

BCP Research: Liberty Latin America (LILAK) - 1Q21 Results, Strong - Downgrade to 'Neutral' on LILAK 24 Converts

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Summary: Caribbean and LatAm telecom company, Liberty Latin America (“LILAK”) reported strong 1Q21 earnings as adj. OIBDA increased y/y and q/q in line with higher revenue mainly due to LPR strong performance after AT&T/PR USVI acquisition, driving US\$65 mm FCF generation. Cash increased to US\$1.3 bn mainly driven by the issuance of US\$1.7 bn in bonds and loans – part the proceeds were used to refinance US\$1.2 bn in term loans and to redeem 10% of VTRCOM 2028 notes, improving LILAK’s maturity profile and reducing borrowing costs. Net debt remained flat q/q at US\$8.0 bn with LTM net leverage improving to 5.1x vs 4Q20. Total available liquidity increased to US\$3.0 bn (77% of LTM revenues), including US\$1.2 bn unused borrowing capacity.

We are moving our rating on LILAK 2% 24s to ‘Neutral’ in our convertible coverage universe following 39% gains from our initial upgrade to ‘Market Outperform’ on our Top Picks at 74c (May 7, 2020). Pro-forma adj. OIBDA (US\$1.9 bn) and liquidity (US\$2.6 bn), as detailed below, appear ample to comfortably meet the amortization of LILAK ‘24s, located at the head of the amortization schedule, at pro-forma LTM net leverage of 4.6x (3.1x pro-forma LTM secured net leverage). Yet, our base case implies 11% upside (114c FV) v. 13% downside (90c BF) with equity to return to Dec. ’19 highs (US\$18.57) by YE22. Meanwhile, achieving pro-forma FY22 adj. OIBDA of US\$1,920 mm at historic 6.9x EV multiples (FY19) implies 35% upside on the equity to US\$19.53 (out-the-money), and 13% upside on the convert to 116c.

	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	LILAK US Equity	Recommendation
LILAK 2% 7/15/2024	403	102.88	1.07%	47.46%	0.91%	46.09%	\$20.65	\$14.50	Neutral

Issuer Name	Ticker	Cpn	Maturity	M/SP/E	Amt Out (US\$MM)	Mid Px	Mid YTM	Rank
C&W SENIOR FINANCING DAC	CWCLN	7.50%	10/15/2026	B2/ B+/ B+	500	105.5	3.33%	Sr Unsecured
SABLE INTL FINANCE LTD	CWCLN	5.75%	9/7/2027	B2/ B+/ B+	550	105.5	3.60%	Secured
C&W SENIOR FINANCING DAC	CWCLN	6.88%	9/15/2027	B2/ B+/ B+	1,220	106.4	4.45%	Sr Unsecured
VTR COMUNICACIONES SPA	VTRCOM	5.13%	1/15/2028	Ba3/ B+/ BB+	540	104.8	3.89%	Sr. Secured
VTR COMUNICACIONES SPA	VTRCOM	4.38%	4/15/2029	Ba3/ B+/ BB+	410	100.8	4.21%	Sr. Secured
VTR FINANCE N.V.	VTRFIN	6.38%	7/15/2028	B1/ B/ BB-	550	107.6	4.09%	Secured
LCPR SR SECURED FIN DAC	LILAPR	6.75%	10/15/2027	B1/ B+/ BB+	1,380	107.8	3.47%	1st Lien
LCPR SR SECURED FIN DAC	LILAPR	5.13%	7/15/2029	B1/ B+/ BB+	820	103.4	4.40%	1st Lien

* Source: Equity information sourced from Bloomberg. Convertible pricing as of May 7, 2021.

1Q21 Financial and Operational Results:

- Homes passed increased by 5% y/y and 1% q/q to 7.96 mm
- RGUs increased by 3% y/y and 1% q/q to 6.26 mm driven by C&W and Liberty Puerto Rico
 - Broadband internet increased by 5% y/y and 1% q/q to 2.80 mm
 - Video subscribers decreased by 1% y/y and were flat q/q at 1.96 mm
 - Fixed line telephony increased by 3% y/y and by 2% q/q to 1.51 mm
- Mobile subscribers increased by 24% y/y and by 1% q/q to 4.51 mm, mainly driven by over 60,000 adds in Panama
- Mobile ARPU was 55% higher y/y increasing by 54% q/q to US\$19.51 driven by the inclusion of Liberty Mobile in 1Q21
 - Excl. Liberty Mobile, ARPUs would have declined by 5% y/y
 - C&W’s mobile ARPU was 5% lower y/y, decreasing by 6% q/q at US\$11.64
 - VTR’s mobile ARPU was 1% lower y/y, but 2% higher q/q at US\$15.94

