

Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

October 18, 2022

This report does not constitute a rating action.

Contacts

Diego Ocampo

Buenos Aires
Sector Lead Corporate Ratings
+54 11 4891 2116
diego.ocampo@spglobal.com

Luis Martinez

Mexico
Sector Lead Corporate Ratings
+ 52 55 5081 4462
luis.martinez@spglobal.com

Key Takeaways

- We think international debt issuances in Latin America are likely to record the lowest amount of issuance in the past seven years, and that weakness is likely to extend into next year.
- Companies are cutting investments to strengthen free cash flow, while cash positions remain largely sound.
- Bond maturities of Latin American companies look manageable for both 2023 and 2024, and in most cases, especially in Brazil and Chile, domestic markets are likely to remain a viable option for alternative financing.
- However, the future looks cloudier because the current cost of debt is very high. Only a third of our rated portfolio is producing higher returns than their median cost of debt, and those more profitable sectors were mainly benefiting from higher commodity prices that are normalizing.
- We expect credit deterioration among Latin American corporates to become more evident in the next few quarters.

Latin American Corporates' International Issuances Are Way Down, But Domestic Issuances Are Relatively On Track

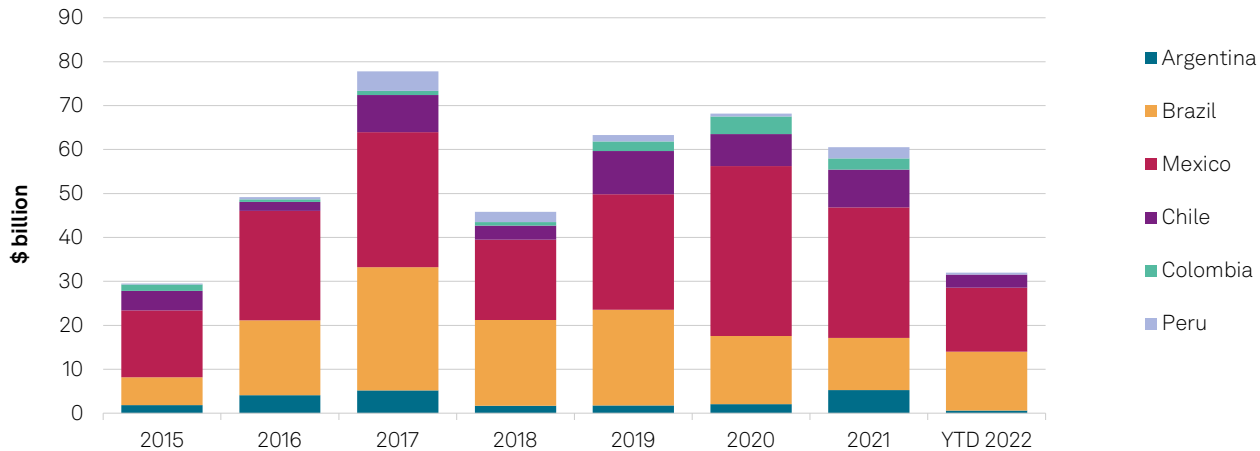
S&P Global Ratings thinks that international debt markets are likely to record their weakest performance this year of the past seven years. We also think the number of international issuances will continue to be low well into 2023 because the underlying factors behind this aren't likely to quickly dissipate. In fact, our latest inflation forecasts and expected interest rate hikes for the world and the region remain high for 2023, which will continue to curb growth and borrowing appetite (for more details on our latest macroeconomic forecasts, please read "Credit Conditions Emerging Markets Q4 2022: Clouds Are Gathering," Sept. 27, 2022).

Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

Chart 1

International Bond Issuances At Lowest Level Since 2015

Rated and unrated Latin American corporations



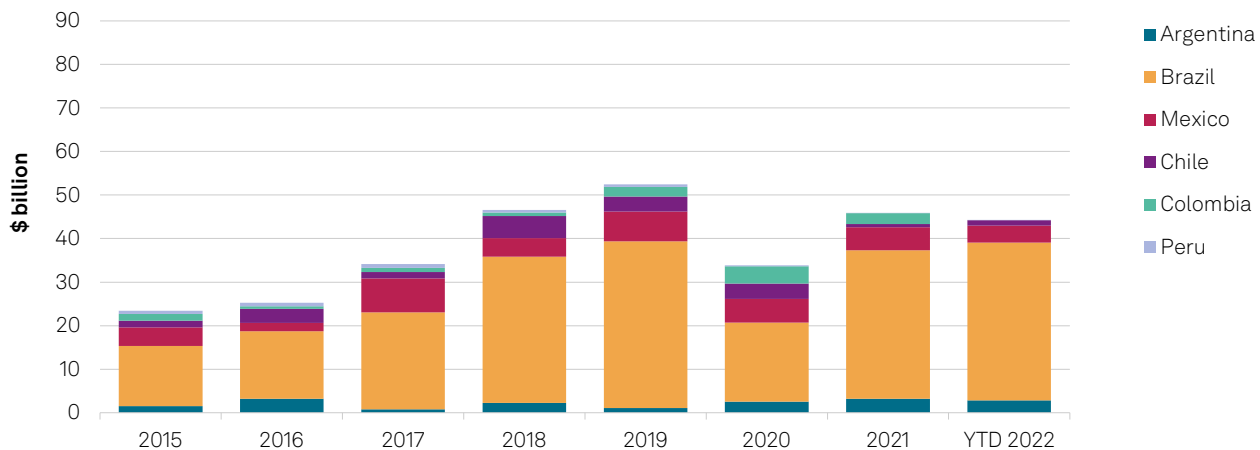
Source: Thompson Reuters. As of Oct.13, 2022

