Corporate Top Trends Update

Argentina

Playing The Phoenix Again...

Diego Ocampo
Buenos Aires
diego.ocampo@
spglobal.com
+54 11 4891 2116

Cecilia Fullone
Buenos Aires
cecilia.fullone@
spglobal.com
+54 11 4891 2170

What's changed post-COVID?

The sovereign's lengthy debt restructuring is increasing risks of default among corporations. The latter face one of the fiercest crises in decades stemming from economic strains in 2019 and 2018, while the government's delay in reaching an agreement with bondholders has prevented many issuers from refinancing their obligations. Still, YPF S.A. and Telecom Personal S.A. may illustrate that creditworthy companies could perform liability management despite the sovereign's woes. The two entities announced $1 billion in credit-friendly debt exchanges of their 2021 bonds for amortizing bonds maturing in 2025. But other companies may not have that luck and are avidly looking for options.

The macroeconomic conditions for the rest of 2020 and in 2021 will be fragile. Companies will have to deal with inflationary pressures and a persistently weak peso, as the government has incurred massive monetary stimulus to cope with fiscal revenue drops of nearly 13% year over year (in real terms, for the first six month of the year) and increased fiscal spending. We expect the economy to start growing again by the end of the third quarter.

What's the likely path to recovery?

Credit metrics may get back to pre-pandemic levels by 2022. But conditions prior to COVID-19 were anything but normal. The Fernandez administration would have to push for important reforms to restart the economy. We expect supportive measures for the oil and gas industry such as the maintenance of minimum domestic prices for gasoline and diesel ('barril criollo') and perhaps some additional price stimulus for natural gas production. Also, we believe the government would seek to incentivize consumption of non-durable products by making accessible credit lines available.

We expect revenues and EBITDA of oil and gas companies to drop 20%-25% measured in dollars in 2020 and to stabilize in the second half of 2021. Electricity transmission and distribution companies may face steeper declines in revenue and EBITDA given that they're more exposed to currency depreciation because their rates are based on pesos, and given rate freezes until at least December 2020. Although we also expect a decline in revenues and EBITDA among power generators, it would be moderate given that part of their cash flows is denominated in dollars.

Real estate, homebuilders, and transportation companies, and airports in general would face severe revenue drops (measured in US dollars). And the pace of the recovery would also be slower with volumes getting back to normal by the end of 2021, with the exception of airports, revenues of which should stabilize by 2022. We expect EBITDA to fall 25%-40% dollars in 2020 compared with 2019.

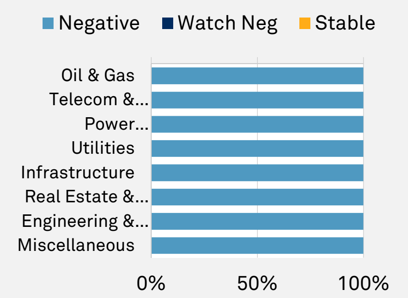
What are the key risks around the baseline?

If Argentina doesn't restore its access to markets, the recovery could take longer to materialize. In such a scenario, the peso would be remain pressured, which usually spikes inflation. Also, market access for companies would remain intermittent, expensive, and highly selective. Those scenarios have historically resulted in sluggish economic performance, currency controls, and high inflation.

Profitability and liquidity for utilities are eroding rapidly. This is because companies didn't get rate adjustments since the end of 2019 and there are no clear indications for 2021.

Vaca Muerta, and Argentina's oil and gas reserves may suffer from low hydrocarbon prices. Although not part of our base-case scenario, we believe that Brent prices below $40/boe may jeopardize the development of country's unconventional formation, Vaca Muerta.