LILAK (US\$MM)	1Q21	4Q20	3Q20	2Q20	1Q20	y/y	q/q
Homes passed (mm)	7.96	7.85	7.70	7.62	7.58	5%	1%
Revenue generating units (RGUs, mm)	6.26	6.19	6.14	6.15	6.10	3%	1%
Broadband internet subscribers	2.80	2.76	2.74	2.70	2.66	5%	1%
Video subscribers	1.96	1.95	1.96	1.97	1.99	-2%	1%
Fixed line telephony subscribers	1.51	1.47	1.45	1.48	1.46	3%	3%
ARPU (USD):	49.58	48.76	47.24	46.15	47.61	4%	2%
C&W	46.46	47.05	46.30	46.92	48.42	-4%	-1%
VTR	43.55	41.96	39.93	37.48	40.49		
Cabletica	42.80	42.48	42.57	43.21	42.23	-100%	-100%
Liberty Puerto Rico	77.83	77.45	77.15	77.69	75.69	3%	0%
Mobile subscribers (mm)	4.51	4.45	3.38	3.31	3.62	25%	1%
Mobile ARPU (USD):	19.51	12.68	12.41	11.49	12.60	55%	54%
C&W	11.64	12.41	12.11	11.13	12.29	-5%	-6%
VTR	15.94	15.65	15.56	15.22	16.07	-1%	2%

- Revenue increased by 25% y/y and 6% q/q to US\$1,160 mm, driven primarily by higher LPR revenues due to the acquisition of AT&T PR/USVI
 - Excl. AT&T PR/USVI, total revenues were flat y/y
 - Cable & Wireless (C&W, 48% revenue, 50% adj. OIBDA), revenue and adj. OIBDA decreased y/y and q/q due to lower residential mobile and B2B performance, the two areas most impacted by the pandemic
 - VTR (21% revenues, 19% adj. OIBDA) declined q/q as well, driven by lower ARPU
 - The acquisition of Telefonica Costa Rica (TCR) is expected to be completed during the summer
 - LPR revenue and adj. OIBDA doubled y/y driven by newly integrated AT&T PR/USVI operations
- Adjusted OIBDA increased by 23% y/y and by 5% q/q to US\$449 mm, in line with higher revenue. As a result, margins remained stable at 39% vs 4Q20 and 1Q20
- Free cash flow was positive US\$65 mm, reflecting higher adj. OIBDA
 - Interest payments were 39% higher q/q at US\$138 mm inline with the issuer's payment cycle
 - Tax payments decreased by 63% q/q to US\$15 mm
 - Working capital outflow was US\$96 mm, v. US\$105 mm in outflow in the prior quarter
 - Capex was 9% lower q/q at US\$136 mm, with capex-to-revenue contracting 434 bps q/q to 12%
- Cash increased 46% q/q to US\$1,306 mm, following FCF generation and debt issued during the quarter
 - VTRCOM 4.38% 2029 senior secured bonds (US\$410 mm), proceeds were used to paydown the total amount in VTR credit facilities due in 2023 (US\$245 mm), and partially amortize VTRCOM 5.13% 2028 senior secured bonds, by US\$60 mm
 - Proceeds from LPR 5.125% 2029 senior secured bonds (US\$820 mm) + LPR Term Loan 2028s (US\$500 mm) were used to paydown 2026 SPV credit facility (US\$1,000 mm)
- Total available liquidity increased by 18% q/q to US\$3.1 bn
 - Total available liquidity includes US\$1,306 mm in cash, US\$563 in trade receivables and US\$1,220 mm in unused borrowing capacity
- Net debt remained flat q/q at US\$8.0 bn and LTM net leverage improved to 5.1x
 - Secured debt was US\$6.9 bn at LTM secured net leverage of 3.5x