However, domestic bond markets are providing a good level of refinancing, although in most countries in the region, volumes are still down from the same period in 2021. Brazil remains the most active domestic market in Latin America, with issuance levels on par with recent years (above R\$180 billion and equivalent to more than \$35 billion). However, we expect issuances to slow there as well toward the end of 2022 and first half of 2023 due to a combination of a persistently high policy rate, lower economic growth, and political uncertainty stemming from the upcoming presidential elections (the second round will be held Oct. 30, 2022).

Chart 2

Domestic Bond Issuances Relatively On Track

Rated and unrated Latin American corporations



Source: Thompson Reuters. As of Oct.13, 2022

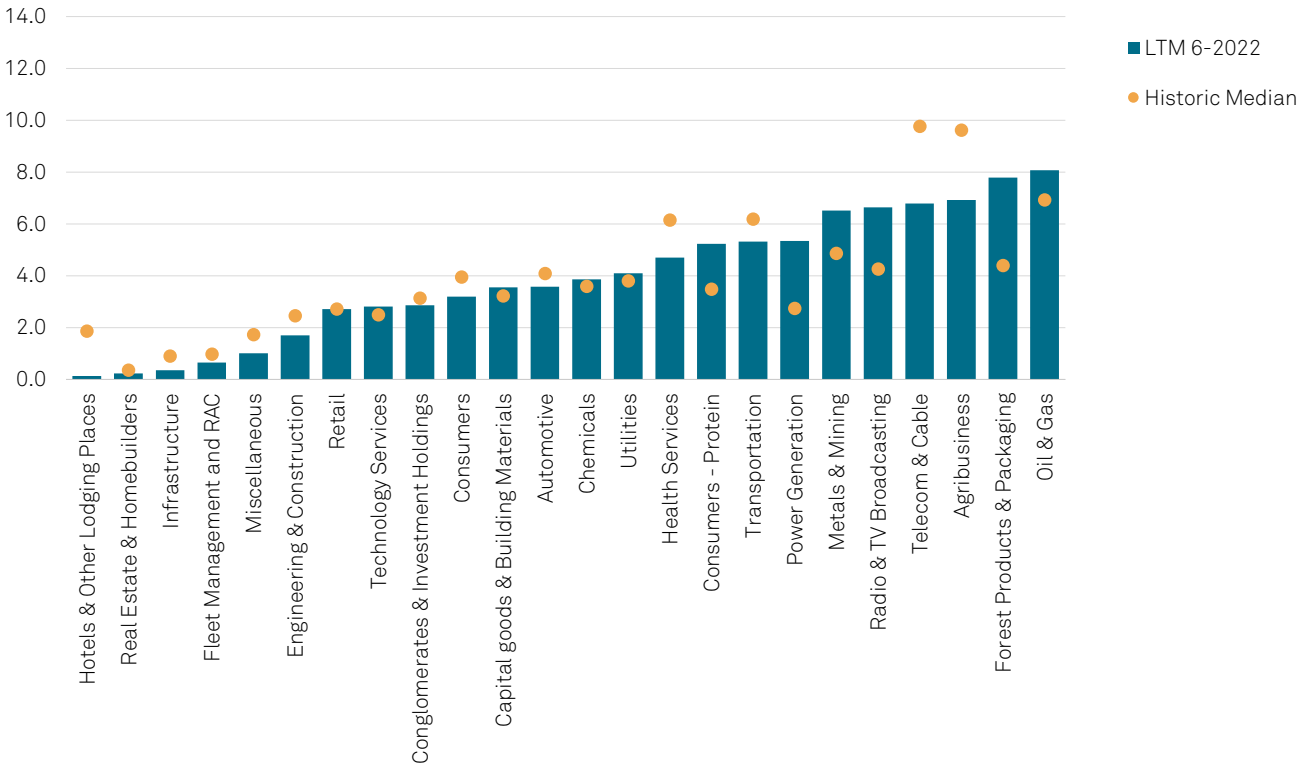
Companies Are Cutting Investments To Protect Cash

As interest rates climb and economies slow, companies are becoming more selective about making capital expenditures (capex). In the last 12 months ended June 30, 2022, 60% of Latin American corporate sectors had more conservative investment patterns than recent history (we used medians of 2014-2021 as a benchmark). Not only sectors facing weak demand and cost hikes such as hotels and lodging, retail, consumers, real estate and homebuilding, and transportation (including airlines) are becoming more cautious--others such as agribusiness, telecom and cable, infrastructure, and health services are backing off from capex as well (chart 3). We expect this trend to become more evident in the upcoming quarters.

Chart 3

Sixty Percent Of Sectors Have Lower Capex Than Normal

Capex-to-assets median ratios last 12 months ended June 30, 2022, rated corporations



Source: S&P Global Market Intelligence.