Outlook Distribution (July 8)



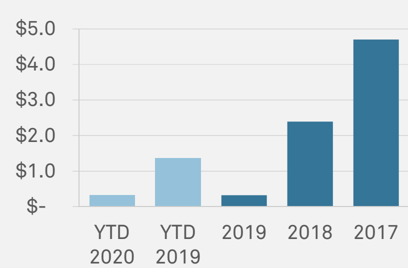
Ratings Statistics (YTD)

	IG	SG	All
Ratings	0	17	17
Downgrades	0	15	15
Upgrades	0	0	0

COVID-19 Heat Map (EBITDA decline vs 2019 baseline)

Argentina	**2020**	**2021**
GDP	-8.5%	2.9%
Sector	EBITDA	EBITDA
Eng. & Const.	15%-25%	0%-10%
Telecom & Cable	0%-10%	≥2019
Power	15%-25%	0%-10%
Utilities	>60%	>60%
Real Estate	25%-40%	25%-40%
Oil & Gas E&P	25%-40%	0%-10%
Transportation IFR	40%-60%	0%-10%

Issuance Trends $ billion, as of July 8 –rated corporations



Corporate Top Trends Update

Brazil

Most Sectors Would Be Back To Normal In 2021

Diego Ocampo
Buenos Aires
diego.ocampo@spglobal.com
+54 11 4891 2116

Julyana Yokota
Sao Paulo
julyana.yokota@spglobal.com
+55 11 982 792 847

What's changed post-COVID?

Downside risk has stabilized but remains significant. We have lowered 24 global scale ratings on Brazilian corporations, and about 34% of the portfolio still has a negative bias (either a negative outlook or a CreditWatch negative listing). Still, about 65% of Brazilian issuers are rated 'BB-' or stronger, which provides a cushion to financial metrics despite a steep decline in revenue in 2020. About $4 billion of cross-border bonds will mature annually in 2021 and 2022, while investors' appetite was tepid in the first half of 2020, and international bond issuances dropped 70% and domestic ones 40%. The pace of the domestic market issuances has sped-up again in June, but international investor sentiment toward Brazilian issuers may take a bit longer to catch up, especially if the economic performance disappoints.

Fiscal and monetary stimulus not sufficient to compensate for the slump in economic activity, resulting in high-single digit contraction in 2020 and prolonged path to recovery. The Brazilian government has been one of the most active ones in the region by providing support to companies in general, including automatic extensions on loans from BNDES. Even though Brazilian exports are not dependent on a single country or region, non-commodity exports shrank substantially across industries. Domestic retail demand was severely impacted by harsher lockdown measures in the Sao Paulo state, the epicenter of the virus and where GDP per capita is the highest. We expect losses in the levels of capital stock and labor market to deduct 6.6% from 2023 GDP in comparison to pre-COVID projected GDP growth.

What's the likely path to recovery?

Export-oriented sectors likely to come out of the recession first. Protein and iron ore producers didn't suffer much given that demand and product prices have held up very well. But forest products and steelmakers, the latter also used to export a portion of their production, have been dealing with weaker demand and prices. We expect those sectors to recover by 2021.

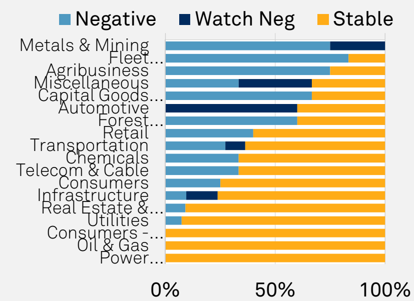
Domestic sectors would need more time to recover. Recovery in credit metrics is uneven among the sectors, with the telecom, chemicals, and vehicle fleet management sectors recovering faster than oil and gas, building materials, automotive and transportation. Recovery may take up to three years for the most severely affected companies and default risks may arise in the form of de-facto restructurings and/or judicial reorganization processes. We don't discard government stimulus to these sectors as they are labor intensive and are important economic engines.

What are the key risks around the baseline?

A longer pandemic or a second wave of infections would hurt recovery. A second wave of infections or a slower-than-expected recovery in profits is likely to heighten default risks among issuers with weakest credit quality, especially if investor confidence subsides. The offsetting factors would be that banks have continued to roll-over debts and support loans, while maturities of international bonds are fairly low in 2021 and 2022.

