THE JMMB GROUP
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INVESTOR UPDATE

JULY, 2017

TV AZTECA - WHY NOW WOULD BE A GOOD TIME TO SELL

RECOMMENDATION: SELL

This piece will attempt to provide a synopsis of the challenges as well as provide an update on any recent information that may be of interest to investors.

SYNOPSIS

COMPANY'S PERFORMANCE

The company reported an improvement in operating performance for 2016 after sales outgrew increases in total costs & expenses. However despite this increase net losses increased by 20% due to the booking of an impairment of the Colombian telecommunications investment. The result is that shareholder's equity declined by 27%.

Despite Stable outlook, there are still long term challenges on the horizon.

POSITIVE NEWS

In March 2017, Fitch Ratings revised its outlook on TV Azteca to stable from negative. This reflects Fitch's expectation that the company will maintain stable EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization are deducted. Its analysis also concludes that it will achieve stable free cash flow generation over the medium term, following its recovery in 2016. Free cash flow is the cash a company generates after accounting for all capital expenditures, such as buildings and equipment. This excess cash can then be used to expand production, develop new products, make acquisitions, pay dividends and reduce debt. Fitch also maintained their B+ rating on the issue.

Despite weak macro conditions, the Mexican broadcasting industry's growth outlook should remain stable up until at least 2018, due to price increases by operators and the positive impact of the World Cup in 2018. Additionally, free cash flow generation turned positive in 2016 and capital expenditure is expected to remain light without any cash contribution to Colombia.

CONCERNS

Despite the positives, it is expected 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 Q4 2016, could also gradually encroach on TV Azteca's market share.

WHY IS NOW A GOOD TIME TO EXIT?

The 7.625% bond due in 2020 has seen its price improve 61.6% over the last twelve months, while the 7.50% bond due in 2018 has seen a price improvement of approximately 50% in the same time period. This improvement can be seen as a reflection of the improved outlook on TV Azteca, based on the factors discussed above. Given that the company is faced with long term growth limitations, the recent increase in prices on both notes due 2018 and 2020, may prove to be a great exit point for holders of these notes.

Prepayment of the 7.50% bond due 2018

WHAT IS THE PREPAYMENT?

On June 14 TV Azteca announced that it will pay in advance US$60 million of the US$300 million issue i.e. 20% of the outstanding principal, at a call price of 100%. The prepayment will be funded by internally generated cash. This transaction is in addition to the cancellation for US$42.4 million of the same issue carried out in March of this year, with which TV Azteca will accumulate a debt reduction of US$102.5 million so far this year. The cancellation in March saw the company purchasing US$42.5 million of the bond then subsequently retiring the portion repurchased.

WHO DOES THE PREPAYMENT AFFECT?

Only the holders of the 7.50% 2018 issue will be impacted.

WHAT DOES THIS MEAN FOR HOLDERS OF THE 2018 ISSUE?

The proposed date for the transaction is July 14th, at which time holders will receive 20% of their principal at the prepayment price plus accrued interest on that portion. Any coupon payments after that point will be calculated based on the outstanding principal i.e. the remaining 80%.

IN SUMMARY

We maintain our SELL recommendation and stress the high risk associated with TV Azteca. The interest coverage ratio has improved and the short term outlook is positive, based on a predicted rise in advertising revenues around the 2018 World Cup. 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.

We do view the move to reduce foreign-denominated debt and the related foreign exchange risk as a positive move but the exposure remains considerable as all the remaining debt is in USD. With the recovery in the price of TV Azteca's two issuances, it would be a suitable time for investors to exit given a weak medium to long-term outlook.

THE TECHNICALS

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