ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 4Q18

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Russia : The Benefits Of Discipline– Dr. Walter Molano, Ph.D.
EM Corporate Highlights– Corporate Research
Top Picks for 4Q18 – Corporate Research

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RUSSIA: THE BENEFITS OF DISCIPLINE

Academic economists often debate the merits of dictatorships. These politically-incorrect debates are usually relegated to academic conferences, and often occur behind closed-doors. Examples, such as China, Singapore and Pinochet-era Chile, are touted as examples where totalitarian regimes provided the leadership needed to push through painful economic reforms, without pushback from the parts of the society that suffered from the adjustment process. This is not to say that economists are in favor of dictatorships. In reality, examples of economic success among dictatorships are the exception, not the norm. These regimes are usually plagued with rampant corruption, mismanagement and cronyism. Venezuela, North Korea and Zimbabwe are three very salient examples. Russia is not a paradigm of democracy. However, it can be commended for its economic discipline and its ability to weather a tough international environment of volatile energy prices and punitive trade sanctions.

The three pillars of Russia's economic stability is fiscal discipline, a floating exchange rate regime and a well-capitalized financial system. This year, the government is expected to post a primary fiscal surplus of 0.6% of GDP. This is a vast improvement from the 1.7% deficit that was posted last year. A good part of the improvement was due to the sharp increase in international oil prices. However, some of the improvement was offset by Russia's decision to trim production levels in order to bolster international prices. The modification of the government's fiscal rule has added to the degree of discipline and stability across government spending programs. Moscow established a fixed oil price target, which allowed the government to save any excess earnings. This prevents wild swings in fiscal expenditures. The current target level is $50 per barrel. The reason it is so low is because Moscow believes that oil prices will trend lower due to the development of alternate energy sources, such as renewables and shale. Another measure to keep a lid on government expenses was last month's announcement that the retirement age was raised from 60 to 65 for men and 55 to 63 for women. Although unpopular, the measure would have produced a severe public backlash in other democracies, such as Argentina and Brazil, which probably would have brought the governments to their knees. However, it produced only a handful of street protests in Russia. There was a second reason for the increase in retirement age. Russia has a negative population growth, and an increase in the retirement age will help boost the shrinking labor force.

The high degree of fiscal discipline is one of the reasons why Russia has been able to reduce its inflation rate, despite a highly volatile exchange rate. Russia's inflation rate has dropped to 4%, about a third of what it was just a few years ago. The central bank is fully committed to its floating exchange rate regime, as well as its inflation targeting policies. Unlike Argentina, which reacts hysterically to any devaluation of the peso, the Russian ruble moves up and down without triggering political and social backlashes. Another important factor is the central bank's tight oversight of the domestic banking system. Over the course of the past decade, Russia has undergone an important consolidation of its financial sector, eliminating weak institutions and forcing mergers of medium-sized banks. The result has been the emergence of a well-capitalized financial system, with strong government support, that has been able to withstand the volatility in oil prices and the withering effects of international sanctions. The high level of economic discipline has allowed the country to post an impressive array of economic indicators, including a debt to GDP ratio of 22%, a current account surplus of 3.6% of GDP and international reserves of $420 billion. A recent trip to Russia revealed a buoyant consumer economy, with elegant malls cropping along the major thoroughfares, a fleet of new cars grazing the highways and recently-inaugurated public works to improve quality of life. This is the reason why public support for Putin remains relatively high despite his authoritarian approach. Depending on the polling institution, his support ranges between 42% and 70%. Russia's high level of discipline was instilled through several decades of hard knocks and painful lessons. The crisis of 1998, which found the country high-levered and with a weak financial system, left a set of important lessons, which the government took to heart. Unlike other countries, such as Argentina, which repeat the same mistakes, time and time again, Russia was able to pick itself up and not repeat them again. Many economists believe that an economic authoritarian regime can coordinate painful reforms that benefit everyone in the medium and long run.

Dr. Walter Molano, Ph.D.
July 30, 2018

EM CORPORATE HIGHLIGHTS 3Q'18

Argentina

- 'Notebook Scandal': in what resembles a soap opera, an Argentine prosecutor was handled a notebook from a driver in the Kirchner administration complete with addresses, names and amounts of illegal payments collected from companies. Several politicians and businessmen were imprisoned and later signed plea bargain agreements. Among those businessmen implicated were Chairmen, directors and former shareholders of Clisa, Albanesi, MSU, Tecpetrol and Genneia
- 2019 budget was presented: GDP contraction of 0.5%, 23% inflation and average f/x at 40.1
- The government and the IMF agreed to a new disbursement of US$7bn, which adds to the US$50bn previously signed, while funds to be disbursed in 2019 as part of the agreement were doubled to US$22.8bn
- Changes in cabinet continue: Central Bank President Luis Caputo resigned and was replaced by Dujovne's right hand man, Guido Sandleris, a move which appeared directed by the IMF
- Currency selloff sharpened, with the ARS depreciating 43% and local rates being among the highest in the world at above 60%
- Primary market continues to be closed, with no new issuances

Brazil

- The first round of federal and state level elections further accentuated the polarization as the center candidates lost by a large margin. The second presidential round will be held end of October, between Jair Bolsonaro, the right-wing candidate, and Fernando Haddad, the left-wing workers party candidate.
- General strike initiated by truck drivers in May and the external economic scenario have impacted the Brazilian economy, as the expectations shifted to higher inflation and lower growth.
- Cemig completed a US$500mm re-tap of its 24s and finalized the sale of telecom assets.
- Banco do Brasil repurchased US$600mm of its 8.5% coupon and US$100mm of its 9.25% coupon, perpetual bonds. The state-bank followed with a US$750mm issuance of 2023s senior unsecured bonds with 4.875% coupon.

EM CORPORATE HIGHLIGHTS 3Q'18

Ecuador

- In a call with Investor, the Minister of Finance presented the country's goals: total fiscal déficit of 3.8% in 2018 and 2.3% by 2021, 0.2% primary surplus for 2020 and 0.7% in 2021
- According to the Minister of Finance, as of Aug-18 the countries financial needs were US$2bn, with US$1bn having been obtained in late August
- Fitch downgraded the sovereign to B-

Mexico

- Mexico's president elect, AMLO, will take office on December 1st. Morena, together with its allied parties, will have majority in both houses of Congress
- AMLO's CEO picks for Pemex and CFE, Manuel Bartlett and Octavio Romero, are both long-time political allies with no industry experience - raising investor concerns
- AMLO has expressed plans to increase Pemex's upstream and downstream capacity, primarily through six main E&P projects and a new refinery; however, the actual costs, timelines and the funding sources remain unclear
- Mexico, the US and Canada reached an agreement in the new USMCA trade deal. Changes from the previous NAFTA deal include the dairy market, 75% regional auto content, higher salaries and updated e-commerce rules. The resolution dispute mechanisms remained in place, however some import tariffs must be negotiated separately, such as steel and aluminum
- Banxico kept the base interest rate at 7.75%, still concerned on ongoing high inflation concerns
- The New Mexico City Airport requested another MXN$88 bn from the Government for its construction, opening the door for the private sector as AMLO is unwilling to provide the funds. A public consultation on whether to cancel the project will be conducted in October
- BIVA, Mexico's second stock exchange, started operations hoping to increase liquidity and attractiveness to the Mexican market. BIVA also launched its ETF "FTSE-BIVA" made up of 52 companies, including the FIBRIAs
- The new administration intends to boost federal infrastructure spending with a MXN$580 bn plan to develop 25 major projects, including the Maya train, public education universities, modernizing refineries and building a new one, renewable energy projects and building rural roads

EM CORPORATE HIGHLIGHTS **3Q'18**

Kazakhstan

- On October 9, 2018, the International Monetary Fund (IMF) released its latest World Economic Outlook report, according to which, growth of Kazakhstan's GDP was revised up by 0.5pp to 3.7% in 2018 growth is expected to be at 3.5% in 2018; however, the country's GDP growth in 2019 is expected to slow to 3.1%.
- Royal Dutch Shell Plc, according to a Bloomberg report, backed out of a deal to buy a stake in KazMunayGas, Kazakh state oil & gas company, following a due diligence that included discussions of corruption risks and the informal control over the company by its former VP, Mr. Timur Kulibayev, Kazakh President Nursultan Nazarbayev's son-in-law
- In 2017, Transparency International's Corruption Perception Index ranked Kazakhstan as 122nd worst out of 180 countries vs. 131st out of 176 countries in 2016

Russia

- According to the recent IMF report, Russia's GDP is expected to grow 1.7% in 2018, after growing 1.5% in 2017. In 2019, according to the report, Russia's GDP is to grow 1.8%. Russia's inflation is expected to be ~2.8% in 2018, below the 4% target thanks to tight monetary policy; however, it is projected to creep up to 5.1% in 2019. IMF head Christine Lagarde has praised Russia for high reserves and low debt, which helps to manage its economy amid sanctions
- According to a Bloomberg report, Mr. Oleg Deripaska, who owns EN+, which owns Rusal, contemplates moving some of his sharer to a blind trust managed by a US bank in order to help his company to resolve a situation with sanctions
- According to the latest Economic Freedom of the World (EFW) index, Russia is ranked 87th ahead of South Africa at 94th

Turkey

- Disputes between Erdogan and Trump led to a selloff of Turkish assets, including a 32% of currency devaluation in the quarter amidst possible sanctions concerns
- After several months of inaction, Central Bank moved, delivering a higher than expected 625bps rate increase to 24%
- Currency selloff led to a recovery in the current account, reaching a surplus in August for the first time in the last three years and after peaking at 8% deficit in 1Q18
- GDP grew 5.2% in 2Q18
- While no details were disclosed, the government said it was planning to form a state-owned company to purchase NPLs from local banks

EM CORPORATE HIGHLIGHTS 3Q'18

Turkey (continued)

- Akbank successfully rolled over 104% of its syndicated loan for US$980mm at Libor + 275bps
- Vakif made the first public placement of Tier-1 bonds in the local market, totaling TRY5bn
- Erdogan questioned CHP's 25% stake in Isbank, stating plans to transfer the ownership to the Treasury
- On October 12, 2018, Turkish Court convicted and subsequently released an American pastor Andrew Brunson

Ukraine

- According to the October 2018 IMF's World Economic Outlook report, Ukraine's real GDP growth is expected to be at 3.5% in 2018, 0.3pp up from the IMF's April 2018 report. At the same time, the IMF expects a decline in Ukraine's GDP growth in 2019 estimating 2.7%. In 2017, Ukraine's GDP grew 2.5%.
- The Government of Ukraine hopes to finalize the talks with the IMF and continue to receive financial support as the US$17.5 billion extended fund facility (EFF) was essentially frozen as the Ukrainian Government is too slow to implement the reforms required by the IMF like: liberalization of natural gas prices, the approval of 2019 budget and establishing a fully functioning High Anti-Corruption Court. The US$17.5 billion EFF program was established in March 2015, originally, it was planned to disburse it in 16 quarterly tranches until March 2019 – to date, Ukraine received only four tranches totaling US$8.6 billion. Due to delays in implementing the IMF required reforms, the current EFF program is likely to be replaced with a stand-by agreement, a shorter, constantly re-assessed program.
- On October 11, 2018, the Ukrainian Orthodox church obtained an approval from the patriarch in Istanbul to break away from the Moscow patriarchy, a split that may further intensify ongoing rifts between Russian and Ukraine.

Venezuela

- Production continues to plunge, down 10% during the quarter and ending at 1,197kbpd vs 1,917kbpd in 2017
- U.S. District Judge Leonard Stark in Delaware ordered PDVSA to grant its shares in PDVSA Holding (owner of CITGO in the US) to Crystallex to satisfy a US$1.2bn arbitration award. Ronseft and PDVSA later appealed and responded that shares have a direct pledge given to Rosneft and the holders of the 2020s secured bonds

OVERVIEW
PRIMARY MARKET 3Q'18

Total New Issue Volume: US$72bn vs. US111bn 3Q17
# of deals: 77 vs. 135

	2018	%Δ	2017
IG	$33,268	(38%)	$53,875
HY	$38,607	(32%)	$56,701
Total	$71,875	(35%)	$110,576
# deals	77	(43%)	135

	2018	%Δ	2017
USD	$57,802	(37%)	$91,960
EUR	$8,154	5%	$7,790
Other	$5,919	(45%)	$10,826

Type	2018		%Δ	2017	
Corps	$17,752	25%	(54%)	$38,830	35%
Financial	$7,463	10%	(1%)	$7,754	7%
Quasi	$13,569	19%	(48%)	$26,210	24%
Sov	$31,101	43%	(12%)	$35,403	32%
Supra	$1,990	3%	(22%)	$2,559	2%

Country	2018		%Δ	2017	
Argentina	$12,363	17%	(44%)	$22,069	20%
Brazil	$14,450	20%	(23%)	$18,725	17%
Chile	$6,485	9%	(46%)	$12,064	11%
Colombia	$745	1%	(87%)	$5,610	5%
Mexico	$21,972	31%	(8%)	$23,770	21%
Peru	$2,775	4%	(64%)	$7,606	7%
Other	$13,075	18%	(37%)	$20,732	19%

LatAm country top volume:

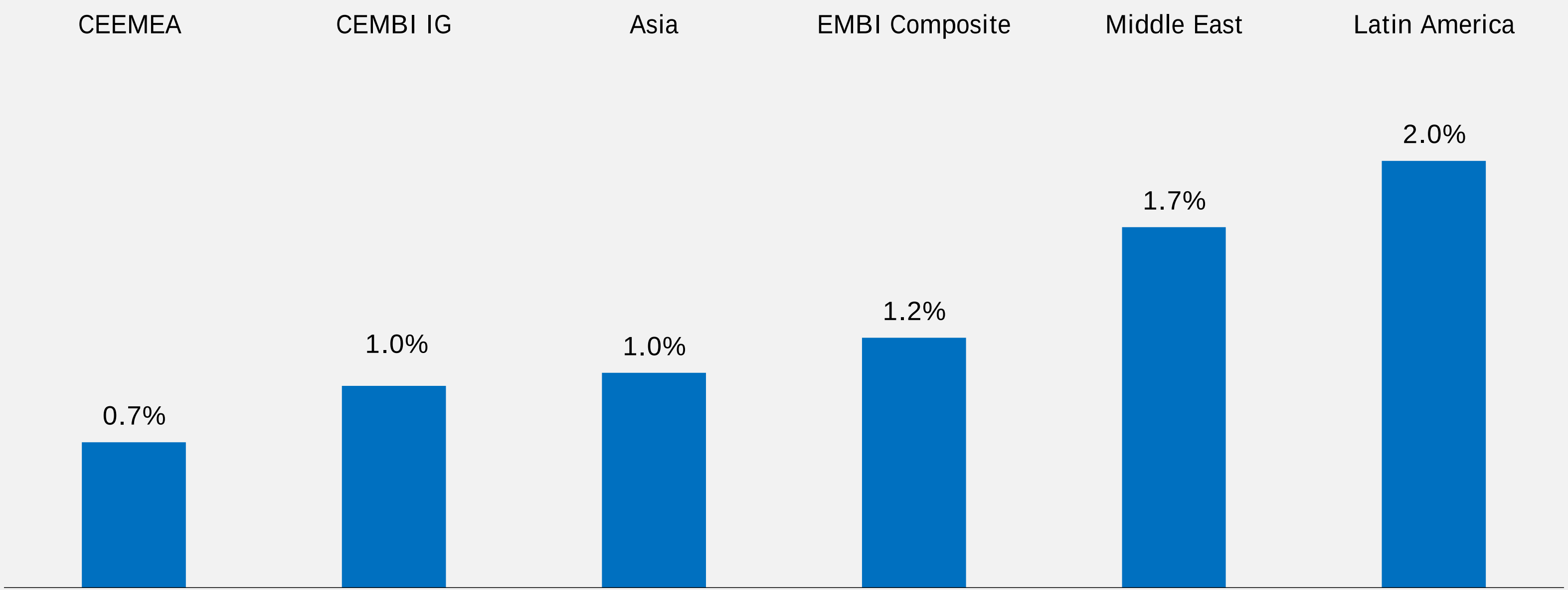
- Argentina decreased to $12bn (17%), versus $22bn (20%). -$10bn, -44% decrease.
- Brazil decreased to $14bn (20%), versus $19bn (17%). -$5bn, -23% decrease.
- Chile decreased to $6bn (9%), versus $12bn (11%). -$6bn, -46% decrease.
- Colombia decreased to $745mm (1%), versus $6bn (5%). -$5bn, -87% decrease.
- Mexico decreased to $22bn (31%), versus $24bn (21%). $-2bn, -8% decrease.
- Peru decreased to $3bn (4%), versus $8bn (7%). -$5bn, -64% decrease.
- Others country decreased to $13bn (18%), versus $21bn (19%). -$8bn, -37% decrease.

Source: Bloomberg

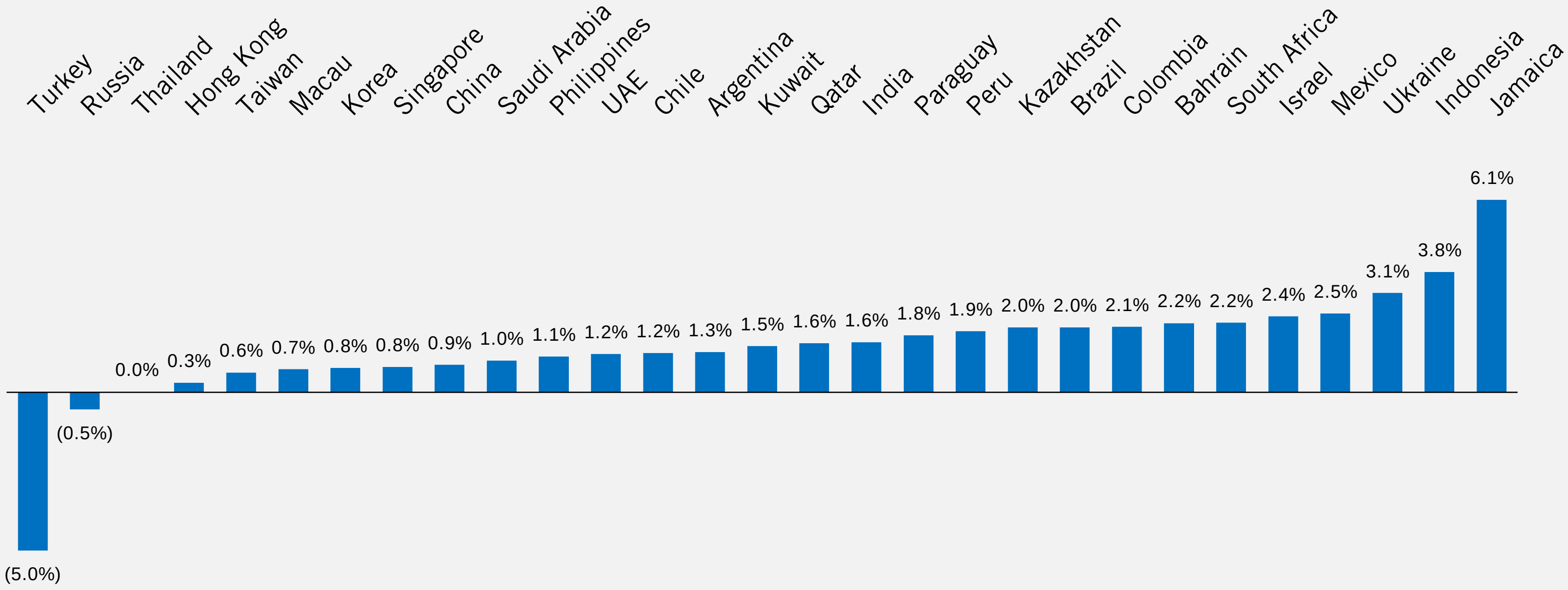
OVERVIEW

EMBI INDEX RETURNS 3Q'18

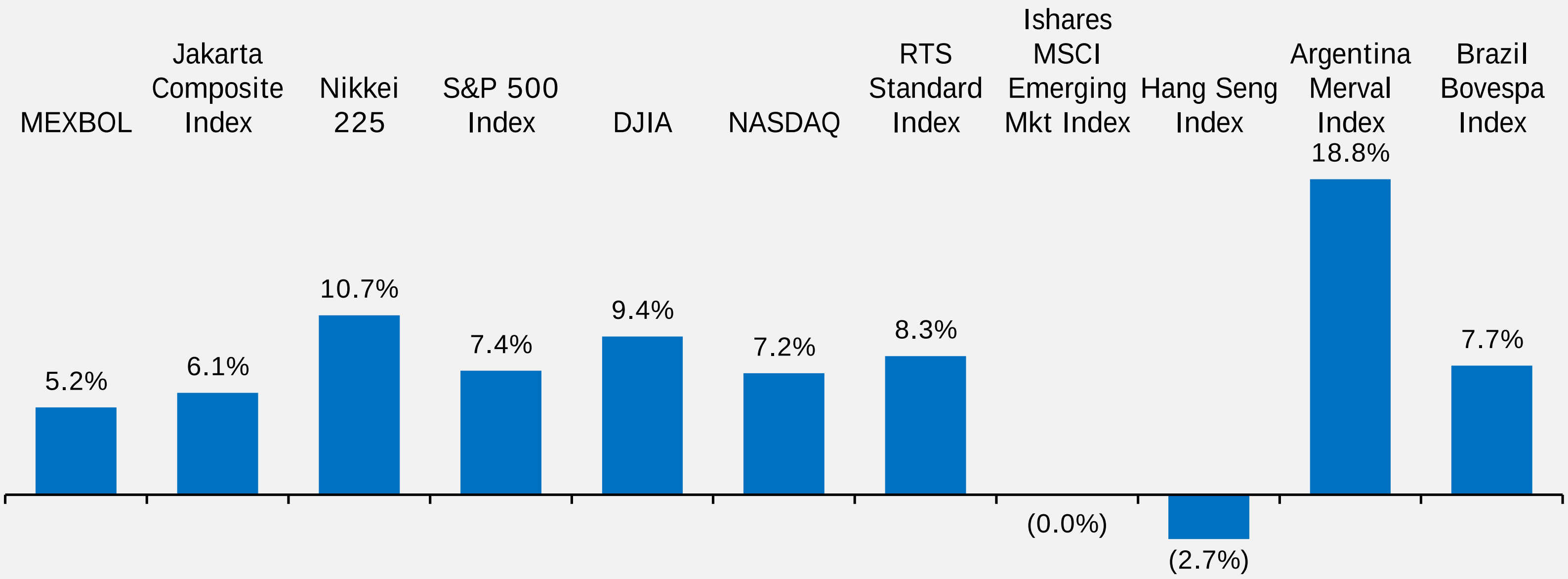
EMBI BROAD COMPOSITE INDEX REVIEW



OVERVIEW
CEMBI INDEX RETURNS BY COUNTRY 3Q'18



OVERVIEW
GLOBAL EQUITY INDEX **RETURNS 3Q'18**

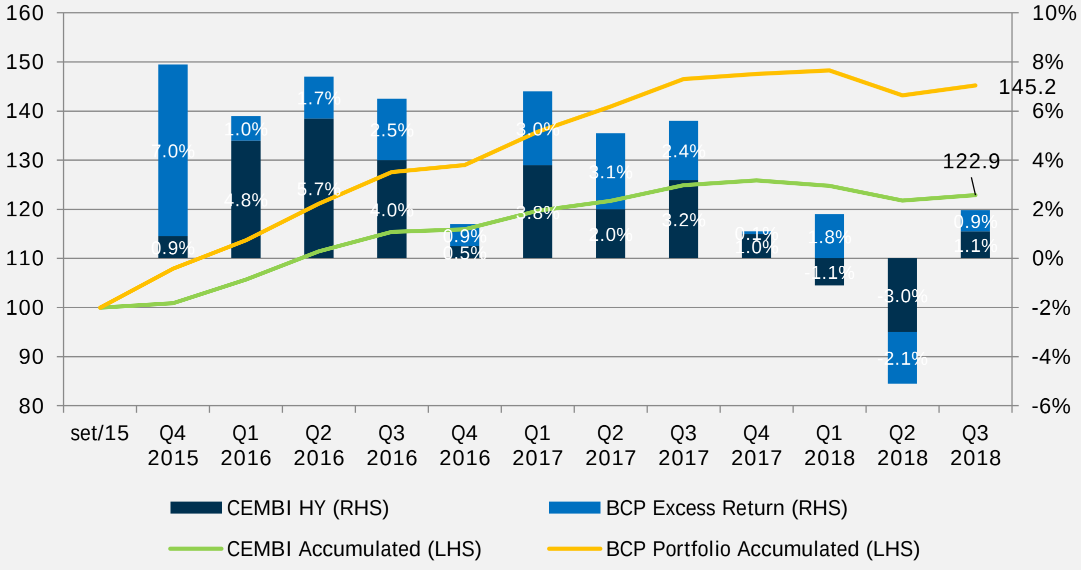


3Q'18 TOP PICKS
PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated excess return of 86 bps vs. our CEMBI HY benchmark which increased 1.07% over the period. Outperforms appreciated 140 bps more than the benchmark while Underperforms declined 80 bps less than the benchmark.
- Our top performers were FECCN 23s and CYDSA 27s, with an excess return of 8.1% and 5.6% respectively.
- SEPLLN 23s and JBSSBZ 24s were also highlights among outperforms, generating both, 5.0% excess performance.
- Portfolio performance was most negatively impacted by CGCSA 21s and ODEBRE 22s, which generated a negative return of 10.5% and 5.2%, respectively.
- Over the past 12 quarters, BCP Top Picks have generated compounded excess return of 22.3% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH OCTOBER 11th 2018



