Moody's Investors Service

Latin American High-Yield Interest Chart Book

Q3 2018 (Nonfinancial corporates)

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Key takeaways from this issue

1 **High-yield issuance in 9M 2018 at lowest level since 2011.** Thirteen issuers sold $9.9 billion in debt in the first nine months of 2018, down from 18 issuers and $25.4 billion in 9M 2017. A single issuer sold $3 billion in debt in the third quarter of 2018, down from $11.9 billion in issuances from six companies in Q3 2017. Fewer deals from Petrobras have contributed to lower issuance amounts in 2018.

2 **We expect high-yield issuance to remain soft at least until presidential elections in the region have concluded.** Rising interest rates in the US, risks to global trade and country-specific issues in the region have reduced investor appetite for high-yield bonds since Q2 2018. There is the potential for pick-up in Q4 2018, depending on market reaction to the outcome of Brazil's presidential election.

3 **Although market conditions are less favorable than last year, refinancing needs are low until the end of 2019.** LatAm high-yield bond markets will absorb just $1.7 billion of upcoming maturities in Q4 2018, 56% of which are rated Caa1 or lower. The credit quality of bond maturities will improve in 2019, with only 31% of the $5 billion maturities rated Caa1 or below.

4 **Downgrades to upgrades ratio and negative bias remained low in Q3 2018.** The ratio remains healthier than in 2011-17 and reflects overall improvements in the credit quality of LatAm corporates, along with fewer sovereign-related negative actions. At the end of Q3 2018, 84% of LatAm high-yield companies had a stable outlook and there were no sovereign-related positive or negative rating outlooks in the region.

5 **No high-yield bonds were scored for covenant quality in Q3 2018.** The overall average score from January 2011 through September 2018 remained unchanged relative to Q2 2018 at 3.07 (moderate), stronger than other regions with the exception of Asia.

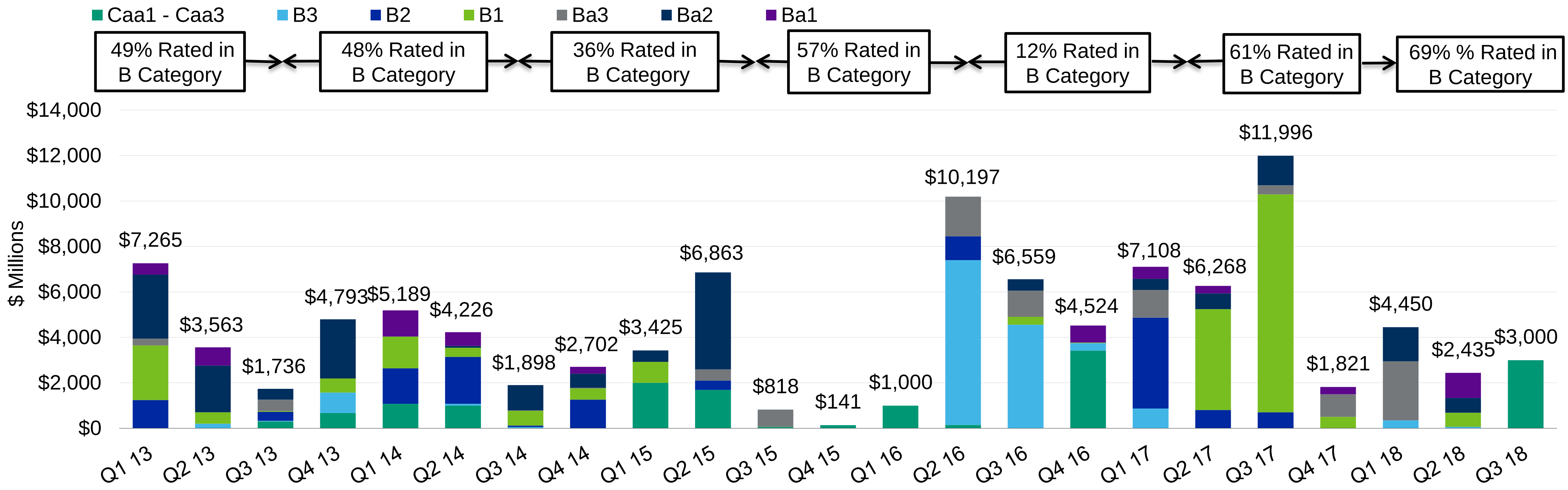
Agenda

1. News and analysis
2. Key credit themes across Latin America
3. Covenant quality assessment
4. Refinancing needs
5. Market pulse
6. Moody’s bond-implied ratings
7. Appendix

1 News and analysis

LatAm high-yield snapshot

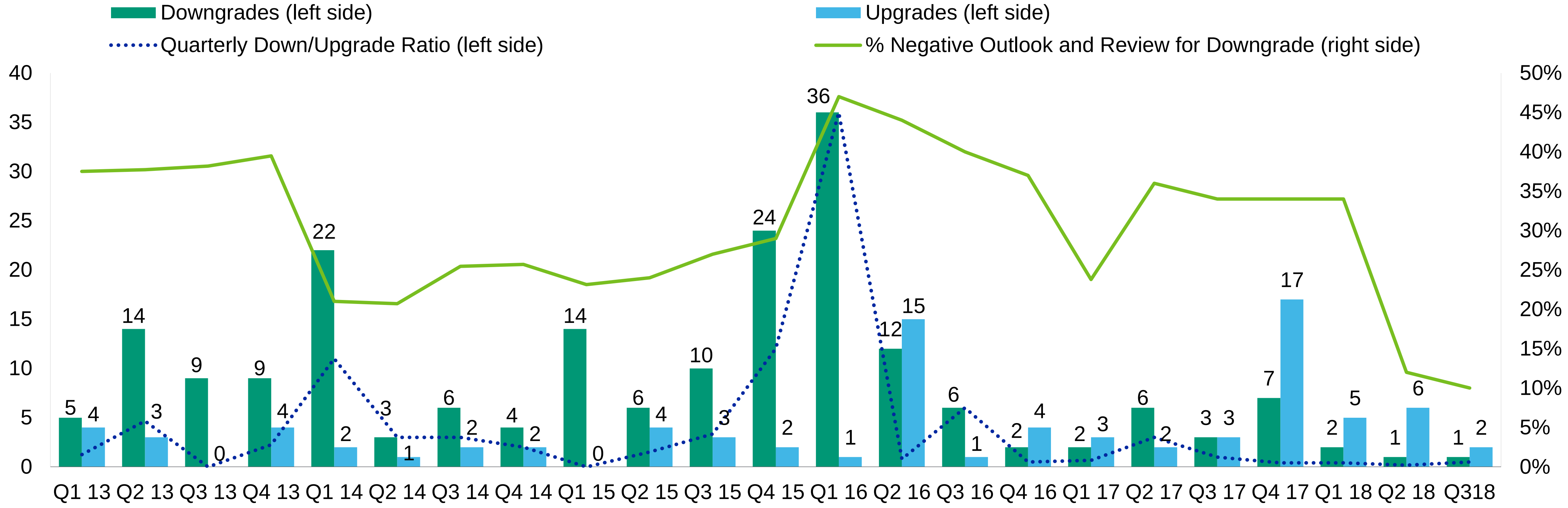
Digicel Group Limited (Caa1 stable) was the only issuer to tap the market in Q3 2018, for a $3 billion bond exchange offer.



Note: Q3 2017 issuances include Petrobras' $7.6 billion bond exchange offers. Source: Moody's Investors Service

LatAm high-yield snapshot

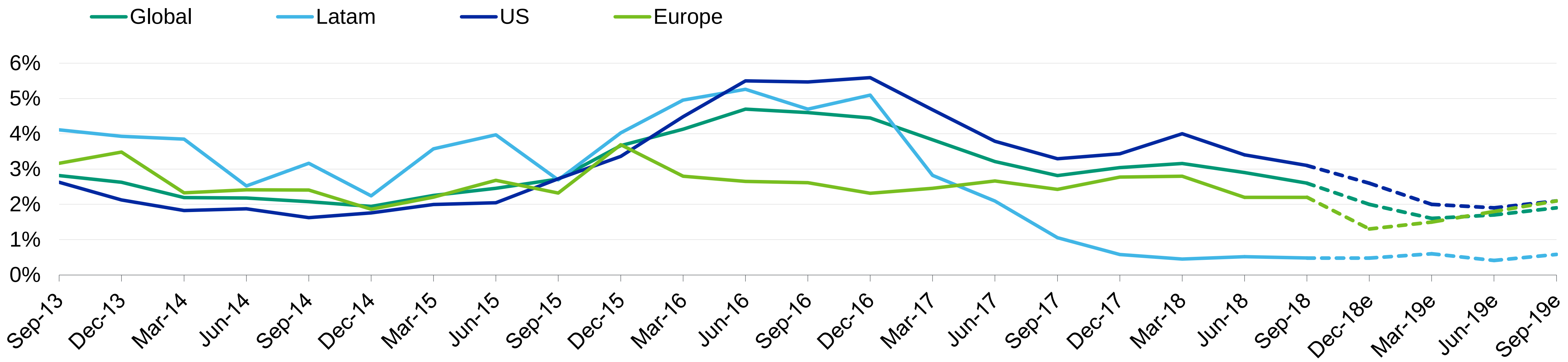
Upgrades continue to outpace downgrades in 2018, all reflecting issuer-specific strengths



Source: Moody's Investors Service

LatAm high-yield snapshot

The LatAm trailing 12-month spec-grade default rate fell to 0.5% in September 2018 from 1.1% a year earlier. We expect it to remain around 0.5% through September 2019



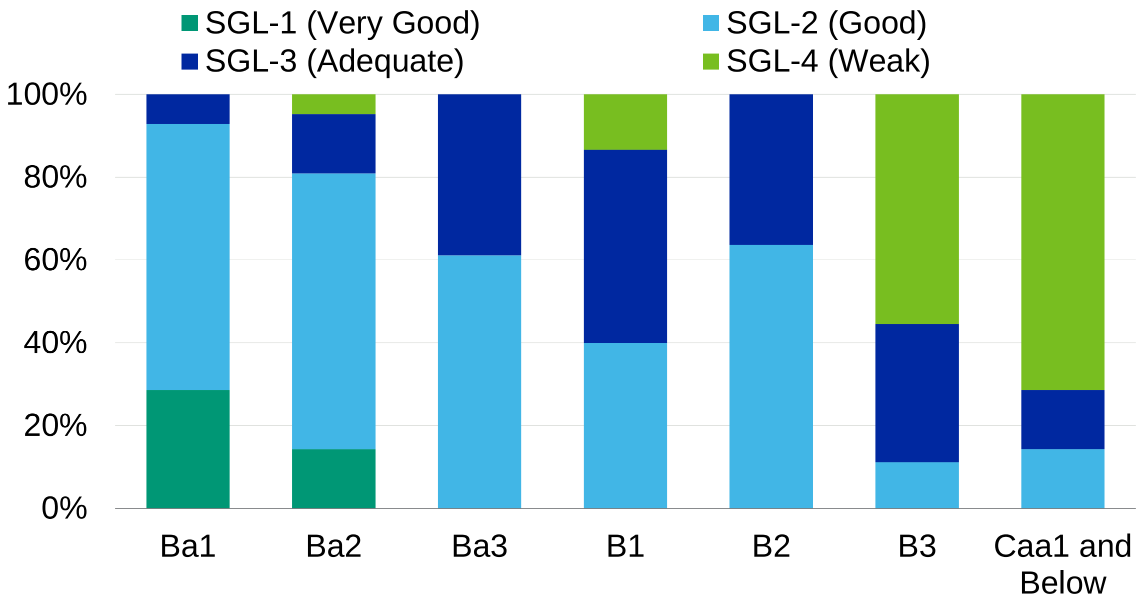
» Moody's global speculative-grade default rate closed at 2.6% for the trailing 12-month period ending in the third quarter, its lowest level in three years. LatAm’s default rate remains below other regions globally.

» Global economic growth, healthy corporate earnings and accommodative credit markets will continue to support a benign default outlook over the coming 12 months. However, gradually tightening monetary policy and trade tensions between the US and China, alongside weaker credit quality, will likely put upward pressure on the default rate in the longer term.

