ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 3Q18

JULY 6, 2018

Brazil: Não é Diferente – Dr. Walter Molano, Ph.D.
EM Corporate Highlights – Corporate Research
Top Picks for 3Q18 – Corporate Research

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OUTPERFORM
UNDERPERFORM
SWAP

BRAZIL: NÃO É DIFERENTE

For decades, Brazilians have argued that the laws of economics do not apply to their country. They would always insist that Brazil, somehow, was different. This was the justification they used to apply heterodox policies. However, for the last four years the Brazilian economy has undergone a brutal recession, resulting in one of the most orthodox realignments ever recorded. As a result, Brazil has become one of the healthiest economies in Latin America, with a very low inflation rate and on track towards a positive current account balance. Thanks to a classical adjustment, Brazil transformed itself from the sick man of Latin America to the picture of good health. As a result, it confirmed to the world that its economy was no different from the rest of the planet.

That is not to say that everything in Brazil is perfect. The large fiscal deficit, mainly driven by public sector pension obligations, continues to push the country's debt to GDP ratio higher. This has been the main reason why the international rating agencies have repeatedly downgraded the country's credit score. Yet, the situation is not as dire as they make it seem. The increase in the country's debt load, which is expected to finish the year at 80% of GDP, is mainly in local currency. The external debt component is in the low double digits. Given that the Brazilian government has an infinite capacity to refinance its local currency obligations; it is not such a pressing issue. This does not mean that the government can ignore the problem. The next administration will need to address the issue as soon as it takes office. Otherwise, it will eventually manifest itself into inflationary pressures.

The other challenge that the country faces is the upcoming presidential elections. The good news is that former President Luiz Inácio Lula da Silva is in jail and seems that he can't run for office. Still, the electoral field is full of (mostly) independent candidates, and there is no front runner. Moreover, there is a mix bag of ideologies that are competing. The pole position on the left of the political spectrum is anchored by Joaquim Barboso, the former Chief Justice of the Supreme Court. He is polling at 10% of the intended vote. Although he was appointed by Lula to the Supreme Court in 2003, he became reknowned by leading the investigations into the so-called mensalão corruption scandal. Several senior PT officials were implicated and jailed for providing kickbacks in return for congressional votes. Born into a poor black family, he worked as a janitor before putting himself through law school and moving up the judiciary. A member of the PSB, the small socialist party, it would be natural for Barboso to align himself with the PT. However, there is a lot of bad blood in the party about the party members who were jailed during the mensalão investigations. One of the problems in Brazil is that there are many candidates without parties, and many parties without candidates. With Lula in jail, the PT, which has a formidable organizational apparatus, is in desperate need of a candidate. Another person on the left is Ciro Gomes. A former Finance Minister under Itamar Franco and Governor for the state of Ceara, he is well known. Gomes was a founding member of the PSDB, but ran for president twice on the Socialist People Party (PPS) ticket. He is a lone wolf, and would probably be willing to run on the PT ticket. Many Brazilians consider him to be most radical candidate of the pack. While he has 6% of the intended vote, this could improve if he moves into the PT camp. The center is anchored by Marina Silva Vaz de Lima. She served as Minister of the Environment during the Lula Administration and gained a good reputation among environmentalists. She also had a strong following from the evangelical crowd. This allowed her to place third during the 2014 presidential elections, even though she came across as being very timid during the televised presidential debates. Her economic policies are center-right, and would probably support implementing the much-needed pension reforms. However, many people question whether she has the leadership skills needed to negotiate such a difficult process. She has 14 to 15% of the intended vote.

BRAZIL: NÃO É DIFERENTE

Next along the political spectrum is Gerardo Alckmin, the former Governor of Sao Paulo. He is the market's favorite. A member of the PSDB, he is the only politician who is running under the banner of a major political party. He is polling with 6% of the intended vote, but many analysts believe his numbers will improve when we get closer to the elections and the party begins to open up its war chest to spend on television advertising. The pole position on the far right is anchored by Jair Bolsonaro, the congressman from the State of Rio de Janeiro. A former military officer, he is often compared to U.S. President Donald Trump for his outlandish misogynist outbursts. Nevertheless, he is being advised by Paulo Guedes, a well-known Brazilian economist who graduated from University of Chicago and founded BR Investments, a highly successful hedge fund. Some people believe that Guedes would be instrumental in pushing through the necessary pension reforms. Bolsonaro is the front runner, polling at 16 to 17%. He is running on a law and order platform, which resonates well among the electorate. He has strong support from millennials, mainly due to his social media campaign and their disullionment with the traditional political parties. However, he also has the highest rejection rate of any of the frontline candidates. Therefore, while Brazilians may think that their economy is different from everyone else, it seems that the laws of economics are alive and well in the tropics, and will continue to be so.

Dr. Walter Molano, Ph.D.
May 7, 2018

EM CORPORATE HIGHLIGHTS 2Q'18

Argentina

- The IMF approved a US$50bn Stand-by Arrangement, of which US$15bn were already disbursed and the remaining will be subject to certain milestones
- In accordance with the IMF agreement, the government settled the new fiscal deficit goals: 1.3% primary deficit for 2019, breakeven by 2020 and 0.5% surplus for 2021
- Initial 2019 budget guidelines: 2% GDP growth, 17% inflation and free-float currency
- EM markets sell-off and additional concerns over Argentina gradualist approach and debt capital market reliance resulted in ARS depreciating 44% and 5yr CDS widening 176bps to 450bps, while inflation spiked and closed at 26.3% y/y in May-18
- Changes in cabinet: new Central Bank President (Caputo), Energy Minister (Iguacel) and Production Minister (Sica), while the Secretary of Finance will go to the orbit of the Ministry of Economy, increasing Dujovne's influence in economical policies
- Due to the sell-off and several bonds trading at below par levels there were no issuances during the quarter
- Government temporarily returned to Kirchner's policies, settling a cap to local crude (although now at free-market prices again) and negotiating a delay in fuel price increases to combat inflation
- Comptroller approved the merger of Telecom and Cablevision, creating the first quadruple-play telco company in the country

Brazil

- Former president Lula was sent to jail under a 12 year sentence, convicted on charges of corruption
- General strike initiated by truck drivers paralyzed transport system for two weeks as strikers wanted lower fuel prices
- Petrobras announced a 10% cut in diesel prices for 15 days in response, raising concerns over company's pricing policy, as well as a change to monthly reviews from previous daily reviews
- Pedro Parente resigned from Petrobras and became BRFs CEO, as Ivan de Souza Monteiro (ex-CFO) assumed his place in the former company
- New issuances from Unigel, Light, Rio Oil and Banco do Brasil
- Andrade and ODBR both missed deadlines for final bonds payments, ODBR paid a month later

EM CORPORATE HIGHLIGHTS 2Q'18

Ecuador

- Richard Martinez replaced Maria Elsa Viteri as Minister of Finance
- New appointed Minister of Finance stated that the country is able to issue debt within budget limits, without the need for congressional approval
- Economic plan presented: aims to reduce total fiscal deficit to 2.5% by 2021 (5.7% in 2018) by, among other things, reducing government expenditures

Mexico

- Mexico's leftist candidate, AMLO, has won the 2018 Presidential Election with 53% of the voting power according to INE's preliminary count. Anaya came in second with 22% and Meade in third with 16%. Furthermore, it is expected that AMLO will have majority in both houses of Congress with 29 of 64 Senators and 210 of 300 Deputies.
- Mexico's ruling party, the PRI, continued its decline by losing all eight States under campaign during this election
- This election was one of the most violent, with at least 48 candidates and over 130 total politicians murdered, allegedly most of them over disputes with organized crime – a reflection on the growing security concerns in Mexico
- AMLO is expected to meet with Pena Nieto to discuss NAFTA. ALMO is in favor of a new deal, but would expand the current negotiating team to include his picks
- Banxico raised the base interest rate to 7.75% due to ongoing high inflation concerns
- Mexico imposed import tariffs on US agricultural products ranging from 15% in cheese to 25% in pork and potatoes, as well as similar tariffs in US steel imports as countermeasures to recent US trade policies
- Mexico's SHCP raised the tax stimulus to stabilize increasing gasoline prices. This level rose to 62%, meaning that SHCP will only charge 38% of the total gasoline sales tax
- According to an SEC filling, Pemex reported a mere 17% reserve replacement rate during 2017 driven by big findings during the year. Total proven reserves fell by 10%. Current reserves (assuming current production levels) stand at 7.7 years of production

EM CORPORATE HIGHLIGHTS 2Q'18

Venezuela

- Maduro was reelected president with 46% of votes, in elections not recognized by several countries and the OAS, accusing them as illegal and corrupt
- Oil production continues to decline: 1.392kbpd in May-18 vs 1.538kbpd in 1Q18, 1.647 kbpd Dec-17 and 1.916 kbpd in 2017
- PDVSA's Isla Refinery in Curacao (330kbpd) is said to be shut down as ConocoPhillips obtained court orders freezing assets owned by PDVSA in Central America, in a bid to fulfill a US$2bn arbitration award

Colombia

- Right wing candidate Ivan Duque became the new president of Colombia by wining in the second round with 54% of votes (39% in first round)
- After emerging from restructuring, Pacific Rubiales, now called Frontera Energy, returned to the debt capital markets through a US$350mm 5yr senior unsecured issuance

Russia

- As at June 30, 2018, Russia's FX reserves stand at US$456.7 billion, covering ~86% of the country's sovereign debt. In 2017, Russia repaid the balance of the USSR debt, and this year a US$16 billion budget surplus is expected, which did not go unnoticed by the IMF – Ms. Christine Lagarde speaking at the St. Petersburg International Economic Forum (SPIEF) in May 2018, noted: "Russia has put in place an admirable macroeconomic framework – saving for a rainy day, letting the exchange rate float, introducing inflation targeting, and shoring up the banking system."
- June 14 – July 15, 2018, Russia is hosing the World Cup: on July 1, 2018, during the round of 16 game, Russia delivered the largest upset ever (on the knock out stage) and moved past Spain into the quarterfinals of the World Cup.
- Russian President Putin and US President Trump are set to meet in Helsinki, Finland on July 16, 2018

EM CORPORATE HIGHLIGHTS 2Q’18

Ukraine

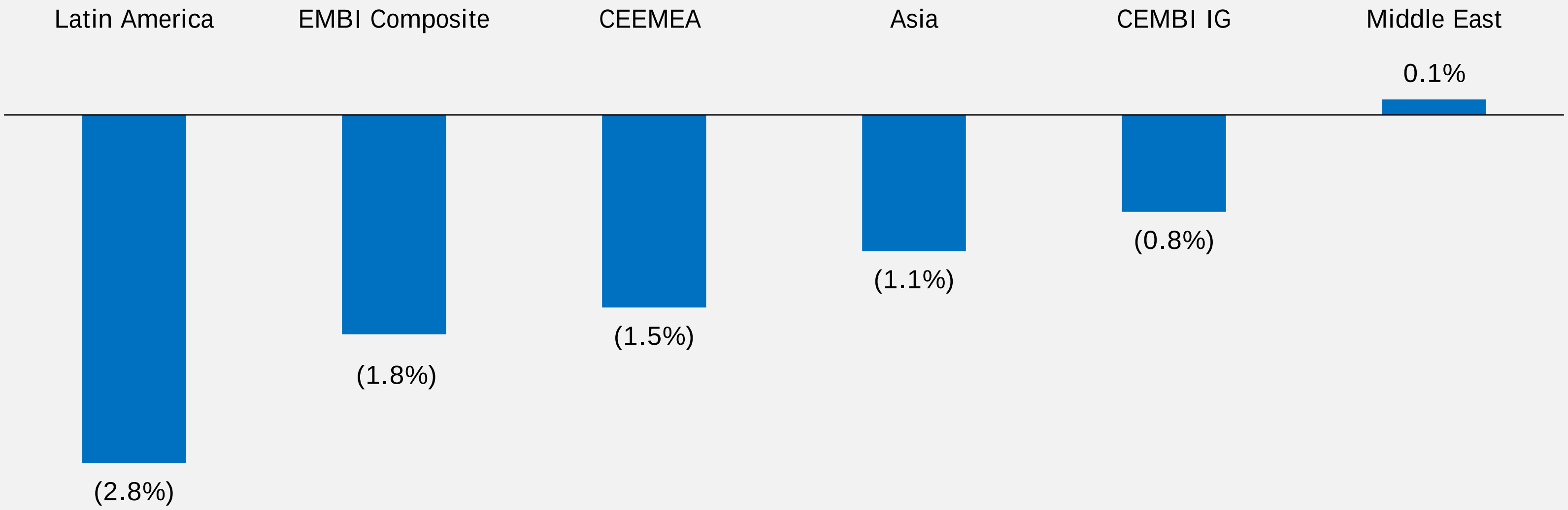
- On June 7, 2018, Ukraine’s Parliament voted to approve the final reading of a bill establishing an independent High Anti-Corruption Court. This bill is a key requirement of the IMF before disbursing the fifth tranche (~US$2 billion) under its four-year program. Simultaneously, the Parliament of Ukraine voted to support Prime Minister Volodymyr Grpysman’s request to dismiss Finance Minister Alexander Danyliuk, who wrote a letter to international ambassadors accusing PM Groysman and President Poroshenko of interfering in the work of the Ministry of Finance and the State Fiscal Service

Turkey

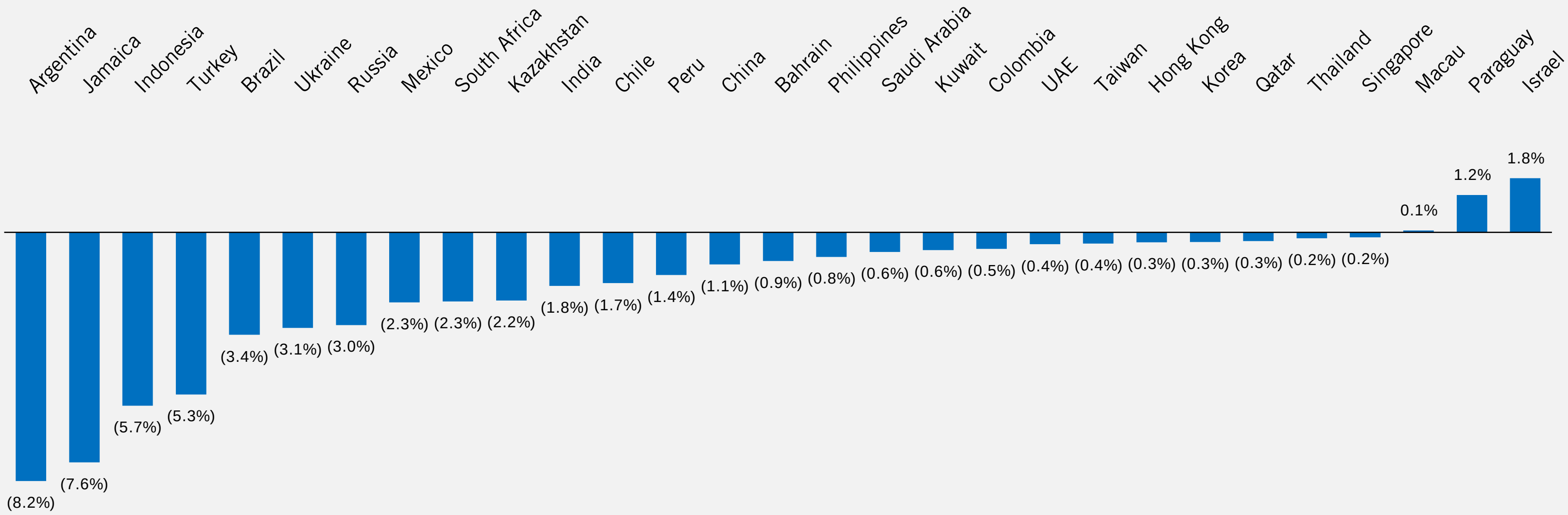
- Erdogan won an absolute majority. Turkish government transferred executive powers to president of the country within the framework of the transition from parliamentary to presidential form of government
- On June 7, 2018, Turkish Central Bank hiked one-week repo rate to 17.75% from 16.5% - it’s a new the benchmark and marking a return to a more conventional approach to monetary policy, previously known as liquidity window interest rates
- Turkey's annual inflation at 15.39% in June 2018, up from 12.15% in May 2018
- Turkey's manufacturing index at 46.8 points in June 2018 showed a 0.4-point increase in June 2018 from May 2018
- Turkey was close to 6% in 2Q18 growth expectations, said Cemil Ertem, a senior economic adviser to President Recep Tayyip Erdoğan. The government aims for 5.5% annual economic growth through 2020 under its medium-term program
- On June 7, 2018, Moody´s downgraded the rating by one notch to Ba3. On June 1, 2018, Fitch placed rating on Watch Negative
- Halkbank - U.S. judge sentenced the former head of its international banking business Mehmet Hakan Atilla to just 32 months in jail, recognizing time already served; Federal prosecutors had sought at least 15 years
- Albaraka Turk exercised a call option on US$200m sukuk due 2023 on May 7, 2018

OVERVIEW
EMBI INDEX RETURNS 2Q'18

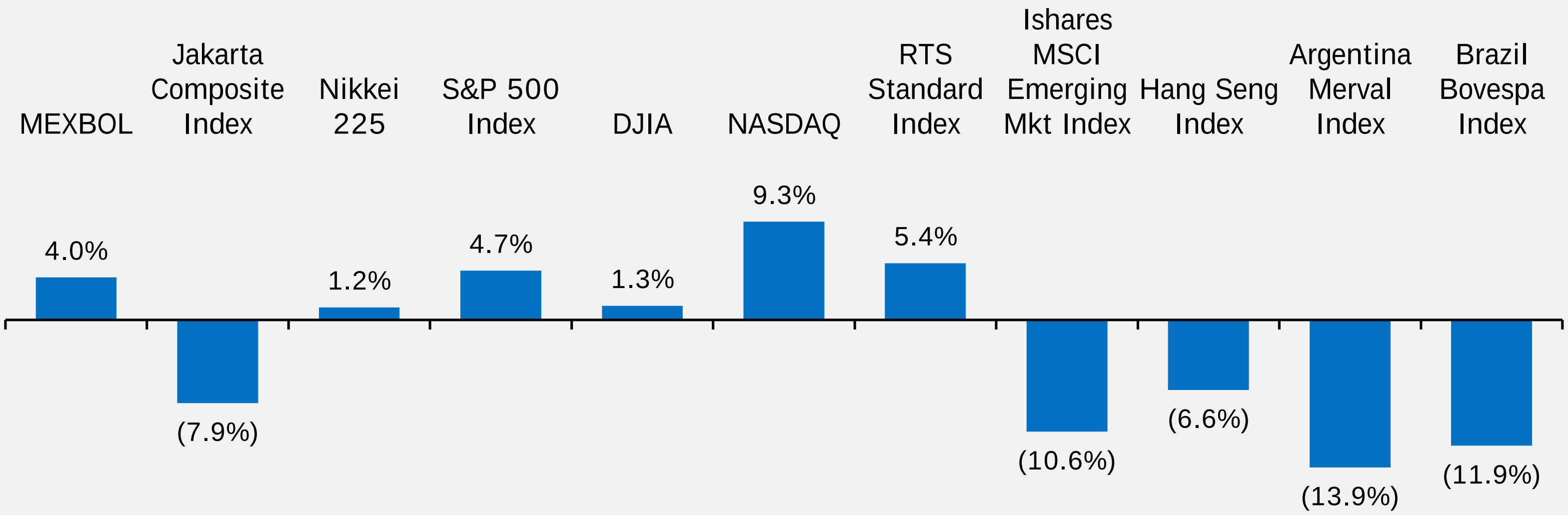
EMBI BROAD COMPOSITE REVIEW



OVERVIEW
CEMBI INDEX RETURNS
BY COUNTRY 2Q'18



OVERVIEW
GLOBAL EQUITY INDEX RETURNS 2Q'18



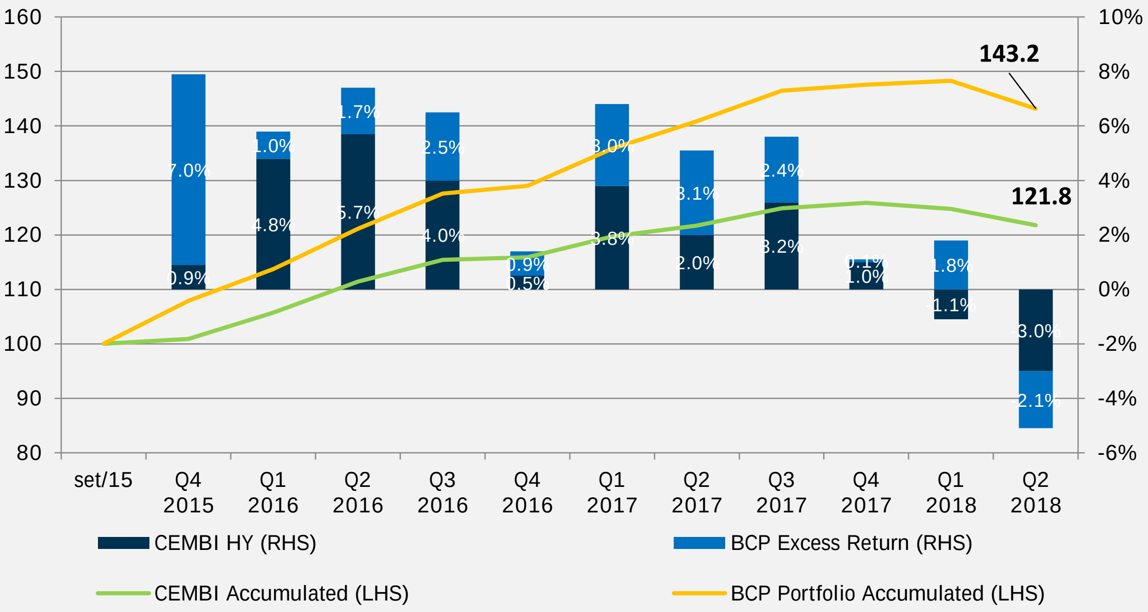
2Q'18 TOP PICKS

PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated negative excess return of 213 bps vs. our CEMBI HY benchmark which decreased 2.98% over the period. Outperforms depreciated 220 bps more than the benchmark while Underperforms declined 195 bps less than the benchmark.
- Our top performers were TPZMAR 22s and ODEBRE 22s, with an excess return of 4.3% and 3.5% respectively.
- JBSSBZ 24s and ODEBRE 21s were also highlights among outperforms, generating 3.3% and 2.6% excess performance respectively.
- Portfolio performance was most negatively impacted by CHUBUT 26s and GOLLBZ PERP, which generated a negative return of 13.7% and 9.1%, respectively.
- Over the past ten quarters, BCP Top Picks have generated compounded excess return of 21.4% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH JULY 5th 2018



BCP Top Picks/ 07/05/2018

2Q'18 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 =**	**(4.7%)**	**(2.2%)**
CHUBUT 26	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	04/04/18	07/05/18	92	97.2	79.00	7.75%	(18.7%)	(16.7%)	(13.7%)
GOLLBZ PERPs	GOL FINANCE	Airlines	Brazil	USD	04/04/18	07/05/18	92	96.9	83.00	8.75%	(14.3%)	(12.1%)	(9.1%)
JBSSBZ 24	JBS INVESTMENTS GMBH	Food	Brazil	USD	04/04/18	07/05/18	92	99.3	97.75	7.25%	(1.5%)	0.3%	3.3%
ODEBRE 21	ODEBRECHT DRILL VIII/IX	Oil&Gas	Brazil	USD	04/04/18	07/05/18	92	98.0	96.00	6.35%	(2.0%)	(0.4%)	2.6%
ANTOIL 20	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	04/04/18	07/05/18	92	104.8	100.50	9.75%	(4.1%)	(1.6%)	1.4%
ECUA 27	REPUBLIC OF ECUADOR	Sovereign	Ecuador	USD	04/04/18	07/05/18	92	105.3	97.00	9.63%	(7.8%)	(5.4%)	(2.4%)
GJTLIJ 22	GAJAH TUNGGAL TBK PT	Auto Parts&Equipment	Indonesia	USD	04/04/18	07/05/18	92	97.4	86.56	8.38%	(11.1%)	(9.0%)	(6.0%)
TZA 24	TV AZTECA SA DE CV	Media	Mexico	USD	04/04/18	07/05/18	92	103.4	98,65	8.25%	(4.6%)	(2.5%)	0.5%
AJECBV 22	AJECORP BV	Beverages	Peru	USD	04/04/18	07/05/18	92	90.5	79.50	6.50%	(12.2%)	(10.5%)	(7.5%)
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	04/04/18	07/05/18	92	100.0	92.50	8.50%	(7.5%)	(5.3%)	(2.3%)
DARALA 23	DAR AL-ARKAN SUKUK CO LT	Real Estate	Saudi Arabia	USD	04/04/18	07/05/18	92	99.1	95.00	6.88%	(4.2%)	(2.4%)	0.6%
TPZMAR 22	TOPAZ MARINE SA	Transportation	UAE	USD	04/04/18	07/05/18	92	104.6	103.50	9.13%	(1.0%)	1.3%	4.3%
AKBHC PERP	TINKOFF CREDI (TCS FINAN	Banks	Russia	USD	05/03/18	07/05/18	63	102.7	103.00	9.25%	0.3%	1.9%	1.6%
CGCSA 21	COMPANIA GENERAL COMBUST	Oil&Gas	Argentina	USD	05/23/18	07/05/18	43	104.0	99.38	9.50%	(4.4%)	(3.3%)	(4.0%)
UNDERPERFORM											**Average Return =**	**0.4%**	**(1.96%)**
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	04/04/18	07/05/18	92	103.9	101.00	6.00%	2.8%	1.2%	(1.7%)
MARFRIG 23	MARFRIG HOLDING EUROPE B	Food	Brazil	USD	04/04/18	07/05/18	92	101.1	101.75	8.00%	(0.6%)	(2.7%)	(5.6%)
AESGEN 25	AES GENER SA	Electric	Chile	USD	04/04/18	07/05/18	92	100.5	100.00	5.00%	0.5%	(0.8%)	(3.8%)
CENSUD 23	CENCOSUD SA	Food	Chile	USD	04/04/18	07/05/18	92	103.3	100.88	4.88%	2.4%	1.1%	(1.9%)
ALPEKA 23	ALPEK SA DE CV	Chemicals	Mexico	USD	04/04/18	07/05/18	92	103.4	101.13	5.38%	2.2%	0.8%	(2.2%)
ODEBRE 22	ODBRCHT OFFSHRE DRLL FIN	Oil&Gas	Brazil	USD	05/08/18	07/05/18	58	95.0	91.00	6.72%	4.2%	3.1%	3.5%
											Total Average Return =	**(3.1%)**	**(2.1%)**

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	04/04/18	07/05/18	92	424.3	411.6	(3.0%)

