ECONOMIC OUTLOOK AND EMERGING MARKETS TOP PICKS: 4Q'19

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China: Bad Memories – Dr. Walter Molano, Ph.D.
EM Corporate Highlights – Corporate Research
Top Picks for 4Q19 – Corporate Research

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OUTPERFORM
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SWAP

CHINA: BAD MEMORIES

The fiery protests in Hong Kong are a tremendous headache for Beijing. The images of thousands of black-clad middle class kids, converging into the heart of the financial district in order to confront the police, strikes pangs of fear deep into the hearts of senior party officials in Beijing. Up to recently, Hong Kong was the preview of what China would look like in the near future; modern, prosperous and self-assured. It was paradise for anyone who wanted to work hard. Fortunes were made, and there were endless stories of people who became astronomically rich after starting with nothing. Unfortunately, the city fell victim to its own success. The endless stream of arriving mainlanders seeking a better life pushed wages down and rents up. Untenable prices forced young people into tiny apartments in squalid neighborhoods. The city became a powder keg looking for a catalyst to explode. Unfortunately, the spark appeared when Chief Executive Carrie Lim, unilaterally introduced a bill to facilitate the extradition of suspected criminals to Mainland China. The city had become an outpost for shady mainlanders looking to escape the law, and it was starting to become a problem. Therefore, the city government wanted to streamline the extradition process. Unfortunately, it was the unexpected detonator that was needed to bring the social cauldron to a boil. It was the excuse for people to vent their anger, in a state where there was no representative process. Millions took to the street, and there were pitched battles with the police throughout the city. Although Beijing had troops at the ready in neighboring Shenzhen, it was in no hurry to engage. Hong Kong is supposed to be fully integrated into China by 2047, but it will probably retain a great deal of independence. China needs Hong Kong to stay that way, so it can remain the country's financial center. A rules-based legal system is the key to creating any financial hub. However, the Communist Party plays a direct role in the Chinese legal system, and it will never become a rules-based system. Therefore, Beijing needs Hong Kong to continue to play that key role, with its well-established and well-respected courts system. This way Chinese companies and entrepreneurs can continue to raise the capital they need to fund the county's economic growth and activity. So, why is Beijing so worried about Hong Kong?.

History plays an important role in Chinese political thought. Chinese leaders always reference the past to try to understand the future. This is why the image of millions of black-clad youths marching through the streets of Hong Kong and taking on the police was so terrifying. There have been many spontaneous uprisings that have exploded into bloodbaths and revolutions. Chinese society is susceptible to the influence of cults, which have pushed the population in unexpected directions. One example occurred in 1899, when a cult of martial arts enthusiasts, known as the Militia United in Righteousness, mobilized into a nationwide civil war that claimed more than 100,000 lives. Commonly known as the Boxer Rebellion, it was spurred by an economic downturn due to a drought in the grain-growing northern provinces. However, a better example occurred in the late 1850s and early 1860s, during the Taiping Rebellion, when a charismatic and economically frustrated young man, Hong Xiuquan created a religious-based cult that took on the Qing Dynasty. More than 30 million people perished during the revolt, marking it the bloodiest civil war. Even Mao's Cultural Revolution took on a life of its own that needed to be put down. Therefore, it is normal for party officials to worry about the uprising in Hong Kong. These are the reasons why Beijing keeps close tabs on social media and the press. With a population of more than 1.3 billion, any social movement can easily grow to a scale that is uncontrollable.

The other problem is that the economic woes in Hong Kong are a precursor of what lies ahead for China. It is natural that a country's growth rate slows as it reaches middle income status. According to the Solow Growth Model, equilibrium GDP should stabilize at the population's growth rate. The issue is that China's population growth rate is negative, due to the one-child rule that was implemented during the early 1980s. On top of that, measures to curb the shadow banking system, along with Trump's trade war, are adding to the pain. High pork prices and the weakening currency are sapping purchasing power, and many young mainlanders feel that they will never achieve the same success of their parents. Therefore, like Hong Kong, a social-economic cauldron is simmering in the mainland and all that is needed is for an unintended spark for it to explode.

Dr. Walter Molano, Ph.D.
September 9, 2019

EM HIGHLIGHTS 3Q'19

Argentina

- Alberto Fernandez scored a major win in the primary elections held on August 11th with 48% of total votes, a level that will allow him win in the first round of the coming elections on October 27th . A big selloff followed, with bonds plunging to 40c, ARS spiking to 60 and foreign reserves having lost US$17bn since the primaries
- A debt reprofiling announcement followed in order to target debt service between 2020-2023, although no details were provided on terms since government officials stated it will be done through negotiations with bondholders. Additionally, capital controls were imposed, limiting USD purchases by locals, requiring shorter F/X liquidation periods for exports, as well as forbidding transfers of foreign currency by non-residents to offshore accounts
- Due to the events that followed the primary elections, IMF has put on hold the transfer of US$5.4bn corresponding to the fifth review of the Stand-By agreement, which was originally planned for mid-September, causing additional concerns over the sovereign liquidity position
- GDP contracted 0.3% q/q in 2Q19 while gross debt to GDP ended at 81% as of Jun19 and external debt to GDP at 40%. Additionally, the primary fiscal surplus was 0.3% of GDP while total deficit stood at 2.9% of GDP. Monthly inflation in turn increased to 4.0% in September from 2.2% in August. Trade balance was positive US$2.7bn in 2Q19 while current account deficit totaled 2.1% of GDP
- Poverty rate reported by the INDEC was 35.4% as of June 2019, having increased 8 p.p. in the past year
- Due to capital controls, Clearstream has reported that Caja de Valores was not able to remit USD to offshore accounts of proceeds from IRSA's local law bond that matured on September 9 and that were deposited by the company at the Cleastream's account in Caja de Valores, since Clearstream is considered a non-resident.
- Mendoza's ruling party Frente Cambia Mendoza, a coalition between the PRO, UCR and CC was reelected with 52% of votes in the elections held on September 29th.
- Several protests took place in the province of Chubut, with several state workers on strike, blockading roads and complaining about the timely payment of salaries, and with local government asking for higher fund transfers from the national administration.

EM HIGHLIGHTS 3Q'19

Brazil

- Brazil's reference interest rate was cut in each of the last two meetings, dropping 0.5% in each, and now at 5.5%
- Pension Reform was approved in the Lower House, as it now moves to the Senate, where no major resistance is expected
- Economy Minister, Paulo Guedes, presented the privatization's agenda which included a list of 17 state-owned companies, including Eletrobras and a plan to privatize Petrobras by the end of Bolsonaro's government
- Fires plagued the Amazonian rainforest calling the attention of world leaders such as Emmanuel Macron to Brazil's environmental policies, threatening earlier Mercosul economic agreement negotiations.
- Bolsonaro's popularity dropped significantly in this quarter due to the environmental crisis and his comments about the fires
- A Telecom Reform Bill was approved, leading the way for innovations in the sector, efficiency gains and lower operating costs (Oi benefits from this bill)
- A Tax Reform effort has been started by Brazilian legislators
- LATAM received a $2.25bn investment for 20% of the company from Delta Airlines which simultaneously announced the sale of its 20% interest in Gol.
- Petrobras announced a tender offer in which it called its 23s, 24s, 25s, 26s, 27s and 29s, while issuing a new 2030 note, with a 5.09% coupon rate
- BRF announced an offer to purchase for cash the 22s, 23s and 24s bonds and followed with a new 2030 note, at a 4.88% coupon rate
- JBS issued $1.3bn of 2030 notes at a 5.5% coupon rate, while Marfrig issued US$500mm on 2029 notes at a 6.63% coupon rate and FPSO MV 24 issued US$1.1bn in 2034 notes, at a 6.75% coupon

EM HIGHLIGHTS 3Q'19

China

- 13th trade talk session between China and US is scheduled for early Oct.
- 6.2% GDP growth in 2Q was the lowest since 1992.
- In 3Q, renminbi depreciated against USD from 6.90 to 7.15, after PBoC chief implied that the bank had no intention to keep USD/CNY below 7.0.
- PBoC implemented long-waited rates reform to reduce borrowing costs of manufacturing and services industries. The real estate sector was excluded, and mortgage rates in several cities increased after the reform. Rates reform marked PBoC's shift in monetary tools from reserve ratios to rates.
- Chinese companies issued US$143bn USD in bonds over first eight months of the year, compared with US$123bn same period last year. Property developers accounted for 40% of total issuance.
- Facing decline in sales and customer advances and a pending subsidiary reorganization, EVERRE underperformed relative to KAISAG, whose yield curve is now inside EVERRE's.
- As part of energy independence plan, state-owned oil companies ramped up exploration in PRC this year. Two gas blocks were found in Tarim and Sichuan Basin, where ANTOIL had been active.

Mexico

- Mexico's 2Q19 GDP growth was 0.0%, with the IMF later decreasing the 2019 economic growth rate estimate to 0.9%. In contrast, Mexico's Govt. 2020 GDP growth estimate is 2.6%, with both S&P and Fitch estimating lower growth rates.
- The USMCA trade agreement approval by the US is likely to be delayed due to President Trump's impeachment investigation. The Mexican Govt. mentioned the trade deal's ratification before the US election would be the best outcome for the three countries.
- Mexico's Central Bank decreased the base interest rate by 25 bps to 7.75%. The inflation target remains at 3%
- Carlos Urzua, former Secretary of Finance, resigned due to economic discrepancies with the federal administration. The sub secretary, Arturo Herrera assumed the position
- Mexico's Govt is analyzing the 2020 oil coverage hedge at $49/bbl. In 2019, the oil hedge was set at $55/bbl with a total cost of US$1.2 bn.

EM HIGHLIGHTS 3Q'19

Mexico (continued)

- Pemex released an ambitions business plan highlighting its the production targets and fiscal burden reductions. It also outlined capex and the proceeds to be received from the Federal Govt. for the Dos Bocas refinery construction. Pemex's 2020 proposed spending, including capex, is 13% higher y/y.
- In September the Federal Govt. made a US$5 bn capitalization for Pemex, raising direct capitalizations to US$8 bn YTD. Proceeds were used to fund a US$5 bn cash tender, in conjunction with issuing US$7.5 bn in seven, ten and 30-year bonds as well as exchanging US$7.6 bn bonds
- Midstream companies reached an agreement with CFE on the unfinished gas pipelines, with the Govt. mentioning the expectation to save US$4.5bn with the deal

Nigeria

- The Nigerian economy expanded 1.9% y/y in the second quarter of the year and 2.0% in the first half of the year
- Nigeria approved a 10.1 trillion-naira budget for 2020, targeting 3% growth
- Inflation of 13.4% in August remains above 6-9% central bank target
- Central Bank imposed further pressures on banks in order to boost lending, increasing min required Loan/Deposit ratio to 65% by Dec 2019 from previous 60%. Failure to meet it shall result in a levy of additional cash reserve requirement of 50% of the shortfall. At Jun19, we estimate only Fidelity and Access to be in compliance with the minimum.
- Zenith Bank tendered around 80% of its outstanding Eurobonds due 22, leaving only US$100mm outstanding

Russia

- Russia's FX reserves reached US$532 billion as at end of September 2019. The USD share fell from 43% to 24%. Russia is increasing its gold, Yuan and EUR holdings. Russia's gold bullion holdings have reached US$109.5 billion as the country continues to shift is growing FX reserves away from the US dollar. The share of gold in the nation's reserves has reached a new record of 20.7%, up from the previous 19.6%.

EM HIGHLIGHTS 3Q'19

Russia (continued)

- In August 2019, Fitch upgraded Russia's investment grade rating to 'BBB' from 'BBB-' returning the country's rating to its 2014 level; the agency cited 'strengthened policy mix, low external debt and robust fiscal health' as reasons for the upgrade.
- The number of cashless transaction in Russia soared 30x between 2010 and 2018 with the volume of US$73.6 billion (RUB 48 trillion) more than all other EU peers.
- International low-cost airlines: Ryanair, EasyJet and Wizzair have submitted bids for 33 destinations out of St. Petersburg Airport Pulkovo as of 2020, which would require that the airport complies with the Open Skies regime.

Turkey

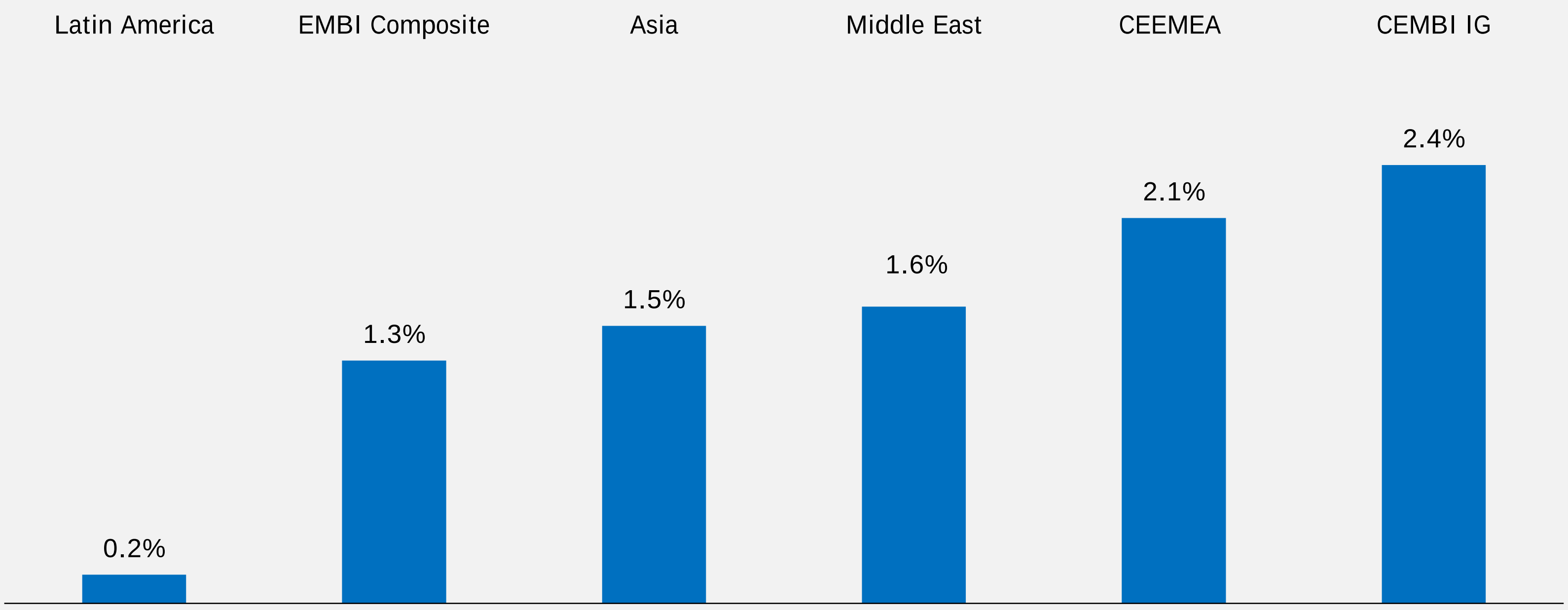
- GDP expanded 1.2% in 2Q19, sustaining the growth seen in previous quarters and easing concerns of a double-dip recession. Y/y, economy contracted 1.5%. With performance better than expected, Fitch narrowed its estimated GDP contraction for 2019 to 0.3% from previous 1.1% reported last June.
- Inflation continues to decline faster than expected, ending below 10% in Sep19 (9.3% y/y) for the first time since Jul17
- With economic growth and inflation decline beating expectations, Central Bank took on an aggressive easing approach, cutting rates by 750bps in the past two months since inew head Murat Cetinkaya was appointed, after several calls made by Erdogan for a lower rate environment
- First components of the Russian S-400 missiles were received, with further shipments expected in the coming months
- NPLs for the banking system ended at 4.3% in 2Q19, increasing 30bps q/q, while many banks estimate NPLs to finish the year below initial guidance of 6-7%. On the other hand, the Central Bank has requested banks to set aside TRY12bn in provisions and reclassify TRY46bn worth of credits as NPLs, mostly in the energy sector.
- Yasar tender resulted in a buyback of US$44mm in face value at an average price of 78.9c
- News have UniCredit might consider taking a direct stake for its 41% indirect control interest in Yapikredi (currently hold through a 5/50 JV with KOC) in order to clear the way for a potential sale or stake reduction
- Morgan Stanley has been appointed as financial adviser for the sale of Levent's 55% stake in Turktelekom. Recall Levent is the SPV that was formed by Garanti, Isbank and Akbank after the mentioned stake was received from previous owner OTAS as a result of its default on a US$4.75bn loan.

EM HIGHLIGHTS 3Q'19

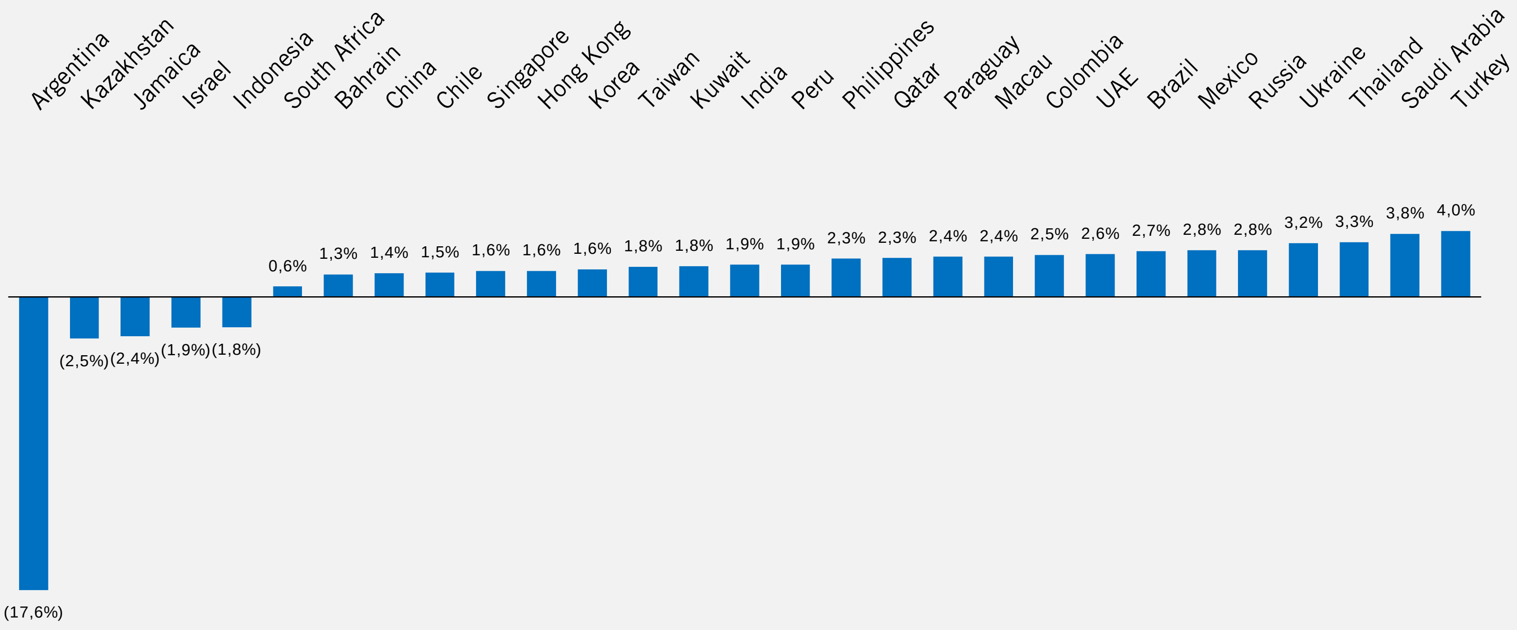
Ukraine

- In September 2019, the NPL level in Ukraine's banking sector fell below 50% and for the first time in recent years, reaching 49.3%
- Ukraine's F/X reserves reached US$22 billion
- Ukraine's President signed off on the Steinmeier formula for the Donbass region conflict resolution
- In September 2019, S&P's upgrades Ukraine's rating to 'B' on the back of economic recovery
- During 3Q19, a number of Ukrainian corporates came to the market with new Eurobond offerings: Naftogas of Ukraine, Metinvest, MHP and Kernel
- The IMF mission left Kyiv at the end of September without coming to a new agreement of an Extended Fund Facility (EFF); the main concern being the fate of PrivatBank and a range of influence of Mr. Kolomoisky on the new government

