ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 3Q21

JULY 6, 2021

Overview: 2021 Outlook – Dr. Walter Molano, Ph.D.
EM Corporate Highlights – Corporate Research
Top Picks for 3Q21 – Corporate Research

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OUTPERFORM
UNDERPERFORM
SWAP

LATIN AMERICA: COVID ROUNDUP

Like everyone else, Latin America was ill prepared for the COVID-19 pandemic. The region's health expenditures trail most of the world, with health spending accounting for 6.6% of GDP. This was in contrast to the 8.8% of GDP that was spent in OECD countries. The U.S. spends about 16.9% of GDP on health. According to a World Bank study, the Latin American and Caribbean countries with the highest health expenditures were Brazil (9.5% of GDP) and Uruguay (9.2%) of GDP. The Latin American and Caribbean countries with the lowest outlays were St. Lucia (4.4% of GDP) and Venezuela (3.5% of GDP). More than one million Latin American and Caribbean deaths have been attributed to the disease. This is a little less than a third of global deaths, even though the region has only 8% of the world's population. One of the problems for the high mortality rate has been a lack of hospital equipment. Latin America has 1.8 hospital beds per 1,000 inhabitants, versus 2.8 bed in the U.S. Japan leads the global league tables with 13 beds per 1,000 inhabitants. Such a low number of hospital beds, particularly in Intensive Care Units (ICU), meant that the health authorities could not deliver the oxygen and treatment needed for infected patients. As a result, Latin American governments have been forced to rely on draconian social distancing measures to keep the disease at bay.

Not surprisingly, the region entered a steep recession in 2020, with GDP declining 7.7% y/y. Bahamas was the worst hit, with the economy shrinking 16.2% y/y. It was hit by a trifecta of body blows, which included two major hurricanes, the collapse of tourism and money laundering charges. Panama was next on the list, with a GDP decline of 13.2%, due to the shutdown of its services sector. Argentina came in next, with a drop of almost 12%. Unending lock downs led to a collapse of economic activity. Moreover, heterodox economic policies and an antagonistic posture towards the private sector prevented the country from fully capitalizing on the rise in commodity prices. The recessions in other large countries were deep, but not as severe, such as Peru (-11%), Mexico (-10%), and Ecuador (-9%). The rest of the region saw more moderate declines in GDP. Chile and Colombia shrank about 6%, Brazil dropped 4.1% and Paraguay slipped only 0.6%. Brazil's cavalier attitude towards the pandemic also explains why it represented almost half of the region's million deaths, even though it only has about a third of the region's population.

Two problems help explain why the region has suffered so much. The first is the lack of vaccines. Although the region has strong pharmaceutical capabilities, the COVID vaccines involve new technologies that are mainly available in developed countries. Only Cuba has made meaningful progress in developing its own COVID-19 vaccine. As a result, Latin American governments have been forced to buy doses on the open market. Only the three Chinese vaccines, Sinopharm, Sinovac and Cansino, along with Russia's Sputnik, are readily available. Governments have been able to secure some AstraZeneca and small doses of Pfizer. Unfortunately, many of these vaccines are riddled with concerns and low efficacy rates, particularly the Chinese shots. It seems that the efficacy rates for some of the Chinese vaccines are as low as 4% for the first shot. This created problems in Chile, where more than half of the population received, at least, one jab by mainly the Chinese vaccine. This led to a false sense of complacency, only to find increases in infections. As of this month, only 3% of the total Latin American population has been fully vaccinated. This is the reason why infections continue to grow. The other problem is extreme overcrowding. In general, Latin America is thinly populated, given the size of the countries. However, most of the population tends to concentrate in megacities, such as Sao Paulo, Mexico City, Bogota and Buenos Aires. The large numbers of poor crowd into slums, like the infamous favelas and villas miserias, where social distancing is impossible. Little can be done to avert the propagation of the disease, other than mass vaccination programs. The sense of distress has led to outbreaks of social unrest and extreme violence. Riots have been registered in Colombia, Paraguay, Argentina and Brazil. Leftist movements have gained ground in those countries, along with Peru and Chile. Unfortunately, the outlook does not look so good for the rest of the year. Continued lockdowns are going to restrict the recovery to only 4.7% y/y this year, compared to the 7%+ that is expected in the U.S. A full recovery is not expected until 2022. Fortunately, high commodity prices will help push the region to a brighter future. Yet, the fragile nature of Latin American institutions means that the pathway will not be an easy one.

Dr. Walter Molano, Ph.D.
June 6, 2021

EM HIGHLIGHTS 2Q21

Argentina

- According to the monthly activity indicator published by the INDEC, the Argentine economy improved 2.4% in the first three months of the year
- Inflation in the country continues very high, reaching 48.8% y/y in May21, compared with a 29% inflation estimated under the 2021 budget
- Central Bank's gross international reserves increased by US$2.9bn to US$42.4bn
- Total covid-19 cases reached 4.5mm, with 95k deaths and nearly 21.2k new cases per day recently. Vaccination process is slow, with only 9.1% of the population having received both doses
- Given the spike in covid-19 cases, a soft lockdown was imposed in mid-April, turning into a full lockdown in mid-May, which has been eased in recent days
- Ministry of Finance Martin Guzman confirmed the country will make a US$400mm payment to the Paris Club in order to avoid a default, postponing US$2bn to Mar22
- Negotiations with the IMF are on standby, now expected to be postponed to after the mid-term elections, with a new deal not expected until 2022
- The restructuring process of BUENOS remains combative, with cross accusations between the province and bondholders, although the latest disclosed materials showed a very small difference between the proposals from both parties
- On the other hand, Chaco moved forward with its negotiations, reaching a deal for the restructuring for the 24s
- MASHER presented its refinancing proposal under Central Bank rules, obtaining an 83% approval for a cash + new secured 10.95% 26s
- PANAME issued new 27s at 9.125%, with one debt service payment secured by an offshore account which is funded through exports
- ALBAAR received support from bondholders to incur the necessary financing (US$130mm) for completion of the Ezeiza plant (154MW)
- AEROAR made the cash payment corresponding to May debt service of the 27s, the first cash payment after the reprofiling made in April 2020
- TECOAR repaid the holdouts of its July 2020 exchange (US$104mm), easing concerns on the repayment of exchange holdouts conducted in 2020
- YPF released a strong set of 1Q21 results given price increases and cost cutting initiatives. LTM exports reached US$1.1bn
- Electricity and gas tariffs: a 29% increase was given to base energy generation in May21, retroactive to Feb21, while a 20.9% increase was given to electricity distribution effective May21. On the other hand, no increase is expected for the gas transportation business this year

EM HIGHLIGHTS 2Q21

Brazil

- Brazilian GDP increased 1.0% y/y in 1Q21
- Market expects 5.1% y/y GDP expansion for 2021, according to Central Bank
- Brazil`s basic interest rate SELIC increased 75bps to 4.25% in June 2021, the third consecutive increase of 75bps in the year
    - Market expects SELIC to reach 6.50% by the end of the year, according to the Central Bank
- Inflation rate (IPCA) of May 2021 LTM was 8.1%, the highest since September 2016
- Energy prices increased due to the current hydrological crisis, with southeast reservoirs on the lowest levels since 2001. In Brazil 62% of the energy generation capacity comes from hydroelectric plants
- Brazil has more than 18 mm cases of COVID-19 and 514,092 confirmed deaths according to the Ministry of Health (as of June 28, 2021)
- The country leads the world in the number of new infections, with 68,795 new infections reported on average each day (89% of peak)
- Brazil also has 17 mm recovered patients (as of June 28, 2021)
- The number of vaccinated against COVID-19 reached 71 mm (34% of population) according to the Ministry of Health (as of June 28, 2021)
    - 25.5 million Brazilians (12% of population) have already received the second dose of the vaccine
- Government COVID 19 stimulus total R$572.3bn (as of June 28, 2021) and includes financial aid packages to workers and more affected sectors of the economy
- Approval rates of the Bolsonaro administration bottomed at 24% in June 2021, compared to 30% in March 2021
- Lula leads over Bolsonaro by 23 points in run-off 2022 presidential polls, according to a survey published by Datafolha in May 2021
- In June 2021, Brazil's government unveiled the second phase of its wider tax reform bill
    - Changes aim to reduce the income tax for up to 30 million workers, cut corporate profit tax and increase rates on financial market gains

EM HIGHLIGHTS 2Q21

Colombia

- In May21, the country was downgraded to high yield by S&P (BB+)
- In late April, the major cities were rocked by violent protests against the pending tax reforms, which then spread into smaller cities. This forced the resignation of the economic team led by Finance Minister Alberto Carrasquilla, while President Ivan Duque also watered down the controversial tax reforms
- The Colombian E&Ps reported the effects of the nationwide protests and blockades: Geopark stated shut-ins represented 31-39% of consolidated production while Gran Tierra reported an impact of 17% in its production. On the other hand, Frontera said the impact was limited, while Canacol said operations remained uninterrupted
- SierraCol, and E&P with oil production of 38kbpd, tapped the markets with US$600mm 6% 28s
- Frontera refinanced its 23s with new US$400mm 7.875% 28s

China

- The World Bank revised its forecast for Chinese GDP growth in 2021 from 8.0% to 8.5%. While the central government target remains 6%
- In April, May and June: Caixin manufacturing PMI was 51.9, 52.0 and 51.3. In April and May, Caixin service PMI was 56.3 and 55.1
- In 5M21:
    - Number passenger cars sold increased 38% y/y
    - Total export increased 30% y/y. Total import increased 26% y/y. Trade surplus increased 56% y/y
- Shadow banking assets as % of nominal GDP dropped to 55.4% - the lowest level in eight years. (Moody’s)
- National Health Commission has administered 1.2 bn doses of vaccine and vaccinated 630 million people
- Banks and public mortgage funds in several cities suspend mortgage issuance due to quota restriction. Applicants are told to wait 2-3 months obtaining approval
- Evergrande’s affiliation with Shengjing Bank was reportedly under investigation. CBIRC, the banking regulator in China, proposed to limit banks’ lending to shareholders

EM HIGHLIGHTS 2Q21

Mexico

- During June's first fortnight, Mexico's inflation rate stood at 6.02% well above Banxico's target rate of 3.0% +/-1%. In May, the unemployment rate was 4%
- In 1Q21 Mexico's GDP grew 1% y/y. Moody's and the IMF's Mexico's 2021 economic growth estimates are 5.6% and 4.3%, respectively, in line with US economic growth
- In May, Pemex upstream production was flat m/m at 1.67 million bbls/d, increasing by 3.3% y/y
- In late May, Pemex acquired Shell's 50% stake in Deer Park refinery in Houston for US$596 mm with a crude capacity of 340 thousand bbls/d which is equal to Dos Bocas refinery, yet Dos Bocas estimated cost is US$8.9 bn
- Talos Energy recognized that most of Zama's reserves (50.4%) are located in Pemex's block. The Secretary of Energy will decide who the operator will be and how the profits will be split
- In May, the Mexican Social Security Institute (IMSS) announced they were capping interest rates in payroll loans at 35%, impacting non-bank financials
- During May, remittances increased by 31% y/y to US$4.2 reaching an all-time high
- In late May, the US downgraded Mexico's aviation rating and Mexican airlines cannot register additional aircraft or start new codeshare programs
- In the June 2021 mid-term elections, AMLO's party lost the qualified majority in the Chamber of Deputies to endorse presidential initiatives
- As of June 30, Mexico registered 2.5 million confirmed covid-19 cases and 233 thousand deaths. According to the govt. there are no states at maximum risk level and 19 states are at low-risk incl. Mexico City and the State of Mexico
- As of June 30, Mexico has received 54 million COVID-19 vaccines and over 30 million people have been vaccinated incl. medical staff, teachers, people over 40 years old, pregnant women and people who live near the US border

EM HIGHLIGHTS 2Q21

Russia

- As of May 31, 2021, according to the Central Bank of Russia (CBR), Russia's total international reserves, including gold, amounted to US$605 billion (+2.5% m/m)
- On June 11, 2021, the CBR increased the key interest rate by 50 bp to 5.5% as both the Russian and global economies are recovering faster than expected: Russia's economy has been bouncing back from the COVID-19 pandemic rather well with industrial production up 11.8% y/y in May 2021; next key rate review meeting is scheduled for July 23, 2021
- Inflation is developing above the CBR's forecast. In May 2021, annual inflation grew to 6.0% (vs. 5.5% in April 2021). According to the CBR estimates, annual inflation went up to 6.15%. Given the monetary policy stance, annual inflation will return to the CBR's target in the 2H22 and will remain close to 4% further on
- World Bank baseline Russian GDP growth is forecasted at 3.2% in 2021, followed by 3.2% and 2.3% in 2022 and 2023, respectively. This baseline scenario assumes the follow: gradual decline in new COVID-19 cases, global economic recovery, higher oil prices as well as soft domestic monetary conditions in 2021
- In May 2021, Russia issued a new 15-year EUR 1 bn Eurobond as well as a top-up issued of an existing EUR-denominated Eurobond maturing in 2027
- Oil prices have reached US$75/barrel, up more than 40% this year. On July 2, 2021, OPEC+ voted to increase output by ~2 mm barrels per day (bpd) from August to December 2021 and to extend remaining cuts to the end of 2022, instead of ending in April 2022. Russia would like to release more oil to the market as the rise in prices was encouraging the growth of rival US shale output, which tends to need higher prices to be economic
- On June 28, 2021, Aeroflot restarted flights to tourist destinations as COVID-19 infections in Russia explode to levels (over 20,000/day) not seen since January 2021, making Russia #4 on the most-new-infection-in-a day list
- As of July 3, 2021, according to John Hopkins University, Russia had 5,495,513 confirmed cases of COVID-19 with 134,302 deaths; 12.19% of population has been already fully vaccinated

EM HIGHLIGHTS 2Q21

Sub-Saharan Africa

- The Nigerian economy grew 0.51% y/y in 1Q21, while South Africa economy expanded 1.1% y/y
- Nigerian inflation ended at 17.9% y/y in May21, dropping for two consecutive months after reaching a 15-year high in Mar21
- The Nigerian state governors backed a full deregulation of the gasoline prices in order to end a multibillion-dollar subsidy program
- Tullow tapped the markets in one of the largest corporate EM issuances ever, placing US$1.8bn secured 26s, with proceeds to be used to redeem the 22s, repay the RBL and repay at maturity the 21s converts
- In May21, Helios Towers announced an agreement to purchase 2,890 sites from Omantel for US$575mm. Additionally, another agreement was announced for the acquisition of Free Senegal passive infrastructure assets. The transaction is expected to amount to US$190mm of acquisition costs and further US$25mm of growth, upgrade and non-discretionary capex
- Kosmos completed the amendment and extension of its RBL, reducing the facility size to US$1.5bn (US$1bn used) and setting the new maturity at Mar27, with first amortization in Mar24 and next redetermination date in Sep21. The RBL is secured by the assets in Ghana and Equatorial Guinea
- Puma Energy agreed a US$587mm 1yr RCF to refinance existing facilities and closed a US$500mm right issue, subject to regulatory approval, which will be used mostly to repay the US$500mm 2018 term loan. The company also announced it sold Pumagol (Angolan business) for US$600mm, subject to regulatory approval

Turkey

- 1Q21 GDP expanded 7.0% y/y and 1.7% q/q driven by strong industrial production and still sound consumption
- Total covid-19 cases reached 5.4mm, with 50k deaths and nearly 5.2k new cases per day recently. Vaccination process is ongoing, with 19% of the population having received both doses
- In late April, a strict lockdown was imposed as a result of the surge in cases, which has recently been announced to be relaxed starting July 1
- Central Bank new Head Sahap Kavcioglu has kept the interest rates unchanged at 19% throughout the quarter
- Still, TRY continued to plunge, trading at 8.7, compared with 8.3 at end-1Q20 and 7.21 before the firing of former Head Naci Agbal

EM HIGHLIGHTS 2Q21

Turkey (continued)

- Inflation continues elevated, ending at a two years high of 17.5% in June
- Three new names debuted in the Eurodollar market: low-cost carrier Pegasus placed US$375mm 9.25% 26s, port operator Limak issued US$370mm 9.5% 36s and energy generator Zorlu placed US$300mm 9% 26s
- Akbank became the first deposit bank in the country to issue sustainable TIER2 bonds, which amounted to US$500mm at 6.8%, maturing 2031 and callable 2026
- Global Port Holdings announced the redemption of the remaining outstanding 21s at par to be done June 30th, financed through a new 5yrs senior secured loan
- Yapikredi signed a 1yr US$962mm dual currency syndicated loan, reaching a rollover ratio of 103%, while Isbank signed a 1yr EUR545mm and US$300mm syndicated loan

Ukraine

- As of June 1, 2021, according to the National Bank of Ukraine (NBU), Ukraine's total international reserves amounted to US$27.84 billion (-0.6% m/m)
- On June 11, 2021, the NBU cut the key to 6% from 8% (effective as of June 12, 2021), the lowest level since Ukraine gained its independence
- Inflation in April – May 2021 hovered ~2%, being lower than expected and below the target range of 5% +/- 1pp. Inflationary pressure remains weak, according to the NBU, primarily due to a significant drop in consumer demand for food and nonessential goods
- On June 22, 2021, the State Statistics Service of Ukraine announced that Ukraine's GDP contracted 2.2% in 1Q21 (vs. the previous estimate of 2.0%)
- According to the European Bank for Reconstruction and Development (EBRD), Ukraine's GDP is expected to increase 3.5% in 2021 and 2022. The Ukrainian government expects the Ukrainian economy to grow by 4.1% in 2021
- On July 1, 2021, Ukraine launched its land market (32 mm hectares, or 79 mm acres). In 2020, at the International Monetary Fund's (IMF) insistence a land law was finally pushed through the Rada (Parliament), although, the final version has been watered down to limit sales to small plots and exclude foreign participation
- As of July 3, 2021, according to John Hopkins University, Ukraine had 2,302,344 confirmed cases of COVID-19 with 54,687 deaths with 1.73% of population fully vaccinated

EM HIGHLIGHTS 2Q21

United Arab Emirates (UAE)

- The UAE central bank estimates the economy will grow by 2.5% in 2021 and non-oil economy by 3.6%. The economy is expected to grow by 3.5% in 2022, whilst non-oil growth is expected to increase to 3.9%
- On July 2, 2021, OPEC+ voted to increase output by ~2 mm barrels per day (bpd) from August to December 2021 and to extend remaining cuts to the end of 2022, instead of ending in April 2022
- The UAE agreed to release more oil into the market but refused to support the extension of the cuts. The UAE wants to have its baseline production set at 3.84 mm bpd vs. 3.17 mm bpd now
- Oil prices have reached US$75/barrel, up more than 40% this year
- As of July 3, 2021, according to John Hopkins University, the UAE had 636,245 confirmed cases of COVID-19 with 1,825 deaths; 39.27% of population has been fully vaccinated

2Q21 TOP PICKS

PORTFOLIO REVIEW

	Company	Industry	Country	Currency	From	Until	Days	Px at Recomm.	Px End	CPN	Price Appreciation	Total Return	Excess return
OUTPERFORM											**Average Return =**	**5.15%**	**2.90%**
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	04/05/21	06/30/21	86	81.5	87.1	6.88%	6.9%	8.5%	6.2%
CHUBUT 30	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	04/05/21	06/30/21	86	69.5	80.0	7.24%	15.1%	16.8%	14.5%
YPFDAR 26	YPF SOCIEDAD ANONIMA	Oil&Gas	Argentina	USD	04/05/21	06/30/21	86	82.3	84.4	4.00%	2.6%	3.6%	1.2%
ATENTO 26	ATENTO LUXCO 1 SA	Commercial Services	Brazil	USD	04/05/21	06/30/21	86	105.3	108.9	8.00%	3.4%	5.4%	3.0%
BANBRA PERP	BANCO DO BRASIL (CAYMAN)	Banks	Brazil	USD	04/05/21	06/30/21	86	98.1	102.5	6.25%	4.5%	6.0%	3.6%
ANTOIL 22	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	04/05/21	06/30/21	86	94.5	98.9	7.50%	4.7%	6.5%	4.1%
CHIGRA 22	GRAND AUTOMOTIVE SERVICE	Retail	China	USD	04/05/21	06/30/21	86	89.7	96.6	8.63%	7.8%	9.8%	7.5%
YUZHOU 23	YUZHOU GROUP	Real Estate	China	USD	04/05/21	06/30/21	86	97.5	94.6	8.50%	(3.0%)	(1.0%)	(3.3%)
DAMACR 23	ALPHA STAR HOLDING V	Real Estate	Dubai	USD	04/05/21	06/30/21	86	99.1	99.8	6.63%	0.6%	2.2%	(0.1%)
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	04/05/21	06/30/21	86	99.5	95.3	10.25%	(4.3%)	(1.8%)	(4.2%)
SEPLLN 26	SEPLAT ENERGY PL	Oil&Gas	Nigeria	USD	04/05/21	06/30/21	86	100.8	104.5	7.75%	3.7%	5.6%	3.2%
CRBKMO PERP	CREDIT BANK OF MOSCOW (C	Banks	Russia	USD	04/05/21	06/30/21	86	100.5	101.6	8.88%	1.1%	3.2%	0.9%
TCZIRA 22	TC ZIRAAT BANKASI AS	Banks	Turkey	USD	04/05/21	05/13/21	38	100.4	102.1	5.13%	1.7%	2.3%	1.1%
UNDERPERFORM											**Average Return =**	**9.00%**	**11.34%**
CREAL 26	CREDITO REAL SAB DE CV	Diversified Finan Serv	Mexico	USD	04/05/21	06/30/21	86	106.5	94.5	9.50%	11.3%	9.0%	11.3%
											Total Average Return =	**5.43%**	**3.50%**
					From	Until	Days	Px at Recomm.	Px End			Total Return	
EMLH					04/05/21	07/05/21	91	1.21	1.24			2.34%	