LatAm high-yield snapshot

SGL-4 scores remain most prevalent among issuers with corporate family ratings (CFRs) of B3 and below; SGL-1 scores assigned only to Ba-rated companies

Argentine companies constrained by the sovereign rating explain high concentration of SGL-2 scores in the B2 rating category



Note: Data as of October 2018. Source: Moody's Investors Service

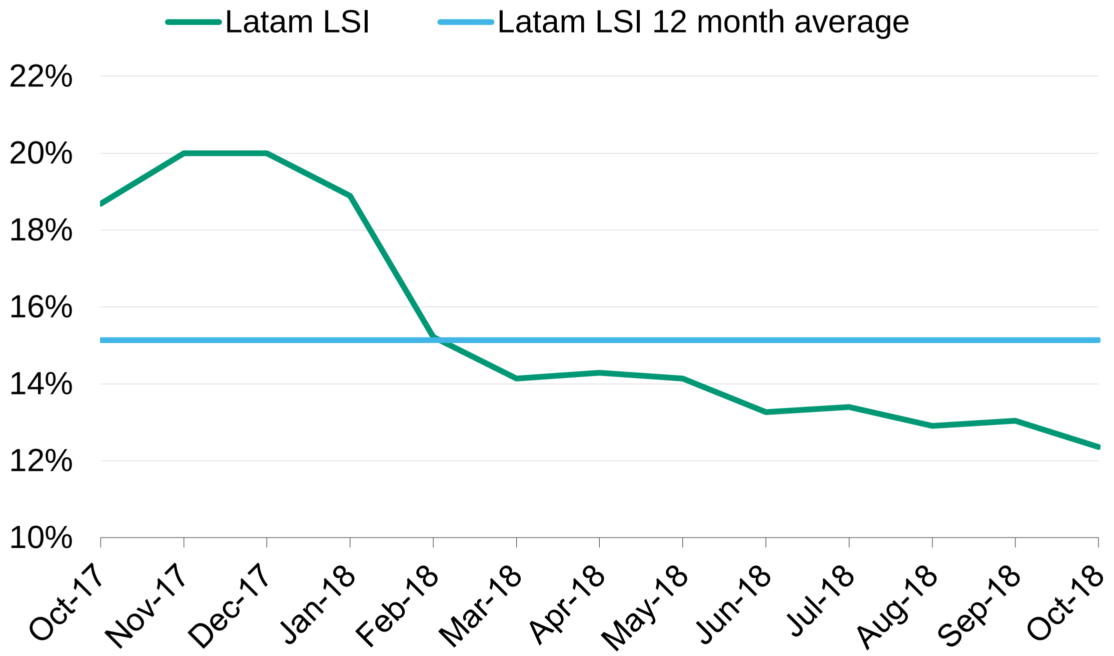
» Speculative-grade liquidity (SGL) is categorized in one of four ways:

- SGL-1: very good liquidity. Issuers are most likely to have the capacity to meet their obligations over the coming 12 months with internal resources without relying on external sources of committed financing.
- SGL-2: good liquidity. Issuers are likely to meet their obligations in the coming 12 months with internal resources, but may rely on external sources of committed financing. The issuer is highly likely to be able to access committed financing, based on our evaluation of near-term covenant compliance.
- SGL-3: adequate liquidity. Issuers are expected to rely on external sources of committed financing. Based on our evaluation of near-term covenant compliance, there is only a modest cushion and the issuer may require covenant relief to maintain orderly access to funding lines.
- SGL-4: weak liquidity. Issuers rely on external sources of financing, the availability of which, in our opinion, is highly uncertain.

LatAm high-yield snapshot

Our LatAm Liquidity Stress Indicator (LatAm LSI) fell to 12.4% in October 2018 from 13.4% in July 2018

LatAm LSI has been below its 12-month average since February 2018



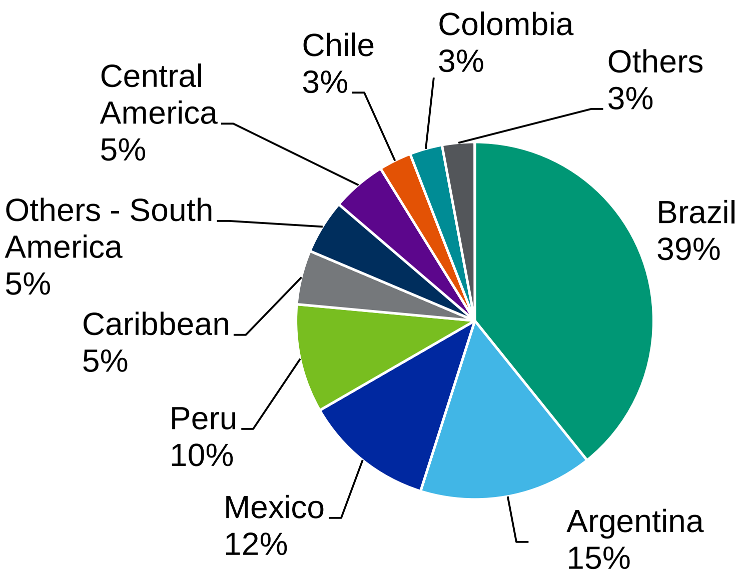
Source: Moody's Investors Service

- The LatAm LSI measures the percentage of high-yield companies with SGL-4 scores as a proportion of high-yield corporate family ratings (CFRs), and increases when speculative-grade liquidity appears to deteriorate.
- The LatAm LSI remains higher than the EMEA and US LSIs, given regional companies' distressed liquidity profile following weak economic growth in the region in 2015-16.
- We expect the LatAm LSI's 12-month trailing average to decline as liquidity risk in the region continues to ease, particularly for Ba credits.
- The number of issuers with SGL scores fell to 89 in October 2018 from 97 in July 2018. The number of companies with SGL-4 scores fell to 11 from 13.

LatAm high-yield snapshot

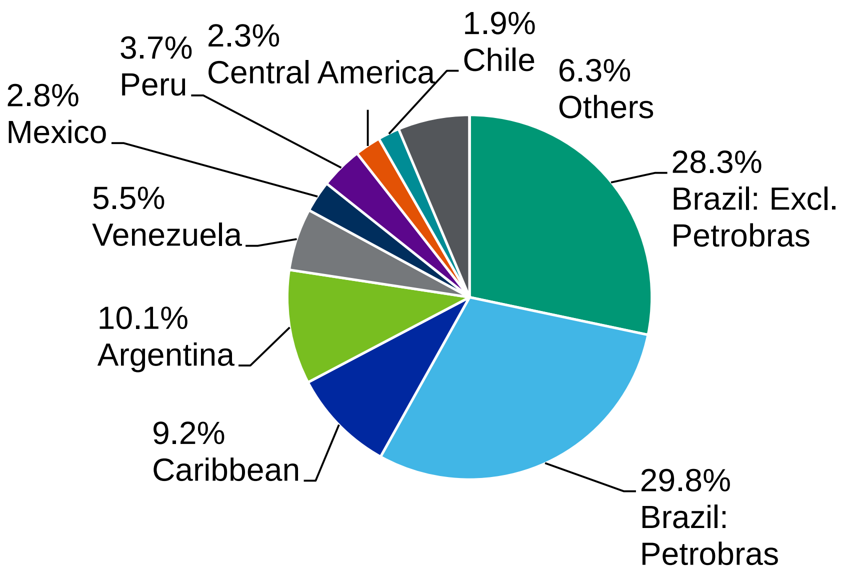
Our high-yield universe includes 102 companies in LatAm with $100 billion in outstanding rated debt. Vale's upgrade to Baa3 in Q3 2018 lowered the stock of rated high-yield notes by $11 billion.

Mexican corporations account for 12% of high-yield issuers but only 3% of the region's outstanding rated debt



Note: Data as of September 30, 2018. Source: Moody's Investors Service

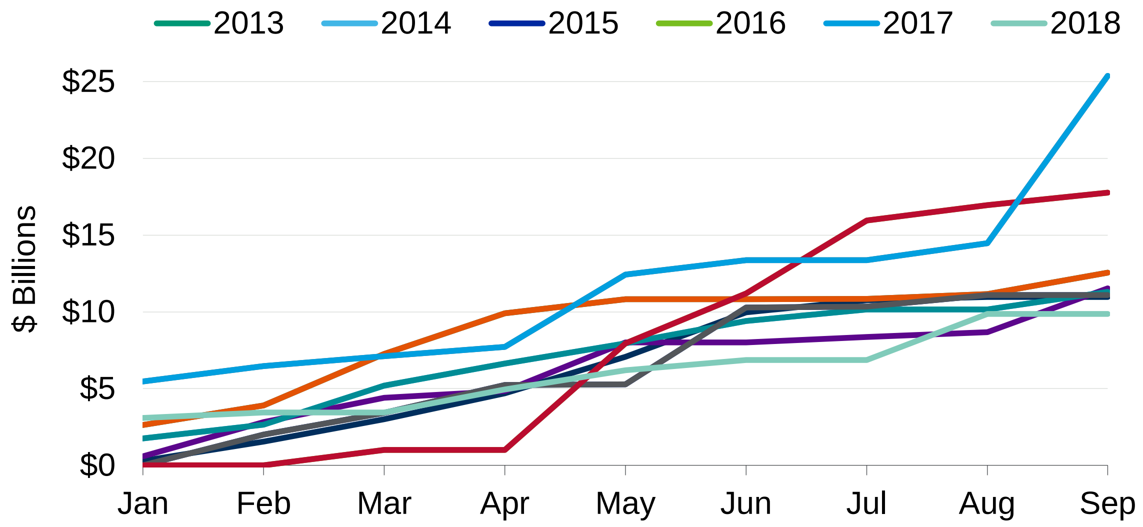
Petrobras alone accounts for 51% of Brazil's rated debt



Note: Data as of September 30, 2018. Source: Moody's Investors Service

LatAm high-yield issuance in 9M 2018 at lowest levels since 2011

Fewer deals from Petrobras (Ba2 stable), external uncertainties and country-specific issues have contributed to lower issuances in 2018 ($9.9 billion vs. $25.4 billion in 9M 2017)

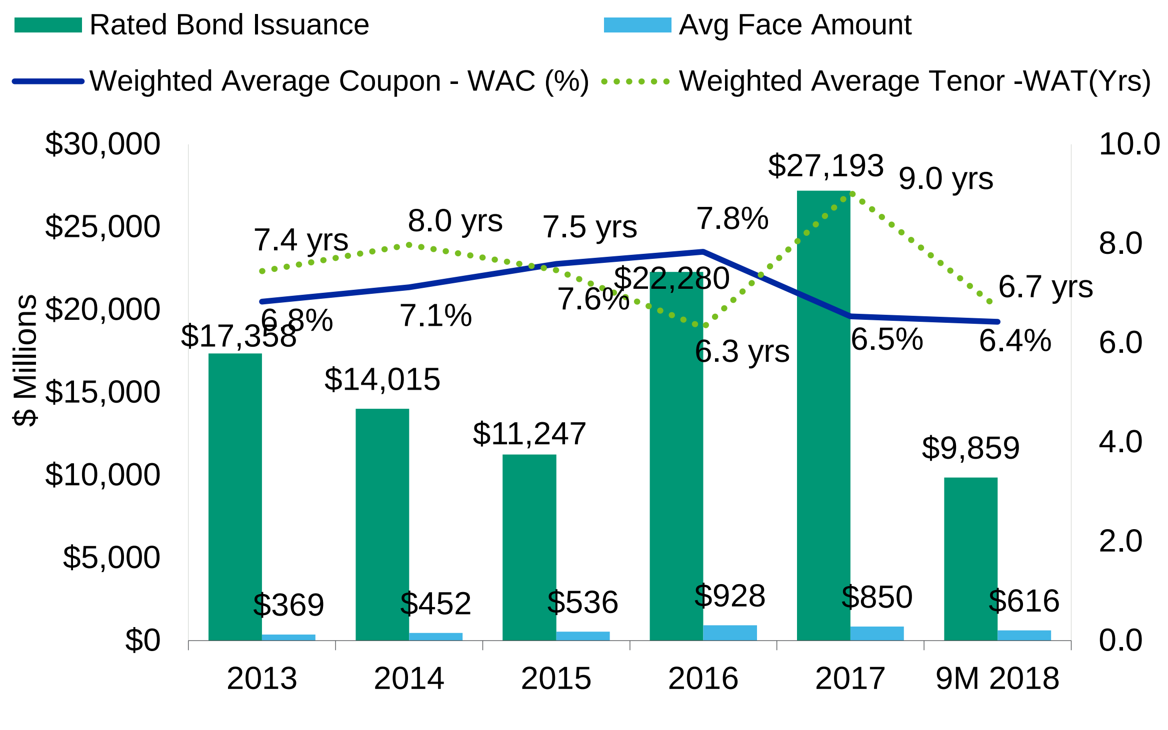


Source: Moody's Investors Service

- Rising interest rates in the US, risks to global trade and country-specific issues in the region continued to constrain investor appetite for LatAm high-yield bonds in Q3 2018.
- We expect high-yield issuance to remain soft until political uncertainties in the region dissipate going into 2019, with a potential pick-up in Q4 2018 dependent on market reaction to Brazil's presidential elections.
- Only Digicel tapped the market in Q3 2018, for a bond exchange offer of $3.0 billion which we saw as a distressed exchange. We also rated YPF's (B2 stable) $270 million bank credit facility in August 2018.
- Petrobras issued $2.0 billion in 9M 2018, down from $17.6 billion in 9M 2017 and $10.3 billion in 9M 2016.
- Other issuers that have tapped the market in 2018 include: InRetail Pharma, SixSigma Networks, Cyrela Brazil Realty, Pesquera Exalmar, Grupo Bimbo, Canacol Energy, Hunt Oil Co. of Peru, Vrio Corp., Hidrovias do Brasil, CSN and Nemak.