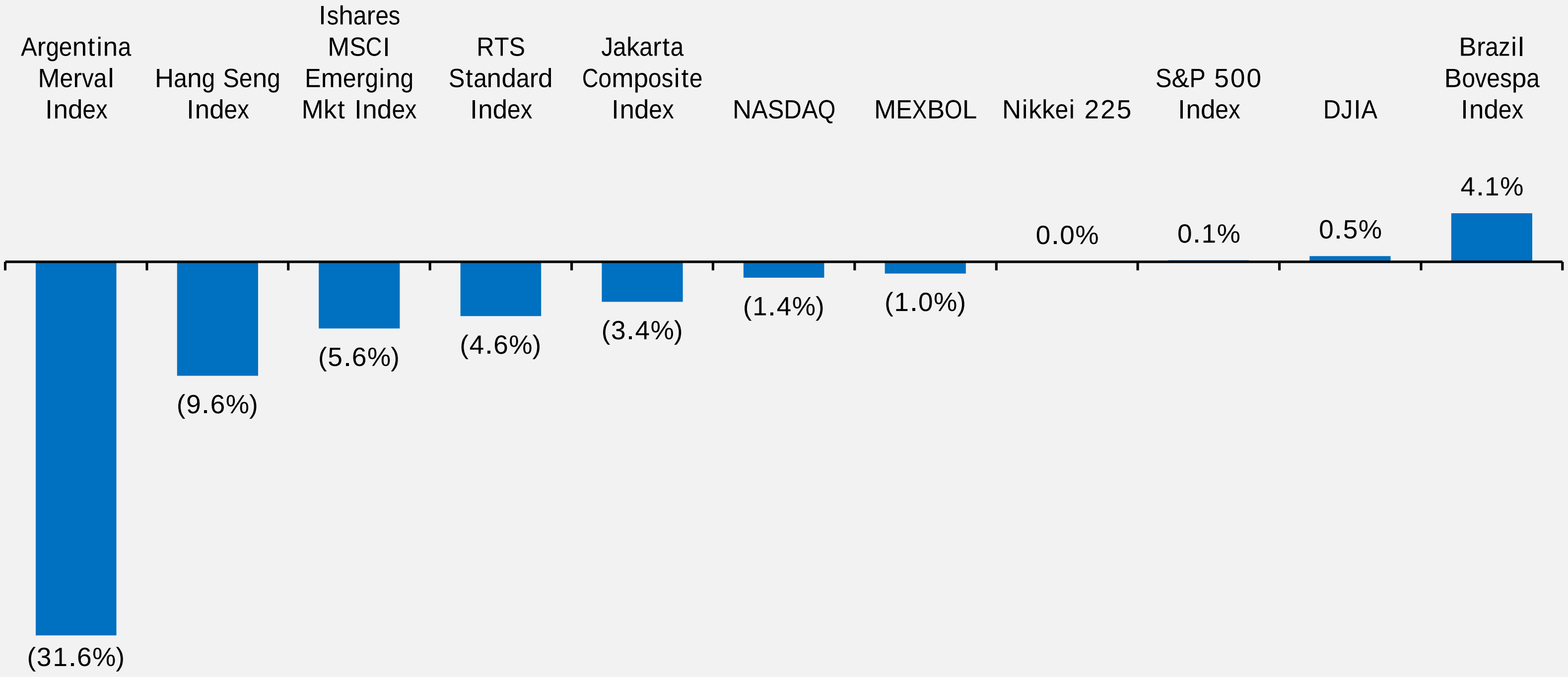
OVERVIEW
EMBI INDEX RETURNS 3Q'19
EMBI BROAD COMPOSITE INDEX REVIEW



OVERVIEW
CEMBI INDEX RETURNS BY COUNTRY 3Q'19



OVERVIEW
GLOBAL EQUITY INDEX RETURNS 3Q'19



3Q'19 TOP PICKS
PORTFOLIO REVIEW

	Company	Industry	Country	Currency	From	Until	Days	Px at Recomm.	Px End	CPN	Price Appreciation	Total Return	Excess return
OUTPERFORM											**Average Return =**	**(5.51%)**	**(5.49%)**
CGCSA 21	COMPANIA GENERAL COMBUST	Oil&Gas	Argentina	USD	07/08/19	09/16/19	70	98.0	76.0	9.50%	(22.4%)	(20.6%)	(20.2%)
PDCAR 21	PROVINCIA DE CORDOBA	Regional(state/provnc)	Argentina	USD	07/08/19	09/16/19	70	89.5	57.0	7.13%	(36.3%)	(34.9%)	(34.6%)
GOLLBZ 25	GOL FINANCE SA	Airlines	Brazil	USD	07/08/19	10/03/19	87	99.4	99.3	7.00%	(0.1%)	1.6%	1.5%
CARINC 22	CAR INC	Commercial Services	China	USD	07/08/19	10/03/19	87	102.3	96.0	8.88%	(6.1%)	(4.0%)	(4.1%)
FECCN 23	FRONTERA ENERGY CORP	Oil&Gas	Colombia	USD	07/08/19	10/03/19	87	106.9	105.8	9.70%	(1.1%)	1.3%	1.2%
ALPHSA 22	ALPHA HOLDING SA	Diversified Finan Serv	Mexico	USD	07/08/19	10/03/19	87	97.3	97.3	10.00%	0.0%	2.4%	2.3%
FIDBAN 22	FIDELITY BANK PLC	Banks	Nigeria	USD	07/08/19	10/03/19	87	110.0	112.8	10.50%	2.5%	5.0%	4.9%
RAILUA 24	UKRAINE RAIL (RAIL CAPL)	Transportation	Ukraine	USD	07/08/19	10/03/19	87	101.4	104.5	8.25%	3.1%	5.1%	5.0%
UNDERPERFORM											**Average Return =**	**(0.04%)**	**0.05%**
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	07/08/19	10/03/19	87	100.4	87.9	6.00%	12.4%	11.0%	11.1%
ARCO 23	ARCOS DORADOS HOLDINGS I	Retail	Argentina	USD	07/08/19	10/03/19	87	109.0	107.3	6.63%	1.6%	0.0%	0.1%
KLAB 24	KLABIN FINANCE SA	Forest Products&Paper	Brazil	USD	07/08/19	10/03/19	87	104.9	106.6	5.25%	(1.7%)	(2.9%)	(2.8%)
AESGEN 25	AES GENER SA	Electric	Chile	USD	07/08/19	10/03/19	87	104.3	105.4	5.00%	(1.0%)	(2.2%)	(2.1%)
TELVIS 26	GRUPO TELEVISA SAB	Media	Mexico	USD	07/08/19	10/03/19	87	104.2	107.1	4.63%	(2.7%)	(3.9%)	(3.8%)
VEDLN 22	VEDANTA RESOURCES LTD	Mining	India	USD	08/06/19	10/03/19	58	97.7	98.8	6.38%	(1.2%)	(2.2%)	(2.1%)
											Total Average Return =	**(3.17%)**	**(3.12%)**

	From	Until	Days	Px at Recomm.	Px End	Total Return
CEMBI	07/08/19	10/03/19	87	454.8	455.2	0.1%

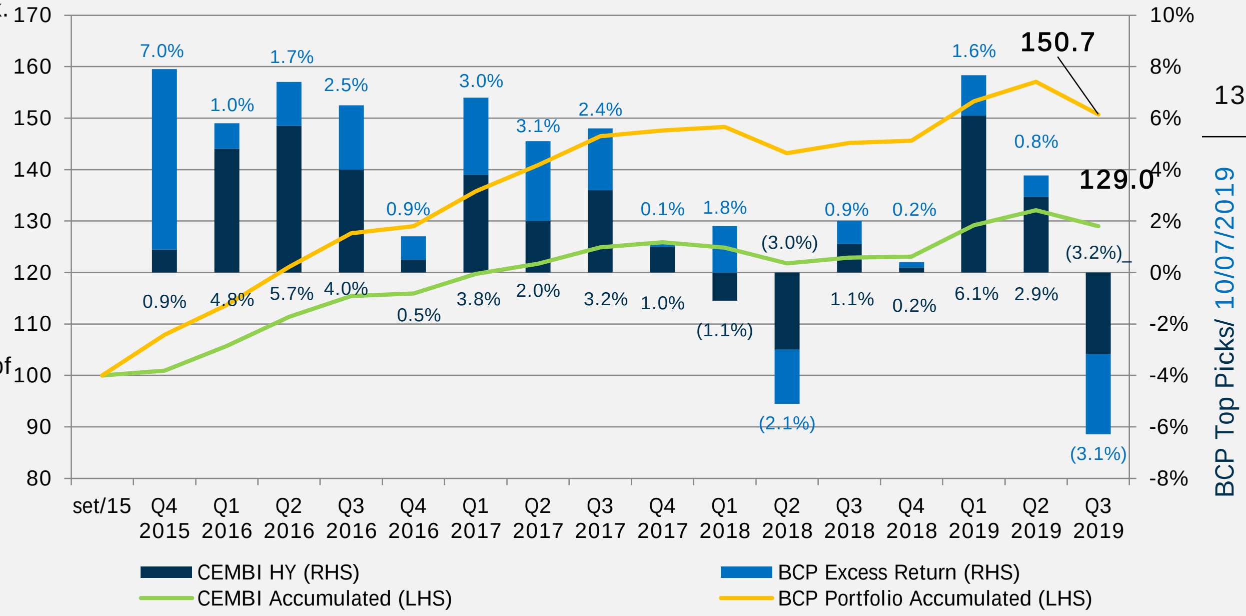
Source: Bloomberg as of 10/03/2019

3Q'19 TOP PICKS
PORTFOLIO REVIEW

REVIEW AND DISCUSSION OF PERFORMANCE

- BCP's Top Picks generated negative excess return of 312 bps vs. our CEMBI HY benchmark. Outperforms returned negative 551 bps on average, below the index by negative 549bps. Underperforms appreciated 4 bps, 5 bps on average excess from benchmark
- Our top performers were ARCOR 23s and RAILUA 24s, with an excess return of 11.1% and 5.0% respectively.
- FIDBAN 22s was also a highlight, generating 4.9% excess performance.
- PDCAR 21s and CGCSA 21s were biggest disappointments, negative excess performance of 34.6% and 20.2%, respectively.
- Over the past 15 quarters, BCP Top Picks have generated compounded excess return of 21.8% vs. the CEMBI HY Index.

PORTFOLIO PERFORMANCE THROUGH OCTOBER 03rd 2019



4Q'19 TOP PICKS
PORTFOLIO SUMMARY

	Company	Industry	Country	Currency	Amt Out	M/ SP/ F	CPN	Maturity	Mid Yield	Mid Price
Outperform										
AEROAR 27	AEROPUERTOS ARGENT 2000	Engineering&Construction	Argentina	USD	$375	Caa1 *-/ B-/ -	6.88%	02/01/2027	8.23%	92.63
GOLLBZ 25	GOL FINANCE SA	Airlines	Brazil	USD	$650	-/ B/ B+	7.00%	01/31/2025	7.11%	99.50
UNIGEL 26	UNIGEL LUXEMBOURG SA	Chemicals	Brazil	USD	$420	-/ B+/ B+	8.75%	10/01/2026	8.71%	100.20
CARINC 21	CAR INC	Commercial Services	China	USD	$300	B1/ BB-/ WD	6.00%	02/11/2021	10.39%	94.63
GTE 25	GRAN TIERRA ENERGY INTL	Oil&Gas	Colombia	USD	$300	-/ B+/ B	6.25%	02/15/2025	8.75%	89.50
DOCUFO 24	DOCUFORMAS SA	Diversified Finan Serv	Mexico	USD	$300	-/ BB-/ BB-	10.25%	07/24/2024	10.44%	99.25
POGLN 22	PETROPAVLOVSK 2016	Mining	Russia	USD	$500	-/ B-/ B-	8.13%	11/14/2022	8.49%	99.00
VAKBN 22	TURKIYE VAKIFLAR BANKASI	Banks	Turkey	USD	$672	Caa3/ -/ B	6.00%	11/01/2022	7.11%	97.00
Underperform										
ARCOR 23	ARCOR SAIC	Food	Argentina	USD	$500	B3 *-/ -/ B-	6.00%	07/06/2023	9.95%	87.90
KLAB 27	KLABIN FINANCE SA	Forest Products&Paper	Brazil	USD	$500	-/ BB+/ BB+	4.88%	09/19/2027	4.49%	102.53
TELVIS 26	GRUPO TELEVISA SAB	Media	Mexico	USD	$300	Baa1/ BBB+/ BBB+	4.63%	01/30/2026	3.38%	106.98
VEDLN 22	VEDANTA RESOURCES LTD	Mining	India	USD	$1,000	B2/ B+/ -	6.38%	07/30/2022	6.83%	98.84

Source: Bloomberg as of 10/07/2019

MARKET OUTPERFORM

ARGENTINA
AEROAR 6.875% 27s

BRAZIL
GOLBZ 7.00% 25s
UNIGEL 8.75% 26s

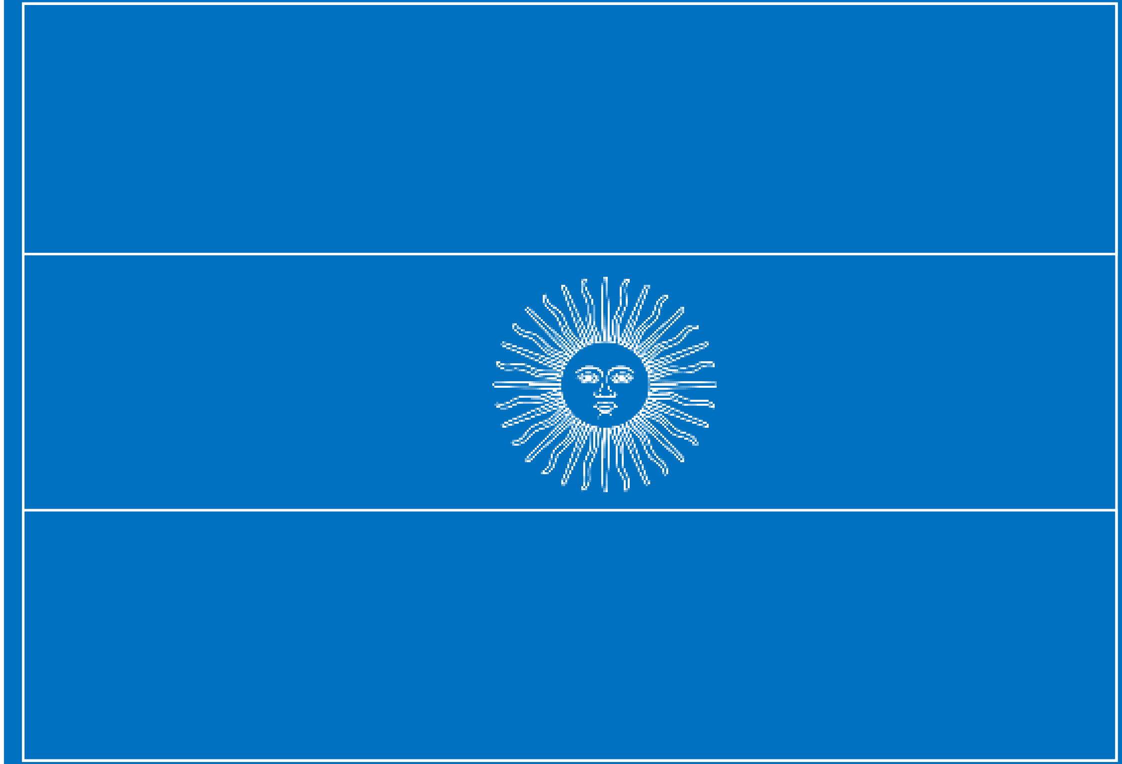
CHINA
CARINC 6.00% 21s

COLOMBIA
GTE 6.25% 25s

MEXICO
DOCUFO 10.25% 24s

RUSSIA
POGLN 8.125% 22s

TURKEY
VAKIF 6.00% 22s



ARGENTINA

MARKET OUTPERFORM (AEROAR):

AEROAR 6.875% 27s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
AEROAR 6.875% 2/1/2027	$375	Caa1/B-/B	92.63	8.23%

Aeorpuertos Argentina is the operator of 33 out of the 34 airport terminals in Argentina. In 2018 it transported 38.4mm passengers and handled more than 429 thousand flights. The company is majority owned by Corporacion America, an Argentine holding controlled by the Eurnekian family, one of the wealthiest in the country. We view the credit as a one that should be able to survive a sovereign credit event as we think tariffs will remain denominated in USD as they were under the previous Kirchner administration. Additionally, sinkable feature of bonds provides the company with a smoother debt amortization, which is covered more than enough with current tariff collection that serve as collateral for bonds (8.7x coverage in FY18).

PROS:

- Strong and recognized shareholder
- Operates almost all of Argentine airports, including the two main ones (Ezeiza and Aeroparque), with concession maturing in 2028 after full bond amortization
- Notes secured by tariff collection with ample interest coverage (8.7x in 2018). In case of an event of default, per bond indenture tariff collection get trapped in the trustee assigned accounts
- Sinkable bond, which gives the company a smoother debt amortization load
- Long USD: tariffs are set in USD (can be paid in USD or ARS at the respective f/x rate), while most of its costs are in ARS
- Transported passengers and airplane movements have remained sound despite a weaker local environment
- Very low leverage (LHA 2Q19 1.1x)

CONS:

- Covenants allow for the issuance of additional pari passu debt as long as next debt service coverage is 1x
- In the past there has been friction between the company and the national government regarding the operations of the airports and the possibility of reauctioning the concessions, although lately frictions eased and the government decided not to make use of the clause that allowed for the recession of the contract in 2018
- Client concentration: Aerolineas Argentina and Latam together account for nearly 25% of revenue
- High capex program has been driving FCF to negative territory, although we think capex should considerably ease as works in the new terminal of Ezeiza are mostly completed and expected to be ramped up in coming weeks. FCF should return to positive territory in 2020.

MARKET OUTPERFORM (AEROAR):

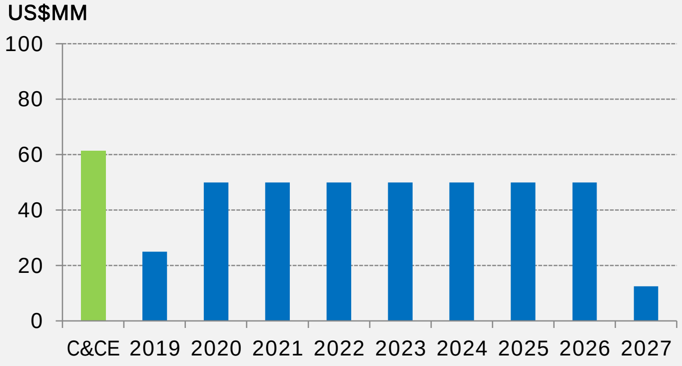
AEROAR 6.875% 27s

STRONG LIQUIDITY

- Cash and equivalents position at Mar 31, 2019 ended at US$109mm, compared to a ST debt of US$61mm
- ST corresponds mainly to the capital amortization of the secured bonds. Recall 27s are sinkable and with 32 equal quarterly capital amortizations that started in May19

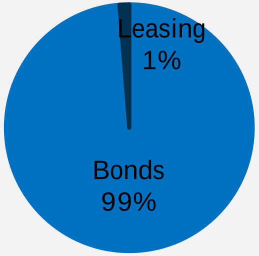
US$mm	Jun19
Cash and cash equivalents	109
Short term debt	61
Bonds	57
Leasing	4

AMORTIZATION SCHEDULE 06.30.2019



TOTAL DEBT PER CURRENCY (JUN19)

TOTAL DEBT BY INSTRUMENT (JUN19)



MARKET OUTPERFORM (AEROAR):

AEROAR 6.875% 27s

ANALYSIS OF 2Q19 RESULTS

- Quarterly revenue in real terms increased 3% y/y to AR$7,032mm, with a 12% increase in passengers transported and 1% increase in airplane movements
- For the six month period, revenue increased 8% y/y, with a 2% increase in passengers transported and 10% increase in airplane movements
- EBITDA, which we could only calculate on an accumulated basis due to lack of D&A inflation adjusted figure for previous quarter, increased 12% y/y to AR$6,700mm
- EBITDA margin for 1H19 expanded 200bps y/y to 47.4%
- Simplified free cash flow, only reported on an accumulated basis, was negative AR$2,682mm due to high capex and negative working capital, mostly on higher receivables
- Net debt as a result increased 5% since Dec18 to AR$14,357mm, including IFRS 16 debt
- Recall the 27s started paying quarterly principal amortizations in May19, having to date repaid two installments of US$25mm
- Annualized net leverage for the first half of the year inched down to 1.1x from 1.2x one year ago

AEOROAR (AR$MM)	2Q19	2Q18	y/y	1H19	1H18	y/y
Revenue	7,032	6,824	3%	14,825	13,735	8%
EBITDA	n/a	n/a		6,700	5,961	12%
EBITDA margin	n/a	n/a		47.4%	45.4%	

AEOROAR (AR$MM)	Jun19	Dec18	q/q
Total Debt	16,965	18,722	(9%)
Cash and Equivalents	2,608	5,058	(48%)
Net Debt	14,357	13,664	5%
Leverage (Total Debt/LHA EBITDA)	1.3	1.6	
Net leverage (Net Debt/LHA EBITDA)	1.1	1.2	