3Q'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 =	2.3%	1.4%
CHUBUT 26	BONO GAR PROV DEL CHUBUT	Regional(state/provnc)	Argentina	USD	07/05/18	10/11/18	98	79.00	79.00	7.75%	0.0%	2.1%	1.0%
CGCSA 21	COMPANIA GENERAL COMBUST	Oil&Gas	Argentina	USD	07/05/18	08/14/18	40	99.38	87.00	9.50%	(12.5%)	(11.4%)	(10.5%)
BRFSBZ 24	BRF SA	Food	Brazil	USD	07/05/18	10/11/18	98	89.50	92.00	4.75%	2.8%	4.1%	3.0%
JBSSBZ 24	JBS INVESTMENTS GMBH	Food	Brazil	USD	07/05/18	10/11/18	98	97.75	101.75	7.25%	4.1%	6.1%	5.0%
ODEBRE 21	ODEBRECHT DRILL VIII/IX	Oil&Gas	Brazil	USD	07/05/18	10/11/18	98	96.00	98.75	6.35%	2.9%	4.6%	3.5%
FECCN 23	FRONTERA ENERGY CORP	Oil&Gas	Colombia	USD	07/05/18	10/11/18	98	99.50	106.00	9.70%	6.5%	9.2%	8.1%
ANTOIL 20	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	07/05/18	10/11/18	98	100.50	104.00	9.75%	3.5%	6.1%	5.1%
ECUA 27	REPUBLIC OF ECUADOR	Sovereign	Ecuador	USD	07/05/18	10/11/18	98	97.00	96.00	9.63%	(1.0%)	1.6%	0.5%
GJTLIJ 22	GAJAH TUNGGAL TBK PT	Auto Parts&Equipment	Indonesia	USD	07/05/18	10/11/18	98	86.56	83.50	8.38%	(3.5%)	(1.3%)	(2.3%)
TZA 24	TV AZTECA SA DE CV	Media	Mexico	USD	07/05/18	10/11/18	98	100.00	99.38	8.25%	(0.6%)	1.6%	0.5%
AJECBV 22	AJECORP BV	Beverages	Peru	USD	07/05/18	10/11/18	98	79.50	77.25	6.50%	(2.8%)	(1.1%)	(2.1%)
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	07/05/18	10/11/18	98	99.00	97.75	7.50%	(1.3%)	0.8%	(0.3%)
DARALA 23	DAR AL-ARKAN SUKUK CO LT	Real Estate	Saudi Arabia	USD	07/05/18	10/11/18	98	95.00	93.94	6.88%	(1.1%)	0.8%	(0.3%)
TPZMAR 22	TOPAZ MARINE SA	Transportation	UAE	USD	07/05/18	10/11/18	98	103.50	102.,50	9.13%	(1.0%)	1.5%	0.4%
SEPLLN 23	SEPLAT PETROLEUM DEV CO	Oil&Gas	Nigeria	USD	07/05/18	10/11/18	98	97.88	101.38	9.25%	3.6%	6.1%	5.0%
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	07/05/18	10/11/18	98	91.00	95.50	6.25%	4.9%	6.6%	5.6%
UNDERPERFORM											Average Return =	(1.6%)	(0.80%)
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	07/05/18	10/11/18	98	101.00	99.25	6.00%	1.7%	0.1%	1.2%
MARFRIG 23	MARFRIG HOLDING EUROPE B	Food	Brazil	USD	07/05/18	10/11/18	98	101.75	100.85	8.00%	0.9%	(1.3%)	(0.2%)
AESGEN 25	AES GENER SA	Electric	Chile	USD	07/05/18	10/11/18	98	100.00	99.50	5.00%	0.5%	(0.9%)	0.2%
CENSUD 23	CENCOSUD SA	Food	Chile	USD	07/05/18	10/11/18	98	100.88	99.13	4.88%	1.7%	0.4%	1.5%
ALPEKA 23	ALPEK SA DE CV	Chemicals	Mexico	USD	07/05/18	10/11/18	98	101.13	101.13	5.38%	(1.9%)	(3.4%)	(2.3%)
ODEBRE 22	ODBRCHT OFFSHRE DRLL FIN	Oil&Gas	Brazil	USD	07/05/18	10/11/18	98	91.00	95.00	6.72%	(4.4%)	(6.2%)	(5.2%)
SWAP											Average Return =	1.6%	1.60%
GOLLBZ 25	GOL FINANCE	Airlines	Brazil	USD	07/05/18	10/11/18	98	80.00	86.75	7.00%	8.4%	10.3%	9.3%
AZULLBZ 24	AZUL INVESTMENTS LLP	Airlines	Brazil	USD	07/05/18	10/11/18	98	85.75	90.50	5.88%	(5.5%)	(7.1%)	(6.1%)
											Total Average Return =	1.2%	0.86%

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	07/05/18	10/11/18	98	411.6	416.0	1.1%

Source: Bloomberg as of 10/11/2018

4Q'18 TOP PICKS

PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform										
NEUQUE 28	PROVINCE OF NEUQUEN	Regional(state/provnc)	Argentina	USD	$349	-/ -/ B	8.63%	05/12/2028	9.84%	92.50
EDNAR 22	EMP DISTRIBUIDORA NORTE	Electric	Argentina	USD	$176	B1/ B/ -	9.75%	10/25/2022	10.64%	97.13
BRFSBZ 24	BRF SA	Food	Brazil	USD	$750	Ba2/ BB/ BBB-	4.75%	05/22/2024	6.47%	92.00
LIGTBZ 23	LIGHT SERVICOS ENERGIA	Electric	Brazil	USD	$600	Ba3/ -/ BB-	7.25%	05/03/2023	7.95%	97.38
ODEBRE 21	ODEBRECHT DRILL VIII/IX	Oil&Gas	Brazil	USD	$338	-/ B-/ -	6.35%	12/01/2021	7.20%	98.75
ANTOIL 20	ANTON OILFIELD SERV GRP/	Oil&Gas Services	China	USD	$300	B2/ -/ B-	9.75%	12/05/2020	7.68%	104.00
YKBNK 19	YAPI VE KREDI BANKASI AS	Banks	Turkey	USD	$550	B1/ -/ BB-	5.13%	10/22/2019	9.07%	96.00
PETKM 23	PETKIM PETROKIMYA HOLDIN	Chemicals	Turkey	USD	$500	B1/ -/ B	5.88%	01/26/2023	8.21%	91.63
ECUA 27	REPUBLIC OF ECUADOR	Sovereign	Ecuador	USD	$1.000	-/ B-/ B-	9.63%	06/02/2027	10.24%	96.00
GJTLIJ 22	GAJAH TUNGGAL TBK PT	Auto Parts&Equipment	Indonesia	USD	$250	B2/ B-/ -	8.38%	08/10/2022	14.10%	83.50
AKBHC PERP	TINKOFF CREDI (TCS FINAN	Banks	Russia	USD	$300	-/ -/ B-	9.25%	Perp	10.46%	96.75
METINV 26	METINVEST BV	Iron/Steel	Ukraine	USD	$500	-/ -/ B	8.63%	23/04/2026	8.63%	97.75
DARALA 23	DAR AL-ARKAN SUKUK CO LT	Real Estate	Saudi Arabia	USD	$500	B1/ -/ -	6.88%	03/21/2023	8.54%	93.94
TPZMAR 22	TOPAZ MARINE SA	Transportation	UAE	USD	$375	B3/ B-/ -	9.13%	07/26/2022	7.87%	104.00
SEPLLN 23	SEPLAT PETROLEUM DEV CO	Oil&Gas	Nigeria	USD	$350	B2/ B-/ B-	9.25%	04/01/2023	8.87%	101.38
CYDSA 27	CYDSA SAB DE CV	Chemicals	Mexico	USD	$330	-/ BB/ BB+	6.25%	10/04/2027	6.93%	95.50
Underperform										
MARFRIG 23	MARFRIG HOLDING EUROPE B	Food	Brazil	USD	$1.000	B2/ BB-/ BB-	8.00%	06/08/2023	7.77%	100.85
AESGEN 25	AES GENER SA	Electric	Chile	USD	$172	Baa3/ BBB-/ BBB-	5.00%	07/14/2025	5.09%	99.50
CENSUD 23	CENCOSUD SA	Food	Chile	USD	$943	Baa3/ -/ BBB-	4.88%	01/20/2023	5.14%	99.13
Swap										
GOLLBZ 25	GOL FINANCE	Airlines	Brazil	USD	$650	-/ B-/ B	7.00%	01/31/2025	9.93%	86.75
AZULBZ 24	AZUL INVESTMENTS LLP	Airlines	Brazil	USD	$400	B1/ B+/ -	5.88%	10/26/2024	7.77%	90.50
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	$400	B1/ BB-/ -	6.88%	01/02/2027	7.61%	95.50
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	$500	Ba3/ -/ BB-	6.00%	07/06/2023	6.18%	99.25

Source: Bloomberg as of 10/11/2018

MARKET OUTPERFORM

ARGENTINA
NEUQUE 8.625% 26s
EDNAR 9.75% 22s

BRAZIL
BRFSBZ 4.75% 24s
LIGTBZ 7.25% 23s
ODEBRE 6.35% 21s

CHINA
ANTOIL 9.75% 20s

ECUADOR
ECUA 9.625% 27s

INDONESIA
GJTLIJ 8.375% 22s

TURKEY
YKBNK 5.13% 19s
PETKM 5.88% 23s

MEXICO
CYDSA 6.25% 27s

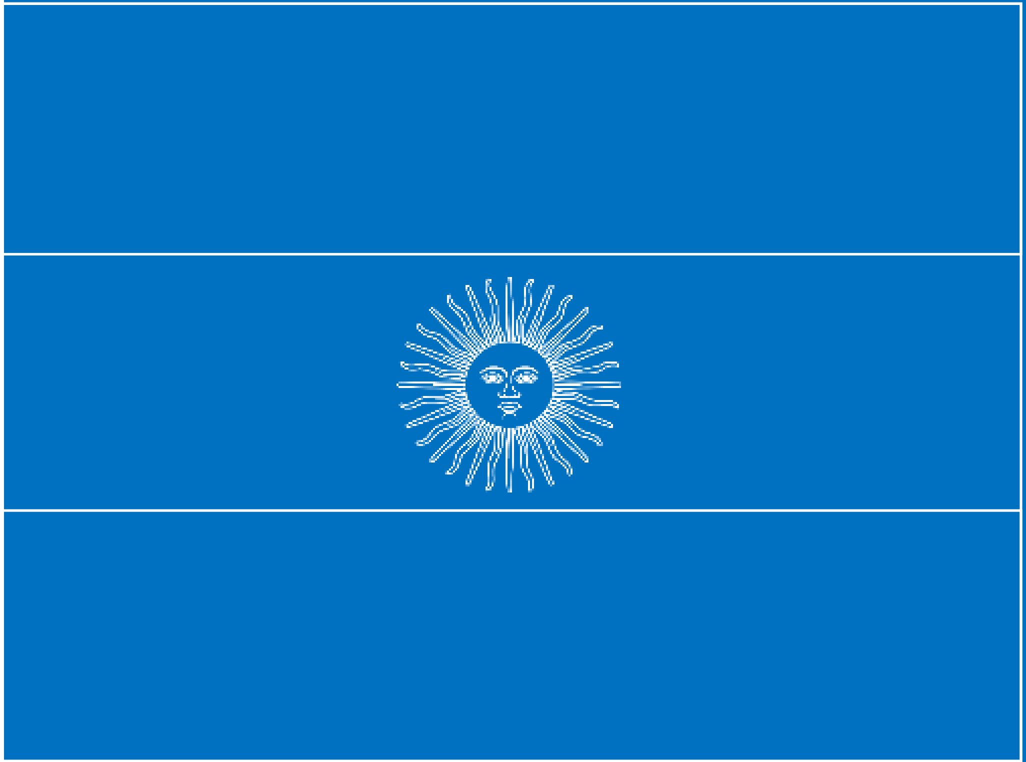
NIGERIA
SEPLLN 9.25% 23s

RUSSIA
AKBHC 9.25% Perps

SAUDI ARABIA
DARALA 6.88% 23s

UKRAINE
METINV 8.625% 26s

UNITED ARAB EMIRATES
TPZMAR 9.125% 22s



ARGENTINA

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
NEUQUE 8.625% 05/12/2028	$349	-/-/B	92.50	9.84%

The Province of Neuquén is situated in the Patagonia region, with a population of nearly 550 thousand people and a poverty rate of 25.8% in its main urban areas (Plottier – 50% of total population) according to INDEC at Jun-18. The province is the highest gas and third largest oil producer, with a total production of 418kboepd, and 108kbpd in the first eight months of 2018, respectively, with proven reserves of near 802mmboe of gas and 231mmbbl of oil at Dec-16.

PROS:

- Notes backed by oil & gas royalties, a USD indexed revenue stream
- Largest gas and third largest oil producer
- Contains the vast majority of Vaca Muerta's reserves
- Expanding production. During the first eight months of the year, oil and gas production has been the highest since 2012 and 2009, respectively
- Gas producers benefit from Non-conventional Gas Plan
- Oil sold at a premium to Chubut's crude on better quality
- Strongest debt service coverage among peers
- Crude rally favors royalty collections
- Amortizing quarterly principal payments starting in 2020, reducing duration and easing refinancing risks

CONS:

- Oil royalties subject to Brent volatility
- Vaca Muerta's production is still marginal, although increasing
- Conflicts with Unions have led to several strikes
- Government has legislative minority
- Maintains its own social security administration
- Lack of timely information
- Convertibility risk still exists

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28s

STRUCTURE OF THE NOTES

- US$235MM Tranche 1 and US$114MM Tranche 2 resulted from the exchange of 2021 notes.
- Quarterly interest payments and quarterly principal payments starting May-20.
- Secured by the Argentine Collateral Trust whose assets are the assigned royalties payable to the province under the Primary Dedicated Areas and those royalties under the Additional Dedicated Areas securing the 2021 notes in the percentage of total amount exchanged for the 24s (70%). Subject to the full repayment of the 2021s, 100% of royalties under the Additional Dedicated Areas will secure the notes.
- The notes are direct, general, unconditional and unsubordinated obligations of the Province of Neuquén.
- Not a true sale: the Province agrees to irrevocably and unconditionally transfer to the Argentine Collateral Agent its right to collect the Specified Royalties for the benefit of the bondholders.
- Primary Dedicated Areas account for nearly 75% of Neuquen's gas production and Additional Dedicated Areas account for nearly 70% of Neuquen's oil production.
- Royalties paid by concessionaires to Neuquén are 12% of wellhead price. Assigned Royalties are deposited in a Collateral Account and represent 100% of total royalties of Primary and Additional Dedicated Areas until Nov-17, then, as long as the Adjusted Royalties Coverage Amount is at least 3x, it will be reduced by 2.5% each year for four years, then by up to 7.5% on the fifth year, and then by up to 10% each year until maturity as long as the ratio is at least 6x.

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):

NEUQUE 8.625% 28s

OIL & GAS ACTIVITY IN NEUQUEN

Neuquén is the largest natural gas and third largest oil producer among provinces, with almost 50% and 20% of national production, respectively. Main gas concessionaires are YPF and Total Austral, with nearly 56% and 17% of production, while main oil concessionaire is YPF with nearly 70% of total production. All O&G is extracted from the Neuquina basin, while royalty breakdown is 60% oil and 40% gas

Production in Neuquen	Aug-18	Aug-17	y/y	2017	2016
Oil (kbpd)	108	99	9%	98	102
YPF	75	70	7%	69	70
Chevron	6	7	(14%)	7	9
Other producers	27	22	23%	22	23
Gas (kboepd)	418	386	8%	380	373
YPF	211	211	0%	206	179
Total Austral	72	75	(4%)	73	80
Tecpetrol	36	6	500%	7	8
Other producers	99	100	(1%)	101	114

Some recent thoughts about the industry in Neuquen…

- Oil production in the province increased 9% in the first eight months of 2018 (vs national increase of 2%), favored by non-conventional investments in Vaca Muerta
- Oil production in the first eight month of the year has been the highest since 2012
- Gas production increased 8% in the first eight months of 2018 (vs national growth of 5%), mostly due to Tecpetrol's investments in Vaca Muerta
- Gas production in the first eight months of the year has been the highest since 2009

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28s

Estimated coverage amount until principal starts amortization is around 14x while when principal begins amortization coverage decreases to 5.7x.

‘US$000	Nov-18	Feb-19	May-19	Aug-19	Nov-19	Feb-20	May-20	Aug-20	Nov-20	Feb-21	May-21	Aug-21
Interest payment	7,519	7,519	7,519	7,519	7,519	7,519	7,519	7,293	7,068	6,842	6,616	6,391
Principal payment	-	-	-	-	-	-	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	7,519	7,519	7,519	7,519	7,519	7,519	17,979	17,754	17,528	17,303	17,077	16,852
Estimated royalties	107,418	104,707	104,707	104,707	104,707	102,689	101,951	101,951	101,951	100,302	100,302	100,302
Debt Service Coverage	14.3	13.9	13.9	13.9	13.9	13.7	5.7	5.7	5.8	5.8	5.9	6.0
	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20	Jul-20	Oct-20

‘US$000	Nov-21	Feb-22	May-22	Aug-22	Nov-22	Feb-23	May-23	Aug-23	Nov-23	Feb-24	May-24	Aug-24
Interest payment	6,165	5,940	5,714	5,489	5,263	5,038	4,812	4,586	4,361	4,135	3,910	3,684
Principal payment	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461	10,461
Total debt service	16,626	16,401	16,175	15,949	15,724	15,498	15,273	15,047	14,822	14,596	14,370	14,145
Estimated royalties (*)	100,302	95,356	95,356	95,356	95,356	88,762	88,762	88,762	88,762	82,167	82,167	82,167
Debt Service Coverage	6.0	5.8	5.9	6.0	6.1	5.7	5.8	5.9	6.0	5.6	5.7	5.8

(*) Estimated royalties at current oil and gas production. Brent fixed at US$80/bbl. Gas prices fixed at US$4.13/MBTU. 2.5% annual royalties reduction between 2017-2020, 7.5% reduction in 2021 and 10% annual reduction in remaining years

NEUQUEN vs YPF

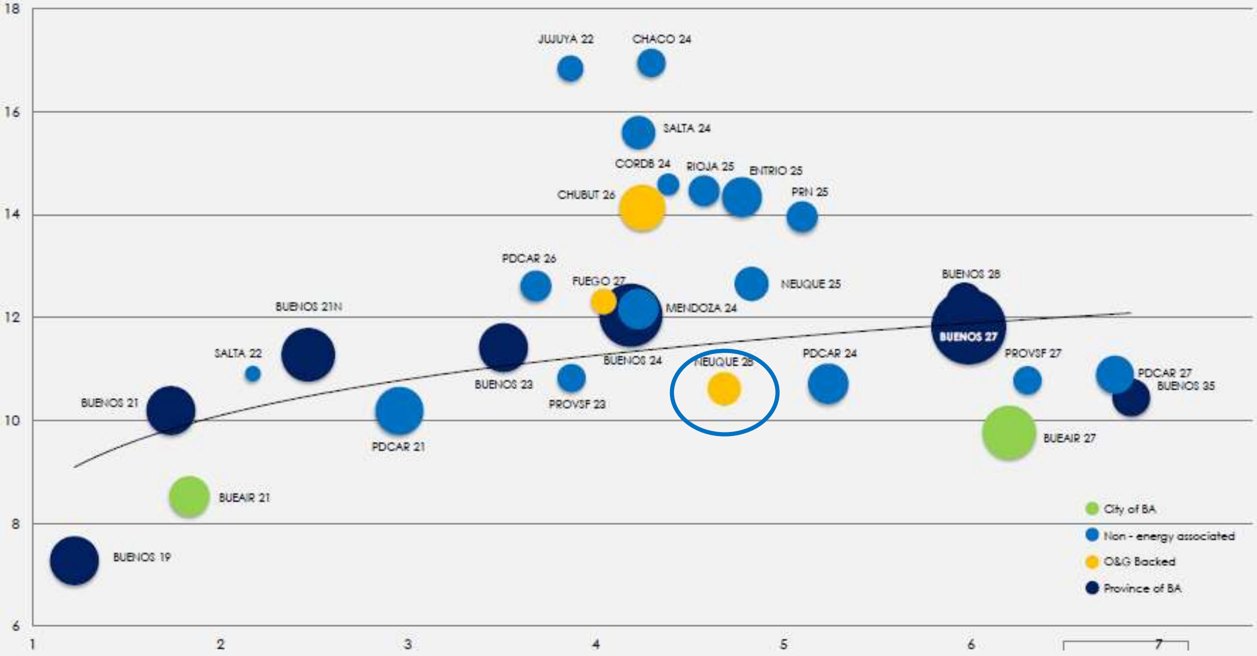
	Neuquen 28	YPF 24
YTC	10.60%	9.10%
Duration	4.2	3.8
Sov inter. Yield	9.50%	9.40%
Spread to sov (bps)	110	(32)

Source: BBG as of 10/05/2018

MARKET OUTPERFORM (ARGENTINA):

NEUQUE 8.625% 28s

Argentine Provinces USD vs Prov BA Curve



Source: BBG as of 10/09/2018

MARKET OUTPERFORM (ARGENTINA):

EDNAR 9.75% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
EDNAR 9.750% 10/25/2022	$176	B1/B/-	97.13	10.64%

EDENOR is the largest electricity distributor in Argentina, with almost 3 million customers. The company operates in the northern part of the City of Buenos Aires and many of the densest regions of the Province of Buenos Aires. In 2017, it reached total sales volumes of 21,603GWh. The company is majorly controlled by Pampa Energia, one of the largest conglomerates in the country. The company is listed in the NYSE and the local exchange, with a market cap of more than US$1.0bn.

