

Clustered Emerging Market Corporate Maturities to Bring Opportunities for Distressed Investors

January 31, 2011

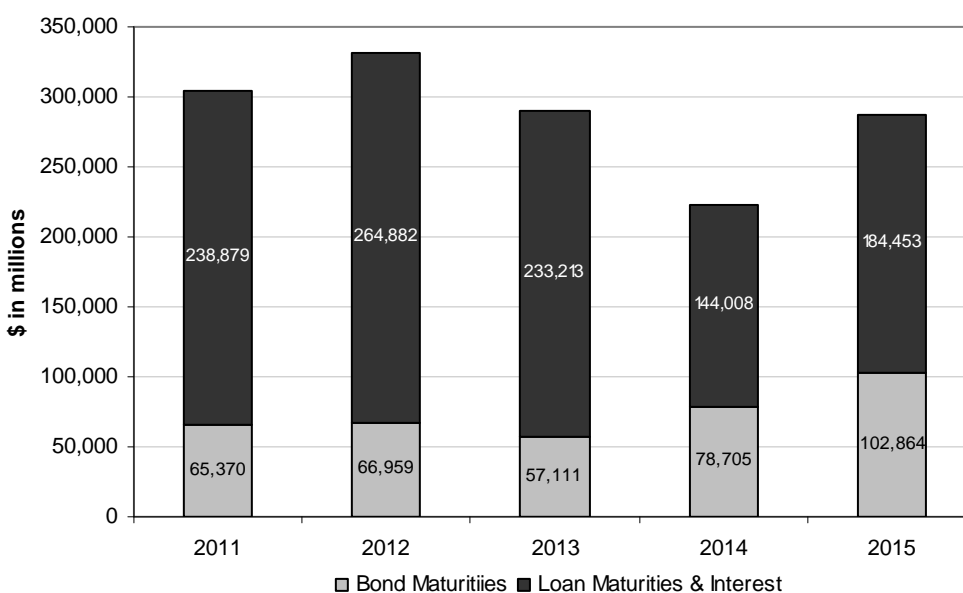
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I. Overview

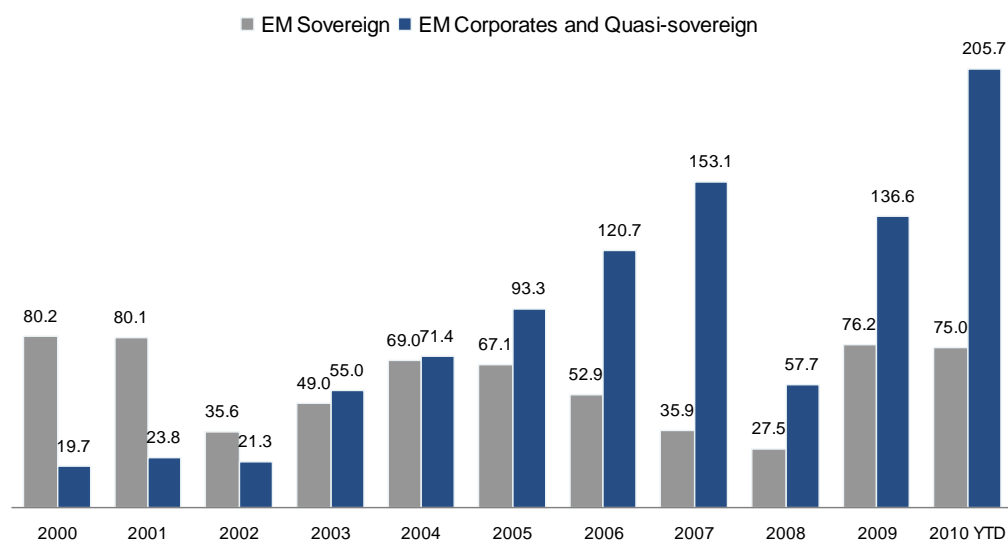
Emerging markets corporate credit has seen an unprecedented two-year performance, as low G3 rates, sluggish growth in the developed world, and the continued hunt for yield caused spreads to compress to levels near all-time lows. Companies have taken advantage of the very low yields to refinance their upcoming bond and loan maturities and reduce their cost of debt. However, there is still a significant amount of corporate debt maturing over the next five years. ING estimates that there are \$1.38 trillion of corporate bonds and loans maturing by 2015, which represent about 57% of the total debt outstanding as of December 2010 (See Exhibit 1). Looking to 2011 and beyond, we envisage an environment of tighter monetary policy in emerging markets that will weigh on credit quality and on high yield credit availability. Therefore, we see a high likelihood of a wave of defaults in the near term, mainly among vintages from the 2005-2007 halcyon days and from the 2009-2010 new issue binge.

