ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 2Q'19

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Overview: Socialism 101– Dr. Walter Molano, Ph.D.
EM Corporate Highlights – Corporate Research
Top Picks for 2Q19 – Corporate Research

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OUTPERFORM
UNDERPERFORM
SWAP

OVERVIEW: SOCIALISM 101

The rise of Alexandria Ocasio-Cortez, and the introduction of her controversial New Green Deal, has convulsed both sides of the political aisle. She has been attacked with slurs of socialist and communist, words that carry enormous weight in American politics. The problem is that most people don't even know what they mean or how they started. Like children in a school yard hurling curse words for the first time, all they know is that they are bad. Yet, how did they start?

Capitalism may seem as old as time, but it is a form of economic organization that started less than 300 years ago with the advent of the Industrial Revolution. Prior to that, there were only two factors of production, land and labor. Countries that wanted to increase their output needed to invade another territory to get more land and workers. This was why countries were constantly invading each other, and why the establishment of distant empires was so in vogue. However, the practical application of the scientific research that flourished during the Enlightenment led to the invention of machines, such as the steam engine, which could scale up the output of labor. These machines came to be known as capital. Textiles were one of the first sectors to benefit, where a worker on a spinning loom could produce the output of multiple individuals. As a result, a new factor of production was introduced, which completely revolutionized economic organization. As technology led to the creation of additional machines across more sectors, it led to the emergence of a whole new class of individuals, capitalists, who disrupted the social order across Europe. The first scholar to identify the new form of organization was Scottish doctor Adam Smith, who wrote The Wealth of Nations in 1776. It was no coincidence that it was written at the same time as the American Revolution. In reality, the United States was a creature of the Industrial Revolution, when the colonists realized that their fledgling industries could not progress under the shackles of British mercantilism.

Capitalism was welcomed as a way to expand output and diffuse wealth by breaking the old social order. Landed aristocracy was replaced by meritocracy. It led to the rise of finance, given that money was important in accumulating physical capital. The problem occurred when there was much more output than demand. At that point, the losses incurred by the owners of the operations forced them to cut production and fire workers. This process of adjustment was prolonged because the excess inventory needed to be eliminated and relative prices, principally wages, needed to decline in order for the operation to become profitable again. The problem, as Argentina is currently experiencing, is that wages are sticky on the way down. Workers are loath to accept lower wages, and the adjustment period tends to be long. With people out of work and hungry, social and political unrest exploded into the Revolution of 1848 and the Paris Commune of 1871. This was when scholars began thinking about ways to fix the capitalist system. The new theories became known as neoclassical, which meant a variation of the classical concepts. Karl Marx was the first neoclassical economist. Building on the Utopian Movement that had gained ground earlier in the 19th century, Marx argued that the problem with capitalism was that the means of production (capital) were owned by individuals. Instead, he advocated that they should be owned by the state, which is not motivated by profitability, and where it is accountable to the body politic. His concepts eventually evolved into two different directions. The first one was the hard core communists, which used Marxism as a justification to seize all the means of production and put it under control of a narrow group of people, usually a political party, such as Russia, China, North Korea and Cuba. The objective here was not a search for a better form of economic organization, instead it was the concentration of power; and it ended in disaster. The second direction was European Socialism, whereby natural monopolies, such as telecommunications, electricity and energy, came under the hands of a democratic state. There were plenty of instances of mismanagement and abuse, but nothing to the extent of the communist states. Even the United States, whose birth coincided with the rise of capitalism, used heavy regulation that bordered on state ownership, to tame natural monopolies. The point here is that socialism/communism were responses that were created to attend to some of the darker aspects of the capitalist model. Today, we are witnessing another technological revolution that is disrupting the organization of economic activity. Large swaths of the society are being marginalized, creating social and political tensions. It is only natural that people are going to look for ways to address the situation. Therefore, pundits need to think before they hurl invectives they don't understand.

Dr. Walter Molano, Ph.D.

April 1, 2019

EM HIGHLIGHTS 1Q'19

Argentina

- 2018 ended with a primary deficit of 2.3% and a total deficit of 4.9%, with a 86% debt to GDP
- Inflation expectations increased to 36% per the monthly survey done by the Central Bank, while inflation levels peaked to 51% y/y in Feb19
- After bottoming at 49% in the year, interest rates climbed to current 68% following increased inflation
- Fifteen provinces advanced in the election process, which will be then held before national elections in October, including Jujuy, Chaco, La Rioja, Mendoza, Rio Negro, Chubut, Stata Fe, Cordoba and Entre Rios, while Neuquén's general elections were held in March 10, 2019, where Omar Gutierrez was reelected for a 4 year term, with Kirchner`s candidate obtaining 25% of votes and Marci's 15%
- The government decided to change the subsidy mechanism for which it pays subsidies to certain concessions in Vaca Muerta, which mostly affected Tecpetrol, as new subsidy is to be paid according to production forecast when applying for the concessions instead of actual production
- IAS 29 rule was applied to corporates having ARS as functional currency. Now results are presented with inflation adjustments
- Court resolved to increase asset seizure over Clisa related to its May18 investigation by further AR$500mm. On the other hand, the company was awarded with a 33.4% participation in the Salado River work expansion, for an awarded contract of AR$3.5bn expressed in prices as of Mar18
- During the quarter, Genneia obtained COD for a combined 233MW, increasing installed capacity by nearly one third. We still estimate around US$270mm financing gap for its non-recourse projects. Pampa Energia in turn ramped up 53MW of wind generation

Brazil

- QGOGCO filed RJ, aiming to restructure its 24s, 19s and its bank debt. We continue to see the story as a rig liquidation one as prospects for new contracts are limited
- Petrobras rolled back a diesel price increase, raising concerns over a possible reversal of its import parity pricing
- Brazil maintains interest rate at 6.5%
- Former president Michel Temer and former Secretary Minister Moreira Franco were arrested on corruption charges
- Vale Dam Failure at Brumadinho: 217 dead and 87 missing. Flavio Schvartsman (CEO) and three other Vale executives were dismissed and are facing legal charges

EM HIGHLIGHTS 1Q'19

Brazil (continued)

- Following the event, Vale's credit rating was cut by Moody' to non-investment grade
- Davi Alcolumbre (DEM) was elected Brazilian senate president
- New issuances: Gol issued US$300mm 2024 convertible bonds, Suzano re-tapped US$750mm 2029 senior unsecureds, Latam issued US$600mm 2026s senior unsecureds, BTG issued US$600mm of its 2029s bonds and PETBRA issued US$600mm of its 2029s bonds with 6.90% coupon

China

- Chinese companies issued US$52.4bn USD bonds in 1Q19, compared with US$49.9bn in 1Q18. Chinese real estate developers accounted for US$30.9bn, compared with US$11.8bn in 1Q18. The rally in Chinese real estate sector started in Nov last year extended into 1Q19. Best performers included KAISAG, FTHDGR, AGILE.
- In March, NPC & CPPCC meetings released softened tone on regulation of real estate sector, emphasizing on the need to discourage housing speculation while leaving room for local governments to interpret policy guidance released by the central government. Henan Province, where CENCHI is based, has marginally relaxed restrictions.
- During the meetings, annual GDP growth target for 2019 was set at 6~6.5%, compared with 6.5% target (6.6% achieved) for 2018. The slowdown was also reflected on lower Caixin manufacture PMI (average 49.7 in 1Q19 vs 51.4 in 1Q18) and smaller trade surplus (US$44bn in Jan & Feb 2019 vs US$51bn same period in 2018)
- After being cut five times in 2018, reserve ratio (12~14%) was compared with US, Europe and Japan by PBC in a CPPCC press conference and was considered at a low level with "less room for maneuver." Recent expansive fiscal policies included higher fiscal deficit budget (2.6% raised to 2.8%) and lower VAT rate (10~16% down to 9~13%), while SOEs are required to contributed higher % of income to central government to fill in the fiscal gap.

Ecuador

- The country obtained a US$10.2bn funding package, including US$4.2bn from the IMF, while ageing to cut deficit by 5% of GDP in the coming two years
- According to government, fiscal deficit closed at US$3.3bn (ex-fuel subsidy) in 2018
- Sovereign issued US$1bn in 10 years note at double digit rates while Quito's Airport issued US$12bn secured notes at 12%

EM HIGHLIGHTS 1Q'19

Kazakhstan

- On March 19, 2019, Kazakhstan's President Nursultan Nazarbayev, 78, has announced his resignation effective March 30, 2019, after almost 30 years in office.
- Mr. Qasym-Jomart Tokayev, 65, the Speaker of the country's legislative upper house, will serve as the interim head of state until the next elections (scheduled for April 2020). President Tokayev, a career diplomat and a graduate of the Moscow State Institute of International Relations, is fluent in four languages: Kazakh, Russian, English, and Chinese.
- The new Senate Speaker is Ms. Dariga Nazarvayeva, 55, the oldest daughter of Nursultan Nazarbayev, who has led Kazakhstan since 1989, when it was still a part of the USSR, retained significant power as head of the Security Council and the ruling Nur Otan party.
- President Tokaeyv's first act was to re-name the country's capital to Nur-Sultan in honor of his predecessor; his first foreign visit was to Moscow on April 3, 2019.

Mexico

- The IMF cut its forecast for Mexico's GDP growth to 1.6% for 2019 and 1.9% for 2020, primarily due to the energy and education reforms slowdown and the airport cancelation. The IMF mentioned the perception change on the general policy direction due to AMLO's Govt.
- Banxico kept the base interest rate at 8.25%, still remaining at the highest level since 2008
- Both houses of congress approved the creation of the National Guard, a civilian entity with military background and organization, to address Mexico's growing insecurity
- Pemex implemented an aggressive plan to combat fuel theft, which included pipeline closures that affected several regions given the lack of fuel supply
- The likelihood of the US and Canada approving the USMCA trade deal this year has diminished, as the political uncertainty grows with Canada's election in October and the US elections in 2020
- President Trump threatened to close the US-Mexico border if Mexico's Govt. does not address the illegal immigration and drug trade concerns
- Pemex opened the initial bidding process for the new 340k daily barrel refinery, the current cost estimate is between US$6bn and US$8bn
- CFE is reportedly negotiating with midstream companies after the company said to be paying fines for the unfished construction of natural gas supply pipelines

EM HIGHLIGHTS 1Q'19

Nigeria

- General elections were held in Feb19, with Buhari obtaining the reelection with 55.6% of total votes for a 4 year term period
- Economy expanded 1.9% in 2018 (compared to 0.8% in 2017) and 2.4% in 4Q18
- Unexpectedly, Central Bank cut its policy rate by 50bps to 13.5%, in the first move since Nov15, as inflation in Feb18 lowered to 11.3%
- Access and Diamond bank received regulatory approval to merge and become the largest bank in Nigeria
- In turn, Access Bank reported plans to call its 21s subordinated bonds

Russia

- On April 3, 2019, Senators Marco Rubio (R-FL) and Chris Van Hollen (D-MD) plan to introduce a piece of legislation (the "Deter Act") designed to deter Russia from meddling in the US elections. A similar measure was attempted last summer, but was never brought up for a vote in the Senate.
- On January 27, 2019, following the implementation of the Baker plan, which included a reduction of a stake for major shareholder, EN+ (Mr. Deripaska), the OFAC lifted its sanctions from EN+ and Rusal.
- On March 22, 2019, the CBR announced that FX reserves reached the pre-2014 level of US$487 billion, fully covering Russia's public and private external debt

Turkey

- While Erdogan's AKP obtained 51.63% of votes at a national level in municipal elections, the party lost for the first time in Istanbul, where AKP contested the results, while also losing Ankara and Izmir
- GDP contracted by 3.0% in 4Q18 q/q, officially entering into recession, while jobless rate climbed to 13.5% in Dec18
- Policy rate remained at 24%, with Central Bank signaling its aim to defend the currency and lower inflation, including the recent move to lend to banks at the more expensive overnight rat
- Vakif and Yapi Kredi came to the market, placing five year senior notes, as well as corporates Sisecam and Koc Holdings, while sovereign placed more than US6bn in Eurobonds

EM HIGHLIGHTS 1Q'19

Turkey (continued)

- NPLs for the banking system ended at 3.8% in 2018, with guidance of 6-7% for 2019 given by most of the tier-1 banks
- Petkim and SOCAR moved forward with the STAR refinery, with US$240mm financing pending from Petkim, expected ramp up in 2H19 and cost saving estimated at at least US$100mm per year

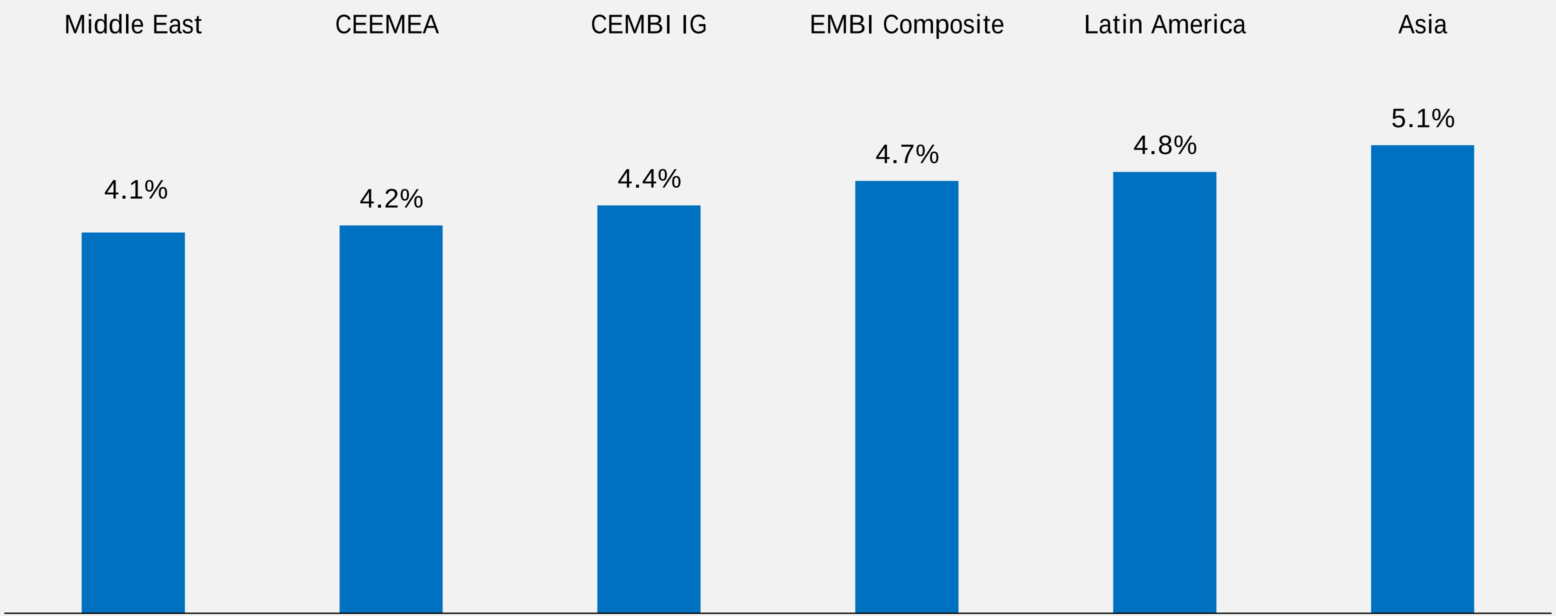
Ukraine

- On March 31, 2019, the first round of Ukraine's Presidential elections was won (30.24%) by Mr. Volodymyr Zelenskiy, 41, who played the role of Ukrainian President in 2015 TV series 'Servant of the People'. The series were aired by 1+1 TV channel, controlled by Mr. Ihor Kolomoisky; a political party with the same name was officially registered on March 31, 2018.
- Mr. Zelenskiy won 20 out of Ukraine's 25 regions. Ukrainian President Petro Poroshenko came in second with 15.95%, winning votes in Western Ukraine. Former PM Yulia Tymoshenko was third with 13.4% votes winning the Invano-Frankivsk region (Western Ukraine). Former Deputy PM Yuriy Boyko was forth with 11.7% won in Donetsk and Luhansk regions (Eastern Ukraine). Voter turnout was 3.33pp higher than during 2014 Presidential Elections at 63.52%. The second round of elections is on April 21, 2019.
- On March 8, 2019, Fitch has affirmed its 'B-' rating for Ukraine with a stable outlook. Fitch underlined the compliance with the new IMF program being the key for the country to remain solvent.
- At end-1Q19, Ukraine's FX reserves reached US$20.6 billion in FX reserves, or 3.4 months of imports, according to the National Bank of Ukraine (NBU).

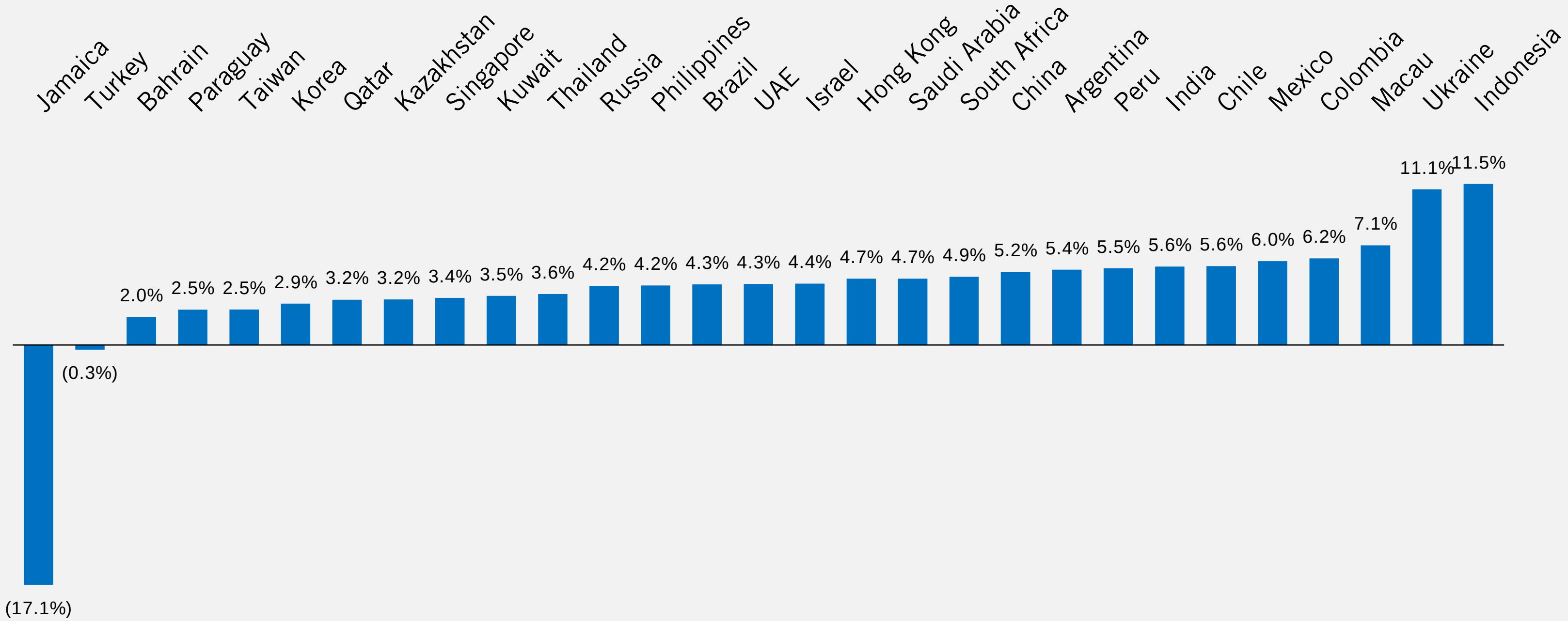
OVERVIEW

EMBI INDEX RETURNS 1Q'19

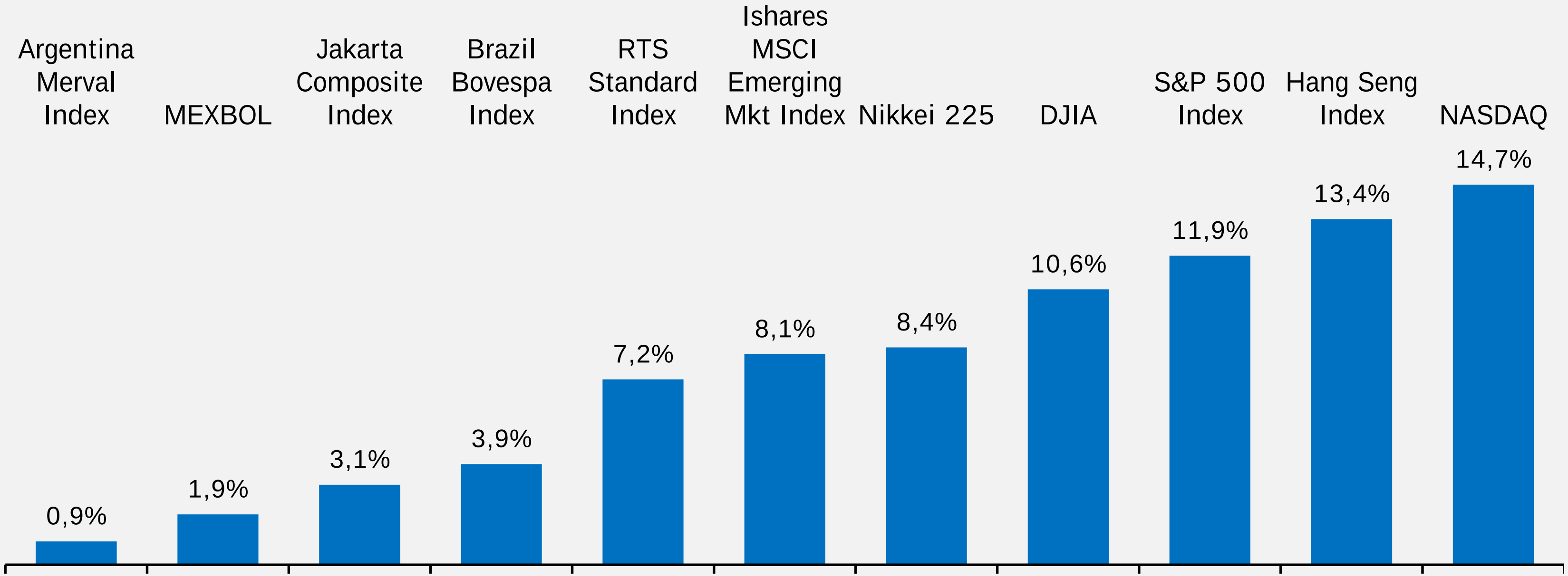
EMBI BROAD COMPOSITE INDEX REVIEW



OVERVIEW
CEMBI INDEX RETURNS BY COUNTRY 1Q'19



OVERVIEW
GLOBAL EQUITY INDEX RETURNS 1Q'19



1Q'19 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 =	6.98%	2.2%
YKBNK 23	YAPI VE KREDI BANKASI AS	Banks	Turkey	USD	03/01/19	01/02/19	29	90.5	93.88	6.10%	3.7%	4.2%	0.6%
PETKM 23	PETKIM PETROKIMYA HOLDIN	Chemicals	Turkey	USD	03/01/19	04/12/19	99	91.3	93.15	5.88%	2.1%	3.7%	(2.4%)
GJTLIJ 22	GAJAH TUNGGAL TBK PT	Auto Parts&Equipment	Indonesia	USD	03/01/19	04/12/19	99	83.8	93.88	8.38%	12.1%	14.4%	8.3%
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	03/01/19	04/12/19	99	90.0	100.19	8.50%	11.3%	13.7%	7.5%
SEPLLN 23	SEPLAT PETROLEUM DEV CO	Oil&Gas	Nigeria	USD	03/01/19	04/12/19	99	99.4	104.00	9.25%	4.7%	7.2%	1.1%
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	03/01/19	04/12/19	99	90.0	97.00	6.25%	7.8%	9.5%	3.4%
GOLLBZ 25	GOL FINANCE	Airlines	Brazil	USD	03/01/19	04/12/19	99	89.5	94.13	7.00%	5.2%	7.1%	1.0%
PFAVHC 20	AVIAN HLDS SA/LEASING/GR	Airlines	Colombia	USD	03/01/19	04/12/19	99	97.4	99.88	8.38%	2.6%	4.9%	(1.2%)
MENDOZ 24	PROVINCIA DE MENDOZA	Municipal	Argentina	USD	03/01/19	04/12/19	99	79.5	80.50	8.38%	1.3%	3.6%	(2.6%)
UNIFIN 26	UNIFIN FINANCIERA SA DE	Diversified Finan Serv	Mexico	USD	03/01/19	04/12/19	99	85.5	96.00	7.38%	12.3%	14.3%	8.2%
VAKBN 27	TURKIYE VAKIFLAR BANKASI	Banks	Turkey	USD	04/02/19	04/12/19	67	88.3	84.00	8.00%	(4.8%)	(3.3%)	(5.6%)
FIDBAN 22	FIDELITY BANK PLC	Banks	Nigeria	USD	04/02/19	04/12/19	67	102.1	105.88	10.50%	3.7%	5.6%	3.2%
CSNABZ PERP	CSN ISLANDS XII	Iron/Steel	Brazil	USD	21/02/19	04/12/19	50	80.3	86.75	7.00%	8.1%	9.1%	7.4%
DOMREP 44	DOMINICAN REPUBLIC	Sovereign	Domencian Republic	USD	04/03/19	04/12/19	39	110.0	113.25	7.45%	3.0%	3.8%	2.5%
UNDERPERFORM											Average Return =	(6.44%)	(0.32%)
KERPW 22	KERNEL HOLDING SA	Agriculture	Ukraine	USD	03/01/19	04/12/19	99	96.1	103.63	8.75%	(7.8%)	(10.2%)	(4.1%)
AESGEN 25	AES GENER SA	Electric	Chile	USD	03/01/19	04/12/19	99	96.4	102.63	5.00%	(6.5%)	(7.9%)	(1.7%)
CENSUD 23	CENCOSUD SA	Food	Chile	USD	03/01/19	04/12/19	99	98.0	101.75	4.88%	(3.8%)	(5.2%)	0.9%
VEBBNK 20	VNESHECONOMBANK(VEB FIN)	Banks	Russia	USD	03/01/19	04/12/19	99	102.4	102.69	6.90%	(0.3%)	(2.2%)	3.9%
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	03/01/19	04/12/19	99	92.3	97.00	6.00%	(5.1%)	(6.7%)	(0.6%)
											Total Average Return =	3.45%	1.57%

