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April 19th, 2018

Latin America Corporate Bond Market

VII Cbonds Emerging Markets Bond Conference

Alfredo Mordezki

Global Head of Latam Fixed Income

Produced in UK

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1. Market evolution: Growth and Diversification

2. Technicals: Investor driven demand.

3. Fundamentals: Adjusting to remain strong

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Latam Corporates with EBITDA greater than USD 1 bln in 2000.

Source: SAM, Bloomberg. Logos included are for the sole purpose of graphical representation and should not be understood to have a commercial intention.

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Latam Corporates with EBITDA greater than USD 1 bln in 2017.

Source: SAM, Bloomberg. Data as of April 2018. Logos included are for the sole purpose of graphical representation and should not be understood to have a commercial intention.

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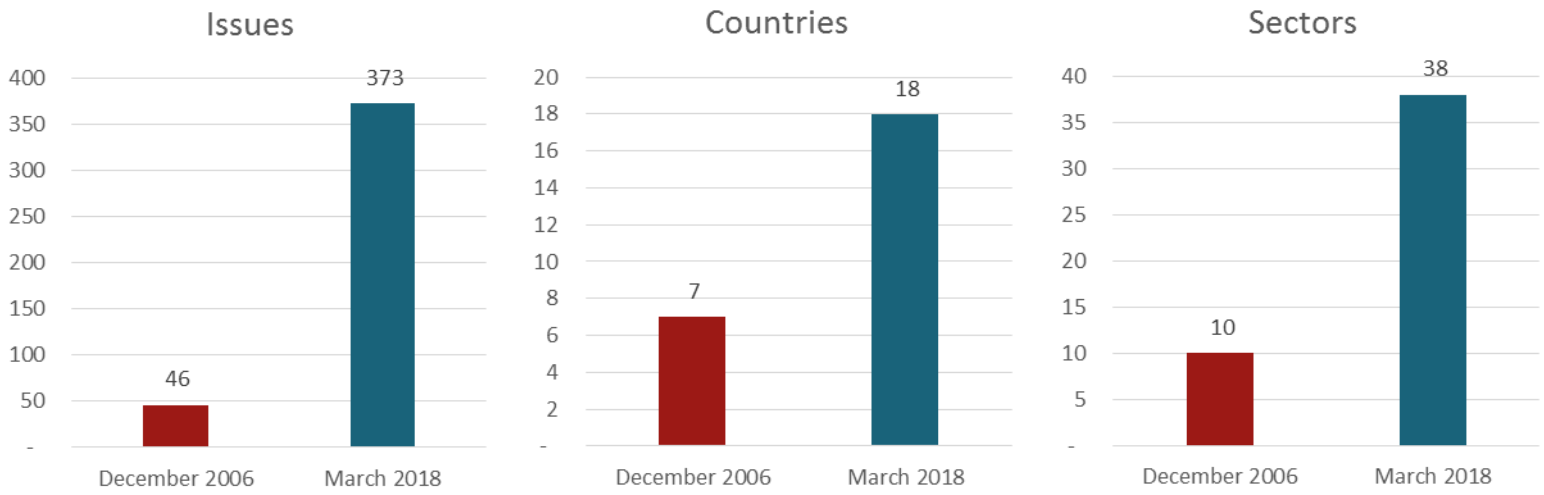
JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI): an idea of diversification improvement.



December 2006 10 largest holdings	Weight
VALEBZ 6 7/8 11/21/36	9.43%
VALEBZ 6 1/4 01/23/17	4.66%
SCCO 7 1/2 07/27/35	4.02%
VALEBZ 6 1/4 01/11/16	3.82%
AMXLMM 6 3/8 03/01/35	3.63%
VALEBZ 8 1/4 01/17/34	3.59%
AMXLMM 4 3/4 01/27/10	3.49%
AMXLMM 5 1/2 01/27/15	2.93%
CSNABZ 9 1/2 PERP	2.92%
AMXLMM 5 1/2 03/01/14	2.90%
Total	**41.39%**

March 2018 10 largest holdings	Weight
DLLTD 8 1/4 09/30/20	1.25%
ECOPET 5 7/8 05/28/45	1.23%
YPFDAR 8 1/2 07/28/25	1.22%
ECOPET 5 7/8 09/18/23	1.18%
YPFDAR 8 3/4 04/04/24	1.11%
ECOPET 7 5/8 07/23/19	0.98%
ECOPET 5 3/8 06/26/26	0.97%
DLLTD 6 04/15/21	0.92%
LIMAMT 5 7/8 07/05/34	0.88%
VTRFIN 6 7/8 01/15/24	0.87%
Total	**10.63%**

Source: SAM, Bloomberg, JP Morgan.