Exhibit 1: EM Corporate Bonds & Loans – Maturities by Year



Source: ING, December 2010

In particular, the loans and bonds maturing in the next few years loom large in light of the market's capacity. There is still a significant maturity mountain to address; ahead of this, there are also amortizations to pay down. Maturities and amortizations will be crucial for determining loan defaults as many leveraged loans, especially the 2006/07 LBO vintages, were issued "covenant-lite." This makes it more difficult to monitor covenant breaches for early default signals. Recent forbearance activity and low-rate environment has helped lower default rates, as companies increasingly used the bond market to push out the maturity wall or undertook "amend and extend" transactions. Credits which once traded at distressed levels have shown that this can be done when capital markets are open. However, refinancing such stressed credits can be difficult to achieve if volatility emerges and/or liquidity dries up due to European sovereign woes. Having said that, we believe the catalyst for opportunities in the distressed debt market will come from borrowers hitting their maturity and amortization dates. The 2005-2007 boom in lending showed falling underwriting standards, which we would expect to increase the chance of future restructurings. We expect another generalized round of corporate defaults in 2011 and 2012, as the combination of a heavy amount of corporate debt maturities and potential rise in interest rates will likely drive many companies into default. We highlight below the massive issuance of corporate debt in emerging markets in 2005-2007.

Exhibit 2: New Issue Volume of Emerging Markets Sovereign and Corporate Bonds (\$ in billions)

Source: JPMorgan, December 2010

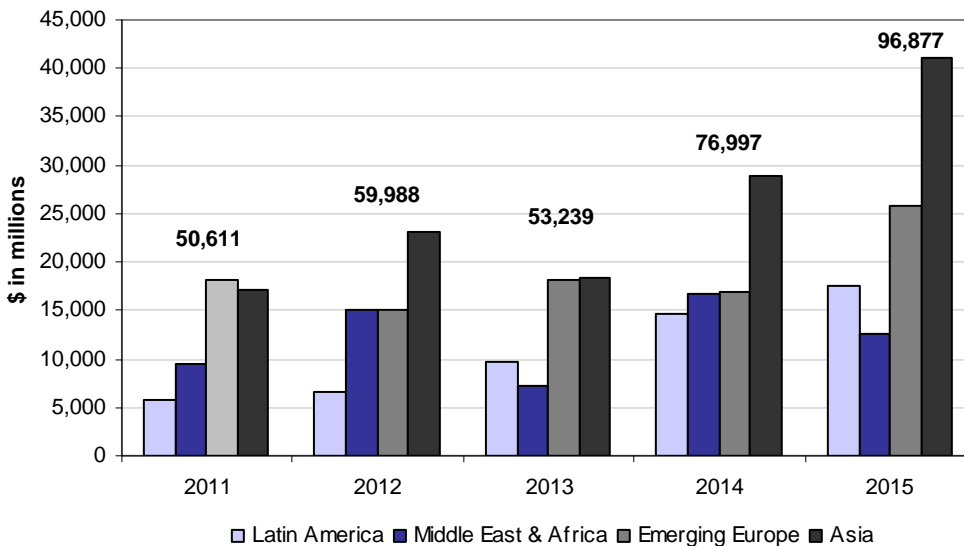
Furthermore, the recent spate of high yield bond issuance is favorable for the distressed pipeline given the probabilities of default within 2-3 years from issuance peaks. After more than \$200 billion in corporate issuance this year, JPMorgan expects issuance to decline to \$165 billion in 2011. We note that the credit quality of issuers in 2010 was lower with high-yield bonds accounting for 26.1% of all new bonds, compared to 18.2% in 2009.

