

BCP Research: Liberty Latin America (LILAK)-2Q20 Results, Positive- Maintain 'Outperform' on LILAK 24 Converts

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Summary: Caribbean and LatAm telecom company, Liberty Latin America ("LILAK") released solid 2Q20 results, with adjusted EBITDA of US\$333 mm (39% margin) excluding goodwill impairments at C&W. Cash flow turned positive US\$159 mm, benefitting from lower capex, interest and taxes payments and working capital inflow. Liquidity was US\$3.04 bn at 2Q20, including US\$1.75 bn in cash, US\$516 mm in trade receivables, and ~US\$770 mm in unused borrowing capacity. Net debt decreased to US\$7.24 bn, with net leverage stable at 4.9x. We highlight 85% of debt matures in 2026 or later, following the refinancing and upsizing of debt to fund the AT&T Puerto Rico/BVI and Telefonica Costa Rica (TCR) acquisitions.

Management anticipates quarterly interest payments will drive cash burn in 3Q20. Nevertheless, LILAK continues to maintain a solid cash position, projecting US\$630 mm in cash following the repayment of subsidiary credit facilities and acquisition of AT&T Puerto Rico which, alongside US\$516 mm in trade receivables and US\$1.04 bn in pro-forma unused borrowing capacity, implies US\$2.19 bn in consolidated pro-forma liquidity (59% LTM revenues) at LTM net leverage of 4.3x. This will be further bolstered by LILAK's recently announced plan to offer US\$350 mm in Class C rights, which will be used, in part, to fund the TCR acquisition, alongside other acquisitions and general corporate purposes – we note convertible bondholders appear protected under anti-dilution provisions.

We continue to favor LILAK among Caribbean telecom players, who offers an attractive pick up to Opco bonds, with solid liquidity, ample debt runway, strong shareholder support and an improving market position. We reiterate our Market Outperform rating on LILAK 2% 24s at 84c, 7% cheap to the model and below the bond floor, implying a virtually free option on the equity upside.

	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	6.70%	n/a	6.73%	28.97 %	\$22.23	\$9.20	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	106.89	6.14%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	Ba3/ BB-/ BB-	550	106.02	4.74%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.875%	9/15/2027	B2/ B+/ B+	1,220	106.70	5.71%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.125%	1/15/2028	Ba3/ B+/ BB+	600	106.92	4.04%	Secured
VTR FINANCE N.V.	VTRFIN	6.375%	7/15/2028	B1/ B/ BB-	550	107.35	5.23%	Secured
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ (P)B+/ BB-	1,290	108.39	5.33%	1 st Lien

* Source: Equity information sourced from Bloomberg. Convertible pricing as of August 9th 2020.

2Q20 Financial and Operational Results:

- Homes passed increased 5% y/y and 1% q/q to 7.62 mm
- RGUs increased 4% y/y and 1% q/q to 6.15 mm
 - Broadband internet increased 7% y/y and 2% q/q to 2.70 mm
 - Video subscribers were up 1% y/y and down 1% q/q at 1.97mm
 - Fixed line telephony increased 3% y/y and 1% q/q to 1.48 mm
- Mobile subscribers decreased 10% y/y and 9% q/q to 3.31 mm, primarily as a result of the company's exclusion of non-paying customers from its subscriber base, who remain connected during the crisis
- As a result of the subscriber reduction, and f/x volatility, mobile ARPU contracted 19% y/y and 14% q/q to US\$11.49

- C&W's ARPU was 19% lower y/y and 15% lower q/q at US\$11.13
- VTR's ARPU decreased 22% y/y and 5% q/q to US\$15.22, the result of continued f/x weakness in Chile
- Revenue contracted 14% y/y and 9% q/q to US\$849 mm, split between C&W (61%), VTR/Cabletica (27%) and Liberty Puerto Rico (13%)
- Adjusted EBITDA decreased 14% y/y and 9% q/q to US\$333 mm, at a margin of 39%
 - We highlight the add back of a US\$299 loss on impairments, attributed primarily to goodwill at C&W, attributed to the impact of covid-19 likely including impact non-paying customers who remain connected as a result of government moratoriums during the crisis
- Free cash flow, was positive US\$159 mm due to lower capex, tax and interest payments, and working capital inflow
 - Interest payments were 28% lower q/q at US\$104 mm
 - Taxes decreased 88% q/q to US\$2 mm
 - The company reported US\$54 mm in working capital generation in 2Q20, an improvement from the prior quarter's US\$77 mm in working capital use
 - Capex decreased 18% q/q to US\$122 mm, with capex-to-revenue contracting 163 bps q/q to 14%
- Cash increased 10% q/q to US\$1.75 bn at cash to LTM revenue of 47%
- Liquidity was US\$3.04 bn at 2Q20, including US\$1.75 mm in cash, US\$516 mm in trade receivables, and ~US\$770 mm in unused borrowing capacity
- Net debt contracted 3% q/q to US\$7.24 and LTM net leverage expanded slightly to 4.9x

