

## LatAm Second Half 2016 Outlook

### J.P. Morgan's Roadmap for Equity Investors

In this report our LatAm research team outlines its key strategy and stock views for the second half of 2016. Our key themes are (1) a longer than expected period of low global growth and low real rates should favor high-dividend stocks (income strategy); (2) LatAm equities have some attributes to capture global investors' attention: economic growth acceleration, the outlook for lower policy rates (mainly Brazil), positive earning revisions, and political optionality; (3) bottom-up themes include operating leverage on better volumes in 2017, pricing power in 2016, and LatAm governments' market-friendly orientation to induce private sector capex. On a country basis, we are Overweight Brazil and Peru, Neutral on Chile and Mexico, and Underweight Colombia. The side table contains our J.P. Morgan LatAm industry analysts' top picks for the second half of 2016.

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#### 2H16 LatAm Analyst Top Picks

Company	Ticker	17E P/E
Itausa	ITSA4 BZ	5.8
Ser Educacional	SEER3 BZ	6.5
AES Tiete	TIET11 BZ	8.2
Ternium	TX US	8.7
Fibra Macquarie	FIBRAMQ MM	10.6
Credicorp	BAP US	11.0
Klabn	Klabn	11.1
Nemak	NEMAKA MM	11.6
Penoles	PE&OLES* MM	12.4
Alpek	ALPEKA MM	12.7
Rumo Logistica	RUM03 BZ	13.0
Cemex	CX US	13.9
BRF	BRFS3 BZ	15.4
Megacable	MEGACPO MM	16.2
Lojas Renner	LREN3 BZ	18.3
Cosan	CSAN3 BZ	20.3
RaiaDrogasil	RADL3 BZ	34.1

Source: J.P. Morgan.

**See page 81 for analyst certification and important disclosures, including non-US analyst disclosures.**

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Latin America Equity Research  
15 June 2016

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*Note: Unless otherwise noted, all stock prices and ratings in this report are as of the close on 9 June 2016.*

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Strategy

## LatAm Equity Strategy

Looking for regional drivers amid a challenging global scenario

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### Our Key Calls

In this report our LatAm research team outlines its key strategy and stock views for the second half of 2016. Our key themes are:

- **No global compass to steer LatAm equities.** Simply put, there are too many conflicting directional forces: US growth outlook, China economic outcome, and Brexit, to name a few. A longer than expected period of low global growth and low real rates could create the following impacts to LatAm equities: (1) **high-dividend stocks might benefit** from a combination of low global return and a potential spike in global macro and market volatility, and (2) **extended time for twin-deficit economies to restore better macroeconomic equilibria.** High-yielding bonds and currencies could work well as best suited for a low-growth world.
- **What do LatAm equities have to offer?** LatAm equities have been unloved for the past five years, and we think the following factors could bring attention back to the region: (1) economic growth acceleration in LatAm and the outlook for lower policy rates, chiefly led by Brazil; (2) positive earnings revisions kicking in amid a very low base left in 2015; and (3) positive political optionality.
- **Bottom-up themes we learned from our analysts' top picks for 2H16:** (1) anticipated operating leverage on better volumes in 2017 and pricing power in 2016; (2) an emphasis on sound balance sheets that should allow for inorganic growth via M&A and new capex opportunities; (3) LatAm governments' market-friendly orientation to induce private sector capex (good) and look for efficiencies and tax collection opportunities (bad); and (4) management execution to extract cost efficiencies and explore opportunities for market share gains.

**Key country calls:** **OW Brazil** (lower cost of equity, lower interest rates, and cyclical economic growth) and **Peru** (above-average growth and market-friendly new administration); **Neutral Mexico** (solid macro but risks on slowing demand are mounting) and **Chile** (still a protracted process to boost private sector capex via political leadership change); and **UW Colombia** (lower oil production, lack of details on tax reform could result in sovereign debt downgrades). Table 1 contains our 2016 year-end targets for key LatAm equity markets.

Table 1: Targets for Key LatAm Equity Markets (2016 year-end)

Scenario	LatAm MXLA	Brazil Ibovespa	Chile IPSA	Colombia IGBC	Mexico IPyC	Peru S&P-BVL
Base	2,380	57,000	4,300	10,900	48,300	15,300
Bull	2,630	63,000	4,700	12,300	53,000	17,100
Bear	2,130	51,300	3,800	9,800	42,300	13,600

Source: J.P. Morgan.

Please refer to our report [LatAm Year Ahead: Stocks for 2016](#) for a detailed discussion on defining targets for LatAm equity markets on pages 9 to 12.

Table 2 contains our J.P. Morgan LatAm industry analysts' top picks for the second half of 2016. Table 3 contains our key sector themes for the balance of year. We present detailed discussion on each country recommendation, sector views, and rationale for top picks throughout this report. This list of stocks may differ from the LatAm equity strategy team model portfolio, which is a long-only portfolio benchmarked against the MSCI Latin America Index—please refer to our latest published [LatAm Key Trades and Risks](#) for more details.

Table 2: J.P. Morgan LatAm Equity Analysts' Top Picks

Analyst	Price (LC)	Code	JPM Rating	Mkt Cap (US\$MM)	P/E (x)		EPS (LC)		Div. Yld 16E (%)	ROE 16E (%)	
					16E	17E	16E	17E			
AES Tiete	Peretti, Henrique	14.0	TIET11 BZ	OW	1,522	8.7	8.2	-17%	6%	NA	39.3
BRF	Leduc, Pedro A	48.7	BRFS3 BZ	OW	11,275	19.5	15.4	-34%	27%	2.3	13.8
Cosan	Recchia, Marcella	34.4	CSAN3 BZ	OW	3,914	25.1	20.3	-18%	23%	NA	3.9
Klabin	Ferreira, Lucas	16.5	Klabin	OW	5,272	12.6	11.1	208%	14%	2.6	26.6
Itausa	Falavina, Domingos	7.5	ITSA4 BZ	OW	15,800	5.8	5.8	0%	0%	NA	NA
Lojas Renner	Teixeira, Andrea	22.7	LREN3 BZ	OW	4,159	22.8	18.3	9%	25%	0.9	25.1
RaiaDrogasil	Giordano, Joseph	61.0	RADL3 BZ	OW	5,887	39.9	34.1	47%	17%	1.0	18.1
Rumo Logistica	Abdalla, Fernando	4.9	RUMO3 BZ	OW	1,825	Loss	13.0	Loss	1586%	NA	(0.7)
Ser Educacional	Santos, Marcelo	13.8	SEER3 BZ	OW	464	7.7	6.5	23%	18%	1.8	24.1
Alpek	Dos Santos, Felipe	27.5	ALPEKA MM	OW	3,135	15.9	12.7	46%	26%	6.8	10.8
Cemex	Huerta, Adrian E	6.9	CX US	OW	8,977	43.0	13.9	174%	209%	NA	2.6
Fibra Macquarie	Huerta, Adrian E	23.6	FIBRAMQ MM	OW	1,034	11.1	10.6	-55%	4%	8.1	7.4
Megacable	Baggio, Andre	76.7	MEGACPO MM	OW	3,589	18.1	16.2	22%	12%	2.3	17.8
Nemak	Louro, Carlos M	23.5	NEMAKA MM	OW	3,904	12.8	11.6	6%	10%	2.2	17.3
Penoles	Manihani, Mandeep	324.2	PE&OLES* MM	OW	6,846	28.2	12.4	615%	127%	0.6	8.2
Termium	Angele, Rodolfo R	20.5	TX US	OW	3,987	12.7	8.7	400%	46%	4.6	7.6
Credicorp	Falavina, Domingos	152.8	BAP US	OW	12,083	12.1	11.0	5%	10%	1.5	19.5

Source: Bloomberg, MSCI, J.P. Morgan estimates. OW = Overweight; N = Neutral; UW = Underweight. Prices as of 9 June 2016.

Table 3: LatAm Key Sector Themes for 2H16

Top Pick / Sector / Analysts	Key Industry Themes
<b>AES Tiete Energia Utilities</b> (Henrique Peretti, Fernando Abdalla)	<ul style="list-style-type: none"> <li>• <b>M&amp;A:</b> Weak BRL plus distressed political and economic landscape create conditions for M&amp;A/tender offerings in Brazil, similar to the 2000s. We believe the expected privatization of Eletrobras' disCos could attract both domestic and foreign consolidators such as Chinese groups and Eneris.</li> <li>• <b>Greenfield generation and transmission auctions:</b> We see double-digit equity IRRs available for new transmission and generation projects creating great growth opportunities for the companies under coverage.</li> <li>• <b>Spot price formula in Brazil:</b> The government signaled that it could fine tune the spot price model and terminate "out-of-merit-order" dispatch.</li> <li>• <b>La Niña and hydrology risks:</b> While worse hydrology would not necessarily hurt Brazilian water reservoirs and power prices, the materialization of La Niña would be a negative catalyst for Chilean genCos.</li> </ul>
<b>Alpek Oil, Gas, Services &amp; Petrochemicals</b> (Felipe dos Santos, Rodolfo de Angele)	<ul style="list-style-type: none"> <li>• <b>Key macro themes for 2H16</b> are (1) US Fed rate hikes, (2) US dollar strength, and (3) oil price behavior on changes in geopolitical risk.</li> <li>• <b>Petrochemicals margins and FX to drive strong results.</b> Healthy margins across the main resins especially in the polypropylene and PET space.</li> <li>• <b>NOCs: Reduced credit risk.</b> (1) Argentine government supportive of fuel prices increases; (2) Petrobras increased access to the debt markets and ongoing asset sale plan gaining momentum.</li> <li>• <b>Junior E&amp;Ps:</b> Still impacted by low crude prices, searching for alternatives for reducing costs and yet trying to increase production.</li> <li>• <b>Services Companies:</b> (1) weak fuel sales volumes for Ultrapar amid low fleet growth and yet trading at healthy valuations; (2) for Tenaris, current rig activity demanding low OCTG volume amid low oil prices is likely to lead the company to continue to report lower results in the short to mid term.</li> </ul>
<b>BRF Food, Beverages &amp; Tobacco</b> (Pedro Leduc, Andrea Teixeira)	<ul style="list-style-type: none"> <li>• <b>Brazil:</b> (1) We expect 2Q to be the bottom for Food and Beverages in the country in terms of top line and/or margins, while 2H16 should start to show some recovery; (2) a combination of adjusted beef supply allowing for a pass-through of slightly higher cattle costs and still healthy export profitability sets up beef as the relative protein winner for 2H16; (3) margins for Brazilian poultry processors are expected to remain depressed throughout 2H16, although improving from the historical lows in 1H; (4) we see no signs of lower BZ corn prices given still surging export volumes and increased concerns about Brazil's second harvest—far from slowing to stimulate higher prices.</li> <li>• <b>Mexico:</b> Consumer recovery to sustain a positive trend for staples in Mexico in 2H16. Besides, exposure to US offers a good balance for a still weaker MXN forecast.</li> <li>• <b>Chile:</b> Chilean brewer CCU likely to face tough comps going forward. Long-term fundamentals for Chile look sound, with a relatively stable economic and political outlook.</li> </ul>
<b>Cemex Cement &amp; Construction</b> (Adrian Huerta)	<ul style="list-style-type: none"> <li>• <b>Cement:</b> (1) Positive demand trends in the US allowing for higher prices and margins on the back of tight utilization ratios and strong operating leverage; (2) a positive effect on margins given price increases in late 2015 and early 2016; (3) limited space for further FX weakness in LatAm</li> <li>• <b>Brazil homebuilders:</b> (1) Potential changes to reorganize the MCMV program for the long term; (2) high inventory level, forcing companies to provide discounts to accelerate sales; (3) FCF generation: dissolutions and the slowdown in the mortgage market.</li> </ul>
<b>Cosan Agribusiness</b> (Marcella Recchia, Lucas Ferreira)	<ul style="list-style-type: none"> <li>• <b>Disruptions in Brazilian grains should impact local farmers:</b> Brazilian grains production should contract 2.5%. We see a negative read-through for local producers as most of their current crop is hedged while prices have been hiking on the back of these supply disruptions.</li> <li>• <b>Positive outlook for sugar and ethanol should continue in 2016/17:</b> The drier weather should make sugar production more advantageous. Speculation on a potential increase in CIDE tax from the government is an upside risk for the sector.</li> <li>• <b>Read-through from La Niña:</b> Low temperatures in the South / Southeast create frost risk to sugarcane crop. Potential below-average rainfall as of Sep 2016 in Brazil's Center-West could lead to some delays in soybean planting, impacting 2016/17 output.</li> </ul>
<b>Credicorp Financials Banks</b> (Domingos Falavina)	<ul style="list-style-type: none"> <li>• <b>Brazil:</b> Asset quality is key. System data tracking delinquency indicators (15-90 days and 90-plus days) and renegotiated credits and provisioning at the banks are key metrics to monitor.</li> <li>• <b>Mexico:</b> Credit growth and the direction of benchmarking rates (a sizable portion of loans have floating rates) are important to track. We expect lending margins to reflect the increase in rates more in the second half of the year.</li> <li>• <b>Peru:</b> We would like to see further stabilization in the local currency loan-to-deposit ratio and a pickup in loan demand as public/private investments start to rebound following presidential elections.</li> <li>• <b>Argentina:</b> It is all about inflation. The government needs to deliver below 25% inflation in 2017 with early signs already in 2H16.</li> </ul>

<b>Fibra Macquarie Real Estate</b> (Adrian Huerta, Marcelo Motta)	<ul style="list-style-type: none"> <li>• <b>Mexican real estate:</b> strong leasing spreads, higher occupancy, and greater financial flexibility through better debt terms and unsecured facilities.</li> <li>• <b>Brazilian shopping malls:</b> (1) The easing cycle as we expect interest rates to start to decline soon, reaching 12.75% by year-end vs. 14.25% currently, according to the JPM economics team; (2) provisions, as the 1Q increase in delinquency rate raised a yellow flag and could drive higher provisions in coming quarters, impacting earnings; (3) operational figures, as we expect SSS and SSR to continue to decline this year, impacted by the economic slowdown in Brazil.</li> </ul>
<b>Itausa Financials Non-Banks</b> (Domingos Falavina)	<ul style="list-style-type: none"> <li>• <b>Interest rate decline, political outlook, and potential improvements in GDP activity will be the key catalysts for 2016.</b></li> <li>• <b>On the regulatory side:</b> (1) banks already faced most of the destructive policy, such as increase in taxes and irrational competition from public banks; (2) negative regulation may, however, still be a risk to credit card acquirers.</li> <li>• <b>As for taxes,</b> we see high risk of discussions around ending tax deductibility of interest on capital coming back on investors' radars. In this context we favor Itausa as a good way to be exposed to Itau Unibanco and be partially hedged from this risk.</li> </ul>
<b>Klabin Pulp, Paper, Packaging &amp; Forest Products</b> (Lucas Ferreira)	<ul style="list-style-type: none"> <li>• <b>We believe hardwood pulp prices will rebound from depressed levels seen in 1H16:</b> (1) Low consumer inventory, (2) increase in demand by end-March with solid shipments in April and May, (3) temporary capacity shutdowns, (4) stronger CAD, BRL, and CLP (producers' FX).</li> <li>• <b>In 2H16, pulp prices will be dictated by</b> the ramp-up pace of expected 1mt of softwood capacity (IP, Suzano, Domtar) and 2mt of hardwood (APP OKI). There is still great uncertainty regarding the startup of OKI, and we think delays are likely to happen, sustaining relatively stable prices.</li> <li>• <b>Longer term we keep the view that pulp prices will remain in backwardation</b> (i.e., flattening cost curve). Our 2016 and 2017 hardwood pulp price forecasts are \$515/t and \$498/t (China CIF, net of discount).</li> <li>• <b>Domestic paper and packaging demand will likely see a bottom in mid 2016,</b> and we think it could start to see a small sequential improvement, which means that companies will not have big issues to protect margins while upside will depend on the pace of the economic recovery.</li> <li>• <b>On wood panels, we forecast process to rise in 2H driven by restocking and lower supply in Brazil.</b> In other areas of LatAm we call for flat to slightly lower prices on greater competition.</li> </ul>
<b>Lojas Renner Retail</b> (Andrea Teixeira)	<ul style="list-style-type: none"> <li>• <b>Brazil: Macro challenges remain, but some great executors still decoupling:</b> (1) hindered credit appetite on still high interest rates expectations, (2) lower consumer confidence undermining discretionary demand, and (3) double-digit drop in wage mass expected. In this scenario, we continue to lean on execution, and we see some retailers like Lojas Renner taking advantage of the adverse macro and gaining market share.</li> <li>• <b>Mexico: Favor outperformance and resilient retailers.</b> We continue to believe Mexican retailers will capture the benefits from an improving macro environment. Still, we prefer to lean on the more resilient names with outperforming sales such as Walmex and Femsa.</li> <li>• <b>Andeans: Solid long-term fundamentals, but short term keeps us cautious.</b> Long-term fundamentals still stand for many Andean retailers in our coverage. Still, we believe short-term headwinds should challenge earnings growth, at least throughout 2H16.</li> </ul>
<b>Megacable Telecom, Media and Technology</b> (Andre Baggio)	<ul style="list-style-type: none"> <li>• <b>Brazilian mobile to benefit from lower competition,</b> with a steep decline in Tim's growth and Oi focusing on its complex debt restructuring process.</li> <li>• <b>Mexican mobile market could get even more competitive:</b> (1) AT&amp;T launching its official brand with aggressive discounts; (2) entry of several MVNOs (mobile virtual network operators).</li> <li>• <b>Inflation adjustment of contracts impacting Tech positively:</b> Supportive for Totvs and Linx in the coming three quarters.</li> <li>• <b>Cable to increase gains over incumbent wireline services in Mexico</b> given more favorable regulations and better quality and speeds.</li> <li>• <b>Normalization of Mexico's advertising market:</b> We expect normalization during the remainder of 2016 as the volume of advertisements stops contracting and comps become easier.</li> </ul>
<b>Nemak Capital Goods</b> (Carlos Louro, Marcella Recchia)	<ul style="list-style-type: none"> <li>• <b>We prefer names with solid balance sheets and exposure to foreign markets.</b> The outlook for light and heavy vehicle production worldwide remains more solid than the Brazilian domestic market. Solid balance sheets could benefit M&amp;A along with lower financing needs.</li> <li>• <b>Stricter emission and fuel consumption regulations should drive the industry trend moving to aluminum</b> (one-third of steel density). This trend should present solid growth opportunities for Nemak in the coming years.</li> <li>• <b>BRL devaluation should remain supportive for exports.</b> BRL devaluation should act as a driver for top-line and margin improvement for companies with meaningful global exposure.</li> </ul>
<b>Penoles Precious Metals</b> (Mandeep Manihani, Rodolfo de Angele)	<ul style="list-style-type: none"> <li>• <b>US Fed rate hikes, USD strength.</b> J.P. Morgan's economists expect two rate hikes this year in July and December. Any change in expectations related to a Fed move, should, in our view, be the most important driver of gold prices. A slowdown in global growth, especially China, would remain a key risk-off event and should drive safe-haven demand for gold.</li> <li>• <b>On the operational side focus areas are miners'</b> (1) focus on lower costs; and (2) ability to replace reserves given lower exploration spending over the past two to three years.</li> </ul>
<b>Raiadrogasil Healthcare</b> (Joseph Giordano, Andrea Teixeira)	<ul style="list-style-type: none"> <li>• <b>Above-inflation higher prices</b> (+12.5% for 2016) to support margin expansion and the solid industry growth momentum given low elasticity.</li> <li>• <b>Secular drivers should support low-teens growth in 2H16:</b> Income level post social class upgrade and aging population.</li> <li>• <b>Generic drug sales should continue growing ahead of the market.</b></li> <li>• <b>Tepid growth, if any, for the private health/dental plan markets in Brazil:</b> Corporate-sponsored plans account for ~70% of the plans.</li> </ul>
<b>Rumo Logistica Transportation</b> (Fernando Abdalla)	<ul style="list-style-type: none"> <li>• <b>Toll Roads:</b> Weak GDP offset by lower interest rates. Pinfra / CCR could participate in upcoming auctions given their strong cash positions.</li> <li>• <b>Airlines:</b> We continue to see a deteriorating demand environment across LatAm. Capacity reduction strategy should lead to a recovery in yields.</li> <li>• <b>Loyalty Programs:</b> Share performance to be dictated by parental airlines' financial situation.</li> <li>• <b>Mexican Airports:</b> Healthy passenger growth and commercial revenue increase support for a resilient business model.</li> </ul>
<b>Ser Educacional Education</b> (Marcelo Santos)	<ul style="list-style-type: none"> <li>• <b>Potential changes to FIES:</b> FIES accounts for 40-50% of revenues. Key focus areas: prioritization criteria (meritocracy vs. need), eligibility criteria, guarantor fund FGEDUC, number of new loans for the 2H cycle, and FIES payment schedule.</li> <li>• <b>Higher competition of learning centers authorized in 2015.</b> First full intake cycle in 2H16 to increase competitive pressure for established players.</li> <li>• <b>Rising unemployment and impact on current and potential students.</b> Potential negative impact on intakes for 2H16 and 1H17, as well as the ability of current students to keep paying tuition, which could bring higher bad debt and dropouts.</li> <li>• <b>Increased M&amp;A activity as large companies generate substantial cash.</b></li> </ul>
<b>Ternium Metals &amp; Mining</b> (Rodolfo de Angele)	<ul style="list-style-type: none"> <li>• <b>China should continue to be the dominant theme on the demand side.</b> Our view remains that demand should remain sluggish overall.</li> <li>• <b>On technicals,</b> the outlook for USD, and expectations for a near-term Fed rate hike could keep the dollar supported.</li> <li>• <b>On the supply side:</b> Pace of ramp-up from new projects for iron ore and Chinese steel production.</li> <li>• <b>Trade cases have been gathering pace in the steel sector</b> amid strong Chinese exports and should remain an important tailwind for prices.</li> <li>• <b>Leverage and FCF generation should be the key metrics for investors in the sector,</b> which is still not out of the woods.</li> </ul>

