

FISHER INVESTMENTS EUROPE™

EMERGING MARKETS

EM Corporate Debt: Overblown Fears and Divergent Outlooks

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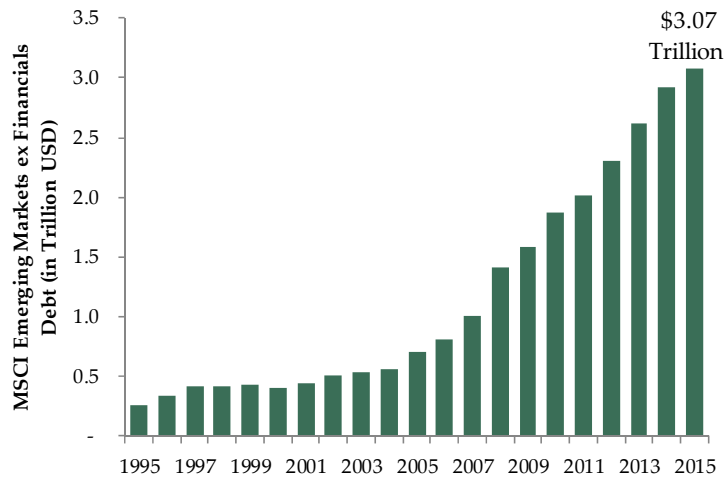
EM CORPORATE DEBT

- While EM corporate debt has grown on an absolute basis, y/y growth has slowed and overall leverage is in line with developed peers.
- Debt burden has fallen as EM corporations are flush with cash.
- Strong US dollar fears are overstated as the majority of EM corporate debt is denominated in local currency.
- Investors should focus on what kind of return EM companies achieve with their debt as leverage and profitability vary by sector.

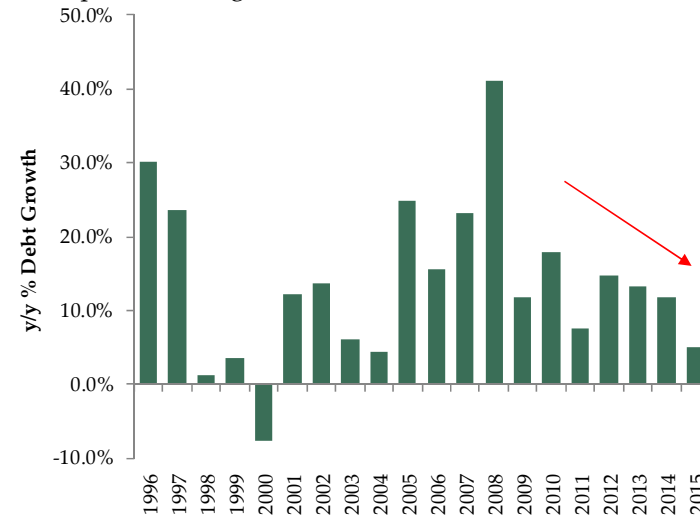
EM CORPORATE DEBT GROWTH

Many investors fear emerging markets (EM) debt is reaching all time highs. However, it is important to consider the pace of growth and put EM's debt profile in the context of developed peers.

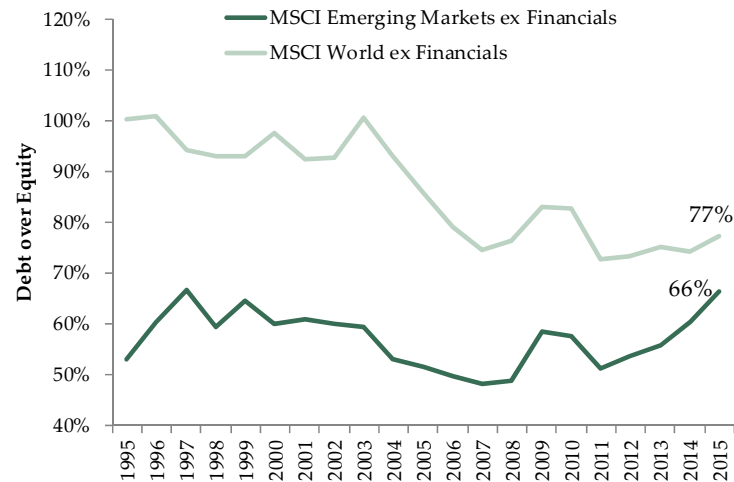
While EM corporate debt has grown on an absolute basis...