LILAK (US\$MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
Homes passed (mm)	7.62	7.58	7.52	7.45	7.34	4%	1%
Revenue generating units (RGUs, mm)	6.15	6.10	6.05	5.99	5.93	4%	1%
Broadband internet subscribers	2.70	2.66	2.61	2.57	2.53	7%	2%
Video subscribers	1.97	1.99	1.98	1.98	1.96	1%	(1%)
Fixed line telephony subscribers	1.48	1.46	1.46	1.45	1.44	3%	1%
ARPU (USD):	46.15	47.37	48.47	50.35	51.31	(10%)	(3%)
C&W	46.92	47.62	46.79	47.18	47.52	(1%)	(1%)
VTR/Cabletica	38.34	40.74	43.04	46.12	47.62	(19%)	(6%)
Liberty Puerto Rico	77.69	75.69	76.43	76.87	77.05	1%	3%
Mobile subscribers (mm)	3.31	3.62	3.66	3.68	3.67	(10%)	(9%)
Mobile ARPU (USD):	11.49	13.32	14.20	14.52	14.20	(19%)	(14%)
C&W	11.13	13.07	13.95	13.87	13.77	(19%)	(15%)
VTR	15.22	16.07	17.11	18.78	19.50	(22%)	(5%)
Revenue	849	931	975	967	983	(14%)	(9%)
Operating income	(206)	108	167	(70)	144	(244%)	(291%)
Depreciation & amortization	216	214	206	226	222	(3%)	1%
Impairment, restructuring and other, net	299	19	24	208	7	4495%	1489%
Share-based compensation expense	24	24	12	15	15	53%	(1%)
Adjusted EBITDA	333	364	409	380	387	(14%)	(9%)
<i>Adjusted EBITDA margin</i>	<i>39%</i>	<i>39%</i>	<i>42%</i>	<i>39%</i>	<i>39%</i>	<i>(23 bps)</i>	<i>9 bps</i>
Interest paid	(104)	(144)	(74)	(139)	(77)	34%	(28%)
Taxes paid	(2)	(13)	(30)	(41)	(38)	(96%)	(88%)
Working capital	54	(77)	66	(222)	11	379%	-
Capex	(122)	(149)	(157)	(137)	(136)	(10%)	(18%)
Free cash flow	159	(19)	214	(158)	147	8%	-
Loans, bonds and finance leases	8,841	8,830	8,370	7,088	7,033	26%	0%
Operating lease liabilities	150	191	187	165	168	(11%)	(22%)
Gross debt	8,991	9,021	8,557	7,253	7,201	25%	(0%)
Cash and equivalents	1,752	1,593	1,184	1,004	957	83%	10%
Net Debt	7,239	7,428	7,374	6,249	6,244	16%	(3%)
LTM Gross leverage	6.1x	5.9x	5.6x	4.6x	4.7x	1.4x	0.2x
LTM Net leverage	4.9x	4.8x	4.8x	4.0x	4.0x	0.8x	0.1x
Capex-to-revenue	14%	16%	16%	14%	14%	58 bps	(163 bps)

Recent Capital and M&A Transactions::