Source: Bloomberg as of 07/05/2018

3Q'18 TOP PICKS

PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	Minimum Denomination	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform											
CHUBUT 26	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	$650	$150,000	B2/ -/ B	7.75%	07/26/2026	11.83%	79.00
CGCSA 21	COMPANIA GENERAL COMBUST	Oil&Gas	Argentina	USD	$300	$1,000	-/ B-/ B	9.50%	11/07/2021	9.85%	99.38
BRFSBZ 24	BRF SA	Food	Brazil	USD	$750	$200,000	Ba2/ BB+/ BBB-	4.75%	05/22/2024	6.85%	89.50
JBSSBZ 24	JBS INVESTMENTS GMBH	Food	Brazil	USD	$750	$200,000	-/ B+/ BB-	7.25%	04/03/2024	7.74%	97.75
ODEBRE 21	ODEBRECHT DRILL VIII/IX	Oil&Gas	Brazil	USD	$365	$1	-/ B-/ -	6.35%	12/01/2021	8.93%	96.00
FECCN 23	FRONTERA ENERGY CORP	Oil&Gas	Colombia	USD	$350	$200,000	-/ BB-/ B+	9.70%	06/25/2023	9.83%	99.50
ANTOIL 20	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	$300	$200,000	B2/ -/ B-	9.75%	12/05/2020	9.74%	100.50
ECUA 27	REPUBLIC OF ECUADOR	Sovereign	Ecuador	USD	$1.000	$200,000	-/ B-/ B	9.63%	02/06/2027	10.25%	97.00
GJTLIJ 22	GAJAH TUNGGAL TBK PT	Auto Parts&Equipment	Indonesia	USD	$250	$200,000	B2/ B-/ -	8.38%	08/10/2022	12.86%	86.56
TZA 24	TV AZTECA SA DE CV	Media	Mexico	USD	$400	$200,000	-/ -/ B+	8.25%	08/09/2024	8.54%	98.65
AJECBV 22	AJECORP BV	Beverages	Peru	USD	$450	$150,000	-/ B/ B-	6.50%	05/14/2022	13.50%	79.50
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	$500	$200,000	-/ -/ B	8.63%	04/23/2026	8.63%	99.00
DARALA 23	DAR AL-ARKAN SUKUK CO LT	Real Estate	Saudi Arabia	USD	$500	$200,000	B1/ -/ -	6.88%	03/21/2023	8.17%	95.00
TPZMAR 22	TOPAZ MARINE SA	Transportation	UAE	USD	$375	$200,000	B3/ B-/ -	9.13%	07/26/2022	8.09%	103.50
SEPLLN 23	SEPLAT PETROLEUM DEV CO	Oil&Gas	Nigeria	USD	$350	$200.000	B2/ B-/ B-	9,25%	04/01/2023	9.78%	97.88
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	$330	$100,00	-/ BB/ BB+	6.25%	04/10/2027	7.4%	92.50
Underperform											
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	$500	$1,000	Ba3/ -/ BB-	6.00%	07/06/2023	5.71%	101.00
MARFRIG 23	MARFRIG HOLDING EUROPE B	Food	Brazil	USD	$1.000	$200,000	B2/ B+/ BB-	8.00%	06/08/2023	7.56%	101.75
AESGEN 25	AES GENER SA	Electric	Chile	USD	$172	$200,000	Baa3/ BBB-/ BBB-	5.00%	07/14/2025	5.00%	100.00
CENSUD 23	CENCOSUD SA	Food	Chile	USD	$943	$200,000	Baa3/ -/ BBB-	4.88%	01/20/2023	4.66%	100.88
ALPEKA 23	ALPEK SA DE CV	Chemicals	Mexico	USD	$300	$200,000	Baa3/ BBB-/ BBB- *-	5.38%	08/08/2023	5.10%	101.13
ODEBRE 22	ODBRCHT OFFSHRE DRLL FIN	Oil&Gas	Brazil	USD	$459	$1	-/ CCC+/ -	6.72%	12/01/2022	11.85%	91.00
Swap											
GOLLBZ 25	GOL FINANCE	Airlines	Brazil	USD	$650	$10,000	-/ B-/ B	7.00%	01/31/2025	11.35%	80.00
AZULBZ 24	AZUL INVESTMENTS LLP	Airlines	Brazil	USD	$400	$200,000	B1/ B+/ -	5.88%	10/26/2024	8.82%	85.75

Source: Bloomberg as of 07/05/2018

MARKET OUTPERFORM

ARGENTINA
CHUBUT 7.75% 26s
CGC 9.50% 21s

BRAZIL
BRFSBZ 4.75% 24s
JBSSBZ 7.25% 24s
ODEBRE 6.35% 21s

COLOMBIA
FECCN 9.7% 23s

CHINA
ANTOIL 9.75% 20s

ECUADOR
ECUA 9.625% 27s

INDONESIA
GJTLIJ 8.375% 22s

MEXICO
CYDSA 6.25% 27s
TZA 8.25% 24s

PERU
AJECBV 6.5% 22s

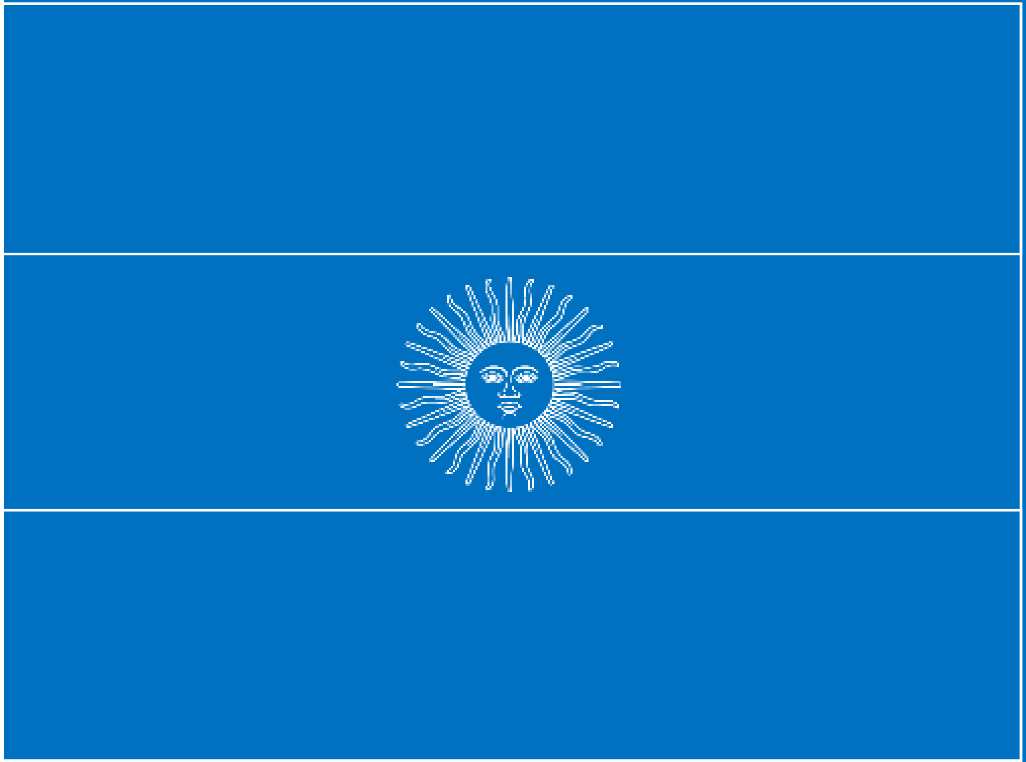
SAUDI ARABIA
DARALA 6.88% 23s

UKRAINE
METINV 8.625% 26s

UNITED ARAB EMIRATES
TPZMAR 9.125% 22s

NIGERIA
SEPLLN 9.25% 23s

ARGENTINA



MARKET
OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

The Province of Chubut is situated in the Patagonia region, with a population of nearly 510 thousand people and a poverty rate of 20.5% in its main urban areas according to INDEC at Jun-17. The province is the highest oil and third largest gas producer, with a total production of 140kbpd and 59kbpd in 2017, with reserves of nearly 1,027mmbll of oil and 203mmboe of gas as of Dec-16.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CHUBUT 7.75% 07/26/2026	$650	B2/-/B	79.0	11.8%

PROS:

- Largest oil producer and third largest gas producer
- Notes backed by oil & gas royalties collections
- Sound covenants structure – under a trigger event (coverage below 1.35x, trustee has the mandate to retain all royalties collected in reserve account)
- Sound coverage: under current production and Brent at US$68 we estimate coverage of 1.9x when principal starts amortizing in Oct-20
- National government has proven its support to provinces with the recent AR$750mm direct assistance given to Chubut
- Though not an official ally of national government, Chubut's governors have been collaborative with Macri administration, including recent efforts to approve the fiscal pact signed in Dec-17.

CONS:

- Oil royalties subject to international price volatility and political intervention. Recently the national government intervened to temporarily cap oil prices, although per the Minister of Energy the industry now operates under free market
- Exposed to Pan American Energy performance and production levels
- Additionally, crude extracted is heavy-oil, sold at a discount to Neuquen's lighter crude
- Deteriorated fiscal situation. National government had to step-in recently, providing a direct financial assistance. 2017 fiscal deficit estimated at 6% of the Province's GDP (3% budgeted for 2018)
- Historical conflicts with oil Unions
- Government has legislative minority and had difficulties in passing laws
- Maintains its own social security administration, which has a deficit

MARKET
OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

STRUCTURE OF THE NOTES

- Direct, general, unconditional and unsubordinated obligation of the Province of Chubut
- US$650MM issued and outstanding, with quarterly interest payments and quarterly principal payments starting Oct-20
- Chubut agreed to irrevocably and unconditionally transfer to the Collateral Agent (Deutsche Bank) its right to collect the "Specified Royalties"
- "Specified Royalties" means the royalties payable by Pan American Energy (PAE) to the Province of Chubut, less any such Pan American Royalties assigned in support of the 2020 Notes. Once the 2020 Notes mature, all Royalties payable for the Dedicated Concessions will serve as collateral for the 26s
- Accordingly, PAE makes royalty payments directly to the Collateral Account
- Royalties are 12% of wellhead price, plus 3% up to 18% for each extension granted. PAE's concessions mature in 2027.
- Royalties are tied to USD prices but payable in ARS
- Debt reserve account is considered fully funded if it covers next quarterly debt service. Failure to be fully funded for 180 days constitutes an event of default

COVENANTS

- Trigger Event: if coverage falls below 1.35x, the Collateral Agent shall convert all excess royalties to USD and transfer them to the Trigger Event Prepayment Account until the trigger event ceases to exist. As long as a trigger event exists, the notes will be paid in reverse order of maturity (last installment shall be paid first)
- Same procedure in case of any Default Event
- Accordingly, under a trigger event or event of default, the Province would not collect any royalties

MARKET
OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

OIL & GAS ACTIVITY IN CHUBUT

Chubut is the largest oil and third largest gas producer, with nearly 30% and 8% of national production, respectively. PAN American Energy is its main concessionaire, with more than half of its oil and almost its entire gas production, with concessions until 2027, which can be renewed to 2047. All O&G is extracted from the San Jorge basin and near 90% of royalties derive from oil sales.

Production in Chubut	4M18	4M17	y/y	2017	2016
Oil (kbpd)	146	139	5%	140	152
PAE	87	83	4%	85	86
YPF	34	31	9%	31	36
Gas (kboepd)	58	58	(1%)	59	61
PAE	50	51	(2%)	52	53

MARKET OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

Estimated coverage amount until principal starts amortization is around **5.5x** while when principal begins amortization coverage decreases to **1.9x**.

'US$000	Jul-18	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21
Interest payment	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,069	11,544
Principal payment	-	-	-	-	-	-	-	-	-	27,084	27,084	27,084
Total debt service	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,594	12,594	39,677	39,152	38,627
Estimated royalties	68,671	68,772	68,873	68,974	69,075	69,176	69,277	69,377	69,478	74,788	68,671	68,772
Debt Service Coverage	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	1.9	5.5	5.5

'US$000	Jul-21	Oct-21	Jan-22	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24
Interest payment	11,019	10,495	9,970	9,445	8,920	8,395	7,871	7,346	6,821	6,297	5,772	5,247
Principal payment	27,084	27,084	27,084	27,084	27,084	27,084	27,084	27,084	27,084	27,084	27,084	27,084
Total debt service	38,102	37,578	37,053	36,528	36,003	35,479	34,954	34,429	33,904	33,380	32,855	32,331
Estimated royalties (*)	74,788	74,788	74,788	74,788	74,788	74,788	74,788	74,788	74,788	74,788	74,788	74,788
Debt Service Coverage	1.9	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.2

(*) Estimated royalties payable by PAE to Chubut, after servicing 20s notes, at current production Brent fixed at US$68/bbl. Gas prices fixed at US$5/MBTU

SENSITIVITY SCENARIO

Coverage in Oct-2020		Brent Price 50	55	60	65
Annual Production drop	0%	1.4x	1.6x	1.7x	1.8x
	5%	1.3x	1.5x	1.6x	1.7x
	7%	1.2x	1.4x	1.5x	1.6x
	10%	1.1x	1.3x	1.4x	1.5x

MARKET
OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

CHUBUT vs OIL & GAS BACKED PROVINCES AND YPF

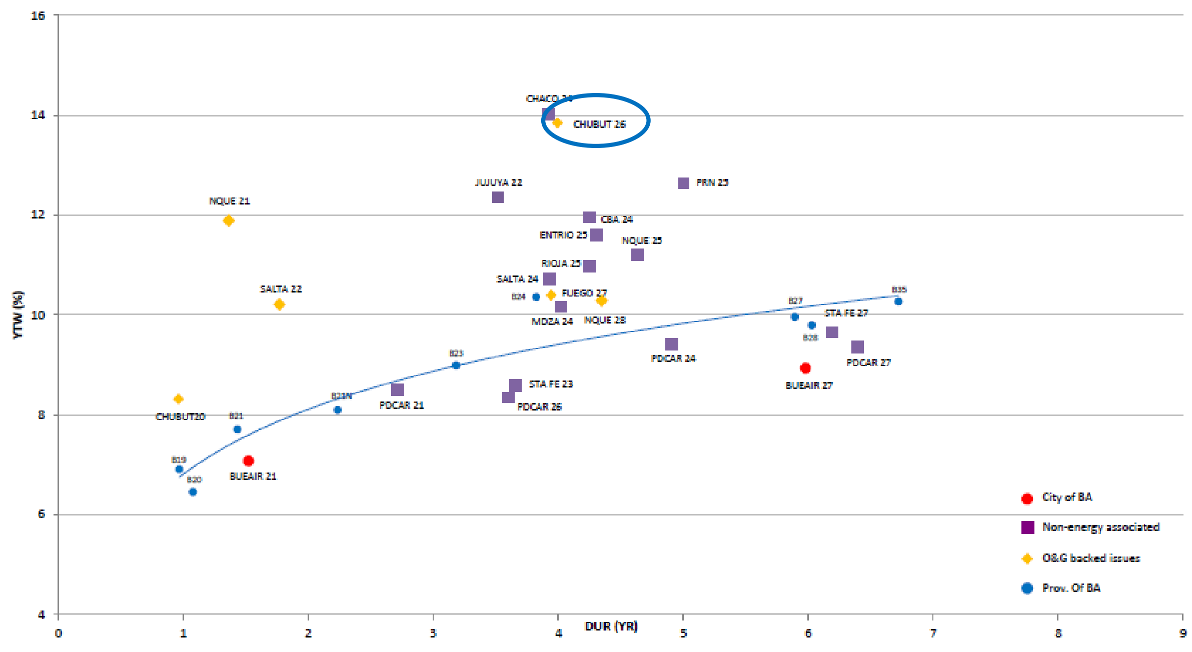
	Chubut 26	Fuego 27	Neuquen 28	YPF 24
YTC	13.63%	10.27%	10.16%	8.84%
Duration	4.0	3.9	4.3	4.0
Sov inter. Yield	7.41%	7.46%	7.71%	7.41%
Spread to sov (bps)	622	281	245	143

Source: BBG as of 07/06/2018

MARKET
OUTPERFORM (ARGENTINA):

CHUBUT 7.75% 26s

Argentine Provinces USD curve



Source: BBG as of 06/29/2018

MARKET OUTPERFORM (ARGENTINA):

CGC 9.50% 21s

CGC is an upstream oil and gas company, with production of nearly 27kboepd, 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 controlled by Corporacion America, an Argentine holding controlled by the Eurnekian family, one of the wealthiest families in the country.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTW
CGCSA 9.50% 11/07/2021	$300	-/B-/B	99.4	9.9%

PROS:

- Strong and recognized shareholder
- Long USD: USD linked revenues, while part of costs are in ARS
- Recently signed an agreement with Echo Energy to jointly explore two areas in the Austral basin, over which Echo Energy agreed to fund initial capex up to US$70mm and CGC will be operator
- Additionally, the company signed a concession agreement with the Province of Santa Cruz for tight gas exploration (first non-conventional agreement signed outside Vaca Muerta).
- CGC non-conventional gas production benefits from Plan Gas, which sets minimum gas prices of US$7.5/MBTU for 2018, decreasing by US$0.5/MBTU annually through 2021. CGC is the only company approved for the program outside Vaca Muerta. Difference between wellhead price and set price is paid as a subsidy in ARS at the respective f/x rate
- Benefits from higher crude prices for its oil production
- 25% ownership of TGN, valued at nearly US$167mm 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. Recently the national government intervened to temporarily cap oil prices, although per the Minister of Energy the industry now operates under free market
- Subject to exploration risks in its investment projects in the Austral basin
- Committed minimum investments of US$183mm could increase leverage. Increasing net debt at 1Q18 by US$183mm and at 1Q18 EBITDA generation, net leverage would result in 3.2x, which we think is still manageable and is not including any benefit from higher production

MARKET
OUTPERFORM (ARGENTINA):

CGC 9.50% 21s

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

(US$ MM)	CGC	Frontera	Seplat	Tullow	Geopark	PANAME	Tecpetrol	Gran Tierra	Canacol
Country	Argentina	Colombia	Nigeria	Pan African	Colombia/Chile	Argentina	Argentina	Colombia	Colombia
Mid yield (%)	9.72%	9.83%	9.78%	6.63%	7.04%	6.78%	6.73%	7.46%	7.92%
Rating (M/SP/F)	-/B-/B	-/BB-/B+	B2/B-/B-	B3/B/-	-/B+/B+	Ba3/-/BB-	Ba3/-/BB+	-/B+/B	-/B+/B
Bond maturity	2021	2023	2023	2022	2024	2021	2022	2025	2025
Amount Outstanding (US$mm)	300	350	350	650	425	500	500	300	300
	1Q18	**1Q18**	**1Q18**	**2H17**	**1Q18**	**1Q18**	**1Q18**	**1Q18**	**1Q18**
Oil & Gas production (kboed)	27.0	52.4	53.6	94.7	32.2	161.8	35.7	28.2	20.9
Revenue	110	292	181	935	124	768	141	138	54
EBITDA	45	86	116	801	63	399	69	89	34
FCF	(13)	0	(34)	481	(13)	11	(344)	7	99
Gross debt	483	350*	536	3,606	420	1,604	1,079	398	343
Net debt	397	(166)	361	3,322	299	1,497	764	237	283
LQA Gross leverage	2.7x	1.0x	1.2x	2.3x	1.7x	1.0x	3.9x	1.1x	2.6x
LQA Net leverage	2.2x	n/a	0.4x	2.1x	1.2x	0.9x	2.8x	0.7x	2.1x

*Pro forma for US$350mm issuance

Source: BBG as of 07/06/2018

MARKET
OUTPERFORM (ARGENTINA):

CGC 9.50% 21s

Analysis of 1Q18 results

- Revenue increased 30% q/q to US$110mm driven by higher prices on O&G
  - Total production of 26.9kbpd, up 31% y/y while down 1% q/q
- EBITDA (pre-dividend collections from associates) increased 12% q/q to US$45mm, as higher revenue was offset by higher costs and SG&A
- Free cash flow burn of US$13mm on working capital investments and higher capex as the company moves forward with its investment plans
  - In Dec-17, the company was awarded with a 35 year concession for tight gas exploration in Santa Cruz. Gas production from the area will benefit from subsidies gas prices from 'Plan Gas'
  - Additionally, the company has the following farmouts signed with Echo Energy in the Austral basin:
  - La Maggie: 50/50 farmout with CGC being the operator and Echo Energy financing 100% of initial capex up to US$70mm. 50/50 capex investment thereafter
  - Taipi Aike: 50/50 with CGC as operator and Echo Energy assuming 65% of initial costs and investment plans
- Assumed minimum investment plans at Mar-18 total US$183mm, of which US$76mm correspond toTapi Aike, US$88mm to the tight gas exploration in Santa Cruz, and US$18mm for Angostura area in the Neuquina basin
- Gross debt increased 28% q/q to US$483mm as the company issued new US$100mm 21s sold in local market
- Annualized net leverage of 2.2x, unchanged q/q and improving from 11.7x one year ago

CGC (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Revenue	110	77	84	41%	30%
EBITDA	45	6	41	706%	12%
EBITDA margin	41.5%	7.3%	48.4%		

CGC (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Total Debt	483	382	377	26%	28%
Cash and Equivalents	86	118	23	(27%)	274%
Net Debt	397	264	354	50%	12%
Leverage (Total Debt/LQA EBITDA)	2.7	16.9	2.3		
Net leverage (Net Debt/LQA EBITDA)	2.2	11.7	2.2		

CGC (US$MM)	1Q18	1Q17	4Q17
EBITDA	45	6	41
Working capital	(16)	28	7
Capex	(39)	(29)	(57)
Interest paid	(2)	(2)	(15)
Taxes paid	(1)	(2)	(0)
FCF	**(13)**	**(0)**	**(25)**

BRAZIL

MARKET
OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

BR Foods was founded through the merger of poultry giants Sadia S.A and Perdigão S.A. In the market for over 80 years, the company is present in over 110 countries in all five continents. Operates in the poultry, processed poultry, dairy, margarine, pasta, pizza and frozen vegetables segments. Benchmark of the sector, BR Foods has a split rating, with one IG.

Management team has turned over during the past several quarters, perhaps driving accounting charges. New Board and CEO lead to new strategies including focus on Brazil, Asia and MENA, divestitures in other markets and debt reprofiling. Bond prices dropped and now clearly price a loss of IG, trading in line with other BB credits. At 7% we finally feel comfortable with risk/reward and upgrade BRF24s to Market Outperform.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
BRFSBZ 4.75% 05/22/2024	750	Ba2/ BB+/ BBB-	89.5	6.9%

PROS:

- Positive 1Q18 earnings, on the back of MENA recovery, leading to stronger margins and improved leverage (4.4x LQA)
    - FCF positive before WK, but squeezed by suppliers
- Pedro Parente was announced as new CEO and started implementing new strategies
- Debt reprofiling
    - US$280mm credit note from local bank in June
- Asset divestitures and deleveraging
    - Plan to sell operational units in Europe, Thailand and Argentina (exports to those markets will continue)
    - Management plans to achieve R$5bn in asset sales and 4.35x by December 2018, much more conservative. We expect lower levels
    - Management also expects 3x target by December 2019
- Brazil and US Corn prices seem to be converging

CONS:

- Higher grain prices should have a deeper impact in Q2
- MENA region is still rebounding
- MHP’s exports appear to be targeting MENA and KSA in particular
- Increased tariffs and competition
- Subject to commodity and currency risks

MARKET
OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

1Q18 Earnings

- 1Q18 revenue was 1% below consensus, and 5% higher y/y, to R$8.2bn, as improved average prices in MENA (up 7.9% in USD) offset lower prices in Brazil (-6.5%)
- Pricing in Saudi Arabia was positively impacted through lower inventories and according to management, uncertainty scenario around discussions about animal electric desensitization
- Regarding costs, Brazil's average prices for grains were above historical levels, which will likely impact 2Q18 results
    - Management attributes to soy crop failure in Argentina (that represents 46% of soy meal world exports) and thereafter, Brazilian producers building corn inventory, increasing prices as well
    - According to management, corn prices are expected to normalize during June-August with oversupply during the second corn crop
- Company reclassified expenses (employee benefits plan, shared-based payments, labor contingencies, and discontinued operations)
- 1Q18 EBITDA totaled R$783mm, up 55% y/y, as SG&A had the lowest level since 2014
    - Adjusted EBITDA grew by 41% y/y, to R$802mm and margins were up from 7.3% in Q4 and 7.2% in 1Q17 to 9.8%
        - Adjustments for Carne Fraca/Trapaca operations totaled R$13mm, down from R$40mm in 1Q17 and R$206mm in 4Q17
        - Brazil represented 44% of adjusted EBITDA and MENA, 18%
- FCF positive of R$193mm before WK, supported by stronger EBITDA and interest reduction
- WK contraction of R$340mm, with lower domestic and foreign suppliers balance
- Total debt increased by 3% sequentially, totaling R$21.3bn and cash was down 2% q/q, at R$7.3bn
- Net leverage improved on both annualized and LTM terms, to 4.3x and 4.6x from 5.2x and 4.9x, respectively

BRF (R$ MM)	1Q18	BBG Consensus	+/-	4Q17	1Q17	q/q	y/y
Revenue	8,203	8,278	(1%)	8,901	7,809	(8%)	5%
EBITDA	783	NA	NA	499	506	57%	55%
Adjusted EBITDA	802	775	3%	645	570	24%	41%

BRF (R$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	21,293	20,744	20,391	3%	4%
Cash	7,274	7,434	8,148	(2%)	(11%)
Net Debt	14,019	13,310	12,243	5%	15%
Leverage (Total Debt /LQA Adj EBITDA)	6.64	8.04	8.94		
Net Leverage (Net Debt /LQA Adj EBITDA)	4.37	5.16	5.37		

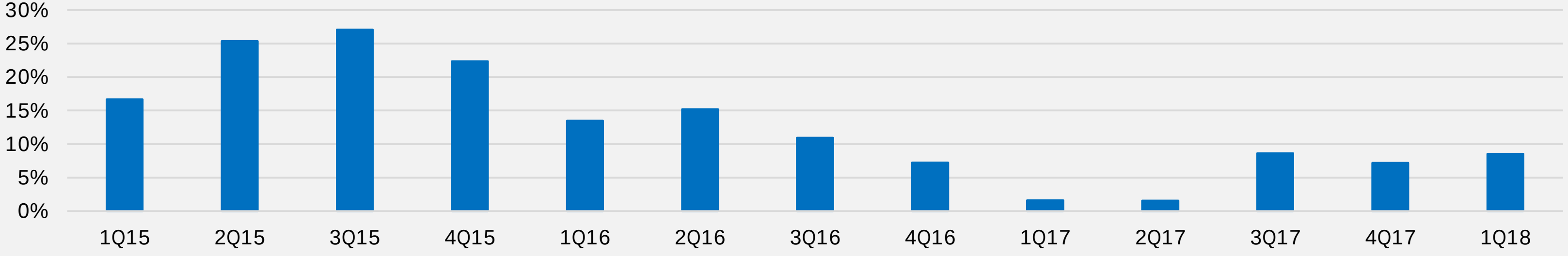
BRF (R$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Adjusted EBITDA	802	645	570	24%	41%
- capex	447	275	474	63%	(6%)
- interest paid	162	393	435	(59%)	(63%)
- taxes paid	0	2	33	(90%)	(99%)
FCF before WK	**193**	**(25)**	**(372)**		
WK	(340)	744	(738)		
FCF	**(147)**	**719**	**(1,110)**		(87%)

MARKET
OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

MENA (20% OF BRF'S EBITDA) HAS STABILIZED

BRF's MENA EBITDA Margin



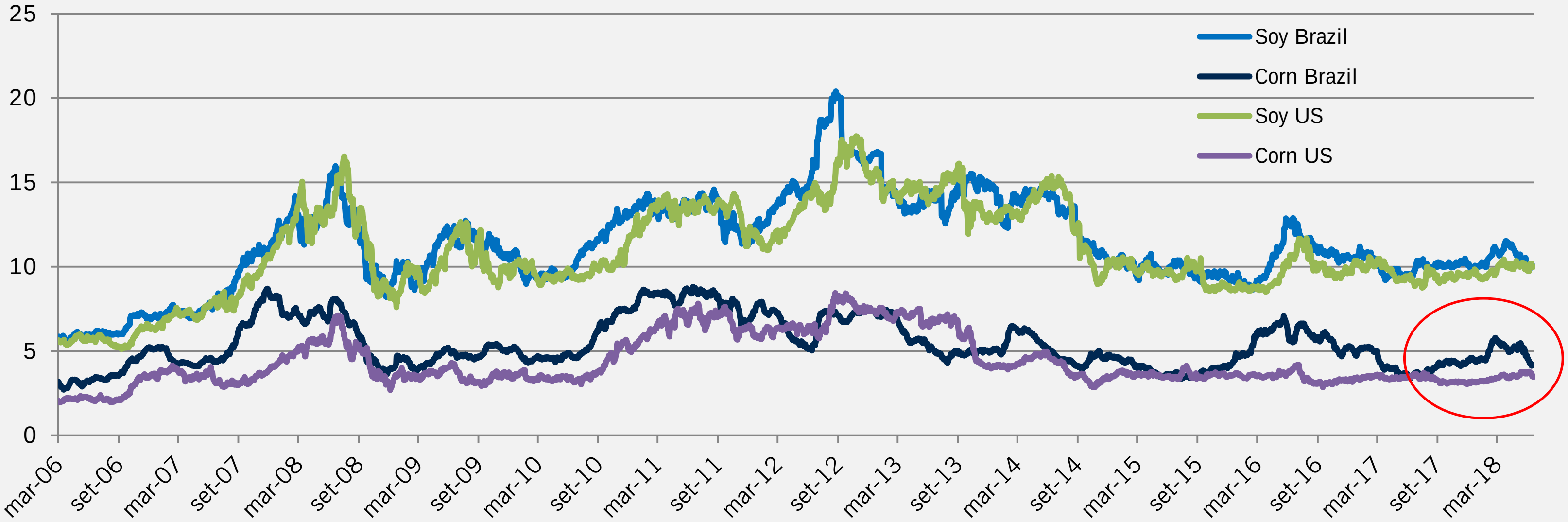
PRICE CHANGE INFLUENCE

MENA (US$ MM)	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15	q/q	y/y
Revenue	**566**	**576**	**611**	**491**	**419**	**450**	**481**	**457**	**406**	**457**	**474**	**514**	**468**	**(2%)**	**35%**
Poultry in Natura	456	457	504	416	364	394	431	410	362	413	445	483	432	0%	25%
EBITDA	**48**	**42**	**53**	**8**	**7**	**33**	**53**	**70**	**55**	**102**	**128**	**130**	**78**	16%	618%
EBITDA Margin	8.5%	7.2%	8.6%	1.6%	1.6%	7.3%	11.0%	15.2%	13.5%	22.4%	27.1%	25.4%	16.7%	18%	431%
Average Price	2.04	1.94	2.00	1.90	1.89	1.99	2.06	1.89	1.79	1.92	2.03	2.20	2.15	5%	8%
Total Volume (kg)	277	297	305	258	222	226	233	241	227	239	233	233	218	(7%)	25%
Poultry in Natura	242	259	273	234	202	204	214	222	208	220	221	221	203	(7%)	20%
Average Price USD Poultry in Natura	**1.88**	**1.76**	**1.85**	**1.78**	**1.80**	**1.93**	**2.01**	**1.85**	**1.74**	**1.87**	**2.01**	**2.19**	**2.12**	7%	5%
Cash Costs	518	534	559	483	412	417	428	387	352	355	345	384	390	(3%)	26%
Cash costs per total kg	1.87	1.80	1.83	1.87	1.86	1.84	1.84	1.61	1.55	1.49	1.48	1.64	1.79	4%	0%

MARKET
OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

BRAZIL CORN PREMIUM SPREAD WIDENED IN 1H17 BUT MORE FAVORABLE NOW. WILL TRADE WAR TARIFFS FURTHER IMPACT?



