interest income was 4% higher q/q at MXN$1,364 mm (US$70 mm), in line with total loan growth
- Interest expense was 10% higher q/q at MXN$208 mm (US$11 mm), due to higher debt and funding costs increasing q/q to 11.7%
- Operating profit was 3% lower q/q at MXN$114 mm (US$6 mm), primarily from higher provisioning
  - Provisioning was 19% of total loans, increasing from the 17%'s reported in recent quarters
  - Similarly, charge-offs also increased to 19%
- The NIM contracted to 33%, due to higher provisioning and slightly higher funding costs
- Equity / Total assets ratio remained at 35%, with the tangible capitalization ratio at 23%
- Total debt increased to MXN$7,514 mm (US$381 mm), with cash increasing to MXN$333 mm (US$17 mm)
  - As of 3Q19, Findep had MXN$3,037 mm in available credit lines
- Net debt outpaced loan growth, as the ratio increased to 88% vs 87% last quarter
- NPLs improved to 5.6%, vs 6.1% last quarter mainly from improvements in Mexico NPLs

| FINDEP (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Interest Income | 1,364 | 1,314 | 1,269 | 4% | 7% |
| Interest Expense | 208 | 189 | 191 | 10% | 9% |
| Net Interest Income | 1,155 | 1,125 | 1,078 | 3% | 7% |
| Admin. Expenses | 790 | 802 | 818 | (1%) | (3%) |
| Net Operating Profit | 114 | 117 | 96 | (3%) | 18% |
| FINDEP (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
| Total Assets | 12,532 | 12,112 | 11,660 | 3% | 7% |
| Total Debt | 7,514 | 7,132 | 6,939 | 5% | 8% |
| Cash & Equivalents | 333 | 279 | 214 | 19% | 56% |
| Net Debt | 7,181 | 6,853 | 6,724 | 5% | 7% |
| Total Loan Portfolio | 8,753 | 8,421 | 7,932 | 4% | 10% |
| **Net Debt / Net Total Loans** | **88%** | **87%** | **91%** | | |
| Equity | 4,328 | 4,265 | 4,044 | 1% | 7% |
| Equity / Total Assets | 35% | 35% | 35% | | |
| Total Debt / Equity | 174% | 167% | 172% | | |
| NIM | 33% | 36% | 36% | | |
| Efficiency Ratio (excl. provisions) | 60% | 63% | 65% | | |
| NPL % | 5.6% | 6.1% | 5.6% | | |
| LQA Provision % | 19.0% | 17.2% | 17.8% | | |
| LQA Charge-offs % | 18.9% | 17.0% | 17.3% | | |

# MARKET UNDERPERFORM

## BRAZIL

KLAB 4.875% 27s

LIGTBZ 7.35% 23s

## CHILE

CENSUD 4.375% 27s

## INDIA

VEDLN 6.375% 22s

## MEXICO

TELVIS 4.63% 26s

## UKRAINE

MHPSA 6.95% 26s

# BRAZIL

## MARKET UNDERPERFORM (BRAZIL):

# KLAB 4.875% 27s

| Description | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|
| KLAB 4.875% 07/06/2027 | $500 | (-/BB+/BB+) | 104.94 | 4.12% |

Klabin is Brazil's largest paper producer, exporting almost half of its production. Through the recently completed Puma mill (1.5mm MT), it is also a pulp producer. Klabin's installed capacity is 2mm MT of coated boards and kraftliner sack kraft. Pulp is mainly sold to Fibria through a six-year purchase agreement – which expired in 2Q19. Company has initiated new expansion phase for the construction of two pulp integrated packaging paper machines parallel to the Puma unit. We note capex for the project has already stretched leverage levels despite project has just began, reaching 5.2x run rate in 3Q19. Klabin is listed in Brazilian stock exchange Ibovespa - current US$5.3bn market cap.

PROS:

- Largest Brazilian paper producer and exporter
- Leading position in Brazil with 50% share in coated board and industrial bags and 40% share in kraftliner
    - Stronger domestic demand in economy's gradual recovery could support results
- Paper sales in the local market (50% of total) provide hedging against local currency appreciation
- Low cash cost levels compared to international peers, US$240/t in 3Q19
- Higher product diversification, Pulp sales ~50% EBITDA (ex. Suzano ~90% pulp)

CONS:

- Both pulp and paper are based on international commodity prices
- Pulp prices declined significantly on weaker demand on China and oversupplied market – reaching US$495/ton – lowest since Jan/17
- Puma II project – construction of two pulp integrated packaging paper machines parallel to Pulp unit in the midst of weak demand can spike leverage for upcoming years.
    - Capex intensive expansion at R$9.1bn, disbursed between 2019-2023 (2/3 disbursed during 2019-2021)
- Exposed to FX volatility with ~85% of costs in local currency vs ~40% of sales, long USD
- Net leverage run rate at 5.2x, while capex for Puma II has just began.
- We think peak leverage could approach 7x.

## MARKET UNDERPERFORM (BRAZIL):

# KLAB 4.875% 27s

<u>Puma II expansion Project</u>

- Construction of two pulp integrated packaging paper machines parallel to the Puma unit (pulp mill)
  - For a 920 ktons/year of additional Kraftliner paper capacity
- The project will be divided into two stages, each stage relative to one machine construction
  - First stage will add 450 kton/year capacity expected to be completed by 2Q21
  - Second stage will commence after first machine start-up, adding 470 kton/year capacity, expected to be completed by 2Q23
- Project has an estimated gross capex of R$9.1bn, to be disbursed between 2019-2023
  - R$0.9bn of the investment announced will be funded by recoverable taxes
  - 2/3 of investments will be made at more intensive stage, 2019-2021
- Company states it intends to use (50%-60%) of cash generation and cash position to fund investment, while still considering new debt dependent on market conditions

- During expansion phase, utilizing 60% cash position and 40% cash generation, we estimate, using 3Q19 run rate EBITDA, net leverage can reach ~6.8x
- We estimate after 2nd stage completion, on an additional 920ktons/year kraftliner sales, at a 50% EBITDA margin, a R$1.2bn/year incremental EBITDA
- Which, post project ramp up can take net leverage back to around 2.5x, depending on commodity prices

- Commodity risk can lead to higher leverage levels, particularly during project expansion phase on higher investment needs
  - We note net leverage run rate is already at 5.2x, while project capex has just began to be disbursed
  - Last quarter Klabin retapped its 2029s notes for an additional US$250mm and issued R$1bn locally, raising funds to support expansion phase, now, not only dependent on cash position and cash generation, as initially planned

## MARKET UNDERPERFORM (BRAZIL):

# KLAB 4.875% 27s

### 3Q19 RESULTS - SOFT

- Revenue decreased 6% q/q and 28% y/y, beating consensus by 3%, to US$624mm, given lower pulp volumes and prices
- In BRL revenue decreased 5% q/q and 12% y/y, to R$2.5bn
- Total sales volume decreased 2% q/q and 6% y/y as lower volumes in the pulp segment offset higher coated board volumes
- Pulp realized prices decreased 15% q/q, amidst a 25% q/q FOEX price decline for hardwood pulp in China (at US$495/t) and 24% q/q for softwood (US$570/t)
- Coated boards stood as a positive in the quarter with revenue up 10% q/q, driven by higher volumes
- Adj. EBITDA decreased 20% q/q and 28% y/y to US$195, missing consensus by 6%
- Company registered a R$1bn (US$252mm) extemporaneous tax credit, due to the exclusion of ICMS from the PIS/Confins tax calculation in the period, which had a R$620mm (US$156mm) positive effect on EBITDA
    - We exclude the non-recurring tax credit from results, that would otherwise result in a R$1.4bn (US$352mm) EBITDA for the period
- FCF burn at US$227mm given weaker Adj. EBITDA and higher capex, driven by the continuation of the Puma II Project
- Capex totaled US$213mm in the period, US$108mm related to the start of Puma II Project
- Gross debt increased 3% q/q, to US$6.7bn given issuances in the period
- Company retapped in US$250mm its 2029s notes during the period
- We include US$98mm of financial lease liabilities to debt, as per IFRS 16
- Annualized gross and net leverage deteriorated to 8.5x and 5.2x from 6.6x and 4.0x last quarter, respectively

| KLABIN (US$MM) | 3Q19 | BBG consensus | +/- | 3Q18 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|---|---|
| Revenue | 624 | 605 | 3% | 865 | 663 | (28%) | (6%) |
| EBITDA | 195 | 208 | (6%) | 272 | 244 | (28%) | (20%) |
| EBITDA margin | 31% | 34% | | 31% | 37% | | |

| KLABIN (US$MM) | 3Q19 | 3Q18 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|
| Total Debt | 6,648 | 5,881 | 6,485 | 13% | 3% |
| Cash and Equivalents | 2,593 | 1,828 | 2,624 | 42% | (1%) |
| Net Debt | 4,055 | 4,053 | 3,861 | 0% | 5% |
| Leverage (Total Debt/LQA EBITDA) | 8.5 | 5.4 | 6.6 | | |
| Net leverage (Net Debt/LQA EBITDA) | 5.2 | 3.7 | 4.0 | | |

| KLABIN (US$MM) | 3Q19 | 3Q18 | 2Q19 | y/y | q/q |
|---|---|---|---|---|---|
| EBITDA | 195 | 272 | 244 | (28%) | (20%) |
| Working capital | (121) | (61) | (23) | 100% | 422% |
| Capex | (213) | (78) | (148) | 173% | 44% |
| Interest paid | (88) | (106) | (71) | (17%) | 23% |
| Taxes paid | 0 | (0) | (1) | (101%) | (100%) |
| FCF | (227) | 27 | 1 | (927%) | (30949%) |