Infrastructure investments slow rally. The deployment of new concessions and development of the concessions granted since 2017 will depend on both sponsors and investors' appetite for the infrastructure sector, one of the most affected by the pandemic. Funding to construct large assets might be under scrutiny from international sponsors with relatively weaker balance sheet after the pandemic, which might blur the government's plan to attract private investors.

Outlook Distribution (July 8)



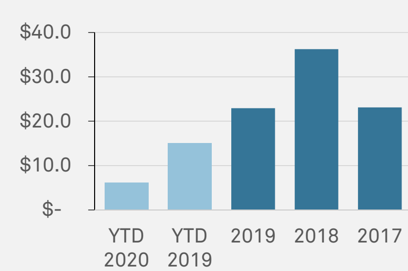
Ratings Statistics (YTD)

	IG	SG	All
Ratings	7	116	123
Downgrades	3	21	24
Upgrades	0	0	0

COVID-19 Heat Map (EBITDA decline vs 2019 baseline)

Brazil	**2020**	**2021**
GDP	-7.0%	3.5%
Sector	EBITDA	EBITDA
Metals & Mining.	10%-15%	≥2019
Telecom & Cable	0%-10%	≥2019
Power Gencos	0%-10%	0%-10%
Utilities	0%-10%	0%-10%
R. Estate & homeb.	10%-15%	0%-10%
Oil & Gas E&P	25%-40%	0%-10%
Transportation	40%-60%	0%-10%
Agribusiness	10%-20%	0%-10%
Consumer Protein	0%-10%	≥2019
Chemicals	10%-15%	≥2019
Infrastructure	15%-25%	0%-10%
Automotive	25%-40%	10%-20%
Cap good & bld mat	15%-25%	0%-10%
Forest Products	0%-10%	≥2019
Retail	10%-15%	0%-10%
Fleet Management	10%-15%	≥2019

Issuance Trends ($ billion, as of July 8 – rated corporations)



Corporate Top Trends Update

Colombia

Leverage Could Be On The Rise

María Carolina Barón
Bogotá
Maria.baron@
spglobal.com
+57 1 3904269

Ana María Carrillo
Bogotá
Ana.carrillo@
spglobal.com
+57 1 3904265

What's changed post-COVID?

If sovereign loses its investment-grade status, expect several "fallen angels". Following the outlook revision to negative on Colombia's 'BBB-' foreign currency sovereign rating on March 27, we also revised the outlook on a group of corporate and infrastructure issuers to negative because they're directly or indirectly linked with the sovereign. The sovereign's rating ceiling on these entities reflects exposure to regulated sectors or high demand correlation with the country's GDP. Nine issuers in the corporate, utilities, and infrastructure sectors would become fallen angels if Colombia's sovereign rating loses its investment-grade status.

Debt to EBITDA is increasing rapidly and could peak at 5x by year-end, up from 3x in 2019. A high cash burn during the lockdown months and weak demand during the second half of the year are prompting more companies to raise debt to protect liquidity.

The central government initiated the deployment of fiscal and monetary stimulus. Support to household income and consumption has come in the form of cash subsidies and other incentives to the most vulnerable segments of the population. The central bank has lowered its policy rate to 2.5% from 4.25%, and more cuts may follow as annual inflation approaches 2%. Also, a relief program to borrowers is now in place and consists of a three-month payment deferral, with a potential extension for the rest of the year for borrowers that meet certain criteria.

What's the likely path to recovery?

The hardest sectors to be hit in 2020 would be non-essential consumption, construction, and leisure. For these sectors, we expect revenue to decline 10%-30% in 2020, while EBITDA margins could drop up to 500 basis points, depending on the industry profile. In our view, demand in these sectors will remain generally weak over the next 12-18 months, and we could see credit metrics returning to pre-COVID-19 levels only after 2023.

The infrastructure sector could invigorate construction revenues. Amid the current crisis, the government remains committed to the sector and is assessing potential revisions to the original terms of various concessions, particularly those that have suffered sharp revenue declines and see the targets of return on investments being compromised.