Source: Bloomberg as of 06/30/2021

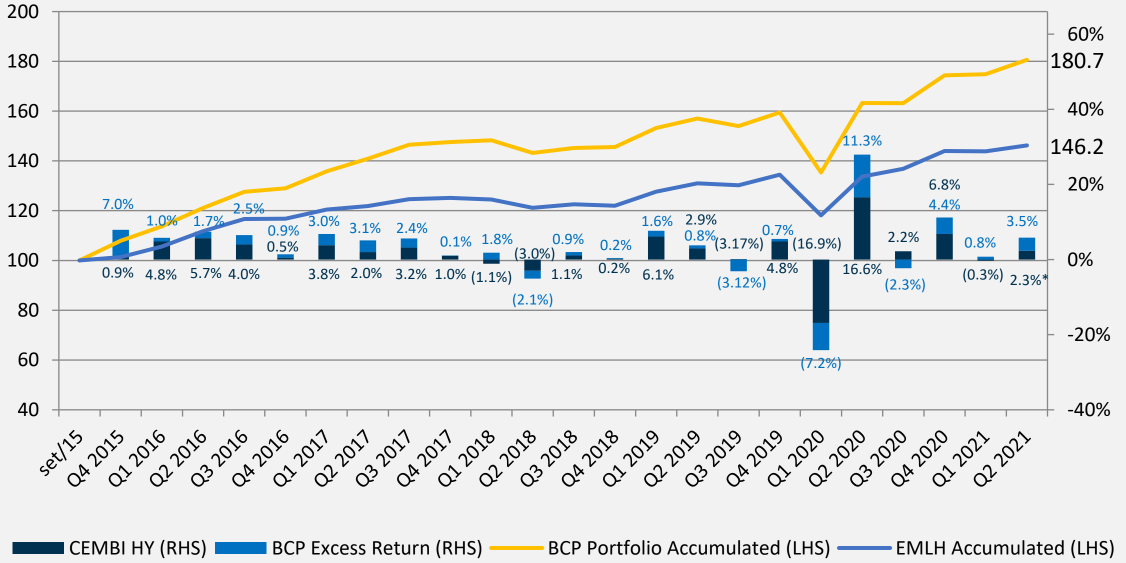
2Q21 TOP PICKS

PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated positive excess return of 350 bps vs. our EMLH benchmark. Outperforms returned 290 bps in excess return.
- Our top performers were CHUBUT 30s and CREAL 26s, with excess return of 14.5% and 11.3% respectively.
- DOCUFO 24s was the biggest disappointment, generating negative excess return of 4.2%
- Over the past 23 quarters, BCP Top Picks have generated compounded excess return of 34.5% vs. the EMLH Index
- From this quarter on we will use the EMLH Index as benchmark, replacing the CEMBI HY going forward
- Both indexes present a very similar performance, with greater public access to EMLH while access to CEMBI HY is limited

PORTFOLIO PERFORMANCE THROUGH 2Q21



(*) EMLH Index return

Source: vaneck.com, Bloomberg as of 06/30/2021

3Q21 TOP PICKS
PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	M/ SP/ F	CPN	Maturity	Mid Yield Cnv	Mid Price
Outperform										
CHUBUT 30	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	$620	Ca/ -/ CC	7.24%	07/26/2030	14.37%	80.00
YPFDAR 26	YPF SOCIEDAD ANONIMA	Oil&Gas	Argentina	USD	$776	Caa3/ -/ -	4.00%	02/12/2026	12.47%	84.40
FSBIOE 25	FS LUXEMBOURG SARL	Energy-Alternate Sources	Brazil	USD	$600	B1/ -/ BB-	10.00%	12/15/2025	6.43%	112.23
GOLLBZ 26	GOL FINANCE SA	Airlines	Brazil	USD	$500	B2/ -/ -	8.00%	06/30/2026	7.42%	101.75
HILOHO 24	HILONG HOLDING LTD	Oil&Gas Services	China	USD	$379	-/ -/ -	9.75%	11/18/2024	13.87%	89.19
VNET 26	21VIANET GROUP INC	Internet	China	USD	$600	-/ -/ -	0.00%	02/01/2026	5.75%	86.45
YUZHOU 23	YUZHOU GROUP	Real Estate	China	USD	$500	B2/ -/ B+	8.50%	02/04/2023	12.31%	94.70
GTE 25	GRAN TIERRA ENERGY INTL	Oil&Gas	Colombia	USD	$300	-/ B-/ CCC	6.25%	02/15/2025	9.86%	89.25
VEDLN 23	VEDANTA RESOURCES	Mining	India	USD	$500	Caa1 / B- / WD	7.13%	05/31/2023	11.36%	92.94
BAKIDE 29	BRASKEM IDESA SAPI	Chemicals	Mexico	USD	$900	-/ B/ B+ *-	7.45%	11/15/2029	6.22%	106.35
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	$300	-/ B/ B+	10.25%	07/24/2024	12.15%	95.25
CRBKMO PERP	CREDIT BANK OF MOSCOW (C	Banks	Russia	USD	$540	Caa2u/ -/ B-	8.88%	PERP	7.60%	101.63
INTHOL 26	INTERPIPE HOLDINGS PLC	Metal Fabricate/Hardware	Ukraine	USD	$300	-/ B/ B	8.38%	13/05/2026	8.29%	100.25

Source: Bloomberg as of 07/02/2021

MARKET OUTPERFORM

ARGENTINA
CHUBUT STEP UP 30s
YPFDAR STEP UP 26 s

BRAZIL
FSBIOE 10.00% 25s
GOLLBZ 8.00% 26s

CHINA
HILOHO 9.75% 24s
VNET 0% 26s
YUZHOU 8.50% 23s

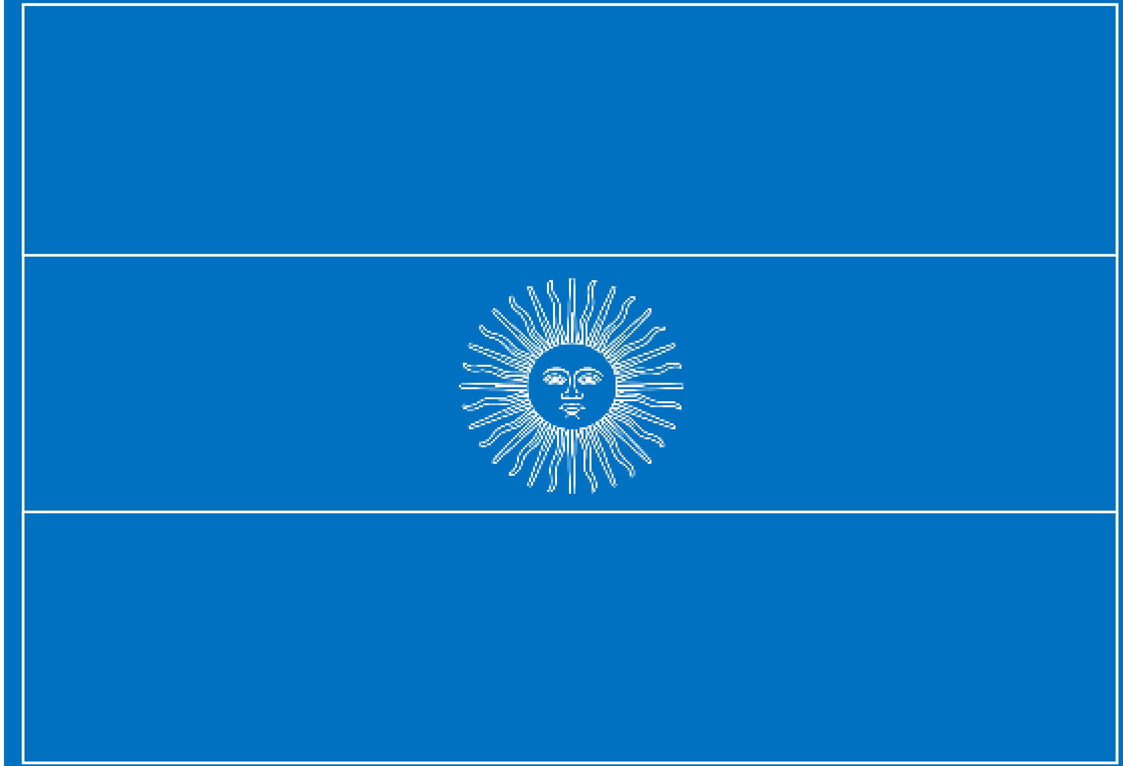
COLOMBIA
GTE 6.25% 25s

INDIA
VEDLN 7.125% 23s

MEXICO
BAKIDE 7.45% 29s
DOCUFO 10.25% 24s

RUSSIA
CRBKMO 8.88% PERP

UKRAINE
INTHOL 8.38% 26s
RAILUA 8.25% 24



ARGENTINA

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

The Province of Chubut is situated in the Patagonia region, with a population of nearly 510 thousand people and a poverty rate of 32.0% in its main urban areas according to INDEC at Dec-20. The province is the second highest oil and fourth largest gas producer, with a total production of 144kbpd, and 51kboepd in 2020, respectively, with proven reserves of near 1,048mmbbl of oil and 197mmboe of gas as of Dec-19.

Description	Amt. (US$ MM)	Rating (M/SP/F)	Mid Price	Mid YTCnv
CHUBUT 7.75% 7/26/2030	620	Ca/-/CC	80.00	14.37%

PROS:

- Largest crude and fourth largest gas producer, with access to exports
- Notes backed by oil & gas royalties, a USD indexed payment stream
- Following the province's irrevocable instructions given to concessionaries, royalties are paid directly to a local trust account
- Structure proved to be resilient throughout the restructuring despite the significant fiscal deficit
- Benefits more than Neuquen of the crude rally due to its heavier reliance on oil
- Recent restructuring provided additional concessions royalties of which will serve as collateral once BODIC bonds are fully repaid by Mar21. We estimate coverage at current production and prices should remain above 2.0x throughout the life of the bonds at current crude prices
- Coupon structure was broadly maintained in the restructuring, with a slight reduction in 2021 which was offset by the consent fee provided
- The global reduction in heavy oil production has significantly reduced price differentials vs. light oil

CONS:

- A significant portion of the production is heavy oil, historically sold at lower prices than Neuquen's light oil
- Debt service coverage is subject to crude prices and production
- Lower debt service coverage than Neuquen given its higher debt burden
- While bonds are under NY law, trust in charge of royalty collection was created under Argentine law, which may provide a way to locally breach the bond structure
- Royalties per law are paid onshore and in ARS. As a result, Central Bank regulations may limit the access to USD and the transfer of funds offshore
- PAE concessions mature in 2027, although they can be extended for another 20 years upon satisfaction of certain activity levels
- Fiscal balance has significantly deteriorated since 2019, at 20% of current income in the first nine months of 2020
- Historical union confrontations
- Restructured bonds, although with practically no NPV haircut

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

ESTIMATED DEBT SERVICE COVERAGE OF CHUBUT 2030 AT **US$65 CRUDE,** US$2.5/MMBTU GAS **AND LTM PRODUCTION AS OF MAR2021**

'US$000	Jul-21	Oct-21	Jan-22	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24
Interest payment	11,943	11,880	11,817	11,625	11,433	11,241	11,049	10,671	10,293	9,915	9,538	9,053
Principal payment	3,250	3,250	9,913	9,913	9,913	9,913	19,500	19,500	19,500	19,500	25,025	25,025
Total debt service	15,193	15,130	21,730	21,538	21,346	21,153	30,549	30,171	29,793	29,415	34,563	34,078
Estimated royalties	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350
Estimated Debt Service Coverage	**4.6**	**4.6**	**3.2**	**3.2**	**3.2**	**3.3**	**2.3**	**2.3**	**2.3**	**2.4**	**2.0**	**2.0**

'US$000	Jul-24	Oct-24	Jan-25	Apr-25	Jul-25	Oct-25	Jan-26	Apr-26	Jul-26	Oct-26	Jan-27	Apr-27
Interest payment	8,568	8,083	7,598	7,113	6,629	6,144	5,659	5,174	4,689	4,204	3,719	3,234
Principal payment	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025	25,025
Total debt service	33,593	33,108	32,623	32,138	31,654	31,169	30,684	30,199	29,714	29,229	28,744	28,259
Estimated royalties	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350
Estimated Debt Service Coverage	**2.1**	**2.1**	**2.1**	**2.2**	**2.2**	**2.2**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**	**2.5**

'US$000	Jul-27	Oct-27	Jan-28	Apr-28	Jul-28	Oct-28	Jan-29	Apr-29	Jul-29	Oct-29	Jan-30
Interest payment	2,750	2,265	1,780	1,339	980	621	262	219	175	131	87
Principal payment	25,025	25,025	22,750	18,525	18,525	18,525	2,259	2,259	2,259	2,259	1,502
Total debt service	27,775	27,290	24,530	19,864	19,505	19,146	2,521	2,477	2,434	2,390	1,590
Estimated royalties	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350	69,350
Estimated Debt Service Coverage	**2.5**	**2.5**	**2.8**	**3.5**	**3.6**	**3.6**	**27.5**	**28.0**	**28.5**	**29.0**	**43.6**

Oil royalties estimated using a 10% discount to Brent prices to reflect the heavier oil extracted from the province.

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

DECEMBER 2020 RESTRUCTURING

- No principal haircuts
- New maturity July 26, 2030
- Coupon structure:

7.24% from October 26, 2020 (last payment date) until October 26, 2021
7.75% from October 26, 2021 until maturity

- 50bps consent fee
- New amortization schedule comprised of 40 quarterly installments of:

4.1666% that was paid October 26, 2020
4 installments starting January 26, 2020 of 0.5% of the initial aggregate principal (US$650mm)
Next 4 installments 1.525%
Next 4 installments 3.0%
Next 16 installments 3.85%
Next 1 installment 3.5%
Next 3 installments 2.85%
Next 4 installments 0.3475%
Next 3 installments 0.2311%

- Include as collateral the royalties from the concessions that serve to back the BODIC 2 bonds, once these bonds are fully repaid
- Include a new Surplus Coverage Trigger Event that will require the province to redeem, in the case that starting October 2022 the debt service coverage exceeds 2.0x within 180 days, the lower of US$33.8mm of bonds and 50% of the difference between the aggregate Specified Royalties deposited in the collateral account during the applicable period and the amount of royalties corresponding to a coverage of 2.0x
- Debt Service Reserve Account will be considered fully funded as long as in the local peso bank account there are enough funds to repay:

From first payment date to the 14th collection period, the full amount of the interest due on the next payment date
To the 15th collection period, full interest and 33% of principal amortization due on the next payment date
To the 16th collection period, full interest and 66% of principal amortization due on the next payment date
Thereafter until maturity, full interest and principal due on the next debt service

- A trigger event will occur if the coverage falls below 1.35x or if the debt reserve account is not fully funded, which will result in all royalties getting trapped in the reserve accounts and being converted into dollars and to be used to repay the principal owed in reverse order of maturity
- We note that the new maturity in 2030 is beyond the expiration of the concession granted to PAE, which occurs in 2027
- At maturity, the concessions will be subject to the control of Petrominera Chubut SE
- Upon satisfaction of certain activity levels, which include investments of US$1bn from 2017 to 2026 and having reserves equivalent to at least two years of production, PAE will have the right to operate the concessions for another 20 years

MARKET OUTPERFORM (ARGENTINA):

CHUBUT STEP-UP 30s

Province of Chubut (AR$MM)	9M20	9M19	+/-	%	2019	2018
Current income	71,910	58,376	13,534	23%	81,643	54,005
Local tax revenues	12,435	10,940	1,495	14%	15,471	10,872
National taxes	19,888	15,001	4,887	33%	20,751	14,171
Current transfers	5,139	2,845	2,294	81%	3,658	4,257
Royalties	13,910	12,521	1,389	11%	17,353	11,921
Social security	13,392	9,328	4,064	44%	14,982	7,761
Other current income	7,146	7,741	(595)	(8%)	9,428	5,023
Current expenses	(77,418)	(53,819)	(23,599)	44%	(78,877)	(43,428)
Personnel expenses	(49,682)	(34,468)	(15,214)	44%	(49,948)	(27,133)
Current transfers	(6,834)	(4,952)	(1,882)	38%	(7,422)	(4,257)
Good and services	(3,332)	(2,673)	(659)	25%	(4,282)	(2,862)
Social security	(17,548)	(11,710)	(5,838)	50%	(17,203)	(9,159)
Capital income	736	786	(50)	(6%)	1,080	1,666
Capital expenditures	(5,652)	(5,055)	(597)	12%	(7,137)	(6,239)
Primary surplus / (deficit)	**(10,424)**	**288**	**(10,712)**	**(3,719%)**	**(3,291)**	**6,004**
as % of current income	(14%)	0%			(4%)	11%
Interest	(4,211)	(3,428)	(783)	23%	(4,990)	(3,604)
Total surplus / (deficit)	**(14,635)**	**(3,140)**	**(11,495)**	**366%**	**(8,281)**	**2,400**
as % of current income	(20%)	(5%)			(10%)	4%
Total deficit w/ ppal amortization (*)	(15,589)					
as % of current income	(22%)					

(*) Excluding US$13mm principal repayments in 2021

	Sep20	2019	2018
Gross debt (AR$mm)	**72,142**	**55,973**	**37,483**
Gross debt (US$mm)	947	935	995
Gross debt / current income	95%	90%	81%

Government: current governor is Mariano Arconi from the center CST party, who was reelected in June 2019 for a four-year term and who has been one of the closest allies of the Alberto Fernandez presidential campaign.

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTCnv
YPPFDAR Step-up 02/12/2026	775	Caa3/-/-	84.40	12.47%

PROS:

- Scale: Largest player in the local oil & gas industry and largest issuer in terms of revenue and assets
- Integrated company. Oil production almost entirely used at its refineries
- Main concessionaire of Vaca Muerta shale formation
- Diversified production among concessions
- 26s are secured by export receivables, collected in a New York account in Citibank, and the 50% stake in YPF Luz (as long as 50% of original principal remains outstanding)
- Exports in 2020 totaled US$1.2bn and in 2019 US$1.8bn, providing strong coverage for the 2026 debt service
- If a blocking event notice is issued by YPF or if an event of default occurs, the export collections get trapped in the offshore accounts
- A two-debt service payment debt reserve account is maintained in offshore accounts
- Strong covenant protection, including the prohibition to issue additional 26s
- Sound recovery in 1Q21 results due to higher downstream prices and cost cutting initiatives implemented

Majority owned by the government with a 51% stake, **YPF** is the country's largest integrated oil & gas producer. It is also the largest downstream company, with more than half of total sales. At Dec-20, YPF had total proven reserves of 922 million boe. Additionally, the company is the majority owner of Metrogas, the country's largest gas distributor, and has a 50% stake in YPF Luz. YPF is listed in the NYSE and the local exchange, with a US$3.3bn market cap

CONS:

- Initially short USD: downstream prices are set in ARS. Downstream represents the vast majority of third-party revenue
- Low average life of reserves: 5.4 years for P1 and 3.1 years for PDP, limiting ability for further capex reduction. 1P reserves have dropped 41% since peak levels
- Decreasing production (9% y/y in 2020 and 20% from peak levels) due to low capex levels over the past years, although recovering 3% q/q in 1Q21
- We estimate development cost of PUD is at nearly US$20/bbl, well above capex guidance levels for 2021 of US$11.9/bbl
- We estimate required crude and gas prices for PUD development and debt amortizations in 2022 are at above US$70/bbl and US$3.7/MMBTU, respectively.
- In order to benefit from the crude rally, the company needs to do the passthrough to downstream prices, which has been limited in the past as the government has been focusing on inflation levels
- Proceeds held in the export collection account will be deposited in the reserve payment account promptly after receiving clearance from the Central Bank, which will be notified by YPF to Citibank in writing, hence having some exposure to Central Bank manipulation

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

NEW BONDS FROM RESTRUCTURING:

	2026	2029	2033
Maturity	Feb-26	Jun-29	Sep-33
Amount (US$mm)	775	747	575
Coupon	4% until Dec22, 9% quarterly thereafter	2.5% until Dec22, 9% semiannual thereafter	1.5% until Dec22, 7.0% semiannual thereafter
First coupon payment	May 2021	June 2021	March 2021
Ranking	Secured by Sales Right, Collateral Accounts and shares of YPF Luz (this latter as long as 50% remain outstanding)	Unsecured	Unsecured
Amortization	13 quarterly installments starting Feb-23	7 semi-annual installments starting Jun-26	4 annual installments starting Sep-30
Additional notes	No additional notes can be issued after settlement date	Additional notes can be issued	Additional notes can be issued
Governing Law	New York	New York	New York

2026 Secured Bond Collateral Package:

1) Sales Right: all accounts, intangibles, receivables and rights under present and future sales agreements for the sale of exportable products

2) Collateral Accounts:

- Export Collection Account (ECA): a US account at Citibank NY under the name of YPF, which will be the second beneficiary, where exports are collected. Unless an event of default occurred, YPF is required to instruct Citibank to transfer funds to the Export Clearance Account or to release them to YPF
- Export Clearance Account (ECA2): a US account at Citibank NY which will be under the sole and exclusive control of the Offshore Collateral Agent (Citibank)
- Reserve and Payment Account (RPA): a US account at Citibank NY under the sole and exclusive control of Citibank

Waterfall

- Proceeds deposited in the ECA will be transferred to the ECA2 and then to the RPA to comply with the minimum coverage ratio (1.25x of the next two debt service payments), all other proceeds will be released to YPF
- If a Blocking Event Notice is issued by YPF or if an event of default occurs, Citibank will direct the ECA to transfer all proceeds to the ECA2, for further transfer to the RPA
- Importantly, proceeds held in the ECA2 will be deposited in the RPA promptly after receiving clearance from the Central Bank, which will be notified by YPF to Citibank in writing

3) A Pledge on shares of YPF Luz as long as 50% of the original principal issued remains outstanding

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

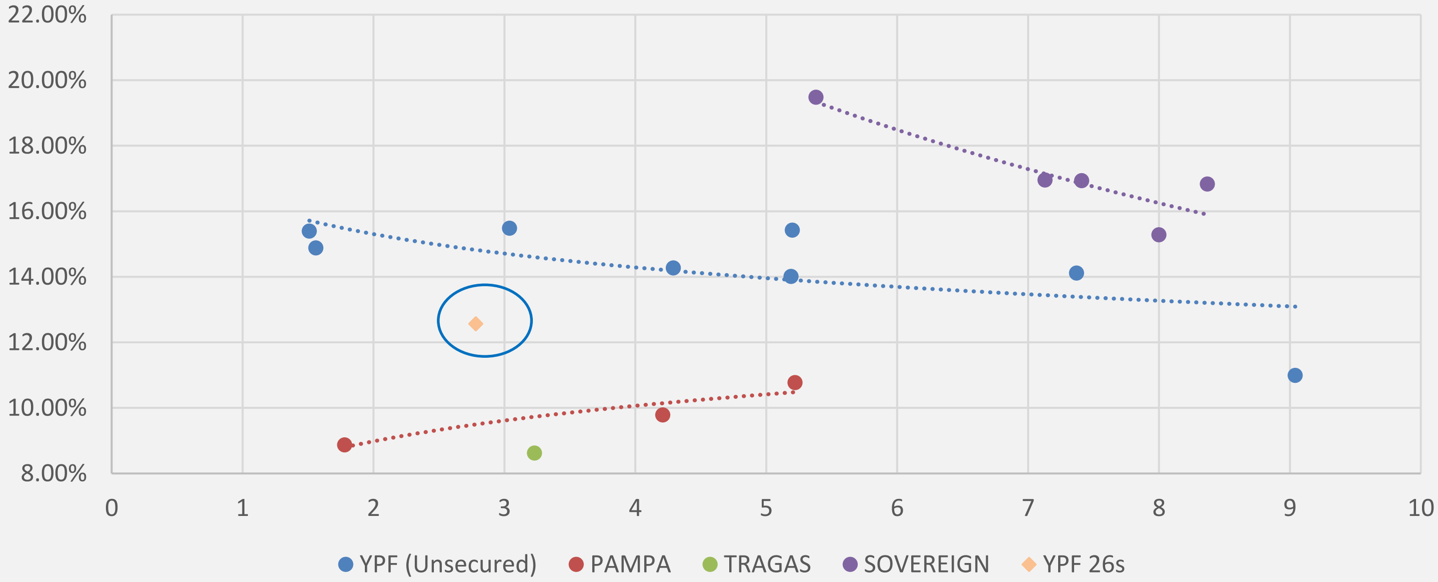
NEW COVENANTS RESTRICT FUTURE SECURED INDEBTEDNESS:

- No further 26s can be issued after the settlement date
- Additionally, no additional indebtedness can occur as long as net leverage is above 4x by Dec21, 3.75x by Dec22, 3.5x by Dec23 and 3x thereafter (with certain carve outs)
- Negative pledge: the company or any of its subsidiaries cannot create or assume any additional liens on any present or future property to secure a public indebtedness unless the 26s, the 29s and the 33s are equally and ratably secured therewith
- Restricted payments in place with regards to dividend distribution, share repurchases, debt repurchases prior to maturity and restricted investments
- As a result, if the company issues any future secured debt maturing after 2026 (in order to comply with the first bullet above), the 29s and 33s will become secured and pari passu debt, which would significantly subordinate any existing unsecured note

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

YPF CURVE VS ARGENTINE PEERS



BBG as of 7/02/2021

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

WE STILL SEE A LACK OF FCF GENERATION TO COVER FULL CAPEX NEEDS AND PRINCIPAL AMORTIZATION

	1Q21	Spot	FCF neutral
Oil realized price (US$/bbl)	57.8	63.9	71
Spot crude price assumes 10% discount to current Brent of US$71			
Gas realized price (US$/MMTU)	2.9	3.0	3.7
Spot gas price includes Plan Gas 4			
Gas realized price (US$/bbl)	16.1	16.7	20.5
Upstream volumes - bbl (revenue / prices)	36,669	36,669	36,669
Crude	18,962	18,962	18,962
Gas	17,707	17,707	17,707
Upstream revenue (US$mm)	1,247	1,506	1,709
Crude	950	1,211	1,346
Gas	285	294	363
Increase vs 1Q21		259	462
Annualized increase		**1,038**	**1,851**
Annualized FCF 1Q21 – pre WK gains	344		
Annualized capex	1,972		
BCP capex estimate for dev cost of PUD*	3,338		
Incremental FCF need	1,022		
Amortizations 2022	687		
Total additional FCF needs for full capex + amortizations	**1,709**	**1,709**	**1,709**
Pro-forma vs additional FCF needs		**(671)**	**142**

*Assuming US$19.2/boe of production.