The pace of debt growth has slowed down...



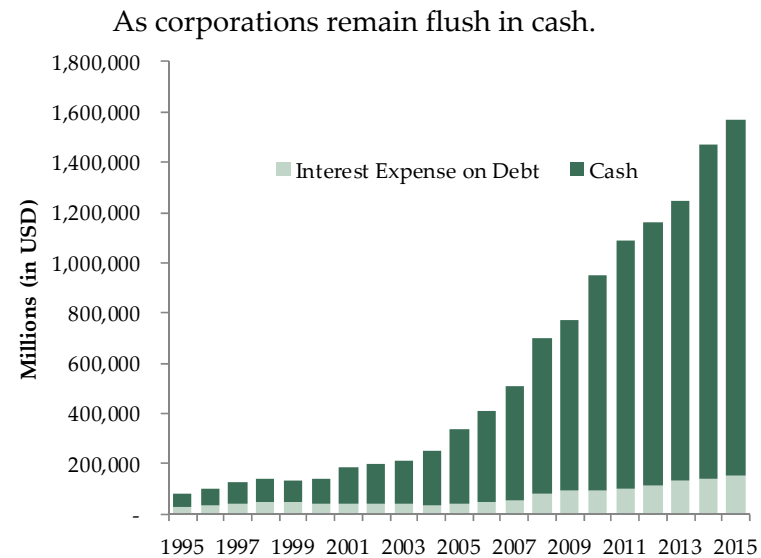
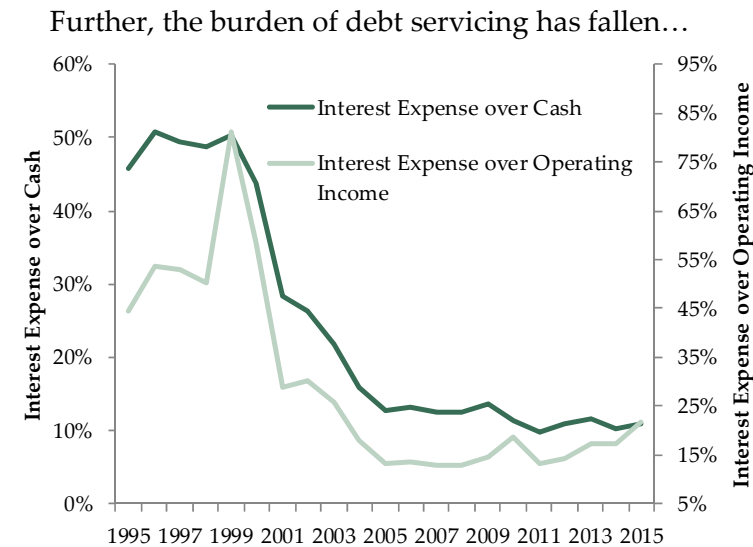
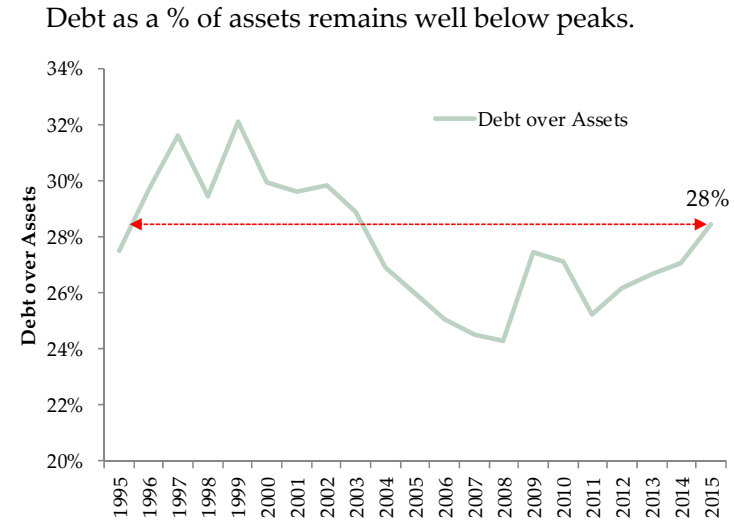
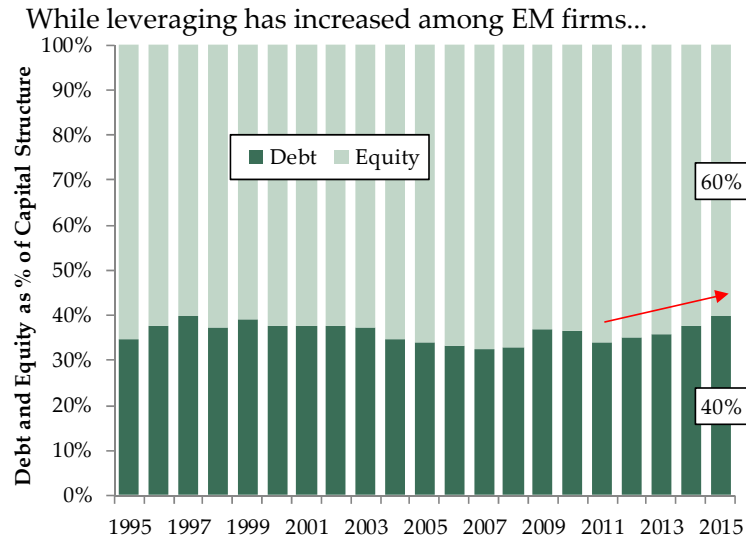
As EM's capital structure approaches developed peers.