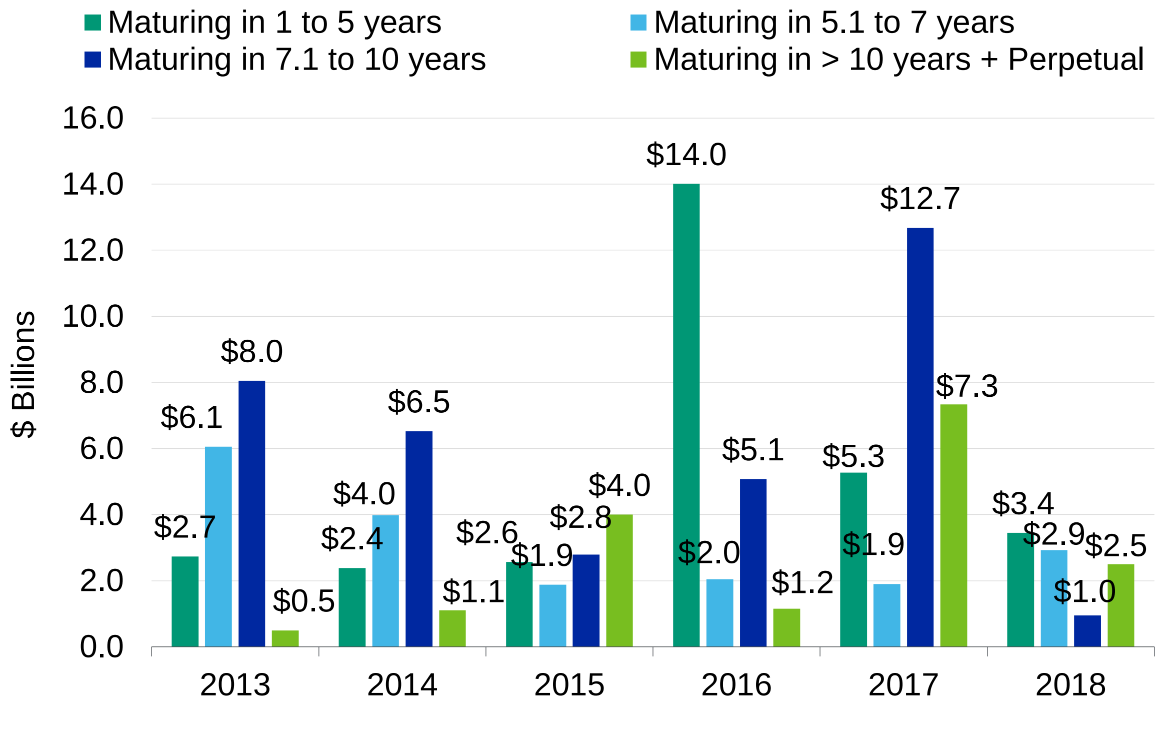
Coupons down on lower tenors and with 59% of issuances rated Ba3 or above (vs. 23% in 2017)

Improved credit profile of issuances and lower tenors in 9M 2018 resulted in lower average coupons…



Note: Data as of September 30, 2018. Source: Moody's Investors Service

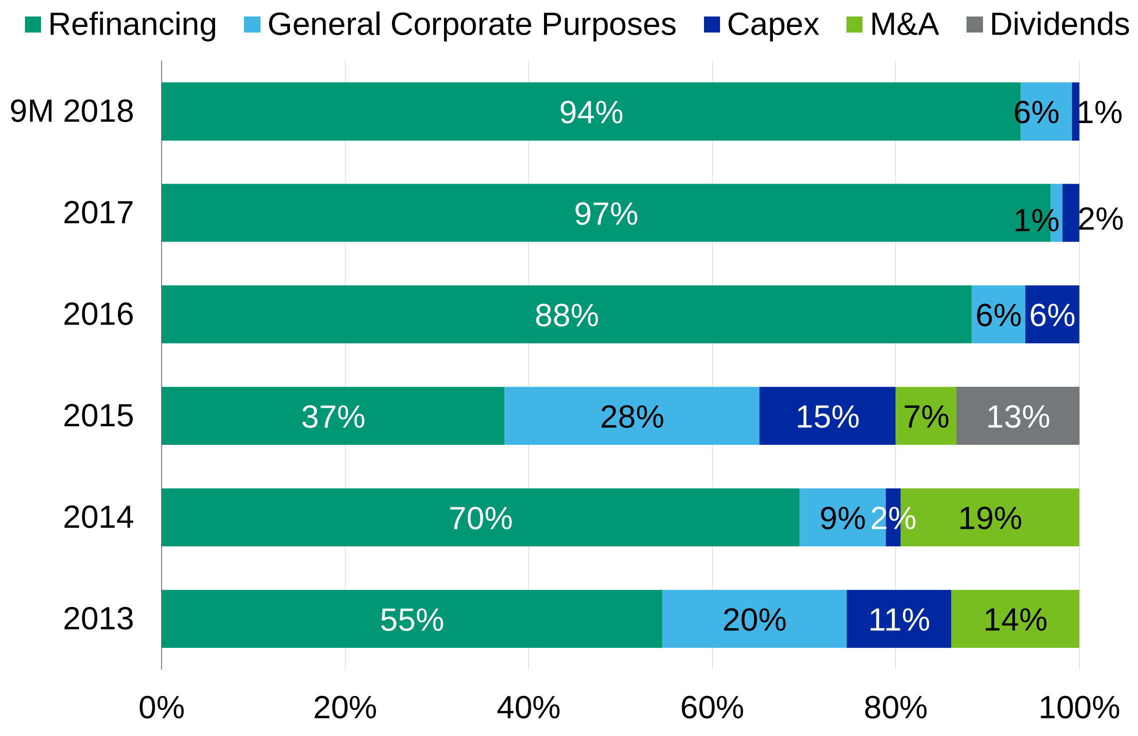
… with a higher concentration of issuances maturing in up to seven years (65% in 9M 2018 vs. 26% in 2017)



Note: Assumes final maturity date. Source: Moody's Investors Service

Use of issuance proceeds continues to reflect region-wide focus on liability management

Refinancing initiatives continued to drive market activity in 9M 2018



Note: Data as of September 30, 2018. Source: Moody's Investors Service

» Slow economic recovery following region-wide recession constrains investment-related issuance.

- Cyrela Brazil Realty used proceeds from its issuance in Q2 2018 for investments. With the increased financial flexibility, it paid down debt to resume its liability management strategy.
- Pampa Energia (B2 stable) and Tecpetrol (Ba3 stable) were the only issuers to use proceeds for capital spending in 2017.

» Despite strong M&A activity across the region, there have been no significant M&A-related issues since 2015.

- InRetail Pharma and Arcor (Ba3 stable) used issuance proceeds to pay off bridge loans used to acquire Quicorp S.A. in Q2 2018 and Zucamor S.A. in Q2 2017, respectively.
- Ultrapar's (Ba1 stable) liability management initiatives in Q2 2017 improved the company's financial flexibility as it pursued M&A opportunities.

2

Key credit themes across Latin America

Tightening global funding conditions have uneven credit risk implications in LatAm countries

Exposure to credit risks from tightening global funding conditions depends on debt structures. LatAm governments have seen a broad-based deterioration in their fiscal strength over the past decade as debt ratios have risen in the context of weaker economic growth and spending rigidities. The region now faces challenges stemming from shifts in investor sentiment and capital outflows. In particular, tightening global financing conditions increase credit risks associated with foreign-currency debt exposure and reliance on nonresident investors. Before accounting for potential risk mitigating factors, Argentina (B2 stable), the Dominican Republic (Ba3 stable), Honduras (B1 stable) and Paraguay (Ba1 stable) are among the most exposed to such credit risks, while Brazil (Ba2 stable) and Chile (A1 stable) are among the least exposed.

Maturity profiles, borrowing needs and fiscal buffers can either mitigate or exacerbate risks stemming from exposures to external creditors or a high reliance on foreign-currency debt. Most LatAm sovereigns have relatively long maturity profiles given the still important share that official creditors hold. The average maturity of the region's government debt was 11.5 years as of the end of 2017. Brazil had the shortest average maturity in 2017, at 5.9 years, followed by Argentina at 7.7 years. In terms of borrowing requirements, the average LatAm government needs to finance 7% of its GDP to cover its debt amortizations and deficit. Chile and Paraguay have the lowest borrowing requirements, at around 2% of GDP, while Brazil has the highest at 19%, followed by Argentina and Costa Rica (Ba2 negative) at 13%. Liquid assets can provide a buffer. Chile and Peru (A3 stable) benefit the most in this respect, with liquid financial assets amounting to 19% and 16% of GDP, respectively (see report).

IMF's advancement of funding will shield Argentina from refinancing risks through 2019. On September 26, 2018, Argentina and the International Monetary Fund (IMF) reached a staff-level agreement on revisions to a Stand-By Arrangement (SBA) originally approved on 20 June. The revisions increase the SBA's overall size to $57.1 billion from $50.0 billion originally, and bring forward planned disbursements so that Argentina will receive $19 billion more than originally planned by year-end 2019. The revised program denotes strong IMF support for Argentina and will cover all the sovereign's dollar funding needs through 2019, a credit positive. On Argentina's side, the revisions incorporate the government's decision to accelerate fiscal consolidation and adopt a tight monetary policy stance, which we anticipate will cause economic activity to contract (see report).

Lower potential growth highlights importance of structural reforms to meet fiscal targets. Colombia's (Baa2 negative) new administration faces a number of structural challenges as fiscal deficit targets become harder to meet in a period of continued moderate growth. Uncertainty surrounding the implementation of the peace agreement between the government and the Revolutionary Armed Forces of Colombia rebel group could detract from growth. At the same time, the risk of political polarization could make it difficult for the new administration to cut spending or raise taxes to reduce fiscal deficits. Although higher oil prices could help the government achieve fiscal targets in 2018-19, structural hurdles to raising non-oil fiscal revenue and diversifying growth drivers remain key medium-term credit challenges (see report).

Key country research in Latin America

Government of Argentina: FAQ on the credit implications of the IMF program. On August 30, 2018, President Mauricio Macri formally requested an advancement of funding from the country's three-year, $50 billion SBA with the IMF, prompting the largest one-day decline in the peso since it was allowed to float in December 2015. The Macri administration's promise to accelerate fiscal consolidation means that the IMF is likely to advance the funds, shielding the sovereign from external refinancing risks through 2019. However, delivering the revised primary balance target in 2019 will be hard to achieve in the context of a faltering economy and next year's elections (see report).

FAQ on recent financial turmoil and corruption allegations (August 28, 2018). Argentina has been hit by a fresh round of market volatility and a corruption scandal that led to the arrests of several executives and members of former president Cristina Kirchner's administration just two months after negotiating the $50 billion loan agreement with the IMF. A rapid decline in the peso and rising inflation led the central bank to raise its benchmark interest rate to contain the currency's depreciation. The very high benchmark rate will continue to hurt the economy, which began shrinking after a sharp devaluation and interest rate hike in April 2018 reduced investment and consumer spending, eroding the business prospects for banks and other companies. The corruption scandal raises questions over the future of the infrastructure companies involved as legal uncertainty and reputational risk discourage investors from doing business with the sector (see report).

Chile's upward revision to 2018 growth forecast is credit positive. On September 5, 2018, Chile's central bank revised its real GDP growth forecast for 2018 upward to 4.0%-4.5% from 3.25%-4.00% previously. The bank also revised its forecast for potential non-mining GDP growth to 3.1% from 2.7% a year earlier. The upward revisions are credit positive for Chile, where growth averaged only 1.7% between 2014 and 2017 amid collapsing copper prices and contracting investment (see report).

Chile's ratings downgraded to A1, outlook changed to stable from negative. On July 26, 2018, we downgraded the Government of Chile's issuer and senior unsecured debt ratings to A1 from Aa3 and changed the outlook to stable from negative. The downgrade reflects a gradual but broad-based deterioration in Chile's credit profile. Despite clear indications of near-term improvements in its economic and fiscal prospects, we do not expect the sovereign to regain the credit strength it has seen in previous years.