While this maturity bulge is also seen in the developed markets, there are some significant differences in the nature of the underlying assets. First, and most importantly, the catalyst for default is less likely to be due to the poor credit metrics of the individual debtor and more of what we perceive to be a lack of risk appetite for emerging markets credit by international investors which will preclude refinancing. This is crucial as local capital markets in emerging markets are at best undeveloped and, outside of China, few developing countries have banking systems that provide any significant capital to local private companies. Both the capital markets and leverage loan markets are going to be focused on the problems in the developed markets of the US and Europe and we expect there will be little interest in searching for yield and providing refinancing for the maturing debt in the emerging markets. Secondly, most of the borrowers/issuers in emerging markets typically have far better individual credit metrics than developed country debtors. While private equity and LBO financings were being done in the US and Europe at 6-9x leverage in 2005-08, emerging markets deals were still being done at more standard 3-4x leverage levels. Finally, the economies of the emerging markets are in far better financial condition than most of those in the developed world which should provide support for the underlying rebound of the debtors once they get the liquidity relief.

II. Debt Maturities Profile

The size of debt maturities is much higher for corporate loans than that for bonds. ING estimates that loan maturities and amortizations will reach \$1.38 trillion over the next five years. There are over \$225 billion in loan repayments in 2011, which represents 14% of the \$1.7 trillion loans outstanding as of December 2010. Bond maturities will total \$371 billion over the next five years, with \$65 billion coming due in 2011, representing 9% of the \$742 billion in bonds outstanding as of December 2010. For corporate bonds, the amount due in 2011 compares favorably with the \$206 billion of new bond issuance in 2010. JPMorgan estimates that the region with the largest maturity amount is Asia, led by South Korea and Hong Kong, with 23% of total debt maturing from 2011 to 2015. Financial issuers represent by far the largest amount of debt due, followed by the oil & gas and utilities sectors. These country and industry breakdowns are in line with the market composition. The majority of the debt maturities are by investment grade issuers. Note that JPMorgan and ING differ in their maturity estimates.

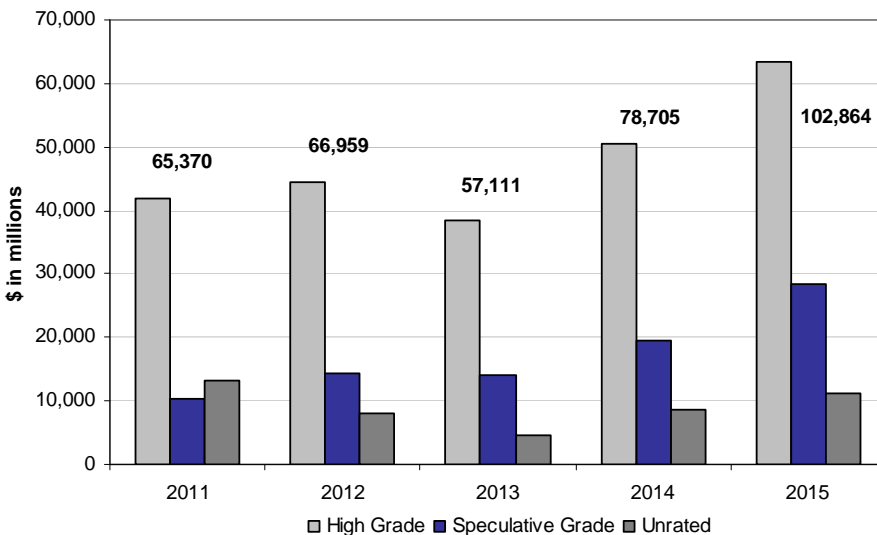
Exhibit 3: EM Corporate Bond Maturities by Region



Source: JPMorgan, December 2010

The largest bond maturity in 2011 is by PDVSA (Venezuela) with a \$2.45 billion bond due on July 10, followed by Gulf Investment (Kuwait) with €400 million due on May 30, and UkrSibbank (Ukraine) with \$500 million due on December 21 and \$250 million on August 4. For loans, the largest maturities are from Investment Corporation of Dubai with a \$3.75 billion facility due on September 30, followed by Essar Communications with a \$3.59 billion facility due on December 8. (See Appendices A & B for detailed list).