AEOROAR (AR$MM)	1H19	1H18
EBITDA	3,507	2,904
Working capital	(2,030)	(463)
Capex	(6,296)	(3,751)
Interest paid	(627)	(470)
Taxes paid	(430)	(602)
FCF	**(2,682)**	**(675)**

MARKET OUTPERFORM (AEROAR):

AEROAR 6.875% 27s

PASSANGERS TRANSPORTED ('000)

Airport	2013	2014	2015	2016	2017	2018
Aeroparque	9,553	10,256	11,053	11,662	13,921	13,474
Ezeiza	8,533	8,601	9,128	9,831	9,878	10,299
Cordoba	1,572	1,673	1,948	2,213	2,846	3,398
Mendoza	1,269	1,308	1,352	1,086	1,762	2,023
Tucuman	501	523	601	670	560	957
Bariloche	835	919	1,039	1,187	1,297	1,576
C. Rivadavia	474	518	577	574	624	680
Rio Gallegos	249	259	303	269	262	241
Iguazu	737	797	863	894	999	1,112
Salta	710	750	856	972	1,129	1,122
Others	1,373	1,603	1,858	2,109	2,658	3,468
Total	**25,806**	**27,207**	**29,578**	**31,467**	**35,936**	**38,350**

AIRPLANE MOVEMENTs

Airport	2013	2014	2015	2016	2017	2018
Aeroparque	114,282	116,219	120,492	121,882	134,532	130,242
Ezeiza	65,774	66,329	66,834	68,839	66,916	75,234
Cordoba	54,482	43,943	40,327	38,188	39,000	40,910
Mendoza	19,642	20,284	21,783	23,526	28,659	33,481
Tucuman	16,892	16,183	15,700	12,644	19,274	21,354
Bariloche	12,110	11,267	11,780	11,386	13,367	11,449
C. Rivadavia	6,099	553	6,838	7,479	5,826	9,778
Rio Gallegos	8,950	9,433	10,084	10,954	12,338	14,098
Iguazu	11,283	10,366	9,155	8,251	9,171	10,232
Salta	8,767	8,230	8,361	8,721	9,065	9,807
Others	63,092	69,096	65,136	63,108	66,033	72,881
Total	**381,373**	**371,903**	**376,490**	**374,978**	**404,181**	**429,466**

BRAZIL

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 7.00% 25s

Issuer	Interest	Maturity	Amt (US$MM)	Rating (M/SP/F)	Mid Price	Mid Yield
GOLLBZ	8.88%	1/24/2022	78	-/ B-/ B	101.75	8.01%
GOLLBZ	3.75%	7/15/2024	345	B2/ -/ -	108.25	1.93%
GOLLBZ	7.00%	1/31/2025	650	-/ B-/ B	99.50	7.11%
GOLLBZ	8.75%	Perp	154	B2/ -/ B	97.00	9.02%

Gol is was founded in 2000 and, with a single fleet type focused on business travelers, grew to become Brazil's leading and low-cost airiline with the highest domestic market share. GDP, FX, and jet fuel are key macro drivers impacting performance. We maintain our 'Market Outperform' rating on Gol 25s. Fundamentals continue to improve, backed by the accumulation of positive tailwinds, including lower fuel prices, consolidation of the Brazilian airline industry and implementation of IFRS 16 accounting standards, in addition to disciplined capacity reductions (beg. 2015) - Gol's fleet capacity is still well below the prior peak.

PROS:

- Consolidation of Brazilian airlines provides favorable pricing environment and interim opportunity to increase market share, which Gol is already leading
    - Winner of Avianca Brasil slots in Congonhas, Guarulhos and Santos Dumont (July '19)
- Delta's decision to sell its stake in Gol reduces costs and opens opportunities for partnerships with US airlines competing for feeder networks
- August '19 operational results show +17% in RPKs and +9.5% in ASKs y/y, resulting in a load factor of 82.3%
- 2Q19 revenue and EBITDA up y/y on RASK growth, which outweighed CASK. Net leverage 3.2x, benefitting from IFRS 16 and improved profitability
- Positive FY19 and FY20 guidance, backed by favorable fuel prices (priced in BRL) and f/x movement
- Main assets (planes) valued in USD in the international market-place

CONS:

- Ongoing grounding of Max-8s, which currently account for less than 6% of Gol's fleet
    - The company has 129 firm orders (99 MAX-8s, 30 MAX-10s), with delivery pushed out to FY20
- ANAC Suspension of Avianca Brasil auction removes Gol bidding power for key slots in Guarulhos (SP) and Santos Dumont (RJ)
- Cash burn (-US$ 82 mm) in 2Q19 driven by high cash leases, capex and seasonal WK increase
- Exposure to Brazilian market (88% of Gol's 2Q19 revenue)
    - Highly exposed to BRL
    - Minimal USD revenue
- Jet fuel and aircraft leasing denominated in USD

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 7.00% 25s

Recent Highlights – 2Q19 – Positive & Persistent Tailwinds:

- On January 1st 2019, Gol adopted new reporting standards under IFRS 16, which had a net neutral effect on EBITDAR and net positive effect on leverage
- RPKs increased 11.7% y/y to 9.3 bn on an 8.9% y/y growth in transported passengers, and ASKs grew 6.5% y/y to 11.4 bn
- Load factor expanded to 82% in 2Q19, compared to 78.3% in 2Q18
- Revenue increased 23% y/y but decreased 3% q/q to US$801 mm, with RASK increasing 25.3% y/y as result of increased unit cost and higher demand
- EBITDA of US$187 mm was 43% higher y/y but 23% lower sequentially, with y/y results benefitting from the increased in RASK and CASK (ex-depreciation)
- EBITDA margin of 23% expanded 329 bps y/y but contracted 502 bps sequentially
- Free cash flow was negative US$82 mm, driven primarily by the addition of cash leases, in addition to capex and working capital draw down
    - Cash leases of US$103 mm were substantially higher
    - Capex was US$66 mm
    - Working capital was US$61 mm
- Cash and equivalents were 10% lower q/q at US$622 mm
- Net Debt was flat y/y and q/q at US$2,920 mm
- Pro-forma net leverage (incl. operating leases) was 3.2x

Gol (US$MM)	IFRS 2Q19	IFRS 1Q19	IFRS 2Q18	y/y	q/q
Revenue	**801**	**852**	**653**	**23%**	**(6%)**
Net Income	(31)	9	(520)	(94%)	(430%)
(-) Income Taxes	6	19	15	(63%)	(70%)
(-) Net Financial Result	107	106	553	(81%)	0%
EBIT	**81**	**134**	**48**	**70%**	**(39%)**
(-) Depreciation and Amortization	106	108	83	27%	(2%)
EBITDA	**187**	**242**	**131**	**43%**	**(23%)**
EBITDA margin	23%	28%	20%	329bps	(502bps)
Capex	(66)	(27)	(117)	(43%)	145%
Interest paid	(10)	(50)	(13)	(24%)	(80%)
Taxes paid	(29)	(6)	(17)	68%	401%
Cash lease	(103)	(94)	(21)	392%	10%
FCF before WK	**(21)**	65	(37)	(43%)	-
Working capital	(61)	(63)	206	(130%)	(2%)
FCF	**(82)**	**2**	**169**	-	-

Gol (US$MM)	IFRS 2Q19	IFRS 1Q19	IFRS 2Q18	y/y	q/q
Balance Sheet Liabilities:					
Loans and Financings	426	424	468	(9%)	1%
Debt Issuance *	1,399	1,382	1,118	25%	1%
Aircraft Rent	157	154	136	15%	2%
Aircraft Financing	1,559	1,621	1,726	(10%)	(4%)
Gross Debt	**3,542**	**3,581**	**3,448**	3%	(1%)
Corporate Debt - BRL	189	185	269	(30%)	2%
Corporate Debt - USD *	3,353	3,396	3,179	5%	(1%)
LTM Aircraft Rents x 7 years	n/a	n/a	n/a	-	-
Cash	**622**	**694**	**544**	**14%**	**(10%)**
Cash and Equivalents	260	483	160	63%	(46%)
ST Investments	208	91	299	(30%)	129%
ST Restricted Cash	106	91	0	-	17%
LT Restricted Cash	48	30	85	(44%)	59%
Net Debt	**2,920**	**2,887**	**2,904**	1%	1%
Gross leverage (Total Debt/LQA EBITDA)	4.7x	3.7x	6.6x	(1.8x)	1.0x
Net leverage (Net Debt/LQA EBITDA)	3.9x	3.0x	5.5x	(1.6x)	0.9x
LTM Gross leverage (Total Debt/LTM EBITDA)	4.3x	4.7x	6.1x	(1.8x)	(0.4x)
LTM Net leverage (Net Debt/LTM EBITDA)	3.6x	3.8x	5.1x	(1.6x)	(0.2x)

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 7.00% 25s

Gol (US$MM)	IFRS 16 2Q19	IFRS 16 1Q19	4Q18	3Q18	2Q18
Net income (loss)	**(31)**	**9**	**152**	**(78)**	**(353)**
(-) Income Taxes	6	19	20	26	15
(-) Net Financial Result	107	106	5	98	350
EBIT	**81**	**134**	**177**	**46**	**12**
(-) Depreciation and Amortization	106	108	47	44	46
EBITDA (ex-rents)	**187**	**242**	**223**	**90**	**58**
(-) Rents	n/a	n/a	82	75	75
EBITDA	**187**	**242**	**305**	**165**	**132**
LTM EBITDA	**899**	**844**	**877**	**805**	**858**
Gross Debt	**3,853**	**3,905**	**3,839**	**3,796**	**3,827**
Short-term borrowings	306	282	316	520	398
Long-term debt	1,677	1,678	1,513	1,479	1,685
LTM Aircraft Rents x 7 years	1,870	1,945	2,010	1,797	1,744
Cash and Cash Equivalents	**622**	**694**	**549**	**483**	**544**
Cash and cash equivalents	260	483	213	172	160
Financial assets	208	91	123	232	299
Restricted cash ST	106	91	34	-	-
Restricted cash LT	48	30	178	78	85
Net Debt	**3,232**	**3,211**	**3,290**	**3,313**	**3,283**
Gross Leverage (Gross Debt / LQA EBITDA)	**5.1x**	**4.0x**	**3.1x**	**5.8x**	**7.2x**
Net Leverage (Net Debt / LQA EBITDA)	**4.3x**	**3.3x**	**2.7x**	**5.0x**	**6.2x**
LTM Gross Leverage (Gross Debt / LTM EBITDA)	**4.3x**	**4.6x**	**4.4x**	**4.7x**	**4.5x**
LTM Net Leverage (Net Debt / LTM EBITDA)	**3.6x**	**3.8x**	**3.8x**	**4.1x**	**3.8x**
Gross Debt (incl. op leases)	**3,542**	**3,581**	**3,437**	**3,437**	**3,478**
Short-term borrowings	306	282	316	520	398
Long-term debt	1,677	1,678	1,513	1,479	1,685
Aircraft Financing *	1,559	1,621	1,608	1,438	1,395
Cash and Cash Equivalents	**622**	**694**	**549**	**483**	**544**
Net Debt (incl op leases)	**2,920**	**2,887**	**2,888**	**2,954**	**2,934**
Pro Forma Gross Leverage (incl op leases) / Trailing LTM EBITDA	$\boxed{3.9x}$	4.2x	3.9x	4.3x	4.1x
Pro Forma Net Leverage (incl op leases) / Trailing LTM EBITDA	$\boxed{3.2x}$	3.4x	3.3x	3.7x	3.4x

** Prior to 1Q19 = LTM Aircraft Rents x 7 years (80%)*

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 7.00% 25s

2019 & 2020 Revised Guidance:

- Fundamentally, leverage trends remain favorable. Management guidance points to almost US$1.0bn in 2019 EBITDA generation (compared to BBG consensus of US$906 mm) vs. current net debt of US$2.9bn (2Q19).
- Furthermore, using capex guidance and estimated interest and lease payments, we see FCF potential of US$280 mm and US$460 mm (pre WK) for 2019 and 2020, respectively.
- We understand the decrease in EPS in the revised guidance is non-cash and entirely attributable to non-cash f/x losses.
- Brazil's airline industry has transformed into a three player market, due to consolidation, pricing and profit generation - much like the United States is experiencing with its current industry structure, referred to as the "Golden Age of Airlines"
- Meanwhile, US airlines continue to compete for feeder networks. In September '19, Delta announced the sale of its stake in Gol while acquiring 20% of LATAM – a surprise considering American Airlines (AA) had been vying for the JV with LATAM. We think the LT impact should be a positive for Gol, potentially reducing costs and freeing Gol to negotiate strategic partnerships with other US airlines who have a much larger footprint in Brazil. Delta is currently operating 3 flights/day to Brazil, compared to United ("UAL") with 6, and AA with 20.

Pro-Forma Cash Flow (US$MM)	2019	2019	2020	2020
(Consolidated IFRS)	Previous	Guidance at 2Q19	Previous	Guidance at 2Q19
Revenue	**3,315**	**3,443**	**3,698**	**3,953**
EBITDA	**928**	**964**	**1,072**	**1,146**
EBITDA margin	*28%*	*28%*	*29%*	*29%*
(-) Capex	(179)	(179)	(166)	(166)
(-) Interest Paid *	(132)	(132)	(132)	(132)
(-) Cash Lease *	(336)	(336)	(336)	(336)
(-) Cash Taxes Paid **	(36)	(38)	(49)	(52)
Pro-forma FCF (Before WK and taxes)	**245**	**279**	**390**	**460**

**Average 2017-2018. Cash lease includes Aircraft Rent (IS) and Lease Payments (CF) to reflect impact of IFRS 16*

*** Based on revenue, pre-tax margin and effective income tax rate guidance. Assumes 50% cash tax payment based on historical tax expense and income tax paid*

MARKET OUTPERFORM (BRAZIL):

GOLLBZ 7.00% 25s

Update on the impact of Boeing 737 MAX-8 Grounding:

- Guidance from Boeing as of 2Q19 anticipated regulator review of the MAX aircraft would conclude by year-end 2019.
- Gol has a firm order for a total of 129 737 MAXs (99 MAX-8s, 30 MAX-10s), and was slated to begin receiving MAXs per its pre-sale order with Boeing beginning in July '19, with a delivery of 1-2 MAXs per month.
  - It currently has 7 MAX-8 aircraft in its fleet (<6% of 127 aircraft fleet), which have been grounded since March 11th 2019
  - An additional 10 were slated for delivery in 2H19
- Gol planned to have 7 MAX-8s operational in 4Q19 should regulatory review be completed per Boeing guidance
  - The company cited a 1-2 month turnaround to getting MAXs operational
  - The MAX fleet would exceed fuel efficiency of the 737 NGs in Gol's fleet by ~15%
- In the interim, should regulatory review extend into FY20, the company has rented seven (7) subleased aircraft to cover capacity needs during its high season
- In 2Q19, Gol leased 5 Boeing 737-800 NG aircraft, and delayed the return of three 737 NG aircraft
  - The company stated it still has 11 NGs in its fleet that it will keep until the resolution of the MAX situation

MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
UNIGEL 8.75% 10/01/2026	$420	- / B+ / B+	100.20	8.71%

Unigel is the largest acrylics and styrenics producer in LatAm. Its vertically integrated operations allow flexibility in product mix as Unigel's products are also feedstock for its other operations. Despite a challenging environment in Brazil and recent petrochemical spread contraction, Unigel margins have improved along with positive FCF generation. The previous 24s were issued to refinance expensive supplier A/P. As of 2Q19, secured debt was 84% due to the 24s and two remaining export pre-payment agreements from the 2017 deleveraging plan. The new unsecured 26s proceeds were used to fund the 24s tender and the pre-payment agreements.

PROS:

- Largest Acrylics and Styrenics producer in LatAm. Unigel is the sole producer of Acrylonitrile and MMA, as well as the second largest in styrene and polystyrene
- Vertically integrated operations allow flexibility in final product mix, feedstock and own feedstock produced usage
- Acrylics (48% of sales) are acrylonitrile, MMA,EMA and acrylic sheets. With Mexico's acrylics operation accounting for 13% of total sales
- Styrenics (52% of sales) are styrene, polystyrene and latex
- Favorable domestic environment as Brazil import tariffs range between 10% and 14% for Unigel's main petrochemical products
- Natural hedge as revenues are either in USD or USD linked
- Successful non-core divestitures in 2017 cut leverage by nearly half
- Resilient earnings despite recent spread contraction, recurrent positive FCF
- 84% of Unigel's total debt was secured by the previous 2024 bond and the two remaining export pre-payments due 2023
    - The new 2026 unsecured bond proceeds will be used to repay both

CONS:

- Low control on product pricing given commodity nature
- Slow economic recovery in domestic market, as well as inherent risks regarding Govt policies on import/export tariffs
- Operating margins are dependent on raw material and energy prices, as propylene, benzene and ethylene account for 50% of total cogs
- Key feedstock suppliers such as Braskem, Petbra and Pemex have had or are having supply constraints
- Impacted by petrochem pricing volatility due to the pass-through lag
- Increased product supply as large petrochem projects are coming online, primarily styrene and MMA
- We estimate that 89% of total pro-forma debt will be USD denominated
- As of 2Q19, labor unions accounted for 19% of Brazilian and 76% of Mexican employees

MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

(US$ MM)	UNIGEL	BRASKEM	CYDSA	ALPEK	MEXICHEM
	1H19	1H19	1H19	1H19	1H19
Total Revenue	439	6,845	277	3,285	3,605
Adj. EBITDA	69	703	84	337	690
Interest paid	(26)	(320)	(18)	(83)	(169)
Capex	(14)	(301)	(48)	(75)	(121)
Working capital	(15)	443	(1)	81	(281)
Taxes paid	(2)	(54)	(24)	(90)	(106)
FCF	**13**	**470**	**(7)**	**171**	**13**
Total Debt	473	9,770	479	2,371	3,867
Cash	76	1,680	89	287	591
Net Debt	397	8,090	390	2,084	3,276
LQA Gross Leverage	3.4x	7.0x	2.8x	3.5x	2.8x
LQA Net Leverage	2.9x	5.8x	2.3x	3.1x	2.4x
EBITDA margin	16%	10%	30%	10%	19%
Rating	-/B+/B+	Baa3/BBB-/BBB	-/BB/BB+	Baa3/BBB-/BBB-	Baa3/BBB-/BBB
Maturity	2026	2028	2027	2023	2027
Mid YTM	8.71%	4.43%	5.80%	3.11%	3.78%
Spread to Sovereign (bps)	**572**	**77**	**266**	**79**	**64**

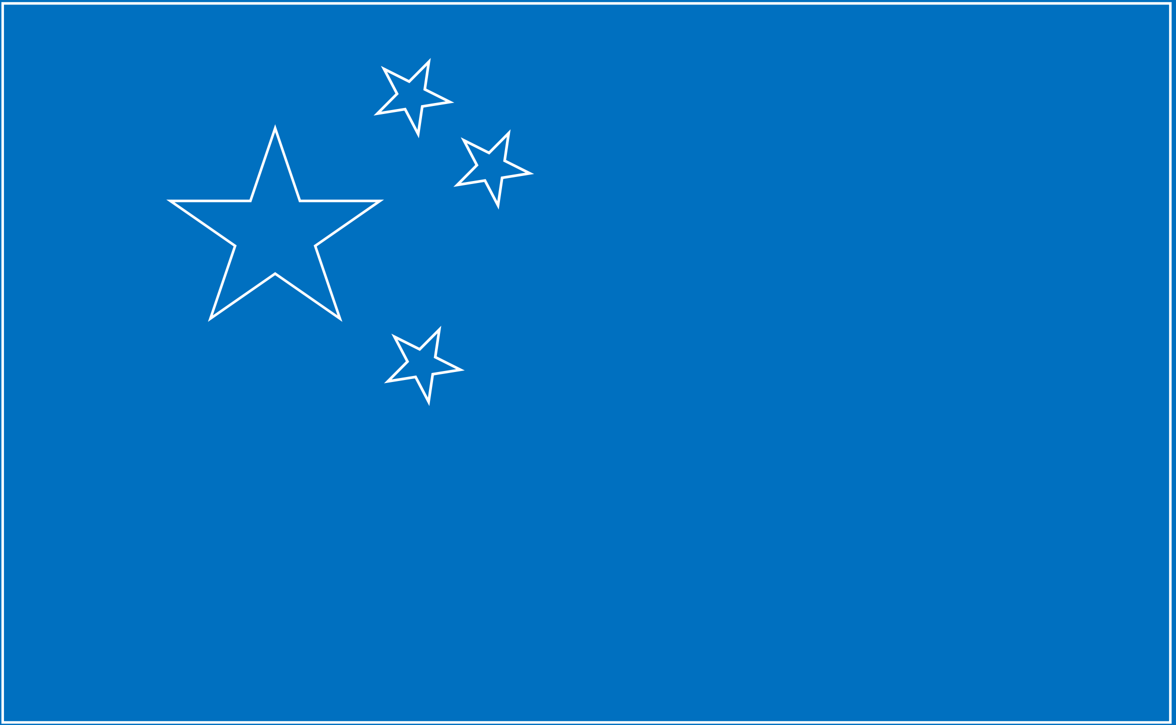
MARKET OUTPERFORM (BRAZIL):