Still, the majority of sectors are generating at least the same cash as the median of 2014-2021 (see chart 4). Sectors that have weaker cash conversion ratios (measured as free operating cash flow to revenues) are for the most part facing sluggish demand patterns, margin erosion, and high borrowing costs.

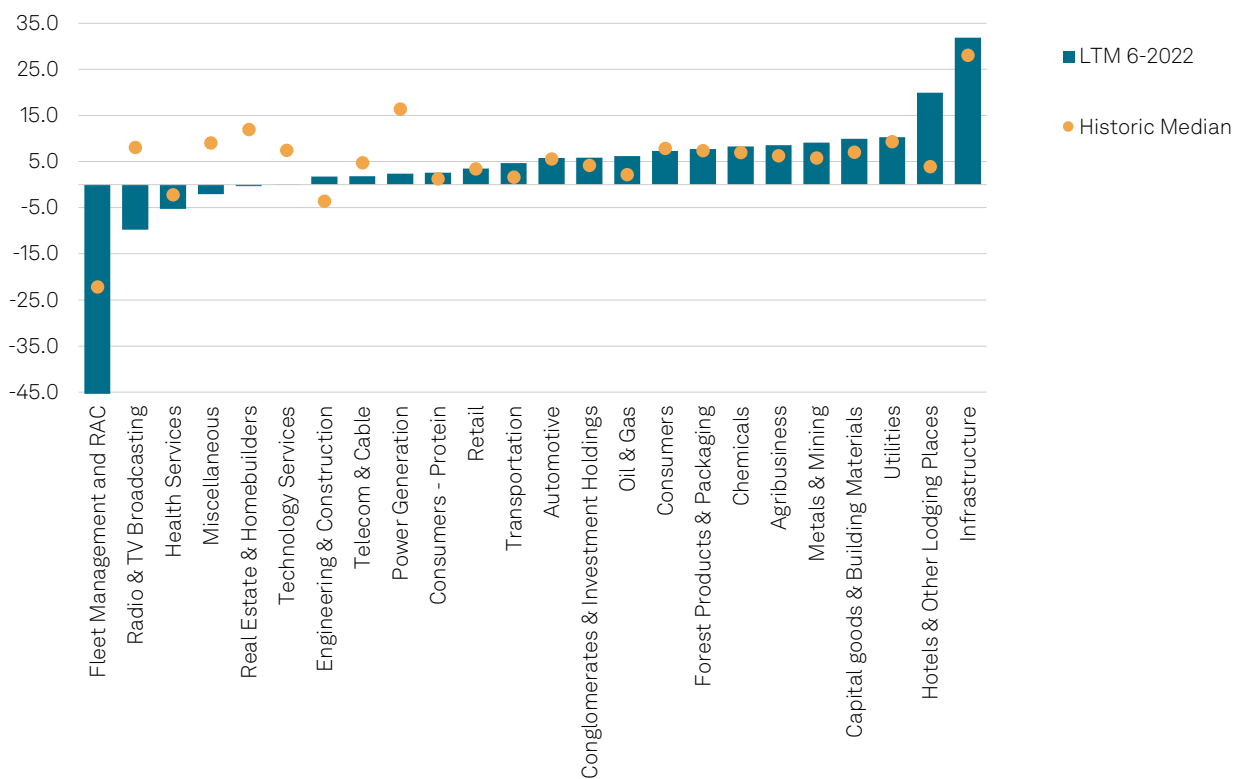
Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

Fleet management and RAC companies, power generators, and real estate and homebuilders stand out as among the worst performers in cash conversion. Fleet management companies are expanding fleets heavily in Brazil as the production of new vehicles gradually returns to more normal levels. Power generators facing higher fuel costs, particularly in Chile, have had to buy energy on the spot market to deliver on their contracts as production from hydro power plants fell short amid poor hydrology. Homebuilders are also struggling with diminishing demand and higher fixed costs, especially in Brazil where launches have substantially dropped. We expect more sectors to show weakening cash conversion ratios in the next few quarters.

Chart 4

Only 30% Of Sectors Generating Less Cash Than Normal

FOCF-to-revenues median ratios last 12 months ended June 30, 2022, rated corporations



S&P Global Market Intelligence.

