

Special Report

Latin American CFO and Finance Managers Survey

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Related Research

- [Special Report, Latin America Corporate Liquidity Report: Been There, Done That, Oct. 22, 2007.](#)

Overview

Fitch Ratings' Latin American CFO and Finance Manager Survey has been put together in an attempt to update and perhaps correct market perception on the outlook of managers of the largest corporations in Latin America. The survey was conducted during December 2007. Responses were received from 95 corporations in nine different countries and within 16 industry sectors.

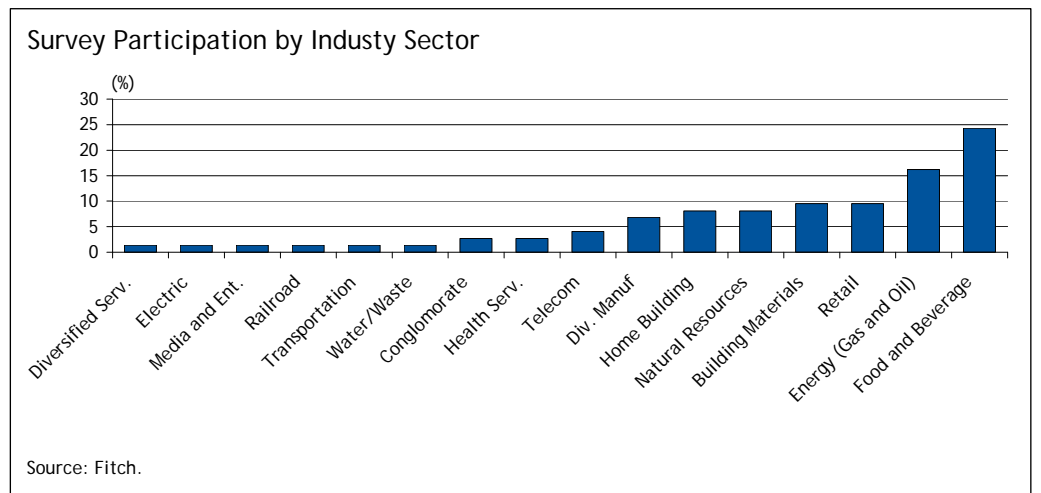
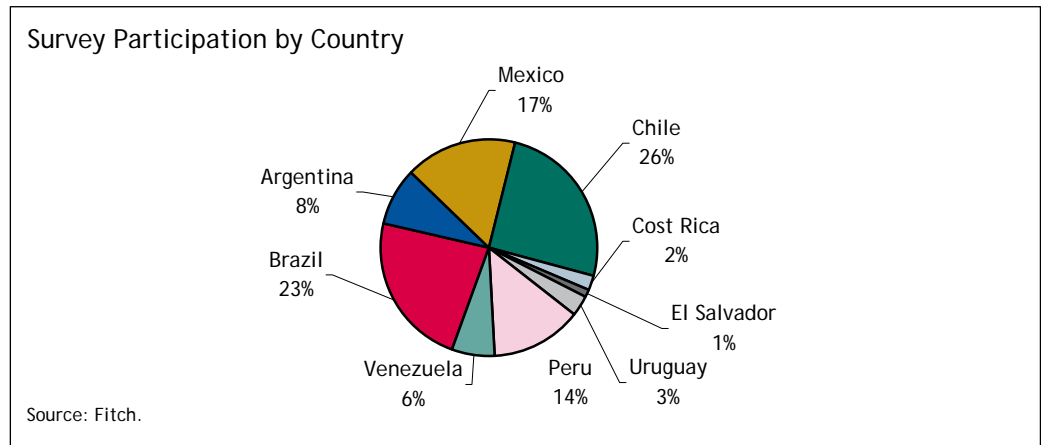
Key Findings

