

## BCP Research: Liberty Latin America (LILAK)- Move LILAK 24s to ‘Outright’- ‘Positive in Convertible Universe

Published: December 4, 2020

**Summary:** We are moving our rating on the LILAK 2% 24s to ‘Outright – Positive’ in our convertible coverage universe following 27% gains from our initial upgrade to ‘Market Outperform’ on our Top Picks at 74c (May 7, 2020) to levels more in line with subsidiaries and, in our view, reflective of current fundamentals. We continue see at least 17% upside potential in the convert (to 109c) v. downside of 6% to the bond floor (99c), assuming the equity trades from current levels of US\$11.46 to LTM highs of US\$18.57 (late Dec. '19). Were LILAK to achieve pro-forma adj. OIBDA levels and return to FY19 EV/adj. OIBDA of 6.8x, we estimate 86% upside on the equity to US\$21.32 (in the money), and 24%+ upside on the convert to 116c.

Further upside is predicated on recovery of adj. OIBDA to US\$1,920 mm (v. US\$1,465 mm LTM 3Q20), reflecting FY19 adj. OIBDA of US\$1,540 mm, plus an additional estimated US\$380 mm adj. OIBDA generation from the recent acquisitions of AT&T FWI/USVI and Telefonica Costa Rica (TCR). We expect consolidated pro-forma net debt to increase to US\$9.1 bn (v. US\$8.6 bn 3Q20) following the transactions, at pro-forma LTM net leverage of 4.1x, and pro-forma secured LTM net leverage of 2.0x v. US\$1.3 bn consolidated pro-forma cash and US\$2.7 bn consolidated pro-forma total available liquidity (incl. US\$906 mm unused borrowing capacity) – ample to meet LILAK '24s maturity, with the ability to upflow cash to the HoldCo, strong shareholder support and implied future operational performance

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	93.5	3.95%	35.41%	4.63%	38.31%	\$20.65	\$11.46	Outright - Positive

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	106.5	6.17%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	Ba3/ BB-/ BB-	550	107.6	4.44%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.875%	9/15/2027	B2/ B+/ B+	1,220	107.8	5.47%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.125%	1/15/2028	Ba3/ B+/ BB+	600	107.6	3.90%	Secured
VTR FINANCE N.V.	VTRFIN	6.375%	7/15/2028	B1/ B/ BB-	550	110.0	4.79%	Secured
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ B+/ BB-	1,290	108.9	5.19%	1 <sup>st</sup> Lien

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of December 4, 2020.