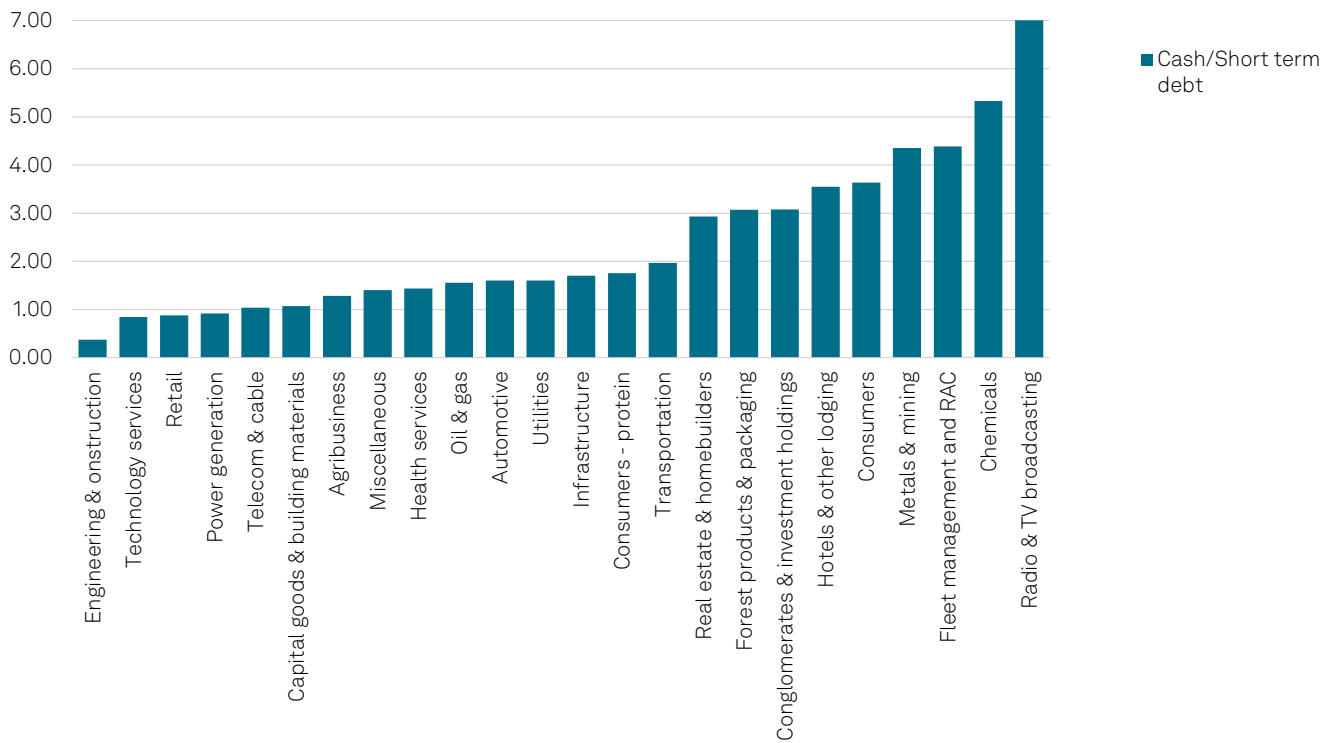
Liquidity Should Endure Well Into 2023

As of June 30, 2022, only a handful of sectors needed significant refinancing (chart 5). The vast majority of sectors actively rolled debts over in 2021 when financing conditions were highly supportive. Among the sectors with weaker cash-to-short-term debt ratios as of June 30, 2022, were engineering & construction, technology services, retail, and power generation. However, all of these are still generating free operating cash flow, so we think their liquidity profiles could withstand worsening market conditions.

Chart 5

Short-Term Liquidity Looks Manageable

Cash-to-short-term debt median ratios as of June 30, 2022, rated corporations



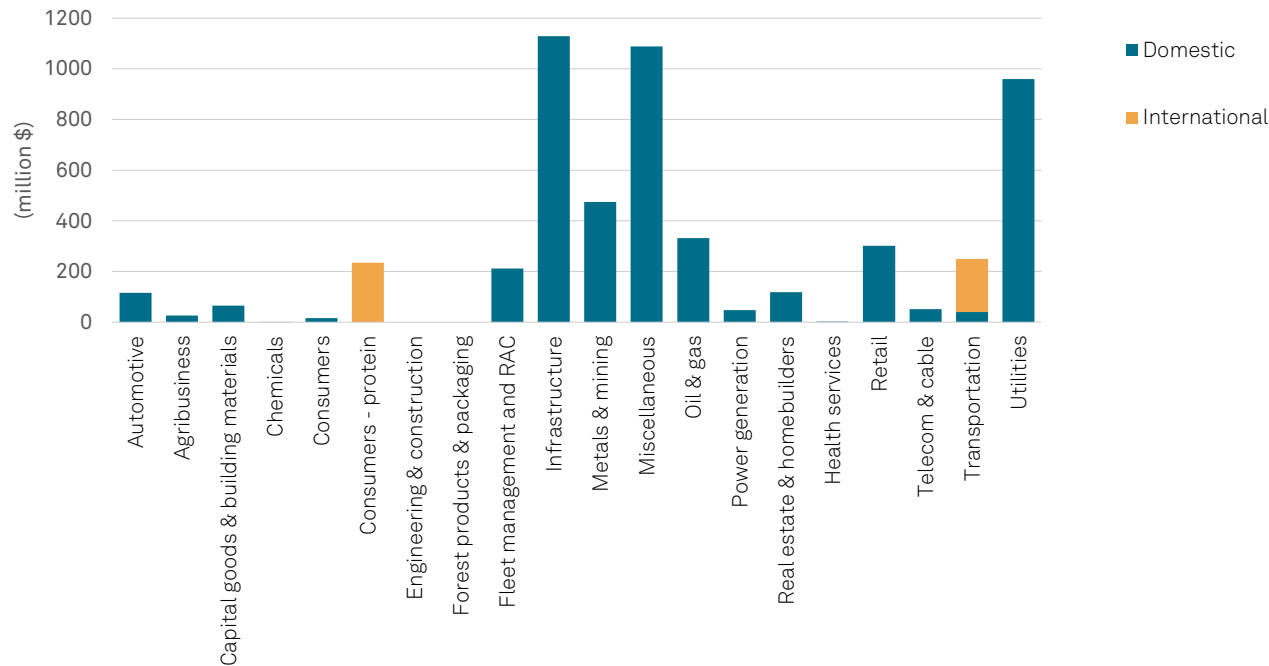
S&P Global Market Intelligence.

