

## BCP Research: Liberty Latin America (LILAK)- 3Q20 Results, Solid- Maintain 'Outperform' on LILAK 24 Converts

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*Summary: Caribbean and LatAm telecom company, Liberty Latin America (“LILAK”) released positive 3Q20 results, with revenue down y/y but improved q/q. Adj. OIBDA of US\$360 mm was slightly below prior year levels (US\$380 mm 3Q19), and measurably higher q/q at a 42% margin. FCF was negative in 3Q20 (-US\$32 mm), in line with management expectations and driven primarily by working capital outflow, higher capex, and higher interest and tax payments. Cash decreased to US\$1.6 bn (44% cash to LTM revenue) on cash burn and the repayment of debt and finance lease obligations in the quarter. Total available liquidity was US\$3.2 bn, including US\$1.1 bn in unused borrowing capacity. Net debt decreased 3% q/q to US\$7.0 bn and LTM net leverage contracted slightly to 4.8x with 85% of debt (excl. leases) maturing 2026 or later.*

*We look forward to the release of standalone subsidiary results for more insights on subsidiary performance. VTR (Chile), which accounts for ~25% of consolidated revenue and adj. OIBDA, continues to face headwinds, including f/x volatility, civil unrest, more stringent lockdowns and increased competition, which show no signs of abating. Meanwhile, initial results show strong recovery at Cable & Wireless (C&W) which accounts for 60%+ of consolidated revenue and adj. OIBDA, and Liberty Puerto Rico (LPR) who accounts for ~15% of rev and adj. OIBDA.*

*Post-3Q20, LILAK completed the acquisition of AT&T PR/USVI, and the Telefonica Costa Rica (TCR) acquisition is expected to close in 1H21. Based on prior disclosures, AT&T PR/USVI and TCR have the potential to add an additional ~US\$380 mm in adj. OIBDA which, alongside normalized consolidated adj. OIBDA (FY19) of US\$1,590, implies ~US\$1,920 mm in pro-forma consolidated adj. OIBDA. Consolidated pro-forma net debt is expected to increase to US\$9.1 bn (v. US\$8.6 bn 3Q20) following these transactions, with the entirety of debt additions at the VTR/Cabletica level. In addition, we estimate pro-forma consolidated cash (before operational inflow/(outflow)) of US\$1.3 bn and pro-forma consolidated unused borrowing capacity of US\$906 mm (v. US\$1.1 bn 3Q20) which, including 3Q20 T/R of US\$506 mm, implies US\$2.7 bn in pro-forma consolidated total available liquidity (v. US\$3.2 bn 3Q20) – ample alongside pro-forma consolidated adj. OIBDA generation to comfortably meet amortizations at pro-forma LTM net leverage of 4.1x, and pro-forma secured LTM net leverage of 2.0x.*

***We reiterate our Market Outperform rating on LILAK 2% 24s at 91c, backed by an improving market position, favorable maturity profile, solid liquidity with ability to upflow cash to the HoldCo, and strong shareholder support. LILAK continues to offer an attractive pick up to Opco bonds at 6% cheap to the model, and trading slightly above the bond floor with FV of 97c and a virtually free option on the equity upside.***

	Issuer Name	Amt Out (US\$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	LILAK US Equity	Recommendation
LILAK 2% 7/15/2024	Liberty Latin America Ltd	403	90.5	4.85%	30.00%	6.05%	37.20 %	\$20.65	\$11.00	Market Outperform

Issuer Name	Ticker	Cpn	Maturity	M/SP/F	Amt Out (US\$MM)	Mid Px	Mid YTM	Rank
C&W SENIOR FINANCING DAC	CWCLN	7.50%	10/15/2026	B2/ B+/ B+	500	106.4	6.21%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	Ba3/ BB-/ BB-	550	106.9	4.57%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.875%	9/15/2027	B2/ B+/ B+	1,220	108.0	5.45%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.125%	1/15/2028	Ba3/ B+/ BB+	600	106.4	4.09%	Secured
VTR FINANCE N.V.	VTRFIN	6.375%	7/15/2028	B1/ B/ BB-	550	107.8	5.13%	Secured
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ (P)B+/ BB-	1,290	110.4	4.95%	1 <sup>st</sup> Lien

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of November 9, 2020.

