

August, 2017

TV AZTECA— PREPAYMENT OF THE 7.625% BOND DUE 2020

Further to our communication of July 13, 2017, TV Azteca, on August 18 announced that they will be executing a partial principal prepayment on its 2020 bond.

WHAT IS THE PREPAYMENT?

On August 18, 2017, TV Azteca announced that it will pay, in advance, approximately US\$335 million of the US\$500 million issue at a call price of \$103.8125. Therefore all bond holders would receive US\$103.8125 for each unit of bond they own. The prepayment will be funded from a new note that was issued on August 9 in the international market.

WHO DOES THE PREPAYMENT AFFECT?

Only the holders of the 7.625% 2020 issue will be impacted.

PREPAYMENT DETAILS

Previously, the bond maturities were close together, for example 2018 and 2020. This did not give the company much time to recover from a major payout. TV Azteca has therefore decided to lengthen the period between maturities by prepaying the bonds and then issuing new bonds which mature later.

The principal prepayment factor is 0.67 which equates to holders receiving 67.00% of their principal or approximately \$670.00 for every \$1000.00 face value held. All persons who hold the bond as at September 18, 2017 will receive a partial principal payment. The 2017 bond typically pays coupons on March 18 and September 18 of each year. Since the prepayment will be calculated as of September 18, a coupon payment date, future coupons will be calculated on the outstanding amount after the prepayment i.e. the remaining 33% of face value.

This partial prepayment follows the complete prepayment of the Company's 2018 bond that was completed on August 21. These prepayments are a result of the Company's efforts to improve the maturity profile of its debt.

IN SUMMARY

We maintain our SELL recommendation and continue to stress the high risk associated with TV Azteca.

The interest coverage ratio (which calculates how easily a company can pay interest on outstanding debt) has improved and the short term outlook is positive, based on a predicted rise in advertising revenues around the 2018 World Cup games. However, given the significant impairment booked on the Colombian investment, the possibility exists that the company may have also been too optimistic about its prospects for the Peruvian investment, and could bear another significant impairment following the completion of the external valuation of its operations.

Of concern also is that medium to long-term growth will be limited by the increasing significance of pay-tv and the internet as alternative advertising platforms. The entrance of the new broadcaster Grupo Imagen, which began operations in Quarter 4, 2016, could also gradually encroach on TV Azteca's market share.

The upcoming prepayment provides bond holders the opportunity to relieve themselves of this asset and reposition into assets that are more in line with their risk and return objectives.

THE TECHNICALS

A recommendation of SELL means that the investor should look to reduce exposure to TV Azteca to 0% of the portfolio at JMMB.

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