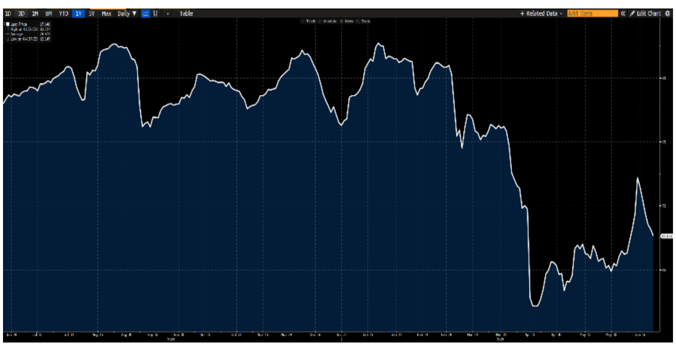
24.06.2025

Data as of June 24, 2025

Item	Details
Name	FECCN 7.875 6/21/2028
ISIN	USC35898AB82
Current Price	67.69
Coupon	7.875%
Recommended Entry Level	66.00
Exit Price	74.00
Exp. 1-Year Return from Current	21.53%
Exp. 1-Year Return from Recommendation	24.74%
Yield to Worst (YTW)	23.52%
Current Yield	11.63%
Payment Rank	Sr Unsecured
Maturity Date	6/21/2028
Modified Duration	2.37
Years to Maturity	2.84
Issue Date	6/21/2021
Next Call Date	7/24/2025
Next Call Price	101.969
Yield to Call	639.33%
Amount Outstanding, $mln.	320
Credit Rating (BBG Composite)	B
Recovery Rating (BBG)	--
Recovery Rate (DPRG)	42.0%
Country of Risk / Incorporation	CO
Currency	USD
Benchmark Treasury Yield	3.76%
Spread to Treasury	19.76%



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Conclusive Summary

We believe that the market unfairly treats FECCN 7.875% 6/21/2028 bonds and current yield spread is not justified by embedded credit risk. Probably investors overestimate the country (Columbia) political risk or insufficient reserves replacement dynamics (7 years of production after bond maturity, enough cushion for the bond). Depth of the discount likely overstates near-term credit risk given recent debt tender reducing leverage and improved liquidity profile. With current year Debt/EBITDA at 1.20, EBITDA Interest coverage at 6 we recommend **Buying** the FECCN 7.875% 6/21/2028 bonds at **$66 or below**, targeting a **short-term exit around $74** or hold to maturity, as the company is capable of retiring bonds from its operational cashflow.

- At a $66 purchase, implied 1-year return is ~24.7%; at the current $67.7 price, 1-year return is ~21.5%.
- Yield-to-Worst of **23.5%** and current yield of **11.6%** provide attractive carry.
- More optimistic exit point at $85 on a 1-year horizon provides the return of 38%

Important Risks to Consider:

- **Oil Price Weakness**: A sustained drop below **$60/bbl.** Brent cuts cash flow by 15–20%, straining coverage of the 7.875% coupon.
- **Colombian Regulatory Shift**: Further tightening of exploration licenses or new environmental mandates could raise capex or curtail production.
- **Guyana License Dispute**: Loss of the Corentyne Block license would curtail prospective reserves and revenue growth.
- **Challenges of reserves recovery:** Recently S&P worsened the outlook to "negative" (rating B+).

Financial & Business Catalysts

- Retirement of ~$80 M principal in June 2025 lowers net debt to ~$309 M and cuts annual interest expense by ~$6 M, improving Net Debt/EBITDA below 0.8×.
- Brent in the $70–80 range supports positive FCF after maintenance capex; partial hedges further cushion downside.
- A rebound to $80+/bbl. would boost EBITDA by ~$50–70 M annually, enhancing coverage and credit metrics.
- Recent consent amendments may ease leverage or restricted-payment tests, reducing technical default risk.
- Advancements on the ODL pipeline could unlock mid-cycle cost savings and higher realized prices for Colombian output.

Recent Developments

- On May 9, Frontera Energy announced **debt tender offer** – to pay back up to $65 mil (later increased to **$80 mln.**) of its 2028 notes, already done at a price of 72.
- On May 15, 2025, the company announced the close of **recapitalization of ODL (infrastructure project) interest** through new **$220 mln.** non-recourse, secured loan.
- On May 22, they launched a **substantial issuer bid** to purchase of up to **7.6 million shares** (for total **$65 million**, CAD 12/share).

Business Overview

Frontera Energy is a Colombia-focused upstream E&P company with diversified operations in South America (primarily Colombia, with interests in Ecuador and Guyana). It produces ~800 kbd of oil equivalent, selling barrels to regional refiners and export markets. Revenue is generated predominantly from crude sales, with margins driven by global Brent prices and local operating efficiency. The company maintains a modest asset-light capex profile, targeting enhanced oil recovery projects and incremental field developments to sustain production and free cash flow.