Looking at Brazilian corporates, bond maturities in 2023 look manageable, with domestic maturities totaling the equivalent of \$13 billion for rated entities, which compares well with annual issuance volumes in that market, while international bond maturities totaled less than \$2 billion (chart 6). Local debt maturities are spread out across many sectors, but the largest amounts of maturities are in the infrastructure, utilities, metals and mining, oil and gas, and educational services (clustered in miscellaneous) sectors.

Chart 6

Rated Brazilian Corporations' 2023 Bond Maturities

Domestic and international bonds maturing in 2023, expressed in mil. US\$



S&P Global based on Thompson Reuters.

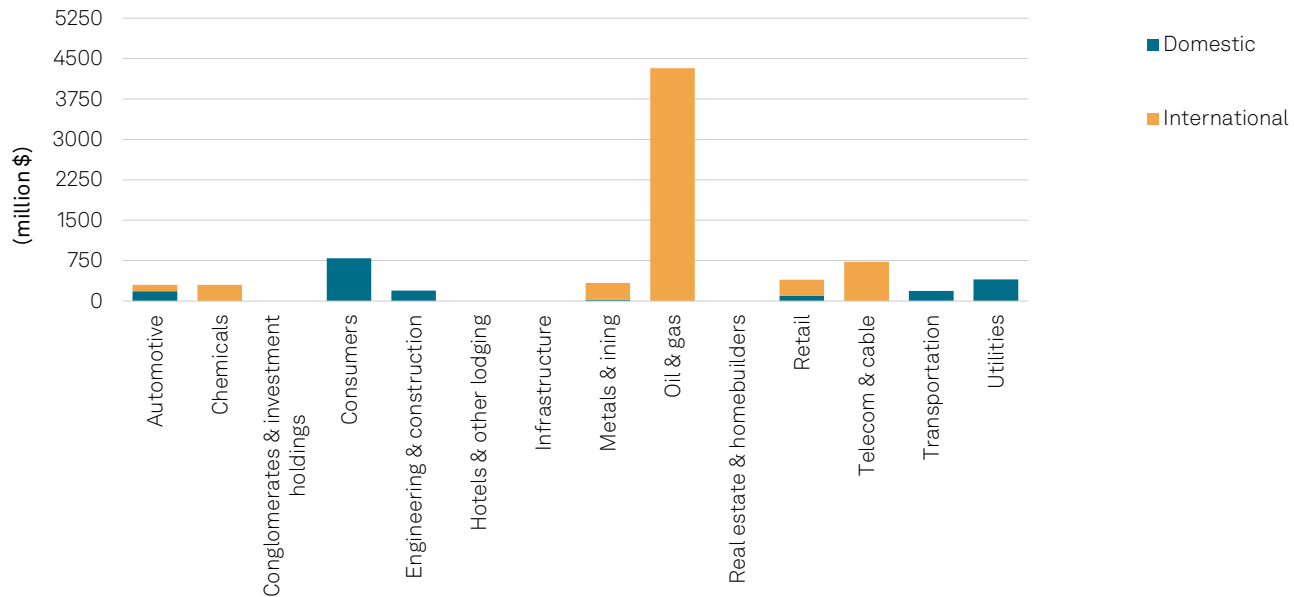
The debt maturities of Mexican entities also look relatively small (chart 7), although we see some concentration in consumers and telecom, as well as larger payments coming due for the government-owned oil and gas sector.

Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

Chart 7

Rated Mexican Corporations' 2023 Bond Maturities

Domestic and international bonds maturing in 2023, expressed in mil. US\$



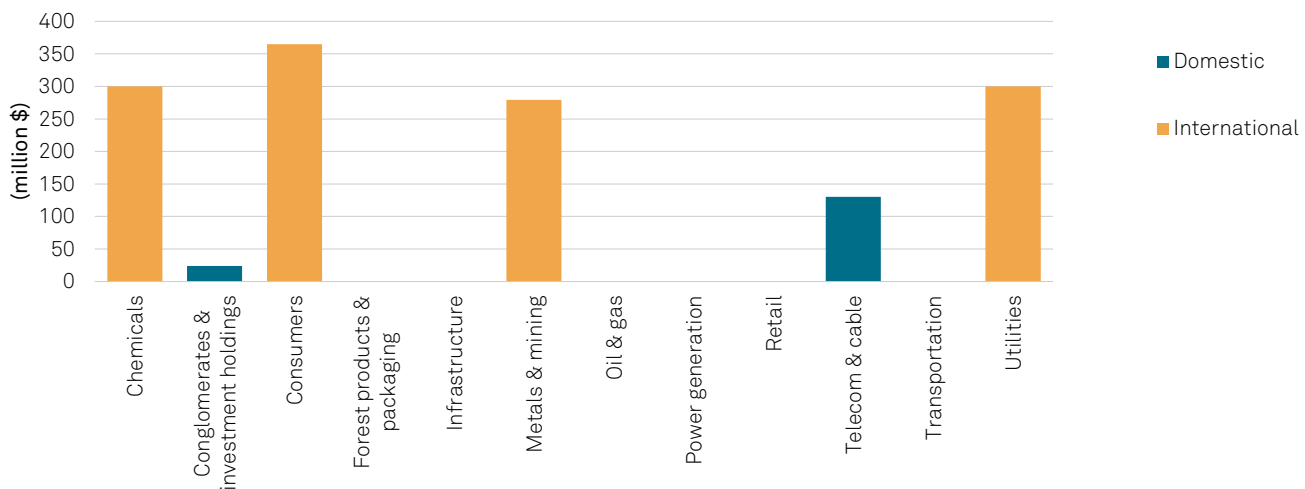
S&P Global based on Thompson Reuters.