- **Latin American managers are bearish about US growth, but recession expectation is low.** Results from Fitch's survey indicate that Latin American corporate managers, much in line with the overall market view, expect a slowdown in US growth during 2008. The consensus among corporate managers in Latin America is that the US economy will likely grow between 1% and 2% in 2008. Most managers do not expect the slowdown to translate into a full recession, however, as only one respondent expects the US economy to contract in 2008. Corporate managers from Argentina, Mexico and Venezuela were among the most bullish; more than 50% of respondents from those countries expect US economic growth to exceed 2%.
- **Latin American domestic economies and corporations are better insulated from a US slowdown.** Most respondents to our survey felt their country's economy and businesses are now better insulated from a US slowdown than in the past. That makes intuitive sense, as both governments' and corporations' balance sheets have experienced significant improvements over the past few years. Governments have paid down international foreign denominated debt, lengthened debt maturities and built up reserves.
- **Most managers are concerned with their domestic economies first, US second and China a close third.** Responses from Latin managers appear to paint a mixed picture and only partially answer the US contagion argument. Most managers in Latin America list their domestic economy as their main concern on how their businesses will be affected in 2008. The United States came in second on their concern list followed closely by China. Only Venezuelan and Mexican managers appear to be more or equally concerned with the US economy as with their domestic economies. It is clear that managers in Latin America feel the US economy is becoming a smaller share of the global economy. Therefore, based on their answers, we can interpret that managers feel a contraction in the US economy has less of an effect on global growth than previously; however, they do not feel this guarantees that the rest of the world, especially Latin America, can completely decouple from the United States.
- **Double-digit revenue growth is expected by the majority.** According to respondents, 2008 should prove to be another good year for corporations in Latin America. Most companies expect revenue growth in 2008 compared with 2007. In fact, more than 50% of respondents expect revenue growth higher than 10% in 2008. Meanwhile, only 5% of respondents—all from Chile—expect lower revenues in 2008 than in 2007. Brazilian managers appear to be the most bullish; especially positive are Brazilian corporations in the homebuilding and agribusiness sectors.

They have benefited from historically low interest rates and growing export opportunities.

- **Higher profits driven by lower costs, coupled with higher volumes and prices.** Profit margins will also trend higher in 2008, according to respondents. More than 50% of respondents expect higher profit margins, while 30% expect profit margins to remain flat and 10% expect lower profit margins. Major drivers are expected to be higher volumes, lower costs and higher prices.
- **Overall growth will feed into capital spending.** Only a mere 9% of respondents expect lower capital-expenditure spending in 2008. Brazilian companies will be the biggest spenders in 2008, as they continue to take advantage of easier access to funds due to a rapid development of domestic capital markets and opportunities to consolidate fragmented sectors.
- **Companies will access the capital markets with a bias toward their domestic markets.** Despite the credit crunch, Latin American companies will seek to access the debt markets in 2008. More than 70% of respondents plan to borrow funds; most of them hope to do it through the domestic market. This is likely a continuing trend. Respondents from Venezuela are not expected to access the international debt capital markets; which may be an indication of a lack of willingness from international lenders.

Methodology



Argentina

Argentine managers were among the most bullish about US growth in 2008. Of the eight respondents, 63% expect US economic growth to be in the range of 2%–3%, while 25% project growth to be between 1% and 2%. The majority of the leaders surveyed in Argentina believe that both the domestic economy and the businesses they work for are largely insulated from a US contagion effect. Given the composition of respondents, it is not surprising they listed concern about the Argentine economy above that of either China or the United States.

Corporate performance in Argentina during 2008 looks promising. Essentially all managers that responded to the Fitch survey expect higher revenues for the year; however, inflationary pressures may continue to be an issue as more managers expect flat margins affected by higher cost only partially offset by higher prices. One may interpret the responses as managers' expectations of continued government intervention and retention of price controls on many consumer staples. Nonetheless, corporations will invest in their businesses at a higher rate in 2008, and most intend to access the capital markets to finance some of that investment.

Brazil

There will be no US recession in 2008, according to Brazilian managers. Of the 22 respondents, 72% expects the US economy to grow between 1% and 3%. Brazilian corporate managers have cited their own economy as a major concern, according to 45% of respondents. It is important to note that the United States came in as a close second at 36%. Despite concerns by several of the companies about the negative effect upon their businesses of a US slowdown, they remain relatively upbeat about their business prospects in 2008 due to a historically low interest rate environment and low inflationary expectations. All 22 respondents expect higher revenues in 2008. Fifteen of the managers expect higher revenues to be accompanied by higher profit margins. Brazilian companies will be the biggest spenders in 2008 as they continue to take advantage of a developing domestic capital markets and seek to consolidate fragmented industries.