Exhibit 4: EM Corporate Bond Maturities by Rating



Source: ING, December 2010

Exhibit 5: EM Corporate Bond Maturities by Sector

Bond Maturities by Sector	2011	2012	2013	2014	2015
Consumer	1,652	1,379	1,556	2,295	1,853
Diversified	2,207	514	6,629	3,355	6,853
Financial	33,173	36,030	16,907	21,709	45,856
Industrial	738	2,371	828	3,942	3,412
Infrastructure	500		2,420	1,272	1,700
Metals & mining	200	1,329	3,542	3,058	4,453
Oil & gas	2,542	8,096	9,923	18,062	12,224
Pulp & Paper	475	500	600	400	400
Real Estate	2,265	3,025	1,250	8,524	6,751
TMT	1,490	2,292	2,564	7,340	6,142
Transport	962	863	316	1,445	769
Utilities	3,947	3,296	6,674	5,596	6,083
Residual	461	292	31		382
Total	50,611	59,988	53,239	76,997	96,877

Source: JPMorgan, December 2010

Exhibit 6: EM Corporate Bond Maturities by Country

Bond Maturities by Country	2011	2012	2013	2014	2015
Russia	8,379	7,366	13,090	9,413	12,302
Korea	6,624	13,943	6,832	14,574	13,586
Hungary	4,378	764	723		915
UAE	4,031	8,637	5,020	8,341	3,500
Brazil	3,139	1,341	4,177	1,985	7,219
Singapore	3,092		2,262	300	3,947
Hong Kong	2,758	1,350	6,540	4,645	6,998
Supranational	1,840	929	855	2,416	1,063
India	1,782	3,668		1,350	4,957
Ukraine	1,657	1,658		1,707	2,735
Saudi Arabia	1,429	1,000	991		2,700
Kazakhstan	1,392	470	3,246	1,671	3,220
Indonesia	1,147	683	141	1,150	2,016
Subtotal	41,646	41,809	43,877	47,553	65,157
% of total	82.3%	69.7%	82.4%	61.8%	67.3%

Source: JPMorgan, December 2010

III. Conclusion

The coming debt maturities bulge increases the risk of default for low quality credits. While bond maturities are relatively low and likely to be refinanced if the current monetary conditions continue, the large amount of loan maturities is likely to pose difficulties for banks. International financial institutions continue to be conservative in their lending practices as these reduce the riskiness of their loan portfolios and adhere to tighter regulatory requirements. Many of these EM corporate will have to look for alternative sources of finance or restructure their loans. However, only the high-quality EM companies have access to the local capital markets.

Monetary tightening is another factor that will likely put pressure on companies to default in the coming years. The unprecedented monetary stimulation from the past two years will necessarily end soon and the reversal will have a negative impact on corporate earnings and access/cost to capital. In such a tighter environment, many of these companies will not be able to refinance. While developed economies will likely stay with easy monetary policies for the foreseeable future, the situation in EM is quite different. Consumer prices in EM have already started rising rapidly. As a result, policymakers have already started tightening and will likely continue to do so in 2011.