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	03/01/19	12/04/19	99	416.3	441.8	6.1%

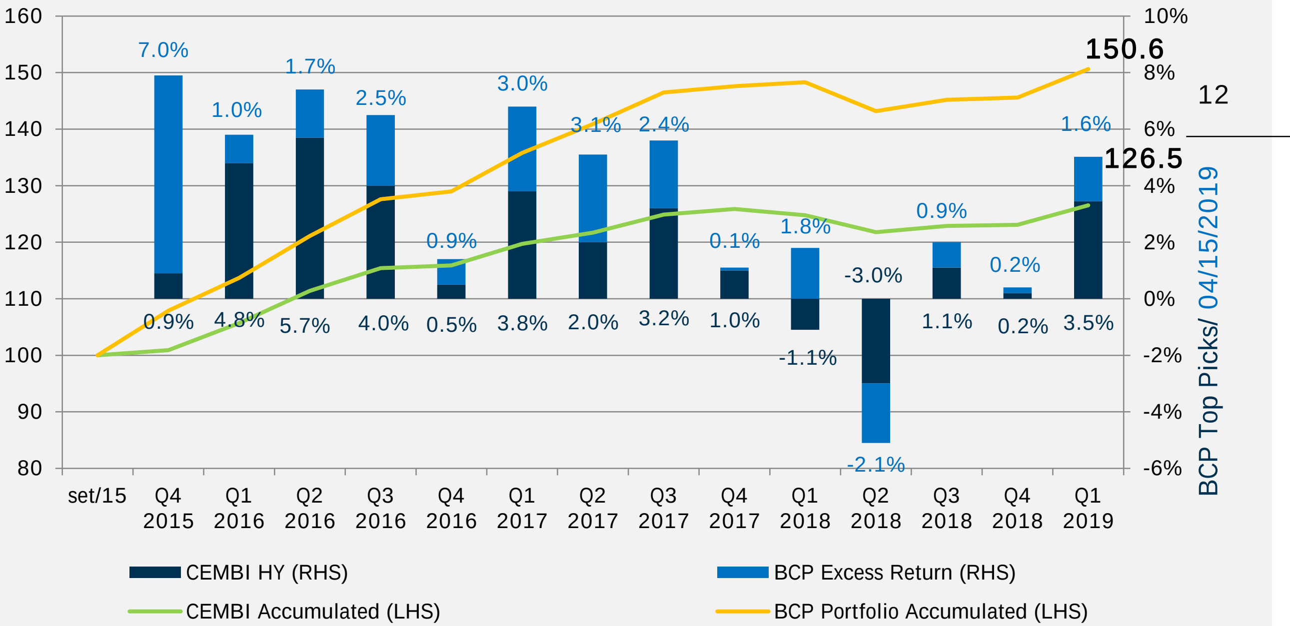
Source: Bloomberg as of 04/12/2019

1Q'19 TOP PICKS
PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated excess return of 157 bps vs. our CEMBI HY benchmark. Outperforms exceeded the index on average 224bps. Underperforms declined 33 bps less than the benchmark which increased 6.1% over the period.
- Our top performers were GJTLIJ 22s and UNIFIN 26s, with an excess return of 8.3% and 8.2% respectively.
- METINV 26s were also a highlight, generating 7.5% excess performance.
- VAKBN 27s and KERPW 22s were biggest disappointments, falling 5.6% and 4.1%, respectively.
- Over the past 14 quarters, BCP Top Picks have generated compounded excess return of 24.1% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH APRIL 12th 2019



2Q'19 TOP PICKS
PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	Minimum Denomination	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform											
PETKM 23	PETKIM PETROKIMYA HOLDIN	Chemicals	Turkey	USD	$500	$200,000	B1/ -/ B	5.88%	01/26/2023	8.18%	92.63
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	$648	$200,000	-/ B-/ B+	8.50%	23/04/2026	8.46%	100.19
ANTOIL 20	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	$300	$200,000	B1/ -/ B	9.75%	12/05/2020	7.75%	103.00
SEPLLN 23	SEPLAT PETROLEUM DEV CO	Oil&Gas	Nigeria	USD	$350	$200,000	B2/ B/ B-	9.25%	04/01/2023	8.05%	104.00
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	$330	$200,000	-/ BB/ BB+	6.25%	10/04/2027	6.72%	97.00
MENDOZ 24	PROVINCIA DE MENDOZA	Municipal	Argentina	USD	$500	$150,000	B2/ B/ -	8.38%	05/19/2024	13.83%	80.50
UNIFIN 26	UNIFIN FINANCIERA SA DE	Diversified Finan Serv	Mexico	USD	$300	$200,000	-/ BB/ BB	7.38%	02/12/2026	8.25%	95.50
VAKBN 22	TURKIYE VAKIFLAR BANKASI	Banks	Turkey	USD	$672	$200,000	Caa1/ -/ B	6.00%	11/01/2022	10.12%	88.00
FIDBAN 22	FIDELITY BANK PLC	Banks	Nigeria	USD	$400	$200,000	-/ B-/ B-	10.50%	10/16/2022	8.60%	105.63
CSNABZ PERP	CSN ISLANDS XII	Iron/Steel	Brazil	USD	$1,000	$100,000	B3/ B-/ B-	7.00%	PERP	8.06%	86.88
CGCSA 21	COMPANIA GENERAL COMBUST	Oil&Gas	Argentina	USD	$300	$1,000	-/ B-/ B	9.50%	11/07/2021	12.79%	93.00
ALPHSA 22	ALPHA HOLDING SA	Diversified Finan Serv	Mexico	USD	$300	$200,000	B1/ B+/ -	10.00%	19/12/2022	11.18%	96.50
DOMREP 44	DOMINICAN REPUBLIC	Sovereign	Dominican Republic	USD	$1,500	$100,000	Ba3/ BB-/ BB-	7.45%	30/04/2044	6.39%	113.13
Underperform											
KERPW 22	KERNEL HOLDING SA	Agriculture	Ukraine	USD	$500	$200,000	-/ B/ B+	8.75%	01/31/2022	7.43%	103.25
AESGEN 25	AES GENER SA	Electric	Chile	USD	$172	$200,000	Baa3/ BBB-/ BBB-	5.00%	07/14/2025	4.51%	102.63
CENSUD 23	CENCOSUD SA	Food	Chile	USD	$943	$200,000	Baa3/ -/ BBB-	4.88%	01/20/2023	4.36%	101.75
VEBBNK 20	VNESHECONOMBANK(VEB FIN)	Banks	Russia	USD	$1,600	$100,000	-/ BBB-/ BBB-	6.90%	07/09/2020	4.62%	102.69
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	$500	$1,000	Ba3/ -/ BB-	6.00%	07/06/2023	7.18%	95.75
LIGTBZ 23	LIGHT SERVICOS ENERGIA	Electric	Brazil	USD	$600	$200,000	Ba3/ -/ BB-	7.25%	03/05/2023	6.75%	101.75
TELVIS 26	GRUPO TELEVISA SAB	Media	Mexico	USD	$300	$200,000	Baa1/ BBB+/ BBB+	4.63%	01/30/2026	4.31%	101.84
GALIAR 26	BCO DE GALICIA Y BUENOS	Banks	Argentina	USD	$250	$200,000	B3/ CCC/ -	8.25%	07/19/2026	10.02%	95.00

Source: Bloomberg as of 04/15/2019

MARKET OUTPERFORM

ARGENTINA
MENDOZ 8.75% 24s
CGCSA 9.50% 21s

BRAZIL
CSNABZ 7.00% PERPs

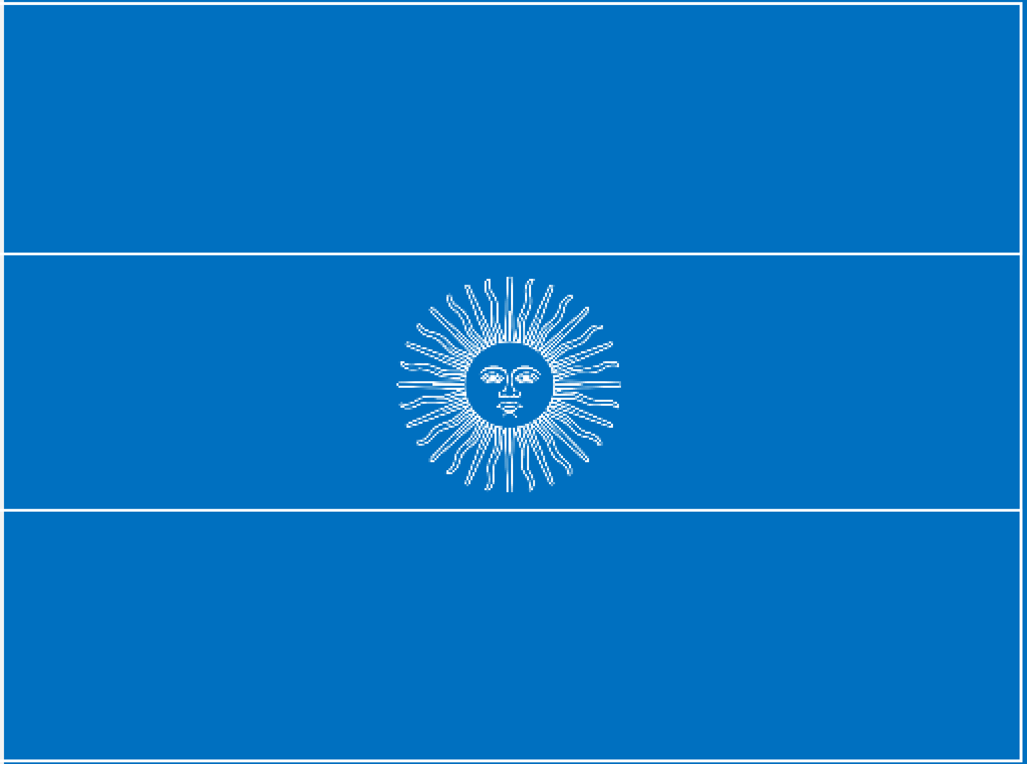
CHINA
ANTOIL 9.75% 20s

MEXICO
CYDSA 6.25% 27s
UNIFIN 7.375% 26s
ALPHSA 10.00% 22s

NIGERIA
SEPLLN 9.25% 23s
FIDBAN 10.50% 22s

TURKEY
VAKBN 6.00% 22s
PETKM 5.88% 23s

UKRAINE
METINV 8.5% 26s



ARGENTINA

MARKET OUTPERFORM (ARGENTINA):

CGCSA 9.50% 21s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CGCSA 9.5% 11/7/2021	$300	-/B-/B	93.00	12.79%

CGC is an upstream oil and gas company, with production of nearly 36kboepd, of which more than 80% corresponds to gas. In 2015, it significantly expanded in size by acquiring Petrobras' assets in the Austral basin. It also has minority ownership in gas pipeline transport companies. The company is owned by Corporacion America, an Argentine holding controlled by the Eurnekian family, one of the wealthiest families in the country.

PROS:

- Long USD: USD linked revenues, while part of costs, mainly salary expenses, are in ARS
- CGC receives the national subsidy for its non-conventional production from the Campo Indio – Este – El Cerrito concession (first non-conventional agreement signed outside Vaca Muerta).
- Changes in resolution 46 should not significantly impact the company as its actual production is not significantly above the estimated one
- Smooth debt amortization schedule, with nearly US$50mm ST debt and the rest of it corresponding to the senior 21s and its US$80mm private placement (this latter non-recourse and to be repaid only with dividends received from midstream investments)
- 25% ownership of TGN, valued at nearly US$140mm at TGN's current market cap

CONS:

- Despite expanding operation, the company is still a small E&P player
- Only operates in the oil and gas upstream business, historically subject to political interventions in the country. In Feb19, the government changed its interpretation of the Resolution 46/2017 by which it pays subsidy to certain non-conventional gas concessions, paying the subsidy for the projected production presented instead of the actual
- President Hugo Eurnekian has been one of the targets of the Notebook Scandal

MARKET OUTPERFORM (ARGENTINA):

CGCSA 9.50% 21s

SMALL CAP EMERGING MARKETS B/BB E&P PEER TABLE

(US$ MM)	Seplat	CGC	Tecpetrol	Frontera	Gran Tierra	Geopark	Tullow	Kosmos
Country	Nigeria	Argentina	Argentina	Colombia	Colombia	Chile	Pan African	Pan African
Mid yield (%)	8.28%	12.02%	7.02%	8.27%	7.04%	6.28%	5.98%	7.13%
Rating (M/SP/F)	B2/B-/B-	-/B-/B	Ba3/-/BB+	-/BB-/B+	-/B+/B+	-/B+/B+	B3/B/-	-/BB-/BB
Bond maturity	2023	2021	2022	2023	2025	2024	2022	2026
Amt Out (US$mm)	350	300	500	350	300	425	650	$650
	4Q18	**FY18 (ARS*)**	**4Q18**	**4Q18**	**4Q18**	**4Q18**	**2H18**	**4Q18**
Oil & Gas prod (kboed)	46.7	31.5	107.0	63.9	36.2x	38.7	83.7	66.2
Revenue	178	17,709	293	243	137	151	1,013	310
EBITDA	87	9,332	183	118	85	86	836	155
FCF	77	1,224	(221)	(81)	(14)	(23)	140	103
Gross debt	446	16,918	1,448	334	399	447	4,631	2,121
Net debt	(139)	15,557	1,435	(112)	316	319	4,452	1,947
LQA Gross leverage	1.3	1.8x	2.0x	0.7x	1.2x	1.3x	2.8x	3.4x
LQA Net leverage	n/a	1.7x	2.0x	n/a	0.9x	0.9x	2.7x	3.1x

**Due to inflation adjustment 2018 figures were provided on real terms and full yearonly*

Source: Bloomberg as of 04/11/2019

MARKET OUTPERFORM (ARGENTINA):

CGCSA 9.50% 21s

<u>Analysis of 4Q18 results:</u>

- Beginning with the 2018 annual period, Financial Statements in Argentina for corporates that have ARS as functional currency, such as CGC, are adjusted for inflation according to the IAS 29 rule. Given adjusted figures (real terms) were only provided annually, the analysis follows annual comparisons and is made in ARS, as our previous method of comparing in USD, which we think provides a better understanding of the business, will overstate the figures corresponding to 2017
- Revenue increased 122% y/y to AR$17.7bn, supported by a 37% increase in production, mostly from non-conventional gas, an 18% increase in average prices, and ARS depreciation as revenue is denominated in USD
  - Oil revenue, 21% of total, increased 17% y/y; Gas revenue, 59% of total, increased 276% y/y while subsidies, 17% of total, grew 81% y/y
  - Regarding gas, we recall that the tight gas developments by CGC in Santa Cruz (Austral basin) benefits from subsidized gas prices through 2021
- We understand that impact of regulatory changes non-conventional gas subsidies are not significant for CGC since actual production is only slightly projected levels
- Production in 2018 averaged 31.5kbpd, with production of 36.0kbpd in 4Q18
- EBITDA (pre-dividend collection from associates) jumped 391% y/y to AR$9.3bn
- Free cash flow generation of AR$2,400 during the year, with EBITDA being more than enough to fund capex program
- Gross debt increased 65% y/y to AR$16.9bn, mostly on currency depreciation as nearly 87% is denominated in USD
- Current cash position of AR$1.4bn accounts for 54% of ST debt, although the latter is entirely composed of bank loans, which we see easier to refinance
- LTM gross and net leverage improved y/y to 1.8x and 1.7x, respectively, although below 3Q18 annualized 1.1x
  - We estimate that excluding national subsidies, annualized gross and net leverage would be 2.7x and 2.5x

CGC (AR$MM)	2018	2017	%
Revenue	17,709	7,960	122%
EBITDA	9,332	1,899	391%
EBITDA margin	52.7%	23.9%	

CGC (AR$MM)	2018	2017	%
Total Debt	16,918	10,277	65%
Cash and Equivalents	1,360	628	117%
Net Debt	15,557	9,649	61%
Leverage (Total Debt/LTM EBITDA)	1.8	5.4	
Net leverage (Net Debt/LTM EBITDA)	1.7	5.2	

CGC (AR$MM)	2018	2017
EBITDA	9,332	1,899
Working capital	(1,079)	2,132
Capex	(5,925)	(4,003)
Interest paid	(1,262)	(908)
Dividends collected	245	114
Taxes paid	(87)	(112)
FCF	**1,224**	**939**

MARKET OUTPERFORM (ARGENTINA):

MENDOZ 8.75% 24s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
MENDOZ 8.75% 05/19/2024	$500	B2/B/-	80.50	13.83%

The Province of Mendoza is the fourth largest Argentine province by population, largely focused on the wine industry, tourism and oil and gas activities. Nearly two million people currently live in the province. Its main urban area, Gran Mendoza (54% of population), had a poverty rate of 30.7% as of Dec-17 according to INDEC.

PROS:

- Ruling party aligned with national government
- Government has legislative majority after 2017 elections
- Highest fiscal surplus among provinces with USD bonds
- Nearly half of its debt is in ARS, a higher portion than its closest peers, which, coupled with royalties income tied to USD, make the province less exposed to currency fluctuations
- Contains part of Vaca Muerta formation
- Income from oil and gas royalties is linked to USD
- Sinkable bond with three equal capital repayments starting in 2021, making it less reliant on capital markets for repayments

CONS:

- Ruling party is a coalition that might encounter differences
- Higher debt load compared to closest peers, although we consider it manageable and below 20% of our estimated GDP
- Royalty income tied to oil & gas prices and not significant in terms of total revenue at 7%
- Oil production has declined, down 4% y/y 2018 and 23% since 2009

MARKET OUTPERFORM (ARGENTINA):

MENDOZ 8.75% 24s

Highest primary and total surplus among province with USD bonds, accounting for 17% and 8% of current income, respectively

AR$mm	Pvcia Bs As	City Bs As	Cordoba	Santa Fe	Mendoza	Entre Rios	Chaco	La Rioja	Jujuy	Rio Negro	Neuquén	Salta	Chubut	Tierra del Fuego
Bond	2024	2027	2024	2023	2024	2025	2024	2025	2022	2025	2028	2024	2026	2027
Duration	3.4	5.6	4.4	3.2	3.6	4.0	3.5	3.5	3.0	4.5	4.1	3.6	3.7	3.5
Yield (%)	13.7%	9.5%	12.4%	11.6%	13.8%	15.7%	17.4%	15.1%	17.8%	14.7%	10.2%	15.0%	15.0%	12.3%
Spread to sovereign (bps)	**338**	**(100)**	**201**	**83**	**328**	**544**	**707**	**482**	**651**	**428**	**(35)**	**473**	**452**	**183**
Last reported figures	9M18	FY18	FY18	FY18	11M18	FY18	FY18	9M18	9M18	FY18	FY18	FY18	6M18	9M18
Current income	482,046	248,809	212,141	211,661	82,334	88,719	80,698	17,537	28,334	45,176	91,092	58,934	22,521	17,379
Current expenditures	(414,755)	(189,575)	(185,523)	(187,253)	(63,181)	(84,337)	(70,742)	(16,382)	(25,167)	(40,496)	(79,501)	(51,378)	(18,227)	(14,074)
Capital income	5,031	6,683	5,102	4,345	1,136	2,381	2,504	1,455	1,351	3,206	1,990	3,956	741	358
Capital expenditures	(26,22)	(48,164)	(45,298)	(25,608)	(6,615)	(5,025)	(6,513)	(1,541)	(2,983)	(4,511)	(8,641)	(5,108)	(2,422)	(1,586)
Primary surplus / (Deficit)	**46,102**	17,753	(14,208)	3,145	**13,674**	1,737	5,947	**1,069**	**1,535**	3,375	4,939	6,404	2,613	**2,076**
as % of current income	10%	7%	(7%)	1%	17%	2%	7%)	6%	5%	8%	5%	11%	12%	12%
same period previous year	(2%)	(2%)	(2%)	(4%)	12%	(3%)	(7%)	4%	1%	(5%)	(8%)	(8%)	(20%)	(2%)
Interests	(25,362)	(14,277)	(5,717)	(979)	(6,387)	(2,756)	(3,179)	(1,023)	(1,945)	(2,917)	(4,534)	(2,163)	(1,661)	(822)
Total surplus / (deficit)	**20,740**	3,476	(19,925)	2,166	**6,607**	(1,018)	2,768	**46**	**(410)**	458	404	4,241	952	**1,253**
as % of current income	4%	1%	(9%)	1%	8%	(1%)	3%	0%	(1%)	1%	0%	7%	4%	7%
same period previous year	(7%)	(5%)	(4%)	(4%)	2%	(6%)	(10%)	2%	(3%)	(9%)	(14%)	(12%)	(23%)	(3%)

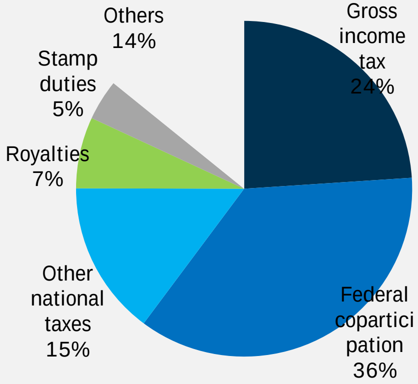
Source: Bloomberg as of 04/11/2019

MARKET OUTPERFORM (ARGENTINA):

MENDOZ 8.75% 24s

Province of Mendoza (AR$MM)	9M18	9M17	y/y (AR$)	y/y (%)	2018 (budget)	2017
Current income	63,005	47,263	15,742	33%	77,526	65,696
Local tax revenues	20,593	16,120	4,473	28%	26,356	22,336
National taxes	32,184	23,998	8,186	34%	40,267	33,181
Royalties	4,332	2,359	1,973	84%	3,626	3,299
Current transfers & others	5,896	4,786	1,110	23%	7,277	6,880
Current expenses	(49,103)	(41,129)	7,974	19%	(72,272)	(61,247)
Personnel expenses	(29,162)	(24,804)	4,358	18%	(42,252)	(36,621)
Current transfers	(14,071)	(11,497)	-,574	22%	(20,137)	(16,523)
Goods and services	(5,676)	(4,764)	912	19%	(9,871)	(8,093)
Capital income	973	1,046	(73)	(7%)	1,941	1,343
Capital expenditures	(4,912)	(2,780)	2,132	77%	(8,215)	(5,111)
Primary surplus / (deficit)	**9,963**	**4,400**	**5,563**	**126%**	**(1,020)**	**681**
as % of estimated GDP	7%	4%			0%	0%
as % of current income	16%	9%			(1%)	1%
Interest	(4,126)	(1,850)	2,276	123%	(4,211)	(4,021)
Total surplus / (deficit)	**5,837**	**2,550**	**3,287**	**129%**	**(5,231)**	**(3,340)**
as % of estimated GDP	4%	2%			(2%)	(1%)
as % of current income	9%	5%			(7%)	(5%)

9M18 CURRENT INCOME BY SOURCE



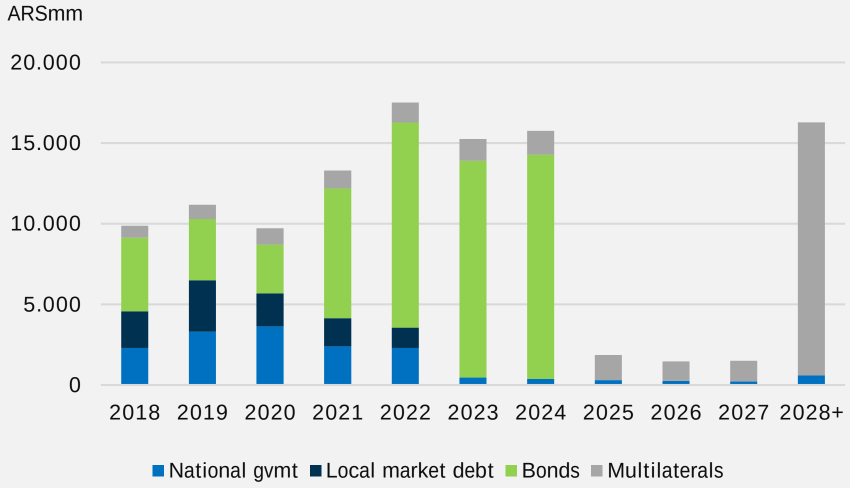
MARKET OUTPERFORM (ARGENTINA):

