

INTERNATIONAL BONDS

Instrument	Currency	Coupon (%)	Maturity	Original amount (USD m)	Amount outstanding (USD m)	Price	Yield to worst (%)	Z-spread (bps)	Rating: M/S&P/F
2021 Sr. Unsecured	USD	11	20-Aug-2021	337	356	96.40	12.97	1,156	Caa2/NR/CCC-

Source: Debtwire, Refinitiv as of 2 July 2019

IMPROVING LIQUIDITY TO FACE AUGUST COUPON PAYMENT

FINANCIAL HIGHLIGHTS FOR 1Q19: CONTINUE PULLING MONEY OUT OF ANGOLA

AGE has been successfully making cash that it had “trapped” in many different countries readily available. In the last six months it was able to reduce its non-readily available cash and cash equivalents in Angola by BRL 156m, as it continues to receive international funds abroad to carry out work in Angola while selling domestic bonds in the African country to pay for it. The other noteworthy sign is that funds in Algeria declined to BRL 9m (See Table 1). In addition, AGE sold *precatórios* (legal claims) from the city of Manaus for BRL 23.6m, although collection occurred during 2Q19. The discount was around 40%-50%.

AGE’s revenues were BRL 357m in 1Q19, two-thirds in Brazil and the rest abroad, while adjusted EBITDA was BRL 12m (BRL 24m in Brazil and BRL -12m abroad). Although still not very large, it’s the third consecutive quarter with positive EBITDA. From now on, all quarters in the near future should have positive EBITDA, until AGE eventually has writeoffs or something similar (See Figure 1).

Regarding AGE’s revenues, we need to clarify that the backlog includes not only projects, but materials procured, too. As such, given that the concession owner (in this instance Equatorial Energia) is making some purchases directly, both AGE’s revenues and EBITDA will be lower (revenues because AGE will not consider these purchases as revenues, and EBITDA because AGE charges a very small procurement fee when they make the purchases). The amount of these direct purchases was BRL ≈240m during 1Q19.

AGE recorded BRL 136m in free cash flow, as it deferred its first coupon payment (BRL ≈150m) on the new 2021 bonds. Paying it would have made this indicator turn negative (See Table 2).

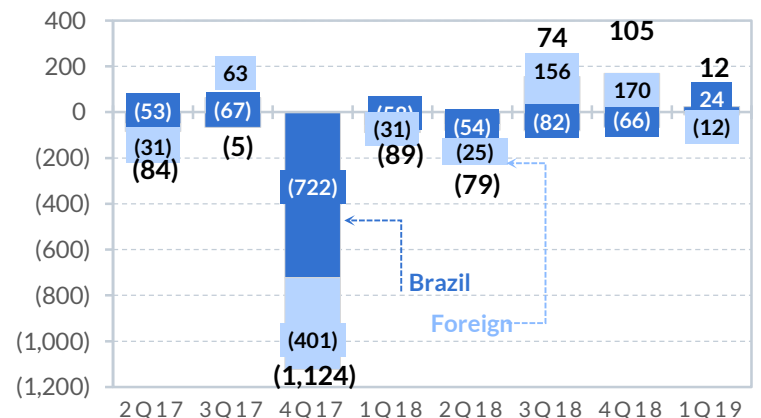
In less than two months, AGE has the second coupon payment, and this time it can’t differ it. However, considering the BRL 507m in cash readily available we estimated the company had as of 31 March, plus new funds generated during 2Q19 and the sale of *precatórios*, we don’t foresee any difficulties for the company to make the payment.

Table 1: CASH, CASH EQUIVALENTS AND INVESTMENTS (BRL m)

	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
Readily available	403	437	274	299	403	507
Not readily available	272	239	342	446	373	256
Algeria	30	30	36	36	29	9
Angola	120	98	178	281	223	124
Latin America (DR + Arg)	23	15	18	15	14	14
Libya	48	48	60	62	58	58
Portugal	51	48	51	53	50	50
Total cash, cash equivalents and	675	676	616	745	777	763

Source: Debtwire, company filings.