UNIGEL 8.75% 26s

Recent Highlights – 2Q19 – Strong:

- 2Q19 Revenue increased by 6% q/q to US$226 mm, remaining flat y/y and impacted by FX – as revenue was 9% higher y/y in BRL terms
  - Styrenic sales were 2% higher q/q at US$118 mm, mainly from higher PS volumes sold in Brazil with stable spreads q/q
  - Acrylic sales were 12% higher q/q at US$108 mm, mainly from higher q/q Acrylonitrile spreads as well as 1Q19 impacted by fire in storage plants
    - Q/Q volume growth overseas offset the domestic volume contraction q/q
- Adj. EBITDA increased by 35% q/q to US$40 mm, increasing by 69% y/y as well
  - Styrenic EBITDA was 17% higher q/q at US$23 mm, in line with volume growth and stable spreads
  - Acrylic EBITDA was 68% higher q/q to at US$17 mm, as better spreads were aided by the normalization of operations post-fire stoppage
  - As a result, the EBITDA margin was 18% vs 14% last quarter
- FCF generation was US$4 mm, as the higher EBITDA was partially offset by WK expansion primarily from higher inventories
- Total debt increased to US$473 mm, while cash increased to US$76 mm
  - Y/Y debt growth is from the inclusion of US$49 mm in lease liabilities
  - USD debt accounted for 53% of total debt, as the bond is fully swapped to BRL
- Annualized gross and net leverage ratios are 3.0x and 2.5x, respectively

UNIGEL (US$ MM)	2Q19	1Q19	2Q18	q/q	y/y
Total Revenue	226	212	226	6%	0%
Adj. EBITDA	40	29	24	35%	69%
EBITDA margin	18%	14%	10%	-	-
UNIGEL (US$ MM)	2Q19	1Q19	2Q18	q/q	y/y
Total Debt	473	454	423	4%	12%
Cash & Equivalents	76	64	64	19%	19%
Net Debt	397	390	359	2%	11%
Total Debt / LQA EBITDA	3.0x	3.9x	4.5x	-0.9x	-1.5x
Net Debt / LQA EBITDA	2.5x	3.3x	3.8x	-0.8x	-1.3x
UNIGEL (US$ MM)	2Q19	1Q19	2Q18	q/q	y/y
Adj. EBITDA	40	29	24	35%	69%
Interest paid	(7)	(19)	(24)	66%	73%
Capex	(6)	(8)	(9)	24%	34%
Working capital	(23)	8	(55)	-	58%
Taxes paid	(1)	(1)	(1)	22%	(42%)
FCF	**4**	**10**	**(65)**	(62%)	-



CHINA

MARKET OUTPERFORM (CHINA):

CARINC 6% 21

	Ranking	Amt Out (US$ mm)	Ratings (M/SP/F)	Mid Price	Mid YTM (%)
CARINC 6.125% 04/02/2020	Sr Unsecured	328	B1/BB-/WD	99.11	8.89%
CARINC 6.00% 11/02/2021	Sr Unsecured	300	B1/BB-/WD	94.63	10.39%
CARINC 8.875% 05/10/2022	Sr Unsecured	372	B1/BB-/-	96.00	10.68%

Car Inc (699 HK) is the largest car rental company in China with 17% market share*. The company's fleet is approximately 147k vehicles, expected to expand to 200k this year with ~US$400mm annual Capex. Founded by Lu Zhengyao in 2007, the company is now owned by the founder (30%), Legend Holdings (27%) and Warbug Pincus (10%). Car Inc's parent company UCAR is also involved in the car-sharing business, which now requires no additional investment according to management. In 2Q19, 83% of rentals were self-serve with the help of Car Inc's mobile app and GPS devices, reducing costs of human resources and rental offices. In April, the company issued US$372mm '22 senior note, US$172mm of which was exchanged from the '20s through a par-plus-cash offer.

Pros

- Market-leader position and strong brand recognition.
- High EBITDA margin. High percentage of self-service transactions.
- Small WK investment other than fleet expansion.
- Capex in Borgward cars already considered in annual Capex plan.
- Continuous high y/y growth of revenue from car rental business.
- Fleet is unsecured. Simple capital structure.
- Consistent growth in car rental business expected to become more evident this year as impact of car sharing business decreases.
- Traffic ticket reform making rental cars more attractive for non-local users.

Cons

- Large Capex needed to expand fleet and gain market share.
- Uncertainties lie in used vehicle market and realizable value of disposed vehicles in a soft car market.
- Cars are not favorable collateral for local banks. In 2018, only 4% of fleet were used as pledge of borrowings.
- Founder's other cash-burning businesses may restrain resources available for Car Inc.
- USD bonds structurally subordinated to onshore borrowings of US$622 (mostly CNY unsecured) and US$256bn CNY bonds.

** Source: ASKCI, 2018.*

MARKET OUTPERFORM (CHINA):

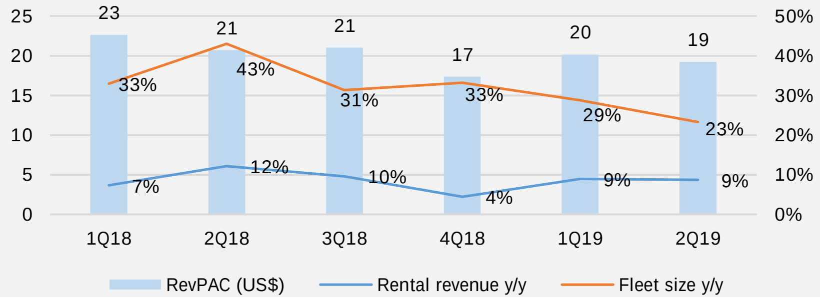
CARINC 6% 21

2Q19 Results

- Revenue increased 20% y/y to US$277mm.
- Total revenue increased US$45mm y/y, including US$15mm from increase of rental revenue and US$30mm from used car sales.
- Rental revenue increased 8% y/y to US$208mm. Used car sales increased 77% y/y to US$69mm.
- Reported adj EBITDA increased 11% y/y to US$126mm, and US$100 mm was invested in fleet.
- LTM EBITDA margin improved y/y from 43% to 50%, boosted by higher percentage of self-service.
- WK investment decreased 88% y/y to US$56mm with US$111mm increase in A/P related to purchase of Borgward cars, which was paid in August.
- Management guides to US$363 to US$436mm net Capex (net of proceeds from used vehicle sales) in 2019 to purchase 50k vehicles. Quarterly Capex this year was more evenly distributed, while 92% Capex in last year happened in 2Q18.
- In last 18 months, y/y growth of rental revenue is much lower than fleet expansion, with lower RevPAC (Average Daily Rental Revenue Per Rented Car). Low market concentration seems to force car rental companies into price competition.

Car Inc. (US$ mm)	2Q19	1Q19	2Q18	yoy	qoq
Revenue	277	274	232	20%	1%
- rental revenue	208	216	193	8%	(3%)
- sales of used rental vehicles	69	58	39	77%	18%
Costs	(161)	(142)	(124)	30%	13%
Reported adj EBITDA	126	142	113	11%	(11%)
EBITDA margin	45%	52%	49%	(345 bps)	(636 bps)
LTM EBITDA margin	50%	51%	43%	698 bps	(100 bps)
Gross margin	42%	48%	47%	(468 bps)	(619 bps)

Car Inc. (US$ mm)	2Q19	1Q19	2Q18	yoy	qoq
WK investment	(56)	(112)	(451)	(88%)	(50%)
- vehicle expansion	(100)	(102)	(376)	(73%)	(2%)
- inv	(23)	(2)	(1)	1570%	977%
- A/R	(44)	(5)	(79)	(44%)	880%
- A/P	111	(3)	5	1932%	(3390%)



MARKET OUTPERFORM (CHINA):

CARINC 6% 21

1Q19 Financials

- Net operating cash flow improved y/y from negative to US$59mm. Net interest payment doubled y/y to US$22mm.
- In February 2019. the company made US$10mm investment in an associate Botpt Inc.
  - Botpy Inc is a car insurance company registered in Cayman. No detail found about Botpy.
  - The company now owns 40% of Botpy.
- In July 2019, UCAR Inc, the parent company of Car Inc, completed the acquisition of 67% equity interest in Beijing Borgward. As part of the deal:
  - Car Inc would purchase 20,000 vehicles from Borgward, 13,287 have been funded with US$269mm (included in Car Inc's Capex plan). After three years, Car Inc can ask Borgward to buy vehicles back.
  - Car Inc would offer test driving of Borgward vehicles to customers until December 2019. The company receives US$6.4m per quarter from Borgward.
- Gross debt decreased 4% q/q to US$1,877mm.
- Total borrowings decreased 28% q/q to US$622mm. Lease obligations were classified as borrowings under IFRS 16.
- USD bond outstanding increased 25% q/q with newly issued CARINC '22.
- Total cash decreased 14% q/q to US$542mm. Net debt slightly increased q/q to US$1,335mm.
- LTM gross and net leverage both decreased q/q to 3.6x and 2.6x.

Car Inc. (US$ mm)	2Q19	1Q19	2Q18	yoy	qoq
Net CFO	59	19	(371)	-	218%
Capex - PPE	(5)	(5)	(3)	89%	(1%)
PPE disposal	(0)	0	0	-	(183%)
Capex - intangibles	(0)	(1)	(0)	(41%)	(68%)
Net interest paid	(22)	(29)	(10)	122%	(24%)
Acquisition of sub	(10)	0	0	-	-
Increase/(Decrease) in deposits	(9)	2	0	-	(470%)
FCF	13	(14)	(384)	(103%)	(195%)

Car Inc. (US$ mm)	2Q19	1Q19	2Q18	yoy	qoq
Gross debt	1,877	1,956	2,008	(7%)	(4%)
- STD	722	1,210	529	37%	(40%)
- LTD	1,155	746	1,479	(22%)	55%
Total cash	542	629	760	(29%)	(14%)
- cash & equivalents	458	514	688	(33%)	(11%)
- restricted cash	83	37	-	-	124%
- other ST financial assets	-	78	73	-	-
Net debt	1,335	1,328	1,248	7%	1%
LTM gross leverage	3.6x	3.9x	4.3x	(0.6x)	(0.2x)
LTM net leverage	2.6x	2.6x	2.6x	(0.1x)	(0.0x)

MARKET OUTPERFORM (CHINA):

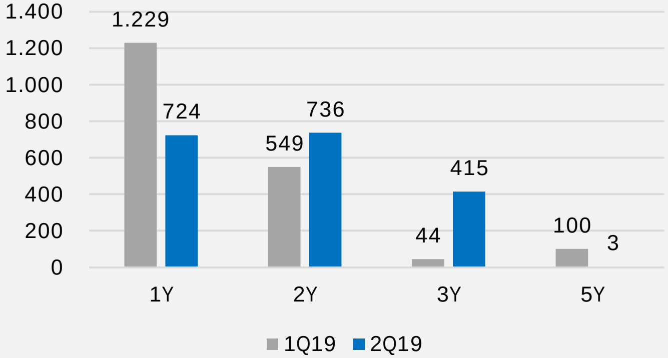
CARINC 6% 21

2Q19 Debt Profile

- In 2Q19, the company had US$1,877mm gross debt, including:
    - US$622mm borrowings, including approximately US$200mm offshore club loan.
    - US$999mm USD bonds, including US$372mm CARINC '22.
    - US$ 256mm CNY bonds.
- The company improved debt term structure by refinancing short term borrowings with longer term USD bond.
- US$722mm* STD included US$396mm borrowings (denomination unknown) and US$328mm CARINC '20. On 2Q19 earnings call, the management implied repaying CARINC '20 with cash.
- Car Inc's access to ST financing is key to rolling over bank loans and repaying the remaining CARINC '20.

Debt Profile (US$ mm)	1Y	2Y	3Y	5Y
Borrowings	396	223	-	3
CNY senior note	-	108	-	-
Corp bonds	-	106	43	-
CARINC 20	328	-	-	-
CARINC 21	-	300	-	-
CARINC 22	-	-	372	-

Gross Debt Term Structure (US$ mm)



Notes:
** Difference from FX changes.*

MARKET OUTPERFORM (CHINA):

CARINC 6% 21

Recent Developments

- On Sept 10, Ministry of Public Security of PRC simplified the process for drivers to settle their traffic violation tickets through a cellphone app, making it more convenient for people to use rented vehicles. For example, before the reform, a Beijing driver who rents a car in Shanghai had to report to Shanghai police if he/she received a ticket in Shanghai. In many cases the driver only finds out when he/she has returned the rented vehicle and left Shanghai, and many are discouraged to rent cars. In 2017, 69% of rented cars in China were used for tourism and vacation.
- Lu Zhengyao, founder & shareholder of Car Inc, has two other ventures: UCAR and Luckin Coffee. Lu's family owns 10% of UCAR (which owns 29% of Car Inc) and 31% of Luckin Coffee. Even though both entities are listed, they are in expansion phase and require substantial amount of investment. On earnings call, Car Inc's management claimed its independence in operations from UCAR.

COLOMBIA

MARKET OUTPERFORM (COLOMBIA):

GTE 6.25% 25s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
GTE 6.25% 2/15/2025	$300	-/B++B	89.50	8.75%

Gran Tierra is an upstream oil and gas company, with production of nearly 36kbpd in 2Q19 (29kboepd after royalties), mostly comprised of crude oil. Operations are focused in Colombia, while contracts for exploratory blocks were recently signed in Ecuador. Bonds have recently been underperformed given production disappointments driven by farmer blockades in the Suroriente area and electric submersible pump failures in the Acordionero field. As a result, production guidance was lowered to 37kbpd in August from previous 42kbpd. The company is listed in the NYSE and the TSX, with a current market cap of US$452mm. Given spread to closest peers and as production is expected to rebound to 1Q19 levels, we are upgrading GTE 25s to 'Market Outperform'.

PROS:

- Efficient cost structure, with an operating netback of US$33/boe in 2Q19
- The company is the sole operator of the vast majority of its blocks, allowing the company to potentially decrease capex under a lower crude price environment
- Ample level of 2P reserves of 150mmboe at Dec18 (11 years of average life)
- Comfortable liquidity, with no debt amortizations until 2025 and untapped revolving credit facilities of US$300mm
- Low net leverage of 1.4x (LQA at 2Q19)
- For 2H19, 10kbpd of production is hedged against Brent decline at US$60
- Per last press releases, blockades were lifted in Suoriente, with uninterrupted production of 4.5kbpd since the end of 2Q19

CONS:

- Small scale, currently producing 36kbpd, mostly concentrated in the Acordionero field
- Failures in the electric submersible pump lowered production from the field by around 4.5kbpd, while farmers blockades in Suoriente interrupted production for further 4.5kbpd
- Low proven reserves, with 5 years of average reserve life
- 37kbpd revised guidance was given with a Brent of US$65. Accordingly, level might be revised further as Brent trades at US$60
- Farmer blockades in Suoriente were resolved through government commitments to increase investment in the area. If the government fails to comply with its commitments, unrest could resume.

MARKET OUTPERFORM (COLOMBIA):

GTE 6.25% 25s

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

(US$ MM)	Gran Tierra	Frontera	Geopark	Medco	Tecpetrol	Seplat	Tullow	Kosmos
Country	Colombia	Colombia	Chile	Indonesia	Argentina	Nigeria	Pan African	Pan African
Mid yield (%)	8.93%	7.75%	5.79%	6.61%	7.01%	7.43%	6.58%	6.57%
Rating (M/SP/F)	-/B+/B+	-/BB-/B+	-/B+/B+	B2/B/B+	B2/-/BB+	B2/B/-	B3/B+/-	B2/BB-/BB
Bond maturity	2025	2023	2024	2025	2022	2023	2025	2026
Amt Out (US$mm)	300	350	425	500	500	350	800	$650
Oil & Gas prod (kboed)	35.3	74.4	39.2	96.0	111.0	49.4	86.3	71.1
Revenue	158	377	170	342	356	196	902	396
EBITDA	98	181	99	183	243	132	758	288
FCF	(70)	23	(35)	(428)	1	(115)	300	150
Gross debt	692	355	443	3,508	1,574	357	4,591	2,129
Net debt	545	1	374	2,259	1,547	(76)	4,229	1,952
LQA Gross leverage	1.9x	0.5	1.1x	4.8x	1.6x	0.7	2.8	1.8
LQA Net leverage	1.4x	0.0	0.9x	4.1x	1.6x	na	2.6	1.7

Source: Bloomberg as of 02/10/2019

MARKET OUTPERFORM (COLOMBIA):

GTE 6.25% 25s

ANALYSIS OF 2Q19 RESULTS

- Revenue increased 4% q/q to US$158mm given higher average realized prices (+11%), partially offset by an 8% decrease in production
    - Gross production ended at 35kbpd, which was hit by farmer blockades in the Suroriente fields, which interrupted production of 4.5kbpd, and electric submersible pump failures in Acordionero, which lowered production by 4.5kbpd.
    - As a result, production bottomed at 29kbpd, later recovering to 35kbpd at July after blockades were lifted
- Due to production interruptions, 2019 guidance was lowered to 37kbpd from previous 42kbpd
- EBITDA followed, increasing 5% q/q to US$98mm
- Free cash flow burn of US$39mm, as capex remained high at US$100mm as the company brings onstream the acquisitions made in Feb19 and further advances in the Acordionero central processing and water injection facilities
- Gross debt increased 38% q/q to US$715mm after the issuance of US$300mm in new 27s, while following period-end the company used part of the proceeds to repurchase the outstanding US$115mm convertible issue
- Net debt in turn increased 14% q/q due to FCF burn
- LQA gross and net leverage increased to 1.8x and 1.3x, while the former should decrease to 1.5x following the repurchase of the convertibles

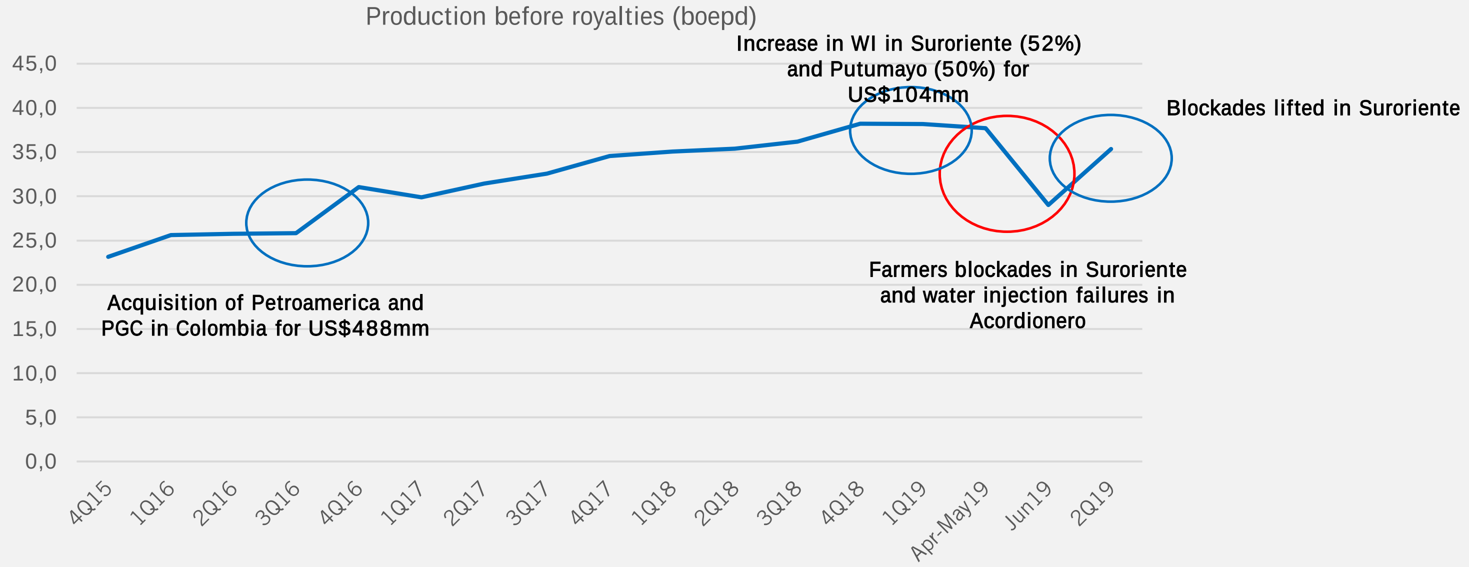
GTE (US$MM)	2Q19	2Q18	1Q19	y/y	q/q
Revenue	158	163	153	(3%)	4%
EBITDA	98	109	93	(11%)	5%
EBITDA margin	61.8%	67.0%	61.0%		