Chile

The Chilean economy is more dependent on US exports than either Brazil or Argentina. Therefore, it was not surprising to find corporate managers more bearish about US growth and its effect on their businesses. In fact, 13% of the respondents expect US economic growth to be less than 1%, and 91% expects US economic performance in 2008 to have a negative or neutral effect on their businesses. Meanwhile, other than their domestic economy, Chilean managers are most concerned about China's economy. Therefore, it is not a stretch to assume Chilean managers see a high correlation between the US and Chinese economic performances. With an optimistic outlook for elevated commodity prices, Chilean companies are expecting higher revenues and profit margins than in 2007. A majority is also expecting higher capital expenditures, partially funded by borrowed funds that are mostly raised domestically.

Mexico

Among all Latin American economies, Mexico's is the most dependent on exports to the United States. Exports to the United States made up approximately 23% of the Mexican GDP during 2006. Therefore, we were not surprised to find that Mexican corporate managers are concerned about a US slowdown and its contagion effect to their businesses. Interestingly, the same number of managers listed the US economy as more concerning than their domestic economy. Mexicans were modestly bullish on their expectation of US growth in 2008. In fact, all respondents expect the US economy to grow, and 43% expects growth between 2% and 5%.

US growth optimism appears contagious, as all respondents expect businesses to generate higher revenues in 2008, with more than 50% expecting double-digit growth. Higher profit margins are also expected by 50%, while 25% expects flat margins and 25% expects lower margins. Similar to financial managers in other markets, the majority of the chief financial officers (CFOs) in Mexico intend to spend more on their businesses in 2008 than they did in 2007; however, only half will be borrowing funds to do so.

Peru

A top producer of silver, copper and zinc, Peru is growing more dependent on exports to the United States. This is likely to be more prominent in the coming years, as the Peruvian government entered into a free-trade pact with the United States in December 2007. Despite such an event, Peruvian respondents believe their domestic economy and businesses are better insulated from a US contagion effect than in previous years. According to a majority of respondents, the US economy will not go into a recession in 2008. They were, however, conservative on US growth expectations, with a majority of responses placing growth at around 1%–2%. A majority also expects higher revenues and capital expenditures in 2008 and anticipates mostly accessing the domestic debt markets to fund it.

Other Latin America

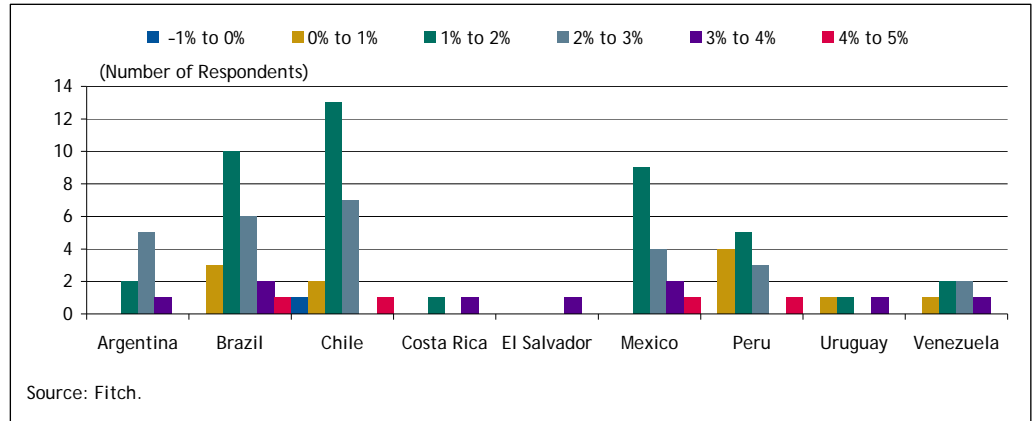
In our survey, this segment was made up Uruguay, Venezuela, Costa Rica and El Salvador. The Uruguayan respondents expect US growth to be in the range of 1%–2% in 2008. Uruguayan managers were less convinced about their domestic economic insulation from a US contagion effect (only 33% feels the economy is better insulated, 33% feels it is not better insulated and 33% feels it is the same as previous years). They were a bit more positive about their businesses, with 66% of respondents stating their businesses are better insulated from the United States. A majority expects higher revenues and capital expenditures in 2008 and anticipates mostly accessing the domestic debt markets to fund it.

Despite much contention between the US and Venezuelan governments, Venezuelan respondents were the most concerned about the US economy. In fact, they are more concerned about the performance of the US economy than the performance of their domestic economy and how it may affect their businesses. A majority also felt that neither their domestic economies nor their businesses are better insulated from a US slowdown. Despite their concern, all respondents expect higher revenues, and a majority anticipates higher profit margins in 2008. All respondents plan to increase capital expenditures, and a majority will access the debt markets in order to fund it. However, none of the respondents from Venezuela expects to access the international debt capital markets; which may be an indication of a lack of willingness to lend by international investors.

