

BCP Research: GOL (GOLLBZ -/B-/B)- Awaiting More Visibility- Downgrade 24s to Neutral

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Summary: Since our upgrade at 35.5c, it seems investors agree with our view that Gol likely has an ability to navigate this challenging airline environment through existing liquidity and lessor forbearance. Gol, relative to peers, has a very favorable fleet structure and high mix of domestic travel. While we continue to favor Gol among peers, we anticipate the next 15 to 20 pts will be challenging, given the lack of visibility on timing and the shape of demand recovery. We feel investors may need to soon see evidence of a strong rebound (from a low base) of pax traffic in 3Q vs 2Q. Accordingly, we downgrade convertible GOLLBZ 3.75% 24s to 'Neutral' on the High Octane and Top Picks, seeing other credits in a similar price range with more favorable near-term risk vs. reward.

			Amt Out (US\$ MM)		M/SP/F	Mid Price	Mid YTM		
GOLLBZ	7.00%	1/31/2025	650		-/ B-/ B	51.1	25.2%		
GOLLBZ	8.75%	Perp	154		B2/ -/ B	43.0	20.3%		

	Amt Out (US\$ MM)	Mid Price	Mid YTM	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recommendation
GOLLBZ 3.75% 7/16/2024	425	48.1	24.1%	23.5%	8.6%	55.9%	20.25	\$4.61	Neutral

* Source: Equity information sourced from Bloomberg. Convertible pricing as of close April 30th, 2020.

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Top Picks Universe

"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.

"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.

Quasi Sovereign Universe

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

"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.

"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.

High Octane Universe

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

"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

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

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