Feed represents about 30% of COGS

- 20% corn
- 10% soy

MARKET
OUTPERFORM (BRAZIL):

JBSSBZ 7.25% 24s

JBS is the largest protein producer in Brazil and a globally competitive meat packing giant. The company was founded in the 1950s, and it has grown mainly through acquisitions since. Owned by the Batista family through J&F holding, which, in May 2017, admitted having paid over R$1bn in bribes to politicians, while accessing over R$8bn in government financing. R$10.3bn (PV) leniency agreement with the Prosecutors Office (MPF) is to be paid in 25 years. The Batista brothers have been stripped of immunity but are currently out of jail and the agreement remains in place with respect to impact on the issuers.

In addition to value that can be shared between USA and JBS SA without breaching covenants, JBS rolled its ST debt and ODBR is said to have had positive outcome in a leniency agreement with the remaining federal institutions: previous fines levied by the MPF would offset new ones. We continue to think JBS spreads have room to tighten – should stand closer to Minerva than to Marfrig, and therefore, we reiterate JBSSBZ 7.25% 24s as 'Outperform'.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
JBSSBZ 7.25% 04/03/2024	750	-/ B+/ BB-	97.8	7.7%

CONS:

- Known for FX hedging, JBS is still under investigation by local authorities, for shareholder malfeasance
- Lower consensus margin for PPC
- Prospects for beef margin erosion in Brazil due to increased capacity
- JBS USA may not fare well under increasing scrutiny
    - Price fixing lawsuits at PPC – an alleged industry practice accusers say began in the same timeframe JBS acquired Pilgrims Pride
    - Self-dealing with J&F direct subsidiary (J&F Oklahoma) for cattle supply
    - DoJ investigations (at the very least FCPA) appear fertile ground to generate uncertainty

PROS:

- Solid 1Q18 results, backed by significantly stronger y/y EBITDA. Increased annualized net leverage (4.0x) but with improvements in LTM (3.1x). Importantly, in line with our expectations, JBS announced the three year extension with local banks for 78% of its ST maturities
- ODBR is said to have had positive outcome in a leniency agreement with the remaining federal institutions: previous fines levied by the Federal Prosecutor (MPF) would offset new ones. While holdco (J&F) is solely responsible for leniency fines, nonetheless, the precedent is undeniably constructive for subsidiary JBS
- While there is a restricted payments limitation, it appears USA can freely lend on arms length terms as it has done in the past with Seara and reiterated by USA management during 4Q17 call
- Historically, we see evidence of substantial intercompany transfers from USA to JBS SA
- Normalized US beef margins marginally affect JBS

MARKET
OUTPERFORM (BRAZIL):

JBSSBZ 7.25% 24s

JBS SA - Recent 1Q18 Earnings:

- 1Q18 revenue increased by 2% y/y in USD terms, 11% above consensus, totaling US$12.3bn, supported by USA operations
- 1Q18 EBITDA reached US$859mm, 26% higher y/y and 14% above consensus, with improvements in all segments except for JBS Brazil
    - USA beef margins were above 6%, approx. 200bps above Tyson's
    - PPC and USA pork margins increased both y/y and q/q
- FCF positive (before WK and sale proceeds) of US$222mm, up from a cash burn during 1Q17, with significantly lower capex
    - Capex was 56% below its average (excluding M&A) % of sales
        - Normalized capex levels would lead to a leaner, but still positive cash flow
    - US$638mm WK expansion, as receivables increased possibly related to a more competitive stance aimed at defending or regaining market share
        - Minerva acknowledged margins were impacted by JBS' rebound
    - Sale of Five Rivers for US$200mm, including related inventory, subject to closing adjustments
- Gross debt was virtually in line sequentially, at US$17bn
- Cash decreased by 7% q/q, totaling US$3.3bn
- Net leverage reached 4.0x (annualized), up from 3.5x in Q4
    - LTM net leverage decreased to 3.1x, from 3.3x last quarter

JBS (US$ MM)	1Q18	BBG Consensus	+/-	4Q17	1Q17	q/q	y/y
Revenue	12,255	11,017	11%	13,156	11,968	(7%)	2%
EBITDA	859	753	14%	985	681	(13%)	26%
EBITDA Margin	7.0%	6.8 %		7.5%	5.7%		

JBS (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	17,039	17,220	18,752	(1%)	(9%)
Cash	3,292	3,546	3,441	(7%)	(4%)
Net Debt	13,748	13,675	15,311	1%	(10%)
Leverage (Total Debt /LQA EBITDA)	4.96	4.37	6.88		
Net Leverage (Net Debt /LQA EBITDA)	4.00	3.47	5.62		

JBS (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
EBITDA	859	985	681	(13%)	26%
- capex	136	241	609	(44%)	(78%)
- interest paid	341	343	257	(1%)	33%
- taxes paid	160	66	43	144%	271%
FCF before WK	**222**	**335**	**(228)**	(34%)	
WK	(638)	(49)	(531)	1205%	20%
FCF	**(416)**	**286**	**(758)**		(45%)

MARKET
OUTPERFORM (BRAZIL):

JBSSBZ 7.25% 24s

JBS USA (R$ MM)	1Q18
LTM EBITDA	12,448
Total Funded Debt	32,901
Short Term	1,558
Long Term	31,343
Secured Debt	13,225
Cash	8,166
Gross Leverage	2.6
Net Leverage	2.0
Secured Leverage	1.1
RCF (undrawn)	1,544
Gross leverage ex PPC debt & EBITDA	3.3

JBS Non USA (R$ MM)	1Q18
LTM EBITDA	1,616
Total Funded Debt	23,436
Short Term	11,475
Long Term	11,961
Secured Debt	5,065
Cash	2,668
Gross Leverage	14.5
Net Leverage	12.9
Secured Leverage	3.1
RCF (undrawn)	-

JBS Consolidated (R$ MM)	1Q18
LTM EBITDA	14,064
Total Funded Debt	56,337
Short Term	13,033
Long Term	43,304
Secured Debt	18,290
Cash	10,833
Gross Leverage	4.0
Net Leverage	3.2
Secured Leverage	1.3
RCF (undrawn)	1,544

USA

- PPC has a substantial equity market value (US$4.9bn). Consolidation lowers JBS USA leverage
- JBS USA risks include:
  - Price fixing lawsuits at PPC – an alleged industry practice accusers say began in the same timeframe JBS acquired Pilgrims Pride
  - DoJ investigations (at the very least FCPA) appear fertile ground to generate uncertainty

NON USA

- R$11 bn in short-term debt at JBS non USA, half of total debt
  - R$9bn in export related lines, structurally senior
    - Parent only: R$3.4bn advances on exchange contracts and R$3.4bn export prepayments
  - R$2.7bn estimated cash and equivalents
- The company announced a Normalization Agreement, similar to the one achieved last year for debt reprofiling
  - R$12.2bn in ST maturities at JBS Brazil will be extended for three years
  - Includes a 25% amortization of principal between January 2019 and July 2021
- If requiring a reduction, JBS SA could extract value from JBS USA as needed

MARKET
OUTPERFORM (BRAZIL):

JBSSBZ 7.25% 24s

IN HOUSE TRANSACTIONS - CONSTANT SHIFTING VALUE

"There's no limit to send cash to SA"

- JBS SA has an ability to extract money from USA through intercompany transfers
- Our interpretation is covenants ultimately cap transfers, but it appears JBS has a number of ways to work around them
- Recently, JBS USA partially drew its US$900mm RCF and sent money to JBS non USA through a new loan
- Per our calculations, until very recently, all recent FCF was generated by PPC, until USA beef margins jumped
- We think in a stress scenario, JBS USA will be seen as a source for value rather than an asset to protect against all odds

DIVIDENDS (US$ MM)		
2016	537	PPC paid US$700mm in 'special cash dividends'. JBS SA received US$537mm
2015	1,150	PPC paid US$1.5bn in 'special cash dividends'. JBS SA received US$1.15bn
2014	1,264	JBS USA remitted in cash US$1.3bn in dividends to JBS SA
2012	918	JBS USA paid US$918mm in dividends to JBS SA
LOANS (US$ MM)		
2017	150	JBS USA issued a US$150mm pre-export financing agreement with Seara
ACQUISITIONS (US$ MM)		
2017	1,000	PPC acquired Moy Park for US$1.3bn. JBS SA will receive US$1.1bn
CAPITAL REDUCTIONS (US$ MM)		
2014	230	JBS USA remitted in cash US$230mm referring to a capital reduction as debt forgiveness
2011	2,926	JBS USA paid US$1.5bn referring to a capital reduction and US$1.4bn referring to a capital reduction as an offset of mutual contract

MARKET
OUTPERFORM (BRAZIL):

ODEBRE 6.35% 21s

Odebrecht Offshore Drilling Finance finances projects for building oil and gas related infrastructure, including rigs, platforms and other subsea operations. ODEBRE 21s were issued for the purpose of financing the construction of two ultra-deep water rigs (Norbe VIII and Norbe IX). After 2017 restructuring, the old 21s and 22s principal were split between senior and subordinated tranches

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ODEBRE 6.35% 12/01/2021	$365	-/B-/-	96.00	8.9%

PROS:

- Notes backed by two ultra-deep water rigs, all operating normally and with the contracts maturing in 2021
- After recent restructuring and the new structure of senior/junior tranches, debt burden for the senior tranche eased. Junior principal and most of its coupon will not be paid during lifetime of senior tranche
- Recovery of Brent prices should help revitalize the drilling industry and ease concerns over possible declines in dayrates
- We have not seen any signs of Petrobras intending to cancel any of the remaining contracts. We do not think Petrobras wants to rely solely on multinational contractors.

CONS:

- Drilling industry is subject to Brent prices
- Despite recovery in crude prices we have not seen yet an increase in platforms contracted or new platforms being built. There are still several rigs idled and stacked around the world
- Petrobras can cancel the contracts: in the past, Petrobras cancelled Tay IV rig contract (collateral for the old 22s) and the platform was sold for scrap. Any immediate termination of the contracts, though unlikely in our view, will result in substantial downside.

MARKET
OUTPERFORM (BRAZIL):

ODEBRE 6.35% 21s

STRUCTURE AFTER 2017 RESTRUCTURING

New Instruments	Old ODEBRE 21s	Old ODEBRE 22s
Senior Bonds (US$mn)	500	506
Current amount outstanding (US$mm)	393	483
Coupon	Cash 6.35%	Cash 6.72%
Amortization	Quarterly	Quarterly
Maturity	2021	2022
Subordinated Bonds (US$mn)	590	1,390
Current amount outstanding (US$mm)	628	1,455
Coupon	7.35%	7.72%
Minimum Cash Interest during Senior amortization (remaining coupon during lifetime of senior tranche is PIKed)	1%	1%
Amortization	Variable based on ECF starting after maturity of Seniors	
Maturity	2026	2026

CURRENT DAYRATES 21s

	Charter (US$k)	Service (BRLk)
Norbe VIII	381	123
Norbe IX	358	116

Contract maturities
Norbe VIII: Jul-21
Norbe IX: Oct-21

MARKET OUTPERFORM (BRAZIL):

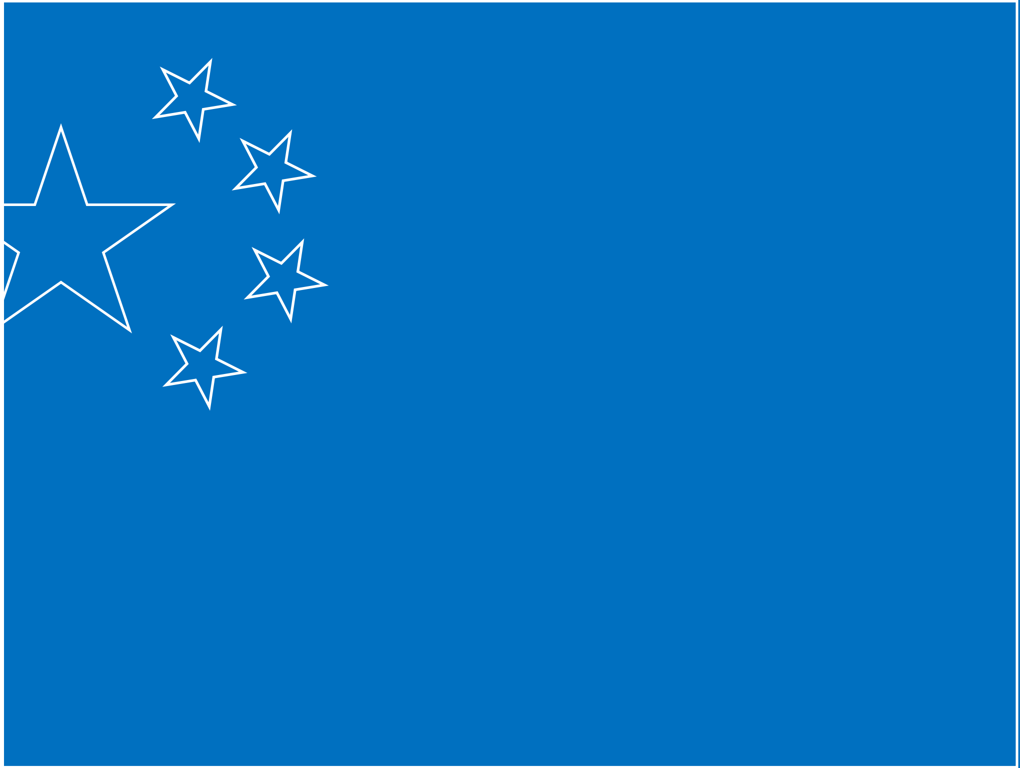
ODEBRE 6.35% 21s

CASH FLOW PROJECTION

	Revenue	Opex	Capex	OCF	Coupon T1	Coupon T2	Mgmt fees (*)	Amortization	Outstanding	Coverage (OCF/debt service)	Cash balance (US$mm)	IRR @ 97c
	USDk/day (*)				USDK/day			USDmm	US$mn			8.5%
												US$mn
TODAY												(354)
9/1/2018	762	258	44	**460**	64	18	16	28	338	**1.19**	39	31
12/1/2018	762	258	44	**460**	59	18	16	28	310	**1.20**	45	33
3/1/2019	759	255	22	**482**	54	18	16	23	288	**1.57**	58	27
6/1/2019	759	255	22	**482**	50	19	16	23	265	**1.59**	71	27
9/1/2019	759	255	22	**482**	46	19	16	23	243	**1.60**	84	27
12/1/2019	759	255	22	**482**	42	19	16	33	210	**1.12**	88	36
3/1/2020	764	274	44	**447**	37	20	16	33	178	**1.04**	89	36
6/1/2020	764	274	44	**447**	31	20	16	33	145	**1.05**	91	35
9/1/2020	764	274	44	**447**	25	20	16	33	113	**1.07**	93	35
12/1/2020	764	274	44	**447**	20	20	16	23	90	**1.56**	106	24
3/1/2021	622	285	107	**230**	16	21	16	23	68	**0.71**	99	24
6/1/2021	622	285	107	**230**	12	21	16	23	45	**0.72**	93	24
9/1/2021	622	285	107	**230**	8	21	16	23	23	**0.74**	87	23
12/1/2021	622	285	107	**230**	4	22	16	23	0	**0.75**	82	23

(*) Per OOG projections of daily opex and capex, management fees and current dayrates

CHINA



MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20s

Anton is an independent, integrated Chinese onshore oilfield service provider, with a focus on oilfield service development in EM global markets. Anton operates in Asia (China, Kazakhstan), the Middle East (Iraq, Pakistan), Africa (Ethiopia), and the Americas. The company's three business sectors include drilling technology, well completion and oil production. 2H17 results, driven by the PRC's "Belt & Road" policy, and the company's recent bond exchange/issuance support our current 'Outperform' rating.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
ANTOIL 9.75% 12/05/2020	$300	B2/ -/ B-	100.5	9.7%

Pros:

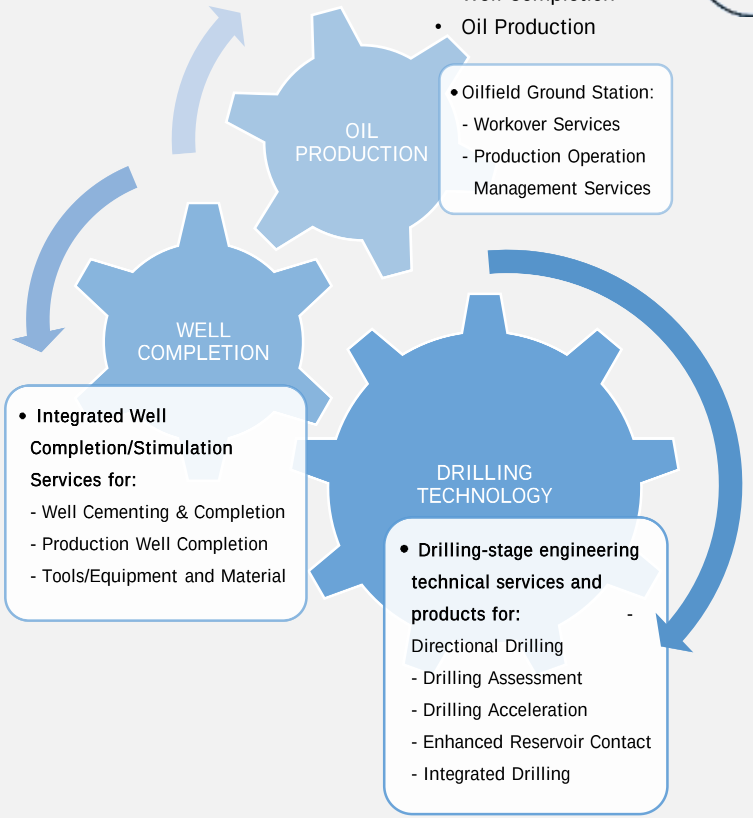
- Impact of PRC implemented "Belt & Road" Strategy:
  - Seesaw effect on revenue balance, with overseas revenues accounting for 65% of total revenue in 2H17
  - Larger order sizes from existing overseas clients
  - Increase in orders from Chinese independent oil customers in "Belt & Road" markets
- Recent issuance of 9.75% 2020s extend ANTOIL's runway, benefitting bondholders with higher coupon
- Positive 2H17 financial results – substantial increase in revenue and EBITDA

Cons:

- 1/3 of 2017 revenue generation sourced from two customers
- We continue to monitor whether increase in revenue and reported EBITDA are the result of overly lenient customer payment terms

Operations:

- Drilling technology
- Well Completion
- Oil Production



MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20s

ANTOIL (US$MM)	2017	2H17	1H17	2016	2H16	1H16	y/y	h/h
Revenue	327	200	127	243	140	103	43%	57%
EBITDA	105	63	42	57	39	17	60%	50%
EBITDA margin	32%	31%	33%	23%	28%	17%	340 bps	(147 bps)
Sale/(purchase) PP&E	(55)	(42)	(13)	(68)	(52)	(16)	(19%)	230%
Asset sales/(purchases)	(6)	(1)	(5)	11	(1)	12	27%	(84%)
Interest paid	(26)	(12)	(14)	(27)	(15)	(12)	(21%)	(13%)
Income tax paid	(7)	(5)	(2)	(5)	(5)	(1)	9%	134%
Free cash flow (Pre-WK)	**12**	**3**	**8**	**(38)**	**(43)**	**5**	**(107%)**	**(63%)**
Total Debt	523	523	397	372	372	368	41%	32%
Cash	174	174	50	73	73	31	138%	251%
Net Debt	349	349	347	299	299	337	17%	1%
Leverage (Total Debt / LHA EBITDA)	5.0x	4.2x	4.7x	6.6x	4.7x	10.5x	(0.6x)	(0.5x)
Net Leverage (Net Debt / LHA EBITDA)	3.3x	2.8x	4.1x	5.3x	3.8x	9.6x	(1.0x)	(1.3x)

2H17 FINANCIAL PERFORMANCE:

- Revenue increased 43% y/y to US$200 mm, driven almost entirely by overseas sales tied to independent Chinese oil companies operating in the "Belt and Road" markets
  - Strong growth from both domestic and overseas customers resulted in revenue expansion of 57% h/h
  - In FY17, approx. 1/3 of revenues were derived from two external independent customers, and tied to drilling technology and oil production service agents
- Adjusted EBITDA followed, growing 39% y/y and 60% h/h to US$63 mm
- EBITDA margin expanded y/y to 31%
- The company had US$540 mm in orders on hand at Dec-17, with 80% of projects already commenced
- Free cash flow (pre-working capital) was slightly positive at US$3 mm, from a burn of US$40 mm one year ago
- Debt increased 32% h/h to US$523mm after the issuance of US$300 mm 2020 senior notes in December, of which US$176 mm were used to retire the outstanding 2018s
  - With the liability management and improved financial profile, Moody's and Fitch upgraded its ratings
- Cash h/h ended at US$174 mm
- Annualized net leverage strengthened to 2.8x from 3.8x one year ago

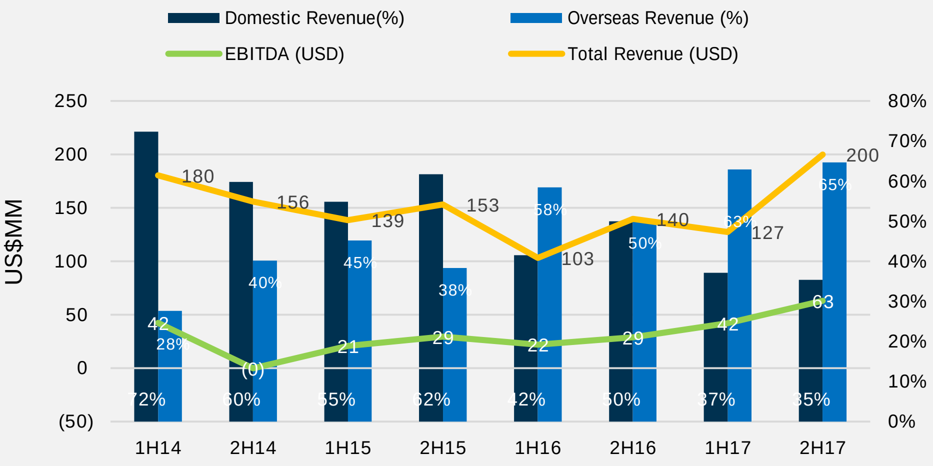
MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20s

Anton Oilfield's "Belt & Road" Strategy:

- Under the "Belt & Road" infrastructure initiative, the Chinese government has sought to curtail overseas investments by large domestic corporations in industries such as real estate, hotel, film studio, and entertainment
- Simultaneously, the government has encouraged overseas investment related to telecom., railroads and construction – an action which has benefitted Chinese integrated oil & gas companies like Anton Oilfield Services Group
- Anton has implemented strategies to take advantage of these newly implemented regulations
- The company plans to maintain an asset-light business model and developing their presence the emerging market sector, with a focus on increasing production and reducing costs over the next three years
- The effect of these changes can already be seen in the shift of their revenues from being primarily domestically driven, to heavily sourced by overseas operations – 65% of revenues were derived from overseas in 2H17
- In addition to enhancing the company's ability to penetrate outside markets, the change appears to be having a positive impact on EBITDA

Antoil Revenue Breakdown



COLOMBIA

MARKET OUTPERFORM (COLOMBIA):

FECNN 9.7% 23s

Frontera Energy is an upstream oil and gas company, with production of nearly 52kboepd, the vast majority of it from Colombia. The company was previously known as Pacific Rubiales, and changed its name after successfully emerging from a restructuring of nearly US$5.3bn in financial indebtedness. Its largest shareholder is The Catalyst Group, with 31.2% of shares.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTW
FECNN 9.70% 06/25/2023	$350	-/ BB-/ B+	99.5	9.8%

PROS:

- Efficient cost structure, with total operating costs of US$28/boe in 1Q18
- Benefits from higher crude prices
- Strong capital structure: very low indebtedness and cash position above debt levels
- Access to both local and export markets
- Trades at substantial spread compared to other Colombian small cap E&P peers, which are rated one notch below FECNN

CONS:

- Low proven reserves, with 4.5 years of average P1 life at Dec-17
- Restructuring history
- Subject to significant contractual contingencies
- Substantial investment activities could pressure cash flow generation
  - Capex plan of US$450/500mm for 2018, nearly doubling y/y
  - US$225mm pending to be disbursed in 36 installments for an additional 36.36% stake acquisition in the BIC pipeline
- Guerrilla attacks in Colombia against pipelines had disrupted operations in the past and increased transportation costs, although recent peace accord should ease concerns

MARKET
OUTPERFORM (COLOMBIA):

FECNN 9.7% 23s

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

(US$ MM)	CGC	Frontera	Seplat	Tullow	Geopark	PANAME	Tecpetrol	Gran Tierra	Canacol
Country	Argentina	Colombia	Nigeria	Pan African	Colombia/Chile	Argentina	Argentina	Colombia	Colombia
Mid yield (%)	9.72%	9.83%	9.78%	6.63%	7.04%	6.78%	6.73%	7.46%	7.92%
Rating (M/SP/F)	-/B-/B	-/BB-/B+	B2/B-/B-	B3/B/-	-/B+/B+	Ba3/-/BB-	Ba3/-/BB+	-/B+/B	-/B+/B
Bond maturity	2021	2023	2023	2022	2024	2021	2022	2025	2025
Amount Outstanding (US$mm)	300	350	350	650	425	500	500	300	300
	1Q18	**1Q18**	**1Q18**	**2H17**	**1Q18**	**1Q18**	**1Q18**	**1Q18**	**1Q18**
Oil & Gas production (kboed)	27.0	52.4	53.6	94.7	32.2	161.8	35.7	28.2	20.9
Revenue	110	292	181	935	124	768	141	138	54
EBITDA	45	86	116	801	63	399	69	89	34
FCF	(13)	0	(34)	481	(13)	11	(344)	7	99
Gross debt	483	350*	536	3,606	420	1,604	1,079	398	343
Net debt	397	(166)	361	3,322	299	1,497	764	237	283
LQA Gross leverage	2.7x	1.0x	1.2x	2.3x	1.7x	1.0x	3.9x	1.1x	2.6x
LQA Net leverage	2.2x	n/a	0.4x	2.1x	1.2x	0.9x	2.8x	0.7x	2.1x

*Pro forma for US$350mm issuance

Source: BBG as of 07/06/2018

MARKET
OUTPERFORM (COLOMBIA):

FECNN 9.7% 23s

Analysis of 1Q18 results

- Revenue decreased 11% q/q to US$292mm due to a 20% drop in sales volume, partially driven by one oil cargo that was planned for shipment during the first quarter of 2018 but was not shipped until April 2018
- EBITDA followed, decreasing 18% q/q to US$86mm, as lower revenue was coupled with higher operating costs as a result of lower volumes
- Free cash flow generation of US$84mm, although break-even excluding asset sales
- Gross debt ended at US$268mm, mostly the remaining portion of the DIP notes
- Pro-forma debt of US$350mm accounting for recent debt issuance, with proceeds used to repay the remaining DIP notes
- LQA pro-forma gross leverage of 1.0x, while cash position remains above debt levels

FRONTERA (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Revenue	292	325	327	(10%)	(11%)
EBITDA	86	92	105	(7%)	(18%)
EBITDA margin	29.5%	28.4%	32.2%		

FRONTERA (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Total Debt	350*	272	269	29%	30%
Cash and Equivalents	516	470	512	10%	1%
Net Debt	(166)	(198)	(242)	(16%)	(32%)
Leverage (Total Debt/LQA EBITDA)	1.0	0.7	0.6		
Net leverage (Net Debt/LQA EBITDA)	n/a	n/a	n/a		

* Pro forma for US$350mm bond issuance

FRONTERA (US$MM)	1Q18	1Q17	4Q17
EBITDA	86	92	105
Working capital	(1)	(6)	(31)
Asset sales	83	16	20
Capex	(79)	(39)	(111)
Interest paid	(1)	(4)	(8)
Taxes paid	(5)	(2)	(15)
FCF	**84**	**58**	**(41)**

MARKET
OUTPERFORM (COLOMBIA):

FECNN 9.7% 23s

CONTRACTUAL CONTINGENCIES:

PUERTO BAHIA:

- US$130mm equity agreed to be contributed to Puerto Bahía (owner of a multimodal import-export terminal and 39.22% indirectly owned by Frontera through its wholly-owned unrestricted subsidiary Pacinfra) in the event of certain project cost overruns, deficits in the funding of financing costs or reserve accounts, or failures to comply with certain financial covenants under its U.S.$370 million credit agreement. On February 27, 2018, Wilmington Trust, National Association issued a deficiency notice to Frontera requesting to fund certain deficiencies related to the operation and maintenance of the Puerto Bahia Port Facility. On May 31, 2018, Pacinfra disbursed a U.S.$30.5 million loan to Puerto Bahia in compliance with such deficiency notice.

