

May 2015

Capital Controls Heighten Default Risk

Seven of nine Fitch-rated Argentine corporates have 'CCC' ratings. The others, Arcor and Pan American Energy, have 'B-' ratings with Negative Outlooks. Capital controls are prevalent in Argentina as the government seeks to stem the decline in international reserves. The risk that companies will be prohibited from transferring dollars abroad or converting pesos into dollars or euros to service debt remains high.

Strong Corporate Balance Sheets

Most Argentine corporates have strong capital structures to mitigate high inflation, government intervention and economic uncertainty, but limited access to international capital markets. The nine rated corporates had a median net leverage ratio of 3.5x in 2014 and a median liquidity ratio of cash plus FFO to short-term debt of 1.4x.

Manageable Regional Risk

Contagion risk is limited. Only 26 corporates in the region domiciled outside of Argentina have operations in that country. Tenaris, Masisa, Hochschild Mining and Cencosud are the only corporates in the group that generate more than 20% of consolidated EBITDA in Argentina. Nine Fitch-rated Latin America corporates — Ambev, Vale, Petroleo Brasileiro (Petrobras), Tenaris, Cencosud, America Movil, Empresas CMPC, Coca-Cola FEMSA and Celulosa Arauco y Constitucion — have assets valued at more than USD500 million.

Elections Spur Optimism

Presidential elections are scheduled for Oct. 25, 2015; a run-off, if necessary, would be Nov. 24, 2015. The three major candidates — Mauricio Macri, Sergio Massa and, to a lesser degree, ruling party candidate Daniel Scioli — are perceived as more business-friendly than the current administration. President Cristina Fernandez de Kircher and Nestor Kircher before her have ruled since 2003 based on a state-led development model that stifled economic growth.

Change Will Be Gradual

The new government will face significant macroeconomic, external and fiscal challenges, due to a deteriorating environment for commodity exporters and growing inconsistency of the policy framework reflected in FX market distortions, high inflation and rising deficits. Key challenges for the new administration include reaching a deal with sovereign debt holdouts and the gradual easing of currency controls.

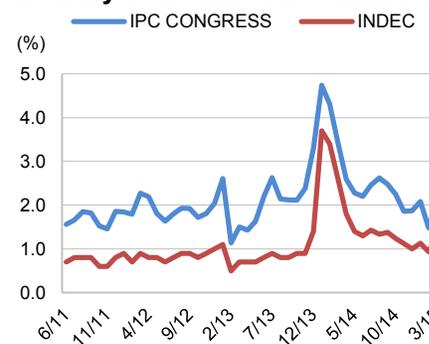
Rating Impact: Neutral

Fitch's Argentine corporates have low leverage to mitigate inflation, government intervention and limited access to debt markets and capital controls. Reliance on increasingly expensive short-term debt and anemic cash flow generation somewhat undermine capital structures. These risks are captured in the various 'CCC' ratings. Rating actions in 2015 are likely to follow those related to the sovereign. Argentina's foreign currency long-term Issuer Default Rating is 'RD'; the country ceiling is 'CCC'.

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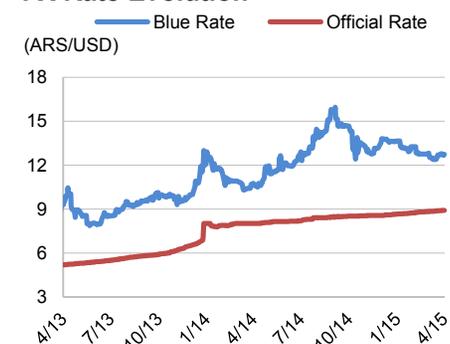
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Monthly Consumer Price Inflation



Source: INDEC, Congreso.

FX Rate Evolution



Source: Ecomatematica.

International Reserves of the BCRA



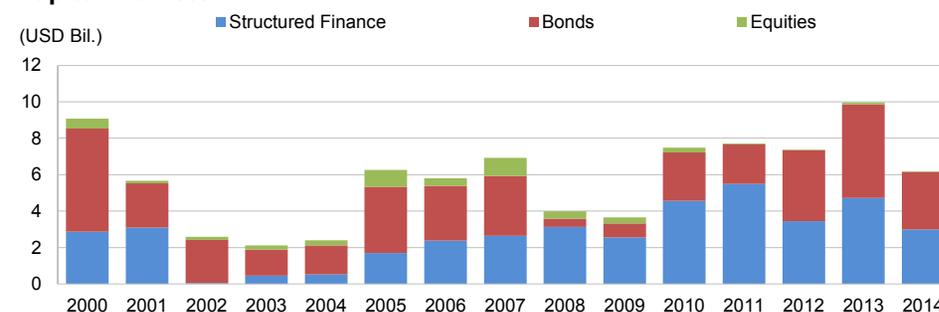
Source: Banco Central de la República Argentina.

Consumer Confidence Index



Source: UTDT.

Capital Markets



Source: IAMC.

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