BCP Research: Aeroméxico (AERMEX Caa2/ B-/ -) - Filing for Chapter 11 - Maintain 'Positive' on GOLLBZ 3.75% 24 convert

Published: July 1st ,2020

Summary: Mexico based airline, Aeroméxico (Aeromex) has filed for Chapter 11 protection, under which it will financially restructure, while gaining additional capital support via proposed DIP financing. In contrast to Avianca and LATAM, we see the filing as primarily motivated to improve liquidity. We have long viewed Aeromex as tighter on liquidity than peers. Fleet reduction will also likely be a priority, particularly given Aeromex's long haul international exposure. Yet, relatively high percentage of operating leases for its 787s should ease this process. We plan to follow up and compare DIP proposals at Aeromex and Latam to understand implications for unsecured recoveries.

Aeromex entered the crisis with higher international and f/x exposure, weaker liquidity and higher leverage than peers. The issuance of AERMEX 25s improved cash in 1Q20. However, narrow EBITDAR and heavy lease liability payments drove cash burn of US$160 mm in the quarter and indicated near-term cash deterioration. The company had identified US$400 mm+ in potential liquidity sources on its 1Q20 earnings call, including sale & leaseback of aircraft, financing through ECAs and collaboration with long-term business partners.

Prior to filing, Aeromex had announced it obtained US$100 mm cash on hand from PLM Premier (PLM), its loyalty program joint venture (JV) with Aimia Inc. (Aimia), secured by Aeromex's 51.1% stake in the JV. Leveraging the debt-free PLM as a means to provide additional capital support to Aeromex was also mentioned. Alongside the loan, Aeromex and Aimia amended their Shareholders Agreement, allowing a 7-year option for Aermex to purchase Aimia's 48.9% stake in PLM at the greater of US$400 mm or 7.5x Adj. EBITDA, plus Aimia's pro-rata share of cash and net of third party financial debt. Given liquidity weakness, we do not expect this to materialize in the near-to-medium term.

Consensus expectations of a smaller market, particularly for long haul international post-crisis, means cash to make it through 2020 isn't the only variable facing carriers, but also fleet size and structure for 2021 and onwards. We think Gol is best positioned (pre-BNDES financing) for a stronger exit, with higher domestic exposure, strong fundamentals and a uniform single aisle and flexible fleet structure – almost 1/3 of leases roll off in the coming 18 months. These factors, alongside pro-forma liquidity (36%) and pro-forma LTM net leverage (4.7x), 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 (52c), which continues to trade wide to GOLLBZ 25s (58c) and below the bond floor (54c), offering a virtually free option on Gol equity.***

	Amount Out (US$MM)	Ratings (M/SP/F)	Mid Price	Mid YTM	Rank
AERMEX 7% 02/05/2025	$400	Caa2/ B-/ -	22.0	n/a	Sr. Unsecured

AEROMEXICO (USD MM)	1Q20	4Q19	3Q19	2Q19	1Q19	y/y	q/q
Revenue	**699**	**895**	**944**	**881**	**852**	**(18%)**	**(22%)**
EBIT	**(89)**	**91**	**66**	**6**	**(20)**	**352%**	**(198%)**
EBIT margin (%)	-	*10%*	*7%*	*1%*	-	-	-
Depreciation and amortization	156	149	155	152	164	(5%)	5%
EBITDA (excl. leases)	**67**	**240**	**221**	**158**	**144**	**(54%)**	**(72%)**
EBITDA (excl. leases) margin (%)	*10%*	*27%*	*23%*	*18%*	*17%*	(735bps)	(1,722bps)
Leases	8	3	3	4	2	227%	150%
EBITDAR	**75**	**243**	**224**	**162**	**147**	**(49%)**	**(69%)**
EBITDAR margin (%)	*11%*	*27%*	*24%*	*18%*	*17%*	(650bps)	(1,644bps)
Capex	(33)	(92)	(59)	(59)	(30)	10%	(64%)
Interest paid	(30)	(112)	(74)	39	(39)	(23%)	(73%)
Taxes paid	(1)	(14)	-	-	-	-	(95%)
Lease Liability Payments	(208)	(71)	(172)	(248)	(160)	30%	191%
Working capital	37	58	(100)	96	46	(20%)	(37%)
Free Cash Flow	**(160)**	**12**	**(181)**	**(10)**	**(37)**	**337%**	**-**

Cash & Equivalents	**446**	**369**	**257**	**416**	**354**	**26%**	**21%**
Cash and equivalents	446	369	257	405	342	30%	21%
Financial assets	-	-	-	12	12	-	-
Total Debt	**3,509**	**3,411**	**3,379**	**3,558**	**3,455**	**2%**	**3%**
ST loans & borrowings	404	494	446	424	458	(12%)	(18%)
ST lease liabilities	295	331	336	354	346	(15%)	(11%)
LT loans & borrowings	1,685	1,411	1,439	1,482	1,383	22%	19%
LT lease liabilities	1,126	1,174	1,158	1,298	1,269	(11%)	(4%)
Net Debt	**3,063**	**3,043**	**3,122**	**3,141**	**3,101**	**(1%)**	**1%**
LTM EBITDAR	**704**	**776**	**655**	**610**	**642**	**10%**	**(9%)**
LQA Gross Leverage (Gross Debt/ LQA EBITDAR)	**11.7x**	**3.5x**	**3.8x**	**5.5x**	**5.9x**	**5.8x**	**8.2x**
LQA Net Leverage (Net Debt/ LQA EBITDAR)	**10.2x**	**3.1x**	**3.5x**	**4.9x**	**5.3x**	**4.9x**	**7.1x**
LTM Gross Leverage (Gross Debt/ LTM EBITDAR)	**5.0x**	**4.4x**	**5.2x**	**5.8x**	**5.4x**	**(0.4x)**	**0.6x**
LTM Net Leverage (Net Debt/ LTM EBITDAR)	**4.4x**	**3.9x**	**4.8x**	**5.1x**	**4.8x**	**(0.5x)**	**0.4x**

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

Want to read more of BCP Securities' Convertible Research? Click Here

---

DISCLOSURE APPENDIX

REGULATION AC - ANALYST CERTIFICATION

I, Megan McDonald, 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 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 consequently 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 party, 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