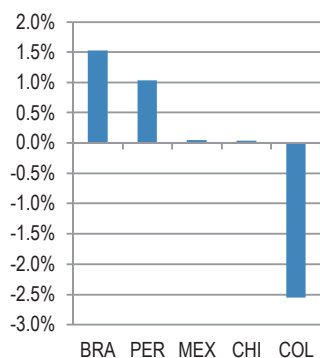
Source: J.P. Morgan.



## OW Brazil / Peru; UW Colombia; Neutral Chile / Mexico

**Our current country recommendations in LatAm are as follows: OW Brazil** (lower cost of equity, lower interest rates, and cyclical economic growth) and **Peru** (above-average growth and market-friendly new administration); **Neutral Mexico** (solid macro but risks on slowing demand are mounting) and **Chile** (still a protracted process to boost private sector capex via political leadership change); **UW Colombia** (lower oil production, lack of details on tax reform could result in sovereign debt downgrades). Our [LatAm Key Trades and Risks](#) report contains our fundamental recommendations in the region.

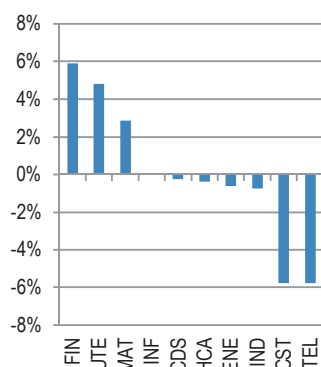
Figure 1: LatAm Model Portfolio – Countries



Note. BRA = Brazil, CHI = Chile, COL = Colombia, MEX = Mexico and PER = Peru.

Source: J.P. Morgan.

Figure 2: LatAm Model Portfolio – Sectors



Note. CDS = Consumer Discretionary, CST = Consumer Staples, ENE = Energy, FIN = Financials, IND = Industrials, INT = Technology, HCA = Health Care, MAT = Materials, TEL = Telecom, UTE = Utilities.

Source: J.P. Morgan.

### Overweight

- **OW Brazil: Keeping an eye on risk-adjusted returns.** On returns, key things to watch include the government's ability to create a better fiscal equilibrium (expenses control and possible higher taxes) and to encourage more private sector participation in infrastructure capex. Those factors combined should result in a lower cost of debt and equity and a cyclical GDP recovery in 2017. Risk mitigation is necessary on the following fronts: need of strong allies in Congress to approve reforms, conclusion of President Dilma Rousseff's impeachment process, and stable cabinet team amid advances in the Car Wash investigations.
- **OW Peru: Economic growth and market-friendly presidential election.** (1) significant pickup in economic growth, propelled by mining output and set to be the fastest growing economy in South America this year; (2) election of a market-friendly new administration boosting confidence of the private sector; (3) potential higher liquidity on equity market as some stocks gets closer to reaching MSCI requirements to become constituents of the Peru Index.

### Neutral

- **Neutral on Mexico: Gentle slowing of domestic demand trends.** (1) Moderating trends in key consumer indicators could lead to more difficult comps. Higher inflation, expected by the end of the year, could also be a drag for consumer dynamics. (2) Potential downward trend for formal job creation in manufacturing and construction sectors. (3) Strength in the USD and manufacturing activity should be closely monitored given this sector's relevance for the economy.
- **Neutral on Chile: How to bring confidence back to the private sector.** This is much needed in order to see a faster pace of investment growth, return economic growth to potential, and boost earnings. Similar to what we have recently seen in other countries in the region, we believe that a political change (Nov 2017 presidential elections) could boost equities, particularly as the two politicians that are leading the polls are former President Piñera (previous term remembered as a period of strong economic growth) and former President Lagos (recognized for reaching consensus before going through with structural changes).

### Underweight

- **UW Colombia: Important loose ends to manage.** (1) *Peace agreement with the FARC (subject to referendum):* Colombian authorities are waiting for a favorable outcome of this process before announcing a tax reform, which is necessary to improve the country's fiscal position. (2) *Tax reform:* The important fiscal impact that lower oil prices have brought to Colombia implies that it is running a fiscal deficit of more than 3.5% this year. Details and magnitude of the changes are still missing, but we believe that changes are probably going to be focused on VAT. (3) *Sovereign rating:* The delicate fiscal position of Colombia has generated concerns about the country potentially losing its investment grade status.

**Low global growth and depressed real interest rates for longer:**

- Buys time for twin-deficit economies to restore macro equilibria; and
- Should favor income strategies, including high-dividend stocks

**A. No global compass to steer LatAm equities**

A longer than expected period of low global growth and low real rates could create the following impacts to LatAm equities:

- **Extended time for twin-deficit economies to restore better macroeconomic equilibria:** (1) high-yielding bonds and currencies could work well as best suited for a low growth world; and (2) J.P. Morgan’s asset allocation team decided to [neutralize USD longs on reduced Fed risks](#).
- **High-dividend stocks might benefit** from a combination of low global returns and a potential spike in global macro and market volatility. Simply put, there are too many loose ends resulting in conflicting directional forces: US growth outlook, China economic results, and Brexit, to name a few as detailed below.

**1. Global macroeconomic uncertainties could drive volatility upward**

**US growth outlook: presidential elections and acceleration vs. recession risk:** (1) The uncertainty created by the US presidential election process could induce the private sector to postpone important capex decision until November 2016. And post election, it might take a while for investors to decipher whether the incoming president will be able to boost growth via infrastructure capex or unintendedly promote a global wave of protectionism driven by a buildup of populist pressures. (2) [Jan Loeys, our global asset allocator, sees US recession odds over the next 12 months have risen from 30% to 36% over the past month](#). The last US payroll report has raised recession odds through a combination of a higher US unemployment rate, a fall in US jobs growth, and the broad-based weakening in corporate manufacturing and services surveys. J.P. Morgan’s economics team forecasts US GDP at 1.8% in 2016 and 2.0% in 2017.

**China economic results: “L”-shaped recovery vs. financial accident on building financial leverage.** There is understandable skepticism that the stabilization will prove temporary as it was a function of short-term stimulus. We think the market is exaggerating the stimulus. April macro indicators eased modestly following the recovery in March. NBS manufacturing PMI was above 50 for the consecutive two months since last July. Consumption remains robust. The growth outlook for the rest of the year hinges on the policy outlook. In our view, [fiscal policy support will likely continue, while monetary policy is likely shifting toward neutral in this quarter](#) as the authorities have tried to correct the market perception that a large stimulus is underway (following the historical high TSF growth in 1Q), cooling expectations of further significant stepping-up of monetary policy accommodation. J.P. Morgan’s economics team forecasts China GDP at 6.7% in 2016 and 6.4% in 2017.

**Figure 3: Brexit – Latest polls**

Summary of latest polls  
 %, "O" refers to online poll, "T" refers to telephone poll, weekly numbers are average

		Raw			Cleaned		
		Remain	Leave	Lead*	Remain	Leave	Lead*
Week May 16 - 22		47.9	40.3	7.6	49.4	41.3	8.1
Week May 23 - 29							
BMO Research	O	44.0	45.0	-1.0	46.2	42.4	5.8
ORB	T	51.0	42.0	9.0	46.0	42.6	3.4
ICM	O	44.0	47.0	-3.0	47.5	43.8	3.6
ICM	T	42.0	45.0	-3.0	39.7	47.3	-7.6
Average		45.3	44.8	0.5	45.3	44.0	1.3
Week May 30 - Jun 5							
Yougov	O	41.0	41.0	0.0	46.9	41.1	5.8
Opinium	O	43.0	41.0	2.0	47.3	39.1	8.2
YouGov	O	41.0	45.0	-4.0	46.9	45.1	1.8
ICM	O	43.0	48.0	-5.0	46.5	45.2	1.3
ORB	T	52.0	40.0	12.0	47.2	40.4	6.8
Average		44.0	43.0	1.0	47.0	42.2	4.8
Week Jun 6 - 12							
Yougov	O	43.0	42.0	1.0	46.7	42.4	7.3

Source: Various polling organizations, J.P. Morgan, \*Remain minus leave

**Brexit:** [Our “cleaned up” estimate of the situation, which two weeks ago showed an 8.3%-pts lead for the vote to remain, fell to only 1.9%-pts this week](#). Many factors will influence UK voters when they participate in the EU referendum on June 23. One important issue will be perceptions of the economic consequences, [essentially whether UK citizens think they will be financially better or worse off if there is a decision to leave](#): (1) many estimates of these economic consequences are now available, and they vary widely. Broad agreement on uncertainty effects after a decision to leave the EU: around 1%-pt off GDP growth, but (2) there is a huge range of views on long-run effects of a decision to leave the EU. The true economic consequences are the wealth effects: the present value of the income shock, in our view.

## 2. Dividends: consistent dividend payers and short-term boosters

We present (1) in Table 4 our LatAm Dividend Nobles: stocks that have delivered consistent increases in their dividends per share (DPS) over the past five years (please refer to [our report on Dividend Nobles](#) for details), and (2) in Table 5 stocks in LatAm fulfilling the following criteria for those investors willing to embark on a shorter term view on dividends: a) the highest LatAm dividend yields for 2016—we display those in excess of 6% in our coverage and stocks not covered by J.P. Morgan—and b) clustered by J.P. Morgan rating.

Table 4: LatAm Dividend Nobles Constituents: Subset of J.P. Morgan OW and Neutral-Rated Stocks

Company	Ticker	JPM Rat	M. Cap USD Mn	ADTV USD '000	Price Last	P/E (USD)		Earn. Growth % (USD)		2016E Div. Yield %
						16E	17E	16E	17E	
BRF	BRFS3 BZ	OW	11,275	36,295	48.7	19.5	15.4	-34.0%	26.6%	2.3%
Duratex	DTEX3 BZ	OW	1,500	3,569	7.6	41.9	20.6	-37.6%	103.7%	NM
EzTec	EZTC3 BZ	OW	773	2,766	16.5	8.3	8.9	-29.4%	-6.1%	5.1%
GAP	GAPB MM	OW	5,471	11,322	182.5	30.7	27.7	5.6%	10.5%	4.0%
Itau Unibanco	ITUB4 BZ	OW	48,695	129,867	30.5	9.0	8.6	-13.3%	4.6%	3.6%
Itausa	ITSA4 BZ	OW	15,800	54,709	7.5	5.8	5.8	0.0%	0.0%	NM
KC Mexico	KIMBERA MM	OW	7,038	7,955	43.8	25.6	22.3	18.0%	14.5%	3.7%
Totvs	TOTS3 BZ	OW	1,440	5,416	30.8	22.7	21.1	1.1%	7.1%	1.3%
WalMex	WALMEX* MM	OW	40,601	45,386	44.1	25.7	23.4	10.8%	10.1%	3.9%
Aliansce	ALSC3 BZ	N	621	1,942	13.2	32.1	20.6	-53.4%	56.0%	3.3%
Almacenes Exito	EXITO CB	N	2,271	3,576	15,280.0	24.3	17.5	-39.1%	39.1%	4.3%
Cetip	CTIP3 BZ	N	3,201	25,314	42.3	19.4	16.7	13.2%	15.9%	4.6%
CESP	CESP6 BZ	N	1,053	4,383	12.4	10.6	9.7	716.1%	8.6%	9.8%
Estacio	ESTC3 BZ	N	1,409	14,903	15.5	10.2	9.7	-8.0%	4.3%	2.7%
Fibra Uno	FUNO11 MM	N	6,884	16,790	40.3	20.0	18.3	11.5%	9.4%	5.4%
Ultrapar	UGPA3 BZ	N	10,746	26,351	67.3	21.4	19.1	15.1%	12.4%	2.6%
Weg	WEGE3 BZ	N	6,882	9,460	15.1	20.1	17.0	2.8%	18.5%	1.2%

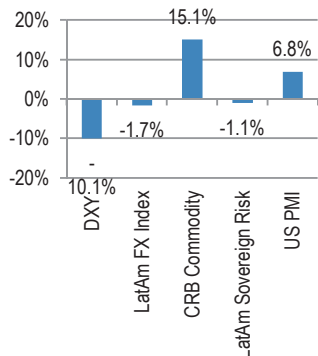
Notes: Data retrieved from J.P. Morgan database for stocks in our coverage (except from dividends – all data from Bloomberg consensus). Source: J.P. Morgan and Bloomberg.

