

BCP Research: Liberty Latin America (LILAK) - 4Q20 Results, Positive - Maintain 'Positive-Outright' on LILAK 24 Converts

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Summary: Caribbean and LatAm telecom company, Liberty Latin America (“LILAK”) released positive 4Q20 results, with y/y and q/q improvements in revenue and adj. OIBDA driving US\$37 mm in FCF generation. Cash decreased to US\$894 mm following completion of the AT&T PR/USVI acquisition. Net debt increased to US\$ 8.0 bn (5.4x LTM net leverage) following the acquisition, which included a notable increase in operation lease liabilities. Total available liquidity decreased to US\$2.6 bn but remained robust at 70% LTM revenues (incl US\$1.2 bn unused borrowing capacity). Management estimated ~US\$200 mm in positive consolidated FCF generation for FY21 (v. US\$145 mm FY20).

We reiterate our ‘Positive-Outright’ rating on LILAK 2% 24s (100c). Pro-forma adj. OIBDA (US\$1.9 bn) and liquidity (US\$2.2 bn), as detailed below, appear ample to comfortably meet the amortization of LILAK ‘24s, located at the head of the amortization schedule, at pro-forma LTM net leverage of 4.4x (2.5x pro-forma LTM secured net leverage). Our base case implies 15% upside (114c FV) v. 10% downside (90c BF) were equity to return to Dec. ’19 highs (US\$18.57) by YE22. Meanwhile, achieving pro-forma FY22 adj. OIBDA of US\$1,920 mm at historic 6.9x EV multiples (FY19) implies 57% upside on the equity to US\$22.84 (in-the-money), and 19% upside on the convert to 119c.

	Issuer Name	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	LILAK US Equity	Recommendation	
	LILAK 2% 7/15/2024	Liberty Latin America Ltd	403	99.5	2.15%	46.19%	1.31%	42.19%	\$20.65	\$12.98	Positive-Outright

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	106.4	6.14%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/27/2027	Ba3/ BB-/ BB-	550	105.8	4.70%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.88%	9/15/2027	B2/ B+/ B+	1,220	107.5	5.49%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.13%	1/15/2028	Ba3/ B+/ BB+	600	107.3	3.91%	Sr. Secured (1)
VTR FINANCE N.V.	VTRFIN	6.38%	7/15/2028	B1/ B/ BB-	550	109.5	4.83%	Secured (1)
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ B+/ BB-	1,290	108.1	5.28%	1st Lien

* Source: Equity information sourced from Bloomberg. Convertible pricing as of March 3, 2021.

(1) Telefonía 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

4Q20 Financial and Operational Results:

- Homes passed increased 4% y/y and 2% q/q to 7.85 mm
- RGUs increased 2% y/y and 1 q/q to 6.19 mm, reflecting ongoing recovery C&W and the addition of subscribers in Puerto Rico, following LILAK’s acquisition of AT&T PR/USVI
 - Broadband internet increased 6% y/y and 1% q/q to 2.76 mm
 - Video subscribers decreased 2% y/y and were flat q/q at 1.95mm
 - Fixed line telephony increased 1% y/y and 2% q/q to 1.47 mm
- Mobile subscribers increased 22% y/y and 32% q/q to 4.45 mm, driven primarily integration of subscribers from newly acquired AT&T PR/USVI
- Mobile ARPU was down 5% y/y but increased 2% q/q to US\$12.68
 - C&W’s mobile ARPU was 4% lower y/y, but 2% higher q/q at US\$12.41
 - VTR’s mobile ARPU was 9% lower y/y, but 1% higher q/q at US\$15.65

LILAK (US\$MM)	4Q20	3Q20	2Q20	1Q20	4Q19	y/y	q/q
Homes passed (mm)	7.85	7.70	7.62	7.58	7.52	4%	2%
Revenue generating units (RGUs, mm)	6.19	6.14	6.15	6.10	6.05	2%	1%
Broadband internet subscribers	2.76	2.74	2.70	2.66	2.61	6%	1%

LILAK (US\$MM)	4Q20	3Q20	2Q20	1Q20	4Q19	y/y	q/q
Video subscribers	1.95	1.96	1.97	1.99	1.98	(2%)	(0%)
Fixed line telephony subscribers	1.47	1.45	1.48	1.46	1.46	1%	2%
ARPU (USD):	48.76	47.24	46.15	47.37	48.49	1%	3%
C&W	47.05	46.30	46.92	47.62	46.83	0%	2%
VTR/Cabletica	42.04	40.32	38.34	40.74	43.04	(2%)	4%
Liberty Puerto Rico	77.45	77.15	77.69	75.69	76.43	1%	0%
Mobile subscribers (mm)	4.45	3.38	3.31	3.62	3.66	22%	32%
Mobile ARPU (USD):	12.68	12.41	11.49	13.32	13.31	(5%)	2%
C&W	12.41	12.11	11.13	13.07	12.97	(4%)	2%
VTR	15.65	15.56	15.22	16.07	17.11	(9%)	1%