The stable outlook reflects our view that the government retains important credit strengths, including high scores on governance and policy effectiveness indicators. Government fiscal strength remains very high, with government debt ratios below those of several A-rated peers. In addition, sovereign financial assets give the authorities the ability to respond to shocks, even though the government has lost its net creditor status (see report).

Domestic issuers will largely withstand deterioration in sovereign's credit quality. Weaknesses in the sovereign's credit strength are unlikely to affect the credit quality of most private sector debt issuers. In the corporate sector, sovereign credit weaknesses do not affect our credit assessment of state-owned oil and copper companies, including Corporación Nacional del Cobre de Chile (CODELCO, A3 stable) and Empresa Nacional del Petróleo (ENAP, Baa3 stable), nor that of any non-state-owned Chilean companies. Our views on the government's willingness or ability to back CODELCO and ENAP in case of need remain unchanged (see report).

Key country research in Latin America

Brazil in early October 2018 held the first round of general elections to elect a new president, national congress, state governments and legislatures. Regardless of who wins, the next government will face long-standing fiscal challenges, particularly approving stalled social security reform. The incoming president will have to establish a working relationship with Congress to secure his or her ability to govern, given the polarized political outlook. We envision two post-election scenarios in Brazil: (i) policy continuity, where the incoming government will be able to work with Congress to approve reforms that sustain economic growth and stabilize government debt in the next two to three years; and (ii) policy disruption that creates a negative feedback loop, with stalled reforms compromising investor confidence, undermining the economic recovery and increasing financial volatility and inflation (see report).

Mexico's agreement with the US on NAFTA revisions reduces trade-related uncertainty, a credit positive. On August 27, 2018, US President Donald Trump announced that the US (Aaa stable) and Mexico (A3 stable) had agreed to sign a new trade accord to revamp the North American Free Trade Agreement (NAFTA). The agreement ends a tumultuous negotiation process that began last year amid repeated US threats to withdraw from NAFTA. The development is credit positive for Mexico because it reduces uncertainty, supporting near-term growth and investment prospects.

Reduced trade-related uncertainty implies that economic growth could accelerate after expanding by 2.0%-2.5% in 2018-19, as Mexico benefits from continued foreign investment. We do not expect key macroeconomic and credit indicators to be fundamentally affected in the near term. As such, we expect domestic inflation, interest rates, the exchange rate and government finances to remain broadly in line with our current forecasts. Alternative scenarios that contemplated an adverse outcome to the negotiations – to which we assigned a very low probability – would likely have weakened Mexico’s credit profile (see report).

Government of Peru – A3 stable annual credit analysis. The credit profile of Peru reflects its long-standing track record of macroeconomic stability, market-friendly policies and prudent fiscal management. Solid economic fundamentals, an absence of major macroeconomic imbalances and strong economic institutions have provided a stable environment to foster economic growth. Underpinned by low and affordable government debt and moderate fiscal savings, the government’s strong balance sheet and solid fiscal policy credibility are key credit strengths.

The sovereign’s main credit challenges relate to its voluble political environment. Corruption, political infighting, a weak judicial system, low levels of education and an inefficient bureaucracy, primarily at the local and regional government level, are the greatest challenges it faces. These issues affect governability and policy execution, detract from the efficient allocation of resources, contribute to a large informal sector and impose substantial costs on the economy (see report).

Corporate credit quality in LatAm

Mexico: New energy agenda poses risk, but most sectors will remain stable through 2019. Corporate quality will remain largely stable for most sectors through mid-2019. However, as long as uncertainty surrounding the new government's policies persists, financial markets will remain exposed to periods of heightened volatility. The oil and gas industry faces the greatest risks from changes to current energy policies. We anticipate steady GDP growth of 2.0%-2.5% in 2018-19 and further insight into the new administration's business policy from its 2020 federal budget in early 2019 (see report).

Brazil: Political uncertainty hovers over benign inflation and interest rate conditions. Although credit conditions for companies are showing signs of improving as the country emerges from its deepest economic recession, economic uncertainty persisted ahead of October's presidential elections and the likelihood of key structural reforms. The economy will growth by a modest 1.5% in 2018 and by 2.5% in 2019, and interest rates and inflation should remain historically low. However, the weak real will raise costs for input and-dollar denominated investments (see report).

Peru: Corporate sector will strengthen through 2019 as political and climatic disruptions fade. Companies will benefit in 2018-19 as the economy grows by around 3.5% and private consumption picks up by around 3.6%, following an unsettled period reflecting weak commodity prices, disruptive weather and an unexpected political transition. Private consumption will grow in 2018-19 amid stronger economic sentiment and private investment, while the broad recovery in commodity prices since late 2016 will continue to support economic growth (see report).

Chile: Steady recovery in economic growth will support business sectors through 2019. Corporate credit quality will be supported by an improved macroeconomic environment, though individual companies' credit profiles will depend on their own efficiencies. Credit quality will improve modestly for the telecoms, oil and gas and consumer sectors, while mining and forestry companies will see greater improvements. We expect the economy to grow by around 3.7% in 2018 and 3.6% in 2019 as solid copper prices, along with a strong rebound in business and consumer confidence, support investments and domestic consumption, and inflation remains low (see report).

Argentina: Growth will slowly return in 2019 following sudden stumble in economic confidence. Credit metrics for most non-financial Argentine companies will tighten before slowly recovering through mid-to-late 2019 amid a volatile macro environment. Following financial turmoil and a steep slide in the Argentine peso in mid-2018, real GDP will decelerate significantly before rebounding modestly in 2019, reflecting improved prospects for the agribusiness sector following a severe drought that was in turn followed by heavy rains, decimating crop production. The country's three-year SBA with the IMF will support and accelerate fiscal reform efforts (see report).

Corporate credit research

Airlines and Airports

LATAM Airlines' acquisition of minority stake in Multiplus is credit positive. On September 5, 2018, LATAM Airlines Group S.A. (Ba3 stable) said that its consolidated affiliate, TAM Linhas Aereas S.A. (LATAM Airlines Brasil), would launch a tender offer to acquire a 27.3% stake in loyalty coalition affiliate Multiplus S.A. for BRL1.2 billion ($289 million). Although the acquisition will slightly increase LATAM's leverage, it is credit positive because the integration of Multiplus will create the fourth-largest frequent flyer and loyalty program globally**.** LATAM will also gain the capacity to optimize revenue management and capacity strategies to drive incremental passenger revenue (see report).

Brazil's airlines have recovered since 2017 after significant capacity cuts, with margins and load factors normalizing. However, a volatile currency, higher oil prices and tepid economic growth will put further improvements in credit quality at risk. Capacity and cost-cutting, higher ancillary revenue and hedging will at least partly offset the impact of developments in exchange rates, oil prices and economic growth (see report).

Agribusiness in South America

Rising global demand for food, biofuels and paper products will support the growth of South America's far-reaching agribusiness sector. The sector enjoys substantial advantages in terms of geographical diversification, economies of scale and competitive input costs. Rapidly rising incomes in emerging economies, more than population growth, will drive demand for food and related paper products globally, particularly from Asia. In addition, food demand will shift toward more protein, while demand for grains will also increase briskly (see report).

Auto sector in North America

On September 30, 2018, the US, Mexico and Canada reached a deal to update the North American Free Trade Agreement (NAFTA), renamed the US-Mexico-Canada Agreement (USMCA). Although the deal preserves the main elements of the original agreement, it includes revised regional content and labor requirements that will increase production and compliance costs for manufacturers in the region. Nevertheless, we expect the changes to be manageable overall for the North American auto sector, and that they will have only a limited impact on the creditworthiness of auto manufacturers and suppliers (see report).

Engineering and Construction

Andrade Gutierrez Engenharia's settlement of its exchange offer is credit positive. On August 21, 2018, Andrade Gutierrez Engenharia S.A. (Caa2 stable) said it had settled its newly issued $336 million (BRL1.3 billion) 11% senior secured payment-in-kind (PIK) toggle notes due 2021 for its defaulted $345 million 4% senior unsecured C-rated notes that were due in April 2018**.** The settlement of the exchange offer is credit positive because it will resolve the default on the $345 million notes and extend the company's main short-term financial obligation to 2021, providing some relief to its tight liquidity position despite paying a higher interest rate. A small portion of $7.4 million of the defaulted notes will still be outstanding until further notice (see report).

Corporate credit research

Engineering and Construction (Cont.)

Corruption scandal spills over to Argentine corporations. On August 1, 2018, an Argentine federal judge ordered the arrests of senior Argentine business leaders, including executives of Electroingeniería S.A. (Ca stable), an engineering and construction company, and Albanesi S.A. (B2 stable), a power-generation company. The order forms part of a bribery investigation implicating former government officials and contractors involved in public works projects. The investigation and arrest order are credit negative for Electroingeniería and Albanesi because they carry clear reputational risk and will distract management from day-to-day operations. The process could also weaken both companies' liquidity by increasing refinancing risk (see report).

Mexico City airport cancellation would be credit negative. President-elect Andrés Manuel López Obrador on August 17, 2018, said that he would call a nationwide binding referendum in October to allow voters to decide whether to continue the construction of Mexico City's new airport, raising uncertainty over the country's biggest public works project and also billions of dollars in investment and debt. The announcement is credit negative for Mexico City Airport Trust NAFIN F/80460 (Baa1 stable) because the special-purpose vehicle has already issued $6 billion in notes in connection with the airport's construction. Moreover, canceling a project that is already in progress as a result of a public referendum would be credit negative for the operating environment and for tourism in Mexico, because it would create uncertainty around policies and potentially thwart future private sector investment plans for other projects (see report).

Manufacturing

Elementia (Ba2 positive) announced the development of a cement grinding facility in Yucatan, Mexico on August 14, 2018. The transaction is credit positive for Elementia because it will increase its operational diversification into new regions while entering a market with positive business prospects. Total investment in the new facility will amount to $30 million and it is expected to begin operations by the end of the first half of 2019, with installed capacity of more than 250,000 tons per year. Because its investment needs will be limited, the new facility will not immediately affect Elementia's credit metrics or pressure its liquidity (see report).

Metals and Mining

CODELCO's A3 rating and stable outlook were not immediately affected by the Government of Chile's downgrade to A1 from Aa3, with a stable outlook, on July 26, 2018. The rating action does not change our view on the government's willingness or ability to back CODELCO in case of need, and we continue to incorporate the assumption of a high likelihood of sovereign support into the company´s ratings. Accordingly, through 2019 CODELCO will receive additional capital injections as part of the capitalization bill, in a total amount of $2.6 billion in 2015-19 (see report).

Corporate credit research

Oil and Gas

On September 27, 2018, **Petrobras announced that the US Department of Justice (DOJ) and the US Securities Exchange Commission (SEC) had resolved their investigations into the company's internal controls, books and records, as well as financial statements related to the Lava Jato case.** The settlement is credit positive for Petrobras because the company will pay $853 million, significantly less than that initially expected. The agreement also eliminates uncertainty related to the possible major impact of fines on Petrobras' liquidity position. Petrobras still faces lawsuits in Brazil, Argentina and the Netherlands. However, management believes that the agreements with the SEC and the DOJ will help negotiations in these countries, preventing materially negative consequences from possible future fines (see report).

On September 12, 2018, **Petroleos Mexicanos (PEMEX, Baa3 stable) announced a MXN30 billion ($1.5 billion) reduction in its negative financial balance for 2018 to minus MXN 49 billion.** The announcement is credit positive because the company will need that much less external funding for 2019. Lower funding needs will help reduce the net amount of debt that PEMEX will add to its balance sheet in 2018, which will benefit its credit metrics. The reduction is mainly a consequence of additional cash generation from higher oil prices in the first half of 2018. With EBITDA growing, we estimate that PEMEX will likely reduce leverage in 2018, bringing its debt/EBITDA ratio close to 5.0x, down from 6.3x in 2017. PEMEX expects to also benefit from extraordinary income and savings in 2019 (see report).

Nevertheless, **the energy agenda of the incoming Lopez-Obrador administration, which focuses on fuel self-sufficiency, raises uncertainties as to whether PEMEX can continue to take advantage of favorable oil prices and solid investment appetite from foreign companies**. The new energy agenda poses three particular risks for Mexico's national oil company, namely controlling fuel prices, requiring capital spending on building or upgrading refineries, and delaying oil and gas auctions (see report).

