

BCP Research: Sibanye-Stillwater (SGLSJ Ba3/B+/-) - Prelim. 1Q20 & 2H19 Results - Downgrade to Neutral, Upgrade EDVCN 23s to Swap-Positive

Published: May 22nd 2020

Summary: South Africa and US-based platinum group metals (“PGM”) and gold mining company, Sibanye-Stillwater (“Sibanye”) released preliminary 1Q20 results which were stronger y/y on increased production and stable to softer sequentially as a result of COVID-19. Nevertheless, margins remained strong across the structure. In response to COVID-19, Sibanye placed South African operations under care and maintenance in the end of 1Q and, although operations have since resumed, we expect a negative impact on 1H20 results. The company drew down its RCFs resulting in reported net cash on hand of US\$882 mm at March 31st 2020 and reported net debt of US\$1,125 mm. The company is awaiting final approval for the extension of its USD RCF and will also have the option to extend its ZAR RCF as well as call its convertible bond in October 2020.

Bonds have risen 13% from 102c on our initial ‘Positive – Outright’ rating (Sept. 23rd 2019), and another 14% from 116c, when we moved them to ‘Swap – Positive’ (October 10th 2020). FY19 results exceeded BBG consensus and fell slightly below our bull case adj. EBITDA at US\$1,043 mm and an adj. EBITDA margin of 21%, all benefitting from the return of South African and US-based operations, as well as the integration of Marikana operations in June 2019. Meanwhile TEV to BBG Consensus 2020 EBITDA of 3.0x continues to appear cheap, relative to peers who average 5.5x (as of May 20th 2020).

Applying a 540 bps spread and vol capped at 50%, we arrive at fair value of 137c and a bond floor of 88c v. a 132c mid (3% up v. 33% down). Limited upside, anticipated 1H20 weakness and the potential for an October 2020 call keep us from an outright position - we prefer convertible LILAK 24s, rated “Market Outperform” on our Top Picks, with strong fundamentals, 11% YTM and a virtually free equity option.

While the spread between 100D volatility on the common and IVOL on the convert (100D 120% v. 40% IVOL) remains attractive, we anticipate vol of over 50% will prove difficult to capture in the market and, thus, we downgrade SGLSJ 1.875% 23s to ‘Neutral’. In its place, we upgrade EDVCN 3% 23s (Endeavor Mining Limited) to ‘Swap – Positive’, recognizing not only 100D realized volatility of 70% but listed options at 41% and lower IVOL (27%) on the convert, which offers a wider spread at 7.5% cheap to the model on this fellow precious metals miner. (Please contact your salesperson for more detail on EDVCN 23s and/or LILAK 24s).

	Amt Out (US\$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
SGLSJ 6.125% 06/27/2022	354	Ba3/ B+/-	100.9	5.64%
SGLSJ 7.125% 06/27/2025	347	Ba3/ B+/-	103.4	6.90%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	SSW SJ Price (USD)
SGLSJ 1.875% 09/26/2023	384	132.4	(6.65%)	38.27%	2.66%	72.80%	1.56	\$1.97

Source: Equity information sourced from Bloomberg as of close May 22nd 2020.

Credit Valuation:

	Endeavor Mining	AngloGold Ashanti	Sibanye-Stillwater *	Sibanye Gold Limited *	Petropavlovsk
Country	South Africa	South Africa	South Africa	""	Russia
Rating	-/-/-	Baa3/ BB+/-	-/-/-	""	-/-/-
Bond Ticker	EDVCN	ANGSJ	SGLSJ	""	POGLN
Coupon	3.00%	5.13%	1.88%	""	8.25%
Maturity	2/15/2023	8/1/2022	9/6/2023	""	7/3/2024
Currency	USD	USD	USD	""	USD
Amt Out (US\$MM)	330	750	384	""	125
Maturity Type	Convertible	Bullet	Convertible	""	Convertible
Rank	Sr Unsecured	Sr Unsecured	Sr Unsecured	""	Sr Unsecured

Credit Valuation (continued):