- Revenue increased 13% y/y and 24% q/q to US\$1,097 mm, driven primarily by the acquisition of AT&T PR/USVI
 - Cable & Wireless (C&W, 51% revenue, 55% adj. OIBDA), continued to show positive recovery, despite increased competition, and driven by mobile and fixed operations
 - We note the company's separation of C&W Panama operations in its reporting, following deterioration of results in the quarter, mainly on B2B and mobile declines
 - VTR (22% revenues, 21% adj. OIBDA) revenues improved q/q, while adj. OIBDA declined, driven by f/x impacts and higher customer service costs
 - The acquisition of Telefonica Costa Rica (TCR) is expected to complete in mid-2021
 - Newly integrated AT&T PR/USVI operations had a positive impact on LPR in 4Q20, with operations reporting stronger than anticipated initial results during their first ~2 months operating within the LILAK structure
 - We note LILAK expects to incur US\$35-40 mm in operating costs and US\$25-30 mm in capex related to AT&T PR/USVI's integration
- Adjusted OIBDA increased 5% y/y and 19% q/q to US\$428 mm at a 39% margin (-291bps y/y, -158 bps q/q)
- Free cash flow was positive US\$37 mm, reflecting stronger profitability, and lower interest payments, which outweighed slightly higher capex, higher tax payments and working capital outflow
 - Interest payments were 27% lower q/q at US\$100 mm
 - Tax payments increased 39% y/y to US\$39 mm
 - Working capital outflow was US\$105 mm, v. US\$80 mm in outflow in the prior quarter
 - Capex was flat q/q at US\$148 mm, with capex-to-revenue contracting 311 bps q/q to 13%
- Cash decreased 45% q/q to US\$894 mm, following completion of the AT&T acquisition, at cash to LTM revenue of 24%
- Total available liquidity decreased 17% q/q to US\$2.6 bn
 - Total available liquidity includes US\$894 mm in cash, US\$561 in trade receivables and US\$1.2 bn in unused borrowing capacity
- Net debt increased 12% q/q to US\$8.0 bn and LTM net leverage expanded to 5.4x
 - Secured net debt was US\$5.5 bn at LTM secured net leverage of 3.1x

LILAK (US\$MM)	4Q20	3Q20	2Q20	1Q20	4Q19	y/y	q/q
Revenue	1,097	888	849	931	975	13%	24%
OIBDA	356	318	10	321	372	(4%)	12%
<i>EBITDA margin</i>	<i>32%</i>	<i>36%</i>	<i>1%</i>	<i>35%</i>	<i>38%</i>	<i>(573 bps)</i>	<i>(337 bps)</i>
Impairment, restructuring and other	49	14	299	19	24	108%	253%
Share-based compensation expense	22	28	24	24	12	80%	(21%)
Adjusted OIBDA	428	360	333	364	409	5%	19%
<i>Adjusted OIBDA margin</i>	<i>39%</i>	<i>41%</i>	<i>39%</i>	<i>39%</i>	<i>42%</i>	<i>(291 bps)</i>	<i>(158 bps)</i>

