

## BCP Research: Gran Tierra Energy (GTE -/B+/B) - Offer to Purchase Any & All Convertible Bonds, Downgrade 21s to Neutral

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*Summary: Last week, Colombian upstream O&G company, Gran Tierra Energy (“GTE”) announced its offer to purchase any and all of its US\$115 mm in outstanding 5% 2021 bonds. Bonds will be redeemed with cash on hand at a purchase price of 107.5c, in line with our previous FV assessment (107c). The offer commenced June 6<sup>th</sup> and will expire June 12<sup>th</sup> at 4:00 pm EST. Institutional holders of an aggregate US\$61.2 mm of the convertible bonds have already agreed to participate in the offer. We recommend investors participate in the tender due to reduced liquidity and amount outstanding afterwards. With the market having adjusted its price to reflect the upcoming exchange, we close out our Positive recommendation at 107.5c, after upgrading at 102.5 on May 9, 2019 for a total return of 5.3% (incl. accrued interest) in under one month.*

	Amt Out (US\$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM	Maturity Type	Recommendation
GTE 5% 4/1/2021	115	-/B+/-	107.5	0.80%	Convert	Neutral
GTE 6.25% 2/15/2025	300	-/B+/B	93.8	7.63%	Callable	
GTE 7.75% 5/23/2027	300	-/B+/B	97.3	8.23%	Callable	

Alongside the convertible exchange offer is the company’s recent repayment of its US\$114 mm outstanding senior secured revolving credit facility (“RCF”), which was funded by the issuance of US\$300 mm in 7.75% ’27 senior notes in May 2019. Both transactions benefit bondholders who move up in the structure and exemplify GTE’s ability to successfully manage its debt profile.

We continue to like the credit, with BBG consensus EBITDA for FY20 of US\$565 mm and promising FY20 production guidance of 50,000 boepd made more attractive by the recent deleveraging effects of the new debt structure. Assuming all bondholders participate in the exchange, the company will have pro-forma gross debt of US\$588 mm, resulting in pro forma LTM gross leverage of 1.5x. Though both GTE ’25s and ’27s offer 7%+ YTM, we continue to favor peer CGCSA’s ’21s, backed by strong fundamentals and an absolute yield around 11%.

### Peer Comparison

(US\$ MM)	Seplat	CGC	Tecpetrol	Frontera	Gran Tierra	Geopark	Tullow	Kosmos
Mid yield (%)	7.70%	11.44%	5.80%	7.95%	7.63%	6.33%	6.34%	7.53%
Mid Price	105.0c	96.0c	97.1c	105.9c	93.8c	100.8c	99.8c	97.9c
Rating (M/SP/F)	(B2/B/B-)	(-/B-/B)	(Ba3/-/BB+)	(-/BB-/B+)	(-/B+/B)	(-/B+/B+)	(B3/B+/-)	(-/B-/B+)
Bond maturity	2023	2021	2022	2023	2027	2024	2022	2026
Amount Outstanding (US\$mm)	350	300	500	350	300	425	650	\$300
	<b>1Q19</b>	<b>1Q19 (ARS)</b>	<b>4Q18</b>	<b>1Q19</b>	<b>1Q19</b>	<b>1Q19</b>	<b>2H18</b>	<b>1Q19</b>
Oil & Gas production (kboed)	46.5	36.4	107.0	62.9	38.2x	39.6	83.7	56.1
Revenue	160	5,208	293	378	153	150	1,013	297
EBITDA	63	2,988	183	145	93	92	836	188
FCF	61	969	(221)	(23)	(53)	27	140	(96)
Gross debt	343	19,209	1,448	354	514	441	4,631	2,196
Net debt	(207)	17,565	1,435	13	450	294	4,452	2,061
LQA Gross leverage	1.3	1.6x	2.0x	0.6x	1.4x	1.2x	2.8x	2.9x
LQA Net leverage	n/a	1.5x	2.0x	0.0x	1.2x	0.8x	2.7x	2.7x

	US\$MM
<b>Pro Forma Gross Debt</b>	<b>588</b>
- Senior notes (GTE 6.25% 2025s)	300
- Senior Notes (GTE 7.75% 2027s)	300
- Unamortized debt issuance costs	(15)
- Long-term lease obligation	3
<b>LQA Pro Forma Gross Leverage</b>	<b>1.6x</b>
<b>LTM Pro Forma Gross Leverage</b>	<b>1.5x</b>

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