Our downgrade of the Government of Chile's ratings on July 26, 2018 did not affect the Baa3 global scale foreign currency rating of ENAP or its b2 Baseline Credit Assessment (BCA). ENAP's Baa3 rating is based on the company's long operating history, high refining market share in Chile and increasing business diversity. Although it is the country's only refiner of crude oil, its revenue and cash flow have benefitted from oil and gas exploration and production, which in 2017 contributed over 36% of EBITDA. In turn, its ratings are constrained by high liquidity risk, the inherent volatility of commodity prices and the resulting uncertain cash flow generation and profitability, as well as elevated debt leverage. ENAP's Baa3 rating benefits from five notches of uplift from the its b2 BCA given our assumption of a high probability of support from the government of Chile in a distress situation, as the company is strategically important to Chile's energy sector. In January 2018, the government authorized a $400 million capital injection for ENAP which will strengthen its balance sheet and avoid excessive debt increases to fund its $1.5 billion capital investment plan for 2018-19 (see report).

Corporate credit research

Paper and Forest

Celulosa Arauco y Constitucion: Board approval of MAPA project is credit positive. On July 24, 2018, Celulosa Arauco y Constitucion's (Arauco, Baa3 stable) board of directors approved a brownfield expansion at its Arauco mill in Chile, the Modernización y Ampliación de Planta Arauco (MAPA). The project will increase the company´s total pulp capacity by around 30%, to a total of 5.2 million tons, and increase the share of hardwood in the total pulp mix from roughly 40% to 50%. MAPA approval is credit positive for Arauco because it will allow the company to expand in a period of positive fundamentals for pulp without putting stress on its credit metrics (see report).

Protein and Agriculture

Camposol Holdings Plc (Camposol, B2 stable) on August 23, 2018, reported strong results for the first half of 2018. The performance is credit positive because it confirms the positive trends seen in recent years with a significant improvement in credit metrics from 2015 levels (see report).

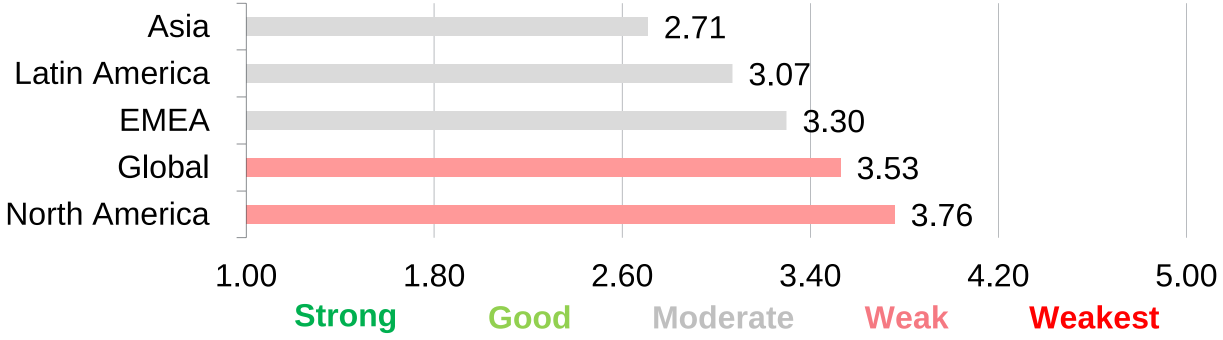
Steel

We have maintained a stable outlook for Brazil steel industry. The outlook reflects the slight expansion in the purchasing managers index within the 50-55 range, declining though still relatively high inventories, and rising EBITDA for the three main steelmakers amid higher prices and a moderate recovery in demand. However, the turnaround will be slower than the industry expected earlier in 2018 (see report).

3 Covenant quality assessment

Covenant quality snapshot: Q3 2018

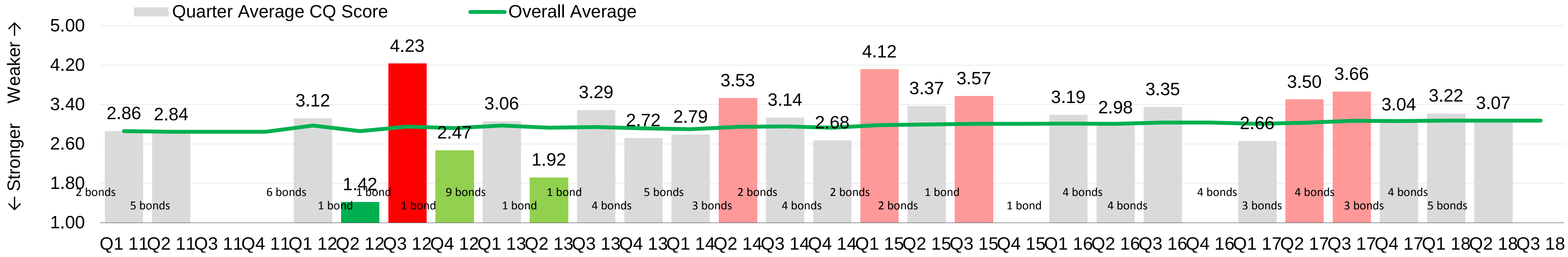
Covenant packages for LatAm deals are stronger than those in other regions except Asia



- » No LatAm high-yield bonds were issued in Q3 2018. The overall average score from January 2011 through September 2018 remained unchanged at 3.07 (moderate).
- » A lower CQ score denotes stronger covenant quality on a scale from 1.00 to 5.00.

Note: Excluding high-yield lite bonds. Average scores reflect scores from January 1, 2011 through September 30, 2018. Source: Moody's High-Yield Covenant Database

No new LatAm high-yield bonds were issued in Q3 2018



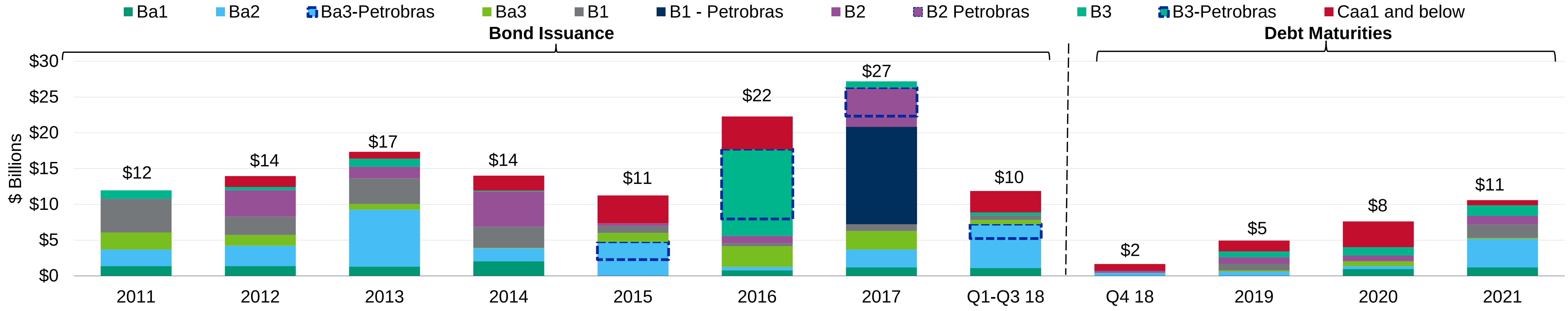
Note: Excluding high-yield lite bonds. Source: Moody's High-Yield Covenant Database

4

Refinancing needs

Market conditions are less favorable, but refinancing needs are low through the end of 2019

LatAm high-yield bond markets will absorb just $7 billion of upcoming maturities through year-end 2019, 37% of which are rated Caa1 or below



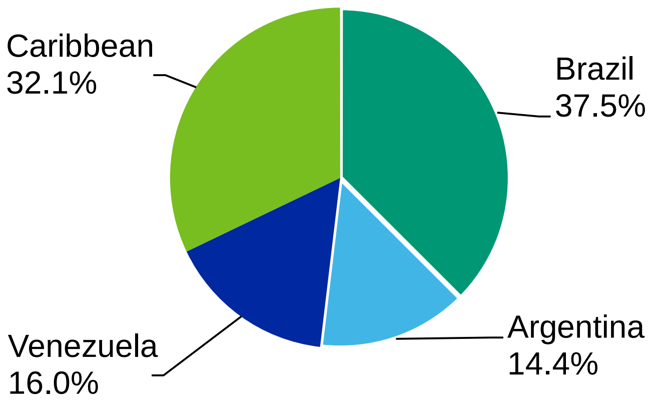
Note: Fallen angels omitted from historical data except when issuing debt as a high-yield entity. Historical balance shows rating at time of issuance, while upcoming maturities reflect current rating. Outstanding amounts for upcoming maturities are as of September 30, 2018. Source: Moody's Financial Metrics.

» PDVSA's amortizing notes with final maturity in 2020, currently rated C, represent 50% of total rated bond maturities due through 2018. The credit quality of bond maturities will improve in 2019, with only 31% of the $5 billion maturities rated Caa1 or below.

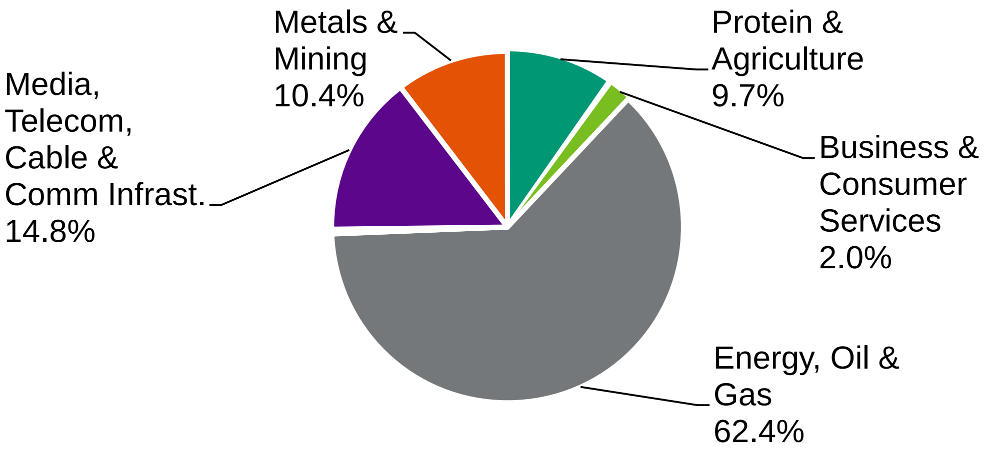
Upcoming debt maturities in LatAm concentrated in oil and gas sector and Brazilian companies

Rated debt coming due in next 12 months totals $5.3 billion

Upcoming rated debt maturities; country breakdown



Upcoming rated debt maturities; sector breakdown

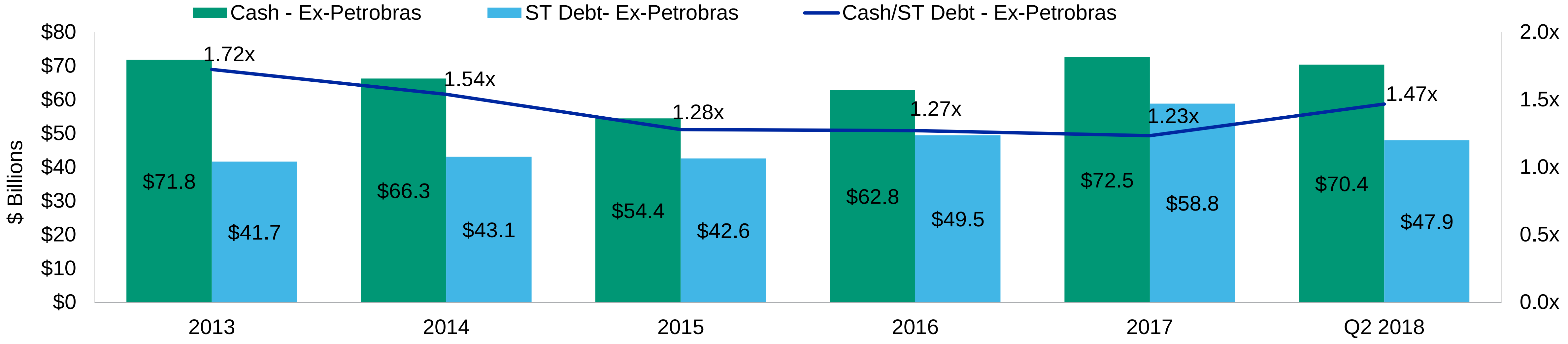


Note: Next 12 months refers to Q4 2018 though Q3 2019. Includes data for amortizing bonds with final maturities beyond Q3 2019. Source: Moody's Financial Metrics.