- In order to generate the extra cash flow needed for the required capex level we calculated for PUD development(*) and the 2022 debt amortizations, we think local crude realized prices would need to be around US$70 with a gas price of US$3.7/MMBTU
- Historically, local crude prices had a discount of around 10% to Brent
- Additionally, since most of the revenue comes from the downstream segment, the company would need to do the passthrough of upstream prices into the downstream business
- If gas prices stay at US$3/MMBTU, which account for the Plan Gas 4, we think the required local crude price would need to be US$75
- Importantly, for this math we assume our capex estimate of PUD development instead of the company's guidance
- If using the company's 2021 capex guidance, then we see a free cash flow generation of around US$300mm under current spot prices

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

ANALYSIS OF 1Q21 RESULTS:

- Revenue recovered 17% q/q to US$2,648mm with both a sound increase in domestic revenue of 15% and in exports of 36%, with both higher prices and volumes
- Prices of gasoline grew 9% q/q while prices of diesel improved 11% q/q, while combined sales volumes of these products increased 5% q/q
- Additionally, management commented that in March it established a plan for an additional 15% increase in prices in USD terms in the coming three months, having the first out of three installment been implemented
- As a result, domestic sales of diesel grew 12% q/q while domestic sales of gasoline increased 24% q/q
- Natural gas sales as producers to third parties increased 10% q/q as average prices improved 21% q/q to USS$2.9/MMBTU, favorably impacted by the Plan Gas 4
- Exports increased 36% q/q, with a 46% pick in grains and flours
- We note the local crude price discount to Brent widened to 18% from 12% in 4Q20 as management commented there has been a general agreement to keep local prices at $55
- Recall YPF needs to source around 20% of its oil needs for refining purposes, which makes the company initially short oil and exposed to proper passthrough into downstream prices in case of crude price increases

YPF (US$MM)	1Q21	1Q20	4Q19	y/y	q/q
Revenue	2,648	2,832	2,270	(6%)	17%
Local revenue	2,345	2,433	2,048	(4%)	15%
Exports	303	398	222	(24%)	36%
Adjusted EBITDA	767	851	183	(10%)	319%
Adjusted EBITDA margin	29.0%	30.0%	8.1%		

YPF (US$MM)	1Q21	1Q20	4Q20	y/y	q/q
Total Debt	7,747	9,786	8,070	(21%)	(4%)
Cash and Equivalents	994	1,158	994	(14%)	0%
Net Debt	6,753	8,628	7,076	(22%)	(5%)
LQA gross Leverage	2.5	2.9	11.0		
LQA Net leverage	2.2	2.5	9.7		

YPF (US$MM)	1Q21	1Q20	4Q20
EBITDA	767	851	183
Working capital	107	(92)	513
Capex, net of sales	(493)	(688)	(410)
Interest paid	(187)	(266)	(160)
Taxes paid	(1)	(7)	(7)
FCF	**193**	**(202)**	**119**

MARKET OUTPERFORM (ARGENTINA):

YPF STEP-UP 26s

ANALYSIS OF 1Q21 RESULTS (cont.):

- E&P production increased 3% q/q to 437kbpd, mostly given by an 11% growth in shale production
- According to management, production during the quarter was better than expected. However, given the blockades that affected Vaca Muerta for 21 days in April, guidance for the year of an unchanged production y/y was maintained
- Adjusted EBITDA (excluding IFRS 16 impact) jumped 319% q/q to US$767mm
- Reported cash cost per barrel on the upstream segment decreased 4% q/q
- Additionally, refining costs in dollar amounts dropped 6% q/q
- Management commented that the strong wide cost cutting plan implemented in 2020 helped strengthen margins after a very weak 4Q20
- EBITDA margin of 29.0% was slightly below pre-pandemic levels
- Simplified free cash flow was positive US$193mm, with positive working capital of US$107mm given mostly by higher trade payables
- We note capex of US$493mm was below guided levels for the year. Management comment it expects the capex to pick up in coming quarters
- Net debt dropped 5% q/q to US$6,753mm
- Cash position and equivalents ended sound at US$994mm, within management commitment of having US$1bn in liquidity
- LQA net leverage improved to 2.2x, while reported LTM net leverage was 4.9x

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BRAZIL

MARKET OUTPERFORM (BRAZIL):

FSBIOE 10.00% 25s

FS is a Brazil based corn ethanol producer, operating two facilities in Mato Grosso, also selling by products including animal nutrition products and electricity. The company is set up as a JV between US based Summit Agricultural Group (71.3% stake) and Brazilian agricultural holding company Tapajós Participações (23.7% stake).

The company has seen steadily growing since inception with capacity and EBITDA more than doubling for each harvest. FS posted strong 4Q21 earnings as we expect continued cash generation and deleveraging for the year, given increased capacity and lower projected capex after SRS Plant expansion completion in February. Despite rising corn prices, the company benefits from a low-cost structure, buying corn at avg. ~46% discount to spot, with 80% 21/22 corn supply already purchased. We think low-cost structure and the animal nutrition by-product segment partially mitigates the ever-present concern of commodity price volatility, inherent to the sector. Ultimately, at manageable leverage levels and decent cash generation prospectus for the mid-term, trading at a significant pick-up to Brazil HY corp curve we upgrade FSBIOE 25s to 'Market Outperform'.

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTCnv
FSBIOE	10.00%	12/15/2025	600	B1 / - / BB-	112.23	6.43%

Pros

- FS benefits from a low-cost structure versus US corn and Brazilian sugarcane-based ethanol producers given the abundant supply of cheap corn in the region
    - Purchases corn at an average ~46% discount to CBOT international reference pricing in the last 4 years
    - FS has already purchased 80% and 32% of its FY2022 and FY2023 corn programs, respectively
- Animal nutrition revenue works as a natural hedge against rising corn cost given product correlation
- Positive cash generation (pre-expansion capex) and manageable leverage levels, currently at 2.5x for FY2021 (LTM)
    - Under our estimates net leverage should remain at a manageable 1.1x – 2.8x LTM for next fiscal year
- Increased capacity and lower expansion capex, after SRS Plant completion
- Potential IPO could further strengthen capital structure and governance

Cons

- Inherent to the sector, FS is exposed to high price volatility for its raw material and sales product (recent rally in corn prices)
    - Sugar is more correlated to ethanol pricing than corn, and sugar cane processors can shift production between both products
- Not owning the corn crops reduces operation complexity but implies less control over feedstock supply
    - Supply from local Mato Grosso local suppliers (400 different suppliers) may present a risk given less formal market
- FX risks with revenue stream based in local currency (BRL) and partially unhedged dollarized debt (~38% in USD)
    - Bond currently has US$350mm hedged
- Ongoing criminal lawsuits against indirect individual minority shareholders
    - The company stated in OM legal proceedings are not related to FS business nor to any direct shareholder of the company
- High interest expense on a 10% bond coupon
- Government interference in fuel pricing policy (Petrobras) can limit ethanol pricing upside

MARKET OUTPERFORM (BRAZIL):

FSBIOE 10.00% 25s

4Q21 Results – Strong

- 4Q21 revenue increased 19% q/q and 1.4x y/y to R$996mm, driven by increased capacity and higher ethanol and animal nutrition prices
  - Ethanol segment revenue increased 24% q/q to R$741mm given higher sales volume (+5% q/q) and price (+18% q/q)
    - Average net sales price of ethanol at R$2.41/m3 (US$0.44/m3) in 4Q21, from R$2.05/m3 (US$0.38/m3) in 3Q21
  - Animal nutrition segment revenue increased 10% q/q to R$184mm driven by higher sales price for all products
- EBITDA followed top-line expansion, up 29% q/q and 1.3x y/y at R$420mm, on sequentially improved margins
  - Average cost of corn at R$31.55/sac (US$5.75/sac) in 4Q21, from R$28.79/sac (US$5.34/sac) in 3Q21
- FCF was positive at R$414mm, driven by stronger EBITDA and WK decrease
  - The impact of FX and derivatives, which we don't include in our simplified FCF, resulted in a R$179mm cash outflow
  - Growth capex totaled R$104mm in 4Q21, from R$298mm in 4Q20, as expenditures related to the SRS Plant are decreasing
- Gross debt up 6% q/q at R$4.0bn following BRL depreciation against USD, and US$50mm note re-tap during the period
  - We deducted the TRS (Swap Instrument) amount from the gross debt, considering metrics disclosed by the company
  - Cash position increased 59% q/q to RS$1.1bn following cash inflow
  - Net debt down 6% q/q at R$2.9bn
- Net leverage (annualized) improved to 1.7x in 4Q21 from 2.4x in 3Q21, given stronger sequential EBITDA

FSBIOE (R$MM)	4Q21	3Q21	4Q20	q/q	y/y
Revenue	996	839	415	19%	140%
EBITDA	420	325	185	29%	127%
EBITDA margin	42.2%	38.7%	44.5%		

FSBIOE (R$MM)	4Q21	3Q21	4Q20	q/q	y/y
Total Debt	3,979	3,752	3,037	6%	31%
Cash	1,075	678	465	59%	131%
Net Debt	2,904	3,074	2,572	(6%)	13%
Leverage (Total Debt/LQA EBITDA)	2.4	2.9	4.1		
Net leverage (Net Debt/LQA EBITDA)	1.7	2.4	3.5		

FSBIOE (R$MM)	4Q21	3Q21	4Q20	q/q	y/y
EBITDA	420	325	185	29%	127%
Capex	(137)	(167)	(295)		
Interest paid	(46)	(99)	(88)		
Taxes paid	0	0	(0)		
FCF before WK	**237**	**59**	**(198)**		
Change in WK	177	(442)	51		
FCF	**414**	**(383)**	**(147)**		

MARKET OUTPERFORM (BRAZIL):

FSBIOE 10.00% 25s

FY22 Run Rate Case (costs at 4Q21 corn prices)

- FY22 run rate estimate considers 4Q21s corn and ethanol pricing
- Run rate 4Q21 for FY2022, we see net leverage below the 2.0x level on solid cash generation
    - We do note 4Q21 profitability levels should not be maintained mainly given the steep corn price increase since
    - But does imply potential issuer's earnings power under favorable commodity scenario
- Lower Capex for the fiscal year follows FS guidance
    - Much lower expansion capex requirements past SRS Plant completion

FY22 Base Case (costs at current corn prices)

- FY22 base case considers 4Q21s ethanol pricing and current corn pricing settled for the 21/22 harvest
    - Differently from run rate estimate, base case incorporates higher corn pricing settled for 80% of the 21/22 harvest (R$43.09/sac) and current CBOT level at FS discount (R$46.48/sac)
- Base case scenario implies a R$400mm cash flow and 2.8x net leverage
- For our base case we used 4Q21 ethanol pricing, though noting the commodity also rallied since, which should result in additional upside to our base case
- Also, animal nutrition revenue should increase for FY22, given its observed correlation with corn pricing, favoring, again, additional upside to base case scenario

FSBIOE (R$ MM)	FY20	FY21	FY22 Run Rate	FY22 Base Case
	Reported	*Reported*	*BCP Est.*	*BCP Est.*
Ethanol	974	2,123	2,964	2,964
Animal nutrition	171	598	738	738
Energy	16	30	30	30
Others	10	124	0	0
Reclassification - Freight	61	233	248	248
Total Net Revenue	**1,232**	**3,108**	**3,980**	**3,980**
EBITDA	**481**	**1,160**	**1,759**	**1,117**
Interest paid	(147)	(289)	(289)	(289)
Capex	(1,154)	(782)	(236)	(218)
Taxes paid	(8)	0	0	0
FCF before WK	**(828)**	**89**	**1,234**	**610**
Change in WK	(255)	(164)	(210)	(210)
FCF	**(1,083)**	**(75)**	**1,024**	**400**
Total Debt	3,037	3,979	3,979	3,979
Cash	465	1,075	2,100	852
Net Debt	2,572	2,904	1,879	3,127
Gross Leverage	6.3	3.4	2.3	3.6
Net leverage	5.3	2.5	1.1	2.8
EBITDA margin	39.0%	37.3%	44%	28%

MARKET OUTPERFORM (BRAZIL):

FSBIOE 10.00% 25s

Key Assumptions (cont.):

FSBIOE - Inputs	FY19	FY20	FY21	FY22 Run Rate	FY22 Base Case
	Reported	*Reported*	*Reported*	*BCP Est.*	*BCP Est.*
Installed Ethanol Capacity (MLPY)	550	1,120	1,172	1,430	1,430
Ethanol Sold (mm lt)	258	517	1,108	1,230	1,230
Ethanol Sale/Capacity	47%	46%	78%	86%	86%
FS Avg Realized Ethanol Price (BRL/liter)	1.77	1.89	1.92	2.41	2.41
COGS (R$mm)	(312)	(674)	(1,725)	(1,976)	(2,522)
Corn Cost (R$mm)	(194)	(461)	(1,161)	(1,411)	(1,957)
Corn Cost (%COGS)	62%	68%	67%	71%	78%
Other COGS (R$mm)	(118)	(213)	(564)	(565)	(565)
Other COGS/Ethanol mm lt	46%	41%	51%	46%	46%
SG&A (R$mm)	(58)	(119)	(303)	(346)	(442)
D&A (R$mm)	17	42	79	101	101
FS Corn Cost (R$/Sac)	18.91	22.07	28.74	31.55	43.77
FS Corn Cost Discount to CBOT	(47%)	(42%)	(51%)		(46%)
Corn Sacs (mm)	10.25	20.90	40.40	44.72	44.72

(1) Considering CBOT corn price as of June 30, 2021 (R$86.33/sac)

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 8.00% 26s

We believe travel will eventually recover in Brazil, replicating strong recovery scenarios now seen in US and Mexico. Accelerating local vaccination program implies recovery should be a 4Q21 event. Under this scenario we think Gol is extremely well positioned to reach consensus recovery estimates. Additionally, recent re-tap on its 26s, capital increase and reincorporation of Smiles provides adequate liquidity cushion to get to the stated recovery point in Brazil, even if it takes longer then expected.

Thus, while we expect near-term weakness given recent increase in case count in the region, we upgrade GOLLBZ 26s to ‘Market Outperform’, recognizing upside to 109c, based on a 5% yield, should GOLLBZ 25s trade to par based on expected traffic and earnings recovery. We think the secured 26s should ultimately trade at least 200 bps through the 25s, currently at only 86bps. Similar instruments have seen far higher recoveries than unsecured bonds in adverse credit events and as such we see favorable convexity for the 26s.

Description	Amt (US$MM)	Issuer	Interest	Maturity	Rating (M/SP/F)	Mid Price	Mid Yield	Priority
GOL EQUITY FINANCE SA	425	GOLLBZ	3.75%	7/15/2024	B2/ -/ -	91.44	6.94%	Sr Unsecured
GOL FINANCE SA	650	GOLLBZ	7.00%	1/31/2025	-/CCC+/CCC+	96.10	8.28%	Sr Unsecured
GOL FINANCE SA	500	GOLLBZ	8.00%	6/30/2026	B2/-/-	101.75	7.42%	Sr Secured
GOL FINNACE	154	GOLLBZ	8.75%	Perp	Caa1/ -/ CCC+	87.00	10.06%	Sr Unsecured

PROS:

- We continue to emphasize the importance of Gol’s structural advantages, relying heavily on domestic flights operated under a uniform fleet structure
  - Gol’s central hub model in SP should benefit from gradual traffic recovery scenario (vs. Azul hub in Campinas)
  - Short haul domestic should recover first to normalized levels
- Vaccination has ramped up significantly in the country (avg. 1.2mm doses per day) with entire adult population of RJ/SP expected to have received at least one dose by September
- New financing bolstered liquidity, sound at almost US$901mm
  - Smiles reincorporation brings additional asset value into Gol, which could provide collateral to raise additional liquidity down the road, if needed
- Stronger BRL in 2Q21
- US and Mexico very strong recovery sets a potential trend for the sector
- 26s secured structure, collateralized by IP and spare parts

CONS:

- The Covid-19 pandemic has severely hit the airlines industry. Negative EBITDA, cash burn and stressed leverage metrics followed throughout 2020 and into 2021, as sector has been gradually and slowly recovering from major downturn in 2Q20
- Short-term weakness underpinned by increase in cases count under new COVID19 “wave”
  - Constant uncertainty over pandemic trajectory (new variants) and lockdown restrictions
- Currency mismatch in operations leaves company exposed to FX risks
- Yield weakness in 1Q21 and weak preliminary April traffic numbers is something to keep an eye on

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 8.00% 26s

Recent Results – 1Q21- Soft

- RPKs were down 44% y/y and 10% q/q at 5,600 mm, and attributable entirely to domestic passenger traffic
- ASKs were down 44% y/y and 9% q/q at 7,000 mm, in line with decrease in passenger traffic
- Load factor contracted slightly to 80.0%, also slightly above prior year levels (+17 bps y/y, -109 bps q/q)
- Yield was US$4.62 cents (-30% y/y, -10% q/q)
- Revenue of US$286 mm was down 59% y/y and 18% q/q following decreased traffic in the quarter on sharp-increase in COVID cases and lower q/q seasonality
- Adj. EBITDA turned back negative on weaker top line at US$17 mm in the quarter
- Cash burn of US$91 mm
    - Working Capital contraction of US$3 mm, driven primarily by lower receivables and higher advance to suppliers
    - Interest paid increased q/q, in line with the company's interest payment cycle
    - Capex was negative at US$10 mm
    - Cash Leases decreased 54% q/q to US$51 mm

- Cash was US$167 mm (-33% q/q), reflecting cash burn, at cash to LTM revenue of 19%
    - We exclude ST and LT restricted cash from our calculation of cash, as detailed in the BCP v. Gol Liquidity Breakdown, included below
- Liquidity (cash + A/R) was US$263 mm (-33% q/q) at liquidity to LTM Revenue of 30%
- Gross debt was US$3,365 mm (+2% q/q)
- Net Debt was US$3,198 mm (+1% q/q) at LTM net leverage of 31.4x

Gol (US$ MM)	1Q21	4Q20	3Q20	2Q20	1Q20	y/y	q/q
RPK (mm)	5,600	6,242	3,164	773	9,948	(44%)	(10%)
ASK (mm)	7,000	7,698	3,992	990	12,462	(44%)	(9%)
Passenger load factor	80.0%	81.1%	79.3%	78.1%	79.8%	17bps	(109bps)
Yield (cents)	4.62	5.11	5.16	5.85	6.61	(30%)	(10%)
RASK (cents)	4.08	4.55	4.54	6.71	5.65	(28%)	(10%)
PRASK (cents)	3.69	4.14	4.09	4.56	5.28	(30%)	(11%)
CASK (cents)	4.98	3.52	6.34	14.70	3.96	26%	42%
Cask ex Feul (cents)	3.51	2.54	4.87	12.15	2.17	62%	38%
Revenue	**286**	**351**	**181**	**66**	**704**	**(59%)**	**(18%)**
Adj. EBITDA	**(17)**	**40**	**(44)**	**(60)**	**165**	**(110%)**	-
Adj. EBITDA margin	*(6%)*	*12%*	*(24%)*	*(91%)*	*23%*	*(2,369bps)*	-
Working capital	3	(32)	3	33	(56)	-	-
Interest paid	(39)	(14)	(49)	(9)	(52)	(25%)	190%
Taxes paid	(4)	(8)	(4)	(0)	(6)	-	-
Capex	(10)	1	(11)	(40)	(52)	(80%)	
Cash lease	(23)	(51)	(48)	(20)	(94)	(75%)	(54%)
Free Cash Flow	**(91)**	**(64)**	**(152)**	**(96)**	**(96)**	**(4%)**	**44%**

Gol (US$ MM)	1Q21	4Q20	3Q20	2Q20	1Q20	y/y	q/q
BCP Calculated Liquidity:							
Cash and cash equivalents	72	128	89	76	127	(43%)	(44%)
ST financial assets	95	121	71	252	218	(56%)	(21%)
Cash	**167**	**249**	**160**	**328**	**344**	**(52%)**	**(33%)**
ST accounts receivable	96	142	141	98	152	(37%)	(32%)
ST securities receivable	-	-	-	-	86		
Liquidity	**263**	**391**	**301**	**427**	**582**	**(55%)**	**(33%)**