- **LILAK Class C Rights Offering:** LILAK expects to commence a US\$350 mm rights offering on September 11th 2020, offering Class C LILAK shares (25% discount to VWAP) with proceeds intended to fund (1) a portion of the Telefónica Costa Rica (TCR) acquisition, (2) other acquisitions and (3) other general corporate purposes
 - Class A, B and C common shareholders of record as of September 8th 2020 will issued pro-rata subscription rights to acquire an aggregate US\$350 mm of class C common shares via rights offering
 - The rights offering is intended to commence September 11th 2020, and expire September 25th 2020
 - Majority shareholders (John Malone, Searchlight Capital Partners), LILAK board members and LILAK's executive management team have stated they intend to exercise their basic subscription rights in full
 - The number of shares connected to the rights offering has not yet been disclosed. However, we believe LILAK 24 bondholders will be protected from any dilutive event, based on anti-dilution provisions, as disclosed in the indenture
- **Telefónica Costa Rica (TCR) Acquisition:** In July 2020, LILAK announced its plans to acquire TCR's mobile business for US\$500 mm, and funded via a combination of VTR borrowings, LILAK liquidity and other forms of debt/equity capital (*see our July 20th 2020 note for further detail*)
 - We estimate a total of US\$330 mm debt will be raised at the VTR level, based on the company's targeted ~4x debt to TCR's adj. OIBDA (US\$83 mm, as implied by the 6x multiple)
 - VTR currently has ~US\$260 mm in unused borrowing capacity – (1) US\$200 mm via their VTR RCF-B (USD denominated) and (2) ~US\$60 mm via their VTR RCF-A (CLP denominated)
 - We anticipate the remaining ~US\$70 mm will be in the form of additional incremental local borrowings at the VTR Finance N.V. level, which we assume would be pari-passu or subordinated to the existing sr. unsecured VTRFIN 28s following the addition of TCR and Cabletica to the VTR Finance N.V. credit pool
 - The remaining US\$170 mm we expect will be covered in part by the recent US\$350 mm LILAK Class C rights offering and other LLA liquidity, which could include future FCF generation and/or other forms of debt/equity capital
- **AT&T Acquisition - LILAPR 27s Upsizing:** LILAK added an additional US\$90 mm under subsidiary, LPR's existing US\$1.2 bn in 1st lien LILAPR 6.75% 27s
 - Total net proceeds were deposited into escrow (restricted cash), and will be used to fund the US\$1.95 bn acquisition of AT&T Puerto Rico/USVI, expected to close 2H20
 - If acquisition not consummated before Long-Stop-Date (April 9, 2021), LCPR required to redeem a portion of LPR Senior Secured Notes at 102.5%
- **Refinancing of US\$1,260 mm 1st lien VTRFIN 6.875% 24s** with (1) US\$600 mm Sr. Secured VTRCOM 5.125% 28s and (2) US\$550 mm Secured VTRFIN 6.375% 28s

- We highlight VTRFIN 28s are currently senior unsecured. Following the acquisition, LILAK's stake in TCR and Cabletica (80% owned subs.) will be added to VTRFIN 28's (VTR Finance N.V.) credit pool – expected to be completed in 1Q21
- **Repayment of C&W and Liberty Puerto Rico Credit Facilities:** \$213 mm of C&W and \$63 mm of Liberty Puerto Rico credit facilities were repaid by subsidiaries post-2Q20

Pro-Forma Debt Through the Layers:

Accounting for the above transactions, LILAK projects US\$630 mm in cash following which, alongside US\$516 mm in trade receivables US\$1.04 bn in pro-forma unused borrowing capacity, implies US\$2.19 bn in consolidated pro-forma liquidity (59% LTM revenues). We estimate US\$1,940 mm pro-forma Adj. EBITDA, based on normalized (FY19) consolidated adj EBITDA of US\$1,590, plus an additional estimated US\$400 mm from TCR and AT&T PR/FWI acquisitions (based on press release disclosures), implying pro-forma LTM net leverage of 4.3x, and pro-forma LTM secured net leverage of 2.2x.