MARKET UNDERPERFORM (BRAZIL):

# LIGTBZ 7.25% 23s

Light SA is a Brazilian integrated company in the electricity sector with operations in the distribution, trading and generation segments in the city of Rio de Janeiro. Listed on Brazilian stock exchange, Light SA has a R$1.7bn market cap. Recently Cemig and BNDES, lowered their ownership through a secondary offering, as Cemig decreased its participation from 49.99% to 22.6% interest and BNDES from 9.4% to 6.3%%. Light SESA (distribution segment) is the sixth largest electricity distribution company in Brazil - 19,673 GWh of electricity distributed to the regulated market, accounting for ~70% of the company`s EBITDA. We note that the company has showed deteriorating fundamentals, with rising leverage and increased energy loss, at an alarming 26% despite continuous efforts to reduce it, while the bond continues rally amidst a bullish macro scenario in Brazil. We calculate annualized 3Q19 net leverage at 6.6x, including proceeds from the primary offering.

| Ticker | Coupon | Maturity | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|---|---|
| LIGTBZ | 7.25% | 05/03/2023 | 390 | Ba3/BB-/BB- | 107.81 | 4.67% |

PROS:

- Positive conclusion of the tariff review cycle at Light SESA – distribution – should help improve results
- Exclusive electricity distribution rights in the metropolitan region of Rio de Janeiro through Light SESA – concession expires after bond maturity
- Light has R$819mm in net CVA which it expects to recover throughout the current year
    - Receivables collection can help support cash generation
- Successfully completed a primary (100mm shares) and a secondary (33mm shares owned by Cemig) public offering
- Raising R$1.9bn through the operation, while Cemig received R$619mm
- Company used funds to perform liability management, repaying and refinancing shorter term local debt, partially alleviating tight maturity schedule
    - Company redeemed 35% of the 2023s

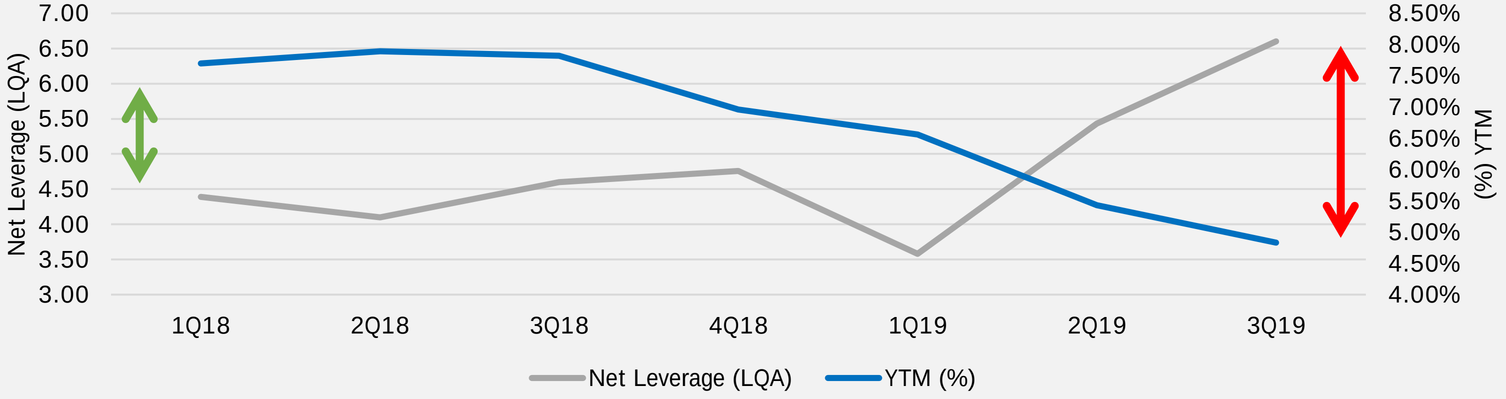
CONS:

- Deteriorating fundamentals – higher leverage, higher energy loss and continued cash burn, while bond rallies on positive macro scenario and completed public offering
- Bond is subordinated to secured debt instruments consisting of BNDES loans and a receivables investment fund, FIDC, assigned to issue up to R$1.4bn, both secured by receivables
- Higher energy losses compared to peers given very challenging demographic in Rio de Janeiro (Area where Light SA operates)
    - Energy loss, the company's Achilles heel, deteriorated further now to almost 26%, 6.31% higher than permitted regulatory level, despite continuous effort to tackle this problem.
- Despite recent liability management with offering funds, company still has a tight maturity schedule with R$1.4bn due in 2020, with ~R$1.7bn in cash.
    - Light recently announced a R$1bn local debenture issuance to refinance shorter term debt

MARKET UNDERPERFORM (BRAZIL):

# LIGTBZ 7.25% 23s

Light is our current prime example of a dynamic we have witnessed in Brazilian credits: "leverage up and yields down." Fundamentals and operations have been sequentially weaker and deteriorating, the bond has rallied. Light's specific issue has been higher electricity losses, the company's achilles heel. Electricity losses have contributed to continued cash burn and a jump in LTM leverage. Despite the highly anticipated recent primary share offering, leverge is still higher after the offering than prior. Annualized net leverage reached 6.6x (LQA) in 3Q19 vs. 3Q18, more than a half turn higher despite the capital increase.



MARKET UNDERPERFORM (BRAZIL):

# LIGTBZ 7.25% 23s

**Recent Highlights – 3Q19 –Weak:**

- 3Q19 revenue decreased 11% y/y, up 1% q/q to R$2.7bn, missing consensus by 6%, mainly driven by lower volumes sold on the billed market
- 3Q19 Adjusted EBITDA, decreased 13% y/y and 24% q/q, to R$291mm, missing consensus by 6%
- We exclude from Adj. EBITDA calculation, R$1.1bn in non-recurring tax credit in the period
- Company energy losses deteriorated further, from 25.76% in 2Q19 to 25.93%
- FCF negative at R$397mm, a sequential and annual deterioration
- In the period Light completed a primary (100mm shares) and a secondary (33mm shares owned by Cemig) public offering
- Total debt decreased to R$9.4bn, down 2% q/q
    - Cash position increased 45% q/q, to R$1.7bn following the primary offering completed in the period
    - Company now has R$155mm due in 2019 and R$1.4bn due in 2020, with ~R$1.7bn in cash
    - Net leverage deteriorated sequentially to 6.6x (annualized) from 5.4x in 2Q19, on weaker sequential Adj. EBITDA
- Net leverage (LTM) in 3Q19 at 4.6x from 4.8x in 2Q19
- Company announced an early partial redemption of 35% of its outstanding amount in 23s bonds, under a determined call option set forth following a equity offering
- Remaining balance of bonds in the amount of R$390mm
- Additionally company announced a R$1bn local debenture issuance to refinance shorter term debt

| Light SA (BRL MM) | 3Q19 | BBG Consensus | +/- | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|---|---|
| Revenue | 2,668 | 2,797 | (6%) | 2,632 | 2,993 | 1% | (11%) |
| Adjusted EBITDA | 291 | 408 | (6%) | 385 | 335 | (24%) | (13%) |
| EBITDA Margin | 10.9% | 14.6% | | 14.6% | 11.2% | | |

| Light SA (BRL MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Total Debt | 9,353 | 9,506 | 9,545 | (2%) | (2%) |
| Cash | 1,666 | 1,151 | 1,406 | 45% | 18% |
| Net Debt | 7,687 | 8,355 | 8,139 | (8%) | (6%) |
| Leverage (Total Debt / EBITDA (LQA)) | 8.04 | 6.17 | 7.12 | | |
| Net Leverage (Net Debt / EBITDA (LQA)) | 6.60 | 5.43 | 6.07 | | |

| Light SA (R$ MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Adj. EBITDA | 291 | 385 | 335 | (24%) | (13%) |
| WK and Other Adj. | (355) | 146 | (162) | | 120% |
| Tax Payments | (24) | (29) | (17) | (17%) | 40% |
| Interest Payments | (73) | (256) | (97) | (71%) | (25%) |
| Net cash operating Cash Flow (*) | (161) | 246 | 59 | | |
| Capex | (236) | (203) | (230) | 16% | 3% |
| **FCF** | **(397)** | **43** | **(171)** | | 132% |

# CHILE

## MARKET UNDERPERFORM (CHILE):

# CENSUD 4.375% 27s

| Description | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|
| CENSUD 4.375% 07/17/2027 | $975 | Baa3/-/BBB- | 99.50 | 4.45% |

