

BCP Research: Gol (GOLLBZ: -/CCC+/CCC+)-New Sr. Sec'd 8%' 26 Bond- Move GOLLBZ 24s to 'Outright-Positive' in Convertible Universe

Published: December 22, 2020

Summary: Brazilian airline, Gol announced the pricing of its US\$200 mm (R\$1.0 bn) GOLLBZ 8% 6/23/26 senior secured notes. Notes are callable 24 months post-issuance, and will be secured by GLA's intellectual property (valued at ~US\$0.7 bn) and aircraft spare parts (US\$189 mm). The issuance is a welcome development, enabling Gol to fund working capital needs, and meet the ramp-up in travel demand as Brazil enters Carnaval.

Gol's core strengths as a domestic-based, single-fleet operator (Boeing), with flexible capacity (100% operating leases, Boeing negotiations) have benefitted it throughout the crisis. Implied VFR yields are effectively up y/y (3Q20), while recent RPKs (-54% y/y) show Gol well ahead of FY20 consensus recovery (est. -70% y/y), at stable 80% LF (YTD Nov. '20), reflecting Gol's effective capacity management.

We expect traffic recovery will soften in 1Q21, as holiday travel winds down, but feel confident in Gol's ability to meet upcoming cash requirements, at est. pro-forma 4Q20E total available liquidity of ~ US\$330 mm v. US\$3.4 bn in 4Q20E pro-forma net debt, or 2.9x leverage on a fully recovered basis (FY19 adj. EBITDA). Pro-forma liquidity includes US\$337 mm cash (3Q20, f/x adjusted), US\$200 mm proceeds from sr. sec'd '26s, ~US\$150 mm in A/R converted to cash, ~US\$30 mm addtl. Boeing compensation and US\$30 mm cash flow guidance, less US\$255 mm in debt amortizations. We note estimates exclude the pending SMILES merger transaction, which is expected to close 2Q21, and would require an additional ~US\$42-205 mm in cash use, if approved (see 12/8/20 note), but be a credit positive, opening up new financing avenues. Meanwhile, effective capacity management with control of key routes (Sao Paulo, Rio de Janeiro, etc) suggests impressive potential for operating leverage in the medium term when business travel (39% market share FY19) returns.

Gol 24s (87c) are currently near the Bond Floor of 86c, while Gol equity currently trades at US\$9.04 or 12.7x TEV / LTM 3Q20 EBITDA. Reaching FY19 (fully-recovered) adj. EBITDA levels, and returning to TEV / FY19 (fully recovered) EBITDA of 5.6x by '22, implies 93% upside on the equity (US\$17.49), and 34% upside on the convert to 116c. The 24s have provided an impressive 105% return from our initial upgrade to 'Positive' on our High Octane List at 42c (5/11/20). Having moved from an 'equity like' profile, we close our 'Positive' rating on the High Octane Priority List, moving the 87c GOLLBZ 3.75% 24s to 'Outright – Positive' within our convertible coverage universe, given the favorable (over 3:1) upside vs. downside as outlined above.

			Amt Out (US\$ MM)	M/SP/F	Mid Price	Mid YTM
GOLLBZ	7.00%	1/31/2025	650	-/ CCC+/ CCC+	91.0	9.71%
GOLLBZ	8.75%	Perp	154	Caa1/-/ CCC+	86.5	10.12%

	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	87.0	8.02%	41.92%	2.80%	48.64%	\$20.25	\$9.04	Outright-Positive

* Source: Equity information sourced from Bloomberg. Convertible pricing as of December 22, 2020.

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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

Convertible Universe

“Outright” – Convertible bonds that, in our view, present risk/return significantly skewed to the upside (3x upside v. 1x downside)

“Swap” – Convertible bonds that, in our view, offer attractive volatility differential between implied volatility of the convertible bond option call v. the 100D realized volatility and listed calls in the option market for the corresponding equity

“Busted” – Convertible bonds trading with out-of-the-money option calls that, in our view, offer an attractive yield to maturity, relative to risk/return

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