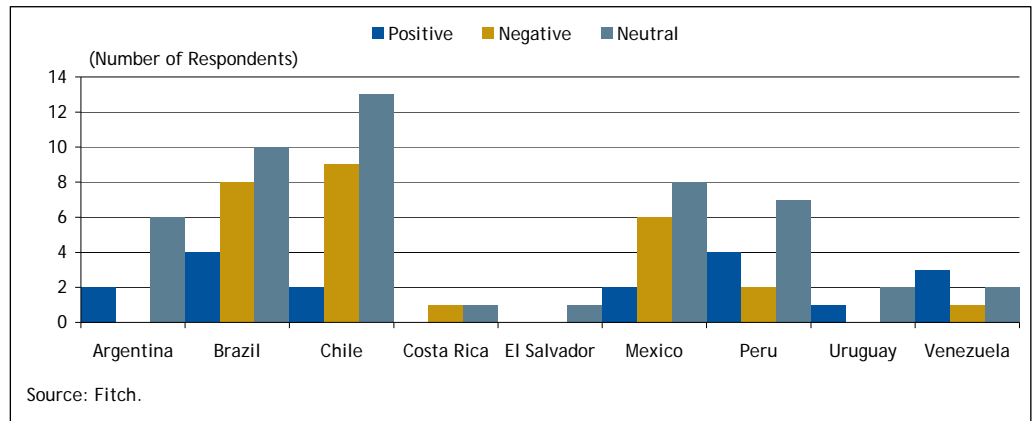
Both the Costa Rican and Salvadoran respondents were perhaps the most bearish in their responses as related to both their domestic economies and business performances in 2008. They were also conservative in their expectation of US growth, but neither expects a US economic recession. A decoupling from the US economy was not present in their views, as all respondents expect US economic performance in 2008 to have either a negative or neutral effect on their businesses. In addition both groups felt their domestic economies were not better insulated from the United States. However, both will be spending more on their businesses and will access the debt markets in 2008.

Detailed Summary of Results

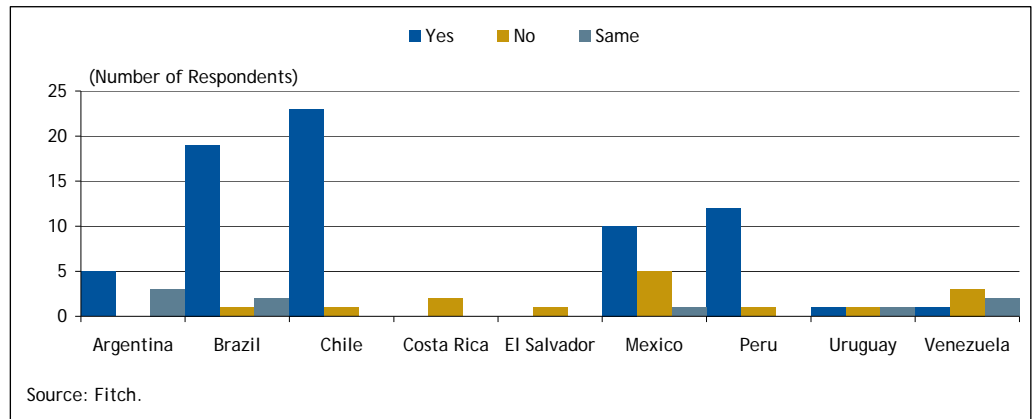
1. What are your expectations of growth for the United States in 2008?



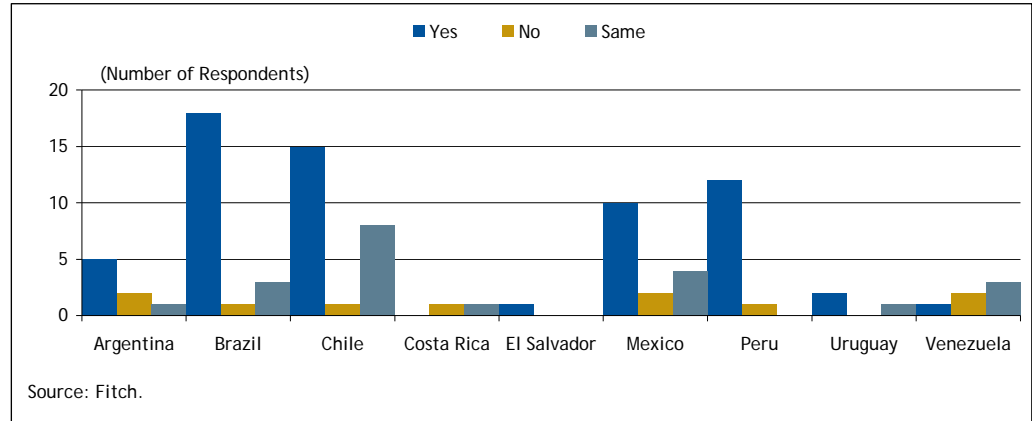
2. How do you think US growth will affect your business in 2008?