PROS:

- Strong and recognized shareholder
- Largest electricity distributor in the country
- Strong fundamentals after tariff normalization process underwent by Macri's government. Management expects US$400mm EBITDA for 2018 (US$200mm in 1H18) vs breakeven in 2016 and US$164mm in 2017, although EBITDA should be lower after currency depreciation
- Very low indebtedness: cash position nearly equaled debt levels in 2Q18. At ARS40 f/x and 1H18 EBITDA levels, we estimate gross and net leverage to remain very low at 1.1x and 0.3x, respectively
- Despite tariff normalization process ended with last increase in Feb-18, the company still has around ARS4.0bn (at Feb-17 prices) of deferred income which will be paid in 48 installments, adjusted for inflation, which started Feb-18

CONS:

- Short USD: revenues and COGS denominated in ARS vs USD debt
- High energy losses of more than 18%, which results in around US$100mm in annual fines and US$100mm lower energy revenue
- Undergoing a large regulatory 5 year capex program of around US$1.2bn at current f/x (US$240mm per year), of which nearly 35% is denominated in USD.
- Low liquidity of outstanding bond – US$176mm outstanding

MARKET OUTPERFORM (ARGENTINA):

EDNAR 9.75% 22s

TARIFF REVIEW PROCESS

2Q16 — EBITDA: US$(93mm)

Tariff normalization process begun with the Internal tariff Review that set the guidance for the next five years

3Q16 — EBITDA: US$(36mm)

Judicial injunctions rolled tariffs back to prior levels

4Q16 — EBITDA: US$95mm

Tariff increase process was reinstated

1Q17 — EBITDA: US$40mm

New tariff increase of 42%, and AR$4.2bn of deferred income to be recognized in 48 monthly installments starting Feb-18

4Q17 — EBITDA: US$45mm

New tariff increase of 18%

1Q18 — EBITDA: US$138mm

New tariff increase of 18% plus 12% inflation adjustment that was pending from 2017. Future tariff increases to be based on inflation only

3Q18

New tariff increase of 16%, 50% effective Aug-18 and 50% to be effective Feb-19

EDNAR (US$MM)	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	191	228	256	351	365	374	386	559	436
EBITDA	(93)	(36)	95	40	25	50	45	138	60
FCF pre WK	(152)	(81)	41	(9)	(53)	(19)	(39)	86	(15)
Gross debt	192	184	178	184	178	182	231	233	228
Cash and equivalents	158	138	142	114	104	108	162	247	206
Net debt	35	46	36	70	74	74	69	(14)	22
LQA Net leverage	n/a	n/a	0.1x	0.4x	0.7x	0.4x	0.4x	0.0x	0.1x

MARKET OUTPERFORM (ARGENTINA):

EDNAR 9.75% 22s

Analysis of 2Q18 results (variation in ARS terms):

- Revenue increased 78% y/y while decreasing 7% q/q to AR$10.2bn
  - Sales volume unchanged y/y while decreasing 4% q/q
  - In Jul-18, a tariff increase of 15.89% was granted, which will be 50% effective in Aug-18 and the remaining in Feb-19, with the 50% not recognized during Aug18-Jan19 to be collected in six monthly installments starting Feb-19
  - We recall that tariffs are currently only adjusted for inflation levels on a semi-annual basis
  - Additionally, the company recognized three of the 48 installments of the deferred income accrued during Feb-17/Jan-18, which added AR$395mm in revenue (five installments collected so far)
  - In USD terms, revenue increased 19% y/y while declining 22% q/q to US$436mm

- EBITDA jumped 250% y/y while decreasing 48% q/q to AR$1,404mm
  - In USD terms, EBITDA increased 134% y/y while decreasing 57% q/q to US$60mm
  - 1H18 EBITDA of US$198mm vs last EBITDA guidance given for 2018 of US$400mm

- Free cash flow generation remained sound at AR$497mm (US$21mm)

- Gross debt increased 40% q/q to AR$6.6bn (US$228mm), while cash and equivalents levels remain high at AR$6.0bn (US$206mm)

- Annualized gross and net leverage of 1.2x and 0.1x, respectively

EDENOR (AR$MM)	2Q18	2Q17	1Q18	y/y	q/q
Revenue	10,255	5,752	11,011	78%	(7%)
EBITDA	1,404	401	2,718	250%	(48%)
EBITDA margin	13.7%	7.0%	24.7%		

EDENOR (AR$MM)	2Q18	2Q17	1Q18	y/y	q/q
Total Debt	6,596	2,958	4,696	123%	40%
Cash and Equivalents	5,967	1,729	4,971	245%	20%
Net Debt	629	1,229	(275)	(49%)	
Leverage (Total Debt/LQA EBITDA)	1.2	1.8	0.4		
Net leverage (Net Debt/LQA EBITDA)	0.1	0.8	0.0		

EDENOR (AR$MM)	2Q18	2Q17	1Q18
EBITDA	1,404	401	2,718
Working capital	855	484	(333)
Capex	(1,256)	(962)	(999)
Interest paid	(196)	(133)	-
Taxes paid	(310)	(148)	(29)
FCF	497	(357)	1,357

MARKET OUTPERFORM (ARGENTINA):

EDNAR 9.75% 22s

Gross leverage sensitivty analysis	ARS/USD 35.0	40.0	45.0	50.0	55.0
EBITDA (assuming no tafiffs adjustments)	8,244	8,244	8,244	8,244	8,244
Gross debt	7,875	9,000	10,125	11,250	12,375
Gross leverage	0.9x	1.1x	1.2x	1.4x	1.5x

Net leverage sensitivty analysis	ARS/USD 35.0	40.0	45.0	50.0	55.0
EBITDA (assuming no tafiffs adjustments)	8,244	8,244	8,244	8,244	8,244
Net debt	1,775	2,600	3,425	4,250	5,075
Gross leverage	0.2x	0.3x	0.4x	0.5x	0.6x

SENSITIVITY ANALYSIS TO F/X

- 1H18 EBITDA AR$4,122mm (AR$8,244mm annualized)
- Jun-18 Gross debt: AR$6,597
  - US$176mm bonds
  - US$50mm bank loan with ICBC
- Jun-18 Cash and equivalents: AR$5,967mm
  - Aprox US$60mm in USD
  - Around AR$4.0bn in ARS
- Jun-18 Net debt: AR$629mm
- Assuming an scenario with no tariff adjustments and an ARS/USD of 55, we estimate gross and net leverage to be 1.5x and 0.6x, respectively
- We highlight that tariffs are adjusted on a semiannual basis by inflation

BRAZIL

MARKET OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
BRFSBZ 4.75% 05/22/2024	750	Ba2/ BB/ BBB-	92.00	6.47%

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 only one remaining IG.

Management team has turned over during the past several quarters, perhaps contributing to 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. We maintain BRF24s as Market Outperform, as operating cash generation continues to be in line with our normalized EBITDA projections and deleveraging seems to be the focus of new management.

PROS:

- Strong OCF during 2Q18 despite weak EBITDA due to various non recurring items
    - Cash burn improved y/y and leverage guidance for FY18 maintained at 4.35x
- 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, a conservative target in our view.
    - Management also expects 3x target by December 2019

CONS:

- Stated EBITDA continues to be weak, leading to higher leverage levels
- Higher grain prices should have a deeper impact
    - Spreads have been wider
- MENA region has yet to recover to historic margin levels
- 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

Recent Highlights – 2Q18 – Weak EBITDA, Strong Operating Cash Flow:

- 2Q18 revenue totaled R$8.2bn, up 2% y/y, following a 13% increase in volume of poultry in natura and a 2% lower average price
- COGS increased by 15% y/y, on the back of several non-recurring events, such as: R$246mm related to Trapaca Operation (R$200mm adjustments in inventory), (ii) R$60mm due to truck drivers strike (idleness and inventory), and (iii) R$127mm related to the reorganization plan announced in June (contractual termination costs)
    - In addition, higher grain prices also negatively increased costs
- 2Q18 adjusted EBITDA missed consensus by 14%, 47% below y/y, to a mere R$373mm
    - Adjustments were made in regard to the non-recurring events mentioned above, in addition to R$185mm from effects regarding the hedge accounting of export debts
- Cash from operations in cash flow statement, on the other hand, was R$833mm, in line with our expectations
    - Including R$246mm provisions for losses in inventories, R$212mm depletion of biological assets and R$205mm in others
- Negative FCF by R$218mm, despite WK expansion, however, better than 2Q17
    - Interest paid increased by 40% y/y, totaling R$400mm
- Total debt of R$22.5bn, up 8% q/q
- BRF recently announced the refinancing of R$4.3bn in credit facilities
- Annualized net leverage spiked to 10.2x, from 4.6x in 1Q18
- Management maintained the guidance of 4.35x for FY18 and 3x for 2019
- In May, the EU excluded twelve BRF's Brazilian plants from approved exporters

BRF (R$MM)	2Q18	BBG consensus	+/-	1Q18	2Q17	q/q	y/y
Revenue	8,181	8,170	0%	8,203	8,027	(0%)	2%
EBITDA	(289)			783	575		
Adjusted EBITDA	373	431	(14%)	802	704	(54%)	(47%)
Adj EBITDA margin	4.6%	5.3%		9.8%	8.8%		

BRF (R$MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Debt	22,485	20,764	23,980	8%	(6%)
Cash	7,274	7,434	8,148	(2%)	(11%)
Net Debt	15,211	13,330	15,832	14%	(4%)
Gross leverage (Total Debt/LQA Adj EBITDA)	15.1	6.5	8.5		
Net leverage (Net Debt/LQA Adj EBITDA)	10.2	4.2	5.6		

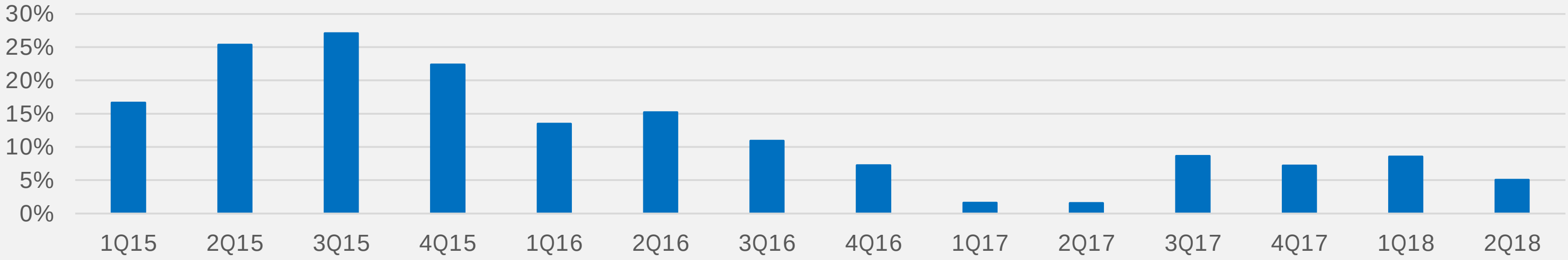
BRF (R$MM)	2Q18	1Q18	2Q17	q/q	y/y
Adj EBITDA	373	802	704	(54%)	(47%)
Capex	(378)	(470)	(457)	(20%)	(17%)
Interest paid	(400)	(162)	(286)	147%	40%
Taxes paid	(0)	(0)	(2)	(51%)	(94%)
FCF before WK	(405)	170	(41)		8.8x
Working capital	188	(340)	(319)		
FCF	(218)	(170)	(360)	28%	(40%)

MARKET OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

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

BRF's MENA EBITDA Margin



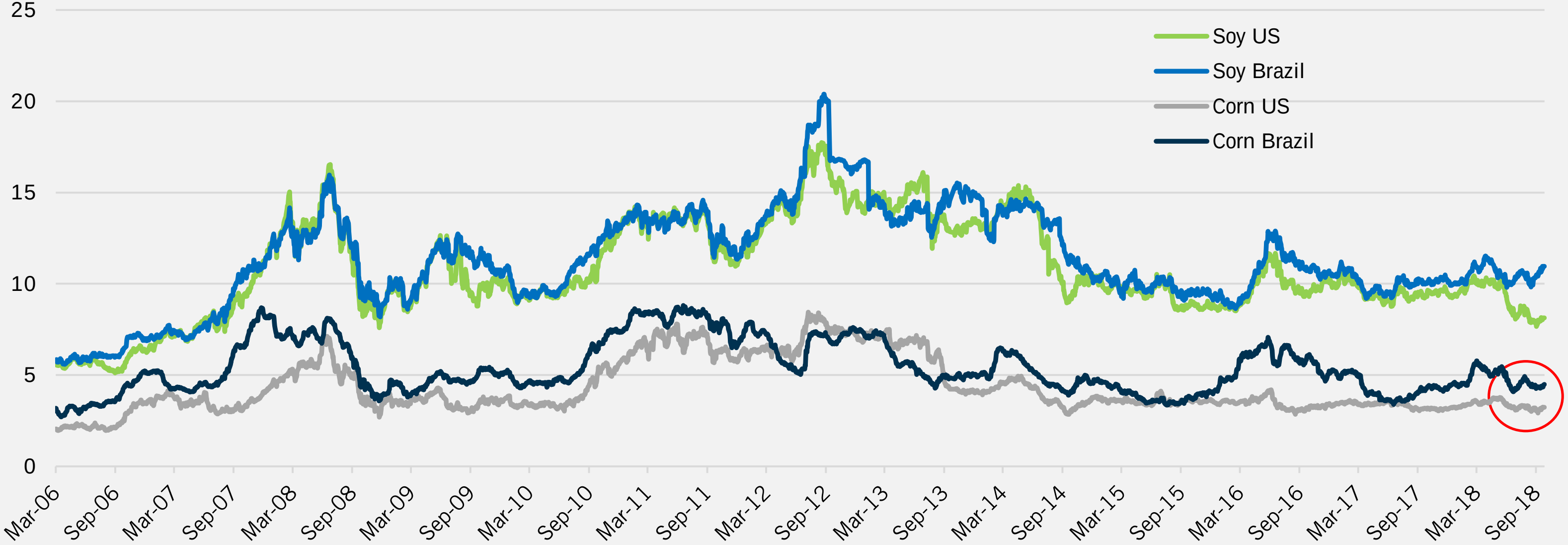
PRICE CHANGE INFLUENCE

MENA (US$ MM)	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	q/q	y/y
Revenue	583	566	576	611	491	419	450	481	457	406	457	474	514	3%	19%
Poultry in Natura	473	456	457	504	416	364	394	431	410	362	413	445	483	0%	25%
EBITDA	30	48	42	53	8	7	33	53	70	55	102	128	130	16%	618%
EBITDA Margin	5.1%	8.5%	7.2%	8.6%	1.6%	1.6%	7.3%	11.0%	15.2%	13.5%	22.4%	27.1%	25.4%	18%	431%
Average Price	1.98	2.04	1.94	2.00	1.90	1.89	1.99	2.06	1.89	1.79	1.92	2.03	2.20	5%	8%
Total Volume (kg)	295	277	297	305	258	222	226	233	241	227	239	233	233	(7%)	25%
Poultry in Natura	258	242	259	273	234	202	204	214	222	208	220	221	221	(7%)	20%
Average Price USD Poultry in Natura	1.83	1.88	1.76	1.85	1.78	1.80	1.93	2.01	1.85	1.74	1.87	2.01	2.19	7%	5%
Cash Costs	553	518	534	559	483	412	417	428	387	352	355	345	384	(3%)	26%
Cash costs per total kg	1.88	1.87	1.80	1.83	1.87	1.86	1.84	1.84	1.61	1.55	1.49	1.48	1.64	4%	0%

MARKET OUTPERFORM (BRAZIL):

BRFSBZ 4.75% 24s

INVESTMENT RISK: BRAZIL CORN PREMIUM SPREAD WIDENED IN 1H18. TARIFF WARS HAVE PUSHED SOY PREMIUMS WIDER. POTENTIAL NEGATIVE MARGIN IMPACT FOR BRF.



Feed represents about 30% of COGS

- 20% corn
- 10% soy

MARKET OUTPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

Light is an integrated Brazilian electricity company focused on distribution with operations in trading and generation in the city of Rio de Janeiro. Cemig is a participant of the control group, which owns 52% of voting shares, and BNDESPar 9%. Listed on Brazilian stock exchange, Light SA has a R$3.3bn market cap. According to news reports, Cemig expects to sell its stake in Light by the end of 2018. Light SESA (distribution segment) is the sixth largest electricity distribution company in Brazil - 19,673 GWh of energy distributed to the regulated market, accounting for 87% of consolidated revenue.

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
LIGTBZ 7.25% 05/03/2023	600	Ba3/-/BB-	97.38	7.95%

PROS:

- Started to successfully refinance upcoming maturities, considerable improvement in maturity profile:
    - Rolled over R$727mm of debt from Citibank for three years
    - Rolled over R$425mm from Banco do Brasil for three years
    - Issued R$1.4bn in a six year working capital facility secured by receivables (FIDC)
    - Issued R$525mm through subsidiaries
    - Issued US$600mm 2023s Eurobond
- Bond is fully hedged through a cross currency swap
- 2018, first full year after the completion of tariff review which should increase EBITDA by R$600 million
- As part of loss reduction program, company managed to improve non-technical losses to 39.01% from 39.61% in 4Q16, reducing gap to regulatory level from 950bps to 295bps
- Electricity distribution rights in the metropolitan region of Rio de Janeiro through Light Sesa; concession expires after bond maturity, 2026
- MOU signed with GP Investments can lead to further capitalization of the company and deleveraging
- FCF improvement expected in 2019 as CVA account is reversed (recovering higher generation costs)

CONS:

- Bond is Subordinated to secured debt instruments consisting of BNDES loans and a receivables investment fund, FIDC, assigned to issue up to R$1.4bn, both secured by receivables
- Higher energy losses compared to peers given very challenging demographics in Rio de Janeiro
- Upcoming maturities to be dealt with - R$605mm due in 2018, R$1.9bn due in 2019 and R$1.8bn due in 2020, as of June 2018

MARKET OUTPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

Recent Highlights – 2Q18 –Soft:

- 2Q18 revenue increased 21% y/y, down 2% q/q, in line with consensus, mainly driven by higher volumes sold on the billed market (up 15% y/y)
  - Distribution segment revenue increased 24% y/y, flat sequentially
- 2Q18 Adjusted EBITDA increased 110% y/y, down 6% q/q, missing consensus by 12%
  - Significant y/y Adj. EBITDA increase comes on top of a weak comparison base in 2Q17, given lower volumes, higher provisioning and higher personnel expenses in the latter
- Provisions expense down 38% y/y and 4% q/q, to R$189mm
- Personnel expenses down 18% y/y, to R$100mm
- Company energy losses deteriorated, from 21.75% in 2Q17 to 22.98%
  - Gap from regulatory level deteriorated 50bps, to 2.36% from 1.86% in 2Q17
  - Non-technical increased further to 43.36%, from 39.01% last quarter
- FCF negative of R$302mm driven mainly by WK expansion on suppliers payables decrease
  - Suppliers payables decreased R$164mm in the quarter

Light SA (R$ MM)	2Q18	BBG Consensus	+/-	1Q18	2Q17	q/q
Revenue	2,778	2,756	1%	2,842	2,288	(2%)
Adjusted EBITDA	446	508	(12%)	472	212	(6%)
EBITDA Margin	16.1%	18.4%		16.6%	9.3%	

Light SA (R$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Debt	9,886	7,694	6,839	28%	45%
Cash	1,951	214	279	812%	599%
Net Debt	7,935	7,480	6,560	6%	21%
Leverage (Total Debt / EBITDA (*))	5.5	4.1	8.1		
Net Leverage (Net Debt / EBITDA (*))	4.4	4.0	7.7		

(*) EBITDA - LQA

Light SA (R$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Adj. EBITDA	446	472	212	(6%)	110%
WK and Other Adj.	(408)	(332)	(64)	23%	535%
Tax Payments	(18)	(72)	(140)	(75%)	(87%)
Interest Payments	(170)	(70)	(202)	143%	(16%)
Net cash operating Cash Flow (*)	(150)	(2)	(194)	7400%	(23%)
Capex	(152)	(139)	(183)	9%	(17%)
FCF	(302)	(141)	(377)	114%	(20%)

MARKET OUTPERFORM (BRAZIL):

LIGTBZ 7.25% 23s

COMPARISON

	CEMIG	LIGHT SA
Rating	/B/B	B1/-/BB-
Maturity	2024	2023
Mid Price	106.38	98.00
Mid YTM	7.72%	7.77%
Spread to Sovereign	348	361
2Q18 (R$MM)		
Revenue	5,533	2,778
Adj. EBITDA	810	446
EBITDA Margin	15%	16%
Total Debt	14,604	9,886
Cash and Equivalents	1,229	1,951
Net Debt	13,375	7,935
LTM Leverage	4.5x	5.5x
LTM Net Leverage	4.1x	4.4x
Net Cash Operating Cash Flow	365	(150)
FCF	96	(302)

We see both companies undergoing similar situations, including, much needed liability management and divestitures, while recent tariff increase might help support deleveraging.

