

BCP Research: Gol (GOLLBZ -/CCC+/CCC+) – 320 Results, Mixed – Maintain Positive

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Summary: Brazilian Airline, Gol released mixed 3Q20 earnings. Financial results remained weak y/y, balanced by traffic recovery (RPKs -70% y/y, +303% q/q), which showed Gol outpacing RPK consensus for FY20 and prior q/q guidance at load factor of 78.1%. Revenues improved sequentially, and improved y/y relative to 2Q20 y/y. Nevertheless, adj. EBITDA remained negative (-US\$44 mm), driven by higher q/q operating costs, related primarily to salaries and aircraft fuel. These continued operating losses, alongside higher interest and cash lease payments, drove cash burn of US\$152 mm. Cash decreased 51% q/q to US\$160 mm (9% cash to LTM revenue), reflecting cash burn and the partial repayment of the Delta TL. Net debt decreased 1% q/q to US\$3,199 mm, while LTM net leverage expanded to 8.3x.

We identify US\$301 mm in liquidity at 3Q20 v. US\$400 mm (incl. restricted cash) as reported by Gol. Management estimates liquidity (incl. restricted cash) will increase to US\$425 mm in 4Q20E, despite cash burn as capacity ramps up. Additional available liquidity sources cited by management include ~US\$ 375 mm in security and maintenance deposits, ~US\$150 mm in financing from unencumbered assets, ~US\$150 mm of A/R converted to cash, ~US\$35 in non current assets converted to cash and an estimated ~US\$20 mm in additional Boeing compensation. Management also identified sources of outside financing (i.e. BNDES loan) not included in the liquidity guidance.

Gol's traffic recovery is exemplary of trends seen across both Brazil and Mexican markets in 3Q20, reflecting both increased traffic and consolidation of market share. Most recent traffic figures (see table below) show traffic continuing to accelerate into 4Q, with RPKs +134% m/m in October. Notably, with business travel all but absent, yields in the VFR segment are effectively up y/y, reflecting disciplined capacity management. While cash burn was exacerbated in the quarter by certain one-time expenses (Delta TL), the potential for additional sources of financing is welcome news. We will be revisiting our estimates to see how they compare to guidance, maintaining our 'Positive' rating on GOLLBZ 24s, which have returned over 66% since our May 11 upgrade at 42c. We think continued traffic improvement, along with realization of one or more of the potential financings to bolster liquidity, provide the opportunity for additional upside, while the return of business travel in the medium term points to impressive potential for operating leverage.

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ CCC+/ CCC+	77.0	14.5%
GOLLBZ	8.75%	Perp	154	Caa2/-/ CCC+	74.0	11.8%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	GOL US Price	Recommendation
GOLLBZ 3.75% 7/16/2024	425	69.9	14.6%	n/a	8.72%	43.45%	\$20.25	\$5.95	Positive

* Source: Equity information sourced from Bloomberg. Convertible pricing as of November 5, 2020.

3Q20 Operational Results:

- **RPKs** were down 72% y/y but up 309% q/q at 3,164 mm, and attributable entirely to domestic passenger traffic
- **ASKs** were down 70% y/y but up 303% q/q at 3,992 mm, exceeding guidance q/q guidance provided in the prior quarter earnings
- **Load factor** was 79.3% (-364 bps y/y, +118 bps q/q)
- **Yield** was US\$5.16 cents (-35% y/y, -12% q/q)
- **PRASK** decreased 38% y/y and 10% q/q to US\$4.09c
- **CASK** increased 12% y/y but decreased 57% q/q to US\$6.34c

- **CASK ex-fuel** was US\$4.87c cents (+33% y/y, -60% q/q)
- **Fleet** at the end-2Q20 included 129 B737s (100% operational leases), of which 71 were operational (v. 27 in 2Q19)
 - Updated estimates imply a net reduction of three (3) aircraft in 4Q20, and an additional four (4) aircraft in FY21, bringing total fleet to 122 aircraft by end-FY21
 - As we've highlighted in the past, Gol has the flexibility to reduce fleet by up to 30 additional aircraft between 2021-'22, if needed, to match capacity to demand
 - As of Sept. 30, Gol has 7 non-operational 737 MAX in its fleet, with an additional 95 firm orders for Boeing 737 MAX aircraft, including seventy-three (73) MAX-8s and twenty-two (22) 737 MAX-10s aircraft order from 129 to 95 aircraft, intended for delivery between 2020-2023