**Cencosud S.A.** is one of the largest retail conglomerates in Latin America, with operations in Chile, Argentina, Peru, Brazil and Colombia. Chairman Horst Paulmann and his family, combined, own a 53.36% stake in the group. Cencosud operates under various retail formats, including supermarkets, home improvement stores, shopping malls and department stores. The company is listed in the Santiago stock exchange with a current market cap of US$3.9bn

PROS:

- Multi-format, multi-brand with geographical diversification (operates in five countries in different segments)
- Investment Grade rating since 2011 - Fitch Ratings: BBB- (stable) - Moody's: Baa3 (stable)
- High-level of unencumbered assets
- Around 80% of USD debt is hedged
- Cencosud trades at a considerable wider spread to sovereign than peer Falabella, and overall wide to Chile sovereign for an IG credit (as we think downgrade seems inevitable and partially priced in).
- Successful IPO for its shopping mall subsidiary under the asset sale and deleverage plan, placing 472mm shares (27%) at a CLP1,521 price p/share, raising US$1.1bn
- Brazil is timidly beginning to show some signs of improvement on better margins

CONS:

- Weakness in core Chilean retail operations is troubling and suggests continued downward trajectory of EBITDA
- Civil unrest in areas of operations (mainly Chile and Colombia), company states inventory losses and damages to stores are covered by insurances while financial impact is being evaluated and quantified
    - Fitch placed company on negative watch due to uncertainties on Chile and also in Argentina
    - Drop in consumption due to macro uncertainty likely to impact results as inventory levels anticipated a more robust environment
- Continued high management turnover in an inopportune time, as company appointed a new CEO and changed model from a divisional structure to a country based structure
- Investment grade status continues to be threatened, despite successful mall segment IPO given weak metrics and trends in area of operations
- Subject to f/x risk on revenue and costs as operations are conducted mostly in local currencies
- Troubled areas of operations given rising social and political tension in Latin America – Chile, Argentina and Colombia
- LTM gross leverage at 5.6x, within trigger levels for downgrade
    - Despite successful malls segment IPO leverage metrics remains weak

MARKET UNDERPERFORM (CHILE):

# CENSUD 4.375% 27s

| PEER COMPARISION | CENCOSUD | FALABELLA |
|---|---|---|
| Coupon | 4.375% | 3.750% |
| Maturity | 2027 | 2027 |
| Amount (US$ MM) | 974 | 400 |
| Mid-Yield | 4.45% | 3.42% |
| Rating(M/SP/F) | (Baa3/-/BBB-) | (-/BBB+/BBB+) |
| Spread to Sovereign | 213 | 112 |
| Country | Chile | Chile |

| 3Q19 (US$ MM) | CENCOSUD | FALABELLA |
|---|---|---|
| Revenue | 3,215 | 3,149 |
| EBITDA | 210 | 357 |
| EBITDA Margin | 7% | 11% |
| Free Cash Flow | (23) | (131) |
| Gross Debt | 5,719 | 7,033 |
| Cash | 787 | 1,848 |
| Net Debt | 4,931 | 5,185 |
| LQA Gross Leverage | 6.8 | 4.9 |
| LQA Net Leverage | 5.9 | 3.6 |

- With social unrest in Chile and Colombia and political uncertainties in Argentina we ultimately think things will likely get worse before better, particularly in the face of secular challenges to retail emerging in Chile.
    - Company states margins will be even lower vs last year due to halt in local consumption and online pressures.
- Leverage metrics remains stretched despite successful Malls segment IPO
- Inventory build-up for 4Q did not anticipate the dramatic slow-down in Chilean consumption.
- Fitch placed company on negative watch as a downgrade may be inevitable despite the fact it may be already priced in relative to BB credits in Brazil, for example
- We note recently, company did some liability management issuing US$347mm in local bonds through subsidiary Cencosud Shopping, while tendering US$464mm of the 23s, 25s and 27s
    - We note company stated all interco. debt has been repaid out after issuance

## MARKET UNDERPERFORM (CHILE):

# CENSUD 4.375% 27s

**Summary of 3Q19 results - Mixed:**

- Revenue decreased 1% y/y to CLP2,270bn (US$2.8bn), on comparable terms
    - Revenue from operations in Chile remained practically flat y/y to CLP1,086bn (US$1.4bn), 48% of total revenue
- Adjusted EBITDA increased 31% y/y to CLP148bn (US$184mm), driven by adjustments as per IFRS 16
- Ex IFRS-16 impact (CLP38bn), Adj. EBITDA stood at CLP109bn, down 3% y/y
- Company stated Ex-IFRS 16 effects and non-recurring events, Adj. EBITDA in Chile increased 13% y/y
- We note margin improvements in Brazil and Argentina, Ex IFRS 16, on higher cost controls
- FCF negative at CLP16bn (US$20mm), driven by higher capex and interest expenses in the period
- Total debt decreased 4% q/q to CLP4,165bn (US$5.2bn), including capitalized financial leases, as per IFRS 16
- LTM net leverage deteriorated slightly to 4.8x from 4.7x in 2Q19
    - LTM gross leverage improved to 5.6x, including financial leases
- Company still stands above trigger levels for a downgrade (gross leverage above 4.5x)
- Company states 3.8x net leverage, mainly accounting for current and non-current derivatives as cash
- The company has been dealing with civil unrest in areas of operations (mainly Chile and Colombia), company states inventory losses and damages to stores are covered by insurances while financial impact is being evaluated and quantified

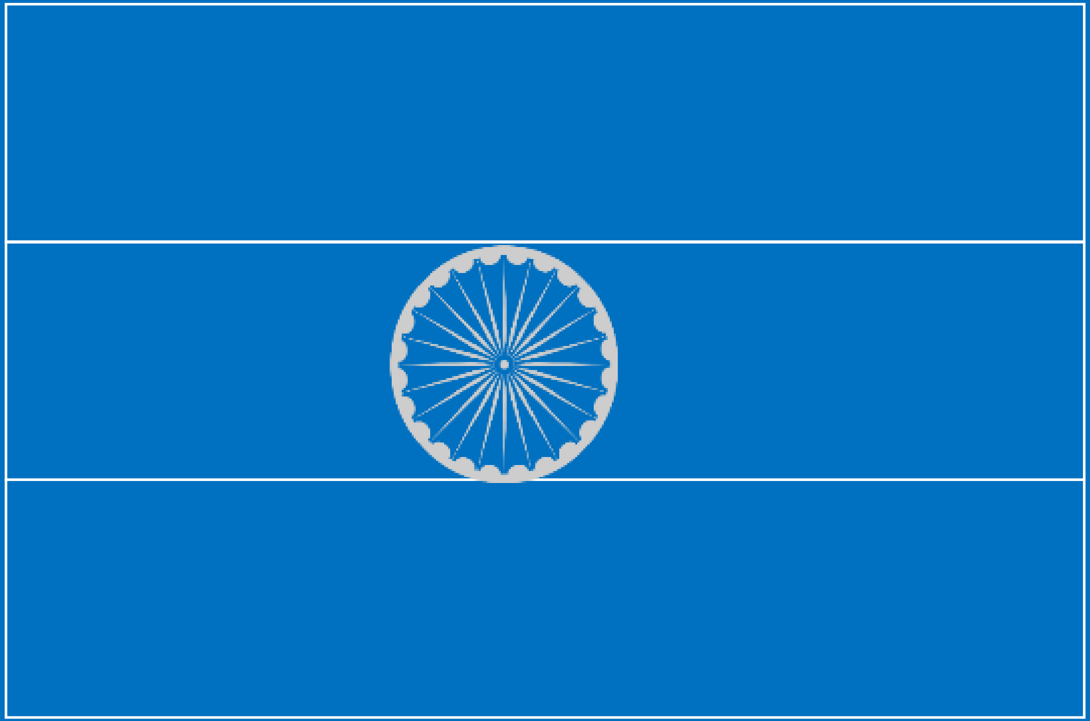
| Cencosud (CLP MM) | 3Q19 | BBG Consensus | +/- | 2Q19 | 3Q18 (*) | q/q | y/y |
|---|---|---|---|---|---|---|---|
| Revenue | 2,270,097 | 2,265,000 | 0% | 2,288,196 | 2,295,653 | (1%) | (1%) |
| Adjusted EBITDA | 148,366 | - | - | 167,501 | 113,064 | (11%) | 31% |
| EBITDA Margin | 6.5% | - | - | 7.3% | 4.9% | | |



| Cencosud (CLP MM) | 3Q19 | 2Q19 | 3Q18 (*) | q/q | y/y |
|---|---|---|---|---|---|
| Total Debt | 4,165,448 | 4,448,081 | 3,372,954 | (6%) | 23% |
| Cash and Cash Equivalents | 573,311 | 959,437 | 138,171 | (40%) | 315% |
| Net | 3,592,137 | 3,488,644 | 3,234,783 | 3% | 11% |
| Leverage (Total Debt / EBITDA (*)) | 5.6 | 6.0 | 4.9 | | |
| Net Leverage (Net Debt / EBITDA (*)) | 4.8 | 4.7 | 4.7 | | |