Figure 1: ADJ. EBITDA (BRL m)



Source: Debtwire, company filings

LATIN AMERICA CREDIT RESEARCH

Jonathan Szwarc, CFA
Head of Latin America Credit Research
+1 212-574-7873
jonathan.szwarc@acuris.com

RECENT DEBTWIRE COVERAGE

[Andrade Gutierrez obtains BRL 1.5bn in new contracts \(19-Jun-2019\)](#)
[Andrade Gutierrez accounts for sale of legal claims \(18-Jun-2019\)](#)
[Andrade Gutierrez to rebuild two communities destroyed in Samarco dam collapse \(translated\) \(6-Jun-2019\)](#)
[RESEARCH: AGE 4Q18— Bonds have less, but better quality, collateral \(9-Apr-2019\)](#)

NO NEW SHARES YET, BUT GETTING CLOSER

A first lien on some CCR shares was given to bondholders in February, after two consecutive months with the coverage ratio of the value of the shares held by AGE to its debt with Banco do Brasil and Bradesco being above 220%. The coverage ratio for the bank debt is now at 192%, almost a high since the levels that prompted the release of the lien in February, as the CCR share price rose to BRL 13.69 and the BRL remained relatively stable (See Figure 2).

Between CCR shares on which bondholders have a first lien, plus the second lien on the remaining shares held by AGE, the coverage ratio of the 2021 bonds currently stands at 163% (See Figure 3).

BACKLOG DOWN AS OF 1Q19, BUT BRL 1bn IN NEW CONTRACTS DURING 2Q19 AND 3Q19

During 1Q19, AGE's backlog declined by BRL 0.3bn to BRL 9.9bn, as the only addition was a BRL 268m contract with Vale. We have to remember (was we have said several times in our reports) that the backlog includes BRL 1.4bn from Equatorial Guinea, where projects have stopped because the government still owes AGE a lot of unpaid receivables. Although it is slowly paying them, we don't estimate that works will resume soon. However, as projects haven't been cancelled, AGE still considers them as current, similar to the case of Venezuela in the past (See Figure 4).

After the end of the quarter, AGE was awarded three contracts for BRL 540m, and two other projects were close to being signed in Argentina and Brazil, for a combined amount of BRL 475m. Excluding the projects in Equatorial Guinea and assuming linearity in the conversion of backlog into revenues, revenues for 2Q19-4Q19 should be BRL 2.9bn. However, this seems wishful thinking, after booking BRL 357m in 1Q19, but we have no better indicator than what AGE reports (See Figure 5). In reality it will be less given that Equatorial Energia, the owner of the concession for the transmission lines, is doing direct purchases and these amount were included as part of the backlog (we don't know the exact amount, but in terms of EBITDA, excluding the small procurement fee, it's basically a pass-through for AGE).

BOND PRICES SEEM TO HAVE FOUND A 300bps RANGE TO STAY IN

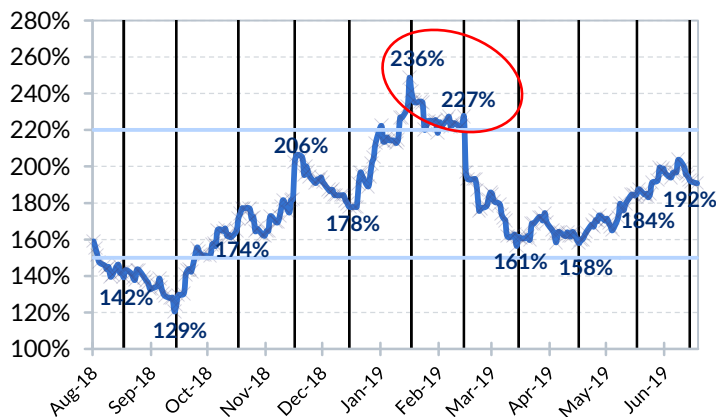
Usually, a 300bps range for a bond's Z-spread within four months is humongous. But, considering the volatility that AGE's bonds experienced in recent years, it doesn't sound excessive in this case. Since mid-February, the Z-spread of AGE 2021s has fluctuated within a 1,020bps-1,320bps range, and it is now near the middle point, at 1,156bps (See Figure 6). Although the company has been able to successfully extract cash it had "trapped" in a few countries and is slowly getting new projects, we don't think it is yet even close to being able to repay the bond in 2021. So, as one investor told us: "forget this is a bond... how much is a collateralized loan worth?"