IFC PARTIES PUT OPTION FOR ITS PACIFIC INFRASTRUCTURE SHARES

- The IFC Parties have a put option to sell their Pacific Infrastructure shares to Frontera in the event Pacific Infrastructure has not conducted an initial public offering by December 1, 2019. Put price was valued at US$285mm at Mar-18. Pacific infrastructure holds 100% of Puerto Bahia and is 39.22% owned by Pacinfra. 0.8x impact on leverage at valued put price and 1Q18 EBITDA generation

IFC PARTIES PUT OPTION FOR ITS PACIFIC MIDSTREAM SHARES

- The IFC Parties have a put option to sell their 36.4% Pacific Midstream shares to Frontera (owner of a 63.64% stake) in the in the event that Frontera violates certain representations and covenants. Put price was valued at US$265mm at Mar-18. Nevertheless, these rights terminate once Frontera purchases the entire IFC Parties stake. 0.8x impact on leverage at valued put price and 1Q18 EBITDA generation. In addition, Pacific Midstream has an option, exercisable at the discretion of the IFC Parties and in the event that the BIC pipeline is nonoperational for six consecutive months and as a result the take-or-pay contracts are terminated, to require Frontera to purchase Pacific Midstream Ltd.'s interest in OB, with the option price valued at US$280mm. 0.8x impact on leverage at valued put price and 1Q18 EBITDA generation

TRANSPORTE INCORPORADO S.A.S.

- Frontera is entitled to Transporte Incorporado's transport capacity rights through the Ocensa pipeline at a set monthly premium through March 1, 2024. As a result of this agreement, Frontera is required to maintain a minimum rating of B1/B+. On September 16, 2015, Moody's downgraded its credit rating to B3, which resulted in the triggering of an early-termination right in favor of Transporte Incorporado that would have required Frontera to immediately pay an estimated U.S.$110 million early-termination payment should the company had not obtained a waiver. 0.3x impact on leverage at valued put price and 1Q18 EBITDA generation

MARKET
OUTPERFORM (COLOMBIA):

FECNN 9.7% 23s

2016 DEBT RESTRUCTURING:

- Holders of US$4.1bn senior unsecured notes, US$1.2billion of credit facilities, and certain claims of unsecured commercial creditors were settled in exchange for 58.2% of the fully diluted common shares of the reorganized Frontera, and (ii) cash in lieu of an additional 1.85% of the fully diluted common shares pursuant to a cash election option, which shares were purchased by Catalyst, as Plan sponsor (1.5%), and certain affected creditors (0.35%)
- US$480mm raised from Catalyst pursuant to the issuance of DIP notes. Subsequently, US$250mm were exchanged for 29.3% of fully diluted common shares of the reorganized Frontera, while with funds from the recent bond issuance the company will repay the remaining DIP notes
- US$115mm DIP Letter of Credit Facility, later lowered to US$111.8mm and subsequently exchanged for a US$100mm new Letter of Credit Facility, which upon repayment of the remaining DIP notes will become unsecured obligations pari-passu with the unsecured bonds

ECUADOR

MARKET
OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

Republic of Ecuador is a country located in the northwestern part of South America, with a population of 16.3 million people and a GDP of nearly US$100bn (~US$6.2k/capita). The country is one of the smallest members of the OPEC, with an oil production of 520kbpd, most of it heavy-oil. Current president is socialist Lenin Moreno, who took office in May-17 and has a mandate until 2021

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ECUA 9.675% 06/02/2027	$1,000	-/B-/B	97.0	10.3%

PROS:

- Despite background as a socialist, President Moreno has recently undertaken "pro-market" measures and has openly broken with the left, including a referendum that prevented Correa returning to power and which repealed taxes levied on upper classes.
- Recovery in crude prices should help alleviate fiscal accounts. 2018 budget was estimated with a local crude basket of US$42, lower than current market
- Ecuador's fiscal situation, although weak, compares well to other similarly rated countries, despite trading wider. Recent plant launched to reduce deficit to 2.5% by 2021
- According to new Finance Minister, Ecuador is able to issue new debt if it were included in this year's budget
- Steady GDP growth. In the past six years, GDP only contracted in 2016

CONS:

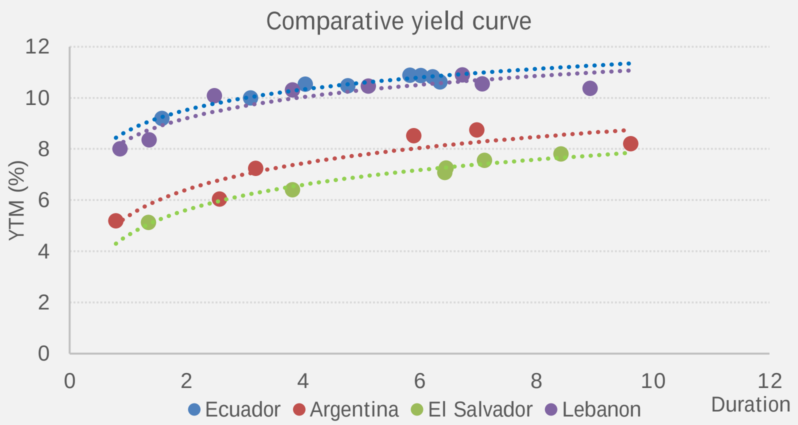
- Ecuador faces a big deficit, which ended at 5.8% in 2017 and is budgeted at 3.9% of GDP for 2018
- Recent Comptroller audit reported the debt accounted by the Correa administration was understated and is above 60% (vs 32% disclosed by previous administration)
    - A debt load above 40% needs parliament approval for new debt issuance, together with a macro plan to reach stability, which put concerns over the government's capacity to issue debt - US$8.2 financing needs included in 2018 budget (US$3bn issued in January), half of it to finance maturities and half to finance the fiscal deficit. Recent comments from Finance Minister suggest the country will seek for 'alternative funding sources' instead of bond market, although not detailing which ones.

MARKET
OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

(US$ MM)	ECUADOR	ARGENTINA	EL SALVADOR	LEBANON
Bond Maturity	2027	2027	2027	2027
Coupon	9.675%	6.875%	6.375%	6.850%
Mid yield (%)	10.14%	8.46%	7.00%	9.60%
Spread to UST (bps)	732	564	419	678
Rating (M/SP/F)	-/B-/B	B2/B+/-	Caa1/CCC+/B-u	-/B-/B-
Amount Outstanding	$2,500	$3,744	$800	$1,250
2018 budget				
Primary surplus / (deficit)	(1,586)	(20,498)	283	NA
as % of GDP	(1.5%)	(3.2%)	1.0%	NA
Total surplus / (deficit)	(4,103)	(35,327)	(411)	(4,800)
as % of GDP	(3.9%)	(5.5%)	(1.4%)	(8.0%)
	Dec-17	Sep-17	Dec-17	Dec-17
Gross debt	32,640 (*)	305,708	17,290	79,500
Gross debt / GDP	60% (**)	53%	62%	142%
External debt / GDP	60% (**)	34%	43%	54%

(*) Official number. Per Comptroller initial audit, debt at Dec-16 reached US$50.5bn
(**) As per preliminary results of the audit, debt burden at end-17 could go close to 60% vs official report by Correa administration of 32%



Source: BBG as of 7/2/2018

MARKET
OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

ECUADOR (US$MM)	2018 (budget)	2017	2016	2015	2014	2013	2012
Current income	21,552	18,468	18,576	23,185	22,987	21,466	23,570
Current expenses	(18,390)	(13,149)	(15,253)	(18,178)	(19,372)	(18,217)	(15,253)
Capital income	3,312	n/a	2,108	2,812	3,326	4,532	916
Capital expenses	(8,042)	(8,642)	(9,538)	(10,128)	(11,777)	(11,539)	(9,268)
Primary deficit	(1,568)	(3,322)	(4,106)	(2,308)	(4,835)	(3,758)	(35)
as % of GDP	(1.5%)	(3.3%)	(4.2%)	(2.3%)	(4.8%)	(4.0%)	(0.0%)
Interest	(2,534)	(2,515)	(1,931)	(1,762)	(1,388)	(1,182)	(947)
Total deficit	(4,102)	(5,838)	(6,038)	(4,071)	(6,224)	(4,491)	(982)
as % of GDP	(3.9%)	(5.8%)	(6.1%)	(4.1%)	(6.1%)	(5.2%)	(1.1%)
Gross debt	n/a	46,535	38,136	32,771	30,140	22,846	18,652
Gross debt / GDP	n/a	46%	39%	33%	30%	24%	21%
External debt / GDP	n/a	32%	26%	20%	17%	14%	12%
Oil production per OPEC (kbpd)	520	530	545	545	542	514	499
GDP growth	2.0%	1.5%	(1.5%)	0.2%	3.8%	4.9%	5.6%

IMPORTANT NOTICE: 2017 and 2018 budget does not include deficit for oil derivatives imports. The net balance increased/(decrease) each of the following years deficit by: 2016: 0.9%, 2015: 0.3%, 2014: (0.2%), 2013: 0.6%, 2012: (0.2%)

NIGERIA

MARKET
OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Seplat is an upstream oil and gas company located in Nigeria, with production of nearly 54kboepd, 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.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTW
SEPLLN 9.25% 04/01/2023	$350	B2/B-/B-	97.9	9.8%

PROS:

- Significant reserves. 2P average life of 24 years at Dec-17 reserves and 1Q18 production
- 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
- Two current export routes operating normally while a third export route is expected to become operational in coming months
- Benefits from higher crude prices for its oil production
- Very low leverage

CONS:

- Production highly concentrated in the OML 4, 38 & 41 blocks (97% in 1Q18), which licenses mature Jun-19
- 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

MARKET
OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

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

(US$ MM)	CGC	Frontera	Seplat	Tullow	Geopark	PANAME	Tecpetrol	Gran Tierra	Canacol
Country	Argentina	Colombia	Nigeria	Pan African	Colombia/Chile	Argentina	Argentina	Colombia	Colombia
Mid yield (%)	9.72%	9.83%	9.78%	6.63%	7.04%	6.78%	6.73%	7.46%	7.92%
Rating (M/SP/F)	-/B-/B	-/BB-/B+	B2/B-/B-	B3/B/-	-/B+/B+	Ba3/-/BB-	Ba3/-/BB+	-/B+/B	-/B+/B
Bond maturity	2021	2023	2023	2022	2024	2021	2022	2025	2025
Amount Outstanding (US$mm)	300	350	350	650	425	500	500	300	300
	1Q18	**1Q18**	**1Q18**	**2H17**	**1Q18**	**1Q18**	**1Q18**	**1Q18**	**1Q18**
Oil & Gas production (kboed)	27.0	52.4	53.6	94.7	32.2	161.8	35.7	28.2	20.9
Revenue	110	292	181	935	124	768	141	138	54
EBITDA	45	86	116	801	63	399	69	89	34
FCF	(13)	0	(34)	481	(13)	11	(344)	7	99
Gross debt	483	350*	536	3,606	420	1,604	1,079	398	343
Net debt	397	(166)	361	3,322	299	1,497	764	237	283
LQA Gross leverage	2.7x	1.0x	1.2x	2.3x	1.7x	1.0x	3.9x	1.1x	2.6x
LQA Net leverage	2.2x	n/a	0.4x	2.1x	1.2x	0.9x	2.8x	0.7x	2.1x

*Pro forma for US$350mm issuance

Source: BBG as of 07/06/2018

MARKET
OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Analysis of 1Q18 results

- Revenue increased 282% y/y to US$181mm as oil and gas production expanded 156%, while realized crude prices increased 36%
    - Jump in annual revenues as during Feb-16 to Jun-17 exports through the TransForcados System remained interrupted
    - The two current export routes are operating normally while works move forward on a third export route (Amukpe-Escravos), with a 160kbpd capacity, expected to be operating in 3Q18
    - Sequentially, revenue increased 4%, with production growth of 7%, higher realized oil prices of 6%, partially offset by a 2% decreased in gas prices
    - Working interest production ended at 53.6kbpd
    - Production target for 2018 of 48-55kbpd, 50% oil and 50% gas
- Higher prices and production strongly expanded EBITDA to US$116mm
- Free cash flow turned negative US$34mm despite US$14mm in asset sales due to negative working capital of US$149mm, mainly US$99mm in trade payables paid and US$77mm in repayment of crude oil advances
    - Capex guidance for 2018 of US$100mm vs US$31mm capex in 2017
- Gross debt decreased 6% q/q to US$536mm
    - Debut in bond markets with a US$350mm senior unsecured issuance due 2023 priced at 9.25%, with proceeds mostly used to repay existing debt
    - Additionally, the company refinanced its US$300mm RCF with a new four year US$300mm RCF at Libor + 6%, of which US$200mm were drawn in Mar-18, also for debt repayment
- Annualized gross and net leverage strongly improved to 1.2x and 0.4x, respectively, from 5.2x and 3.9x one year ago

Seplat (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Revenue	181	47	174	282%	4%
EBITDA	116	9	81	1,135%	43%
EBITDA margin	64.2%	19.9%	46.8%		

Seplat (US$MM)	1Q18	1Q17	4Q17	y/y	q/q
Total Debt	536	194	570	177%	(6%)
Cash and Equivalents	361	48	437	655%	(17%)
Net Debt	175	146	133	20%	32%
Leverage (Total Debt/LQA EBITDA)	1.2	5.2	1.8		
Net leverage (Net Debt/LQA EBITDA)	0.4	3.9	0.4		

Seplat (US$MM)	1Q18	1Q17	4Q17
EBITDA	116	9	81
Working capital	(149)	40	203
Capex	12	(5)	(11)
Interest paid	-	-	13
Taxes paid	(13)	(17)	(18)
FCF	**(34)**	**27**	**268**

INDONESIA

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

Gajah Tunggal TBK PT is an Indonesian tire and tube manufacturer. The company was established in 1951 and is 49.5% owned by Denham Pte Ltd. Gajah is the largest Indonesian tire producer in volume and tonnage with a 16% market share in terms of sales volume, of passenger car and radial replacement tires (2016). The company's distribution is split relatively evenly between domestic and export sales. Gajah has a market cap of US$175 mm as of 4Q17.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
GJTLIJ 8.375% 08/10/2022	$250	B2/ B-/ -	86.6	12.9%

Pros:

- Extended debt runway with recent 2018 refinancing into 8.375% 2022s and issuance of US$250 mm in 5-year senior secured trade finance facility
- 1st lien 22s rank pari-passu with the 5-year senior secured trade finance facility
- 2022 covenant limits debt incurrence unless Consolidated EBITDA to fixed charges is ≥ 2.75x
- Positive 4Q17 financial performance, marked by increased Adj. EBITDA, positive FCF and 3.8x adjusted net leverage
- Produces own tire cord and synthetic rubber, of which 69% and 72%, respectively, are consumed internally (2016)
- First and only synthetic rubber ("SBR") plane in Indonesia, and first SBR plant in Southeast Asia
- One of the largest tire cord manufacturers in Southeast Asia

Cons:

- Senior secured trade finance facility secured by the same property and facilities as the 22s including deeds of fiduciary security over equipment and machinery located in bias tire production plants
- Maintenance covenants on the senior secured facility allow for acceleration of debt repayment to banks should the company fail to:
  - Maintain debt-to equity ratio of < 3.0x
  - Achieve and maintain adjusted leverage ratio of 3.5x in 1Q18-4Q2020, and 3.0x thereafter
  - Maintain debt service coverage ratio < 1.5x
  - Maintain minimum net worth ≥ US$380mm
- ~45%+ of net sales of tire-related products are exposed to foreign currency fluctuation

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

GJTLIJ (US$MM)	FY17	4Q17	3Q17	2Q17	1Q17	FY16	4Q16	y-o-y	q-o-q
Average crude px (CL1)	50.85	55.30	48.20	48.15	51.78	43.47	49.29	12%	15%
Revenue	1,057	247	267	261	283	1,025	262	(6%)	(8%)
Cost of Goods Sold	(873)	(199)	(225)	(222)	(227)	(785)	(204)	(2%)	(12%)
- Raw materials used	(594)	*(133)*	*(139)*	*(156)*	*(165)*	(471)	*(131)*	*2%*	*(4%)*
Gross Profit	184	48	41	38	56	240	58	(18%)	15%
Gross Margin	17.4%	19.4%	15.5%	14.7%	19.9%	23.4%	22.2%	(279 bps)	383 bps
LTM Gross Margin	17.4%	17.4%	20.7%	21.6%	22.9%	23.4%	23.4%	(602 bps)	(330 bps)
SG&A	(110)	(22)	(30)	(29)	(29)	(122)	(32)	(31%)	(26%)
D&A	51	9	14	14	14	54	14	(36%)	(36%)
EBITDA	115	38	25	11	41	154	39	(4%)	50%
EBITDA margin	10.9%	15.3%	9.5%	4.2%	14.7%	15.0%	15.1%	23 bps	585 bps
LTM EBITDA margin	10.9%	10.9%	12.9%	13.8%	14.8%	15.0%	15.0%	-	-
Adj. EBITDA	125	34	25	24	41	171	39	(13%)	36%
Adj. EBITDA margin	11.8%	13.9%	9.5%	9.1%	14.7%	16.7%	15.1%	(118 bps)	445 bps
LTM Adj. EBITDA margin	11.8%	11.8%	14.4%	15.4%	16.4%	16.7%	16.7%	(493 bps)	(257 bps)
EBITDA	115	38	25	11	41	154	39	(4%)	50%
Working Capital	11	34	20	(11)	(32)	(5)	(5)	-	72%
Capex	(36)	(5)	(9)	(10)	(13)	(77)	(24)	(81%)	(47%)
Assets sales	0	0	0	0	0	2	0	304%	(7%)
Interest paid	(67)	(11)	(28)	(1)	(27)	(54)	(3)	276%	(59%)
Taxes paid	(5)	(2)	6	(4)	(5)	3	(4)	(60%)	-
Free cash flow	19	**54**	**15**	**(16)**	**(35)**	23	**3**	**1,512%**	**256%**
Total Debt	520	520	572	586	560	552	552	(6%)	(9%)
Cash & Equivalents **	66	66	60	64	55	84	84	(21%)	10%
Net Debt	455	455	512	521	505	469	469	(3%)	(11%)
Leverage (Total Debt /LQA EBITDA)	4.5x	3.4x	5.7x	13.4x	3.4x	3.6x	3.5x	(0.1x)	(2.2x)
Net Leverage (Net Debt /LQA EBITDA)	3.9x	3.0x	5.1x	11.9x	3.0x	3.0x	3.0x	0.0x	(2.1x)
Leverage (Total Debt /LQA Adj. EBITDA)	4.2x	3.8x	5.7x	6.2x	3.4x	3.2x	3.5x	0.3x	(1.9x)
Net Leverage (Net Debt /LQA Adj. EBITDA)	3.6x	3.3x	5.1x	5.5x	3.0x	2.7x	3.0x	0.3x	(1.8x)

4Q17 FINANCIAL PERFORMANCE:

- Revenue declined 6% y/y and 8% q/q to US$247 mm
- Cost of goods sold decreased 2% y/y and 12% sequentially to US$199 mm, driven primarily by a reduction in raw material costs
  - Cost of raw materials, which account for 67% of COGS, increased 2% y/y and decreased 4% q/q to US$133 mm
- Gross profit shrunk 18% y/y but grew 15% q/q to US$48 mm
- Gross margin contracted 279 bps y/y but expanded 383 bps q/q to 19.4% a delayed benefit of peak rubber prices in 1Q17
- SG&A expenses decreased 31% y/y and 26% q/q to US$22 mm as a results of reduced performance incentives, salaries and allowances and transportation expenses
- EBITDA declined slightly (4%) y/y, but jumped 50% q/q to US$38 mm on lower COGS and SG&A expenses
- EBITDA margin of 15% and LTM EBITDA margin of 11%
- Adj. EBITDA (incl. recall expense add-back) declined 13% y/y, but increasing 36% sequentially
  - Gajah clarified in its FY17 release that this expense was a one-off
  - Adj. EBITDA margin of 14% and LTM Adj. EBITDA margin of 12%

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

GJTLIJ (US$MM)	FY17	4Q17	3Q17	2Q17	1Q17	FY16	4Q16	y-o-y	q-o-q
Average crude px (CL1)	50.85	55.30	48.20	48.15	51.78	43.47	49.29	12%	15%
Revenue	1,057	247	267	261	283	1,025	262	(6%)	(8%)
Cost of Goods Sold	(873)	(199)	(225)	(222)	(227)	(785)	(204)	(2%)	(12%)
- Raw materials used	(594)	*(133)*	*(139)*	*(156)*	*(165)*	(471)	*(131)*	*2%*	*(4%)*
Gross Profit	184	48	41	38	56	240	58	(18%)	15%
Gross Margin	17.4%	19.4%	15.5%	14.7%	19.9%	23.4%	22.2%	(279 bps)	383 bps
LTM Gross Margin	17.4%	17.4%	20.7%	21.6%	22.9%	23.4%	23.4%	(602 bps)	(330 bps)
SG&A	(110)	(22)	(30)	(29)	(29)	(122)	(32)	(31%)	(26%)
D&A	51	9	14	14	14	54	14	(36%)	(36%)
EBITDA	115	38	25	11	41	154	39	(4%)	50%
EBITDA margin	10.9%	15.3%	9.5%	4.2%	14.7%	15.0%	15.1%	23 bps	585 bps
LTM EBITDA margin	10.9%	10.9%	12.9%	13.8%	14.8%	15.0%	15.0%	-	-
Adj. EBITDA	125	34	25	24	41	171	39	(13%)	36%
Adj. EBITDA margin	11.8%	13.9%	9.5%	9.1%	14.7%	16.7%	15.1%	(118 bps)	445 bps
LTM Adj. EBITDA margin	11.8%	11.8%	14.4%	15.4%	16.4%	16.7%	16.7%	(493 bps)	(257 bps)
EBITDA	115	38	25	11	41	154	39	(4%)	50%
Working Capital	11	34	20	(11)	(32)	(5)	(5)	-	72%
Capex	(36)	(5)	(9)	(10)	(13)	(77)	(24)	(81%)	(47%)
Assets sales	0	0	0	0	0	2	0	304%	(7%)
Interest paid	(67)	(11)	(28)	(1)	(27)	(54)	(3)	276%	(59%)
Taxes paid	(5)	(2)	6	(4)	(5)	3	(4)	(60%)	-
Free cash flow	19	**54**	**15**	**(16)**	**(35)**	23	**3**	**1,512%**	**256%**
Total Debt	520	520	572	586	560	552	552	(6%)	(9%)
Cash & Equivalents **	66	66	60	64	55	84	84	(21%)	10%
Net Debt	455	455	512	521	505	469	469	(3%)	(11%)
Leverage (Total Debt /LQA EBITDA)	4.5x	3.4x	5.7x	13.4x	3.4x	3.6x	3.5x	(0.1x)	(2.2x)
Net Leverage (Net Debt /LQA EBITDA)	3.9x	3.0x	5.1x	11.9x	3.0x	3.0x	3.0x	0.0x	(2.1x)
Leverage (Total Debt /LQA Adj. EBITDA)	4.2x	3.8x	5.7x	6.2x	3.4x	3.2x	3.5x	0.3x	(1.9x)
Net Leverage (Net Debt /LQA Adj. EBITDA)	3.6x	3.3x	5.1x	5.5x	3.0x	2.7x	3.0x	0.3x	(1.8x)

4Q17 FINANCIAL PERFORMANCE - continued:

- Free cash flow was positive US$54 mm on strong EBITDA performance and notable working capital reduction
- Gross debt decreased 9% q/q to US$520 mm in 4Q17
  - In Sept. 2017, Gajah refinanced its 7.75% 18s, redeemed at 102c, issuing US$250 mm in 8.375% 22s
  - Additionally, in July 2017, the company signed a 5-year senior secured syndicated financing facility agreement ("facility") for US$250 mm
  - The facility is comprised of two amortizing tranches:
    - USD denominated US$210 mm tranche, whose principal is hedged
    - IDR denominated tranche equivalent to US$40 mm
- LQA Adj. leverage was reduced sequentially to 3.8x
  - Per the facility's covenant, Gajah is required to achieve an adjusted leverage ratio of 3.5x or less by 1Q18

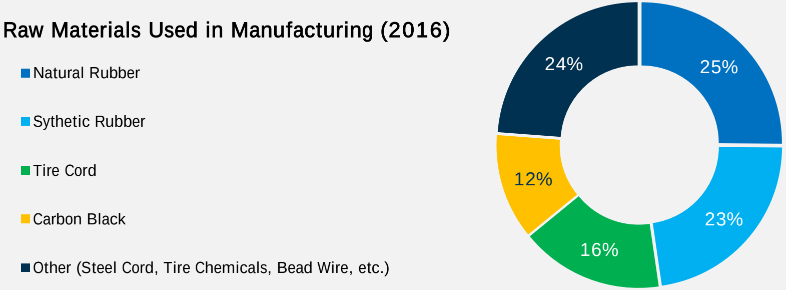
MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