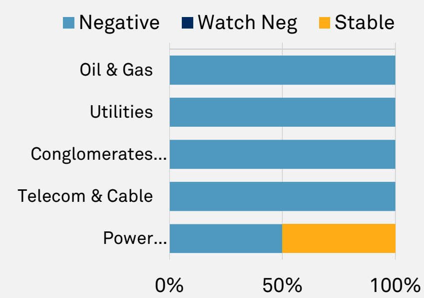
Domestic financing is picking up and should gradually improve in the second half of 2020. Access to capital markets has helped some companies weather the crisis, and will be instrumental to help businesses restore their operating and financial health in the months to come. However, we expect investors to remain cautious and somewhat selective throughout the rest of the year, especially for low ratings.

What are the key risks around the baseline?

A new wave of lockdowns in large urban areas would severely undermine recovery. As Colombian cities gradually restore mobility, local and regional governments still have some discretion to impose new lockdowns. Under a scenario of renewed social-distancing measures, we expect heightened pressures on companies exposed to non-essential consumption of goods and services, and increasing risks that a large number of small- to mid-size enterprises may disappear.

Lower capex in the energy sector in 2020 will hinder medium-term growth. The decline in oil prices has prompted cuts of more than 25% in capex among oil and gas players this year. Also, the government's freezing of some basic service tariffs, including electricity, and the order to utilities to relax bill collections for up to 36 months, will temporarily affect return on investments and very likely discourage short-term capex projects. These are relevant risks given that the energy sector in Colombia represents about 10% of GDP.

Outlook Distribution (July 8)



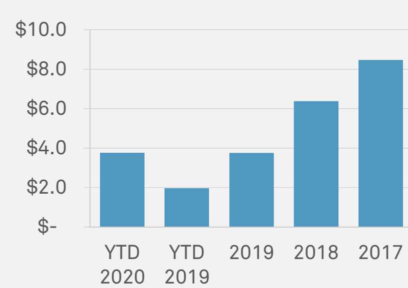
Ratings Statistics (YTD)

	IG	SG	All
Ratings	9	2	11
Downgrades	0	0	0
Upgrades	0	0	0

COVID-19 Heat Map (EBITDA decline vs 2019 baseline)

Colombia	**2020**	**2021**
GDP	-5.0%	4.5%
Sector	EBITDA	EBITDA
Conglomerates.	15%-25%	0%-10%
Telecom & Cable	0%-10%	≥2019
Power	0%-10%	0%-10%
Utilities	0%-10%	0%-10%
Oil & Gas	25%-40%	0%-10%

Issuance Trends ($ billion, as of July 8 – rated corporations)



Corporate Top Trends Update

Chile

Historical Resilience Put To Test

Diego Ocampo
Buenos Aires
diego.ocampo@
spglobal.com
+54 11 4891 2116

Cecilia Fullone
Buenos Aires
cecilia.fullone@
spglobal.com
+54 11 4891 2170

What's changed post-COVID?

Investment-grade issuers bore the brunt of the downgrades, but access to market remained fluid. Since the pandemic outbreak, we've downgraded 20% of rated corporations in Chile, and most of those downgrades were among high-rated investment grade entities. A large integrated retailer, an oil and gas distributor and its parent company, and two government-owned entities--because we had lowered the local currency ratings on Chile--and the two companies benefit from government support, in our view. Also, the country registered two corporate defaults, Latam Airlines Group S.A. and Enjoy S.A., because businesses were massively hit by lockdowns. Nevertheless, credit spreads remained fairly unaltered and debt issuance is above the 2019 level, roughly $6.5 billion in the first half of 2020, compared with $9.8 billion for the entire 2019.

Chile's economy would recover faster than those of regional peers. Despite infection cases per million inhabitants have ranked among the highest in the region in June and July, Chile's economy has registered the smallest drop in Latin America in March and April. And we expect Chile to experience the strongest post-pandemic recovery in the region. We believe mining exports will recover faster than other engines of the economy such as durables consumption. Mining exports in June had increased nearly 6% year over year, while copper prices have rallied 20% since late May.

What's the likely path to recovery?