- As of Q3 2018, approximately 62% of rated debt maturing in the next 12 months relates to oil and gas companies. PDVSA, YPF, Pan American Energy LLC, Argentine Branch (PAE Argentine Branch, Ba3 stable), Petroleum Co. of Trinidad & Tobago (Petrotrin, B1 RuR-Down) and Petrobras represent near-term maturities in the energy sector totaling $3.3 billion. PDVSA represents the bulk of upcoming rated debt maturities in Venezuela, and PAE Argentine Branch and YPF in Argentina.
- Besides Petrobras, other Brazilian companies with upcoming rated debt maturities include Marfrig (B2 stable), CSN (B3 stable) and business and consumer services providers. Petrotrin, Cable & Wireless (Ba3 stable) and Digicel represent upcoming debt maturities in the Caribbean.

Cash coverage for short-term debt in LatAm improved in Q2 2018

Cash coverage to short-term debt rose to 1.5x in Q2 2018 from 1.2x at the end of 2017



Note: Same set of companies are compared year-over-year: Grupo Elektra and Petrobras are omitted from this sample. Source: Moody's Financial Metrics, based on most recent financial data available at the end of Q3 2018.

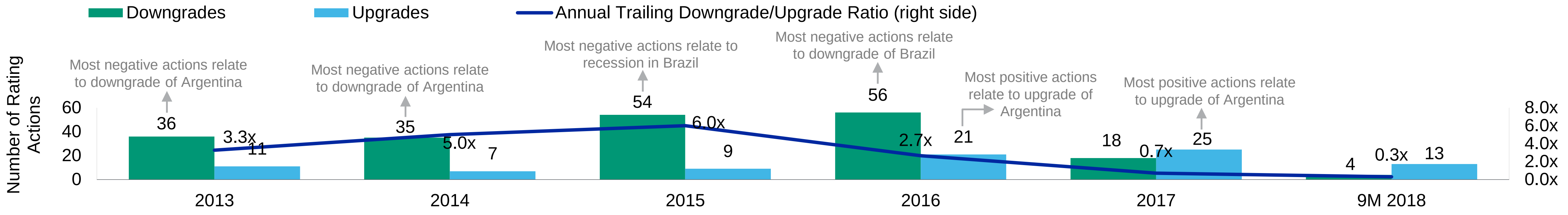
- Liquidity will improve in 2018 but progress will be uneven, with companies rated Ba and higher benefiting from better market access for refinancing. Capital spending growth will remain limited as companies continue to direct excess cash to reduce debt. To preserve cash, companies have reduced capital spending and operating costs. However, some issuers still depend on asset sales and banks' willingness to refinance short-term debt maturities.
- Lower short-term debt balances contributed to the increase in the region's consolidated cash coverage. Most regional issuers do not have committed facilities to cover a short-term liquidity squeeze and rely on cash buffers to cover unexpected needs.

5

Market pulse

Downgrade to upgrade ratio remained low in 9M 2018, with rating actions reflecting issuer-specific developments

Ratio remained at 0.3x in 9M 2018, healthier than in 2011-17 and reflecting fewer sovereign-related negative actions



Source: Moody's Investors Service

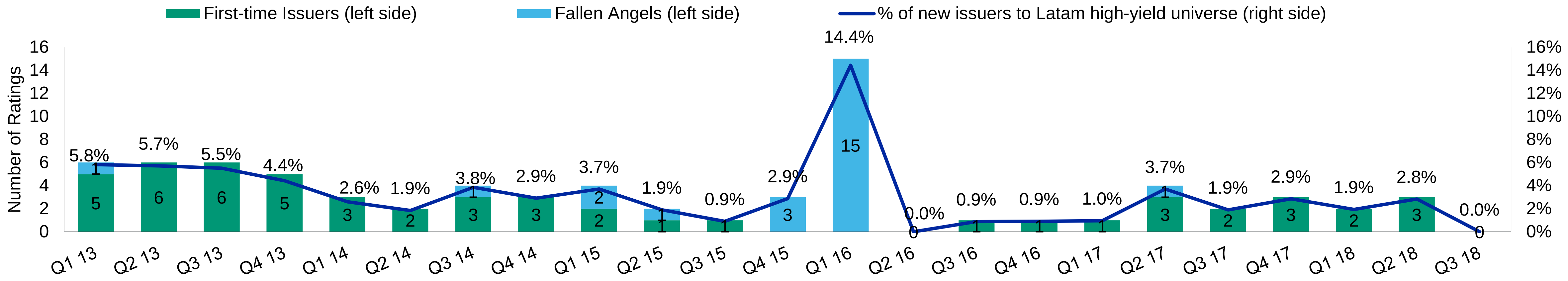
» The downgrade to upgrade ratio rose to 0.5x in Q3 2018 from 0.2x in Q2 2018, with two upgrades and one downgrade during the quarter.

» The upgrades of Javer (B1 positive) and Vale and the downgrade of Digicel's ratings in Q3 2018 reflected issuer-specific developments. During the quarter, Andrade Gutierrez Engenharia's ratings were downgraded to C but later upgraded to Caa2.

» There was only one sovereign-related rating action in 9M 2018: we downgraded PDVSA's ratings following our downgrade of Venezuela's ratings to C.

Tougher capital markets conditions constrained new issuers in Q3 2018

No new high-yield issuers in Q3 2018, but we expect new issuances to resume after Q4 2018

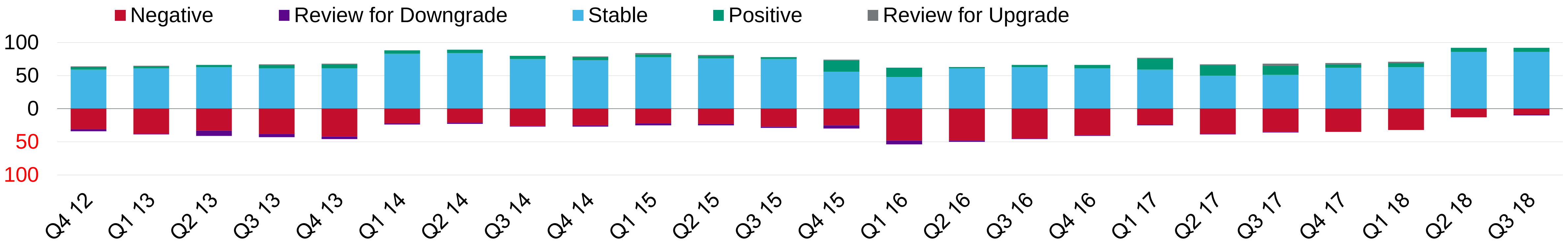


Note: Based on first-time issuer corporate family or senior unsecured ratings. Source: Moody's Investors Service.

- There were no new issuers in Q3 2018 as many companies, including Usina Coruripe and Telecom Argentina, have been cancelling or postponing new issuances due to less favorable market conditions since the beginning of Q2 2018.
- Vale was the only rising star in the quarter: we upgraded the company's ratings to Baa3 from Ba1 in July 2018. There are no potential fallen angels in Latin America after we stabilized PEMEX's ratings outlook in April 2018. Nemak is the only potential rising star.

Negative bias declined to 10% in Q3 2018 from 12% in Q2 2018, returning to levels last seen in 2011

Percentage of negative outlooks and ratings on review for downgrade has fallen in 2018, mainly due to the stabilization of Brazil's sovereign outlook in April

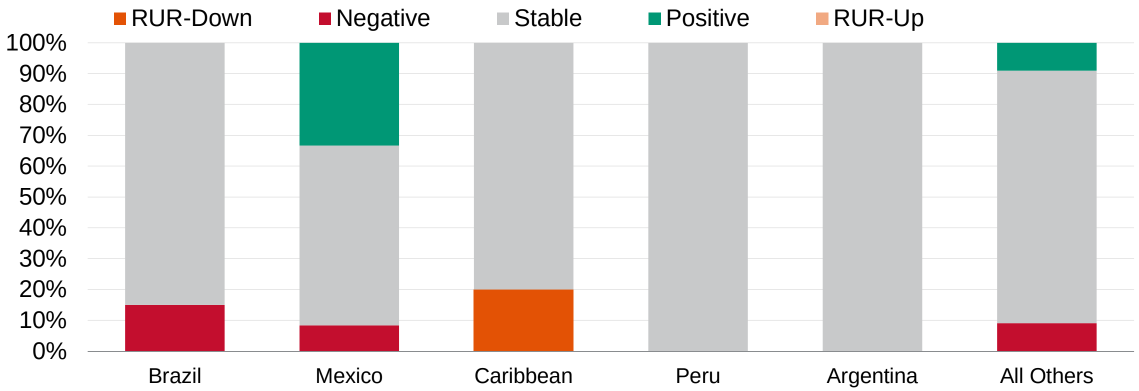


Source: Moody's Investors Service. Rating outlooks as of September 30, 2018.

- Four rating outlooks were stabilized in Q3 2018, Empresa de Telecom de Bogota (Ba3 stable) and Adecoagro (Ba2 stable) due to issuer-specific strengths, and Digicel and Andrade Gutierrez Engenharia after their respective rating actions. Petrotrin's B1 rating was placed on review for downgrade and Javer's rating outlook was changed to positive after the company's ratings upgrade in the quarter.
- At the end of Q3 2018, 84% of Latin America's high-yield companies had a stable outlook. Nine companies had negative rating outlooks and six had positive rating outlooks, none of which related to sovereign rating outlooks.

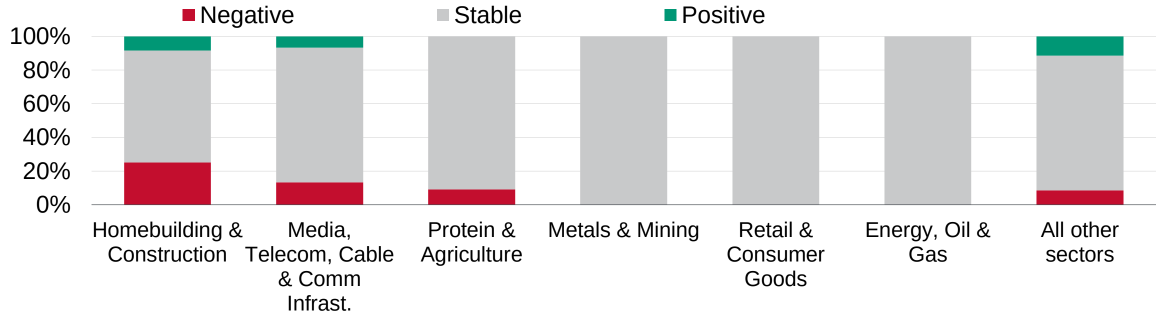
Negative outlooks concentrated in Brazil

Negative outlooks concentrated mainly in Brazil; positive outlooks most prevalent in Mexico



- At the end of Q3 2018, 15% of Brazilian high-yield companies had a negative outlook. Of the six Brazilian companies that still have a negative outlook, four relate to the country's recession and/or corruption investigations, and only two to issuer-specific weaknesses.
- Negative outlooks elsewhere relate to LifeMiles (Ba2 negative), Axtel (Ba3 negative) and Liberty Cablevision of Puerto Rico (B3 negative). Companies with ratings under review for downgrade relate to a single issuer, Petrotrin.
- Positive outlooks in Mexico include Grupo Posadas (B2 positive), Elementia, Javer and Nemak; and in Paraguay, Telefonica Celular del Paraguay. We also include McDonald's LatAm and Caribbean franchisee Arcos Dorados (Ba3 positive).

Brazil's recession and corruption investigations explain negative outlooks in homebuilding and construction sectors

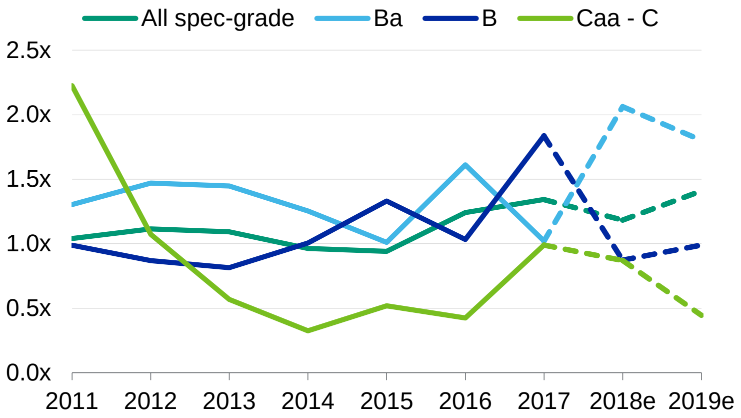


Source: Moody's Investors Service. Rating outlooks as of September 30, 2018.