### **3Q20 Financial and Operational Results:**

- Homes passed increased 3% y/y and 1% q/q to 7.70 mm
- RGUs increased 3% y/y and were flat q/q at 6.14 mm, with the strong recovery q/q of subsidiaries C&W and LPR, balanced by weakness at VTR, driven by more stringent lockdown restrictions, which resulted in higher churn and net subscriber losses
  - Broadband internet increased 6% y/y and 1% q/q to 2.74 mm
  - Video subscribers decreased 1% y/y and were flat q/q at 1.96mm, with
  - Fixed line telephony was flat y/y and down 2% q/q to 1.48 mm, despite the addition of over 100k new subscribers between C&W and Liberty Puerto Rico, collectively
- Mobile subscribers decreased 8% y/y, but increased 2% q/q to 3.38 mm, driven primarily by C&W, who returned to mobile subscriber growth, following losses in 2Q20
- Mobile ARPU was down 6% y/y but increased 8% q/q to US\$12.41, with results y/y reflecting continued f/x weakness in Chile
  - C&W's mobile ARPU was 4% lower y/y, but 9% higher q/q at US\$12.11
  - VTR's mobile ARPU was 17% lower y/y, but 2% higher q/q at US\$15.56,
- Revenue contracted 8% y/y but increased 5% q/q to US\$888 mm, split between C&W (61%), VTR/Cabletica (27%) and Liberty Puerto Rico (13%)
  - Y/y weakness was attributable to f/x volatility and the impact of the disposal of Seychelles business, which was included in prior year 3Q19 results
  - Q/q improvements reflect growth in revenues across all reporting segments
- Adjusted OIBDA was down 5% y/y, but increased 8% q/q, reaching US\$360 mm at a robust 41% margin (+131 bps y/y, +141 bps q/q)
  - We highlight adj. OIBDA was slightly shy of 3Q19 levels (US\$390 mm), and measurably higher than 2Q20 (US\$333 mm), which included a US\$299 loss on impairments related to goodwill at C&W, related to non-paying customers who remain connected as a result of government moratoriums during the crisis
- Free cash flow, as projected, was negative US\$32 mm, reflecting working capital outflow, higher capex and higher interest and tax payments
  - Interest payments were 32% higher q/q at US\$137 mm
  - Tax payments increased to US\$28 mm
  - Working capital outflow was US\$80 mm
  - Capex increased 20% q/q to US\$147 mm, with capex-to-revenue expanding 216 bps q/q to 17%
    - Q/q increased in capex were driven primarily by investments in customer premises equipment and capacity, predominantly at the C&W and VTR level
- Cash decreased 8% q/q to US\$1.6 bn at cash to LTM revenue of 44%
- Total available liquidity increased 5% q/q to US\$3.2 bn
  - Total available liquidity includes US\$1.6 mm in cash (-8% y/y), US\$506 mm in trade receivables (-2% q/q), and US\$1.1 bn in unused borrowing capacity (+5% q/q)
- Net debt decreased 3% q/q to 7.0 bn and LTM net leverage contracted slightly to 4.8x