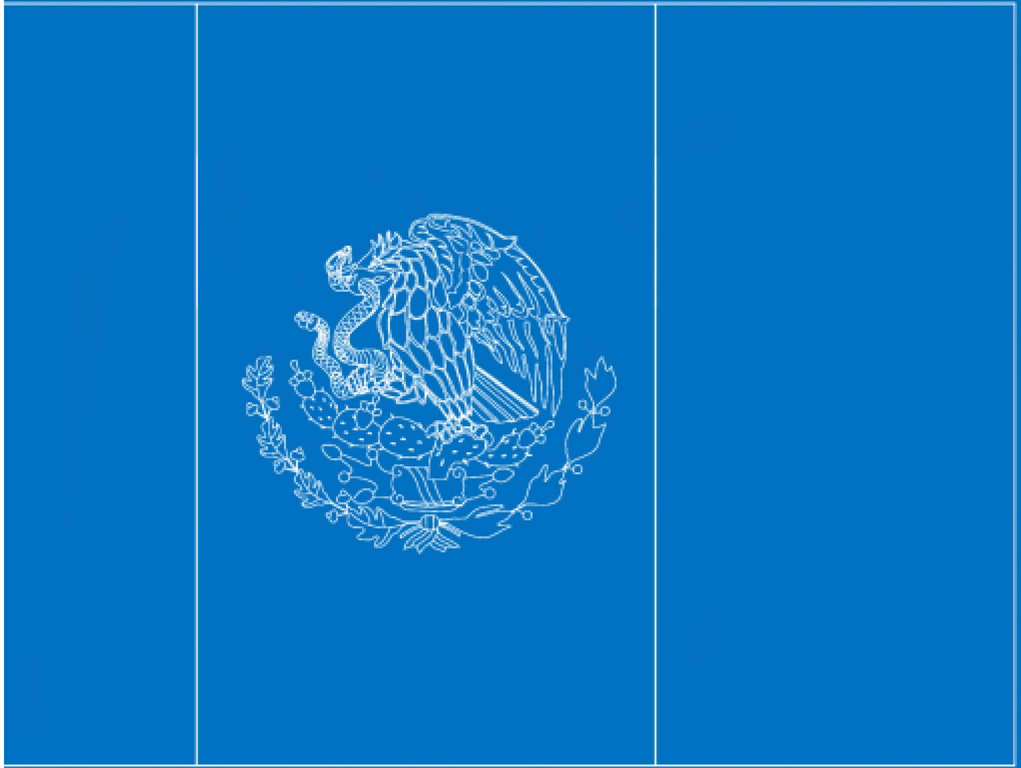
RAW MATERIAL COSTS:

- Raw materials at 4Q17 account for 67% of Gajah's COGS
- Key raw materials used in the tire manufacturing process are natural rubber, synthetic rubber (butadiene, styrene, nylon yarn, polyester), tire cord, carbon black and other (steel cord, tire chemicals, bead wire, other rubber processing chemicals)

Raw Materials Used in Manufacturing (2016)



- Gajah produces its own tire cord and synthetic rubber, accounting for 40% of raw materials used
  - GJTLIJ has the first and only synthetic rubber ("SBR") plant in Indonesia, and the first SBR plant in Southeast Asia (2016)
    - FY16 annual production capacity was 75,000 tons
    - Volumes were comprised of SBR 1712 (59.4%) and SBR 1502 (37.6%)
    - 69% was consumed internally, with the remaining sold to third parties
  - It is one of the largest tire cord manufacturers in Southeast Asia (2016)
    - FY16 annual production capacity was 40,000 tons
    - Volumes were comprised of nylon -6 tire (60.3%), nylon -66 tire cord (14.1) and polyester tire cord (25.6%)
    - 72% was consumed internally, with the remaining sold to third parties



MEXICO

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

CYDSA is a chemical producer and distributor of household and industrial salt, chlorine, caustic soda and refrigerant gases, primarily focused on industrial clients. The company has significantly increased revenues with improved EBITDA margins due to an aggressive capex plan. The continuous FCF burn due to capex is set to improve in 2018, as the new LNG storage system started operations. CYDSA is fitting leftover salt caves to store LNG and other petrochemicals. FCF burn has caused CYDSAs total debt to increase, but has managed to keep leverage ratios stable due to improving EBITDA.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
CYDSA 6.25% 10/04/2027	$330	- / BB / BB+	92.50	7.4%

Pros

- Vertically integrated model with access to raw materials for salt production, the main raw material for the other petrochemical processes
- Market leader in household and industrial salt in Mexico
- Domestic deficit in caustic-soda production
- An adverse NAFTA scenario would benefit CYDSA's domestic operations, primarily caustic-soda and chlorine, as imports would be affected – 92% of CYDSA's revenues are domestic with little to none raw material imports
- 34% of FY17 revenues were in USD with 77% of the total revenues being USD/USD linked, creating a natural hedge
- CYDSA has one of the highest petrochemical EBITDA margins, as well as two operational cogeneration plants mitigating energy costs
- The first LNG storage cave started operations with at least three more potential caves to develop in the future
- The company hedged US$330 mm, essentially the entire USD bond

Cons

- Low control on product pricing as they can be treated as commodities
- Only 8% of total revenues are exports
- Significant lag if migrating to new technologies or products is required
- Operating margins are depend on raw material and energy prices
- Capex intensive operations for both improvements and new projects
- Some currency exposure as revenues are USD linked, but priced in MXN
- Increased environmental regulations, as well as dependency on current water supply concessions
- 45% of employees are represented by unions or equivalent bodies
- Future LNG caves are expected to be built through project financing

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Recent 1Q18 Earnings:

- 1Q18 Revenue increased by 12% y/y to MXN$2,415 mm (US$129 mm), increasing by 2% sequentially
    - Salt, chlorine and chemical revenue increased by 13% y/y to MXN$1,596 mm, but decreased by 7% q/q
    - Refrigerant gases and LNG storage revenues increased by 27% q/q to MXN$819 mm – as the LNG storage business was fully operational during 1Q18
    - Domestic revenues accounted for 92% of total sales during the quarter
- EBITDA increased by 56% y/y and 37% q/q to MXN$809 mm (US$43 mm)
    - Sequential growth was driven by the LNG storage business start-up as cost of sales decreased by 21% q/q
    - EBITDA margin improved to 33%, compared to 25% last quarter and 24% during 1Q17
- FCF burn was MXN$93 mm (US$5 mm), driven by high taxes paid and working capital
    - Working capital expanded due to supplier accounts payable and other accounts receivable
    - CYDSA's high taxes paid during the quarter were due to deferred taxes liabilities
    - 1Q18 capex was lower than previous quarters, but the company still has an aggressive capex plan to develop the LNG storage business further

CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Revenue	2,415	2,359	2,153	2%	12%
EBITDA	809	592	518	37%	56%
EBITDA margin	33%	25%	24%	-	-
CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	6,980	7,438	5,241	(6%)	33%
Cash & Equivalents	1,161	1,291	763	(10%)	52%
Net Debt	5,819	6,147	4,478	(5%)	30%
Total Debt / LQA EBITDA	2.2x	3.1x	2.5x	-1.0x	-0.4x
Net Debt / LQA EBITDA	1.8x	2.6x	2.2x	-0.8x	-0.4x
CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
EBITDA	809	592	518	37%	56%
Interest paid	(45)	(142)	(100)	68%	55%
Capex	(135)	(1,232)	(77)	89%	(75%)
Working capital	(337)	540	(197)	-	(71%)
Taxes paid	(384)	(121)	(52)	(218%)	(641%)
FCF	**(93)**	**(363)**	**92**	74%	-

MARKET
OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Recent 1Q18 Earnings - Continued:

- Total debt decreased to MXN$6,980 mm (US$384 mm), while cash was MXN$1,161 mm (US$64 mm)
  - CYDSA hedged US$280 mm in September and US$50 mm in October, essentially hedging the entire USD bond issuance
- Annualized gross and net leverage are 2.2x and 1.8x, compared to 2.5x and 2.2x during 1Q17

CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Revenue	2,415	2,359	2,153	2%	12%
EBITDA	809	592	518	37%	56%
EBITDA margin	33%	25%	24%	-	-
CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	6,980	7,438	5,241	(6%)	33%
Cash & Equivalents	1,161	1,291	763	(10%)	52%
Net Debt	5,819	6,147	4,478	(5%)	30%
Total Debt / LQA EBITDA	2.2x	3.1x	2.5x	-1.0x	-0.4x
Net Debt / LQA EBITDA	1.8x	2.6x	2.2x	-0.8x	-0.4x
CYDSA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
EBITDA	809	592	518	37%	56%
Interest paid	(45)	(142)	(100)	68%	55%
Capex	(135)	(1,232)	(77)	89%	(75%)
Working capital	(337)	540	(197)	-	(71%)
Taxes paid	(384)	(121)	(52)	(218%)	(641%)
FCF	**(93)**	**(363)**	**92**	74%	-

MARKET
OUTPERFORM (MEXICO):

TZA 8.25% 24s

TV Azteca has shifted focus to its core businesses by hiring experienced professionals to produce more original content, while using TZA as its distribution channel. The new strategy has improved ratings, resulting in significant gain in TZA's market share; however, Televisa's recent ratings have enabled it to recapture a portion of that market share. TZA's recent results have improved, but are partially offset by South American fiber optic investments that aren't meeting expectations. The company has steadily reduced its USD denominated debt, including minor asset sales for debt repayments.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
TZA 8.25% 08/09/2024	$400	- / - / B+	98.7	8.5%

Pros

- One of the most important producers of Spanish-language programming in the world with strong brand recognition
- Improved ratings as TZA focuses on producing its own original content
- Continuing market share gains with advertising revenue growth
- Successful monetization of international assets under continuing content sale contracts
- Capex returned to normalized levels
- Steadily reducing leverage and improved capital structure through recent results and asset sales
- Reduced USD exposure through a fully hedged USD coupon and a recent MXN$4 bn issuance

Cons

- Exposed to natural business seasonality
- Competing against large broadcasters like Televisa, as well as international players such as Univision and Telemundo
- Domestic broadcasting concessions are subject to renewal in 2021
- Non-core business ventures have performed below expectations
- Currency mismatch between MXN revenues and USD costs
- Approximately 57% of TZAs total debt is USD denominated

MARKET
OUTPERFORM (MEXICO):

TZA 8.25% 24s

Recent 1Q18 Earnings:

- 1Q18 Revenue increased by 12% y/y to MXN$3,427 mm (US$183 mm), beating the BBG consensus by 5%
  - Domestic advertising revenue increased by 19% y/y to MXN$2,709 mm, as TZA's original content continues to reach large audiences
    - Advertising revenue accounted for 79% of total sales, lower than the normalized levels as TZA organized the WGC Mexico golf tournament which had MXN$522 mm in revenues
- EBITDA decreased by 3% y/y to MXN$535 mm (US$28 mm), beating the BBG consensus by 13%
  - EBITDA decreased as TZA's production and transmission costs increased by 31% y/y as original content is more expensive to produce
  - Additionally, the WCG Mexico tournament didn't generate any EBITDA
- EBITDA margin was 15%, compared to 17% during 1Q17
- FCF burn was MXN$649 mm (US$35 mm), driven by working capital expansion due to client accounts receivable and other accounts payable
  - FCF burn was offset as TZA received the remaining MXN$830 mm proceeds from the Azteca America sale to H2C

TV AZTECA (MXN MM)	1Q18	BBG consensus	% dif	4Q17	1Q17	q/q	y/y
Total Revenue	3,427	3,274	5%	4,005	3,065	(14%)	12%
EBITDA	521	460	13%	1,416	535	(63%)	(3%)
EBITDA margin	15%	14%	-	35%	17%	-	-

*1Q17 Revenue and EBITDA are adjusted for the sale of Azteca America

TV AZTECA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	12,741	13,398	15,844	(5%)	(20%)
Cash & Equivalents	2,823	2,783	3,009	1%	(6%)
Net Debt	9,918	10,615	12,835	(7%)	(23%)
Total Debt / LQA EBITDA	6.1x	2.4x	7.4x	3.7x	-1.3x
Net Debt / LQA EBITDA	4.8x	1.9x	6.0x	2.9x	-1.2x

TV AZTECA (MXN MM)	1Q18	4Q17	1Q17	q/q	y/y
EBITDA	521	1,416	535	(63%)	(3%)
Interest paid	(427)	(99)	(452)	(332%)	5%
Capex	(157)	(82)	(108)	(92%)	(46%)
Changes in WK	(588)	(757)	(129)	22%	(357%)
Taxes paid	3	11	(57)	77%	-
FCF	**(649)**	**488**	**(210)**	-	(209%)

MARKET
OUTPERFORM (MEXICO):

TZA 8.25% 24s

Recent 1Q18 Earnings - Continued:

- Total debt decreased by 20% y/y to MXN$12,741 mm (US$701 mm), while cash was MXN$2,823 mm (US$155 mm)
    - As of 1Q18, 34% of TZAs total debt (excl. the American Tower loan due 2069) is MXN denominated
    - TZA hedged the coupon payments until maturity for the US$400 mm issuance
- Annualized gross and net leverage ratios improved to 6.1x and 4.8x, compared to 7.4x and 6.0x during 1Q17, respectively
    - LTM gross and net leverage are 3.2x and 2.5x, respectively
- We reiterate our "Market Outperform" rating on TZA 24s on our EM Quarterly Top Picks as the company continues to increase advertising sales while improving its capital structure.

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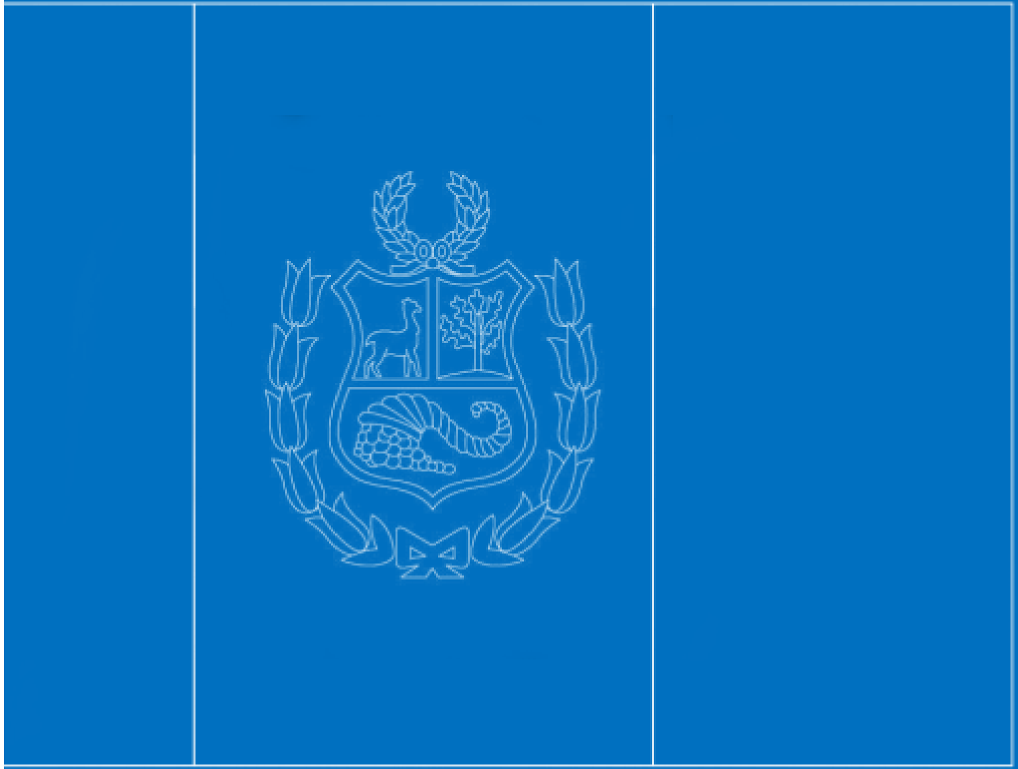


PERU

MARKET OUTPERFORM (PERU):

AJECBV 6.50% 22s

Ajecorp is a financing subsidiary incorporated in the Netherlands, wholly-owned by Spain-based Grupo Embotellador Atic, S.A. ("Atic"), a second tier soft drink and bottling company with operations primarily focused in the Andean region and Central America. Both Atic and its sister-company Callpa are 100% owned by the Añaños family. All operations under the Añaños family are funded by Atic, with profitable operations incorporated under Atic and early stage, unprofitable operations under Callpa. We reiterate our "Market Outperform" rating on the AJECBV 22s, following the recent price decline, as fundamentals remain unchanged and favorable.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
AJEBCV 6.5% 05/14/2022	$450	-/ B/ B-	79.5	13.5%

PROS:

- 1Q18 performance showed positive FCF, improved liquidity and deleveraging, which outweighed weaker revenues and y/y EBITDA
- Ring-fencing of non-performing assets under Callpa conserves Atic's credit profile, while maintaining ownership under the Añaños family
- Sept-16 refinancing of US$88mm in bank debt strongly positions company with new four-year term financing
- Intercompany lending to non-performing CALLPA assets capped at US$11 mm for the duration of facility, per loan indenture
- Potential cash inflow from sale of non-performing Asia operations (Book value US$80 mm). According to management, Atic has received a formal indication of interest of Asia operations from a third party, and is in advanced talks
    - Per our understanding, proceeds would be focused on debt reduction
- Cost of new excise tax on sugar content imposed by the Peruvian Government will be passed through to consumers without impacting Aje's profitability or price advantage in the market

CONS:

- Potential for bank waiver – or less onerous covenants, which would allow for reinstatement of inter-company loan capability
- Exposure to weak local currencies
- Competition against major international brands, backed by substantial financial resources

MARKET OUTPERFORM (PERU):

AJECBV 6.50% 22s

Summary of 1Q18 Financial Results:

- 1Q18 revenue was down 6% y/y, to US$229mm, mainly impacted by lower volumes in Peru, Mexico and Colombia in CDS that offset improvements in Ecuador and Central America
- Volume was down 8% y/y, local average prices were steady and average FX appreciated by 2% over the period
- 2017 revenue was in line with previous year, with volume decrease offset by higher prices and FX appreciation
- Reported Adj. EBITDA was down 14% y/y, at US$40mm, on the back of margin reductions seen in Peru and Central America
- Mexico is now reporting positive EBITDA
- 2017 adjusted EBITDA totaled US$135mm, up 29% y/y, expanding margins by approx.. 200bps y/y
- 1Q18 estimated FCF was US$31mm, boosted by WK contraction, as payables increased more than A/R
- 2017 FCF breakeven, despite increases in capex and payments to related parties
- Gross debt totaled US$ 561mm as of 1Q18, continuing its downward trend, down 2% since 3Q17
- Cash and equivalents reached US$57mm in 1Q18, up 42% sequentially, after having a lower amount during 4Q17
- Cash generation drove a US$19mm drop in net debt q/q as net debt dropped to US$504 mm in 1Q18 from US$523 mm in 4Q17
- LQA net leverage reached 3.2x, from 4.8x in 4Q17 and 4.7x in 3Q17, and LTM net leverage reached 3.9x
- AJE was upgraded by S&P from "B-" to "B" on February 20, 2018

ATIC (US$ MM)	1Q18	4Q17	3Q17	2Q17	1Q17	q/q	y/y
Revenue	229	296	191	200	244	(23%)	(6%)
EBITDA	40	26	26	32	44	54%	(9%)
Adj EBITDA	40	27	28	33	46	45%	(14%)

ATIC (US$ MM)	1Q18	4Q17	3Q17	2Q17	1Q17	q/q	y/y
Total Debt	561	563	571	569	580	0%	(3%)
Cash	57	40	47	49	56	42%	2%
Net Debt	504	523	524	520	524	(4%)	(4%)
Leverage (Total Debt /LTM Adj EBITDA)	4.36	4.17	4.61	4.53	4.92		
Net Leverage (Net Debt /LTM Adj EBITDA)	3.91	3.88	4.23	4.14	4.44		

ATIC (US$ MM)	1Q18
EBITDA	40
- capex	10
+ sale fixed assets	0
- interest paid	2
- taxes paid	8
- support to AJE Oportunidad	3
- repayment senior debt to related parties	1
FCF before WK	**16**
WK	16
FCF	**32**

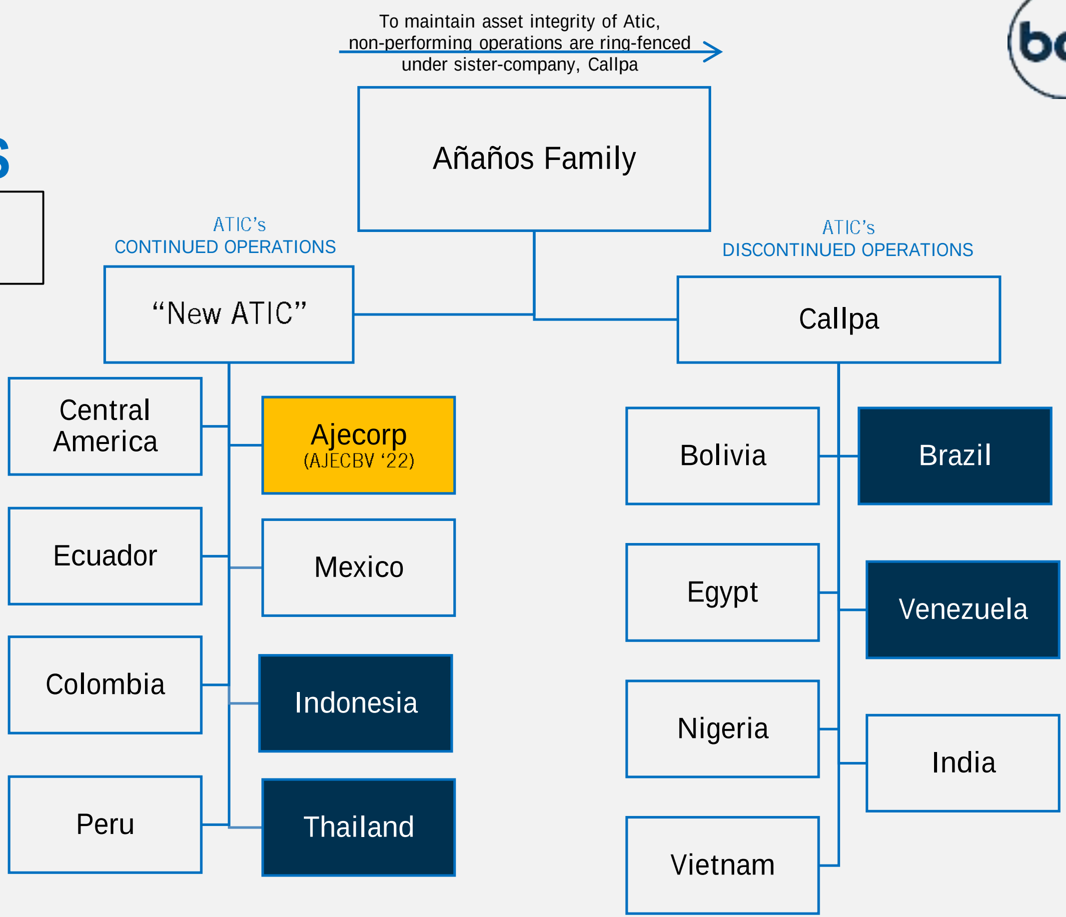
MARKET OUTPERFORM (PERU):

AJECBV 6.50% 22s

The ring-fencing of non-performing assets under sister-company Callpa enables the company to enhance its credit profile by quarantining loss-producing assets.

- Following the refinancing of a majority of Atic's short-term bank debt in the form of an US$88mm senior credit facility, lending banks required the ring-fencing of non-performing assets to Callpa
- Through an all-cash transaction under the "New ATIC" business model, all early stage / unprofitable assets in Brazil, Mexico, and Venezuela were transferred to Callpa. Asia operations (Indonesia/Thailand) are included as well, and will either be sold to a third party, or transferred to Callpa
- In addition to its own operations, Atic has historically funded these operations incorporated under its sister-company
- However, under the Indenture, the "New ATIC" is prohibited from providing any financial support to Callpa throughout the tenure of the new credit facility
- In the interim, related-party loans from the "New ATIC" to Callpa will be limited to a total of US$11mm for the four (4) year duration of this senior credit-facility

- US$8mm in seed funding, funded through the sale of caps and pre-form assets
- US$3mm in additional funding, paid out in 2017



= Recently Discontinued/Designated for Sale Atic Operations

MARKET OUTPERFORM (PERU):

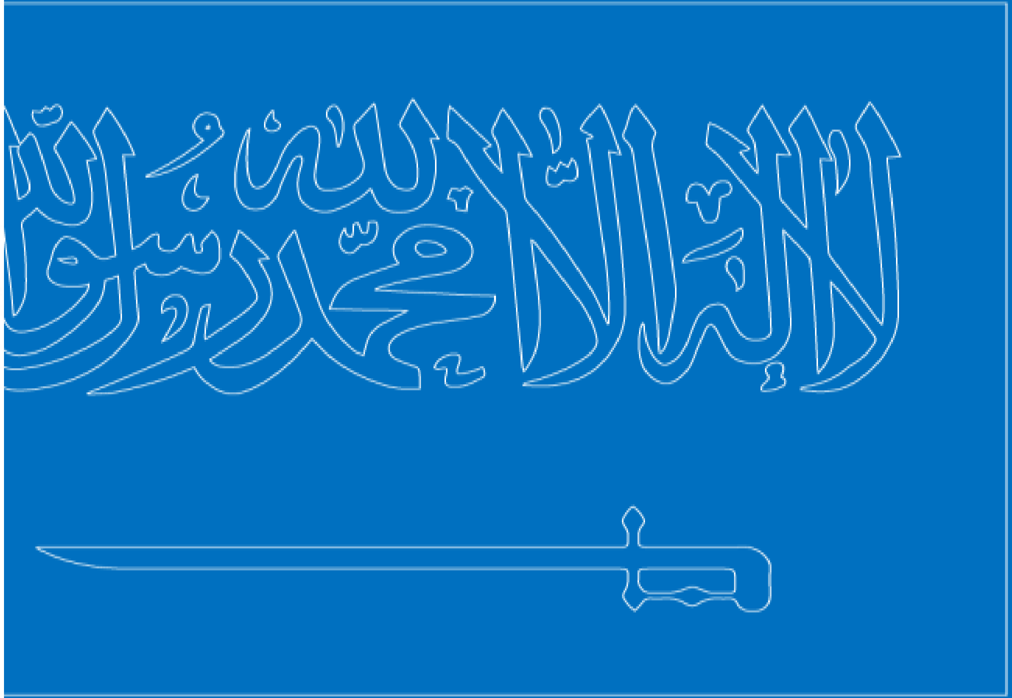
AJECBV 6.50% 22s

Update on Non-Performing Asset Sales to CALLPA:

- As of December 2017, Brazil and Venezuela operations have been effectively ring-fenced under CALLPA
- Asian operations have not been sold CALLPA on formal indication of third-party interest (Book value US$80 mm)
- Atic is reintegrated Mexico operations following positive financial (EBITDA) performance
- Management has affirmed no more payments will be made to CALLPA from ATIC
    - Intercompany support has been limited since September 28th, 2019, under the terms of Aje's the US$88 mm senior credit facility
    - Under the limit, the following payments have been made to CALLPA:
        - An US$11 mm approved loan basket under ATIC's agreement with bank lenders, shown as "Support to Aje Oportunidad" on the cash flow statement
        - US$12 mm in payments agreed to prior to the arrangement with bank lenders, shown as "Repayment of Senior Debt to Related Parties" on the cash flow statement
            - These proceeds were applied primarily towards WK and administrative expenses

Acquisition of Peruvian Brands

- Additionally, the Anaños family recently purchased Peruvian brands: Vida, Don Isaac Kola and Peru Cola from beverage producer, Embotelladora Don Jorge
    - The incorporation of these brands is expected to result in increased sales volumes in Peru, which contributes to 34% of ATIC's Adj. EBITDA as of 1Q18
    - The purchase was made through Poto, a subsidiary of ATIC's sister company, Mye
        - All brands of the asset group are registered at Poto, owned separately by the Anaños family, and licensed to ATIC via royalty payments



SAUDI ARABIA

MARKET
OUTPERFORM (MIDDLE EAST):

DARALA 6.875% 23s

Dar Al Arkan (DARALA) is Saudi Arabia's largest listed real estate developer with headquarters in Riyadh. It was established in 1994 by six business families. DAAR primarily focuses on three core businesses: land development (purchasing and developing infrastructure on raw land parcels), which represented on average 97% of 2009-17 revenues, residential and commercial development, property management and leasing.