MENDOZ 8.75% 24s

Debt load, although higher than closest peers, is manageable and, unlike peers, a significant portion is denominated in ARS

Province of Mendoza (AR$MM)	Sep-18	2017	2016
Gross debt	49,897	33,066	26,143
National government	21%	20%	22%
Local bank debt	11%	17%	22%
Bonds	51%	50%	43%
Multilateral agencies	16%	13%	13%
ARS	43%	54%	47%
Foreign currencies	57%	46%	53%
Gross debt / Estimated GDP	18%	13%	13%
Gross debt / Current income	51%	50%	54%
Interest / Current income	7%	6%	7%

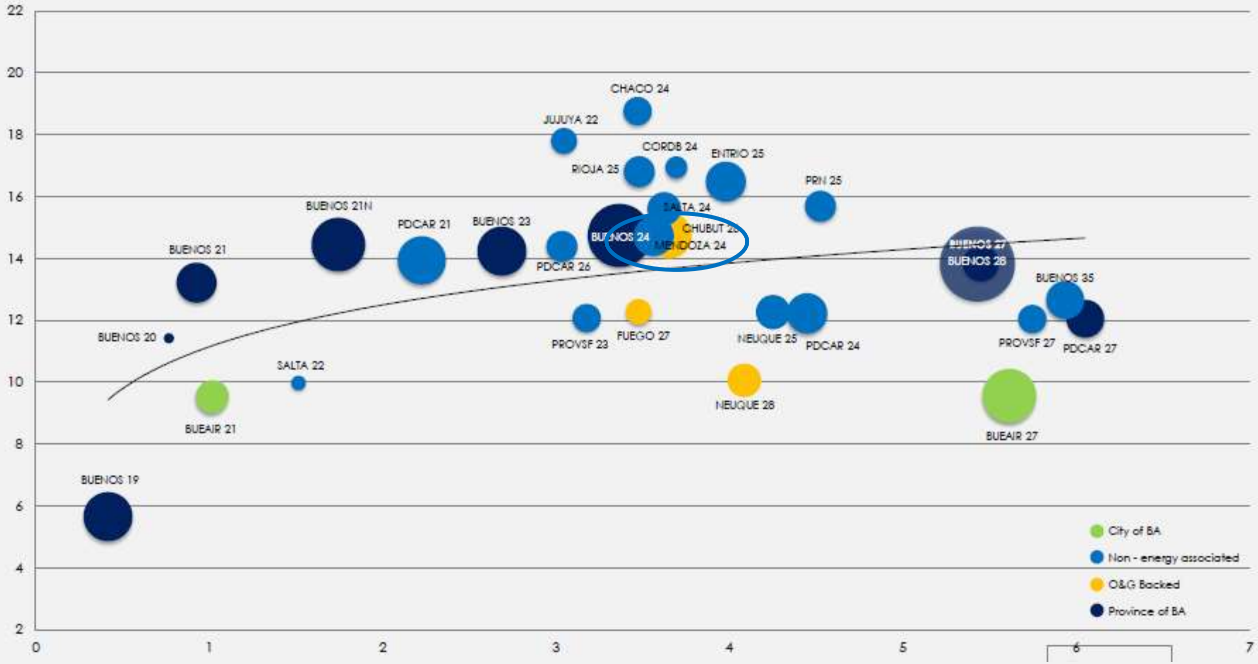
DEBT AMORTIZATION SCHEDULE AT 30.09.2018 (INCLUDING INTERESTS)



MARKET OUTPERFORM (ARGENTINA):

MENDOZ 8.75% 24s

Argentine Provinces USD vs Prov BA Curve



Source: BCP Securities as of 03/29/2019

BRAZIL

MARKET OUTPERFORM (BRAZIL):

CSNABZ 7.00% PERPs

CSN is a Brazilian integrated steel producer, operating throughout the entire steel production chain, from the mining of iron ore to the production and sale of a diversified range of high value-added steel products. Business divided into five segments: steel, mining, cement, logistics and energy. Current annual crude steel capacity and rolled product capacity at Presidente Vargas Steel works, main industrial facility, is 5.6 mm and 5.1 mm tons, respectively. Recently, the company announced the intent to stop the usage of tailing dams – 4Q18 capex was higher due to investments in the tailings filtering plants, enabling CSN to process all of its mining production without the use of dams by year end. CSN is listed in São Paulo stock Exchange with a US$4.6bn market cap. We upgraded CSN perps to Market Outperform after solid results and positive announcements, such as the much anticipated iron ore prepayment agreement with Glencore. More recently, unsecured bond issuance supports our thesis that addressing front end maturities will support Perp on the long end.

Ticker	Coupon	Maturity	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CSNABZ	6.875%	09/21/19	547	B3/B-/B-	101.63	3.01%
CSNABZ	6.50%	07/21/20	1053	B3/B-/B-	101.63	4.94%
CSNABZ	7.625%	02/13/23	350	B3//B-	101.25	7.15%
CSNABZ	7.00%	Perp	1000	B3/B-/B-	86.88	8.06%

PROS:

- World class flat steel and iron ore producer
- Favorable steel and iron ore pricing environment
- Positive 4Q18, beating consensus, higher y/y margins, and generating FCF to pay down debt
- Iron pre-payment agreement with Glencore for US$500mm, for the supply of 22mm tons over five years
    - Company announced the expectation of US$1bn with iron ore streaming deal
- R$400mm capex expected for the next four-five years for decommission of five iron ore tailing dams
- Large capacity for secured financing
- Asset sale program underway
    - Expect to raise an additional R$3bn in 2019
- Leverage guidance below 3.0x by FY19, which we see as attainable
- Expected FCF of R$3bn for 2019 (with iron ore below spot)
- Recent debt reprofiling with local banks

CONS:

- Weak covenants - USD bonds are effectively subordinated to all other debt
- Challenging maturity profile
    - Expect to amortize over R$4bn in debt in 2019 with cash generation and iron ore prepayment
- Any interruption of mining operations due to tailings storage concerns could complicate a deal hoped to address refinancing needs
- Unlimited secured financing basket
- Strong local entrepreneur likely a challenging counterparty in restructuring discussions
- Confusing accounting methods
- Highly leveraged
- Extraordinary dividends expected this year

MARKET OUTPERFORM (BRAZIL):

CSNABZ 7.00% PERPs

Recent Highlights – 4Q18 – Positive:

- 4Q18 revenue was 2% lower q/q, to R$6bn, although 21% higher y/y and beating consensus by 4%, with lower steel prices and sales partially offset by positive results in mining
  - Iron ore was 11% higher sequentially but hot rolled steel decreased by 9% over the period
  - Steel represented 60% of revenue and mining, 29%
- 4Q18 Adjusted EBITDA was 4% lower q/q, to R$1.6bn, but 10% above consensus and increasing by 30% y/y
  - Operating expenses increased by 6% q/q
  - Steel accounted for 37% of adjusted EBITDA and mining, 52%, while cement came back to negative EBITDA
- FCF was close to R$1bn, similar to Q3 as changes were made in the WK accounting
  - 3Q18 WK included an outflow of ~ R$700mm in "taxes to be offset" that seems to be reclassified under operating activities "PIS/COFINS tax credit" in regards to monetary correction related to the recognition of the exclusion of ICMS from the PIS/COFINS calculation base
    - During Q4, CSN reported another R$1.5bn outflow in that account
  - Capex was up 48% y/y and 56% q/q, to R$507mm due to investments in the tailings filtering plants in the mines, as well as anticipation of scheduled stoppage in steel
- Gross debt decreased by 4% q/q, to R$29.9bn, after debt repayment and consequently, cash was 20% lower q/q, to R$3.3bn
- Net debt lowered by 2% q/q, totaling R$26.6bn
- Q4 annualized net leverage stood at 4.3x, a 0.1x increase from Q3
  - 2018 net leverage lowered to 4.6x from 4.9x LTM in Q3 and 5.4x in 2017

CSN (R$MM)	4Q18	BBG consensus	+/-	3Q18	4Q17	q/q	y/y
Revenue	6,051	5,838	4%	6,165	4,993	(2%)	21%
Adj EBITDA	1,560	1,418	10%	1,627	1,203	(4%)	30%
Adj EBITDA margin	26%	24%		26%	24%		

CSN (R$MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	29,890	31,140	29,511	(4%)	1%
Cash	3,274	4,083	4,329	(20%)	(24%)
Net Debt	26,616	27,057	25,182	(2%)	6%
Gross leverage (Total Debt/LQA EBITDA)	4.8	4.8	6.1		
Net leverage (Net Debt/LQA EBITDA)	4.3	4.2	5.2		

CSN (R$MM)	4Q18	3Q18	4Q17	q/q	y/y
Adj EBITDA	1,560	1,627	1,203	(4%)	30%
Capex	(507)	(325)	(343)	56%	48%
Interest paid	(434)	(677)	(516)	(36%)	(16%)
Taxes paid	(136)	(139)	(32)	(2%)	
FCF before WK	**483**	**486**	**312**	**(1%)**	**55%**
Working capital	487	561	76	(13%)	5.4x
FCF	**970**	**1,047**	**388**	**(7%)**	**150%**

MARKET OUTPERFORM (BRAZIL):

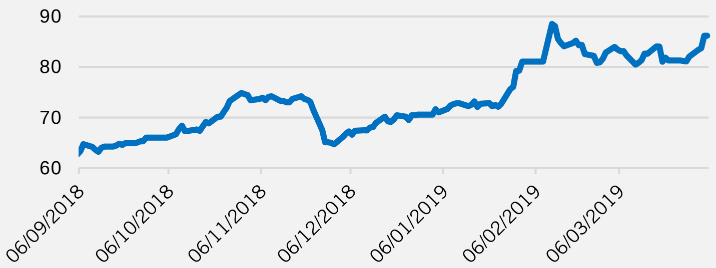
CSNABZ 7.00% PERPs

Solving the front end - Company is already addressing front end part of the curve which we think will naturally benefit the Perps (Long end)

- Iron pre-payment agreement with Glencore for US$500mm, for the supply of 22mm tons over five years – done
- New 2026s, USD600mm bond issuance completed followed by a USD400mm re-tap of its 23s
- Proceeds will be used for a full tender for the 2019s and a partial tender for a partial tender of the 2020s
- Additionally, company announced the expectation of US$1bn with iron ore streaming deal

Recent iron ore rally after Vale's tragic accident in Brumadinho further supports strong cash flow generation for the year. We were constructive on cash flow at 70 (USD/MT), while recent rally further supports the case. Additionally, company updated FY2019 guidance to 3.0x net leverage, in line with our initial view.

IRON ORE (USD/MT)



MARKET OUTPERFORM (BRAZIL):

CSNABZ 7.00% PERPs

DRY STACKING FOCUS

- CSN operates throughout the steel production chain, from mining iron ore to production and sale of value-added steel products
- Over the last two years, steel accounted for 46% of EBITDA and iron ore mining represented 42%
- CSN owns high-quality iron ore mines (such as Casa de Pedra and Engenho), located within MG's "Iron Ore Quadrangle" (home of Vale's SE operations and Samarco)
  - Casa de Pedra is an open pit mine, located in Congonhas, MG, assuring CSN self-sufficiency in iron ore (except pellets)
- CSN sold around 25-33mm tons/ year of iron ore to third parties during 2015-2017
  - China represented 70% of CSN's iron ore sales volume in 2017

CASA DE PEDRA

- The mine has one of the world's largest tailings dams in an urban area, 84 meters tall and volume of 50mm cubic meters
- According to CSN, the dam was built with a downstream design but as with Vale's Corrego do Feijao, it is considered "low risk" with high potential damage
- Social pressure has been increasing for the last couple of years, and a study performed by CSN pointed out that in case of failure, tailings would "almost immediately" impact around 350 houses home to 1,500 people
  - There was a simulation exercise and training conducted in 2017, in which over 400 signs were installed in the region highlighting safety routes
- According to the government of Congonhas, in a meeting with CSN, the company announced the acquisition of specific equipment to carry out the disposal of dry tailings by stacking and the subsequent decommissioning of the dam
- Over the last two years, CSN invested R$250mm in technologies for dry stacking
- Currently, the treatment of dry tailings process covers 40% of the company's tailings' volume
  - CSN expects to process 100% dry tailings by the end of 2019, eliminating the use of dams for tailings disposal

CHINA

MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20

	Ranking	Amt (US$mm)	Ratings (M/SP/F)	Mid Price	Mid YTM
ANTOIL 9.75% 12/05/2020	Company Guarnt	300	B1/-/B-	103.00	7.75%

Anton Oilfield Services Group (3337 HK) is a Chinese oil & gas service provider founded in 1999. The company provides drilling, well completion and oil production services to oil & gas producers under traditional contract as well as a management fee structure. In 2H18, 43% of total service revenue came from Iraq and 37% from PRC. In July 2018, Antoil obtained a two-year service contract in Majnoon oilfield, Iraq, which was insured by Sinosure under Belt & Road Initiative ("BRI"). The company recently refocused on China's onshore market, especially in Sichuan Basin and Xinjiang Province in west China. The shift of strategy is based on the management's expectation that drillers' capex will increase after cool-down of anti-corruption campaign within large state-owned oil & gas companies and China's intention to decrease dependence on oil imports when domestic production as % oil consumption reaches three-year low. Antoil has implemented its asset-light business model in a shale gas project in Sichuan Basin, where machines are not procured but leased from local source. Cash flow is expected to further improve with less capital requirement from PP&E. In March, Moody's upgraded Antoil from B2 to B1.

Pros

- More than half of revenue is denominated in USD.
- Capex of Chinese state-owned oil & gas companies is expected to grow.
- Brent price starts to recover since January.

Cons

- Bond price has been highly sensitive to Brent volatility.
- Two biggest customers account for 41% of total service revenue.
- Modest backlog relative to annual revenue (1.5x).

MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20

2H18 Financials

- Revenue from goods and services increased 43% h/h, on increased provision of services.
    - Provision of services (95% of total revenue) increased 56% h/h to US$241mm.
    - Revenue from PRC (37% of total revenue) and Iraq (43% of total revenue) increased 58% h/h and 66% h/h.
    - Revenue from oil production services doubled h/h to US$86mm.
- Order backlog increased 17% y/y to US$632mm, equivalent of 1.5x FY18 service revenue.
- Calculated EBITDA increased 18% h/h to US$84mm.
- Gross margin and EBITDA margin decreased h/h to 37% and 33%. SG&A as % revenue increased h/h from 11% to 14%.
- FCF before WK increased 41% h/h to US$52mm mostly on increased EBITDA. Capex dropped y/y.
    - Capex was significantly lower than in 2017. The company spent US$8mm on capex including only US$1mm on PP&E in 2H18. In 2H17, the capex on PP&E was US$33mm.
    - The company adopted asset-light strategy in shale gas project in Sichuan Basin and oil drilling project in Xinjiang Province, China, and leased machines locally.
- Reported FCF turned positive US$26mm, compared with US$(21)mm in 1H18.
- Net OCF increased from US$7mm in 1H18 to US$55mm.

ANTOIL (US$mm)	2H18	1H18	2H17	y/y	h/h
Revenue from services	254	178	200	27%	43%
(1) by geographical markets					
- PRC	94	60	71	33%	58%
- Iraq	109	66	71	55%	66%
- other countries	51	52	59	(13%)	(2%)
(2) by business segments					
- drilling technology	102	91	98	4%	11%
- well completion	66	45	49	35%	48%
- oil production	86	41	53	62%	108%
Revenue from rental	4	5			(31%)
COGS	(163)	(111)	(124)	31%	47%
EBITDA calculated	84	71	63	32%	18%
Calculated EBITDA margin	33%	40%	32%	121 bps	(687 bps)
Gross margin	37%	39%	38%	(80 bps)	(252 bps)

ANTOIL (US$mm)	2H18	1H18	2H17	y/y	h/h
EBITDA calculated	84	71	63	32%	18%
Capex	(8)	(7)	(42)	(82%)	5%
Income tax paid	(5)	(5)	(5)	(9%)	(9%)
Net interest paid	(20)	(22)	(12)	67%	(8%)
FCF pre WK	52	37	4	1289%	41%
Reported FCF	26	(21)	4	494%	(225%)
- Net operating cash flow	55	7	61	(9%)	671%
- Cash Interest Payments	(21)	(21)	(12)	76%	5%
- Capital Expenditures	(7)	(8)	(44)	(83%)	(5%)

MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20

2H18 Financials

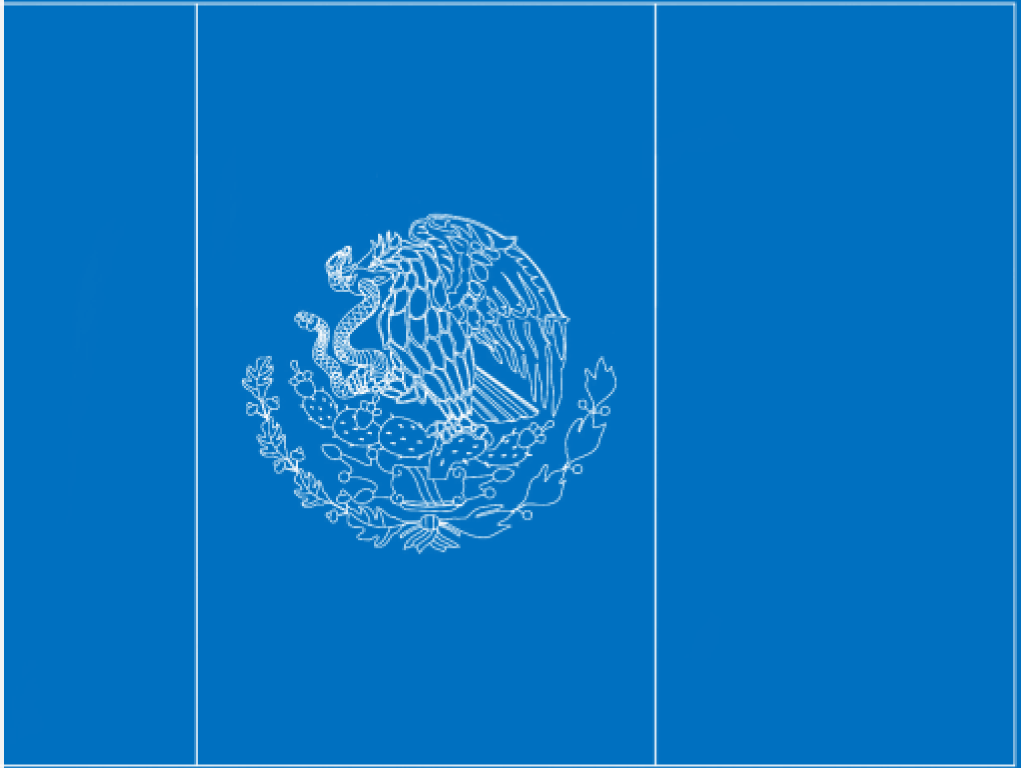
- Gross debt increased US$19mm h/h to US$475mm. Cash increased US$32mm h/h to US$100mm. Net debt decreased US$12mm h/h to US$376mm.
- Restricted cash decreased US$12mm h/h. No additional note disclosed.
- LHA gross and net leverage both decreased h/h to 2.8x and 2.2x, respectively.

Growing Capex of Large Chinese Oil & Gas Producers

- There are three major state-owned oil & gas companies in China: China Petroleum & Chemical Corporation ("Sinopec"), China National Petroleum Corporation, ("CNPC") and China National Offshore Oil Corporation ("CNOOC"). Their 2019 guidance on capex in exploration and drilling are as follows.
    - Sinopec: US$9bn in 2019 vs US$6bn in 2018. 41% y/y increase.
    - CNCP: US$33bn in 2019 vs US$29bn in 2018. 16% y/y increase.
    - CNOOC: US$2.0bn to US$2.3bn in 2019 vs US$1.5bn in 2018. 39% to 58% y/y increase.

ANTOIL (US$mm)	2H18	1H18	2H17	y/y	h/h
Gross debt	475	456	523	(9%)	4%
- ST	142	142	228	(38%)	(0%)
- LT	334	314	295	13%	6%
Cash	100	68	174	(43%)	46%
Net debt	376	388	349	8%	(3%)
LHA gross leverage	2.8x	3.2x	4.1x	(1.3x)	(0.4x)
LHA net leverage	2.2x	2.7x	2.7x	(0.5x)	(0.5x)

ANTOIL (US$mm)	2H18	1H18	2H17	y/y	h/h
Inventories	113	101	90	25%	11%
Total A/R	348	388	335	4%	(10%)
Total A/P	176	211	206	(15%)	(16%)
Net WK, B-S ending numbers	285	279	219	30%	2%



MEXICO

MARKET OUTPERFORM (MEXICO):

ALPHSA 10.00% 22s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
ALPHSA 10.00% 12/19/2022	$300	B1 / B+ / -	96.50	11.18%

AlphaCredit is a Mexican payroll lender with a core focus on Federal Government employees. Payroll loans account for 94% of the total loan portfolio with the remaining 6% focused on SMEs. Recent banking regulation proposal in Mexico is focused on banks, particularly service fees charged to consumers. Even under an unlikely extreme interest rate cap scenario, we see positive returns on a "Plan B" in simply collecting the existing loan book. We note Alpha's stable asset quality. During 3Q18, loan growth outpaced net debt as the ratio improved to 122%, reversing historical trends as well as stable other A/R. We note the ratio increased to 136% in 4Q18, due to deferred tax payments. We await for 1Q19 earnings to see the trend evolution and an update, if any, on Alpha's guidance for a 30% y/y loan growth in 2019.

PROS:
- High portfolio growth, increasing by 44% in 2018 and nearly 5x since 4Q15
- Payroll loans accounted for 94% of gross loans
- Main customers are Federal organizations (Government, Health, Education, etc.)
- Diversifying portfolio as Colombia accounted for 12% of gross loans, as well as SME loans reaching 6% of gross loans as of 4Q18
- ALPHSA's portfolio seems to carry higher yields than peers as they target a broader range of customers, including lower income public sector employees
- Stable asset quality with NPLs and provisioning towards industry lows
- 59% of the total debt is USD denominated, with 100% of it being fully hedged
- Not impacted by recent regulatory proposals, although this could change in the future, we currently see unlikely further regulation
- Experience in operating in interest rate cap environments such as Colombia
- Feasible "Plan B portfolio run-off" under unlikely extreme interest rate cap scenario

CONS:
- The Mexican Government dictates policies on unionized state and federal public sector organizations, subject to continuing uncertainty
- Rotation of administrators within Government entities and labor unions may affect current and future award of contracts
- Unsecured PDL loans, limiting collection if customers are terminated
- Expensive operations as admin. expenses continue to increase
- Potential collection difficulties (per OM disclosure from 4Q16 to 2Q18)
    - Accrued interest increased from 15% of gross loans to 22%
    - Other A/R increased from 13% of loans + other A/R to 17%
    - Net Debt / Loans (excl. A/R and Accrued) moved from 142% to 162%
- Negative 11% tangible capitalization due to the intangible assets resulting from past acquisitions of loan originators
- Secured debt accounted for 44% of total loans in 4Q18

MARKET OUTPERFORM (MEXICO):

ALPHSA 10.00% 22s

Recent 4Q18 Earnings – Mixed

- 4Q18 Loan portfolio increased by 7% q/q to MXN$8,733 mm (US$435 mm), 44% on a y/y basis driven by strong PDL growth in both Mexico and Colombia
  - Mexico's PDL's increased by 7% q/q to MXN$6,720 mm, increasing by 35% y/y
  - Colombia's PDL's increased by 17% q/q to MXN$1,041 mm, more than doubling from 4Q17
  - PDL and ACH loans represent 94% of the total loan book, with 12% of total loans in Colombia
- Interest income increased by 9% q/q to MXN$716 mm (US$36 mm), in line with overall loan growth
  - Fees collected remained high from recoveries, noting the company expects 2/3's to be recurring from origination fees and other leasing income
  - Adj. for the fee disclosure, LQA portfolio yield was 34%, remaining stable from last quarter
- Interest expense increased by 9% q/q to MXN$534 mm (US$27 mm), excl. fees paid as well
  - Our calculated LQA avg. cost of funds was 15%, remaining flat vs last quarter
- Adj. for fee disclosure, the NIM margin was 9%, compared to 8% last quarter but lower than the 10% in 4Q17
- The efficiency ratio was 63%, vs 82% during 4Q17, as admin. expenses have remained flat despite the strong loan growth

ALPHACREDIT (MXN MM)	4Q18	3Q18	4Q17	q/q	y/y
Interest Income	716	659	522	9%	37%
Interest Expense	534	492	369	9%	45%
Net Interest Income	182	167	153	9%	19%
Admin. Expenses	231	220	206	5%	12%
Net Operating Profit	106	89	5	19%	2,020%
ALPHACREDIT (MXN MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Assets	17,023	17,338	16,460	(2%)	3%
Total Debt	13,263	12,720	12,286	4%	8%
Cash & Equivalents	1,851	3,114	4,920	(41%)	(62%)
Net Debt	11,412	9,606	7,366	19%	55%
Total Loan Portfolio	8,733	8,174	6,084	7%	44%
Net Debt / Net Total Loans	**136%**	**122%**	**127%**		
Equity	2,262	2,129	2,310	6%	(2%)
Equity / Total Assets	13%	12%	14%		
Total Debt / Equity	586%	597%	532%		
NIM	9%	9%	10%		
Efficiency Ratio (excl. provisions)	63%	64%	82%		
NPL %	3.0%	3.3%	3.7%		
LQA Provision %	1.4%	1.6%	2.6%		
LQA Charge-offs %	0.8%	(1.8%)	1.8%		

MARKET OUTPERFORM (MEXICO):

ALPHSA 10.00% 22s

Recent 4Q18 Earnings – Continued

- We highlight the negative tangible equity / total assets at -11%, due to a MXN$3,712 mm valuation of ALPHSA's contract agreements from acquiring originators
- The total debt increased to MXN$13,263 mm (US$675 mm), with cash decreasing to MXN$1,851 mm (US$94 mm)
    - Cash decrease was driven by lower A/P, primarily from year-end taxes paid
- Net Debt to loan portfolio reached 136%, vs 122% during last quarter – returning to historical trends (excl. last quarter) with net debt outpacing loan growth
- The NPL% improved to 3.0%, vs 3.3% during last quarter
- 2019 Guidance:
    - Alpha expects loan growth to be around 30% y/y with similar NPL levels at 3.0%
    - Net debt / equity ratio is 5.0x, with Alpha expecting to raise equity when the ratio reaches 6.0x

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MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
CYDSA 6.25% 10/04/2027	$330	- / BB / BB+	97.00	6.72%

CYDSA is a chemical producer and distributor of household and industrial salt, with salt being the main raw material for its chlorine and caustic soda processes. The company also distributes refrigerant gases. Revenues have increased significantly with improved EBITDA margins due to the completion of an aggressive capex plan. FCF burn began to moderate in 2018, as the LPG storage system became fully operational. CYDSA fitted one of its old salt caves to store LPG and other petrochemicals. FCF burn has caused CYDSA's total debt to increase yet managing to keep leverage ratios stable due to improving EBITDA and should decrease as FCF improves. Once operational, the LPG cave raised non-recourse project financing and is expected to transfer the majority of the proceeds back to the restricted group – we estimate 1.5x pro forma net leverage.