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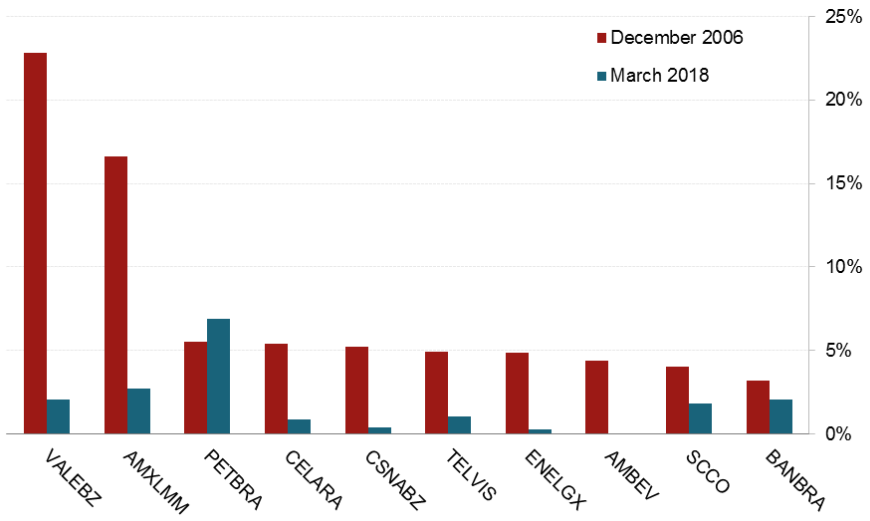
JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI): an idea of diversification improvement.

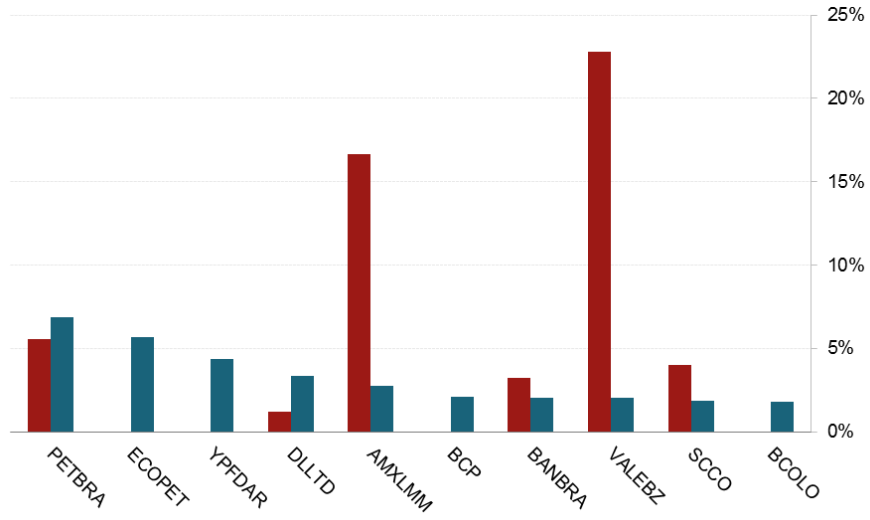
December 2006

10 largest issuers	Weight
VALEBZ	22.82%
AMXLMM	16.63%
PETBRA	5.53%
CELARA	5.42%
CSNABZ	5.21%
TELVIS	4.93%
ENELGX	4.88%
AMBEV	4.42%
SCCO	4.02%
BANBRA	3.21%
Total	**77.08%**



March 2018

10 largest issuers	Weight
PETBRA	6.89%
ECOPET	5.70%
YPFDAR	4.38%
DLLTD	3.36%
AMXLMM	2.73%
BCP	2.10%
BANBRA	2.06%
VALEBZ	2.04%
SCCO	1.85%
BCOLO	1.81%
Total	**32.91%**



Source: SAM, Bloomberg, JP Morgan.