Exhibit 7 – EM Consumer Prices Rising Back Rapidly

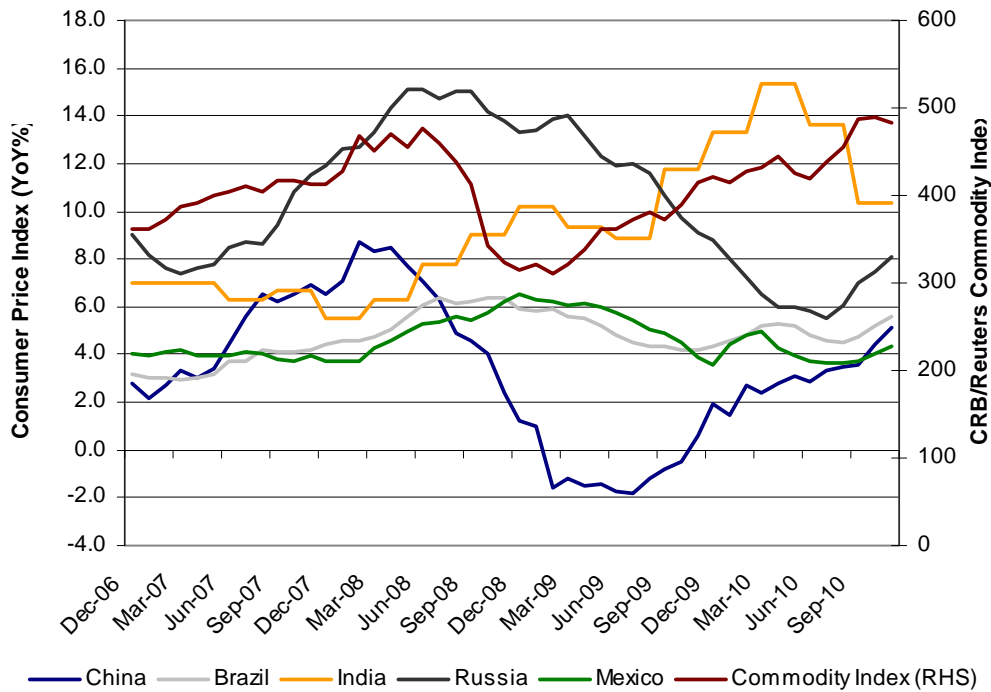
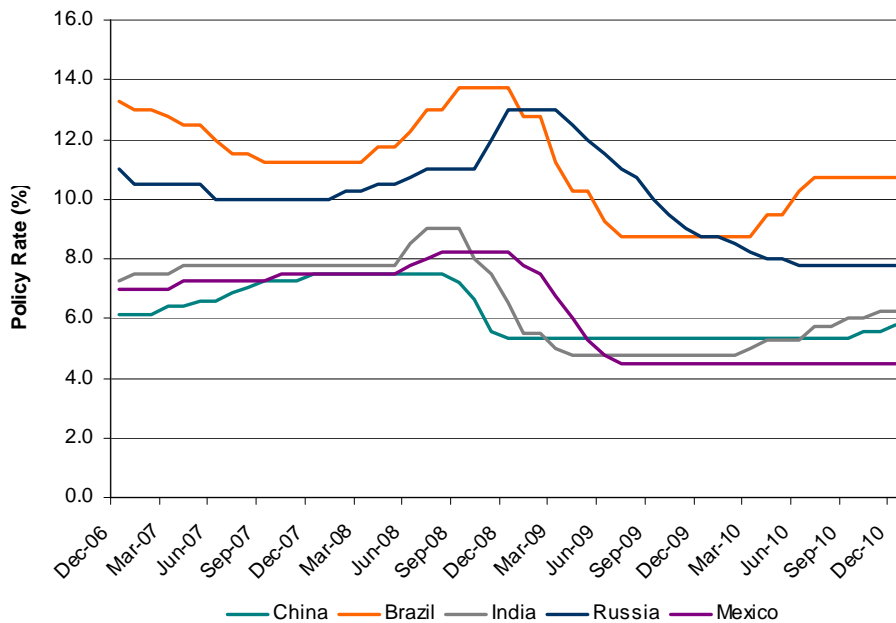


Exhibit 8 – EM Monetary Tightening has Started and Likely to Stay



Source: Bloomberg

Investors can profit from the challenging maturity bulge and coming turn in the credit cycle. The credit cycle is a large driver for opportunities in distressed investing and in general, easy credit policies are a driver of systemic distress. The credit cycle typically starts when low interest rates and lenient credit standards create incentives for companies to raise funds to start new business projects. The easy credit environment is often accompanied by the expansion of the money supply by financial institutions and central banks. This sudden increase in monetary

liquidity leads to a temporary expansion in corporate earnings, asset prices, and consumer price indexes. However, when the money supply decelerates or central banks raise interest rates, usually to ease inflationary pressures, the economy is pushed into recession or deflation. Industries that benefited from the easy monetary environment and companies with stressed balance sheets suffer the most and have to restructure and liquidate. Central banks intervene by lowering interest rates and increasing the money supply, thereby restarting the credit cycle.