Table 5: LatAm Stocks: Highest 2016E Dividend Yields (Clustered by JPM rating)

Company	Ticker	JPM Rat	M. Cap USD Mn	ADTV USD '000	Price Last	P/E (USD)		Earn. Growth % (USD)		2016E Div. Yield %
						16E	17E	16E	17E	
Fibra Hotel	FIHO12 MM	OW	383	701	14.3	19.3	16.6	26.4%	15.6%	8.2%
Fibra Macquarie	FIBRAMQ MM	OW	1,034	1,915	23.6	11.1	10.6	-55.4%	4.4%	8.1%
Alpek	ALPEKA MM	OW	3,135	2,338	27.5	15.9	12.7	45.8%	25.7%	6.8%
Terrafina	TERRA13 MM	OW	1,001	2,276	30.6	14.0	11.6	80.5%	20.1%	6.8%
Alupar	ALUP11 BZ	OW	902	993	12.4	9.0	10.1	46.4%	-11.2%	5.9%
Bladex	BLX US	OW	1,050	4,841	27.6	9.3	8.4	10.1%	9.9%	5.9%
ILC	ILC CI	OW	1,112	447	7,627.3	11.3	10.6	10.0%	5.8%	5.6%
Cemex LatAm	CLH CB	OW	2,398	1,132	12,740.0	19.5	15.5	31.0%	26.1%	5.1%
EzTec	EZTC3 BZ	OW	773	2,766	16.5	8.3	8.9	-29.4%	-6.1%	5.1%
Qualicorp	QUAL3 BZ	OW	1,383	8,874	17.9	14.4	14.1	48.4%	2.3%	5.0%
TAESA	TAEE11 BZ	N	1,808	3,839	18.4	6.5	6.9	3.5%	-6.5%	13.9%
CESP	CESP6 BZ	N	1,053	4,383	12.4	10.6	9.7	716.1%	8.6%	9.8%
ISA CTEEP	TRPL4 BZ	N	2,842	8,183	60.4	2.7	8.0	625.9%	-67.0%	9.4%
Banrisul	BRSR6 BZ	N	967	3,169	8.0	4.8	4.5	-19.8%	5.9%	8.3%
Smiles	SMLE3 BZ	N	1,661	10,338	45.6	11.4	11.3	36.6%	1.1%	8.3%
Direcional	DIRR3 BZ	N	227	934	5.2	5.8	5.2	5.3%	12.4%	8.2%
Mahle	LEVE3 BZ	N	952	1,760	25.1	13.1	12.7	25.6%	3.0%	8.0%
Par Corretora	PARC3 BZ	N	523	964	11.3	13.3	11.4	7.6%	16.1%	7.0%
Fibra Uno	FUNO11 MM	N	6,884	16,790	40.3	20.0	18.3	11.5%	9.4%	5.4%
Danhos	DANHOS13 MM	N	2,620	1,441	33.8	21.6	19.1	15.4%	13.2%	5.4%
Santander Chile	BSAC US	N	8,763	7,807	18.9	12.7	12.0	1.4%	6.2%	5.3%
BB Seguridade	BBSE3 BZ	N	15,908	48,216	27.3	13.8	12.7	1.7%	8.7%	5.2%

Notes: Data retrieved from J.P. Morgan database for stocks in our coverage. Source: J.P. Morgan and Bloomberg.

**Figure 4: LatAm equity drivers supporting equity rallies during periods of weaker DXY**



Source: Bloomberg and J.P. Morgan.

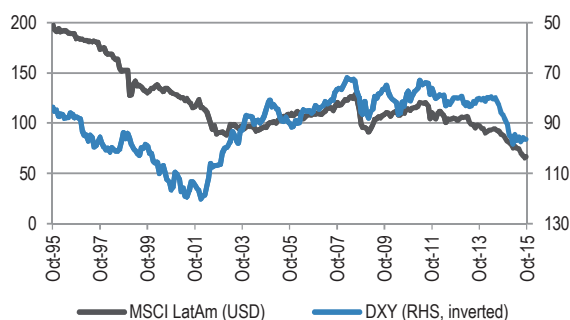
### 3. Weaker DXY has been a positive for LatAm equities historically

Weaker DXY has been positive for LatAm equities historically (Figure 5). We looked back 20 years and identified periods in history where the DXY (USD vs. major global currencies) weakened by more than 5% and identified 11 of them (details in the report [LatAm Key Trades and Risks](#) published October 28, 2015). Over these past 11 periods of USD weakness, the average decline in DXY was 10.1% (Figure 6) and the corresponding average rally in LatAm equities was USD9.1% (annualized).

**Weaker DXY is usually associated with more appetite for risk taking, supporting performance of LatAm equities:** (1) two critical variables have moved in the right direction during those 11 periods of weaker DXY: commodity prices and US economic activity (Figure 4), while (2) two other important metrics were nearly flat—LatAm sovereign risk and FX. The bullets below indicate the positive performance of LatAm equities to weaker DXY, broken down by countries/sectors.

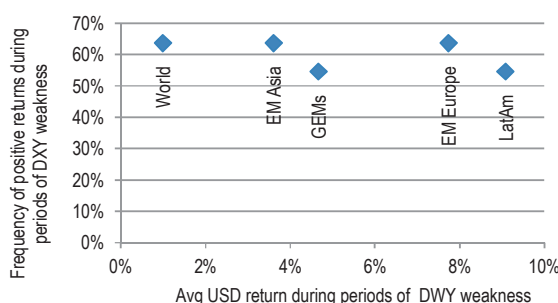
- **Colombia and Peru were the strongest performing countries to weaker DXY** with an historical annualized average performance of USD29% and USD23%, respectively. Larger markets in the region appear less exposed to periods of dollar weakness with average returns in Brazil of 11.3% and Mexico of 6.3%. Consistency of returns is questionable, though, as LatAm presented only 54% frequency of positive returns to weaker DXY periods (Figure 7).
- **Materials, Energy, and Financials showed the strongest price variation to weaker DXY**, while Utilities did not benefit at all. Similar to the countries, no LatAm sector presented a convincingly high frequency of positive returns to weaker DXY periods (Figure 8).

**Figure 5: Weaker DXY moving in tandem with LatAm equities**



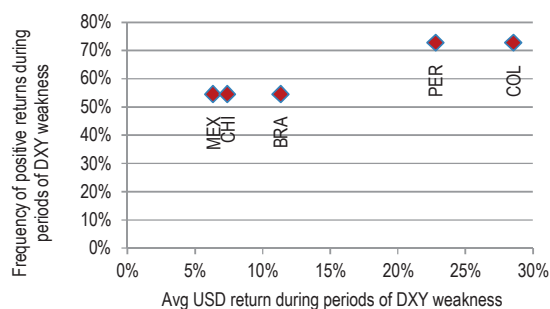
Source: Bloomberg and J.P. Morgan

**Figure 6: Weaker DXY; higher equities**



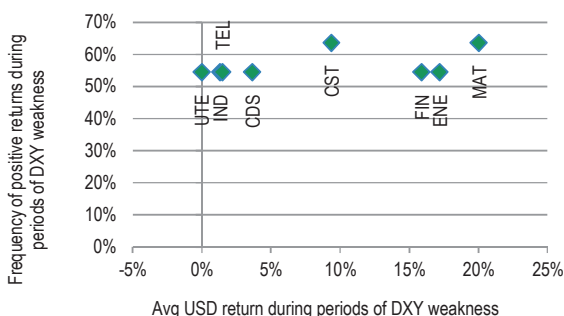
Source: Bloomberg and J.P. Morgan.

**Figure 7: Periods of DXY weakness; positive return in LatAm**



Source: Bloomberg and J.P. Morgan

**Figure 8: Periods of DXY weakness; Resources and Financials lead in LatAm**

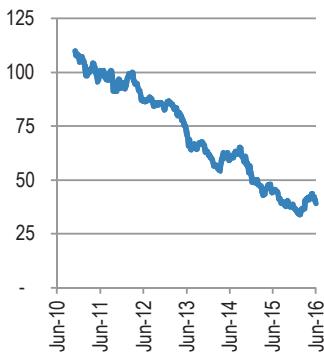


Source: Bloomberg and J.P. Morgan.

## B. What do LatAm equities have to offer?

LatAm equities have been unloved for the past five years (Figure 9), and we think the following factors could bring attention back to the region: (1) economic activity growth acceleration in LatAm and the outlook for lower domestic monetary policy rates in the region chiefly led by Brazil; (2) positive earning revisions kicking in; and (3) positive political optionality in the region.

Figure 9: LatAm equities out of favor for the past 5 years



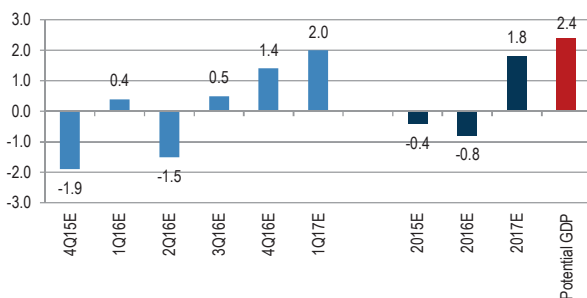
Source: Bloomberg, MSCI, and J.P. Morgan

### 1. Economic activity growth acceleration in LatAm

**A low bar to beat on LatAm economic growth.** The region is set to take a stride out of recession on the back of increasing investments and domestic consumption. J.P. Morgan economic research forecasts economic growth to resume to 1.8% in 2017 compared to (1) economic contraction in 2015 and 2016 (Figure 10); and (2) huge past underperformance to both DM and EM aggregates (Figure 11). Stronger economic growth in 2016 led by Peru and subsequently in 2017 by Brazil, Chile, and Colombia.

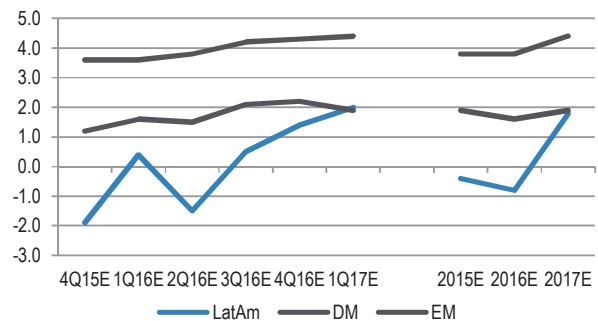
**Monetary policy could move toward easing, mainly in Brazil (Figure 12).** [Higher odds of policy change in Brazil](#) could be paving the way for sustainable lower monetary policy rates (“CDIE GO” in Bloomberg) and validate the major risk decompression on the country’s 10-year credit default swaps (from 583bps over the US Treasury in mid February 2016 to c. 405bps currently). Yet Figure 13 indicates there is a long way to go before LatAm nominal rates decline to average EM standards—a lot of inflation targeting work to be done, notably in Brazil.

Figure 10: LatAm cyclical economic recovery underway ...



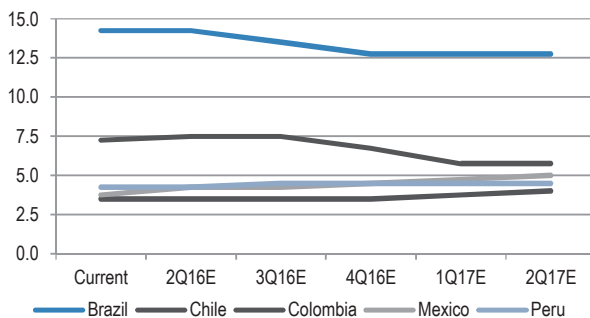
Note: SAAR quarterly estimates—seasonally adjusted annual rates. Source: J.P. Morgan estimates.

Figure 11: ... Lifting regional GDP growth back to, at least, DM standards in 2017 ...



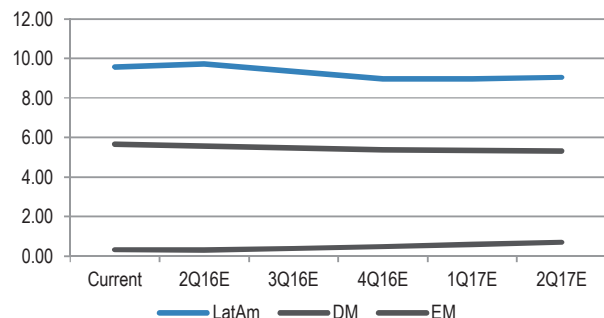
Note: SAAR quarterly estimates—seasonally adjusted annual rates. Source: J.P. Morgan estimates.

Figure 12: ... Amid lower domestic interest rates mainly in Brazil and Colombia ...



Source: J.P. Morgan estimates.

Figure 13: ... Helping to marginally close a huge gap to rates in EM and DM



Source: J.P. Morgan estimates.

## 2. Positive earnings revisions kicking in

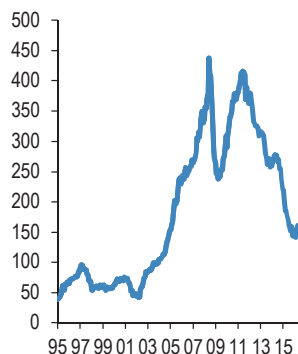
**LatAm earnings expectations were revised up for the third consecutive month in May 2016 (Table 6).** We think it might be too early to extrapolate a trend out of it, and the reason for the upward revision is not noble—likely more geared by stronger local currencies vs. the USD (non-operational). But we can see other important drivers coming through: higher commodity prices (vs. last year), an easing monetary cycle (Brazil and Colombia), and a sequential improvement in quarterly GDP figures.

**The base is very depressed, leaving room for sharp upswings.** Earnings have been cyclically beaten down by low commodities, weak USD-BRL, high sovereign risk, high inflation/rates, economic recession—you name it. Negative earnings revisions have been running for the past five years (Figure 14). Yet LatAm consensus 2016 earnings estimates at 44 (in USD) overstate the power of recovery, in our view: (1) low base of earnings in 2015 is creating significant distortions for 2016 estimates, and (2) limited operating leverage remains as economic growth continues to be softer than expected.

The data supporting the comments in the bullets below can be found in our “*Profit Outlook: Earnings Forecast Matrix by Countries and Sectors*” page in the appendix.

- **2016 estimates are on investors’ radars** and appear to be optimistic at this stage, with the consensus reading significantly above J.P. Morgan estimates. Nominal GDP growth plus productivity gains should indicate normalized LatAm earnings close to 6-8% per year—assuming no significant margin variation.
- **Countries.** Double-digit consensus earnings growth expectations appear realistic for Peru where consensus growth is at 14.7%. Elsewhere earnings expectations are too optimistic and above J.P. Morgan estimates.
- **Sectors.** Earnings risk in 2016 seems broad across sectors. We only see earnings growth expectations to be realistic for Financials and Consumer Discretionary.
- **Global benchmarking.** LatAm 2016 consensus earnings growth estimates are very high compared to Developed World and Emerging Markets 2016 consensus earnings growth (likely driven by a low base of earnings in 2015). 2017 earnings estimates are very similar for LatAm, GEM, and DM.

Figure 14: LatAm 12-Mth Fwd earnings integer (USD)



Source: Bloomberg and J.P. Morgan.

Table 6: Earnings revisions (12-month forward earnings – USD %)

Region / Country	May-16 vs.	Apr-16 vs.	Mar-16 vs.	May-16 vs.	LatAm Sectors	Apr-16 vs.	Mar-16 vs.	Feb-16 vs.	Apr-16 vs.
	Apr-16	Mar-16	Feb-16	May-15		Mar-16	Feb-16	Jan-16	Apr-15
Emerging Markets	1.9	0.6	3.7	(16.1)	Energy	38.4	3.7	12.1	(31.4)
Emerging Asia	(2.0)	(0.0)	2.1	(17.4)	Materials	(3.2)	25.5	5.2	13.7
Emerging Europe	6.4	(0.3)	8.4	(32.9)	Industrials	(0.9)	(1.6)	33.2	12.5
LatAm	3.7	4.1	9.3	11.6	Inf. Technology	(3.2)	3.3	11.6	(5.3)
Argentina	(4.5)	8.1	3.0	(12.3)	Financials	(2.2)	0.7	8.7	(13.8)
Brazil	1.2	5.1	13.4	(12.9)	Cons. Discretionary	(7.0)	1.3	8.1	(22.8)
Chile	(7.5)	6.8	1.4	(8.0)	Cons. Staples	(6.4)	1.6	8.4	(8.7)
Colombia	(13.6)	6.9	7.9	(5.8)	Health Care	(6.3)	1.2	13.7	(20.4)
Mexico	(7.3)	0.4	5.0	(11.8)	Telecom, Media, Tech	(10.7)	3.0	3.0	(32.7)
Peru	8.9	3.6	1.8	(9.4)	Utilities	NM	16.4	6.9	NM

Source: MSCI, Bloomberg, and J.P. Morgan.

Mexico has done its homework  
on structural reforms . . .

. . . Peruvians voted for a shift to  
the right in the June 2016  
presidential elections . . .

. . . Popular pressure and  
Venezuela National Assembly call  
for regime change . . .

. . . Brazil interim government  
lays out an agenda biased to  
liberal versus previous state  
interventionism . . .

. . . and Macri advances on  
reforms in Argentina

### 3. Policy optionality: LatAm governments turning market friendly

**Recent changes in LatAm governments steer the region toward market-friendly government policies.** Targeting higher sustainable GDP growth is usually associated with (1) predictability, often anchored on the tripod of inflation targeting, fiscal responsibility, and floating FX; (2) market-driven returns for capex to attract private investors; and (3) transparency. We list below recent developments in Peru, Venezuela, Brazil, and Argentina. Lastly, click [here](#) to recall the gigantic efforts of the Mexican government to approve structural reforms.

- **Peru: market-friendly election outcome.** The incoming Peruvian president should favor spending more on social and physical infrastructure to boost growth above its potential, which is currently estimated at 4%, widening the deficit in the first half of the new five-year administration before gradually narrowing it thereafter. This would drive up the public debt-to-GDP ratio, but, given its relatively low starting point, would still keep it at very manageable and sustainable levels. Meanwhile, the relative vagueness of monetary and FX policy proposals suggests a tacit endorsement of the status quo. As for likely structural reforms, the focus should be on growth-fostering and efficiency-enhancing measures to enable the simplification and formalization of economic activity, while tackling pension reform in order to safeguard the interests of the older generation of Peruvians. Lastly, efforts are likely to be made to improve conflict resolution mechanisms in the mining sector and to guarantee that local communities partake in the benefits of any mining windfall. *Excerpts from [Peru election update: A closer look at each candidate's policy proposals](#) published by Franco A. Uccelli, J.P. Morgan economist for Peru.*
- **Venezuela: opposition Congress, government justice, and popular unrest on the rise.** The Maduro government's reaction function may be strongly defensive given tenuous popularity, an historic economic crisis, and its efforts to stave off a recall referendum. The government could concede to some formal (and time consuming) dialogue mechanism, in our view, while allowing incremental procedural advances to the referendum process without allowing the final stage that would allow the referendum itself to be called this year. Nonetheless, concern remains that an increasingly isolated Maduro could ultimately use an "international attack" as a pretext to call off the referendum process altogether and close down the National Assembly. *Excerpts from [Venezuela: Political tension spills into the diplomatic realm](#) published by Ben Ramsey, J.P. Morgan economist for the Andean region.*
- **[Brazil interim government: willingness and ability.](#)** Acting president Temer's cabinet brings some key messages, in our view: (1) maintenance/improvement of key social programs in housing, education, and low-income assistance; (2) commitment to long-term low inflation; (3) embrace fiscal discipline to produce sustainable fiscal dynamics; (4) ability to have a productive dialogue with Congress to move forward with structural reforms; (5) inspire trust in the private sector to restore investments and competitiveness; (6) a new political equilibrium shifting government modus operandi to a more a liberal agenda versus interventionism. While we think that political developments favor a more market-friendly policy approach and will be welcomed by the markets, we remain cautious on the longer term fundamental outlook as measures to stabilize the economy will still be difficult to implement and will not automatically produce result.
- **Argentina: [President Macri advances reforms](#)** paving the way for economic recovery in 2017, a sustainable and sizable monetary easing cycle, and fiscal gradualism to enhance fiscal policies.