	Endeavor Mining	AngloGold Ashanti	Sibanye-Stillwater *	Sibanye Gold Limited *	Petropavlovsk
Equity Ticker	EDV CN	AU US	SSW SJ	" "	POG LN
Share px @ 5/20/20	\$23.64	\$26.71	\$2.23	" "	\$0.31
Shares Outstanding	110	418	2,675	" "	3,310
Market Cap (US\$MM)	2,598	11,166	5,965	" "	1,032
Preferred Shares and Other	95	32	90	" "	11
Net Debt	536	1,748	1,322	" "	564
TEV (US\$MM)	3,229	12,946	7,377	" "	1,607
	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>LTM 1H19</u>
Gold Produced ('000 oz)	651	2,862	933	933	446
4E PGM Produced ('000s oz)	-	-	2,202	-	-
Revenue	886	3,525	5,043	1,299	534
EBITDA	351	1,198	1,043	(65)	165
EBITDA margin	40%	34%	21%	-5%	31%
Interest paid	(33)	(137)	(111)	n/a	(67)
Capex	(233)	(703)	(533)	(143)	(112)
Taxes paid	(66)	(228)	(97)	n/a	(22)
Free Cash Flow (before WK & finance lease obligations)	18	130	302	n/a	(36)
Working capital	8	(18)	(43)	n/a	39
Finance and lease obligation	(24)	(42)	(9)	n/a	(3)
Free Cash Flow (before WK & finance lease obligations)	3	70	250	n/a	0
Gross Debt	726	2,204	1,723	n/a	603
Cash	190	456	401	" "	39
Net Debt	536	1,748	1,322	" "	564
LTM Gross Leverage	2.1x	1.8x	1.7x	" "	3.7x
LTM Net Leverage	1.5x	1.5x	1.3x	" "	3.4x
TEV/EBITDA	9.2x	10.8x	7.1x	" "	9.7x
2020 BBG Consensus:					
Revenue	1,172	4,097	6,256	" "	1,037
EBITDA	565	1,916	2,423	" "	404
EBITDA margin	48%	47%	39%	" "	39%
TEV/EBITDA	5.7x	6.8x	3.0x	" "	4.0x
2021 BBG Consensus:					
Revenue	1,294	4,306	7,108	" "	1,077
EBITDA	654	2,229	2,935	" "	419
EBITDA margin	51%	52%	41%	" "	39%
TEV/EBITDA	4.9x	5.8x	2.5x	" "	3.8x

* Sibanye-Stillwater bond and equity. Financials reflect standalone results of gold operations at subsidiary, Sibanye Gold Limited
Source: Equity information sourced from Bloomberg as of close May 20th 2020.

Update on COVID-19:

- SA operations resumed in a phased build-up to 50% of capacity (workforce) as of the week of April 20th 2020
 - SA Operations were placed under care and maintenance from March 27th to April 14th 2020, with limited mining commencing April 14th 2020
 - Material from Rustenburg, Platinum Mile and Kroondal (50%) being processed at Marikana facilities as of March 17th 2020

- This follows the Anglo Platinum force majeure which occurred on March 6th 2020 as a result of a converter outage which impacted PGM processing
- US PGM operations operating with reduced contractor workforce
 - All non-essential capital growth capital suspended
 - Blitz project build-up impacted

1Q20 Preliminary Results:

- Production of 798 koz increased 48% y/y and decreased 14% q/q, with sequential results impacted by operational disruptions as a result of COVID-19
 - In Southern Africa (“SA”) the company produced:
 - 418 koz of 4E PGM (platinum, palladium, rhodium and gold), up 59% y/y and down 9% q/q
 - 238 koz of gold, up 66% y/y and down 21% q/q
 - In the United States (“US”), the company produced:
 - 142 koz of 2E PGM (platinum and palladium), up 8% y/y and down 13% q/q
- All in Sustaining Costs (“AISC”) were US\$1,089 for SA 4E PGM (+29% y/y, +5% q/q), US\$1,500 for SA Gold (-26% y/y, +14% q/q) and US\$894 for US 2E PGM (+7% y/y, +12% q/q)
- Revenue increased y/y overall and declined sequentially at SA gold and US 2E PGM operations
 - SA 4E PGM revenues were US\$1,025 (+733% y/y, +54% q/q)
 - SA gold revenues were US\$385 (+111% y/y, -14% q/q)
 - US 2E PGM revenues were US\$446 (+15% y/y, -27% q/q)
- Adjusted EBITDA was US\$724 mm (+1,154% y/y, +44% q/q)
 - SA 4E PGM adj. EBITDA was US\$523 (+733% y/y, +101% q/q)
 - SA gold adj. EBITDA was US\$73 (-4% q/q)
 - US 2E PGM adj. EBITDA was US\$134 (+28% y/y, -22% q/q)
- Adjusted EBITDA margins expanded across all sectors with 51% margins at SA 4E PGM operations, 19% margins at SA gold operations and 30% and US 2E PGM operations
- Net debt reduced to US\$1,125 mm as of March 31st 2020 following a US\$211 mm downwards revaluation of convertible bonds, balanced by the draw down of most RCFs during March 2020 to ensure access to liquidity
 - Awaiting final approval of USD RCF maturity extension (5/8 lenders approved) to April 2023
 - Two year extension option on ZAR RCF to be considered in October 2020, which would extend maturity to November 2024
 - Soft call option on convertible bonds at ~US\$2.03/share after October 2020 could allow for further reduction of net debt and 2023 maturities
- Net cash on hand of US\$882 mm as of March 31st 2020

1Q20 Preliminary Results (US\$MM)	1Q20	4Q19	1Q19	y/y	q/q
Production	798	924	538	48%	(14%)
South Africa - 4E PGM Production ('000 oz) *	418	462	264	59%	(9%)
South Africa - Gold Production ('000 oz)	238	301	143	66%	(21%)
United States - 2E PGM Production ('000 oz) **	142	162	131	8%	(13%)
All in sustaining Cost (US\$/oz)					
South Africa - 4E PGM	1,089	1,040	845	29%	5%
South Africa - Gold	1,500	1,314	2,030	(26%)	14%
United States - 2E PGM	894	798	833	7%	12%
Revenue					
South Africa - 4E PGM	1025	666	123	733%	54%
South Africa - Gold	385	449	183	111%	(14%)
United States - 2E PGM	446	612	387	15%	(27%)
Adj. EBITDA	724	503	58	1,154%	44%
South Africa - 4E PGM	523	260	63	733%	101%
South Africa - Gold	73	76	(115)	-	(4%)
United States - 2E PGM	134	171	105	28%	(22%)
Adj. EBITDA margin					
South Africa - 4E PGM	51%	39%	51%	0bps	1,200bps
South Africa - Gold	19%	17%	(63%)	8,200bps	200bps
United States - 2E PGM	30%	28%	27%	300bps	200bps

2H19 Results:

- At end-2019 the company had a total of 70 Moz in long life reserves, representing 40% of their 493 Moz in resources
 - Reserves were split between SA Gold (22%), SA PGM (40%) and US PGM (38%)
- Production overall increased 27% y/y and 49% h/h to 1,877 koz following resolutions of the strike and other operational disruptions which occurred in 1H19
 - In Southern Africa (“SA”) the company produced:
 - 980 koz of 4E PGM (platinum, palladium, rhodium and gold), up 62% y/y and 56% h/h following the integration of Marikana operations in June 2019
 - 588 koz of gold, up 2% y/y and 71% h/h, a reflection of its return to normalized production following the ACMU strike, which concluded in April 2019
 - In the United States (“US”), the company produced:
 - 309 koz of 2E PGM (platinum and palladium), up 4% y/y and 9% h/h, with operational issues at East Boulder and Stillwater West Mine which negatively impacted 1H19 production resolved in 2Q19
- All in Sustaining Costs (“AISC”) were US\$1,074 for SA 4E PGM (+42% y/y, +15% h/h), US\$1,347 for SA Gold (+3% y/y, -29% h/h) and US\$795 for US 2E PGM (+13% y/y, +3% h/h)