Table 2: FREE CASH FLOW (BRL m)

	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19
EBITDA	(84)	(5)	(1,11)	(89)	(79)	74	105	12
(Cash) capex	(9)	(16)	(2)	(28)	(11)	(18)	(24)	(27)
Δ Working capital	269	(90)	353	(87)	(39)	1	334	164
Interest paid	(41)	(8)	(45)	(5)	(10)	(8)	(6)	(12)
Taxes paid				(2)			2	
Free cash flow	135	(118)	(813)	(211)	(139)	49	412	136
Dividends to parent	(161)	(53)	0					
Free Cash Flow	(26)	(172)	(813)	(211)	(139)	49	412	136

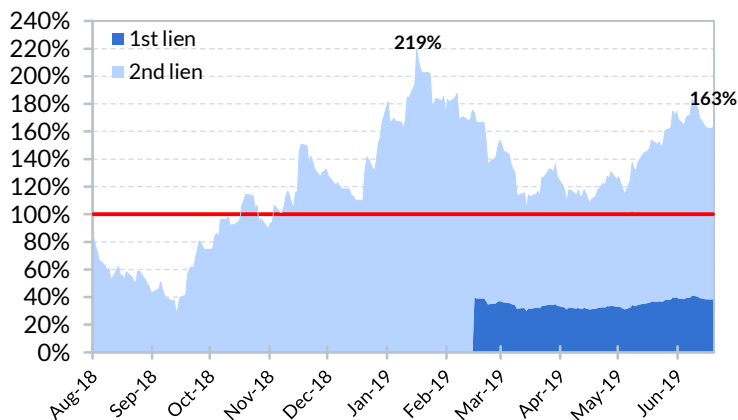
Source: Debtwire, company filings

Figure 2: COVERAGE OF BANCO DO BRASIL AND BRADESCO DEBT WITH CCR SHARES



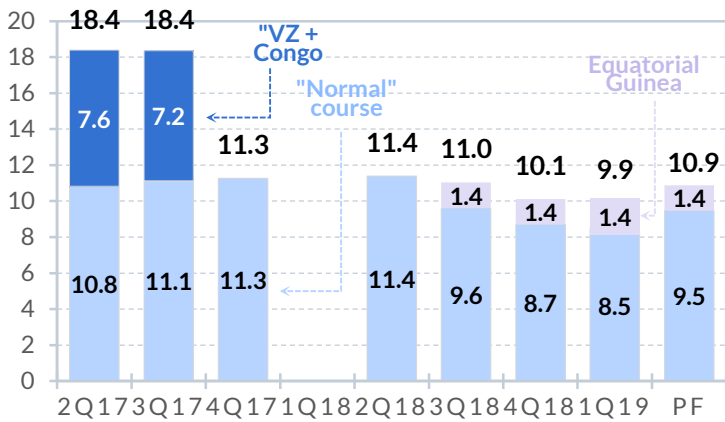
Source: Debtwire, company filings, Refinitiv.