Though, comparatively, we see more value in Light than Cemig:

- Light trades in line with Cemig despite shorter maturity
- Light's refinancing needs are less demanding and further along, especially given recent developments
- Light's cash burn is mainly driven by working capital expansion related to loss reduction strategies which over time should revert.
- Furthermore recent CVA formation has contributed to cash burn as higher than expected generation costs will be recovered in the following calendar year.
- CVA – adjustments made by the regulator for distribution companies due to non-controllable cost variation
    - Example: When distribution companies incur higher generation costs relative to the pre-defined tariff, a regulatory receivable is recorded, and vice-versa, on lower costs
    - Increasing FX rate, given dollarized energy bought from Itaipu, drove high CVA formation in 2018 which should be recovered in 2019, contributing to FCF generation
- Cemig is looking to sell its interest in Light. Cemig signed an MOU with GP Investment. The transaction, which is expected to entail a capital increase, could be a positive for both credits

MARKET OUTPERFORM (BRAZIL):

ODEBRE 6.35% 21s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ODEBRE 6.35% 12/01/2021	338	-/B-/-	98.75	7.20%

Ocyan, (FKA **"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 drillships (Norbe VIII and Norbe IX). After 2017 restructuring, the old 21s and 22s principal were split between senior and subordinated tranches

PROS:

- Notes are senior tranche, backed by two ultra-deep water drillships, both operating normally
- 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
- Recently removed from Petobras "black list", which allows the company to sign contracts with Petbra
- Petbra is expected to gradually add offshore drilling capacity after having lowered the contracted fleet from over 60 to just 17.
- Holds US$20mm in minimum cash reserves and US$20mm in debt reserve account
- USD denominated charter contracts mitigates currency risk.

CONS:

- Drilling industry is impacted by 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 many 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.
- Ultra deep water well completion times have been considerably shortened as know-how has improved, likely resulting in fewer rigs required to reach Petbra future production growth than in the past.

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)	338	411
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)	648	1,505
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$mm)	IRR @ 98c
	USDk/day (*)				USDK/day			USDmm	US$mn			7.9%
TODAY												US$mn (331)
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

	Amt (US$mm)	Ratings (M/SP/F)	Mid Price	Mid YTM
ANTOIL 9.75% 12/05/2020	300	B2/-/B-	104.00	7.68%

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 segments include drilling technology, well completion and oil production. 1H18 results, new contract in Iraq, Moody's credit upgrade, and the company's recent bond exchange/issuance support our current 'Outperform' rating.

Pros:

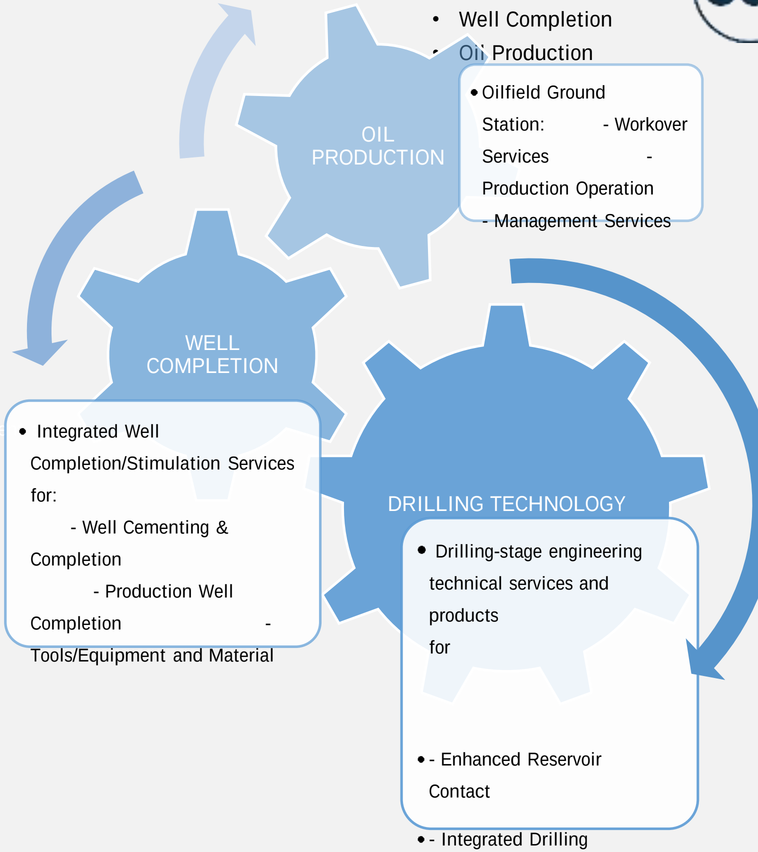
- July awarded 2-year service contract from Majnoon oilfield, in southern Iraq, will bring in US$100mm service revenue per year and add to Iraq presence
- Benefit from China's "Belt & Road" Strategy
  - Majnoon contract was insured by Sinosure against local political and commercial risks
  - Bank of Beijing granted special credit for overseas business
- 22s bond was upgraded by Moody's from B3 to B2 in April
- Strong overseas presence: 66% revenue comes from Iraq and other countries
- Positive 1H18 financial results – improved EBITDA margin and lower leverage

Cons:

- Revenue declined q/q across three business segments
- FCF cash burn US$23mm in 1H18 – stretched WK and elevated A/R

Operations:

- Drilling technology
- Well Completion
- Oil Production



MARKET OUTPERFORM (CHINA):

ANTOIL 9.75% 20s

ANTOIL (USD mm)	1H18	2H17	1H17	y/y	h/h
Revenue	183	200	127	44%	(8%)
EBITDA calculated	72	62	42	73%	17%
EBITDA margin	41%	31%	33%	797 bps	977 bps

ANTOIL (USD mm)	1H18	2H17	1H17	y/y	h/h
EBITDA calculated	72	62	42	73%	17%
Capex	(7)	(42)	(15)	(50%)	(83%)
Asset disposal	-	0	1		
Acquisition of subs	-	(1)	(5)		
Income tax paid	(5)	(5)	(2)	133%	(0%)
Net interest paid	(22)	(12)	(14)	58%	82%
WK	(59)	(4)	(71)	(17%)	1561%
FCF	(23)	2	(63)	(63%)	(1586%)

ANTOIL (USD mm)	1H18	2H17	1H17	y/y	h/h
Gross debt	456	523	397	15%	(13%)
Cash	68	174	50	37%	(61%)
Net debt	388	349	347	12%	11%
LHA gross leverage	3.2x	4.2x	4.8x	(1.6x)	(1.1x)
LHA net leverage	2.7x	2.8x	4.2x	(1.5x)	(0.1x)

1H18 Financials

- Revenue from goods and services decreased 11% h/h to US$178mm
  - Revenue in China and key overseas market Iraq decreased h/h to US$60mm and US$66mm, respectively
  - Company obtained US$319mm in new service contracts from overseas market and US$152mm from China in 1H18, pushing up total contract backlog to US$795mm (24% from China and 76% overseas)
- EBITDA increased 17% h/h to US$72mm
- FCF turned negative to US$(23)mm on increased WK investment
- Gross debt decreased 13% h/h to US$456mm, mainly due to decrease in ST debt
  - US$71mm USD bond (ANTOIL 7.5% 11/06/2018) was called in 1H18
  - 22s bond was upgraded by Moody's from B3 to B2 in April
- LHA net leverage decreased slightly to 2.7x

F/X Exposure

- 34% revenue denominated in CNY (US$60mm) and 66% in USD (US$118mm)
- All bonds (US$300mm) denominated in USD
- All bank borrowings (US$157mm in 1H18, US$162mm in 2H17) denominated in CNY as of 2H17
  - US$55mm (denominated in CNY) special credit obtained from Bank of Beijing for overseas project
- No derivatives F/X hedging on balance sheet as of 2H17

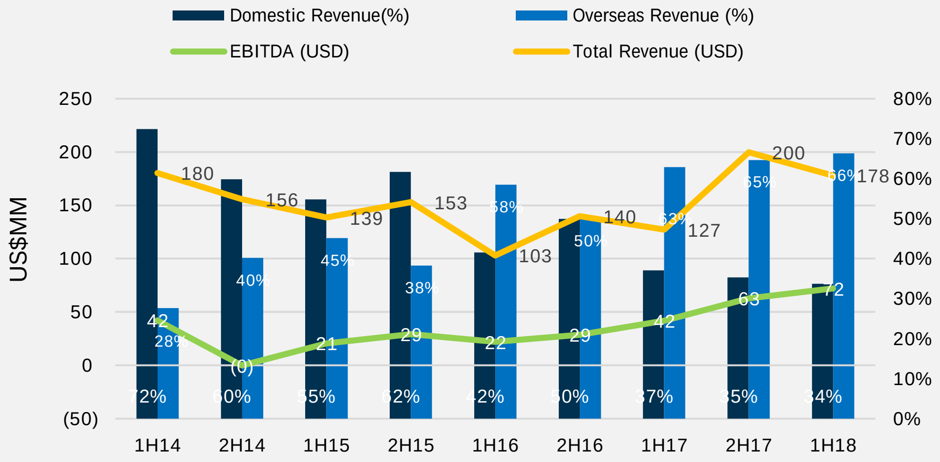
MARKET OUTPERFORM (CHINA):

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 intended to implement asset-light strategy at a high level. Newly obtained Iraq contract does not require equipment investment but personnel service. The new strategy would lower company's exposure to local political risk in future projects
- Revenues that was primarily domestically driven shifted to heavily sourced by overseas operations – 66% of revenues were derived from overseas in 1H18
- In addition to enhancing the company's ability to penetrate outside markets, the shift appears to be having a positive impact on EBITDA

Antoil Revenue Breakdown



ECUADOR

MARKET OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ECUA 9.675% 06/02/2027	$1,000	-/B-/B-	96.00	10.24%

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 production of 529kbpd, most of it heavy-oil. Current president is socialist Lenin Moreno, who took office in May-17 and has a mandate until 2021

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
- Fiscal situation significantly improved, with primary surplus in 1H18 and a 0.9% total deficit, well below 2018 3.9% budgeted deficit. 2Q18 plan aims to eliminate deficit by 2021
- Steady GDP growth. In the past six years, GDP only contracted in 2016

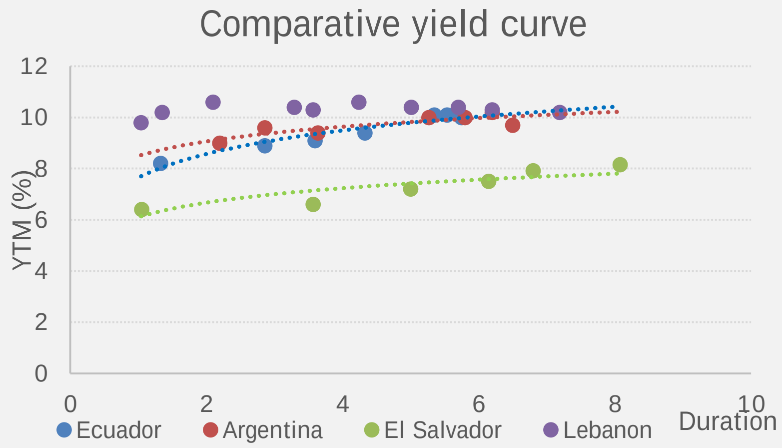
CONS:

- Internal audits concluded that debt accounted by Correa was understated, including failure to account advances given to Petroecuador for future oil sales and loans. Per results, total debt reaches 57% of GDP, vs 32% disclosed by previous administration
- Debt ceiling of 40% of GDP, with additional debt requiring congress approval together with a mid term economic plan, which was presented in 2Q18

MARKET OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

(US$ MM)	ECUADOR	ARGENTINA	EL SALVADOR	LEBANON
Bond Maturity	2027	2027	2027	2027
Coupon	9.625%	6.875%	6.375%	6.850%
Mid yield (%)	10.10%	10.03%	7.52%	10.50%
Spread to UST (bps)	685	662	428	719
Rating (M/SP/F)	-/B-/B-	B2/B+/-	B3/CCC+/-	-/B-/B-
Amount Outstanding	$2,500	$3,744	$800	$1,250
1H18				2018 budget
Primary surplus / (deficit)	1,410	(3,181)	670	NA
as % of GDP	2.7%	(1.9%)	2.6%	NA
Total surplus / (deficit)	(452)	(6,363)	296	(4,800)
as % of GDP	(0.9%)	(3.9%)	1.1%	(8.0%)
		Mar-18		Dec-17
Gross debt	58,980	331,481	17,491	79,500
Gross debt / GDP	57%	59%	68%	142%
External debt / GDP	43%	43%	35%	54%



Source: BBG as of 10/05/2018

MARKET OUTPERFORM (ECUADOR):

ECUA 9.625% 27s

ECUADOR (US$MM)	1H18	2H17	1H17	2016	2015	2014	2013	2012
Current income	9,134	9,875	8,593	18,576	23,185	22,987	21,466	23,570
Current expenses	(5,988)	(6,674)	(6,474)	(15,253)	(18,178)	(19,372)	(18,217)	(15,253)
Capital income	978	797	876	2,108	2,812	3,326	4,532	916
Capital expenses	(2,713)	(4,726)	(3,916)	(9,538)	(10,128)	(11,777)	(11,539)	(9,268)
Primary surplus / (deficit)	1,410	(729)	(920)	(4,106)	(2,308)	(4,835)	(3,758)	(35)
as % of GDP	2.7%	(1.5%)	(1.8%)	(4.2%)	(2.3%)	(4.8%)	(4.0%)	(0.0%)
Interest	(1,862)	(1,302)	(1,213)	(1,931)	(1,762)	(1,388)	(1,182)	(947)
Total deficit	(452)	(2,031)	(2,134)	(6,038)	(4,071)	(6,224)	(4,491)	(982)
as % of GDP	(0.9%)	(4.0%)	(4.3%)	(6.1%)	(4.1%)	(6.1%)	(5.2%)	(1.1%)
Gross debt	58,980	46,535	43,542	38,136	32,771	30,140	22,846	18,652
Gross debt / GDP	57%	46%	43%	39%	33%	30%	24%	21%
External debt / GDP	43%	32%	28%	26%	20%	17%	14%	12%
Oil production per OPEC (kbpd)	530	525	530	545	545	542	514	499
GDP growth	1.3%	2.4%	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

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
SEPLLN 9.25% 04/01/2023	$350	B2/B-/B-	101.38	8.87%

Seplat is an upstream oil and gas company located in Nigeria, with production of nearly 51kboepd, of which nearly half is oil and half is gas. The company operates in five blocks, although the vast majority of its production comes from the OML 4, 38 & 41 blocks situated in the Niger Delta.

PROS:

- Significant reserves. 2P average life of 25 years at Dec-17 reserves and 1H18 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
- Strong FCF generation
- Very low leverage
- OML 4, 38 & 41 concession recently extended for further 20 years

CONS:

- Exposed to militant attacks, which through Feb-16 to Jun-17 resulted in the shut down one of the main (and one of the only two) existing export routes
- Production concentrated in the OML 4, 38 & 41 blocks (96% of total)

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

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

(US$ MM)	Seplat	CGC	PANAME	Tecpetrol	Frontera	Gran Tierra	Canacol	Geopark	Tullow	Kosmos	Nostrum
Country	Nigeria	Argentina	Argentina	Argentina	Colombia	Colombia	Colombia	Chile	Pan African	Pan African	Kazakhstan
Mid yield (%)	8.5%	13.8%	6.6%	7.4%	8.1%	6.6%	7.8%	6.3%	5.8%	5.3%	9.6%
Rating (M/SP/F)	B2/B-/B-	-/B-/B	Ba3/-/BB-	Ba3/-/BB+	-/BB-/B+	-/B+/B+	-/B+/B+	-/B+/B+	B3/B/-	-/B-/B	B2/B-/-
Bond maturity	2023	2021	2021	2022	2023	2025	2025	2024	2022	2021	2022
Amount Outstanding (US$mm)	350	300	500	500	350	300	300	425	650	$300	$725
	2Q18	2Q18	2Q18	2Q18	2Q18	2Q18	1Q18	2Q18	1H18	2Q18	2Q18
Oil & Gas production (kboed)	48.6	31.2	164.0	55.7	64.1	28.2	20.9	35.6	91.0	42.3	32.5
Revenue	162	129	1,114	208	419	163	54	159	1,034	215	97
EBITDA	107	69	656	138	125	102	34	83	764	2157	56
FCF	265	6	155	(226)	23	(27)	99	(12)	506	14	12
Gross debt	545	464	2,081	1,115	340	398	343	427	3,475	1,168	1,128
Net debt	510	399	1,881	1,057	(211)	272	283	321	3,082	1,051	1,000
LQA Gross leverage	1.3x	1.7x	0.8x	2.0x	0.7x	1.0x	2.6x	1.3x	1.1x	2.1x (*)	5.0x
LQA Net leverage	0.1x	1.4x	0.7x	1.9x	n/a	0.7x	2.1x	1.0x	1.0x	2.0x (*)	4.0x

*Pro forma for DGE acquisition

Source: BBG as of 10/05/2018

MARKET OUTPERFORM (NIGERIA):

SEPLLN 9.25% 23s

Analysis of 2Q18 results:

- Revenue increased 92% y/y while decreasing 10% q/q to US$162mm
  - Jump in annual revenue due to a 53% increase in production to 48.6kbpd, 74% increase in crude prices and a 14% improvement in gas prices
  - Higher annual production as during Feb-16 to Jun-17 exports through the TransForcados System remained interrupted
  - On a quarterly basis, production dropped 9%
  - 51.1kbpd 1H18 production within guidance of 48/55kbpd for 2018
  - The two current export routes are operating normally while ramp-up of a third export route (Amukpe-Escravos), with a 160kbpd capacity, was delayed to 4Q18
- Higher prices and production strongly expanded EBITDA by 257% y/y to US$107mm, although it decreased 7% q/q on lower revenue
- EBITDA margin improved y/y and q/q, ending at 66.2%
- Strong free cash flow generation of US$265mm marked by high EBITDA and positive WK, reversing negative 1Q18 WK
  - Capex of US$19mm and US$21mm in 1H18 vs plan of US$100mm for 2018
- Gross debt increased 2% q/q to US$545mm, comprised of a US$350mm senior notes due 2023 and a US$200mm drawn from its 4yr RCF
- Annualized gross and net leverage remained very low at 1.3x and 0.1x
- Seplat reported that the Department of Petroleum Resources approved the renewal of the licenses on OML 4, 38 and 41 fields (96% of production) for further 20 years
- The renewal is still subject to approval from the Honorable Minister of Petroleum Resources

Seplat (US$MM)	2Q18	2Q17	1Q18	y/y	q/q
Revenue	162	85	181	92%	(10%)
EBITDA	107	30	116	257%	(7%)
EBITDA margin	66.2%	35.5%	64.2%	86.4%	3%

Seplat (US$MM)	2Q18	2Q17	1Q18	y/y	q/q
Total Debt	545	625	536	(13%)	2%
Cash and Equivalents	510	202	361	153%	41%
Net Debt	35	423	175	(92%)	(80%)
Leverage (Total Debt/LQA EBITDA)	1.3	5.2	1.2		
Net leverage (Net Debt/LQA EBITDA)	0.1	3.5	0.4		

Seplat (US$MM)	2Q18	2Q17	1Q18
EBITDA	107	30	116
Working capital	163	24	(149)
Capex	(19)	(6)	(3)
Receipts from OML 55	15	23	-
Interest paid	(2)	(17)	(13)
Taxes paid	-	-	-
FCF	265	53	(49)

INDONESIA

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

	Ranking	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
GJTLIJ 8.375% 08/10/22	Secured	250	B2/ B-/ -	83.50	14.10%

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). Revenue is split between 64% domestic and 36% export sales. Gajah has a market cap of approximately US$151 mm.

PROS:

- 1st lien 22s rank pari-passu with the five year Senior Secured Bank Facilities
- Maintenance covenants on the Senior Secured Facility allow for acceleration of debt repayment to banks should the company fail to:
  - Debt to Equity ratio of less than 1.5 : 1
  - Adjusted Leverage ratio starting from first quarter of the 2018 to 2020 is less than 3.5x and thereafter less than 3.0
  - Debt Service Coverage ratio of less than 1.5x
  - Minimum Net Worth IDR 5 tn
- Positive 2Q18 results, breakeven FCF, increased calculated EBIDTA and LTM net leverage 3.1x, below covenant*
- Margin expansion despite currency weakness and oil strength.
- 36% sales generated by exports, providing hard currency revenue
- First and only synthetic rubber (“SBR”) plant in Indonesia, and first SBR plant in Southeast Asia
- One of the largest tire cord manufacturers in Southeast Asia, largest in Indonesia

CONS:

- 64% sales denominated in IDR and exposed to currency depreciation, while key inputs are USD based.
- Key inputs in synthetic rubber are petroleum based. Higher crude results in cost pressures.
- Exports dropped sharply in 2Q18 with no clarification from management.