LILAK (US\$MM)	4Q20	3Q20	2Q20	1Q20	4Q19	y/y	q/q
Interest paid	(100)	(137)	(104)	(144)	(74)	35%	(27%)
Taxes paid	(39)	(28)	(2)	(13)	(30)	31%	39%
Working capital	(105)	(80)	54	(77)	66	-	31%
Capex	(148)	(147)	(122)	(149)	(157)	(6%)	0%
Free cash flow	37	(32)	159	(19)	214	(83%)	-
Capex-to-revenue	13%	17%	14%	16%	16%	(268 bps)	(311 bps)
Cash and equivalents	894	1,612	1,752	1,593	1,184	(24%)	(45%)
Trade Receivables	561	506	516	572	585	(4%)	11%
Liquidity	1,455	2,118	2,269	2,165	1,769	(18%)	(31%)
Unused Borrowing Capacity	1,173	1,063	765	650	1,113	5%	10%
Total Available Liquidity	2,628	3,181	3,034	2,815	2,882	(9%)	(17%)
Loans, bonds and finance lease obligations	8,357	8,460	8,841	8,830	8,370	(0%)	(1%)
Premiums, discounts and deferred financing costs, net	157	141	142	148	146	8%	11%
Operating lease liabilities	409	149	150	191	187	118%	174%
Gross Debt	8,923	8,750	9,133	9,169	8,703	3%	2%
Net Debt	8,029	7,138	7,381	7,576	7,520	7%	12%
LTM Revenue	3,765	3,642	3,721	3,855	3,867	(3%)	3%
LTM Adj. OIBDA	1,485	1,465	1,485	1,540	1,541	(4%)	1%
LTM Gross leverage	6.0x	6.0x	6.2x	6.0x	5.6x	0.4x	0.0x
LTM Net leverage	5.4x	4.9x	5.0x	4.9x	4.9x	0.5x	0.5x
Cash to LTM Revenue	24%	44%	47%	41%	31%	(686 bps)	(2,051 bps)
Liquidity to LTM Revenue	39%	58%	61%	56%	46%	(710 bps)	(1,950 bps)
Total Available Liquidity to LTM Revenue	70%	87%	82%	73%	75%	(473 bps)	(1,754 bps)

Pro-Forma Debt Through the Layers:

Below we provide a breakdown of debt by subsidiaries, as well as pro-forma debt. LILAK reported a total US\$894 mm in cash at end-4Q20, reflecting cash use related to closing of LILAK's acquisition of AT&T PR/USVI. We anticipate the TCR acquisition (US\$500 mm), expected to close mid-2021, will be funded using US\$200 mm of proceeds from the Class C rights offering, and US\$200 mm of USD-denominated VTR RCF-B, plus US\$100 mm from the upsizing and drawdown of CLP denominated VTR RCF-A, reflecting funding for the acquisition via leveraging of VTR at 4x TCR FY19 OIBDA (~US\$80 mm). Pro-forma consolidated net debt is estimated to increase to US\$8.5 bn (v. US\$8.0 bn 4Q20), with the entirety of debt additions at the VTR level. We anticipate pro-forma total available liquidity will be US\$2.2 bn (v. US\$2.6 bn 4Q20), including US\$694 mm cash (v. US\$894 bn 4Q20), 4Q20 T/R of US\$561 mm, and US\$910 mm (v. US\$1.2 bn 4Q20) in unused borrowing capacity.

We estimate a fully-recovered LILAK could generate US\$1,920 mm in pro-forma consolidated annual adj. OIBDA (v. US\$1,485 mm FY20), based on normalized (FY19) consolidated adj. OIBDA of ~US\$1,540, plus an additional estimated US\$380 mm from TCR and AT&T PR/USVI acquisitions (based on press release disclosures), with targeted achievement by end-FY22.

We reiterate our 'Positive-Outright' rating on LILAK 2% 24s (100c). Continued recovery is not likely to be linear, particularly with the resurgence of the virus ahead of vaccine roll out. However, pro-forma earnings (US\$1.9 bn) and liquidity (US\$2.2 bn) appear ample to comfortably meet amortization of LILAK '24s, which are located at the head of the amortization schedule, at pro-forma LTM net leverage of 4.4x (v. 5.4x 3Q20) and pro-forma secured LTM net leverage of 2.5x (v. 3.1x 4Q20). LILAK's robust liquidity profile is bolstered further by its ability to up flow cash to the HoldCo level and strong shareholder backing. Our base case implies 15% upside (114c FV) v. 10% downside (90c BF) were equity to return to Dec. '19 highs (US\$18.57) by YE22. Meanwhile, achieving pro-forma FY22 adj. OIBDA of US\$1,920 mm at historic 6.9x EV multiples (FY19) implies 57% upside on the equity to US\$22.84 (in-the-money), and 19% upside on the convert to 119c.