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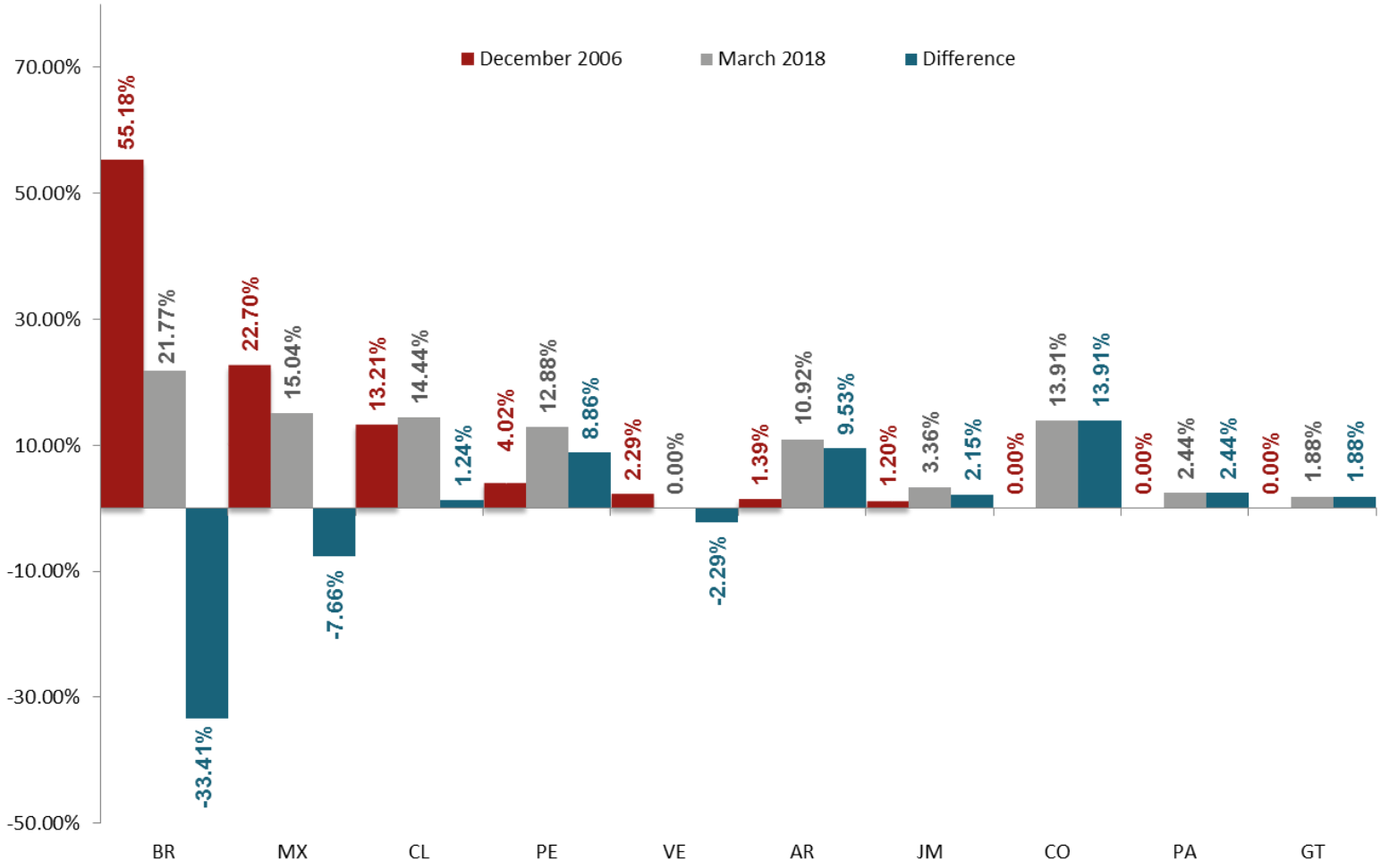
JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI): Country allocation comparison, 29th December 2006 vs 29th March 2018.



Source: SAM, Bloomberg, JP Morgan.