There are also technical factors inherent in most distressed investing which suggest that, to be successful, one needs to have an ongoing allocation in order to be involved in the early stages of the opportunities that arise. Because most classic distressed investing is inherently a secondary market strategy, there is a “J-curve” effect whereas the critical mass of debt instruments is transferred from par buyers to distressed investors well-before the bottom of the market. Not only is it hard to know when the bottom is, but more importantly, the most significant trades in the secondary market typically occur prior to the commencement of the restructuring process and often even prior to the actual default. In order for a distressed investor to be able to purchase a significant position in the secondary market, they must be prepared to invest as the paper is offered. It is important for investors to have cash ready to deploy as distressed opportunities arise and “forced selling” (the sale by par investors who are not allowed to hold defaulted or non-investment grade securities) puts pressure on asset values. Investors that allocate cash to distress opportunities late can easily miss the most attractive opportunities.

The attractiveness of distressed investing in emerging markets was highlighted in a recent study from ING on recovery rates for the distressed period of 2007-2010. The Dutch bank estimated that the weighted average recovery value for the \$27.7 billion in EM corporate defaults in the latest cycle was 45.5% at workout date and 58.5% at current prices, both on a median basis. The rate is much higher than the 33-35% investors received from emerging market sovereign defaults during the same period. It is also higher than U.S. high yield recoveries of 22.9% at workout date and 43% in 2009 year-end prices, as estimated by JPMorgan, albeit not using fully comparable methodologies. While it is likely that average recovery values for EM corporate bonds will be reduced by the defaults yet to be restructured, these preliminary results are encouraging for emerging market distressed investors.

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Appendix A: Emerging Markets Corporate Bonds Maturing in 2011 (Denominated in US and Euro million)
Selected Maturities of Speculative Grade Issuers (in \$ millions)

