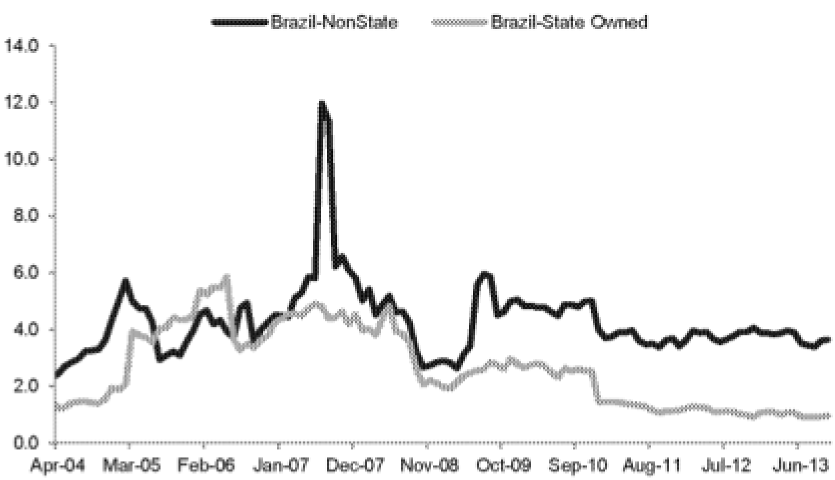
LATIN AMERICA

Brazil – cheap but fundamentals continue to deteriorate

Brazil has been by far the worst performing major emerging market over the past three years, mainly because of the dramatic policy shift towards state capitalism, which has taken place since the financial crisis. The propensity of the government to intervene in the corporate sector is reflected in the ongoing de-rating of the state-controlled listed companies in both absolute terms and relative to their private sector peers (Figure 58). The outstanding company specific issue at present is the extent to which Petrobras is forced to subsidise the rest of the economy via both product prices which impose losses on the company, and also through a very demanding local content requirement for equipment suppliers. The recent decision to grant the company relatively small price increases, but without an automatic price adjustment mechanism, indicates that shareholders in Petrobras will have to foot part of the bill for the PT's efforts to win the election(s) in October.

Figure 58: Average P/BV ratio of non-state versus state-owned companies



Source: Deutsche Bank, Bloomberg Finance LP