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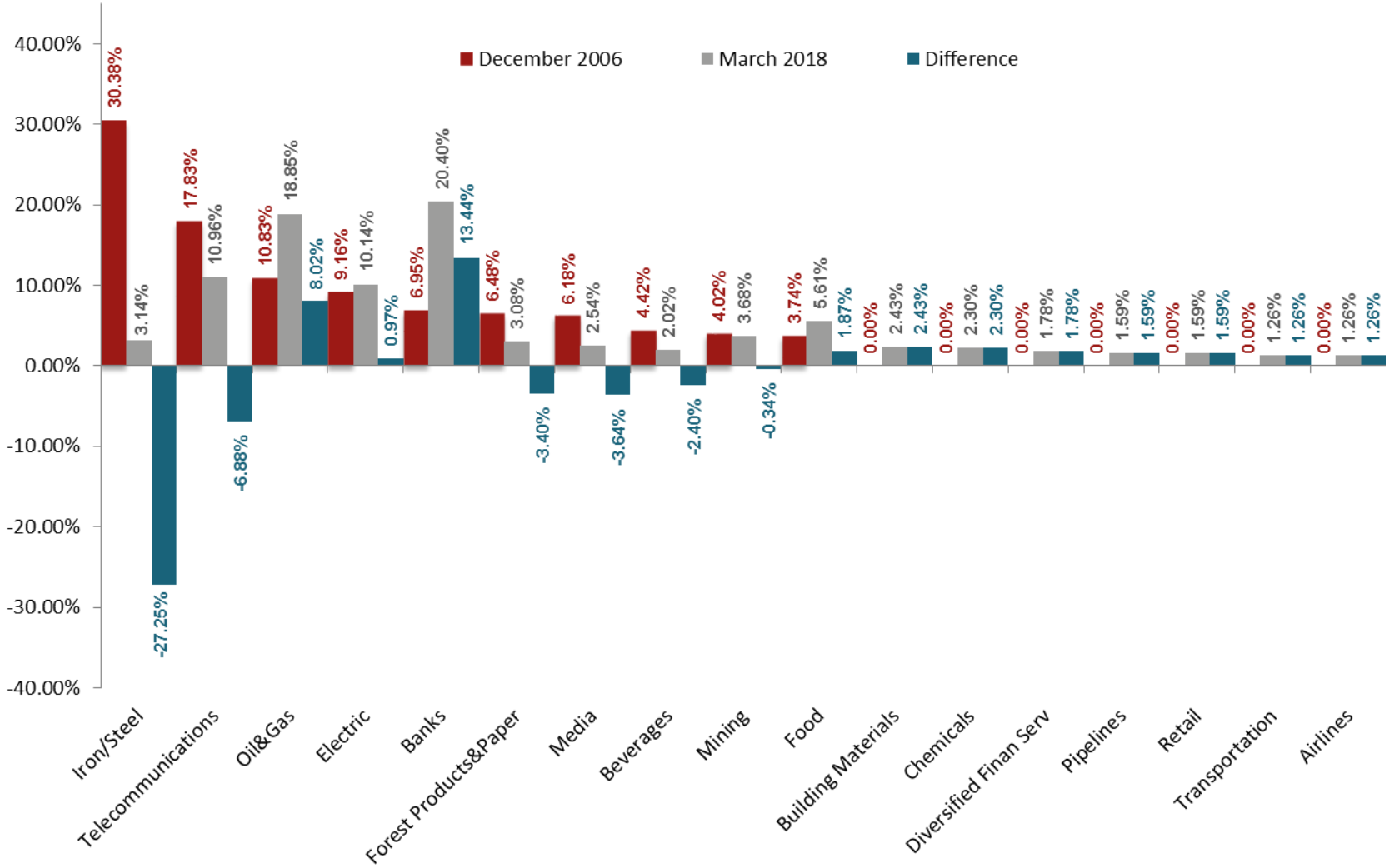
JP Morgan Corporate EM Broad Diversified Latin American Index (CEMBI): Sector allocation comparison, 29th December 2006 vs 29th March 2018.



Source: SAM, Bloomberg, JP Morgan.

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1

Missing players (2016-2018) in JPM CEMBI Global Diversified Latam

Source: SAM, JP Morgan. Comparison of issuers in the index between January 31st 2016 and March 29th 2018. Logos included are for the sole purpose of graphical representation and should not be understood to have a commercial intention

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New comers (2016-2018) in JPM CEMBI Global Diversified Latam

Source: SAM, JP Morgan. Comparison of issuers in the index between January 31st 2016 and March 29th 2018. Logos included are for the sole purpose of graphical representation and should not be understood to have a commercial intention