Dar Al Arkan is a public company listed on the Saudi Stock Exchange in 2008. DAAR's founders own a total of 70% of the company and the remaining 30% is free float.

	Amt Out (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
DARALA 6.875% 03/21/23	500	B1/ - / -	95.0	8.2%

PROS

- DAAR has a diverse land bank in Tier 1 cities of KSA (Kingdom of Saudi Arabia) - Riyadh, Medina, Jeddah and the Eastern Province
- Solid liquidity profile
- Debt to equity of under 0.6x
- Plans to sell 30% of property management subsidiary through an IPO, potentially raising US$200 mm
- Economic environment improvement due to higher oil prices
- Promising long-term fundamentals for real estate in KSA thanks to favorable demographics together with housing deficit
- Strong FCF generation
- Government's plan to support the non-oil sector and to diversify the Saudi Arabia economy

CONS

- Reduction in margins due to haircut on land prices to boost sales – pressuring gross margin
- Revenue concentration - land sales is the largest revenue contributor
- Significant unsecured debt to total assets, which was 74% as of year-end 2017
- Sensitivity to cyclical real estate sector
- White land tax (on undeveloped land) in KSA intended to spur development

MARKET
OUTPERFORM (MIDDLE EAST):

DARALA 6.875% 23s

Recent Earnings and Main Highlights:

- Revenue increased by 15% q/q to US$745mn and by 6.7x y/y on the back of the higher land sales
- EBITDA increased by 2% q/q to US$122mn
- EBITDA margin declined to 16% from 18% q/q on the back of the mix of land sold
- LTM net leverage dropped to 2.1x from 3.0x from 4Q17 driven by materially reduced net debt
    - Cash and equivalents increased by 65% to US$1.4bn that mitigated increased gross debt
- Positive FCF declined by 54% q/q to US$80mn: account receivables increased related to sale of development properties

DARALA (MM US$)	1Q18	1Q17	4Q17	y/y	q/q
Revenue	745	96	649	675%	15%
EBITDA	122	32	119	277%	2%
EBITDA margin	16%	34%	18%		
Profit/(Loss)	88	3	88	2,521%	1%

DARALA (MM US$)	1Q18	1Q17	4Q17
Total Debt	2,178	1,377	1,706
Cash & Equivalents	1,397	233	843
Net Debt	780	1,144	864
Net Leverage (Net Debt / LTM EBITDA)	2.1x	8.9x	3.0x

DARALA (MM US$)	1Q18	1Q17	4Q17
EBITDA	122	32	119
Interest	(30)	(22)	(29)
Working Capital	(9)	51	83
Capex	(3)	0	(1)
Taxes	0	0	0
FCF	**80**	**61**	**173**

UKRAINE

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
METINV 8.5% 04/04/2026	$1,000	-/ -/ -	99.0	8.6%

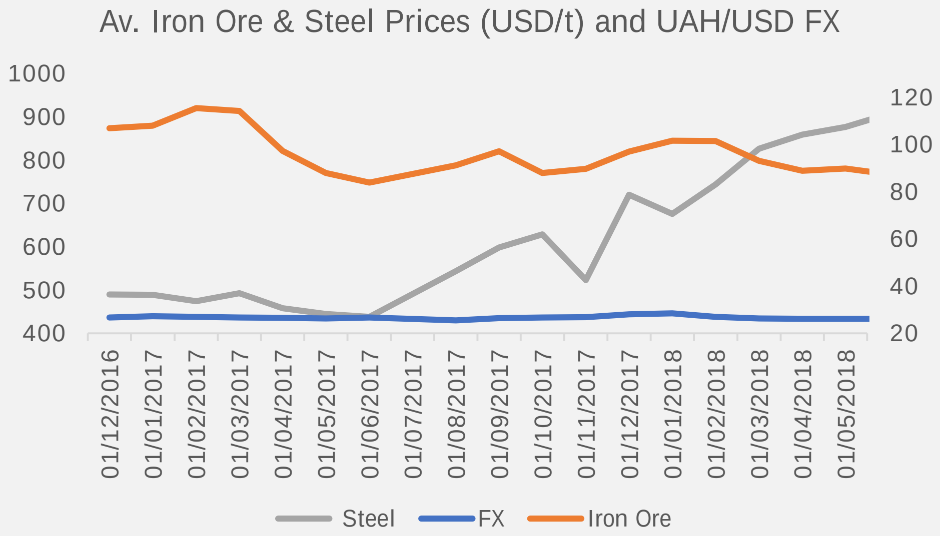
Eurobonds	MHP	CSN	Metinvest
Country	Ukraine	Brazil	Ukraine
Rating	Caa1/ B/ B	B3/ - /B-	Caa1/ B- / B
Bond	MHPSA 6.95% 26s	CSNABZ 6.5% 20s	New METINV 26s
YTM	8.23%	10.41%	9.89%
Spread to Sovereign (bps)	75	773	91
Sovereign Ownership	Private	Private	Private
Position in the country	#1	#2	#1
1Q18 Financials, USD MM	**MHP**	**CSN**	**Metinvest**
Revenue	306	1,528	3019
EBITDA	89	375	513
Tax	0.1	0.0	54
Interest	25	186	84
Capex	52	67	216
FCF before WK	17	120	292
Gross Leverage	2.6x	5.9x	1.2x
Net Leverage	2.3x	5.3x	1.1x

- On April 4, 2018, Metinvest (Caa1/-/B), a Ukrainian steel and iron ore producer, announced results of the consent solicitation and early results of the cash tender offer for the METINV 21s – 89.1% of the bondholders consenting and tendering their bonds
- Simultaneously with the tender offer, the company placed its five-year and eight-year Eurobond tranches:
  - METINV 7.75% 04/23/2023 (-/B-/B) – USD 945 mm
  - METINV 8.5% 04/23/2026 (-/B-/B) – US$ 648 mm
- Metinvest reported robust 1Q18 IFRS results: manageable leverage (1.1x on an LQA basis, and well under 2.0x net LTM), sound profitability (EBITDA stable sequentially (-3% q/q) and up +61% y/y) and positive FCF generation.
- METINV 26s, which is currently yielding just shy of 10% looks very attractive vs. peers, like Brazilian CSN and Ukrainian MHP, hence an 'Outperform' rating.

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s

Following asset loss in 1Q17, production suffered; however, financial performance of Metinvest benefitted from stable FX and favorable pricing environment



	1Q18	4Q17	q/q
Metallurgy			
Semi	**1,489**	**1,396**	**7%**
Pig iron	816	545	50%
Slabs	290	431	-33%
Billets	383	419	-9%
Finished	**2,420**	**2,162**	**12%**
Flat	2,033	1,793	13%
Long	362	344	5%
Coke	585	514	14%
Total	**3,894**	**4,072**	**-4%**
Mining			
Iron Ore	**2,644**	**3,627**	**-27%**
Total	**3,742**	**3,740**	**0%**

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s

1Q18 Financial Results - robust financial results; EBITDA continues to impress

On May 30, 2018, Metinvest (Caa1/-/B), Ukraine's leading steel and iron ore producer, controlled by Mr. Rinat Akhmetov's System Capital Management Group (71.24%), released its March 2018 monthly report along with 1Q18 trading update. On an annual basis, revenue and EBITDA gained 63% and 61%, respectively, vs. the 1Q17 level on the backdrop of higher selling prices (steel is up 54%y/y). On a quarterly basis, revenue was up 11% whilst EBITDA came in 3% below the 4Q17 level. FCF positive, yet 23% lower sequentially as capex and interest payment grew sequentially by 19% and 87%, respectively. Net leverage at just around 1.0x. Total debt hovers at ~US$3 billion. On April 24, 2018, Metinvest announced the completion of a successful refinancing exercise, the largest ever by a Ukrainian corporate, which was announced on March 19, 2018. The newly issued METINV 26s is currently featured as an 'Outperform' in our BCP Securities Quarterly.

- Revenue – US$3.02 billion (+63% y/y and +11% q/q) - on the backdrop of higher selling prices: steel is up 54%y/y and while iron ore price is lower y/y it is still at a respectable level; q/q prices were higher
- EBITDA - US$649 mm (+61% y/y and -3% q/q) – elevated on an annual basis by higher contributions from the metallurgical segment, favorable pricing environment and increased sales; sequentially, EBITDA was generally maintained (-3% q/q)
- FCF Positive – yet 23% lower sequentially as capex and interest payment grew sequentially by 19% and 87%, respectively
- Net Leverage – with the total debt hovering around US$3 billion, net leverage LQA is ~1.1x
- Recent Developments - on April 24, 2018, Metinvest announced the completion of a successful refinancing exercise, the largest ever by a Ukrainian corporate, which was announced on March 19, 2018

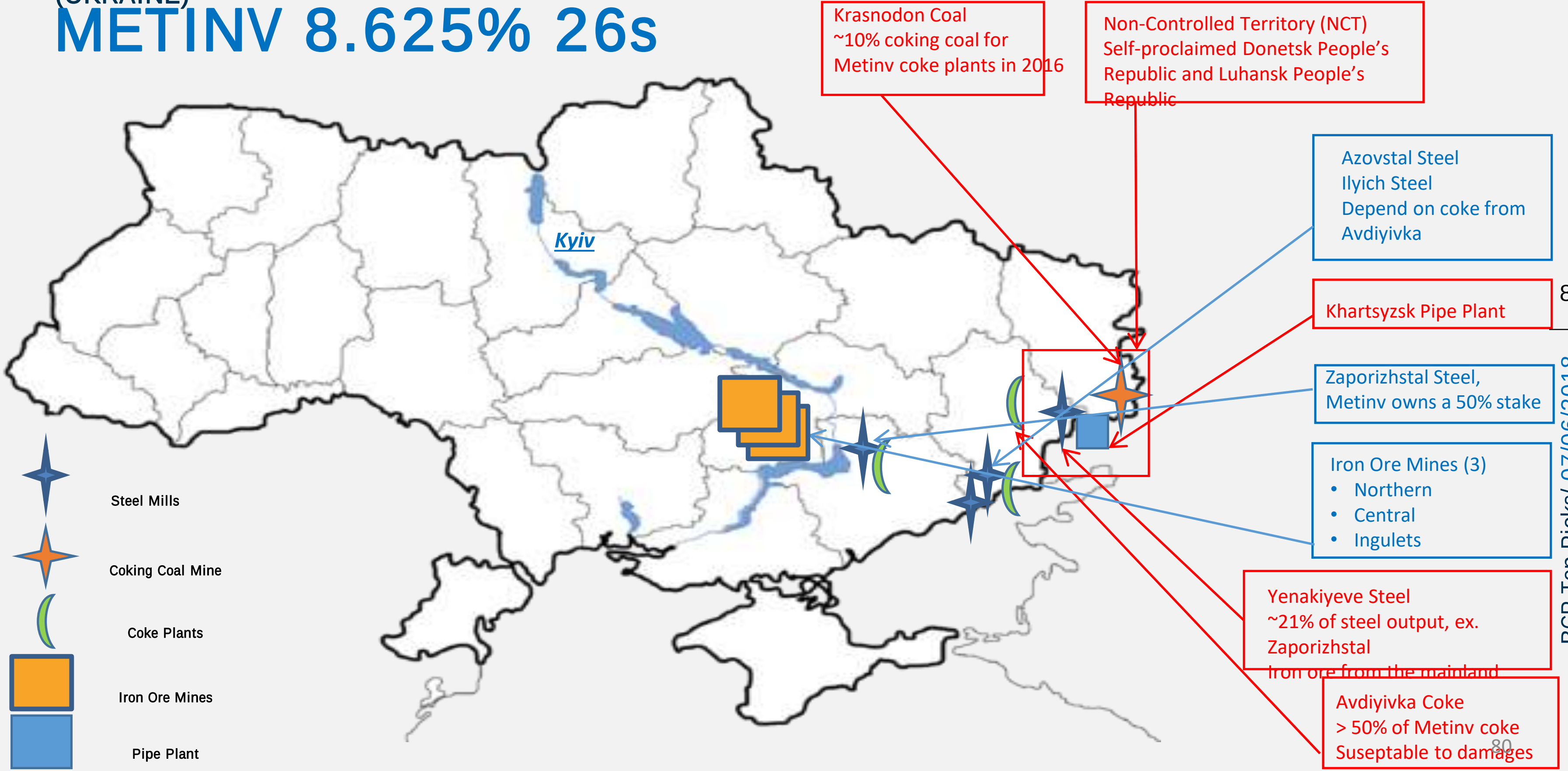
METINV 8.625% 26s

On an annual basis, revenue and EBITDA gained 63% and 61%, respectively, vs. the 1Q17 level on the backdrop of higher selling prices (steel is up 54%y/y). On a quarterly basis, revenue was up 11% whilst EBITDA came in 3% below the 4Q17 level

Metinvest, USD MM	2017	2016	y/y	1Q18	4Q17	q/q	1Q17	y/y	Mar-18	Feb-18	m/m
Revenue	8931	6223	44%	3019	2709	11%	1853	63%	1096	914	20%
EBITDA	2044	1153	77%	649	671	-3%	402	61%	225	196	15%
Interest	135	133	2%	84	45	87%	42	100%	49	22	123%
Capex	465	358	30%	216	182	19%	103	110%	17	53	-68%
Taxes	156	(35)	-546%	54	70	-23%	10	440%	18	21	-14%
FCF	1288	697	85%	295	374	-21%	247	19%	141	100	41%
EBITDA margin	23%	19%	4pp	21%	25%	-13%	22%	-1%	21%	21%	-4%
Gross Debt	3,017	2,969	2%	3,086	3,017	2%	2,951	5%	3,086	3,042	1%
Cash	259	226	15%	261	259	1%	215	21%	261	282	-7%
Net Debt	2,758	2,743	1%	2,825	2,758	2%	2,736	3%	2,825	2,760	2%
Leverage, LHA/LQA/LMA	1.5x	2.6x	-43%	1.2x	1.1x	6%	1.8x	-35%	1.1x	1.3x	-12%
Net Leverage, LHA/LQA/LMA	1.3x	2.4x	-43%	1.1x	1.0x	6%	1.7x	-36%	1.0x	1.2x	-11%
FX end of period:	28.02	26.74	5%	26.35	28.02	-6%	26.79	-2%	26.35	26.97	-2%
Av. price iron ore, $/ton	70.57	58.38	21%	71.16	64.52	10%	85.63	-17%	66.79	74.53	-10%
Av. price steel, $/ton	602.99	383.64	57%	748.61	684.70	9%	486.15	54%	827.14	744.32	11%

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s



UNITED ARAB EMIRATES

MARKET
OUTPERFORM (MIDDLE EAST):

TPZMAR 9.125% 22s

Topaz Energy and Marine (TPZMAR), is a Dubai-based subsidiary of Renaissance Services SAOG, providing marine solutions for the oil gas industries in the Caspian Sea, Middle East and Africa offshore. The company was founded in 1981. Topaz has fleet of 99 offshore support vessels. Current contract backlog is US$1.5bn.

Free cash flow generation was negative in Q1 on the back of increased A/R. We maintain Outperform rating and expect to see a lift in EBITDA from TCO project but modest improvement in FCF as customer advances reverse.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
TPZMAR 9.125% 07/26/2022	375	B3/ B-/	103.5	8.1%

PROS

- Brent has rallied to its highest since mid-2015
- TCO project, sponsored by KazGas and Chevron, expected to nearly double EBITDA
- TCO investment funded by customer advances
- Leading position in the Caspian Sea with high barriers to entry
- Leading sector backlog with US$1.5bn - blue chip customer list
- Steady improvement of fleet utilization
- Positive outlook for Africa - mobilized additional tonnage into the region to meet demand
- No Lost Time Incidents (LTIs) during the past 28 months.

CONS

- Negative FCF in Q1 and Q4
- Significant secured indebtedness ranking senior to the bonds
- Most of the revenue is contributed from its top four customers
- The Caspian business is the only profitable segment
- Large working capital liabilities will amortize when TCO project is fully operational

MARKET
OUTPERFORM (MIDDLE EAST):

TPZMAR 9.125% 22s

Recent Earnings and Main Highlights:

- Revenue slightly declined by 3% q/q to US$66.0mn thanks to a new segment Solutions that mitigated lower results from the Caspian segment
  - From 1st January 2018, the group has added a new segment - Solutions with revenue to US$11mn with the remainder ramping up during 2Q/3Q 2018
  - Revenue from Caspian region dropped sequentially by 32% to US$38mn negatively impacted by vessels coming off charters in Azerbaijan due to projects being completed
  - Backlog remains at historical highs: US$1.5bn (contracts with BP contributed 45%, TCO-Tengiz project 38%, Dragon Oil 7%, rest 8%)
- EBITDA increased by 7% q/q to US$32.5mn and up by 4% y/y thanks to the implementation of new IFRS 15 when cost is required to be amortized over the average customer life
  - Core fleet utilization significantly improved to 84% in 1Q18 vs 67% a quarter ago
  - Utilization in Caspian region was 85%, in MENA was 80%, in Africa was 90% vs 92%, 61% and 33% relatively a year ago
- EBITDA margin improved to 49% from 44% a quarter ago
- Net leverage was broadly stable 5.7x vs 5.6x a quarter ago
  - Cash decreased 38% q/q to US$48.3mn
  - US$75mn undrawn on the secured RCF remains available. The RCF expires on April 2020
- Simplified FCF was negative to US$22.2mm on the back of expanded working capital
  - WK was negative as payables account materially declined
  - Capex declined to 77% q/q to US$12.5mn as advanced from customers did not fully covered it due to the timing gap

TOPAZ (MM US$)	1Q18	1Q17	4Q17	y/y	q/q
Revenue	66	58.2	68.3	13%	-3%
EBITDA	32.5	31.3	30.3	4%	7%
EBITDA margin	49%	54%	44%	-8%	11%
Profit/(Loss)	(3)	(3)	(79)	(11%)	(96%)

TOPAZ (MM US$)	1Q18	1Q17	4Q17
Total Debt	734.3	720.6	741.2
Cash	48.3	57.2	78
Net Debt	686	663.4	663.3
Gross Leverage (Total Debt / LTM EBITDA)	6.1x	5.8x	6.3x
Net Leverage (Net Debt / LTM EBITDA)	5.7x	5.3x	5.6x

TOPAZ (MM US$)	1Q18	1Q17	4Q17
EBITDA	33	31	30
Interest	(24)	(6)	(29)
Working Capital	(15)	(5)	(44)
Capex	(13)	9	(56)
Taxes	(3)	(4)	(4)
FCF	**(22)**	**26**	**(14)**

SWAP

BRAZIL

AZULBZ 5.875% 24s →
GOLLBZ 7.00% 25s

BRAZIL

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

GOLLBZ 7.00% 25s

Gol is a Brazilian low cost airline, with the highest market share in the country (36%). FCF conversion compares favorably with peers, once adjusted for WK flows. Strong Q1 with lowest leverage levels, and although we expect a weak Q2, should not be dismal as the company is still growing load factor in the quarter. We reiterate our preference fol Gol, now switching from an Outperform recommendation on Perps to a swap from Azul 24s to Gol 25s, as spreads have reached peak levels.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
GOLLBZ 7.00% 01/31/2025	650	/B-/B	80.0	11.4%

PROS:

- Current leverage levels in line with peers – and spreads have room to tighten
- Demand outgrew supply in 2Q18 (preliminary numbers show load factor +40bps y/y)
- Run rate 4Q18 leverage target 2.5x
- 30% EBITDAR margin in 1Q18 and lowest CASK among peers
    - 100% recapture of relationship between WTI and BRL during the quarter
- FCF generation in 1Q18 and 2017, after a long period of cash burn
- Main assets (planes) are valued in USD in the international market place
    - US$200mm aircraft equity value
    - All should be sold over the next four years as the company transitions to 737 MAX
- Market share leader in Brazil
- 3-4% yield premium on second largest Brazilian airline
- Increasing payment days by 8 days q/q
- Business demand is more inelastic

CONS:

- Exposure to Brazilian market (~80% of Gol's revenue)
    - Highly exposed to BRL
    - Minimal USD revenue
- Increase in oil prices
- Peak jet fuel prices in BRL
- Harder scenario to keep pricing increase

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

GOLLBZ 7.00% 25s

GOL								
(US$ MM)	LTM	1Q18	4Q17	3Q17	2Q17	1Q17	q/q	y/y
Revenue	$3,384	$913	$917	$860	$695	$825	(0%)	11%
EBITDAR	$846	$274	$234	$218	$120	$192	17%	43%
Cash interest	$147	$46	$28	$59	$14	$65	64%	(29%)
Cash lease	$73	$16	$11	$26	$19	$18	50%	(11%)
Capex	$109	$53	($57)	$62	$50	$41	(194%)	30%
Tax Paid	$67	$17	$21	$6	$23	$19	(22%)	(12%)
Aircraft rents	$290	$73	$70	$73	$75	$77	4%	(6%)
FCF[1]	$160	$69	$160	($8)	($61)	($28)	(57%)	
RASK cents		$7.4	$7.5	$7.2	$6.6	$7.0	(2%)	5%
CASK cents		$6.1	$6.5	$6.3	$6.6	$6.3	(7%)	(4%)
Adjusted Gross Debt[2]	$4,144	$4,144	$4,210	$3,698	$3,774	$3,867	(2%)	7%
LQA Net Leverage	4.2x	3.20x	3.78x	3.83x	7.3x	4.7x		

(US$ MM)	1Q18
Corporate Debt - BRL	$307
Corporate Debt - USD	$1,806
LTM Aircraft Rent x 7 years	$2,032
Adjusted Gross Debt[2]	$4,144
Cash[3]	$634
Adjusted Net Debt	$3,510

(1) Before working capital
(2) Corporate debt + aircraft rent (x7) + operating leases
(3) Cash and equivalents + financial applications + cash held as maintenance / guarantees (excluding Venezuela)

Recent 1Q18 Earnings:

- 1Q18 revenue reached US$913mm (R$3bn), 11% above 1Q17 and 8% higher than consensus in USD terms, despite BRL depreciation of 3%
- RPKs (measure of demand) grew by 4.5% y/y and ASKs increased by 3.3% y/y
- Average fare increased by 10% in USD terms, to US$103 (R$335) and yields improved by 7% in USD
- While RASK increased by 7% y/y, to US$7.4 cents, CASK was 1% lower than 1Q17, to US$6.1 cents, despite WTI increase of 22% over the period
- 1Q18 EBITDAR beat consensus by 20%, 43% higher y/y in USD terms, to US$274mm (R$890mm)
- FCF positive of US$158mm before WK, 136% higher y/y despite capex increase of 30% y/y
- Interest and cash leases paid had welcomed reductions of 29% y/y and 11% y/y
- WK use of US$123mm lead to a FCF of US$35mm
- Adjusted gross debt was 2% lower sequentially, to US$4.1bn, and cash also decreased by 7%, to US$634mm
- Net leverage reached an impressive 3.2x (annualized) and 4.2x (LTM)

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

AZULBZ 5.875% 24s

Azul is a Brazilian airline founded in 2008 by airline mogul, David Neeleman and merged with Trip in 2012. Currently with 18% market share, the company went through a 180 degree turn in capital structure in 2017: IPO and bond issuance put this name on the map. Neutral Q1, solid load factor but needs to adjust capacity expansion or it will be hit in yields. We think Azul and Gol are more similar than they are different and find Gol's value more attractive. Therefore, we assign a Swap recommendation from Azul 24s to Gol 25s.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
AZULBZ 5.875% 24	400	B1/B+/-	85.6	8.9%

PROS:

- 1Q18 increase in average fares in USD terms, solid load factor, lowered investments and interest
    - Leverage stayed at 3.9x (annualized) and 4.3x (LTM)
- Hedging of principal and coupon payments for bonds
- Lower overlapping routes than LATAM and Gol
    - Serving specific hubs, with less coverage
- Strong and solid margins
- Lower governance concerns

CONS:

- Decreasing load factor and capacity expansion plan unrevised
    - Company might need to adjust capacity for its international routes or yields will not be able to follow
- Cash burn after WK due to receivables increase
    - Reduced liquidity
- No significant aircraft equity value

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

AZULBZ 5.875% 24s

AZUL								
(US$ MM)	LTM	1Q18	4Q17	3Q17	2Q17	1Q17	q/q	y/y
Revenue	$2,523	$682	$673	$632	$536	$598	1%	14%
EBITDAR	$764	$211	$205	$201	$148	$180	3%	17%
Cash interest	$64	$8	$15	$30	$12	$39	(48%)	(80%)
Capex	$174	$27	$37	$51	$58	$46	(26%)	(41%)
Aircraft rents	$382	$101	$97	$93	$90	$89	4%	13%
FCF[1]	$145	$75	$56	$26	($12)	$6	33%	1225%
RASK cents		$9.5	$10.4	$9.8	$9.0	$9.4	(8%)	2%
CASK cents		$8.3	$8.9	$8.6	$8.4	$8.3	(7%)	0%
Adjusted Gross Debt[2]	$3,696	$3,696	$3,644	$3,428	$3,564	$3,539	1%	4%
LQA Net Leverage	4.3x	3.9x	3.8x	3.7x	5.3x	4.6x	3%	(15%)

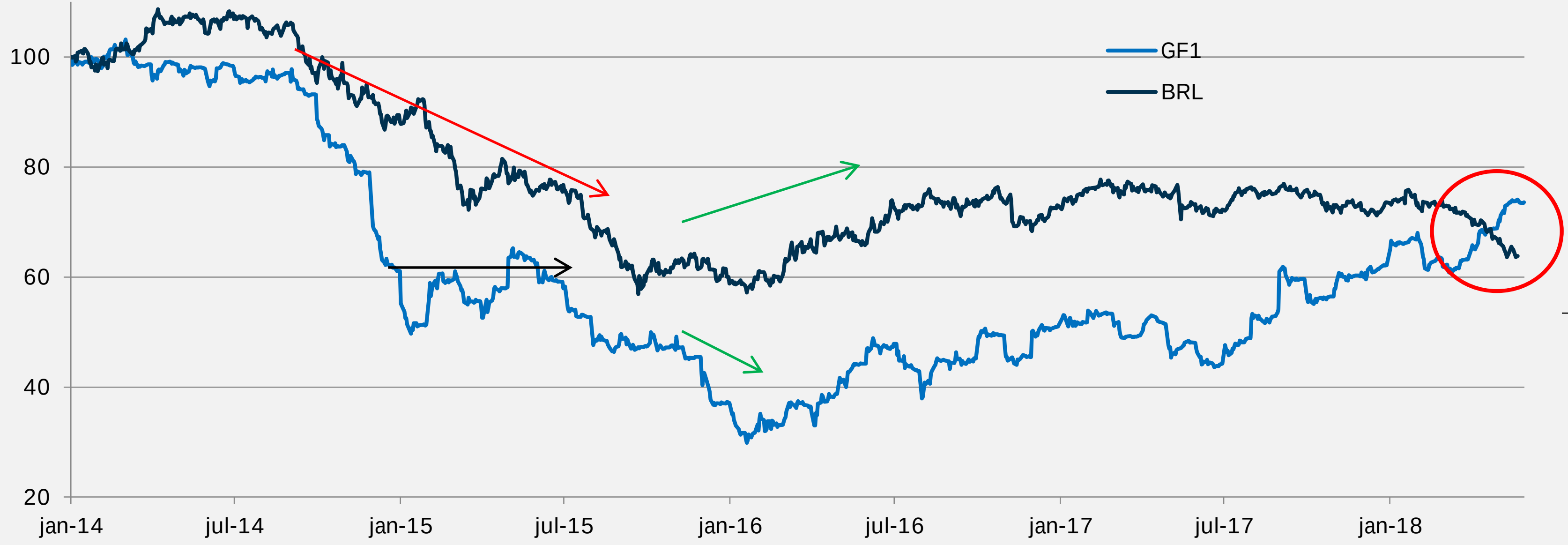
(US$ MM)	1Q18
ST Debt	$176
LT Debt	$849
LTM Aircraft Rent x 7 years	$2,671
Adjusted Gross Debt[2]	$3,696
Cash[3]	$415
Adjusted Net Debt	$3,218

(1) Before working capital
(2) Corporate debt + aircraft rent (x7) + operating leases
(3) Cash and equivalents + financial applications + cash held as maintenance / guarantees (excluding Venezuela)

Recent 1Q18 Earnings:

- 1Q18 revenue was in line with expectations, up 14% y/y in USD terms, to US$682mm, on the back of 15% increase in average fares and 82% load factor
- Passenger traffic (RPKs) increased by 13% y/y and capacity was up 12% y/y, mostly driven by international markets
- Domestic capacity was in line with same period last year while RPKs +1.5%
- RASK increased by 2% y/y, to US$9.5 cents and CASK remained flat y/y, at US$8.3 cents
- 1Q18 EBITDAR followed, 2% higher than consensus and +17% y/y in USD terms, reaching US$211mm
- FCF (before WK) positive of US$75mm, as capex was reduced by 41% y/y and interest was down 80% y/y
    - WK was a US$175mm use, on the back of A/R increase, leading to a US$100mm cash burn
- Adjusted gross debt was virtually stable q/q, at US$3.7bn
- Cash and equivalents, including ST investments, reached US$415mm, 24% lower q/q
- Net leverage had marginal increase in annualized terms to 3.9x from 3.8x last quarter and LTM to 4.3x from 4.2x in Q4
- Subsequent to quarter closing:
    - Azul posted traffic results for April, in which domestic demand was up by 2.7% y/y and capacity by 1.5% y/y, but international increased ASKs by 77% y/y and RPKs by 67% y/y
    - United increased its stake in Azul from 3.7% to 8%, through a private preferred share transaction with Hainan airlines

SWAP (BRAZIL):
AZULBZ -> GOLLBZ



US shale production +13% y/y | Brazil GDP -3.8% y/y | **2.2 mb/d oil oversupply** | Dilma impeached | **OPEC agrees to curb oil production** | Brazil GDP +1% y/y | **10yr Treasury yields going up**

- Fuel and BRL relationship started to show signs of recovery since 1Q16, when spread opened
- However, gap reversed in 2018, as BRL depreciated more than fuel appreciated
- EBITDAR decreases with depreciated currency due to fuel expense in USD
- EBITDAR correlations: **Azul and BRL: 91%, Gol and BRL: 60%;** Latam and CLP: 43%; Avianca and COP: 32%

Numbers start at index 100 in Jan/14

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

JET FUEL IN BRL/L PEAKS

	LATAM	Gol	Azul	Avianca
% of fuel exposure hedged NTM	32%	12%	21% (2Q17)	10%
hedging bonds (principal)	no	no	yes	no
hedging bonds (coupons)	no	no	yes	no
foreign currency options			US$ 544mm	
% revenue in USD	52%	11%	15%	76%
% expenses in USD	56%	47%	53%	78%
% debt in USD	71%	83%	35%	93%

Source: Bloomberg JETIGCPR

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

DEMAND VS SUPPLY – HOW MUCH MORE?