Chilean rated issuers will also need some light refinancing, especially consumers, metals and mining, telecom, and cable and utilities. Although most of the maturities are small-ticket international bonds, we think the domestic market can provide financing alternatives.

Chart 8

Rated Chilean Corporations' 2023 Bond Maturities

Domestic and international bonds maturing in 2023, expressed in mil. US\$



S&P Global based on Thompson Reuters.

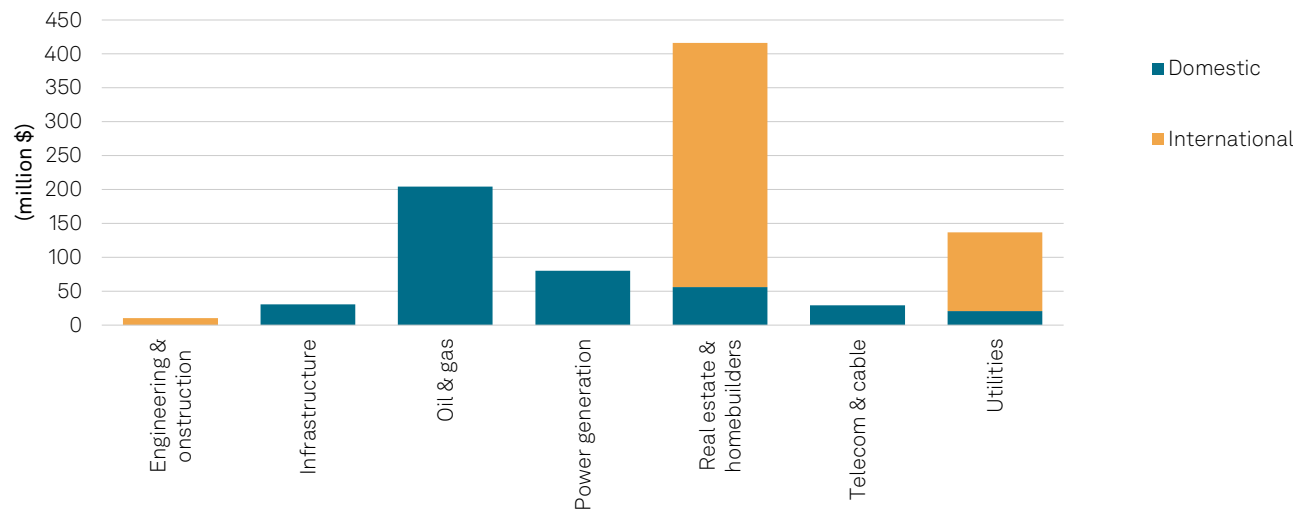
Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

Argentine rated corporations will need to rollover nearly \$425 million equivalent in domestic debt and close to \$130 million in international bonds, the latter mostly allocated to utilities. Nonrated corporations will have to roll over close to \$1.5 billion in international debt maturities in 2023, which we think could be more challenging given Argentina's fiscal hurdles and the market momentum--although refinancing alternatives are underway for some of those maturities.

Chart 9

Rated Argentine Corporations' 2023 Bond Maturities

Domestic and international bonds maturing in 2023, expressed in mil. US\$



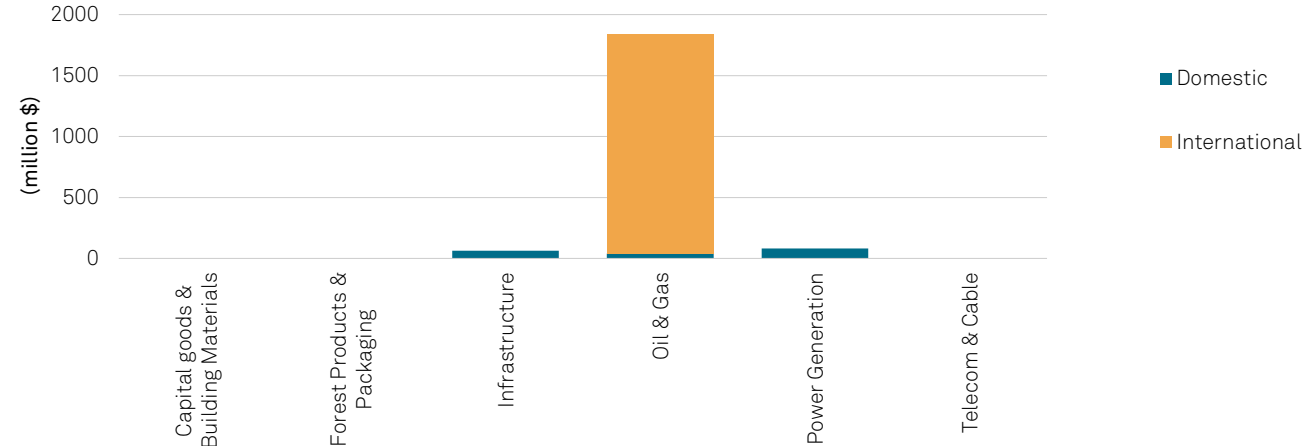
S&P Global based on Thompson Reuters.