Country	Name	Coupon	Maturity	Rating	Amt Outstanding
Indonesia	MGTI FINANCE CO	9.000%	1/15/2011	BB	20.0
Russia	SISTEMA CAPITAL	8.875%	1/28/2011	BB-	92.7
South Korea	C&M FINANCE LTD	3.178%	2/1/2011	B-	14.5
Kazakhstan	BANK CENTERCREDI	8.000%	2/2/2011	B	252.6
Brazil	JBS SA	9.375%	2/7/2011	BB-	272.6
Ukraine	AZOVSTAL I & S	9.125%	2/28/2011	B-	175.0
Brazil	CESP	10.000%	3/2/2011	Ba1	183.6
Indonesia	LIPPO KAR FINANC	8.875%	3/9/2011	B+	66.2
Kazakhstan	KAZKOMMERTSBANK	5.125%	3/23/2011	B-	314.9
Russia	RENAISSANCE SEC	12.000%	4/1/2011	B	225.0
India	TATA MOTORS LTD	1.000%	4/27/2011	BB-	72.0
Russia	RUSSIAN STAND BK	8.625%	5/5/2011	Ba3	350.0
Latvia	CITADELE	5.625%	5/5/2011	CCC+	264.8
Kazakhstan	KAZAKHSTAN TEMIR	6.500%	5/11/2011	BB+	450.0
Indonesia	LEIGHTON FINANCE	7.875%	5/16/2011	BB	110.0
Brazil	BANCO BMG	7.250%	5/23/2011	Ba2	200.0
Kuwait	GULF INVESTMENT	1.328%	5/30/2011	BB+	529.6
Hong Kong	CITIC PAC FIN	7.625%	6/1/2011	BB+	450.0
Brazil	BANCO FIBRA SA	7.000%	6/6/2011	BB-	150.0
Argentina	PECOM ENERGIA SA	1.457%	6/9/2011	BB-	87.4
Russia	GAZPROMBANK	7.970%	6/15/2011	BB-	300.0
Russia	HCFB LLC	11.000%	6/20/2011	B+	264.5
Russia	AK BARS BANK	9.250%	6/20/2011	BB-	300.0
Russia	TRANSREDITBANK	9.000%	6/25/2011	BB	350.0
Russia	ROLF GROUP	13.000%	6/30/2011	Caa2	150.0
Russia	INTL INDUST BANK	9.000%	7/6/2011	DD+	264.8
Brazil	BANCO SOFISA	7.250%	7/7/2011	Ba1	85.0
Venezuela	PETROLEOS DE VEN	0.000%	7/10/2011	B+	2,450.1
Hong Kong	ROAD KING	6.250%	7/15/2011	BB-	200.0
Russia	MDM BANK	9.750%	7/21/2011	B+	200.0
Brazil	BANCO DAYCOVAL	7.250%	7/21/2011	BB	100.0
Russia	OAO TMK	10.000%	7/29/2011	B	186.7
Argentina	TELEFONICA ARGEN	8.850%	8/1/2011	B	117.9
Ukraine	UKRSIBBANK	9.250%	8/4/2011	B	250.0
Brazil	PARANA BANCO SA	7.750%	8/6/2011	BB-	35.0
Turkey	YASAR HOLDINGS	9.500%	8/10/2011	B	100.7
Russia	HCFB LLC	11.750%	8/11/2011	B+	450.0
Hong Kong	SINO-FOREST CORP	9.125%	8/17/2011	BB	87.7
Philippines	NATL POWER CORP	4.534%	8/23/2011	BB	392.5
Ukraine	EX-IM BK OF UKRA	7.650%	9/7/2011	B	500.0
Indonesia	MEDIA NUSANTARA	10.750%	9/12/2011	B+	142.7
Brazil	BANCO CRUZEIRO	9.375%	9/26/2011	Ba2	41.1
Kazakhstan	NURFINANCE	9.375%	10/17/2011	B-	150.0
Indonesia	MAJAPAHIT HOLD	7.250%	10/17/2011	BB	450.0
Russia	PROMSVYAZBK	8.750%	10/20/2011	BB-	225.0
Russia	VIMPELCOM	8.375%	10/22/2011	BB	184.8
Malaysia	RANHILL LABUAN	12.500%	10/26/2011	B-	220.0
Bulgaria	PETROL AD-SOFIA	8.375%	10/26/2011	CC	130.8
Indonesia	FAJAR PAPER BV	10.750%	10/31/2011	B	100.0
Indonesia	BSP FINANCE BV	10.750%	11/1/2011	B-	160.0
Kazakhstan	INTERGAS FIN BV	6.875%	11/4/2011	BB	178.9
Brazil	BANCO MERCANTIL	9.500%	11/8/2011	Ba2	26.7
China	PARKSON RETAIL	7.875%	11/14/2011	BB	200.0
Indonesia	PAKUWON JATI	12.000%	11/14/2011	CCC+	68.8
Russia	MDM BANK	8.300%	11/16/2011	BB	290.8
Kazakhstan	ASTANA FINANCE	9.000%	11/16/2011	C	175.0
Argentina	TARIETA NARANJA	15.500%	11/29/2011	B	25.0
Ukraine	MHP SA	10.250%	11/30/2011	B-	10.0
China	SHIMAO PROPERTY	2.409%	12/1/2011	BB-	250.0
Mexico	TRIBASA TOLL RD	10.500%	12/1/2011	BB+	57.3
Indonesia	BERAU COAL	4.050%	12/15/2011	B2	25.0
Russia	ALFA DIV PYMT RT	2.926%	12/15/2011	BB+	60.9
Russia	ALFA DIV PYMT RT	2.202%	12/15/2011	BB+	52.0
Ukraine	UKRSIBBANK	7.750%	12/21/2011	B	500.0
Russia	SLAVINESTBANK LL	9.875%	12/21/2011	Caa2	67.5
Russia	MDM BANK	12.000%	12/30/2011	Ba3	130.0
Total:					\$14,988

Source: Bloomberg

Appendix B: Emerging Markets Corporate Loans Maturing in 2011 (Denominated in US and Euro million)
Selected Maturities of >\$500 million facilities

