

BCP Research: Liberty Latin America (LILAK)- Acquiring Telefonica Costa Rica Mobile Business- Reiterate 'Market Outperform' on LILAK 24s

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Summary: Today, Caribbean and LatAm telecom company, Liberty Latin America (LILAK) announced an agreement to acquire Telefonía Costa Rica's (TCR) mobile business for US\$500 mm, or ~6x TCR's 2019 Adj. OIBDA. The acquisition will be financed by recently refinanced secured VTRFIN 28s and other VTR borrowings, LILAK liquidity and other forms of debt/equity capital. Following the acquisition, LILAK's stake in TCR and Cabletica (80% owned subs.) will be added to VTRFIN 28's credit pool.

The acquisition makes LILAK Costa Rica's second largest mobile service provider (2.3 mm subscribers, 90% LTE population), following state-owned Kolbi. Additionally, the combination of mobile and pre-existing television, broadband internet and fixed-line telephony offerings, via Cabletica, opens the floor to triple and quad-play offerings, providing a competitive advantage, which has benefitted the company in its other subsidiary markets (i.e. Cable & Wireless, C&W).

We continue to favor LILAK among Caribbean telecom players, improving market position via the acquisition, while maintaining ample pro-forma liquidity of US\$3bn, at 4.9x pro-forma LTM net leverage and with 95%+ of debt amortizing beyond 2024. We reiterate our Market Outperform rating on LILAK 2% 24s at 84c, trading at an attractive pick up to the OpCo bonds, 6% cheap to the model, and below the bond floor, with a virtually free equity option.

Issuer Name	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	LILAK US Equity	Recommendation	
LILAK 2% 7/15/2024	Liberty Latin America Ltd	403	84.00	6.67%	20.17%	6.31%	31.55%	\$22.23	\$9.87	Market Outperform

Issuer Name	Ticker	Cpn	Maturity	M/SP/F	Amt Out (US\$MM)	Mid Px	Mid YTM	Rank
C&W SENIOR FINANCING DAC	CWCLN	7.50%	10/15/2026	B2/ B+/ B+	500	106.04	6.31%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	Ba3/ BB-/ BB-	550	105.42	4.84%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.875%	9/15/2027	B2/ B+/ B+	1,220	105.13	5.98%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.125%	1/15/2028	Ba3/ B+/ BB+	600	105.71	4.22%	Sr. Secured
VTR FINANCE N.V.	VTRFIN	6.375%	7/15/2028	B1/ B/ BB-	550	106.09	5.42%	Secured
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ (P)B+/ BB-	1,290	107.30	5.51%	1 st Lien

* Source: Equity information sourced from Bloomberg. Convertible pricing as of July 30th 2020.

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

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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

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