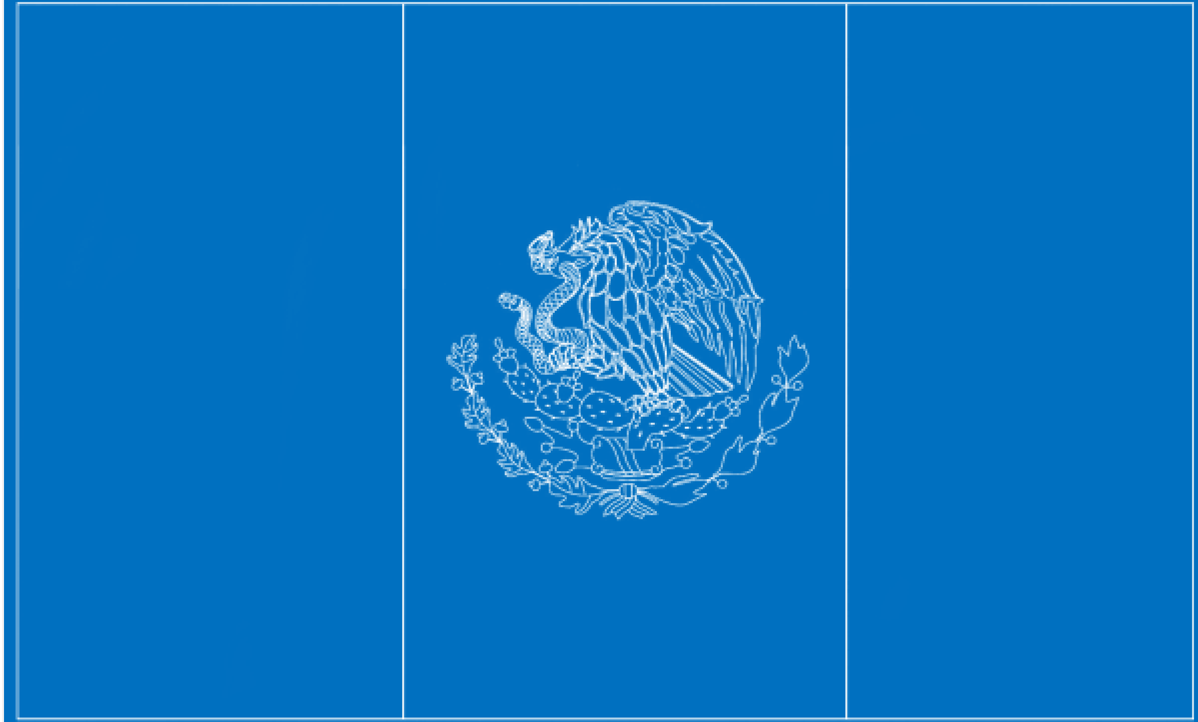
GTE (US$MM)	2Q19	2Q18	1Q19	y/y	q/q
Total Debt	715	398	517	80%	38%
Cash and Equivalents	201	158	65	27%	211%
Net Debt	514	240	452	115%	14%
Leverage (Total Debt/LQA EBITDA)	1.8	0.9	1.4		
Net leverage (Net Debt/LQA EBITDA)	1.3	0.5	1.2		

GTE (US$MM)	2Q19	2Q18	1Q19
EBITDA	98	109	93
Working capital	(27)	(43)	(32)
Capex	(100)	(84)	(94)
Interest expense	(11)	(7)	(8)
Income tax expense	0	(5)	(11)
FCF	**(39)**	**(29)**	**(53)**

MARKET OUTPERFORM (COLOMBIA):

GTE 6.25% 25s





MEXICO

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
DOCUFO 10.25% 7/24/2024	$300	- / BB- / BB-	99.25	10.44%

Docuformas is Mexico's third largest independent leasing company with a core focus on SMEs. Similarly to Unifin, Docuformas is well positioned to take advantage of the large SME market. Despite the economic slowdown in Mexico, Docuformas has managed to increase its loan book in line with client and avg. ticket size growth. The improvement in funding costs have kept the NIM relatively stable given the yield contraction. The new US$300 mm bond is fully hedged, though the company expects to incur a negative carry as it deploys the excess cash. Docuformas offers a substantial pick up vs Unifin. With the net debt to loans at 78%, the lowest amongst non-bank peers, we continue to see room for loan growth. Unaffected by regulatory proposals and further removed in our view given its core SME focus.

PROS:

- Third largest independent leasing company in Mexico by loan book, focused on SMEs
- As of 2Q19, capital and equipment leasing accounted for 79% of loans, whilst real estate 11% and the remainder in factoring loans and transportation and other services
- Industrial and consumer disc. clients account for 30% and 27% of loans
- Mexico's SMEs represented 50% of GDP in 2018, yet SMEs remain underserved as they represent only 25% of bank loans. Non-bank SME loans are below 1% of GDP
- 60% of origination is done in-house and 15% from recurring vendor agreements
- Net debt to loans ratio is 78%, the lowest amongst non-bank peers
- Secured debt was 31% of total debt in 1Q19 (prior to new unsecured bond)
- 100% of the new US$300 mm bond is fully hedged back to MXN
- Not impacted by recent banking commissions regulatory proposals in Mexico
- Docuformas had no Govt. related loans as of 2Q19
- PE shareholders made a US$27 mm equity capitalization. PE firms Colony Capital and Alta Growth own 50% and 36%. Colony Capital acquired Abraaj's LatAm PE in 2019

CONS:

- Exposure to macroeconomic factors such as NAFTA, that can affect client profit margins and therefore their ability to pay leasing contracts
- Slow economic activity in Mexico, in part from Govt. underinvesting
- Concentrated clients, as 64% of revenue is derived from Mexico City and neighboring State of Mexico area
- Portfolio yield has contracted over recent quarters
- Expensive USD issuances may represent underlying local funding concerns
- Docuformas will incur negative carry until excess cash from new bond issuance is deployed and converted into loans
- High NPL ratio of 6.0% vs peers. The ratio increases to 7.6% excl. the real estate portion of the loans.

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

<u>Net debt to net total loans</u>

- Main metric we monitor given the non-bank nature
- Docuformas 78% ratio is the lowest amongst non-bank peers
    - Historically been between high 60s and high 70s
    - Unifin's historical ratio under IFRS had been above 100% (incl. the PERP)
- Prior to the new US$300 mm unsecured bond, 31% of total debt was secured debt
- Given the low ratio, we continue to see room for loan growth
- Furthermore, Docuformas NIM compares favorably to Unifin's
    - Yet, Docuformas 7.4% ROE is well below Unifin's
- Substantial pick up at DOCUFO 24s

(MXN MM)	DOCUFO	UNIFIN	ALPHSA	CREAL	FINDEP
Ratings (M/SP/F)	- /BB-/BB-	- /BB/BB	B1/B+/ -	- /BB+/BB+	- /BB-/BB
Maturity	2024	2023	2022	2023	2024
Coupon	10.25%	7.25%	10.00%	7.25%	8.00%
Mid Price	99.25	103.58	97.25	106.13	91.00
Mid YTM	10.44%	6.22%	11.03%	5.43%	10.43%
	<u>2Q19</u>	<u>2Q19</u>	<u>2Q19</u>	<u>2Q19</u>	<u>2Q19</u>
Interest Income	350	2,611	674	2,860	1,314
Interest Expense	169	1,696	474	1,099	189
Net Interest Income	181	902	200	1,760	1,125
Admin. Expenses	64	301	232	852	802
Net Operating Profit	92	538	76	703	117
Total Assets	8,029	66,657	17,180	54,015	12,112
Total Debt (incl. PERP)	5,612	58,480	13,659	39,235	7,132
Cash & Equivalents	714	4,765	1,678	512	279
Net Debt	4,898	53,715	11,981	38,723	6,853
Total Loan Portfolio	6,320	49,424	9,377	41,085	8,421
Net Debt / Net Total Loans	**78%**	**109%**	**133%**	**97%**	**87%**
Equity	1,502	9,739	2,401	15,936	4,265
Equity / Total Assets	19%	15%	14%	30%	35%
Total Debt / Equity	374%	600%	569%	220%	167%
NIM	10%	5%	9%	18%	36%
Efficiency Ratio (excl. provisions)	35%	35%	68%	42%	63%
NPL %	6.0%	3.9%	3.3%	1.5%	6.1%
LQA Provision %	0.9%	0.2%	1.3%	3.3%	17.2%
LQA Charge-offs %	(0.4%)	0.4%	(1.7%)	3.6%	17.0%

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

Recent 2Q19 Earnings – Mixed

- 2Q19 Loan portfolio increased by 6% q/q to MXN$6,320 mm (US$329 mm), increasing by 29% on a y/y basis
  - Leasing loans were 10% higher q/q, driving sequential loan growth as clients and avg. ticker size were higher q/q
  - Real estate loans were slightly higher q/q, offset by lower credit and factoring loans
  - Leasing loans account for 79% of the total loans, whilst real estate reached 11%
- Total revenue was 8% lower q/q at MXN$350 mm (US$18 mm), as higher leasing income was offset by a decrease in equipment financing
  - The avg. yield contracted to 22%, vs 26% last quarter
- Interest expense was 11% lower q/q at MXN$169 mm (US$9 mm), as funding costs contracted to 13% vs 14% last quarter
- The NIM contracted to 10.3%, vs 11.4% last quarter driven by the lower portfolio yield
- The efficiency ratio increased to 35%, as the improvement in admin. expenses was offset by the lower NIM
- Total debt increased to MXN$5,612 mm (US$292 mm), while cash decreased to MXN$714 mm (US$37 mm)
  - As of 2Q19, 29% of the total debt was deemed as short term (US$83 mm)
- Net debt growth outpaced loans as the ratio increased to 78%, vs 73% last quarter – yet remaining well below peers

DOCUFORMAS (MXN MM)	2Q19	1Q19	2Q18	q/q	y/y
Total Revenue	350	382	293	(8%)	19%
Interest Expense	169	189	180	(11%)	(6%)
Net Financial Margin	181	193	113	(6%)	60%
Net Operating Profit	92	41	33	124%	179%

ALPHACREDIT (MXN MM)	1Q19	4Q18	1Q18	q/q	y/y
Total Assets	8,029	7,983	6,210	1%	29%
Total Debt	5,612	5,474	4,461	3%	26%
Cash & Equivalents	714	1,098	549	(35%)	30%
Net Debt	4,898	4,376	3,912	12%	25%
Total Loan Portfolio	6,320	5,958	4,888	6%	29%
Net Debt / Net Total Loans	**78%**	**73%**	**80%**		
Equity	1,502	1,418	783	6%	92%
Equity / Total Assets	19%	18%	13%		
Total Debt / Equity	374%	386%	570%		
NIM	10%	11%	8%		
Efficiency Ratio (excl. provisions)	35%	30%	45%		
NPL %	6.0%	6.2%	6.2%		
LQA Provision %	0.9%	1.0%	1.2%		
LQA Charge-offs %	(0.4%)	3.1%	0.8%		

MARKET OUTPERFORM (MEXICO):

DOCUFO 10.25% 24s

Recent 2Q19 Earnings – Cont'd

- Equity / Total assets was 19%, improving on a y/y basis from the US$27 mm PE capitalization
- Per our calculations – the NPL ratio improved slightly to 6.0% vs 6.2% last quarter, with NPLs (excl. real estate) also improving to 7.6% vs 8.4% last quarter
- Recent highlights:
  - In July 2019, Docufo issued a US$300 mm senior unsecured bond with a 10.25% coupon due 2024
    - Proceeds were used to tender US$120 mm of the 22s at 101.5c, as well as addressing the company's short-term debt
    - The incremental debt will be used to fund loan growth over the next 12 months
  - In May 2019, Alejandro Monzo (Mexarrend's shareholder and CEO) was appointed as the new Docuformas CEO
    - Adam Wiaktor will remain in the board of directors

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Total Debt / Equity	374%	386%	570%		
NIM	10%	11%	8%		
Efficiency Ratio (excl. provisions)	35%	30%	45%		
NPL %	6.0%	6.2%	6.2%		
LQA Provision %	0.9%	1.0%	1.2%		
LQA Charge-offs %	(0.4%)	3.1%	0.8%		

RUSSIA

MARKET OUTPERFORM (RUSSIA):

POGLN 8.125% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
POGLN 8.125% 11/14/2022	$500	- / B- / B-	99.00	8.49%

Founded in 1994 and head-quartered in London (UK), **Petropavlovsk (-/ B-/ B-)**, is a Top-5 Russian gold miner with main production assets in the Amur region of the Far East of Russia. Petropavlovsk is one of the largest employers in the region with over 8,500 employees. The company is listed on the LSE with a current market capitalization of just over US$400 mm. Recently, Petropavlovsk reported solid 1H19 results and we expect further improvement of net leverage to below 3.0x, given the successful commissioning of the Pressure Oxidation facility at the Pokrovsky mine (POX Hub) and downward revision of the Total Cash Costs (TCC). With this in mind, we initiate coverage on POGLN 22s at 'Market Outperform'.

PROS:

- One of Russia's major gold mining companies (Top-5), in terms of both Resources & Reserves and production (~6% of Russia's total gold production in 2018):
  - JORC Resources of 20.5Moz of gold including reserves of 8.2M (18 years av. mine life)
  - Production in 2019 is expected at 450 – 500koz
- The LSE-listed (since 2009) with a market capitalization of just over US$400 mm; prior to that the company was listed on AIM (since 2002)
- The successful commissioning of the Pressure Oxidation facility at the Pokrovsky mine (POX Hub) – one of only two POX plants in Russia. This is expected to help the company to tap the value of the 5.3Moz of refractory Reserves
- Petropavlovsk managed to improved its liquidity in 2019: repayment of the US$57 mm bridge loan by IRC and refi of the convertible bond

CONS:

- Majority of Petropavlovsk's reserves (~65%) are refractory:
  - Refractory, i.e. gold is chemically embedded into sulfides or carbons, making it more difficult and expensive to extract and process by usual means)
  - In Russia ~80% of gold reserves are refractory (in full or in part).
- Petropavlovsk owns a 31% stake in IRC Ltd, a non-core asset involved in production of iron ore. In the past, the company was financially supporting its subsidiary.
- Although, the TCC was revised downward, the company's margin depends on global gold price trend

MARKET OUTPERFORM (RUSSIA):

POGLN 8.125% 22s

1H19 IFRS Financial Results

Petropavlovsk, USD MM	1H19	1H18	y/y	2H18	h/h	2018	2017	y/y
Revenue	305	270	13%	229	33%	500	587	-15%
EBITDA	83	61	37%	82	1%	143	197	-27%
Interest	(33)	(27)	22%	(34)	-3%	(61)	(49)	24%
Capex	(45)	(67)	-33%	(67)	-33%	(134)	(88)	52%
Taxes Paid	(17)	(0)	16900%	(5)	240%	(5)	(31)	-84%
FCF (pre-working capital)	(12)	(34)	-65%	(24)	-50%	(57)	29	-297%
Working Capital, net change	(20)	101	n/a	59	n/a	160	48	233%
FCF (post-working capital)	(31)	68	n/a	35	n/a	103	77	34%
EBITDA margin	27%	22%	5pp	36%	9pp	29%	34%	-5pp
Shareholder's Equity	602	539	12%	601	0%	601	579	4%
Short Term Debt	97	7	1286%	0	n/a	0	7	n/a
Short Term Lease Liability	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Long Term Debt	500	591	-15%	594	-16%	594	589	1%
Long Term Lease Liability	3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Debt	603	598	13	594	2%	594	596	0%
Cash	39	33	18%	26	50%	26	11	136%
Net Debt	564	565	0%	568	-1%	568	585	-3%
EBITDA LTM	165	144	15%	143	16%	143	197	-28%
Leverage	3.6x	4.2x	-12%	4.2x	-12%	4.2x	3.0x	37%
Net Leverage	3.4x	3.9x	-13%	4.0x	-14%	4.0x	3.0x	34%
FX (RUS/USD)	63.22	62.95	0%	69.08	-8%	69.08	57.73	20%

1H19 IFRS Financial Results:

- Revenue – US$302 mm (+12.9% y/y and +33.1% h/h) – increased on the back of increased production (+11.8% y/y and +1.9% h/h to 225,000 oz) and sales (+11.7% y/y and +33.9% h/h to 225,000 oz)
  - Recently commissioned POX Hub accounts for 27% of total production, notably increasing the potential of the company's refractory ore reserves at Malomir mine
- EBITDA - US$83 mm (+37.2% y/y and +1.2% h/h) – notably higher on an annual basis and was maintained sequentially
  - With increasing contribution of POX Hub, the TCC for refractory processing is expected to decrease as ramp-up costs decline and capacity utilization is increased, which should be a supportive factor for EBITDA

MARKET OUTPERFORM (RUSSIA):

POGLN 8.125% 22s

1H19 IFRS Financial Results (continued):

- EBITDA margin – 27.3% (+4.9pp y/y and -8.6pp h/h)
- Capex – US$45 mm (-33% y/y and h/h) – decrease is largely due to the completion of the major portion of the POX hub
- Liquidity – US$39 mm in cash and equivalents (+49.7% YTD) vs. US$100 mm in short-term debt
- FCF negative (pre- and post-working capital) on higher tax payment
- Debt – total debt of US$603 mm (+1.4% YTD) composed of:
    - POGLN 20s Convertible Eurobond – US$22 mm
    - POGLN 22s Eurobond – US$500 mm
    - POGLN 24s Convertible Eurobond – US$125 mm – issued in June 2019 (US$100 mm were used to redeem the POGLN 20s Conv)
- Net leverage – improved to 3.4x (vs. 4.0x in 2018) on stronger LTM EBITDA and generally stable total debt (+1.4% YTD)

2019 Outlook:

- Gold sales are on target to meet the full year 2019 target of 450 - 500koz (after processing gold concentrate stockpiles accumulated in 2018); 500-550koz in 2020 – 2022
- Capex - US$45 - 55 mm – mostly for sustaining and exploration, excluding the construction of a new floatation facility at Pioneer announced in June 2019 at a cost of US$30 mm to be completed in a year
- TCC (Total Cash Costs) – revised downward by a US$100/oz to US$750 – 850/oz due to strong operational performance, including ramp up of the POX Hub

Petropavlovska Operational Results	1H19	1H18	2H18	y/y	h/h	2018	2017	y/y
Gold produced, 000 oz	225	201	221	11.9%	1.8%	422	440	-4%
Gold sold, 000 oz	225	201	168	11.9%	33.9%	370	440	-16%
Average realized price, USD/oz	1,286	1,285	1,268	0.1%	1.4%	1,263	1,262	0.1%
Total Cash Costs (TCC), USD/oz	841	899	650	-6.5%	29.4%	786	741	6%
All-in-Sustaining Costs (AISC), USD/oz	1,029	1,138	1,117	-9.6%	-7.9%	1,117	963	16%

MARKET OUTPERFORM (RUSSIA):

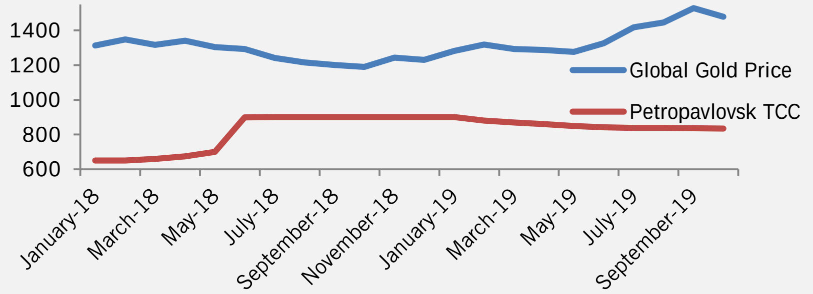
POGLN 8.125% 22s

Recent Developments:

- New Major Shareholder – On July 11, 2019, Fincraft Resources (Mr. Kenes Rakishev) sold Fincraft Holdings, a major Petropavlovsk shareholder, to Altair (Mr. Roman Trotsenko); Mr. Rakishev bought his stake in December 2017 from Mr. Vekselberg's Renova group
- Major subsidiary – IRC (31.1%), a vertically integrated iron ore producer and developer in the Russian Far East and North-eastern China, IRC is the HKSE-listed with a market cap of HKD 553.3 M (~US$70.6 mm) with an annual production of 1,56 mm tons (2017)
- March 2019 – the outstanding loan between IRC and ICBC was successfully refinanced and Petropavlovsk received the RUB-equivalent of US$57 mm as full repayment of the two bridge loans advanced to IRC in 2018 by Petropavlovsk; in addition, a US$6 mm guarantee fee is being paid too with further US$5 mm payable by IRC no later than March 31, 2020
- Commissioned a pressure oxidation facility (POX Hub) to process its substantial refractory resource base
- Fitch – On August 22, 2019, Fitch upgraded the company's rating to 'B-'/Pos