Gol (US$ MM)	1Q21	4Q20	3Q20	2Q20	1Q20	y/y	q/q
Loans and financings	114	143	293	414	300	(62%)	(20%)
Debt issuance	955	959	751	762	753	27%	(0%)
Exchangeable Notes *	356	425	425	425	425	(16%)	(16%)
Perpetual notes *	159	154	154	154	154	3%	3%
Aircraft financing	264	291	313	323	326	(19%)	(10%)
Aircraft rent	1,518	1,457	1,423	1,474	1,425	6%	4%
Gross Debt	**3,365**	**3,429**	**3,359**	**3,552**	**3,384**	**(1%)**	**(2%)**
Cash	167	249	160	328	344	(52%)	(33%)
Net Debt	**3,198**	**3,181**	**3,199**	**3,223**	**3,039**	**5%**	**1%**
Cash to LTM Revenue	**19%**	**19%**	**9%**	**12%**	**10%**	**864bps**	**(21bps)**
Liquidity to LTM Revenue	**30%**	**30%**	**16%**	**16%**	**17%**	**1,247bps**	**(25bps)**

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 8.00% 26s

Post 1Q21 Events – De-risking financing completed, liquidity sound

- US$300mm re-tap on its secured 26s notes and ~US$75mm capital increase completed post 1Q21, strengthened liquidity in what we see as Gol's de-risking financing event
- Liquidity looks sound
  - Under our downside case, where cash burn goes back to peak 2Q20 levels we see a comfortable 15-months liquidity runaway
  - Note company guided neutral cash flow for 2Q21
- Pro forma number includes cash used for Smiles reincorporation
- Smiles reincorporation brings additional asset value into Gol, which could provide collateral to raise additional liquidity down the road, if needed

Pro-Forma Estimated Liquidity - BCP Calculation	US$MM
Cash and Equivalents	72
(+) ST investments	95
1Q21 Cash	**167**
(+) ST Accounts Receivable	96
(+) ST Securities Receivable	-
(+) Upsizing of existing GOLLBZ '26s	300
(+) Capital Increase	75
(-) Smiles Merger	(132)
2Q21 Pro Forma Liquidity	**506**
(+) Deposits	394
BCP Calculated Pro-Forma 2Q21E Total Available Liquidity	**901**

Downside Case Liquidity Runway - Return to 2Q20 Cash Burn Levels:	USD
2Q21E Cash Burn Guidance / day	(1.1)
Pro-Forma 2Q21E Liquidity Runway (months)	**15**
Pro-Forma 2Q21E Total Liquidity Runway (months)	**27**

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 8.00% 26s

Traffic Recovery and Earnings Outlook

- 2Q21 traffic figures at Gol initiated weak in April but has gradually improved given marginal loosening of lockdown restrictions
- Company maintained its capacity discipline registering improved load factor for recent months
    - Load factor in May reflects mentioned discipline
- Gol initially planned to cut 40% of capacity q/q into 2Q21
- Comparatively we see weaker load factor management at Azul
- Gol expects rebound in demand for domestic flights for September, when most of adults in Brazil will be vaccinated
- Vaccination has ramped up significantly in the country (avg. 1.2mm doses per day) with 35% of the total population having received 1st dose
- Current ample liquidity and capacity discipline, seen throughout the pandemic, should continue to support Gol through a still weaker demand in 2Q, which we see being reverted from 3Q
- We think US and Mexico airlines strong recovery trends will gradually be replicated in the domestic BZ market
    - Last week TSA checkpoint registered a higher number of daily passenger's vs 2019 in US for the first time since beginning of COVID19
    - Also, American Airlines disclosed net bookings for 1st week of June 2021 were approximately 90% of 2019s level
    - Volaris latest traffic report (June) registered +19% domestic increase in RPM vs 2019 levels

GOL Recent Traffic Reports	Jan-21	Feb-21	Mar-21	Apr-21	May-21	y/y	m/m
Departures	15,161	9,947	7,581	4,551	6,864	401%	51%
Seats (thousand)	2,658	1,735	1,331	808	1,221	458%	51%
ASK (million)	3,278	2,089	1,609	893	1,385	425%	55%
RPK (million)	2,727	1,688	1,154	739	1,219	519%	65%
Load factor	83.2%	80.8%	71.8%	82.8%	88.0%	1,320bps	520bps
Pax on board (thousand)	2,167	1,381	937	661	1,060	546%	60%

Azul Recent Traffic Reports	Jan-21	Feb-21	Mar-21	Apr-21	May-21	y/y	m/m
ASK	2,913	2,135	2,089	1,745	2,004	339%	15%
RPK	2,293	1,678	1,488	1,352	1,520	363%	12%
Load factor	78.7%	78.6%	71.2%	77.5%	75.8%	392bps	(163bps)

GOL vs US Airlines	GOL	US Carriers
% Passenger April 2021 vs 2019	(61%)	(36%)

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 8.00% 26s

Yields

- Yield weakness in 1Q followed the worsening of the pandemic, while stronger BRL should partially mitigate this effect for 2Q21 favoring Gol
- Comparatively, yields at Gol and Azul have been generally lower than Mexican and US peers, decreasing more %s y/y in US$
- Yields at Gol is a trend to keep an eye on for 2021
- We expect yields to improve with return of business travelers (note 20% of business travelers represented 50% of revenue pre-pandemic)
- Ultimately, we see metric gradually improving for Gol with mentioned stronger BRL, domestic recovery and resumption of business travel

Gol	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (R$ cents)	25.33	27.55	27.78	31.48	29.57	33.17	31.50	31.76	28.55
Yield (US$ cents)	4.62	5.11	5.16	5.85	6.61	8.06	7.94	8.10	7.58
% Change in US$ Yield y/y	(30%)	(37%)	(35%)	(28%)	(13%)				
% Change in R$ Yield y/y	(14%)	(17%)	(12%)	(1%)	4%				
% Change in R$ Yield y/y (*)	(21%)	(23%)	(15%)	(4%)	(1%)				

Azul	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (R$ cents)	29.15	29.33	24.59	27.81	35.17	38.34	35.25	35.26	35.75
Yield (US$ cents)	5.31	5.44	4.57	5.16	7.86	9.32	8.88	8.99	9.49
% Change in US$ Yield y/y	(32%)	(42%)	(49%)	(43%)	(17%)				
% Change in R$ Yield y/y	(17%)	(24%)	(30%)	(21%)	(2%)				
% Change in R$ Yield y/y (*)	(24%)	(30%)	(34%)	(24%)	(6%)				

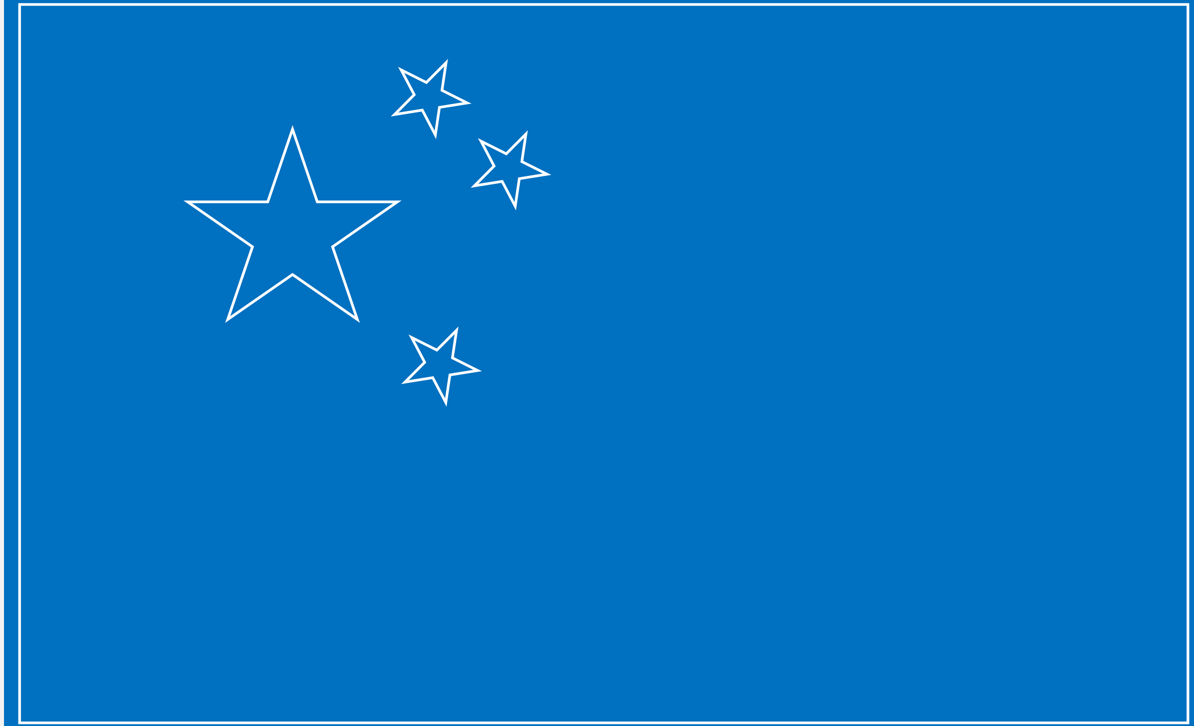
(*) real variation, ex-inflation in the period

Volaris	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (US$ cents)	7.17	7.98	6.01	5.41	7.31	8.86	8.83	7.83	7.66
% Change in US$ Yield y/y	(2%)	(10%)	(32%)	(31%)	(5%)				

Aeromexico	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (US$ cents)	5.23	6.01	5.36	5.34	6.75	7.45	7.27	6.89	6.89
% Change in US$ Yield y/y	(23%)	(19%)	(26%)	(22%)	(2%)				

Delta	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (US$ cents)	15.31	17.77	16.78	18.73	17.58	18.29	17.07	18.00	17.93
% Change in US$ Yield y/y	(13%)	(3%)	(2%)	4%	(2%)				

American Airlines	1Q21	4Q20	3Q20	2Q20	1Q20	4Q19	3Q19	2Q19	1Q19
Yield (US$ cents)	14.15	14.98	14.01	15.32	17.00	17.56	16.95	17.57	17.62
% Change in US$ Yield y/y	(17%)	(15%)	(17%)	(13%)	(4%)				



CHINA

MARKET OUTPERFORM (CHINA):

HILOHO 9.75% 24s

Hilong Holding Ltd (1623 HK) is a leading Chinese oil and gas drill pipe manufacturer and oilfield service provider. The company accounted for 37% of the drill pipe market in China and 50% in Russia. In 2H20, 30% of revenue came from Russia and east Europe, 26% from China and the rest from highly diversified overseas markets like southeast Asia (21%) and the Middle East (16%). Profit margins were stable & high relative to peer TMK until 2H20, when the company was in process of debt restructuring. The company defaulted on USD bond in June 2020 and successfully completed a par-plus-accrued exchange offer of two USD bonds in May 2021. Overall, we see a balance sheet that appears sustainable and decent 2~3x leverage before the pandemic. After the exchange, we switch from the old HILOHO 20s to the HILOHO 24s, which we now upgrade to 'Market Outperform'.

Description	Ranking	Amt (US$mm)	Ratings (M/SP/F)	Ask Price	Ask YTCnv (%)
HILOHO 9.75% 11/18/2024	Secured	379	-/-/-	89.01	13.94%

Pros

- Offshore subsidiaries (except ones in Russia) as guarantors.
- Solid domestic demand: Chinese State Council plans to expand oil & gas pipeline length by 60% before 2025.
- Increased emphasis on energy security should support onshore PRC exploration activity.
- Successful debt restructuring in May.
- Expecting recovery of business operations, sustainable balance sheet and cash flow after the exchange.
- Cash / STD exceeds 1x after the exchange.

Cons

- Limited value of pledged collateral.
- Default history.
- Low vaccination % in Russia could impact Hilong's local production in a new wave of pandemic.
- Lack of transparency. Infrequent reporting.

MARKET OUTPERFORM (CHINA):

HILOHO 9.75% 24s

2H20 Financials

- Revenue decreased 29% h/h to US$158mm. Oilfield equipment sales decreased 39% h/h to US$71mm.
    - 30% of revenue came from east Europe, Russia and central Asia. 26% came from China.
    - Sales volume of drill pipes decreased 57% h/h to 12,252 tonnes.
    - ASP of drill pipes increased 24% h/h in international markets, driven by more high-end product sales in mid-east and Russia. ASP dropped 5% h/h in Chinese market, driven by lower bid prices from CNPC and Sinopec. .
- Negative US$7mm FCF, driven by WK investment.
    - Investment was limited. Net CFI was only negative US$0.2mm.
    - Net OCF turned negative US$1.4mm.
- Gross debt decreased 2% h/h to US$483mm, of which most was STD. The company defaulted on USD bond in 2H20.
- Total cash decreased 16% h/h to US$136mm, equal to 29% of STD.
    - Cash / STD after the exchange would be 1.2x.
- LHA gross and net leverage both increased h/h to 8.6x and 6.2x, respectively.

Income Statement (US$ mm)	2H20	1H20	2H19	y/y	h/h
Revenue	158	221	255	(38%)	(29%)
- oilfield equipment & services	71	117	115	(38%)	(39%)
- oilfield services	37	61	84	(56%)	(39%)
- offshore engineering services	24	30	33	(26%)	(19%)
- line pipe technology & services	25	12	23	9%	105%
Calculated EBITDA	28	55	64	(56%)	(49%)
Gross margin	18%	32%	31%	(1,264 bps)	(1,399 bps)
EBITDA margin	18%	25%	25%	(726 bps)	(719 bps)

FCF (US$ mm)	2H20	1H20	2H19	y/y	h/h
Calculated EBITDA	29	55	64	(55%)	(47%)
Tax paid	(2)	(9)	(7)	(70%)	(76%)
WK investment	(28)	(42)	(19)	49%	(32%)
PP&E, intangibles, net	(0)	(1)	(20)	(98%)	(17%)
Dividend paid, net	(0)	0	(2)	(91%)	-
Interest paid	(3)	(11)	(19)	(86%)	(77%)
Acquisition of NCI	(2)		(0)	-	-
FCF	(7)	(7)	(3)	141%	(4%)

Debt (US$ mm)	2H20	1H20	2H19	y/y	h/h
Gross debt	483	491	472	2%	(2%)
- STD	477	466	249	92%	2%
- LTD	6	24	223	(97%)	(74%)
Total cash	136	162	155	(12%)	(16%)
- cash	107	119	112	(5%)	(10%)
- restricted cash	12	20	18	(33%)	(40%)
- financial assets FVPL	4	3		-	9%
- financial assets FVOCI	14	21	25	(44%)	(33%)
Net debt	347	328	317	10%	6%
				-	-
LHA gross leverage	8.6x	4.4x	3.7x	4.9x	4.2x
LHA net leverage	6.2x	3.0x	2.5x	3.7x	3.2x
Cash / STD	0.3x	0.4x	0.6x	(0.3x)	(0.1x)

MARKET OUTPERFORM (CHINA):

HILOHO 9.75% 24s

Three Exchange Offer Efforts	#3	#2	#1
Target	US$365mm 20s, 22s	US$165mm 20s	US$165mm 20s
Timeline			
- Timezone	Hong Kong (GMT+8)	London (GMT)	London (GMT)
- Initiation	Dec 14, 2020	May 29, 2020	May 20, 2020
- Early participation date	Dec 30, 2020 & Jan 13, 2021	(Extended to) June 29, 2020	(Extended to) June 3, 2020
- Exchange offer expiry date	Apr 1, 2021 (Extendable)	(Extended to) June 29, 2020	June 3, 2020
Exchange consideration	104c	100c	100c
- New notes	95c (9.75% coupon)	90c (9.75% min yld)	100c (9.75% min yld)
- Cash upfront	-	10c	-
- Cash to be paid in 180d	6c	-	-
- Cash incentive	4c	0.5c	0.5c
Minimum participation	50% & 75%*	80%	75%
Partial exchange	Not allowed	Not allowed	Allowed
Putable	No	104c in 2021	104c in 2021
Collateral & guarantor	US$106mm oil equipment, subsidiaries	US$80mm oil equipment, Chairman	US$80mm oil equipment, Chairman
Result	Complete	Expired	Expired

*More than 50% of the number of creditors representing more than 75% by value of the same, who are present and voting at Scheme Meeting

#3 Exchange Offer	US$mm	%
Total creditors' claims	**395**	**100c**
- HILOHO 7.25% 22Jun2020	165	
- HILOHO 8.25% 26Sept2022	200	
- all accrued and unpaid interest	29	
Restructuring consideration	**396**	
- HILOHO 9.75% 24s	373	95c
- from 20s	169	
- from 22s	204	
- Cash to be paid 180 days after RED	23	6c
Tatal consent fee	**17**	4c
- on 04Jan2021	1	
- on 19Jan2021	15	
Restructuring Effective Date (RED)	May 18, 2021	

MARKET OUTPERFORM (CHINA):

HILOHO 9.75% 24s

Successful Restructuring

On Dec 16, 2020, Hilong announced its par-plus-accrued exchange for the ‘20 and ‘22 USD maturities. Assuming Feb 28, 2021 is the Restructuring Effective Date (‘RED’), bondholder claims would total US$394.5mm. Restructuring consideration offered totals US$395.6mm consent fees in cash. The restructuring plan obtained 92% approval from bondholders by value, and was sanctioned by Cayman Island court on May 6. On May 18, the restructuring became effective (‘RED’), and New HILOHO 9.75% 24s was listed.

New Note

The HILOHO 24s has US$379mm of principal and is guaranteed by holdcos of onshore and offshore subsidiaries and subsidiaries in Malaysia, Ecuador, Hong Kong, and has overseas oilfield equipment with US$106mm book value as collateral. Russian facilities are not subsidiary guarantors. A pipelaying vessel owned by a Hong Kong subsidiary with US$155mm book value can be used as collateral of a new loan, which if raised would be used to partially redeem the new notes. Given that Hilong’s business becomes operational after a successful restructuring and higher onshore demand from PipeChina amid post-pandemic recovery and, we upgrade the new 24s to ‘Market Outperform’.

VNET 0% 26s

21Vianet Group (VNET US) is a Chinese data center operator. As of 1Q21, the company reported 55,926 cabinets with 62% utilization rate. In early 2021, the Chinese government released its carbon emission goals, which we believe is more focused on power sources instead of uses, and we expect IDC sector's power supply and long-term earnings potential to be less impacted than other high-pollution sectors like steelmaking. Overall, we see industry potential comparing favorably against regulatory risk. We note EBITDA consensus points for a strong recovery in 2021 and 2022. Assuming VNET ADS recovers to the price levels before March, we calculate 111c value and 22% cheapness for VNET 2026. Even if equity recovers only by half, we see fair value at 101c.

Comparing VNET with its global peers, VNET achieved similar growth in earnings with lower leverage, but TEV/LTM EBITDA multiple is significantly cheaper, especially when comparing with its local peer GDS. Assuming that VNET ADS trades with the same multiples with its peers, we calculate 127c value and 31% cheapness for 26s, although we note VNET has historically traded lower. Overall, we see significant upside potential for VNET 2026 convert and upgrade the convert to 'Positive-Outright'.

Description	Ranking	Amt Out (US$ mm)	Ratings (M/SP/F)	Mid PX	Mid YTC (%)	Cheapness	Delta	Conv. Price	VNET ADS Price
VNET 0 2/1/2026	Sr Unsecured	600	-/-/-	86.45	5.75	6.49%	35.40%	$54.47	$22.01

Pros

- Huge demand for cloud service from internet industry.
- Power supply for data centers should be periodized over traditional sectors like cement, steel and glass.
- GIC replaced Tuspark, which is linked to China's Ministry of Education, as the largest shareholder after VNET repurchased US$260mm shares from Tuspark in April 2021, reducing the risk of US sanctions. VNET will not make any following repurchases in the future.
- Free equity optionality as we see the converts trading at the bond floor.
- Leverage lower than peers.
- Cash is abundant versus STD.
- 2021 guidance indicates 31% growth of EBITDA.

Cons

- IDC industry requires stable & high power supply, which might be affected by policies under carbon emission goals.
- Chinese cities set PUE (Power Usage Effectiveness) requirement for data centers and may slow down VNET's expansion.
- Convertible's delta is negatively affected by low stock price due to carbon emission goals.
- Large capex exceeds EBITDA, constant FCF cash burn and higher pro forma leverage.

MARKET OUTPERFORM (CHINA):

VNET 0% 26s

1Q21 Quarterly (US$ mm)	VNET	GDS	CONE	EQIX
Country of Risk	China	China	Americas, Europe	Global
Gross Margin	23%	23%	53%	49%
EBITDA margin	30%	48%	47%	47%
Revenue q/q Growth	3%	5%	11%	2%
EBITDA q/q Growth	7%	8%	3%	9%
LTM gross leverage	6.9x	8.3x	7.2x	5.2x
LTM net leverage	2.1x	3.2x	6.7x	4.6x
Bond	VNET 0% 2/1/2026 Convert	GDSHDG 2% 01/06/2025 Convert	CONE 5% 03/15/2024	EQIX 1.45% 5/15/2026
Bond YTW	5.28%	-	1.02%	1.26%
TEV (Bloomberg)	2,903	16,241	13,470	85,739
LTM EBITDA	219	434	545	2,852
TEV/LTM EBITDA	13.2x	37.4x	24.7x	30.1x

Peer Comparison

- In early March, China released a detailed plan of its carbon emission goals during "Two Sessions" .
- VNET ADS price plunged after the announcement by 48% for fear that the plan would result in less Energy Quota (see Industry Background) in urban areas and therefore less growth potential for IDC industry.
    - Local peer GDS stock price declined by 32% following the announcement.
- Per our view, the best way for Chinese government to achieve the goals is to replace coal-fueled power plants with renewable sources, while maintaining stable power supply across the country and capping data centers' PUE at a reasonable level. Additionally, IDC sector is expected to receive favorable treatment from the government compared with traditional sectors (steel, cement, glass etc).
- As a result, we think there is room for the equity to recover.
- Comparing VNET with three peers (see table above), VNET achieved similar growth with lower leverage, while ADS price and valuation multiples underperformed

MARKET OUTPERFORM (CHINA):

VNET 0% 26s

Industry Background

- Internet Data Center (IDC) industry is included in China's post-pandemic stimulus plan, aka "new infrastructure". Twenty provincial governments have announced their five-year (2021-2025) investment plans in IDC sector as of April.
- High energy efficiency, measured by the ratio of all energy consumed by the data center to energy consumed by the IT load (Power Usage Effectiveness, PUE), is usually required by local governments when IDCs apply for Energy Quota in urban areas. Low PUE indicates high energy efficiency.
    - In 2018, Beijing required PUE of all IDCs to be lower 1.4; Shanghai required PUE under 1.3 for newly built data centers and under 1.4 for converted ones.
    - VNET sets PUE target every year and has lowered the ratio by 2% in 2020.
- Chinese central government announced carbon emission goals in late 2020 and a detailed plan in early March 2021, aiming to control carbon emission across sectors, but we think the Energy Quota restriction should have more impact on power supply to traditional sectors like steelmaking, while maintaining stable power supply to high tech sectors like IDC.
    - 2.6% of the VNET's electricity consumption came from renewable sources.
- Higher market demand for cloud services from the booming internet industry is driving IDC sector performance and will likely prevent harsh restriction from regulators in our view. Local peers like GDS, Sinnet and three state-owned telecoms' IDC sector have achieved significant growth in last few years.