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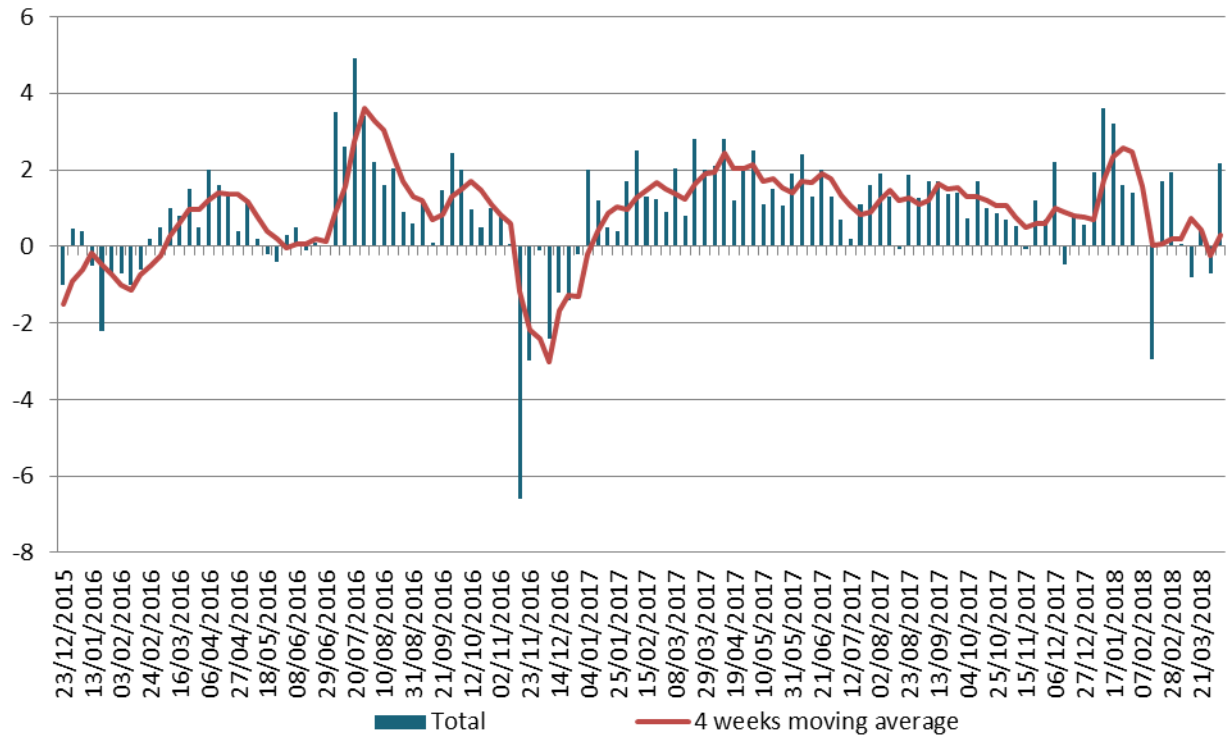
Flows into dedicated bond funds weakened but are still significant

Estimated Weekly flows to dedicated Emerging Market Bond Funds (USD Bln)



Source: EPFR, BTG Pactual, April 6th 2018.

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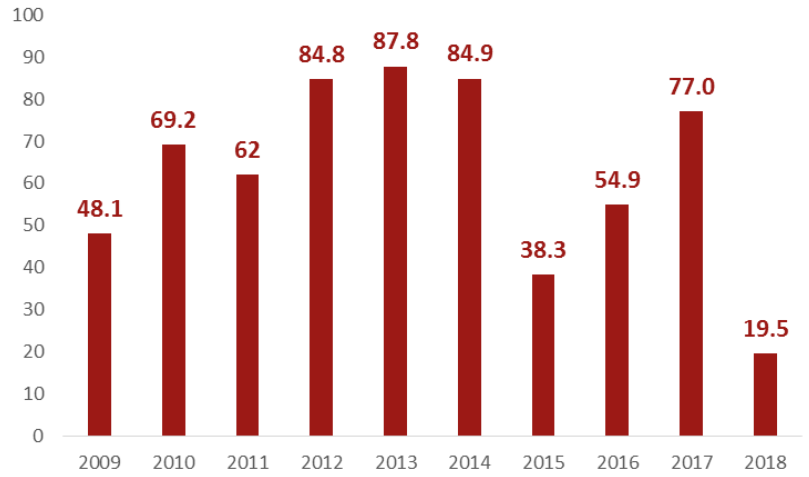
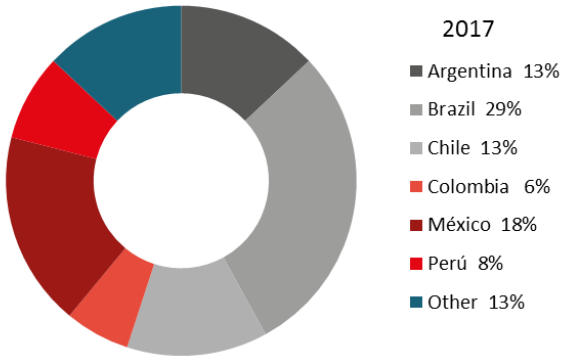
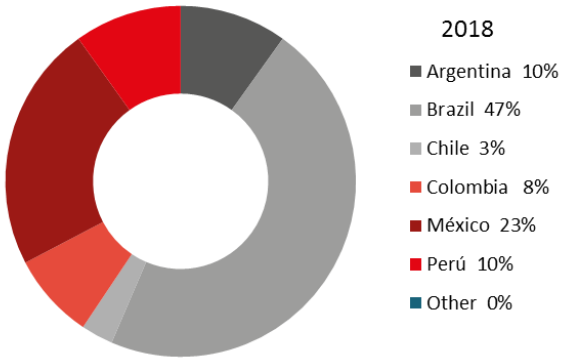
2 New issues.