PROS:

- Vertically integrated model with access to raw materials for salt production, the main raw material for its other petrochemical processes
- Market leader in household and industrial salt in Mexico
- Domestic deficit in caustic-soda production
- An adverse NAFTA scenario would benefit domestic operations, primarily caustic-soda and chlorine, as imports would be affected. 93% of revenues are domestic with little to none raw material imports
- The current natural hedge is made up with about 71% of the total revenues being either in USD or USD linked
- CYDSA has one of the highest petrochemical EBITDA margins, as well as two operational cogeneration plants covering its entire energy needs
- The now operational LPG storage cave accounts for 15% of EBITDA, although its currently not part of the restricted group
- The LPG cave raised US$157 mm non-recourse project financing, the proceeds were used to refinance MXN loans and will transfer the rest back to the restricted group
    - Our estimated pro forma LTM net leverage at the obligor group would be 1.5x (excl. LPG storage EBITDA and project finance)

CONS:

- Low control on product pricing due to commodity nature
- Only 7% of total revenues are exports
- Operating margins are depend on raw material and energy prices
- Dependent on Pemex for natural gas supply
- Significant lag if migrating to new technologies or products is required
- Capex intensive operations for both improvements and new projects
- Increased environmental regulations, as well as dependency on current water supply concessions
- Reduced hedged amt. to US$225 mm, from the previous US$330 mm

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Recent 4Q18 Earnings – Soft

- 4Q18 Revenue decreased by 12% q/q to US$129 mm, increasing by 4% on a y/y basis
  - Salt & chlorine-caustic soda sales decreased by 7% q/q to US$89 mm, driven by chemical commodity pricing and partially offset by higher salt activity
  - Refrigerant gases & LNG storage revenues decreased by 22% q/q to US$40 mm, yet increasing by 17% y/y as the LNG storage business is fully operational
  - Domestic revenues accounted for 93% of total sales during the quarter
- EBITDA decreased by 21% q/q to US$34 mm, yet increasing by 9% on a y/y basis
  - Sequentially, EBITDA decline was in line with lower revenue coupled with higher COGS
  - Y/Y growth was due to primarily from higher commodity prices and the fully operational LNG storage business
  - EBITDA margin was 26%, vs 29% last quarter and 25% during 4Q17
- FCF burn was US$31 mm, driven primarily by high capex and working capital
  - Historically, the company's 4Q capex deployments have been higher than the normalized levels
  - Working capital expanded primarily from higher A/R

CYDSA (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Revenue	129	147	124	(12%)	4%
EBITDA	34	43	31	(21%)	9%
EBITDA margin	26%	29%	25%	-	-
CYDSA (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	476	381	378	25%	26%
Cash & Equivalents	129	88	66	46%	97%
Net Debt	347	292	313	19%	11%
Total Debt / LQA EBITDA	3.5x	2.2x	3.0x	1.3x	0.5x
Net Debt / LQA EBITDA	2.5x	1.7x	2.5x	0.9x	0.0x
CYDSA (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
EBITDA	34	43	31	(21%)	9%
Interest paid	(17)	(3)	(7)	(407%)	(130%)
Capex	(34)	(14)	(36)	(140%)	6%
Working capital	(11)	4	(0)	-	-
Taxes paid	(3)	(3)	(6)	5%	50%
FCF	**(31)**	**26**	**(19)**	-	(61%)

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Recent 4Q18 Earnings – Continued

- Total debt increased to US$476 mm, with cash increasing to US$129 mm
    - Debt increase was due to the LNG storage subsidiary acquiring an 18-year US$157 mm non-recourse loan to improve the project's capital structure
        - A portion of these proceeds was used to liquidate the remaining MXN revolving credit line
        - We understand the remaining proceeds are to be transferred to the restricted group, potentially resulting in even better credit metrics for the bond issuer
        - Our estimated pro forma LTM net leverage at the obligor group would be 1.5x (excl. LNG storage EBITDA and project finance)
    - CYDSA increased its hedge position to cover US$225 mm until October 2022
- Annualized gross and net leverage are 3.5x and 2.5x, respectively
    - On an LTM basis, gross and net leverage are 2.9x and 2.1x

(US$ MM)	CYDSA	ALPEK	MEXICHEM	BRASKEM
	LTM	LTM	LTM	LTM
Total Revenue	553	6,990	7,198	15,866
Adj. EBITDA	162	803	1,397	3,104
Interest paid	(35)	(106)	(222)	(524)
Capex	(70)	(118)	(283)	(733)
Working capital	(17)	(293)	93	(2)
Taxes paid	(32)	(91)	(226)	(257)
FCF	**9**	**196**	**760**	**1,587**
Total Debt	476	2,044	3,571	9,712
Cash	129	212	700	2,043
Net Debt	347	1,832	2,871	7,669
LTM Gross Leverage	2.9x	2.5x	2.6x	3.1x
LTM Net Leverage	2.1x	2.3x	2.1x	2.5x
Pro-Forma LTM Net Leverage	**1.5x**			
EBITDA margin	29%	11%	19%	20%
Rating	-/BB/BB+	Baa3/BBB-/BBB-	Baa3/BBB-/BBB	Baa3/BBB-/BBB
Maturity	2027	2023	2027	2028
Mid YTM	6.72%	4.16%	4.34%	4.87%
Spread to Sovereign (bps)	**285**	**21**	**39**	**35**

MARKET OUTPERFORM (MEXICO):

UNIFIN 7.38% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
UNIFIN 7.38% 2/12/2026	$300	- / BB / BB	95.50	8.25%

UNIFIN is the largest independent leasing company in Mexico with a focus on SME clients. SMEs accounted for 99% of total domestic enterprises and 52% of the GDP, whilst only receiving 25% of the country's financing in 2016, according to the issuer. This has enabled UNIFIN to aggressively increase its leasing portfolio, which is either leased or rented to clients, in addition to a loan book. We highlight that the company conducts its operations mostly through operating leases, keeping the risk and rewards of the owned underlying assets and in our view are more distant from potential regulatory concerns. As of 1Q19, UNIFIN adopted IFRS improving disclosure. The loan book was adjusted downwards by 14%, yet the asset quality showed NPLs at 3.7%. Financial metrics deteriorated as the leasing amortizations are no longer recorded as revenue, yet the net income remained essentially flat. UNIFIN's available bank lines and securitizations provide cushioning for continued loan growth, expected between 15% and 20% for 2019.

PROS:

- Largest independent leasing company in Mexico in terms of loan portfolio
- Focused on SME, offering machinery and equipment rental, leasing, factoring, working capital financing and auto loans
- Distant from recent regulatory efforts, as the their products are operating leases focused on SMEs and not consumer loans
- Reported 1Q19 earnings under IFRS, providing improved transparency
- UNIFIN's leasing portfolio accounted for 77% of gross loans in 1Q19
- Aggressive portfolio growth backed by the leased assets, with 26% y/y growth in 1Q19
- Despite the aggressive portfolio growth, the company's opex have been relatively flat as well as keeping the Net Debt / Net Total Loans ratio stable
- 52% of the total debt is USD denominated, with 100% of it being fully hedged
- Secured debt accounts for 32% of the total loans
- IFRS disclosure showed total loan NPLs at 3.7%, with leasing loan NPLs at 4.3%

CONS:

- Macroeconomic factors, such as USMCA, can affect client profit margins and therefore their ability to pay existing leasing contracts
- Mexico's recent economic slowdown in 1Q19 affected loan origination
- Leasing loans NPV under IFRS was 16% lower than the previous value
- Yield and NIM metrics deteriorated as the leasing amortizations are no longer recorded as revenue
- Expensive USD issuances may represent underlying funding concerns
- UNIFIN's total debt is 11x its equity value (excluding the PERP)
- The PERP issuance is treated as equity and not included in the company's reported indebtedness and cost of funds
- Growth in net debt (including the PERP) outpacing total loan expansion in recent quarters, but remains flat y/y

MARKET OUTPERFORM (MEXICO):

UNIFIN 7.38% 26s

Unifin's IFRS Adoption Highlights:

- Unifin ceased being a SOFOM and therefore adopted IFRS reporting in order to provide greater transparency
- Under Mex GAAP revenues included interest, principal amortizations and asset sales at contract end
    - The leasing loans were off-balance sheet memorandum accounts, with the underlying assets included within the company's PP&E
    - Reported NPLs were only three missed rental payments, although recently began reporting the full future rental amounts as NPLs
- Under IFRS revenue is only the interest income and commission fees, with asset sales at contract end being recorded as other income
    - The NPV of the leasing contracts is reported on the balance sheet, with PP&E no longer including any leased assets
    - NPLs are the full NPV of the leased contracts with the company provisioning the NPV value above its estimated recovery of 40%
- As a result, the 4Q18 total loan portfolio under IFRS was adjusted downwards by 14% to MXN$44.5bn (US$2.3bn) vs MXN$52.1bn (US$2.7bn)
    - The leasing loans NPV was MXN$34.7bn, 16% lower than the previously reported MXN$40.9bn leasing portfolio
    - However, the net income for 2018 only decreased by 7% to MXN$1.8bn vs the previous MXN$1.9bn
    - The previous loan amortization revenue was mostly offset by the D&A expense on the leased assets
    - Both are no longer recorded in the income statement under IFRS. Lease amortization payments are found on the cash flow statement

UNIFIN (MXN MM)		Under IFRS	Our Previous Estimate	
Asset Quality	**1Q19**	**1Q18**	**4Q18**	**1Q18**
Leasing NPL %	4.3%	4.3%	5.4%	4.8%
Factoring NPL %	5.2%	0.8%	2.7%	2.3%
Auto loans & others NPL %	0.5%	0.2%	-	-
Consolidated NPL %	**3.7%**	**3.4%**	**3.9%**	**3.5%**

MARKET OUTPERFORM (MEXICO):

UNIFIN 7.38% 26s

Unifin's IFRS Adoption Highlights - Continued

- There are no fiscal or legal impacts in adopting IFRS, for Unifin nor its SME clients
- Under IFRS, the leasing NPLs are 4.3% vs our previous calculation at 5.4% - based on the previous leasing A/R in the balance sheet
    - The consolidated NPLs are 3.7% vs our estimated 3.9% during last quarter

Recent 1Q19 Earnings under IFRS – Soft

- 1Q19 Loan portfolio grew by 2% q/q to MXN$45,238 mm (US$2,348 mm), increasing by 26% on a y/y basis
    - Leasing loans increased by 1% q/q to MXN$34,722 mm, due to Mexico's economic slowdown in the beginning of the year from macro and political uncertainty
    - The leasing portfolio accounted for 77% of the total loans, whilst auto loans accounted for 17%
- Interest income remained flat q/q at MXN$2,418 mm (US$126 mm), yet increasing by 27% y/y in line with the loan growth
    - The avg. yield was 20% vs the previously reported 37% last quarter as revenues no longer include amortization payments
- Interest expense remained stable q/q at MXN$1,538 mm (US$80 mm), yet increasing by 25% y/y following the incremental indebtedness
    - Incl. the PERP issue, the avg. cost of funding improved slightly to 11.3% vs 11.5% last quarter

UNIFIN (MXN MM)	1Q19	4Q18	1Q18	q/q	y/y
Total Revenue	2,418	2,412	1,910	0%	27%
Interest Expense	1,538	1,553	1,228	(1%)	25%
Net Financial Margin	854	826	607	3%	41%
Net Operating Profit	429	412	346	4%	24%
UNIFIN (MXN MM)	1Q19	4Q18	1Q18	q/q	y/y
Total Assets	61,915	61,178	49,493	1%	25%
Total Debt (incl. PERP)	54,518	52,206	42,505	4%	28%
Cash & ST Securities	4,346	3,571	5,252	22%	(17%)
Net Debt	50,172	48,635	37,253	3%	35%
Total Loan Portfolio, net	45,238	44,498	35,866	2%	26%
Net Debt / Net Total Loans	**111%**	**109%**	**104%**		
Equity (incl. PERP)	9,448	10,480	8,274	(10%)	14%
Equity / Total Assets	15%	17%	17%		
Total Debt / Equity	577%	498%	514%		
NIM	5.4%	6.0%	5.0%		
Efficiency Ratio (excl. provisions)	41%	35%	40%		
NPL %	3.7%	n/a	3.4%		
LQA Provision %	0.4%	0.5%	0.5%		
LQA Charge-offs %	n/a	n/a	n/a		

MARKET OUTPERFORM (MEXICO):

UNIFIN 7.38% 26s

Recent 1Q19 Earnings under IFRS – Continued

- The efficiency ratio and NIM moved to 41% and 5.4%, vs the previous 25% and 9.4% - primarily from the exclusion of leasing amortizations
    - Worth noting an increase in admin. expenses as the company launched an aggressive marketing campaign
- Total debt (incl. the PERP) increased to MXN$54,518 mm (US$2,829 mm), while cash was MXN$4,346 mm (US$226 mm)
    - 52% of total debt is USD denominated, whilst 40% is secured debt
    - The company mentioned US$1bn on funding needs for the year, with US$400 mm already secured – primarily to be used for loan growth
- Net debt outpaced net portfolio growth sequentially – reaching 111% of the total loans vs 109% last quarter
- Equity / Total assets declined to 15%
- The consolidated NPLs are 3.7% with leasing NPLs at 4.3% - in line with our estimated NPLs at 3.9% and leasing NPLs at 5.4% during 4Q18

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MARKET OUTPERFORM (MEXICO):

UNIFIN 7.38% 26s

UNIFIN (MXN MM)	1Q19	4Q18	1Q18	q/q	y/y	IFRS FY18	IFRS FY17	IFRS y/y	FY18	FY17
Total Revenue	2,418	2,412	1,910	0%	27%	8,576	6,049	42%	18,943	14,315
Interest Expense	1,538	1,553	1,228	(1%)	25%	5,494	3,822	44%	5,456	3,845
Net Financial Margin	854	826	607	3%	41%	2,871	2,062	39%	3,865	3,240
Net Operating Profit	429	412	346	4%	24%	1,489	969	54%	2,445	2,298

UNIFIN (MXN MM)	1Q19	4Q18	1Q18	q/q	y/y	IFRS FY18	IFRS FY17	IFRS y/y	FY18	FY17
Total Assets	61,915	61,178	49,493	1%	25%	61,178	46,923	30%	67,790	54,615
Total Debt (incl. PERP)	54,518	52,206	42,505	4%	28%	52,206	39,838	31%	55,061	42,664
Cash & ST Securities	4,346	3,571	5,252	22%	(17%)	3,571	2,100	70%	3,907	2,435
Net Debt	50,172	48,635	37,253	3%	35%	48,635	37,738	29%	51,154	40,229
Total Loan Portfolio, net	45,238	44,498	35,866	2%	26%	44,498	33,921	31%	52,070	41,672
Net Debt / Net Total Loans	**111%**	**109%**	**104%**			**109%**	**111%**		**99%**	**97%**
Equity (incl. PERP)	9,448	10,480	8,274	(10%)	14%	10,480	5,217	101%	12,991	7,584
Equity / Total Assets	15%	17%	17%			17%	11%		19%	14%
Total Debt / Equity	577%	498%	514%			498%	764%		424%	563%
NIM	5.4%	6.0%	5.0%			5.3%	5.1%		23.3%	24.3%
Efficiency Ratio (excl. provisions)	41%	35%	40%			38%	43%		10%	10%
NPL %	3.7%	n/a	3.4%			n/a	n/a		3.1%	3.3%
LQA Provision %	0.4%	0.5%	0.5%			0.6%	0.3%		0.5%	0.3%
LQA Charge-offs %	n/a	n/a	n/a			0.0%	n/a		0.0%	(0.5%)

NIGERIA

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
SEPLLN 9.25% 04/01/2023	$350	B2/B-/B-	104.00	8.05%

Seplat is an upstream oil and gas company located in Nigeria, with production of almost 50kboepd, of which nearly half is oil and half is gas. The company operates in five blocks, although the vast majority of its production comes from the OML 4, 38 & 41 blocks situated in the Niger Delta.

PROS:

- Significant reserves. 2P average life of nearly 27 years at Dec-18
- Long USD: USD linked revenues, while part of costs are in NGN
- Production recovered after the disruptions in the TFS export route seen in 2016 and 2017, ending 2018 15% above 2015 levels
- Two current export routes operating normally while a third export route is expected to become operational in coming months
- Strong FCF generation
- Very low leverage with cash position above debt levels
- OML 4, 38 & 41 concession recently extended for further 20 years

CONS:

- Exposed to militant attacks, which through Feb-16 to Jun-17 resulted in the shut down one of the main (and one of the only two) existing export routes
- Production concentrated in the OML 4, 38 & 41 blocks (96% of total)
- ANOH project could pressure capex as Seplat is financing US$210mm of equity (30% of total capex) and plant will not be commissioned until 2021, although we expect it to be financed with own cash generation and net leverage to remain low
- Recent comments have suggested possibility of using vast cash position for M&As

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

SMALL CAP EMERGING MARKETS B/BB E&P PEER TABLE

(US$ MM)	Seplat	CGC	Tecpetrol	Frontera	Gran Tierra	Geopark	Tullow	Kosmos
Country	Nigeria	Argentina	Argentina	Colombia	Colombia	Chile	Pan African	Pan African
Mid yield (%)	8.28%	12.02%	7.02%	8.27%	7.04%	6.28%	5.98%	7.13%
Rating (M/SP/F)	B2/B-/B-	-/B-/B	Ba3/-/BB+	-/BB-/B+	-/B+/B+	-/B+/B+	B3/B/-	-/BB-/BB
Bond maturity	2023	2021	2022	2023	2025	2024	2022	2026
Amt Out (US$mm)	350	300	500	350	300	425	650	$650
	4Q18	**FY18 (ARS*)**	**4Q18**	**4Q18**	**4Q18**	**4Q18**	**2H18**	**4Q18**
Oil & Gas prod (kboed)	46.7	31.5	107.0	63.9	36.2x	38.7	83.7	66.2
Revenue	178	17,709	293	243	137	151	1,013	310
EBITDA	87	9,332	183	118	85	86	836	155
FCF	77	1,224	(221)	(81)	(14)	(23)	140	103
Gross debt	446	16,918	1,448	334	399	447	4,631	2,121
Net debt	(139)	15,557	1,435	(112)	316	319	4,452	1,947
LQA Gross leverage	1.3	1.8x	2.0x	0.7x	1.2x	1.3x	2.8x	3.4x
LQA Net leverage	n/a	1.7x	2.0x	n/a	0.9x	0.9x	2.7x	3.1x

**Due to inflation adjustment 2018 figures were provided on real terms and full yearonly*

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Analysis of 4Q18 results:

- Revenue decreased 21% q/q to US$178mm as production decreased 7% and realized price on oil was down 11%, while on gas dropped 17%
    - Working interest production totaled 47kbpd in 4Q18 and 49.9kbpd in 2018, with a guidance of 49-55kbpd for 2019
    - The two current export routes are operating normally since mid-17, while ramp-up of the third export route (Amukpe-Escravos), with a 160kbpd capacity, has been longer than planned but now expected to be commissioned in 2Q19
- EBITDA dropped 36% q/q to US$87mm
- Despite EBITDA drop, FCF remained strong at US$77mm, and US$415mm for the FY18
- Gross debt decreased 17% q/q to US$446mm due to the prepayment of revolving credit facilities, which now have a zero balance out of a US$350mm facility maturing 2022
- Cash position remains above debt
- Annualized gross leverage increased to 1.3x from 1.0x in previous quarter
- Year-end 2P reserves (no disclosure of 1P) were 480.5mmboe, resulting in 25 years average at 2019 production guidance, and 16 years in its main concession (OML 4,38 & 41)

Seplat (US$MM)	4Q18	4Q17	3Q18	y/y	q/q
Revenue	178	174	225	3%	(21%)
EBITDA	87	81	136	8%	(36%)
EBITDA margin	49.0%	46.8%	60.5%		

Seplat (US$MM)	4Q18	4Q17	3Q18	y/y	q/q
Total Debt	446	570	537	(22%)	(17%)
Cash and Equivalents	585	437	634	34%	(8%)
Net Debt	(139)	133	(97)		
Leverage (Total Debt/LQA EBITDA)	1.3	1.8	1.0		
Net leverage (Net Debt/LQA EBITDA)	n/a	0.4	n/a		

Seplat (US$MM)	4Q18	4Q17	3Q18
EBITDA	87	81	136
Working capital	28	203	3
Capex	(59)	(11)	(8)
Receipts from OML 55	22	13	11
Interest paid	(1)	(18)	(19)
Taxes paid	-	-	-
FCF	**77**	**268**	**124**

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Analysis of 4Q18 results:

ANOH project and 2019 capex guidance

- Capex guidance for 2019 is estimated at US$200mm, significantly above the US$88mm of 2018, although we think it could be financed with own cash generation considering 4Q18 FCF and part of the existing cash position if needed
    - Limited capex in 2018 was because the company awaited outcome of the license renewal in its main concession (OML 4, 38 & 41), which was finally granted until 2038
- Additionally, the company made the Final Investment Decision at the ANOH project
- ANOH is a gas processing plant, which in its first phase is expected to process 300MMcfd of gas from OML 53, an onshore block which is 40% operated by Seplat and 60% by NNPC
- Additionally, the plant will be operated by AGPC, a 50/50 JV between Seplat and Nigerian Gas Company
- The totaled gross planed investment is US$700mm, made up of US$420mm equity contribution and US$280 debt funding, mostly senior debt while the reminding vendor financing
- Seplat equity share contribution amounts to US$210mm, not included in above's capex guidance
- First gas on ANOH is expected for 1Q2021

Seplat (US$MM)	4Q18	4Q17	3Q18	y/y	q/q
Revenue	178	174	225	3%	(21%)
EBITDA	87	81	136	8%	(36%)
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FCF	77	268	124

MARKET OUTPERFORM (NIGERIA):

FIDBAN 10.5% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
FIDBAN	$350	B2/B-/B-	105.63	8.60%

Fidelity bank is a second-tier commercial bank in Nigeria, with a market share of around 4% in total assets. The bank has a network of 240 branches, 808 ATMs and nearly 4.5 million accounts. 98% of its shares are free float in the local exchange with over 400k shareholders.