- *The ramp-up of the POX Hub has been better than expected – in 1H19, it has already accounted for 27% of the total production, as a result, the company's top line and profitability improved. With increasing contribution of POX Hub, the TCC for refractory processing is expected to decrease as ramp-up costs gradually decline and capacity utilization is steadily increasing – the 2019 TCC has been already revised downwards by US$100/oz to US$750 – 850/oz, which should be, in our view, a supportive factor for EBITDA going forward and we expect net leverage to further improve to below 3.0x, which prompted us to introduce the POGLN 22s as a 'Market Outperform'.*

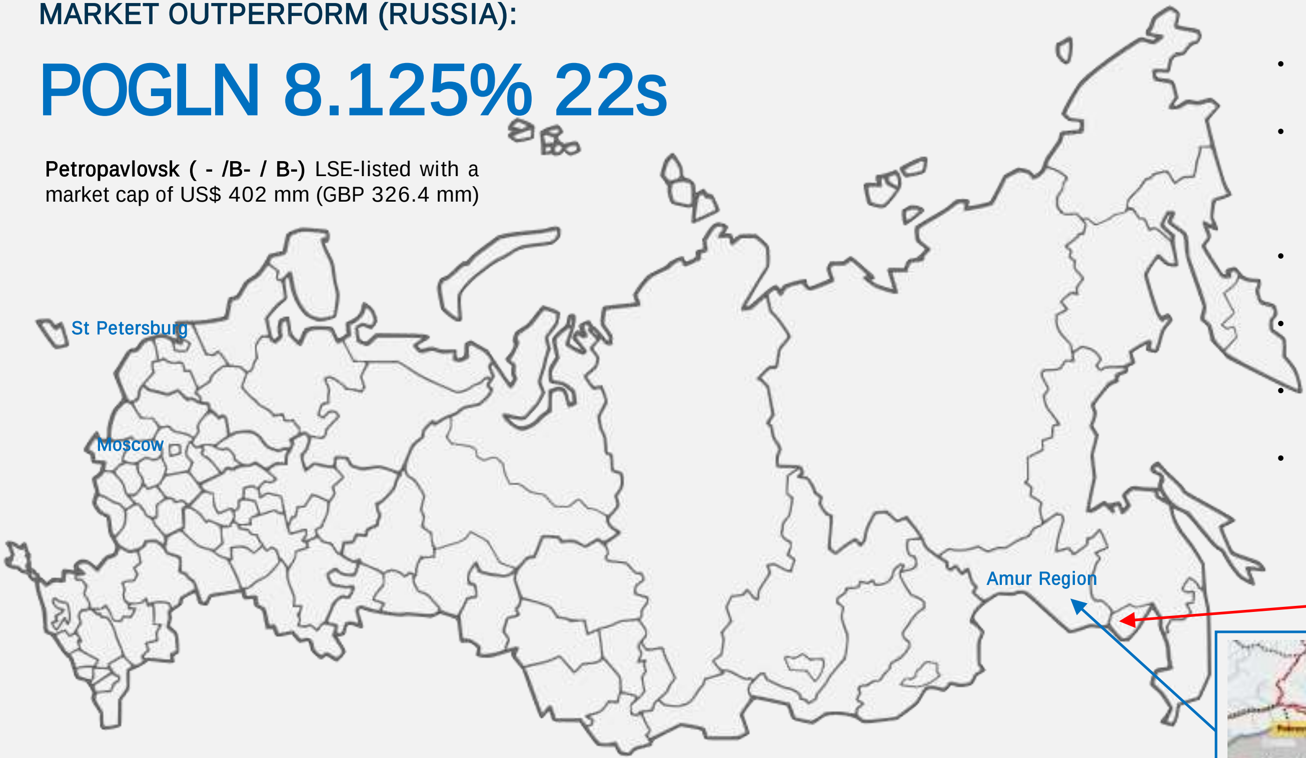
Global Gold Price vs. Petropavlovsk TCC, USD



MARKET OUTPERFORM (RUSSIA):

POGLN 8.125% 22s

Petropavlovsk (- /B- / B-) LSE-listed with a market cap of US$ 402 mm (GBP 326.4 mm)



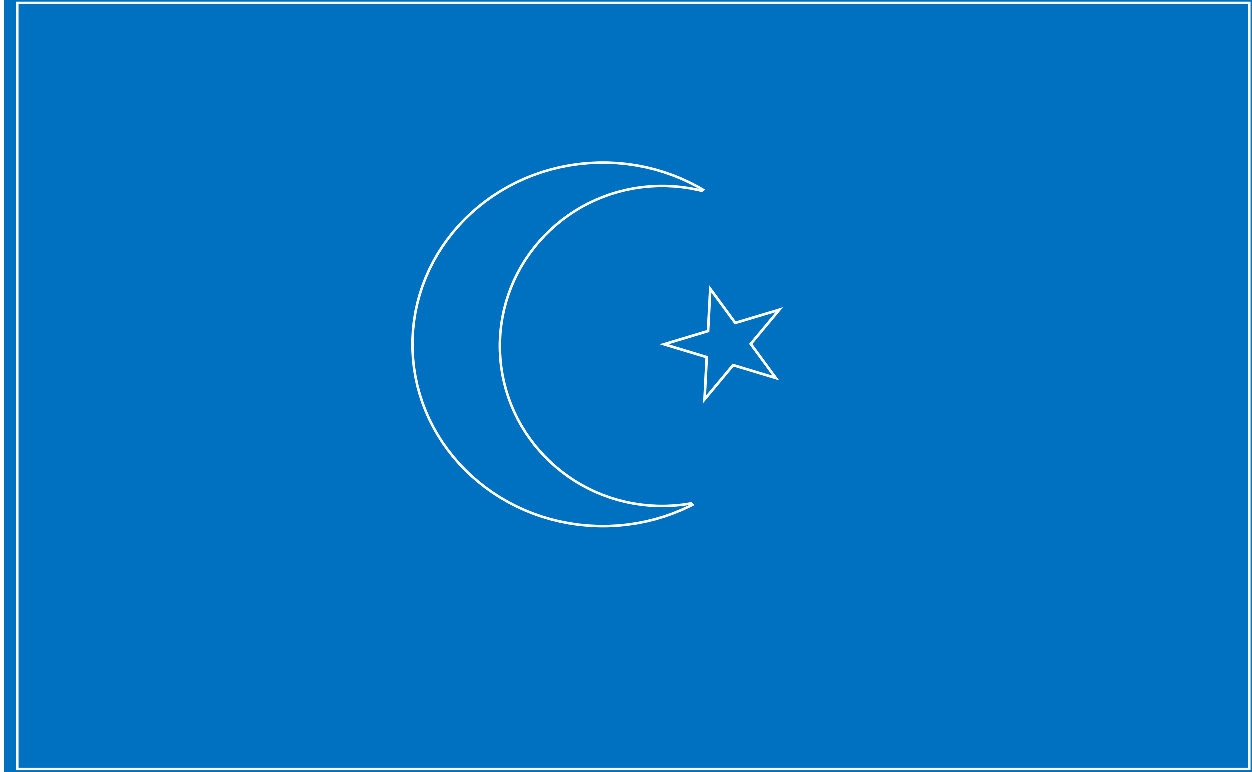
- Over 2,600 km² (1,004 miles²⁾ total license area
- 20.5Moz of JORC Resources, incl.
  - 8.2Moz of Reserves
  - 18 years av. mine life
- One of only two POX plants in Russia
- ~450 – 500koz 2019 production guidance
- US$750 – 850/oz 2019 Total Cash Costs (TCC) guidance
- 31% stake in IRC Ltd, a low-cost Hong-Kong listed premium iron ore producer

IRC Ltd (non-core)

Mining & Processing

- Mines – Pioneer, Albyn & Malomir
- POX Hub

TURKEY



MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
VAKBN 6.00% 11/01/2022	$672	Caa1/-/B	97.00	7.11%

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

PROS:

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

CONS:

- NPLs at 4.7% above general industry levels (4.3%), although with guidance of 6% for the year in line with general industry
- High loan to deposit ratio at 123%
- 22s are subordinated bonds, which will be subject to higher volatility under unfavorable macroeconomic conditions
- Repurchases of the 22s have been low in the past year and being made opportunistically in the market instead of with a tender
- Unfavorable Halk developments in the US could add pressure to other state-owned banks in Turkey

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

PEER TABLE

(TRYbn)	Vakif	Ziraat	Yapikredi	Akbank	Garanti	Halk	Isbank
	2Q19	**2Q19**	**2Q19**	**2Q19**	**2Q19**	**2Q19**	**2Q19**
Senior bond maturity	2022	2022	2022	2022	2022	2021	2022
Senior bond yield	6.7%	6.3%	5.9%	5.6%	5.5%	7.0%	5.9%
Old style subordinated bond maturity	2022	n/a	2022	n/a	n/a	n/a	2022
Old style subordinated bond yied	7.5%	n/a	6.9%	n/a	n/a	n/a	7.3%
Gross loans	262	423	262	211	281	286	271
NPLs (%)	4.7%	2.1%	5.9%	4.5%	5.7%	4.0%	5.8%
Stage 2 loans	11%	5%	15%	14%	15%	8%	14%
Deposit base	215	393	226	229	260	263	259
Loans to deposits	122%	107%	115%	97%	108%	109%	105%
BCP liquidity ratio (*)	41%	35%	40%	40%	42%	38%	38%
NIM	3.6%	4.5%	3.3%	4.7%	4.9%	2.6%	3.1%
Cost / Income	38.3%	47.6%	36.2%	33.8%	40.0%	54.3%	43.0%
ROAA	0.6%	0.8%	1.1%	1.3%	1.8%	0.3%	1.1%
ROAE	7.1%	8.1%	12.5%	10.4%	15.3%	4.2%	9.5%
Total CAR	17.0%	16.0%	15.6%	17.7%	16.4%	14.6%	16.9%
CET1	10.5%	13.0%	11.6%	15.0%	14.1%	9.8%	14.0%
Interest collected / Interest accrued	87%	120%	85%	100%	95%	91%	89%

(*) Cash and equivalents to deposits + funds received + securities issued

MARKET OUTPERFORM (TURKEY):

VAKBN 6.00% 22s

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

- Gross loans increased 2% q/q to TRY262bn (US$45.3bn), driven by FX loans
- NPLs slightly deteriorated 10bps q/q to 4.7%, while management stated in the call it foresees NPLs meaningfully below the 6% guidance given for 2019
    - Stage 2 loans share in total increased 90bps q/q to 10.9%, with management stating that it expects the ratio above initial guidance of 11%, as they expect higher stage 2 loans that do not end up flowing to stage 3
    - Coverage ratio (Total provisions / NPLs) remains above 1x at 101%
- Net cost of risks decreased 80bps q/q to 150bps, with provisioning decreasing 43% q/q
- Interest collected per cash flow statement represented 87% for the quarter, and 89% for 1H19
- Deposit base increased 8% q/q to TRY215bn (US$37.0bn), mainly TRY deposits
- Loan to deposit ratio improved to 123%, remaining higher than peers
- Cash liquidity remains sound, with cash and equivalents representing 49% of total deposits and 41% of deposits plus loans and market debt
- Net Interest Income before provisions increased 8% y/y and 18% q/q to TRY2,770mm (US$472mm)
- NIM weakened 60bps y/y while improving 40bps q/q to 3.6%
- Income from services remains grew 67% y/y although contracting 13% q/q
- Opex grew 20% y/y and 5% q/q, broadly in line with inflation levels
- Cost / Income deteriorated 130bps y/y to 38.3%
- ROAA and ROAE weakened both y/y and q/q to 0.6% and 7.1%, respectively, with TRY1.3bn negative trading cost, mostly on swap cost
    - Management foresees 2H19 ROAE to double 1H19 levels and end the year above 10%.
- Total CAR strengthened 175bps q/q to 17.0%, with 167bps coming from the AT1 issuance subscribed by the state
- TIER1 improved 180bps q/q to 14.0% (minimum 9.5%)
- CET1 increased 10bps q/q to 10.5%

VAKIF (TRY MM)	2Q19	2Q18	1Q19	y/y	q/q
Financial income	10,820	7,266	9,677	49%	12%
Financial expenses	(8,050)	(4,694)	(7,333)	71%	10%
NII before provision	2,770	2,572	2,345	8%	18%
Provisions	(1,427)	(496)	(2,494)	187%	(43%)
Income from services	855	511	979	67%	(13%)
Operating expenses	(1,626)	(1,350)	(1,548)	20%	5%
NIM	3.6%	4.2%	3.2%		
Cost / Income	38.3%	37.0%	32.1%		
ROAA	0.6%	1.5%	0.8%		
ROAE	7.1%	16.8%	9.1%		

VAKIF (TRY MM)	2Q19	2Q18	1Q19	y/y	q/q
Gross loans	262,563	218,946	258,427	20%	2%
Total deposits	214,295	170,417	198,124	26%	8%
NPL/ loans	4.7%	3.9%	4.6%		
Collection of interest	87.1%	96.2%	90.7%		
Loans to Deposits	122.5%	128.5%	130.4%		
C&CE to deposits	48.5%	46.6%	45.9%		
Capital Ratio	17.0%	15.0%	15.3%		
CET1	10.5%	11.8%	10.4%		

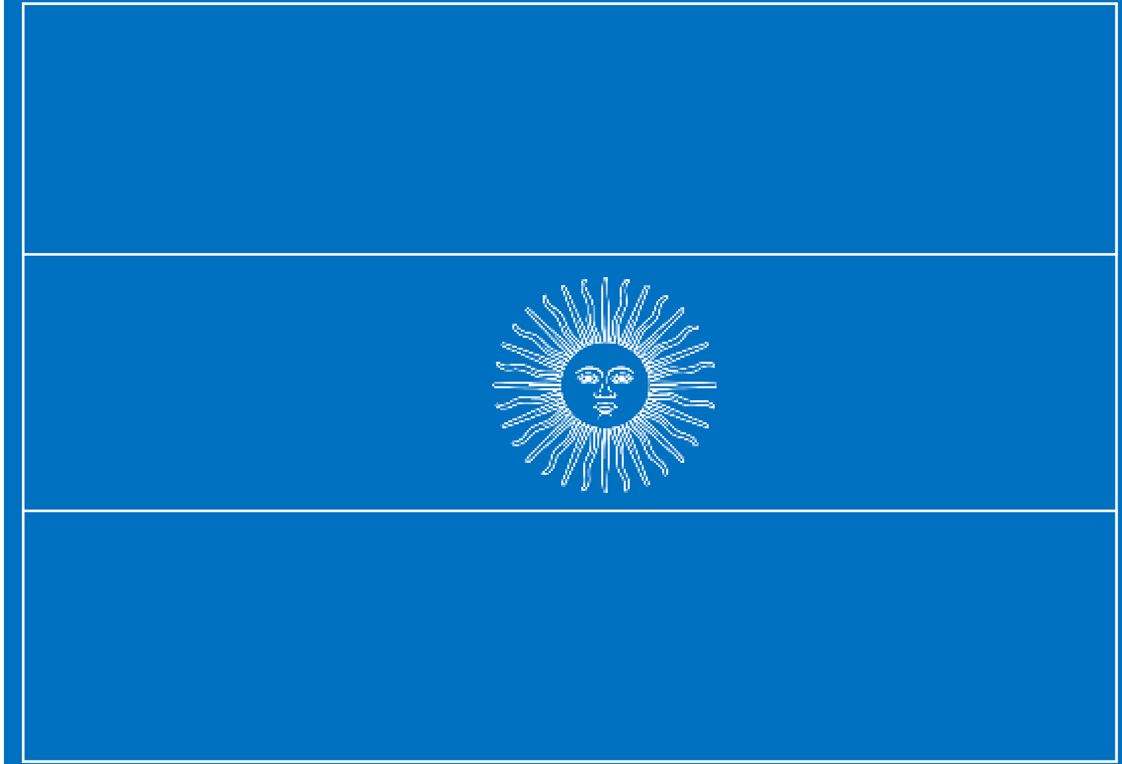
MARKET UNDERPERFORM

ARGENTINA
ARCOR 6% 23s

BRAZIL
KLAB 4.875% 27s

MEXICO
TELVIS 4.63% 26s

INDIA
VEDLN 6.375% 22s



ARGENTINA

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
ARCOR 6% 09/27/2023	$500	B3/-/B-	87.90	9.95%

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 considered by rating agencies more than enough to cover near term USD debt service. However we note that export volume share in total is low and exposure to Argentina is high

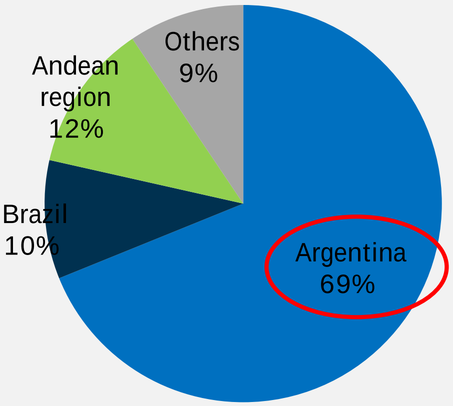
CONS:

- Significantly exposed to Argentina: Only 7% of sales volumes are exports. Argentina accounts for nearly two thirds of revenues (including exports) and 80% of EBITDA.
- F/X risks on local sales, which are based in local currency, partially mitigated by exports
- Challenging environment in Brazil, which continuously books negative EBITDA
- Highly leveraged (LHA 2Q19 net leverage 4.4x)
- Liquidity deteriorated, as cash falls below ST debt at 30% compared to 44% in 4Q18 and 51% one year ago. However, we note that most of the ST debt refers to local banks denominated in ARS
- Arcor and Mastellone shareholders agreement could further increase leverage. Mastellone results are subject to volatility of international milk prices and soft demand in Argentina

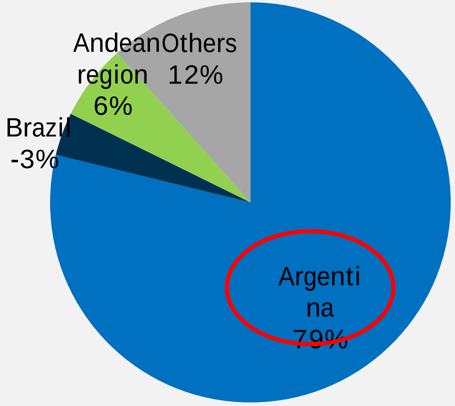
MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

CONSOLIDATED REVENUE BY REGION (2018)



CONSOLIDATED EBITDA BY REGION (2018)



SALES VOLUME EVOLUTION BY MARKET

'000 tons	Local sales	Exports	Exports as % of total
2Q19	396	28	7%
1Q19	386	34	8%
2018	1,614	102	6%
2017	1,562	112	7%
2016	1,415	102	7%
2015	1,387	89	6%
2014	1,395	93	6%

Source: Arcor 2018 results

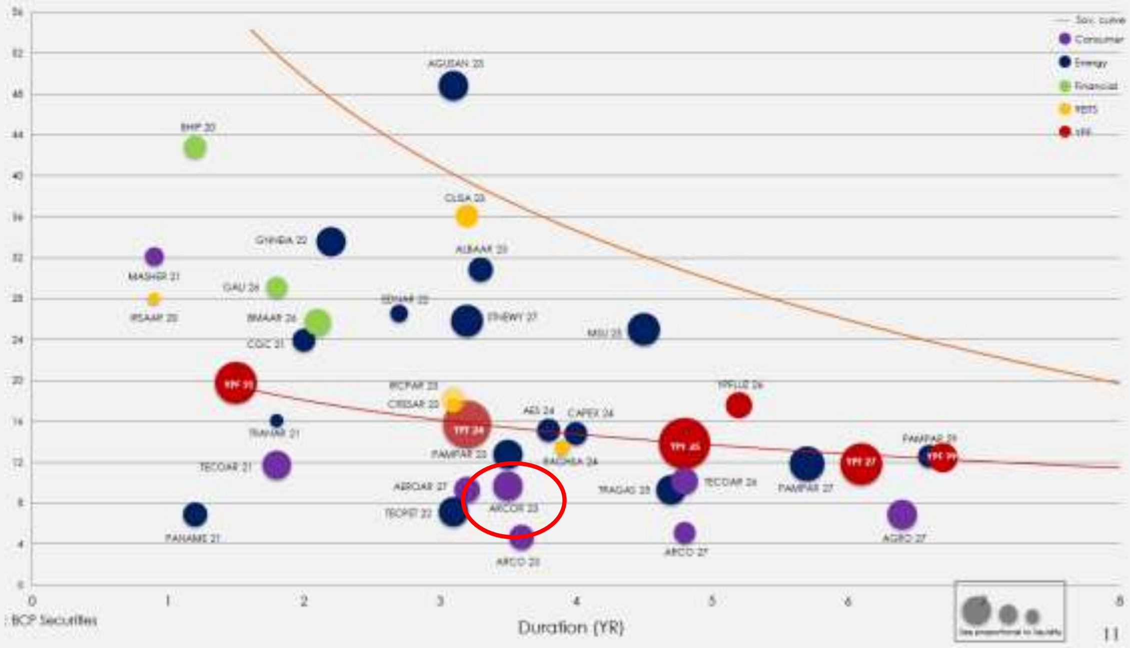
Significant exposure to Argentina: the country represents nearly two thirds of consolidated revenue and nearly 80% of consolidated EBITDA.