Note: All figures and calculations based on MSCI Emerging Markets Index excluding Financials (ex FN). The Financial sector is often excluded when broadly aggregating corporate debt profiles as the leverage ratios and nature of debt among Financials differ from other sectors. Source: FactSet Portfolio Analytics as of 29/12/2015.

DEBT BURDEN ON CORPORATE FUNDAMENTALS

Despite debt growth and continued leveraging, EM corporations have seen their debt burden fall and cash assets grow.



Note: All figures and calculations based on MSCI Emerging Markets Index excluding Financials (ex FN).
Source: FactSet Portfolio Analytics as of 29/12/2015.

CURRENCY DENOMINATION OF EM CORPORATE DEBT

Meanwhile, the majority of EM corporate debt is financed in local currency rather than US dollar, mitigating the impact of currency headwinds on debt servicing. The Bank of International Settlement (BIS) estimates only 10% of EM non-financial corporate debt is denominated in US dollars.

Though estimated to be only 10%, corporate debt exposure to the US dollar varies by country. Scaling US dollar denominated corporate debt to GDP, however, puts its size into perspective.

	Total Non-Financial Corporate Debt ¹	% Denominated in US Dollar	USD Denominated Corporate Debt as % of Country GDP
Mexico	259	66%	14.5%
Indonesia	190	52%	11.3%
Turkey	398	33%	18.2%
Russia	742	29%	16.2%
Brazil	897	18%	8.5%
South Africa	111	14%	4.7%
India	1,009	10%	4.9%
Malaysia	199	10%	6.4%
Korea	1,423	8%	8.0%
China ²	NA	5%	NA

Source: "Dollar credit to emerging market economies", Bank of International Settlements Quarterly Review, December 2015 and FactSet. Figures as of 30/06/2015.

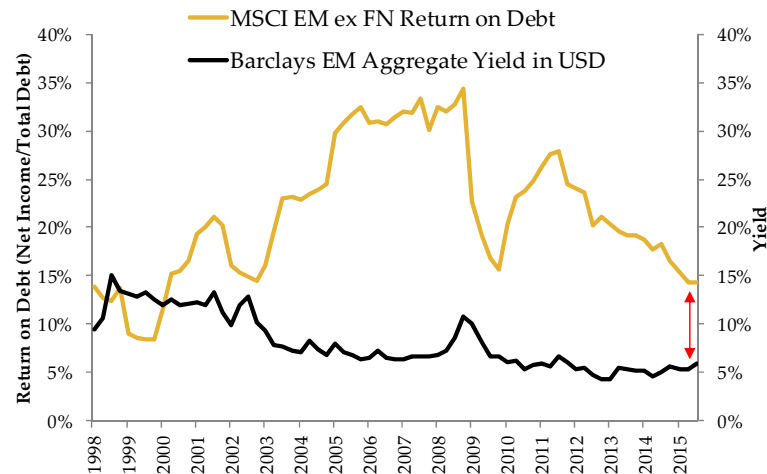
¹BIS reported non-financial corporate debt levels will differ from the MSCI Emerging Markets Index as BIS includes unlisted companies while MSCI will only cover a subset of publically traded companies. Stated in billions USD.

²China is excluded as their reported non-financial corporate debt may include Local Government Financing Vehicles (LGFVs), therefore making cross-country aggregation and comparisons problematic.