- Revenue increased 80% y/y and 104% h/h to US\$2,286 mm on improved precious metals pricing and operating performance, and the integration of Marikana operations
- Adjusted EBITDA was up 184% y/y and 516% h/h at US\$898 mm, again, benefitting from pricing and the improved operational results, which were boosted by Marikana
- Adjusted EBITDA margins expanded 976 bps y/y and 1,771 bps h/h to 27%
- Cash flows of US\$386 mm benefitted from improved profitability which outweighed substantially higher capex and taxes in 2H20
 - Interest remained flat h/h at US\$56 mm
 - Capex increased 93% h/h to US\$351 mm
 - Working capital use contracted 63% h/h to US\$12 mm
 - Tax payments were US\$88 mm, substantially higher h/h
 - Lease payments were 53% higher h/h at US\$6 mm
- Gross debt decreased 12% h/h to US\$1,723 mm
- Cash and equivalents decreased 6% h/h to US\$401 mm
- Net debt of US\$1,321 decreased 13% h/h
- LTM Net Leverage was contracted to 1.3x on substantially stronger EBITDA
 - The company guided to LTM net leverage below 1.0x in 1H20 should run rate 2H19 results be sustained

SGLSJ (US\$MM)	IFRS 16		2H18	y/y	h/h
	2H19	1H19			
Production	1,877	1,258	1,483	27%	49%
South Africa - 4E PGM Production ('000 oz) *	980	628	607	62%	56%
South Africa - Gold Production ('000 oz)	588	345	578	2%	71%
United States - 2E PGM Production ('000 oz) **	309	285	299	4%	9%
All in sustaining Cost (US\$/oz)					
South Africa - 4E PGM	1,074	932	755	42%	15%
South Africa - Gold	1,347	1,904	1,308	3%	(29%)
United States - 2E PGM	795	772	701	13%	3%
Revenue	3,386	1,657	1,884	80%	104%
Adj. EBITDA	898	146	316	184%	516%
<i>Adj. EBITDA margin</i>	<i>27%</i>	<i>9%</i>	<i>17%</i>	<i>976bps</i>	<i>1,771bps</i>
Interest paid	(56)	(55)	(54)	2%	0%
Capex	(351)	(182)	(286)	23%	93%
Working capital	(12)	(32)	(41)	(72%)	(63%)
Taxes paid	(88)	(10)	(26)	243%	814%
Lease Payments	(6)	(4)	n/a	-	53%
Free Cash Flow	386	(136)	(91)	-	-
Gross Debt	1,723	1,951	1,708	1%	(12%)
ST debt	3	386	431	(99%)	(99%)
ST lease liabilities	8	7	n/a	-	-
LT debt	1,693	1,537	1,276	33%	10%
LT lease liabilities	20	20	n/a	-	-
Cash	401	426	178	126%	(6%)
Net Debt	1,321	1,526	1,530	(14%)	(13%)
LHA Gross Leverage	1.0x	6.7x	2.7x	(1.7x)	(5.7x)
LHA Net Leverage	0.7x	5.2x	2.4x	(1.7x)	(4.5x)
LTM Gross Leverage	1.7x	4.2x	2.7x	(1.1x)	(2.6x)
LTM Net Leverage	1.3x	3.3x	2.4x	(1.2x)	(2.0x)