VNET 0% 26s

Convertible Valuation

- Per 2021 guidance, large capex far exceeds EBITDA. Net leverage may increase from a low base in coming periods.
- We use the 330 bps spread over US Treasuries on VNET 21s pricing and estimating additional 120 bps to reflect longer dated for 2024 put.
- Capping volatility at 50%, with current market price of VNET ADS , we calculated 93c fair value and 6% cheapness.
- If VNET ADS price recovers, we see significant upside for VNET 2026s:
  - The bonds currently trade at 87c, practically in line with the bond's floor, offering a free equity optionality
  - We note EBITDA consensus is for a 26% growth in 2021 vs LTM level and 41% increase in 2022
  - Assuming VNET ADS price recovers to the levels before March (US$42), we calculate a fair value of 111c for VNET 2026 and 22% cheapness
  - Assuming the equity recovers to a mid-way between March and today's level, we calculate a fair value of 101c
  - Per 2021 guidance on EBITDA and using peers' 30x TEV/LTM EBITDA multiple, we calculate US$8bn TEV, US$55 per ADS, 127c for VNET 2026 and 31% cheapness
  - We note, however, that VNET has historically traded below peers.

Convertible Bond		Equity	
Ticker	VNET	Ticker	VNET US
Coupon Rate	0%	ADS Price	$22.01
Maturity	2/1/2026	Shares Outstanding (mm)	138
Put	2/1/2024	Market Cap (US$ mm)	3,035
Rank	Sr. Unsecured		
Amt Out (US$ mm)	600	**BCP Valuation**	
		BCP Credit Spread Estimate (bps)	450
Mid Price	**88.00c**	Volatility	50.00%
Bond YTW	5.28%		
		Fair Value	**93.29c**
Conversion Ratio	18.36	(Rich)/Cheap %	6.49%
Conversion Price	$54.47		
		Bond Floor	**88.08c**
Parity	**40.40c**		
Premium	47.60c		

MARKET OUTPERFORM (CHINA):

VNET 0% 26s

Conversion

- Bondholder may choose to convert the convertible note to 18.3574 ADS under the following four circumstances (simplified):
    - ADS price ≥ 130% conversion price
    - VNET 26s price < 98% ADS price *conversion rate
    - Tax redemption or optional redemption by the issuer
    - Corporate events (specific share issuance, fundamental change, after Aug 1, 2025)
- Per our calculation, no conversion condition has been satisfied, and VNET 26s is currently priced close to a bullet bond since current ADS price (US$22) is low compared with 130% conversion price (US$71).

MARKET OUTPERFORM (CHINA):

VNET 0% 26s

1Q21 Financials

- Revenue increased 5% q/q to US$214mm.
    - Number of cabinets increased 4% q/q. Utilization rate improved q/q to 62%.
- Reported EBITDA increased 9% q/q to US$64mm.
    - Previous guidance was US$61~64mm.
- Gross and EBITDA margin both increased q/q to 23% and 30% respectively, driven by lower SG&A relative to revenue and higher MRR.
    - SG&A / Revenue decreased q/q from 22% to 18%.
    - Monthly Recurring Revenue (MRR) per cabinet increased 2% q/q to US$1,410 (+0.1% in CNY).
- FCF remained negative, but the burn rate narrowed 78% q/q to US$75mm on less investment.
    - Investment created US$9mm inflow, compared with US$230mm outflow last quarter for acquiring a data center.
- Gross debt increased 84% q/q to US$1,532mm after issuing a US$600mm zero-coupon convertible bond in January.
- Total cash more than doubled q/q to US$1,098mm, equal to 2.8x STD (1.3x last quarter).
- Net debt increased 28% q/q to US$464mm.
- LTM gross and net leverage both increased q/q to 6.1x and 1.8x, respectively.
    - After the US$260mm share repurchase from Tuspark in April, pro forma LTM net leverage is 3.3x.

Income Statement (US$ mm)	1Q21	4Q20	1Q20	y/y	q/q
Revenue	214	204	156	37%	5%
Reported EBITDA	64	59	37	72%	9%
Gross margin	23%	22%	21%	185 bps	148 bps
Reported EBITDA margin	30%	29%	24%	615 bps	102 bps

FCF (US$ mm)	1Q21	4Q20	1Q20	y/y	q/q
Reported EBITDA	64	59	37	72%	9%
WK investment	(26)	(11)	(10)	160%	128%
Capex	(105)	(118)	(62)	69%	(10%)
Investment	9	(230)	27	(65%)	(104%)
Interest expense	(12)	(11)	(13)	(9%)	7%
Tax benefit (expense)	(6)	(6)	(3)	79%	(8%)
Equity financing/(repurchase)	-	(20)	-	-	(100%)
FCF	**(75)**	**(338)**	**(25)**	206%	(78%)

Debt (US$ mm)	1Q21	4Q20	1Q20	y/y	q/q
Gross debt	1,562	864	896	74%	81%
- STD	393	392	205	92%	0%
- LTD	1,168	471	690	69%	148%
Total cash	1,098	500	482	128%	119%
- Cash	1,050	415	404	160%	153%
- ST investment	24	44	32	(26%)	(45%)
- Restricted cash	24	41	46	(48%)	(43%)
Net debt	464	363	413	12%	28%
LQA gross leverage	6.1x	3.7x	6.0x	0.1x	2.4x
LQA net leverage	1.8x	1.5x	2.8x	(1.0x)	0.3x
Total Cash / STD	2.8x	1.3x	2.3x	0.4x	1.5x

MARKET OUTPERFORM (CHINA):

VNET 0% 26s

Guidance

- 2Q21:
    - US$230~233mm revenue, representing ~7% q/q growth.
    - US$63~66mm EBITDA, flat q/q.
    - Implied EBITDA margin is ~28.0%, compared with average 28.8% in last four quarters.
- 2021:
    - US$263~278mm EBITDA, 31% growth.
    - US$769~923mm capex, representing 39% growth.
    - Based on 2021 guidance, we estimate negative US$660mm FCF pre WK, indicating 4.2x net leverage if no equity financing is done.
- Bloomberg consensus:
    - US$276mm and US$390mm EBITDA for 2021 and 2022.

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

Yuzhou Group (1628 HK) is Chinese residential property developer focusing on Tier 1&2 cities in Yangtze River Delta and Fujian Province. In 2H20, the auditor revised scope of consolidation and delayed recognition of revenue from certain JVs, resulting in ~50% decline in annual EBITDA. But Yuzhou's balance sheet leverage, calculated by Funded Liabilities / Land Bank, remained low at 67%. WK liabilities only equal to 33% of net debt or 30% of total cash, and Total Cash / STD was high at 1.8x. The change in accounting treatment had minimal impact on Yuzhou's cash flow and its capital structure. A restatement of past financials will likely improve its y/y performance. Given Yuzhou's favorable land bank exposure and sound liquidity profile, we maintain our Market Outperform on YUZHOU 8.5%.

Description	Ranking	Amt Out (US$mm)	Ratings (M/SP/F)	Mid Price	Mid YTCnv
YUZHOU 8.5% 02/04/2023	Sr Unsecured	500	B2/-/BB+	94.70	12.31%

Pros

- Most reported land acquired in 2018 were not materially affected by price caps, which was close to ASP of new homes in other nearby projects.
- Delayed revenue recognition did not affect cash flow.
- Low balance sheet leverage.
- High exposure to Tier 1&2 cities (85%).
- High EBITDA margin.
- Small WK liabilities relative to net debt and total cash.

Cons

- Aggressive land acquisition relative to cash collection from contracted sales in last few periods.
- Risk of unconsolidated debt.

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

2020 Income Statement:

- In 2H20:
  - Gross contracted sales increased 38% y/y to US$9bn.
  - ASP increased 18% y/y to US$2,513 per sqm.
- Per our understanding, Yuzhou's auditor, E&Y Hong Kong, revised scope of consolidation in 2H20, and derecognized revenue from certain JVs for the period, resulting in negative income for 2H20. The change in accounting treatment, which is delayed revenue recognition, mostly affects income statement rather than cash flows.
- In this case, we compare 2020 income statement with 2019 which was not restated.
- Annual revenue decreased 55% to US$15bn.
- Calculated EBITDA decreased 49% to US$633mm.
- Gross margin decreased to only 5% due to the derecognition.
- LTM EBITDA was flat at 38%, which was high among peers.

Contracted Sales (US$ mm)	2020	2019	2018	y/y
Gross contracted sales	15,213	10,877	8,464	40%
y/y	40%	34%	39%	561 bps
GFA (million sqm)	6	5	4	26%
ASP (US$ per sqm)	2,428	2,188	2,396	11%

Income Statement (US$ mm)	2020	2019	2018	y/y
Revenue	1,509	3,365	3,673	(55%)
Caluclated EBITDA	633	1,243	1,406	(49%)
Gross margin	5%	26%	31%	(2,160 bps)
LTM EBITDA margin	38%	38%	-	85 bps
Income from affiliates	33	24	(8)	39%
Net income	33	574	563	(94%)
Net income margin	2%	17%	15%	(1,488 bps)

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

2H20 Land Bank

- Land bank increased 41% h/h to US$11bn despite the derecognition.
- Net WK balance doubled h/h to net US$1.5bn liability, driven by a surge in contract liabilities.
    - Yuzhou had US$5.6bn other A/R, most of which was receivables from JVs & associates.
- Total funded liabilities, including non-controlling interest, net WK balance and net debt, increased 50% h/h to US$8bn.
    - Net WK / Total Cash and Net WK / Net Debt both increased h/h to 30% and 33%, respectively.
    - Both figures were very low among peers. Yuzhou's WK liability, which we consider as priority debt, was relatively small in its capital structure.
- Funded Liabilities / Land Bank increased 67% h/h to 67%. Balance sheet was low among peers.

2H20 Land Bank Exposure

- The company reported 22 million sqm salable GFA in 2H20, which was equal to 3.5 years of gross contracted sales.
- Per our calculation, 85% of the land bank locate in Tier 1&2 cites, especially Yangtze River Delta, and the remaining 15% locate in Tier 3 cities. High exposure to Tier 1&2 is favorable.

		Not Restated	Not Restated		
Land Bank Financing (US$ mm)	2H20	1H20	2H19	y/y	h/h
Land	923	362	227	307%	155%
Projects	8,959	6,923	5,796	55%	29%
Equity investment	1,499	811	822	82%	85%
Land bank	11,381	8,096	6,845	66%	41%
				-	-
Property held for sale	3,511	3,563	3,020	16%	(1%)
Other A/R	5,623	5,065	4,803	17%	11%
Contract liabilities	(3,376)	(1,993)	(1,232)	174%	69%
A/P	(1,309)	(1,422)	(1,392)	(6%)	(8%)
Other payables and accruals	(5,977)	(5,881)	(5,137)	16%	2%
Net WK (liabilities)/assets	(1,528)	(668)	62	(2577%)	129%
				-	-
NCI	(1,431)	(1,142)	(829)	73%	25%
Net WK (liabilities)/assets	(1,528)	(668)	62	(2577%)	129%
Net debt	(4,635)	(3,264)	(3,141)	48%	42%
Funded liabilities	(7,594)	(5,073)	(3,908)	94%	50%
Net WK / Total cash	30%	11%	(1%)	3,119 bps	1,903 bps
Net WK / Net debt	33%	20%	(2%)	3,492 bps	1,250 bps
Funded Liabilities/Land bank	**67%**	**63%**	**57%**	962 bps	406 bps

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

2H20 Financials

- Gross debt increased 4% h/h to US$10bn, including US$3bn STD, US$7bn LTD and US$283mm Perps.
    - The company had US$300mm unused NDRC quota as of March.
- Total cash decreased 17% h/h to US$5bn.
- Net debt increased 42% h/h to US$5bn.
- LTM gross and net leverage both increased significantly due to the derecognition.
- Cash / STD slightly decreased h/h to 1.8x.
- The company only breached one out of three “Red Lines”. Accordingly, gross debt growth would be capped below 10% when the mechanism officially applies to Yuzhou.
    - The only “Red Line” breached was “Adj. Liabilities / Adj.Assets>70%”. Yuzhou’s result was 78%.

		Not Restated	Not Restated		
Debt (US$ mm)	2H20	1H20	2H19	y/y	h/h
Gross debt	9,733	9,369	8,195	19%	4%
- STD	2,793	3,161	2,174	28%	(12%)
- LTD	6,657	5,936	5,750	16%	12%
- Perp	283	272	272	4%	4%
Total cash	5,098	6,105	5,054	1%	(17%)
- Cash	3,488	4,965	4,050	(14%)	(30%)
- ST investments	1,204	812	739	63%	48%
- Restricted cash	406	328	266	53%	24%
Net debt	4,635	3,264	3,141	48%	42%
				-	-
LTM gross leverage	15.7x	7.4x	6.6x	9.1x	8.3x
LTM net leverage	7.5x	2.6x	2.5x	5.0x	4.9x
Gross debt / Total equity	1.9x	2.1x	2.0x	(0.1x)	(0.2x)
Net debt / Total equity	0.9x	0.7x	0.8x	0.1x	0.2x
Cash / STD	1.8x	1.9x	2.3x	(0.5x)	(0.1x)

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

Investors Call

- On June 8, 2021, Yuzhou Group Holdings ("Yuzhou") management held a fixed income investor call, expressing confidence in achieving targets this year, which indicated improvement in presales and revenue. Liquidity resources compare favorably against debt maturities in 2021: sufficient offshore cash to repay offshore off-balance debt and bond quota to refinance onshore bonds. The management targets GBA and Yangtze River Delta for land acquisition opportunities.

2021 Targets

- Sellable resources: to market CNY 180bn resources.
- Presales: CNY 110bn including CNY 40bn to be consolidated by Yuzhou.
- Revenue: CNY 12bn in 1H21 and CNY 15bn in 2H21.
- Margins: 20% gross margin.

Debt

- Yuzhou has repaid all but a US$268mm club loan obtained in Feb, and received a waiver from its creditors.
- Bonds:
    - Offshore: After redeeming two 21s, the company has no dollar bond maturing this year.
    - Onshore: CNY 3bn matures in Aug and Sept.

Debt (Cont'd)

- ST offshore off-balance sheet debt: ~US$100mm matures in June and another ~US$100mm matures at year's end.

Liquidity

- US$400mm cash offshore included: US$134mm (50% of the only club loan outstanding) restricted, US$266mm unrestricted.
- Bond quota: US$300mm offshore and CNY 4.65bn onshore. Looking for opportunities to refinance onshore bonds.

MARKET OUTPERFORM (CHINA):

YUZHOU 8.5% 23s

Peer-To-Peer Comparison

US$ mm	AGILE	CENCHI	COGARD	CHFOTN	CIFIHG	EVERRE	FTHDGR	KAISAG	KWGPRO	SHIMAO	SUNAC	THHTGP	YUZHOU	VNKRLE
Country of Risk	China	China	China	China	China	China	China	China	China	China	China	China	China	China
Period	2H20	2H20	2H20	1Q21	2H20	2H20	2H20	2H20	2H20	2H20	2H20	1Q21	2H20	1Q21
Ratings (M/SP/F)	Ba3/BB/-	B1/-/BB	-/-/BBB-	-/-/-	-/BB-/BB	B2/B/-	B3/B/-	B2/-/-	-/-/BB-	-/-/BBB-	B1/B+/BB	Cau/-/C	B2/-/BB-	Baa2/BBB/BBB+
Bond	5.125% 14/08/2022	7.25% 24/04/2023	6.5% 08/04/2024	9% 7/31/2021	6.55% 28/03/2024	10.5% 11/04/2024	7.95% 05/07/2022	9.375% 30/06/2024	7.4% 3/5/2024	6.125% 21/02/2024	7.95% 11/10/2023	8.125% 1/17/2023	8.5% 2/4/2023	4.2% 6/7/2024
Mid YTM	3.83%	10.22%	4.09%	-	4.50%	25.45%	20.92%	11.88%	5.52%	4.63%	6.41%	-	12.29%	1.54%
Contracted Sales	12,288	8,828	44,917	-	22,223	55,372	4,688	10,480	9,886	28,074	85,075	-	9,187	27,677
Contracted Sales y/y	44%	1%	17%	-	34%	20%	43%	38%	34%	23%	75%	-	38%	40%
ASP (US$ per sqm)	1,982	1,012	1,266	-	2,119	1,311	2,353	2,591	2,857	2,427	2,074	-	2,513	2,506
Land Bank Cost (US$ per sqm)	563	179	426	-	759	315	-	1,278	434	742	631	-	739	1,017
Revenue	6,909	4,479	41,099	1,227	7,214	35,585	1,851	4,950	2,405	10,471	34,102	61	(532)	9,602
Calculated EBITDA	1,535	898	9,569	(199)	1,402	11,766	326	1,331	882	2,260	7,239	5	(26)	1,376
Gross Margin	22%	18%	20%	3%	20%	23%	18%	25%	30%	28%	21%	7%	-	20%
LTM EBITDA Margin	26%	17%	22%	20%	23%	28%	26%	36%	40%	25%	21%	(25%)	-	20%
Gross Debt	17,075	4,796	50,019	31,068	16,585	109,776	7,234	18,610	11,929	23,024	46,488	14,220	9,733	42,620
Total Cash	7,984	4,493	28,132	2,585	7,894	27,691	4,301	7,852	6,830	10,489	20,322	374	5,098	30,023
Net Debt	9,091	303	21,887	28,484	8,690	82,085	2,933	10,758	5,099	12,535	26,166	13,846	4,635	12,597
Net WK Liability/(Assets)	6,499	15,670	137,177	(11,745)	13,738	111,034	807	4,758	8,672	25,927	58,259	7,093	1,528	135,438
Minority Interest (NCI)	1,918	491	12,548	4,487	(6,749)	31,182	1,501	7,107	1,591	(9,093)	7,998	831	1,431	19,797
Land Bank	26,570	17,914	191,761	33,615	35,524	270,224	7,860	28,701	24,142	64,181	113,158	28,563	11,381	235,094
LTM Gross Leverage	5.6x	3.3x	3.3x	11.0x	6.9x	5.3x	8.6x	6.4x	7.0x	4.7x	4.7x	-	15.7x	3.3x
LTM Net Leverage	3.0x	0.2x	1.5x	10.1x	3.6x	3.9x	3.5x	3.7x	3.0x	2.5x	2.6x	-	7.5x	1.0x
Gross Debt/Equity	1.8x	2.1x	1.3x	2.3x	1.6x	2.0x	1.9x	1.5x	1.4x	1.0x	1.7x	4.7x	1.9x	0.8x
Net Debt/Equity	0.9x	0.1x	0.6x	2.1x	0.8x	1.5x	0.8x	0.9x	0.6x	0.5x	1.0x	4.6x	0.9x	0.2x
Financial Guarantees / Gross Debt	59%	181%	137%	-	34%	-	27%	22%	-	-	-	-	-	-
Net WK / Total Cash	81%	349%	488%	-	174%	401%	19%	61%	127%	247%	287%	1895%	30%	451%
Net WK / Net Debt	71%	5174%	627%	-	158%	135%	28%	44%	170%	207%	223%	51%	33%	1075%
Funded Liabilities / Land Bank	**66%**	**92%**	**89%**	**63%**	**82%**	**83%**	**67%**	**79%**	**64%**	**74%**	**82%**	**77%**	**67%**	**71%**

COLOMBIA

MARKET OUTPERFORM (COLOMBIA):

GTE 6.25% 25s

Gran Tierra is a private oil and gas producer, with operations mostly focused in Colombia and, to a minor extent, in Peru. Its main productive assets are the Acordionero field, where the company has a 100% working interest, and Suroriente, where the company has a 52% working interest and acts as operator. At Dec20, the company had PDP reserves of 43mmboe and 1P reserves of 79mmboe, a slight improvement y/y despite the significantly lower future crude prices used. Since 4Q20, production has been recovering, reaching 29.6kbpd in May before the blockades that impacted Colombia. With a crude at US$70, we see a US$20 margin vs our estimated breakeven levels. Accordingly, we see a sound FCF generation that should allow net leverage to decrease to close to 2x by year-end. As we see spread to peers wide, and with local players having access the bond market at low rates, we move GTE from our High Octane List to our Top Picks with a 'Market Outperform' rating.