LILAK (US\$MM)	3Q20	2Q20	1Q20	4Q19	3Q19	y/y	q/q
<b>Homes passed (mm)</b>	<b>7.70</b>	<b>7.62</b>	<b>7.58</b>	<b>7.52</b>	<b>7.45</b>	<b>3%</b>	<b>1%</b>
<b>Revenue generating units (RGUs, mm)</b>	<b>6.14</b>	<b>6.15</b>	<b>6.10</b>	<b>6.05</b>	<b>5.99</b>	<b>3%</b>	<b>(0%)</b>
Broadband internet subscribers	2.74	2.70	2.66	2.61	2.57	6%	1%
Video subscribers	1.96	1.97	1.99	1.98	1.98	(1%)	(0%)
Fixed line telephony subscribers	1.45	1.48	1.46	1.46	1.45	0%	(2%)
<b>ARPU (USD):</b>	<b>47.24</b>	<b>46.15</b>	<b>47.37</b>	<b>48.47</b>	<b>50.30</b>	<b>(6%)</b>	<b>2%</b>
C&W	46.30	46.92	47.62	46.79	46.97	(1%)	(1%)
VTR/Cabletica	40.32	38.34	40.74	43.04	46.12	(13%)	5%
Liberty Puerto Rico	77.15	77.69	75.69	76.43	76.87	0%	(1%)
<b>Mobile subscribers (mm)</b>	<b>3.38</b>	<b>3.31</b>	<b>3.62</b>	<b>3.66</b>	<b>3.68</b>	<b>(8%)</b>	<b>2%</b>
<b>Mobile ARPU (USD):</b>	<b>12.41</b>	<b>11.49</b>	<b>13.32</b>	<b>14.20</b>	<b>13.16</b>	<b>(6%)</b>	<b>8%</b>
C&W	12.11	11.13	13.07	13.95	12.68	(4%)	9%
VTR	15.56	15.22	16.07	17.11	18.78	(17%)	2%
<b>Revenue</b>	<b>888</b>	<b>849</b>	<b>931</b>	<b>975</b>	<b>967</b>	<b>(8%)</b>	<b>5%</b>
<b>OIBDA</b>	<b>318</b>	<b>10</b>	<b>321</b>	<b>372</b>	<b>156</b>	<b>104%</b>	<b>2960%</b>
<i>OIBDA margin</i>	<i>36%</i>	<i>1%</i>	<i>35%</i>	<i>38%</i>	<i>16%</i>	<i>1,969 bps</i>	<i>3,463 bps</i>
Impairment, restructuring and other, net	14	299	19	24	208	(93%)	(95%)
Share-based compensation expense	28	24	24	12	15	85%	19%
<b>Adjusted OIBDA</b>	<b>360</b>	<b>333</b>	<b>364</b>	<b>409</b>	<b>380</b>	<b>(5%)</b>	<b>8%</b>
<i>Adjusted OIBDA margin</i>	<i>41%</i>	<i>39%</i>	<i>39%</i>	<i>42%</i>	<i>39%</i>	<i>131 bps</i>	<i>141 bps</i>
Interest paid	(137)	(104)	(144)	(74)	(139)	(1%)	32%
Taxes paid	(28)	(2)	(13)	(30)	(41)	(30%)	1787%
Working capital	(80)	54	(77)	66	(222)	(64%)	-
Capex	(147)	(122)	(149)	(157)	(137)	8%	20%
<b>Free cash flow</b>	<b>(32)</b>	<b>159</b>	<b>(19)</b>	<b>214</b>	<b>(158)</b>	<b>(79%)</b>	<b>-</b>
<b>Capex-to-revenue</b>	<b>17%</b>	<b>14%</b>	<b>16%</b>	<b>16%</b>	<b>14%</b>	<b>242 bps</b>	<b>216 bps</b>
<b>Cash and equivalents</b>	<b>1,612</b>	<b>1,752</b>	<b>1,593</b>	<b>1,184</b>	<b>1,004</b>	<b>61%</b>	<b>(8%)</b>
Trade Receivables	506	516	572	585	629	(20%)	(2%)
<b>Liquidity</b>	<b>2,118</b>	<b>2,269</b>	<b>2,165</b>	<b>1,769</b>	<b>1,633</b>	<b>30%</b>	<b>(7%)</b>
Unused Borrowing Capacity	1,063	765	650	1,113	1,037	3%	39%
<b>Total Available Liquidity</b>	<b>3,181</b>	<b>3,034</b>	<b>2,815</b>	<b>2,882</b>	<b>2,670</b>	<b>19%</b>	<b>5%</b>
Loans, bonds and finance lease obligations	8,460	8,841	8,830	8,370	7,088	19%	(4%)
Operating lease liabilities	149	150	191	187	165	(10%)	(1%)
<b>Gross debt</b>	<b>8,609</b>	<b>8,991</b>	<b>9,021</b>	<b>8,557</b>	<b>7,253</b>	<b>19%</b>	<b>(4%)</b>
<b>Net Debt</b>	<b>6,997</b>	<b>7,239</b>	<b>7,428</b>	<b>7,374</b>	<b>6,249</b>	<b>12%</b>	<b>(3%)</b>
<b>LTM Revenue</b>	<b>3,642</b>	<b>3,721</b>	<b>3,855</b>	<b>3,867</b>	<b>3,841</b>	<b>(5%)</b>	<b>(2%)</b>
<b>LTM Adj. OIBDA</b>	<b>1,465</b>	<b>1,485</b>	<b>1,540</b>	<b>1,541</b>	<b>1,561</b>	<b>(6%)</b>	<b>(1%)</b>
<b>LTM Gross leverage</b>	<b>5.9x</b>	<b>6.1x</b>	<b>5.9x</b>	<b>5.6x</b>	<b>4.6x</b>	<b>1.2x</b>	<b>(0.2x)</b>
<b>LTM Net leverage</b>	<b>4.8x</b>	<b>4.9x</b>	<b>4.8x</b>	<b>4.8x</b>	<b>4.0x</b>	<b>0.8x</b>	<b>(0.1x)</b>
Cash to LTM Revenue	44%	47%	41%	31%	26%	<i>1,812 bps</i>	<i>(283 bps)</i>
Liquidity to LTM Revenue	58%	61%	56%	46%	43%	<i>1,563 bps</i>	<i>(281 bps)</i>
Total Available Liquidity to LTM Revenue	87%	82%	73%	75%	70%	<i>1,783 bps</i>	<i>581 bps</i>