## Brazil

### Brazil interim government willingness and ability to steer market-friendly policies

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#### Summary

**Brazilian asset prices have rallied in 1H on the back of three distinct drivers, in our view:** (1) a new political equilibrium shifting to a more liberal agenda versus interventionism; (2) a more benign global environment (for the most part) routing flows of funds to EM debt and equities; and (3) a stronger USD-BRL equilibrium paving the way for lower inflation and policy rate cuts, improving the growth outlook. The main theme in 1H15 was the ongoing impeachment proceeding against President Rousseff. After the Senate voted for the acceptance of the process on May 12, president Dilma was forced to temporarily step down, while VP Temer took office as the interim president. **Temer's new cabinet, especially the economic team, conveyed some key messages in our view:** (1) commitment to long-term low inflation and fiscal discipline, (2) ability to move forward with structural reforms in Congress, (3) restore private sector investments and competitiveness, (4) a shift to a more liberal agenda versus interventionism. While we think that these political developments will favor a more market-friendly policy approach and will be welcomed by the markets, we remain cautious on the longer term fundamental outlook as measures to stabilize the economy will still be difficult to implement and will not automatically produce results.

#### Key Themes and Catalysts for 2H

**Keeping an eye on risk-adjusted returns. On returns,** key things to watch include the government's ability to advance measures that could lead to a better fiscal equilibrium (expense control and possible temporary higher taxes) and to more private sector participation in infrastructure capex that combined result in lower cost of debt/equity (we estimate each 100bps lower on sovereign risk equals ~9% on the Ibovespa) and into a cyclical GDP recovery in 2017 (boosting earnings growth expectations). **Risks mitigation is necessary** on the following fronts to improve the Sharpe ratio of expected returns: need for strong allies in Congress to approve reforms, the conclusion of President Dilma Rousseff's impeachment process, a stable cabinet team amid advances in *Car Wash* investigations, and social unrest should economic conditions not improve.

#### Top Strategy Picks

**We reiterate our OW stance on Brazil and explore bottom-up strategies to reflect our-top down views:** (1) lower domestic interest rates (benign inflation dynamics and responsible fiscal policies) should favor stocks highly correlated to rates and high beta; (2) lower interest rates and stronger USD-BRL might create a meaningful positive impact to currently forecasted 2016 earnings (please refer to our report [Brazil interim government: willingness and ability](#) for details); and (3) we recommend an overweight position on SMids vs. large caps in LatAm, driven by the outlook for monetary policy rate easing in Brazil tied to the outlook for market-friendly policies implementation (please refer to our report [OW Small Caps on cyclical GDP recovery and forecasted lower domestic interest rates](#) for details).



## Mexico

### Time to move into industrials

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#### Summary

Mexican equities had a good run in 1H16, though not when measured in USD. The MXN has depreciated c.8% YTD despite Banxico's active stance, intervening in the FX market and surprisingly raising interest rates to curb the currency's volatility. Strength was temporary, however, as the peso once again lost ground on the back of increased appetite for USD after a more hawkish tone from the Fed.

Companies posted a strong 1Q16 with earnings (ex. AMX) growing c.35%. However, EBITDA growth moderated to 15% vs. 25% in 4Q15. Investors welcomed the results as foreign flows to local equities accumulate \$2.7bn year to date.

Economic data in Mexico continued to show a significant resilience in domestic demand activity, with same-store sales growing in the high single digits throughout the first half of the year. However, inflation picked up strongly on increasing food prices, which were partially tempered by lower energy costs and mobile telephony rates. Unemployment reached a record low in May, but formal job creation growth remained flat. Adding to downside risks, consumer confidence dropped below the 90-point mark for the first time since August 2014.

Construction activity was spurred by a strong domestic consumer, offsetting weakness from infrastructure construction activity as government expenditures in this regard shrank 17.5% yoy during the first four months of the year. Construction drove industrial production growth numbers to remain positive despite a sharp contraction in mining activity (due to lower oil prices and production output) and meager manufacturing production growth.

#### Key Themes and Catalysts for 2H

Though companies' results may seem encouraging, moderating trends in key consumer indicators could lead to more difficult comps. Strength in the USD and manufacturing activity should be closely monitored given this sector's relevance for the economy. Particularly, trends in formal job creation in the sector as well as in construction should be a focus as further moderation in these indicators coupled with higher inflation expected by year-end could be a drag on consumer dynamics.

Flow-wise, given lack of local catalysts, we see Mexico becoming even more of a beta play, and hence flows should swing according to appetite for risky assets.

Local elections in 12 states showed 2H16 will bring Round 1.4 (deep water fields) by early December, where expectations for investments and participation of the global majors are high.

#### Top Strategy Picks

For the 2H16, we favor industrial names as we continue to believe the hurdle is high for consumer companies to positively surprise given already-lofty multiples and moderating economic trends. Though not within industrials, given its solid bottom-up story, we favor **Megacable's** growth and cash flow generation, coupled with a supportive regulatory environment and strong sector (broadband penetration) trends. **Fibra Macquarie** and **Alpek** are our other two top picks, given the former's attractive valuation and high dividend yield, coupled with dollarized revenue, and the latter's margin expansion and profitability recovery.

## Argentina

### The convergence of macro and monetary policy will be key in 2H16

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#### Summary

1H16 saw Argentina undergoing structural economic and political changes. The new government has set the course toward the regularization of the economy, which has been the sole driver of equity performance, namely (1) lifting the FX control that bounded the peso and maintaining it within manageable limits; (2) resolving the sovereign default situation in record time and paying it after a debt issuance that posted a record US\$67bn in demand; (3) increasing the tariff of utilities such as gas, electricity, and water, mainly to regularize the mechanics of each sector, reduce subsidies, and improve fiscal health—electricity tariffs were the first (+300% average tariff increase), followed by gas (+400% on average) and water (+300% on average); and (4) drafting a capital amnesty and rectification to the retiree program bill to remedy the undisclosed offshore Argentine money (which is estimated at US\$200-400bn) and reconstitute the pensions that prior administrations had hindered. These reforms have not been without cost. Unofficial inflation in April came in at 40.5% oya for Buenos Aires, which combined with the tariff increases have caused significant social unrest. On the equity side, the market is optimistic on Argentina's outlook but is still struggling with low liquidity and valuations.

#### Key Themes and Catalysts for 2H

In our view, the convergence of both macro/fiscal and monetary policy plus the execution of the administration's agenda and the return of investment will be the main drivers in 2H16. Both Argentine authorities and the market are waiting for inflation to come down in 2H16, which would enable the government to continue with the reduction of subsidies, improve fiscal health, and send a strong confidence boost to the market. Therefore, a clear sign of convergence to the inflation target would be a strong driver for the market in our view. A possible MSCI reclassification to EM, or even the opening of a consultation period, in June's MSCI country classification review, would be an important market driver, in our view; authorities confirmed that they have been approached by MSCI and are discussing the measures taken by authorities to improve capital markets. Liquidity and size would also be benefitted. Investment has been trickling in these past six months (BRF, Chrysler, and Unilever, among others), and the Minister of Finance commented that the interest is huge; for more investment to materialize in 2H16, both foreign and local would be important drivers in our view. Finally, it is important to monitor the IMF's decision of lifting the censorship motion on Argentine macro data and the new CPI and GDP indicators the Statistics Institute (INDEC) is constructing. Reliable official data and the reactivation of chapter IV would substantially add to market confidence. The final decision will come from the IMF between August and September.

#### Top Strategy Picks

The government has proven that it is able to make policy changes, and that has improved market confidence. Foreigners, in our view, are looking for inflation to get under control and macro variables to point toward the targets. We recommend **Adcoagro** (AGRO, OW, Marcella Recchia), given the positive outlook of the agricultural sector, and **Enersis Americas** (ENIA, OW, Henrique Peretti), as a way to get exposure to the utilities sector

## Chile

### 2017 presidential elections will start to have a key role

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#### Summary

The first half of the year has been positive for the Chilean equity market in terms of absolute returns, but it has lagged the rest of the region's strong rally. The relative underperformance is not a big surprise, in our view, as Chile's beta to LatAm and to EM is the lowest in the region. Given macro and institutional stability and Index composition, the volatility of the Chilean market has been historically lower. There are no energy or commodities related stocks in MSCI Chile, while utilities and banks, which tend to be very stable, have a high weight in the Index. On the macro front, 1H16 has been somewhat disappointing, with economic growth showing difficulties picking up. The main lag has been investment, which has been affected by the persistence of a negative scenario in terms of business confidence. Despite the efforts of Bachelet's government to moderate the aggressiveness of the structural reforms, it has not been able to improve business sentiment. Consequently, we believe GDP will grow slightly above 1.5% this year, showing some acceleration in 2H16, but still posting weak figures, below potential GDP growth. Having said that, Chile's macro situation seems healthy, with external imbalances already adjusted (low CAD, fairly priced FX) and a moderate fiscal deficit, which should be reduced in upcoming years funded by the tax reform that was approved in 2014.

#### Key Themes and Catalysts for 2H

In our view one of the main challenges for Chile in 2H16 will be how to bring confidence back to the private sector. This is much needed in order to see a faster pace of investment growth, which could take economic growth back to potential and give a positive boost to earnings growth. One of the main events, which in our view could start to generate a better environment, is the presidential race in the Nov 2017 elections. Although they are still far away, we believe that in the second half of this year we will start to see the definition and consolidation of the main candidates. Similar to what we have recently seen in other countries in the region, we believe that a political change could be a boost for the equity market, particularly as the two politicians that are leading the polls, former President Piñera and former President Lagos, are perceived as market friendly. While none of them have confirmed they will run for the presidency, we believe that in both cases it is likely. Piñera would generate, in our view, the strongest boost in confidence as his administration (2010-2014) is remembered as a period of strong economic growth. Lagos, on the other hand, is recognized for reaching consensus before going through with structural changes and having a strong awareness of the need for economic growth in order to continue developing the country.

#### Top Strategy Pick

**Our top pick in the country is Parque Arauco** (OW, Marcelo Motta). We expect the company to grow its GLA by 19% by 2017, solely based on projects already under development. Moreover, its land bank allows the company to double its current GLA. The company is trading at 17x P/FFO 2016E vs. 17-20x for BZ peers and ~20x for MX peers. Moreover, after the follow-on of US\$100mn concluded in 1Q16, the company should be in a good position to finalize the inorganic growth it has announced recently and the capex plan expected for the next years.

## Colombia

### Key macro challenges to be addressed in 2H16

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#### Summary

Despite the challenging macro scenario Colombia faced during the first half of the year, characterized by declining activity, high inflation, and twin deficits (mainly due to low oil prices), the equity market managed to post a positive performance, slightly outperforming LatAm. At the sector level, the positive return was led by energy, after the sector got hammered last year, driven by the rebound in (still low) oil prices. In terms of flows, the market has been mainly driven by local pension funds, which have been the main buyers of Colombian equities YTD, with more than US\$300 million of positive flows. Foreigners were less active in the first part of the year, divesting particularly in 1Q and then posting moderate positive flows.

#### Key Themes and Catalysts for 2H

The second half of 2016 will be very important to define the Colombian equity market outlook. Among the key events that we believe will unfold in the next six months we highlight:

**Peace Agreement with the FARC:** This is in our view one of the key events expected for 2H16, not only due to the positive impact of peace per se but also because we believe Colombian authorities are waiting for a favorable outcome of this process before announcing a tax reform, which is a necessity to improve the country's fiscal position. Agreements have been reached on all discussion points between the FARC and the Colombian government, and we believe that a final agreement should be reached soon, to then be subject to a public referendum.

**Tax Reform:** The important fiscal impact that lower oil prices have brought to Colombia implies that it is running a fiscal deficit of more than 3.5% this year. Given the low likelihood of oil prices going back to the US\$100+ per barrel level, the country needs to find a new source of structural revenues. An upcoming tax reform to solve the imbalance has been announced by authorities for many months now, but the details and magnitude of the changes are still missing. We expect all details to be released soon after a potential peace agreement (which would give more political capital to Santos to pass the reform) and believe that changes will probably be focused on VAT.

**Sovereign Rating:** The delicate fiscal position of Colombia has generated concerns about the country potentially losing its investment grade status. Currently, it is rated BBB by S&P and Baa2 by Moody's. However, the outlook was revised to negative by S&P in March; we believe the agencies are waiting to have the details of the tax reform before going through with any changes. If the reform is not enough to satisfy agencies, the country could be downgraded.

#### Top Strategy Pick

Although we maintain a cautious view regarding Colombia's outlook, we have a positive view regarding infrastructure investments. We see authorities focused on increasing competitiveness by improving infrastructure, and we believe the ongoing 4G concessions offer an attractive regulatory environment to execute the projects. In our view, the best way to play this is via **Cemex LatAm** (OW, Adrian Huerta), which recently posted strong 1Q results, with prices increasing 13% in Colombia and volumes up 9%, likely gaining market share.

## Peru

### New government taking office

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#### Summary

2016 has been a bright year for the Peruvian equity market. With a 35%-plus return in dollars YTD, it has been the best performing market in the region. Economic growth has picked up significantly, mainly driven by the mining output of projects that started operations in 2015, and Peru is set to be the fastest growing economy in South America this year. Also on the macro front, the global weakening of the USD in the first months of the year alleviated pressure on the PEN, decreasing one of the risks for the country given its high dollarization level. In addition, presidential elections were a big boost to private sector confidence as, after the first round, the fears of a candidate with unorthodox economic policy becoming president have virtually entirely faded. On top of this, the confirmation by MSCI that Southern Copper would remain a Peruvian stock largely eliminated the chance of the country being reclassified to Frontier, in our view, which acted a strong driver for the equity market.

#### Key Themes and Catalysts for 2H

The second half of 2016 will probably be very important to define whether the positive momentum of Peruvian equities consolidates. A key event will be the change in the government and how the new administration starts to implement its initiatives. In addition to monitoring how the growth incentive initiatives develop, the ability of the new administration to keep healthy levels of private sector confidence will be very important as that was one of the issues that affected economic growth significantly during the second half of Humala's government.

On another front, we believe it will be very important to monitor the liquidity trend of the market. Some stocks have been getting closer to reaching MSCI requirements to become constituents of the Peru Index (namely IFS and Alicorp), and if the recent trend continues they could be incorporated in 2H16.

#### Top Strategy Pick

We believe that during the second half of the year Peru should be able to consolidate its positive growth trend and return to the high levels of 4%-plus growth seen before the negative cycle of commodities. In addition to the positive political outlook, the strong competitive advantage of the country's mining industry, which presents low levels of cash costs, should ensure that investment to the sector will keep flowing. In addition, an increased formalization of the economy, together with further investment in infrastructure, should be a boost for domestic sectors. Considering this, **our top pick for the second half of the year is Credicorp** (BAP, OW, Domingos Falavina), as the bank has a strong competitive position and operates in all segments. Domingos recently increased Credicorp's target price due to lower cost of equity, higher EPS estimates, and a higher target multiple. In our view, given the good liquidity of the stock and the relevant size of the bank in Peru, Credicorp constitutes the best way to get exposure to the positive long-term outlook for the Peruvian economy.

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15 June 2016

J.P.Morgan

## Agribusiness

### Optimism remains on sugar and ethanol; adverse weather leading to disruptions in grains

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Adecoagro	AGRO	OW
BIOSEV	BSEV3.SA	N
Cosan Ltd.	CZZ	OW
Cosan S.A.	CSAN3.SA	OW
Grupo Alfa	ALFAA.MX	NR
Sao Martinho	SMT03.SA	OW
SLC Agrícola	SLCE3.SA	OW
SQM	SQM	N
Weg	WEGE3.SA	N

#### Summary

Amid Brazil's economic turmoil, the Agribusiness sector continues outperforming other segments, especially sugar and ethanol, given a better demand environment and higher FX exposure. Accordingly, although sugarcane crushing may be lower on a yearly basis, the drier weather from La Niña should improve the sugarcane TRS by 2.7% to 4.2%, supporting an expected increase of 7-12% in 2016/17E sugar production. On Brazilian grains, a severe drought reversed previous expectations of a booming harvest to a contraction of 2.5% y/y in total production, reaching 202.4mn tons. All in all, a negative read-through for local producers as most of their current crop is hedged while prices have been hiking on these supply disruptions.

#### Key Themes and Catalysts for 2H

##### Disruptions in Brazilian grains should impact local farmers

Brazilian grains production should reach 202.4m tons, presenting a yearly contraction of 2.5% (from +0.6%). Such a decline should be mainly driven by a 3.1% y/y compression in *safrinha* (second corn crop) production (from 4.7%) mainly due to stronger than expected drought in April 2016. Additionally, soybean production is now expected to increase 0.7% y/y (from 2.8%). We see a negative read-through for local producers as most of their current crop is hedged while prices have been hiking on the back of these supply disruptions.