Additionally, exports, which represent the company's USD income given that local sales are in domestic currency, only accounts for 7% of consolidated sales volume

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

Argentine Corporates USD curve



Source: BCP Securities as of 09/23/2019

MARKET UNDERPERFORM (ARGENTINA):

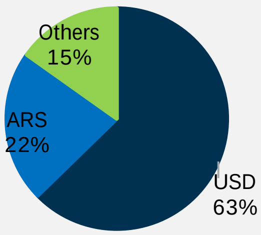
ARCOR 6% 23s

LIQUIDITY IS THIN, ALTHOUGH NEAR TERM MATURITIES ARE MOSTLY BANK DEBT IN ARS

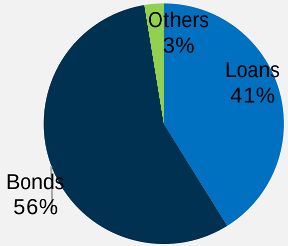
- Cash and equivalents position at Jun 30, 2019 ended at US$111mm, compared to a ST debt of US$357mm
- ST corresponds mostly to local bank debt, which is denominated mostly in ARS

US$mm	Jun19
Cash and cash equivalents	111
Short term debt	357
Bank debt	330
Bonds	17
Leasing	10

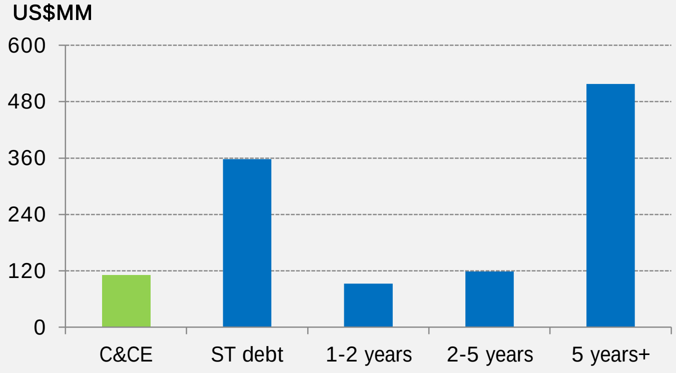
TOTAL DEBT PER CURRENCY (DEC18)



TOTAL DEBT BY INSTRUMENT (MAR19)



AMORTIZATION SCHEDULE 06.30.2019



Source: Arcor 2Q19 results

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

ANALYSIS OF 2Q19 RESULTS

- Quarterly revenue in real terms increased 4% y/y to AR$26,646mm on higher prices, which more than offset a 4% decrease in production
    - During the quarter, 7% of sales volumes referred to exports and 93% to local sales
- For the six months, revenue increased 6% y/y
- EBITDA, which we could only calculate on an accumulated basis due to lack of D&A inflation adjusted figure for previous quarter, dropped 23% y/y to AR$4,172mm
- EBITDA margin for 1H19 contracted 300bps y/y to 7.6%
- Free cash flow, only reported on an accumulated basis, was negative AR$1,949mm due to high interest payments on USD debt, which accounts for nearly two thirds of total
- Net debt as a result increased 4% since Dec18 to AR$36,374mm, including IFRS 16 debt
- Cash position of AR$4,702 represented 0.31x of ST debt
- Annualized net leverage for the first half of the year deteriorated to 4.4x from 3.3x one year ago

ARCOR (AR$MM)	1H19	1H18	y/y
Revenue	54,309	51,053	6%
EBITDA	4,172	5,397	(23%)
EBITDA margin	7.6%	10.6%	

ARCOR (AR$MM)	Jun19	Dec18	%
Total Debt	41,436	41,138	1%
Cash and Equivalents	4,702	5,918	(21%)
Net Debt	36,734	35,220	4%
Leverage (Total Debt/LQA EBITDA)	5.0x	3.8x	
Net leverage (Net Debt/LQA EBITDA)	4.4x	3.3x	

ARCOR (AR$MM)	1H19	1H18
EBITDA	4,172	5,397
Working capital	(504)	(445)
Capex	(1,102)	(2,417)
Interest paid	(3,685)	(1,749)
Taxes paid	(829)	(1,206)
FCF	(1,949)	(421)

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

The following is a stress case scenario for next year, which considers the following factors:

- We assume a 50% inflation on COGS for next twelve months
- We value the fx debt at an ARS of 65
- We assume a 10% revenue drop due to recession and pass-through lag

1H19	ARCOR	MASHER
AR$mm		
Revenue	54,309	11,589
EBITDA	4,172	1,392
EBITDA margin	8%	12%
Free cash flow pre dividends	(1,949)	(97)
US$mm		
Gross debt	975	207
Net debt	865	192
Annualized gross leverage	5.0	1.6
Annualized net leverage	4.4	1.5
Pro forma EBITDA margin	6%	9%
Pro forma net leverage	**5.5**	**2.0**
Pro forma net leverage at market	**4.7**	**1.6**

MARKET UNDERPERFORM (ARGENTINA):

ARCOR 6% 23s

AGREEMENT ARCOR AND MASTELLONE

- Until 2020 Mastellone family and Dallpoint (shareholder of Masher) have put options to sell shares to Arcor and Bagley but must keep a combined 51% ownership. After Jul20, they have the option to sell their remaining shares
- After 2020 and until 2025, Arcor and Bagley will have call options to own 100% of total capital stock
- Current Arcor ownership is 40.24%
- Purchases:
    - May-19: 4.87% for US$13.7mm (US$2.8mm for every 1%)
    - 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$2.9mm, for the remaining 52.5%, total cost will be US$152mm
- Consolidating MASHER and assuming US$152mm will be funded with debt issuance, pro forma net leverage at consolidated 1H19 debt and EBITDA would be 3.6x (down from Arcor's 4.4x at 1H19)
    - Should the purchase of the remaining stake be funded with own cash generation, pro forma net leverage would be 4.1x
- We acknowledge this transaction is unlikely to happen before 2020. Actual numbers can differ from these calculations

MASHER (ARS MM)	1H19	2018
Revenues	21,745	34,233
EBITDA	1,932	1,328
Free cash flow	**146**	**(1,271)**
Gross debt	8,796	7,441
Cash and equivalents	638	576
Net debt	8,158	6,866
LHA Gross leverage	1.6	5.6
LHA Net leverage	**1.5**	**5.2**

ARCOR + MASHER (ARS MM)	1H19	1H19
Revenue	76,054	76,054
EBITDA	6,104	6,104
Gross debt	55,333(*)	48,877
Cash and cash equivalents	5,304	5,304
Net debt	49,993	43,357
LTM Gross leverage	4.5x	4.0x
LTM Net leverage	**4.1x**	**3.6x**

(*) Arcor + Masher + US$152mm to fund remaining Masher stake

BRAZIL

MARKET UNDERPERFORM (BRAZIL):

KLAB 4.875% 27s

Description	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
KLAB 4.875% 07/06/2027	$500	(-/BB+/BB+)	102.53	4.49%

Klabin is Brazil's largest paper producer, exporting almost half of its production. Through the recently completed Puma mill (1.5mm MT), it is also a pulp producer. Klabin's installed capacity is 2mm MT of coated boards and kraftliner sack kraft. Pulp is mainly sold to Fibria through a six-year purchase agreement – that expired last quarter. Listed in Brazilian stock exchange Ibovespa - current US$4.0bn market cap.

PROS:

- Largest Brazilian paper producer and exporter
- Leading position in Brazil with 50% share in coated board and industrial bags and 40% share in kraftliner
    - Stronger domestic demand in economy's gradual recovery could support results
- Paper sales in the local market (50% of total) provide hedging against local currency appreciation
- Low cash cost levels compared to international peers, US$202/t in 2Q19
- Higher product diversification, Pulp sales ~50% EBITDA (ex. Suzano ~90% pulp)

CONS:

- Both pulp and paper are based on international commodity prices
- Pulp prices declined significantly on weaker demand on China and oversupplied market – reaching US$532/ton – lowest since Jan/17
- Puma II project – construction of two pulp integrated packaging paper machines parallel to Pulp unit in the midst of weak demand can spike leverage for upcoming years.
    - Capex intensive expansion at R$9.1bn, disbursed between 2019-2023 (2/3 disbursed during 2019-2021)
- Exposed to FX volatility with ~85% of costs in local currency vs ~40% of sales, long USD
- Net leverage run rate at 4.0x, while capex for Puma II has just begun

MARKET UNDERPERFORM (BRAZIL):

KLAB 4.875% 27s

Puma II expansion Project

- Construction of two pulp integrated packaging paper machines parallel to the Puma unit (pulp mill)
  - For a 920 ktons/year of additional Kraftliner paper capacity
- The project will be divided into two stages, each stage relative to one machine construction
  - First stage will add 450 kton/year capacity expected to be finalized by 2Q21
  - Second stage will commence after first machine start-up, adding 470 kton/year capacity, expected to be finalized by 2Q23
- Project has an estimated gross capex of R$9.1bn, to be disbursed between 2019-2023
  - R$0.9bn of the investment announced accounts for recoverable taxes
  - 2/3 of investments will be made at more intensive stage, 2019-2021
- Company states it intends to use (50%-60%) of cash generation and cash position to fund investment, while still considering new debt upon attractive conditions

- During expansion phase, utilizing 60% cash position and 40% cash generation, we estimate net leverage to reach 4.7x
- We estimate after 2nd stage completion, on an additional 920ktons/year kraftliner sales, at a 50% EBITDA margin, a R$1.2bn/year incremental EBITDA
- Which, post project ramp up can take net leverage back to around 2.0x

- Commodity risk can lead to higher leverage levels, particularly during project expansion phase on higher investment needs
  - Subsequent to last quarter Klabin retapped its 2029s notes for an additional US$250mm and issued R$1bn locally, raising funds to support expansion phase, now, not only dependent on cash position and cash generation, as initially planned

MARKET UNDERPERFORM (BRAZIL):

KLAB 4.875% 27s

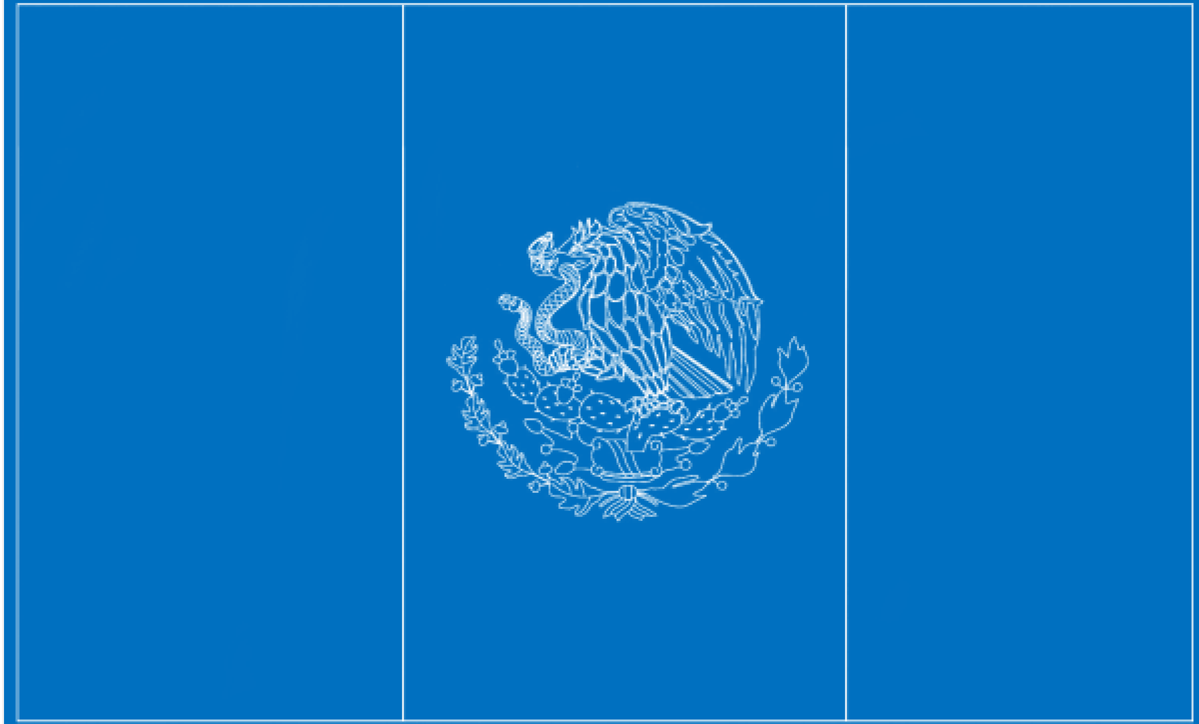
2Q19 RESULTS - SOFT

- Revenue remained practically flat q/q and down 4% y/y, missing consensus by 2%, to US$663mm, as increase in volumes was offset by lower pulp and kraftliner prices
  - In BRL revenue increased 4% q/q and 16% y/y, to R$2.6bn
  - Pulp volumes increased 5% q/q to 371 ktons, following the end of the short fiber supply agreement (min. 900 kton/year) with Fibria
    - Pulp realized prices decreased 3% q/q
- EBITDA decreased 8% q/q and 10% y/y to US$244, missing consensus by 6%
  - Pulp cash cost increased to US$202/ton, up 9% q/q, mainly driven by higher costs on wood, deteriorating margins
- FCF slightly above breakeven at US$1mm, a sequential and annual decrease, driven by WK expansion, weaker EBITDA and higher capex, already incorporating PUMA II project expenses
  - Capex totaled US$148mm in the period, US$73mm related to the start of Puma II Project
- Gross debt increased 24% q/q, to US$6.5bn given issuances in the period
  - Company issued US$1bn on 29s and 49s bonds, US$500mm each, at 5.75% and 7.00% coupon rates, respectively
  - Cash position increased to US$2.6bn, up 68% q/q
- Annualized gross and net leverage deteriorated to 6.6x and 4.0x from 4.9x and 3.5x last quarter, respectively
- Subsequent to the quarter, Klabin retapped its 2029s notes for an additional US$250mm and issued R$1bn in the local market in CRAs (Agribusiness receivable Certificates)

KLABIN (US$MM)	2Q19	BBG consensus	+/-	2Q18	1Q19	y/y	q/q
Revenue	663	676	(2%)	688	660	(4%)	0%
EBITDA	244	259	(6%)	272	267	(10%)	(8%)
EBITDA margin	36.8%	38.3%		39.6%	40.4%		

KLABIN (US$MM)	2Q19	2Q18	1Q19	y/y	q/q
Total Debt	2,485	5,692	5,247	14%	24%
Cash and Equivalents	2,624	1,702	1,565	54%	68%
Net Debt	3,861	3,990	3,682	(3%)	5%
Leverage (Total Debt/LQA EBITDA)	6.6	5.2	4.9		
Net leverage (Net Debt/LQA EBITDA)	4.0	3.7	3.5		

KLABIN (US$MM)	2Q19	2Q18	1Q19	y/y	q/q
EBITDA	244	272	267	(10%)	(8%)
Working capital	(23)	(9)	23		
Capex	(148)	(59)	(79)		
Interest paid	(71)	(26)	(95)		
Taxes paid	(1)	-	-		
FCF	**1**	**178**	**115**		



MEXICO

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Description	Amt (US$ MM)	Ratings M/SP/F	Mid Price	Mid YTM
TELVIS 4.63% 1/30/2026	$300	Baa1/BBB+/BBB+	106.98	3.38%

Grupo TELEVISA is one of the world's most recognized Spanish-language programming producers. Yet, content sales only account for 35% of the total revenue. Advertising sales have been flat with presales levels declining by about a third since 2015. We note the two pay-tv businesses, now accounting for 61% of total revenue, are on different trends. Sky customers keep declining, whilst the Cable business delivered strong performance in both revenue and RGU's. Recent high capex has been focused on the latter to develop its network, as well as the MXN$4.7 bn acquisition of Axtel's 4.4k km fiber optic. If AMX's recent bid to offer pay-tv services is approved by the IFT, AMX can offer them quickly given its infrastructure, client base and liquidity. We think this would be a major potential headwind for Televisa given the company's 4.0x gross leverage and consistent FCF burn despite enjoying a dominant position in pay-tv. Though IG status may remain, the current YTM under 4% remains mispriced in our view.

PROS:

- Arguably the most influential Spanish-language programming producer in the world with strong brand recognition
- Market share leader in broadcaster advertising with recently improved ratings
- Received US$384 mm in royalties during 2018 from its 36% stake in Univision
- Recurrent revenue streams from its Cable and Sky businesses, together accounting for approximately 61% of Televisa's total sales
- Strong Cable operations with double digit y/y growth in both revenues and RGU's
- Room for growth in Mexico's pay-tv market penetration
- Network comprising of 85k km of coaxial cable and 35k km of fiber optic
- USD coupon and interest payments are hedged
- Continued access to local and international capital markets allowing recent liability management transactions

CONS:

- Exposed to natural business seasonality in advertising
- Stagnant advertising operations since 2015 (excl. WC) with a general market share and ratings decline from increased competition
    - 2018 sales were only 6% higher than 2015
    - 4Q18 presales were 31% lower than 4Q15
    - Televisa changed its pricing mechanism in 2018
- Decreasing Sky customer subscriber base
- Recurrent annual FCF burn, nearly MXN$40 bn burn since 2015
- Increased overall capex levels – mostly cable business
- 65% of the total debt is USD denominated
- LTM gross leverage ratio is 4.0x

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Trend Highlights

- Stagnant content sales as they are essentially flat vs 2015
  - Customer advances remain below 2015 levels
  - 4Q18 presales were 31% lower than 4Q15
- Slow SKY sales growth as customers keep decreasing
- Consolidated revenue growth has been fueled by the cable business, the segment with strong client and RGU growth
- Stable EBITDA margins
- MXN$15 bn LTM FCF burn
  - Recurrent FCF burn in each of the past four years
  - Nearly MXN$40 bn FCF burn since 2015
- FCF burn has been partially offset through recent non-core asset sales
- Net debt has increased significantly since 2015, driving the LTM net leverage to 3.0x

TELEVISA (MXN MM)	2015	2016	2017	2018	LTM
Content	34,333	36,687	33,997	36,490	34,578
World cup	-	-	-	2,734	1,010
SKY	19,254	21,941	22,197	22,002	21,499
Cable	28,488	31,892	33,048	36,233	38,851
Other businesses	8,124	8,829	7,688	8,636	8,751
Total Revenue	**88,052**	**96,287**	**93,586**	**101,282**	**99,471**
EBITDA	**33,168**	**34,279**	**33,696**	**37,761**	**36,677**
Interest paid	(5,939)	(7,633)	(8,861)	(10,129)	(9,682)
Capex	(27,078)	(30,414)	(18,537)	(26,274)	(28,241)
Working capital	(648)	(401)	(6,336)	(2,157)	(4,605)
Taxes paid	(7,824)	(7,269)	(6,420)	(6,723)	(9,270)
FCF	**(8,320)**	**(11,438)**	**(6,458)**	**(7,522)**	**(15,120)**
Total Debt	117,400	140,070	133,404	130,987	146,938
Cash & Equivalents	49,397	47,546	38,735	32,068	37,918
Net Debt	68,003	92,524	94,669	98,918	109,020
Gross Leverage	3.5x	4.1x	4.0x	3.5x	4.0x
Net Leverage	2.1x	2.7x	2.8x	2.6x	3.0x
Customer Advances	20,470	21,709	18,798	13,638	14,610

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Recent 2Q19 Earnings – Mixed

- 2Q19 Revenue decreased by 2% y/y to MXN$24.3 bn (US$1.3 mm), missing the BBG consensus by 3%
    - Content sales were 13% lower y/y at MXN$8.1 bn, with ad. sales being 17% lower y/y from lower Govt. and corporate revenue
        - Advertising was impacted as 2Q18 had higher sales from the WC, though we are excl. the exhibition rights
    - Cable sales were 3% higher q/q at MXN$10.2 bn, driven by continuing sequential RGU growth
    - SKY sales were 1% higher q/q at MXN$5.4 bn, partially offset by broadband as video customers continue to decrease
- EBITDA decreased by 12% y/y to MXN$9.3 bn (US$0.5 bn), yet managing to beat the BBG consensus by 2%
    - Sequential growth was mainly from higher sales as 1Q's tend to be the slowest quarter
    - Y/Y decrease was due to a margin contraction as sales decreased further than SG&A expenses
    - As a result, the EBITDA margin was 38%, vs 39% during 2Q18
- FCF generation was MXN$0.6 bn (US$32 mm), due to working capital contraction from lower A/R
    - Capex remains heavily focused on Cable accounting for 78% of the total
    - We note customer deposits decreased q/q to similar levels vs 2Q18

