

Total Play tests market for debut in challenging time – Deal Preview

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Total Play Telecomunicaciones (B2/BB-) is preparing a debut USD 500m senior unsecured bond at a challenging moment for new issuance, especially for a Grupo Salinas-controlled credit, according to a buy-side analyst, a credit analyst, and a fixed-income trader. The Mexican telecommunications company is seeking funds to finance its expansion plans, for working capital and to prepay debt, according to an offering memorandum (OM).

While Total Play is considered a relatively strong credit, the biggest concern is how the market is going to receive a new issue from a company controlled by Grupo Salinas during a more challenging period for new issuance, the credit analyst said. New issuance from LatAm has slowed a bit ahead of the US elections next week.

“It’s a solid company, which has invested around USD 1.5bn in the last three years,” the buy-side analyst said. “They should price at 7% [yield] or above. They’ll have to pay a premium because of [controller Ricardo] Salinas Pliego.”

With fixed-income investor calls scheduled to wrap up on Monday 26 October, pricing was expected possibly later this week. Credit Suisse, Barclays, Jefferies and BCP Securities are managing.

The borrower was deciding whether it will be a five or a seven-year bond, the buy-side analyst said. Ratings agencies have estimated a 2027 bond of up to USD 500m, as reported.

Total Play plans to use USD 267m of the proceeds to repay outstanding debt and the balance for capital expenditures and working capital, according to the OM. The notes will be guaranteed by the Total Box subsidiary, which accounts for 88% of EBITDA, according to Moody’s.

As it continues investing in growth, Total Play will have increased leverage in the coming years, the buy-side analyst said. It will go north of 4.5x net leverage pro-forma for the issuance, compared to 3.5x now, as only a portion of the proceeds will be used to refinance debt, this source said.

Net debt to EBITDA was 3.5x as of 30 June, with total debt of USD 954m, according to the OM. Fitch expected 4.8x by the end of the year, it wrote when rating the deal.

The company will continue burning cash in the near term as it expands, the buy-side analyst said. It is also competing against peers that are well established and have deep pockets. Having Salinas Pliego behind it can be negative, this analyst added, as banks in Mexico are hesitant to lend to his companies.

Total Play’s market share is “small” compared to Mexican peers that include America Movil (A3/A-/BBB+) and Grupo Televisa

PROPRIETARY

Latin America

Telecommunications: Carriers
Mexico

Issuer

Total Play Telecomunicaciones S.A.
De C.V.



Book-Runner(S)

BCP Securities



Global Co-Ordinator(S)

Barclays
Credit Suisse
Jefferies Group LLC



(Baa1/BBB+/BBB+), Moody's said when rating the deal. It has an 8.1% share of broadband and 5% in pay TV.

Axtel (Ba3/BB/BB-) could be one place to look for a comparison, according to Fitch. The agency noted similarities between the two borrowers, in that both are small-scale and undiversified fixed-line providers in Mexico.

Axtel's USD 500m 6.375% 2024 bond last traded on 26 October at 104.55 to yield 4.75%, according to MarketAxess.

"Although we don't think that it [an offer for Axtel] will happen, it caught our attention the fact that the size of the bond, of USD 500m, matches what Alfa (Baa3/BBB-/BBB-) may be asking for Axtel," a Mexico-based PM noted.

Axtel's management said earlier this month that, after reviewing more than 10 non-binding offers for either its infrastructure unit or the entire company, it has decided to pursue a full sale.

Total Play's management has said during the calls with investors that it aims to achieve its growth target organically, the buy-side analyst noted.

Elsewhere in LatAm, Chile's VTR (B/B1/BB-) and WOM Mobile (B+/BB-) are among the most similar to Total Play according to the buy-side analyst. Fitch noted that Total Play's financial profile is stronger than WOM, and is "broadly in line" with VTR.

The VTR Finance USD 550m 6.375% senior unsecured 2028 bond traded on 23 October at 108.0 to yield 4.35%, according to MarketAxess. WOM's 6.875% US 510m 2024 note traded today at 105.1 to yield 5.05%.

"I think in the low 7% makes sense, perhaps 6.50%, and it should come out as a five-year non-call three," the trader said. "The risk lies in the subordination to local loans and the Salinas group not doing well."

Earlier this year Total Play established a MXN 5bn (USD 240m) domestic-market securitization program, using a trust holding accounts receivable collection rights, according to the OM. It issued MXN 2.5bn in its first tranche. It also entered into available credit facilities secured by receivables for up to USD 548m-equivalent, according to the OM.

The securitizations represent something to look carefully at in this deal, the buy-side analyst said.

"At the operating level, the company is very complex," said the Mexico-based PM, who is not participating in this issuance but looked at the credit at the time of the domestic securitization. The PM noted that there are multiple trusts and securitization taps, each involving a separate debt.

Aiming for growth

Total Play offers fixed telephony, pay TV, and internet services through a proprietary fiber-to-the-home (FTTH) network. Since its commercial launch in May 2011, the company has grown to reach 1.9 million subscribers, and 10.1 million homes in 52 Mexican cities, according to the OM.

Total Play's revenues for the first nine months of 2020 were MXN 13.88bn, growing 39% from 9M19, according to the OM.

"They have 10 million-plus home passes, with FTTH, which is a more modern technology than other peers," the buy-side analyst said. "They aim to reach 13m home passes within three years, which will require an additional USD 1bn."

"It's still an underserved market in Mexico with low penetration, and customers will continue to demand these services," the buy-side analyst added, noting that it targets high-end customers, with faster speeds and higher prices.

"The credit is in a good industry and is benefiting from work-from-home and virtual school environment," the trader said.

Ricardo Salinas Pliego and his family control retailer Grupo Elektra (including subsidiary Banco Azteca) and TV Azteca (*Debtwire* shareholder profile). He is known for his confrontational business style, and has been involved in high-profile controversies and conflicts, including with foreign creditors, as reported.

Total Play said in the OM that its reputation and business could be adversely affected by news reports, investigations, legal or regulatory proceedings regarding allegations of misconduct relating to controlling shareholder Ricardo Salinas Pliego. It specifically mentioned reports of an investigation into state oil firm Pemex, noting that Banco Azteca provided financing to Fertinal that helped improve the fertilizer producer's balance sheet ahead of an acquisition by Pemex. The OM said that Salinas Pliego and the bank described such reports as "without merit".

The Salinas family has positioned itself well for the presidency of Andres Manuel Lopez Obrador (AMLO), according to *Debtwire's* 18 April report on Mexican political risk. Ricardo Salinas Pliego was an early backer of the veteran leftist, who took office in December 2018 after a landslide victory over establishment candidates.

Although AMLO's agenda is not aligned on the surface with corporate interests, Salinas companies' focus on lower-income consumers, and Elektra's presence in less-developed regions creates potential synergies with a populist government. These ties were seen as benefitting the group's businesses, as reported.

by Ero Partsakoulaki and Pablo Dominguez

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