(*) Calculation methods may differ from previous page. Company is in compliance with all covenants

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

Gajah Tunggal (USD mm)	2Q18	1Q18	2Q17	y/y	q/q
Revenue	238	284	261	(9%)	(16%)
Adj. EBITDA	27	37	24	14%	(26%)
EBITDA margin	11%	13%	9%	230 bps	(147) bps
LTM EBITDA margin	12%	11%	-	-	58 bps

Gajah Tunggal (USD mm)	2Q18	1Q18	2Q17	y/y	q/q
Adj. EBITDA	27	37	24	14%	(26%)
WK	(15)	61	(24)	(38%)	(124%)
Net tax paid	(2)	(2)	(4)	(64%)	(32%)
Net interest paid	(5)	(17)	(1)	430%	(70%)
Asset sales	0	0	0	16%	24%
Capex	(6)	(3)	(10)	(37%)	109%
FCF	(1)	75	(16)	(95%)	(101%)

Gajah Tunggal (USD mm)	2Q18	1Q18	2Q17	y/y	q/q
Gross debt	511	521	587	(13%)	(2%)
General cash	124	138	64	(93%)	(10%)
Net debt	387	383	522	(26%)	1%
LTM gross leverage	4.1x	4.3x	-	-	(0.2x)
LTM net leverage	3.1x	3.2x	-	-	(0.0x)

2Q18 Financials:

- Revenue decreased 9% y/y to US$238mm
  - The decline was due to lower working days due to the extended Lebaran holiday and weak performance in export markets
  - Export sales (36% 2Q18 revenue) decreased 22% y/y to US$87mm
  - Decline in export was partially offset by 3% increase in local sales (64% 2Q18 revenue) to US$154mm
- EBITDA increased 14% y/y to US$27mm
  - COGS and SGA decreased 6% and 12% y/y respectively, neutralizing the negative impact from sales decline
  - We view the margin improvement as positive given IDR depreciation and oil price increase, given reliance on oil related inputs
- FCF improved y/y and was almost breakeven, compared with US$(16)mm in 2Q17
  - WK requirement and capex decreased 38% and 37% y/y respectively
- Gross debt decreased 2% q/q to US$511mm, net debt increased 1% q/q to US$387mm on lower cash level
- LTM net leverage remained approximately same level q/q at 3.1x
  - Leverage levels remain below the 3.5x covenant under the Senior Secured Facilities agreement

F/X Exposure

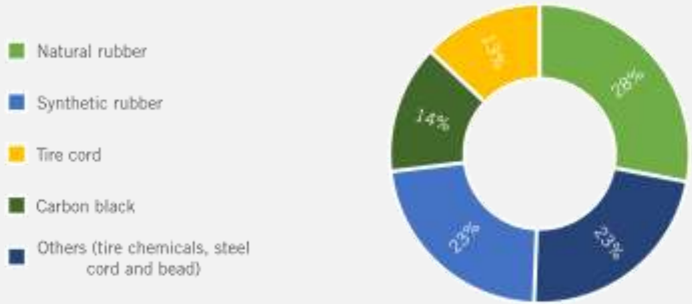
- 36% revenue comes from export and 64% local sales
- 55% cash (US$69mm out of US$124mm) denominated in USD and EUR, the rest in IDR
- Gross debt US$511mm
  - US$251mm, bond denominated in USD, secured
  - US$236mm, bank loan in USD, US$222mm of which is secured
  - US$8mm, financial lease in USD
  - US$16mm, other debt in IDR
- Company hedged F/X risk with bull call spread

MARKET OUTPERFORM (INDONESIA):

GJTLIJ 8.375% 22s

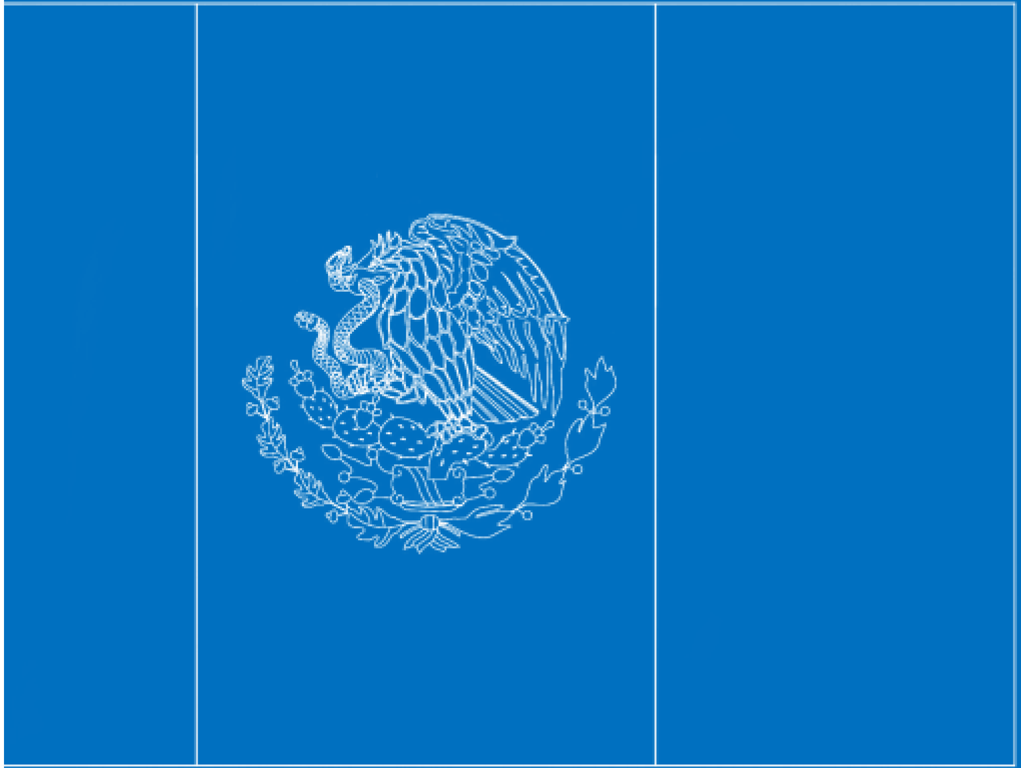
RAW MATERIAL COSTS:

- <u>Raw materials at 2Q18 account for 59% of Gajah's COGS</u>
- 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)



- <u>70% rubber production and 82% tire cord production is used internally</u>
    - GJTLIJ has the first and only synthetic rubber ("SBR") plant in Indonesia, and the first SBR plant in Southeast Asia
        - FY17 annual production capacity was 75,000 tons
        - Volumes were comprised of SBR 1712 (46%) and SBR 1502 (45%) (FY17)
    - It is one of the largest tire cord manufacturers in Southeast Asia
        - FY17 annual production capacity was 40,000 tons
        - Volumes were comprised of nylon -6 tire (58%), nylon -66 tire cord (17%) and polyester tire cord (25%) (FY17)

MEXICO



MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
CYDSA 6.25% 10/04/2027	$330	- / BB / BB+	95.50	6.93%

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. FCF burn has begun to moderate in 2018, as the new LNG storage system is fully operational. CYDSA is fitting leftover salt caves to store LNG and other petrochemicals. FCF burn has caused CYDSAs total debt to increase yet managing to keep leverage ratios stable due to improving EBITDA and should decrease as FCF improves.

PROS:

- Vertically integrated model with access to raw materials for salt production, the main raw material for its other petrochemical processes
- Market leader in household and industrial salt in Mexico
- Domestic deficit in caustic-soda production
- An adverse NAFTA scenario would benefit 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
- The company's current natural hedge is made up with about 71% of the total revenues being either in USD or USD linked
- CYDSA has one of the highest petrochemical EBITDA margins, as well as two operational cogeneration plants covering its entire energy needs
- The first operational LNG storage cave now accounts for 16% of EBITDA, although its currently not part of the restricted group

CONS:

- Low control on product pricing due to commodity nature
- 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
- Increased environmental regulations, as well as dependency on current water supply concessions
- 45% of employees are represented by unions or equivalent bodies
- Reduced hedged amt. to US$150 mm, from the previous US$330 mm
- Future LNG caves are expected to be built through non-recourse project financing, outside the restricted group
    - Once operational, the current cave acquired a project financing and transferred US$120 mm back to the restricted group

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

2Q18 Earnings:

- 2Q18 Revenue increased by 18% q/q to MXN$2,854 mm (US$147 mm), increasing by 21% y/y as well
    - Salt, chlorine and chemical revenue increased by 13% q/q to MXN$1,803 mm, increasing by 14% y/y due to higher reference pricing in chemical commodities
    - Refrigerant gases and LNG storage revenues increased by 28% q/q to and 35% y/y to MXN$1,051 mm, as the LNG storage business was fully operational since 1Q18
    - Domestic revenues accounted for 91% of total sales during the quarter
- EBITDA remained stable q/q and increased by 32% y/y to MXN$815 mm (US$42 mm)
    - Sequentially, EBITDA remained stable as COGS growth outpaced revenue growth – reaching 60% of 2Q18 sales compared to 54% during last quarter
    - Y/Y growth was driven by the LNG storage business, as well as higher commodity pricing
    - EBITDA margin was 29%, compared to 33% last quarter and 26% during 2Q17 – remaining one of the highest margins versus peers

CYDSA (MXN MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Revenue	2,854	2,415	2,363	18%	21%
EBITDA	816	809	617	1%	32%
EBITDA margin	29%	33%	26%	-	-
CYDSA (MXN MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Debt	8,398	6,980	6,646	20%	26%
Cash & Equivalents	2,238	1,161	1,535	93%	46%
Net Debt	6,160	5,819	5,111	6%	21%
Total Debt / LQA EBITDA	2.6x	2.2x	2.7x	0.4x	-0.1x
Net Debt / LQA EBITDA	1.9x	1.8x	2.1x	0.1x	-0.2x
CYDSA (MXN MM)	2Q18	1Q18	2Q17	q/q	y/y
EBITDA	816	809	617	1%	32%
Interest paid	(232)	(45)	(79)	(413%)	(195%)
Capex	(278)	(135)	(440)	(105%)	37%
Working capital	154	(337)	(288)	-	-
Taxes paid	(99)	(384)	(22)	74%	(354%)
FCF	361	(93)	(212)	-	-

MARKET OUTPERFORM (MEXICO):

CYDSA 6.25% 27s

2Q18 Earnings - Continued:

- FCF generation was MXN$361 mm (US$19 mm), driven by primarily by working capital and partially offset by higher capex
    - Working capital contracted due to higher trade payables
    - 2Q18 capex was higher sequentially but still well below previous growth capex quarters
- Total debt was MXN$8,398 mm (US$422 mm), while cash increased to MXN$2,238 mm (US$112 mm)
    - Sequential increase was driven by withdrawing the remainder of the MXN syndicated revolving line, the initial withdrawal in December was used to pay all existing MXN debt
    - 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 2.6x and 1.9x, compared to 2.2x and 1.8x during last quarter

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RUSSIA

MARKET OUTPERFORM (RUSSIA)

AKBHC 9.25% PERPS

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
AKBHC 9.25% Perps	$300	-/ -/ B-	96.75	10.46%

Tinkoff Bank (B2/-/BB-) - established in 2006, Tinkoff Bank is Russia's 26th largest bank by asset size and the second largest credit card issuer in the country. Tinkoff Bank is controlled by its founder Mr. Oleg Tinkov (47.31%); other shareholders are: Vostok Nafta, Goldman Sachs, Baring Vostok and Horizon Capital. Tinkoff Bank has been listed in the LSE since October 2013 with a current market cap of ~US$3.2 billion

We introduce Tinkoff Perps to our BCP Securities Top Picks List: following the recent sell off, price dipped below par and the bonds are offering an interesting 10% plus yield. Tinkoff Bank consistently posts sound results, including the latest 2Q18, allowing strong profitability to support capital adequacy level at more than adequate level (CET1 at over 11%). Perps are subject to permanent write down, however, taking into account the bank's historic performance, sound results and comfortable capitalization level, we believe the AKBHC Perps may be of interest for risk tolerant investors.

PROS:

- Majority owner – Mr. Oleg Tinkov (47.31%) is a well-known Russian entrepreneur with an impressive track record of successful start-ups (Technoshok, Dariya, Tinkoff Beer & Restaurants); interested in cycling
- Branchless – styled after the US Capital One Bank (circa 1990s), the bank has no physical offices, which cuts operating costs substantially and allows the bank to be flexible during the down economic cycles
- Notable Market Share – an 11.5% market share of the domestic credit card market, second after Sberbank, the country's largest lender
- LSE-listed – since October 2013, initially raising over US$1.0 billion
- Well-capitalized, profitable and rated A(RU) by ARCA – strong profitability supports capital adequacy

CONS:

- Retail Loans – although Tinkoff Bank started to diversify in 2017 (SME, mortgage), the core business is unsecured consumer lending in Russia
- Generous Dividend Policy – since March 2017, the bank distributes on a quarterly basis up to 50% of the net income achieved during the previous quarter; subject to bank, funding, other covenants
- New projects – as a part of a diversification strategy, the bank has been involved in M&A activity (55% stake in Cloud Payments) and plans to be on a look out for a promising opportunities
- David vs. Goliath – Tinkoff Bank faces two large competitors: Sberbank and Alfa-Bank – in a highly competitive retail lending market

MARKET OUTPERFORM (RUSSIA)

AKBHC 9.25% PERPS

On August 29, 2018, Tinkoff Bank posted sound 2Q18 IFRS results – the bank's bottom line demonstrated annual and sequential improvement gaining 42.7% y/y and 5.1% q/q. The results (on annual and quarterly basis) benefitted from healthy growth of net interest income (+28.4% y/y and +1.0% q/q) with net F&C income growing on an annual basis (+175.5% y/y) whilst slowing down sequentially (-23.5% q/q). Provisioning grew y/y (+52.7%) due to IFRS9, yet was lower sequentially (-4.2% q/q). Operating expenses continue to grow (+53.1% y/y and +8.6% q/q) largely due to growing acquisition expenses. Capitalization – sound with both Tier I CAR and Total CAR are at 16.5% (-0.5pp q/q); CET1 ratio improved to 11.4% (+1.0pp q/q) vs. regulatory minimum of 6.1%.

- Assets – grew 6.8% YTD to RUB 287.2 billion, up 10.8% since Jan. 1, 2018
- Loan book – gross loan portfolio added 13.7% since Jan. 1, 2018 reaching RUB 189.5 billion; whilst net loans gained 17.3% during the same period of time reaching RUB 152.2 billion
- Asset quality – NPL ratio is at 12.1% (-1.3pp YTD and +0.5pp q/q) as a result of adoption of IFRS 9 methodology; loan loss provision coverage maintained at 1.6x NPLs; according to the bank's cash flow statement, the bank collected in cash 92% of its interest income (-6pp y/y) – possibly attributable to change of method (1H18 – effective interest rate method), or reflective of asset quality trends
- Deposits – expanded 16% YTD to RUB 207.7 billion at a slightly slower pace than the bank's net loan book
- Capitalization – equity grew 8.1% YTD to RUB 34.7 billion:
    - According to the Central Bank of Russia (CBR):
        - N1.0 – 16.4% (-0.3pp q/q)
        - N1.2 – 16% (+1.2pp q/q)
        - N1.1 – 11.4% (+1.0pp q/q) vs. min CET1 of 6.1%
    - According to Basel III – both Tier I CAR and Total CAR were at 16.5% (-0.5pp q/q)
- Net Profit – RUB 6.0 billion (+42.7% y/y and +5.1% q/q) - the results (on annual and quarterly basis) benefitted from healthy growth of net interest income (+28.4% y/y and +1.0% q/q) with net F&C income growing on an annual basis (+175.5% y/y) whilst slowing down sequentially (-23.5% q/q). Provisioning grew y/y (+52.7%) due to IFRS9, yet was lower sequentially (-4.2% q/q). Opex continue to grow (+53.1% y/y and +8.6% q/q) largely due to growing acquisition expenses
- Dividend - in effect from March 14, 2017 (replaces the one adopted on March 2, 2016):
    - The bank will be distributing surplus capital on a quarterly basis with a target dividend payout ratio in respect of each quarter of each financial year of 50% of the net income achieved in the preceding financial quarter (based on IFRS)
    - On August 27, 2018 – Board of Directors approved a third 2018 gross dividend of US$0.24/share or GDR (~US$43.9 million)
- 2018 Guidance – reaffirmed:
    - Net income of at least RUB 24 billion
    - Net loan growth of at least 25%
    - Cost of borrowing 6 – 7%
    - Cost of risk based on IFRS9 ~7%

MARKET OUTPERFORM (RUSSIA)

AKBHC 9.25% PERPS

Tinkoff Bank	2Q18	2017	YTD	2Q18	2017	YTD
	RUB MM			USD MM		
Total Assets	287,172	268,828	6.8%	4,562	4,657	-2.0%
Cash and treasury portfolio	104,900	96,300	8.9%	1,666	1,668	-0.1%
Loans	152,191	140,245	8.5%	2,418	2,429	-0.5%
Deposits	207,675	179,045	16.0%	3,299	3,102	6.4%
NPL (*)	12.1%	13.4%	-1.3pp	12.1%	13.4%	-1.3pp
Tier I CAR (*)	16.5%	17.7%	-1.2pp	16.5%	17.7%	-1.2pp
Total CAR (*)	16.5%	17.8%	-1.3pp	16.5%	17.8%	-1.3pp
FX(RUB/USD)	62.95	57.73	9.0%	62.95	57.73	9.0%

(*) as of Jan. 1, 2018 (IFRS9)

Tinkoff Bank, RUB MM	2Q18	2Q17	y/y	1Q18	q/q	2017	2016	y/y
Net Interest Income	14,191	11,055	28.4%	14,046	1.0%	46,076	33,556	37.3%
Net F&C Income	3,840	2,188	175.5%	5,020	-23.5%	9,913	5,359	85.0%
Operating Income	16,459	11,168	147.4%	16,526	-0.4%	48,831	33,613	45.3%
Provision Charge	3,087	2,021	52.7%	3,221	-4.2%	7,640	8,386	-8.9%
Operating Expenses	5,593	3,652	53.1%	5,149	8.6%	16,206	11,321	43.1%
Net (loss) / profit	6,021	4,219	42.7%	5,728	5.1%	19,023	11,011	72.8%

Tinkoff Bank, USD MM	2Q18	2Q17	y/y	1Q18	q/q	2017	2016	y/y
Net Interest Income	225.44	186.37	21.0%	244.76	-7.9%	798	551	44.8%
Net F&C Income	61.00	36.89	165.4%	87.48	-30.3%	172	88	95.1%
Operating Income	261.47	188.27	138.9%	287.98	-9.2%	846	552	53.2%
Provision Charge	49.04	34.07	43.9%	56.13	-12.6%	132	138	-3.9%
Operating Expenses	88.85	61.57	44.3%	89.72	-1.0%	281	186	51.0%
Net (loss) / profit	95.65	71.13	34.5%	99.81	-4.2%	330	181	82.2%
FX(RUB/USD)	62.95	59.32	6.1%	57.39	9.7%	57.73	60.88	-5.2%

- Sound 2Q18 IFRS Results – the bank's bottom line demonstrated annual and sequential improvement gaining 42.7% y/y and 5.1% q/q
- Decent Capitalization – CET1 at a very impressive 11.4% (vs. 6.1% min required by the CBR) stronger than its main private competitor, Alfa-Bank (9.5%)

MARKET OUTPERFORM (RUSSIA)

AKBHC 9.25% PERPS

Tinkoff Bank Capitalization	2015	2016	2017	1H18	CBR min
Core Tier I CAR - N1.1 - CET 1	9.3%	8.6%	10.2%	11.4%	4.5%
Tier 1 CAR - N1.2	9.3%	8.6%	14.7%	16.0%	6.0%
Total CAR	12.6%	11.1%	16.3%	16.4%	8.0%
Perps Write Down Trigger Level				5.5%	

Write Down Provisions

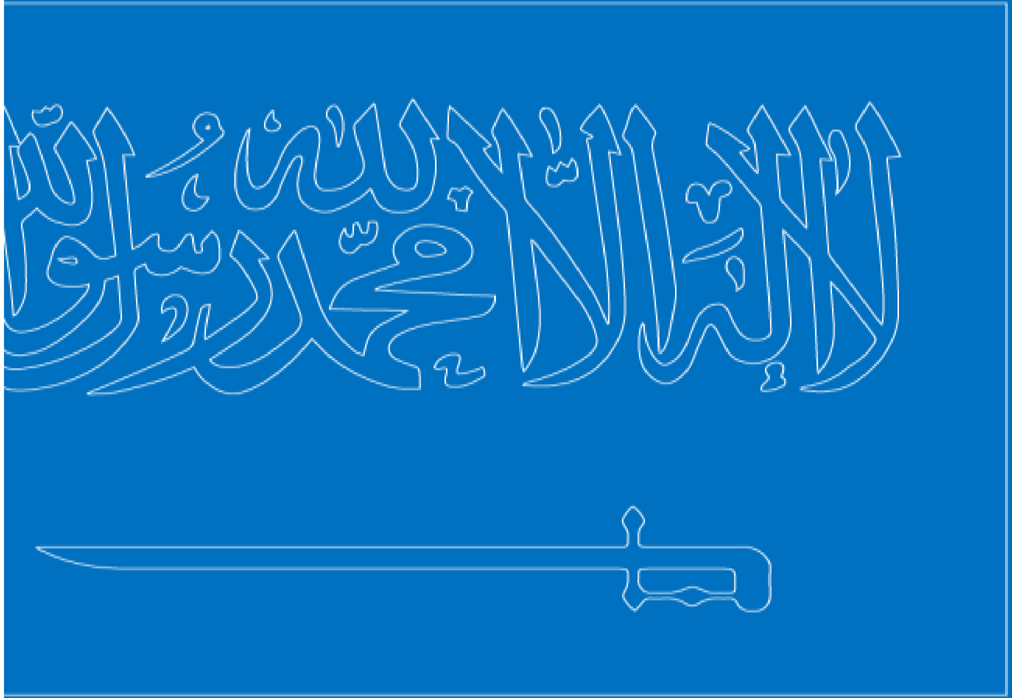
- Notes were issued by TCS Finance for the purpose of financing a subordinated loan to Tinkoff Bank
- Notes will be written down permanently, in the amount equal to the total principal amount of the securities accounted for as Tier I capital:
    - If principal capital (CET 1) is at a lower level than 5.125%, the Central Bank of Russia (CBR) later increased the trigger for AT1 bonds to 5.5%
    - The Banking Supervision Committee of the CBR approves a plan for a participation of the Deposit Insurance Agency (DIA) in bankruptcy prevention measures which contemplates the provision of financial assistance
    - Write down applies after undistributed profit, reserve fund and other sources of CET 1 have been exhausted to absorb losses
    - Interest payment will be suspended
    - Principal written down may not be restored under any circumstances
- The write down will not constitute a payment default
- Callable starting 2022 and after each coupon payment thereafter

Write Down Trigger Events (CBR #395-P):

- CET 1 capital ratio calculated in accordance with the CBR (#139-I) has fallen below the level of 5.5% for a total of six (6) or more operating days within any 30 consecutive days

OR

- The CBR has approved a bankruptcy prevention measures participation plan for the DIA to provide financial support under the Federal Law of Insolvency



SAUDI ARABIA

MARKET OUTPERFORM (MIDDLE EAST):

DARALA 6.875% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
DARALA 6.875% 03/21/2023	$500	B1/-/-	93.94	8.54%

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.