Apr-18 y/y	Demand	Supply	Load Factor
Domestic	**6.3%**	**5.8%**	0.5%
Gol	3.1%	1.3%	1.7%
LATAM	4.3%	4.1%	0.2%
Azul	6.7%	7.0%	(0.3%)
OceanAir	20.7%	22.7%	(1.7%)
International	**16.4%**	**19.0%**	(2.2%)
Gol	(6.9%)	(3.4%)	(3.7%)
LATAM	4.0%	5.2%	(1.2%)
Azul	60.5%	67.3%	(4.1%)
OceanAir	5862.9%	5132.4%	14.0%

1Q18 y/y	Demand	Supply	Load Factor
Domestic	**3.4%**	**2.2%**	1.1%
Gol	2.3%	0.8%	1.5%
LATAM	2.3%	2.1%	0.2%
Azul	2.3%	0.6%	1.7%
OceanAir	11.9%	10.6%	1.1%
International	**16.2%**	**18.8%**	(2.2%)
Gol	22.9%	23.5%	(0.5%)
LATAM	0.5%	1.5%	(1.0%)
Azul	63.6%	72.9%	(5.4%)
OceanAir	6068.2%	6129.3%	(1.0%)

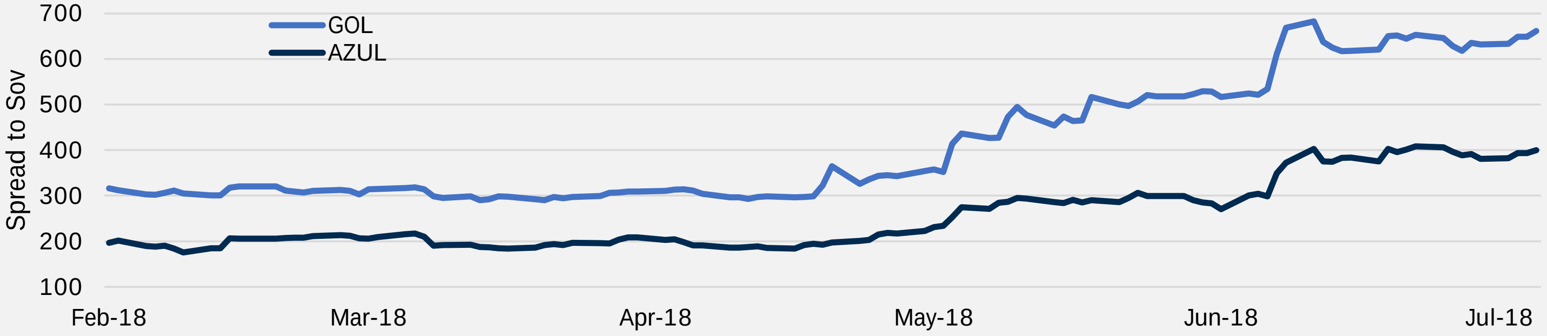
- GOL and LATAM continue to expand domestic demand over supply
    - Gol 2Q18 preliminary numbers show continued trend (load factor +40bps)
- Load factor can be seen as a measure of how much tariff increase can be supported by demand
- Diminishing load factors imply tariffs reaching a ceiling
- Azul continues its expansion plan for 2018, mainly focused on the international market through wide body aircraft
- As BRL depreciation combined with fuel appreciation continues, we think companies will either adjust capacity guidance or will be diminishing yields

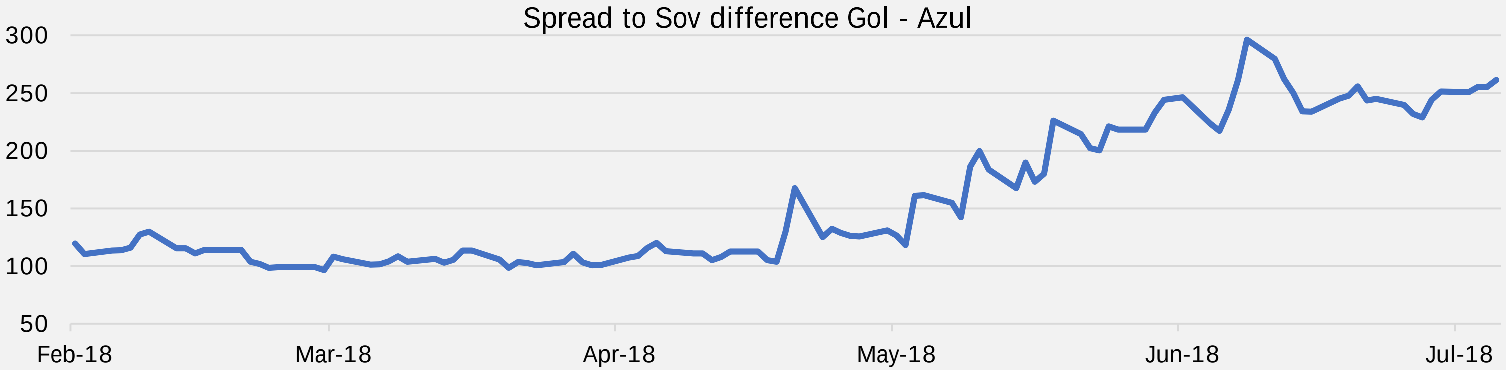
Supply Guidance Increase	2018
Domestic	
Gol	0-2%
LATAM	2-4%
Azul	8-10%
OceanAir	N/A
International	
Gol	6-8%
LATAM	6-8%
Azul	55-60%
OceanAir	N/A

Brazil's GDP growth y/y	
1Q18	1.2%
4Q17	2.1%
3Q17	1.4%
2Q17	0.4%
1Q17	(0.0%)

SWAP (BRAZIL):
AZULBZ -> GOLLBZ

SPREAD TO SOV





MARKET UNDERPERFORM

ARGENTINA

ARCOR 6.625% 23s

BRAZIL

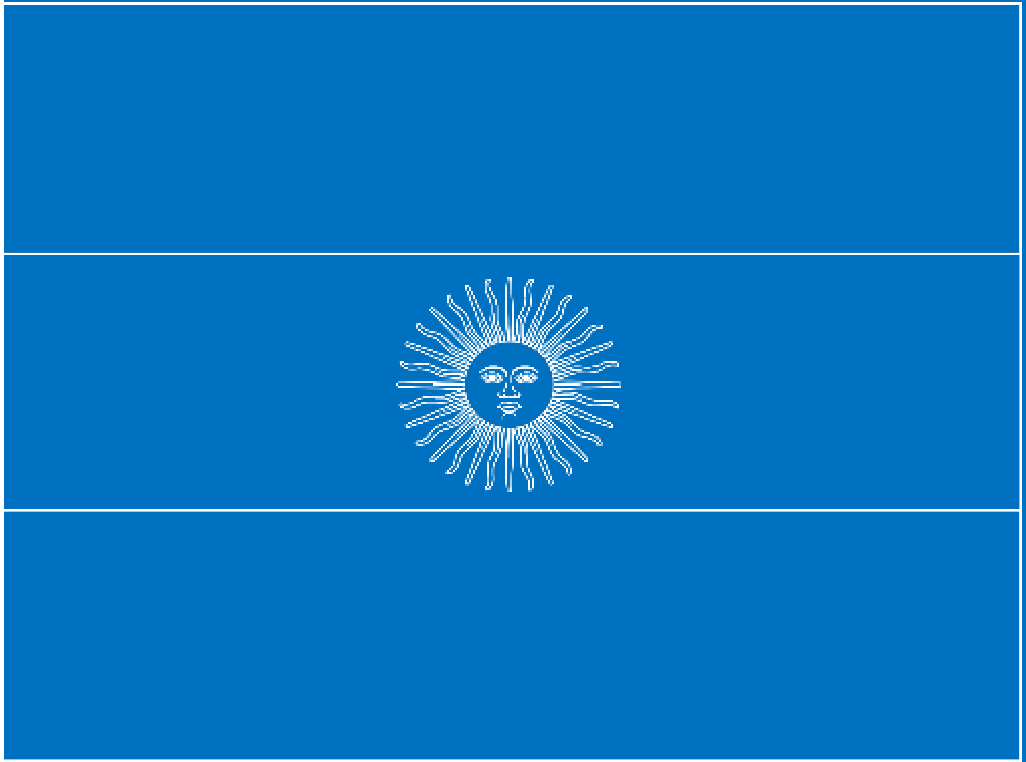
MRFGBZ 8.00% 23s
ODEBRE 6.72% 22s

CHILE

AES 7.75% 24s
CENSUD 4.875% 23s

MEXICO

ALPEKA 5.38% 23s



ARGENTINA

MARKET
UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Arcor is a leading confectionary and food company in Argentina, the largest caramel producer in the world and the main candy exporter of Argentina, Brazil, Chile and Peru. Through Bagley, where Arcor has 51% ownership, the company is one of the market leaders in the cookies and cereal production in Latin America. Further, with the recent agreement with Mastellone, the company will become the main shareholder of the leader dairy producer in Argentina. The company is owned by Luis Pagani.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ARCOR 6% 09/27/2023	$500	Ba3/-/BB+	101.0	5.7%

Pros

- International presence, with 40 plants distributed in Latin America, exporting to more than 120 countries
- Solid brand reputation and recognition
- Vertically integrated. With Zucamor purchase in 2017 the company moved 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 considered more than enough to cover USD debt service

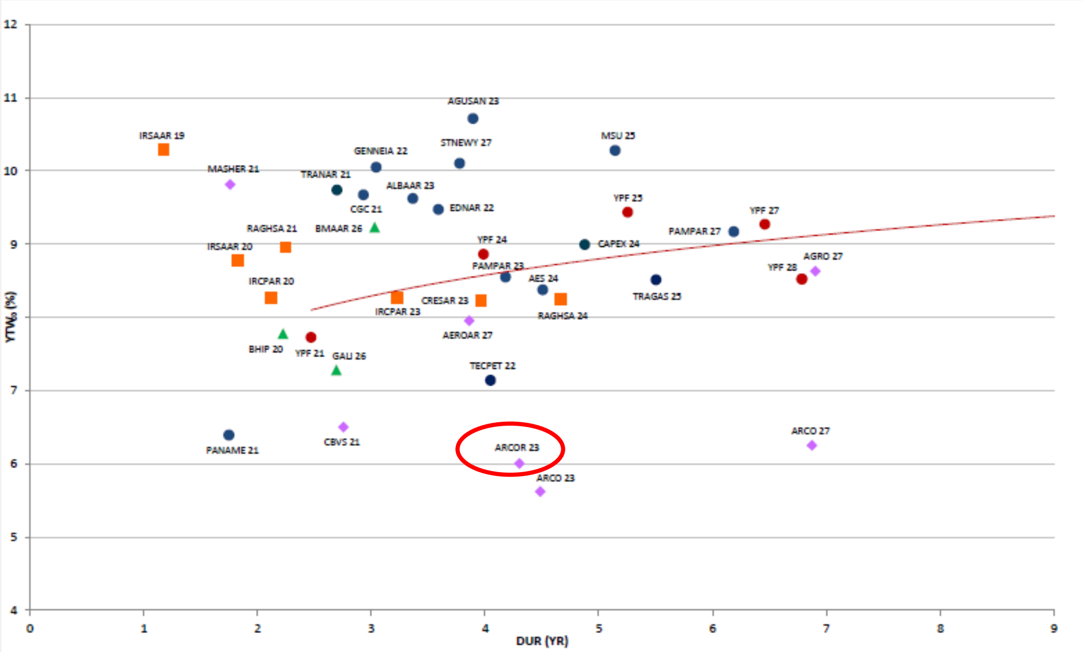
Cons

- Trades significantly inside sovereign
- Most of its plants are based in Argentina. Including exports, Argentina accounts for nearly 70% of revenues and 86% of EBITDA. Only 10% of sales are exported
- F/x risks on local sales, which based in local currency, partially mitigated by exports
- Challenging environment in Brazil, with negative EBITDA in 2015 to 2017, which turn slightly positive in 1Q18
- Mastellone results are subject to volatility of international milk prices and soft demand in Argentina

MARKET
UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Argentine Corporates USD curve



Source: BBG as of 06/29/2018

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Analysis of 1Q18 results

- Revenue increased 39% y/y, or 8% in USD terms, to AR$14.7bn (US$742mm), mainly due to the purchase of Zucamor in Jul-17 and better foreign demand
    - Sequentially, revenue increased 13%, while remaining stable in USD terms
- EBITDA grew 90% y/y to AR$2.1bm (+47% in USD to US$107mm), due to controlled production and SG&A expenses, particularly personnel costs, which grew 31% y/y and account for nearly half of cash costs
- EBITDA margin expanded 390bps y/y to 14.4%
- Free cash flow burn of AR$1.1bn (US$56mm) with strong working capital investments
- Gross debt increased 10% q/q to AR$18.2bn (US$905mm), while LQA net leverage deteriorated to 1.9x from 1.8x one year ago, although improving from 3.5x in last quarter
    - LTM net leverage of 3.2x
- Current stake in Masher is 40.25%
- According to the agreement, until 2020 Mastellone and Dallpoint have put options to sell shares to Arcor but must keep a combined 51% ownership, while after 2020 and until 2025, Arcor will have a call option to own 100% of total capital stock

ARCOR (US$ MM)	LTM1Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Revenues	2,989	744	742	784	719	592
EBITDA	*324*	*107*	*56*	*100*	*61*	73
EBITDA margin	10.9%	14.4%	7.6%	12.8%	8.4%	10.5%
Capex	(257)	(28)	(35)	(152)	(42)	(63)
Working Capital	(55)	(91)	20	(31)	48	(45)
Interest paid	(89)	(29)	(16)	(28)	(15)	(23)
Tax payments	(66)	(15)	(12)	(15)	(25)	(13)
Free cash flow	**(142)**	**(56)**	**14**	**(126)**	**26**	**(72)**
Gross debt	905	905	893	865	796	660
Short-term	251	251	227	214	198	303
Long-term	654	654	666	651	597	357
Cash and equivalents	128	128	144	152	288	123
Net debt	777	777	749	713	507	537
LQA Gross leverage	2.8	2.1	4.0	2.2	3.3	2.3
LQA Net leverage	**2.4**	**1.8**	**3.3**	**1.8**	**2.1**	**1.8**

MARKET
UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

AGREEMENT ARCOR AND MASTELLONE

- Until 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 until 2025, Arcor and Bagley will have call options to own 100% of total capital stock
- Current Arcor ownership is 40.24%
- Purchases:
    - 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 59.8%, total cost will be US$179mm
- Consolidating MASHER and assuming US$179mm will be funded with debt issuance, pro forma net leverage at consolidated 1Q18 debt and EBITDA would be 2.2x (up from Arco's 1.8x at 1Q18)
    - Should the purchase of the remaining stake be funded with own cash generation, pro forma net leverage would be 1.9x
- We acknowledge this transaction is unlikely to happen before 2020. Actual numbers can differ from these calculations

MASHER (US$ MM)	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16
Revenues	290	320	341	373	314	304
EBITDA	19	19	31	32	14	7
Free cash flow	**(10)**	**(43)**	**22**	**25**	**(3)**	**(41)**
Gross debt	203	198	202	196	205	201
Cash and equivalents	43	51	89	65	44	13
Net debt	159	147	113	131	161	188
LQA Gross leverage	2.6	2.6	1.6	1.5	3.7	7.7
LQA Net leverage	**2.1**	**1.9**	**0.9**	**1.0**	**2.9**	**7.2**

ARCOR + MASHER (US$ MM)	1Q18
Revenue	1,034
EBITDA	*126*
Gross debt	1,287 (*)
Cash and cash equivalents	171
Net debt	1,116
LQA Gross leverage	2.6x
LQA Net leverage	**2.2x**

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

BRAZIL

MARKET
UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Marfrig is a multinational company with operations in the food and food service sectors in Brazil and around the world. Current businesses are: (i) Marfrig Beef and (ii) Keystone, US-based poultry products.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
MRFGBZ 8.00% 06/08/2023	$1,000	B2/ B+/ BB-	101.7	7.6%

Recently, Marfrig announced a couple of transactions that will affect current structure: the acquisition of 51% US National Beef for US$969mm, funded by a bridge loan expected to be repaid by the sale of Keystone. Marfrig's leverage could drop below 3x on a consolidated basis pro forma for the transaction. While optically reducing leverage, we are skeptical on positive cash generation and prospects for successful integration. We think history can repeat itself – strategic assets that despite solid market positions, increased WK needs, had integration challenges, and limited bank availability forced the group to review and retrench. Keystone seems to be the one acquisition playing out favorably, yet why the sudden shift from a high multiple IPO to a strategic sale? As we piece together the proposed transaction details, we maintain our Market Underperform recommendation on MRFGBZ23s.

PROS:

- We acknowledge that a sale of Keystone may be seen as a credit positive
    - Strategic buyers are rumored to have offered around US$3bn
- Marfrig's pro forma net leverage could reach below 3x
- Given the very weak consolidated fundamentals, we see a lot of optimism already in the bond price

CONS:

- Weak 1Q18 results: margins stood below peers in the quarter and we estimate consolidated LQA net leverage reached 6.0x
    - Our longstanding concerns on fundamental credit weakness at beef were confirmed, where Marfrig's chronic cash shortage originates.
    - Cash financial expenses nearly equal cash interest charges
- We estimate pro forma numbers after Keystone sale and National Beef acquisition would still burning cash
- Prospects for margin erosion in Brazil due to increased capacity
- According to local press (Epoca Magazine), Marfrig's owner admitted (without a plea bargain) to third party payments in order to access loans from state bank, Caixa Economica Federal

MARKET UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Consolidated Results 1Q18

- 1Q18 revenue was up 21% y/y, beating consensus by 18%, to US$1.6bn, driven by higher beef exports
- 1Q18 adjusted EBITDA was US$108mm, falling 2% behind consensus but up 2% y/y
    - Margins were lower throughout the sector, but particularly low at Marfrig, reaching 6.8% vs JBS 7.0%, Minerva 8.1% and BRF 9.8%
        - Marfrig's margins were down by 249bps q/q and 126 bps y/y
        - Minerva's margins were down by 110bps q/q and 115 bps y/y
        - JBS' margins were down by 47bps but up 132bps y/y
        - BRF's margins were up both q/q and y/y, by 253bps and 248bps, respectively
- We estimate FCF positive before WK, as interest paid in beef was down 65% y/y and cash from financing activities from Keystone was positive
    - We note that stated interest expense was R$203mm in Marfrig's simple cash flow from earnings release
    - Cash burn after WK, due to lower payables, despite reductions in A/R and inventories

Marfrig Consolidated (US$ MM)	1Q18	BBG Consensus	+/-	4Q17	1Q17	q/q	y/y
Revenue	1,587	1,342	18%	1,631	1,316	(3%)	21%
EBITDA	108	110	(2%)	152	106	(29%)	2%

Marfrig Consolidated (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	4,524	3,753	3,793	21%	19%
Cash	1,936	1,329	1,827	46%	6%
Net Debt	2,588	2,423	1,966	7%	32%
Leverage (Total Debt /LQA EBITDA)	10.47	6.18	8.93		
Net Leverage (Net Debt /LQA EBITDA)	5.99	3.99	4.63		

- Net debt increased 7% q/q to US$2.6bn
- We estimate combined gross debt stood at US$4.5bn, up US$770mm q/q with growth mainly due to net new borrowings that also increased cash position by 46% q/q, to US$1.9bn (+46% q/q)
    - In January 2018, Marfrig placed US$60mm 10-year senior notes at a 5.82% interest rate with local investors in Uruguay, through a subsidiary, Cledinor
    - In addition, in January, Marfrig raised US$1bn 7-year new senior notes with a 6.875% coupon
    - Through tender offers, the company repurchased US$429mm in 2018 and 2019 notes
- We estimate 6.0x LQA consolidated net leverage, including Keystone's debt, soaring from 4.0x in 4Q17

MARKET
UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Continued vs. Discontinued Operations 1Q18

- Given the anticipated sale of Keystone, it has been categorized as discontinued operations
- We can now see beef and Keystone standalone financial results
- The persistent cash burn we have highlighted for Marfrig for quite some time appears centered in the beef operations according to the standalone financials
- Beef appears to be highly leveraged, with thin margins and persistent cash burn driven by cash "financial expenses" which exceed cash interest expenses and the origin of which is not clear
    - Once accounting for the added burden of these cash financial expenses, cash flow cannot meet the capex and interest obligations
- Using simplified FCF calculations, discontinued ops indicate that Keystone is close to FCF breakeven, negatively affected in Q1 by WK expansion (named as "changes in equity" in financial statements)
- However, our analysis is incomplete due to changes in cash flow statement headings have and an unexplained R$534mm outflow in "cash from operations" in discontinued operations

Marfrig Beef (US$ MM)	1Q18	1Q17
Revenue	908	651
Adjusted EBITDA	54	41
Interest	(31)	(88)
Capex	(34)	(18)
FCF before WK	(11)	(66)
WK variation	(21)	34
FCF after WK	(32)	(32)
EBITDA Margin	6.0%	6.4%
Gross Debt	3,688	3,281
Cash	1,772	1,827
Net Debt	1,916	1,454
LQA Leverage	17.0	19.8
LQA Net Leverage	8.9	8.8

Keystone (US$ MM)	1Q18	1Q17
Revenue	679	667
Adjusted EBITDA	54	65
Cash used in financing activities	10	(10)
Cash used in investing activities	(16)	(10)
FCF before WK	48	45
WK variation	(44)	(53)
FCF after WK	5	(7)
EBITDA Margin	8.0%	9.7%
Gross Debt (BCP estimate)	836	512
Cash (BCP estimate)	164	-
Net Debt (BCP estimate)	672	512
LQA Leverage	3.9	2.0
LQA Net Leverage	3.1	2.0

Consolidated (US$ MM)	1Q18	1Q17
Revenue	1,587	1,318
Adjusted EBITDA	108	106
Interest	(21)	(98)
Capex	(50)	(28)
FCF before WK	38	(20)
WK variation	(65)	(19)
FCF after WK	(27)	(39)
EBITDA Margin	6.8%	8.1%
Gross Debt (BCP estimate)	4,524	3,793
Cash (BCP estimate)	1,936	1,827
Net Debt (BCP estimate)	2,588	1,966
LQA Leverage	10.5	8.9
LQA Net Leverage	6.0	4.6

MARKET UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Adjusted EBITDA vs Operating Cash Flow

- Management guidance is coherent – provided EBITDA will represent cash generation
- As per below, we see large finance related cash expense which drive OCF to half of stated EBITDA levels on average
- If this dynamic continues, we think management FCF guidance will be challenging to achieve – yet again

Marfrig Beef (US$ MM)	1Q18	1Q17
Stated EBITDA	54	41
Net Income + Non-Cash Items	8	(28)

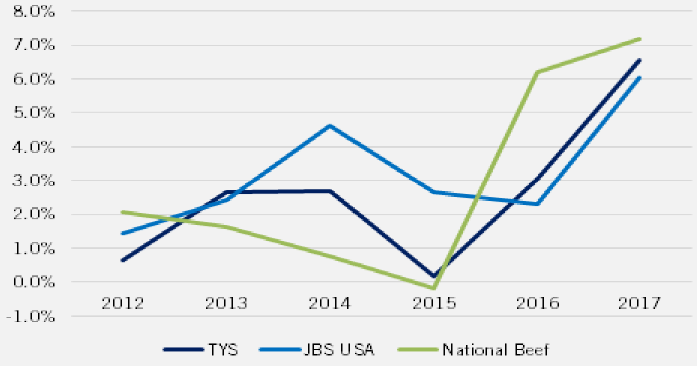
Keystone (US$ MM)	1Q18	1Q17
Stated EBITDA	54	65
Net Income + Non-Cash Items	41	62

- **On average, net income +/- by non cash items is half of adjusted EBITDA**
- **EBITDA has proven to be an inaccurate measure of cash flow generation**

Implied Funding Cost

Marfrig Beef (US$ MM)	1Q18
Financial Result ex exchange variation (from Income Statement)	(128)
Non Cash Interest Expenses (from Cash Flow Statement)	83
Implied Cash Financial Expense (Income Statement)	(45)
Interest Paid (from Cash Flow Statement)	(31)
Total Cash Interest and Financial Expense	**(76)**

Historic US Beef Margins



MARKET UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

National Beef

- For the transaction, National Beef was valued at US$2.3bn, with a 4.4x TEV multiple
- In 2017 National Beef had US$7.3bn in revenue
- Combined annual revenue of R$43bn and pro forma EBITDA of R$3.4bn, double from what Marfrig achieved in 2017
- As it will consolidate 100% of National Beef's results, Mafrig's net leverage will be reduced from 6.0x (LTM) to 4.0x
  - Target for year end remains at 2.5x but includes sale of Keystone
- Transaction will be funded by a US$900mm bridge loan from Rabobank borrowed at the new holding entity, in addition to US$100mm increased term loan at Keystone
- Shareholder Leucadia, will remain in the structure, selling its stake down from 79% to 31%
- We note that like peers TSN and JBS USA, National Beef margins have expanded significantly in the best operating environment of the past five years
- Given the cyclicality of the sector, we also have looked at five year averages for implied TEV and FCF calculations
- National Beef's 2017 margin was 7.2%, above peers
  - With that, we estimate US$451mm in FCF before WK in 2017
  - Using the five year average for EBITDA margin, cash flow would have been 66% lower, approximately US$153mm
  - Implied TEV multiple of 10x using five year average margins

Keystone Sale

- Estimated FCF (pre WK) generation would remain negative in our view, driven by 49% minority interest at National Beef and our assumption that "Cash Financial Expense" would remain burdensome
  - In our FCF calculations, we include Cash Financial Expense, which has been a consistent feature of Marfrig results for the last several years
  - Typically, this expense has resulted in Operating Cash Flow equaling only half of stated EBITDA
  - If the Keystone sale is completed, we see Marfrig returning to cash burn, despite peak beef margins
  - We are assuming taxes paid using three year average and Keystone's capex as 3.5% of sales, average in the poultry sector

Past Transactions

- In 2009, when Marfrig acquired Seara from Cargill, the poultry business became a pivotal element in Marfrig's strategy to strengthen its product portfolio
- Along with Seara came soaring WK needs, leading to a steep cash drain
- Seara was sold to JBS in 2013
- Similar story happened with Moy Park, leading to a sale from Marfrig to JBS in 2015
- Keystone was acquired in 2010, corresponding in 2017 to 50% of Marfrig's consolidated EBITDA
- Together with the news of acquiring National Beef, management suddenly revised its long held strategy of an IPO to a strategic sale of 100% of Keystone to repay the bridge loan

MARKET UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Pro Forma Adjustments for Proposed Transactions - DELEVER WITH NO EQUITY OR CASH FLOW?