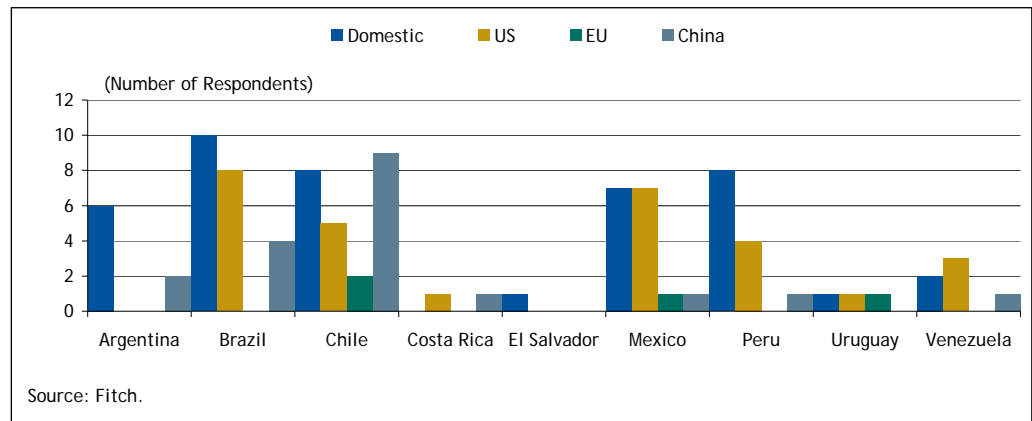
3. Do you believe your country's economy is better insulated from a US slowdown today than five years ago?



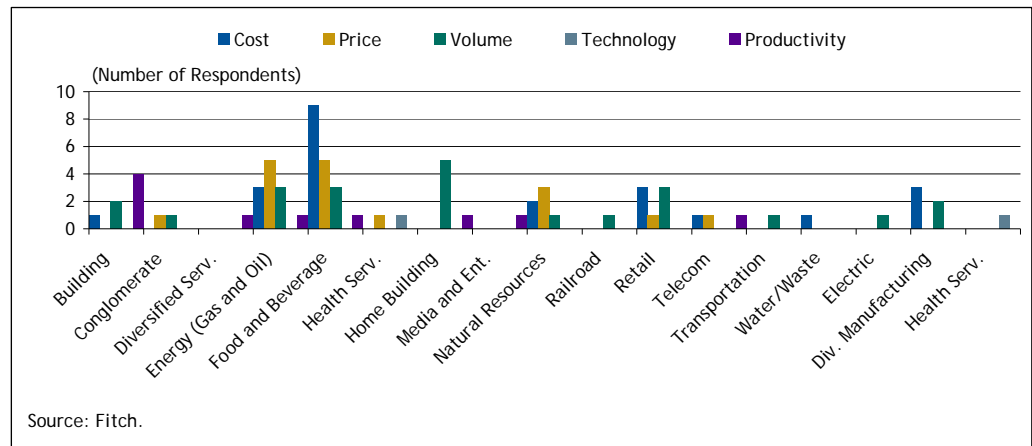
4. Do you believe your company is better insulated from a US slowdown today than five years ago?



