

# BCP Research: Gol (GOLLBZ: /B-/B) - Structured to Weather the Storm - Upgrade Converts to 'Positive'

Published: May 11<sup>th</sup> 2020

*Summary: Brazilian airline, Gol's 1Q20 results were better than anticipated and, alongside management's 2Q20 outlook, continue to support our view that airline operators with higher margins and liquidity, lower leverage and lower international exposure will fare better through the COVID-19 crisis. Adj. EBITDA margins (excl. Sale and Leaseback and Max compensation) remained strong at 20% despite softer top-line results. Liquidity remained robust at 24% of LTM revenues with LTM net leverage of 2.6x. We continue to emphasize the importance of Gol's structural advantages, relying heavily on domestic flights operated under a uniform fleet structure.*

*Gol management is guiding to 6% EBITDA margins in 2Q20 on 80% lower capacity, opex cost cuts and a 70% y/y reduction revenues to US\$166 mm (based on BRL spot 5/4/20). This, alongside securing 4-6 month lease deferrals, and reduction of capex to ~US\$100 mm for the remainder of the year, should help to preserve liquidity. The company reported cash burn of ~US\$6 mm/day at end-March, and expects this number will fall to under US\$2 mm/day for the remainder of the 2020 "assuming there is no improvement in current market conditions." Available liquidity was reported by the company at almost US\$1.5 bn, including US\$545 mm in cash, US\$225 mm in LT and ST receivables, ~US\$305 mm in security deposits, maintenance reserves and prepaid expenses, and an estimated US\$270 mm in additional liquidity that could be raised via the pledge of unencumbered assets (Co. Est. Value US\$545 mm) against lines of credit.*

*Terms for the BNDES led financing (loans + warrants) are expected to be defined by May 15th 2020. Gol continues to emphasize its commitment to shareholders, and sees the potentially dilutive BNDES loan as a backstop to internal liquidity and private sector financing options. Nevertheless, the ability to draw on additional financing given the uncertainty of the recovery timeline would be a welcome development.*

*We believe travel will eventually recover, likely in line with more broadly available testing. Admittedly 2021 is unlikely to look like 2019 or pre crisis expectations for 2020. But we think 2018, when the truckers strike coincided with unusually strong crude and weak BRL, is a valid example of weak profitability. We see Gol's pro-forma balance sheet, reflecting deferred lease liabilities, as 4.7x net levered vs 2018 results, manageable in the context of an expected turnaround in demand. Finally, with 1/3 of fleet on shorter term leases, Gol is well positioned for the consensus expectation that the travel market will be smaller for longer. Thus, with a clearer path ahead we once again upgrade the GOLLBZ 3.75% 24 converts to "Positive" as part of our High Octane List, which at 42c continue to trade wider than the pari passu GOLLBZ 25s, offering a free option on Gol equity trading below the bond floor.*

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ B-/ B	46.0	28.5%
GOLLBZ	8.75%	Perp	154	B2/-/ B	44.5	20.1%

		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	41.9	28.4%	39.6%	3.5%	51.1%	20.25	\$3.74	Positive (HO)

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of May 11<sup>th</sup> 2020.

## UPDATED 2020 Estimates for Gol:

We are updating our 2020 estimates for Gol (originally published as our COVID-19 Stress Test) to reflect recent results and management guidance. Overall, 1Q20 results and management guidance are significantly better than our previous estimates. Gol entered 2Q with stronger liquidity and margins than we had anticipated. Our FCF estimates are similar to management guidance, but anticipated a steeper drop in 2Q and subsequent recovery to reach sustainable FCF burn. With no real improvement visible, we began to feel

overly optimistic and downgraded Gol to Neutral. Instead, per guidance, the bottom appears less severe and sustainable through year end assuming no meaningful traffic recovery.

Key improvements versus our estimates are ending 1Q20 with higher liquidity and a deeper cut in non-variable opex (50% cut vs. our 30%) which leads to positive margins even at depressed revenue levels. We now assume revenues remain flat through the year at an estimated US\$165mm/quarter, and that interest payments continue and leases are deferred in 2Q and 3Q20, in line with the current state of lessor negotiations. Our revised forecast excludes any outside WK financing. The result is we see Gol with sufficient liquidity to fund operations through FY20 assuming NO improvement in demand from 2Q20 levels. We assume the term loan is extended while management is anticipating repayment on time.

