

## BCP Research: Gol (GOLLBZ: -/CCC+/CCC+)- Thoughts on Potential Smiles Merger- Maintain 'Positive'

Published: December 9, 2020

*Summary: Brazilian Airline, Gol has revived its offer to buy out minority shareholders of its loyalty program, Smiles Fidelidad S.A. (SMILES). Pending the independent directors committee (excl. Gol) and shareholders' approval, minority shareholders could exchange into a combination of Gol Preferred Local Shares (GOLL4 BZ) + cash, capped at an 80:20 split. The proposed merger is expected to close April '21, at a total consideration of ~US\$253 mm (~R\$1.3 bn), including the issuance of 10-38 mm shares of GLA (~2.0 - 9.9% dilution) at an estimated US\$5.23 (R\$27.05) per share (based on GOLL4 BZ's Dec. 4 closing share), and cash payment of US\$42-206 mm (R\$217 mm - 1,051 mm).*

*The company estimates R\$0.40 in earnings accretion in the first 12 months post-merger, with the merger allowing for more dynamic pricing strategy on improved financial and operating synergies. Gol's original December 9, 2019 structural reorganization plan (see our 12/18/19 note), which offered 5.5x TEV/LTM 3Q19 EBITDA in total consideration, received pushback from minority shareholders, and was ultimately withdrawn in anticipation of COVID-19. While at a 30% premium to recent average SMILES share price, the current ~2.9x TEV / FY19 EBITDA valuation reflects a more modest premium to Fridays close due to the recent sharp rally. Accordingly, it is not obvious this offer will be embraced by minorities, but it is factually a sizeable premium to recent trading levels.*

*Nevertheless, we view the proposed transaction as a positive development, both from an operational and liquidity standpoint. If successful, we anticipate the merger will open up access to additional liquidity sources with SMILES as a fully owned subsidiary. This could complement other financing sources, including the bond market and/or several of the additional available liquidity sources cited by management in its 3Q20 results. We reiterate our 'Positive' rating on GOLLBZ 3.75% 2024s, trading at 9% cheap to the model, with the potential for consolidation and additional liquidity, alongside the anticipated return of Gol's Boeing 737 MAX fleet (12/9) in the midst of improving traffic as Gol enters its high season.*

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ CCC+/ CCC+	92.0	9.37%
GOLLBZ	8.75%	Perp	154	Caa2/ -/ CCC+	88.0	9.94%

	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	90.0	6.94%	n/a	8.97%	60.85%	\$20.25	\$10.84	Positive

\* Source: Equity information sourced from Bloomberg. Convertible pricing as of December 8, 2020.

- **Shares Outstanding - SMILES (SMLS3 BZ):** 124 mm (Gol 52.61%, Minority Shareholders 47.39%)
- **Shares Outstanding - Gol Local Preferred (GOLL4 BZ):** 275 mm
- **Anticipated Timeline:**

Date	Details
Dec. 10, 2020 – Jan. 11, 2021	Submission for approval by SMILES independent directors (excl. Gol)
Jan. 18, 2021	Call notice for SMILES Shareholders Meeting
Feb. 18, 2021	SMILES Shareholders Meeting for Transaction Approval
Mar. 22, 2021	Deadline for Right of Withdrawal
Apr. 19, 2021	Settlement

- **Exchange Options:** SMILES shareholders have the option to exchange into shares, cash or a combination of the two, capped at an 80:20 split
  - 0.825 Gol preferred local shares (GOLL4 BZ) per SMILES share
    - If the majority (80%) of minority shareholders elect to exchange into Gol preferred shares, the total outstanding amount of Gol preferred shares would increase from 275 mm to 313 mm, with the remaining 20% or US\$42 mm (R\$217 mm) due in cash.
  - R\$22.32 cash per SMILES share
    - If the majority (80%) chose cash, Gol would be required to pay US\$206 mm (R\$1,051 mm) in cash, with the remaining 20% due in the form of 10 mm shares, resulting in 285 mm total Gol preferred shares outstanding.
- **Pro-Forma Estimated Gol (GOLL4 BZ) Local Preferred Shares Outstanding:** 285 – 313 mm shares
  - Estimated Gol Cash Use: US\$42-206 mm (R\$217 mm-R\$1,051 mm)
  - Estimated Dilution: 2.0 – 9.9%

**Megan E. McDonald**  
Investment Research Analyst  
BCP Securities, LLC

289 Greenwich Avenue, Ste 4  
Greenwich, CT 06830  
+1-203-629-2185 ext. 312  
[mmcdonald@bcpsecurities.com](mailto:mmcdonald@bcpsecurities.com)  
[www.bcpsecurities.com](http://www.bcpsecurities.com)

**Matias Castagnino, CFA**  
BCP Securities, LLC

Paseo de la Castellana, 91  
28064 Madrid, Spain  
+34 91 310 6980  
[mcastagnino@bcpsecurities.com](mailto:mcastagnino@bcpsecurities.com)  
[www.bcpsecurities.com](http://www.bcpsecurities.com)

---

[Want to read more of BCP Securities' Convertible Research? Click Here](#)

---

DISCLOSURE APPENDIX

REGULATION AC - ANALYST CERTIFICATION

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.

