BCP Research: Gol (GOLLBZ) 2Q20 Results-Weak, Maintain Positive

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Summary: Brazilian Airline, Gol's weak 2Q20 results reflect the anticipated low-point for airlines in the COVID-19 pandemic. Revenues showed steep decline y/y and q/q on reduced bookings, and BCP's Adj. EBITDA turned negative US$125 mm, despite significant cost reductions. Our Adj. EBITDA differs materially from management's (US$18 mm) which effectively excludes expenses from grounded planes. Working capital inflow, lease deferrals, and substantial cuts to capex and interest payments helped to reduce cash burn to US$161 mm in the quarter. Cash burn is in line with our estimates as published in May 2020.

As we expected, net debt is increasing as a result of cash burn, but still manageable based upon our assumed recovery in 2021. The focus remains on liquidity. Cash at end-2Q20 was US$328 mm (12% LTM revenue) with US$427 mm in liquidity (16% LTM revenue). Management has identified ~US$90-180 mm in financing via unencumbered assets, US$454 mm from deposits and US$400 mm via a 5-year BNDES debenture that it could access for additional liquidity, if needed – but no sooner than 60 days out.

While we are encouraged by signs of a traffic recovery, our sense is the liquidity runway requires astute liability management (Delta Term Loan extension) and successful execution on one of more of the above financing alternatives. We will be revisiting our estimates based on these results. We are not troubled by recent headlines, which we sense have been unfavorable to investor perception, yet we would like to confirm our interpretation is accurate. This update process may impact our investment opinion. In the interim, we maintain our 'Positive' rating on the GOLLBZ 24 converts, trading slightly above the bond floor at 53c.

			Amt Out (US$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ CCC/ B-	55.5	23.63%
GOLLBZ	8.75%	Perp	154	Caa2/ -/ B-	54.2	16.14%

	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	52.5	22.56%	24.28%	10.69%	66.94%	20.25	$6.63	Positive (HO)

** Source: Equity information sourced from Bloomberg. Convertible pricing as of August 3rd 2020.*

<u>2Q20 Operational Results:</u>

- **RPKs** decreased 92% y/y and q/q to 773 mm, nearly all domestic
  - The company noted a 104% increased in RPKs from April to June 2020
- **ASKs** contracted 91% y/y and 92% q/q to 990 mm, again nearly all domestic
- **Load factor** was 78.1% (-390 bps y/y, -175 bps q/q)
- **Yield** was US$5.8 cents (-28% y/y, -12% q/q)
- **PRASK** decreased 31% y/y and 14% q/q to US$4.6c, driven by reduced net passenger revenue and ASK
- **CASK** increased 139% y/y and 271% q/q to US$14.7c, driven by a 44% reduction in aircraft utilization
  - **CASK ex-fuel** was US$12.15 cents (+207% y/y, +460% q/q)
- **Fleet** at the end-2Q20 included 130 B737s (100% operational leases)
  - 27 of the fleet is operational, operating at 13-17% of the June 2019 schedule
  - The company expects to operate 36 aircraft in July 2020 at 25% of the July 2019 schedule
  - Fleet was reduced by 9 Boeing 737-800s in 1H20, with the planned return of 7 additional aircraft in 2H20
  - Gol's has the flexibility to reduce fleet by up to 30 additional aircraft between 2021-2022

- In addition, the company has reduced its 737 MAX aircraft order from 129 to 95 aircraft, intended for delivery between 2020-2023
  - Gol currently has 7 non-operational 737 MAX in its fleet

Gol (US$ MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
RPK (mm)	773	9,948	10,806	11,114	9,317	(92%)	(92%)
ASK (mm)	990	12,462	13,257	13,406	11,365	(91%)	(92%)
Passenger load factor	78.1%	79.8%	81.5%	82.9%	82.0%	(390bps)	(175bps)
Yield (cents)	5.8	6.6	8.1	7.9	8.1	(28%)	(12%)
PRASK (cents)	4.6	5.3	6.6	6.6	6.6	(31%)	(14%)
CASK (cents)	14.7	4.0	5.1	5.7	6.1	139%	271%

2Q20 Financial Results:

- **Revenue** of US$66 mm was down 92% y/y and 91% q/q on lower bookings as a result of COVID-19
  - Passenger revenues decreased 94% y/y and 93% q/q to US$45 mm
  - Cargo and other revenues decreased 54% y/y and q/q to US$21 mm
  - Total revenues increased 57% in BRL terms between April and June 2020, with ticket sales increasing 108% (avg. 18% w/w) and transported passenger revenues increasing 150% from May to June 2020, signaling recovery
- **Adj. EBITDA** turned negative US$125 mm in the quarter, despite significant cost reductions
  - We highlight our calculation of adj. EBITDA excludes the add-back of idle expenses related to depreciation (US$64 mm) and salaries (US$16 mm), as well as Gol's adjustments to expenses relating to fleet utilization, reflecting a more conservative approach to current profitability v. management's reported adj. EBITDA of US$18 mm
- **Cash burn** of US$161 mm was driven primarily by negative adj. EBITDA, which outweighed significant cost reductions and WK inflow in the quarter
  - **Capex** contracted 22% q/q to US$40 mm with the company reducing all non-essential investments and deferring certain maintenance capex
  - **Interest paid** contracted 83% q/q to US$9 mm
  - **Cash Leases** contracted 79% q/q to US$20 mm with the deferral of lease payments. In addition, the company converted a portion of its lease terms to power-by-the-hour, with usage charged by hours flown
  - **Working Capital** inflows were US$33 mm, a notable improvement compared to the previous quarter

Gol (US$ MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
Revenue	**66**	**704**	**924**	**935**	**801**	**(92%)**	**(91%)**
Net income (loss) before min. interest	**(371)**	**(506)**	**106**	**(43)**	**(31)**	**-**	**(27%)**
(-) Income taxes	1	10	30	(2)	6	(90%)	(94%)
(-) Net financial result	204	725	33	199	107	91%	(72%)
EBIT	**(167)**	**229**	**169**	**154**	**81**	**-**	**-**
EBIT margin	*(251%)*	*33%*	*18%*	*17%*	*10%*	-	-
(-) Depreciation and amortization	27	112	111	113	106	(75%)	(76%)
EBITDA (ex-rents)	**(140)**	**341**	**280**	**268**	**187**	**-**	**-**
(-) Rents	n/a	n/a	n/a	n/a	n/a	-	-
EBITDA	**(140)**	**341**	**280**	**268**	**187**	**-**	**-**
EBITDA margin	*(211%)*	*49%*	*30%*	*29%*	*23%*	-	-
(+/-) Other (sale/leaseback transactions & MAX compensation) *	15	(177)	45	28	(10)	-	-
Adj. EBITDA	**(125)**	**165**	**326**	**295**	**177**	**-**	**-**
Adj. EBITDA margin	*(188%)*	*23%*	*35%*	*32%*	*22%*	-	-
Working capital	33	(56)	(92)	(30)	(18)	-	-
Trade receivables	*48*	*100*	*(14)*	*25*	*(118)*	-	*(53%)*
Short term investments	*25*	*(3)*	*33*	*(7)*	*(9)*	-	-
Inventories	*(0)*	*(4)*	*(2)*	*(1)*	*(1)*	*(59%)*	*(88%)*
Deposits	*(6)*	*(36)*	*(50)*	*(3)*	*(27)*	*(79%)*	*(84%)*
Guaranteed deposit of lease agreement	-	-	-	*(9)*	-	-	-
Suppliers	*50*	*(12)*	*0*	*13*	*(15)*	-	-
Suppliers forfaiting	*(71)*	*51*	*(1)*	*52*	*6*	-	-
Advance ticket sales	*(4)*	*(81)*	*(5)*	*5*	*160*	-	*(95%)*
Mileage program	*36*	*36*	*20*	*(8)*	*10*	*253%*	*(1%)*
Advances from customers	*(1)*	*1*	*0*	*(1)*	*(11)*	*(91%)*	-
Derivatives	*(40)*	*(74)*	*(24)*	*16*	*(6)*	*576%*	*(46%)*
Fuel derivative premium received (paid)	-	-	*(6)*	*(4)*	-	-	-
Advance to suppliers	*(4)*	*(10)*	*(5)*	*(72)*	-	-	*(56%)*
Provisions/Legal and aircraft returns payments	*(6)*	*(16)*	*(26)*	*(36)*	*(7)*	*(18%)*	*(64%)*
Prepaid expenses	*7*	*(9)*	*(12)*	-	-	-	*0%*
Interest paid	(9)	(52)	(10)	(50)	(10)	(15%)	(83%)
Taxes paid	(0)	(6)	(13)	(11)	(29)	(100%)	(98%)
Capex	(40)	(52)	(76)	(57)	(59)	(32%)	(22%)
Cash lease	(20)	(94)	(96)	(110)	(103)	(81%)	(79%)
Free Cash Flow	**(161)**	**(96)**	**39**	**37**	**(43)**	**278%**	**68%**