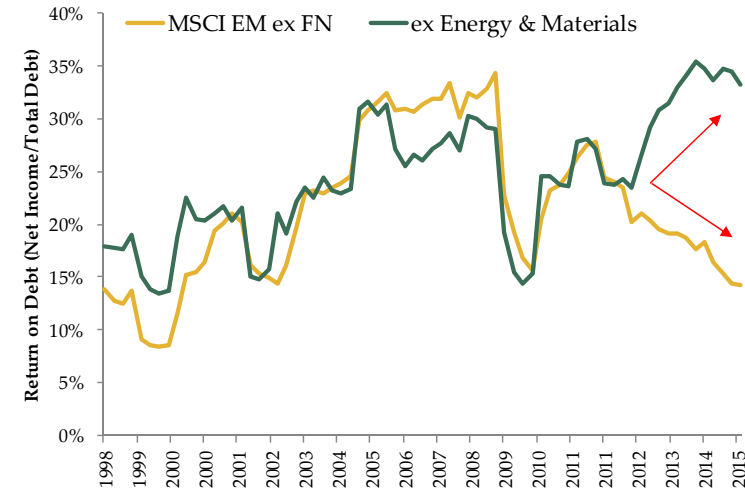
EM RETURN ON DEBT

Investors are better served focusing on what kind of return EM corporations achieve with their debt as both leverage and profitability vary by sector.

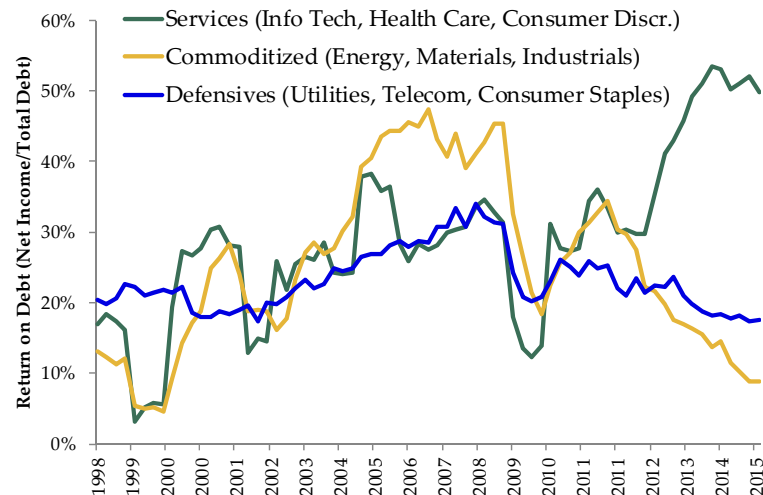
Headline Net Income/Total Debt (ROD) has fallen, reducing the spread between ROD and the prevailing cost of debt.



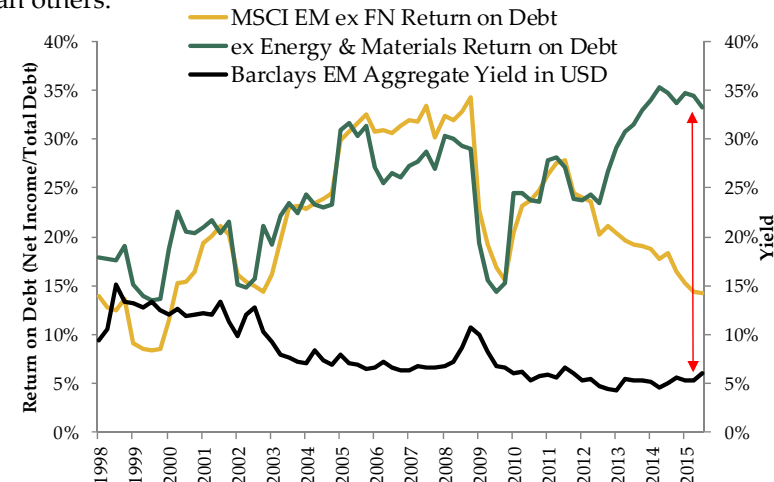
Excluding weakness in energy and materials, however, EM has actually improved its ROD...



As both leverage and profitability vary by sector...



Indicating certain categories are better positioned for rising interest rates than others.