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 0.4
- 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
- Significant unsecured debt to total assets, which was 74% as of year-end 2017
- White land tax (on undeveloped land) in KSA intended to spur development

MARKET OUTPERFORM (MIDDLE EAST):

DARALA 6.875% 23s

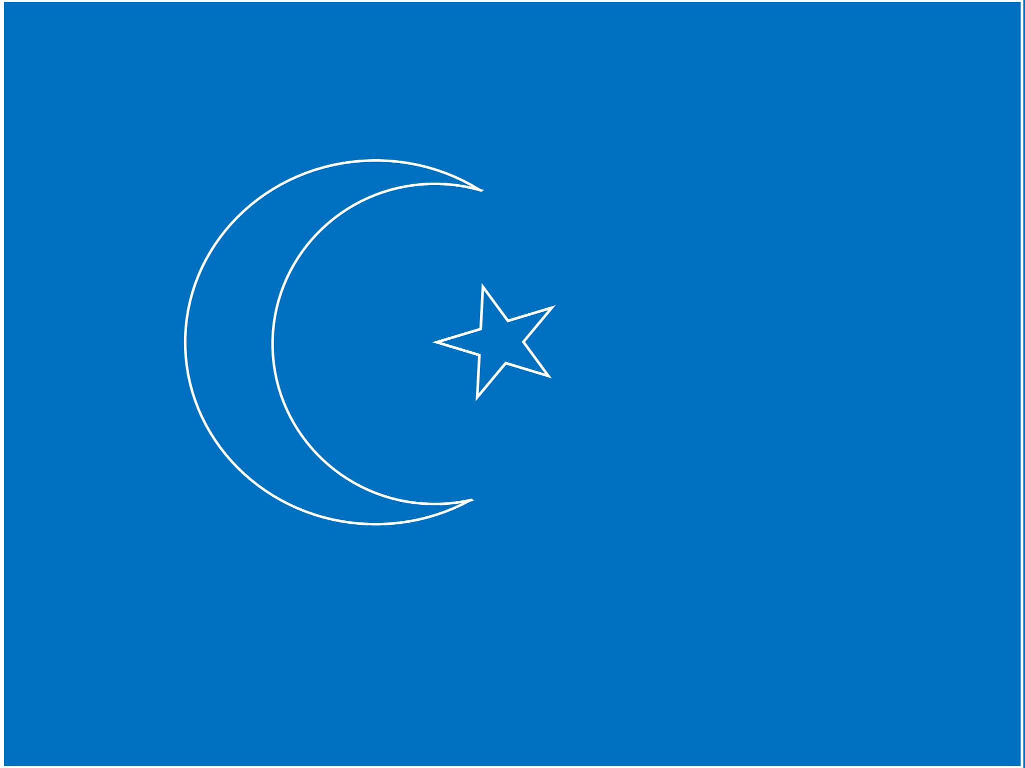
2Q18 Financials:

- Total revenue increased by 36% y/y but dropped 13% q/q to US$476mm
  - Sales of development properties accounted for 98% total revenue
- EBITDA decreased 2% q/q to US$81mm
- EBITDA margin declined by 59 bps q/q to 17%
- FCF turned positive US$238mm on more cash collected from customers and big reduction in WK
- LQA net leverage stayed flat q/q at 1.5x, due to lower debt level
  - Cash and equivalents decreased 6% q/q to US$1317mm and is sufficient to pay its ST debt

DARALA (MM US$)	2Q18	1Q18	2Q17	y/y	q/q
Revenue	476	745	122	36%	(13%)
EBITDA	81	132	48	58%	(2%)
EBITDA margin	17%	18%	39%	2210 bps	(59 bps)

DARALA (MM US$)	2Q18	1Q18	2Q17
Total Debt	1794	2177	1840
Cash & Equivalents	1317	1397	713
Net Debt	478	780	1126
LQA gross leverage	5.5x	4.1x	9.6x
LQA net leverage	1.5x	1.5x	5.9x

DARALA (MM US$)	2Q18	1Q18	2Q17
EBITDA	81	132	48
Interest	(35)	(30)	(29)
Working Capital	195	(518)	26
Capex	(2)	(3)	(1)
Taxes	(2)	0	(1)
FCF	238	(419)	44



TURKEY

MARKET OUTPERFORM (TURKEY):

YKBNK 5.125% 19s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
YKBNK 5.125% 10/22/2019	$550	B1/-/BB-	96.00	9.07%

Yapikredi is one of the largest private banks in Turkey, with more than 9% market share in assets, loans and deposits. The company is 81% owned by a joint-venture between Koç Holdings, one of the largest groups in Turkey, and by Italian Unicredit. Both shareholders recently demonstrated their support by increasing capital by TRY4.1bn in May 31st, 2018. Remaining 19% is free float

PROS:

- Short term bond offering attractive yields amidst strong liquidity
- Strong shareholder recognition: 81% owned by a joint venture formed by Unicredit and Koç group
- Recent shareholder support through TRY4.1bn capital increase in May 31st 2018
- Strong market share of 9.5% of assets, 9.2% of loans and 9.7% of deposits
- Strong liquidity, particularly in foreign currency: cash and securities positions accounted for 37% of total funding sources a 2Q18. Foreign currency liquidity ratio of 152%
- Long f/x position when including derivatives at end-2Q18
- Yapikredi 2020 plan launched last May targets to maintain a 200bps CET1 buffer against regulatory requirements
- Manageable NPLs at 2Q18 of 3.8%, although we should see some deterioration given TRY depreciation

CONS:

- CET1 and NPLs at 2Q18 of 10.7% are weaker than private peers Akbank (13.3% and 2.6%), Garanti (14.0% and 3.4%) and Isbank (13.1% and 2.7%)
- Harsh environment in Turkey given TRY depreciation and inflation increasing from 10% in Jan-18 to 18% in Aug-18
- Disputes between Erdogan and Trump and fear of US sanction over Turkey increases volatility and risk aversion

MARKET OUTPERFORM (TURKEY):

YKBNK 5.125% 19s

Analysis of 2Q18 results

- Portfolio increased 26% y/y and 8% q/q to TRY236.4bn (-7% q/q in USD terms to US$51.4bn)
- Despite the deterioration in local economy conditions, NPLs decreased 20bps q/q to 3.8%, which is still above its closest peers and the reported ratio for the industry of 2.9%
    - 45% of portfolio is in foreign currencies, the highest share among peers
    - Total coverage (Provisions / NPLs) of 82%, below peers
- Cost of risk increased to 140bps from 103bps in 2Q17 and 91bps in 1Q18, with 28bps q/q increase attributed to TRY depreciation
- Interest collection reported in cash flow represented 95% of interest accrued in income statement, reversing the trend of 1Q18, when it accounted for 83% (98% in 2Q17)
- Deposit base increased 17% y/y and 7% q/q to TRY192.8bn (US$41.9bn), with a loan to deposit ratio of 123%
- Liquidity remains ample, with cash and securities position representing more than half of deposits and more than one third of deposits, loans taken and securities issued
- Net interest income increased 38% y/y and 13% q/q to TRY3.2bn (US$734mm), with higher portfolio and a 150bps y/y increase in yield on loans
- NIM (swap adjusted) strengthened 50bps y/y and 30bps q/q to 3.4%
- Net fees and commissions grew 38% y/y and 13% q/q to TRY1.1bn (US$240mm), representing almost one third of net interest income
- Cost / Income ratio for 1H18 improved 540bps y/y to 35.1%
- Total CAR increased 100bps q/q to 13.9%, with CET of 10.7%, which although weaker than peers it remains above minimum of 7.50%

YKBNK (TRY MM)	2Q18	2Q17	1Q18	y/y	q/q
Financial income	7,595	5,517	6,760	38%	12%
Financial expenses	(4,387)	(3,196)	(3,915)	37%	12%
Net interest income before provision	3,209	2,321	2,845	38%	13%
Provisions	(1,394)	(820)	(991)	70%	41%
Income from services, net	1,051	826	1,034	27%	2%
Operating expenses	(1,554)	(1,422)	(1,450)	9%	7%
NIM (swap adjusted)	3.4%	2.9%	3.1%		
Cost / income	35.1%	40.5%	35.8%		
ROAA	0.0%	1.3%	1.5%		
ROAE	16.4%	14.7%	17.1%		

YKBNK (TRY MM)	2Q18	2Q17	1Q18	y/y	q/q
Gross loans	236,361	187,846	217,946	26%	8%
Total deposits	192,824	164,226	180,047	17%	7%
NPL/gross loans	3.8%	4.3%	4.0%		
Loans to Deposits	122.6%	114.4%	121.0%		
Cash and equivalents to deposits	53.9%	45.4%	51.3%		
Capital Ratio	13.9%	13.7%	12.9%		
CET1	10.7%	10.3%	9.9%		

MARKET OUTPERFORM (TURKEY):

YKBNK 5.125% 19s

(US$mm)	YBNK 2Q18
F/X position	
Assets in FC	33,614
Liabilities in FC	39,576
Net f/x position	(5,962)
Financial derivative assets	22,494
Financial derivative liabilities	16,346
Net f/x position including derivatives	186
Shareholders equity	8,231
Net f/x position / Shareholders equity	2%

Long f/x position when including derivatives (mostly currency swaps

(US$mm)	YBNK 2Q18
Liquidity Risk	
Liquidity coverage ratio TRY (*)	113%
Liquidity coverage ratio FC (*)	152%

Strong liquidity position

(*) Liquidity coverage ratio is calculated by comparing the high quality liquid assets owned by the Bank to net cash outflow in 30 days maturity

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
PETKM 5.875% 01/26/23	$500	B1/-/B	91.63	8.21%

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

PROS:

- Sole petrochemical domestic producer in the growing Turkish chemical market
- Strategically important in the industry, with estimated capex of US$3bn for 2018-2020
- Expected to become fully integrated in naphtha needs once STAR refinery ramps-up in 4Q18
- Bonds with cross-default clauses to SOCAR, which trades much tighter than Petkim
- Natural FX hedge – 55% of revenue denominated in USD/EUR and the rest in TRY indexed to USD. Competition are USD-based imports.
- China's focus on reducing pollution might result in lower domestic production, helping to boost demand for offshore

CONS:

- High competition against diversified peers, specially those petrochemical producers with ethane (natural gas) crackers from the Middle East
- Naptha dependence can hurt margins during rising crude markets
- Petrochemical industry can be very volatile and cyclical
- Increases in raw materials do not immediately pass through to prices
- Goldman Sachs has a put to sell its 13% stake in holdco STEAS to STEAS itself for US$1.3bn until Aug-21, which could pressure on Petkim balance sheet to fund the operation. STEAS wholly-owns SOCAR Turkey, holder of 51% of Petkim. The remaining 87% of STEAS is held by SOCAR
- Turkish government has a "golden share" in Petkim carrying special rights, including the right to require Petkim to maintain certain production levels, which might not be economically viable

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

PETKIM CROSS DEFAULT CLAUSE WITH SOCAR

Per PETKIM's OM:

- "Finally, the SOCAR Group has demonstrated its commitment to Petkim through a cross-default clause in relation to its outstanding bonds"

Per SOIAZ OM:

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

PETKIM vs SOCAR	PETKIM 23s	SOIAZ 30s
Yield	8.3%	5.9%
Duration	3.8	8.2
Turkey inter. Yield	7.2%	8.1%
Spread to Turkey (bps)	110	(220)
Azerbaijan inter. Yield	4.5%	5.5%
Spread to Azerbaijan (bps)	380	40

MARKET OUTPERFORM (TURKEY):

PETKM 5.875% 23s

<u>Analysis of 2Q18 results</u>

- Revenue beat consensus by 3%, increasing 9% q/q and 5% y/y to US$538mm
- EBITDA strongly beat consensus by 39%, growing 56% q/q while dropping 20% y/y to US$100mm
    - Company benefits from TRY depreciation, as reportedly all revenue is in USD or linked to it, while 15% of costs are in TRY (mostly wages and electricity)
    - Additionally, the company reported a US$24mm gain from efficiencies implemented and cost optimizations
- EBITDA margin improved 560bps q/q to 18.6%
- Free cash flow generation of US$17mm, weaker q/q and y/y on working capital investment
- Gross debt increased 4% q/q to US$1,373mm
- Annualized gross and net leverage of 3.4x and 1.6x, improving from 5.2x and 1.9x in previous quarter
- Current spread of Petkim to Azerbaijan is 557bps and 383bps over Turkey
- Both spreads are well above those for quasi-sovereign credits in EM, in part explained by rating disparities between Petkim and sovereigns
- However, we highlight that defaults under Petkim triggers cross-default on Azerbaijan state-owned and controller of Petkim SOCAR bonds outstanding
    - Per SOCAR OM, a default by a subsidiary of the group, which includes Petkim, of a debt of at least US$50mm, is considered an event of default under SOCAR bonds
    - SOCAR is a BB rated company
- Additionally, we are encouraged by current fundamentals of the company and its ability to keep competitive margins despite higher crude prices

Petkim (US$MM)	2Q18	2Q17	1Q18	y/y	q/q
Revenue	538	513	492	5%	9%
EBITDA	100	125	64	(20%)	56%
EBITDA margin	18.6%	24.3%	13.0%		

Petkim (US$MM)	2Q18	2Q17	1Q18	y/y	q/q
Total Debt	1,373	666	1,324	106%	4%
Cash and Equivalents	742	290	834	155%	(11%)
Net Debt	632	375	489	68%	29%
Leverage (Total Debt/LQA EBITDA)	3.4	1.3	5.2		
Net leverage (Net Debt/LQA EBITDA)	1.6	0.8	1.9		

Petkim (US$MM)	2Q18	2Q17	1Q18
EBITDA	100	125	64
Working capital	(57)	(18)	11
Capex	(21)	(43)	(18)
Interest paid	4	5	7
Taxes paid	(8)	(22)	(18)
FCF	17	46	46

UKRAINE

MARKET OUTPERFORM (UKRAINE)

METINV 8.5% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
METINV 8.5% 04/23/2026	$500	-/ -/ B	97.75	8.63%

Metinvest (Caa1/B-/B) - Ukraine's leading steel and iron ore producer and the 42nd largest steel producer globally with a 9.59 mm tons produced in 2017 (has a capacity to produce up to 15mm tons annually). Controlled by Mr. Rinat Akhmetov via System Capital Management (SCM) Group (71.24%). Metinvest is self-sufficient in coking coal (49%), metallurgical coke (97%) and iron ore raw materials (343%)

Metinvest released solid 2Q18 results and July 2018 results also look good. Still favorable pricing environment supports the company's financial performance and allows for further reduction of leverage (0.9x on LAQ basis, and 0.8x on monthly basis). FCF generation remains positive. METINV 26s offer a yield of 9.5%, which is quite attractive, given the company's solid metrics. We reiterate an 'Outperform' rating

PROS:

- Majority owner – Mr. Rinat Akhmetov (71.24%), Ukraine's wealthiest individual with a net worth ~ US$5.7 billion
- Ukrainian 'blue chip' – Metinvest is one of the largest private companies in Ukraine – the largest steel producer and one of the largest employers with over 65,000 employees
- Global player – Metinvest is 13th largest among Central and Eastern Europe steel producers and 42nd largest steel producer globally
- Vertical integration – the company's business model and self sufficiency in raw materials allows for flexibility and rapid response to an ever-changing market situation

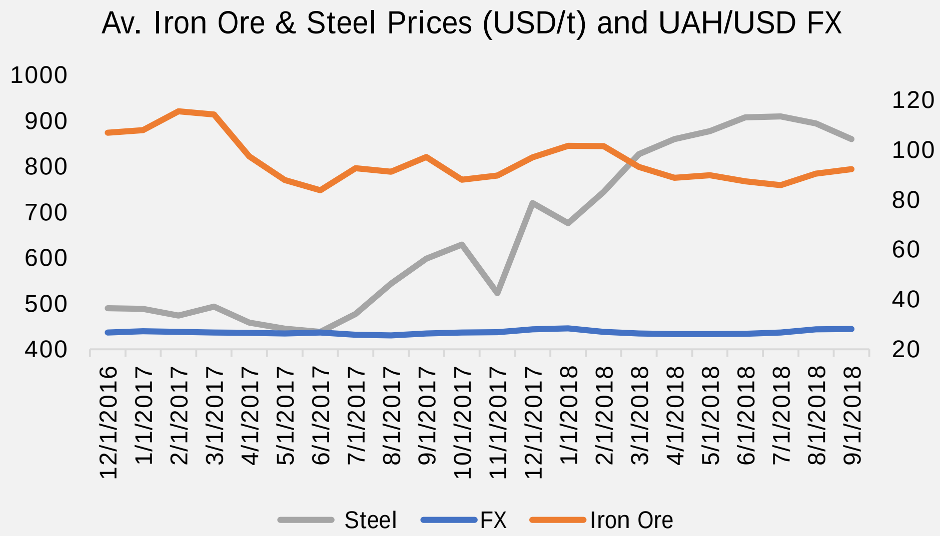
CONS:

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

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s

Still strong pricing environment as well as stable local currency continue to support Metinvest's financial performance despite lower y/y production (-12%) due to asset loss in 1Q17



Production	2Q18	1Q18	q/q	2Q17	y/y
Metallurgy					
Semi	1,503	1,489	7%	691	118%
Pig iron	653	816	50%	407	60%
Slabs	463	290	-33%	284	63%
Billets	387	383	-9%	-	-
Finished	2,470	2,420	12%	2,093	18%
Flat	2,035	2,033	13%	1,813	12%
Long	393	362	5%	191	106%
Coke	452	585	14%	236	92%
Total	4,425	4,494	10%	3,020	47%
Mining					
Iron Ore	3,821	3,644	0%	4,218	-9%
Merch. Ore	1,864	1,336	-37%	2,969	-37%
Pellets	1,957	1,292	-14%	1,249	57%
Coking Coal Conc.	105	50	-56%	251	-58%
Total	3,926	3,742	0%	4,469	-12%

METINV 8.625% 26s

2Q18 Financial Results – solid results as both revenue and EBITDA were up on a quarterly basis

- Revenue – up 53% y/y and 5% q/q to US$3.16 billion:
  - Metallurgy Segment - the top line was supported by higher production in metallurgy segment (+47% y/y and +10% q/q to 4.4 mm tons) and higher steel prices (+98% y/y and +18% q/q to US$881.39/ton)
  - Mining Segment - performance of mining segment was weaker with production 12% lower y/y and flat q/q at 3.9 mm tons and weaker pricing environment for iron ore (-1% y/y and -12% q/q to US$62.56/ton)
- EBITDA - up 58% y/y and 6% q/q to US$686 mm
  - Profitability was uplifted by higher top line and favorable pricing environment for steel
- FCF Positive – yet 18% y/y and 22% q/q lower at US$254 mm, pre-working capital (WC), due to higher payments for tax (+122% q/q) and interest (+110% q/q)
- Liquidity – at end 2Q18, the company had US$340 mm in cash and equivalents (+42% q/q)
- Liquidity (continued) – on a monthly basis, Metinvest reported July 2018 numbers on October 4, 2018, liquidity was up 53% m/m to US$566 mm
- Net Leverage – further improved to 0.9x (on LQA basis) thanks to stronger profitability and plumber cash cushion
  - Based on July 2018 numbers, with more cash (+53% m/m) and stronger profitability, net leverage (last month annualized basis) improved even further to 0.8x (vs. 0.9x in June 2018)
- Recent Developments: in July 2018, Metinvest secured long-term coal supplies in Ukraine through acquiring (with four other co-investors) stakes of up to 100% in some coking coal assets: the most significant being Pokrovske Colliery and Svyato-Varvarinskaya Enrichment Plant, which form the largest coking coal extraction and production business in the country
  - Metinvest's effective interest - 24.99%, for the company paid US$ 190 mm; in addition, Metinvest obtained an option to purchase the remaining 75.01% from the other co-investors (with certain conditions including governmental consents)
- In 1H18, Metinvest launched 20 new steel products: mainly heavy plates and coils (hot and cold-rolled) used in construction, machine-building and pipe production

MARKET OUTPERFORM (UKRAINE)

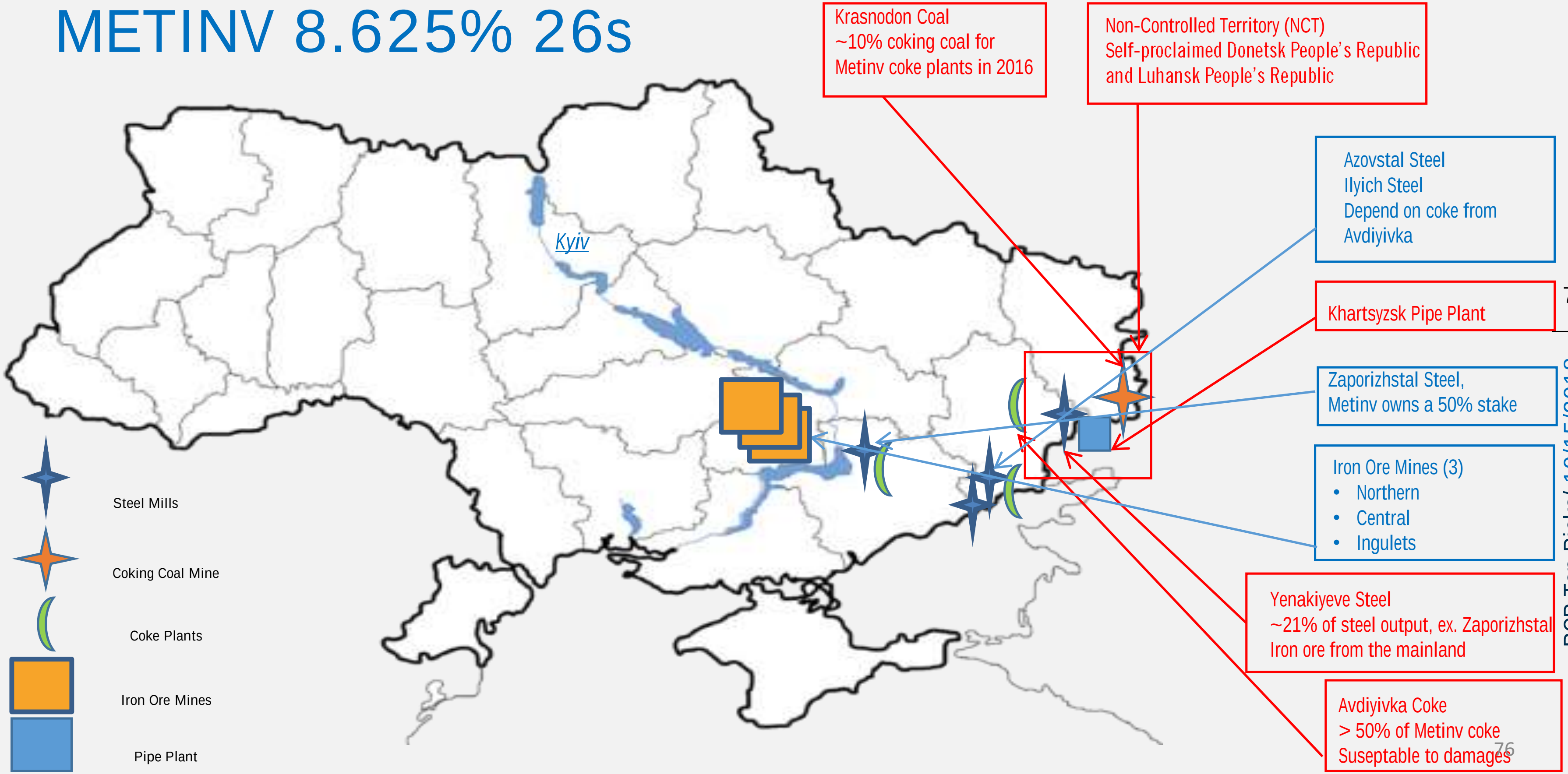
METINV 8.625% 26s

Based on the company's monthly reports, 2Q18 revenue and EBITDA sequentially increased by 5% and 6%, respectively

Metinvest, USD MM	2017	2016	y/y	2Q18	1Q18	q/q	2Q17	y/y	Jul-18	Jun-18	m/m
Revenue	8931	6223	44%	3160	3019	5%	2060	53%	1082	1096	-1%
EBITDA	2044	1153	77%	686	649	6%	434	58%	233	231	1%
Interest	135	133	2%	109	52	110%	13	738%	7	9	-22%
Capex	465	358	30%	203	216	-6%	66	208%	60	6	900%
Taxes	156	(35)	-546%	120	54	122%	44	173%	4	21	-81%
FCF (pre WC)	1288	697	85%	254	327	-22%	311	-18%	162	195	-17%
Net Change in Working Capital (WC)	50	50	0%	(48)	(307)	-84%	(266)	-82%	126	90	40%
FCF (post WC)	1238	647	91%	206	20	930%	45	358%	288	285	1%
EBITDA margin	23%	19%	4pp	22%	21%	1pp%	21%	1pp	22%	21%	2%
Gross Debt	3,017	2,969	2%	2,891	3,086	-6%	2,949	-2%	2,868	2,891	-1%
Cash	259	226	15%	370	261	42%	258	43%	566	370	53%
Net Debt	2,758	2,743	1%	2,521	2,825	-11%	2,691	-6%	2,302	2,521	-9%
Leverage, LHA/LQA/LMA	1.5x	2.6x	-43%	1.1x	1.2x	-11%	1.7x	-38%	1.0x	1.0x	-2%
Net Leverage, LHA/LQA/LMA	1.3x	2.4x	-43%	0.9x	1.1x	-16%	1.6x	-41%	0.8x	0.9x	-9%
FX end of period:	28.02	26.74	5%	26.23	26.35	-0.4%	26.75	-2%	26.64	26.23	2%
Av. price iron ore, $/ton	70.57	58.38	21%	62.56	71.16	-12%	62.90	-1%	59.15	61.22	-3%
Av. price steel, $/ton	602.99	383.64	57%	881.39	748.61	18%	445.42	98%	909.85	907.52	0.3%

MARKET OUTPERFORM (UKRAINE)

METINV 8.625% 26s



UNITED ARAB EMIRATES

MARKET OUTPERFORM (MIDDLE EAST):

TPZMAR 9.125% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
TPZMAR 9.125% 07/26/2022	$375	B3/ B-/	104.00	7.87%

Topaz Energy and Marine (TPZMAR), is a Dubai-based subsidiary of Renaissance Services SAOG (RNSS OM, mkt cap US$390mm), providing marine solutions for the oil gas dustries 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$1.4bn.