1- Excluding Banco Paris and Banco Peru (Debt and Cash Equivalents)

| Cencosud (CLP MM) | 3Q19 | 2Q19 | 3Q18 (*) | q/q | y/y |
|---|---|---|---|---|---|
| EBITDA | 148,366 | 167,501 | 113,064 | (11%) | 31% |
| - capex | 51,855 | 31,185 | 43,633 | 66% | 19% |
| - interest | 76,485 | 24,972 | 75,628 | 206% | 1% |
| - taxes | 12,776 | (24,352) | 29,321 | (152%) | (56%) |
| WK | (23,180) | (38,604) | (77,703) | (40%) | (70%) |
| FCF | (15,930) | 97,092 | (113,220) | (116%) | (86%) |



# INDIA

MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

| | Ranking | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM (%) |
|---|---|---|---|---|---|
| VEDLN 8.25% 6/7/2021 | Sr. Unsecured | 670 | B2/ B/ WD | 104.25 | 5.05% |
| VEDLN 6.375% 7/24/2022 | Sr. Unsecured | 1,000 | B2/ B/ - | 99.25 | 6.70% |
| VEDLN 8% 04/23/2023 | Sr. Unsecured | 400 | B2/ B/ - | 101.00 | 7.64% |
| VEDLN 7.125% 5/31/2023 | Sr. Unsecured | 500 | B2/ B/ WD | 100.56 | 6.93% |
| VEDLN 6.125% 08/09/2024 | Sr. Unsecured | 1,000 | B2/ B/ - | 92.56 | 8.10% |
| VEDLN 9.25% 04/23/2026 | Sr. Unsecured | 600 | B2/ B/ - | 101.00 | 9.03% |

**Vedanta Resources Limited ("Resources")** is India's largest diversified natural resources company founded in 1976, active in several areas including zinc, oil and gas, aluminum and copper. Resources' principal asset is its 50.1% ownership in Vedanta Limited (NYSE ticker "VEDL"), which contributes ~98% of PLC's consolidated EBITDA and revenue. The remaining EBITDA is derived from Resources' 79.4% stake in Konkola Copper Mines. Major shareholder is Volcan Investments, family trust of chairman Anil Agarwal, which completed a tender offer in 2018 to acquire the remaining stake (66.5% before offer) in Resources, delisting the company from London Stock Exchange. The offer valued total equity of the company at ~US$3bn. In Nov 2019, S&P downgraded VEDLN from B+ to B.

PROS:

- Diversified business segments provide multiple revenue streams
- Consolidation of subsidiaries (Vedanta Ltd and Cairn India Ltd) improves access to the latter's cash holdings.

CONS:

- Exposure to commodity price fluctuation
- Significant minority interests restricts dividend flow from subsidiaries
- Access to liquidity of operations limited by % ownership in VEDL and subsidiaries, particularly Zinc India
- Dependence on zinc, copper and aluminum segments, supplying north of 80% of EBITDA
- We calculate pro forma (LHA) pro rata gross and net leverage at the bond issuer at 9.8x and 7.8x, respectively
    - Resources standalone does not generate EBITDA but has around US$6.6bn of net debt
- Market value of Resources' interest in VEDL has fallen to ~US$3.7bn, a 44% deficit versus net debt at face
- S&P downgrade in Nov 2019.

MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

| Zinc Production Volume (kt) | 1H20 | 2H19 | 1H19 | y/y | h/h |
|---|---|---|---|---|---|
| Zinc India | | | | | |
| - refined Zinc | 338 | 362 | 334 | 1% | (7%) |
| - mined metal content | 432 | 492 | 444 | (3%) | (12%) |
| Zinc international | | | | | |
| - mined metal content | 123 | 94 | 54 | 128% | 31% |

| Zinc Sales Volume (kt) | 1H20 | 2H19 | 1H19 | y/y | h/h |
|---|---|---|---|---|---|
| Zinc India | | | | | |
| - refined Zinc | 335 | 363 | 331 | 1% | (8%) |
| Zinc intl | 103 | 71 | 37 | 178% | 45% |
| - refined Zinc | 40 | 41 | 25 | 60% | (2%) |
| - concentrate Zinc | 63 | 30 | 12 | 425% | 110% |

### 1H20 (Sept 19) Earnings

- Net revenue decreased 12% h/h to US$6.1bn.
  - Revenue from Zinc decreased 10% h/h to US$1.6bn. Production increased 1% h/h to 461kt.
  - Revenue from Aluminum decreased 2% h/h to US$2.2bn. Production increased 3% h/h to 856kt.
- Reported EBITDA decreased 17% h/h to US$1.4bn, due to heavy fall in Zinc EBITDA.
  - EBITDA from Zinc increased 21% h/h to US$690mm.
  - EBITDA from Aluminum decreased 88% h/h to US$9mm.

| | *Sep-19* | *Mar-19* | *Sep-18* | | |
|---|---|---|---|---|---|
| Vedanta Resources Ltd (US$ mm) | 1H20 | 2H19 | 1H19 | y/y | h/h |
| Net revenue | 6,132 | 6,973 | 7,058 | (13%) | (12%) |
| -zinc India | 1,324 | 1,515 | 1,440 | (8%) | (13%) |
| - zinc international | 245 | 230 | 163 | 51% | 7% |
| - oil & gas | 904 | 914 | 978 | (8%) | (1%) |
| - iron ore | 222 | 211 | 204 | 9% | 5% |
| - copper India & Australia | 709 | 782 | 755 | (6%) | (9%) |
| - copper Zambia | 0 | 480 | 545 | (100%) | (100%) |
| - aluminium | 1,917 | 1,951 | 2,229 | (14%) | (2%) |
| - power | 479 | 445 | 479 | 0% | 8% |
| - others | 339 | 446 | 265 | 28% | (24%) |
| COGS | (5,153) | (5,813) | (5,719) | (10%) | (11%) |
| SG&A | (364) | (410) | (408) | (11%) | (11%) |
| EBITDA reported | 1,395 | 1,682 | 1,711 | (18%) | (17%) |
| -zinc India | 642 | 789 | 727 | (12%) | (19%) |
| - zinc international | 48 | 85 | 15 | 227% | (44%) |
| - oil & gas | 525 | 528 | 572 | (8%) | (1%) |
| - iron ore | 45 | 45 | 45 | (0%) | 0% |
| - copper India & Australia | (23) | (24) | (12) | 87% | (3%) |
| - copper Zambia | 0 | (22) | (41) | - | - |
| - aluminium | 9 | 74 | 242 | (96%) | (88%) |
| - power | 116 | 102 | 117 | (1%) | 14% |
| - others | 33 | 105 | 46 | (28%) | (69%) |
| Gross margin | 16% | 17% | 19% | (300 bps) | (68 bps) |
| EBITDA margin | 23% | 24% | 24% | (149 bps) | (137 bps) |

## MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

**1H20 (Sept 19) Earnings**

- Reported FCF turned positive US$786mm h/h, on lower taxes.
    - The company paid US$1bn dividend to minority shareholders in 2H19.
- FCF before dividend and FX changes decreased 33% h/h to US$859mm, due to decrease in EBITDA and WK cash inflow.
    - WK inflow decreased 43% h/h to US$475mm but improved y/y.
    - Capex decreased 14% h/h to US$689mm with less expansion capex.
    - The company discontinued copper business in Zambia (KCM) for US$50mm, after being accused of tax evasion by Zambian President in May 2019.
- Gross debt decreased 8% h/h to US$14.7bn, mostly on less STD.
    - According to S&P, Volcan Investments, which owns 100% of the company, had US$900mm delisting loan, US$400mm of which is due in Mar 2020.
- Total cash decreased 3% h/h to US$5.1bn. Net debt decreased 11% h/h to US$9.5bn.
- On consolidated basis: LHA gross and net leverage both increased h/h to 5.3x and 3.4x.
- On pro rata basis: LHA gross and net leverage both increased h/h to 9.8x and 7.8x.

| | *Sep-19* | *Mar-19* | *Sep-18* | | |
|---|---|---|---|---|---|
| FCF (US$ mm) | 1H20 | 2H19 | 1H19 | y/y | h/h |
| **Reported EBITDA** | 1,395 | 1,682 | 1,711 | (18%) | (17%) |
| WK investment | 475 | 833 | (554) | (186%) | (43%) |
| Capital creditors | 50 | 36 | 71 | (30%) | 39% |
| Changes in non-cash items | 13 | 16 | 17 | (24%) | (19%) |
| Capex | (689) | (798) | (718) | (4%) | (14%) |
| - maintenance | (245) | (221) | (214) | 14% | 11% |
| - expansion | (444) | (577) | (504) | (12%) | (23%) |
| Assets sales | 56 | 17 | 1 | 5500% | 229% |
| - PP&E | 6 | 17 | 1 | 500% | (65%) |
| - KCM | 50 | - | - | - | - |
| Acquisition of subsidiary | (5) | 81 | (788) | (99%) | (106%) |
| Net interest paid | (406) | (187) | (551) | (26%) | 117% |
| Tax paid | (30) | (397) | (150) | (80%) | (92%) |
| **FCF pre dividend and FX changes** | **859** | **1,283** | **(961)** | (189%) | (33%) |
| Dividend | (125) | (1,007) | (134) | (7%) | (88%) |
| F/X movements | 52 | (375) | 490 | (89%) | (114%) |
| **Reported FCF** | 786 | (99) | (605) | (230%) | (896%) |

| Debt (US$ mm) | 1H20 | 2H19 | 1H19 | y/y | h/h |
|---|---|---|---|---|---|
| Gross debt | 14,650 | 15,980 | 15,687 | (7%) | (8%) |
| | | | | - | - |
| - ST borrowings | 4,013 | 5,456 | 4,708 | (15%) | (26%) |
| - LT borrowings | 10,637 | 10,524 | 10,979 | (3%) | 1% |
| - term debt | 12,100 | 12,600 | 12,600 | (4%) | (4%) |
| - ST borrowings | 1,700 | 2,900 | 2,200 | (23%) | (41%) |
| - preferred stocks | 0 | 0 | 400 | - | - |
| - WK loans | 900 | 500 | 500 | 80% | 80% |
| Total cash | 5,144 | 5,277 | 5,492 | (6%) | (3%) |
| - ST investments | 3,893 | 4,164 | 5,024 | (23%) | (7%) |
| - cash | 1,251 | 1,113 | 469 | 167% | 12% |
| Net debt | 9,506 | 10,703 | 10,195 | (7%) | (11%) |
| LHA gross leverage | 5.3x | 4.7x | 4.6x | 0.7x | 0.5x |
| LHA net leverage | 3.4x | 3.2x | 3.0x | 0.4x | 0.2x |

MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

**Revised Production Guidance – FY20**

- Zinc India and Zinc int'l production guidance were lowered to FY19 level.
- Oil & gas production was expected to increase less than 6% y/y.
- Guidance on other sectors stayed same.

| Segment | Revised FY20 Guidance | FY20 Guidance | FY19 Production |
|---|---|---|---|
| Zinc India | Mined Metal and Finished Metal: c 950kt<br>Silver: c. 650 tonnes<br>H2 COP < $1,030/t excluding royalty | Mined Metal and Finished Metal: c 1.0 Mtpa<br>Silver: 750 - 800 tonnes<br>< $1,000/t excluding royalty | Mined Metal and Finished Metal: 936 kt |
| Zinc International | Skorpion and BMM: ~130kt<br>Gamsberg: 140 - 150kt<br>ZI COP (excl Gamsberg) : $1,850/t<br>Gamsberg: $1,200 - $1,250/t | Skorpion and BMM: >170kt<br>Gamsberg: 180 - 200kt<br>ZI COP (excl Gamsberg) : $1,400/t<br>Gamsberg: c $1,000/t | Skorpion and BMM: 131kt<br>Gamsberg: 17kt |
| Oil & Gas | Gross Volume: 190-200 kboepd<br>H2 Exit: c 225 kboepd | Gross Volume: 200-220 kboepd<br>Opex: ~ $7.5/boe | Gross Volume: 189 kboepd |
| Aluminium | Same | Alumina: 1.7-1.8 Mtpa<br>Aluminium: 1.9 - 1.95 Mtpa<br>COP*: $ 1,725 – 1,775/t | Alumina: 1.5 Mtpa<br>Aluminium: 1.96 Mtpa |
| Power | Same | TSPL plant availability: >80% | - |
| Iron Ore | Same | Karnataka (WMT): 4.5 Mtpa<br>Goa: To be updated on re-start of operations | Karnataka (WMT): 4.1 Mtpa<br>Goa: 1.3 Mtpa |
| ESL | Same | Hot Metal – c 1.5 Mtpa | 1.2 Mpta |
| Copper - India | Same | To be updated on re-start of operations | 90 kt |
| Copper - Zambia | N/A | Integrated: 90 – 100kt<br>Custom: 90 - 100kt | 91 kt |

## MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

| 1H20 (US$mm) | Vedanta Limited Standalone | Copper Mines of Tasmania | Cairn India Holdings Limited | Zinc India (HZL) | Zinc International | Bharat Aluminium (BALCO) | Talwandi Sabo | Vedanta Star Limited | Electrosteels Steel Limited | Others | 2*(3m, Jun-Sept 19) Vedanta Ltd, Consolidated | Vedanta Ltd, Pro Rata | Konkola Copper Mines (KCM) | (6m, Mar-Sept 19) Vedanta Resources Ltd, standalone | Vedanta Resources Ltd, pro rata |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| business | oil & gas, al, cu, iron ore, power, copper India | copper International | oil & gas | Zinc India | Zinc International | al | power | mining services | electrosteel | | | | cu Zambia | | |
| ownership | 100% | 100% | 100% | 65% | 100% | 51% | 100% | 100% | 90% | 100% | | 50.1% | 79% | 100% | |
| **Reported** | | | | | | | | | | | | | | | |
| Revenue | 2512 | 218 | 425 | 1249 | 253 | 527 | 467 | 215 | 280 | 28 | 6,174 | | 0 | | |
| EBITDA | 229 | (7) | 242 | 587 | 59 | (9) | 119 | 57 | 5 | (3) | 1,278 | | 0 | | |
| Gross debt | 5,384 | | 172 | 0 | 60 | 626 | 919 | 479 | | 288 | 7,928 | | 0 | 6,722 | |
| Cash & equivalents | 1,004 | | 703 | 2,787 | 118 | 24 | 174 | 4 | | 214 | 5,028 | | 0 | 115 | |
| Net debt | 4,380 | 0 | (531) | (2,787) | (58) | 602 | 745 | 475 | 0 | 74 | 2,900 | | 0 | 6,607 | |
| LQA gross leverage | | | | | | | | | | | 3.1x | | | | |
| LQA net leverage | | | | | | | | | | | 1.1x | | | | |
| **Pro Rata** | | | | | | | | | | | | | | | |
| Revenue | 2,512 | 218 | 425 | 810 | 253 | 269 | 467 | 215 | 252 | 28 | | 5,450 | 0 | 0 | 2,730 |
| EBITDA | 229 | (7) | 242 | 381 | 59 | (5) | 119 | 57 | 5 | (3) | | 1,076 | 0 | 0 | 539 |
| Gross debt | 5,384 | | 172 | | 60 | 319 | 919 | 479 | | 288 | | 7,621 | 0 | 6,722 | 10,540 |
| Cash & equivalents | 1,004 | | 703 | 1,809 | 118 | 12 | 174 | 4 | | 214 | | 4,038 | 0 | 115 | 2,138 |
| Net debt | 4,380 | | (531) | (1,809) | (58) | 307 | 745 | 475 | | 74 | | 3,583 | 0 | 6,607 | 8,402 |
| LQA gross leverage | | | | | | | | | | | | 3.5x | | | 9.8x |
| LQA net leverage | | | | | | | | | | | | 1.7x | | | 7.8x |

Resources' limited ownership of Vedanta Ltd, and Zinc India limits its access to substantial liquidity. Based on most recently available debt levels at Resources, and taking 50.1% of VEDL net debt and EBITDA, we calculate net leverage at a high 7.8x levels at the issuer. We also highlight market value of Resources interest in VEDL has fallen to US$3.7bn. Resources standalone debt is mostly comprised of the outstanding bonds and unsecured bank borrowings.

MARKET UNDERPERFORM (INDIA):

# VEDLN 6.375% 22s

## EXPANDING VALUE DEFICIT

| | Current | *Sep-19* | *Mar-19* | *Sep-18* | *Mar-18* | *Sep-17* |
|---|---|---|---|---|---|---|
| Vedanta Resources ("PLC") Standalone (US$ mm) | Current | 1H20 | 2H19 | 1H19 | 2H18 | 1H18 |
| Gross debt | 6,722 | 6,722 | 6,256 | 6,270 | 5,877 | 6,115 |
| Cash | 115 | 115 | 43 | 52 | 122 | 15 |
| Net debt | 6,607 | 6,607 | 6,213 | 6,218 | 5,755 | 6,100 |
| Standalone EBITDA | 0 | 0 | 0 | 0 | 0 | 0 |
| Market cap of LTD | 8,350 | 8,115 | 9,898 | 11,911 | 15,867 | 17,888 |
| PLC's ownership in LTD | 50.1% | 50.1% | 50.1% | 50.1% | 50.1% | 50.1% |
| Value of stake in LTD | 4,183 | 4,066 | 4,959 | 5,968 | 7,950 | 8,962 |
| Excess book value/(deficit) | (2,424) | (2,541) | (1,254) | (250) | 2,195 | 2,862 |
| Excess book value/(deficit) as % of Market cap of LTD | (29%) | (31%) | (13%) | (2%) | 14% | 16% |
| Net leverage | 3.4x | 3.4x | 3.2x | 3.0x | 2.7x | 2.1x |
| Bond maturity | 09/08/2024 | 09/08/2024 | 09/08/2024 | 09/08/2024 | 09/08/2024 | 09/08/2024 |
| Bond YTM | 8.11% | 8.03% | 7.43% | 7.49% | 6.50% | 5.84% |

MARKET UNDERPERFORM (INDIA):