Gol (US\$ MM)	3Q20	2Q20	1Q20	4Q19	3Q19	y/y	q/q
RPK (mm)	3,164	773	9,948	10,806	11,114	(72%)	309%
ASK (mm)	3,992	990	12,462	13,257	13,406	(70%)	303%
Passenger load factor	79.3%	78.1%	79.8%	81.5%	82.9%	(364bps)	118bps
Yield (cents)	5.16	5.85	6.61	8.06	7.94	(35%)	(12%)
PRASK (cents)	4.09	4.56	5.28	6.57	6.58	(38%)	(10%)
CASK (cents)	6.34	14.70	3.96	5.13	5.67	12%	(57%)

3Q20 Financial Results:

- **Revenue** of US\$181 mm was down 81% y/y but up 173% q/q following improved traffic in the quarter
 - Passenger revenues were down 81% y/y but up 262% q/q at US\$163 mm
 - Cargo and other revenues decreased 66% y/y and 16% q/q to US\$18 mm
- **Adj. EBITDA**, while improved, remained negative (-US\$44 mm) with higher q/q operating costs, related primarily to salaries and aircraft fuel, outweighing improvements in revenues in the quarter
 - We highlight our calculation of adj. EBITDA excludes the add-back of idle expenses related to salaries (US\$14 mm), as well as Gol's adjustments to expenses relating to fleet utilization v. management's reported adj. EBITDA of positive US\$51 mm
- **Cash burn** of US\$152 mm worsened in the quarter, driven by negative adj. EBITDA, interest and cash lease payments
 - **Working Capital** inflows contracted 91% q/q to US\$3 mm, driven primarily by a US\$47 mm decrease in A/R, and a US\$139 mm reduction in fuel derivative premiums, related to the monetization of oil hedge operations and subsequent release of restricted cash used towards repayment of the Delta TL
 - **Interest paid** increased to US\$49 mm, in line with the company's interest payment cycle
 - **Capex** contracted 74% q/q to US\$11 mm, reflecting reduction of all non-essential investments and deferral of certain maintenance capex
 - **Cash Leases** increased 142% q/q to US\$48 mm following repayment of principal and interest deferred in the earlier half of the year
 - We highlight the company has renegotiated leases, converting a portion of its monthly lease payments from fixed to power-by-the-hour, and amending and extending lease terms by 1 year, which is expected to lower both unit operating costs and lease liability debt on the balance sheet

Gol (US\$ MM)	3Q20	2Q20	1Q20	4Q19	3Q19	y/y	q/q
Revenue	181	66	704	924	935	(81%)	173%
Net income (loss) before min. interest	(315)	(371)	(506)	106	(43)	631%	(15%)
Income taxes	2	1	10	30	(2)	-	171%
Net financial result	172	204	725	33	199	-	(15%)
EBIT	(141)	(167)	229	169	154	-	(15%)
Depreciation and amortization	34	27	112	111	113	(70%)	28%
Other (idle expenses - depreciation)	50	64	-	-	-	-	(23%)
EBITDA	(57)	(76)	341	280	268	-	(24%)
Other *	14	15	(177)	45	28	(50%)	(12%)
Adj. EBITDA	(44)	(60)	165	326	295	-	(27%)
Adj. EBITDA margin	(24%)	(91%)	23%	35%	32%	-	6,638bps
Working capital	3	33	(56)	(92)	(30)	-	(91%)
Trade receivables	(47)	48	100	(14)	25	-	(199%)
Short term investments	20	25	(3)	33	(7)	-	(17%)
Inventories	3	(0)	(4)	(2)	(1)	-	-
Deposits	30	(6)	(36)	(50)	(3)	-	-
Gtd. deposit of lease agreement	(6)	-	-	-	(9)	(28%)	-
Suppliers	22	50	(12)	0	13	76%	(55%)
Suppliers forfeiting	2	(71)	51	(1)	52	(97%)	-
Advance ticket sales	42	(4)	(81)	(5)	5	671%	-
Mileage program	5	36	36	20	(8)	-	(86%)
Advances from customers	1	(1)	1	0	(1)	-	-
Derivatives	101	(40)	(74)	(24)	16	553%	-
Fuel derivative premium	(139)	-	-	(6)	(4)	-	-
Advance to suppliers	(13)	(4)	(10)	(5)	(72)	(82%)	188%
Legal and aircraft return payments	(18)	(6)	(16)	(26)	(36)	(51%)	204%
Prepaid expenses	-	7	(9)	(12)	-	-	-
Interest paid	(49)	(9)	(52)	(10)	(50)	(2%)	467%
Taxes paid	(4)	(0)	(6)	(13)	(11)	(62%)	-
Capex	(11)	(40)	(52)	(76)	(57)	(82%)	(74%)
Cash lease	(48)	(20)	(94)	(96)	(110)	-	142%
Free Cash Flow	(152)	(96)	(96)	39	37	-	58%