LILAK (US\$MM)	1Q21	4Q20	3Q20	2Q20	1Q20	y/y	q/q
Revenue	1,160	1,097	888	849	931	25%	6%
OIBDA	424	356	318	10	321	32%	19%
<i>EBITDA margin</i>	37%	32%	36%	1%	35%	0 bps	0 bps
Impairment, restructuring and other	2	49	14	299	19	(88%)	(96%)
Share-based compensation expense	23	22	28	24	24	(3%)	4%
Adjusted OIBDA	449	428	360	333	364	23%	5%
<i>Adjusted OIBDA margin</i>	39%	39%	41%	39%	39%	(0 bps)	(0 bps)
Interest paid	(138)	(100)	(137)	(102)	(145)	(5%)	39%
Taxes paid	(15)	(39)	(28)	(2)	(13)	18%	(63%)
Working capital	(96)	(105)	(80)	54	(77)	24%	(8%)
Capex	(136)	(148)	(147)	(122)	(149)	(9%)	(8%)
Free cash flow	65	37	(32)	161	(21)	(415%)	76%
Capex-to-revenue	12%	13%	17%	14%	16%	(434 bps)	(175 bps)
Cash and equivalents	1,306	894	1,612	1,752	1,593	(18%)	46%
Trade Receivables	563	561	506	516	572	(2%)	0%
Liquidity	1,869	1,455	2,118	2,269	2,165	(14%)	28%
Unused Borrowing Capacity	1,220	1,173	1,063	765	650	88%	4%
Total Available Liquidity	3,089	2,628	3,181	3,034	2,815	10%	18%
Loans, bonds and finance lease obligations	8,783	8,357	8,460	8,841	8,830	(1%)	5%
Premiums, discounts and deferred financing costs, net	156	157	141	142	148	(205%)	(199%)
Operating lease liabilities	393	409	149	150	191	105%	(4%)
Gross Debt	9,331	8,923	8,750	9,133	9,169	2%	5%
Net Debt	8,026	8,029	7,138	7,381	7,576	6%	(0%)
LTM Revenue	3,994	3,765	3,642	3,721	3,855	4%	6%
LTM Adj. OIBDA	1,570	1,485	1,465	1,485	1,540	2%	6%
LTM Gross leverage	5.9x	6.0x	6.0x	6.2x	6.0x	(0.0x)	(0.1x)
LTM Net leverage	5.1x	5.4x	4.9x	5.0x	4.9x	0.2x	(0.3x)
Cash to LTM Revenue	33%	24%	44%	47%	41%	(863 bps)	894 bps
Liquidity to LTM Revenue	47%	39%	58%	61%	56%	(936 bps)	815 bps
Total Available Liquidity to LTM Revenue	77%	70%	87%	82%	73%	433 bps	754 bps

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\$1,306 mm in cash at end-1Q21, following its capital raise and partial debt repayment during the quarter. We anticipate the TCR acquisition (US\$500 mm), expected to close during the summer, will be funded using US\$200 mm of proceeds from the Class C rights offering, and US\$200 mm of USD-denominated VTR RCF-B, plus US\$100 mm from the upsizing and drawdown of CLP denominated VTR RCF-A, reflecting funding for the acquisition via leveraging of VTR at 4x TCR FY19 OIBDA (~US\$80 mm). Pro-forma consolidated net debt is estimated to increase to US\$8.8 bn (v. US\$8.0 bn 1Q21), with the entirety of debt additions at the VTR level. We anticipate pro-forma total available liquidity will be US\$2.6 bn (v. US\$3.1 bn 1Q21), including US\$1,106 mm cash (v. US\$1,306 bn 1Q21), 1Q21 T/R of US\$563 mm, and US\$957 mm (v. US\$1,220 mm 1Q21) in unused borrowing capacity.

We estimate a fully-recovered LILAK could generate US\$1,920 mm in pro-forma consolidated annual adj. OIBDA (v. US\$1,485 mm FY20), based on normalized (FY19) consolidated adj. OIBDA of ~US\$1,540, plus an additional estimated US\$380 mm from TCR and AT&T PR/USVI acquisitions (based on press release disclosures), with targeted achievement by end-FY22. During 1Q21, LPR adj. OIBDA increased by 197% y/y and 29% q/q in line with higher revenues due to AT&T PR/USVI acquisition, accounting for 33% of consolidated adj. OIBDA vs 14% in 1Q20. LTM adj. OIBDA is 18% lower at US\$1,570 vs US\$1,920 estimated by the end-FY22. TCR transaction is expected to be completed during the summer.