	Ranking	Amt Out(US$mm)	Ratings(M/SP/F)	Mid Price	Mid YTM
GTE 6.25% 2/15/2025	Sr Unsecured	300	- / B- / CCC	89.25	9.86%

PROS:

- The company is the sole operator of the vast majority of its blocks, allowing it to potentially decrease capex amidst a lower crude price environment
- Added a net 3mm boe of PDP y/y per 2020 reserves report and maintained 1P levels
- We estimate crude breakeven levels, assuming necessary capex for PUD development, coupon payments and 1Q21 cash costs, to be around US$38/boe (which would equal to Brent of around $44), below current and future curve prices
- Comfortable liquidity, with no major debt amortizations until 2025.
- Banks have recently renewed the lending facility to Nov22, with a decrease to US$200mm readily available and US$15mm subject to consent, although only US$20mm are untapped
- By May, before the blockades took effect, the company was producing 29.6kbpd, in line with its guidance level for the year
- 2021 production plan, if achieved, should generate enough CF for capex program and reduce the RCF. Targeted net leverage by year end was revised to 1.9-2.1x from 2.7-2.9x due to Brent rally

CONS:

- Small scale, mostly concentrated in the Acordionero field, where production has been unstable after the failures in the electric submersible pump from last Jun19, while farmer blockades in Suoriente, the second most important field, interrupted production for further 5-6kbpd.
- Production has constantly missed management guidance in the recent past, slumping by almost 40% in 2019
- Under a normalized production of pre-crisis levels, average life of PDP is low at 3.3 years
- 2021 production target of 28kbpd is ambitious (nearly 50% production growth). Still, we think 22kbpd is required to dilute interest expenses enough to be FCF breakeven at $45 Brent

MARKET OUTPERFORM (COLOMBIA):

GTE 6.250% 25s

The following is 2021 company program guidance

Mid ranges	Original base case	Revised base case
Production (kbpd)	29.0	29.0
US$mm		
EBITDA	210	265
CF before capex	160	215
Capex	140	140
FCF	20	>75
Net leverage	2.8	2.0
Per boe		
Brent	49	61
Sales price *	35	43
EBITDA	20	28
Interest	5	5
FCF for capex	15	23

* After royalties and transportation expenses

- We note targeted production is significantly above 2020 levels of 22kbpd, based on a considerable recovery in production at the Acordionero field
- However, 1Q21 production reached 24.4kbpd,in its earnings call management commented that in April production averaged 28.9kbpd, and the latest release that referred to the impact of the blockades over production stated a level of 29.6kbpd
- Additionally, we note the prices in the revised guidance is still significantly below current crude prices
- Under the base case, a capex level of US$140 under a 28.5kbpd production equals US$13.6/boe, above our estimated development cost per PUD of US$9/boe
- As a result, we think the capex program can be lowered to US$100mm under the low case and US$105mm under the base case
- If 28kbpd production target is met, we estimate Brent breakeven would be at US$42, assuming US$9/boe capex, or US$92mm
- Under 1Q21 production levels, we estimate the company would be FCF breakeven at US$45 Brent (which would equal to a selling price of around US$38), assuming US$9/boe capex
- As a result, current price dynamics appear favorable for the company
- However, we highlight that production has been on a constant downward trend for the past six quarters, which raises concerns on the viability of the areas
- We will welcome a continues recovery of production in the next quarters in order to reduce risks on field productivity. We note 2Q21 will be impacted by the blockades that erupted in Colombia. According to a release by Gran Tierra, the shut-ins totaled 17% of production level of 29.6kbpd

GTE 6.250% 26s MARKET OUTPERFORM (COLOMBIA)

	Geopark	SierraCol	Gran Tierra	Seplat	Tullow	Kosmos	Pampa	Medco Energi	Canacol
Bond maturity	**2027**	**2026**	**2025**	**2026**	**2025**	**2026**	**2027**	**2025**	**2025**
Bond yield	**5.1%**	**5.6%**	**9.9%**	**6.4%**	**10.5%**	**7.1%**	**9.8%**	**3.6%**	**3.4%**
Matrix	**85% oil 15% gas**	**100%**	**99% oil 1% gas**	**66% oil 34% gas**	**90% oil 10% gas**	**94% oil 6% gas**	**10% oil 90% gas**	**39% oil 61% gas**	**100% gas**
Period	**1Q21**	**1Q21**	**1Q21**	**1Q21**	**2H20**	**1Q21**	**1Q21**	**1Q21**	**1Q21**
Avg Realized Price (US$/boe)	42.8	52.2	52.1	35.0	50.5	53.8	20.1	31.7	23.1
Brent	61.3	61.3	61.3	61.3	44.3	61.3	61.3	n/a	n/a
Discount	30%	15%	15%	43%	0%	12%	n/a	n/a	n/a
Breakeven Costs (US$/boe)									
Cash Opex (Rev – EBITDA)	23.3	13.6	23.6	17.5	20.0	18.2	11.7	14.9	6.7
Development Cost of PUD [1]	4.6	15.1	8.8	8.0	20.0	28.8	6.8	8.0	5.1
Interest Costs	4.5	2.7	5.6	2.9	11.7	5.7	-	5.5	3.0
Breakeven per boe (before taxes)	**32.4**	**31.4**	**38.0**	**28.4**	**51.7**	**52.7**	**18.5**	**28.8**	**14.8**
Breakeven 2019	*29.3*	*n/a*	*44.5*	*29.5*	*44.4*	*54.6*	*24.9*	*41.0*	*n/a*
Pro forma realized price	**49.8**	**60.5**	**60.5**	**40.6**	**71.2**	**62.3**	**18.7**	**37.0**	**14.8**
Margin	**17.4**	**29.1**	**22.5**	**12.2**	**19.5**	**10.0**	**n/a**	**n/a**	**n/a**
[1] Development Cost of PUD									
PUD (mmboe)	51	18	36	Not reported	Not reported	50	74	Not reported	20
Future development costs [2]	233	272	312	Not reported	Not reported	1,423	524	Not reported	101
Development cost of PUD	4.6	15.1	8.8	8.0	20.0	28.5	6.8	8.0	5.1

[2] Based on 2020 reserves report. Seplat, Tullow and Medco PUD based on its geographical locations and production matrix compared vs closest peers

	Geopark	SierraCol	Gran Tierra	Seplat	Tullow	Kosmos	Pampa	Medco Energi	Canacol
Reserves									
PDP	59	57	43	Not Reported	Not reported	89	71	Not Reported	49
1P reserves	51	88	79	Not Reported	Not reported	139	135	Not Reported	69
2P reserves	175	116	133	499	260	Not reported	Not reported	332	112
		Pro forma							
Net debt (US$mm)	585	600	743	464	3,582	2,176	1,153	2,212	341
Net debt / PDP	**10.0**	**10.5**	**17.3**	**n/a**	**n/a**	**24.4**	**15.6**	**n/a**	**7.0**
Net debt / 1P reserves	5.4	6.8	9.4	n/a	n/a	8.1	7.7	n/a	4.9
Net debt / 2P reserves	3.3	5.2	5.6	0.9	13.8	n/a	n/a	7.1	3.0
Production									
Production 1Q21 (kbpd)	38.1	36.0	24.4	48.2	72.1	53.1	43.7	105.0	31.7
Average life of PDP (years)	**4.2**	**4.3**	**4.4**	**n/a**	**n/a**	**4.6**	**4.6**	**n/a**	**4.2**
Average life of 1P reserves	7.9	6.7	8.0	n/a	n/a	7.2	9.4	n/a	6.0

MARKET OUTPERFORM (COLOMBIA):

GTE 6.250% 25s

	Geopark	SierraCol	Gran Tierra	Seplat	Tullow	Kosmos	Pampa recourse	Medco Energi	Canacol
FCF estimations with hedges reported @ Brent of $70									
Blended price [1]	**49**	**60**	**58**	**46**	**70**	**70**	**23**	**37**	**24**
Cash Opex [2]	23	14	24	18	20	18	12	15	7
EBITDA	**26**	**46**	**34**	**29**	**59**	**52**	**11**	**22**	**17**
Interest Costs	5	3	6	3	12	6	-	6	3
EBITDA – interest	**21**	**43**	**28**	**26**	**47**	**46**	**11**	**16**	**14**
2021 capex (US$mm) [3]	120	120	117	117	265	206	188	168	63
Production 2021	42	42	28	52	63	55	44	95	30
Capex per boe	10	12	16	8	12	14	16	5	8
EBITDA – interest – capex	**11**	**33**	**12**	**18**	**35**	**32**	**(5)**	**-**	**6**
2021 Capex deficit / (surplus) vs estimated dev cost of PUD	(6)	3	(7)	-	8	15	(9)	3	(2)

[1] Assuming 1Q21 discounts to Brent and outstanding gas prices
[2] For simplification purposes, the analysis assumes similar cash costs than 1Q21
[3] Assuming mid-guidance levels. SierraCol assuming similar levels than Geopark

US$mm	Apr-Dec21	Apr-Dec21	Apr-Dec21	Apr-Dec21	FY21	Apr-Dec21	Apr-Dec21	Apr-Dec21	Apr-Dec21
Est. Free cash flow	123	300	100	246	615	487	(50)	309	48
EBITDA – capex other segments	0	0	0	0	0	0	150	15	0
Net debt at period beginning	585	600	743	464	3,582	2,176	1,153	2,212	341
Estimated net debt Dec21	**462**	**300**	**643**	**218**	**2,967**	**1,689**	**1,203**	**1,903**	**293**

MARKET OUTPERFORM (COLOMBIA):

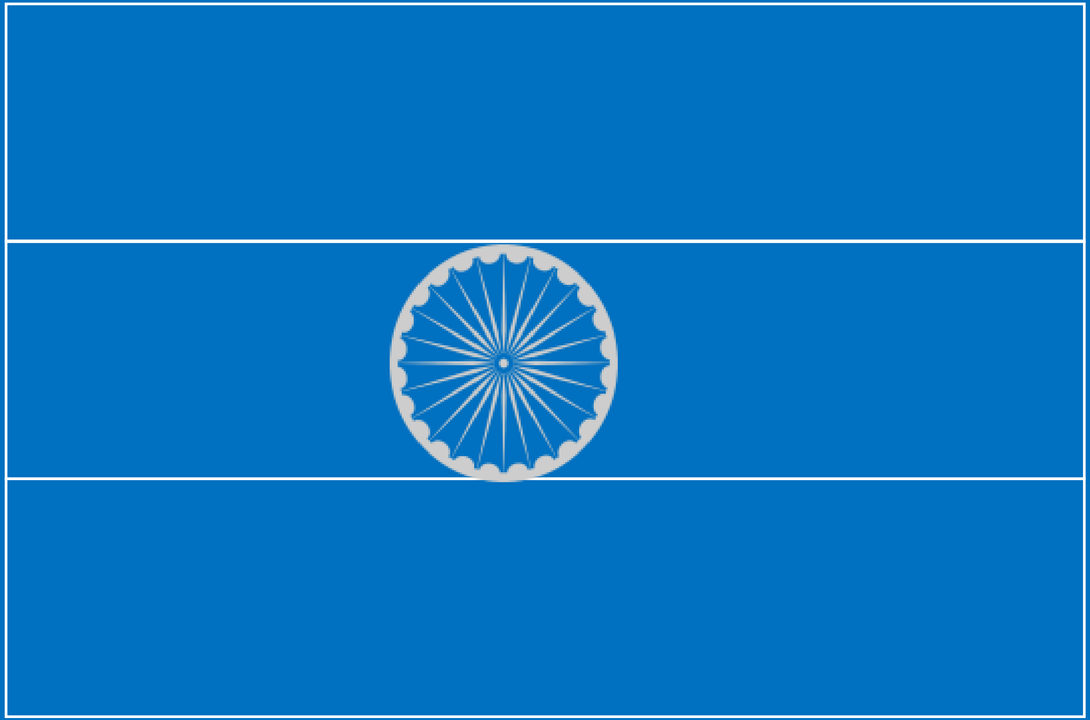
GTE 6.250% 25s

FCF AND NET LEVERAGE SENSITIVITY ANALISYS

(US$ MM)	Geopark	SierraCol	Gran Tierra	Seplat	Tullow	Kosmos	Pampa	Medco Energi	Canacol
Estimated 2021 EBITDA per boe under the following Brent prices (does not assume any hedge and assumes 1Q21 cash costs)									
40	5	20	10	5	20	22	8	13	16
50	12	29	19	11	30	32	9	16	16
55	15	33	23	14	35	37	10	18	16
60	19	37	27	17	40	42	10	19	16
65	22	42	32	20	45	47	11	21	16
70	26	46	36	22	50	52	11	22	16
Estimated 2021 FCF per boe under the following Brent prices (EBITDA – interest – Development cost of PUD) (1)									
40	(4)	2	(4)	(6)	(12)	(12)	2	0	8
50	3	11	5	0	(2)	(2)	3	3	8
55	6	15	9	3	3	3	3	4	8
60	10	19	13	6	8	8	4	6	8
65	13	23	17	9	13	13	4	7	8
70	17	28	22	12	18	18	5	9	8

(1) Assuming 2020 interest cost per boe and estimated development cost of PUD as previously calculated

Estimated net debt at 31.12.2021 under the following Brent prices (US$mm)									
40	636	574	773	543	3,852	2,362	983	2,205	272
50	555	490	709	463	3,622	2,212	971	2,101	272
55	515	448	677	422	3,507	2,136	965	2,049	272
60	475	406	645	382	3,392	2,061	959	1,997	272
65	435	364	613	342	3,277	1,986	954	1,945	272
70	395	322	581	301	3,162	1,910	948	1,893	272
Estimated net leverage at 31.12.2021									
40	11.9	2.8	9.9	7.2	8.4	9.3	2.4	4.1	2.0
50	4.2	1.7	5.0	3.0	5.2	5.7	2.2	3.3	2.0
55	3.0	1.4	3.9	2.2	4.4	4.7	2.1	3.0	2.0
60	2.2	1.1	3.1	1.6	3.7	4.0	2.1	2.7	2.0
65	1.7	0.9	2.6	1.2	3.2	3.4	2.0	2.4	2.0
70	1.3	0.7	2.1	1.0	2.7	2.9	2.0	2.2	2.0



INDIA

MARKET OUTPERFORM (INDIA):

VEDLN 7.125% 23s

Vedanta Resources Limited ('VRL') is the holding company of Vedanta Ltd ('VEDL'), an India-based natural resource trader & producer. In early 2021, VRL increased its stake VEDL from 50.14% to 55.11% and then to 65.18%. Management's continued effort to simplify the corporate structure will help VRL gain more access to cash-rich subsidiaries and reduce pro rata net leverage (4.5x). After the pandemic, VRL's EBITDA and cash flow is expected to surpass pre-pandemic levels given the commodity price rally. For the first time since March 2018, market value of VRL's stake in VEDL exceeded VRL standalone net debt. While we see improved fundamentals, VEDLN bonds look cheap compared with pre-pandemic levels. We upgrade VEDLN 7.125% 23s to 'Market Outperform'.

Description	Ranking	Amt Out (US$ mm)	Ratings (M/SP/F)	Mid PX	Mid YTM (%)
VEDLN 6.375% 7/30/2022	Sr Unsecured	1,000	Caa1/B-/-	98.94	7.43%
VEDLN 8% 4/23/2023	Sr Unsecured	400	Caa1/B-/-	95.00	11.13%
VEDLN 7.125% 5/31/2023	Sr Unsecured	500	Caa1/B-/WD	92.94	11.36%
VEDLN 13.875% 1/21/2024	Sr Unsecured	1,000	-/B-/-	109.19	8.84%
VEDLN 6.125% 8/9/2024	Sr Unsecured	1,000	Caa1/B-/-	83.94	12.55%
VEDLN 8.95% 3/11/2025	Sr Unsecured	1,200	-/B-/-	98.31	9.50%
VEDLN 9.25% 4/23/2026	Sr Unsecured	600	Caa1/B-/-	88.06	12.64%

Pros

- Management's continuous effort to increase VRL's stake in VEDL (65.18% as of April).
- Guidance for FY2022 indicates double-digit increase of Zinc and Oil production.
- Recovery of commodity markets. We estimate pro forma EBITDA under current commodity prices at US$4.4bn, exceeding pre-pandemic level.
- VRL's consolidated leverage is only 2.2x – lower than pre-pandemic level.
- At VRL Standalone level, market value of VRL's stake in VEDL exceeded net debt for the first time since March 2018.
- At SPVs' level, market value of 38% stake in VEDL held by two SPV guarantors exceeded by almost 5x the 13.875% 24s amount outstanding.
- Despite corporate governance concerns, upstreaming cash from subsidiaries to VRL is positive to VEDLN bondholders in order to access cash from the opcos.
- ~US$2bn additional new debt capacity at SPV guarantors.

Cons

- Ongoing COVID pandemic and low vaccination in India may affect local production.
- Bond prices affected by non-compliance of ESG standards and Caa1 Negative rating from Moody's.
- Concerns for poor corporate governance and potential violation of regulations in inter-company lending when upstreaming cash and resignation of independent director.

MARKET OUTPERFORM (INDIA):

VEDLN 7.125% 23s

2H21 Financials (Sept 2020 – Mar 2021)

- Revenue increased 40% h/h to US$6,847mm.
  - Zinc revenue increased 41% h/h to US$1,946mm. Sales volume increased 6% h/h.
  - Aluminum revenue increased 33% h/h to US$2,203mm. Sales volume increased 10% h/h.
- Reported EBITDA increased 64% h/h to US$2,360mm.
  - EBITDA of all sectors except power increased by high double digits h/h.
  - Based on current commodity prices and production guidance for next financial year, pro forma EBITDA for FY22 is US$4.4bn.
- Gross and EBITDA margin both increased h/h to 31% and 34% respectively – the highest in four years.

	Mar-21	*Sep-20*	*Mar-20*		
Income Statement (US$mm)	2H21	1H21	2H20	y/y	h/h
Revenue before special items	6,856	4,885	5,678	21%	40%
-zinc India	1,712	1,248	1,239	38%	37%
- zinc international	234	134	196	19%	75%
- oil & gas	608	408	883	(31%)	49%
- iron ore	408	203	267	53%	101%
- copper India & Australia	897	572	568	58%	57%
- copper Zambia	0	0	0	-	-
- aluminium	2,203	1,662	1,835	20%	33%
- power	340	385	348	(2%)	(12%)
- others	454	273	342	33%	66%
Inter-segment sales	(9)	(10)	(20)	(55%)	(10%)
Net revenue before special items	6,847	4,875	5,658	21%	40%
EBITDA reported	2,360	1,440	1,608	47%	64%
-zinc India	971	597	588	65%	63%
- zinc international	76	44	6	1167%	73%
- oil & gas	263	175	507	(48%)	50%
- iron ore	184	61	72	156%	202%
- copper India & Australia	(15)	(6)	(17)	(12%)	150%
- copper Zambia	0	0	0	-	-
- aluminium	649	397	272	139%	63%
- power	74	116	116	(36%)	(36%)
- others	158	56	64	147%	182%
Gross margin	31%	23%	22%	905 bps	757 bps
EBITDA margin	34%	29%	28%	610 bps	494 bps

MARKET OUTPERFORM (INDIA):

VEDLN 7.125% 23s

2H21 Financials (Sept 2020 – Mar 2021)

- Reported FCF was negative US$63mm, but cash burn narrowed 90% h/h on less WK investment.
    - VRL spent US$403mm in acquiring shares in VEDL.
- Gross debt decreased 7% h/h to US$16,377mm.
- Total cash decreased 14% h/h to US$5,957mm.
- Net debt decreased 2% h/h to US$10,420mm.
- On consolidated basis, LHA gross and net leverage both decreased h/h to 3.5x and 2.2x, respectively.
- On pro rata basis, LHA gross and net leverage both decreased h/h to 6.0x and 4.5x, respectively.
    - According to filings to the stock exchange, VRL held 65.18% of VEDL as of April 16.

FCF (US$mm)	2H21	1H21	2H20	y/y	h/h
EBITDA as reported	2,360	1,440	1,608	47%	64%
Working capital movements	(35)	(541)	(549)	(94%)	(94%)
Changes in non-cash items	(5)	3	5	(200%)	(267%)
Sustaining capital expenditure	(303)	(164)	(313)	(3%)	85%
Movements in capital creditors	(88)	(76)	34	(359%)	16%
Sale of PP&E	18	5	15	20%	260%
Net interest	(453)	(485)	(281)	61%	(7%)
Tax paid	(87)	(155)	(135)	(36%)	(44%)
Expansion capital expenditure	(151)	(174)	(375)	(60%)	(13%)
Dividend paid to equity shareholders	(56)	(106)	(411)	(86%)	(47%)
Dividend paid to non-controlling interests	(665)	(327)	(101)	558%	103%
Acquisition of subsidiary	(1)	(7)	0	-	(86%)
Discontinued operations of Copper Zambia	0	0	(168)	-	-
Payment for acquiring non-controlling interest	(403)	0	0		-
Other movements including F/X movements	(194)	(59)	172	(213%)	229%
Reported FCF	(63)	(646)	(499)	(87%)	(90%)

Debt (US$mm)	2H21	1H21	2H20	y/y	h/h
Gross debt	16,377	17,598	15,095	8%	(7%)
- ST borrowings	3,673	5,715	10,186	(64%)	(36%)
- LT borrowings	12,704	11,883	4,909	159%	7%
Total cash	5,957	6,948	5,090	17%	(14%)
- liquid investments	5,002	3,794	4,385	(78%)	(75%)
- cash	955	3,154	705	610%	59%
Net debt	10,420	10,650	10,005	4%	(2%)
LHA gross leverage	3.5x	6.1x	4.7x	(1.2x)	(2.6x)
LHA net leverage	2.2x	3.7x	3.1x	(0.9x)	(1.5x)

MARKET OUTPERFORM (INDIA):

VEDLN 7.125% 23s

Segment	FY22 Guidance	FY21 Production	Guidance/Production (%)
Zinc India	Mined Metal and Finished Metal: 1,025 – 1,050 Kt Silver: c. 720 tonnes COP: < $1,000/t excluding royalty	Mined Metal and Finished Metal: 972 kt Silver: c. 706 tonnes COP: < $1,000/t excluding royalty	107%
Zinc International	BMM: ~70 – 80 Kt Gamsberg: 190-210 kt COP: $1,100/t - $1,200/t	Skorpion (1) and BMM (58): 59 kt Gamsberg: 145kt	135%
Oil & Gas	Average Gross Volume: 175-185 kboepd; Opex: c. $8/boe	Gross Volume: 162 kboepd	111%
Aluminium	Alumina: 1.8 – 2.0 Mtpa Aluminium: 2.1 - 2.2 Mtpa COP*: $ 1,475 – 1,575/t	Alumina: 1.8 Mtpa Aluminium: 1.97 Mtpa	109%
Power	TSPL plant availability: >80%	-	-
Iron Ore	Karnataka (WMT): >5 Mtpa Pig Iron: 850 - 900 Ktpa Goa: To be updated on re-start of operations	Karnataka (WMT): 4.4 Mtpa Goa: 2.1 kta	-
ESL	Hot Metal – c 1.3 Mtpa	1.2 Mpta	108%
Copper - India	To be updated on re-start of operations	101 kt	-

FY22 Guidance

- Zinc India production to increase ~7%. Zinc Int'l production to increase ~35%.
- Oil & gas production to increase ~11%.
- Aluminum production to increase ~9%.