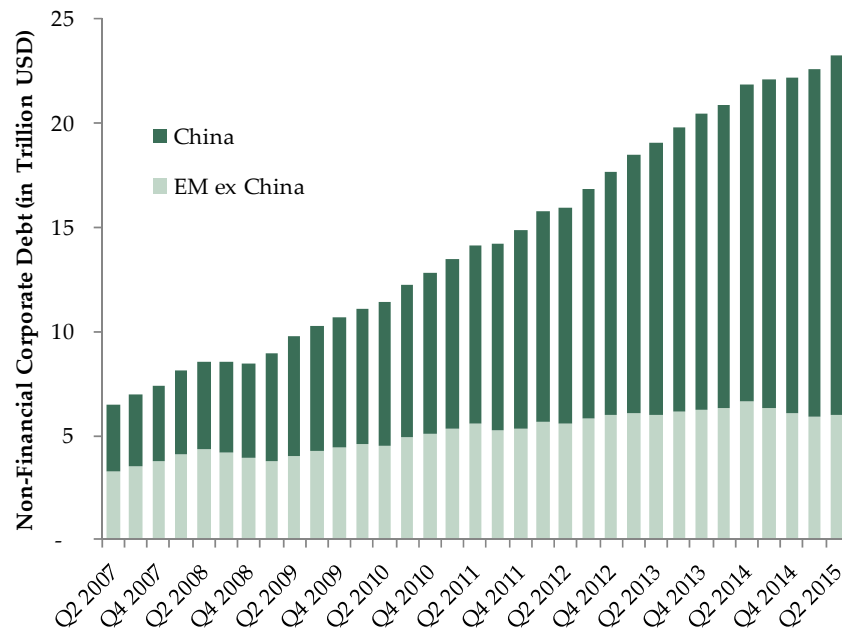


Note: All figures and calculations based on MSCI Emerging Markets Index excluding Financials (ex FN). Source: FactSet as of 30/09/2015.

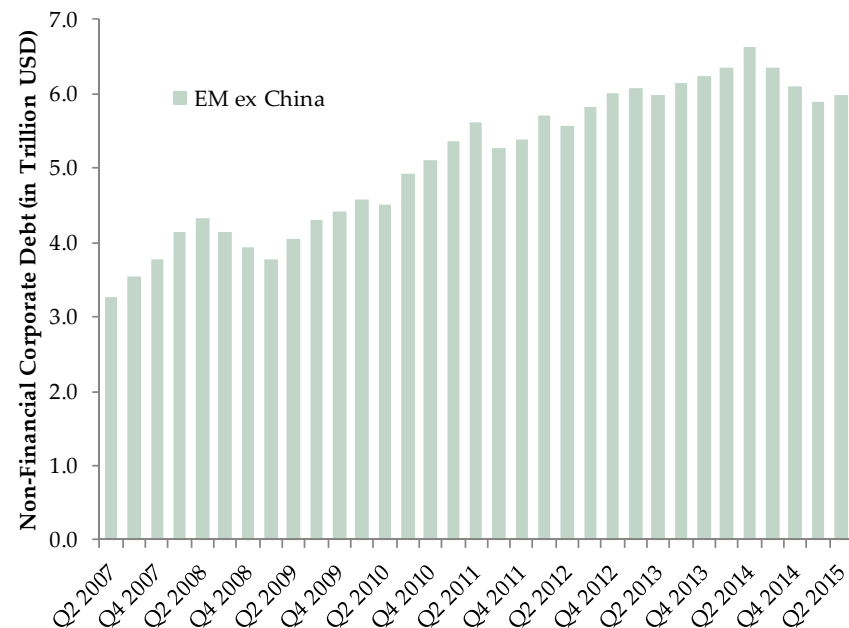
APPENDIX – BIS DATA ON EM CORPORATE DEBT

The Bank of International Settlements (BIS) compiles data on non-financial corporate debt among the largest EM. While more comprehensive than analyzing listed companies through indexes like the MSCI EM, BIS data presents its own caveats.

China possesses the lion’s share of debt. But their reported non-financial corporate debt includes Local Government Financing Vehicles (LGFVs)—making cross-country aggregation and comparisons problematic.



Excluding China reveals EM non-financial corporate debt ex China has come down off recent peaks.



Source: Bank of International Settlements Statistics on Credit to the Non-Financial Sector

¹BIS reported non-financial corporate debt levels will differ from the MSCI Emerging Markets Index as BIS includes unlisted companies while MSCI will only cover a subset of publically traded companies.

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