Finally, bonds maturing in 2023 of Colombian entities are almost exclusively from the government-owned oil and gas sector (chart 10).

Chart 10

Rated Colombian Corporations' 2023 Bond Maturities

Domestic and international bonds maturing in 2023, expressed in mil. US\$



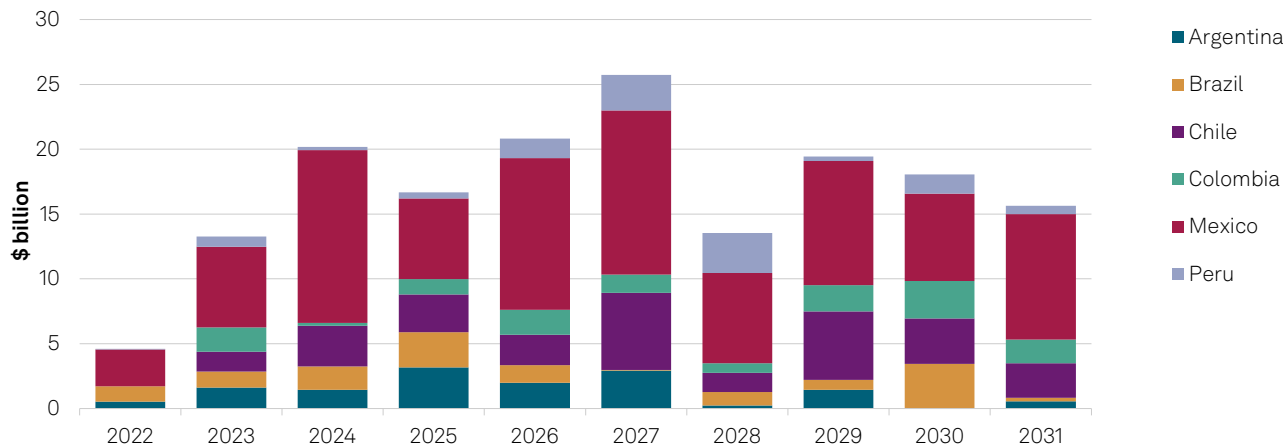
S&P Global based on Thompson Reuters.

If Current Conditions Linger, The Future Looks Dim

Debt maturities in 2024 also look manageable. International bonds' maturities will total about \$20 billion, more than half of that related to highly-rated Mexican oil and gas, telecom and cable, and consumer issuers (chart 11). Maturities of domestic bonds also look reasonable in 2024, with scheduled payments of nearly \$23 billion equivalent. Roughly \$18 billion equivalent is from Brazilian domestic issuances (chart 12) that makes up nearly half of the annual volume in Latin America in the past five years (with the exception of 2020 when Brazil's corporations Issued less than \$20 billion.)

Chart 11
International Bond Maturities Of All Latin American Companies

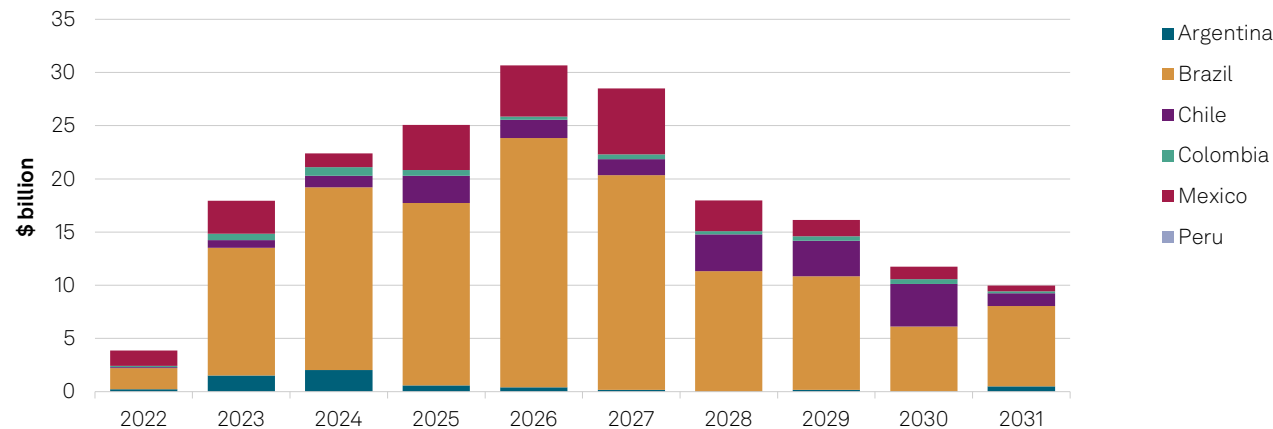
Expressed in US\$ terms



S&P Global based on Thompson Reuters.