* 2E PGM: Platinum and palladium

** 4E PGM: 3PGM+Au, that is platinum, palladium, rhodium and gold

SGLSJ FY19 Segment Reporting (US\$MM)	Total	Total SA Region	Total SA Gold	Driefontein	Kloof	Beatrix	Cooke	DRDGOLD	Corporate	Total SA 4E PGM	Kroondal	Platinum Mile	Marikana *	Mimosa	Rustenburg	Corporate	Total US 2E PGM	Corporate
Revenue	5,043	3,197	1,290	228	471	263	57	250	20	1,907	387	21	774	162	726	(162)	1,858	(11)
Underground	3,564	2,721	881	228	384	247	2	0	19	1,841	387	0	769	162	685	(162)	854	(11)
Surface	476	476	409	0	87	15	56	250	1	67	0	21	4	0	41	0	0	0
Recycling	1,004	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,004	0
Cost of Sales	(3,880)	(2,526)	(1,268)	(307)	(475)	(254)	(43)	(189)	0	(1,258)	(213)	(15)	(584)	(92)	(447)	92	(1,353)	0
Underground	(2,526)	(2,138)	(948)	(306)	(397)	(244)	(1)	0	0	(1,190)	(213)	0	(584)	(92)	(394)	92	(387)	0
Surface	(388)	(388)	(320)	(1)	(78)	(10)	(42)	(189)	0	(68)	0	(15)	0	0	(54)	0	0	0
Recycling	(966)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(966)	0
Net Other Cash Costs	(129)	(129)	(89)	(14)	(11)	(12)	(39)	(2)	(11)	(41)	(7)	(2)	(21)	(1)	(11)	1	(0)	0
Adjusted EBITDA	1,034	541	(67)	(92)	(15)	(4)	(25)	59	9	608	167	4	169	69	268	(69)	504	(11)
Depreciation & Amortization	(499)	(341)	(208)	(64)	(83)	(44)	(1)	(12)	(4)	(133)	(34)	(0)	(35)	(15)	(63)	15	(158)	0
Interest income	39	29	19	4	4	2	3	5	1	10	5	0	2	0	3	0	10	0
Finance expense	(228)	(165)	(116)	(17)	(17)	(10)	(5)	(5)	(63)	(49)	(10)	0	(20)	(2)	(97)	80	(64)	0
Share-based payments	(25)	(21)	(21)	0	0	0	0	(4)	(17)	0	0	0	0	0	0	0	(4)	0
Net other	(341)	(341)	(237)	1	2	1	(8)	6	(238)	(105)	0	0	1	(10)	(787)	691	1	0
Non-underlying items	(39)	(34)	(52)	(12)	(2)	(8)	(1)	0	(30)	18	3	0	15	(2)	0	2	(5)	0
Royalties	(31)	(31)	(6)	(1)	(2)	(2)	(0)	0	0	(25)	(1)	0	(4)	(5)	(21)	5	0	0
Current taxation	(128)	(95)	(5)	(2)	(0)	(1)	0	(5)	3	(90)	(37)	0	1	(9)	(54)	9	(33)	0
Deferred taxation	248	148	147	5	10	6	0	(9)	135	1	0	(1)	0	(0)	2	1	99	0
Profit for the period	30	(309)	(545)	(177)	(104)	(59)	(37)	34	(204)	237	92	3	130	26	(748)	733	350	(11)
Attributable to:										0								
Owners of Sibanye Stillwater	5	(334)	(567)	(177)	(104)	(59)	(37)	13	(204)	232	92	3	126	26	(748)	734	351	(11)
non-controlling interests	25	26	21	0	0	0	0	21	0	4	0	0	4	0	0	(0)	(1)	0
Sustaining capital expenditure	(141)	(119)	(36)	(11)	(17)	(5)	0	(3)	0	(83)	(15)	(1)	(46)	(24)	(22)	24	(22)	0
Ore reserve development	(235)	(164)	(92)	(36)	(41)	(16)	0	0	0	(71)	0	0	(37)	0	(35)	0	(72)	0
Growth projects	(157)	(16)	(15)	0	(8)	(0)	0	(3)	(5)	(1)	0	(1)	0	0	(0)	0	(141)	0
Total Capital expenditure	(533)	(298)	(143)	(47)	(65)	(21)	0	(6)	(5)	(155)	(15)	(2)	(82)	(24)	(57)	24	(235)	0

Megan E. McDonald
Investment Research Analyst
BCP Securities, LLC

289 Greenwich Avenue, Ste 4
Greenwich, CT 06830
+1-203-629-2185 ext. 312
mmcdonald@bcpsecurities.com
www.bcpsecurities.com

Matias Castagnino, CFA
BCP Securities, LLC

Paseo de la Castellana, 91
28064 Madrid, Spain
+34 91 310 6980
mcastagnino@bcpsecurities.com
www.bcpsecurities.com

[Want to read more of BCP Securities' Convertible Research? Click Here](#)

DISCLOSURE APPENDIX

REGULATION AC - ANALYST CERTIFICATION

We, Megan McDonald and Matias Castagnino, CFA, certify that all of the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

COMPANY SPECIFIC DISCLOSURES

This report may not be independent of BCP's propriety interests. BCP does business, and seeks to do business, with companies covered in BCP research. As a result, investors should be aware that BCP may have a conflict of interest that could affect the objectivity of this report. Further, BCP may trade the securities (or related derivatives) that are the subject of this research report for its own account and for certain customers, and may from time to time maintain long or short positions in the securities (or in related derivatives) of the companies mentioned in this report. Such financial and trading interests may be contrary to any recommendation in the report.

