Grupo GICSA

Commercial Real Estate | Mexico
March 23, 2022 | Flash Note

Safe! Bondholders Finally Approved Debt Restructure

Reiterating our 'Speculative Buy' Rating

- GICSA announced that it reached a milestone towards revitalizing its capital structure, as bondholders of its CEBUREs program (GICSA15, GICSA17 & GICSA19) finally agreed on the company's proposed debt restructure. In general terms: (i) the amount outstanding shall be updated to reflect the current balance (including capitalized interests over the pandemic); (ii) the maturity of all bonds will be extended five years so that GICSA19 will now mature on March 24th, 2027; GICSA15 on December 1st, 2027 & GICSA15 on December 8th, 2028; (iii) the issuances will now be secured by 'designated assets' (including Paseo Coapa, Galerías Metepec, Cabi Tasqueña (a land in Cancun), La Explanada Aguascalients & the stabilized property, La Isla Acapulco); (iv) a 10% fixed annual interest rate was determined, which shall be capitalized for the next 3-Yrs and paid in cash from then onwards; (v) the company must amortize at least 25% of the debt balance over the next three years, under penalty of increasing interest rate by 100bps per year if they don't, albeit if they do amortize at least ¼ of such, it will lower by 100bps and could potential drop additionally 100bps if amortization reaches 50%; (vi) the issuer paid 50bps of the debt balance through interest capitalization; (vii) the company will be able to sell the "designated" assets, even though such potential resources (net of taxes and related transaction costs) must be entirely allocated for debt amortization; (viii) the company will refrain from paying dividends or making any other distribution to its shareholders for the next five years (unless the debt balance is fully amortized); (ix) GICSA cannot tap any additional debt (beyond for working capital needs) unless authorized by the bondholders; and (x) restricted cash under the Cero5Cien trust will be released.

- **Our take:** We deem this news as positive, as the company's liquidity will strengthen as occupancy and collections recover from the impact of the pandemic. Furthermore, GICSA avoided potential default on the GICSA19 bond that was due to expire tomorrow and available cash (as of Q4 2021) was not enough for paying it down, while it also lowered cost of debt by ~10bps implying annual savings in interest expenses in the grounds of over P$53 M, as per our estimates. However, in our view, the main highlight is related to cash flow, as we estimate that interest capitalization granted could save GICSA over P$330 M per year, which in turn would aid the company to emerge from the sanitary crisis on stronger foot. On top of that, potential deleverage coming from the sale of non-productive assets should be welcomed as well, though no visibility on the timing nor the amount is available right now (we estimate La Isla Acapulco could be worth over P$500 M). We will soon update our estimates and PT by incorporating this restructure. For the time being, our 'Speculative Buy' rating is reiterated.

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