

INTERNATIONAL BONDS

Instrument	Currency	Coupon (%)	Maturity	Original amount (USD m)	Amount outstanding (USD m)	Amount outstanding (MXN m)	Price	Yield (%)	Z-spread (bps)	Rating: M/S&P/F
2020 Step-Up Secured Notes	USD	8%	15-Jun-2020	180.4	103.4	1,940.1	68.3	53.25	5,833	NR / CC / NR

Source: Debtwire, company filings, Refinitiv as of 20 June 2019

BOND EXCHANGE OFFER WILL NOT SOLVE NEGATIVE CASH FLOW AND HIGH LEVERAGE

On 18 June, Maxcom announced an offer to holders of the 2020 step-up notes to exchange the bonds for new 8% senior secured notes due 2024, junior payment-in-kind (PIK) notes, and cash.

By a 28 June early participation deadline, consideration for each USD 1,000 of principal amount of 2020 notes consists of (i) USD 550 of 2024 senior notes, (ii) USD 100 of PIK notes, and (iii) USD 110 in cash. For tenders made after the early participation date and through the 15 July final deadline, the cash consideration is lowered to USD 100, with the rest of the terms remaining the same.

The exchange offer is conditioned on the valid tender of at least 90% of the 2020 notes. Maxcom reserves the right to waive the minimum tender condition if at least 80% of the 2020 notes are tendered. Holders of over 30% of the bonds have already indicated that they will accept the exchange offer. Additionally, an MXN 300m equity contribution by Maxcom's shareholders is conditioned upon the success of the exchange offer.

Pro-forma for the execution of the debt exchange offer, and assuming all the 2020 bonds are tendered, Maxcom's net debt to EBITDA would decline to 4.5x as of 1Q19, from reported net leverage of 7.6x (See Table 1). Debt due on the 2024 notes would be MXN 842m lower than debt currently due on the 2020s. Cash balance would increase by MXN 30m to MXN 448m after receipt of capital contribution and payment of cash portion of exchange offer.

At this point, we have to recall that LTM 1Q19 EBITDA included MXN 145m generated by a non-recurring sale and leaseback transaction for 72 communication towers carried out in 2Q18. The exclusion of the non-recurring MXN 145m from the EBITDA computation would result in LTM 1Q19 EBITDA of MXN 141m. As a result, corresponding adjusted net debt to EBITDA would decline to 9.2x pro-forma for the debt exchange, from adjusted net leverage of 15.4x prior to the exchange.

The exclusion of MXN 145m in non-recurring EBITDA would lead to negative free cash flow of MXN -158m for LTM 1Q19 (See Table 2). The bond exchange would result in lower interest expense for LTM 1Q19 and lead to negative free cash flow of MXN -84m.

Table 1: 1Q19 CAPITAL STRUCTURE AND NET LEVERAGE PRO-FORMA FOR DEBT EXCHANGE (MXN m) [1]

	ACTUAL 1Q19	PRO-FORMA 1Q19
Cash and cash equivalents	418	448
Debt: Step-Up Senior Notes due 2020 (2)	1,990	-
8% Senior Secured Notes due 2024	-	1,148
Bank Loans	45	45
Leases	548	548
Total debt	2,583	1,741
Junior PIK Notes	-	198
Total stockholders' equity	727	1,027
LTM 1Q19 EBITDA	286	286
Recurring LTM EBITDA	141	141
Net Debt to LTM 1Q19 EBITDA	7.6x	4.5x
Net Debt to Recurring LTM EBITDA	15.4x	9.2x

Source: Debtwire, company filings

Notes: (1) Assumes all 2020s are tendered prior to or on the early participation date.
(2) Balance on Step-Up Notes includes MXN 49m in accrued interest.

Table 2: PRO-FORMA FREE CASH FLOW ESTIMATE (MXN m)

	LTM 3Q 2018	FY 2018	LTM 1Q 2019 (1)	PRO FORMA LTM 1Q 2019
EBITDA	317	247	286	286
Non-recurring 2Q18 BITDA	(145)	(145)	(145)	(145)
Recurring LTM EBITDA	172	102	141	141
(Cash) Capex	(157)	(122)	(129)	(129)
Δ Working capital	(45)	(59)	(4)	(4)
Interest Paid (Estimate)	(155)	(166)	(166)	(92)
Taxes paid	-	-	-	-
Free Cash Flow	(185)	(245)	(158)	(84)

Source: Debtwire, company filings

Note: (1): 1Q19 includes EBITDA from non-recurring sales of backbone routes and optic fiber totalling MXN 25m in revenues.

LATIN AMERICA CREDIT RESEARCH

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CHAPTER 11 REORGANIZATION AS PLAN B

In the event that the conditions for the closing of the exchange offer are not satisfied and the transaction is terminated, Maxcom intends to file a prepackaged reorganization plan with a US bankruptcy court.

As such, concurrently with the exchange offer Maxcom is also soliciting votes from holders of the 2020 notes to approve a pre-pack. The filing is a Plan B for the company, and would commence a Chapter 11 proceeding aimed at seeking confirmation of the restructuring plan contemplated by the exchange offer.

In the event that the holders of the 2020 notes accepting the pre-pack plan represent more than two-thirds in amount of bonds held by holders casting a vote, and more than one-half in number of the total votes, the reorganization will move forward and be binding to all holders. The plan states that the 2020 bondholders would receive the same treatment with respect to their claims as they would in the exchange offer.

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