1. YTD total supply in Latin America bonds



2. 2017 vs. 2018 YTD supply by country





In 2017: Increasing share from Chile, Brazil and Argentina in line with 2016 but with much smaller share coming from Mexico.

In 2018: Brazil and Mexico ahead in issuance.

Source: EPFR, CS Latam Weekly Chartbook April 9th 2018

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Latin America Corporate Gross and Net Supply

Latin America Corporate Gross and Net Supply						
(US$ bn)	2014	2015	2016	2017	D	2018F
Gross issuance (a)	**106**	**46**	**68**	**89**	**18**	**79**
Estimated cashflows (b = c+d)	41	41	59	54	9	53
Amortizations (c)	12	14	29	25	3	22
Coupons (d)	28	27	30	30	6	31
Net issuance (e = a-c)	93	33	39	64	15	57
Net financing (f = a-b = e-d)	65	5	9	35	9	26
Tender/buyback/calls (g)	9	5	24	37	7	32
Net issuance after tender/buyback/calls (j = e-g)	85	27	16	28	8	25
Net financing after tender/buyback/calls (k = f-g)	56	0	-15	-2	2	-6

Source: J.P. Morgan as of February 28th 2018.

YTD, tenders from Banco do Brasil, Petrobras and Vale for USD7 Bln turns Net issuance from Brazil to negative territory.

Source: SAM, JPMorgan.

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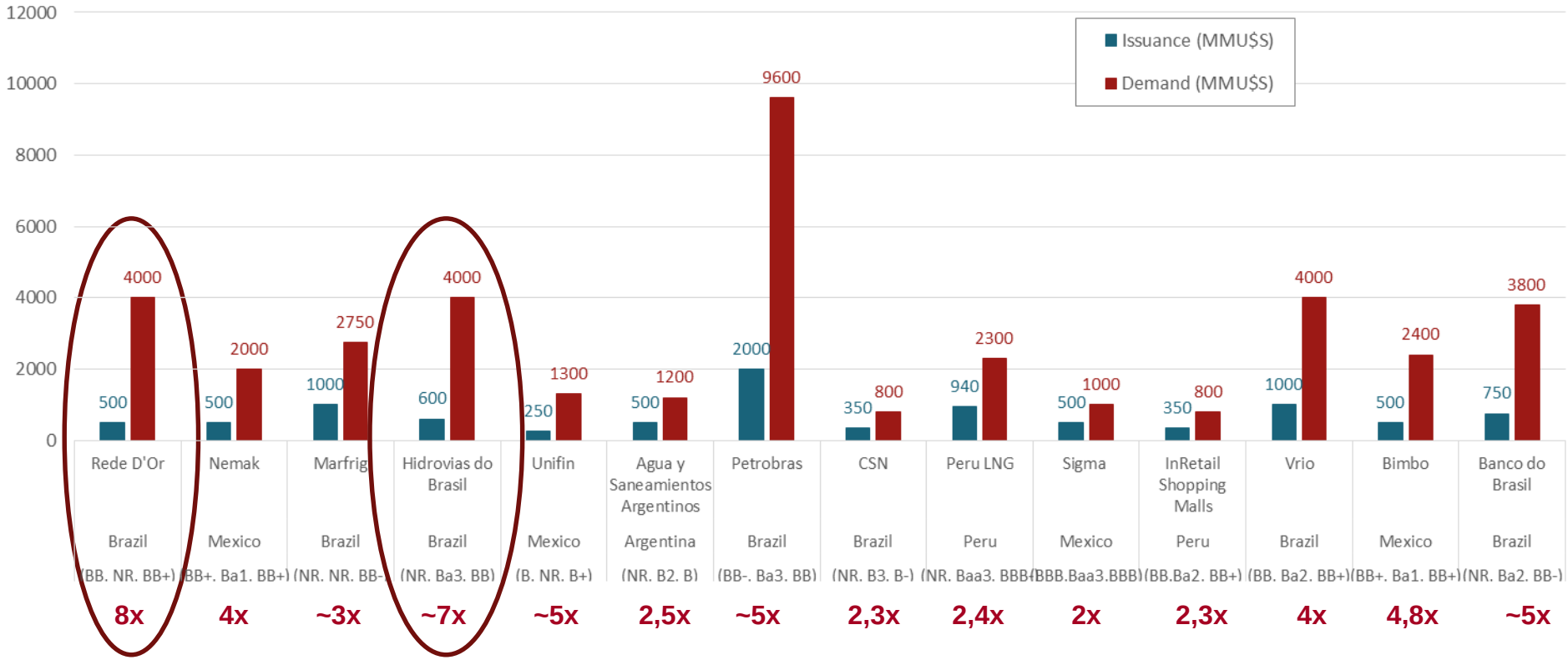
2

Demand for recent issues.