MARKET OUTPERFORM (INDIA):

VEDLN 7.125% 23s

2H21(US$mm)	Vedanta Limited Standalone	Copper Mines of Tasmania	Cairn India Holdings Limited	Zinc India (HZL)	Zinc International	Bharat Aluminium (BALCO)	Talwandi Sabo	Electrosteels Steel Limited	Others	Vedanta Ltd (VEDL)	Vedanta Resources Ltd, Standalone	Vedanta Resources Ltd (VRL)
Business	Oil & Gas, Al, Cu, Iron Ore, Power, Copper India	Copper International	Oil & Gas	Zinc India	Zinc International	Al	Power	Electrosteel				
Ownership	100%	100%	100%	65%	100%	51%	96%	96%	100%	65.18%	100%	
Consolidated												
Revenue	399	897	608	1,712	234	2,203	340		454	6,847		6,847
EBITDA	184	(15)	263	971	76	649	74		158	2,360		2,360
Gross debt	4,388		383	979	30	432	981		573	7,766	8,611	16,377
Cash & equivalents	798		191	3,044	62	155	63		137	4,450	1,196	5,646
Net debt	3,590		192	(2,064)	(32)	277	918		436	3,317	7,415	10,732
LQA gross leverage										**1.6x**		**3.5x**
LQA net leverage										**0.7x**		**2.2x**
Pro Rata												
Revenue	399	897	608	1,111	234	1,124	326	0	454	5,153		3,359
EBITDA	184	(15)	263	630	76	331	71	0	158	1,698		1,107
Gross debt	4,388	0	383	635	30	220	942	0	573	7,171	8,611	13,285
Cash & equivalents	798	0	191	1,976	62	79	60	0	137	3,303	1,196	3,349
Net debt	3,590	0	192	(1,340)	(32)	141	881	0	436	3,869	7,415	9,937
LQA gross leverage										**2.1x**		**6.0x**
LQA net leverage										**1.1x**		**4.5x**

MARKET OUTPERFORM (INDIA):

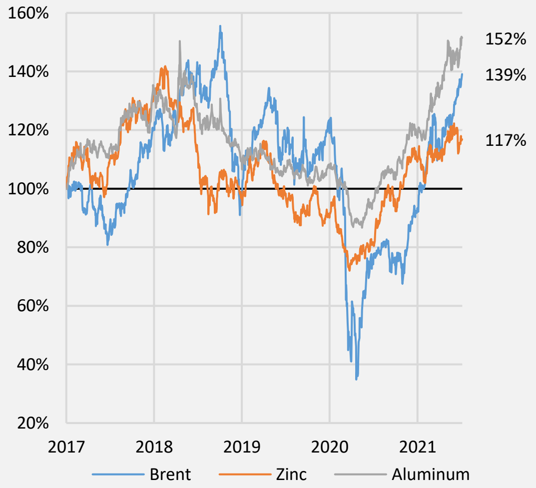
VEDLN 7.125% 23s

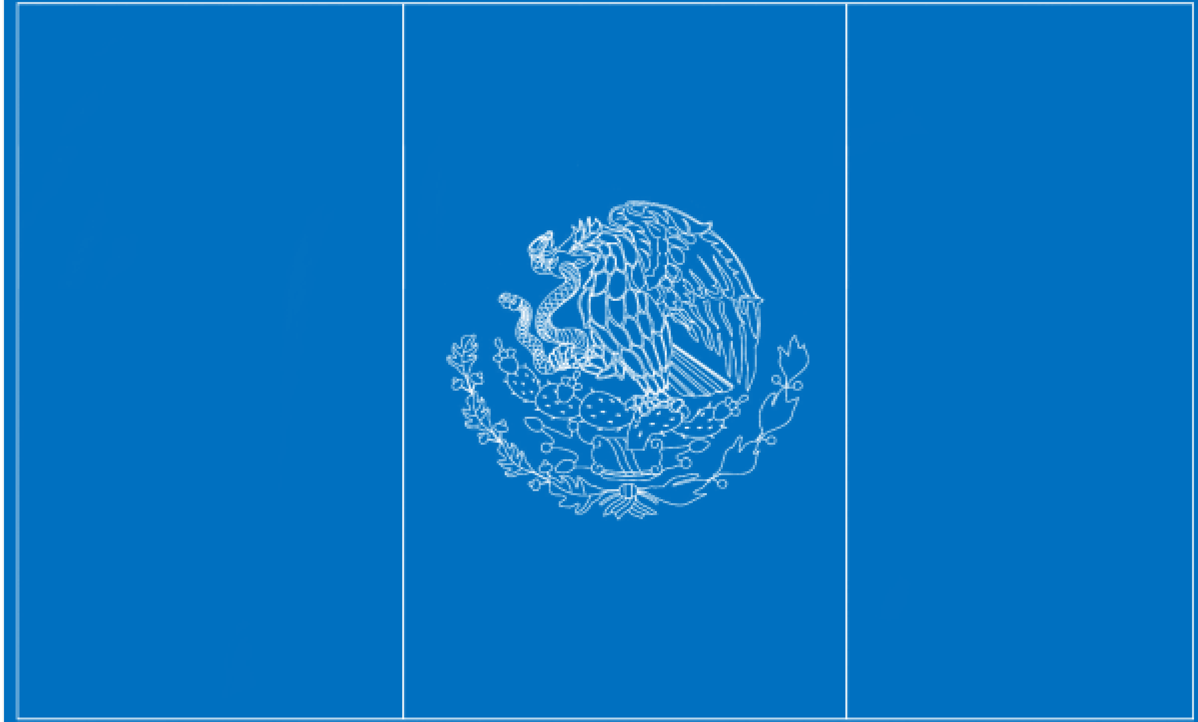
	Sep-2017	*Mar-2018*	*Sep-2018*	*Mar-2019*	*Sep-2019*	*Mar-2020*	*Sep-2020*	*Mar-2021*	*Jul-2021*
VRL Standalone (US$ mm)	1H18	2H18	1H19	2H19	1H20	2H20	1H21	2H21	Current
Net debt	6,100	5,755	6,218	6,213	6,607	7,309	9,045	7,415	7,415
VRL's ownership of VEDL	50.1%	50.1%	50.1%	50.1%	50.1%	50.1%	55.1%	55.1%	65.2%
Value of stake in VEDL	8,962	7,950	5,968	4,959	4,069	1,601	3,815	6,410	8,217
Value surplus/(deficit)	2,862	2,195	(250)	(1,254)	(2,538)	(5,708)	(5,230)	(1,005)	802
Value surplus/(deficit) %	16%	14%	(2%)	(13%)	(31%)	(179%)	(76%)	(9%)	6%
Net leverage	2.1x	2.7x	3.0x	3.2x	3.4x	3.1x	3.7x	2.2x	2.2x
7.125% 23s YTM	5.60%	6.17%	7.48%	7.80%	7.47%	44.96%	18.30%	12.67%	11.36%

Improved Credit Profile For VRL

- At VRL Standalone level, market value of VRL's stake in VEDL exceeded net debt for the first time since March 2018.
- Compared with March 2018:
  - VRL's consolidated net leverage is now lower.
  - Price of Zinc, Aluminum and Brent have recovered.
  - VRL has increased its stake in VEDL.
  - While VEDLN bonds are cheaper.
- VRL and two SPVs holding 38% of VEDL provide guarantee for 13.875% 24s. Market value of the 38% stake is ~US$4.8bn, which is enough to cover the 24s.
- We believe the mismatch is most likely driven by ratings status. Upward triggers for Moody's (Caa1 Negative) include:
  - VRL's stake in VEDL higher than 65% (satisfied).
  - Debt / EBITDA below 4.5x (satisfied).
  - EBIT / Interest above 1.5x (satisfied).
  - Cash flow from operations less dividends/debt above 10%, all on a sustained basis.
- In general, we see improvement in VRL's fundamentals and recovery of commodity prices, which is not reflected in bond pricing. We upgrade VEDLN 7.125% 23s to 'Market Outperform'.

Meanwhile, Commodity Prices Have Recovered





MEXICO

MARKET OUTPERFORM (MEXICO):

BAKIDE 7.45% 29s

Braskem-Idesa is a US$5.2 bn polyethylene ("PE") complex that started operations in 2016 and is currently Mexico's largest producer with 20% market share. In December 2020, the issuer´s natural gas supply was suspended. In March 2021, the normalized natural gas supply was restored through new agreements with Mexico´s Cenegas and Pemex. Going forward, we see run-rates stabilizing at 77% through fast-track upgrades and the new Pemex´s supply before the import terminal. Assuming PE spot prices gradually revert to the long-run avg., we see net leverage improving to 3.0x and sound FCF. Though we initially saw a complex story for a 6% mid-ytm credit, the Pemex risks materialized and BAKIDE found solutions. As such, 6% now looks attractive under the current EM bond environment. If PE prices halve next year and feedstock costs are constant, the issuer´s FCF would be sufficient to cover capex and debt service, but not enough for the project finance amortizations. Yet the contingent liquidity and DSRA at BAK would provide runway. We see room for the issuer to navigate through a more detrimental PE environment. We **upgrade BAKIDE 29s to "Market Outperform".**

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTCnv
BAKIDE	7.45%	11/15/2029	900	- / B / B+	106.35	6.22%

Pros

- Largest polyethylene (PE) producer in Mexico with 1,050 k tons per year of installed capacity and is one of the lowest cost PE producers in the world
- Ethane cracker with two high density PE plants and one low density PE plant
- Has 20% of domestic market share, with Mexico accounting for 60% of total revenue. The remaining 40% are exports to Latin America, Europe and the US
- US$1,700/t PE spot price is at multi-year highs given the strength in petrochem pricing and sound PE demand for bags, packaging and health/safety measures
- Natural hedge as revenues are either in USD or USD linked
- Since the start of operations in 2016, the issuer has generated sound FCF being used for debt amortization and deleveraging
- Despite the Pemex supply constraints, the cracker averaged 58% run-rate in 1Q21 through the fast-track project ethane imports
    - The issuer has a medium-term plan to construct an ethane import terminal to increase supply and reduce reliance on Pemex
- In our base case, we see sound FCF despite running at 77% capacity and sufficient to meet the project finance amortization schedule
    - We see net leverage at 3.0x

Cons

- Exposed to the economic recovery in the domestic market
- Operating margins are dependent on ethane and natural gas pricing, as well as the additional logistics import costs on the fast-track project
- The ethane supply contract with Pemex has been a focus point for the Mexican Govt. as Pemex was selling ethane at a discount to reference prices
    - An industry standard deliver-or-pay contract signed in 2010 when Pemex had an excess supply of ethane and offered favorable pricing
- Since 2010, Pemex´s natural gas and ethane production has decreased significantly and was supplying on avg. 70% of the agreed 66k bbls/d
    - Although no evidence of corruption has been found after several audits, negative headlines emerged as Pemex was selling ethane at a discount
- In December 2020, Mexico´s Cenegas suspended natural gas deliveries forcing negotiations to modify the original ethane supply agreement
- In March 2021, Cenegas resumed natural gas deliveries as a new ethane contract was signed, halving the supply to 30k bbls/d and eliminating penalties
- We suspect the project finance would be structurally senior to the secured bonds under a litigation scenario

MARKET OUTPERFORM (MEXICO):

BAKIDE 7.45% 29s

1Q21 Earnings:

- 1Q21 Revenue (net of BAK eliminations) was 11% lower q/q at US$196 mm, yet increasing by 13% y/y
    - PE volumes sold were 27% lower q/q at 134k tons, as the natural gas transportation services were suspended in December 2020
    - In January 2021, the plant resumed partial operations at reduced capacity substituting the natural gas for ethane
    - The normalized natural gas supply was restored in March 2021, with the avg. cracker run rate at 58% during 1Q21
    - PE prices were up 45% q/q to US$1,583/t, with the PE spread increasing by a similar magnitude q/q to US$1,403/t
- Adj. EBITDA increased by 47% q/q to US$95 mm despite the reduced run rate capacity and receiving no Pemex penalty fees
    - Q/Q EBITDA growth was due to the strong multi-year high PE spreads, partially mitigated by more expensive fast-track ethane import costs
    - As a result, the EBITDA margin expanded to 49% vs 30% last quarter
- FCF generation was US$80 mm, driven by the high EBITDA and WK contraction
- Total debt was US$2,350 mm, while cash stood at US$177 mm
    - FCF was offset by deferred tax and debt paydown in BRL terms, we note total debt is excl. the US$639 mm related-party loan from Idesa
    - As of 1Q21, additionally liquidity held at the DSRA and BAK's contingent equity commitment amounted to US$402 mm
    - Project finance maturities due 2021 are US$203 mm, US$192 mm in 2022 and US$243 mm in 2023
- Annualized gross and net leverage ratios are 6.2x and 5.7x, respectively

BAKIDE (US$ MM)	1Q21	4Q20	1Q20	q/q	y/y
Total Revenue	195	219	172	(11%)	13%
Adj. EBITDA	95	65	71	47%	34%
Adj. EBITDA margin	49%	30%	41%	-	-

BAKIDE (US$ MM)	1Q21	4Q20	1Q20	q/q	y/y
Total Debt	2,350	2,343	2,509	0%	(6%)
Cash & Equivalents	177	174	217	2%	(18%)
Net Debt	2,174	2,169	2,292	0%	(5%)
Total Debt / LQA EBITDA	6.2x	9.0x	8.8x	-2.9x	-2.6x
Net Debt / LQA EBITDA	5.7x	8.4x	8.1x	-2.7x	-2.3x

BAKIDE (US$ MM)	1Q21	4Q20	1Q20	q/q	y/y
Adj. EBITDA	95	65	71	47%	34%
Interest paid	(19)	(56)	(24)	66%	22%
Capex	(6)	(7)	(6)	13%	(4%)
Working capital	11	60	111	(82%)	(90%)
Taxes paid	(1)	(0)	(0)	-	-
FCF	**80**	**62**	**152**	30%	(47%)

MARKET OUTPERFORM (MEXICO):

BAKIDE 7.45% 29s

Base Case Assumptions:

- In 1Q21, the run rate at 58% would imply the ethane supply was 38k/d vs the required 66k/d to reach the total capacity
    - Imported ethane was 13k/d barrels through the fast-track project, placing the Pemex supply at 25k/d
    - Per our understanding, the total fast-track project capacity was expanded to 28k/d in April 2021 through new pumping equipment
        - We assume fast-track imports at 18k/d in 2Q21 and 26k/d from 3Q21 and onwards
        - Import costs at US$200/t and settling at US$160/t, added to the ethane spot price
    - We assume the Pemex ethane supply remains at 25k/d going forward and purchased at the ethane reference price
        - This would be below the new supply agreement at 30k/d and we do not assume any penalty fees
- The current US$1,700/t PE spot price to gradually revert to the 10-yr avg. at US$1,225/t over the next 5 years
    - The historical realized PE price has been at a 14% premium, we assume a 10% premium going forward
- Based on the historical reported COGS cash cost percentages:
    - We estimate 1.3 tons of ethane and 0.5 tons of natural gas are required per ton of PE
    - We assume both feedstock costs increase to their 10-yr averages at US$215/t for ethane and US$265/t for natural gas
- Given recent events, freight, other variable and fixed costs have been elevated as the issuer ran at reduced capacity and the experimental mode
    - Upon resumption of the natural gas supply, we suspect they would normalize yet we take a conservative approach for the next 2 quarters
    - Before eventually settling at the normalized US$61/t, US$67/t and US$63/t respectively after 4Q21
    - Similarly, we assume WK days for A/R, inventory and A/P settle at their normalized levels from 2022 and on
        - We note this results in a larger WK burn through 2023, vs the historical annual WK contraction
- Capex at US$30 mm per year per issuers guidance, excl. the development costs for the potential medium-term ethane import terminal

BAKIDE 7.45% 29s

Base Case:

- Run rate would stabilize at 77%, producing 811 PE tons per year before any potential upside optionality from the construction of the ethane import terminal
- In 2021, the avg. PE spot price plus sales premium would be US$1,777/t, 11% higher vs the realized price during 1Q21
  - Revenue would be US$1,238 mm, EBITDA at US$663 mm and a 53% EBITDA margin
  - FCF generation at US$444 mm, more than enough to cover the US$247 mm project finance amortization for 2021
- We highlight that EBITDA and FCF are highly sensitive to PE pricing
  - The issuer´s FCF generation remains solid under our 5-yr PE reversion, which decreases to US$1,348/t by 2025
  - FCF would be more than sufficient to cover the debt service and the current project finance amortization schedule
- Net leverage could reach 3.0x by year-end 2021, solid for a single B credit with strong FCF generation prospects
  - And an additional US$402 mm in liquidity from BAK
- Given our estimated cash build-up, we suspect the issuer could do liability management to eliminate the more restrictive project finance
  - We note this was the pre-pandemic plan that would enable the issuer to distribute dividends more freely
  - In 2022, the issuer could issue a new US$700 mm bond taking advantage of the strong short-term outlook in PE spreads
  - Proceeds would be used for amortizing most of the project finance, likely granting waivers for potential dividend outflow
  - As such, a US$300 mm dividend to BAK and Idesa could be paid out, with a potential recurrent dividend thereafter
  - Given the dividend outflows, net leverage would stay between 2.5x and 3.0x through 2025
- Net leverage including shareholder A/P to BAK and Idesa would be 6.7x by year-end 2021
- A downside scenario would be assuming PE prices halve to US$900/t in 2022 and keeping the current ethane and natural gas feedstock costs constant
  - EBITDA would be US$140 mm per year with breakeven FCF, prior to any project finance amortizations
  - We note that in the past the project finance lenders have agreed to altering the schedule giving BAKIDE room to operate
  - FCF would be sufficient to cover the debt service, but not enough for dividend outflows

MARKET OUTPERFORM (MEXICO):

BAKIDE 7.45% 29s

BAKIDE (US$ MM)	1Q21	2Q21	3Q21	4Q21	FY21	FY22	FY23	FY24	FY25
	Actual	*BCP Est.*	*BCP Est.*	*BCP Est.*	*BCP Est.*	*BCP Est.*	*BCP Est.*	*BCP Est.*	*BCP Est.*
PE spot price + premium (US$/t)	**1,597**	**1,870**	**1,837**	**1,804**	**1,777**	**1,690**	**1,575**	**1,461**	**1,348**
PE Sales (k tons)	134	169	200	200	176	811	811	811	811
Run Rate %	58%	64%	76%	76%	69%	77%	77%	77%	77%
Revenue	**195**	**315**	**368**	**361**	**1,238**	**1,371**	**1,278**	**1,185**	**1,093**
COGS	115	128	154	135	533	576	576	576	576
SG&A	20	20	20	20	78	118	118	118	118
Other Expenses, PX Penalties	7	-	-	-	7	-	-	-	-
EBITDA	**95**	**167**	**194**	**206**	**663**	**677**	**584**	**491**	**399**
Interest paid	(19)	(48)	(14)	(47)	(127)	(117)	(133)	(124)	(119)
Capex	(6)	(8)	(8)	(8)	(28)	(30)	(30)	(30)	(30)
Working capital	11	(21)	(27)	(24)	(62)	(53)	14	14	14
Taxes paid	(1)	-	-	-	(1)	-	-	-	-
FCF	**80**	**91**	**145**	**128**	**444**	**477**	**435**	**352**	**264**
Debt Raised	-	-	-	-	-	700	-	-	-
Debt Amortization	(44)	(68)	(68)	(68)	(247)	(892)	(243)	(112)	-
Dividends Paid	-	-	-	-	-	(300)	(200)	(200)	(200)
Final Cash	**177**	**200**	**277**	**337**	**177**	**322**	**314**	**353**	**417**
Bond	900	900	900	900	900	1,600	1,600	1,600	1,600
Project Finance	1,450	1,383	1,315	1,247	1,247	355	112	-	-
Total Debt	**2,350**	**2,283**	**2,215**	**2,147**	**2,147**	**1,955**	**1,712**	**1,600**	**1,600**
A/P to BAK	1,811	1,811	1,811	1,811	1,811	1,586	1,436	1,286	1,136
A/P to IDESA	639	639	639	639	639	564	514	464	414
Total Payables	**4,800**	**4,733**	**4,665**	**4,597**	**4,597**	**4,105**	**3,662**	**3,350**	**3,150**
Gross Leverage	**6.2x**	**3.4x**	**2.9x**	**2.6x**	**3.2x**	**2.9x**	**2.9x**	**3.3x**	**4.0x**
Net Leverage	**5.7x**	**3.1x**	**2.5x**	**2.2x**	**3.0x**	**2.4x**	**2.4x**	**2.5x**	**3.0x**
Net Leverage (incl. Payables)	**12.1x**	**6.8x**	**5.7x**	**5.2x**	**6.7x**	**5.6x**	**5.7x**	**6.1x**	**6.8x**

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

Mexarrend is one of Mexico's largest independent leasing companies with a core focus on SMEs. Similar to Unifin, Mexarrend is well positioned to take advantage of the large underserved SME market. Despite the economic slowdown in Mexico pre-covid, Mexarrend had managed to increase its portfolio through stable cash deployment after the 2024 bond issuance. Management´s conservative approach to origination and focus on collections resulted in only 1% of the portfolio requesting additional relief, as well as collections for the following three quarters through 1Q21 being above originations. We continue to see sound fundamentals, with net debt to net loans at 85% (incl. hedges), fully hedged USD debt, low secured debt and healthy cash position vs short-term debt. Negative headlines in the sector triggered a sell-off, which we see as a buying opportunity. The issuer has no accrued interest on the balance sheet, its fully funded and SME lending is a very different business than consumer lending. The latter having a negative Govt. focus. We **reaffirm DOCUFO 24s as "Market Outperform" in our BCP Top Picks.**

Description	Coupon	Maturity	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTCnv
DOCUFO	9.25%	10/11/2022	31	-/B/B+	92.50	16.01%
DOCUFO	10.25%	7/24/2024	300	-/B/B+	95.25	12.15%

Pros

- One of the largest independent SME leasing companies in Mexico by portfolio size
- As of 1Q21, leasing loans were 81% of the portfolio and leased real estate 12%
- Industrial, services and healthcare are 36%, 40% and 10% of the loan portfolio
- Low exposure to hard hit sectors such as retail, auto, tourism and energy, as only 1% of the portfolio requested additional relief after the initial forbearance
    - Furthermore, there is no accrued interest recorded on the balance sheet
- Secured debt is under 10% of gross debt and USD debt is fully hedged
- Prudent liquidity management, essentially halting origination in 2Q and cautious origination since. Effectively maintaining portfolio collections above originations
- Provisioning and charge-offs have remained below 1% throughout the pandemic
- Per our estimates, we saw a very manageable US$45 mm financing gap
    - Fully covered by the US$45 mm DFC loan raised in 4Q20
    - US$150 mm warehousing revolver line raised in 1Q21
    - US$10 mm equity injection from PE shareholders

Cons

- Though the halt in origination was a welcome development, the issuer offered the forbearance to all its customers. 45% of portfolio accepted in 2Q20
    - Though only 1% of the portfolio requested additional relief, it appears the amortization schedules were modified by extending durations
- Soft economic activity in Mexico pre-covid, in part from Govt. underinvesting
- Slower macroeconomic recovery post-covid as Mexico has not had any stimulus
- Exposure to macroeconomic factors such as NAFTA that can affect SME's
- Target SMEs are relatively smaller with lower avg. ticket sizes vs other leasing peers, which could eventually be more impacted by covid-19
- Concentrated portfolio with 70% located in Mexico City and the State of Mexico
- Historically, the issuer's average cost of funding has been above peers
- High consolidated NPL ratio of 6.5% vs the sector
    - However, NPLs are in line with leasing portfolio NPLs at peers

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

No Accrued Interest on the Balance Sheet:

- Based on the latest audited financials
- The leasing loan portfolio is reported on DOCUFO´s balance sheet as A/R
  - Net of accrued interest
- The real estate portfolio is reported at cost within PP&E and investment properties
- **As such, the 4Q20 loan portfolio at MXN$8.4 bn does not have any accrued interest**
  - Comparing very favorably vs larger peers such as UNIFIN and CREAL
  - Wroth mentioning the low accrued interest at FINDEP as well
- DOCUFO provisioning has consistently remained below 1% during the pandemic
  - As well as having no charge-offs
  - Comparing very favorably vs the sector
- NPLs are 6.5% as DOCUFO is almost all leasing
  - Leasing NPLs at UNIFIN are 5.9%
  - Leasing NPLs at CREAL are 12%