** Excludes add-back of idle expenses related to depreciation (US$64 mm) and salaries (US$16 mm) in 2Q20*

- **Cash** was US$328 mm (-5% q/q) at cash to LTM revenue of 12% (+225 bps q/q)
    - We now exclude ST and LT restricted cash from our calculation of cash and equivalents
- **Liquidity** was US$427 mm (-27% q/q) at liquidity to LTM Revenue of 16% (-109 bps q/q)
    - Accounts receivable decreased 36% q/q as a result of reduced operating volumes
    - Gol received the full US$86 mm (R$447 mm) in Boeing compensation for the MAX grounding on April 1st 2020
- **Additional liquidity** identified by Gol includes:
    - ~US$90-180 mm (R$0.5-1.0 bn) in financing via unencumbered assets, which the company states it could execute within 60-90 days, if needed
    - US$454 mm in legal and maintenance deposits (R$2.5 bn), financeable via LoCs
    - US$400 mm (R$2 bn) via a 5-year debenture, currently in negotiations with BNDES and local banks, with an estimated 60+ days to finalization of terms
- **Gross debt** was US$3,552 mm (+5% q/q), and LTM gross leverage expanded to 5.4x (+1.9x q/q) and
    - Gol amortized US$55 mm (R$304 mm) in principal on debt and leases (53% of total), balanced by new loans acquired in the quarter

    - The company intends to either (1) pay down or (2) extend the Delta term loan (US$300mm), due in two weeks. We expect this maturity to be extended although we would like to see substantive evidence of progress in the short term.
    - We highlight our calculation of gross debt now includes exchangeable and perpetual bonds valued at par
- **Net Debt** was US$3,223 mm (+6% q/q) and LTM net leverage expanded to 4.9x (+1.7x q/q)

Gol (US$ MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
Cash and cash equivalents	76	127	408	302	260	(71%)	(40%)
ST financial assets	252	218	237	234	208	21%	16%
Cash	**328**	**344**	**645**	**536**	**468**	**(30%)**	**(5%)**
ST accounts receivable	98	152	305	283	335	(71%)	(36%)
ST securities receivable	-	86	-	-	-	-	-
Liquidity	**427**	**582**	**950**	**819**	**803**	**(47%)**	**(27%)**
Gross Debt	**3,552**	**3,384**	**3,589**	**3,629**	**3,513**	**1%**	**5%**
Loans and financings	414	300	305	300	304	36%	38%
Debt issuance	762	753	875	961	919	(17%)	1%
Exchangeable Notes *	425	425	425	425	345	23%	0%
Perpetual notes *	154	154	154	154	154	0%	0%
Aircraft financing	323	326	328	296	280	15%	(1%)
Aircraft rent	1,474	1,425	1,502	1,493	1,512	(2%)	3%
Net Debt	**3,223**	**3,039**	**2,944**	**3,093**	**3,045**	**6%**	**6%**
LTM Revenue	**2,629**	**3,363**	**3,512**	**3,428**	**3,225**	**(18%)**	**(22%)**
LTM EBITDA	**749**	**1,076**	**977**	**1,000**	**896**	**(16%)**	**(30%)**
LTM Adj. EBITDA	**661**	**962**	**1,054**	**889**	**753**	**(12%)**	**(31%)**
LTM Gross Leverage	**5.4x**	**3.5x**	**3.4x**	**4.1x**	**4.7x**	**0.7x**	**1.9x**
LTM Net Leverage	**4.9x**	**3.2x**	**2.8x**	**3.5x**	**4.0x**	**0.8x**	**1.7x**
Cash to LTM Revenue	**12%**	**10%**	**12%**	**11%**	**14%**	**(150bps)**	**225bps**
Liquidity to LTM Revenue	**16%**	**17%**	**18%**	**16%**	**24%**	**(777bps)**	**(109bps)**

** Exchangeable and Perpetual notes valued at par*

2H20 Company Guidance:

- Total fleet is expected to reduce to 124 by year-end 2020
- Operational fleet is expected to reach 36 by end-July, 74 by end-September, and 102 by year-end 2020
- ASKs are expected to increase 110% m/m in July, 10% m/m in August and 15% m/m in September
- 3Q20 capacity is expected to increase 300% q/q, while 4Q20 capacity is expected to increase 120% q/q
    - August 2020 ~30% of August 2019 capacity, and September 2020 ~35% of September 2019 capacity
- Load factor for 3Q19 is estimated to be ~79%
- Net operating revenues are estimated to reach ~US$185 mm (~R$1 bn), or 27% of 3Q19 operating revenues
- Capex is estimated to be ~US$25 mm (~R130 mm) in the quarter
- Company estimated 3Q20 net cash burn per is US$1 mm/day (R$6 mm/day), or US$2 mm/day (R$12mm/day), including full payment of debts (incl. Delta term loan)
    - We hope to gain more clarity from management on what is included in the company evaluation of net cash burn

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