- Below, we estimate the impact of the proposed sale of Keystone and acquisition of 51% of National Beef
- Keystone sale:
- Using a 10x multiple and recent quarter EBITDA, we see US$2.2bn TEV. However, news indicate a US$3bn transaction, with potential buyers such as Cargill and Tyson
- We acknowledge a successful sale would boost liquidity position, even after repayment of bridge loan related to the planned National Beef acquisition and Keystone's debt
- Based on a sale at 10x recent EBITDA, a US$2.2 bn TEV. After accounting for our estimate for Keystone net debt, proceeds to Marfrig would be approximately US$1.5 bn
- Marfrig is proposing to acquire 51% of National Beef through a US$969mm bridge loan
- We estimate pro forma "pro rata" leverage of 2.8x and US$7mm quarterly cash burn assuming completion of both transactions
- Nevertheless, using five year average margins for National Beef, "pro rata" leverage would increase to 4.1x and quarterly cash burn of US$22mm before WK and US$44mm after WK

(US$ MM)	Marfrig Beef	Keystone	Consolidated 1Q18	National Beef - Quarter Estimate (Peak Margins?)	Pro Forma - including NB	Pro Forma - 51% of NB	After Keystone sale[1]	After Keystone sale and NB five year margins
Revenue	908	679	1,587	1,782	3,368	2,495	1,817	1,817
Adjusted EBITDA	54	54	108	128	236	173	119	82
Interest	(31)	10	(21)	(8)	(29)	(25)	(35)	(35)
Capex	(34)	(16)	(50)	(70)	(120)	(86)	(70)	(70)
FCF before WK	(11)	48	38	49	87	63	15	(22)
WK variation	(21)	(44)	(65)	-	(65)	(65)	(21)	(21)
FCF after WK	(32)	5	(27)	49	22	(2)	(7)	(44)
EBITDA Margin	6.0%	8.0%	6.8%	7.2%	7.0%	6.9%	6.6%	4.5%
Gross Debt	3,688	836	4,524	220	5,713	5,605	3,800	3,800
Cash	1,772	164	1,936	-	1,936	1,936	2,455	2,455
Net Debt	1,916	672	2,588	220	3,777	3,669	1,346	1,346
LQA Leverage	17.0	3.9	10.5	0.4	6.1	8.1	8.0	11.5
LQA Net Leverage	8.9	3.1	6.0	0.4	4.0	5.3	2.8	4.1

MARKET UNDERPERFORM (BRAZIL):

ODEBRE 6.72% 22s

Odebrecht Offshore Drilling Finance finances projects for building oil and gas related infrastructure, including rigs, platforms and other subsea operations. ODEBRE 22s were issued for the purpose of financing the construction of four ultra-deep water. After 2017 restructuring, the bond's principal were split between senior and subordinated tranches

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ODEBRE 6.35% 10/01/2022	$459	-/CCC+/-	91.0	11.9%

PROS:

- Notes backed by three ultra-deep water rigs
- After recent restructuring and the new structure of senior/junior tranches, debt burden for the senior tranche eased. Junior principal and most of its coupon will not be paid during lifetime of senior tranche
- Recovery of Brent prices should help revitalize the drilling industry and ease concerns over possible declines in dayrates
- We have not seen any signs of Petrobras intending to cancel any of the remaining contracts. We do not think Petrobras wants to rely solely on multinational contractors.

CONS:

- Out of the four original contracts, only two are currently operating, with one platform having been sold for scrap and other one (Norbe VI) currently idled
- We estimate if the Norbe VI drillship does not get re-chartered within a year, the company will not be able to service the capital amortization of the senior tranche and bondholders will need to liquidate the collateral (sell the drillships) to get full principal repayment
- Per Petrobras, all future contracts will be made through public auction, with no timing currently announced, which increase concerns over Norbe VI being idled for longer than expected
- Despite recovery in crude prices we have not seen yet an increase in platforms contracted or new platforms being built. There are still several rigs idled and stacked around the world
- Petrobras can cancel the contracts: in the past, Petrobras cancelled Tay IV rig contract and the platform was sold for scrap. Any immediate termination of the contracts, though unlikely in our view, will result in substantial downside.

MARKET
UNDERPERFORM (BRAZIL):

ODEBRE 6.72% 22s

STRUCTURE AFTER 2017

New Instruments	Old ODEBRE 21s	Old ODEBRE 22s
Senior Bonds (US$mn)	500	506
Current amount outstanding (US$mm)	393	483
Coupon	Cash 6.35%	Cash 6.72%
Amortization	Quarterly	Quarterly
Maturity	2021	2022
Subordinated Bonds (US$mn)	590	1,390
Current amount outstanding (US$mm)	628	1,455
Coupon	7.35%	7.72%
Minimum Cash Interest during Senior amortization (remaining coupon during lifetime of senior tranche is PIKed)	1%	1%
Amortization	Variable based on ECF starting after maturity of Seniors	
Maturity	2026	2026

CURRENT DAYRATES 22s

	Charter (US$k)	Service (BRLk)
ODN I	335	109
ODN II	335	109
Norbe VI	Idled	Idled

Last dayrates of Norbe VI: US$210k charter and BRL450k service

Contract maturities
ODN I: Sep-22
ODN II: Oct-22

MARKET
UNDERPERFORM (BRAZIL):

ODEBRE 6.72% 22s

CASH FLOW PROJECTION IF NORBE VI DOES NOT GET RE CONTRACTED

	Revenue	Opex	Capex	OCF	Coupon T1	Coupon T2	Mgmt fees	Amortization		Outstanding	IRR @ 88c
	USDk/day (*)				USDK/day			Per prospect	OCF - Coupon	US$mm	10.0%
											US$mm
TODAY											(403)
9/1/2018	568	259	90	219	84	-	-	24	12	435	17
12/1/2018	568	286	60	222	80	-	-	24	13	411	20
3/1/2019	568	279	40	249	76	-	-	13	16	399	19
6/1/2019	568	279	40	249	73	-	-	13	16	386	19
9/1/2019	568	279	40	249	71	-	-	9	16	377	16
12/1/2019	568	279	40	249	69	-	-	9	16	368	15
3/1/2020	562	286	34	242	68	-	-	32	16	352	22
6/1/2020	562	286	34	242	65	-	-	32	16	336	22
9/1/2020	562	286	34	242	62	-	-	35	16	320	22
12/1/2020	562	286	34	242	59	-	-	35	16	304	22
3/1/2021	636	283	22	332	56	-	-	35	25	279	30
6/1/2021	636	283	22	332	51	-	-	35	25	254	30
9/1/2021	636	283	22	332	47	-	-	35	26	228	30
12/1/2021	636	283	22	332	42	-	-	35	26	202	30
3/1/2022	570	303	87	180	37	-	-	24	13	189	16
6/1/2022	570	303	87	180	35	-	-	24	13	176	16
9/1/2022	570	303	87	180	32	-	-	22	13	163	16
12/1/2022	570	303	87	180	30	-	-	25	14	149	165

(*) 2/3 of ODEBRE cashflow projections

At US$100mm value per rig we estimate 2 out of 3 rigs need to be sold for full principal repayment

CHILE

MARKET
UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

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 5,813MW it is the second largest electricity generation group in Chile in terms of generation capacity with 30% of share, and with a market cap of US$2.2bn.

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
AES 5.00% 07/14/2025	$172	Baa3/BBB-/BBB-	100.0	5.0%

Pros

- Geographical diversification with operations in Chile, Colombia and Argentina, though Chile accounts for 73% of EBITDA
- Diverse portfolio of generation assets, including hydrological 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 prices constantly review for changes in fuel prices
- Sound customer base, particularly mining companies in the SING (Northern Chile)
- Migrating energy mix with commitment to complete Alto Maipo, moving towards renewable resources although still highly dependent on coal generation

Cons

- Possible rating downgrade as a result of deteriorating credit metrics and Alto Maipo delays
- Most of the company's generation in Chile is from coal plants, subject to coal prices, where increases might not be passed-through to customers
- Increase in energy generation from renewable sources in Chile (mostly solar) could lead to downward pressure on bid prices for Chilean regulated contracts (25% of consolidated revenue, mostly SIC system), and with unregulated customers (45% of consolidated revenue, mostly SING system) renegotiating lower prices.
- Last public bid awarded regulated contract at historical low prices (US$25.4/MWh), nearly half the price of previous bid.
- 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

MARKET
UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

AES GENER 1Q18	EBITDA
Chile	73%
Colombia	22%
Argentina	5%

73% 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 1Q18 revenue: 57% unregulated customers, 42% 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)	4Q17	2017	2016	2015	2014
SIC	37.7	57.0	61.0	88.6	131.0
SING	58.7	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 - UPDATE

- 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 65% of project completed
- COD Las Lajas and Alfalfal II are expected to be done by 2020

MARKET
UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

ALTO MAIPO – RATING AGENCIES ACTIONS

Rating action followed:

- Moody's lowered its outlook from stable to negative
- Fitch Ratings placed AES Gener on Negative Rating Watch
  - Maintained negative watch Jan-2018

Rating Agencies Timeline:

FITCH AUGUST 2017

- Given aggressive 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 re-contracts at prices significantly below US$60/MWh (2018 real prices) is also likely to trigger downward pressure on the rating

FITCH JANUARY 2018

- Fitch maintained negative watch awaiting final decision on Alto Maipo – negative watch won`t be reviewed until a conclusion has been announced
- Though, acknowledged agreement with Strabag has been a positive development for the project

FITCH MAY 2018

- Fitch removed negative watch following completion of Alto Maipo's restructuring process – seeing commitment to complete project with no additional debt at the corporate level as a positive

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 Gener's 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

MARKET
UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

Summary of 1Q18 results:

- 1Q18 revenue increased 18% y/y, down 1% q/q to US$656mm, mainly driven by higher sales volume in non regulated contracts in Chile and higher prices in Colombia and Argentina
- 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)
- Chilean operations revenue increased 14% y/y, though down 17% q/q, as increase in non-regulated contracts associated to the consolidation of subsidiaries Angamos and Cochrane were partially offset by lower volumes in regulated contracts and lower prices in the spot market
- EBITDA increased 10% y/y, down 10% sequentially to US$208mm
- 1Q18 EBITDA : 73% Chile, 22% Colombia and 5% Argentina
- Weaker sequential EBITDA increased net and gross leverage (LQA) to 4.2x and 4.5x, from 3.7x and 4.0x in 4Q17, although improving from 5.0x and 4.4x in 1Q17
- LTM net leverage stood at 4.3x
- Rating agencies expects company to present gross leverage below 4.0x-4.5x
- AES Gener followed divestment plan announcing the sale of 750MW worth of assets under ESSA for US$300mm (per company ESSA generates about US$20mm in EBITDA p/ year)
- Expected to close the deal in May as proceeds will be used to pay debt
- Reducing debt by US$300mm and EBITDA by US$20mm results in pro-forma LQA gross leverage reduction of 0.2x to 4.3x
- Launched process to sell part of its transmission assets (316kms), expected to close 2H-2018 (per company Transmission lines being negotiated generates about US$17mm in EBITDA p/ year)

AES GENER (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Revenue	656	665	557	(1%)	18%
EBITDA	208	231	189	(10%)	10%
EBITDA Margin	31.7%	34.8%	33.9%		

AES GENER (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	3,749	3,741	3,802	0%	(1%)
Cash	235	276	507	(15%)	(54%)
Net Debt	3,514	3,465	3,295	1%	7%
Leverage (Total Debt / LQA EBITDA)	4.5	4.0	5.0		
Net Leverage (Net Debt / LQA EBITDA)	4.2	3.7	4.4		

AES GENER (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Adjusted EBITDA	208	231	189	(10%)	10%
- capex	125	115	118	9%	6%
- interest	15	69	30	(78%)	(49%)
- taxes	38	5	7	720%	426%
FCF (pre WK)	**30**	**43**	**34**	(31%)	(12%)

MARKET
UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

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$6.8bn

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CENSUD 4.875% 01/20/2023	$943	Baa3/-/BBB-	100.9	4.7%

Pros

- Multi-format, multi-brand with geographical diversification (operates in 5 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 (US$1bn)
- High-level of unencumbered assets
- Around 80% of USD debt is hedged

Cons

- Investment grade status might be threatened if management fails to reduce leverage in 2018
- Slow economic growth in Latin America and high inflation in markets such as Argentina
- 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
- Postponement of shopping malls IPO, that could've accelerated deleveraging
- LTM net leverage at 4.3x, within trigger levels for downgrade
- Recent weaker economic environments, and currency weakness in Brazil and Argentina may post threats to successful assets divestments

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
  - Not specified which assets will be sold yet
- Company estimates 2.4x net leverage by end 2018
- At 1Q18 gross and net debt and 2018 guided EBITDA, gross and net leverage equals 4.6x and 4.2x respectively
  - Accordingly, deleveraging is dependent on the company's commitment to divest US$1bn in non-core assets
- Announced the sale of 51% of the financial business in Peru to Scotia Bank for US$100mm, setting a JV, still pending regulatory approval (expected 2H18)
- Company also completed CLP4.8bn in landbank sales for the period and US$4.6mm on additional property sales

Factors that could lead to negative rating action:

FITCH JULY 2017

- Sustained negative FCF
- Group's EBITDA margin consistently below 7% (LTM at 8.5%)
- Adjusted gross leverage - excluding banking operation (Banco Peru) sustained above 4.5x (LTM at 4.3x)

MOODY'S JULY 2017

- Leverage remains high over a prolonged period, such that adjusted Debt/EBITDA remains above 4.0 times and/or if the company's operating performance experiences a significant deterioration

PEER COMPARISION	CENCOSUD	FALABELLA	IRSA
Coupon	4.875%	3.750%	8.750%
Maturity	2023	2023	2023
Amount (US$ MM)	943	500	360
Mid-Yield	4.66%	4.24%	8.74%
Rating(M/SP/F)	(Baa3/-/BBB-)	(-/BBB+/BBB+)	(-/B+/B+)
Spread to Sovereign	130	88	161
Country	Chile	Chile	Argentina

1Q18 (US$ MM)	CENCOSUD	FALABELLA	IRSA
Revenue	4,023	3,634	52
EBITDA	304	492	36
EBITDA Margin	8%	14%	69%
Free Cash Flow	47	170	(13)
Gross Debt	5,297	5,982	538
Cash	443	362	336
Net Debt	4,854	5,619	201
LQA Gross Leverage	4.4	3.0	3.7
LQA Net Leverage	4.0	2.9	1.4

MARKET
UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Summary of 1Q18 results :

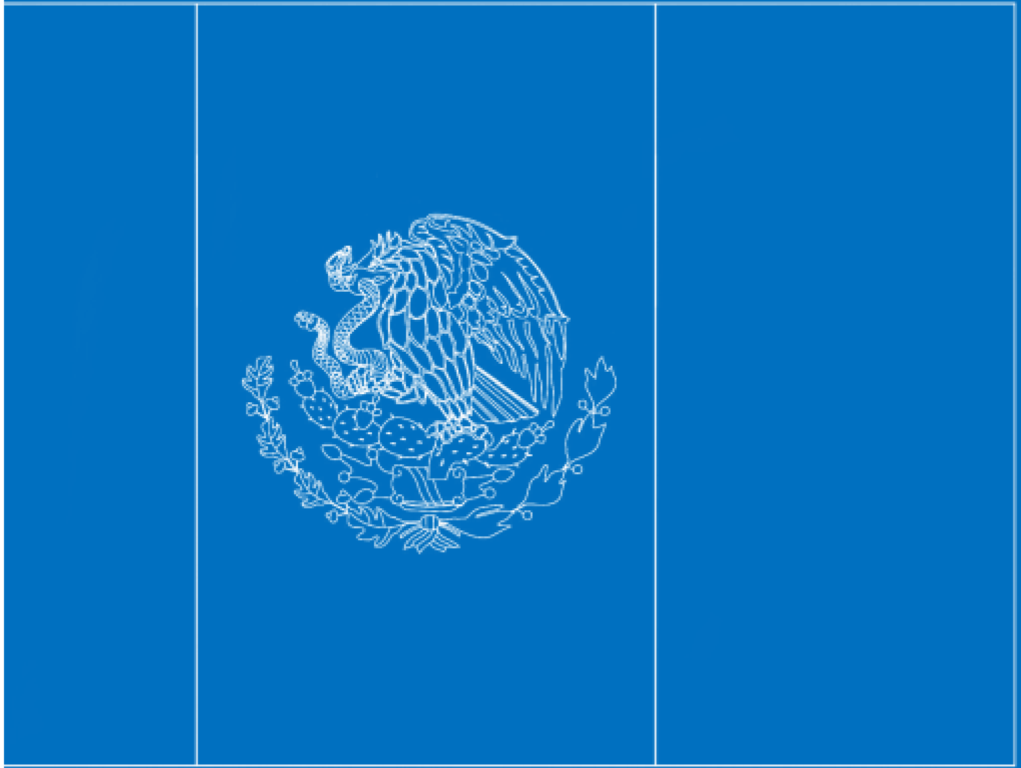
- Revenue decreased 4% y/y, in line with consensus, to CLP2,422bn (US$4bn), mainly due to CLP depreciation in the period, at constant FX rate, revenue increased 7% y/y on good performances from Chile and Argentina
- Brazil's operation continues to challenge the company on another down quarter, revenue down 13% y/y
- Adjusted EBITDA increased 7% y/y to CLP183bn (US$304mm), beating consensus by 9%
- Weak demand, food deflation, currency devaluation and closure of 11 stores y/y, all contributed for another down quarter in Brazil, Adj. EBITDA at negative at CLP10bn (US$18mm), down 57% y/y
- FCF (pre WK) positive, at CLP28.4bn (US$47mm), an improvement from 1Q17 given higher EBITDA
- LTM Gross and net leverage remained practically stable q/q, at 4.5x and 4.1x, respectively
- If US$100mm is fully used to repay debt, gross leverage falls to 4.4x LTM
- At 1Q18 gross and net debt and 2018 guided EBITDA (US$1,188mm), gross and net leverage equals 4.6x and 4.2x, above trigger levels for a downgrade
- Accordingly, deleveraging is dependent on the company's commitment to divest US$1bn in non-core assets
- Cencosud announced the sale of 51% of the financial business in Peru to Scotia Bank for US$100mm, setting a JV with the company in that segment, still pending regulatory approval (expected 2H18)
- Company also completed CLP4.8bn in landbank sales for the period and US$4.6mm on additional property sales
- Weaker economic environments, mainly in Brazil and Argentina may post threats to successful assets divestments

Cencosud (CLP MM)	1Q18	BBG Estimate	+/-	4Q17	1Q17	q/q	y/y
Revenue	2,422,805	2,410,000	1%	2,849,851	2,523,563	(15%)	(4%)
Adjusted EBITDA	183,161	168,300	9%	241,319	171,229	(24%)	7%
EBITDA Margin	7.6%	7.0%		8.5%	6.8%		

Cencosud (CLP MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	3,198,605	3,170,185	3,212,883	1%	(0%)
Cash and Cash Equivalents	267,295	362,820	312,301	(26%)	(14%)
Net debt	2,931,310	2,807,365	2,900,582	4%	1%
Leverage (Total Debt / LTM EBITDA)	4.5	4.5	4.3		
Net Leverage (Net Debt / LTM EBITDA)	4.1	4.0	3.9		

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

Cencosud (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
EBITDA	183,161	241,319	171,229	(24%)	7%
- capex	42,367	59,098	42,461	(28%)	(0%)
- interest	81,853	36,667	82,281	123%	(1%)
- taxes	30,508	26,801	29,955	14%	2%
FCF (before WK)	28,433	118,753	16,532	(76%)	72%



MEXICO

MARKET UNDERPERFORM (MEXICO):

ALPEKA 5.38% 23s

ALPEK is one of the largest polyester producers in North America. Alpek's total debt has increased significantly as profitability declined, straining FCF and coupled with heavy capital commitments of nearly US$1 bn. Current cash levels will finance a Brazil acquisition and current FCF generation seems insufficient to cover the balance. The company expects to prevent a potential IG downgrade through asset sales. We highlight the underperform call is more focused on ALPEKA 23s trading tight to the sovereign, with the added uncertainty of Mexico's economy and US rates – rather than the potential downgrade risk.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
ALPEKA 5.38% 08/08/2023	$300	Baa3/BBB-/BBB-	101.3	5.1%

Pros

- Alpek is one of the largest polyester producers in North America with 23 plants across Mexico, Canada, the US, Brazil, Chile and Argentina
- Sole supplier of propylene in Mexico
- About 1/3 of the total PET/PTA installed capacity is based in the US
- As of 1Q18, 68% of the total revenues were exports
- 90% of products focused on food, beverages and consumer goods
- Natural hedge as products follow international pricing
- Ongoing growth capex plans and engaging in strategic acquisitions
- The conglomerate Alfa has an 82% stake in Alpek
- Already in "due diligence" talks to monetize the two cogeneration plants

Cons

- Exposed to a cyclical business nature and dependent on the global economy, including oil and energy prices
- Dependent on Pemex supply for natural gas in Mexico
- Profitability margins are below domestic and international competitors
- An adverse NAFTA scenario would impact ALPEK as most revenues are exports with the US accounting for 44% of FY17 revenues
- Continued high capex and divided burdens
- Total debt increased significantly in 2017 to US$1,746 mm (47% y/y)
- High capital commitment pipeline for US$925 mm, excluding any future growth capex plans:
    - US$385 mm for the Brazil acquisitions payable at closing date
    - US$375 mm for a 33% stake in an incomplete M&G plant
    - US$165 mm in additional capex to complete the M&G plant
- Alpek committed US$160 mm in secured loans provided to M&G Mexico in order to restart operations after the 3Q17 stoppage

MARKET
UNDERPERFORM (MEXICO):

ALPEKA 5.38% 23s

Recent 1Q18 Earnings:

- 1Q18 Revenue increased by 18% y/y to US$1,532 mm, beating the BBG consensus by 8%
  - Polyester revenue increased by 21% y/y to US$1,109 mm, increasing by 19% q/q as well
    - Polyester revenues were driven by double digit increases in feedstock pricing both y/y and q/q as well as normalized M&G Mexico operations
  - Plastics and chemical sales increased by 13% y/y to US$423 mm, increasing by 9% q/q also due to higher pricing
  - Furthermore, revenue growth was driven by a 28% y/y increase in foreign sales to US$1,049 mm
- Adj. EBITDA increased by 30% y/y to US$170 mm, beating the BBG consensus by 6%
  - EBITDA growth was driven entirely by the Polyester business in line with higher revenues and improvement in margins due to higher feedstock pricing
- EBITDA margin improved to 11%, compared to 9% during last quarter and 10% during 1Q17
- FCF was US$41 mm, but including the acquisitions capex, FCF was US$7 mm
  - Working capital expanded due to trade receivables

ALPEK (US$ MM)	1Q18	BBG Concensus	% dif	4Q17	1Q17	q/q	y/y
Total Revenue	1,532	1,417	8%	1,321	1,293	16%	18%
Adj. EBITDA	170	161	6%	124	131	37%	30%
EBITDA margin	11%	11%	-	9%	10%	-	-

ALPEK (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Total Debt	1,710	1,746	1,301	(2%)	31%
Cash & Equivalents	440	484	126	(9%)	249%
Net Debt	1,270	1,262	1,175	1%	8%
Total Debt / LQA EBITDA	2.5x	3.5x	2.5x	-1.0x	0.0x
Net Debt / LQA EBITDA	1.9x	2.5x	2.2x	-0.7x	-0.4x

ALPEK (US$ MM)	1Q18	4Q17	1Q17	q/q	y/y
Adj. EBITDA	170	124	131	37%	30%
Interest paid	(20)	(23)	(12)	15%	(63%)
Capex	(21)	(29)	(76)	26%	72%
Working capital	(80)	(33)	(57)	(143%)	(40%)
Taxes paid	(7)	(9)	(26)	20%	72%
FCF	**41**	**30**	**(40)**	39%	-

*1Q18 Capex including acquisitions was US$56 mm, reducing FCF to US$7 mm

MARKET UNDERPERFORM (MEXICO):

ALPEKA 5.38% 23s

Recent 1Q18 Earnings - Continued:

- Total debt increased by 31% y/y to US$1,710 mm, while cash increased to US$440 mm
  - Alpek acquired a US$710 mm senior unsecured credit agreement for an 18-month availability period
    - Proceeds will be used for debt refinancing and temporarily financing of heavy capital commitments
    - The balance of the loan would be repaid through the sale of Alpek's two cogeneration plants
- Annualized gross and net leverage ratios improved to 2.5x and 1.9x, respectively
- Recent highlights:
  - Alpek's acquisition of two polyester companies from Petrobras for US$385 mm – payable on closing date – was approved by the Brazilian CADE court
  - The M&G plant acquisition in Texas was approved for a total of US$1,169 mm (Alpek's 33% stake will be around US$390 mm) – the plant is expected to require additional US$500 mm in capex to complete by 2021
  - Alpek's 350 MW cogeneration plant is expected to be completed by year end

(US$ MM)	ALPEK	MEXICHEM	BRASKEM	PETKIM
	1Q18	1Q18	1Q18	1Q18
Total Revenue	1,532	1,756	4,018	492
Adj. EBITDA	170	330	818	62
Interest paid	(20)	(83)	(140)	7
Capex	(21)	(66)	(124)	(18)
Working capital	(80)	(215)	(41)	10
Taxes paid	(7)	(54)	(56)	(18)
FCF	**41**	**(89)**	**457**	**44**
Total Debt	1,710	3,648	7,105	1,325
Cash	440	564	1,499	835
Net Debt	1,270	3,084	5,606	489
LGA Gross Leverage	2.5x	2.8x	2.2x	5.3x
LQA Net Leverage	1.9x	2.3x	1.7x	2.0x
EBITDA margin	11%	19%	20%	13%
Rating	Baa3/BBB-/BBB-	Baa3/BBB-/BBB	-/BBB-/BBB-	B1/ - /B
Maturity	2023	2022	2023	2023
Mid YTM	5.1%	4.2%	4.9%	8.2%
Spread to Sovereign (bps)	**150**	**110**	**20**	**380**

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