

BCP Research: GOL (GOLLBZ -/B-/B) 1Q20 Earnings – Positive, Ample Liquidity Runway Signaled

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Summary: Gol announced 1Q20 results which appeared better than anticipated on the heels of the COVID-19 crisis. Unsurprisingly, revenues were down y/y and q/q as bookings declined. While weaker q/q, the company showed improved EBITDA q/q. This excluded the US\$194 mm Max 8 reimbursement benefit taken in the quarter. EBITDA margins remained robust at 40%, boosted by gains on fleet sale leaseback transactions. Free cash flow was negative US\$49 mm, primarily as a result of WK use, alongside cash lease, capex and interest payments. The company had US\$575 mm in cash and equivalents and US\$813 mm in liquidity. Management stated they have sufficient liquidity to make it to year end 2020 with no improvement in operating conditions. Net debt stood at US\$2,680 mm, with LTM net leverage of 2.7x. We will provide further detail in a follow-up note after the earnings call (details included below).

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ B-/ B	51.0	25.3%
GOLLBZ	8.75%	Perp	154	B2/ -/ B	48.5	18.4%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recommendation
GOLLBZ 3.75% 7/16/2024	425	45.0	26.1%	37.1%	4.09%	55.9%	20.25	\$4.04	Neutral

* Source: Equity information sourced from Bloomberg. Convertible pricing as of May 4th 2020.

1Q20 Results:

- RPKs decreased 6% y/y to 9.9 bn, and ASKs contracted 4% y/y to 12.5 bn
- Load factor contracted 169 bps y/y to 79.8%
- Revenue decreased 17% y/y and 24% q/q to US\$704 mm, as a result of the ongoing COVID-19 crisis
- EBITDA (excl. MAX reimbursement) were better than anticipated, increasing 14% y/y but decreased 22% q/q to US\$279 mm
 - Excluded from EBITDA is the reimbursement of US\$193.5 mm related to the MAX-78 grounding
- EBITDA margins expanded 1,089 bps y/y and 108 bps q/q to 40%
- Free cash flow was negative US\$49 mm, primarily as a result of WK outflow and heavy cash lease, capex and interest payments
 - Capex contracted 8% q/q to US\$52 mm
 - Interest paid contracted 8% q/q to US\$52 mm
 - Cash Leases contracted 2% q/q to US\$94 mm
 - Working Capital use was US\$123 mm, compared to WK generation in the previous quarter
- Cash and equivalents were US\$575 mm, with a total of US\$813 mm in liquidity
- Net Debt was 5% lower q/q at US\$2,680 mm
- LTM Net leverage was 2.7x

GoI (US\$MM)	1Q20	4Q19	1Q19	y/y	q/q
Revenue	704	924	852	(17%)	(24%)
Net income (loss) before min. interest *	(525)	182	20	-	-
(-) Income Taxes	10	30	19	(48%)	(68%)
(-) Net Financial Result	725	33	98	637%	2127%
(-) Reimbursement of expenses related to MAX	(43)	-	-	-	-
EBIT	166	244	137	22%	(32%)
<i>EBIT margin</i>	<i>24%</i>	<i>26%</i>	<i>16%</i>	<i>758bps</i>	<i>(280bps)</i>
(-) Depreciation and Amortization	112	111	108	4%	1%
EBITDA (ex-rents)	279	356	245	14%	(22%)
(-) Rents	n/a	n/a	n/a	-	-
EBITDA	279	356	245	14%	(22%)
<i>EBITDA Margin</i>	<i>40%</i>	<i>39%</i>	<i>29%</i>	<i>1,089bps</i>	<i>108bps</i>
Capex	(52)	(76)	(27)	96%	(31%)
Interest paid	(52)	(10)	(50)	4%	407%
Taxes paid	(6)	(13)	(6)	11%	(51%)
Cash lease	(94)	(96)	(94)	-	(2%)
Working capital	(123)	15	(119)	4%	(941%)
FCF	(49)	176	(51)	(2%)	(128%)
Cash and cash equivalents	127	408	482	(74%)	(69%)
ST Financial Assets	218	237	91	140%	(8%)
Restricted cash ST	204	76	90	125%	169%
Restricted cash LT	27	35	30	(10%)	(22%)
Cash and Cash Equivalents	575	755	693	(17%)	(24%)
ST Accounts Receivable	152	305	211	(28%)	(50%)
ST Securities Receivable	86	-	-	-	-
Liquidity	813	1,060	905	(10%)	(23%)
Gross Debt (incl. op leases)	3,255	3,588	3,581	(9%)	(9%)
Short-term borrowings	616	631	282	119%	(2%)
Long-term debt	1,213	1,456	1,678	(28%)	(17%)
Aircraft Financing **	1,425	1,502	1,621	(12%)	(5%)
Net Debt (incl op leases)	2,680	2,833	2,888	(7%)	(5%)
LTM EBITDA	1,109	1,075	1,165	(5%)	3%
LTM Gross Leverage (Gross Debt / LTM EBITDA)	2.9x	3.3x	3.1x	(0.1x)	(0.4x)
LTM Net Leverage (Net Debt / LTM EBITDA)	2.7x	2.9x	2.8x	(0.1x)	(0.2x)

- GoI (GOLLBZ)
Before market
Conference Call: Monday, May 4, 2020 – 1:30 PM BRT (pt), 11:00 AM EST (en)
Phone: +55 11 3181 8565 (pt), +1 412 317 6382 (en)
Code: GoI
Webcast (pt): <https://webcastlite.mziq.com/cover.html?webcastId=8d39128f-8359-4ed1-9682-cd93b5d82dc5>
Webcast (en): <https://webcastlite.mziq.com/cover.html?webcastId=be862680-9089-412d-aca7-82594850e65b>

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"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.

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“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.

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

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

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