Country	Name	Maturity	Sector	Amt Outstanding
Hong Kong	H3G Italia SpA	01/11/2011	Communications	545.3
India	Fortis Medicare International Ltd	01/24/2011	Consumer, Non-cyclical	915.0
Russia	Rosneft Oil Co	01/28/2011	Energy	1,415.0
Russia	Vimpel-Communications	02/08/2011	Communications	1,170.0
UAE	Borse Dubai Ltd	02/19/2011	Financial	1,350.0
Kuwait	Kuwait Finance House	03/14/2011	Financial	850.0
India	AE Rotor Holding BV	03/17/2011	Financial	613.4
Turkey	Turkiye Vakiflar Bankasi Tao	03/24/2011	Financial	772.3
Turkey	Akbank TAS	03/29/2011	Financial	796.8
UAE	Limitless LLC	03/30/2011	Financial	1,197.9
Slovenia	Nova Ljubljanska Banka DD Ljubljana	04/20/2011	Financial	954.2
Turkey	Yapi ve Kredi Bankasi AS	04/21/2011	Financial	703.4
Russia	Rosneft Oil Co	04/23/2011	Energy	625.0
Taiwan	Kofu International Ltd	04/27/2011	Financial	500.0
Malaysia	Guoline Overseas Ltd	04/29/2011	Financial	550.0
Czech republic	Zdas AS	05/02/2011	Industrial	545.3
Turkey	Turkiye Garanti Bankasi AS	05/05/2011	Financial	841.2
China	China Development Bank Corp	05/10/2011	Financial	700.0
Mexico	Petroleos Mexicanos	05/23/2011	Energy	1,500.0
Russia	State Oil Co of the Azerbaijan Republic	05/23/2011	Energy	662.3
Qatar	Qatar Airways Ltd	05/25/2011	Consumer, Cyclical	800.0
Turkey	Turkiye Is Bankasi	05/25/2011	Financial	770.5
Turkey	Garanti Bankasi AS	05/31/2011	Financial	704.8
UAE	Dubai World Group Finance Ltd	06/20/2011	Financial	1,950.0
Russia	UniCredit Bank ZAO	06/21/2011	Financial	500.0
Russia	MMC Norilsk Nickel	06/24/2011	Basic Materials	750.0
Russia	VTB Bank OJSC	06/27/2011	Financial	1,000.0
UAE	International Petroleum Investment Co	06/28/2011	Financial	1,250.0
Qatar	Qatari Diar Real Estate Investment Co	06/30/2011	Financial	2,467.9
UAE	Dubai Financial Group LLC	06/30/2011	Diversified	1,500.0
UAE	Aldar Properties PJSC	07/24/2011	Financial	1,850.5
India	Fortis Medicare International Ltd	07/24/2011	Consumer, Non-cyclical	915.0
Poland	Apollo Rida Retail Holdings	07/29/2011	Financial	1,158.7
UAE	Abu Dhabi National Energy Co	08/07/2011	Utilities	670.3
Saudi Arabia	Mobile Telecommunications Co Saudi Arabia	08/10/2011	Communications	610.0
Russia	Lukoil Finance Ltd	08/10/2011	Energy	500.0
UAE	Drydocks World LLC	08/20/2011	Consumer, Non-cyclical	1,700.0
Russia	Russian Aluminium	08/21/2011	Basic Materials	1,000.0
Taiwan	Foxconn Far East Ltd/Cayman	08/21/2011	Industrial	535.0
Turkey	Akbank TAS	08/24/2011	Financial	826.3
UAE	Investment Corp of Dubai	09/01/2011	Financial	3,750.0
Kazakhstan	Kazmunaigaz Trade House JSC	09/03/2011	Energy	2,500.0
Turkey	Turkiye Vakiflar Bankasi Tao	09/07/2011	Financial	556.2
Mexico	Grupo Carso SAB de CV	09/13/2011	Diversified	600.0
Turkey	Turkiye Is Bankasi	09/20/2011	Financial	727.9
Ghana	Ghana Cocoa Board	09/22/2011	Consumer, Non-cyclical	1,500.0
Russia	TAIF-NK OJSC	09/23/2011	Basic Materials	500.0
Turkey	Yapi ve Kredi Bankasi AS	09/29/2011	Financial	913.3
Bahrain	Ahli United Bank/Bahrain	09/30/2011	Financial	800.0
Turkey	Denizbank AS	10/01/2011	Financial	524.8
Russia	Sberbank of Russia	10/24/2011	Financial	1,200.0
UAE	Dubai Aerospace Enterprise DAE Ltd	11/27/2011	Industrial	500.0
Turkey	Turkiye Garanti Bankasi AS	11/30/2011	Financial	700.0
India	Essar Communications India Ltd	12/08/2011	Communications	3,590.0
UAE	Union National Bank PJSC/Abu Dhabi	12/12/2011	Financial	1,000.0
Nigeria	Addax Petroleum NV	12/15/2011	Energy	1,000.0
Cayman Islands	Viridian Group Investments Ltd	12/22/2011	Utilities	1,496.2
Total:				\$60,525

Source: Bloomberg