PROS:

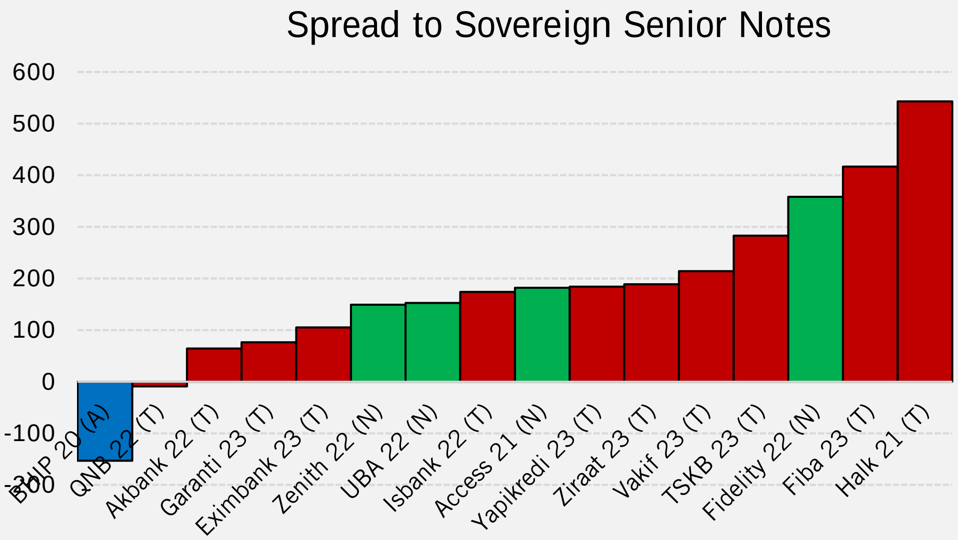
- NPLs of 5.7% are below system`s average and fully covered through allowances
- Sound capitalization 170bps above minimum 15% requirement
- Strong liquidity, with cash and equivalents position amounting to nearly 90% of deposit base and 56% of total funding.
- Lower concentration on oil and gas sector compared to peers, although still high at 23%
- Strong interest collected to accrued of 95% in FY18
- With Diamond bank being purchased by Access and its Eurobonds being repaid next May, Fidelity will be the only tier-2 bank in Nigeria with bonds outstanding

CONS:

- Efficiency ratio on the higher end among peers at 71% in FY18
- Lower NIM than peers given by its driven by its more expensive deposit base, which in turn is lower in total financing compared with tier-1 banks
- High share of stage II loans, accounting for 20% of total loans
- CEO Nnadmi Okonkwo and other two directors of the banks have been parts of a US$153mm fraud accusation in a long dispute with ruling party

MARKET OUTPERFORM (NIGERIA):

FIDBAN 10.5% 22s



A = Argentine (blue) N = Nigerian (green) T = Turkish (red)

UNIVERSE AVERAGE = 183bps
TURKISH BANKS = 204bps
NIGERIAN BANKS = 210bps
ARGENTINE BANKS = (153)bps

Source: Bloomberg as of 04/04/2019

MARKET OUTPERFORM (NIGERIA):

FIDBAN 10.5% 22s

Analysis of 4Q18 results:

Asset quality
- Loans and advances increased 2% q/q to N$907bn (US$2.5bn)
- NPLs improved 30bps q/q to 5.7%, strengthening 70bps throughout the year
- Stage 2 loans remain high at 20%
- Coverage remains above 1x at 110%
- Cost of risk in the year decreased to 50bps from 150bps in 2017
- Interest collected per cash flow to interest accrued per income statement recovered in 4Q18, ending the year at a strong 95%

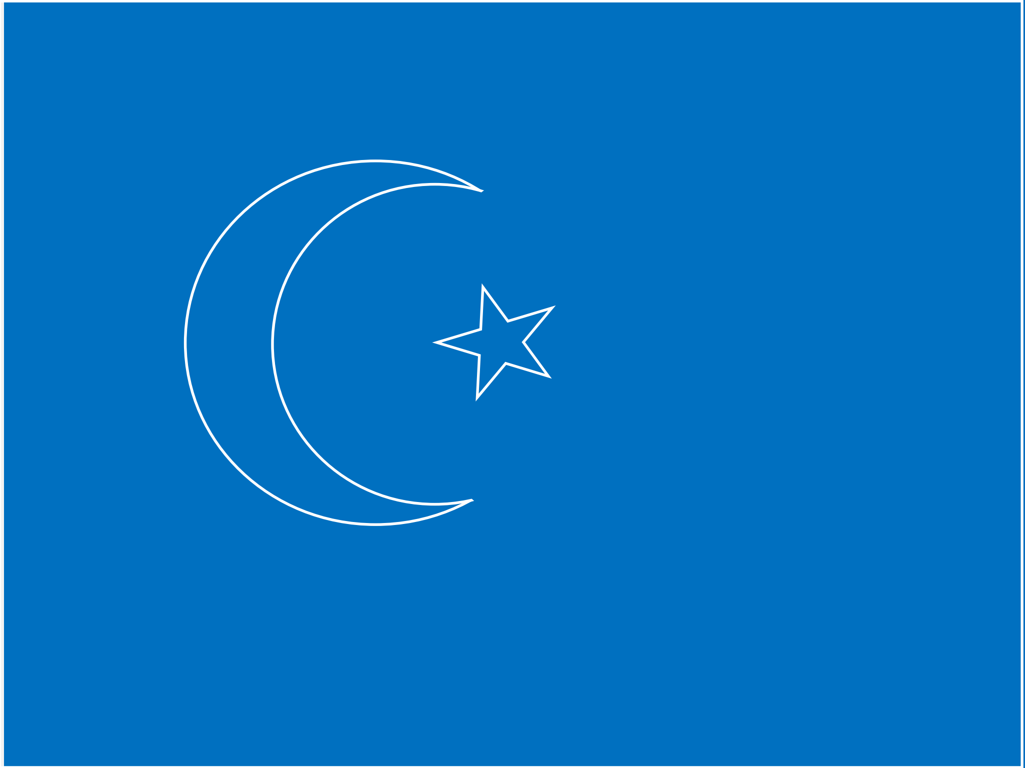
Profitability
- Net interest income before provisions increased 16% y/y to N$19bn (US$51mm)
- NIM in FY18 weakened 120bps to 5.8% as average decline in return on assets outpace lower funding costs
- Operating expenses increased 12% y/y to N$22bn (US$60mm), mostly in line with inflation levels
- Cost / Income ratio deteriorated 250bps in 2018 to 71.1%
- ROAA and ROAE of 1.5% and 11.8%

Liquidity
- Deposit base decreased 1% q/q to N$979bn (US$2.7bn)
- Gross loans to deposit ratio slightly increased to 93%
- Liquidity is vast, with cash and equivalents accounting for 70% of deposit base and 56% of debt funding sources

Capitalization
- Total CAR decreased 30bps q/q to 16.7%, 170bps above minimum requirement
- TIER1 ratio declined 36bps q/q to 14.5%

FIDBAN (N$bn)	4Q18	4Q17	3Q18	y/y	q/q
Financial income	40	39	40	4%	0%
Financial expenses	(22)	(23)	(20)	(4%)	8%
Net interest income before provision	19	16	20	16%	(8%)
Provisions	(1)	(4)	(1)	(77%)	35%
Income from services, net	1	3	4	(76%)	(81%)
Operating expenses	(22)	(19)	(18)	12%	21%
NIM	5.8%	7.0%	6.7%		
Cost / Income	71.1%	68.6%	68.4%		
Estimated ROAA	1.1%	1.0%	1.5%		
ROAE	11.8%	8.8%	13.9%		

FIDBAN (N$bn)	4Q18	4Q17	3Q18	y/y	q/q
Loans and advances	907	769	888	18%	2%
Total deposits	979	775	987	26%	(1%)
NPL / gross loans	5.7%	6.4%	6.0%		
Loans to Deposits	92.6%	99.2%	89.9%		
Cash and equivalents to deposits	70.0%	61.4%	61.0%		
Capital Ratio	16.7%	16.0%	17.0%		



TURKEY

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
VAKBN 6.00% 11/01/2022	$672	Caa1/-/B	88.00	10.12%

VakifBank is Turkey's third largest state-owned bank, 58% owned by the General Directorate of Foundation and 16% by Vakif pension fund, while the remaining 25% of shares are free float. Additionally, the bank is the seventh largest bank in Turkey in terms of loans with a 9% market share

PROS:

- Fifth largest bank in Turkey with more than nine hundred branches
- State support
- Subordinated 22s are old style Basel II compliant, not subject to write down clauses under non-viability event
- As 20% per year of the sub 22s stop counting as TIER 2 capital, we think incentivizes for the issuer to repurchase back notes continues to increase. More than US$220mm have already been bought back since issuance
- Higher total capital ratio than the other state owned banks and general industry
- Strong liquidity position
- Low stage 2 loans compared to the rest of the industry

CONS:

- NPLs at 4.7% above general industry levels (3.8%), although with guidance of 6% for the year in line with general industry
- High loan to deposit ratio at 130%
- 22s are subordinated bonds, which will be subject to higher volatility under unfavorable macroeconomic conditions
- Repurchases of the 22s have been low in the past year and being made opportunistically in the market instead of with a tender
- Unfavorable Halk developments in the US could add pressure to other state owned banks in Turkey

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

4Q18 (TRY MM)	Ziraat	Isbank	Halk	Garanti	Vakif	Yapikredi	Akbank	QNB	TSKB	Albaraka	Odea	Eximbank	Alternatif	Fiba
Asset quality											**3Q18**	**1H18**		
Loans (TRYbn)	371	260	251	243	232	235	214	95	28	27	24	22	18	15
NPLs (%)	2.0%	4.1%	3.2%	5.2%	4.7%	5.3%	3.8%	6.1%	2.1%	6.9%	7.6%	0.3%	4.5%	4.2%
Stage 2 loans	5%	9%	6%	15%	9%	14%	13%	10%	10%	19%	18%	1%	10%	11%
Interest collected / interest accrued	89%	93%	92%	84%	84%	81%	84%	83%	81%	90%	94%	90%	88%	99%
Liquidity														
Deposit base (TRYbn)	331	245	249	245	179	210	209	87	-	29	23	-	14	11
Loans to deposits	115%	111%	104%	105%	130%	119%	103%	118%	n/a	95%	97%	n/a	134%	130%
Cash and equivalents / Funding sources	33%	36%	36%	38%	30%	38%	37%	33%	23%	36%	34%	6%	31%	25%
Profitability (FY18)														
NIM	5.0%	3.7%	2.8%	5.3%	4.3%	4.0%	4.6%	5.0%	4.9%	2.8%	3.6%	0.6%	2.6%	4.6%
Cost / Income	34.3%	37.2%	50.5%	35.6%	34.5%	34.2%	32.3%	39.2%	10.8%	59.9%	44.8%	26.9%	33.2%	38.4%
ROAA	1.6%	1.7%	0.7%	1.7%	1.4%	1.4%	1.6%	1.6%	2.0%	0.4%	0.0%	0.8%	0.9%	1.0%
ROAE	15.2%	14.8%	9.3%	15.0%	16.1%	14.2%	13.6%	18.1%	16.0%	4.3%	0.0%	14.2%	12.1%	14.1%
Capitalization														
Total CAR	14.8%	16.5%	13.8%	16.5%	17.0%	14.8%	16.8%	15.4%	11.1%	14.7%	23.4%	19.8%	16.3%	19.5%
CET1	13.8%	13.7%	10.7%	14.2%	11.7%	11.4%	12.6%	11.7%	16.2%	7.6%	15.5%	14.0%	7.2%	9.5%
FX position / shareholders equity	(1%)	1%	1%	5%	1%	2%	5%	(4%)	0%	41%	10%	6%	25%	15%

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

Spread dif Apr19 vs Mar18

Senior vs Subordinated spread	Spread (bps)
AKBNK 22 vs 27	109
GARAN 22 vs 27	26
ISCTR 22 vs 28	144
ISCTR 22 vs 22	138
TSKBTI 23 vs 27	53
VAKBN 22 vs 27	96
VAKBN 22 vs 22	74
YKBNK 26 vs 22	1
YKBNK 22 vs 22	91
FCFIN 23 vs 27	(65)

APRIL 4, 2019

Senior vs Subordinated spread	Spread (bps)
AKBNK 22 vs 27	272
GARAN 22 vs 27	168
ISCTR 22 vs 28	305
ISCTR 22 vs 22	187
TSKBTI 23 vs 27	216
VAKBN 22 vs 27	285
VAKBN 22 vs 22	135
YKBNK 26 vs 22	316
YKBNK 22 vs 22	201
FCFIN 23 vs 27	60

MARCH 14, 2019

Senior vs Subordinated spread	Spread (bps)
AKBNK 22 vs 27	215
GARAN 22 vs 27	223
ISCTR 22 vs 28	236
ISCTR 22 vs 22	155
TSKBTI 23 vs 27	193
VAKBN 22 vs 27	265
VAKBN 22 vs 22	156
YKBNK 26 vs 22	285
YKBNK 22 vs 22	127
FCFIN 23 vs 27	71

MARCH 28, 2018

Senior vs Subordinated spread	Spread (bps)
AKBNK 22 vs 27	163
GARAN 22 vs 27	142
ISCTR 22 vs 28	161
ISCTR 22 vs 22	49
TSKBTI 23 vs 27	163
VAKBN 22 vs 27	189
VAKBN 22 vs 22	61
YKBNK 26 vs 22	315
YKBNK 22 vs 22	110
FCFIN 23 vs 27	125

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

Analysis of 4Q18 results

- Gross loans decreased 6% q/q to TRY232bn (US$43.9bn)
- NPLs increased 80bps q/q to 4.7%, 20bps above the last guidance given and in the mid-range against closest peers, with target of 6% for 2019
  - Stage 2 loans share in total increased although remains manageable and low compared to peers at 9%, targeting low teens for 2019
  - Coverage ratio (Total provisions / NPLs) remains above 1x at 101%, although decreasing from 112% in previous quarter
- Cost of risks for the quarter increased to 190bps from 136bps in previous quarter, ending the year at 169bps compared to 78bps in 2017
- Interest collected per cash flow statement improved to 91% from a low 68% in previous quarter, ending the year at 84%
- Deposit base decreased 6% q/q to TRY179bn (US$33.9bn)
- Loan to deposit ratio remained high at 129%
- Cash liquidity remains sound, with cash and equivalents representing 48% of total deposits and 30% of deposits plus loans and market debt
- Liquidity ratio reported of 112% vs 90% limit and 264% for FX vs 70%
- During conference call, management stated having US$4.0bn in liquidity compared to US$3.7bn maturities for 2019
- In Nov18, the bank rolled over US$1.3bn in syndicated loans at Libor+275bps and Euribor+265bps, reaching a total roll over ratio of 111% in 2018
- Net Interest Income before provisions increased 12% y/y to TRY2,590mm
- NIM dropped 50bps y/y to 3.7%, remaining broadly unchanged in 2018 at 4.3%
- Income from services remains its strong path, growing 98% y/y and 23% q/q to TRY738mm (US$134mm)
- Cost / Income in FY18 strengthened 270bps y/y to 34.5%, although increasing to 45.6% in 4Q18 compared to 37.3% in 4Q17
- ROAA and ROAE of 1.2% and 15.2% in 4Q18 and 1.4% and 16.1% in 2018
- Total CAR increased dropped 20bps q/q to a sound 17.0%
- TIER1 increased 10bps q/q to 13.8%, compared to 9.5% minimum level required for 2019
- CET1 grew 20bps q/q to 11.7%, compared to 8.0% minimum level required for 2019

VAKIF (TRY MM)	4Q18	4Q17	3Q18	y/y
Financial income	10,475	6,161	9,849	70%
Financial expenses	(7,886)	(3,842)	(6,477)	105%
Net interest income before provision	2,590	2,319	3,372	12%
Provisions	(960)	(868)	(2,134)	11%
Income from services, net	738	372	600	98%
Operating expenses	(1,922)	(1,203)	(1,337)	60%
NIM	3.7%	4.2%	5.0%	
Cost / Income	45.6%	37.3%	28.9%	
ROAA	1.2%	1.4%	1.2%	
ROAE	15.2%	15.9%	14.9%	

VAKIF (TRY MM)	4Q18	4Q17	3Q18	y/y
Gross loans	232,406	182,932	246,544	27%
Total deposits	179,408	155,277	190,888	16%
NPL/ loans	4.7%	4.0%	3.9%	
Collection of interest	91.2%	92.3%	67.9%	
Loans to Deposits	129.5%	117.8%	129.2%	
Cash and equivalents to deposits	48.1%	47.9%	48.6%	
Capital Ratio	17.0%	15.5%	17.2%	
CET1	11.7%	12.3%	11.5%	

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
PETKM 5.875% 01/26/23	$500	B1/-/B	92.63	8.18%

Petkim, Turkey's largest petrochemical producer, owned by Azerbaijan state-owned SOCAR group (Ba2/BB-/BB+) through SOCAR Petrokimya with 51% of capital, while 49% are free float on the Istanbul Exchange, with a US$1.4bn market cap. Its petrochemical products, which hold a 18% domestic market share, are important primary components of the construction, electronic, packaging, textile, medical, lying and other related segments

PROS:

- Sole petrochemical domestic producer in the growing Turkish chemical market with the petrochemical industry being classified as of national importance per government
- Expected to become fully integrated in naphtha needs once STAR refinery ramps-up in 2H19, reducing costs by at least US$100mm
- Bonds with cross-default clauses to SOCAR, which trades much tighter than Petkim
- SOCAR has significant presence in Turkey, having invested nearly US$20bn, including nearly US$2.5bn in STAR refinery, demonstrating commitment to its strategy in Turkey
- Expect to collect dividends on minority ownership in STAR (18%) starting 2021. Estimated EBITDA of SOCAR of US$800mm in current market conditions
- Natural FX hedge – 55% of revenue denominated in USD/EUR and the rest in TRY indexed to USD. Exports account for 30% of revenue in turn, while local competition are USD-based imports, making it easier to reprice for currency devaluation

CONS:

- Naphtha margins have been significantly pressured in 2018 and are expected to remain week in 2019 given high competition against peers, specially petrochemical producers with ethane (natural gas) crackers from Middle East
- Week macroeconomic environment can hurt volumes due to FC price indexing
- Goldman Sachs has a put to sell its 13% stake in holdco STEAS to STEAS itself for US$1.3bn until Aug-21, which could pressure Petkim balance sheet to fund the operation. STEAS wholly-owns SOCAR Turkey, holder of 51% of Petkim. The remaining 87% of STEAS is held by SOCAR
- Turkish government has a "golden share" in Petkim carrying special rights, including the right to require Petkim to maintain certain production levels, which might not be economically viable
- Preliminary talks for the construction of a second refinery producing benzines and PTA, to be constructed by SOCAR and Petkim as minority shareholder, intended to further integrate Tupras, Petkim and Star, with capex initially projected at US$1.6bn

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

PETKIM CROSS DEFAULT CLAUSE WITH SOCAR

Per PETKIM's OM:
- "Finally, the SOCAR Group has demonstrated its commitment to Petkim through a cross-default clause in relation to its outstanding bonds"

Per SOIAZ OM:
- Cross default clause with any indebtedness of any member of the Group not paid when due provided that it exceeds US$50,000,000
- "Group" is defined as the Issuer and its Subsidiaries taken as a whole
- Per OM, information included is obtained from the issuer and its subsidiaries (including Petkim Petrokimya Holding A.S. ("Petkim")

PETKIM vs SOCAR	PETKIM 23s	SOIAZ 30s
Yield	8.3%	5.4%
Duration	3.4	8.0
Turkey inter. Yield	6.2%	7.8%
Spread to Turkey (bps)	212	(242)
Azerbaijan inter. Yield	4.0%	5.2%
Spread to Azerbaijan (bps)	435	20

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

Analysis of 4Q18 results

- During the quarter, the company successfully carried out its major maintenance that takes place once every four years, which significantly reduced production by 50% y/y and q/q, although sales volume drop was lower at 26% y/y and q/q
- Revenue came in line with consensus, decreasing 28% y/y and q/q to US$377mm, mostly due to the major maintenance
- EBITDA missed consensus by more than half, decreasing 89% y/y and 90% q/q to US$13mm, due to a significant compression in naphtha margins, which decreased 25% y/y and 25%, although rebounding 6% in the first couple of months of 2019
- Free cash flow was practically neutral due to significant working capital reduction given trade receivable collections and lower inventory
- Capex, including net advances to related parties for STAR refinery construction ended at US$502mm for 2018, while in its conference call management guided a significant reduction to US$50mm for 2019
- Gross debt increased 2% q/q, while net debt grew 4% q/q to US$816mm
- LTM gross and net leverage increased to 4.8x and 2.8x from 1.7x and 0.8x in previous year
- We view the weaker results as driven by planned maintenance works, while we expect free cash generation next year as sales volumes recover and capex declines
- Additionally, we continue to see Petkim being resilient to TRY devaluation and higher crude prices, as the main competitors are import-based

PETKIM (US$ MM)	4Q18	BBG cons	+/-	4Q17	3Q18	y/y	q/q
Revenue	377	378	0%	520	539	(28%)	(30%)
EBITDA	13	31	(57%)	121	136	(89%)	(90%)
EBITDA margin	4%			23%	25%		

PETKIM (US$ MM)	4Q18	4Q17	3Q18	y/y	q/q
Total Debt	1,385	779	1,356	78%	2%
Cash and Equivalents	569	384	568	48%	0%
Net Debt	816	395	788	107%	4%
Leverage (Total Debt/LQA EBITDA)	26.1	1.6	2.5		
Net leverage (Net Debt/LQA EBITDA)	15.4	0.8	1.4		

PETKIM (US$ MM)	4Q18	4Q17	3Q18
EBITDA	13	121	136
Working capital	112	(77)	(129)
Capex	(102)	(122)	(232)
Interest paid, net	(2)	0	(7)
Taxes paid	(20)	(13)	(2)
FCF	**2**	**(90)**	**(235)**

UKRAINE

MARKET OUTPERFORM (UKRAINE)

METINV 8.5% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
METINV 8.50% 04/23/2026	$500	-/ B-/ B+	100.19	8.46%

Metinvest (B3/B-/B+) - Ukraine's leading steel and iron ore producer, ranked 42nd largest globally in 2017 with a 9.59 mm tons produced (has a capacity to produce up to 15mm tons annually). Controlled by Mr. Rinat Akhmetov via System Capital Management (SCM) Group (71.24%). Metinvest is self-sufficient in coking coal (49%), metallurgical coke (97%) and iron ore raw materials (343%)

Metinvest's 4Q18 EBITDA worked out to just under US$500 mm - 27% weaker q/q. As we expected, given 2018 production numbers and commodity prices, 2018 EBITDA surpassed US$2.5 billion (+23% y/y) as steel prices in general were 38% stronger in 2018 than in 2017. FCF Positive (pre- and post-working capital) on improved profitability. Total debt declined y/y 9% to US$2.7 billion, whilst net leverage improved to 1.1x (vs. 1.3x in 2017). Reiterate a 'Market Outperform' on METINV 26s.

PROS:

- Majority owner – Mr. Rinat Akhmetov (71.24%), Ukraine's wealthiest individual
- Ukrainian 'blue chip' – Metinvest is one of the largest private companies in Ukraine – the largest steel producer and one of the largest employers with over 65,000 employees
- Global player – Metinvest is 13th largest among Central and Eastern Europe steel producers and 42nd largest steel producer globally (2017)
- Vertical integration – the company's business model and self sufficiency in raw materials allows for flexibility and rapid response to an ever-changing market situation
- Rating upgrade – Fitch upgraded Metinvest's rating to 'B+'/Stab – two notches above Ukraine's 'B-' country ceiling

CONS:

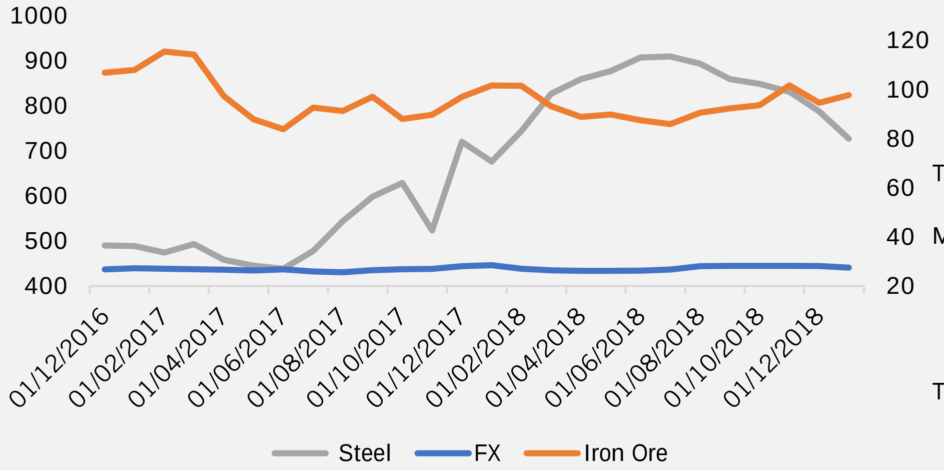
- Politics – Mr. Akhmetov inadvertently set off the current special counsel investigation against Mr. Paul Manafort, who was recently convicted of tax and bank fraud related to his work in Ukraine between 2005 and 2015. Mr. Manafort was hired by Mr. Akhmetov as a consultant
- EU tariffs – in July 2018, the EU imposed a 25% steel tariff. According to management, a negative impact is expected to be limited to ~ US$2 mm, unless there is a significant increase in steel export to the EU (quota set at the last 3-year average), plus Metinvest has production facilities in the EU
- Asset Loss – in 1Q17, Metinvest suffered an asset loss, located in Eastern Ukraine; however, the company is making strides in remedying the situation
- Growing Opex – since October 2018, Metinvest raised salaries by an av. of 10% for its employees

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s

Stable local currency and production as well as favorable iron ore pricing environment helped Metinvest's financial performance despite weaker still prices

Av. Iron Ore & Steel Prices (USD/t) and UAH/USD FX



Metinvest Sales, kt	4Q18	3Q18	q/q	4Q17	y/y
Metallurgy					
Semi	1,285	1,116	15%	1,396	-8%
Pig iron	646	602	7%	545	19%
Slabs	240	326	-26%	431	-44%
Billets	399	188	112%	419	-5%
Finished	2,274	2,453	-7%	2,162	5%
Flat	1,891	2,022	-6%	1,793	5%
Long	348	391	-11%	344	1%
Coke	505	466	8%	514	-2%
Total	4,063	4,036	1%	4,072	0%
Mining					
Iron Ore	3,996	3,975	1%	3,627	10%
Merch. Ore	2,225	1,910	16%	2,124	5%
Pellets	1,771	2,065	-14%	1,504	18%
Coking Coal Conc.	92	138	-33%	113	-19%
Total	4,088	4,112	-1%	3,740	9%
Conc.	138	105	31%	89	55%
Total	4,112	3,926	5%	3,950	4%

METINV 8.625% 26s

4Q18 Financial Results – overall solid; EBITDA was impacted by one-offs in December 2018; after the Aug 2018 – Jan 2019 steel price decline, we see some upward action following the Vale incident in Brazil, which should support EBITDA in 2Q19

- 2018 Revenue – US$11,880 mm – a 33% y/y increase is largely due to stronger steel pricing environment as well as an uptick in production
  - 4Q18 Revenue – US$2,817 (+4% y/y and -2% q/q) – stable sequentially and a slight increase y/y
- 2018 EBITDA – US$2,513 mm – a 23% y/y growth is largely due to much stronger pricing environment for steel – during 2018, steel prices were 38% higher than in 2017
  - 4Q18 EBITDA – US$498 mm (-26% y/y and -27% q/q) – sequential weakness is largely due to weaker steel prices in 4Q18 (-10% q/q to US$797.09/ton)
  - December 2018 EBITDA, according Metinvest, was negatively impacted by certain impaired trade receivables in the amount of US$ 55 mm, of which US$ 46 mm were the VAT assets of subsidiaries located in Donbas (the temporarily occupied territory)
- 2018 EBITDA margin - 21% (-2pp y/y)
  - 4Q18 EBITDA margin – 18% (-8pp y/y and -6pp q/q)
- Liquidity - as at end-2018, Metivest had US$280 mm in cash and equivalents (+8% y/y)
- 2018 FCF Positive (on pre- and post-working capital (WC) basis) – on improved profitability
  - 4Q18 FCF Positive (on pre- and post-WC basis) – despite lower profitability and investment in WC during the last quarter of the year
- Debt – gross debt declined 9% y/y to US$2.7 billion, whilst net debt declined 11% y/y to US$2.5 billion
- Net Leverage (on LTM basis) – improved to 1.1x (vs. 1.3x in 2017) on improved profitability and lower debt burden
- Recent Events - on April 10, 2019, Fitch upgraded Metinvest's rating to 'B+'/Stab – two notches above Ukraine's 'B-' country ceiling
- Access to ports - following the December 2018 incident on the Black Sea between Russian and Ukrainian navy, there were concerns of Metinvest's ability to access the ports; however, according to management if the company loses access to the Mariupol port via Azov Sea, it still has access to Black Sea and its ports via railways (from Mariupol to Odessa, Nikolaev, Chernomorsk) and an additional cost would be negligible, plus the company usually switches from sea route to rail route during the winter months for deliveries from Mariupol due to poor navigation conditions.