Airlines and non-essential retail wouldn't fully recover before 2022. In general, that's consistent with what we expect in other parts of the world. But we expect key sectors such as mining, forest products, telecom and cable, and oil and gas to fully recover in 2021.

Traffic on toll roads would decrease 25% in 2020, but we expect it to fully recover by mid-2021 (traffic shrunk almost 60% in the second quarter of 2020 year over year).

Manageable impact on utilities. We expect a decline in demand of about 5% in 2020, which so far hasn't affected the utilities' credit quality, given their highly contracted nature and robust financial flexibility. In 2021, we expect demand for power to return to normal levels.

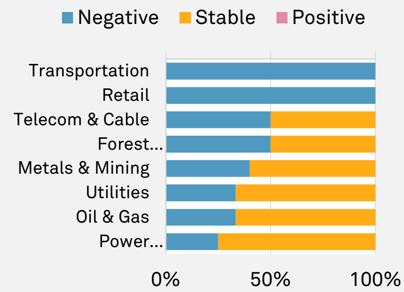
What are the key risks around the baseline?

A second wave of infections may prolong recovery. If the virus doesn't recede as expected, the economic drop could be deeper and the recovery may take longer to occur. Large labor-intensive operations of copper producer--government-owned Codelco--were stopped lately due to a spurt of COVID-19 cases among employees, and other miners might follow that path.

Traffic patterns may be impacted permanently. As working from home becomes more popular, traffic may not rebound with the same strength. In the longer term, the effects of a recession, considering the job losses and lower GDP, may also have a negative impact on traffic patterns.

Bad debts and working capital needs could increase for utilities. We estimate the impact is limited, but could be worse if unemployment worsens.

Outlook Distribution (July 8)



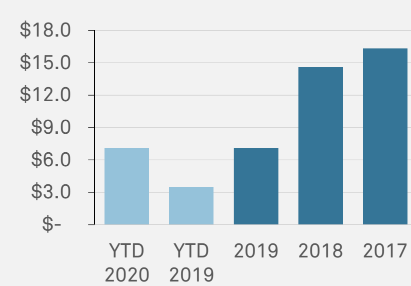
Ratings Statistics (YTD)

	IG	SG	All
Ratings	22	5	27
Downgrades	4	5	9
Upgrades	0	1	1

COVID-19 Heat Map (EBITDA decline vs 2019 baseline)

Chile	**2020**	**2021**
GDP	-6.5%	5.5%
Sector	EBITDA	EBITDA
Retail	15%-25%	0%-10%
Telecom & Cable	0%-10%	≥2019
Power/ Utilities	0%-10%	0%-10%
Toll Roads	15%-25%	0%-10%
Metals & Mining	10%-15%	≥2019
Forest Products	0%-10%	≥2019
Oil & Gas Market.	10%-15%	≥2019
Airlines	>60%	10%-20%

Issuance Trends as of July 8 –rated corporations



Corporate Top Trends Update

Mexico

Scarce Levers To Stimulate The Recovery

Luis Manuel Martinez
Mexico City
Luis.martinez@
spglobal.com
+52 55 5081 4462

Daniel Castineyra
Mexico City
Daniel.castineyra@
spglobal.com
+52 55 5081 4497

What's changed post-COVID?

Sovereign risk has dragged down credit quality. On March 26, we downgraded Mexico to BBB/Negative/A-2 mainly due to expected fragile economic growth, hit by the combined shocks of COVID-19 and lower oil prices. The sovereign's downgrade triggered a dozen of negative rating actions among rated domestic entities and given the negative sovereign outlook, those issuers' ratings share the same outlook.

Other risks to monitor closely. While the mix of rated investment- and speculative-grade issuers hasn't changed, at 40% and 60%, respectively, the lower-end of the rating spectrum has been particularly exposed to the crisis. We've seen some rapid transitions into the 'CCC' rating category, and four issuers already defaulted on their debt obligations. As of July 8, the negative rating bias stood at 54%, almost double than that six months ago. Weak demand fundamentals are likely to pressure credit quality of issuers in the non-essential consumption, construction, transportation, real estate and utilities sectors. Fickle financing conditions and exchange rate volatility could also dent the credit profile of issuers with sizeable short-term maturities or a currency mismatch on debt obligations.