Figure 3: COVERAGE OF 2021s WITH CCR SHARES



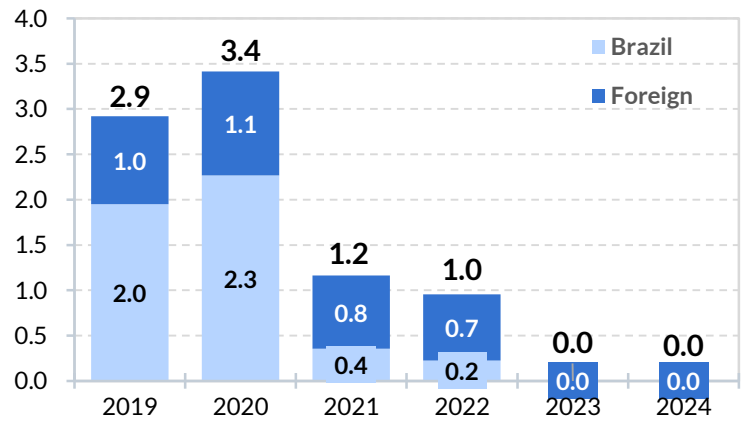
Source: Debtwire, company filings, Refinitiv.

Figure 4: BACKLOG (BRL bn)



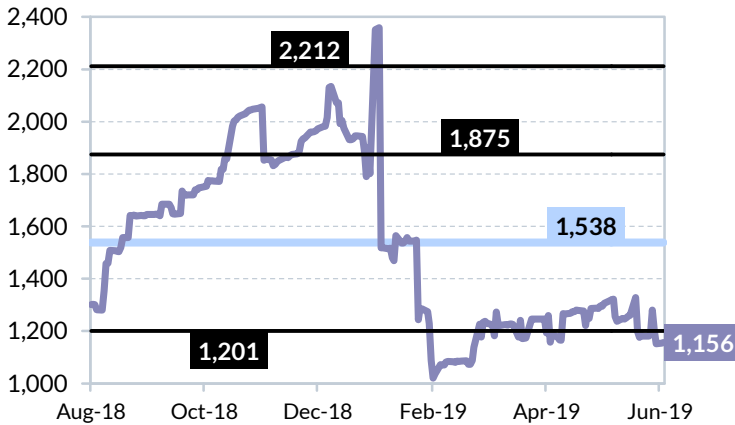
Source: Debtwire, company filings
*PF: Pro-forma for the new BRL 1bn signed and/or awarded after 1Q19

Figure 5: REVENUE PROJECTION (BRL bn)



Source: Debtwire, company filings

Figure 6: Z-SPREAD OF AGE 2021 BONDS (bps)