##### Positive outlook for sugar and ethanol should continue in 2016/17

Despite a potential lower crushing, the drier weather should benefit sugarcane TRS. Considering that greater TRS makes production of sugar more advantageous than ethanol, UNICA currently forecasts sugar production to increase 7-12% this year. Accordingly, this stronger production expected in Brazil partially offsets the shortfall expected in production from Asian countries such as India and Thailand, which consequently mitigates further pressure on prices. Additionally, speculations on a potential increase in CIDE tax from the government is an upside risk for the sector.

##### Read-through from La Niña

After last year's strong El Niño, at least two years of a pronounced La Niña are expected, potentially starting in October 2016. A potential consequence of a La Niña is low temperatures in the South and Southeast that could pose a risk of frost to the 2016/17 sugarcane crop by the end of this year and the beginning of the next crop. Additionally, potential below average rainfall as of Sep 2016 in Brazil's Center-West could lead to some delays in soybean planting, impacting 2016/17 output.

##### Top Pick: Cosan

Our preference for Cosan is driven by (1) its growth profile as we expect Raizen Energia (S&E) to largely benefit from the still-positive pricing outlook for both sugar and ethanol in BRL. In fact the company has 40% commodity exposure and will likely benefit from the highest global sugar deficit in years. (2) Stable cash flows as roughly 60% of Cosan's EBITDA come from steady business in Brazil, which makes it an attractive Brazil beta name. (3) Oil-like behavior: while not directly linked to oil prices, Cosan shares have shown a tight correlation with barrel prices. (4) Potential catalyst: the sale of 104kt of Radar's land could lead to over R\$1bn of additional cash.



## Capital Goods

Solid global demand outlook & growth potential leads us to prefer exposure to Nemark

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Iochpe-Maxion	MYPK3.SA	OW
MAHLE Metal Leve	LEVE3.SA	N
Marcopolo	POMO4.SA	UW
NEMAK	NEMAKA.MX	OW
Randon	RAPT4.SA	N
TUPY	TUPY3.SA	OW

### Summary

The Brazilian auto industry has been under material pressure over the past years given sequential compression in GDP/investor confidence, higher interest rates, and increasing unemployment. Consequently, the industry is now operating at sub-optimal rates, with elevated spare capacity. The outlook for both light and heavy vehicles remains challenging with recovery expected to start at the end of 2017. Additionally, we also expect bus demand to remain under pressure throughout 2016/17 due to weak economic growth and elevated government leverage levels. All-in, we would prefer names with solid balance sheets, material growth opportunities, and exposure to foreign markets because although the production/sales outlook is not bright, it is still better than the Brazilian domestic industry.

### Key Themes and Catalysts for 2H

#### Given solid global outlook, we prefer names with solid balance sheets and exposure to foreign markets

The outlook for light and heavy vehicle production worldwide remains more solid than the Brazilian domestic market, for which production of light and heavy vehicles should decline another 11.4% and 15.3% this year, respectively. IHS currently forecasts US auto production to increase 4% y/y in 2016, while Europe is expected to expand 3% y/y. Regarding heavy vehicles, US Class 5-7 trucks production should increase 3% y/y to 244k units in 2016 as this segment more closely reflects general economic conditions and GDP growth (less impacted by residential construction). Accordingly, we recommend having exposure to companies with solid balance sheets as these companies should benefit the most from the current markets (organic growth and M&A, along with lower financing needs).

#### Stricter global emission standards to increase aluminum content in vehicles

Stricter emission and fuel consumption regulations should drive the industry trend moving to aluminum (one-third of steel density). Accordingly, recent advances in material engineering coupled with stricter emission standards have led the market to adopt a greater use of aluminum in structural component business. IHS estimates this market should reach revenues of \$25bn by 2030. In our view, this trend should present solid growth opportunities for Nemark in the coming years

#### BRL devaluation should remain supportive for exports

Our expectation for further BRL devaluation should continue to act as a driver for top-line and margin improvement for companies with meaningful global exposure such as Tupy, WEG, and Iochpe-Maxion. J.P. Morgan's Brazil economics team currently forecasts a weaker BRL throughout 2016, averaging R\$3.76 (vs. R\$3.40 spot price).

#### Top Pick: Nemark

We stick with Nemark (NEMAKA, OW) as we see attractive growth opportunities coupled with margin expansion. Margin expansion should be driven by (i) the stricter light vehicle emission rules worldwide, (ii) increasing penetration of aluminum structural components in light vehicles, and (iii) solid financial position, which puts the company in a strong position to take advantage of potential M&A opportunities or further expansion worldwide.

## Cement & Construction

### Tight utilization ratios to drive higher prices in the Americas

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Cementos Argos SA	CCB_p.CN	N
Cementos Pacasmayo	CPAC	N
Cemex	CX	OW
Cemex Latam Holdings	CLH.CN	OW
Consorcio Ara	ARA.MX	UW
Fibra Danhos	DANHOS13.MX	N
Fibra Hotel	FIHO12.MX	OW
Fibra Macquarie	FIBRAMQ12.MX	OW
Fibra Terrafina	TERRA13.MX	OW
Fibra Uno	FUNO11.MX	N
GICSA	GICSAB.MX	OW
Graña y Montero	GRAM	N
Hoteles City	HCITY.MX	OW
Vesta	VESTA.MX	OW

#### Summary

We like the cement industry as it is cyclical and linked to economic recovery in developed countries like the US and to growth in Latam countries with high infrastructure needs. In Latam we prefer cement companies over homebuilders given attractive volume growth at 1-2x GDP, pricing power, low energy prices, and increased use of lower cost alternative fuels, which should help margins.

We remain cautious on Brazilian Homebuilders given the challenging scenario, which includes a tighter mortgage scenario, which has reduced demand, high inventory levels, and lower than expected FCF—metrics that are not likely to recover in the short term. We maintain our relative preference for companies with strong execution and track record, like Eztec, Cyrela, and MRV in the low-income segment, which, in addition to the points above, also delivered more resilient operational data since mortgage disbursements in this segment were not impacted by the current slowdown. Despite our cautious view, we acknowledge that a recovery in consumer confidence could result in a faster than anticipated recovery in the sector.

#### Key Themes and Catalysts for 2H

In the Latam Cement space, excluding FX volatility (MXN and COP), which could impact expectations, fundamentals remain attractive and suggest potential for stronger revenue growth in 2H16 driven by pricing and volumes. In the US, where Cemex and Argos are present, cement volumes are accelerating on the back of a recovering housing market and improved public spending, which could potentially drive the industry to full capacity next year. In Mexico, strong pricing is likely to continue, and Cemex could recover part of the market share lost last year, helping the company's volumes to outperform the industry, which could be impacted by government spending. In Colombia we see a chance for CLH to regain market share, unlike Argos, while prices should continue to increase throughout the year. The Main catalysts for the cement industry include (1) positive demand trends in the US allowing for higher prices and margins on the back of tight utilization ratios and strong operating leverage, (2) limited space for further FX weakness in LatAm, and (3) a positive effect on margins given price increases in late 2015 and early 2016.

Regarding the Brazilian Homebuilders, the main topics for 2H16 are (1) execution of the third phase of the MCMV program given government fiscal deficit that could limit investments and potential changes to reorganize the program for the long term; (2) high inventory level, which is at a record high in 1Q16 of almost 26 months of sales, forcing companies to provide discounts to accelerate sales; and (3) FCF generation, which during 1H16 has been impacted by dissolutions and the slowdown in the mortgage market, leading to higher collections.

#### Top Pick: Cemex

Cemex is our top pick, despite strong YTD performance, based on possible upward earning revisions during the year, which hasn't happened for three years, and its large efforts to deleverage by maximizing FCF and increasing asset sales. While FX risk should diminish with the contribution of its US operations (21% of EBITDA last year, expected at 29% in 2017) it continues to be highly exposed to FX. The stock looks attractive at 7.3x 2017E EV/EBITDA vs. international peers LafargeHolcim (7.4x) and Heidelberg (7.8x) while trading at a 12.5% FCF yield for next year.

## Education Services

### Consolidation talks to dominate investor focus in 2H

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Anima	ANIM3.SA	UW
Estácio	ESTC3.SA	N
Kroton	KROT3.SA	N
Ser Educacional	SEER3.SA	OW

#### Summary

We expect investors to focus on potential consolidation movements in the sector, following the appetite shown by large players, with Estácio receiving merger proposals from Kroton and Ser. Synergies from these potential mergers could be high, helping to offset a potential margin contraction in the coming years as FIES penetration of student bases declines. On the negative side, visibility on the regulatory outlook remains low as the federal budget remains under stress and the new government has not clearly stated its plans regarding FIES. Also, deteriorating labor markets are a concern, which could pressure results in 2H.

#### Key Themes and Catalysts for 2H

**Outcome of Estácio merger offers and other consolidation events.** We expect Estácio's shareholders to accept Kroton's offer, given a concentration of common shareholders that would benefit, likely resulting in divestitures of distance learning assets, which could be of interest to players like Ser and Anima, which still have limited scale in the segment. Also, all companies under our coverage should generate free cash flow yields above 8% in 2016, with organic capex being substantially below that level, increasing the demand for M&A. The number of sellers is also likely to increase as smaller companies suffer with less developed marketing departments in a weak macro environment.

**Potential changes to FIES under Brazil's new government.** We see risks of changes being announced to the FIES program, which accounts for 40-50% of revenues from companies under coverage, which might include different prioritization criteria more focused on meritocracy rather than need, changes to eligibility criteria or even to the guarantor fund FGEDUC as 2H16 should have the first large group of loan recipients starting to amortize their loans. There is also uncertainty regarding the number of new loans for the 2H cycle, and news articles, later refuted, apparently contained affirmation from the Ministry that there would be no new loans for 2H16. We do not expect substantial changes to the program, but we believe news flow regarding it should cause volatility in the shares.

#### **Rising unemployment and impact on current and potential students.**

Unemployment rates are on the rise, currently at 11% and expected by the Minister of Finance to reach 14% during 2016, which could negatively impact intakes for 2H16 and 1H17, as well as the ability of current students to keep paying tuition, which could bring higher bad debt and drop outs.

#### **Higher competition on the ramp-up of learning centers authorized in 2015.**

During Nov/Dec 2015, the Ministry of Education authorized 554 new learning centers, which are likely to have their first full intake cycle in 2H16 as late approval probably meant restricted marketing efforts for 1H16. This could increase competitive pressure for established players Kroton and Estácio.

#### Top Pick: Ser Educacional

We favor OW-rated Ser in the Brazil Education space as (1) Ser should post the strongest organic growth among peers, up 10% y/y in 2016E, and (2) margins should expand in 2016, fueled by a good intake cycle in 1H16.

## Financials – Banks

### Best holistic outlook in Peru; BAP preferred

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Banco Bradesco ADR	BBD	NR
Banco de Chile	BCH	N
Banco do Brasil	BBAS3.SA	N
Banco Macro	BMA	N
Banco Santander Chile	BSAC	N
Bancolombia	BIC.CN	N
Bancolombia ADR	CIB	N
Banorte	GFNORTEO.MX	OW
Banrisul	BRSR6.SA	N
BB Seguridade	BBSE3.SA	N
BM&F Bovespa	BVMF3.SA	N
Bolsa Mexicana	BOLSAA.MX	N
Cetip	CTIP3.SA	N
Cielo	CIEL3.SA	N
Credicorp	BAP	OW
Grupo Aval	GAA.CN	UW
Grupo Aval ADR	AVAL	UW
Grupo Financiero Galicia	GGAL	N
Grupo Financiero Inbursa	GFINBURO.MX	N
Itau Unibanco	ITUB4.SA	OW
Itau Unibanco ADR	ITUB	OW
ITAUSA	ITSA4.SA	OW
PAR Corretora	PARC3.SA	N
Porto Seguro	PSSA3.SA	N
Santander Brasil	SANB11.SA	UW
Santander Brasil ADR	BSBR	UW
Santander Mexico	SANMEXB.MX	OW
Santander Mexico ADR	BSMX	OW
SulAmerica	SULA11.SA	N

#### Summary

We are constructive on Peru's credit cycle, system dynamics (concentrated, high ROEs, low penetration), and potential reemergence of public investment following presidential elections. In addition, we like Credicorp's bottom-up story. In our view, asset quality metrics should improve and efficiency gains are beginning to materialize. In Mexico, though we continue to see a positive credit cycle (accelerating credit growth, particularly in the consumer segment, with improving NPLs) we are somewhat disappointed on the core trends for the large-cap banks. What we thought was conservative guidance at the beginning of the year now looks like the base case scenario for 2016. We believe that the shift to consumer and the pass-through of higher reference rates is taking more time than originally anticipated. In Brazil, we are closely watching asset quality evolution as well as NIMs. We are more constructive on Argentina; however, the main question is what earnings dynamics are going to look like under a normalized inflation scenario. We expect 2016 to be a transition year for Argentine banks, but we see real earnings growth in 2017. In Colombia, we are closely watching asset quality trends as the macro backdrop remains challenging (large current account deficit, high inflation, tightening fiscal/monetary policy). In Chile, we have been incrementally cautious on the banks as we think that declining inflation may pose an earnings headwind. We think Chilean banks have been overly dependent on inflation to deliver sound EPS growth and profitability expansion.

#### Key Themes and Catalysts for 2H

In Brazil, asset quality is key. System data tracking delinquency indicators (15-90 day and 90-plus days) and renegotiated credits and provisioning at the banks are key metrics to monitor. In Mexico, credit growth and the direction of benchmark rates are important (a sizable portion of loans have floating rates). We expect lending margins to reflect the increase in rates more in the second half of the year. In Argentina, it's all about inflation. The government needs to deliver below 25% inflation in 2017 with early signs already in 2H16. In Peru we would like to see further stabilization in the local currency loan-to-deposit ratio and a pickup in loan demand as public/private investments start to rebound following presidential elections. Colombia should be impacted by oil prices and asset quality trends.

#### Top Pick: Credicorp

We continue to think the risk-to-reward profile is skewed to the upside in light of structural positives in the Peruvian banking system as well as a positive outcome from the presidential elections, which, in our view, should result in a jumpstart in investment and economic growth. Furthermore, we are now less concerned about risks to funding costs and loan growth associated with the rapid rise since early 2013 in the local currency loan to deposit ratio. We see that a more stable Peruvian sol (vs. the strong depreciation in 2015), higher deposit rates, and slower local currency loan growth as helping to stabilize the LC LDR ratio.

## Financials – Non-Banks

### Time to become riskier: Interest rate decline is a headwind for insurers

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Banco Bradesco ADR	BBD	NR
Banco de Chile	BCH	N
Banco do Brasil	BBAS3.SA	N
Banco Macro	BMA	N
Banco Santander Chile	BSAC	N
Bancolombia	BIC.CN	N
Bancolombia ADR	CIB	N
Banorte	GFNORTEO.MX	OW
Banrisul	BRSR6.SA	N
BB Seguridade	BBSE3.SA	N
BM&F Bovespa	BVMF3.SA	N
Bolsa Mexicana	BOLSAA.MX	N
Cetip	CTIP3.SA	N
Cielo	CIEL3.SA	N
Credicorp	BAP	OW
Grupo Aval	GAA.CN	UW
Grupo Aval ADR	AVAL	UW
Grupo Financiero Galicia	GGAL	N
Grupo Financiero Inbursa	GFINBURO.MX	N
Itau Unibanco	ITUB4.SA	OW
Itau Unibanco ADR	ITUB	OW
ITAUSA	ITSA4.SA	OW
PAR Corretora	PARC3.SA	N
Porto Seguro	PSSA3.SA	N
Santander Brasil	SANB11.SA	UW
Santander Brasil ADR	BSBR	UW
Santander Mexico	SANMEXB.MX	OW
Santander Mexico ADR	BSMX	OW
SulAmerica	SULA11.SA	N

#### Summary

The expected policy changes in Brazil post government change should be more benign to banks than previously. After a long time favoring non-bank financials over banks in Brazil, we now change preferences. Notably, reference rates are expected to come down this year (JPM have lowered the YE16 Selic forecast from 14.25% to 12.75%), and insurance companies should be negatively impacted. Banks, however, may have more mixed impacts as decreasing debt to household income driven by lower rates could potentially positively impact asset quality. Improving fiscal accounts, however, remains a challenge to the government. In this macro backdrop we favor companies more exposed to a potential improvement in sentiment in Brazil but less exposed to interest rate declines. Specifically in 2H16 we favor Itausa and exchanges vs. insurers.

Notably, the market's volatility has been supportive of exchanges' volumes. Itausa could benefit from higher spreads being passed on loans and an eventual rebound in sentiment. Insurers, on the other hand, may be more negatively impacted by interest rate decreases with no offsetting component such as credit cost improvements or spread increases. Furthermore, we are seeing persistently timid premium growth, and loss ratio is starting to deteriorate for the insurers we cover. On Cielo, we believe potential regulatory changes may create noise and impact share performance.

#### Key Themes and Catalysts for 2H

Interest rate decline and political outlook will be the key catalysts for 2016. Potential improvements in GDP activity may also be a driver for banks. On the regulatory side, we believe banks already faced most of the destructive policy, such as increase in taxes and irrational competition from public banks. Negative regulation may, however, still be a risk to Cielo (see [report](#)).

As for taxes, we see high risk of discussions around ending tax deductibility of interest on capital coming back on investors' radars. In this context we favor Itausa as a good way to be exposed to Itau Unibanco and be partially hedged from this risk.

#### Top Pick: Itausa

In our view Itausa (ITSA4.SA) offers the best opportunity within Brazilian financials. Itausa is one of the few companies under our coverage to have virtually no exposure to the risk of IOC tax deductibility ending. Additionally, the company gives investors access to one of Brazil's best banking distribution systems. Itausa is 95% composed of Itau Unibanco's shares and trades at compelling ~22% discount to the bank.