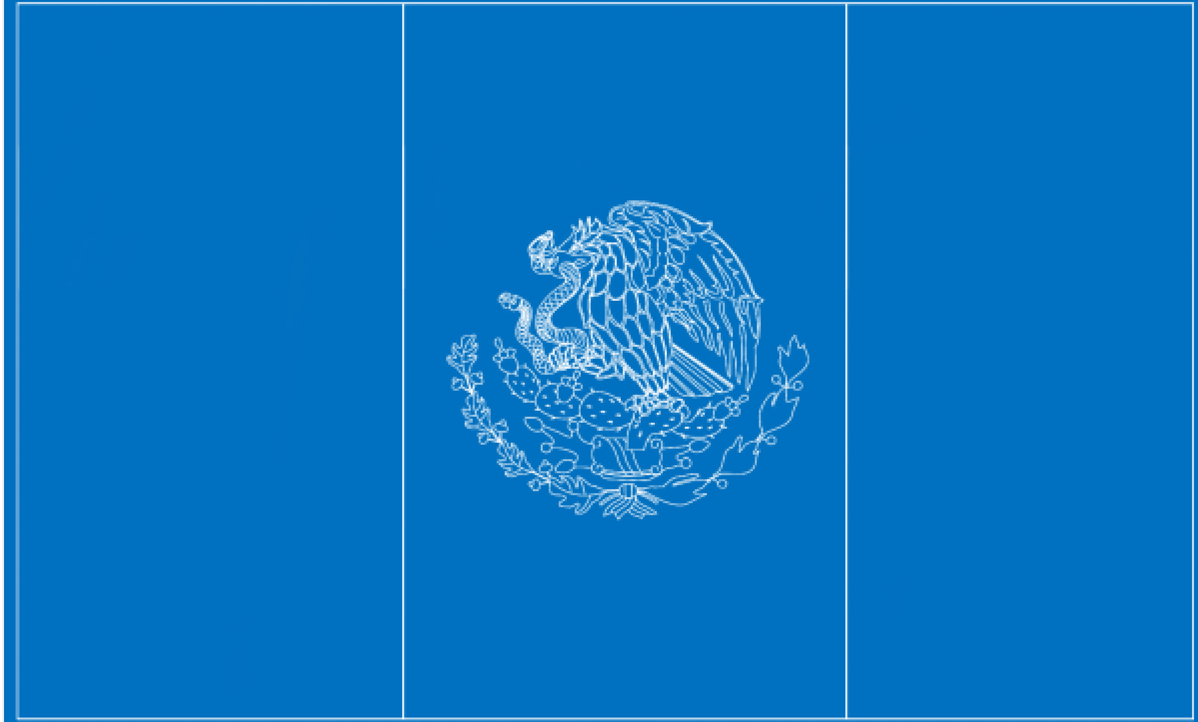
# VEDLN 6.375% 22s

**Cairn Re-Listing ?**

- Recent reports suggested VEDL was exploring a re-listing of Cairn, a wholly-owned E&P subsidiary of VEDL, as an alternative to fund its massive capex plan that may reach US$2.9bn.
- We don't see re-listing Cairn as "unlocking" value for Resources, but think it highlights both the large capital needs of this key subsidiary and the limited value available to benefit bondholders
- Properly accounting for minority interest, we see LHA pro rata leverage through VEDLN of 7.8x, setting a high bar for any subsidiary sale or listing to be accretive or deleveraging.
- Our sensitivity analysis shows that, pro forma for a Cairn listing, Resources is likely to have higher pro rata net leverage, even assuming a generous 6x EBITDA multiple and 50% public holding in Cairn as proceeds are directed to investment and minority interest increases.
  - HoldCo's pro rata pro forma LHA net leverage would increase from 6.3x to 7.8x.

**Analyzing a Cairn Listing:**

- Cairn is an E&P subsidiary which last quarter generated US$121 mm of EBITDA and had a net cash position of US$560 mm
- The company has participated in recent exploration acreage auctions, accumulating approximately 50 of the 80 areas awarded
- Related capex is said to be at least US$600 mm over the next three years, perhaps expanding to US$2.9 bn for Cairn to achieve an ambitious target of doubling production.
- The after tax PV10 of Cairn's existing Proven reserves is US$1.6 bn, according to SEC criteria
  - We have a large universe of smaller E&Ps which trade at a discount to PV10 on at TEV basis.
  - EBITDA multiples for this universe, which are often growing quickly, are quite modest
- Using run rate 2Q20 Cairn EBITDA, and assuming a very generous 6x EBITDA multiple, Cairn would be valued at a TEV of US$2.9 bn with a market cap of US$3.8 bn.
  - These values are almost 2x the PV10 value of reserves and therefore do not appear immediately realistic
- If they were to sell 50% to the public at this lofty valuation to raise capital for investment:
  - Cairn would have US$2.7 bn cash on the balance sheet
  - LTD would then only own 50% of EBITDA and the cash balance
  - On a pro rata basis, Cairn would lose US$244 mm of EBITDA and gain US$850 mm of pro rata cash balance (from US$450 increasing to US$1.4 bn)
- Optically, consolidated cash balance would increase (until the capex is deployed)
- However, LTD and HoldCo access to both EBITDA and cash balance would diminish and more than offset this improvement in leverage due to increased minority interest.
- Therefore pro rata leverage would increase at HoldCo while not providing any proceeds to deal with upcoming maturities
- VEDL share price action more accurately reflect our view that such a transaction would be neutral to value creation and liquidity.



# MEXICO

## MARKET UNDERPERFORM (MEXICO):

# TELVIS 4.63% 26s

**Grupo TELEVISA** is one of the world's most recognized Spanish-language programming producers. Yet, advertising sales have been flat with presales levels declining by nearly half since 2015. We note earnings have been driven by the two pay-tv businesses, now accounting for 61% of total revenue. Cable business continues to deliver strong performance in both revenue and RGU growth, more than offsetting the decline in Sky customers. Televisa's high capex has been focused on expanding the cable business to develop its network, as well as the MXN$4.7 bn acquisition of Axtel's 4.4k km fiber optic. Despite the dominant market share in both content and pay-tv, Televisa's recurrent FCF burn has driven gross leverage to 4.0x. Furthermore, we see minimum equity value at its 36% stake in Univision as well as a major headwind should AMX receive the pay-tv license, the latter is currently under review by the IFT. AMX could offer pay-tv quickly given its infrastructure, client base and liquidity. The increased competition would likely increase TV's FCF burn, though IG status may remain, the current YTM under 4% appears mispriced in our view.



| Description | Amt (US$ MM) | Ratings M/SP/F | Mid Price | Mid YTM |
|---|---|---|---|---|
| TELVIS 4.63% 1/30/2026 | $300 | Baa1/BBB+/BBB+ | 105.51 | 3.60% |

**PROS**

- Arguably the most influential Spanish-language programming producer in the world with strong brand recognition
- Market share leader in broadcaster advertising with recently improved ratings
- Received US$384 mm in royalties during 2018 from its 36% stake in Univision
- Recurrent revenue streams from its Cable and Sky businesses, together accounting for approximately 61% of Televisa's total sales
- Strong Cable operations with double digit y/y growth in both revenues and RGU's
- Room for growth in Mexico's pay-tv market penetration
- Network comprising of 85k km of coaxial cable and 35k km of fiber optic
- USD coupon and interest payments are hedged
- Continued access to local and international capital markets allowing recent liability management transactions

**CONS**

- Exposed to natural business seasonality in advertising
- Stagnant advertising operations since 2015 (excl. WC) with a general market share and ratings decline from increased competition
    - LTM ad. sales are only 1% higher than 2015
    - 3Q19 presales are 47% lower than 4Q15
    - Televisa changed its pricing mechanism in 2018
- Decreasing sky customer subscriber base
- Recurrent FCF burn, burning nearly MXN$40 in the past four years
- Increased overall capex levels – mostly focused on the cable business
- Minimum equity value at Univision at the current industry EV multiple of 7.3x, with an LTM EBITDA of US$0.9 bn and US$7.2 bn in net debt
- 65% of the total debt is USD denominated
- LTM gross leverage ratio is now 4.0x

MARKET UNDERPERFORM (MEXICO):

# TELVIS 4.63% 26s

**Trend Highlights:**

- Stagnant content sales as they are essentially flat vs 2015
  - Customer advances remain well below 2015 levels
  - 4Q18 presales were 31% lower than 4Q15
- Slow SKY sales growth as customers keep decreasing
- Consolidated revenue growth has been fueled by the cable business, the segment with strong client and RGU growth
- Stable EBITDA margins
- MXN$13 bn LTM FCF burn
  - Recurrent FCF burn in each of the past four years
  - Nearly MXN$40 bn FCF burn since 2015
- FCF burn has been partially offset through recent non-core asset sales
- Net debt has increased significantly since 2015, driving the LTM net leverage to 3.0x