MARKET OUTPERFORM (UKRAINE)

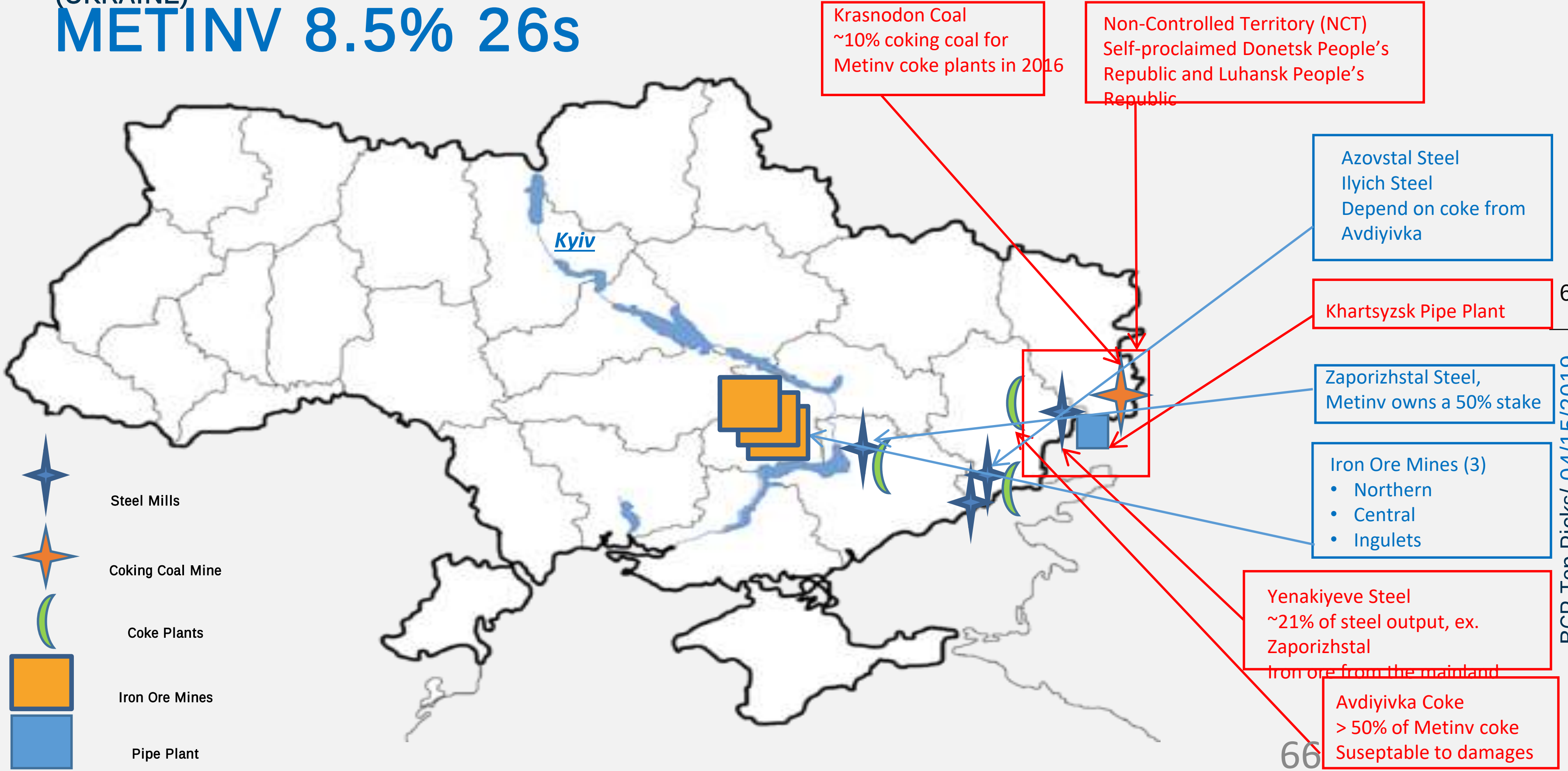
METINV 8.5% 26s

As we expected, 2018 EBITDA surpassed US$2.5 billion (+23% y/y) as steel prices in general were 38% stronger in 2018 than in 2017

Metinvest, USD MM	2017	2016	y/y	3Q18	2Q18	q/q	3Q17	y/y	Oct-18	Sep-18	m/m
Revenue	8931	6223	44%	2,884	3160	-9%	2,309	25%	932	911	2%
EBITDA	2044	1153	77%	680	686	-1%	534	27%	211	243	-13%
Interest	135	133	2%	47	109	-57%	35	34%	34	10	240%
Capex	465	358	30%	155	203	-24%	104	49%	88	40	120%
Taxes	156	(35)	-546%	71	120	-41%	32	122%	1	12	-92%
FCF (pre WC)	1288	697	85%	407	254	60%	363	12%	88	181	-51%
Net Change in Working Capital (WC)	50	50	0%	6	(48)	-113%	(183)	-103%	(1)	(39)	-97%
FCF (post WC)	1238	647	91%	413	206	100%	180	129%	87	142	-39%
EBITDA margin	23%	19%	4pp	24%	22%	1pp%	23%	1pp	23%	27%	-4pp
Gross Debt	3,017	2,969	2%	2,869	2,891	-1%	2,909	-1%	2,767	2,869	-4%
Cash	259	226	15%	446	370	21%	293	52%	445	446	0%
Net Debt	2,758	2,743	1%	2,423	2,521	-4%	2,616	-7%	2,322	2,423	-4%
Leverage, LHA/LQA/LMA	1.5x	2.6x	-43%	1.1x	1.1x	0%	1.4x	-23%	1.1x	1.0x	11%
Net Leverage, LHA/LQA/LMA	1.3x	2.4x	-43%	0.9x	0.9x	-3%	1.2x	-27%	0.9x	0.8x	10%
FX end of period:	28.02	26.74	5%	28.18	26.23	7.4%	26.42	7%	28.19	28.18	0%
Av. price iron ore, $/ton	70.57	58.38	21%	61.85	62.56	-1%	71.18	-13%	69.96	64.15	9%
Av. price steel, $/ton	602.99	383.64	57%	888.63	881.39	1%	529.79	68%	830.87	859.63	-3%

MARKET OUTPERFORM (UKRAINE)

METINV 8.5% 26s



MARKET UNDERPERFORM

ARGENTINA

ARCOR 6% 23s
GALIAR 8.25% 26s

BRAZIL

LIGTBZ 7.25% 23s

CHILE

AES 7.75% 24s
CENSUD 4.875% 23s

MEXICO

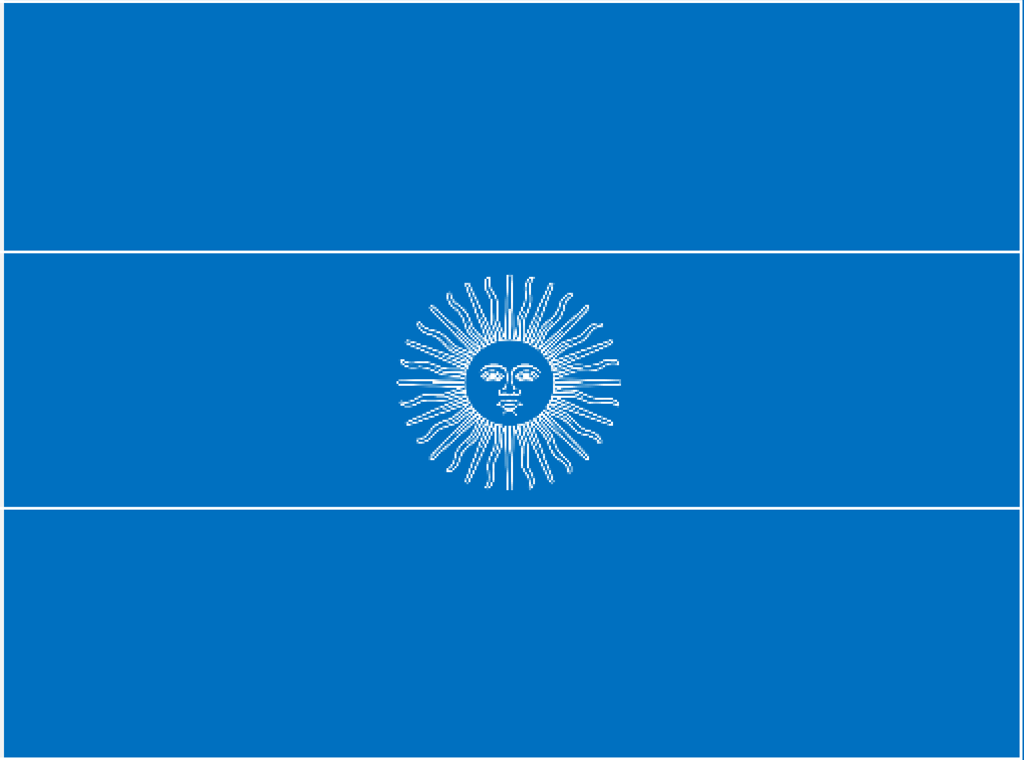
TELVIS 4.63% 26s

RUSSIA

VEBBNK 6.902% 20s

UKRAINE

KERPW 8.75% 22s



ARGENTINA

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ARCOR 6% 09/27/2023	$500	Ba3/-/BB-	95.75	7.18%

Grupo Arcor is a leading confectionary and food company in Argentina, the largest candy producer in the world and the main candy exporter of Argentina, Brasil Chile and Peru. Additionally, through Bagley, where Arcor has 51% ownership, the company is one of the market leaders in cookies and cereal production in Latin America. Further, through the recent agreement with Mastellone, the company will become the controlling shareholder of the leading dairy products company in Argentina.

PROS:

- International presence, with 40 plants distributed in Latin America, exporting to more than 120 countries
- Solid brand reputation
- Vertically integrated. Zucamor purchase in 2017 moved the company forward in self supply of key raw materials (packaging, bottles and corrugated boxes)
- Rated above sovereign ceiling by both Moody's and Fitch as cash generated from exports and cash held abroad is more than enough to cover USD debt service

CONS:

- FCF negative and climbing leverage, reaching 3.9x LTM on net basis
- Most of its plants are based in Argentina while bond trades inside sovereign. Including exports, Argentina accounts for 96% of consolidated EBITDA. Only 7% of sales volume are exports. In 2016, exports amounted to US$115mm, or 5% of consolidated revenue
- Challenging environment in Brazil, were EBITDA has been negative since 1Q15
- 60% of its production costs refer to salaries, mainly from Argentina, where high inflation pressures margins
- Mastellone results are subject to volatility of international milk prices
- Short USD: revenue is overwhelmingly in ARS, while debt is in USD. Leverage increased 0.7x in 3Q18

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Summary of 4Q18 results:

- Beginning with the 2018 annual period, Financial Statements in Argentina for corporates that have ARS as functional currency, such as Arcor, are adjusted for inflation according to the IAS 29 rule
- Figures have been adjusted to constant currency as of December 31st, 2018
- Given adjusted figures (real terms) were only provided annually, the analysis follows annual comparisons and is made in real terms
- Revenue in 2018 increased 9% y/y to AR$86.7bn, mostly driven by better results in the Andean region (+36%), Uruguay & Paraguay (+32%) and to a lesser extent Brazil (+12%)
- Argentina revenues slightly increased 3% y/y
- Total production during the year increased 9%, with exports only accounting for 8% of sales volume
- The following is the revenue disclosure per region in 2018: Argentina 69%, Andean 12%, Brazil 10%, Uruguay, Paraguay & Bolivia 5%, others 5%
- EBITDA during the year grew 25% y/y to AR$7.4bn, improving margins by 100bps to 8.6%, with sound improvement in the Andean region
- EBITDA disclosure per region in 2018: Argentina 78%, Andean 14%, Brazil (negative 2%), Uruguay, Paraguay & Bolivia 5%, others 6%
- Free cash flow burn during the year pre-dividend payment of AR$4.5bn, mostly in line with previous year although with a significant capex reduction, as in 2017 the company accounted the purchase of Zucamor for AR$3.5bn (in real terms)
- Total gross debt, 70% of which is denominated in USD, increased 38% y/y to AR$33.6bn while net debt increased 41% y/y to AR$28.8bn
- LTM gross and net leverage deteriorated to 4.5x and 3.9x, respectively

ARCOR (AR$MM)	2018	2017	%
Revenue	86,629	78,721	9%
EBITDA	7,441	5,965	25%
EBITDA margin	8.6%	7.6%	

ARCOR (AR$MM)	2018	2017	%
Total Debt	33,647	24,372	38%
Cash and Equivalents	4,840	3,933	23%
Net Debt	28,807	20,439	41%
Gross leverage (Total Debt/LTM EBITDA)	4.5	4.1	
Net leverage (Net Debt/LTM EBITDA)	3.9	3.4	

ARCOR (AR$MM)	2018	2017
EBITDA	7,441	5,965
Working capital	(3,293)	1,623
Capex	(3,009)	(8,023)
Interest paid	(4,040)	(2,517)
Taxes paid	(1,608)	(1,714)
FCF	**(4,509)**	**(4,666)**

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

ARCOR AND MASTELLONE AGREEMENT

- Through 2020 Mastellone and Dallpoint (shareholder of Masher) have put options to sell shares to Arcor and Bagley but must keep a combined 51% ownership
- After 2020 and through 2025, Arcor and Bagley will have call options to purchase remaining stake while Mastellone will have put options to sell its remaining stake
- Current Arcor ownership is 42.65%
- Purchases:
    - Jun-18: 2.40% for US$6mm (US$2.5mm for every 1%)
    - Nov-17: 1.85% for US$5mm (US$2.7mm for every 1%)
    - Apr-17: 4.86% for US$13.76mm (US$2.8mm for every 1%)
    - Jan-17: 8.5% for US$35mm (US$4.1mm for every 1%)
    - Dec-15: 25.0% for US$60mm (US$2.4mm for every 1%)
- Assuming an average price of US$3.0mm, for the remaining 57.35%, total cost will be US$172mm
- Consolidating MASHER and assuming US$172mm will be funded with debt issuance, pro forma net leverage results in 5.0x based on 2018, and 4.1x not assuming any debt issuance to purchase remaining stake
- We acknowledge this transaction is unlikely to happen before 2020. Actual numbers may differ from these calculations

MASHER (ARS MM)	2018	2017	y/y
Revenues	34,233	36,154	(5%)
EBITDA	1,328	2,009	(34%)
Free cash flow	**(1,271)**	**42**	**158%**
Gross debt	7,441	5,408	38%
Cash and equivalents	576	1,398	(59%)
Net debt	6,866	4,010	71%
LTM Gross leverage	5.6	2.7	
LTM Net leverage	**5.2**	**2.0**	

ARCOR + MASHER (ARS MM)	2018	2018
Revenue	120,862	120,862
EBITDA	8,769	8,769
Gross debt	49,143 (*)	41,088
Cash and cash equivalents	5,416	5,416
Net debt	43,727	35,672
LTM Gross leverage	5.6	4.7
LTM Net leverage	**5.0**	**4.1**

(*) Arcor + Masher + US$179mm to fund remaining Masher stake

MARKET UNDERPERFORM (ARGENTINA):

GALIAR 8.250% 26s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
GALIAR 8.250% 07/19/2016	$250	B3/CCC+/-	95.00	10.02%

Banco Galicia is the second largest Argentine private bank, with nearly 11% market share in private gross loans deposits. The company is mostly focused on middle and high income consumer loans, though it is also present in the large corporates and SME business. The bank is majority owned by the three founding families, and it is listed locally and on the NYSE.

PROS:

- Third largest bank, and second largest private one, with 11% market share in private loans
- Strong brand recognition
- Focus on middle and high income sectors leaves the bank less exposed to deterioration in asset quality
- Sound capitalization levels
- Very strong liquidity, with cash and equivalents covering 46% of total funding
- Sound loan/deposits ratio, giving room for funding with cheap deposits

CONS:

- Notes are subordinated
- Bonds trade nearly 150bps inside sovereign curve assuming call in 2022, or nearly 200bps measured at maturity
- As nearly 15% of its balance sheet is comprised of sovereign paper and 43% of cash and equivalents + subordinated paper we do not share the view that subordinated paper should trade inside sovereign
- GALIAR, as well as banks in general, defaulted following the sovereign default of 2001
- Macroeconomic weakness in Argentina posses challenges to asset quality and profitability

MARKET UNDERPERFORM (ARGENTINA):

GALIAR 8.250% 26s

Summary of 4Q18 results:

Asset quality

- Gross loans decreased 4% q/q and increased 51% y/y, slightly above inflation levels, to AR$250.7bn, mainly driven by decrease in overdrafts and timid increase in credit card loans
- NPLs increased 51bps q/q to 2.88% with coverage ratio (Allowance to NPLs) flat sequentially at 103%
- The bank reported a small short f/x position with net assets/liabilities position in foreign currencies negative at AR$318mm (US$8.6mm)
- Cost of risk of 356bps from 345bps in 3Q18 and 205bps in 4Q17

Profitability

- Net financial income before provisions, including results from financial instruments, increased 1.3x y/y, flat q/q to AR$10.6bn
- NIM improved 475bps y/y to 14.71%
- Income from services, mostly generated from fees on deposits accounts and credit card commissions, increased 51% y/y to AR$2.9bn (US$80mm)
- Efficiency ratio improved to 42.67% from 52.24% in 4Q17
- ROAA and ROAE of 3.7% and 40.0%

Liquidity

- Deposits increased 79% y/y and 13% q/q to AR$360.1bn. Loans to deposits remains low at 69%
- Liquid assets to total deposits at a healthy rate of 60.1%, increasing annually and sequentially. Liquid assets to total funding stands at 46.3%

Capitalization

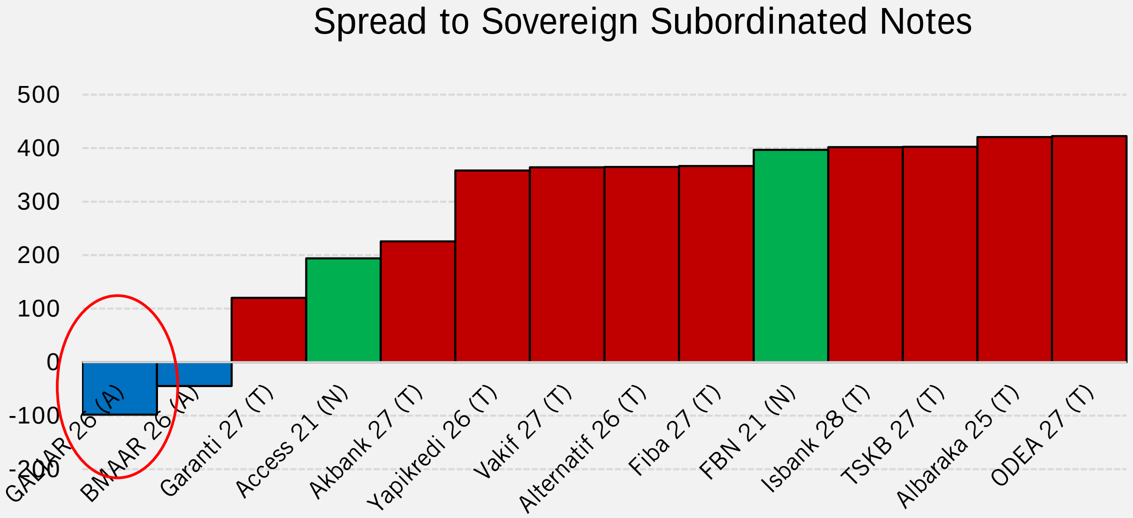
- TIER1 at 11.2%, up 109bps sequentially
- Total CAR of 15.1% from 14.3% in 3Q18, above minimum CAR of 8.3%

GALIAR (ARSMM)	4Q18	3Q18	4Q17	q/q	y/y
Financial income	18,840	15,265	7,282	23%	159%
Financial expenses	(14,217)	(9,495)	(3,705)	50%	284%
Result from financial instruments	6,026	4,843	989	24%	509%
Net fin income before provision	10,649	10,613	4,566	0%	133%
Provisions	(2,005)	(2,032)	(795)	(1%)	152%
Income from services, net	2,978	2,691	1,976	11%	51%
Operating expenses	(5,438)	(4,572)	(3,702)	19%	47%
NIM	14.71%	14.00%	9.96%		
Efficiency ratio	42.97%	41.21%	52.24%		
ROAA	3.68%	3.36%	2.84%		
ROAE	39.99%	35.60%	21.94%		

GALIAR (ARSMM)	4Q18	3Q18	4Q17	q/q	y/y
Gross loans	250,646	260,219	164,571	(4%)	52%
Total deposits	360,097	320,052	200,729	13%	79%
Total capital	49,329	48,774	22,804	1%	116%
NPL/gross loans	2.88%	2.37%	2.00%		
Loans to Deposits	69.61%	81.31%	81.99%		
Liquid assets to total deposits	60.09%	49.14%	45.68%		
Tier I Capital Ratio	11.23%	10.14%	7.80%		
Total capital ratio	15.11%	14.30%	10.69%		

MARKET UNDERPERFORM (ARGENTINA):

GALIAR 8.250% 26s



A = Argentine (blue) N = Nigerian (green)
T = Turkish (red)

UNIVERSE AVERAGE = 278bps
TURKISH BANKS = 345bps
NIGERIAN BANKS = 295bps
ARGENTINE BANKS = (71)bps

Spreads based on YTM and on sovereign of similar maturity

Source: Bloomberg as of 04/03/2019

BRAZIL

MARKET UNDERPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

Light SA is a Brazilian integrated company in the energy sector with operations in the distribution, trading and generation segments in the city of Rio de Janeiro. Cemig owns 49.99% of voting shares and BNDSEPar 9%. Listed on Brazilian stock exchange Light SA has a R$4.1bn Market cap. According to news, Cemigis looking to sell its stake in Light on its liability management process. Light SESA (distribution segment) is the sixth largest energy distribution company in Brazil - 19,673 GWh of energy distributed to the regulated market, accounting for 70% of the company`s EBITDA. Company has showed deteriorating fundamentals while price continues to climb on anticipation of a favorable capitalization, that may take more time to materialize than expected.

