



Trade Ideas

Sprint – BUY: Although bondholders didn't get the outcome they wanted as it relates to the highly publicized merger discussions between Sprint and T-Mobile, we believe Sprint's standalone operational plan coupled with its vast optionality around liquidity make Sprint bonds attractive. We acknowledge the turnaround in FCF generation will take longer than originally expected, but that's only because the company has opted to accelerate its CapEx plans forward into FY18 and FY19, which we believe will result in better subscriber trends and financial metrics just in time for the arrival of next generation 5G roll-outs.

The reinvigorated stance towards network investment comes at a time when Sprint will also return to services growth (FY2H18) for the first time since CY4Q13. As the network improves, we model in lower churn and better gross adds as well as improving ARPU in FY19, which will all lead to improved revenue trajectory as well as profitability. Sprint has considered itself the "price leader" in the industry for a while, but raised prices last quarter and plan to again, which should enhance top-line and margins. Once CapEx normalizes back to \$4-5 billion (post-FY19), we expect Sprint to start generating billions of cash.

Until then, Sprint can use its ample pockets of liquidity to deal with near-term obligations as well as funding CapEx. The company ended the most recent quarter with over \$6 billion of cash on the balance sheet, has ~\$10.5 billion of Spectrum LeaseCo capacity available to them (\$3.5 billion under the existing program and another ~\$7 billion under a second program), will take advantage of the ABS market to handle device financing, and could open up a layer of financing if management decides to take out the Junior Guaranteed notes. Currently, the indenture governing the Junior Guaranteed tranches restrict how much pari debt Sprint can raise (\$6 billion notional), but removing that restrictive covenant could provide a source of liquidity at more attractive financing than existing unsecured bonds. Knowing there is positive liquidity optionality around removing that sliver of capital from the balance sheet, we think management may target the 7% Jr Guaranteed Notes due 2020 later in 2018 when the 9% Jr Guaranteed Notes mature, which provides an opportunity to capture some alpha in a senior part of the capital structure.

Sprint 7% Jr. G'teed Notes due 2020: \$107.00, 3.63%, 163 bps

Sprint 6.875% Sr Notes due 2028: \$101.00, 6.74%, 426 bps

Frontier Swap:

The trajectory for Frontier has changed materially throughout 2017. Entering the year, many investors were still believers in an annual run-rate EBITDA of \$4 billion. The synergies were going to come through, CTF properties were going to inflect their subscriber figures, and DSL in the rural properties could fight off the less quality competition in those geographies. Almost nothing has played out as expected and Frontier has, again, struggled to make sense of an acquisition that was supposed to act as a catalyzing event that stabilized the business.

While we are confident that a near-term cost reduction story is credible (revenue is declining so costs should be able to come down and duplicative spending utilized in stabilizing CTF can run off), we do not think that cost cuts can out-run revenue declines over even the intermediate term. Until the story can credibly shift to a position of discussing revenue stability, then growth, the Frontier story will be very challenged. We are going back to the same well in our trade idea in 2018, recommending the compression trade between higher dollar bonds and lower dollar bonds as we expect further signs of stress in the

Risks include reversal of subscriber trends, no inflection in revenues, downward spiral in ARPU, and higher than anticipated CapEx.

Risks include better than expected performance in CTF territories, cutting the dividend, and asset sales.