Our revised estimates underpin our view that Gol is singularly better positioned than peers in this environment and THE pick to maintain HY Latin American airline exposure in the current crisis.

Gol (US\$MM)	March 2020 Stress Test Analysis (WK Support)					*UPDATED* May 2020 Estimates (WK Support)				
	1Q20	2Q20E	3Q20	4Q20	2020	1Q20	2Q20	3Q20	4Q20	2020
	E		E	E	E		E	E	E	E
<b>Revenue</b>	<b>467</b>	<b>21</b>	<b>284</b>	<b>492</b>	<b>1,264</b>	<b>704</b>	<b>166</b>	<b>163</b>	<b>163</b>	<b>1,197</b>
<b>EBITDA</b>	<b>(3)</b>	<b>(234)</b>	<b>(13)</b>	<b>146</b>	<b>(104)</b>	<b>151</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>182</b>
<i>EBITDA margin</i>	<i>(1%)</i>	<i>(1,114%)</i>	<i>(5%)</i>	<i>30%</i>	<i>(8%)</i>	<i>21%</i>	<i>6%</i>	<i>6%</i>	<i>6%</i>	<i>15%</i>
Capex	(25)	(14)	(14)	(3)	(55)	(52)	(35)	(34)	(34)	(154)
Interest Paid	(29)	-	-	-	(29)	(52)	(30)	(30)	(29)	(141)
Taxes Paid	(4)	(22)	(16)	(5)	(47)	(6)	(21)	(8)	(10)	(44)
Cash Lease	(86)	-	-	0	(86)	(94)	(16)	(15)	(15)	(141)
Working Capital	(294)	120	(81)	(67)	(322)	(123)	12	-	-	(111)
<b>Simplified FCF</b>	<b>(442)</b>	<b>(150)</b>	<b>(123)</b>	<b>72</b>	<b>(644)</b>	<b>(177)</b>	<b>(78)</b>	<b>(76)</b>	<b>(77)</b>	<b>(409)</b>
<b>Cash</b>	<b>175</b>	<b>25</b>	<b>(98)</b>	<b>13</b>	<b>13</b>	<b>575</b>	<b>465</b>	<b>389</b>	<b>312</b>	<b>312</b>
Accounts Receivable	150	7	91	158	158	152	122	122	122	122
<b>BCP Defined Liquidity</b>	<b>324</b>	<b>32</b>	<b>(8)</b>	<b>171</b>	<b>171</b>	<b>727</b>	<b>587</b>	<b>511</b>	<b>434</b>	<b>434</b>
<b>Debt</b>	<b>2,871</b>	<b>3,214</b>	<b>3,558</b>	<b>3,901</b>	<b>3,901</b>	<b>3,259</b>	<b>3,317</b>	<b>3,378</b>	<b>3,439</b>	<b>3,252</b>
<b>Net Debt</b>	<b>2,696</b>	<b>3,190</b>	<b>3,656</b>	<b>3,888</b>	<b>3,888</b>	<b>2,684</b>	<b>2,852</b>	<b>2,989</b>	<b>3,128</b>	<b>2,940</b>
LTM Revenue	3,127	2,347	1,696	1,264	1,264	3,364	3,446	1,958	1,197	1,197
LTM EBITDA	890	479	151	(104)	(104)	1,058	891	587	182	182
Leverage	3.2x	6.7x	23.6x	-	-	3.1x	3.7x	5.8x	18.9x	17.9x
Net Leverage	3.0x	6.7x	24.2x	-	-	2.5x	3.2x	5.1x	17.2x	16.2x
<b>Pro-Forma LTM Leverage</b>	<b>4.3x</b>	<b>4.8x</b>	<b>5.4x</b>	<b>5.9x</b>	<b>5.9x</b>	<b>4.9x</b>	<b>5.0x</b>	<b>5.1x</b>	<b>5.2x</b>	<b>4.9x</b>
<b>Pro-Forma LTM Net Leverage</b>	<b>4.1x</b>	<b>4.8x</b>	<b>5.5x</b>	<b>5.9x</b>	<b>5.9x</b>	<b>4.0x</b>	<b>4.3x</b>	<b>4.5x</b>	<b>4.7x</b>	<b>4.4x</b>
<b>Cash to LTM Revenue</b>	<b>6%</b>	<b>1%</b>	<b>(6%)</b>	<b>1%</b>	<b>1%</b>	<b>17%</b>	<b>14%</b>	<b>20%</b>	<b>26%</b>	<b>26%</b>
<b>Liquidity to LTM Revenue</b>	<b>10%</b>	<b>1%</b>	<b>(0%)</b>	<b>13%</b>	<b>13%</b>	<b>22%</b>	<b>17%</b>	<b>26%</b>	<b>36%</b>	<b>36%</b>
<i>Avg. FX:</i>	<i>4.93</i>	<i>5.04</i>	<i>5.04</i>	<i>5.04</i>		<i>4.47</i>	<i>5.40</i>	<i>5.52</i>	<i>5.52</i>	
<i>End FX:</i>	<i>5.04</i>	<i>5.04</i>	<i>5.04</i>	<i>5.04</i>		<i>5.21</i>	<i>5.52</i>	<i>5.52</i>	<i>5.52</i>	