Ticker	Coupon	Maturity	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
LIGTBZ	7.25%	05/03/2023	600	Ba3/BB-/BB-	101.75	6.75%

PROS:

- Positive conclusion of the tariff review cycle at Light SESA – distribution – will impact positively results
- Exclusive electricity distribution rights in the metropolitan region of Rio de Janeiro through Light SESA – contract is due after bond maturity
- Light has R$710mm in net CVA which it expects to recover throughout the current year
    - Receivables collection will support cash generation

CONS:

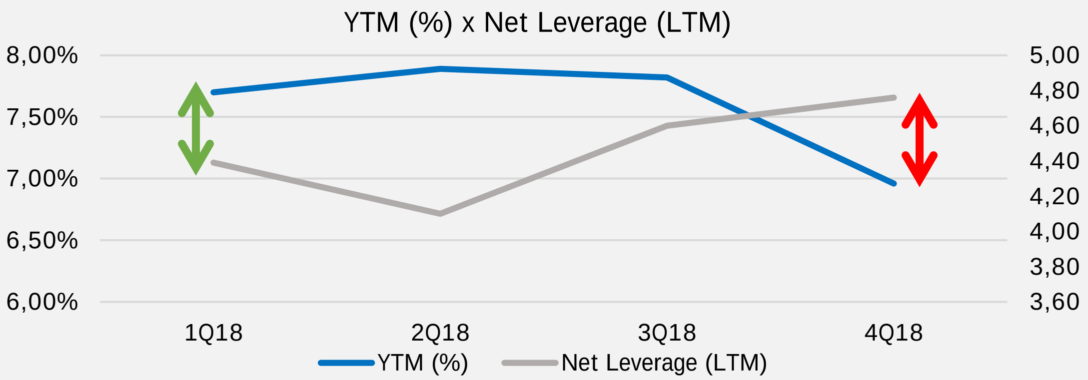
- Deteriorating fundamentals – higher leverage, higher energy loss and continued cash burn, while price continues to increase on capitalization news flow
- Capitalization has been repeatedly postponed while investigations at Cemig could have delayed process further
- Existing debentures covenants requires net leverage to remain below 3.75x, currently at 3.63x (LTM) – Considering Covenant EBITDA
- Bond is Subordinated to secured debt instruments consisting of BNDES loans and a receivables investment fund, FIDC, assigned to issue up to R$1.4bn, both secured by receivables
- Higher energy losses compared to peers given very challenging demographic in Rio de Janeiro (Area where Light SA operates)
- Increasingly deteriorating energy loss metrics - gap from regulatory level deteriorated 80bps, from 2.53% to 3.33%, last quarter
- Considerable upcoming maturities to be dealt with - R$1.9bn due in 2019 and R$1.8bn due in 2020, with R$1.7bn in cash as of December 2018

MARKET UNDERPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

We have been constructive on the case before antecipating improved results on cash generation, through higher tariffs and receivables collection, while company began to show improvements on energy losses (main current operational issue – company loses almost 25% of energy distributed).

Though, expectations haven't materialized as results have been deteriorating, pushing down fundametals. Given higher leverage, higher energy losses and continuous cash burn we think recent rally, mainly driven by news flow, has been excessive and is pricing in a successfull capitalization, that may be more challenging and timley than expected. Furthermore even after a successful capitalization, energly losses may prove challenging to stabilize.



MARKET UNDERPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

Recent Highlights – 4Q18 –Weak:

- 4Q18 revenue decreased 17% y/y and 10% q/q, missing consensus by 17%, mainly driven by lower volumes sold on the billed market and higher energy losses
- 4Q18 Adjusted EBITDA, decreased 17% y/y, though up 28% q/q, missing consensus by 18%
- Company energy losses deteriorated, from 23.15% in 3Q18 to 23.95%
  - Gap from regulatory level deteriorated 80bps, from 2.53% to 3.33%
- FCF negative at R$144mm, despite sequential and annual improvement given reduced WK expansion
- Total debt reached R$9.7bn, down 2% q/q
- Cash position increased to R$1.7bn, up 20% q/q given R$700mm debentures issuance in the period
- Company now has R$1.9bn due in 2019 and R$1.8bn due in 2020, with R$1.7bn of cash
- Net leverage improved sequentially to 4.66x (annualized) from 6.07x in 3Q18
  - Though, deteriorated (LTM) to 4.76x from 4.60x in 3Q18
- Company stated during call it's analyzing different approaches, including a possible capitalization, to deal with high leverage levels
- Existing debentures covenants requires net leverage to remain below 3.75x
- With covenant EBITDA reported, net leverage LTM stands at 3.63x
- Though, company breached bond covenant of 3.50x net leverage, limiting subsidiaries to incur in determined types of additional indebtedness, until ratio lowers below designated level
- Subsequent to the quarter, Light rolled over US$180mm in debt with Citibank to 2022

Light SA (BRL MM)	4Q18	BBG Consensus	+/-	3Q18	4Q17	q/q	y/y
Revenue	2,696	3,232	(17%)	2,993	3,235	(10%)	(17%)
Adjusted EBITDA	430	522	(18%)	335	516	28%	(17%)
EBITDA Margin	15.9%	16.1%		11.2%	16.0%		

Light SA (BRL MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	9,701	9,545	7,548	2%	29%
Cash	1,684	1,406	279	20%	504%
Net Debt	8,017	8,139	7,269	(1%)	10%
Leverage (Total Debt / EBITDA (*))	5.64	7.12	3.66		
Net Leverage (Net Debt / EBITDA (*))	4.66	6.07	3.52		

Light SA (R$ MM)	4Q18	3Q18	4Q17	q/q	y/y
Adj. EBITDA	430	335	516	28%	(17%)
WK and Other Adj.	28	(162)	(417)	(117%)	(107%)
Tax Payments	(20)	(17)	(20)	16%	1%
Interest Payments	(304)	(97)	(217)	213%	40%
Net cash operating Cash Flow (*)	134	59	(138)	127%	(197%)
Capex	(278)	(230)	(273)	21%	2%
FCF	**(144)**	**(171)**	**(411)**	(16%)	(65%)

CHILE

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
AESGEN 5.00% 07/14/2025	$172	Baa3/BBB-/BBB-	102.63	4.51%

AES Gener, 66.7% owned by The AES Corporation. The company generates and sells electricity in Chile, Colombia and Argentina. With a total installed capacity of 5,063MW it is the second largest electricity generation group in Chile in terms of generation capacity with 27% of share, and with a market cap of US$2.3bn.

PROS:

- Geographical diversification with operations in Chile, Colombia and Argentina, although Chile accounts for 70% of EBITDA
- Diverse portfolio of generation assets, including hydro and thermal generation plants
- Practically its entire revenue generation is linked to USD
- Most of its revenue is made through long-term contracts with regulated and unregulated customers and with embedded adjustments for changes in fuel prices
- Sound customer base, particularly mining companies in Northern Chile
- Migrating energy mix with commitment to complete Alto Maipo, moving towards renewable resources although still highly dependent on coal generation – 3,900 MW renewable energy pipeline
- Recourse debt leverage (LTM) significantly lower than consolidated, at 1.7x
- Ongoing asset sales to pre pay debt
- Positive results in Colombia on higher prices given major hydro project, "Ituango" delay, limiting supply

CONS:

- Possible rating downgrade as a result of deteriorating credit metrics
- Most of the company's generation in Chile is from coal plants – 76% of its generation in Chile
- Increase in energy generation from renewable sources in Chile (mostly solar) has pushed down electricity prices for regulated contracts (69% of revenue, and unregulated customers (24% of revenue)
- Last public bid awarded regulated contract at historical low prices (US$25.4/MWh), nearly half the price of previous auctions
- Interconnection between SIN and SING could lead to further pricing pressure as solar plants are installed in Northern Chile and should be able to start bidding for regulated contracts for Center Chile, where most of the population lives
- Attempted to issue bond under Cochrane (firm contracts until 2025s) but unfavorable market conditions postponed the issuance leading to possible repricing of the risk by market
- Heavy capex expected as company plans to develop solar projects
- Likely to be financed non recourse but may pressure consolidated leverage

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

AES GENER 4Q18	EBITDA
Chile	70%
Colombia	22%
Argentina	8%

70% of EBITDA from Chile

Revenue breakdown in Chile:

The interconnection between electrical systems SING (Northern Chile) and SIC (Center-Southern Chile) created a new market in the region, the SEN (Sistema

- Elétrico Nacional)
- With the integration, now both segments are reported under Chilean operations, with AES Gener having a 27% market share
- Chile 4Q18 revenue: 69% unregulated customers, 24% regulated, rest spot
- **Regulated customers**: long-term PPA in USD awarded through public bids with semi-annuals prices reviews, mostly based on fuel prices
- **Unregulated customers**: USD contracts with terms and indexation negotiated directly between generator and customer, usually with monthly price reviews

Spot prices (US$/MWh)	9M18	2017	2016	2015	2014
SIC	68.7	57.0	61.0	88.6	131.0
SING	54.6	56.1	61.6	57.3	75.6

Recent trends on energy prices in Chile:

Nov-17: public bid in Chile awarded 2,200GwH to serve regulated customers starting Jan-2024

Average price of US$32.5MWh, lowest value since bids started in 2006

Prior awarded price was US$47.6MW/h in Aug-17

Lowest bid from "Energia Renovable Verano Tres", which won 25% of total bid for US$25.4/MWh. Lowest historical price ever seen in LatAm

Bids came from renewable energy projects

Main regulated contracts as of May-15	Contracted capacity (MW)	Price as of May-15 (US$/MWh)	Expiration
Chilectra	53	90.5	2020
Chilectra	160	90.0	2022
Chilectra	340	90.2	2023
Chilquinta	210	114.8	2023
EMEL	78	105.3	2024
EMEL	138	90.8	2024

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

ALTO MAIPO PROJECT

- Originally budgeted at US$2bn
- Project is 64% completed, was in technical default following the contract termination due to a breach of contract suspended since Jun-17
    - Alto Maipo subsidiary holds assets of US$1.4mm (book value)
- Alto Maipo's financial debt, US$613mm, had to be reported as a current liability on the balance sheet as long as the technical default state persisted
- The technical default had no legal implications for holdco as Alto Maipo debt is nonrecourse
- In February 2018, AES Gener signed a fixed-price EPC contract with builder Strabag SpA for the full scope of the project
- Strabag also became a minority shareholder with nearly 7% interest
- Geological and construction risks were transferred to Strabug
- Contract is guaranteed by Strabag in the form of US$300mm in letters of credit and a corporate guarantee from Strabag SE (listed in Viena and BBB rated by S&P)
- Company expects project to be fully operational in 2020, with 64% progress reached as of May 2nd 2018

On May 7, 2018 AES announced that financing partners and herself reached a deal for the financial restructure of the project

- Company announced all documentation has been signed, pending just the completion of closing procedures
- Construction budget will be revised from US$2.5bn to US$3.1bn, plus US$382mm to be paid to Strabag over 20 years upon completion of the project

Lenders will continue to disburse remaining existing commitments of US$688mm plus an additional commitment of US$135mm

- Additional expenses for AES includes US$200mm during the construction, based on progress and debt disbursements and up to US$200mm towards completion, for pending projects costs or to prepay debt
- The first US$200mm will be deployed in a 50/50 basis with debt mostly during
- 2018 and 2019
- No additional debt to be issued at AES Gener level, increase will be funded from cash from operation
- Upon timely completion of the project Strabag will be entitled to receive payments totaling US$382mm, which will be payable by Alto Maipo over 20-years
- 75% of the remaining project cost will be financed by Strabag and lenders
- According to AES Gener, additional contributions are in line with rating agencies expectations and ensure investment grade rating is not affected
- Company expects US$500mm US$600mm of capex to be invested in Alto Maipo p/ year from now to 2020
- Construction continued to move forward, now 70% of project completed (36km of 76km)
- COD Las Lajas and Alfalfal II are expected to be done by 2020
- Alto Maipo is not fully contracted - 780tw/yr of 2,000tw/yr
    - Expects up to 50% of contracted output where remaining will be sold at spot
- Project is now 75% complete

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

AES GENER – RATING AGENCY TIMELINE

FITCH AUGUST 2017
- Given agressive expansion plan, Fitch expects company's credit to remain pressured in the short-to-mid-term
- Negative watch will be resolved once Alto Maipo's case has a clear resolution
- Debt-to-EBITDA ratio above 4.5x-5x negatively perceived by Fitch
- Additional delays on Alto Maipo and significant cost overturns will also be
- negatively perceived

MOODY'S AUGUST 2017
- Additional delays on Alto Maipo and significant cost overturns will be negatively perceived
- Gener's rating could be downgraded if debt/EBITDA and FFO/debt remains above
- 4.0x and below 18%, respectively, after 2018

Gener's inability to maintain its long-term contracted operations, and/or if it recontracts at prices significantly below US$60/MWh (2018 real prices) is also likely to trigger downward pressure on the rating

MOODY'S AUGUST 2017
- Reaffirmed negative outlook as sees continued company's exposure to execution risk associated to the project
- Additionally comments on uncertainties in the Chilean power market that could be a negative for the credit.
- Factors that could lead to downgrade:
    - Alto Maipo affect credit quality, including additional project cost overruns, construction delays, or a deterioration in Strabag's financial profile that impacts its ability to meet its obligations under the construction contract.
    - debt/ EBITDA above 4.0x

FITCH MAY 2018
- Fitch removed negative watch following completion of Alto restructuring process seeing commitment to complete project with no additional debt at the corporate level as a positive

FITCH AUGUST 2018
- Fitch reaffirmed AES Gener's rating at BBB- given positive developments on disinvestments, debt prepayments and Alto Maipo's restructure

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

Summary of 4Q18 results - Neutral:

- 4Q18 revenue decreased slightly, 1% y/y and 3% sequentially, to US$660mm
- Chilean operations revenue decreased 5% y/y and 1% q/q, as decrease in spot and regulated contracts volumes, associated to the deconsolidation of ESSA, were only partially offset by volume increase in non-regulated contracts associated to consolidation of subsidiaries Angamos and Cochrane
- Colombian operations continue to post solid results, with revenue up 44% y/y, despite sequential 14% contraction, on lower spot volumes q/q
- EBITDA remained flat q/q, up 1% y/y, to US$233mm
    - Chile EBITDA increased 17% q/q, down 13% y/y
- 4Q18 EBITDA : 70% Chile, 22% Colombia and 8% Argentina
- Company managed to generate US$67mm in cash (pre WK)
- Total debt decreased to US$3.6bn, down 5% q/q
- Recourse debt accounts for US$1.2bn (33%)
- Net leverage (LTM) improved to 3.7x from 3.9x last quarter
- LTM gross leverage improved to 4.0x, while net leverage (LTM) of recourse debt stands at 1.7x
- Company is committed to new corporate plan of expanding renewable generation portfolio :
- 290MW construction in Chile – 80MW from solar park Andes Solar and 210MW on wind generation
- 10MW project for battery storage next to the Alfalfal I Power Plant
- Acquisition of 5 wind projects in Colombia for 648MW
- Two long-term contracts in Colombia, one for construction and operation of 20MW solar plant for Ecopetrol and the second of 876 GWh/year for Gensa
- Company now has 3,900MW in renewable energy pipeline, 561MW in construction (531MW related to Alto Maipo)

AES GENER (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
Revenue	660	682	665	(3%)	(1%)
EBITDA	233	232	231	0%	1%
EBITDA Margin	35.3%	34.0%	34.8%		

AES GENER (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	3,584	3,774	3,834	(5%)	(7%)
Cash	322	283	276	14%	17%
Net Debt	3,262	3,491	3,558	(7%)	(8%)
Leverage (Total Debt / EBITDA (*))	4.0	4.3	4.8		
Net Leverage (Net Debt / EBITDA (*))	3.7	3.9	4.5		
(*) EBITDA - LTM					

AES GENER (US$ MM)	4Q18	3Q18	4Q17	q/q	y/y
EBITDA	233	232	231	0%	1%
- capex	113	115	115	(2%)	(2%)
-interest	62	21	69	195%	(10%)
-taxes	(8)	23	5		
FCF (pre WK)	**67**	**73**	**43**	(8%)	56%

MARKET UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CENSUD 4.875% 01/20/2023	$943	Baa3/-/BBB-	101.75	4.36%

Cencosud S.A. is one of the largest retail conglomerates in Latin America, with operations in Chile, Argentina, Peru, Brazil and Colombia. Chairman Horst Paulmann and his family, combined, own a 53.36% stake in the group. Cencosud operates under various retail formats, including supermarkets, home improvement stores, shopping malls and department stores. The company is listed in the Santiago stock exchange with a current market cap of US$5.4bn

PROS:

- Multi-format, multi-brand with geographical diversification (operates in five countries in different segments)
- Investment Grade rating since 2011 - Fitch Ratings: BBB- (stable) - Moody's: Baa3 (stable)
- Plans of non-core asset divestment to improve leverage
- High-level of unencumbered assets
- Around 80% of USD debt is hedged
- Cencosud trades at a considerable wider spread to sovereign than peer Falabella, and overall wide to Chile sovereign for an IG credit

CONS:

- Weakness in core Chilean retail operations is troubling and suggests continued downward trajectory of EBITDA
- Investment grade status might be threatened if management fails to successfully complete the mall division IPO
- Even if given successful IPO, lower EBITDA may further pressure leverage
- CFO recently resigned, an inopportune time for management turnover
- Subject to f/x risk on revenue and costs as operations are conducted mostly in local currencies
- Poor performance in Brazil operations continues
    - Exposure to financially troubled states
- Continuous postponement of shopping malls IPO, expected to have accelerated deleveraging
- LTM net leverage at 4.8x, within trigger levels for downgrade

MARKET UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Weak results threatening investment grade:

- Cencosud's focus has been on deleveraging and maintaining its investment grade following weak results
- US$1bn asset divestment plan announced in August
  - – Sale of up to US$1bn in non-core assets within the next 12-18 months
- 4Q18 (LTM) gross and net debt, at 5.4x and 4.8x, respectively, above trigger levels for a downgrade
- Deleveraging is dependent on the company's ability to implement divestment program, more specifically a successful Malls division IPO
- Thus far progress in divestment effort has been slow
- Company hired banks to advise IPO of a minority stake in its Shopping Malls division, which is central for divestment program
  - Company states operation should be completed by 2Q19
- Current EM environment may not be supportive backdrop for asset sales and IPOs.
- Company expects to raise approximately US$1bn through the IPO – related to commercial centers business in Chile, Peru and Colombia

FITCH MARCH 2019

- IG is dependent on successful Malls segment IPO and associated debt reduction of approximately US$1bn
  - Timing is a key rating consideration, expecting execution in 2Q19 and debt reduction by 3Q19 – any delays will result in a downgrade
- Absent the projected IPO Cencosud's would have been downgraded
- Gross leverage below 4.5x at the end of the year

PEER COMPARISION	CENCOSUD	FALABELLA	IRSA
Coupon	4.875%	3.750%	8.750%
Maturity	2023	2023	2023
Amount (US$ MM)	943	500	360
Mid-Yield	4.26%	3.52%	10.03%
Rating(M/SP/F)	(Baa3/-/BBB-)	(-/BBB+/BBB+)	(-/B/B+)
Spread to Sovereign	172	97	(26)
Country	Chile	Chile	Argentina

4Q18 (US$ MM)	CENCOSUD	FALABELLA	IRSA
Revenue	3,864	3,760	46
EBITDA	273	517	34
EBITDA Margin	7%	14%	74%
Free Cash Flow	461	565	1
Gross Debt	4,957	5,935	547
Cash	570	2,156	86
Net Debt	4,388	3,779	461
LQA Gross Leverage	4.5	2.9	4.0
LQA Net Leverage	4.0	1.8	3.4

MARKET UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Summary of 4Q18 results - Weak:

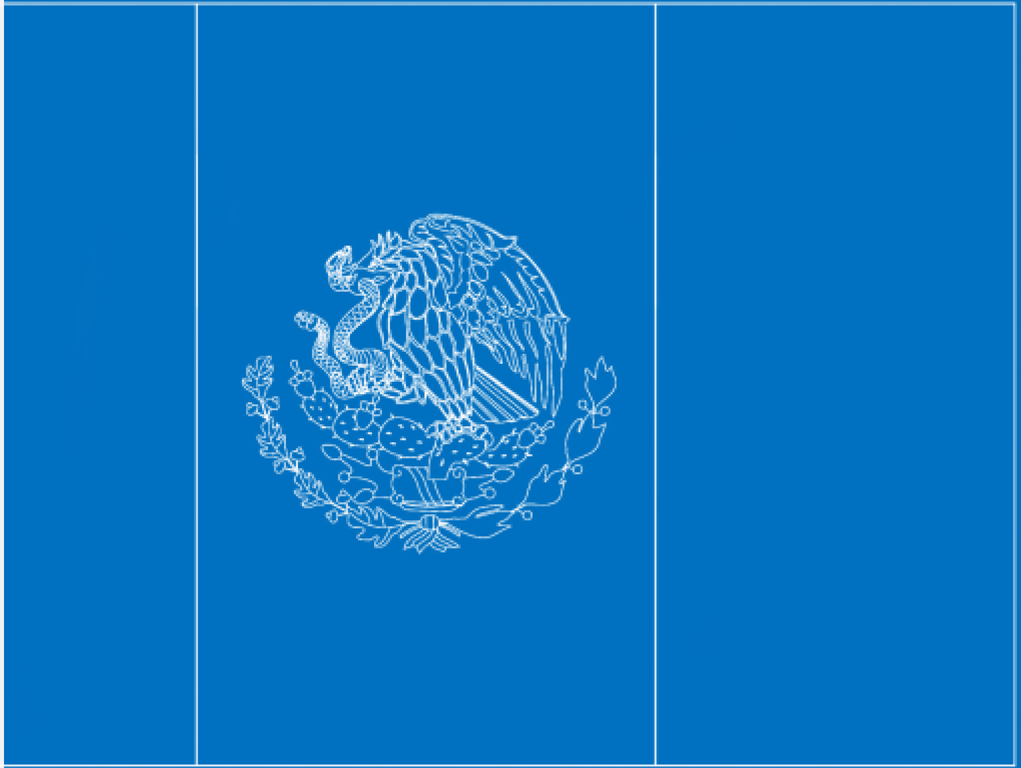
- Revenue decreased 8% y/y, missing consensus by 1%, to CLP2,630bn (US$3.9bn), mainly driven currency depreciation against CLP in the period, at constant FX rate, revenue increased 9% y/y
- Currency depreciation in Brazil and Argentina affected negatively results, revenue down 8% y/y and 33% y/y, respectively
- Adjusted EBITDA decreased 23% y/y to CLP186bn (US$273mm), missing consensus by 6%
- Chile Adj EBITDA, at CLP116bn (US$170mm), decreased 20% y/y, on deteriorating margins
- Higher operating costs on lower costs dilution, increased severance payments and increased promotional activities, affected profitability
- 4Q18 Adj EBITDA : 62% Chile, 20% Argentina, 12% Peru, 5% Colombia and 1% Brazil
- FCF at CLP314bn (US$.461mm), driven by strong WK contraction in the period
- Total debt increased 2% q/q to CLP3,438bn (US$5.0bn)
- LTM Gross and net leverage deteriorated q/q on lower EBITDA, at 5.4x and 4.8x, respectively
- Company stands above trigger levels for a downgrade (gross leverage above 4.5x)
- Accordingly, deleveraging continues dependent on the company's commitment to divest US$1bn in non-core assets
- Additionally, Cencosud intends to complete a local USD400mm issuance subsequent to the quarter

Cencosud (CLP MM)	4Q18	BBG Consensus	+/-	3Q18	4Q17	q/q	y/y
Revenue	2,630,179	2,658,000	(1%)	2,295,653	2,849,851	15%	(8%)
Adjusted EBITDA	186,133	198,134	(6%)	113,064	241,319	65%	(23%)
EBITDA Margin	7.1%	7.5%		4.9%	8.5%		

Cencosud (CLP MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	3,438,295	3,372,954	3,176,833	2%	8%
Cash and Cash Equivalents	395,034	138,171	334,055	186%	18%
Net	3,043,261	3,234,783	2,842,778	(6%)	7%
Leverage (Total Debt / EBITDA (*))	5.4	4.9	4.5		
Net Leverage (Net Debt / EBITDA (*))	4.8	4.7	4.0		

1- Excluding Banco Paris and Banco Peru (Debt and Cash Equivalents)

Cencosud (CLP MM)	4Q18	3Q18	4Q17	q/q	y/y
EBITDA	186,133	113,064	241,319	65%	(23%)
- capex	58,678	62,127	59,098	(6%)	(1%)
- interest	36,381	75,628	36,667	(52%)	(1%)
- taxes	34,465	29,321	26,801	18%	29%
WK	257,266	258,699	193,507	(1%)	33%
FCF	**313,875**	**204,688**	**312,259**	**53%**	**1%**



MEXICO

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
TELVIS 4.63% 1/30/2026	$300	Baa1/BBB+/BBB+	101.84	4.31%

Grupo TELEVISA is one of the world's most recognized Spanish-language programming producers. Yet, content sales only account for 36% of the total revenue. Since 2015, advertising sales have been essentially flat with presales levels declining by about a third since. We note the two pay-tv businesses, now accounting for 57% of total revenue, on different trends. Sky continues with declining customers, whilst the Cable business with strong performance in both revenue and RGU's. Recent high capex has been focused on the latter to develop its network, as well as the MXN$4.7 bn acquisition of Axtel's 4.4k km fiber optic. If AMX's recent bid to offer pay-tv services is approved by the IFT, AMX can offer them quickly to complement its products given its infrastructure, client base and cash. In our view, this is potential a major headwind for Televisa given the company's 3.5x leverage and negative FCF burn for the past four years - despite enjoying a dominant position in Mexico's pay-tv market.