### Pro-Forma Debt Through the Layers:

Below we provide a breakdown of debt by subsidiaries, as well as pro-forma debt. LILAK reported a total US\$1.6 bn in cash at end-2Q20, including proceeds from the US\$350 mm Class C rights offering in 3Q20 placed at the HoldCo level. The company repaid US\$100 mm of its Cabletica term loan facility subsequent to 3Q20. We estimate US\$1,290 mm in proceeds from the issuance of LILAPR 6.75% '27s and US\$660 mm in cash at the HoldCo were used to complete the post-3Q20 acquisition of AT&T PR/USVI (US\$1,950 mm). We anticipate the TCR acquisition (US\$500 mm), expected to close 1H21, will be funded using US\$200 mm of proceeds from the Class C rights offering, US\$200 mm of the USD-denominated VTR RCF-B, and US\$100 mm from the upsizing and drawdown of CLP denominated VTR RCF-A. In addition, we include US\$320 mm in pro-forma debt and cash reflecting managements expectation to leverage TCR to 4x FY19 OIBDA post-acquisition.

Pro-forma consolidated net debt is estimated to increase to US\$9.1 bn (v. US\$8.6 bn 3Q20) when accounting for the above, with the entirety of debt additions at the VTR/Cabletica level. We anticipate pro-forma consolidated cash (before operational inflow/(outflow)) will be US\$1.3 bn (v. US\$1.6 bn 3Q20), and pro-forma consolidated unused

borrowing capacity will be US\$906 mm (v. US\$1.1 bn 3Q20) which, including 3Q20 T/R of US\$506 mm, implies US\$2.7 bn in pro-forma consolidated total available liquidity (v. US\$3.2 bn 3Q20). We estimate LILAK could generate US\$1,920 mm in pro-forma consolidated adj. OIBDA (v. US\$1.5 bn LTM 3Q20) annually, including normalized (FY19) consolidated adj. OIBDA of US\$1,590, plus an additional estimated US\$400 mm from TCR and AT&T PR/FWI acquisitions (based on press release disclosures). Pro-forma earnings and liquidity appear ample for LILAK to comfortably meet amortizations, at pro-forma LTM net leverage of 4.1x (v. 4.8x 3Q20), pro-forma secured LTM net leverage of 2.0x (v. 1.6x 3Q20), and 85% of debt (excl. leases) maturing after 2026.

