

BCP Research: LATAM (LTMCI: /CC/C) - Filing for Chapter 11 - Maintain 'Positive' on GOLLBZ 3.75% 24 convert

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Summary: Chile and Brazil-based airline, LATAM, is filing for Chapter 11 protection from creditors. The filing EXCLUDES subsidiaries in Argentina, Brazil and Paraguay. Similar to Avianca, the move appears driven by both lack of state aid (outside Brazil), and desire to reduce fleet. The company entered the crisis with strong fundamentals, but has since seen a sharp decline in passenger operations (95%+), one which we anticipate will take longer to recover given LATAM's higher international revenue exposure and the aforementioned fleet capacity.

LATAM stated they currently have US\$1.3 bn in cash on hand. The exclusion of Brazil operations in particular could serve as a means to maintain LATAM's eligibility for BNDES aid, announced last week. This, alongside the US\$900 mm in super senior (debtor in possession) financing committed by shareholders, would be a positive for the airline, but further subordinate LTMCI 24 and 26 bondholders.

*Consensus of a smaller market, particularly for long haul international, post the crisis has taken hold among industry players. Consequently, cash to make it through 2020 isn't the only variable facing carriers but also fleet size and structure for 2021 and onwards. In contrast to Latam and Avianca, Gol has a uniform single aisle and flexible fleet structure – almost 1/3 of leases roll off in the coming 18 months. This flexibility, combined with Gol's higher domestic exposure, and strong fundamentals indicate Gol, relative to peers, is positioned for a stronger exit (pre-BNDES financing) – implied by pro-forma liquidity (36%) and pro-forma LTM net leverage (4.7x). Together, these support our view of Gol as the pick among HY South American airline exposure under the current crisis. **Therefore, we reiterate our 'Positive' High Octane rating on the GOLLBZ 3.75% 24 convert (46c), which continues to trade wide to GOLLBZ 25s (50c), while offering a virtually free option on Gol equity.***

	Company Name	Amt (US\$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM	Rank	Type
LTMCI 6.875% 04/11/24	Latam Finance Ltd	700	-/CC/C	12.5	83.62%	Sr. Unsecured	Defaulted
LTMCI 7.000% 03/11/26	Latam Finance Ltd	600	-/CC/C	12.5	66.01%	Sr. Unsecured	Defaulted

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ B-/ B-	50.0	26.12%
GOLLBZ	8.75%	Perp	154	B2/ -/ B-	44.0	20.37%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recomm.
GOLLBZ 3.75% 7/16/2024	425	45.6	25.97%	30.49%	7.19%	58.51%	20.25	\$4.75	Positive (HO)

* Source: Equity information sourced from Bloomberg. Convertible pricing as of May 26th 2020.

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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.

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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 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

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