Free cash flow generation turned positive in 2Q18 on improved EBITDA and WK surplus, despite large capex. We maintain Outperform rating and expect to see a lift in EBITDA from TCO project but modest improvement in FCF as customer advances reverse.

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$1.4bn - 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 24 months and no recordable injuries in 2Q18

CONS:

- Challenging market conditions as a result of the investment and cost-cutting measures at oil companies worldwide
- Significant secured indebtedness ranking senior to the bonds
- 70% of total revenue being 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 jumped 49% y/y and 29% q/q to US$85mm as the TCO project continues to ramp-up, adding US$22mm in revenue during the quarter vs US$11mm in 1Q18 and zero in 2Q17, and better performance in MENA
- Regarding the TCO project, all 18 vessels have been delivered, with eight vessels earning full charter rate at Jun-30 and the remaining ten expected to be earning full charter rate by year-end
- Backlog remains high at US$1.4bn, of which 40% is contracted with BP, 39% TCO-Tengiz project, 7% Dragon Oil and 8% ENI and others)
- EBITDA followed, improving 69% y/y and 33% q/q to US$44mm
- Free cash flow generation of US$8mm despite increased capex, as a significant portion of capex is financed through customer advances
- Customer advances increased 8% q/q to US$219mm, approximately 5x EBITDA versus gross debt of US$673 mm.
- Gross debt, excluding subordinated loans by holdco, increased 3% q/q to US$673mm
- Cash position ended at US$68mm, with additional US$50mm available in undrawn RCF
- LQA gross and net leverage decreased to 3.8x and 3.4x. LTM net leverage of 4.4x

TOPAZ (US$ MM)	2Q18	2Q17	1Q18	y/y	q/q
Revenue	85	57	66	49%	29%
EBITDA	44	26	33	69%	33%
EBITDA margin	52%	46%	50%		

TOPAZ (MM US$ MM)	2Q18	2Q17	1Q18
Total Debt	673	632	656
Cash	68	49	48
Net Debt	605	583	607
Gross Leverage (Total Debt / LTM EBITDA)	3.8x	6.1x	5.0x
Net Leverage (Net Debt / LTM EBITDA)	3.4x	5.6x	4.6x

TOPAZ (MM US$ MM)	2Q18	2Q17	1Q18
EBITDA	44	26	30
Interest	(7)	(22)	(24)
Working Capital	35	26	8
Capex	(60)	(28)	(36)
Taxes	(3)	(3)	(3)
FCF	8	(1)	(25)

SWAP

BRAZIL

AZULBZ 5.875% 24s →
GOLLBZ 7.00% 25s

ARGENTINA

ARCOR 6.00% 23s →
AEROAR 6.875% 27s

ARGENTINA

SWAP (ARGENTINA): ARCOR → AEROAR

AEROAR 6.875% 27s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
AEOROAR 6.875% 02/01/2027	$400	B1/BB-/-	95.50	7.61%

Aeorpuertos Argentina is the operator of 33 out of the 34 airport terminals in Argentina. In 2017 it handled 36mm passengers and more than 400 thousand flights. The company is majorly controlled by Corporacion America, a publicly traded company with market cap of US$1.3bm, controlled by the Eurnekian family, one of the wealthiest in the country.

PROS:

- Strong and recognized shareholder
- Operates almost all of Argentine airports, including its two main ones (Ezeiza and Aeroparque) and with concessions until 2027, after notes maturity
- Notes secured by tariffs collected.
- Amortizing bond (3.6 duration), reducing duration and easing refinancing risks
- Long USD: tariffs are set in USD (can be paid in USD or ARS at the respective f/x rate), while most expenses are in ARS
- Very low leverage (LTM 2Q18 0.9x)

CONS:

- There has been some friction between the company and the national government regarding airport operations and the possibility of launch new auctions to operate the terminals, although lately tensions have eased.
- Correlated with local economic trends. Weak ARS may impact passenger traffic.
- Hugo Eurnekian, director of Corporacion America and nephew of President Eduardo Eurnekian has been involved in the 'Notebook Scandal.' He admitted to having made contributions to the Kirchner's campaign in 2013 at his own will, from his own funds and properly declared on his tax returns. Charges have been levied against him and a trial is pending.

SWAP (ARGENTINA): ARCOR → AEROAR

AEROAR 6.875% 27s

Summary of 2Q18 results:

- Revenue decreased 3% y/y to US$180mm
    - We highlight that tariffs are denominated in USD
- EBITDA increased 11% y/y to US$75mm
- EBITDA margin of 41.5%
- FCF negative at US$17mm, improving from US$61mm one year ago
- Gross debt unchanged at US$404mm
- Annualized net leverage deteriorated but remains low at 1.0x

AEROAR (US$ MM)	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Revenues	180	202	187	196	186	202
EBITDA	75	99	84	78	67	94
EBITDA margin	46.3%	36.2%	39.7%	44.8%	49.2%	41.5%
Capex	(62)	(40)	(59)	(69)	(59)	(33)
Working Capital	(17)	(38)	(23)	(12)	(12)	(56)
Interest paid	(6)	(7)	(24)	(7)	(7)	(6)
Tax payments	(6)	(11)	(13)	(30)	(51)	(1)
Free cash flow	(17)	3	(35)	(40)	(61)	(2)
Gross debt	404	405	408	404	404	408
Short-term	20	8	8	8	8	8
Long-term	384	397	400	396	396	401
Cash and equivalents	108	128	125	144	202	289
Net debt	297	279	283	261	202	119
LTM Gross leverage	1.2	1.2	1.3	1.3	1.3	1.3
LTM Net leverage	0.9	0.9	0.9	0.8	0.6	0.4

SWAP (ARGENTINA): ARCOR → AEROAR

AEROAR 6.875% 27s

OPERATIONAL DATA

AEROAR	1H18	1H17	1H16	1H15	1H14	1H13
Pasangers transported ('000)						
Aeroparque	6,616	6,460	5,351	5,174	4,797	4,541
Ezeiza	5,189	4,884	4,884	4,281	4,336	4,295
Others	6,573	5,554	4,596	4,220	3,878	3,692
TOTAL	18,378	16,898	14,831	13,675	13,011	12,528
y/y (%)	9%	14%	8%	5%	4%	
Total revenue / passanger transported	20.8	23.0	21.8	22.7	20.9	21.6
Airplane movements ('000)						
Aeroparque	65,177	64,357	56,438	59,110	55,525	57,066
Ezeiza	36,236	32,406	34,791	31,507	33,431	32,646
Others	107,177	95,924	86,878	88,887	93,176	99,226
TOTAL	208,590	192,687	178,107	179,504	182,132	188,938
y/y (%)	8%	8%	(1%)	(1%)	(4%)	
Total revenue / airplane movements	1.8	2.0	1.8	1.7	1.5	1.4

SWAP (ARGENTINA): ARCOR → AEROAR

ARCOR 6% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ARCOR 6% 09/27/2023	$500	Ba3/-/BB-	99.25	6.18%

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

PROS:

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

CONS:

- Most of its plants are based in Argentina. Including exports, Argentina accounts for 96% of consolidated EBITDA. Only 6% of sales volume are exports. In 2016, exports amounted to US$115mm, or 5% of consolidated revenue
- Challenging environment in Brazil, were EBITDA has been negative since 1Q15
- 60% of its production costs refer to salaries, mainly from Argentina, where high inflation pressures margins
- Recent acquisitions resulted in higher leverage (LTM 2Q18: 2.9x net)
- Mastellone results are subject to volatility of international milk prices
- Short USD: revenue is overwhelmingly in ARS, while debt is in USD.

SWAP (ARGENTINA): ARCOR → AEROAR

ARCOR 6% 23s

Summary of 2Q18 results:

- Revenue increased 42% y/y and 9% q/q to AR$16.0bn
    - Annual increase due to inflation and the purchase of Zucamor in Jul17, with a total 13% increase in sales volumes, mostly within industrial divisions
- In USD terms, revenue decreased 5% y/y and 8% q/q to US$681mm, which highlights the weight of local sales over exports
    - In terms of sales volumes, 27kton of exports accounted for 6% of reported sales volume of 449kton
- Revenue per geographic location: Argentina 72%, Brazil 8%, Andean region 11%, others 9%
- EBITDA grew 113% y/y while decreasing 4% q/q to AR$2,027mm
- In USD terms, EBITDA increased 42% y/y while decreasing 20% q/q
    - EBITDA per geographic location: Argentina 90%, Andean 9%, others 6%, while Brazil remains with negative EBITDA
- EBITDA margin of 12.7%, 430bps higher y/y and 170bps lower q/q
- Free cash flow generation of AR$884mm (US$38mm), more than doubling y/y
- Gross debt increased 31% q/q to AR$23.8bn (US$824mm) given ARS depreciation, while LTM gross and net leverage deteriorated to 4.5x and 2.9x, respectively
- Stake in Masher was increased by 2.65% to a current 42.65%
- 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)	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Revenues	681	744	742	784	719	592
EBITDA	86	107	56	100	61	73
EBITDA margin	12.7%	14.4%	7.6%	12.8%	8.4%	10.5%
Capex	(36)	(28)	(35)	(152)	(42)	(63)
Working Capital	18	(91)	20	(31)	48	(45)
Interest paid	(12)	(29)	(16)	(28)	(15)	(23)
Tax payments	(19)	(15)	(12)	(15)	(25)	(13)
Free cash flow	38	(56)	14	(126)	26	(72)
Gross debt	824	905	893	865	796	660
Short-term	211	251	227	214	198	303
Long-term	613	654	666	651	597	357
Cash and equivalents	138	128	144	152	288	123
Net debt	686	777	749	713	507	537
LTM Gross leverage	3.1	3.4	3.2	3.7	3.8	3.6
LTM Net leverage	2.0	2.4	2.6	2.7	2.1	2.2

ARCOR 6% 23s

ARCOR AND MASTELLONE AGREEMENT

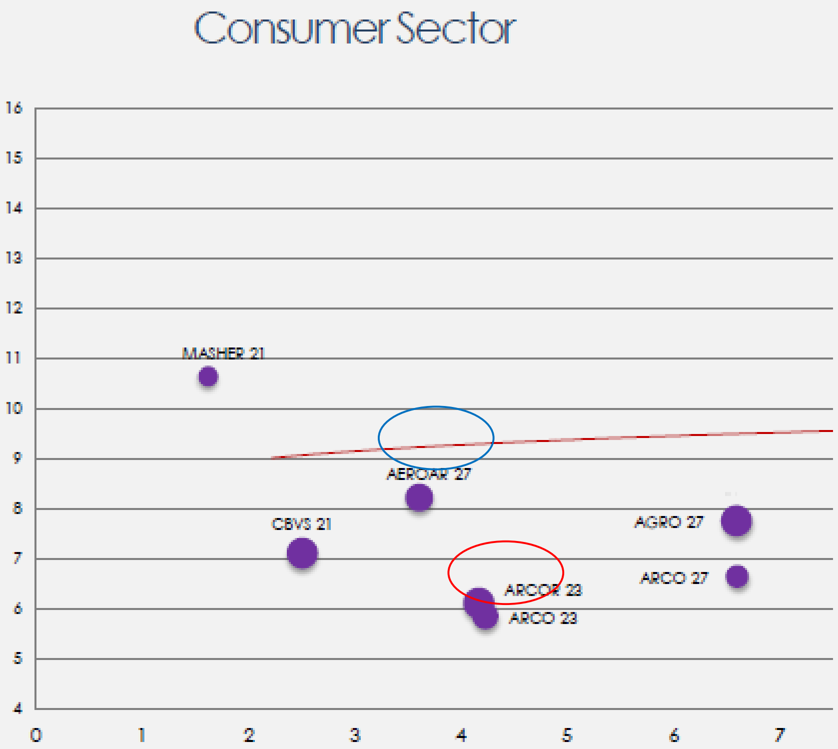
- Through 2020 Mastellone and Dallpoint (shareholder of Masher) have put options to sell shares to Arcor and Bagley but must keep a combined 51% ownership
- After 2020 and through 2025, Arcor and Bagley will have call options to own 100% of total capital stock
- Current Arcor ownership is 42.65%
- Purchases:
    - Jun-18: 2.40% for US$6mm (US$2.5mm for every 1%)
    - Nov-17: 1.85% for US$5mm (US$2.7mm for every 1%)
    - Apr-17: 4.86% for US$13.76mm (US$2.8mm for every 1%)
    - Jan-17: 8.5% for US$35mm (US$4.1mm for every 1%)
    - Dec-15: 25.0% for US$60mm (US$2.4mm for every 1%)
- Assuming an average price of US$3.0mm, for the remaining 57.35%, total cost will be US$172mm
- Consolidating MASHER and assuming US$172mm will be funded with debt issuance, pro forma net leverage results in 2.3x based on LTM2Q18 numbers (up from 2.0x)
- We acknowledge this transaction is unlikely to happen before 2020. Actual numbers may differ from these calculations

MASHER (US$ MM)	2Q18	1Q18	4Q17	3Q17	2Q17	1Q17
Revenues	290	290	320	341	373	314
EBITDA	24	19	19	31	32	14
Free cash flow	(1)	(10)	(43)	22	25	(3)
Gross debt	196	203	198	202	196	205
Cash and equivalents	36	43	51	89	65	44
Net debt	160	159	147	113	131	161
LTM Gross leverage	2.1	2.0	2.1	2.4	2.5	2.6
LTM1 Net leverage	1.7	1.6	1.5	1.3	1.7	2.0

ARCOR + MASHER (US$ MM)	2Q18
Revenue	4,192
EBITDA	442
Gross debt	1,199 (*)
Cash and cash equivalents	174
Net debt	1,025
LQA Gross leverage	2.7
LQA Net leverage	2.3

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

AEROAR 6.875% 27s vs ARCOR 6% 23s



AEROAR 27s

- Cheaper: 150+ bps pick up
- Shorter duration
- Amortizing bond: not dependent on capital markets refinancing
- Secured by USD indexed revenue stream

ARCOR 23s

- Heavy ARS exposure

	Aeroar	Arcor
Yield (%)	7.68%	6.12%
Spread to sovereign	(192)	(350)
Revenue stream	USD or USD linked	Mostly ARS
Cost stream	Mostly ARS	Mostly ARS
Debt	USD	Mostly USD

BRAZIL

SWAP (BRAZIL): AZULBZ → GOLLBZ

GOLLBZ 7.00% 25s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
GOLLBZ 7.00% 01/31/2025	650	/B-/B	86.75	9.93%

Gol is Brazil's leading and low-cost airiline, with a single fleet type focused on business travelers. Founded in 2000, the airline leads in domestic market share. FCF conversion compares favorably with peers, once adjusted for WK flows. Strong Q1 with the lowest leverage levels, and Q2 came in better than expected. Cash flow was negatively impacted by higher capex but WK reduction supported cash generation. Importantly, management maintained 2018 EBIT guidance and leverage targets, after revising revenue higher eyeing stronger demand but also incorporating higher fuel prices, pressuring margins. We do expect choppy results for 3Q – although seasonally stronger – fuel price pass through may be a gradual process. We reiterate our preference fol Gol, maintaining our swap from Azul 24s to Gol 25s, as spreads have reached peak levels.

PROS:

- Positive 2Q18, a seasonally low quarter and despite headwinds of jet fuel and FX
- Demand outgrew supply in 2Q18 (load factor +40bps y/y) and beat consensus
- Current leverage levels in line with peers – and spreads have room to tighten
- FY18 adjusted net leverage target 4.5x
- Lowest CASK among peers
- 100% recapture of relationship between WTI and BRL during 1Q18
- FCF generation in 2Q18 and 2017, after a long period of cash burn
- Main assets (planes) are valued in USD in the international market place
- US$200mm equity value for owned (not leased) aircraft
- 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
- 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
- Both jet fuel and aircraft leasing are denominated in USD
- Jet fuel expressed in BRL reached peak levels
- Offsetting cost increases may prove challenging
- RPK growth during August was lower than ASK growth

SWAP (BRAZIL): AZULBZ → GOLLBZ

GOLLBZ 7.00% 25s

Recent Highlights – 2Q18 – Positive:

- 2Q18 revenue totaled US$652mm, down 6% y/y on the back of FX weakness (up 9% in BRL terms), but 5% above consensus
- RPKs were up 2.5% y/y and ASKs increased by 2.2%
    - Gol had domestic demand growth above supply increase but the inverse internationally
- Load factor reached 78.1% (vs 77.9% in 2Q17), above breakeven of 76.7% (vs 77.1% in 2Q17), but yields were 4% below y/y in USD terms (8% higher in BRL terms)
- Average fare was impacted by FX, 6% down y/y in USD terms (US$79) but 6% higher in BRL terms (R$284)
- 2Q18 EBITDAR reached US$132mm, impressively beating consensus by 41%, 10% higher y/y
- 2Q18 FCF before WK totaled a negative US$111mm, with higher capex due to a higher volume of engine maintenance and acquisition of spare engine for the MAX
- WK reduction of US$206mm came with lower receivables and increased payables
    - FCF totaled US$95mm, 6% higher y/y and reversing from negative in Q1
- Adjusted gross debt was virtually in line with previous quarter, at US$4.1bn
- Adjusted net debt was slightly up from Q1, totaling US$3.6bn
- Annualized net leverage reached 6.7x, up from 3.2x in Q1, due to seasonality, but LTM remained steady at 4.2x
- Gol signed a new agreement to purchase 15 737-MAX 8, for a total order of 135 aircraft and converting 30 MAX 8 orders to MAX 10
    - MAX 10 should begin operating in 2022

Gol (US$ MM)	2Q18	BBG Consensus	+/-	1Q18	2Q17	q/q	y/y
Revenue	652	622	5%	913	695	(29%)	(6%)
EBITDAR	132	94	41%	274	120	(52%)	10%

Gol (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Corporate Debt - BRL	268	307	337	(13%)	(21%)
Corporate Debt - USD	1,814	1,806	1,542	0%	18%
LTM Aircraft Rents x7 years	2,027	2,032	1,894	(0%)	7%
Adjusted Gross Debt	4,108	4,144	3,774	(1%)	9%
Cash	541	634	275	(15%)	97%
Adjusted Net Debt	3,567	3,510	3,498	2%	2%
Leverage (Total Debt /LQA EBITDAR)	7.77	3.78	7.85		
Net Leverage (Net Debt /LQA EBITDAR)	6.75	3.20	7.28		

Gol (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
EBITDAR	132	274	120	(52%)	10%
- capex	117	53	50	119%	132%
- interest paid	13	46	14	(72%)	(5%)
- taxes paid	17	17	23	5%	(24%)
- financial leases paid	21	16	19	26%	7%
- aircraft rents	75	73	75	3%	(1%)
FCF before WK	(111)	69	(61)		
WK	206	(123)	151		36%
FCF	95	(54)	90		6%

SWAP (BRAZIL): AZULBZ → GOLLBZ

AZULBZ 5.875% 24s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
AZULBZ 5.875% 24	400	B1/B+/-	90.50	7.77%

Azul is a Brazilian airline founded in 2008 by airline mogul, David Neeleman (JetBlue, Morris Air, WestJet, TAP and Azul) and merged with Trip in 2012. As of July 2018 shareholders are Neeleman at only 5%, United 8% and 78% others, including free float. 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. Solid Q2, and load factor, adjusted capacity expansion but we still suspect yields will suffer. We think Azul and Gol are more similar than different and find Gol's value more attractive. Therefore, we maintain a Swap recommendation from Azul 24s to Gol 25s.