BCP's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research.

MEANINGS OF RATINGS

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

GENERAL RESEARCH DISCLOSURES AND DISCLAIMERS

This report is intended only for institutional investors, and should not be redistributed to retail investors. BCP research is not a solicitation or offer to buy or sell any security or financial instrument or to participate in any trading strategy. The products mentioned in this report may not be eligible for sale in some states or countries.

The analysts principally responsible for the preparation of BCP research receive compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (including overall investment banking revenues), client feedback and competitive factors. The compensation of BCP analysts is not linked to specific investment banking or capital markets transactions by BCP. Analysts employed by non-U.S. affiliates may not be registered with FINRA, may not be associated persons of BCP, and may not be subject to FINRA regulations regarding research related activities.

BCP research is based on public information. BCP makes every effort to use reliable, comprehensive information, but makes no representation that the information is accurate or complete. Facts and views presented in BCP research have not been reviewed by, and may not reflect information known to, professionals in other BCP business areas, including investment banking personnel. BCP analysts may interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. BCP has no authority to make any representation or warranty on behalf of the issuers. BCP policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

BCP may update its research reports and ratings as it deems appropriate, but has no obligation to do so. BCP has no obligation to inform clients of any changes in facts, assumptions, opinions, estimates, or ratings. Certain outstanding reports may contain discussions and/or investment options relating to securities, financial instruments and/or issuers that are no longer current. Neither BCP nor any officer or employee of BCP accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.

BCP research and ratings should not be used or relied upon as investment advice. BCP research does not provide individually tailored investment advice. BCP research has been prepared without regard to the circumstances and objectives of those who receive it. BCP recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Investors should consider this report as only a single factor in making their investment decisions. The appropriateness of an investment or strategy will depend on an investor’s circumstances and objectives. The securities, instruments, or strategies discussed in BCP research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Securities discussed in this report may be rated below investment grade and should therefore only be considered for inclusion in accounts qualified for speculative investment.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, prices, market indexes, operational or financial conditions of companies or other factors. Past performance is not

necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Investors may experience a loss of their original capital investment in such securities.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate. Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market.

INTERNATIONAL DISCLOSURES

Singapore: This report is distributed in Singapore by BCP Securities Asia Pte Ltd to accredited investors, expert investors or institutional investors only (as defined in the applicable Singapore laws and regulations and is not intended to be distributed directly or indirectly to any other class of person). Recipients of this report in Singapore are to contact BCP Securities Asia Pte Ltd in respect of any matters arising from, or in connection with, this report. BCP Securities Asia Pte Ltd is registered with the Accounting and Corporate Regulatory Authority.

Spain: The report is distributed in Spain by BCP European Agencia de Valores, S.A., supervised by the Spanish Securities Markets Commission (CNMV), and is written and distributed in accordance with rules of conduct for financial research under Spanish regulations. This report is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of Article 78bis and Article 78ter of the Spanish Securities Market Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. There is no obligation to register or file any report and any supplemental documentation or information with the CNMV. Neither verification nor authorization or compliance revision by the CNMV regarding this document and related documentation or information needs to be fulfilled in accordance with the Spanish Securities Market Act.

Brazil: This report is distributed in Brazil by BCP Securities Brazil (RJ) in accordance with applicable regulations. No approval is required for publication or distribution of this report in Brazil. The views expressed above accurately reflect personal views of the authors about the subject companies and their securities. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of BCP. Where a Brazil based analyst has taken part in the preparation of this research report, the Brazil based analyst whose name appears first assumes primary responsibility for its content from a Brazilian regulatory perspective and for its compliance with CVM Instruction 483.

COPYRIGHT AND USER AGREEMENT

Copyright 2020 BCP Securities, LLC. All rights reserved. This research report is prepared for the use of BCP clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BCP. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusions, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BCP.