

JULY, 2017

TV AZTECA - PREPAYMENT OF THE 7.50% BOND DUE 2018

SYNOPSIS

Further to our previous communication of July 13, 2017, on July 14th TV Azteca executed a partial principal prepayment on its 2018 bond.

RECAP

WHAT IS THE PREPAYMENT?

On June 14, 2017, TV Azteca announced that it will pay, in advance, approximately US\$60 million of the US\$300 million issue at a call price of \$100.00. Therefore all bond holders would receive US\$100.00 for each unit of bond they own. The prepayment will be funded by internally generated cash. Prior to that, in March 2017 the company purchased US\$42.5 million of the bond and retired that portion. The prepayment of US\$60 million plus the retirement of US\$42.5 million translates to a debt reduction of US\$102.5 million so far this year.

WHO DOES THE PREPAYMENT AFFECT?

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

PREPAYMENT DETAILS

All persons who held the bond as at July 14, 2017 would have received a partial principal payment credited to their account on July 21, 2017. However, no accrued interest was paid. The principal prepayment factor was **0.235435894** which equates to holders receiving 23.543894% of their principal or approximately \$235.44 for every \$1000.00 face value held.

The bond typically pays coupons on May 25 and November 25 of each year. Since the prepayment was calculated as of July 14, the accrued interest for the period May 26 to July 14 will be based on the

principal owned as at July 14 i.e. the principal prior to the prepayment. The accrued interest from July 15 to November 25 will be calculated based on the newly reduced principal amount.

WHAT HAPPENS NEXT?

Following the prepayment of July 14th, TV Azteca executives have announced their intention to pay the outstanding principal on the 2018 note at a price of US\$100.00 per bond unit. The proposed date for this transaction is August 21, 2017 however the payment details are not yet clear. We will provide an update as more information becomes available. TV Azteca is able to make the anticipated payment because of the following:

- positive financial results;
- the company's firm strategy of reducing the total amount of its US dollar-denominated debt; and
- further strengthening its capital structure.

IN SUMMARY

We maintain our SELL recommendation and continue to 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 games. However, given the significant impairment booked on the Colombian investment, the possibility exists that the company may also have 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. 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 4Q16, 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 TZ Azteca to 0% of the portfolio at JMMB.

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