US\$MM (1)	Ccy	Ticker	Interest	Maturity	Rank	Pro-Forma Unused Capacity (2)	Pro-Forma Debt	4Q20 Debt
LILAK						-	403	403
Convertible Notes	USD	LILAK	2%	7/15/24	Sr. Unsecured	-	403	403
C&W						770	4,126	4,126
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:							1,856	1,856
<i>C&W revolving credit facility (3)</i>	<i>USD</i>		<i>LIBOR + 3.25%</i>	<i>6/23</i>		<i>50</i>	<i>-</i>	<i>-</i>
<i>C&W revolving credit facility (3)</i>	<i>USD</i>		<i>LIBOR + 3.25%</i>	<i>6/26</i>		<i>575</i>	<i>-</i>	<i>-</i>
<i>C&W term loan B-4 facility</i>	<i>USD</i>		<i>LIBOR + 3.25%</i>	<i>1/31/26</i>		<i>-</i>	<i>-</i>	<i>-</i>
<i>C&W term loan B-5 facility</i>	<i>USD</i>		<i>LIBOR + 2.25%</i>	<i>1/31/28</i>	<i>Sr. Secured</i>	<i>-</i>	<i>1,510</i>	<i>1,510</i>
<i>C&W regional facilities</i>	<i>USD/T&T</i>		<i>4.463%</i>	<i>'20 - '38</i>		<i>145</i>	<i>346</i>	<i>346</i>
VTR/Cabletica:						15	1,807	1,514
VTR						-	1,688	1,395
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
VTR Credit Facilities:							538	245
<i>VTR TLB-1 facility</i>	<i>CLP</i>		<i>ICP + 3.80%</i>	<i>11/22 & 5/23 (50%)</i>		<i>-</i>	<i>193</i>	<i>198</i>
<i>VTR TLB-2 facility</i>	<i>CLP</i>		<i>7%</i>	<i>5/23/23</i>		<i>-</i>	<i>45</i>	<i>47</i>
<i>VTR RCF-A (5)</i>	<i>CLP</i>		<i>TAB + 3.35%</i>	<i>5/23/23</i>		<i>-</i>	<i>100</i>	<i>-</i>
<i>VTR RCF-B (5)</i>	<i>USD</i>		<i>LIBOR + 2.75%</i>	<i>3/14/26</i>		<i>-</i>	<i>200</i>	<i>-</i>
Cabletica						15	120	120
Cabletica Credit Facilities:							120	120
<i>Cabletica term loan B-1 facility</i>	<i>USD</i>		<i>LIBOR + 5%</i>	<i>4/23 & 10/23 (50%)</i>		<i>-</i>	<i>49</i>	<i>49</i>
<i>Cabletica term loan B-2 facility</i>	<i>CRC</i>		<i>TBP + 6%</i>	<i>4/23 & 10/23 (50%)</i>		<i>-</i>	<i>70</i>	<i>70</i>
<i>Cabletica revolving credit facility</i>	<i>USD</i>		<i>LIBOR + 4.25%</i>	<i>10/5/23</i>		<i>15</i>	<i>-</i>	<i>-</i>
Liberty Puerto Rico						125	2,290	2,290
LPR Senior Secured Notes	USD	LILAPR	6.750%	10/15/27	1st Lien	-	1,290	1,290
LPR Credit Facilities:							1,000	1,000
<i>2019 LPR revolving credit facility</i>	<i>USD</i>		<i>LIBOR + 3.5%</i>	<i>10/15/25</i>		<i>125</i>	<i>-</i>	<i>-</i>
<i>2026 SPV credit facility</i>	<i>USD</i>		<i>LIBOR + 5%</i>	<i>10/15/26</i>		<i>-</i>	<i>1,000</i>	<i>1,000</i>
Vendor Financing						-	168	168
Total Notes, Credit Facilities & Vendor Financing							8,794	8,501
Finance lease obligations							13	13
Operating Lease liabilities							409	409
Gross Debt at LILAK							9,216	8,923
Cash (6)							694	894
Net Debt at LILAK							8,522	8,029
LTM Adj. OIBDA (7)							1,920	1,485
Gross Leverage							4.8x	6.0x
Net Leverage							4.4x	5.4x
Secured Debt (9)							5,448	5,454
Secured Gross Leverage							2.8x	3.7x
Secured Net Leverage							2.5x	3.1x

- (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) 4Q20 consolidated unused borrowing capacity of US\$1,173 mm includes C&W (US\$ 770mm), VTR (US\$263 mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$125 mm). Consolidated pro-forma unused borrowing capacity of US\$910 mm includes C&W (US\$ 770mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$125 mm).
- (3) Maturity date 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 funding of TCR acquisition by leveraging VTR by an additional ~4x TCR FY19 adj. OIBDA of ~US\$80 mm. Estimated increase of RCF-A to US\$100 mm and drawdown, as well as drawdown of US\$200 mm VTR RCF-B. Net acquisition costs (~US\$200 mm) expected to be funded using existing liquidity.
- (6) Consolidated pro-forma cash reflects balance post-TCR acquisition
- (7) 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/USVI operations
- (8) Secured debt before premiums, discounts and deferred financing costs, net

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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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