Source: SAM, Bloomberg.

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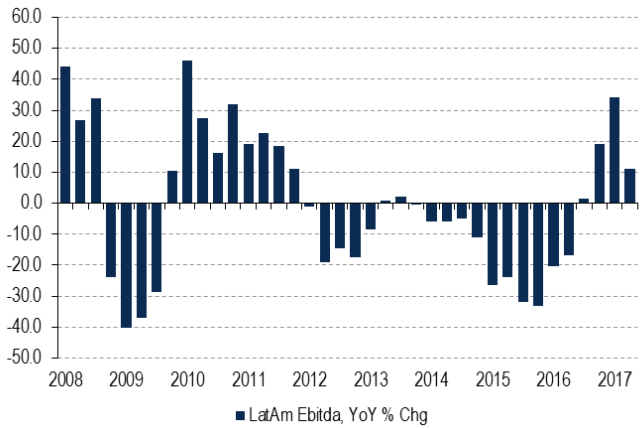
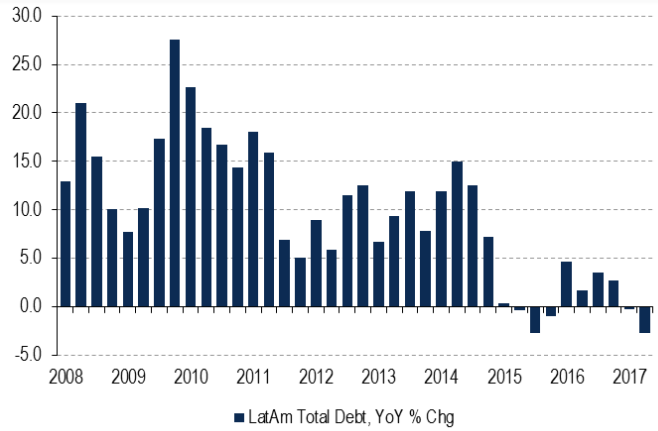
Balance Sheets come to the forefront

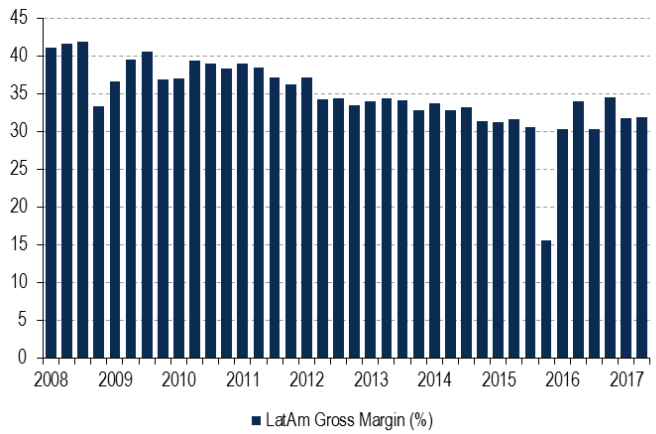
1. EBITDA is growing again…



2. … and total debt is diminishing



3. Gross margin still at strong levels



- Companies have faced lower commodity prices in 2015 & 2016 and have adjusted with significant cuts in OPEX and CAPEX.
- Deleveraging became the main goal of flagship companies such as Petrobras, Cemex or Gerdau.
- Local currency devaluations lowered costs, helping Margins show strong resiliency.

Source: SAM, BofAML EM Corporate Credit Fundamentals as of 30th June 2017, JPMorgan EM Corporate Fundamentals Checkup as of 27th September 2017.