PROS:

- Arguably the most influential Spanish-language programming producer in the world with strong brand recognition
- Market share leader in broadcaster advertising with recently improved ratings
- Received US$384 mm in royalties during 2018 from its 36% stake in Univision
- Recurrent revenue streams from its Cable and Sky businesses, together accounting for approximately 57% of Televisa's total sales
- Strong Cable operations with double digit y/y growth in both revenues and RGU's
- Room for growth in Mexico's pay-tv market penetration
- Network comprising of 85k km of coaxial cable and 35k km of fiber optic
- USD coupon and interest payments are hedged

CONS:

- Exposed to natural business seasonality in advertising
- Stagnant advertising operations since 2015 (excl. WC) with a general market share and ratings decline from increased competition
    - 2018 sales were only 6% higher than 2015
    - 4Q18 presales were MXN$14bn, 31% lower than 4Q15
    - TV changed its pricing mechanism in 2018
- Decreasing Sky customer subscriber base
- Televisa has been FCF negative in each of the past four years, burning nearly MXN$35 bn during this timeframe
- Increased overall capex levels in 2018, mostly from the Cable business
- 55% of the total debt is USD denominated
- LTM gross leverage ratio is 3.5x

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Recent 4Q18 Earnings – Mixed

- 4Q18 Revenue increased by 3% y/y to MXN$26,735 mm (US$1,348 mm), missing the BBG consensus estimate by 1%
  - Content sales were flat y/y at MXN$10,642 mm, with advertising sales decreasing by 4% y/y from lower Govt. entities
  - Cable sales increased by 11% q/q to MXN$9,516 mm, due in part by the acquisition of Axtel's fiber-to-home business
    - Sequentially, the total cable RGU's increased by 8% or 3% excl. Axtel's RGUs
  - SKY sales decreased by 2% q/q to MXN$5,462 mm due to customers losses post WC
- EBITDA increased by 6% y/y to MXN$9,048 mm (US$456 mm), missing the BBG consensus by 5%
  - Q/Q decline was driven by non-recurring expenses related to trademark impairments and costs related to the Axtel acquisition
  - On a Y/Y basis, EBITDA growth was in line with higher sales as OpEx increased proportionally
  - EBITDA margin was 34%, vs 33% during 4Q17
- FCF burn was MXN$6,979 mm (US$352 mm), driven by higher than usual capex
  - Nearly 90% of the capex was invested in the Cable and Sky businesses
  - WK contraction was driven by higher A/P as well as a MXN$4 bn increase in customer deposits to MXN$14 bn
- Total debt was MXN$130,987 mm (US$6,666 mm), while cash decreased to MXN$32,068 mm (US$1,632 mm)
  - TV paid MXN$4,700 mm for Axtel's fiber-to-home business (4.4k km of fiber optic network with 553k RGUs) during 4Q18
- Annualized gross and net leverage are 3.6x and 2.7x, respectively

TELEVISA (MXN MM)	4Q18	BBG consensus	% dif	3Q18	4Q17	q/q	y/y
Total Revenue	26,735	26,932	(1%)	25,033	25,992	7%	3%
EBITDA	9,048	9,551	(5%)	9,562	8,531	(5%)	6%
EBITDA margin	34%	35%	-	38%	33%	-	-

TELEVISA (MXN MM)	4Q18	3Q18	4Q17	q/q	y/y
Total Debt	130,987	127,768	133,404	3%	(2%)
Cash & Equivalents	32,068	42,427	38,735	(24%)	(17%)
Net Debt	98,918	85,342	94,669	16%	4%
Total Debt / LQA EBITDA	3.6x	3.3x	3.9x	0.3x	-0.3x
Net Debt / LQA EBITDA	2.7x	2.2x	2.8x	0.5x	0.0x

TELEVISA (MXN MM)	4Q18	3Q18	4Q17	q/q	y/y
EBITDA	9,048	9,562	8,531	(5%)	6%
Interest paid	(3,115)	(2,556)	(2,173)	(22%)	(43%)
Capex	(11,993)	(5,947)	(5,835)	(102%)	(106%)
Working capital	407	(1,292)	797	-	(49%)
Taxes paid	(1,326)	(1,940)	(1,087)	32%	(22%)
FCF	**(6,979)**	**(2,173)**	**235**	(221%)	-

RUSSIA

MARKET UNDERPERFORM (RUSSIA)

VEBBNK 6.902% 20s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
VEBBNK 6.902% 07/09/20 Sr	$1,600	-/ BBB-/ BBB-	102.69	4.62%

Vnesheconombank (Ba1/BBB-/BBB-), a state corporation 'Bank for Development and Foreign Economic Affairs'. Vnesheconombank (VEB) is a development bank, not a commercial one, hence no retail deposits and limited corporate deposits; thus, it is not directly competing with commercial banks. The entity is 100% owned by the Government of the Russian Federation. Locally rated by ARCA (AAA (RU)/Stable) and its foreign ratings are at par with the sovereign.

With weaker performance in 4Q18, we continue to be concerned if the entity would survive on its own without regular capital injections from the state. VEB is tightly connected to the Russian government - owned and supervised – and as such, we believe it would be affected the most if the Western sanctions intensify, hence we reiterate a 'Market Underperform' for VEBBNK 20s.

PROS:

- Majority owner – 100% owned by the Government of the Russian Federation, which provides direct equity contributions (proven track record of Government support
- Major national player – with RUB 3,385 billion in assets, the entity represents just under 4% of Russia's GDP and enjoys profit tax exemption. International credit ratings on par with the sovereign
- Unique status – being involved in many important national projects, the company enjoys a special status under the federal law and is not supervised by the Central Bank of Russia (CBR)
- January 2018, Russian President signed a law extending VEB's capacity to raise funds from companies, which do not have projects with the bank (can not exceed the VEB's capital)

CONS:

- Extension of the Government – fully controlled by the Russian government and chaired by PM Dmitry Medvedev, VEB is a prime target of Western sanctions and stands to lose the most if the sanctions are further intensified
- VEB works on developing Russian economy by providing financing for long-term (five years and more) and high value projects (RUB 2 billion). Being a state agent, takes on all projects, among them potentially loss-making
- Continuous reliance on government support, without which the capital levels would have quickly deteriorated.
- Supervised by nobody but top government officials (Law #82-FZ June 2007)
- Sensitive to headlines and sanctions

MARKET UNDERPERFORM (RUSSIA)

VEBBNK 6.902% 20s

VEB (Ba1/BBB-/BBB-), Russia's state development bank, announced its 2018 IFRS results (audited by E&Y): the bank ended 2018 in the red with a net loss of RUB 176 billion, albeit an improvement from a year ago when a net loss was RUB 288 billion. 4Q18 results were sequentially weaker with a net loss of RUB 106 billion (vs. a net profit of of RUB 6 billion in 3Q18 when reversal of provision helped). Net F&C income demonstrated a healthy growth y/y and q/q, whilst net interest income declined on the backdrop of contraction of the loan portfolio. Asset quality improved on an annual basis while deteriorating sequentially: LLPs at 26.7% (+2.5pp q/q and -7.1pp y/y)) with 2018 cash interest income collection improving to 86% (+6pp y/y). VEB's capitalization at 11.8% (+1.0pp y/y and -0.3pp q/q); however, the entity is not under the CBR supervision. New legislature adopted in December 2018 envisages a build up of VEB's authorized capital (among other things) through further asset contributions from the government in the amount of RUB 300 billion.

4Q18 IFRS Results:

- Assets – remained generally flat (-0.4% y/y) in RUB terms here and thereafter
- Net Loans (46.4% of the bank's total assets) – contracted 12.5% y/y and 11.6% q/q as a number of loans were re-assigned to other lenders as VEB's function as a development institution was completed
  - Gross Loans shrank 7.7% q/q and 25.3% y/y
- Asset Quality – based on the LLPs numbers, deteriorated sequentially with LLPs at 26.7% (+2.5pp q/q), whilst improving y/y (-7.1pp q/q)
  - Cash interest income collection in 2018 improved to 86% (vs. 80% in 2017)
- Liabilities – increased 3.3% y/y largely due to increased amounts due to the Russian Government and the Bank of Russia (+10.9%)
- Equity – decreased 28.2% y/y to RUB 284.1 billion largely due to IFRS 9 transition and result on investment financial assets at fair value through other comprehensive income and FX conversion
- Equity (continued)
  - The negative impact was partly offset by the state support measures: in 2018 VEB received RUB 136.1 billion from the federal budget, of which RUB 125.5 billion for servicing FX debt
  - Under a new law adopted in December 2018, VEB's authorized capital is to be built among other things through further asset contributions from the government in the amount of RUB 300 billion
- Capitalization – CAR at end-2018 (under RAS) was 11.8% (+1.0pp y/y and -0.3pp q/q)
- Net Loss in 2018, however an improvement vs. 2017. The major factor contributing to the 2018 result was revaluation of loans to customers at fair value and a recognition of non-interest expense from NWF foreign currency-denominated deposits conversion to rubles
  - 4Q18 – net loss of RUB 106 billion vs. a net loss of RUB 178 billion in 4Q17
  - 2018 – net loss of RUB 176 billion vs. a net loss or RUB 288 billion

MARKET UNDERPERFORM (RUSSIA)

VEBBNK 6.902% 20s

4Q18 IFRS Results

VEB	2018	2017	YTD	2018	2017	YTD
	RUB MM			USD MM		
Total Assets	3,361,900	3,376,000	-0.4%	48,687	58,481	-16.7%
Cash and equivalents	322,300	354,400	-9.1%	4,668	6,139	-24.0%
Gross Loans	2,014,900	2,695,600	-25.3%	29,180	46,695	-37.5%
Net Loans	1,561,600	1,784,000	-12.5%	22,615	30,904	-26.8%
Deposits	465,200	518,300	-10.2%	6,737	8,978	-25.0%
Equity	284,100	395,700	-28.2%	4,114	6,855	-40.0%
NPL	n/a	n/a	n/a	n/a	n/a	n/a
LLP	26.7%	33.8%	-7.1pp	26.7%	33.8%	-7.1pp
Total CAR	11.8%	10.8%	1.0pp	11.8%	10.8%	1.0pp
FX (RUB/USD)	69.05	57.73	19.6%	69.05	57.73	19.6%

VEB (RUB MM)	4Q18	4Q17	y/y	3Q18	q/q	2018	2017	y/y
Net Interest Income	16,900	20,300	-16.7%	20,600	-18.0%	59,800	83,700	-28.6%
Net F&C Income	3,800	3,000	26.7%	2,000	90.0%	9,600	9,100	5.5%
Operating Income	(1,100)	37,000	-103.0%	20,200	-105.4%	7,100	137,200	-94.8%
Provision Charge/(Reversal)	34,300	115,600	-70.3%	5,300	547.2%	33,100	255,100	-87.0%
Operating Expenses	15,200	13,800	10.1%	12,300	23.6%	48,900	38,800	26.0%
Net (loss) / profit	(106,200)	(178,200)	-40.4%	6,000	n/a	(175,800)	(287,700)	-38.9%
VEB (USD MM)	**4Q18**	**4Q17**	**y/y**	**3Q18**	**q/q**	**2018**	**2017**	**y/y**
Net Interest Income	245	352	-30.4%	313	-21.9%	866	1,450	-40.3%
Net F&C Income	55	52	5.9%	30	80.9%	139	158	-11.8%
Operating Income	(16)	641	-102.5%	307	-105.2%	103	2,377	-95.7%
Provision Charge	497	2,003	-75.2%	81	516.3%	479	4,419	-89.2%
Operating Expenses	220	239	-7.9%	187	17.7%	708	672	5.4%
Net (loss) / profit	(1,538)	(3,087)	-50.2%	91	n/a	(2,546)	(4,984)	-48.9%
FX(RUB/USD)	69.05	57.73	19.6%	65.76	5.0%	69.05	57.73	19.6%

- *Weaker performance in 4Q18*
- *Very high systemic importance due to participation in strategically important projects, which may or may not be profitable hence not suitable for regular commercial banks (due to regulatory factor)*
- *VEB's own standing and credit rating tied very much so to the Russian Government, hence, if the Western sanctions were to intensify, the bank may be affected*

UKRAINE

MARKET UNDERPERFORM (UKRAINE)

KERPW 8.75% 22s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
KERPW 8.75% 01/31/2022	$500	-/ -B/ B+	103.25	7.43%

Kernel (-/B/B+) – leading diversified agro business in the Black Sea region of Ukraine with over 15,000 employees. Since 2007, Kernel has been listed on the WSE (Poland) with the current market cap of just over US$ 1 billion. Founder and majority shareholder is Mr. Andriy Verevskyi, a former member of the Ukrainian parliament (Rada)

Kernel (-/ B/ B-) posted 2Q19 IFRS results: second quarter in a row, Kernel's EBITDA surpassed the Bloomberg estimate by 23%; revenue - by 3%. Increased grain export volumes and Avere's trading supported revenue on an annual basis (+108% y/y) while remaining stable sequentially. EBITDA benefitted from strong performance of all segments; bio assets revaluation played a smaller role in driving EBITDA performance this quarter. FCF positive on stronger profitability. Net leverage at 2.6x slightly deteriorated vs. the previous quarter, but improved vs. end-2018; w/o bio assets, however, net leverage is at 3.2x. High capex cycle is likely to keep leverage elevated. During 2M19, there was an upward action in Ukrainian sunflower oil, however, the trend reversed. At present, we rate KERPW 22s at 'Market Underperform'.

PROS:

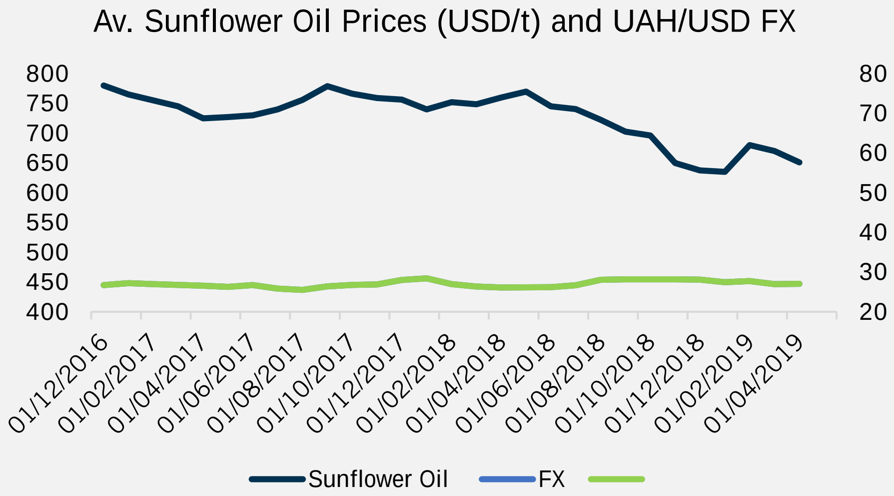
- Majority owner – Mr. Andriy Verevskyi (38.39% via Namsen Ltd.) with a personal net worth of ~US$640 mm; a former member of the Ukrainian parliament (Rada)
- Important local player – the company employs over 15,000 people and has a 35% share of the domestic bottled oil market; also, it ranks on a consistent basis as a Top-5 grain exporter in Ukraine (12% of Ukraines' total grain export)
- International presence – exports its products to over 60 countries globally and since November 2007 listed at the Warsaw Stock Exchange (WSE) with the current market cap of PLN4,326.5M (~US$1.13 billion)

CONS:

- Politics – although at the moment, Mr. Verevskyi appears to be not involved in politics, in the past, he used to belong to the Yulia Tymoshenko fraction (2002 – 2010), but as political winds changed switched (2010 – 2013) to the Party of Region's block loyal to then President Victor Yanukovych
- Growing Capex – Kernel is evaluating expansion (adding crushing capacities in Western Ukraine) amidst overcapacity with plans to allocate US$350 mm in 2019 and US$200 mm in 2020
- Grain Trading Operations – Kernel's subsidiary Avere demonstrated solid results in 2Q19 with EBITDA growing sequentially; however, volatile nature of the trading operations results in uneven performance

MARKET UNDERPERFORM (UKRAINE)

KERPW 8.75% 22s



- *After a brief upward action during 2M19, Ukrainian sunflower oil pricing returned to its downward trend – at US$635 at a time of writing (-12.2% since July 31, 2018)*
- *Kernel continues to evaluate expansion (high capex) amidst overcapacity*
- *Although improved, oil crushing margin remains under pressure due to oversupply*
- *Grain trading (Avere) accounts for 78% of revenue and 31% of EBITDA – given volatile nature of trading, it is hard to predict Avere's results and hence over all profitability of Kernel*

Kernel Sales, kt	2Q19	1Q19	q/q	2Q18	y/y	2018	2017	y/y
Sunflower oil sold in bulk	349	375	-7%	269	30%	1,301	1,084	20%
Bottled sunflower oil	32	32	-1%	27	17%	119	131	-9%
Grain trading	2,687	2,888	-7%	1,181	128%	4,646	5,060	-8%
Export terminals	1,257	983	28%	1,125	12%	4,112	4,456	-8%
Silo services	2,282	1,558	46%	1,679	36%	3,292	3,255	1%

MARKET UNDERPERFORM (UKRAINE)

KERPW 8.75% 22s

2Q19 Financial Results – bio assets re-valuation played a smaller role in driving EBITDA performance this quarter

- Revenue – US$ 1.1 bln – strong grain export volumes and trading operations of Avere's, Kernel's subsidiary, supported revenue on an annual basis (+108% y/y); revenue was generally stable q/q (-2%)
- EBITDA - US$ 129 mm (+68% y/y and +29% q/q) – improved y/y and q/q on the backdrop of healthy performance of farming and oilseed segments:
    - Oilseed – EBITDA doubled y/y to US$39 mm thanks to margin recovery and strong sales volumes
    - Farming – generated US$62 mm in EBITDA due to record crop yields
    - Infrastructure & Trading – EBITDA declined by 16% y/y to US$ 40 mm due to weaker margins in silo business
    - Revaluation of bio assets (IAS41) contributed US$5.8 mm to EBITDA this quarter – without it, 2Q19 EBITDA, according to our estimates, is at US$ 123.5 mm (+62% y/y and +109% q/q)
- EBITDA margin – improved to 11.6% (-2.8pp y/y and +2.8pp q/q)
- Capex – US$45 mm (+441% y/y and -4% q/q) – with various projects in the works, it is a high capex cycle with plans to deploy US$350 mm in 2019 and US$200 mm in 2020 (incl. maintenance)
- FCF Positive - pre-working capital on improved profitability; post-working capital, FCF turned negative as working capital increased by US$240 mm during 2Q19 due to seasonal accumulation of inventories after the harvest
- Debt – total debt grew by 30% reaching US$975 mm as the company attracted a US$250 mm project financing facility from the European Investment Bank in December 2018
- Liquidity – as at end-2Q19, the company had US$127 mm in cash (-4% YTD), covering ~27% of the company's short term-debt
- Dividend – in December 2018, the shareholder meeting approved a dividend payout of US$0.25/share

MARKET UNDERPERFORM (UKRAINE)

KERPW 8.75% 22s

Kernel, USD MM	2Q19	1Q19	q/q	2Q18	y/y	2018	2017	y/y	y/y
Revenue	1,115	1,140	-2%	536	108%	2403	2169	11%	.1%
EBITDA	129	101	29%	77	68%	223	319	-30%	30%
Interest	(14)	(26)	-45%	(7)	103%	(64)	(35)	86%	6%
Capex	(45)	(47)	-4%	(8)	441%	(147)	(43)	237%	37%
Taxes	(1)	(2)	-64%	(0)	27%	(5)	(6)	-20%	20%
FCF (pre WC)	69	25	n/a	61	13%	6	234	-97%	97%
Net Change in Working Capital (WC)	(240)	(30)	701%	(264)	-9%	(31)	(206)	-85%	35%
FCF (post WC)	(171)	(4)	n/a	(203)	-16%	(25)	28	n/a	n/a
EBITDA margin	11.6%	8.8%	2.8pp	14.4%	-2.8pp	9.3%	14.7%	-5.4pp	.4pp
EBITDA (w/o bio)	124	59	109%	76	62%	204	322	-37%	37%
Short-term Debt	476	288	65%	332	43%	246	152	61%	1%
Long-Term Debt	499	506	-1%	503	-1%	505	502	1%	1%
Gross Debt	975	794	23%	835	17%	751	655	15%	.5%
Cash	127	112	14%	157	-19%	132	143	-8%	8%
Net Debt	848	683	24%	678	25%	619	511	21%	1%
EBITDA LTM	329	277	19%	232	42%	223	319	-30%	30%
Leverage LTM	3.0x	2.9x	3%	3.6x	-18%	3.4x	2.1x	64%	4%
Net Leverage LTM	2.6x	2.5x	4%	2.9x	-12%	2.8x	1.6x	73%	3%
BCP EBITDA LTM	267	219	22%			203			
BCP Leverage LTM	3.7x	3.6x	1%			3.7x			
BCP Net Leverage LTM	3.2x	3.1x	2%			3.0x			
FX end of period:	27.48	28.18	-2%	28.02	-2%	26.23	26.06	1%	
Av. price sunflower oil, $/ton	635	727.23	-13%	743.75	-15%	755.98	755.89	0%	1%

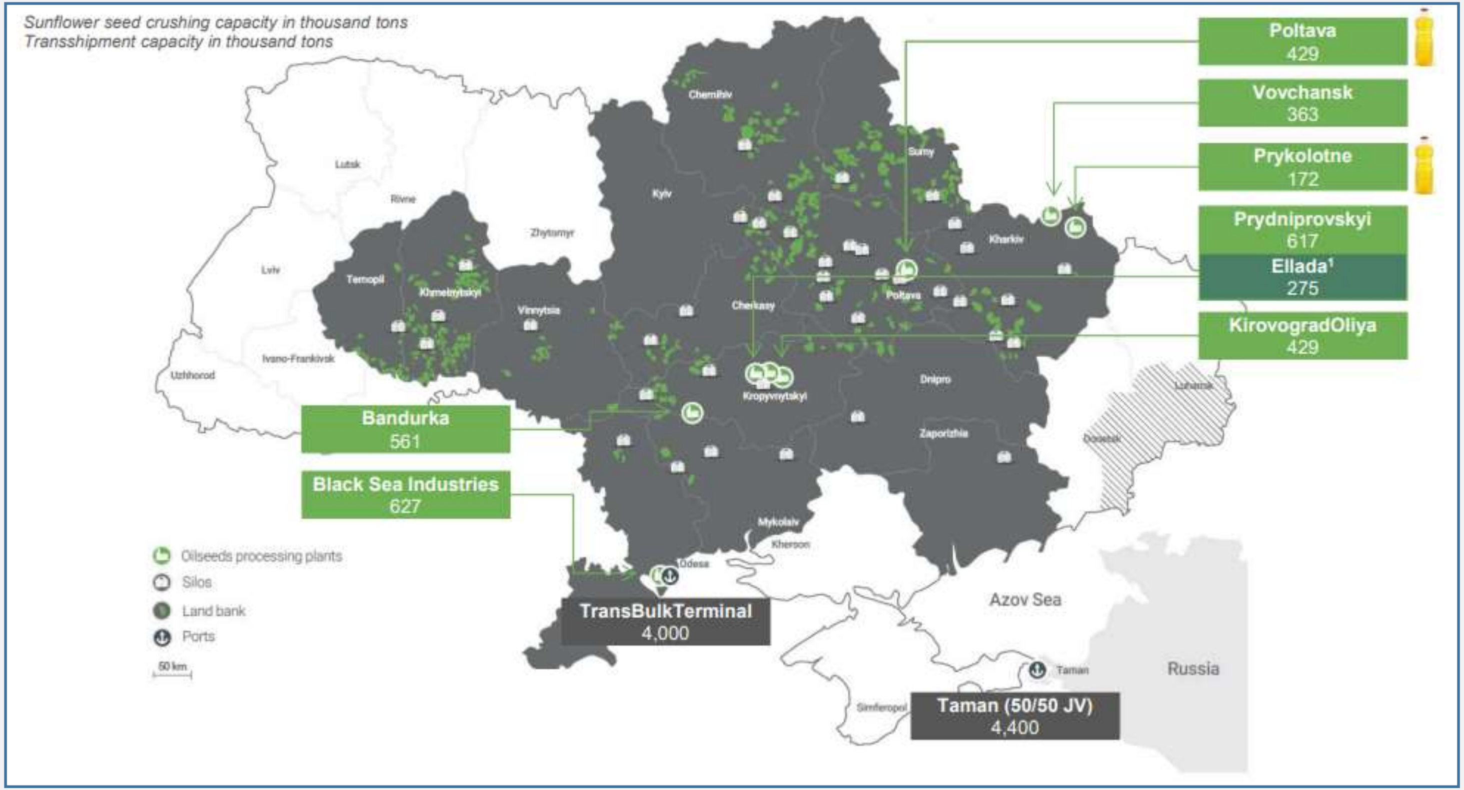
2Q19 Financial Results (continued)

- Net leverage – edged up sequentially to 2.6x (vs. 2.5x at end-1Q19 and 2.8x in 2018)
  - Management confirmed that a comfortable net leverage is at 2.0x; however, given the high capex cycle for 2019 and 2020, it is expected to be at ~2.5x – the company's current debt covenant is at 3.3 – 3.5x
  - Without taking into account a positive impact on EBITDA from bio asset revaluation, net leverage was pushed further above 3.0x
- Recent Developments – in October 2018, both Fitch and S&P affirmed Kernel's rating at 'B+'/Stab and 'B'/Stab, respectively

MARKET UNDERPERFORM (UKRAINE)

KERPW 8.75% 22s

Largest land operator in Ukraine with more than 600,000 ha of land farmed



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