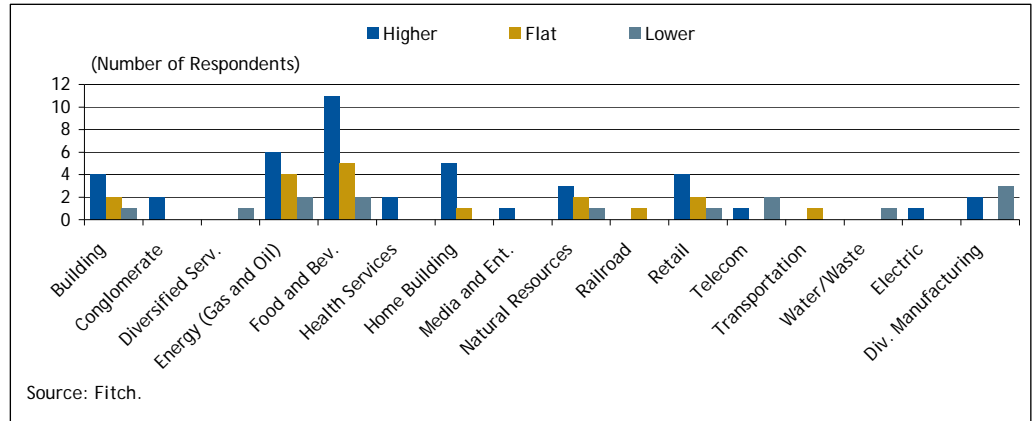
5. Which country's economic growth in 2008 are you most concerned about?



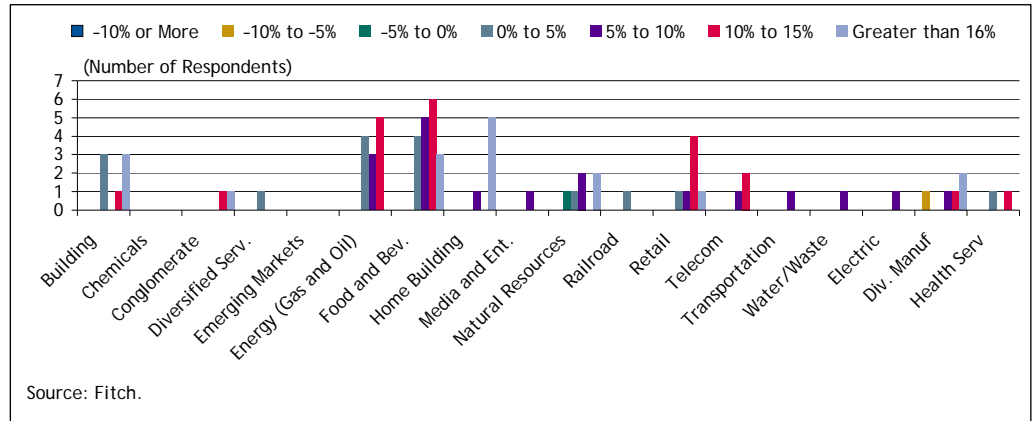
6. How do you expect your company's sales to change in 2008 compared with 2007?



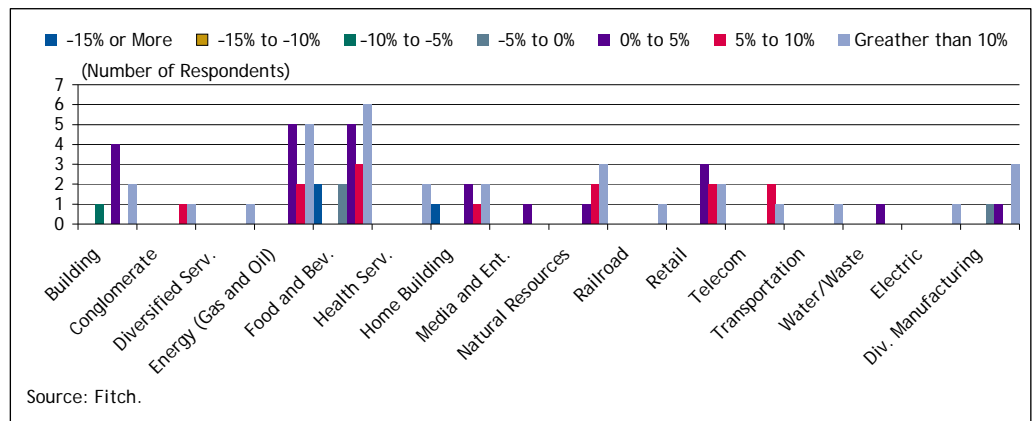
7. How do you expect profit margins to change in 2008 compared with 2007?