Chart 12
Domestic Bond Maturities Of All Latin American Companies

Expressed in US\$ terms



S&P Global based on Thompson Reuters.

Plunge In Latin American Corporates' International Issuances Expected To Continue Into Next Year

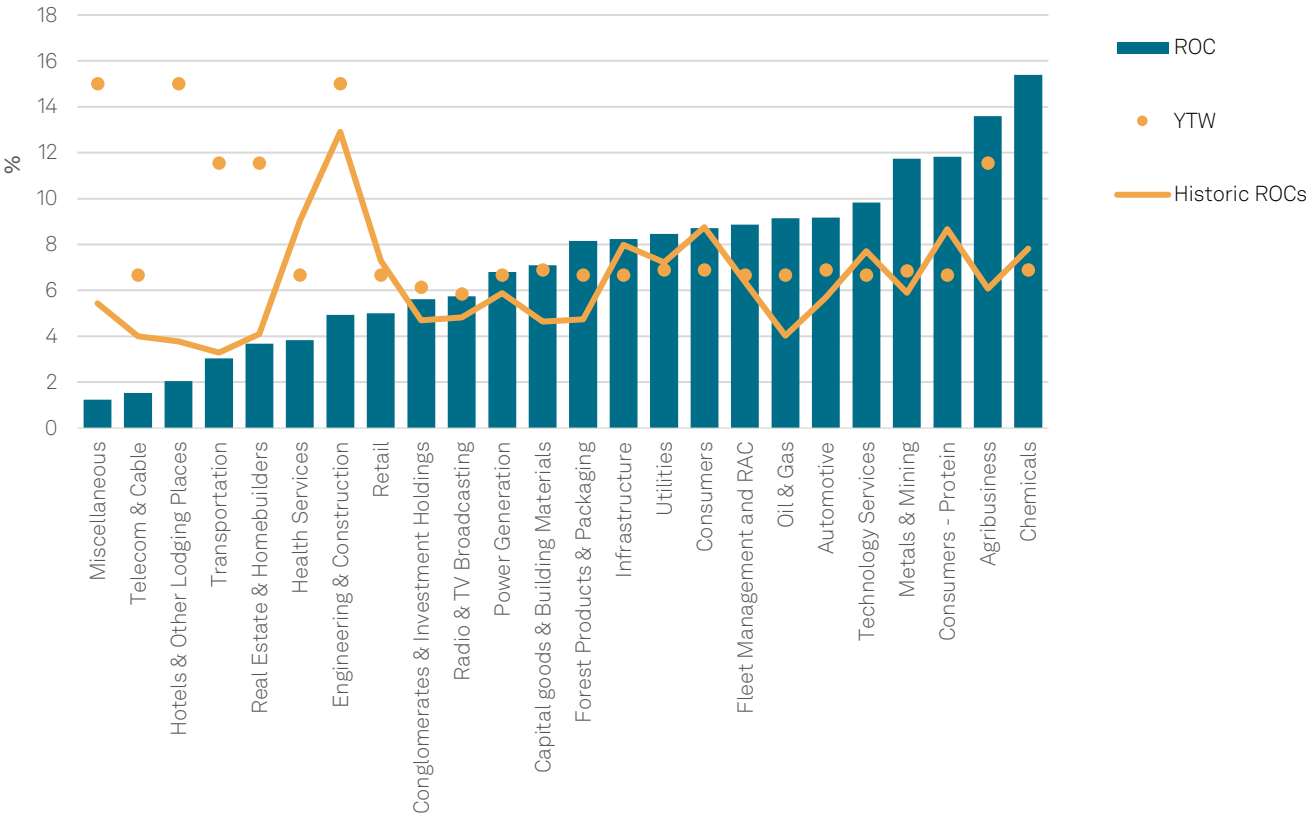
However, the future looks gloomier. The current high cost of debt leaves scant margins with which to reward shareholders. When looking at post-tax return on capital (ROC) ratios with median yields of rated bonds by sector (yield-to-worst [YTW]), only a third of the sample produces higher returns than their median cost of debt (as measured by median YTW ratios), and those sectors were benefiting from better-than-normal business conditions mostly due to higher commodity prices sparked by the Russia-Ukraine conflict (chart 13). That means when prices soften, those sectors will also struggle to reward shareholders.

We expect credit deterioration among Latin American corporates to become more evident in the next few quarters. In addition, in the past we've identified a strong correlation between low returns and distressed debt exchanges of lower-rated issuers, because companies tend to force debt cuts to alleviate the debt burden and restore the balance between debt and shareholders returns.

Chart 13

Sustainability Of Latin American Corporations' Capital Structure

Current and historical median return on capital (post-tax) versus median yield-to-worst, by sector, rated corporates



S&P Global based on Thompson Reuters.

Copyright 2022 © by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.