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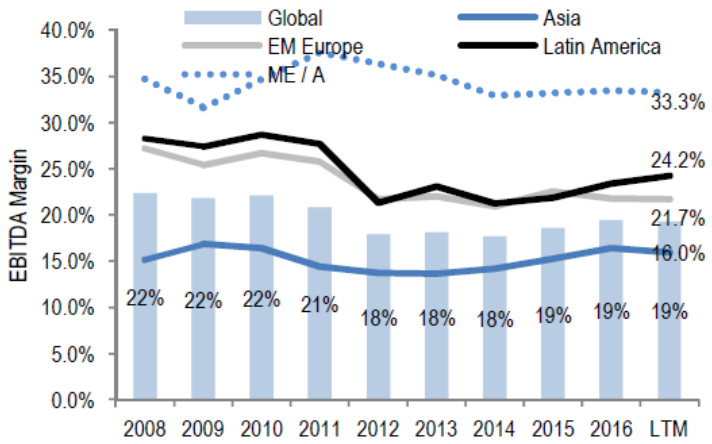
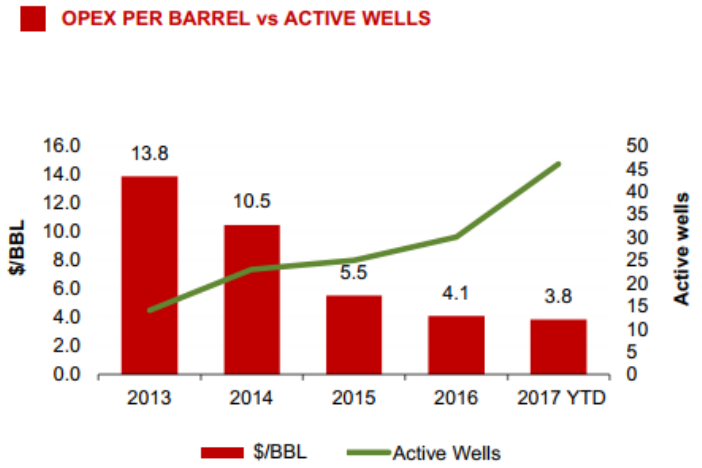
Productivity is the lesson from the commodity crisis

1. Latam EBITDA margins on their way up



2. An Example of Adjustment: Geopark.



- EBITDA Margins in LatAm are high as a result of its sector constitution.
- Companies adjusted significantly to external prices and domestic recession (Brazil, Argentina).
- A new phase of Capex and Investment is appearing in Argentina and, to a lesser extent in Brazil.

Source: SAM, BofAML EM Corporate Credit Fundamentals as of 30th June 2017, JPMorgan EM Corporate Fundamentals Checkup as of 27th September 2017. Geopark Day, Dec 2017.

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In contrast with Europe and the US, M&A in LatAm has been mostly credit positive

	Rating	EBITDA Margin	Net Debt / EBITDA	Benefits
Axtel	B	31%	2,7x	▪ Cheaper Funding ▪ Improved Margins ▪ Leverage concerns addressed ▪ ~P$1bn in synergies ▪ More competitive player
Axtel & alestra (excluding synergies) [1]	New parent rating BBB-	35%	2,1x	
Lindley	BB+	18%	4,0x	▪ Cheaper Funding ▪ Improved Margins ▪ Leverage concerns addressed ▪ Geographic diversification
Lindley & ARCACONTINENTAL (excluding synergies) [2]	New parent rating A	21%	1,3x	
Fibria	BBB-	38%	2,8x	▪ Increased synergies ▪ Significant increase in FCF ▪ Quicker deleveraging ▪ Sector positive (better price stability)
SUZANO	BBB-	44%	2,0x	

[1]Axtel and Alestra Pro-Forma estimates by Santander Research as of 2nd October 2015. [2]Lindley and Arca Pro-Forma estimates by JPM as of 11th September 2015

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3 Lower recoveries in Latam justify actively managed credit exposure

US HY corporate recovery rates

2010	40.95	**2014**	48.05
2011	48.56	**2015**	25.19
2012	53.23	**2016**	31.13
2013	52.74	**2017**	52.55

Recovery rates are issuer-weighted and based on price 30 days after default date

In LatAm, defaults may attend much lower recovery values due to:

- a less bondholder friendly Bankruptcy Code
- subordination of unsecured bond debt vs loans.

Sugar & Ethanol bonds in Latin America (including defaulted)

▸ From: At: 04/16/18 08:07:11

Security	Bid Px	Ask Px	Ask YTM	Bid YTM	Bid YTC	Ask YTC	Bid OAS	Ask OAS	S&P	Mdy
AGRO 6 27	94.000	95.000	6.09	6.19	6.87	6.72	398	382	BB	Ba2
ARALCO 10⅛ 20	3.000	4.000							NR	N.A.
COZCAR 6⅜ 22	100.875	101.875	5.99	6.06	6.04	5.97	336	330	B+	N.A.
RAIZBZ 5.3 27	101.625	102.125	5.00	5.07	5.07	5.00	224	217	BBB-	N.A.
TONOBZ 9¼ 20	8.000	12.000							NR	N.A.
TONOBZ 9¼ 20	4.500	8.500							N.A.	N.A.
TONOBZ 10½ 24	15.000	20.000							NR	N.A.
USJACU 9⅞ 21	87.000	89.000	15.11	15.87	15.35	14.44	1133	1042	N.A.	N.A.
VOSASA 10⅞ 20	20.000	25.000							NR	Ca
VOSASA 11¾ 22	5.000	7.000							NR	C

Source: SAM, JPMorgan EM Corporate Default Monitor, 5th April 2018, Market Indicative Run on Sugar & Ethanol bond prices.

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THANK YOU