**Univision Stake:**

- Univision's LTM EBITDA was US$0.9 bn, with net debt at US$7.2 bn
- The current avg. EV/EBITDA multiple for US peers such as Viacom and CBS is 7.3x
- At 7.3x, Univision's EV value would be US$6.6 bn
- As a result, we see minimum equity value for Televisa's 36% stake in Univision

| TELEVISA (MXN MM) | 2015 | 2016 | 2017 | 2018 | LTM |
|---|---|---|---|---|---|
| Content | 34,333 | 36,687 | 33,997 | 36,490 | 34,537 |
| World cup | - | - | - | 2,734 | - |
| SKY | 19,254 | 21,941 | 22,197 | 22,002 | 21,430 |
| Cable | 28,488 | 31,892 | 33,048 | 36,233 | 40,204 |
| Other businesses | 8,124 | 8,829 | 7,688 | 8,636 | 9,438 |
| **Total Revenue** | **88,052** | **96,287** | **93,586** | **101,282** | **100,224** |
| | | | | | |
| **EBITDA** | **33,168** | **34,279** | **33,696** | **37,761** | **36,961** |
| Interest paid | (5,939) | (7,633) | (8,861) | (10,129) | (9,719) |
| Capex | (27,078) | (30,414) | (18,537) | (26,274) | (27,860) |
| Working capital | (648) | (401) | (6,336) | (2,157) | (3,300) |
| Taxes paid | (7,824) | (7,269) | (6,420) | (6,723) | (8,861) |
| **FCF** | **(8,320)** | **(11,438)** | **(6,458)** | **(7,522)** | **(12,780)** |
| | | | | | |
| Total Debt | 117,400 | 140,070 | 133,404 | 130,987 | 147,980 |
| Cash & Equivalents | 49,397 | 47,546 | 38,735 | 32,068 | 38,711 |
| Net Debt | 68,003 | 92,524 | 94,669 | 98,918 | 109,269 |
| Gross Leverage | 3.5x | 4.1x | 4.0x | 3.5x | 4.0x |
| Net Leverage | 2.1x | 2.7x | 2.8x | 2.6x | 3.0x |
| | | | | | |
| Customer Advances | 20,470 | 21,709 | 18,798 | 13,638 | 10,921 |

## MARKET UNDERPERFORM (MEXICO):

# TELVIS 4.63% 26s

**Recent 3Q19 Earnings – Stable**

- 3Q19 Revenue increased by 3% y/y to MXN$25.8 bn (US$1.3 bn), beating the BBG consensus by 4%
    - Content sales were flat y/y at MXN$8.7 bn, as the lower Govt. advertising spending was offset by higher Univision royalties
        - TV mentioned the expectation of the Govt. reactivating media spending for local public campaigns
    - Cable sales were 3% higher q/q at MXN$10.6 bn, driven primarily by higher pricing and increasing voice RGUs
    - SKY sales were flat q/q at MXN$5.3 bn, despite a slight increase in broadband RGUs
- EBITDA increased by 3% y/y to MXN$9.8 bn (US$0.5 bn), beating the BBG consensus by 6% as well
    - EBITDA growth was due to other businesses, mainly from non-recurrent soccer revenues
    - Excl. this effect, EBITDA would have been slightly higher q/q from an improvement in content and SKY margins
    - The EBITDA margin remained at 38% vs 3Q18
- FCF generation was MXN$0.2 bn (US$0.0 bn), as WK was breakeven during the quarter
    - Capex remains focused on Cable, accounting for 71% of total capex
    - Advertising advances were 4% higher y/y at MXN$10.9 bn, yet decreasing by 25% vs last quarter

| TELEVISA (MXN MM) | 3Q19 | BBG consensus | % dif | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|---|---|
| Total Revenue | 25,786 | 24,775 | 4% | 24,308 | 25,033 | 6% | 3% |
| EBITDA | 9,846 | 9,313 | 6% | 9,302 | 9,562 | 6% | 3% |
| EBITDA margin | 38% | 37% | - | 38% | 38% | - | - |

| TELEVISA (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Total Debt | 147,980 | 146,938 | 127,768 | 1% | 16% |
| Cash & Equivalents | 38,711 | 37,918 | 42,427 | 2% | (9%) |
| Net Debt | 109,269 | 109,020 | 85,342 | 0% | 28% |
| Total Debt / LQA EBITDA | 3.8x | 3.9x | 3.3x | -0.2x | 0.4x |
| Net Debt / LQA EBITDA | 2.8x | 2.9x | 2.3x | -0.2x | 0.5x |

| TELEVISA (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| EBITDA | 9,846 | 9,302 | 9,562 | 6% | 3% |
| Interest paid | (2,594) | (2,332) | (2,556) | (11%) | (1%) |
| Capex | (5,566) | (5,543) | (5,947) | (0%) | 6% |
| Working capital | 22 | 716 | (1,292) | 97% | - |
| Taxes paid | (1,532) | (1,541) | (1,940) | 1% | 21% |
| **FCF** | **177** | **603** | **(2,173)** | (71%) | - |

## MARKET UNDERPERFORM (MEXICO):

# TELVIS 4.63% 26s

**Recent 3Q19 Earnings – cont'd**

- Total Debt was MXN$148.0 bn (US$7.5 bn), while cash increased to MXN$38.7 bn (US$2.0 bn)
  - The 5-yr MXN$10.0 bn syndicated loan was used to refinance the MXN$11.0 bn outstanding 2021 and 2022 local bonds
- Annualized gross debt and net leverage ratios were 3.8x and 2.8x, respectively
- Recent Highlights:
  - In October 2019, Televisa prepaid the MXN$10.0 bn outstanding 2020 local bonds
  - Univision is reportedly exploring sale options, with TV owning a 36% stake and currently receiving around US$0.4 bn annual royalties
  - In July 2019, Televisa agreed to sell its 40% stake in Ocesa for MXN$5.6 bn

| TELEVISA (MXN MM) | 3Q19 | BBG consensus | % dif | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|---|---|
| Total Revenue | 25,786 | 24,775 | 4% | 24,308 | 25,033 | 6% | 3% |
| EBITDA | 9,846 | 9,313 | 6% | 9,302 | 9,562 | 6% | 3% |
| EBITDA margin | 38% | 37% | - | 38% | 38% | - | - |

| TELEVISA (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| Total Debt | 147,980 | 146,938 | 127,768 | 1% | 16% |
| Cash & Equivalents | 38,711 | 37,918 | 42,427 | 2% | (9%) |
| Net Debt | 109,269 | 109,020 | 85,342 | 0% | 28% |
| Total Debt / LQA EBITDA | 3.8x | 3.9x | 3.3x | -0.2x | 0.4x |
| Net Debt / LQA EBITDA | 2.8x | 2.9x | 2.3x | -0.2x | 0.5x |

| TELEVISA (MXN MM) | 3Q19 | 2Q19 | 3Q18 | q/q | y/y |
|---|---|---|---|---|---|
| EBITDA | 9,846 | 9,302 | 9,562 | 6% | 3% |
| Interest paid | (2,594) | (2,332) | (2,556) | (11%) | (1%) |
| Capex | (5,566) | (5,543) | (5,947) | (0%) | 6% |
| Working capital | 22 | 716 | (1,292) | 97% | - |
| Taxes paid | (1,532) | (1,541) | (1,940) | 1% | 21% |
| **FCF** | **177** | **603** | **(2,173)** | (71%) | - |

# UKRAINE

## MARKET UNDERPERFORM (UKRAINE):

# MHPSA 6.95% 26s

| Description | Amt (US$ MM) | Ratings (M/SP/F) | Mid Price | Mid YTM |
|---|---|---|---|---|
| MHPSA 6.95% 04/03/2026 | $550 | - / B / B+ | 106.13 | 5.76% |

Established in 1998, **MHP ( -/ B/ B+),** Ukraine's largest poultry producer, consistently represents 50% plus market share domestically of industrially produced poultry. Over the past few years, MHP grew organically with ramping up its flag-ship Vynnitsya project and through acquisitions, like Perutnina Ptuji (Slovenia) in 2019. Increased production, however, did not translate into increased sales. EBITDA sequentially declined on increased operating expenses. Our concern that net debt will creep further up when MHP, eventually, presents its net debt numbers with IFRS 16. We move the MHPSA 26s to 'Market Underperform'.

PROS:

- Ukraine's top poultry producer and exporter (2018): almost 618,000 of poultry produced, an increase of 9% y/y and export represents 55 – 57% in total revenue
- The LSE-listed (since 2008) with a market capitalization of just over US$1.0 billion with a 35% free-float
- Main shareholder – founder and CEO, Mr. Yuriy Kosyuk (65%), a Ukrainian businessman with a net worth of US$1.3 billion (Jan 2020), according to Forbes
- Vertically-integrated company – 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 – currently, at ~370,000 ha will have a notably impact on net leverage once the company presents its numbers with IFRS 16; plans to increase to 550,000 ha
- Main 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)
- Rapid growth 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