USMCA won't do the job on its own. July 1 marked a new era for the trade relationship between Mexico, the U.S., and Canada, as the USMCA kicked off and cleared the dynamics for future economic growth in the region. In addition, the bilateral meetings reinforce the cross-border collaboration efforts to accelerate trade. As positive momentum builds up from these two events, recent announcements of new investments in Mexico in the auto, aerospace, and energy sectors could be promising signs for investor confidence. However, with exports representing slightly more than a third of Mexico's GDP, this lever is insufficient to offset the sharp economic contraction in 2020, accompanied by a massive loss of jobs, declining consumption, and a still downbeat investor sentiment.

What's the likely path to recovery?

Recovery across most sectors will be uneven. Businesses in Mexico have reopened gradually, with essential industries leading the way. We estimate that the most resilient sectors such as utilities, essential retail, chemicals, consumer products, metals and mining, and telecom will face mild contractions in 2020 and will be better positioned to bounce back in less than a year. On the other hand, certain sectors that depend on people interacting in close proximity will likely see their top-line shrinking by up to 50%, and will only recover once an effective vaccine becomes available.

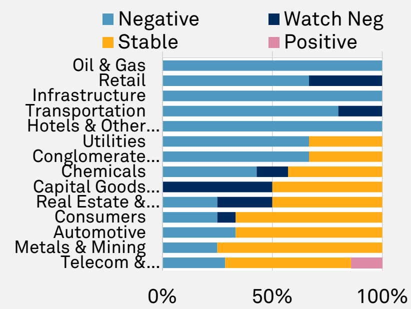
The nature of industry supply/demand dynamics will generally dictate the recovery path going forward. We expect investment-grade issuers to withstand better the recession, due to their greater financial flexibility to absorb demand shocks and their wider access to external funding.

What are the key risks around the baseline?

A deep and lengthy recession. While we expect most industries to bounce back from the current crisis by 2022, a longer-than-expected recession that extends cash burn for issuers could compromise financial flexibility and cause credit quality to continue weakening.

Policy-making could dampen the growth trajectory. Political decisions across various economic sectors will be key in the months to come. In particular, policy-making and honoring the existing regulatory framework in the energy sector will shape investor confidence and most likely give direction to the recovery scenario. Also, absence of a material economic stimulus or an aggressive loosening of social-distancing measures that leads to a spike in COVID-19 cases would delay recovery prospects and weigh on the credit quality of rated issuers.

Outlook Distribution (July 8)



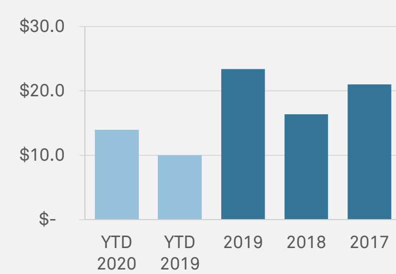
Ratings Statistics (YTD)

	IG	SG	All
Ratings	30	37	67
Downgrades	9	20	29
Upgrades	0	0	0

COVID-19 Heat Map (Revenues decline vs 2019 baseline)

Mexico	**2020**	**2021**
GDP	-8.5%	3.0%
Sector	EBITDA	EBITDA
Metals & Mining.	10%-15%	≥2019
Telecom & Cable	0%-10%	≥2019
Infrastructure	10%-15%	0%-10%
Utilities	0%-10%	0%-10%
Hotels.& Lodging	40%-60%	20%-30%
Oil & Gas E&P	40-60%	0%-10%
Transportation	40%-60%	20-30%
Retail	10%-15%	0%-10%
Chemicals	10%-15%	≥2019
R. Estate & Homeb	10%-15%	0%-10%
Cap goods & Bldg	15%-25%	0%-10%
Consumers	0%-10%	≥2019
Automotive	25%-40%	10%-20%

Issuance Trends ($ billion, as of July 8 – rated corporations)



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