(LC MM)	DOCUFO	UNIFIN	CREDVA	FINDEP	CREAL	ALPHSA (1)
	FY20	FY20	FY20	FY19	FY20	FY18
Gross Portfolio	**8,334**	**65,125**	**1,773,230**	**8,785**	**25,673**	**7,700**
Accrued Interest	(1,541)	(18,570)	(117,444)	(266)	(21,837)	(1,899)
Reserves	(298)	(2,537)	(266,972)	(578)	(2,612)	(340)
Loan Portfolio, Net	**6,495**	**44,018**	**1,388,814**	**7,941**	**1,225**	**5,461**
PP&E	643	6,414	-	-	3,512	188
Investment Properties	1,278	-	-	-	-	-
Total Portfolio, Net	**8,415**	**50,432**	**1,388,814**	**7,941**	**4,737**	**5,649**
Loan Portfolio on B/S	**8,415**	**62,588**	**1,506,168**	**8,207**	**49,313**	**8,827**
Acrrued Interest on B/S	**0%**	**(30%)**	**(8%)**	**(3%)**	**(44%)**	**(22%)**
	1Q21	**1Q21**	**4Q20**	**1Q21**	**1Q21**	**3Q19**
Net Debt / Net Total Loans	**90%**	**110%**	**116%**	**71%**	**106%**	**206%**
Net Debt (incl. Hedges) / Net Loans	**85%**	**104%**	**100%**	**66%**	**102%**	**155%**
NPL %	6.5%	5.2%	16.6%	4.4%	3.7%	4.3%
LQA Provision %	0.3%	1.4%	6.1%	10.8%	3.6%	14.8%
LQA Charge-offs %	0.0%	(0.2%)	1.9%	16.3%	0.9%	15.5%

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

1Q21 Actual vs our 1Q21 Estimates:

- 1Q21 net portfolio was US$424 mm, 20% higher than our estimated US$354 mm
- We estimate 1Q21 portfolio FCF burn was US$18 mm in 1Q21 and in line with our base case estimates
  - The issuer guided at US$20 mm in origination, remaining well below pre-pandemic levels
  - Cash shortfall would slightly decrease the total collections to US$25 mm
- Gross debt would have increased by US$20 mm q/q under neutral FX
- As such, we see the total FCF burn was US$17 mm during the quarter
  - We see US$19 mm in WK expansion, mainly from lower A/P and incl. the US$10 mm equity contribution by shareholders
- Net debt was 6% higher than our estimates at US$382 mm, increasing by US$17 mm sequentially
- The net debt (incl. hedges) to loans stands at 85%

Conclusions:

- Both portfolio collections and origination have been lower than our estimates
  - Only 1% of portfolio remains under forbearance
  - We suspect amortization schedules were extended, increasing duration
- Our preferred trend remains as collections continue to be above originations
- FCF has been in line with our estimates and outperforming in certain quarters
- Our estimated US$45 mm funding gap is now more than fully covered
  - Raised over US$205 mm in liquidity through warehousing revolving credit loans and shareholder contributions
- Strong liquidity and manageable maturity schedule
- Secured debt is only around 10% of gross debt

DOCUFO (US$ MM)	1Q21 BCP Est.	1Q21 Actual	4Q20 Actual	3Q20 Actual
Net Loan Portfolio	**354**	**424**	**423**	**371**
Interest Income	17	19	20	16
Implied Portfolio Amortization	34	6	38	24
Total Cash Collection	**51**	**25**	**58**	**40**
Portfolio Origination	(47)	(20)	(22)	(20)
Admin Expenses	(2)	(3)	(3)	(2)
Interest Expense	(18)	(20)	(5)	(17)
Est. Portfolio FCF	**(17)**	**(18)**	**28**	**1**
Total Debt	380	416	407	408
Final Cash	21	35	42	45
Net Debt	**359**	**382**	**365**	**363**
Net Debt / Net Loans	**102%**	**90%**	**86%**	**98%**
Net Debt (incl. hedges) / Net Loans	**92%**	**85%**	**85%**	**89%**
Est. Portfolio FCF		(18)	28	1
Debt (neutral FX)		20	(42)	(13)
WK (incl. equity inflow)		(19)	11	(8)
Est. Total FCF		**(17)**	**(2)**	**(21)**
Q/Q Net Debt Change		**17**	**2**	**21**

RUSSIA

MARKET OUTPERFORM (RUSSIA):

CRBKMO 8.875% PERP

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid-Price	Mid YTCnv
CRBKMO 8.875% Perp	$540/ $700	Caa2u/-/B-	101.63	7.60%

Founded in 1992, **Credit Bank of Moscow (Ba3/BB-/BB)** is Russia's second largest private bank and 7th largest overall by asset size. Since its inception, the bank was operating only in Moscow and the Moscow region. It changed, in 2018 when the bank acquired a regional bank (Sovetsky). MICEX-listed with a market cap of ~US$3 bn. We appreciate the bank's ability to maintain its asset quality as well as continued capital support by the shareholder (50% of the recent SPO). Capitalization remains solid and well above the 5.125% trigger level of AT1. In our view, it compares favorably to local peers on a spread to sovereign basis, hence, we reiterate our "Market Outperform" for the CRBKMO Perp

PROS:

- Shareholders – Mr. Roman Avdeev (69.8% via Concern Rossium) with a net worth of over US$1 billion, according to Forbes; and EBRD (3.6%)
- The MICEX-listed (since June 2015) with a market cap of ~US$3 bn with a 20% free-float
- Successful in secondary public offerings (SPOs) in 2017, 2019 and, the most recent one, in May 2021: 3,600,000,000 newly-issued shares (US$0.087/share, or US$313.2 mm), half of which was bought by Rossium
- Russia's second largest private and 7th largest overall by asset size with presence in 22 regions since mid-2018 (Sovetsky Bank)
- Systemically important bank (SIB) since Sept 2017 by the Central Bank of Russia (CBR) definition
- Improved capitalization with CET1 (under the CBR) at 9% and solid Total CAR (under Basel) at 19.5%; the trigger for AT1 write-off at 5.125%
- Historically, high asset quality with NPLs in low single-digits – the highest NPL of 5.4% in 1Q16

CONS:

- Rapid net loan book growth in 2020 (+28%) and 1Q21 (+6%) resulted in a slightly deteriorated CAR ratios (under the CBR and Basel III)
- Capital raise via SPOs (2017, 2019 & 2021) – it is unusual for a bank to conduct SPOs if it is not experiencing a rapid expansion
- Loan portfolio – dominated by corporate loans (87.1% of the total loan portfolio) with high concentration of loans for O&G industry
- Lowest NIM of 2.2% among the top Russian private banks' peers
- Sizable securities portfolio – 40% of the bank's net loan book
- Super conservative approach to retail loans (12.9% of the total loan book): focus on mortgage loans (29% of the book); majority of retail customers (70%) are repeat and payroll
- Expansion – after operating for years just in two regions; the bank embarked on an inorganic expansion acquiring other banks: Sovetsky (2018), Rusnar and Vesta (2020) and plans to continue, if an opportunity presents itself

MARKET OUTPERFORM (RUSSIA):

CRBKMO 8.875% PERP

Credit Bank of Moscow, RUB MM	1Q21	1Q20	4Q20	y/y	q/q
Total Assets	3,142,364	2,780,785	2,916,465	13%	8%
Cash and equivalents	953,429	1,048,298	683,283	-9%	40%
Securities Portfolio	435,236	413,239	402,181	5%	8%
Gross Loans	1,122,849	912,574	1,059,139	23%	6%
Net Loans	1,071,251	863,653	1,009,165	24%	6%
Deposits	1,779,532	1,399,260	1,737,515	27%	2%
Equity	233,426	212,606	234,496	10%	0%
Net Interest Income	16,070	12,659	16,707	27%	-4%
Net F&C Income	3,069	2,655	7,806	16%	-61%
Operating Income	16,627	11,515	39,786	44%	-58%
Provision Charge	1,143	(7,524)	(3,064)	n/a	n/a
Operating Expenses	(5,768)	(4,664)	(5,619)	24%	3%
Net (loss) / Profit	8,276	5,152	12,907	61%	-36%
Ratios					
NPL	3.1%	3.3%	3.1%	(0.2pp)	(0.0pp)
Cost of Risk (CoR)	0.4%	3.3%	1.8%	(2.9pp)	(1.4pp)
Basel III					
Core Tier I	11.7%	13.7%	12.3%	(2pp)	(0.6pp)
Tier I CAR	14.2%	13.7%	15.0%	0.5pp	(0.8pp)
Total CAR	19.5%	20.5%	21.3%	(1.0pp)	(1.8pp)
CBR					
Core (N1.1) - CET1, min 4.5%	9.0%	9.2%	8.9%	(0.2pp)	0.1pp
Tier I (N1.2) - Main, min 6.0%	11.4%	11.7%	11.5%	(0.3pp)	0.1pp
Total CAR (N1.0), min 8.0%	17.1%	18.2%	18.7%	(1.1pp)	(1.6pp)

1Q21 IFRS Results:

- Assets – RUB 3.14 trillion (+13% y/y and +8% q/q); in USD-terms, assets were at US$41.5 billion (+17% y/y and +5% q/q) as RUB gained 2% of its value during 1Q21
- Gross Loan Portfolio – RUB 1.12 trillion (+23% y/y and +6% q/q)
- Corp (87.1% of the total loan book) – up 5.6% driven by new originations prompted by rebounding business activity
- Retail (12.9% of the total loan book) – up 8.7% on high demand for consumer loans, and continued growth of mortgage lending (relatively low mortgage rates and state support)
- Securities Portfolio – RUB 435 billion (+5% y/y and +8% q/q) – mostly Russian Government bonds (Federal Bonds (OFZ))
- NPLs – maintained q/q at 3.1% (0.0pp q/q)
- CoR – improved to 0.4% (-1.4pp q/q)
- 1Q21 interest collected vs accrued was at 91.1%; whilst LTM interest income cash collection was at 102.9%
- Deposits - RUB 1.78 trillion (+27% y/y and +2% q/q) and the Net loan/ Deposits ratio was at 60.2% (-2.1pp q/q)
- Net Profit – RUB 8.3 billion (-36% q/q) – declined sequentially due to lower net interest income (-4% q/q) and F&C income (-61% q/q), despite provision reversal

MARKET OUTPERFORM (RUSSIA):

CRBKMO 8.875% PERP

Credit Bank of Moscow vs Peers	CRBKMO	ALFARU	SOVCOM	AKBHC	HCFBRU
	1Q21	2H20	1Q21	1Q21	2H20
Ratings	Ba3/BB-/BB	Ba1/BB+/BBB-	Ba1/BB/BB+	Ba3/ - /BB	- / - /BB-
Position	7	5	9	16	34
Perp Bond Call	2022	2022	2025	2022	2025
Perp Bond Coupon	8.875%	8.0%	7.75%	9.25%	8.8%
Perp Bond Yield	7.87%	7.26%	7.09%	8.13%	8.13%
Spread to Sovereign	733	673	656	759	744
Gross Loans	14,843	42,714	10,967	6,603	3,041
NPLs (%)	3.1%	2.7%	2.2%	9.7%	4.3%
Deposits	23,523	43,708	14,621	8,345	2,432
Net Loans to Deposits	60.2%	94.4%	72%	68.3%	118%
NIM	2.2%	4.2%	6.5%	15.8%	13.5%
ROAA	1.05%	2.5%	2.5%	6.5%	2.7%
ROAE	17.3%	16.0%	20.9%	43.7%	10.2%
Total CAR	19.5%	17.8%	14.9%	18%	30.2%
CET 1	9.0%	10.1%	10.1%	10%	12.5%
Interest Collected / Interest Accrued	102.9%	98.3%	99.5% (*)	101.5%	106.0%

(*) annual number

Yields per Bloomberg as of June 29, 2021

1Q21 IFRS Results (continued):

- NIM edged down slightly to 2.2% (-0.1pp q/q)
- Equity – RUB 233 billion (+10% y/y and +0% q/q)
- Capitalization – deteriorated minimally under both Basel III and the CBR:
- Basel III: Core Tier I CAR at 11.7% (-0.6pp q/q), Tier I CAR at 14.2% (-0.8pp q/q) and Total CAR at 19.5% (-1.8pp q/q)
- CBR: Core CAR (CET1) to 9% (+0.1pp q/q), Tier I at 11.4% (-0.1pp q/q) and Total CAR at 17.1% (-1.6pp q/q)
- Recent Developments – in May 2021, the bank completed an SPO raising RUB 22.7 billion

UKRAINE

MARKET OUTPERFORM (UKRAINE):

INTHOL 8.375% 26s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
INTHOL 8.375% 05/13/2026	$300	- / B / B	100.25	8.29%

Interpipe (- / B/ B) is a global vertically-integrated producer of pipes and railway products located in the Dnipro region of Ukraine with ~11,000 employees. The company is under control of Mr. Viktor Pinchuk & his family. Interpipe is a Top-10 seamless pipe exporter globally and the third largest manufacturer of solid-rolled railway wheels in the world

We initiate our 'Market Outperform' on the INTHOL 26s as. In our view, this bond is more tradable due to its size and the prices are being supported by the company's geographically diversified revenue stream as well as a manageable leverage (~1.8x – 2.1x), even after the new debt issuance. Trending up oil price should also be a supportive factor for the company's main business, in our opinion, while generous dividends remain a concern

PROS:

- Majority Owner – a Ukrainian businessman Mr. Viktor Pinchuk & his family (39.9%) with a net worth of ~US$2.5 billion, according to Forbes
- Vertically-integrated producer of steel pipes and railway products with a 2% market of seamless pipes, excl. China (with China >1%) and a 10% of global market of railway wheels
- Sales Diversification – ~1/3 of revenue comes from Europe with the rest split between MENA (21%), Ukraine (19%), Americas (12%) & CIS (13%)
- Notably improved information disclosure and investor relations
- Solid fundamentals following the recent 2019 restructuring and a swift repayment of the INTHOL 10.25% 24s – a manageable net leverage of 2.1x (pro-forma for new issuance and dividends) as well as ample cash vs STD
- The trending up oil prices, which, usually, indicate higher capex spending by the oil producers and, as a result, a better business for the pipe producers.

CONS:

- Sizable Capex - The company plans to spend US$207 mm on new investment projects in the next five years, plus US$25 mm/year for maintenance
- Generous dividend – US$230 mm in dividends in 2021, following which , we estimate net leverage at 2.1x
- Recurring restructuring history – three in the past ten years
- Railway products embargo – the imposition of an embargo on the import of Ukrainian railway products by Russia in early Feb 2021 affected the company's EBITDA
- Scrap – is the largest component of cost structure (60%), of which scrap is the largest (69%): growing scrap prices (domestic and international) may negatively impact the company's profitability

MARKET OUTPERFORM (UKRAINE):

INTHOL 8.375% 26s

Interpipe, USD MM	1Q21	1Q20	4Q20	y/y	q/q
Revenue	201	251	205	-20%	-2%
EBITDA	40	86	57	-53%	-30%
Interest	(1)	(2)	(5)	-71%	-88%
Capex	(17)	(11)	(16)	58%	6%
Taxes Paid	(1)	(8)	0	-88%	-902%
Dividend	(40)	0	0	n/a	n/a
Redemption of INTHOL 24s	(7)	0	0	n/a	n/a
FCF (pre-working capital)	(25)	65	36	n/a	n/a
Working Capital, net change	(7)	(67)	24	-90%	n/a
FCF (post-working capital)	(32)	(2)	60	1450%	n/a
EBITDA margin	19.9%	34.3%	27.8%	(14.4pp)	(7.9pp)
Shareholder's Equity	467	410	520	14%	-10%
Short Term Debt	1	6	1	-85%	4%
Long Term Debt	159	342	165	-54%	-4%
Total Debt	160	348	166	-54%	-4%
Cash	54	133	97	-60%	-44%
Net Debt	106	214	69	-51%	53%
Leverage LQA	1.0x	1.0x	0.7x	-1%	37%
Net Leverage LQA	0.7x	0.6x	0.3x	6%	118%
FX (UAH/USD)	27.85	27.59	28.42	1%	-2%

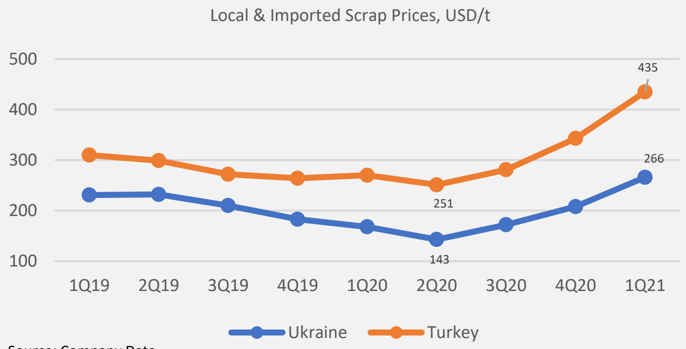
Operational Results, tonnes	1Q21	1Q20	4Q20	y/y	q/q
Pipes	107,000	114,000	112,000	-6%	-4%
Railway products	40,000	55,000	45,000	-27%	-11%
Steel	193,000	222,000	176,000	-13%	10%

1Q21 Financial Results:

- Revenue – US$201 mm (-20% y/y and -2% q/q) – decreased minimally q/q due to lower pipe (-4% q/q) and railways products (-11% q/q) sales; steel production increased (+10% q/q) taking advantage of strong steel price environment
  - ✓ Management expects production of railway products to remain at 15,000 tons per month in 2021 and into early 2022
- EBITDA – US$40 mm (-53% y/y and -30% q/q) –declined notably sequentially due to:
  - ✓ higher scrap prices in Ukraine (+58% y/y and +28% q/q to US$266/ton)
  - ✓ imposition of an embargo on the import of Ukrainian railways railway products by Russia in early Feb 2021
  - ✓ High steel prices resulted in the steel segment becoming the main contributor to EBITDA (US$35 mm)
  - ✓ Despite some recovery in pipe segment, its standalone EBITDA remained negative (due to appreciating cost base); however, on a pass-through basis (after re-allocation of EBITDA from the steel segment) the pipe segment EBITDA turned positive
- EBITDA margin – contracted to 19.9% (-14.4pp y/y and -7.9pp q/q)
- FCF Negative (pre- and post-working capital) due to lower quarterly EBITDA (-30% q/q) and a US$40 mm dividend payment; the company also invested US$7 mm into working capital

MARKET OUTPERFORM (UKRAINE):

INTHOL 8.375% 26s



Source: Company Data

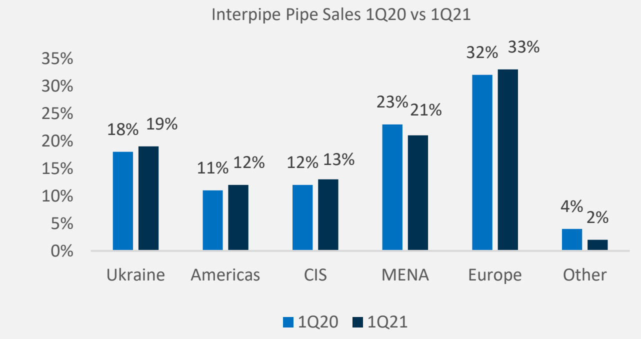
- The company additionally recognized certain contingent liabilities on its balance sheet: US$67 mm worth of performance sharing fees and securities
- Net leverage (LQA) – edged up to 0.7x vs. 0.3x at the end of 2020

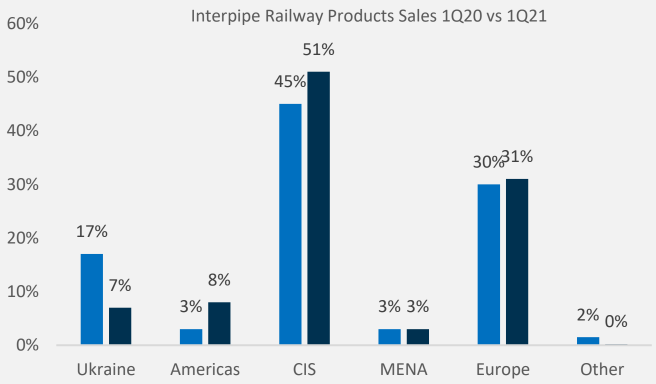
1Q21 Financial Results (continued):

- Capex – US$17 mm (+58% y/y and +6% q/q) – increased sequentially due to the launch of the new pipe heat treatment project at Niko Tube (~US$7 mm incurred withing the first three months of 2021) with other projects being:
  - ✓ NTRP inhouse wheel-set assembling project (US$1.6 mm) and purchase of hydraulic press line for pipes (US$1.2 mm)
  - ✓ According to management, the company plans to spend US$207 mm on new investment projects in the next five years, plus an annual maintenance capex of ~US$25 mm
  - ✓ Capex is expected to be similar at ~US$85 mm (in both 2021 and 2022): US$60 mm for new investment projects and US$25 mm for maintenance
- Liquidity – US$54 mm (-44% q/q) vs. US$1 mm in short-term debt
  - ✓ In Jan 2021, the company repaid the remaining US$6.5 mm of its INTHOL 10.25% 24s
  - ✓ On May 13, 2021, the company successfully placed its new US$300 mm Eurobond: INTHOL 8.375% 26s
  - ✓ The company plans to maintain US$80 mm in cash at all times
- Debt – at the end of 1Q21, gross debt was at US$160 mm (-4% q/q) following the final US$6.5 mm payment for the company's INTHOL 10.25% 24s Eurobonds in Jan 2021

MARKET OUTPERFORM (UKRAINE):

INTHOL 8.375% 26s

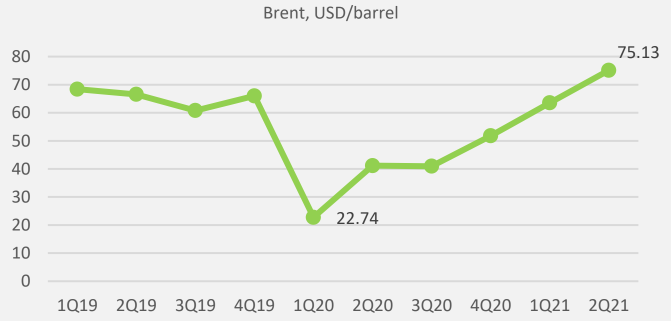




Closing Thoughts:

- The company's geographically diversified revenue stream is well position to take advantage of the trending up oil prices, which, usually, indicate higher capex spending by the oil producers and, as a result, a better business for the pipe producers. This should help to offset a negative impact from the Feb 2021 Russian embargo on Ukrainian railway products

- Generous dividend: US$230 mm dividend in 2021 – remain a concern for us: US$40 mm was paid in March 2021, US$150 mm (special dividend) was paid in May 2021 (following the issuance of the INTHOL 26s and US$40 mm will be paid at some point during the remainder of this year. Following the dividend payment, we estimate net leverage at 2.1x (vs. a very low level of 0.7x at the end of 1Q21)



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"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

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