Source: Debtwire, company filings, Refinitiv

FINANCIAL SUMMARY (BRL m)														
	FY 2017	FY 2018	LTM 1Q18	LTM 1Q19	Δ % (LTM 1Q19 - LTM 1Q18)	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	Δ % (1Q19-1Q18)
Net revenues	1,463	1,443	1,251	1,559	24.6%	364	542	104	241	212	466	523	357	48.1%
<i>Domestic</i>	1,053	584	779			312	373	(17)	111	91	144	239		
<i>Foreign</i>	465	895	509			69	194	115	131	119	322	323		
Cost of service rendered	(1,711)	(1,280)	(1,572)	(1,306)	(16.9%)	(373)	(486)	(423)	(290)	(266)	(324)	(400)	(316)	9.1%
SG&A	(583)	(528)	(557)	(537)	(3.5%)	(140)	(100)	(208)	(109)	(116)	(155)	(148)	(118)	8.6%
Equity stake in subsidiaries	83	43	83	29	(65.3%)	31	22	20	11	4	22	6	(3)	
Provisions	(562)	165	(546)	209		(3)	(8)	(563)	15	58	(10)	101	60	295.6%
Other income (expense), net	(66)	84	(37)	79		19	6	(74)	26	16	31	11	21	(17.2%)
Financial income (expense), net	45	392	340	109	(68.0%)	86	(11)	17	247	162	167	(185)	(36)	
Income tax	10	(23)	3	(72)		48	18	(87)	29	70	43	(146)	(21)	
Net income	(1,327)	295	(1,040)	70		29	(18)	(1,211)	170	122	240	(237)	(56)	
Total assets	7,700	7,332	7,819	7,448	(4.7%)	9,010	8,811	7,700	7,819	8,197	8,375	7,332	7,448	
Current assets	3,979	3,498	3,794	3,549	(6.5%)	5,502	5,704	3,979	3,794	3,690	3,539	3,498	3,549	
<i>Cash and cash equivalents</i>	186	403	194	508	161.9%	396	251	186	194	274	299	403	508	
<i>Investments</i>	383	224	379	128	(66.4%)	381	414	383	379	184	292	224	128	
<i>Trade receivables</i>	1,779	1,884	1,720	1,877	9.1%	3,689	3,793	1,779	1,720	1,881	1,918	1,884	1,877	
<i>Related parties</i>	362	111	374	123	(67.3%)	51	285	362	374	439	118	111	123	
Non-current assets	3,903	3,834	4,025	3,899	(3.1%)	3,509	3,106	3,903	4,025	4,507	4,837	3,834	3,899	
Trade receivables	2,245	2,024	2,292	2,072	(9.6%)	1,312	1,306	2,245	2,292	2,491	2,434	2,024	2,072	
Related parties	448	562	464	570	22.7%	800	503	448	464	472	897	562	570	
Total liabilities	6,452	7,028	6,819	7,232	6.1%	6,835	6,809	6,452	6,819	7,141	7,220	7,028	7,232	
Current liabilities	3,788	3,050	4,160	3,231	(22.3%)	4,311	4,500	3,788	4,160	4,300	3,029	3,050	3,231	
<i>Suppliers and subcontractors</i>	891	898	864	842	(2.6%)	914	934	891	864	924	866	898	842	
<i>Advance from customers</i>	897	1,368	1,060	1,629	53.7%	1,175	1,165	897	1,060	1,342	1,314	1,368	1,629	
<i>Related parties</i>	1,290	169	1,325	148	(88.8%)	1,317	1,503	1,290	1,325	1,218	208	169	148	
<i>Short-term debt</i>	303	272	409	257	(37.1%)	303	340	303	409	440	290	272	257	
Non-current liabilities	2,665	3,979	2,659	4,001	50.5%	2,524	2,309	2,665	2,659	2,841	4,191	3,979	4,001	
<i>Advance from customers</i>	1,186	1,571	1,188	1,577	32.8%	1,245	1,183	1,186	1,188	1,328	1,360	1,571	1,577	
<i>Related parties</i>	628	1,659	629	1,707	171.5%	406	303	628	629	713	2,004	1,659	1,707	
<i>Long-term debt</i>	195	134	193	100	(48.1%)	279	229	195	193	139	145	134	100	
Shareholders' equity	1,248	303	1,000	216	(78.4%)	2,175	2,002	1,248	1,000	1,056	1,156	303	216	
EBITDA	(1,283)	10	(1,302)	111		(84)	(5)	(1,119)	(89)	(79)	74	105	12	
Backlog	11,260	10,117		9,858		18,393	18,350	11,260		11,388	11,029	10,117	9,858	

Source: Debtwire, company filings

Disclaimer

We have obtained the information provided in this report in good faith from publicly available data as well as Debtwire data and intelligence, which we consider to be reliable. This information is not intended to provide tax, legal or investment advice. You should seek independent tax, legal and/or investment advice before acting on information obtained from this report. We shall not be liable for any mistakes, errors, inaccuracies or omissions in, or incompleteness of, any information contained in this report, and not for any delays in updating the information.

We make no representations or warranties in regard to the contents of and materials provided on this report and exclude all representations, conditions, and warranties, express or implied arising by operation of law or otherwise, to the fullest extent permitted by law. We shall not be liable under any circumstances for any trading, investment, or other losses which may be incurred as a result of use of or reliance on information provided by this report. All such liability is excluded to the fullest extent permitted by law.

Any opinions expressed herein are statements of our judgment at the date of publication and are subject to change without notice. Reproduction without written permission is prohibited. For additional information call Debtwire at +1 212-574-7873.