## Food & Beverages

Recent BRF U/G to OW (early signs of cycle inflection), beverages outlook still challenging

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Alsea	ALSEA.MX	N
AmBev	ABEV3.SA	N
AmBev ADR	ABEV	N
Arca Continental	AC.MX	N
B2W Companhia Digital	BTOW3.SA	UW
CBD	PCAR4.SA	NR
CBD ADR	CBD	NR
CCU	CCU	N
CCU Local	CCU.SN	N
Cencosud	CEN.SN	NR
Coca Cola FEMSA Local	KOFL.MX	N
Coca-Cola Femsa	KOF	N
Comerci	COMEUBC.MX	NR
Cultiba	CULTIBAB.MX	UW
CVC Brasil	CVCB3.SA	N
Embotelladora Andina	AKOb	UW
Embotelladora Andina		
Local B	AND_pb.SN	UW
Falabella	FAL.SN	N
FEMSA	FMX	OW
FEMSA Local	FMSAUBD.MX	OW
Genomma Lab	LABB.MX	UW
Grupo Exitto	IMI.CN	N
Hering	HGTX3.SA	UW
Hypermarcas	HYPE3.SA	N
InRetail	INR.LM	N
Kimberly Clark Mexico	KIMBERA.MX	OW
Liverpool	LIVEPOLC1.MX	N
Lojas Americanas (Non-Voting)	LAME4.SA	UW
Lojas Americanas (Voting)	LAME3.SA	UW
Lojas Renner	LREN3.SA	OW
NATURA	NATU3.SA	UW
Organizacion Soriana	SORIANAB.MX	UW
Restoque	LLIS3.SA	UW
Via Varejo	VVAR11.SA	NR
Wal-Mart de Mexico	WALMEX.MX	OW

### Summary

LatAm staples had a mixed start, with strong results in Mexico fueled by the positive consumption trends in the country. But that was the exception. We saw overall weak results from Brazilian food and beverage companies, with pressured margins and/or weak volume trends. Andean beverages benefited from favorable weather (N-rated CCU), but comps will likely reverse. Andina (UW) exposure to Brazil keeps us at bay. For 2H16, we expect the positive outlook for Mexico to remain (but decelerate slightly), allowing for healthy volume growth and pricing. In Brazil, the challenging domestic landscape is likely here to stay, but we expect to see some improving trends for BRF in terms of volumes/costs toward the end of the year, and thus we expect 2Q/3Q to be the bottom for growth and margins. High hedging carry costs will likely remain for ABEV, which we recently downgraded ([link](#)) to Neutral, also on valuation. We remain cautious on Andeans as comps will get harder for beer/wine and there are no catalysts for soft drinks. We recommend that investors focus on resilience, execution, and valuation and highlight BRF (OW) as our top pick ([link](#)).

### Key Themes and Catalysts for 2H

**Brazil:** Macro weakness and volatile commodity prices/FX set major headwinds to staples in 1H16, despite the sector's more resilient volume/pricing behavior vs. overall consumption. 1Q results were weak, and we expect 2Q to be the bottom for Food and Beverages in the country for top line and/or margins, while 2H16 should start to show some recovery. A combination of adjusted beef supply allowing for a pass through of slightly higher cattle costs and still healthy export profitability sets up beef as the relative winner protein for 2H16. Turning to poultry, margins for Brazilian processors are expected to remain depressed throughout 2H16, although improving from the historical lows in 1H. We see no signs of lower BZ corn prices in the short term given still surging export volumes and increased concerns about Brazil's second harvest, while supply volume pace seems far from slowing to stimulate higher prices.

**Mexico:** Consumer recovery continued to drive good results for staples in Mexico in 1H16, and we expect the positive trend to remain in 2H16. Additionally, exposure to the US offers a good balance for a still weaker MXN forecast. We like Bimbo, Gruma, and Bachoco—all OW rated.

**Chile:** Chilean brewer CCU printed a strong 1Q but will likely face tougher comps going forward. Long-term fundamentals for Chile look sound, with relatively stable economics and political outlook. We remain cautious on CCU (N) and Andina (UW).

### Top Pick: BRF

In our view BRF offers a good risk vs. reward balance despite the negative short-term scenario for poultry in Brazil. Current valuation seems appealing for an interesting Brazil (and global) food asset with known brands and production scale, while weak short-term results have already been priced by now, in our view. We believe positive data flow regarding easier grain costs and/or better pricing/competitive environment should gradually build a more constructive 2017E scenario, driving the stock back to ~10x fwd EV/EBITDA from the current ~8x.

## Healthcare

### Favoring drug retail over other healthcare sub-sectors; RaiaDrogasil remains top pick

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BR Pharma S.A.	BPHA3.SA	UW
Fleury	FLRY3.SA	OW
OdontoPrev	ODPV3.SA	N
Ourofino Saúde Animal	OFSA3.SA	OW
Profarma S.A.	PFM3.SA	OW
Qualicorp S.A.	QUAL3.SA	OW
RaiaDrogasil	RADL3.SA	OW

#### Summary

We view the healthcare sector as a relative safe haven, particularly in a fast deteriorating macro scenario. **Drug retail** remains the best sub-sector within Brazil healthcare, in our view, given its resilient demand, solid long-term drivers, and significant consolidation opportunities. In addition, the sector should enjoy strong short-term tailwinds from the 12.5% annual drug price increase effective on April 1. **Pharmaceuticals** should also benefit from the same positive drivers in both the short and long term, but to a lesser extent. The **healthcare service** sector faces challenges since mid 2012 from deteriorating macro and cost pressures from service inflation. Growth has decelerated as net formal job creation slowed, hindering net member additions by healthcare and dental plans. Competition has also increased in the past years, which led companies to adopt a more aggressive pricing strategy to gain share, thus pressuring profitability. **Diagnostics** should be the least favored sub-sector, in our view, as players in this segment enjoy limited pricing power with healthcare operators given the high regional fragmentation. Within our LatAm Healthcare coverage, we favor RaiaDrogasil (OW) on its successful expansion plan and strong earnings growth prospectus. We also like Fleury (OW) given internal opportunities to unlock earnings growth, despite being in a less favored sub-sector.

#### Key Themes and Catalysts for 2H

**Drug price increase:** The annual drug price increase was set at 12.5% for 2016, effective since April 1. We expect the higher prices to support solid industry growth momentum, given low elasticity. Also, 2016 is the first time in over a decade that the maximum drug prices came in above broader inflation, lowering potential inflationary pressures and thus fostering margin expansion throughout 2016.

**Strong pharma underlying drivers:** Despite the economic downturn in Brazil, secular drivers, such as the recent income level post social class upgrade and aging population, should support resilient and solid growth in the sector. Moreover, generic drug sales should continue growing ahead of the market. All-in-all, the Brazilian pharmaceutical market should maintain its low-teens growth pace in 2H16.

**Formal job market:** With the weakening of the Brazilian economy, the formal job market has been shrinking and unemployment is trending upward. As a result, we expect tepid growth, if any, for the private health/dental plan markets in Brazil as corporate sponsored plans account for ~70% of private health and dental plans.

#### Top Pick: RaiaDrogasil

Our top pick in the healthcare space is RaiaDrogasil (OW), Brazil's largest drug retailer. The company boasts one of the industry's most seasoned management teams and is now fully focused on its expansion plan (165/195 new stores in 2016/2017) plus improved retail execution. Thus, we believe market share gains in a fast growing market should be recurring, which added to improving margins should fuel EPS growth. Moreover, strong short-term tailwinds stemming from the annual drug price increase at 12.5% and weakened competition as the macro continues to pressure smaller chains and some large competitors face financial hurdles should facilitate the company's expansion and market share gains, especially in new regions.

## Metals & Mining (Steel, Base Metals & Bulk Commodities)

Bearish outlook as oversupply remains a key concern amid weak demand

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Bradespar	BRAP4.SA	N
CAP	CAP.SN	N
CSN	SID	UW
Gerdau S.A.	GGBR4.SA	OW
Grupo Mexico	GMEXICOB.MX	N
ICH	ICHB.MX	N
Metalurgica Gerdau	GOAU4.SA	N
Simec	SIMECB.MX	OW
Southern Copper Corporation	SCCO	N
Ternium	TX	OW
Usiminas	USIM5.SA	N
Vale ON	VALE	N
Vale PN	VALEp	N

### Summary

We remain cautious on the Metals & Mining sector after the 1H16 rally, and prices are already off their peaks. 1H16 saw a strong rebound in commodity prices from the depressed levels of 2H15 first on signs of demand stabilization in China and later on improving lead indicators, reflecting the positive effects of the Chinese government's stimulus. However, demand has failed to match the price action, driving our view that commodity prices moved ahead of fundamentals. We believe that the monetary stimulus in China should be scaled back in 2H16, which together with an already oversupplied situation in steel, iron ore, and copper drives our bearish view for 2H16. Specific to steel, improved steel spreads should drive steel production higher, which should eventually bring steel prices under pressure. Regarding copper, outside of selected sectors (green energy, rail, transport), there are few indications of sustainable improving end-use demand, while supply remains healthy, driving our cautious stance on copper prices. Within the sector, we continue to prefer copper relative to iron ore and steel from a top-down view.

### Key Themes and Catalysts for 2H

China should continue to be the dominating theme for the sector on the demand side. The leading indicators for the recent months have remained strong, and focus would be on how long the stimulus could continue and if that results in a significant demand pickup in 2H16. Our view remains that demand should remain sluggish overall.

Another key theme would be the outlook for USD, and expectations for a near-term Fed rate hike should keep the dollar supported.

On the supply side, the key theme would be the pace of ramp-up from new projects for iron ore, while for steel, Chinese steel production would be a key driver of steel prices, in our view. In addition, trade cases have been gathering pace in the steel sector amid strong Chinese exports and should remain an important tailwind for prices. Leverage and FCF generation should be the key metrics for investors in the sector, which is still not out of the woods.

### Top Pick: Ternium

Ternium (TX) is our preferred pick within the LatAm Metals & Mining sector. Ternium remains exposed to the "right" end market of Mexico with positive demand growth and supportive pricing dynamics, and it has a solid FCF yield and a healthy balance sheet. Earnings should improve sequentially in 2Q and 3Q as higher volumes and prices in Mexico should more than offset a weaker near-term outlook in Argentina. In addition, we see potential participation by TX in Usiminas' capital increase as small and non-critical to the company's investment case. TX remains the stock with the lowest valuation (5.1x and 4.8x 2016E and 2017E EV/EBITDA vs. peers at 8.4x and 7.3x) in our coverage, and it is our top steel pick given its exposure to Mexico, which we see as a relative safe haven in a challenging industry.



## Metals & Mining (Precious Metals)

Remain positive as global imbalances should continue to support gold prices

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Penoles	PENOLES.MX	OW
Tahoe Resources (C\$)	THO.TO	OW
Tahoe Resources (US\$)	TAHO	OW
Yamana Gold (C\$)	YRI.TO	N
Yamana Gold (US\$)	AUY	N

### Summary

We remain positive on the LatAm precious metals space from a top-down view for 2H16, and we expect precious metals to outperform base and industrial metals. After the YTD rally that was driven by concerns on global growth, a weaker USD, and a more cautious Fed, gold prices have taken a breather on increased rhetoric about the possibility of a near-term Fed rate hike. Understandably, precious metals equities have cooled off as well, but they still remain significantly re-rated vs. end-2015 levels. While we acknowledge some near-term headwinds for gold/silver prices in the June/July framework, we believe the drag lower of a stronger dollar will grind against more constructive drivers, leading to gold prices trending mostly sideways, rather than lower. J.P. Morgan's metals strategy team remains positive on gold and silver prices for 2H16 (and 2017) given too many imbalances in the global economy (China and US elections to name two), and we believe improving gold prices would accelerate sector deleveraging and improve miners' cash flows, which should support sector valuations and potentially drive further sector re-rating.

### Key Themes and Catalysts for 2H

The key macroeconomic themes for 2H are US Fed rate hikes, USD strength, and the volatility around perceived concerns related to global growth. J.P. Morgan's economists expect two rate hikes this year in July and December, while the market is expecting one rate hike this year. Any change in expectations related to a Fed move, should, in our view, be the most important driver of gold prices. After three years of redemptions, gold ETF holdings have risen sharply this year and have proven inelastic amid higher gold prices. We believe investment demand should continue to be strong in 2H16. Other than this, any slowdown in global growth, especially China, would remain a key risk-off event and should drive safe-haven demand for gold. On the operational side, miners continue to lower costs; however, stronger local currencies should bring some headwinds to further reduction in costs. Finally, with gold prices having bottomed, another theme would be miners' ability to replace reserves, which in general have focused on lowering AISC through cutting sustaining capex and exploration spending over the past two to three years.

### Top Pick: Penoles

Penoles (PE&OLES\* MM) is our preferred pick within LatAm precious metals. Penoles is a relatively defensive story, and we see strong fundamentals for Penoles with strong organic growth with a CAGR of 8.6% in silver equivalent production by 2018, which together with improved costs and gold/silver prices should drive margins higher to 31% (vs. 21% in 2015). In addition, improving zinc fundamentals (concentrate market already in deficit), healthy balance sheet, and attractive valuations further support our bullish view. Finally, we see an inflection point to ex-Fresnillo earnings, already seen in 1Q16, as an important catalyst for the discount to NAV to narrow from its current 40% to its historical level of 18%.

## Oil, Gas, Services & Petrochemicals

### Chemicals continue to be the best way to play LatAm oil, gas & petrochemicals sector

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Alpek	ALPEKA.MX	OW
Braskem	BRKMS.SA	N
Braskem ADR	BAK	N
Ecopetrol ADR	EC	UW
Ecopetrol S.A.	ECO.CN	UW
GeoPark	GPRK	N
Gran Tierra Energy	GTE	N
Mexichem	MEXCHEM.MX	OW
PETROBRAS ON	PETR3.SA	N
PETROBRAS ON ADR	PBR	N
PETROBRAS PN	PETR4.SA	N
PETROBRAS PN ADR	PBRa	N
QGEP	QGEP3.SA	UW
Tenaris SA	TS	UW
Ultrapar ADR	UGP	N
Ultrapar S.A.	UGPA3.SA	N
YPF	YPF	OW

### Summary

We remain positive on the Chemicals sector for 2H16. Healthy margins across the main resins are likely to continue to be supportive for LatAm Petrochemical companies, especially those in the polypropylene and PET space. Within the petrochemical sector our preference remains on Alpek. On O&G, in general, we see O&G companies are already adapted to a low crude price environment while the main concern remains USD strength, US Fed rate hikes, and the consequent impact on oil prices. Within the O&G space, NOCs such as YPF can benefit from supportive government fuel pricing policies, while LatAm Junior E&Ps continue to face a challenging scenario due to low Brent prices. On the other hand, service companies continue to suffer as decreasing product demand leads to lower cash flow generation.

### Key Themes and Catalysts for 2H

In our view, the key macro themes for 2H16 are (1) US Fed rate hikes, (2) US dollar strength, and (3) oil prices behavior on changes in geopolitical risk. Among the covered sectors, we highlight our preferences and main takeaways:

- **Petrochemicals margins and FX to drive strong results.** We remain positive on the Chemicals sector. Healthy margins across the main resins continue to be supportive for LatAm Petrochemical companies, especially in the polypropylene and PET space. Our top pick in the sector is Alpek as we continue to see strong results in the short term resulting from higher PET/PP margins
- **NOCs: Reduced credit risk.** YPF is our top pick within the sector as we continue to see the government being supportive of fuel prices in short to mid term, which is necessary to sustain investments in Argentina. In the case of Petrobras, increased access to the debt markets and ongoing asset sale plan gaining momentum reduce the company's specific credit risk.
- **Junior E&Ps: Still impacted by low crude prices.** In our opinion, Jr. E&P companies continue to search for alternatives for reducing costs and yet trying to increase production. Among our Junior E&Ps, we have a positive view on GTE.
- **Services Companies: Negative demand trends.** In the case of our service companies, we continue to see (1) weak fuel sales volumes for Ultrapar amid low fleet growth and yet trading at healthy valuations; (2) as for Tenaris current rig activity demanding low OCTG volume amid low oil prices is likely to lead the company to continue to report lower results in the short to mid term.

### Top Pick: Alpek

**Alpek (OW) is our top pick within Latin American O&G, Petrochemicals, and Services.** In our view, Alpek is an attractive story reflecting margin expansion and profitability recovery in the short to mid term reflecting a combination of (1) higher polyester spreads, (2) resin margin expansion, and (3) capacity increase and higher demand supporting EBITDA margin expansion to ~13-4% in 2016E from 7% in 2014 alongside long-term projects focused on vertical integration and cost reduction.

## Pulp & Paper

### Prices on a cyclical rebound after shrinking in early 1H

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CMPC	CAR.SN	OW
Copec	COP.SN	N
Duratex	DTEX3.SA	OW
Fibria	FIBR3.SA	N
Fibria ADR	FBR	N
Klabin	KLBN11.SA	OW
Suzano	SUZB5.SA	OW

### Summary

We expect to see a cyclical rebound in forestry product prices now in early 2H16. This is mostly a function of restocking as overall demand remains lackluster, with the exception of hardwood pulp where growth rates remain healthy pushed by strong buying from China. Our top pick in the sector is Klabin.

### Key Themes and Catalysts for 2H

We believe hardwood pulp prices will rebound from depressed levels seen in 1Q16.