### **Review of 1Q20 Financial and Operational 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 was better than anticipated, increasing 34% y/y and down 8% q/q to US\$328 mm
- EBITDA margins expanded 1,787 bps y/y and 806 bps q/q to 47%
- Adj. EBITDA decreased 42% y/y and 62% q/q to US\$151 mm
  - We highlight Adj. EBITDA calculation excludes the US\$177 mm gain under Other Operating Costs and Expenses, which is comprised of Sale and Leaseback and Max compensation
- Adj. EBITDA margins contracted 893 bps y/y and 2,195 bps q/q but appear strong given the current crisis at 21%
  - For comparison, AERMEX reported 10% EBITDA margins (like-for-like) for the same period
- Free cash flow was negative US\$177 mm, primarily as a result of weaker Adj. EBITDA, WK outflow and heavy cash lease, capex and interest payments
  - Capex contracted 31% q/q to US\$52 mm
  - Interest paid expanded 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 2.6x
- Cash to LTM Revenue was 17% and Liquidity to LTM Revenue was 24%

GoI (US\$MM)	1Q20	4Q19	3Q19	2Q19	1Q19	y/y	q/q	2019	2018
<b>Revenue</b>	<b>704</b>	<b>924</b>	<b>935</b>	<b>801</b>	<b>852</b>	<b>(17%)</b>	<b>(24%)</b>	<b>3,512</b>	<b>3,139</b>
<b>Net income (loss) before min. interest *</b>	<b>(525)</b>	<b>182</b>	<b>(23)</b>	<b>(31)</b>	<b>20</b>	-	-	<b>148</b>	<b>(363)</b>
(-) Income Taxes	10	30	(2)	6	19	(48%)	(68%)	53	81
(-) Net Financial Result	725	33	199	107	98	637%	2127%	437	510
<b>EBIT</b>	<b>210</b>	<b>244</b>	<b>174</b>	<b>81</b>	<b>137</b>	<b>53%</b>	<b>(14%)</b>	<b>637</b>	<b>228</b>
<i>EBIT margin</i>	30%	26%	19%	10%	16%	1,372bps	334bps	18%	7%
(-) Depreciation and Amortization	118	111	113	106	108	10%	6%	438	229
<b>EBITDA</b>	<b>328</b>	<b>356</b>	<b>287</b>	<b>187</b>	<b>245</b>	<b>34%</b>	<b>(8%)</b>	<b>1,075</b>	<b>680</b>
<i>EBITDA margin</i>	47%	39%	31%	23%	29%	1,787bps	806bps	31%	22%
(-) Other (Sale/Leaseback & MAX Compensation)	(177)	45	28	(10)	14	-	-	77	(133)
<b>Adj. EBITDA</b>	<b>151</b>	<b>401</b>	<b>315</b>	<b>177</b>	<b>259</b>	<b>(42%)</b>	<b>(62%)</b>	<b>1,152</b>	<b>547</b>
<i>Adj. EBITDA margin</i>	21%	43%	34%	22%	30%	(893bps)	(2,195bps)	33%	17%
<b>LTM EBITDA</b>	<b>1,158</b>	<b>1,075</b>	<b>859</b>	<b>705</b>	<b>650</b>	<b>78%</b>	<b>8%</b>	<b>1,075</b>	<b>680</b>
<b>LTM Adj. EBITDA</b>	<b>1,044</b>	<b>1,152</b>	<b>748</b>	<b>562</b>	<b>522</b>	<b>100%</b>	<b>(9%)</b>	<b>1,152</b>	<b>547</b>