## **COMPANY SPECIFIC DISCLOSURES**

This report may not be independent of BCP's propriety interests. BCP does business, and seeks to do business, with companies covered in BCP research. As a result, investors should be aware that BCP may have a conflict of interest that could affect the objectivity of this report. Further, BCP may trade the securities (or related derivatives) that are the subject of this research report for its own account and for certain customers, and may from time to time maintain long or short positions in the securities (or in related derivatives) of the companies mentioned in this report. Such financial and trading interests may be contrary to any recommendation in the report.

BCP's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desks that reflect opinions that are contrary to the opinions expressed in this research.

## **MEANINGS OF RATINGS**

### **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

## **GENERAL RESEARCH DISCLOSURES AND DISCLAIMERS**

This report is intended only for institutional investors, and should not be redistributed to retail investors. BCP research is not a solicitation or offer to buy or sell any security or financial instrument or to participate in any trading strategy. The products mentioned in this report may not be eligible for sale in some states or countries.

The analysts principally responsible for the preparation of BCP research receive compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (including overall investment banking revenues), client feedback and competitive factors. The compensation of BCP analysts is not linked to specific investment banking or capital markets transactions by BCP. Analysts employed by non-U.S. affiliates may not be registered with FINRA, may not be associated persons of BCP, and may not be subject to FINRA regulations regarding research related activities.

BCP research is based on public information. BCP makes every effort to use reliable, comprehensive information, but makes no representation that the information is accurate or complete. Facts and views presented in BCP research have not been reviewed by, and may not reflect information known to, professionals in other BCP business areas, including investment banking personnel. BCP analysts may interact with sales and trading desk personnel in connection with their research, including to ascertain pricing and liquidity in the fixed income markets.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. BCP has no authority to make any representation or warranty on behalf of the issuers. BCP policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

BCP may update its research reports and ratings as it deems appropriate, but has no obligation to do so. BCP has no obligation to inform clients of any changes in facts, assumptions, opinions, estimates, or ratings. Certain outstanding reports may contain discussions and/or investment options relating to securities, financial instruments and/or issuers that are no longer current. Neither BCP nor any officer or employee of BCP accepts any liability whatsoever for any direct, indirect or consequentially damages or losses arising from any use of this report or its contents.

BCP research and ratings should not be used or relied upon as investment advice. BCP research does not provide individually tailored investment advice. BCP research has been prepared without regard to the circumstances and objectives of those who receive it. BCP recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Investors should consider this report as only a single factor in making their investment decisions. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in BCP research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Securities discussed in this report may be rated below investment grade and should therefore only be considered for inclusion in accounts qualified for speculative investment.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, prices, market indexes, operational or financial conditions of companies or other factors. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. Investors may experience a loss of their original capital investment in such securities.

International investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with emerging markets, since these countries may have relatively unstable governments and less established markets and economies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate. Bonds rated below investment grade may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk and price volatility in the secondary market.

#### **INTERNATIONAL DISCLOSURES**

**Singapore:** This report is distributed in Singapore by BCP Securities Asia Pte Ltd to accredited investors, expert investors or institutional investors only (as defined in the applicable Singapore laws and regulations and is not intended to be distributed directly or indirectly to any other class of person). Recipients of this report in Singapore are to contact BCP Securities Asia Pte Ltd in respect of any matters arising from, or in connection with, this report. BCP Securities Asia Pte Ltd is registered with the Accounting and Corporate Regulatory Authority.

**Spain:** The report is distributed in Spain by BCP European Agencia de Valores, S.A., supervised by the Spanish Securities Markets Commission (CNMV), and is written and distributed in accordance with rules of conduct for financial research under Spanish regulations. This report is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of Article 78bis and Article 78ter of the Spanish Securities Market Act. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. There is no obligation to register or file any report and any supplemental documentation or information with the CNMV. Neither verification nor authorization or compliance revision by the CNMV regarding this document and related documentation or information needs to be fulfilled in accordance with the Spanish Securities Market Act.

**Brazil:** This report is distributed in Brazil by BCP Securities Brazil (RJ) in accordance with applicable regulations. No approval is required for publication or distribution of this report in Brazil. The views expressed above accurately reflect personal views of the authors about the subject companies and their securities. The compensation of the equity research analyst(s) is indirectly affected by revenues deriving from the business and financial transactions of BCP. Where a Brazil based analyst has taken part in the preparation of this research report, the Brazil based analyst whose name appears first assumes primary responsibility for its content from a Brazilian regulatory perspective and for its compliance with CVM Instruction 483.

#### **COPYRIGHT AND USER AGREEMENT**

Copyright 2020 BCP Securities, LLC. All rights reserved. This research report is prepared for the use of BCP clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BCP. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute,

retransmit, or disclose to others the contents, opinions, conclusions, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BCP