PROS:

- Sound 2Q18 results, above consensus and FCF positive
    - Azul's July, August and September operational statistics showed improved load factors, suggesting yields may follow
- 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

CONS:

- Leverage slightly up to 4.5x LTM
- Decreasing load factor and capacity expansion plan
    - Company needed to adjust capacity for its international routes or yields will not be able to follow and revised its FY18 ASK growth and operating margin downwards
- Cash burn after WK due to receivables increase
    - Reduced liquidity
- No significant aircraft equity value

SWAP (BRAZIL): AZULBZ → GOLLBZ

AZULBZ 5.875% 24s

Recent Highlights –2Q18 – Good but Softer than Gol:

- 2Q18 revenue was US$559mm, 2% above consensus and 4% higher y/y in USD terms
    - Truck drivers' strike had a US$14mm impact on Azul revenue
- Demand increased by 17% y/y but supply +19% y/y, leading to a load factor 80bps lower y/y
    - Load factor was 80.1%, still above breakeven of 77.2%
- Yields were virtually flat in BRL terms and decreased by 11% y/y in USD
- 2Q18 EBITDAR decreased by 13% y/y in USD terms, but still higher than consensus, totaling US$129mm (adjusting for non-cash expenses for the sale of six E-Jets)
- FCF before WK was negative by US$39mm vs negative US$7mm in 2Q17 mainly driven by lower EBITDAR, weaker BRL and higher interest paid (+91% y/y)
    - WK reduction of US$76mm, with higher accounts payable, and air traffic liability
- FCF was positive by US$37mm, from a cash burn in 2Q17 and 1Q18
- Adjusted gross debt and net debt remained nearly flat q/q, at US$3.7bn and US$3.3bn, respectively
- Annualized net leverage increased to 6.5x, up from 3.9x in Q1, due to a seasonally weaker quarter.
- The company revised its FY18 ASK growth and operating margin downwards, from 17-20% to 16-18% and from 11-13% to 9-11%, respectively
- Subsequent to quarter closing: Azul announced a letter of intent to acquire 21 Embraer 195-E2 aircraft, increasing total order to 51, with deliveries starting in 2019

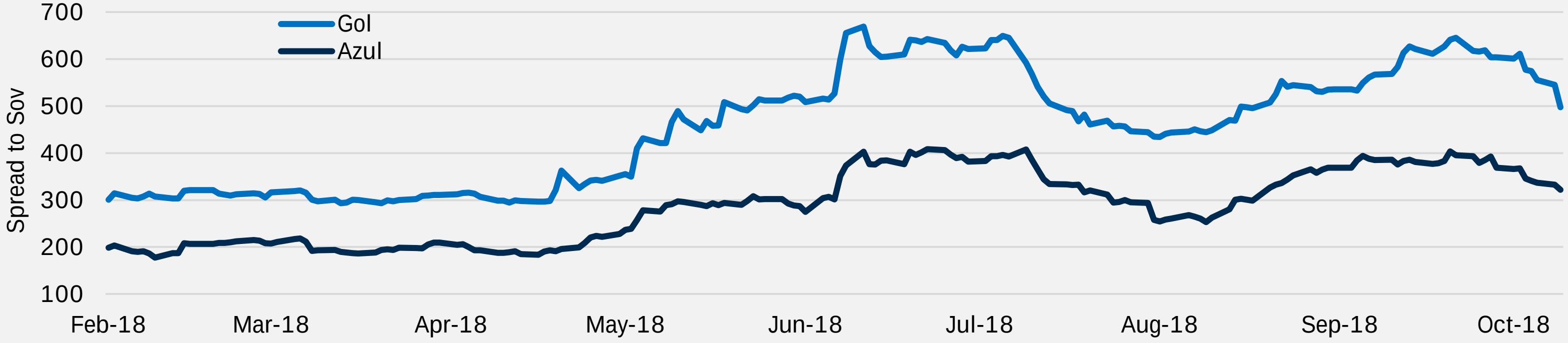
Azul (US$ MM)	2Q18	BBG Consensus	+/-	1Q18	2Q17	q/q	y/y
Revenue	559	549	2%	682	536	(18%)	4%
EBITDAR	129	117	10%	211	148	(39%)	(13%)

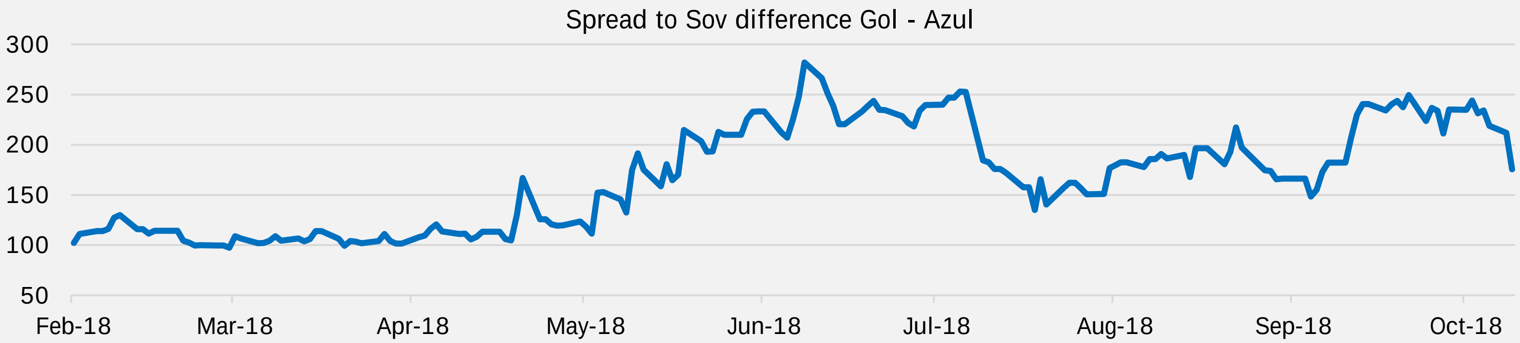
Azul (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Short Term Debt	140	176	333	(20%)	(58%)
Long Term Debt	849	849	768	0%	11%
LTM Aircraft Rents x7 years	2,739	2,671	2,463	3%	11%
Adjusted Gross Debt	3,728	3,696	3,564	1%	5%
Cash	406	415	446	(2%)	(9%)
Adjusted Net Debt	3,322	3,281	3,118	1%	7%
Leverage (Total Debt /LQA EBITDAR)	7.24	4.38	6.01		
Net Leverage (Net Debt /LQA EBITDAR)	6.45	3.89	5.26		

Azul (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
EBITDAR	129	211	148	(39%)	(13%)
- capex	46	27	53	67%	(14%)
- interest paid	22	8	12	181%	91%
- aircraft rents	100	101	90	(1%)	11%
FCF before WK	(39)	75	(7)		
WK	76	(175)	(104)		
FCF	37	(100)	(111)		

SWAP (BRAZIL): AZULBZ → GOLLBZ

SPREAD TO SOVEREIGN





SWAP (BRAZIL): AZULBZ → GOLLBZ

DEMAND VS SUPPLY – PRESSURING LOAD FACTORS

Aug-18 y/y	Demand	Supply	Load Factor
Domestic	4.3%	4.7%	(0.3%)
Gol	1.8%	2.7%	(0.9%)
LATAM	0.3%	2.0%	(1.6%)
Azul	14.6%	12.5%	1.9%
OceanAir	8.2%	6.9%	1.2%
International	15.7%	19.6%	(3.2%)
Gol	(13.2%)	(6.0%)	(7.7%)
LATAM	7.9%	11.1%	(2.9%)
Azul	43.4%	48.0%	(3.1%)
OceanAir	16.4x	16.4x	(0.1%)

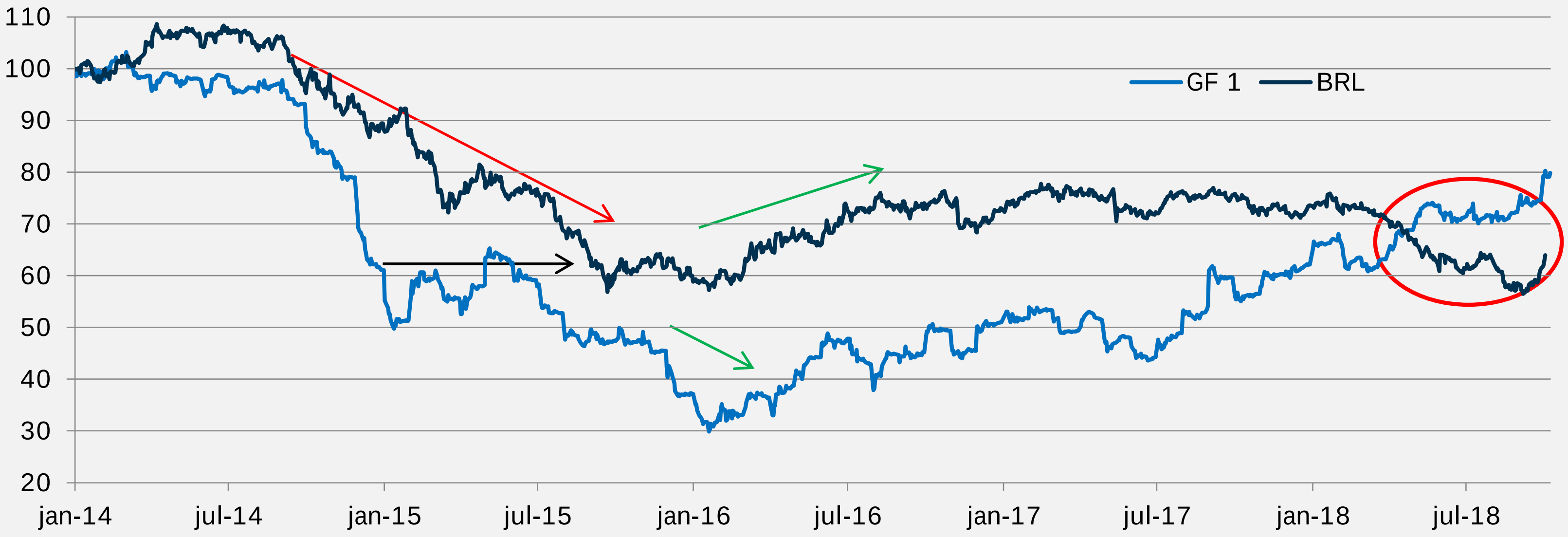
2Q18 y/y	Demand	Supply	Load Factor
Domestic	5.1%	6.3%	(3.4%)
Gol	4.2%	3.2%	0.8%
LATAM	2.7%	6.0%	(3.1%)
Azul	5.6%	7.0%	(1.1%)
OceanAir	13.3%	16.1%	(2.5%)
International	15.4%	20.0%	(3.8%)
Gol	(12.9%)	(6.1%)	(5.3%)
LATAM	2.2%	6.2%	(3.7%)
Azul	66.0%	73.1%	(3.7%)
OceanAir	54x	42x	33.6%

- GOL, LATAM reversed 2Q18 trend of demand growth outpacing supply while Azul and OceanAir did the opposite
- 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, although recently revised downwards, 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	7-9%
OceanAir	N/A
International	
Gol	6-8%
LATAM	6-8%
Azul	50-55%
OceanAir	N/A

Brazil's GDP growth y/y	
2Q18	0.2%
1Q18	1.2%
4Q17	2.1%
3Q17	1.4%
2Q17	0.4%
1Q17	(0.0%)

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 AT PEAK LEVELS

	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

MARKET UNDERPERFORM

BRAZIL

MRFGBZ 8% 23s

CHILE

AES 7.75% 24s

CENSUD 4.875% 23s

BRAZIL

MARKET UNDERPERFORM (BRAZIL):

MRFGBZ 8.00% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
MRFGBZ 8.00% 06/08/2023	$1,000	B2/ BB-/ BB-	100.85	7.77%

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) National Beef, in the US.

Marfrig acquired 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 to around 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? In addition, it was recently announced the (hidden) put for Leucadia and others at fair market value after a five year lock up. Why this important detail was not disclosed while the transaction benefits were being advertised by management is not clear. As we piece together the proposed transaction details, we reiterate our Market Underperform recommendation on MRFGBZ23s.

PROS:

- We acknowledge that a sale of Keystone may be seen as a credit positive
  - BUT number came in lower than expected – US$2.4bn
- 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:

- Lackluster 2Q18 results: continued ops LQA net leverage reached 6.6x
- Our longstanding concerns on fundamental credit weakness at beef were confirmed, where Marfrig's chronic cash shortage originates
  - Marfrig Beef standalone is dismal: OCF for Q1 is a mere 15% of stated EBITDA
- Cash "financial expenses" nearly equal cash interest charges
- We estimate pro forma for Keystone sale and National Beef acquisition, Marfrig would still burn cash
- Leverage may be (further) understated: minority partners have a put option. Specifically, minorities, including Leucadia who sold control to Marfrig at peak margins, will be able to put a portion of its remaining interest to Marfrig at fair market value after a five year lock up
- 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

Recent Highlights – 2Q18 – Lackluster:

- In June, Marfrig concluded the acquisition of 51% of National Beef and said Keystone sale should happen in the very near term – in July, the company announced it received binding offers
- 2Q18 continued ops (National Beef as of June only and included Argentina's assets, previously classified as available for sale. Does not include Keystone) revenue totaled US$1.4bn, 2% higher than consensus
- Pro forma (including NB for the entire quarter) reached US$2.8bn, which would mean an increase of 8% y/y, on the back of slaughter growth of 21%
- 2Q18 continued ops adjusted EBITDA was US$128mm, beating consensus by 24% and for a margin of 9%
- Pro forma totaled US$254mm, which would mean an increase of 64% y/y and 9.2% margin
- Operating cash flow totaled US$74mm, nearly half of stated adjusted EBITDA, in line with the company's trend when including Keystone
- We highlight that in the cash flow presentation from Marfrig, it seems that for Q1 Marfrig Beef standalone OCF was a mere US$9mm vs stated adjusted EBITDA of US$56mm
- Continued operation's FCF was negative US$103mm, on the back of WK expansion, mainly increase in inventories, affected by trucker's strike and by the North American operation
- Capex was US$24mm, up 24% q/q, related to maintenance, and modernization
    - Not including US$1bn acquisition of National Beef
- Total debt for continued ops totaled US$4.9bn, cash US$1.5bn, and net debt US$3.4bn
- Annualized net leverage for continued ops was a high 6.6x
    - Pro forma LQA net leverage would be 3.3x

From Continued Operations:

Marfrig (US$MM)	2Q18	BBG consensus	+/-	1Q18	2Q17	q/q	y/y
Revenue	1,417	1,386	2%	944	678	50%	109%
Adjusted EBITDA	128	103	24%	56	48	128%	167%
Adj EBITDA margin	9.0%	7.4%		5.9%	7.1%		

Marfrig (US$MM)	2Q18
Total Debt	4,846
Cash	1,460
Net Debt	3,386
Gross leverage (Total Debt/LQA Adj EBITDA)	9.5
Net leverage (Net Debt/LQA Adj EBITDA)	6.6

Marfrig (US$MM)	2Q18	1Q18	q/q
Adjusted EBITDA	128	56	128%
Capex	(43)	(35)	24%
Interest paid	(71)	(63)	13%
FCF before WK	14	(41)	
Working capital	(117)	(18)	554%
FCF	(103)	(59)	74%

Pro Forma:

Marfrig + NB (US$MM)	2Q18	2Q17	y/y
Revenue	2,755	2,550	8%
Adjusted EBITDA	254	152	67%
Adj EBITDA margin	9.2%	6.0%	

Marfrig + NB (US$MM)	2Q18
Total Debt	4,846
Cash	1,460
Net Debt	3,386
Gross leverage (Total Debt/LQA Adj EBITDA)	4.8
Net leverage (Net Debt/LQA Adj EBITDA)	3.3

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

Continued Ops (US$ MM)	2Q18	1Q18
Stated EBITDA	254	108
Net Income + Non-Cash Items	74	9

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)

MARKETUNDERPERFORM (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

CHILE

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
AESGEN 5.00% 07/14/2025	$172	Baa3/BBB-/BBB-	99.50	5.09%

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.

PROS:

- Geographical diversification with operations in Chile, Colombia and Argentina, though Chile accounts for 70% 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 2Q18	EBITDA
Chile	66%
Colombia	31%
Argentina	6%

66% 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 2Q18 revenue: 61% unregulated customers, 19% 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)	2017	2016	2015	2014
SIC	57.0	61.0	88.6	131.0
SING	56.1	61.6	57.3	75.6

Recent trends on energy prices in Chile:

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

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

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

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

Bids came from renewable energy projects

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

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

ALTO MAIPO PROJECT

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

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

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

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

- Additional expenses for AES includes US$200mm during the construction, based on progress and debt disbursements and up to US$200mm towards completion, for pending projects costs or to prepay debt
- The first US$200mm will be deployed in a 50/50 basis with debt mostly during
- 2018 and 2019
- No additional debt to be issued at AES Gener level, increase will be funded from cash from operation
- Upon timely completion of the project Strabag will be entitled to receive payments totaling US$382mm, which will be payable by Alto Maipo over 20-years
- 75% of the remaining project cost will be financed by Strabag and lenders
- According to AES Gener, additional contributions are in line with rating agencies expectations and ensure investment grade rating is not affected
- Company expects US$500mm US$600mm of capex to be invested in Alto Maipo p/ year from now to 2020
- Construction continued to move forward, now 68% 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 agressive expansion plan, Fitch expects company's credit to remain pressured in the short-to-mid-term
- Negative watch will be resolved once Alto Maipo's case has a clear resolution
- Debt-to-EBITDA ratio above 4.5x-5x negatively perceived by Fitch
- Additional delays on Alto Maipo and significant cost overturns will also be
- negatively perceived

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

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

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

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

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

MARKET UNDERPERFORM (CHILE):

AESGEN 5.0% 25s

Summary of 2Q18 results:

- 2Q18 revenue increased 8% y/y, down 1% q/q to US$650mm, as strong trends in Colombia and improvements in Chilean regulated contracts were partially offset by lower sales volume in non regulated contracts in Chile
- EBITDA increased 12% y/y and 3% q/q to US$215mm
- 2Q18 EBITDA : 66% Chile, 31% Colombia and 6% Argentina
- Despite stronger EBITDA, AES Gener, burned US$103mm of cash, on higher sequential capex and interest, as coupons are mostly paid in Q2 and Q4
- Cash increased 35% q/q to US$318mm given incoming proceeds associated to ESSA's sale
- Net and gross leverage (LQA) improved slightly on stronger sequential EBITDA to 4.0x and 4.4x, from 4.2x and 4.5x in 1Q18
- LTM gross leverage stood at 4.5x
- Rating agencies expect company to present gross leverage below 4.0x-4.5x
- AES Gener concluded the sale of ESSA for US$307mm (per company ESSA generates about US$20mm in EBITDA p/ year,
- Launched process to sell part of its transmission assets (316kms), expected to close 4Q18, for US$220mm (per company Transmission lines being negotiated generates about US$17mm in EBITDA p/ year)
- Considering proceeds will be used to pay-up debt, reducing US$527mm of total debt and US$37mm of EBITDA, gross leverage would stand at 4.1x (LTM)
- Subsequent to the quarter close, company completed a tender offer for US$200mm of its 2029s (subsidiary Eletrica Angamos) and 2021s - US$100mm from each bond

AES GENER (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Revenue	650	656	599	(1%)	8%
EBITDA	215	208	191	3%	12%
EBITDA Margin	33.1%	31.7%	31.9%		

AES GENER (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Debt	3,776	3,749	3,970	1%	(5%)
Cash	318	235	370	35%	(14%)
Net Debt	3,458	3,514	3,600	(2%)	(4%)
Leverage (Total Debt / EBITDA (*))	4.4	4.5	5.2		
Net Leverage (Net Debt / EBITDA (*))	4.0	4.2	4.7		

(*) EBITDA - LQA

AES GENER (US$ MM)	2Q18	1Q18	2Q17	q/q	y/y
EBITDA	215	208	191	3%	12%
- capex	211	125	275	69%	(23%)
-interest	69	15	60	349%	16%
-taxes	37	38	60	(2%)	(38%)
FCF (pre WK)	(103)	30	(203)		

MARKET UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
CENSUD 4.875% 01/20/2023	$943	Baa3/-/BBB-	99.13	5.14%

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$8.7bn

PROS:

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

CONS:

- 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, expected to have accelerated deleveraging
- LTM net leverage at 4.3x, within trigger levels for downgrade
- Weaker economic environments, mainly in Brazil and Argentina, likely to hamper successful assets divestments. Argentina has been recently classified as a hyperinflationary economy. (they both represent 36% and 27% of Revenue and EBITDA, respectively in 2Q18)

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
- Company estimates 2.4x net leverage by end 2018
- At 2Q18 gross and net debt and 2018 guided EBITDA (US$1,188mm), gross and net leverage equals 4.4x and 4.4x, above trigger levels for a downgrade
- Accordingly, deleveraging is dependent on the company's ability to implement divestment program
- Thus far progress in divestment effort has been slow
- Company hired banks to advise on a possible IPO or private sale of a minority stake in its Shopping Malls division, which would be central for divestment program
  - Company states operation could be completed by 1Q19
- Current EM environment may not be supportive backdrop for asset sales and IPOs.

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	5.00%	4.00%	8.90%
Rating(M/SP/F)	(Baa3/-/BBB-)	(-/BBB+/BBB+)	(-/B/B+)
Spread to Sovereign	163	74	0
Country	Chile	Chile	Argentina

2Q18 (US$ MM)	CENCOSUD	FALABELLA	IRSA
Revenue	3,869	3,683	49
EBITDA	246	492	37
EBITDA Margin	6%	13%	76%
Free Cash Flow	(13)	79	23
Gross Debt	5,447	6,252	541
Cash	485	343	304
Net Debt	4,962	5,909	238
LQA Gross Leverage	4.7	3.2	3.7
LQA Net Leverage	4.3	3.0	1.6

MARKET UNDERPERFORM (CHILE):

CENSUD 4.875% 23s

Summary of 2Q18 results :

- Revenue decreased 7% y/y, in line with consensus, to CLP2,407bn (US$3.7bn), mainly due to currency depreciation against CLP in the period, at constant FX rate, revenue increased 8% y/y on improved top line in Argentina and Peru
- At constant FX rate, all segments reported positive revenue growth, except for Colombia
- Adjusted EBITDA increased 7% y/y to CLP153bn (US$234mm), beating consensus by 7%
- In USD Adj. EBITDA increased 14% y/y
- Argentina posted, once again, solid results, with Adj. EBITDA increasing 13 % y/y, representing 27% of consolidated Adj. EBITDA
- Brazil reported Adj. EBITDA of negative CLP2.7bn (US$4mm), an improvement from negative R$10.7bn (US$16mm) in 2Q17, market share gain and improved SSS helped alleviate loss in the region
- FCF negative at CLP8.2bn (US$13mm), a sequential and annual improvement given lower WK expansion and capex
- Total debt increased 6% q/q to CLP3,388bn (US$5.2bn)
    - Cash positioned increased 2% q/q
    - LTM Gross and net leverage deteriorated q/q, at 4.7x and 4.3x, respectively
- At 2Q18 gross and net debt and 2018 guided EBITDA (US$1,188mm), gross and net leverage equals 4.4x and 4.4x, above trigger levels for a downgrade
- Company hired banks to advise on a possible IPO or private sale of a minority stake in its Shopping Malls division
- Company states operation could be completed by 1Q19
- Accordingly, deleveraging continues dependent on the company's commitment to divest US$1bn in non-core assets

Cencosud (CLP MM)	2Q18	BBG Estimate	+/-	1Q18	2Q17	q/q	y/y
Revenue	2,406,517	2,395,000	0%	2,422,805	2,586,037	(1%)	(7%)
Adjusted EBITDA	153,241	142,609	7%	183,161	143,783	(16%)	7%
EBITDA Margin	6.4%	6.0%		7.6%	5.6%		

Cencosud (CLP MM)	2Q18	1Q18	2Q17	q/q	y/y
Total Debt	3,387,842	3,198,605	3,278,595	6%	3%
Cash and Cash Equivalents	301,451	295,870	231,308	2%	30%
Net	3,086,391	2,902,735	3,047,287	6%	1%
Leverage (Total Debt / EBITDA (*))	4.7	4.6	4.4		
Net Leverage (Net Debt / EBITDA (*))	4.3	4.1	4.1		

(*) EBITDA - LTM

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

Cencosud (CLP MM)	2Q18	1Q18	2Q17	q/q	y/y
EBITDA	153,241	183,161	143,783	(16%)	7%
- capex	37,268	42,367	44,893	(12%)	(17%)
- interest	38,970	81,853	37,478	(52%)	4%
- taxes	58,196	30,508	78,097	91%	(25%)
WK	(27,036)	(162,802)	(59,106)	(83%)	(54%)
FCF	(8,230)	(134,369)	(75,791)	(94%)	(89%)

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