Chinese hardwood pulp prices had the largest decline since 2011 (-\$130/t or 23% decline in four months) after a solid 15% rally in 2015. However, the correction cycle ended and we now experience the beginning of a recovery cycle that is driven by (1) low consumer inventory, (2) increase in demand by end March with solid shipments in April and May, (3) temporary capacity shutdowns (prices are already testing cost supports), (4) stronger CAD, BRL, and CLP (producer's FX). We forecast HW prices to rebound by \$50/t in May and June.

In 2H16, pulp prices will be dictated by the ramp-up pace and start-up time of expected 1mt of softwood capacity (IP, Suzano, Domtar) and 2mt of hardwood (APP OKI). There is still great uncertainty regarding the startup of OKI, and we think delays are likely to happen, sustaining relatively stable prices.

Longer term we keep the view that pulp prices will remain in backwardation (i.e., flattening cost curve). Our 2016 and 2017 hardwood pulp price forecasts are \$515/t and \$498/t (China CIF, net of discount).

Domestic paper and packaging demand will likely see a bottom in mid 2016, and we think it could start to see a small sequential improvement, which means that companies will not have big issues to protect margins while upside will depend on the pace of the economic recovery. In other regions in LatAm we think we should see a small recovery in prices driven by lower import competition and now stronger FX.

Finally on wood panels, we forecast process to rise in 2H driven by restocking and lower supply in Brazil. In other areas of LatAm we call for flat to slightly lower prices on greater competition.

### Top Pick: Klabin

Klabin is our top pick within LatAm pulp & paper as we see a benign combination of (1) an EBITDA CAGR of 22%, among the highest in the global packaging industry, (2) increasing near-term pulp and packaging prices, (3) new profitability enhancement projects to cut costs further, and (4) potential new volume growth projects to add further value. These factors together should continue to keep earnings momentum positive, and we expect FCF yield to reach 14% in 2017. The stock now trades roughly in line with global peers in spite of its solid growth and normalized ROEs of 27-30%.

## Real Estate

### Low interest rate environment bodes well for real estate

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Cementos Argos SA	CCB_p.CN	N
Cementos Pacasmayo	CPAC	N
Cemex	CX	OW
Cemex Latam Holdings	CLH.CN	OW
Consorcio Ara	ARA.MX	UW
Fibra Danhos	DANHOS13.MX	N
Fibra Hotel	FIHO12.MX	OW
Fibra Macquarie	FIBRAMQ12.MX	OW
Fibra Terrafina	TERRA13.MX	OW
Fibra Uno	FUNO11.MX	N
GICSA	GICSAB.MX	OW
Graña y Montero	GRAM	N
Hoteles City	HCITY.MX	OW
Vesta	VESTA.MX	OW

#### Summary

We have a positive view on both FIBRAs and Brazilian malls as both sectors offer real growth and accretive organic growth through expansions and leverage as well as exposure to increasing property values. Also, the Global Industry Classification Standard (GICS) will spin out “Real Estate” companies into a new sector out of “Financials,” and we view this as positive for the sector as (1) it could result in greater share liquidity as a result of more visibility; (2) it could result in lower share volatility as we expected LatAm portfolio managers to more clearly allocate funds to that sector (at minimum, funds with low tracking error); and (3) it could help point out that most investors are heavily UW real estate, as our JPM US REIT analyst believes. We estimate that the new Real Estate sector (REITs and real estate management and development companies) will account for 1pp on the MSCI LatAm index and 8.6% of the MSCI SMIDS LatAm Index.

In Mexico, we prefer the Industrial segment for the following reasons: exposure to Mexico and US manufacturing, dollarized revenues (+75% income in USD), and high dividend yields, which bodes well for those searching for more secured income in a low-growth macro environment. Among Brazilian malls, we have an OW rating on Iguatemi given the high quality of its portfolio and its relatively cheaper valuation when compared to Multiplan, its main peer, on which we have a Neutral rating. We also like BR Malls since the company is a macro play benefitting by the decrease in interest rates, which is expected to start in 2H16 and end the year at 12.75% vs. 14.25% currently, according to the JPM economic team.

#### Key Themes and Catalysts for 2H

Key catalysts for the Industrial names in the Mexican Real Estate space should be strong leasing spreads, higher occupancy, and greater financial flexibility through better debt terms and unsecured facilities.

For the Brazilian shopping malls sector, we believe the most relevant themes to look at in 2H are: (1) The easing cycle as we expect interest rates to start to decline soon, reaching 12.75% by year-end vs. 14.25% currently, according to the JPM economics team. Part of this movement might already be priced in as stocks are up ~33% YTD on average vs. 15% for IBOV. (2) Provisions, as the 1Q increase in delinquency rate raised a yellow flag and could drive higher provisions in coming quarters, impacting earnings. (3) Operational figures, as we expect SSS and SSR to continue to decline this year, impacted by the economic slowdown in Brazil.

#### Top Pick: Fibra MQ

Our top pick is Fibra MQ given its attractive valuation trading at 11.1x 2016E P/FFO and 13.9x EV/EBITDA, which compares favorably to its Mexican peers but also to international names. Also, the stock offers an attractive 8.1% 2016E dividend yield and is mostly dollarized. Also, it could refinance its debt in 2H improving its maturity profile and debt costs.

## Retail

In the eye of the storm in BZ, deceleration in MX; focus on execution; Renner is top pick

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Alsea	ALSEA.MX	N
AmBev	ABEV3.SA	N
AmBev ADR	ABEV	N
Arca Continental	AC.MX	N
B2W Companhia Digital	BTOW3.SA	UW
CBD	PCAR4.SA	NR
CBD ADR	CBD	NR
CCU	CCU	N
CCU Local	CCU.SN	N
Cencosud	CEN.SN	NR
Coca Cola FEMSA Local	KOFL.MX	N
Coca-Cola Femsa	KOF	N
Comerci	COMEUBC.MX	NR
Cultiba	CULTIBAB.MX	UW
CVC Brasil	CVCB3.SA	N
Embotelladora Andina	AKOb	UW
Embotelladora Andina		
Local B	AND_pb.SN	UW
Falabella	FAL.SN	N
FEMSA	FMX	OW
FEMSA Local	FMSAUBD.MX	OW
Genomma Lab	LABB.MX	UW
Grupo Exitto	IMI.CN	N
Hering	HGTX3.SA	UW
Hypermarcas	HYPE3.SA	N
InRetail	INR.LM	N
Kimberly Clark Mexico	KIMBERA.MX	OW
Liverpool	LIVEPOLC1.MX	N
Lojas Americanas (Non-Voting)	LAME4.SA	UW
Lojas Americanas (Voting)	LAME3.SA	UW
Lojas Renner	LREN3.SA	OW
NATURA	NATU3.SA	UW
Organizacion Soriana	SORIANAB.MX	UW
Restoque	LLIS3.SA	UW
Via Varejo	VVAR11.SA	NR
Wal-Mart de Mexico	WALMEX.MX	OW

## Summary

1H16 was mainly adverse for LatAm retailers in Brazil and the Andeans, while Mexico continued to enjoy improving economic momentum. In Brazil, the still challenging 1H16 with a weakening consumption environment led most retailers to post poor sales and earnings. The second half presents easier comparisons but still should be far from exciting. In Mexico, we see a much more attractive macro scenario with still increasing disposable income and lower inflation. These macro tailwinds should continue to favor sales growth and margin expansion in 2H, although MX retailers will face tougher comps in 2H16. For the Andeans, ongoing mixed revisions to GDP growth expectations and political instability should translate into a tough 2H. In this scenario, we recommend that investors pick stocks based on resiliency and execution. We point to Lojas Renner (OW) as our top pick on strong execution and continued market share gains. In Mexico, we recommend Walmex and Femsa (both OW).

## Key Themes and Catalysts for 2H

### Brazil: Macro challenges remain, but some great executors still decoupling

The consumption environment in Brazil continued to deteriorate in 1H16, and forecasts are not encouraging, at least for 2H16. We continue to see (1) still high interest rate expectations hindering credit appetite, (2) lower consumer confidence undermining discretionary demand, and (3) expectations for a double-digit drop in wage mass. In this scenario, we continue to lean on execution and see some retailers, like Lojas Renner, taking advantage of the adverse macro and gaining market share.

### Mexico: Favor outperformance and resilient retailers

We continue to believe Mexican retailers will capture the benefits from an improving macro environment. Still, we prefer to lean on the more resilient names with outperforming sales such as Walmex and Femsa (both OW).

### Andeans: Solid long-term fundamentals, but short term keeps us cautious

Long-term fundamentals remain attractive for many Andean retailers in our coverage. However, we believe short-term headwinds should challenge earnings growth, at least throughout 2H16. We remain cautious on Falabella, Exitto, and InRetail (all N-rated).

## Top Pick: Lojas Renner

We believe Renner's superior retail execution should continue to yield market share gains and allow the company to decouple from the challenging macro scenario. The recent efforts to improve in-store mix assertiveness to reduce markdowns and support solid growth have already driven positive gross margin results. We expect those gains to be boosted by the push-and-pull logistics tool, which is expected to fully kick in by 2H16/2017, further reducing in-store inventories and supporting assertive mix. Lastly, Renner has been disciplined with its consumer finance division, keeping delinquency rates under control, which we expect to remain the case. All-in-all, the outlook for Renner's earnings seems positive while growth momentum should remain strong throughout 2H16 with easier comp base for retail operations and normalized comp base for consumer finance after changes to taxation in 2H15.

## Telecom, Media & Technology

### Focus on Mexican cable (Megacable), Telefonica Brasil, and Brazilian tech names

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America Movil	AMX	UW
Entel	ENT.SN	UW
Linx	LINX3.SA	OW
Megacable	MEGACPO.MX	OW
MercadoLibre, Inc.	MELI	N
NII Holdings	NIHD	UW
Oi	OIBR4.SA	UW
Sonda	SON.SN	N
Telecom Argentina	TEO	N
Telefonica Brasil	VIVT4.SA	OW
Telesites	SITESL.MX	UW
Televisa	TV	N
TIM Participacoes	TIMP3.SA	N
Totvs	TOTS3.SA	OW

### Summary

We continue to expect Telco revenues to remain under pressure in 2H16 given interconnection cuts and declining voice trends, partially offset by growth in data services, although we see improving trends in Brazil as Tim and Oi become less aggressive, underlying our preference for OW-rated Telefonica Brasil among Telco names. In Mexico, we expect cable to continue gaining space over incumbents in broadband, and our top pick overall in the TMT sector is Megacable (OW). In the Tech space, we expect Linx (OW, favored) and Totvs (OW) to be increasingly supported by inflation adjustment on recurring revenues during 2H16.

### Key Themes and Catalysts for 2H

**Brazilian mobile players to benefit from lower competition.** We expect the appointment of Tim's new CEO, following a steep decline in the company's growth and profitability, to adopt a less aggressive pricing policy. Also, as Oi focuses attention on its complex debt restructuring process, we expect lower commercial intensity.

**The Mexican mobile market could get even more competitive** as AT&T is launching its official brand during 2016 with aggressive discounts, followed by leader Telcel, coupled with the entry of several MVNOs (mobile virtual network operators) in the market.

**Inflation adjustment of contracts impacting Tech positively.** We see IGP-M adjustment of maintenance and subscription contracts to be increasingly supportive for revenues of Totvs and Linx in the coming three quarters.

**Cable to increase gains over incumbent wireline services in Mexico** given more favorable regulations, such as Telmex being subject to network sharing while cable companies are not, as well as better quality and speeds vs. Telmex's legacy copper network.

**Normalization of Mexico's advertising market.** Following a rough second half of 2015, with advertising revenues declining by more than 10% y/y, we expect a normalization during the remainder of 2016 as the volume of advertisement stops contracting and comps become easier.

### Top Pick: Megacable

We favor OW-rated **Megacable (MEGACPO.MX)** among LatAm TMT names given (1) favorable secular trends in fixed broadband market as incumbent Telmex has difficulties in providing speeds of more than 10mbps while Megacable offers 200mbps; (2) solid combination of growth (16% y/y growth in 2015E) and cash flow generation (only ~60% of EBITDA is reinvested as capex); and (3) a supportive regulatory environment for the company, which leveled the playing field against Telmex, which is likely to avoid aggressive actions given its preponderant status.

## Transportation

### Macro environment driving sector performance

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Arteris	ARTR3.SA	OW
Avianca	AVH	OW
CCR	CCRO3.SA	OW
Copa Holdings, S.A.	CPA	N
Ecorodovias	ECOR3.SA	OW
GOL	GOLL4.SA	N
Grupo Aeroportuario del Centro Norte SA	OMAB.MX	N
Grupo Aeroportuario del Pacifico SA	GAPB.MX	OW
Grupo Aeroportuario del Sureste SA	ASURB.MX	N
LATAM Airlines Group	LFL	N
Localiza	RENT3.SA	N
Multiplus	MPLU3.SA	UW
OHL Mexico	OHLMEX.MX	N
Pinfra	PINFRA.MX	N
Rumo Logística	RUMO3.SA	OW
Santos Brasil	STBP11.SA	UW
Smiles	SMLE3.SA	N

### Summary

We believe sector performance should continue to be driven by the macro environment, especially for Brazilian names. In addition, the Mexican airports should continue to post healthy volumes growth, while the toll roads should benefit the most from a more dovish interest rate outlook. Lastly, the lower oil prices should continue to partially offset the lower demand environment for the airlines.

### Key Themes and Catalysts for 2H

**Toll Roads: Weak GDP partially offset by lower interest rate.** We continue to model weak traffic growth for 2H due to a sluggish forecast GDP and increasing unemployment rates. We note that Pinfra and CCR could participate in upcoming auctions given their relatively comfortable cash positions.

**Airlines: Tough demand environment continues to pressure top-line growth.** We continue to see a deteriorating demand environment across LatAm, especially in Brazil. Nonetheless, the capacity reduction strategy being implemented by the companies should lead to a recovery in yields, which, along with lower fuel prices should reduce cash burn. Lastly, we highlight that 2H has positive seasonality for the airlines, which could bring some relief for the companies.

**Loyalty Programs: Share performance to be dictated by parental airlines' financial situation.** Weaker GDP forecasts and rising unemployment rates have been pressuring miles issuance, although Smiles has been posting a healthier performance on the back of its better relationship with the banks. Despite that, we highlight that the main driver for share price performance should continue to be the parental airlines' financial situation.

**Mexican Airports: Healthy passenger growth and commercial revenue increase support a resilient business model.** Among the companies under our coverage, the Mexican airports have proved to have the most resilient business model, consistently posting healthy top-line growth (although we have started to witness a deceleration in passenger growth). Additionally, we note that commercial revenues have been surprising on the upside, a trend that we believe should continue in 2H.

### Top Pick: Rumo

**Rumo (RUMO3.SA): With financing mostly addressed, attention shifts to concession renewal.** With the recently concluded capital increase, which led to a debt renegotiation with private banks and a positive flag from BNDES regarding funding for the investment plan, focus should now be on the concession renewal of Malha Paulista. We expect a positive announcement in the near term, which should eliminate major concerns for the company and shift attention to the turnaround process. Rumo remains the top pick under our coverage.

## Utilities

### New government, new businesses: prospects past the energy crisis

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AES Eletropaulo	ELPL4.SA	OW
AES Gener	ASG.SN	OW
AES Tiete	TIET11.SA	OW
Alupar	ALUP11.SA	OW
Cemig	CMIG4.SA	N
Cesp	CESP6.SA	N
Colbún	COL.SN	N
Copel	CPL6.SA	N
CPFL Energia	CPFE3.SA	NR
CPFL Energias		
Renovaveis SA	CPRE3.SA	N
EDP Energias do Brasil	ENBR3.SA	N
Endesa Americas	ENDA.SN	N
Endesa Chile	END.SN	N
Enersis Americas	ENE.SN	OW
Enersis Chile	ENCH.SN	OW
Equatorial	EQTL3.SA	OW
ISA CTEEP	TRPL4.SA	N
Light	LIGT3.SA	OW
Sabesp	SBSP3.SA	OW
Taesá	TAE11.SA	N
Tractebel	TBLE3.SA	N

#### Summary

**Capital restructuring to put sector back on growth trajectory:** Brazilian utilities exited the 2014-15 power crisis highly indebted (>3x ND/EBITDA). In the current scenario of high interest rates in Brazil, which hurt companies' bottom lines, and a U-turn in rates of return for greenfields and brownfields for all segments, we see an attractive opportunity for capital restructuring. We believe Brazilian utilities may need equity injections to unlock growth with accretive returns. Equity offerings are off the table for state-owned companies due to shareholder structures that limit their capacity to raise new equity or forbid them from doing so. Asset sales are their only option to deleverage. On the other hand, quality names are better positioned to access the equity market. The weak BRL favors capital injection by foreign parents (AES, Enel, Engie, CTG, etc.) and potentially encourages new investors to enter Brazil.

#### Key Themes and Catalysts for 2H

**M&A and privatization of Eletrobras disCos:** We think that a weak BRL plus distressed political and economic landscape create the conditions for M&A/tender offerings in the Brazilian utilities sector, similar to the 2000s. Many high-quality, privately run companies could look attractive to foreign consolidators. In our view, the expected privatization of Eletrobras's disCos later this year could attract both domestic and foreign consolidators such as Chinese groups and Enersis Americas.

**Greenfield generation and transmission auctions:** Regulator ANEEL hiked ceiling prices/revenues for new energy and transmission auctions to rekindle investor interest in the sector. We now see double-digit equity IRRs available for new transmission and generation projects—returns were squeezed to mid single digits until 2014—creating great growth opportunities for the companies under coverage.

**Change in spot price formula in Brazil:** The government signaled that it could fine-tune the spot price model and terminate “out-of-merit-order” dispatch. Ultimately the model enhancements would produce structurally higher spot prices, turning clients more averse to spot price risks and hence motivating them to sign bilateral contracts with generation companies at better prices for sellers. Copel, AES Tietê, and Tractebel are the most sensitive to higher free-market generation prices.