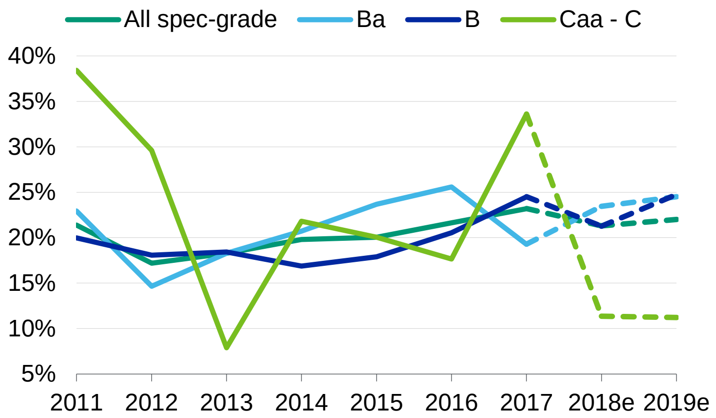
- Brazil's engineering and construction and homebuilding sectors are still struggling with the country's downturn or corruption investigations, explaining all negative outlooks for the sector in the region.
- Two media and telecoms companies have negative rating outlooks in Latin America, representing 13% of high-yield companies in the sector. The negative outlooks relate to issuer-specific challenges.
- Negative bias in the protein and agriculture industry relates to BRF (Ba2 negative) and is explained by issuer-specific factors.

Credit metrics for high-yield Latin American issuers

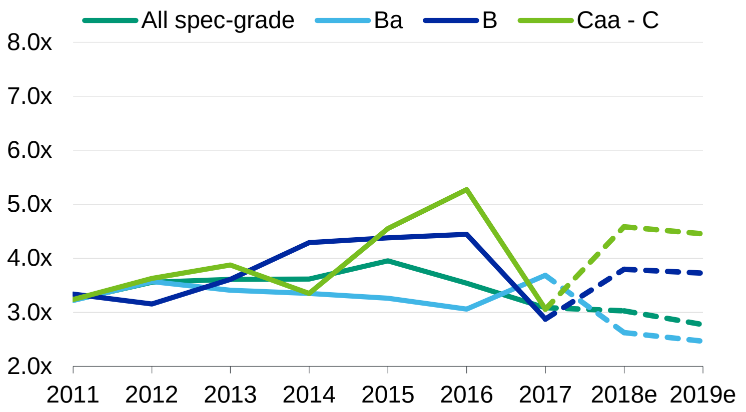
Median cash to short-term debt



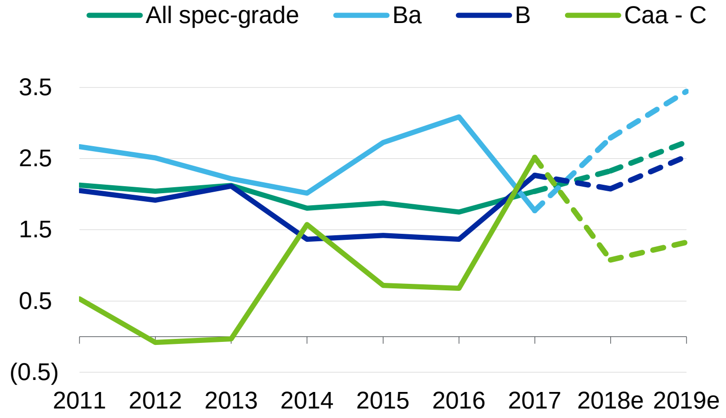
Median EBITDA margin



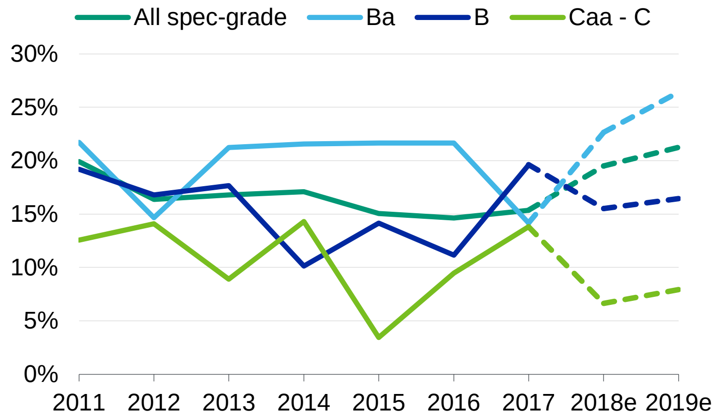
Median debt to EBITDA



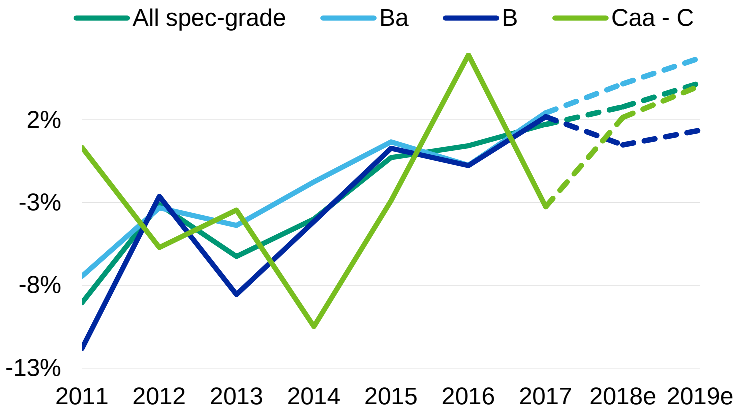
Median EBIT to interest



Median FFO to debt



Median FCF to debt



Source: Moody's Investors Service

6

Moody’s bond-implied ratings

Latin American high-yield dashboards

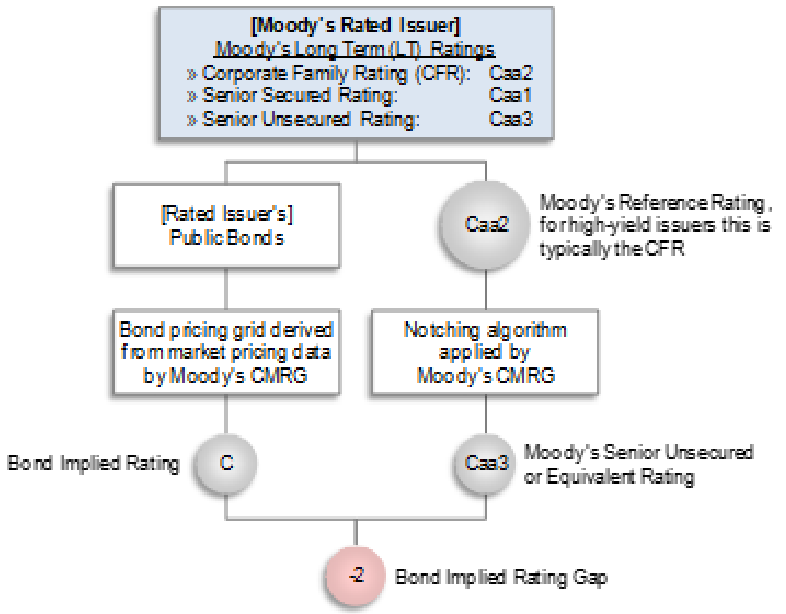
MOODY'S BIR DASHBOARD

For selected Moody's rated LatAm high yield bonds, our bond-implied ratings (BIR) dashboard helps illustrate credit risk and relative value signals as perceived by the public bond markets. The dashboard, which is presented as illustrative charts over the next two pages, focuses exclusively on the BIR methodology's implied ratings derived from corporate bonds currently trading in the marketplace, and not the implied ratings derived from credit default swaps, loan default swaps, or the equity markets. Moody's BIR can capture differences of opinion between Moody's and the market about an issuer's creditworthiness; however, they can also reflect other factors such as liquidity or investor preference. The bond-implied ratings used in this report can differ from the bond-implied ratings produced by Moody's Analytics.

A summary of the Moody's bond-implied methodology

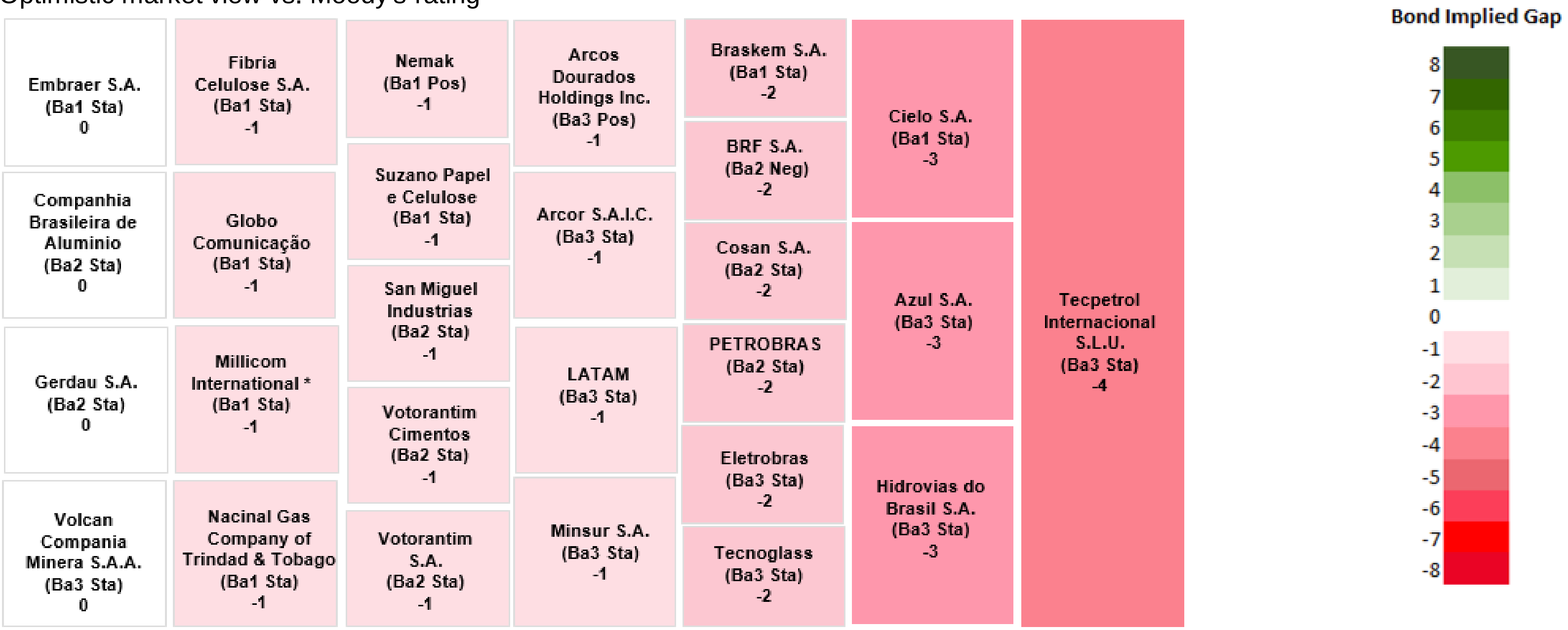
Our current methodology for deriving bond-implied ratings (BIR) draws upon information from both transaction prices and indicative dealer quotes. Previously, BIRs were derived from daily quotes provided by Reuters; however, we now also incorporate daily price information from the National Association of Securities Dealers' (NASD's) TRACE reporting system. For bonds that are reported on TRACE, BIRs are based on a weighted average of the option-adjusted spreads implied by the daily indicative quotes and those implied by the most recent transaction prices, where the weight on the transaction prices decreases with the number of days that have passed since the last trade occurred and increases with the trading volume observed during the last week in which it traded.

The methodology proceeds in two steps. First, implied ratings are calculated for each available debt issue. Second, the implied ratings on the individual bonds are combined to form an implied issuer rating. The next sections show how we use information from both transaction prices and indicative quotes to create an optimal measure of the current market value for each bond.