## MARKET UNDERPERFORM (UKRAINE):

# MHPSA 6.95% 26s

### 3Q19 IFRS Financial Results

| MHP, USD MM | 3Q19 | 3Q18 | y/y | 2Q19 | q/q | 2018 | 2017 | y/y |
|---|---|---|---|---|---|---|---|---|
| Revenue | 560 | 441 | 27% | 510 | 10% | 1,556 | 1,288 | 21% |
| EBITDA reported | 109 | 99 | 10% | 164 | -34% | 450 | 459 | -2% |
| EBITDA margin reported | 19% | 22% | (3pp) | 32% | (13pp) | 29% | 36% | (7pp) |
| EBITDA (BCP est) | 132 | 117 | 13% | 117 | 13% | 414 | 434 | -5% |
| EBITDA margin (BCP est) | 24% | 27% | (3pp) | 23% | 1pp | 27% | 34% | (7pp) |
| Interest | (26) | (2) | 1200% | (57) | -54% | (93) | (99) | -6% |
| Tax | (3) | (3) | n/a | (2) | 50% | (13) | (0.4) | 3150% |
| Capex | (40) | (90) | -56% | (76) | -47% | (261) | (122) | 114% |
| FCF (pre WC) | 63 | 22 | 186% | (18) | n/a | 47 | 213 | -78% |
| Net Change in Working Capital (WC) | (6) | 11 | n/a | 24 | n/a | (45) | (120) | -63% |
| FCF (post WC) | 57 | 33 | 73% | 6 | 850% | 2 | 93 | -98% |

| MHP, USD MM | 3Q19 | 3Q18 | y/y | 2Q19 | q/q | 2018 | 2017 | y/y |
|---|---|---|---|---|---|---|---|---|
| Short-Term Debt | 143 | 151 | -5% | 393 | -64% | 137 | 41 | 234% |
| Long-Term Debt | 1,625 | 1196 | 36% | 1,316 | 23% | 1,206 | 1,116 | 8% |
| Gross Debt | 1,768 | 1,347 | 31% | 1,709 | 3% | 1,343 | 1,157 | 16% |
| Cash | 288 | 181 | 59% | 157 | 83% | 212 | 126 | 68% |
| Net Debt | 1,480 | 1,166 | 27% | 1,552 | -5% | 1,131 | 1,031 | 10% |
| EBITDA LTM (reported) | 436 | 450 | -3% | 460 | -5% | 450 | 459 | -2% |
| Leverage LTM | 4.1x | 3.0x | 35% | 3.7x | 9% | 3.0x | 2.5x | 18% |
| Net Leverage LTM | 3.4x | 2.6x | 31% | 3.4x | 1% | 2.5x | 2.2x | 12% |
| EBITDA LTM (BCP est) | 424 | 415.0x | 2% | 409 | 4% | 414 | 434 | -5% |
| Leverage (BCP est) | 4.2x | 3.2x | 28% | 4.2x | 0% | 3.2x | 2.7x | 22% |
| Net Leverage (BCP est) | 3.5x | 2.8x | 24% | 3.8x | -8% | 2.7x | 2.4x | 15% |
| FX (UAH/USD) | 24.36 | 28.18 | -14% | 21.17 | 15% | 27.48 | 28.02 | -2% |

### 3Q19 IFRS Financial Results:

- Revenue – US$560 mm (+27% y/y and +10% q/q) on increased production (+24% y/y and +2% q/q to 186,555 tonnes) and despite lower sales sequentially (+3% y/y and -8% q/q to 165,963 tonnes)
  - Export revenue amounted to US$317 mm, of 57% of the total revenue
- EBITDA - US$109 mm (+10% y/y and -34% q/q) – a sequential decline is primarily due to increased operational expenses as the company makes arrangements to retain qualified staff
  - IAS 41 – net change of bio assets and agro produce: without taking it in to account 3Q19 EBITDA was US$131.6 mm (+13% y/y and q/q)
  - IFRS 16 – for the full year, MHP plans to provide comparison with IFRS 16 and without; in 9M19, MHP just used IAS 41 and did not apply IFRS 16

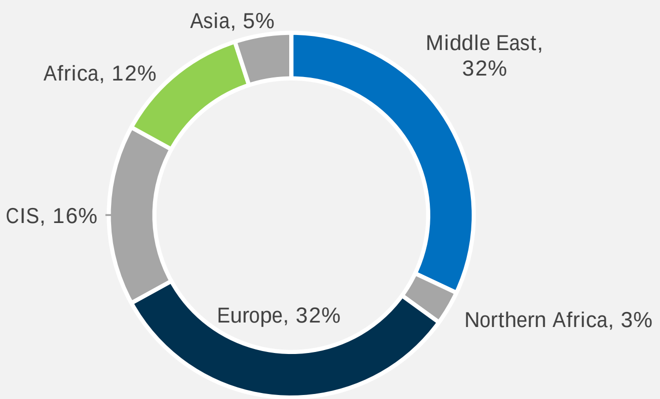
## MARKET UNDERPERFORM (UKRAINE):

# MHPSA 6.125% 22s

**3Q19 IFRS Financial Results (continued):**

- Capex – US$40 mm (-56% y/y and -47% q/q) – essentially, just maintenance capex
- FCF positive (pre- and post-working capital) on lower interest payments and capex
- Working Capital – some investment into working capital as the grain growing segment has seasonal requirements during November – May period due to the sowing campaign
- Liquidity – US$288 mm as at end-3Q19 (+83% q/q and +36% YTD) vs. US$143 mm in short-term (ST) debt (incl. leases)
- Net Leverage – at 3.4x (vs. 2.5x in 2018 and 3.4x in 2Q19), based on the reported EBITDA; at 3.5x, based on our estimate (w/o bio assets)
- 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 2.96x, within the Eurobond covenant of 3.0x

Export Destinations, 3Q19



MARKET UNDERPERFORM (UKRAINE):

# MHPSA 6.95% 26s

**Outlook:**

- Land reform – a draft of the land bill was passed in its first reading in December 2019. It is expected that the land market will be operational as of October 1, 2020, the government has already excluded foreign participation, which should support local buyers
- Industry challenges – certain markets in the MENA region have temporarily restricted the import of poultry productions from international producers, including MHP; the company hopes this will be resolved by early 2020
- Grain segment – returns have been negatively impacted by low global commodity prices and stronger local currency

- *MHP, Ukraine's largest poultry producer, has been going through a period of expansion organically with ramping up its Vynnitsya project)and through acquisitions Perutnina Ptuji (Slovenia) in 2019. Increased production, however, did not translate into increased sales. EBITDA sequentially decline on increased operational expenses. Our concern is that net debt will creep further up when MHP presents its net debt numbers taking into account IFRS 16. We move the MHPSA 26s to 'Market Underperform'.*

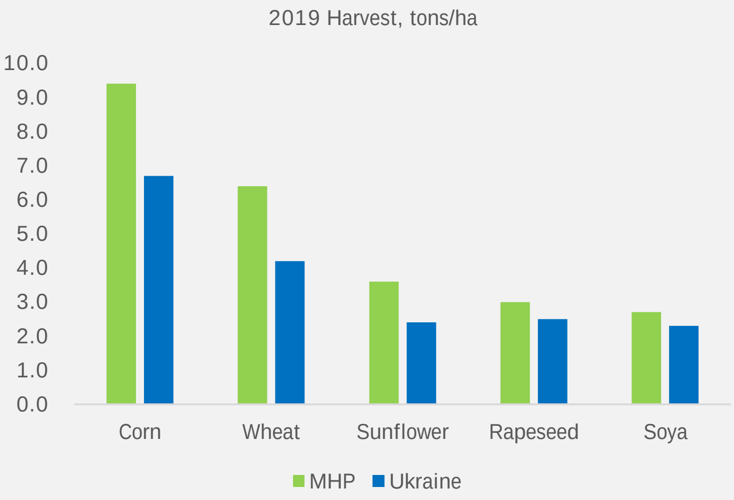
| MHP Operational Results | 3Q19 | 3Q18 | y/y | 2Q19 | q/q | 2018 | 2017 | y/y |
|---|---|---|---|---|---|---|---|---|
| Poultry Production, tons | 186,555 | 150,650 | 24% | 182,306 | 2% | 617,943 | 566,242 | 9% |
| Sales to 3rd parties, tons | 165,963 | 160,778 | 3% | 181,273 | -8% | 593,527 | 532727 | 11% |
| Export, tons | 79,189 | 80,361 | -1% | 97,439 | -19% | 286,846 | 220,983 | 30% |
| Price (kg net of VAT/UAH | 38.58 | 40.38 | -4% | 40.06 | -4% | 39.86 | 35.63 | 12% |
| Price (kg net of VAT/USD | 1.58 | 1.43 | 10% | 1.53 | 3% | 1.45 | 1.27 | 14% |
| Sunflower Oil Sales, tons | 89,975 | 92,866 | -3% | 86,661 | 4% | 315,079 | 311,393 | 1% |
| Soybean Oil Sales, tons | 15,758 | 6,155 | 156% | 9,097 | 73% | 50,044 | 27,282 | 83% |
| FX (UAH/USD) | 24.36 | 28.18 | -14% | 26.16 | -7% | 27.48 | 28.02 | -2% |

## MARKET UNDERPERFORM (UKRAINE):

# MHPSA 6.95% 26s

**MHP ( - /B / B+)** LSE-listed with a market cap of US$ 1.0 billion

**Grain Growing Operations – 370,000 ha leased landbank**

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"Market Outperform" – The bond's total return is expected to exceed the total return of the J.P. Morgan Corporate Emerging Markets Bond Index series ("CEMBI") Broad Diversified High-Yield Index over the next 3 – 6 months.

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

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

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"Market Weight" – The spread of the bond to its similarly duration sovereign controller bond is expected to remain unchanged over the next 3 – 6 months.

"Market Underweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

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"Positive" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the upside

"Neutral" – Bonds that in our view have an equity investment risk profile and we think risk/return is balanced

"Negative" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the downside

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