* Sale/leaseback transactions & MAX compensation. Excludes add-back of idle expenses related to depreciation and salaries in 2Q20 and 3Q20

- **Cash** was US\$160 mm (-51% q/q), reflecting cash burn, at cash to LTM revenue of 9% (-395 bps q/q)
 - We exclude ST and LT restricted cash from our calculation of cash, as detailed in the BCP v. Gol Liquidity Breakdown, included below
- **Liquidity** (cash + A/R) was US\$301 mm (-29% q/q) at liquidity to LTM Revenue of 16% (-17 bps q/q)
- **Gross debt** was US\$3,359 mm (-5% q/q) following the repayment of leases and bi-lateral financing of it's US\$300 mm Delta TL
 - The US\$300 mm Delta TL was partially repaid using proceeds from a new US\$250 mm Delta TL, which is secured and guaranteed by Smiles and other assets, and amortizes in monthly installments, maturing in Dec. '21
- **Net Debt** was US\$3,199 mm (-1% q/q) at LTM net leverage of 8.3x (+3.8x q/q)

Gol (US\$ MM)	3Q20	2Q20	1Q20	4Q19	3Q19	y/y	q/q
Cash and cash equivalents	89	76	127	408	302	(71%)	17%
ST financial assets	71	252	218	237	234	(70%)	(72%)
Cash	160	328	344	645	536	(70%)	(51%)
ST accounts receivable	141	98	152	305	283	(50%)	44%
ST securities receivable	-	-	86	-	-	-	-
Liquidity	301	427	582	950	819	(63%)	(29%)
Loans and financings	293	414	300	305	300	(2%)	(29%)
Debt issuance	751	762	753	875	961	(22%)	(1%)
Exchangeable notes *	425	425	425	425	425	0%	0%
Perpetual notes *	154	154	154	154	154	0%	0%
Aircraft financing	313	323	326	328	296	6%	(3%)
Aircraft rent	1,423	1,474	1,425	1,502	1,493	(5%)	(3%)
Gross Debt	3,359	3,552	3,384	3,589	3,629	(7%)	(5%)
Net Debt	3,199	3,223	3,039	2,944	3,093	3%	(1%)
LTM Revenue	1,875	2,629	3,363	3,512	3,428	(45%)	(29%)
LTM EBITDA	489	814	1,076	977	1,000	(51%)	(40%)
LTM Adj. EBITDA	386	725	962	1,054	889	(57%)	(47%)
LTM Gross Leverage	8.7x	4.9x	3.5x	3.4x	4.1x	4.6x	3.8x
LTM Net Leverage	8.3x	4.4x	3.2x	2.8x	3.5x	4.8x	3.8x
Cash to LTM Revenue	9%	12%	10%	12%	11%	(201bps)	(395bps)
Liquidity to LTM Revenue	16%	16%	17%	18%	16%	(6bps)	(17bps)

