

## BCP Research: Gol (GOLLBZ: - / B/ B+) 4Q19 Results - Strong - Maintain 'Positive-Swap' on Convert 24s

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*Summary: Brazilian airline, Gol released strong 4Q19 results, showing 10% revenue growth y/y despite the continued grounding of the MAX 8 fleet. Load factor contracted slightly y/y to 81.5%. EBITDA continued to show robust y/y growth, with margins reaching 39% in 4Q19 on the back of higher RASK, which outpaced CASK. Free cash flow was an impressive US\$201 mm, benefitting from improved profitability, WK generation and lower interest payments, which outweighed capex and cash lease payments. Notably, pro-forma net leverage (incl op leases) contracted to 2.6x. The company expects its MAX fleet (7 grounded, 12 to be delivered) to be returning to service in June or July of 2020. At the current exchange rate, guidance implies flat EBITDA for 2020 vs. 2019. We would expect FCF generation to remain strong and continue the deleveraging trend.*

**We reiterate our “Positive – Swap” rating on the GOLLBZ 3.75% ‘24s following positive 4Q19 results, backed by the recent American Airlines partnership and macroeconomic tailwinds. We continue to find GOLLBZ 3.75% ‘24s one of the most compelling among “Swap” converts at 100D 49% vs. 24% IVOL and 12% cheap to model – among the highest in our EM universe.**

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	8.88%	1/24/2022	78	- / B/ B+	103.0	(0.8%)
GOLLBZ	7.00%	1/31/2025	650	- / B/ B+	103.0	6.1%
GOLLBZ	8.75%	Perp	154	B2/ - / B+	101.0	8.7%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recomm.
GOLLBZ 3.75% 7/16/2024	425	107.3	2.0%	24.2%	11.8%	78.0%	20.25	\$15.62	Positive - Swap

\* Source: Equity information sourced from Bloomberg. Pricing as of close February 20<sup>th</sup> 2020.

### 4Q19 Results:

- RPKs increased 6% y/y to 10.8 bn. ASKs also grew 6% y/y to 13.3 bn
- Load factor contracted 0.4 pp y/y to 81.5% in 4Q19
  - We note January’s preliminary traffic figures show a load factor of 83.9% in January ’20 (+0.4 pp y/y) and an LTM lean factor of 82% (+2.1 pp y/y)
- Revenue increased 10% y/y and decreased 1% q/q to US\$924 mm, despite continued grounding of the MAX and, subsequently, unexpected maintenance of NGs which have remained in the fleet in the interim
- EBITDA of US\$356 mm increased 160% y/y and 24% sequentially, with y/y results benefitting from the increased in RASK, which outpaced CASK (ex-fuel)
- EBITDA margins expanded 2,220 bps y/y and 777 bps q/q to 39%
- Free cash flow was a robust US\$201 mm, benefitting from EBITDA performance, WK generation and lower interest payments (based on payment schedule), which outweighed elevated cash lease payments and capex

- Capex expanded 22% q/q to US\$74 mm
- Cash leases contracted 18% q/q to US\$96 mm
- The company generated working capital of US\$38 mm in 4Q19, up 38% q/q

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

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

- Cash and equivalents were 3% higher q/q at US\$755 mm
- Net Debt was 3% higher q/q at US\$2,833 mm

- The below table illustrates the positive impact of IFRS 16 on Gol's leverage (now 2.6x) as a result of improved EBITDA in addition to the capitalization of aircraft rents, now recognized as a portion of Gol's debt balance:

Gol (US\$MM)						Restated	
	4Q19	3Q19	2Q19	1Q19	4Q18	y/y	q/q

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

\* Net Income adjusted for non-recurring expenses

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

## 2020 and 2021 Guidance:

(US\$MM)	2020	2021
<b>Revenue</b>	<b>3,511</b>	<b>3,876</b>
<b>EBITDA</b>	<b>1,053</b>	<b>1,201</b>
<i>EBITDA margin</i>	<i>30%</i>	<i>31%</i>

- Current F/X (4.39) suggests flat revenue growth in FY20 to US\$3,511 mm, reflecting the anticipated impact of the MAX fleet grounding and increased capacity as a result of consolidation of Brazilian airlines with the exit of Avianca Brazil (OceanAir)
- EBITDA margins are expected to remain flat as well, resulting in flat to slightly lower EBITDA generation in FY20 as compared to FY19

- Net leverage (excl. exchangeable and perpetual notes) is expected to remain relatively flat at ~2.0x

### **Convertible Valuation:**

We evaluate the convert credit spread at 420 bps (based on Regs '25s) and cap volatility on the common 50%, which implies 122c fair value on the convert vs. a current mid price of 107c and a bond floor of 93c (14% up v 13% down). Spread between 100D 49% v 24% IVOL on the common remains highly attractive – the widest spread within our current coverage universe. This is backed by robust fundamentals in line with the company’s capacity management, cost reduction and balance sheet rationalization, which has resulted in deleveraging to 2.6x pro-forma net leverage (incl. operating leases) as of 4Q19.

CONVERTIBLE BOND	GOL EQUITY FINANCE SA
<b>Country of Risk</b>	<b>Brazil</b>
Industry Group	Airlines
<b>Ticker</b>	<b>GOLLBZ</b>
Coupon	3.75%
Maturity	7/15/2024
Amount Out (mm)	425
Rank	Sr Unsecured
<b>Mid Price</b>	<b>107.3</b>
Mid YTM	2.0%
Share Conversion Price	20.25
<b>Parity</b>	<b>77.6</b>
Premium	29.2
EQUITY	GOL US
<b>Share Price as of 02/20/2020 (USD)</b>	<b>15.62</b>
<b>Current Market Cap (US\$ bn)</b>	<b>2.8</b>
<b>BCP Credit Spread Estimate</b>	<b>420</b>
<b>Realized Share Volatility (100D)</b>	<b>47.8%</b>
Implied Volatility	24.2%
Fair Value (vs 100D realized vol)	122.2
(Rich)/Cheap %	11.8%
Delta	78.0%
Bond Floor	92.8
<b>Implied Share Volatility (ATM 30D listed calls)</b>	<b>43.9%</b>

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of February 20<sup>th</sup> 2020.

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“Not Rated” or no comment – Currently, the analyst does not have adequate conviction about the bond’s total return relative to the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

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

“Not Rated” or no comment – Currently, the analyst does not have adequate conviction about the bond’s spread to its similarly duration sovereign controller bond 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

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