US\$MM (1)	Ccy	Ticker	Interest	Maturity	Rank	Pro-Forma Unused Capacity (2)	Pro-Forma Debt	3Q20 Debt
<b>LILAK</b>								
Convertible Notes	USD	LILAK	2%	7/15/24	Sr. Unsecured	-	403	403
<b>C&amp;W</b>						766	4,131	4,231
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
<b>C&amp;W Credit Facilities:</b>							1,861	1,961
C&W revolving credit facility (3)	USD		LIBOR + 3.25%	6/23		50	-	50
C&W revolving credit facility (3)	USD		LIBOR + 3.25%	6/26		575	-	50
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		141	351	351
<b>VTR/Cabletica:</b>						15	2,121	342
<b>VTR</b>							1,680	222
VTR Finance Senior Notes (1st Lien)	USD	VTRFIN	6.875%	1/15/24	1st Lien	-	-	-
VTR Comunicaciones Senior Secured Notes	USD	VTRCOM	5.125%	1/15/28	Sr. Secured	-	600	600
VTR Finance Senior Unsecured Notes	USD	VTRFIN	6.375%	7/15/28	Secured (4)	-	550	550
<b>VTR Credit Facilities:</b>							530	222
VTR TLB-1 facility	CLP		ICP + 3.80%	11/22 & 5/23 (50%)		-	186	180
VTR TLB-2 facility	CLP		7%	5/23/23		-	44	42
VTR RCF-A (5)	CLP		TAB + 3.35%	5/23/23		-	100	-
VTR RCF-B (5)	USD		LIBOR + 2.75%	3/14/26		-	200	-
<b>Cabletica</b>						15	440	120
<b>Cabletica Credit Facilities:</b>							440	120
Cabletica term loan B-1 facility	USD		LIBOR + 5%	4/23 & 10/23 (50%)		-	49	49
Cabletica term loan B-2 facility	CRC		TBP + 6%	4/23 & 10/23 (50%)		-	72	72
Cabletica revolving credit facility	USD		LIBOR + 4.25%	10/5/23		15	-	-
Additional Debt Incurrence - TCR (6)	USD		n/a	n/a		-	320	-
<b>Liberty Puerto Rico</b>						125	2,290	2,290
LPR Senior Secured Notes	USD	LILAPR	6.750%	10/15/27	1st Lien	-	1,290	1,290
<b>LPR Credit Facilities:</b>							1,000	1,000
2019 LPR revolving credit facility	USD		LIBOR + 3.5%	10/15/25		125	-	-
2026 SPV credit facility	USD		LIBOR + 5%	10/15/26		-	1,000	1,000
<b>Vendor Financing</b>							183	183
<b>Total Notes, Credit Facilities &amp; Vendor Financing</b>							9,128	8,599
Premiums, discounts and deferred financing costs, net							(141)	(141)
<b>Total carrying amount of debt</b>							8,986	8,458
Finance lease obligations							2	2
Operating Lease liabilities							149	149
<b>Gross Debt at LILAK</b>							9,137	8,609
Cash (7)							1,322	1,612
<b>Net Debt at LILAK</b>							7,815	6,997
<b>LTM Adj. OIBDA (8)</b>							1,920	1,465
<b>Gross Leverage</b>							4.8x	5.9x
<b>Net Leverage</b>							4.1x	4.8x
<b>Secured Debt (9)</b>							5,185	4,026
<b>Secured Gross Leverage</b>							2.7x	2.7x
<b>Secured Net Leverage</b>							2.0x	1.6x

(1) LILAK controls non-wholly owned subsidiaries under wholly owned subsidiary C&W, including Cabletica (80.0% through 80.0% ownership of its parent company, LBT CT), C&W Panama (49.0%), C&W Bahamas (49.0%) and C&W Jamaica (92.3%). Consolidated reportable segments represent 100% of revenue and adj. OIBDA

(2) Consolidated pro-forma unused borrowing capacity of US\$906 mm includes C&W (US\$766mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$125 mm)

(3) Pro-Forma reflects US\$100 mm repayment of principal subsequent to 3Q20. Maturity dates extended to January 30th 2026 on US\$575 mm of US\$625 mm C&W RCF

(4) 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

(5) Pro-Forma anticipates upsizing of VTR RCF-A to US\$100 mm, drawdown of US\$200 mm VTR RCF-B and utilization of US\$200 mm of US\$350 mm rights offering to fund the TCR acquisition

(6) Additional debt incurrence planned at the TCR operations, totaling ~US\$320 mm (4x TCR FY19 adj. EBITDA of ~US\$80 mm)

(7) Consolidated pro-forma cash reflects balance post-acquisitions, and includes net proceeds of US\$350 mm rights offering and anticipated US\$320 mm (4x FY19 TCR adj. OIBDA) debt issuance at Cabletica

(8) Pro-forma LTM adj. OIBDA represents "normalized" FY19 LILAK consolidated adj. OIBDA of US\$1,540 mm, plus an estimated US\$380 mm adj. OIBDA following integration of TCR and AT&T PR/FWI operations

(9) Secured debt before premiums, discounts and deferred financing costs, net

**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](mailto:mmcdonald@bcpsecurities.com)  
[www.bcpsecurities.com](http://www.bcpsecurities.com)

**Matias Castagnino, CFA**  
BCP Securities, LLC

Paseo de la Castellana, 91  
28064 Madrid, Spain  
+34 91 310 6980  
[mcastagnino@bcpsecurities.com](mailto:mcastagnino@bcpsecurities.com)  
[www.bcpsecurities.com](http://www.bcpsecurities.com)

---

**[Want to read more of BCP Securities' Convertible Research? Click Here](#)**

---

**DISCLOSURE APPENDIX**

**REGULATION AC - ANALYST CERTIFICATION**

We, Megan McDonald and Matias Castagnino, CFA, 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 time 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 consequential 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 part, 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.