* Exchangeable and Perpetual notes valued at par

Recent Traffic Figures:

Total GOL	Oct-19	Sep-20	Oct-20	y/y	m/m
Departures	21,777	8,119	11,256	(48%)	139%
Seats (thousand)	3,895	1,423	1,982	(49%)	139%
ASK (million)	4,212	1,687	2,316	(45%)	137%
RPK (million)	3,441	1,349	1,805	(48%)	134%
Load factor	81.7%	80.0%	78.0%	(120bps)	60bps
Pax on board (thousand)	3,087	1,119	1,519	(63%)	141%

Company Guidance and Liquidity Breakdown:

- Gol plans to grow capacity 100% q/q in 4Q20, reaching 80% of FY19 domestic capacity by end-FY20
- Operating fleet is expected to increased to 92 aircraft (78% of FY19), reaching ~8 bn ASKs (60% of FY19) at a load factor of ~80% in 4Q20
 - 1Q20 operating fleet is projected to increased to 102 aircraft (92% of FY19), at ~9.4 mm ASKs (76% of FY19) and a load factor of 78%
- Net operating revenues are estimated to reach ~US\$410 mm (R\$2.3 bn) or 60% of 2019 levels in 4Q20, and US\$425 mm (~R\$2.4 bn) or 66% of 2019 levels in 1Q21
- Capex is expected to increase to ~US\$32 mm (~R\$180 mm) in 4Q20, and ~US\$52 mm (~R\$290 mm) in 1Q21
- Net cash burn is anticipated to be US\$0.5 mm/day (~R\$3 mm/day) in 4Q20, driven primarily by maintenance capex investments related to ungrounding of aircraft, and US\$0.4 mm/day (~R\$2 mm/day) in 1Q21
 - We note management guided cash burn incorporates Gol's reported adj. EBITDA, which accounts for fleet utilization and other expenses not included in our internal adj. EBITDA calculation
- Management guided liquidity is expected to increased to ~US\$425 mm (R\$2.4 bn) in 4Q20, and ~US\$445 (R\$2.5 bn) in 1Q21
 - We highlight management's evaluation of liquidity includes cash and equivalents, ST financial assets, ST and LT restricted cash, ST accounts receivable and ST securities receivable

- For clarification, we provide below our internal evaluation of cash and liquidity v. Gol's reported cash and liquidity
- Additional potential liquidity sources total ~US\$730 mm (~R\$4.1 bn) and include the following, as noted in the earnings call and 3Q20 earnings presentation:
 - ~US\$375 mm (~R\$2.1 bn) in security and maintenance deposits
 - ~US\$150 mm (~R\$840 mm) in financing from unencumbered assets
 - ~US\$150 mm (R\$840 mm) of A/R converted to cash
 - ~US\$35 (~R\$200 mm) in non current assets converted to cash
 - ~US\$20 mm (R\$120 mm) in additional Boeing compensation
- We highlight the amount cited by the company excludes any additional potential outside financing, such as the proposed BNDES loan

Gol (US\$ MM)	3Q20	2Q20	1Q20	4Q19	3Q19	y/y	q/q
BCP Calculated Liquidity:							
Cash and cash equivalents	89	76	127	408	302	(71%)	17%
ST financial assets	71	252	218	237	234	(70%)	(72%)
Cash	160	328	344	645	536	(70%)	(51%)
ST accounts receivable	141	98	152	305	283	(50%)	44%
ST securities receivable	-	-	86	-	-	-	-
Liquidity	301	427	582	950	819	(63%)	(29%)
Gol Reported Liquidity:							
Cash and cash equivalents	89	76	127	408	302	(71%)	17%
ST financial assets	71	252	218	237	234	(70%)	(72%)
ST Restricted cash	66	144	204	76	128	(48%)	(54%)
LT Restricted cash	32	34	27	35	32	(0%)	(6%)
Cash	259	507	575	755	697	(63%)	(49%)
ST accounts receivable	141	98	152	305	283	(50%)	44%
ST securities receivable	-	-	86	-	-	-	-
Liquidity (pre-deposits)	400	605	813	1,060	979	(59%)	(34%)

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