US\$MM	Ccy	Ticker	Interest	Maturity	Rank	Unused Capacity (1)	Pro-Forma Debt	2Q20 Debt
LILAK							403	403
Convertible Notes	USD	LILAK	2%	7/15/24	Sr. Unsecured	-	403	403
C&W							4,242	4,455
2027 C&W Senior Secured Notes	USD	CWCLN	5.75%	9/7/27	Secured	-	550	550
2026 C&W Senior Notes	USD	CWCLN	7.5%	10/15/26	Sr. Unsecured	-	500	500
2027 C&W Senior Notes	USD	CWCLN	6.875%	9/15/27	Sr. Unsecured	-	1,220	1,220
C&W Credit Facilities:							1,972	2,185
C&W revolving credit facility	USD		LIBOR + 3.25%	6/23		50	-	25
C&W revolving credit facility	USD		LIBOR + 3.25%	6/26		476	100	288
C&W term loan B-4 facility	USD		LIBOR + 3.25%	1/31/26		-	-	-
C&W term loan B-5 facility	USD		LIBOR + 2.25%	1/31/28	Sr. Secured	-	1,510	1,510
C&W regional facilities	USD/T&T		4.463%	'20 - '38		179	362	362
VTR/Cabletica:							1,827	1,595
VTR							1,705	1,472
VTR Finance Senior Notes (1st Lien)	USD	VTRFIN	6.875%	1/15/24	1st Lien	-	-	1,260
VTR Comunicaciones Senior Secured Notes	USD	VTRCO M	5.125%	1/15/28	Secured	-	600	-
VTR Finance Senior Unsecured Notes	USD	VTRFIN	6.375%	7/15/28	Secured (2)	-	550	-
VTR Credit Facilities:							555	212
VTR TLB-1 facility	CLP		ICP + 3.80%	11/22 & 5/23		-	182	172
VTR TLB-2 facility	CLP		7%	5/23/23		-	43	40
VTR RCF-A	CLP		TAB + 3.35%	5/23/23		58	-	-
VTR RCF-B	USD		LIBOR + 2.75%	3/14/26		200	-	-
Incremental local borrowings (3)	CLP					-	330	-
Cabletica							122	124
Cabletica Credit Facilities:							122	124
Cabletica term loan B-1 facility	USD		LIBOR + 5%	4/23 & 10/23		-	49	49
Cabletica term loan B-2 facility	CRC		TBP + 6%	4/23 & 10/23		-	73	74
Cabletica revolving credit facility	USD		LIBOR + 4.25%	10/5/23		15	-	-

Liberty Puerto Rico							2,353	2,353
LPR Senior Secured Notes (4)	USD	LILAPR	6.750%	10/15/27	1st Lien	-	1,290	1,290
LPR Credit Facilities:							1,063	1,063
2019 LPR revolving credit facility	USD		LIBOR + 3.5%	10/15/25		63	63	63
2026 SPV credit facility	USD		LIBOR + 5%	10/15/26		-	1,000	1,000
Vendor Financing							176	176
Total Notes, Credit Facilities & Vendor Financing							9,000	8,981
Premiums, discounts and deferred financing costs, net							(142)	(142)
Total carrying amount of debt							8,857	8,839
Finance lease obligations							2	2
Operating Lease liabilities							150	150
Gross Debt at LILAK (5)							9,010	8,991
Consolidated Cash & Equivalents							630	1,752
Net Debt at LILAK							8,379	7,239
LTM Adj. EBITDA							1,940	1,485
Gross Leverage							4.6x	6.1x
Net Leverage							4.3x	4.9x
Secured Debt							4,847	4,945
Secured Gross Leverage							2.5x	3.3x
Secured Net Leverage							2.2x	2.2x

- (1) US\$760 mm in pro-forma unused borrowing capacity includes US\$433 mm (C&W), US\$258 mm (VTR), US\$15 mm (Cabletica), US\$63 mm (LPR)
- (2) Telefónica Costa Rica and Cabletica (80% owned subs.) will be added to VTRFIN 28's (VTR Finance N.V.) credit pool post acquisition, expected to be completed in 1Q21
- (3) Incremental local borrowings at the VTR Finance N.V. level used to fund Telefónica Costa Rica acquisition
- (4) US\$90 mm additional principal added May '20. Total net proceeds deposited into escrow as restricted cash with LCPR required to redeem a portion of LPR Senior Secured Notes at 102.5% should AT&T acquisition not be consummated before the Long-Stop-Date (April 9th 2021).
- (5) Gross debt includes operating and finance lease obligations (excl. Cabletica, data unavailable), and excludes premiums, discounts, and deferred financing costs. F/x as of 8/6/20
- (6) Pro-forma LTM EBITDA represents "normalized" FY19 LILAK consolidated Adj. LTM EBITDA of US\$1,540 mm, plus an estimated US\$400 mm in Adj. EBITDA from TCR and AT&T PR/FWI

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