US\$MM (1)	Ccy	Ticker	Interest	Maturity	Rank	Pro-Forma Unused Capacity (2)	Pro-Forma Debt	1Q21 Debt
LILAK							403	403
Convertible Notes	USD	LILAK	2%	7/15/24	Sr. Unsecured	-	403	403
C&W						775	4,126	4,124
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
C&W Credit Facilities:							1,856	1,854
<i>C&W revolving credit facility (3)</i>	USD		LIBOR + 3.25%	6/23		50	-	-
<i>C&W revolving credit facility (3)</i>	USD		LIBOR + 3.25%	6/26		575	-	-
<i>C&W term loan B-4 facility</i>	USD		LIBOR + 3.25%	1/31/26		-	-	-
<i>C&W term loan B-5 facility</i>	USD		LIBOR + 2.25%	1/31/28	Sr. Secured	-	1,510	1,510
<i>C&W regional facilities</i>	USD/T&T		4.463%	'20 - '38		150	346	344
VTR/Cabletica:						15	2,162	1,620
VTR							2,042	1,500
VTR Comunicaciones Senior Secured Notes	USD	VTRCOM	5.125%	1/15/28	Sr. Secured	-	540	540
VTR Comunicaciones Senior Secured Notes	USD	VTRCOM	4.375%	4/15/29	Sr. Secured	-	410	410
VTR Finance Senior Unsecured Notes	USD	VTRFIN	6.375%	7/15/28	Secured (4)	-	550	550
VTR Credit Facilities:							542	-
<i>VTR TLB-1 facility</i>	CLP		ICP + 3.80%	11/22 & 5/23 (50%)		-	196	-
<i>VTR TLB-2 facility</i>	CLP		7%	5/23/23		-	46	-
<i>VTR RCF-A (4)</i>	CLP		TAB + 3.35%	5/23/23		-	100	-
<i>VTR RCF-B (4)</i>	USD		LIBOR + 2.75%	3/14/26		-	200	-
Cabletica						15	120	120
Cabletica Credit Facilities:							120	120
<i>Cabletica term loan B-1 facility</i>	USD		LIBOR + 5%	4/23 & 10/23 (50%)		-	49	49
<i>Cabletica term loan B-2 facility</i>	CRC		TBP + 6%	4/23 & 10/23 (50%)		-	70	70
<i>Cabletica revolving credit facility</i>	USD		LIBOR + 4.25%	10/5/23		15	-	-
Liberty Puerto Rico						168	2,610	2,610
LPR Senior Secured Notes	USD	LILAPR	6.750%	10/15/27	1st Lien	-	1,290	1,290
LPR Senior Secured Notes	USD	LILAPR	5.125%	7/15/29	1st Lien	-	820	820
LPR Credit Facilities:							500	500
<i>LPR Term Loan</i>	USD		LIBOR + 3.75%	10/15/28		-	500	500
<i>2019 LPR revolving credit facility</i>	USD		LIBOR + 3.5%	10/15/25		168	-	-
<i>2026 SPV credit facility</i>	USD		LIBOR + 5%	10/15/26		-	-	-
Vendor Financing							170	170
Total Notes, Credit Facilities & Vendor Financing							9,469	8,926
Finance lease obligations							13	13
Operating Lease liabilities							393	393
Gross Debt at LILAK							9,874	9,331
Cash (5)							1,106	1,306
Net Debt at LILAK							8,769	8,026
LTM Adj. OIBDA (6)							1,920	1,570
Gross Leverage							5.1x	5.9x
Net Leverage							4.6x	5.1x
Secured Debt (7)							7,106	6,865
Secured Gross Leverage							3.7x	4.4x
Secured Net Leverage							3.1x	3.5x

- (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) 1Q21 consolidated unused borrowing capacity of US\$1,220 mm includes C&W (US\$775 mm), VTR (US\$263 mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$168 mm). Consolidated pro-forma unused borrowing capacity of US\$957 mm includes C&W (US\$775 mm), Cabletica (US\$15 mm) and Liberty Puerto Rico (US\$168 mm).
- (3) Maturity date extended to January 30th 2026 on US\$575 mm of US\$625 mm C&W RCF
- (4) Pro-Forma anticipates funding of TCR acquisition by leveraging VTR by an additional ~4x TCR FY19 adj. OIBDA of ~US\$80 mm. Estimated increase of RCF-A to US\$100 mm and drawdown, as well as drawdown of US\$200 mm VTR RCF-B. Net acquisition costs (~US\$200 mm) expected to be funded using existing liquidity.
- (5) Consolidated pro-forma cash reflects balance post-TCR acquisition
- (6) 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/USVI operations
- (7) Secured debt before premiums, discounts and deferred financing costs, net

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"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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