TELEVISA (MXN MM)	2Q19	BBG consensus	% dif	1Q19	2Q18	q/q	y/y
Total Revenue	24,308	25,101	(3%)	23,395	26,702	4%	(9%)
EBITDA	9,302	9,102	2%	8,765	10,546	6%	(12%)
EBITDA margin	38%	36%	-	37%	39%	-	-

TELEVISA (MXN MM)	2Q19	1Q19	2Q18	q/q	y/y
Total Debt	146,938	134,095	132,546	10%	11%
Cash & Equivalents	37,918	23,563	44,593	61%	(15%)
Net Debt	109,020	110,532	87,953	(1%)	24%
Total Debt / LQA EBITDA	3.9x	3.8x	3.1x	0.1x	0.8x
Net Debt / LQA EBITDA	2.9x	3.2x	2.1x	-0.2x	0.8x

TELEVISA (MXN MM)	2Q19	1Q19	2Q18	q/q	y/y
EBITDA	9,302	8,765	10,546	6%	(12%)
Interest paid	(2,332)	(1,679)	(2,098)	(39%)	(11%)
Capex	(5,543)	(4,758)	(4,983)	(17%)	(11%)
Working capital	716	(4,436)	(1,763)	-	-
Taxes paid	(1,541)	(4,463)	(741)	65%	(108%)
FCF	**603**	**(6,571)**	**962**	-	(37%)

MARKET UNDERPERFORM (MEXICO):

TELVIS 4.63% 26s

Recent 2Q19 Earnings – Cont'd

- Total debt increased to MXN$147 bn (US$7.7 bn), with cash increasing to MXN$38.0 bn (US$2.0 bn)
  - Q/Q debt growth was from TV issuing a US$750 mm 30-yr bond with a 5.25% coupon
  - In July, TV also acquired a MXN$10 bn syndicated 5-yr term loan
- Annualized gross and net leverage are 4.0x and 3.0x, respectively
- Recent highlights:
  - Univision is reportedly exploring sale options, with TV owning a 36% stake and currently receiving around US$0.4 bn annual royalties

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Net Debt	109,020	110,532	87,953	(1%)	24%
Total Debt / LQA EBITDA	3.9x	3.8x	3.1x	0.1x	0.8x
Net Debt / LQA EBITDA	2.9x	3.2x	2.1x	-0.2x	0.8x

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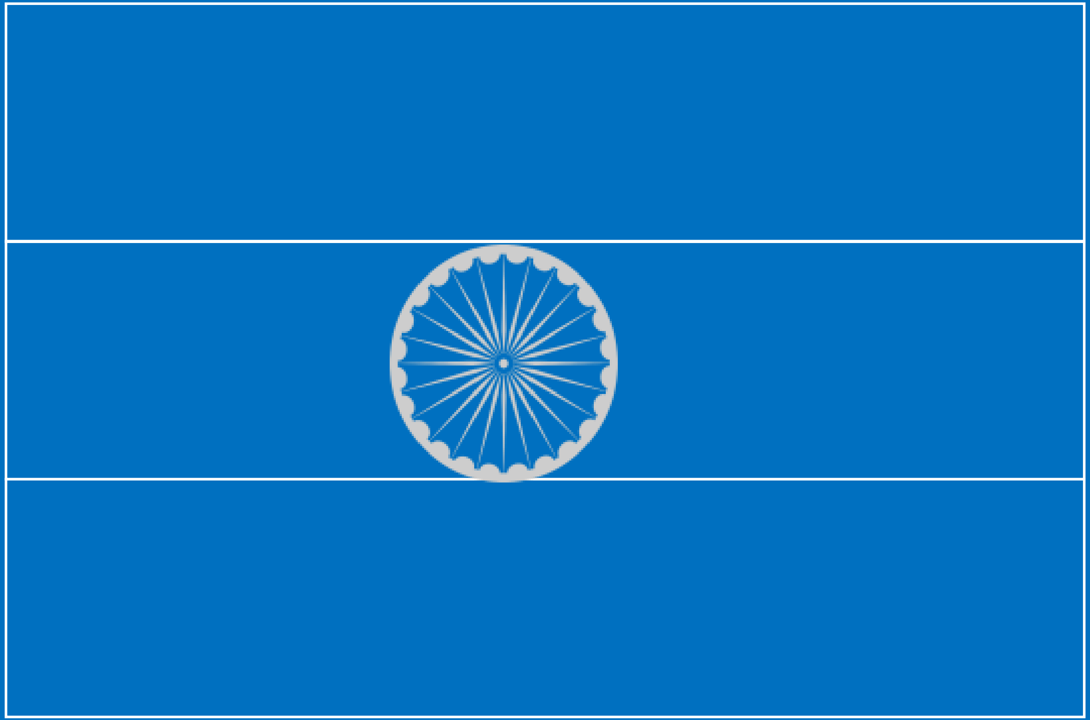

INDIA

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

	Amt (US$ MM)	Ratings (M/SP/F)	Mid Price	Mid YTM
VEDLN 6.375% 7/30/2022	1,000	B2/ B+/ -	98.84	6.84

Vedanta Resources Limited ("Resources") is India's largest diversified natural resources company founded in 1976, active in several areas including zinc, oil and gas, aluminum and copper. Resources' principal asset is its 50.1% ownership in Vedanta Limited (NYSE ticker "VEDL"), which contributes ~98% of PLC's consolidated EBITDA and revenue. The remaining EBITDA is derived from Resources' 79.4% stake in Konkola Copper Mines. Major shareholder is Volcan Investments, family trust of chairman Anil Agarwal, that has recently completed a tender offer to acquire the remaining stake (66.5% before offer) in Resources, delisting the company from London Stock Exchange. The offer valued total equity of the company at ~US$3bn.

PROS:
- Diversified business segments provide multiple revenue streams
- Consolidation of subsidiaries (Vedanta Ltd and Cairn India Ltd) improves access to the latter's cash holdings
- FY20 guidance previews production ramp-up across nearly all sectors, which may provide for better results in the near term

CONS:
- Exposure to commodity price fluctuation
- Significant minority interests restricts dividend flow from subsidiaries
- Access to liquidity of operations limited by % ownership in VEDL and subsidiaries, particularly Zinc India
- Dependence on zinc, copper and aluminum segments, supplying north of 80% of EBITDA
- We calculate pro forma (LQA) pro rata gross and net leverage at the bond issuer at 8.8x and 7.3x, respectively
    - Resources standalone does not generate EBITDA but has around US$6.2bn of net debt
- Market value of Resources' interest in VEDL has fallen to ~US$3.9bn, a 36% deficit versus net debt at face

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

Recent 2H19 Earnings – Soft

- Net revenue was flat h/h at US$6.9bn.
    - Revenue from Zinc increased 9% h/h to US$1.7bn. Production increased 18% h/h to 586 kt mined metal content
    - Revenue from Aluminum decreased 12% h/h to US$2bn. Production was flat h/h at 983 kt.
- Reported EBITDA decreased 2% h/h to US$1.7bn. Increase in EBITDA from Zinc was offset by decrease in Aluminum.
    - EBITDA from Zinc increased 18% h/h to US$874mm.
    - EBITDA from Aluminum decreased 70% h/h to US$74mm.
- Cash burn decreased 84% h/h to US$98mm, due to WK improvement.
    - Huge WK improvement in 2H19 generated US$833mm cash, compared with US$554mm cash outflow in 1H19.
- As is disclosed on cash flow statement, increase in A/P released US$840mm cash in 2H19. In 1H19, A/P decreased and required US$263mm WK investment.
- On balance sheet, A/P increased US$1.3bn h/h. Negative WK increased 54% h/h to US$3.3bn.
    - Dividend paid to non-controlling interest soared h/h to US$1bn.
    - The company recorded US$375mm F/X exchange loss.
- Gross debt increased 2% h/h to US$16bn. Total cash decreased 4% h/h to US$5.3bn. Net debt increased 5% h/h to US$11bn.
- LHA gross and net leverage both increased h/h to 4.7x and 3.2x.
- Pro rata LHA gross and net leverage was 8.0x and 6.3x.

Vedanta Resources Ltd (US$ mm)	2H19	1H19	2H18	y/y	h/h
Net revenue before special items	**6,936**	**7,014**	**8,501**	(18%)	(1%)
- zinc India	1,515	1,440	1,866	(19%)	5%
- zinc international	230	163	278	(17%)	41%
- oil & gas	914	978	800	14%	(6%)
- iron ore	210	204	290	(28%)	3%
- copper India & Australia	782	755	2,079	(62%)	4%
- copper Zambia	454	511	518	(12%)	(11%)
- aluminium	1,949	2,228	2,115	(8%)	(12%)
- power	439	475	519	(15%)	(7%)
- others	443	261	36	1134%	70%
EBITDA reported	**1,682**	**1,711**	**2,270**	(26%)	(2%)
- zinc India	789	727	1,069	(26%)	8%
- zinc international	85	15	109	(22%)	480%
- oil & gas	528	572	448	18%	(8%)
- iron ore	45	45	51	(12%)	(1%)
- copper India & Australia	(24)	(12)	69	(135%)	93%
- copper Zambia	(22)	(41)	56	(139%)	(48%)
- aluminium	74	242	261	(72%)	(70%)
- power	102	117	184	(45%)	(13%)
- others	105	46	24	341%	128%
EBITDA margin	24%	24%	26%	(230 bps)	(12 bps)
Vedanta Resources Ltd (US$ mm)	2H19	1H19	2H18	y/y	h/h
EBITDA as reported	1,683	1,710	2,270	(26%)	(2%)
Operating exceptional items	0		(13)	-	-
Working capital movements	833	(554)	(160)	(621%)	(250%)
Changes in non-cash items	16	17	20	(20%)	(6%)
Sustaining capital expenditure	(221)	(214)	(276)	(20%)	3%
Movements in capital creditors	36	71	42	(14%)	(49%)
Sale of PP&E	17	1	8	113%	1600%
Net interest	(187)	(551)	(324)	(42%)	(66%)
Tax paid	(236)	(150)	(325)	(27%)	57%
Expansion capital expenditure	(577)	(504)	(548)	5%	14%
Dividend paid to equity shareholders	0	(113)	(67)	-	-
Dividend paid to non-controlling interests	(1,007)	(21)	(804)	25%	4695%
Tax on dividend from Group companies	(161)		(69)	133%	-
Acquisition of subsidiary	81	(788)	(240)	(134%)	(110%)
Other movements including F/X movements	(375)	490	(83)	352%	(177%)
Reported FCF	(98)	(606)	(569)	(83%)	(84%)
Vedanta Resources Ltd (US$ mm)	2H19	1H19	2H18	y/y	h/h
Gross debt	15,980	15,687	15,194	5%	2%
- ST borrowings	5,456	4,708	5,460	(0%)	16%
- LT borrowings	10,524	10,979	9,734	8%	(4%)
Total cash	5,277	5,492	5,606	(6%)	(4%)
Net debt	10,703	10,195	9,588	12%	5%
LHA gross leverage	4.7x	4.6x	3.3x	1.4x	0.2x
LHA net leverage	3.2x	3.0x	2.1x	1.1x	0.2x

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

Production Guidance – FY20

- Zinc India production was expected to exceed 1 million ton in FY19
- Zinc International production was expected to double on Gamsberg ramp-up
- Oil & gas production was expected to increase 6% ~ 16% y/y

Segment	FY20 Guidance	FY19 Production
Zinc India	Mined Metal and Finished Metal: c 1.0 Mtpa	936 kt
Zinc International	Skorpion and BMM: >170kt Gamsberg: 180 - 200kt	Skorpion and BMM: 131kt Gamsberg: 17kt
Oil & Gas	Gross Volume: 200-220 kboepd	189 kboepd
Aluminium	Alumina: 1.7-1.8 Mtpa Aluminium: 1.9 – 1.95 Mtpa	Alumina: 1.5 Mtpa Aluminium: 1.96 Mtpa
Power	TSPL plant availability: >80%	-
Iron Ore	Karnataka (WMT): 4.5 Mtpa Goa: To be updated on re-start of operations	Karnataka (WMT): 4.1 Mtpa Goa: 1.3 Mtpa
ESL	Hot Metal – c 1.5 Mtpa	1.2 Mpta
Copper - India	To be updated on re-start of operations	90 kt
Copper - Zambia	Integrated: 90 – 100kt Custom: 90 - 100kt	91 kt

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

1Q20, US$ mm	Vedanta Limited Standalone	Copper Mines of Tasmania	Cairn India Holdings Limited	Zinc India (HZL)	Zinc International	Bharat Aluminium (BALCO)	Talwandi Sabo	Vedanta Star Limited	Electrosteels Steel Limited	Others	Vedanta Ltd, Consolidated	Vedanta Ltd, Pro Rata	Konkola Copper Mines (KCM)	Vedanta Resources Ltd, standalone	Vedanta Resources Ltd, pro rata
business	oil & gas, al, cu, iron ore, power, copper India	copper International	oil & gas	Zinc India	Zinc International	al	power	mining services	electrosteel				cu Zambia		
ownership	100%	100%	100%	65%	100%	51%	100%	100%	90%	100%		50.1%	79%	100%	
Reported															
Revenue	1,111	116	210	700	118	261	236	114	159	18	3,043		227	0	
EBITDA	156	(4)	122	349	18	7	54	16	28	(1)	746		(11)	0	
Gross debt	5,820		0	3	60	657	1,289	489		305	8,622		150	6,256	
Cash & equivalents	601		893	2,648	99	5	18	5		188	4,458		2	43	
Net debt	5,219	0	(893)	(2,646)	(39)	652	1,271	484	0	116	4,164		148	6,213	
LQA gross leverage											2.9x				
LQA net leverage											1.4x				
Pro Rata															
Revenue	1,111	116	210	454	118	133	236	114	143	18		2,654	179	0	1,509
EBITDA	156	(4)	122	227	18	3	54	16	25	(1)		617	(9)	0	301
Gross debt	5,820			2	60	335	1,289	489		305		8,299	119	6,256	10,532
Cash & equivalents	601		893	1,719	99	3	18	5		188		3,526	2	43	1,811
Net debt	5,219		(893)	(1,717)	(39)	333	1,271	484		116		4,773	117	6,213	8,721
LQA gross leverage												3.4x			8.8x
LQA net leverage												1.9x			7.3x

Resources' limited ownership of Vedanta Ltd, and Zinc India limits its access to substantial liquidity. Based on most recently available debt levels at Resources, and taking 50.1% of VEDL net debt and EBITDA, we calculate net leverage at a high 7.3x levels at the issuer. We also highlight market value of Resources interest in VEDL has fallen to US$3.9bn.

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

Vedanta Resource Limited Consolidated Debt (US$MM)	Mar-19
Banks and Financial Inst.	4,132
Current Maturities of LT Borrowings	1,324
ST Debt	**5,456**
Banks and Financial Inst.	6,585
Non-Convertible Bonds	3,142
Non-Convertible Debentures	2,034
Other	87
LT Debt	**11,848**
Total Debt	**17,304**
Secured Borrowing	**6,547**
Unsecured Borrowings	**9,433**

Vendanta Limited (VEDL) (US$ MM)	Mar-19
Banks and Financial Institutions	3,323
Current Maturities Of LT Borrowings	1,232
ST Debt	**4,555**
Banks and Financial Inst.	4,112
Non-Convertible Bonds	18
Non-Convertible Debentures	2,034
Other	87
LT Debt	**6,251**
Total Debt	**10,806**
Secured Borrowings	**6,435**
Unsecured Borrowings	**3,140**

Vendanta Resources Standalone (US$ MM)	Mar-19
Banks and Financial Institutions	809
Current Maturities Of LT Borrowings	92
ST Debt	**901**
Banks and Financial Inst.	2,473
Non-Convertible Bonds	3,124
Non-Convertible Debentures	-
Other	-
LT Debt	**5,597**
Total Debt	**6,498**
Secured Borrowings	**112**
Unsecured Borrowings	**6,293**

Resources standalone debt is mostly comprised of the outstanding bonds and unsecured bank borrowings

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

THE EQUITY KNOWS

Vedanta Resources (PLC Standalone, US$MM)						
FY	1H18	2H18	1H19	2H19	2H19	1Q20
as of	Sep 2017	Mar 2018	Sep 2018	Mar 2019	Jul 2019	Aug 2019
Gross Debt	6,115	5,877	6,270	6,256	6,256	6,498
Cash	15	122	52	43	43	43
Net Debt	6,100	5,755	6,218	6,213	6,213	6,455
PLC EBITDA	0	0	0	0	0	0
Market Cap of VEDL	17,888	15,867	11,911	9,898	8,800	7,100
Vedanta Resources Ownership	50.1%	50.1%	50.1%	50.1%	50.1%	50.1%
Value of Interest in VEDL	8,962	7,949	5,967	4,959	4,409	3,557
Excess Value/(Deficit) vs. VEDL	2,862	2,194	(251)	(1,254)	(1,804)	(2,898)
As a Percentage of Net Debt	47%	38%	(4%)	(20%)	(29%)	(45%)
Headline Net Leverage	2.7x	2.1x	3.0x	3.2x	3.2x	3.2x
Bond	2024	2024	2024	2024	2024	2024
YTM	5.83%	6.50%	8.55%	8.31%	8.00%	8.00%
PLC Interest Cost (6% avg)	367	353	376	375	375	390
Implied Divident Yield	4.1%	4.4%	6.3%	7.6%	8.5%	11.0%

MARKET UNDERPERFORM (INDIA):

VEDLN 6.375% 22s

Cairn Re-Listing ?

- Recent reports suggested VEDL was exploring a re-listing of Cairn, a wholly-owned E&P subsidiary of VEDL, as an alternative to fund its massive capex plan that may reach US$2.9bn.
- We don't see re-listing Cairn as "unlocking" value for Resources, but think it highlights both the large capital needs of this key subsidiary and the limited value available to benefit bondholders
- Properly accounting for minority interest, we see LQA pro rata leverage through VEDLN of 7.2x, setting a high bar for any subsidiary sale or listing to be accretive or deleveraging.
- Our sensitivity analysis shows that, pro forma for a Cairn listing, Resources is likely to have higher pro rata net leverage, even assuming a generous 6x EBITDA multiple and 50% public holding in Cairn as proceeds are directed to investment and minority interest increases.
    - HoldCo's pro rata pro forma LQA net leverage would increase from 7.2x to 7.5x.

Analyzing a Cairn Listing:

- Cairn is an E&P subsidiary which last quarter generated US$122 mm of EBITDA and had a net cash position of US$893 mm
- The company has participated in recent exploration acreage auctions, accumulating approximately 50 of the 80 areas awarded
- Related capex is said to be at least US$600 mm over the next three years, perhaps expanding to US$2.9 bn for Cairn to achieve an ambitious target of doubling production.
- The after tax PV10 of Cairn's existing Proven reserves is US$1.6 bn, according to SEC criteria
    - We have a large universe of smaller E&Ps which trade at a discount to PV10 on at TEV basis.
    - EBITDA multiples for this universe, which are often growing quickly, are quite modest
- Using run rate 1Q20 Cairn EBITDA, and assuming a very generous 6x EBITDA multiple, Cairn would be valued at a TEV of US$2.9 bn with a market cap of US$3.8 bn.
    - These values are almost 2x the PV10 value of reserves and therefore do not appear immediately realistic
- If they were to sell 50% to the public at this lofty valuation to raise capital for investment:
    - Cairn would have US$2.7 bn cash on the balance sheet
    - LTD would then only own 50% of EBITDA and the cash balance
    - On a pro rata basis, Cairn would lose US$244 mm of EBITDA and gain US$850 mm of pro rata cash balance (from US$450 increasing to US$1.4 bn)
- Optically, consolidated cash balance would increase (until the capex is deployed)
- However, LTD and HoldCo access to both EBITDA and cash balance would diminish and more than offset this improvement in leverage due to increased minority interest.
- Therefore pro rata leverage would increase at HoldCo while not providing any proceeds to deal with upcoming maturities
- VEDL share price action more accurately reflect our view that such a transaction would be neutral to value creation and liquidity.

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Top Picks Universe

"Market Outperform" – The bond's total return is expected to exceed the total return of the J.P. Morgan Corporate Emerging Markets Bond Index series ("CEMBI") Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Perform" – The bond's total return is expected to be in line with the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Underperform" – The bond's total return is expected to be below the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's total return relative to the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

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Quasi Sovereign Universe
"Market Overweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to decrease over the next 3 – 6 months.

"Market Weight" – The spread of the bond to its similarly duration sovereign controller bond is expected to remain unchanged over the next 3 – 6 months.

"Market Underweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's spread to its similarly duration sovereign controller bond over the next 3 – 6 months.

High Octane Universe
"Speculative Buy" – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the upside

"Positive" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the upside

"Neutral" – Bonds that in our view have an equity investment risk profile and we think risk/return is balanced

"Negative" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the downside

"Speculative Sell" – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the downside

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