Capex	(52)	(76)	(57)	(59)	(27)	96%	(31%)	(219)	(190)
Interest paid	(52)	(10)	(50)	(10)	(50)	4%	407%	(121)	(147)
Taxes paid	(6)	(13)	(11)	(29)	(6)	11%	(51%)	(58)	(47)
Cash lease	(94)	(96)	(110)	(103)	(94)	0%	(2%)	(403)	(144)
Working capital	(123)	15	(52)	(100)	(119)	4%	(941%)	(256)	(78)
<b>FCF</b>	<b>(177)</b>	<b>221</b>	<b>34</b>	<b>(125)</b>	<b>(36)</b>	<b>388%</b>	<b>(180%)</b>	<b>95</b>	<b>(282)</b>
Short-term borrowings	616	631	596	306	282	119%	(2%)	631	285
Long-term debt	1,213	1,456	1,396	1,677	1,678	(28%)	(17%)	1,456	1,378
Aircraft Financing	1,425	1,502	1,493	1,559	1,621	(12%)	(5%)	1,502	1,622
<b>Gross Debt (incl. op leases)</b>	<b>3,255</b>	<b>3,588</b>	<b>3,485</b>	<b>3,542</b>	<b>3,581</b>	<b>(9%)</b>	<b>(9%)</b>	<b>3,588</b>	<b>3,285</b>
Cash and cash equivalents	127	408	302	260	482	(74%)	(69%)	408	213
ST Financial Assets	218	237	234	208	91	140%	(8%)	237	123
Restricted cash ST	204	76	128	106	90	125%	169%	76	34
Restricted cash LT	27	35	32	47	30	(10%)	(22%)	35	178
<b>Cash and Cash Equivalents</b>	<b>575</b>	<b>755</b>	<b>697</b>	<b>621</b>	<b>693</b>	<b>(17%)</b>	<b>(24%)</b>	<b>755</b>	<b>549</b>
ST Accounts Receivable	152	305	283	335	211	(28%)	(50%)	305	220
ST Securities Receivable	86	-	-	-	-	-	-	-	-
<b>Management Defined Liquidity</b>	<b>813</b>	<b>1,060</b>	<b>979</b>	<b>956</b>	<b>905</b>	<b>(10%)</b>	<b>(23%)</b>	<b>1,060</b>	<b>769</b>
<b>Net Debt (incl op leases)</b>	<b>2,680</b>	<b>2,833</b>	<b>2,789</b>	<b>2,920</b>	<b>2,888</b>	<b>(7%)</b>	<b>(5%)</b>	<b>2,833</b>	<b>2,736</b>
<b>Pro Forma Gross Leverage (incl op leases) / Trailing LTM Adj. EBITDA</b>	<b>3.1x</b>	<b>3.1x</b>	<b>4.7x</b>	<b>6.3x</b>	<b>6.9x</b>	<b>(3.7x)</b>	<b>0.0x</b>	<b>3.1x</b>	<b>6.0x</b>
<b>Pro Forma Net Leverage (incl op leases) / Trailing LTM Adj. EBITDA</b>	<b>2.6x</b>	<b>2.5x</b>	<b>3.7x</b>	<b>5.2x</b>	<b>5.5x</b>	<b>(3.0x)</b>	<b>0.1x</b>	<b>2.5x</b>	<b>5.0x</b>
<b>Cash/LTM Revenue</b>	<b>17%</b>	<b>22%</b>	<b>20%</b>	<b>19%</b>	<b>23%</b>	<b>(544bps)</b>	<b>(441bps)</b>	<b>22%</b>	<b>17%</b>
<b>Management Defined Liquidity/LTM Revenue</b>	<b>24%</b>	<b>30%</b>	<b>29%</b>	<b>30%</b>	<b>29%</b>	<b>(523bps)</b>	<b>(602bps)</b>	<b>30%</b>	<b>24%</b>

\* Net Income adjusted for non-recurring expenses

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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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