US\$MM (1)	Ccy	Ticker	Interest	Maturity	Rank	Pro-Forma Unused Capacity (2)	Pro-Forma Debt	3Q20 Debt
<b>LILAK</b>								
Convertible Notes	USD	LILAK	2%	7/15/24	Sr. Unsecured	-	403	403
<b>C&amp;W</b>						766	4,131	4,231
2027 C&W Senior Secured Notes	USD	CWCLN	5.75%	9/7/27	Secured	-	550	550
2026 C&W Senior Notes	USD	CWCLN	7.5%	10/15/26	Sr. Unsecured	-	500	500
2027 C&W Senior Notes	USD	CWCLN	6.875%	9/15/27	Sr. Unsecured	-	1,220	1,220
<b>C&amp;W Credit Facilities:</b>							1,861	1,961
C&W revolving credit facility (3)	USD		LIBOR + 3.25%	6/23		50	-	50
C&W revolving credit facility (3)	USD		LIBOR + 3.25%	6/26		575	-	50
C&W term loan B-4 facility	USD		LIBOR + 3.25%	1/31/26		-	-	-
C&W term loan B-5 facility	USD		LIBOR + 2.25%	1/31/28	Sr. Secured	-	1,510	1,510
C&W regional facilities	USD/T&T		4.463%	'20 - '38		141	351	351
<b>VTR/Cabletica:</b>						15	2,121	342
<b>VTR</b>						-	1,680	222
VTR Finance Senior Notes (1st Lien)	USD	VTRFIN	6.875%	1/15/24	1st Lien	-	-	-
VTR Comunicaciones Senior Secured Notes	USD	VTRCOM	5.125%	1/15/28	Sr. Secured	-	600	600
VTR Finance Senior Unsecured Notes	USD	VTRFIN	6.375%	7/15/28	Secured (4)	-	550	550
<b>VTR Credit Facilities:</b>							530	222
VTR TLB-1 facility	CLP		ICP + 3.80%	11/22 & 5/23 (50%)		-	186	180
VTR TLB-2 facility	CLP		7%	5/23/23		-	44	42
VTR RCF-A (5)	CLP		TAB + 3.35%	5/23/23		-	100	-
VTR RCF-B (5)	USD		LIBOR + 2.75%	3/14/26		-	200	-
<b>Cabletica</b>						15	440	120
<b>Cabletica Credit Facilities:</b>							440	120
Cabletica term loan B-1 facility	USD		LIBOR + 5%	4/23 & 10/23 (50%)		-	49	49
Cabletica term loan B-2 facility	CRC		TBP + 6%	4/23 & 10/23 (50%)		-	72	72
Cabletica revolving credit facility	USD		LIBOR + 4.25%	10/5/23		15	-	-
Additional Debt Incurrence - TCR (6)	USD		n/a	n/a		-	320	-
<b>Liberty Puerto Rico</b>						125	2,290	2,290
LPR Senior Secured Notes	USD	LILAPR	6.750%	10/15/27	1st Lien	-	1,290	1,290
<b>LPR Credit Facilities:</b>							1,000	1,000
2019 LPR revolving credit facility	USD		LIBOR + 3.5%	10/15/25		125	-	-
2026 SPV credit facility	USD		LIBOR + 5%	10/15/26		-	1,000	1,000
<b>Vendor Financing</b>						-	183	183
<b>Total Notes, Credit Facilities &amp; Vendor Financing</b>							9,128	8,599
Premiums, discounts and deferred financing costs, net							(141)	(141)
<b>Total carrying amount of debt</b>							8,986	8,458
Finance lease obligations							2	2
Operating Lease liabilities							149	149
<b>Gross Debt at LILAK</b>							9,137	8,609
Cash (7)							1,322	1,612
<b>Net Debt at LILAK</b>							7,815	6,997
<b>LTM Adj. OIBDA (8)</b>							1,920	1,465
<b>Gross Leverage</b>							4.8x	5.9x
<b>Net Leverage</b>							4.1x	4.8x
<b>Secured Debt (9)</b>							5,185	4,026
<b>Secured Gross Leverage</b>							2.7x	2.7x
<b>Secured Net Leverage</b>							2.0x	1.6x

(1) LILAK controls non-wholly owned subsidiaries under wholly owned subsidiary C&W, including Cabletica (80.0% through 80.0% ownership of its parent company, LBT CT), C&W Panama (49.0%), C&W Bahamas (49.0%) and C&W Jamaica (92.3%). Consolidated reportable segments represent 100% of revenue and adj. OIBDA

(2) Consolidated pro-forma unused borrowing capacity of US\$906 mm includes C&W (US\$ 766mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$125 mm)

(3) Pro-Forma reflects US\$100 mm repayment of principal subsequent to 3Q20. Maturity dates extended to January 30th 2026 on US\$575 mm of US\$625 mm C&W RCF

(4) Telefónica Costa Rica and Cabletica (80% owned subs.) will be added to VTRFIN 28's (VTR Finance N.V.) credit pool post acquisition, expected to be completed in 1Q21

(5) Pro-Forma anticipates upsizing of VTR RCF-A to US\$100 mm, drawdown of US\$200 mm VTR RCF-B and utilization of US\$200 mm of US\$350 mm rights offering to fund the TCR acquisition

(6) Additional debt incurrence planned at the TCR operations, totaling ~US\$320 mm (4x TCR FY19 adj. EBITDA of ~US\$80 mm)

(7) Consolidated pro-forma cash reflects balance post-acquisitions, and includes net proceeds of US\$350 mm rights offering and anticipated US\$320 mm (4x FY19 TCR adj. OIBDA) debt issuance at Cabletica

(8) Pro-forma LTM adj. OIBDA represents "normalized" FY19 LILAK consolidated adj. OIBDA of US\$1,540 mm, plus an estimated US\$380 mm adj. OIBDA following integration of TCR and AT&T PR/FWI operations

(9) Secured debt before premiums, discounts and deferred financing costs, net

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We, Megan McDonald and Matias Castagnino, CFA, certify that all of the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

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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.

#### **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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