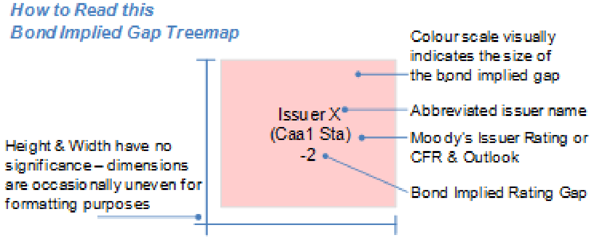
Moody’s bond-implied ratings – select LatAm high-yield issuers, Ba1-Ba3

<<<<< Optimistic market view vs. Moody’s rating



Pessimistic market view vs. Moody’s rating >>>>>

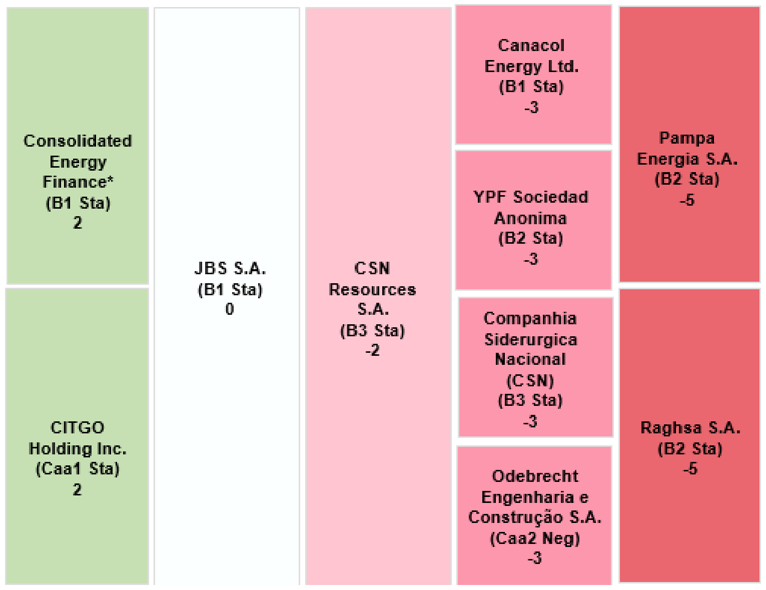
This Moody’s bond-implied chart offers a wide-ranging view of the gap between the appropriate bond-implied rating and Moody’s fundamental rating. The bond-implied rating is derived from daily market pricing data. The chart helps illustrate credit risk and relative value signals as perceived by the public bond markets. Moody’s BIR is independent of Moody’s Investors Service’s ratings and rating process.

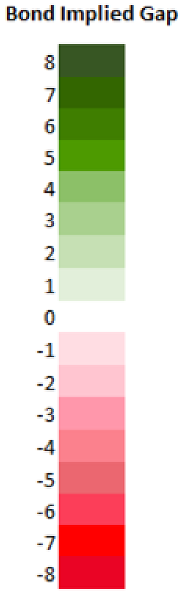


Source: Moody’s Investors Service, as of October 10, 2018. (*) Note: ratings of the notes differ from CFR.

Moody’s bond-implied ratings – select LatAm high-yield issuers, B1 and lower

<<<<< Optimistic market view vs. Moody’s rating





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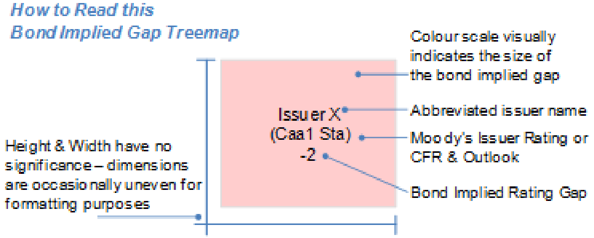

Source: Moody’s Investors Service as of October 10, 2018. (*) Note: ratings of the notes differ from CFR.

7 Appendix

Rated high-yield bond issuances – 9M 2018

Issuer	Sale Date	LT Rating	Broad Industry Category	Country	Issuance Amount $ millions	Coupon	Maturity Date	Use of Proceeds
Hidrovias do Brasil S.A.	24-Jan-18	Ba3	Transportation Services: Maritime	BRAZIL	600	5.95%	24-Jan-25	GCP
Vrio Corp.	5-Apr-18	Ba2	Media, Telecom, Cable & Comm Infrast.	BRAZIL & ARGENTINA	650	6.25%	4-Apr-23	Refinancing
Vrio Corp.	5-Apr-18	Ba2	Media, Telecom, Cable & Comm Infrast.	BRAZIL & ARGENTINA	350	6.88%	4-Apr-28	Refinancing
Nemak, S.A. de C.V.	23-Jan-18	Ba2	Automotive Supplier	MEXICO	500	4.75%	23-Jan-25	GCP
Petrobras Global Finance B.V.	25-Jan-18	Ba3	Energy, Oil & Gas	BRAZIL	2,000	5.75%	1-Feb-29	Refinancing, GCP
CSN Resources S.A.	8-Feb-18	B3	Metals & Mining	BRAZIL	350	7.63%	13-Feb-23	Refinancing
InRetail Pharma S.A.	2-May-18	Ba2	Retail	PERU	400	5.38%	2-May-23	Refinancing
InRetail Pharma S.A.	2-May-18	Ba2	Retail	PERU	150	6.44%	2-May-25	Refinancing
Canacol Energy Ltd.	3-May-18	B1	Energy, Oil & Gas	CANADA	320	7.25%	3-May-25	Refinancing, GCP
SixSigma Networks Mexico, S.A. de C.V.	2-May-18	B1	Communications Infrastructure	MEXICO	300	7.50%	2-May-25	Refinancing, GCP
Cyrela Brazil Realty S.A. Empreend E Part	9-May-18	Ba2	Homebuilding And Property Development	BRAZIL	104	Floating	9-Jun-22	Capex
Hunt Oil Co. of Peru L.L.C., Suc. Del Peru	1-Jun-18	Ba1	Energy, Oil & Gas	PERU	600	6.38%	1-Jun-28	Refinancing, GCP
Pesquera Exalmar S.A.A.	9-Feb-18	B3	Protein and Agriculture	PERU	61	8.00%	25-Jan-25	Refinancing, GCP
Grupo Bimbo	17-Apr-18	Ba1	Food & Beverage	MEXICO	500	Floating	Perpetual	Refinancing, GCP
Digicel Group Limited	31-Aug-18	Caa2	Media, Telecom, Cable & Comm Infrast	JAMAICA	2,000	8.25%	30-Sep-22	Refinancing, GCP
Digicel Group Limited	31-Aug-18	Caa2	Media, Telecom, Cable & Comm Infrast	JAMAICA	1,000	8.25%	1-Apr-24	Refinancing, GCP
Total					**9,885**			

Rated high-yield debt maturities due in the next 12 months

Issuer	Country	Broad Industry Category	Maturities for next 12 months $ Millions	Bond Rating	CFR	Final Maturity Date
Quickfood S.A.	ARGENTINA	Protein & Agriculture	1	B3	B3	15-Oct-18
Electroingenieria S.A.	ARGENTINA	Homebuilding & Construction	7	Ca	Ca	18-Nov-18
Petroleo Brasieleiro S.A. -- PETROBRAS	BRAZIL	Energy, Oil & Gas	277	Ba2	Ba2	10-Dec-18
Fleury SA	BRAZIL	Business & Consumer Services	25	Ba2	Ba2	12-Dec-18
Tegma Gestao Logistica S.A.	BRAZIL	Business & Consumer Services	6	Ba2	Ba2	15-Dec-18
Tegma Gestao Logistica S.A.	BRAZIL	Business & Consumer Services	7	Ba2	Ba2	15-Dec-18
YPF Sociedad Anonima	ARGENTINA	Energy, Oil & Gas	276	B2	B2	19-Dec-18
Petroleos de Venezuela, S.A.	VENEZUELA	Energy, Oil & Gas	842	C	C	27-Oct-20
Petroleum Co.of Trinidad & Tobago (Petrotrin)	TRINIDAD & TOBAGO	Energy, Oil & Gas	31	B1	B1	8-May-22
Petrobras Global Finance B.V.	BRAZIL	Energy, Oil & Gas	86	Ba2	Ba2	1-Feb-29
DIGICEL GROUP LIMITED	JAMAICA	Media, Telecom, Cable & Comm Infrast.	83	Caa2	Caa2	1-Apr-24
Petroleo Brasieleiro S.A. -- PETROBRAS	BRAZIL	Energy, Oil & Gas	331	Ba2	Ba2	15-Jan-19
Tegma Gestao Logistica S.A.	BRAZIL	Transportation	12	B1	B1	15-Feb-19
CABLE & WIRELESS INTERNATIONAL FINANCE B.V.	CARIBBEAN & CENTRAL AMERICA	Media, Telecom, Cable & Comm Infrast.	113	B2	B2	25-Mar-19
Fleury SA	BRAZIL	Business & Consumer Services	41	Ba2	Ba2	15-Feb-20
Localiza Rent a Car S.A.	BRAZIL	Equipment & Auto Rental	11	Ba2	Ba2	30-Sep-21
DIGICEL GROUP LIMITED	JAMAICA	Media, Telecom, Cable & Comm Infrast.	250	Caa2	Caa2	30-Sep-22
Mills Estruturas e Servicos de Engenharia	BRAZIL	Business & Consumer Services	16	B3	B3	30-May-19
Marfrig Holdings (Europe) B.V.	BRAZIL	Protein & Agriculture	508	B2	B2	24-Jun-19
PAN AMERICAN ENERGY LLC, ARGENTINE BRANCH	ARGENTINA	Energy, Oil & Gas	167	Ba3	Ba3	7-May-21

Source: Moody's Investors Service

Rated high-yield debt maturities due in the next 12 months (cont.)

Issuer	Country	Broad Industry Category	Maturities for next 12 months $ Millions	Bond Rating	CFR	Final Maturity Date
Petroleum Co.of Trinidad & Tobago (Petrotrin)	TRINIDAD & TOBAGO	Energy, Oil & Gas	31	B1	B1	8-May-22
Petrobras Global Finance B.V.	BRAZIL	Energy, Oil & Gas	86	Ba2	Ba2	1-Feb-29
DIGICEL GROUP LIMITED	JAMAICA	Media, Telecom, Cable & Comm Infrast.	83	Caa2	Caa2	1-Apr-24
Petroleum Co.of Trinidad & Tobago (Petrotrin)	TRINIDAD & TOBAGO	Energy, Oil & Gas	850	B1	B1	14-Aug-19
CSN ISLANDS XI CORPORATION	BRAZIL	Metals & Mining	547	B3	B3	21-Sep-19
YPF Sociedad Anonima	ARGENTINA	Energy, Oil & Gas	306	B2	B2	30-Sep-19
Mills Estruturas e Servicos de Engenharia	BRAZIL	Business & Consumer Services	9	B3	B3	15-Aug-20
Localiza Rent a Car S.A.	BRAZIL	Equipment & Auto Rental	11	Ba2	Ba2	30-Sep-21
Quickfood S.A.	ARGENTINA	Protein & Agriculture	1	B3	B3	24-Nov-22
DIGICEL GROUP LIMITED	JAMAICA	Media, Telecom, Cable & Comm Infrast.	250	Caa2	Caa2	30-Sep-22
Total			**5,265**			

Source: Moody’s Investors Service

Moody's related research

» **Issuer Comments and Issuer In-Depths:**

- Petroleo Brasileiro S.A.: Settlement with the U.S. SEC and DOJ is credit positive (September 27, 2018)
- Mills Estrutura e Servicos de Engenharia: Potential business combination with Solaris is credit positive (September 27, 2018)
- Petroleos Mexicanos: Mexico's state oil company lowers negative financial balance, reducing external financing needs (September 26, 2018)
- LATAM Airlines Group S.A (LATAM): LATAM Airlines' acquisition of minority stake in Multiplus is credit positive (September 6, 2018)
- Cencosud S.A.: Planned IPO will support deleverage (September 5, 2018)
- CAMPOSOL Holding Plc.: Camposol's results reported for first half 2018 are credit positive (August 24, 2018)
- Andrade Gutierrez Engenharia S.A.: Settlement of its exchange offer is credit positive (August 21, 2018)
- Elementia S.A.B. de C.V.: Cement expansion in Mexico is credit positive (August 17, 2018)
- Sociedad Quimica y Minera de Chile S.A: Exit from Cauchari-Olaroz lithium project in Argentina is credit neutral (August 14, 2018)
- Minera Escondida Limitada: Potential strike would likely reduce margins (August 2, 2018)
- Empresa Nacional del Petroleo: Chile's rating downgrade to A1 does not affect ENAP's Baa3 rating (July 27, 2018)
- Corporación Nacional del Cobre de Chile: CODELCO'S ratings not affected by the downgrade of Chile's sovereign ratings (July 27, 2018)
- Celulosa Arauco y Constitucion S.A.: Board approval of MAPA project is credit positive (July 26, 2018)
- Petroleos Mexicanos: New energy agenda implies short-and medium-term risks for Mexico's national oil company (July 24, 2018)
- Embraer S.A: Credit impacts of partnership with Boeing depend on use of $3.8 bn proceeds (July 6, 2018)
- Telecom Argentina S.A.: Argentina Anti-trust authority's opinion on merger is credit positive (July 4, 2018)
- Arcor S.A.I.C.: Expansion to Angola is Credit Positive (July 3, 2018)
- Hidrovias do Brasil S.A.: Cancellation of contract with Mitsui has no rating impact (July 3, 2018)
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