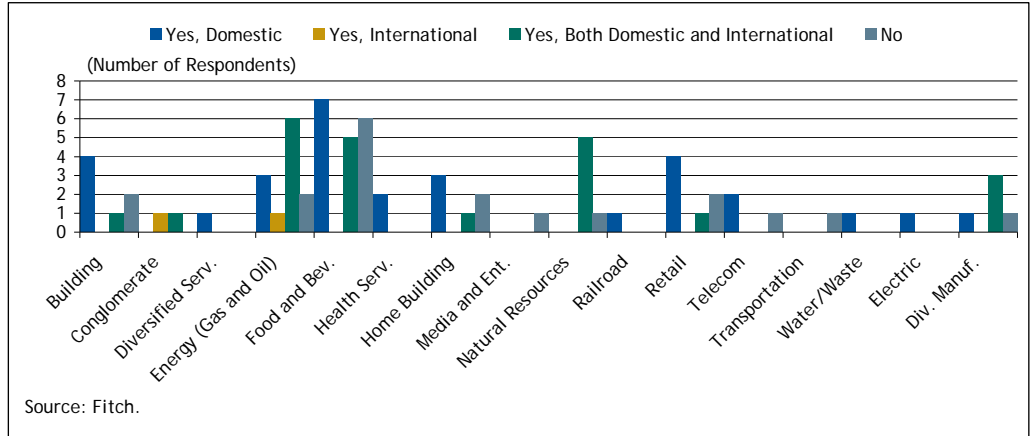
8. What do you expect to be the major driver of profit margin changes in 2008 compared with 2007?



9. How do you expect your company's capital spending to change in 2008 compared with 2007?



10. Do you expect to access the debt capital markets in 2008?



Appendix 1

The following issuers responded to the survey:

Company	Country	Industry	IDR
Aceitera General Deheza	Argentina	Food, Beverage and Tobacco	NR
Agricola AGD	Argentina	Food, Beverage and Tobacco	A1(arg) ^b
Cerveceria y Malteria Quilmes S.A.	Argentina	Food, Beverage and Tobacco	BB
Empresa Distribuidora Sur S.A. (Edesur)	Argentina	Electric	A+(arg) ^a
Grimoldi S.A.	Argentina	Diversified Manufacturing	BBB+(arg) ^a
Petrobras Energia S.A. (PESA)	Argentina	Energy	BB
S.A. Importadora y Exportadora de la Patagonia	Argentina	Retailing	AA-(arg) ^a
Sideco Americana S.A.	Argentina	Diversified Services	B+(arg) ^a
Arantes Alimentos Ltda	Brazil	Food, Beverage and Tobacco	B
Braskem S.A.	Brazil	Chemicals	BB+
Camargo Correa S.A.	Brazil	Building Materials and Construction	BB
Cemig Geracao Transmisao S.A.	Brazil	Electric	A+(bra) ^a
Cia. Telecomunicacoes do Brasil Central S.A. (CTBC Telecom)	Brazil	Telecommunications	A(bra) ^a
Companhia Brasileira de Distribuicao S.A.	Brazil	Retailing	A(bra) ^a
Companhia de Bebidas das Americas (AmBev)	Brazil	Food, Beverage and Tobacco	BBB
Companhia Paranaense de Energia (COPEL)	Brazil	Electric	AA-(bra) ^a
Companhia Siderurgica Nacional (CSN)	Brazil	Natural Resources	BBB-
Companhia Vale do Rio Doce (CVRD)	Brazil	Natural Resources	BBB-
Concessionaria Rio-Teresopolis (CRT)	Brazil	Transportation	A+(bra) ^a
Construtora Norberto Odebrecht S.A. (CNO)	Brazil	Building Materials and Construction	BB+
Energisa S.A.	Brazil	Electric	A(bra) ^a
Even Construtora e Incorporadora S.A.	Brazil	Building Materials and Construction	B+
Gafisa S.A.	Brazil	Homebuilding	A-(bra) ^a
Ita Energetica S.A.	Brazil	Electric	AA-(bra) ^a
Martins Comercio e Servicos de Distribuicao	Brazil	Retailing	BBB+(bra) ^a
Minerva S.A.	Brazil	Food, Beverage and Tobacco	B+
Petroflex Industria e Comercio S.A.	Brazil	Chemicals	A-(bra) ^a
Rede Empresas de Energia Eletrica S.A.	Brazil	Electric	B
Tractebel Energia S.A.	Brazil	Electric	AA(bra) ^a
Banmedica S.A.	Chile	Health Care	A+(chl) ^a
Besalco S.A.	Chile	Building Materials and Construction	BBB+(chl) ^a
Celulosa Arauco y Constitucion S.A.	Chile	Natural Resources	BBB+
Chilquinta Energia Finance Co. LLC	Chile	Electric	BBB-
Coca-Cola Embonor S.A.	Chile	Food, Beverage and Tobacco	BBB-
Corporacion Nacional del Cobre de Chile	Chile	Metals and Mining	A
Cristalerias de Chile S.A.	Chile	Diversified Manufacturing	AA(chl) ^a
ElectroAndina S.A.	Chile	Electric	BB
Empresa de Servicios Sanitarios del Bio-Bio (Essbio)	Chile	Water/Wastewater	AA(chl) ^a
Empresas Carozzi S.A.	Chile	Food, Beverage and Tobacco	A+(chl) ^a
Empresas CMPC S.A.	Chile	Natural Resources	A-
Enaex S.A.	Chile	Diversified Manufacturing	A+(chl) ^a
Invertec Pesquera Mar de Chiloe S.A.	Chile	Food, Beverage and Tobacco	BBB(chl) ^a
Molibdenos y Metales S.A. (Molytmet)	Chile	Natural Resources	BBB
Saitec S.A.	Chile	Real Estate	A+(chl) ^a
Sigdo Koppers S.A.	Chile	Diversified Manufacturing	A(chl) ^a
Sociedad Anonima Vina Santa Rita	Chile	Food, Beverage and Tobacco	A+(chl) ^a
Transelec S.A.	Chile	Electric	BBB-
Watt's S.A.	Chile	Food, Beverage and Tobacco	A(chl) ^a
ILG Logistics, S.A. y Subsidiarias	Costa Rica	Diversified Services	A+(cri) ^a
Compania Nacional de Fuerza Electrica S.A.	Costa Rica	Electric	AAA+[(cri) ^a
Distribuidora de Electricidad del Sur, S.A. de C.V.	El Salvador	Electric	AAA(slv) ^a
Alestra, S. de R.L. de C.V.	Mexico	Telecommunications	B-
CMR, S.A.B. de C.V.	Mexico	Food, Beverage and Tobacco	F2(mex) ^b
Controladora Comercial Mexicana, S.A. de C.V.	Mexico	Retail	BBB-
Corporacion Durango, S.A. de C.V.	Mexico	Natural Resources	B
Femsa S.A.B. de C.V.	Mexico	Food, Beverage and Tobacco	AAA(mex) ^a
Gruma, S.A. de C.V.	Mexico	Food, Beverage and Tobacco	BBB-
Grupo Industrial Saltillo, S.A. de C.V.	Mexico	Industrial Conglomerate	AA-(mex) ^a
Grupo Mexico, S.A. de C.V.	Mexico	Natural Resources	BBB-
Grupo Senda Autotransporte, S.A. de C.V.	Mexico	Transportation	B+
Inmobiliaria GEUSA, S.A. de C.V.	Mexico	Food, Beverage and Tobacco	AA+(mex) ^a
Proquifin, S.A. de C.V.	Mexico	Pharmaceuticals, Health Care	BBB+(mex) ^a

^aNational long-term rating. ^bNational short-term rating. IDR – Issuer default rating. NR – Not rated.

Appendix 1 (continued)

The following issuers responded to the survey:

Company	Country	Industry	IDR
Urbi Desarrollos Urbanos, S.A.B. de C.V.	Mexico	Homebuilding	BB
Vitro S.A.B. de C.V.	Mexico	Building Materials & Construction	B
Southern Copper Corporation	Peru	Natural Resources	BBB
Telefonica del Peru, S.A.A.	Peru	Telecommunications	BBB-
Coop. Nacional de Productores de Leche (Conaprole)	Uruguay	Food, Beverage and Tobacco	A+(ury) ^a
Hipica Rioplatense Uruguay S.A.	Uruguay	Media and Entertainment	A-(ury) ^a
Corporacion Digitel, C.A.	Venezuela	Telecommunications	AA-(ven) ^a
Corporacion Industrial Americer	Venezuela	Building Materials and Construction	CCC+(ven) ^a
Industrias Unicon C.A.	Venezuela	Building Materials and Construction	AA-(ven) ^a
Inelectra S.A.C.A.	Venezuela	Building Materials and Construction	A-(ven) ^a
Venequip, S.A.	Venezuela	Capital Goods	A(ven) ^a

^aNational long-term rating. IDR – Issuer default rating.

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