**La Niña and hydrology risks:** Weather councils forecast that El Niño will fade away during 2H16 and be replaced by La Niña, which causes below-average rainfall in the Southeast and wet hydrology in the North and Northeast. La Niña also brings scarce rainfall to Chile. Worse hydrology would not necessarily hurt Brazilian water reservoirs and power prices, and we highlight that many genCos signed the GSF agreement back in Dec 2015. However, the materialization of La Niña would be a negative catalyst for Chilean genCos like Endesa Chile and Colbún.

#### Top Pick: AES Tietê

**Best play on higher power prices in long term.** Privately run AES Tietê (TIET11.SA) is a pure generation company engaged primarily in the free market. Our model indicates the TIET11 share price now factors in a long-term power price of c.R\$120/MWh vis-à-vis a modelling assumption of R\$150/MWh from 2018 onward (constant currency). TIET11 offers strong and predictable cash flows with double-digit dividend yields and is preparing to debut its solar generation segment.



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## Appendix

Market and Stock Performance

Earnings Outlook and Revisions

Regional, Country and Sector Valuation

Bulk and Soft Commodities

Macroeconomic Forecasts

Emerging Capital Markets

LatAm Model Portfolio

### Market Performance by Regions, Countries and Sectors (MSCI, in USD %)

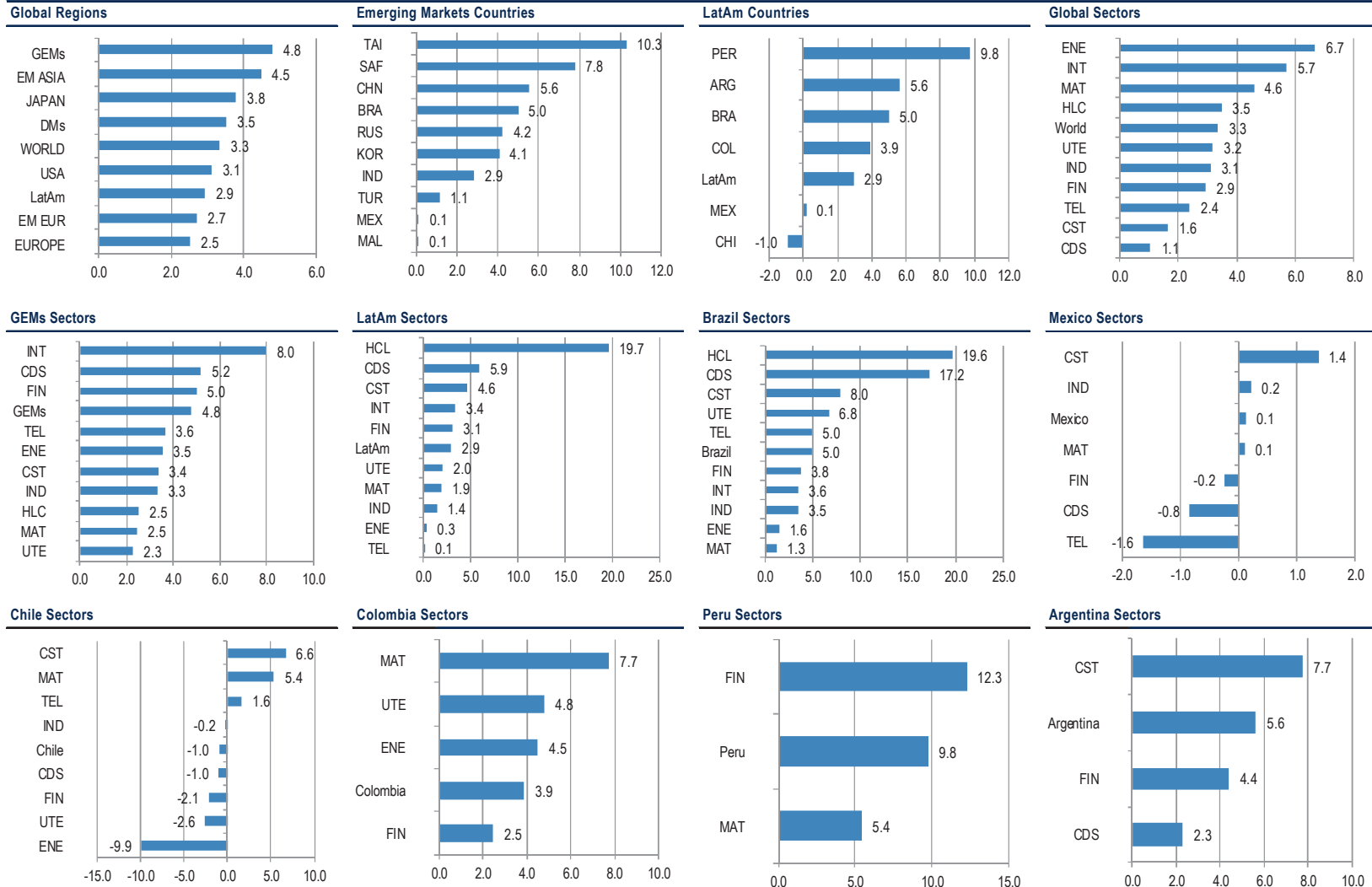
Last 30 Days	Global	North America	Japan	Europe	EMF	EMF Asia	EMEA	Latin America	Brazil	Mexico	Chile	Colombia	Peru	Argentina
Energy	4.7	5.8	1.9	2.4	1.3	4.7	(1.1)	(3.2)	(2.5)		(10.2)	2.4		6.3
Materials	2.8	6.0	1.0	(0.3)	1.2	1.8	2.1	(1.0)	(2.9)	(2.6)	4.3	6.4	6.7	
Industrials	1.4	2.0	2.1	(0.8)	1.8	1.8	5.7	(0.6)	1.0	(1.6)	(1.0)			
Financials	0.6	1.1	(0.7)	(1.9)	2.8	3.8	1.6	0.0	(0.0)	(2.1)	(3.2)	0.5	10.0	3.0
Consumer Discretionary	(0.6)	(1.2)	2.1	(3.1)	3.4	0.8	10.0	2.6	13.1	(3.8)	(2.7)			0.0
Consumer Staples	0.4	0.7	1.5	(0.7)	1.4	1.7	(2.5)	2.6	5.8	(0.3)	3.2			5.8
Information Technology	4.4	4.3	2.7	0.7	6.9	7.0		0.5	0.6		(8.4)			8.8
Health Care	1.8	2.2	2.3	0.1	1.6	0.7	5.5	16.6	16.6					
Telecommunication Services	0.6	2.4	0.9	(3.6)	2.3	3.0	2.4	(2.2)	2.2	(3.8)	1.6			3.9
Utilities	1.4	2.6	0.8	(1.2)	(0.3)	0.3	(3.2)	(1.0)	3.8		(5.7)	4.8		
Region / Country	1.6	2.2	1.5	(1.0)	3.1	3.8	2.4	0.2	1.5	(1.9)	(3.0)	2.1	8.6	3.8

Year to Date	Global	North America	Japan	Europe	EMF	EMF Asia	EMEA	Latin America	Brazil	Mexico	Chile	Colombia	Peru	Argentina
Energy	12.7	13.8	(12.5)	10.6	15.0	10.3	15.0	37.8	45.3		1.1	38.1		32.2
Materials	9.3	16.3	(17.0)	4.0	12.4	7.6	31.0	13.9	10.0	13.8	8.6	24.7	31.7	
Industrials	3.6	6.4	(10.4)	1.5	(1.0)	(2.7)	8.2	3.9	6.3	0.3	24.6			
Financials	(5.6)	(1.1)	(24.2)	(15.3)	0.7	(5.5)	5.7	26.9	42.2	(3.6)	2.7	18.1	55.6	11.4
Consumer Discretionary	(3.0)	0.2	(19.6)	(8.8)	0.2	(4.5)	9.0	8.6	33.6	(7.9)	12.4			
Consumer Staples	4.9	6.4	(5.6)	1.9	6.5	6.0	(0.1)	9.7	21.0	(0.3)	21.3			(8.7)
Information Technology	0.5	0.4	(15.2)	(5.6)	5.5	5.2		29.3	31.5		0.5			4.6
Health Care	(3.2)	(2.2)	(6.4)	(7.6)	(2.8)	(6.1)	13.7	37.2	37.2					
Telecommunication Services	4.6	13.1	0.9	(8.5)	4.0	3.2	11.8	(4.5)	28.8	(12.2)	(0.7)			18.1
Utilities	8.3	16.3	(19.0)	(1.0)	4.7	0.9	(2.9)	20.4	36.6		7.8	29.5		
Region / Country	0.6	3.1	(14.9)	(4.8)	3.9	0.7	9.5	16.5	30.7	(1.6)	8.5	22.5	45.1	16.5

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

**Last 30 Days Global Regions, GEMs/LatAm Countries and Sector Performance (USD price change in % from 09-May-16 to 09-Jun-16)**



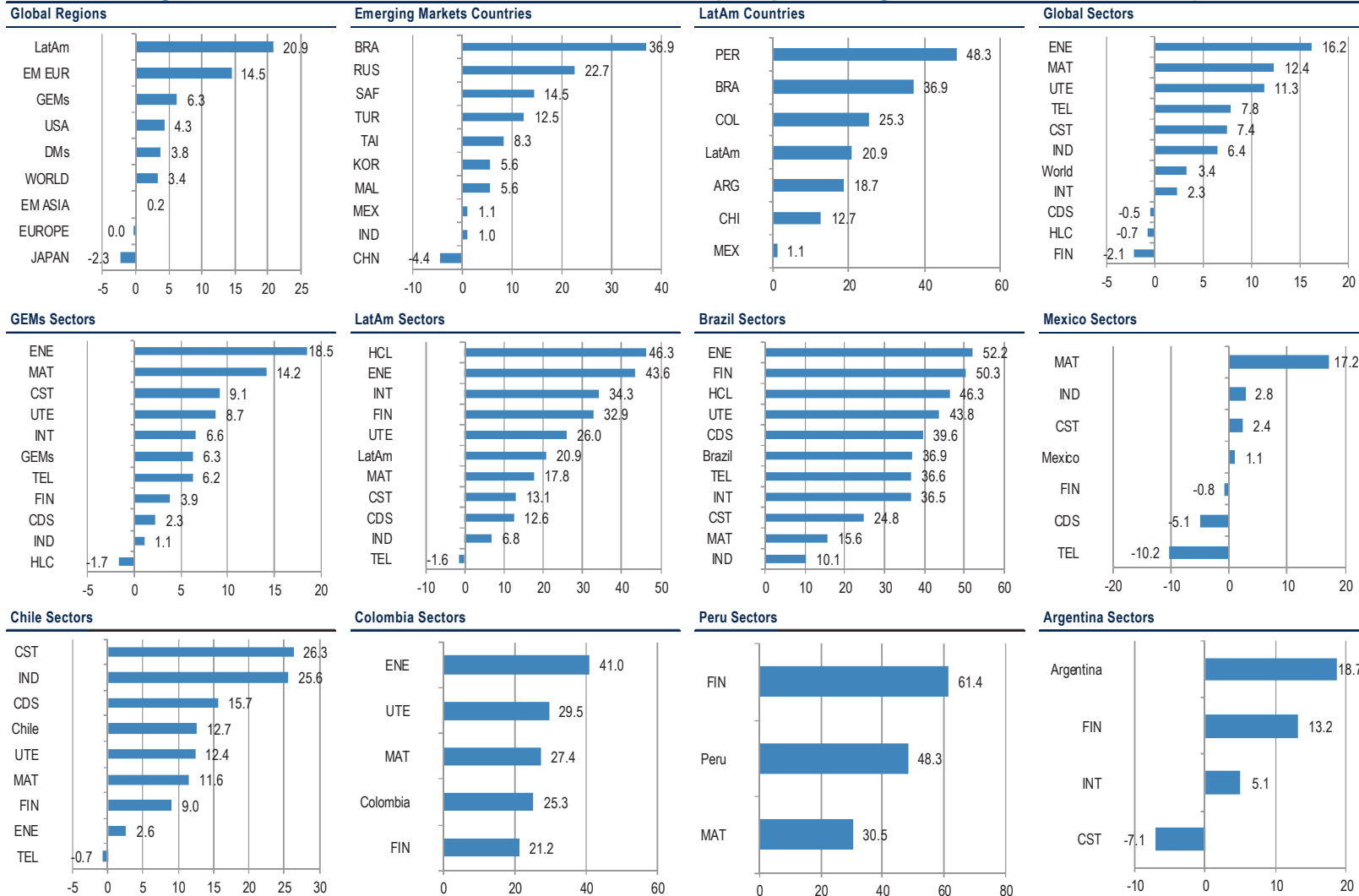
Note 1: ARG=Argentina, BRA=Brazil, CHI=Chile, COL=Colombia, MEX=Mexico, PER=Peru, CHN= China, IND= India, KOR= South Korea, MAL= Malaysia, RUS= Russia, SAF= South Africa, TAI= Taiwan, TUR= Turkey.

Note 2: CDS=Consumer Discretionary, CST=Consumer Staples, ENE=Energy, FIN=Financials, HLC=Health Care, IND=Industrials, INT=Information Technology, MAT=Materials, TEL= Telecommunications, UTE=Utilities.

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

**YTD Global Regions, GEMs/LatAm Countries and Sector Performance (USD price change from 31-Dec-15 to 09-Jun-16)**



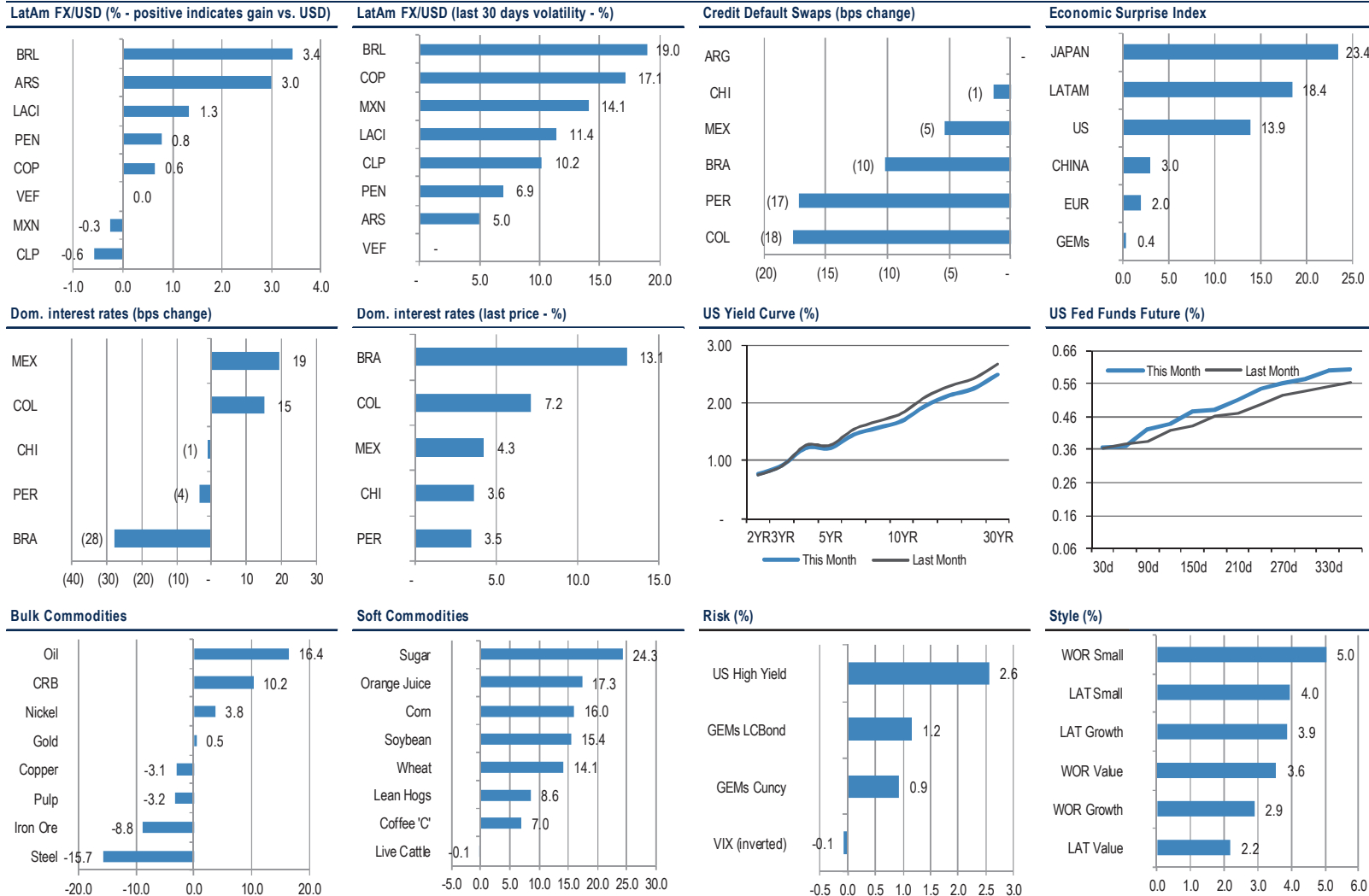
Note 1: ARG=Argentina, BRA=Brazil, CHI=Chile, COL=Colombia, MEX=Mexico, PER=Peru, CHN= China, IND= India, KOR= South Korea, MAL= Malaysia, RUS= Russia, SAF= South Africa, TAI= Taiwan, TUR= Turkey.

Note 2: CDS=Consumer Discretionary, CST=Consumer Staples, ENE=Energy, FIN=Financials, HLC=Health Care, IND=Industrials, INT=Information Technology, MAT=Materials, TEL= Telecommunications, UTE=Utilities.

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

### Last 30 Days Global and LatAm Macro Indicators (USD price change from 09-May-16 to 09-Jun-16)



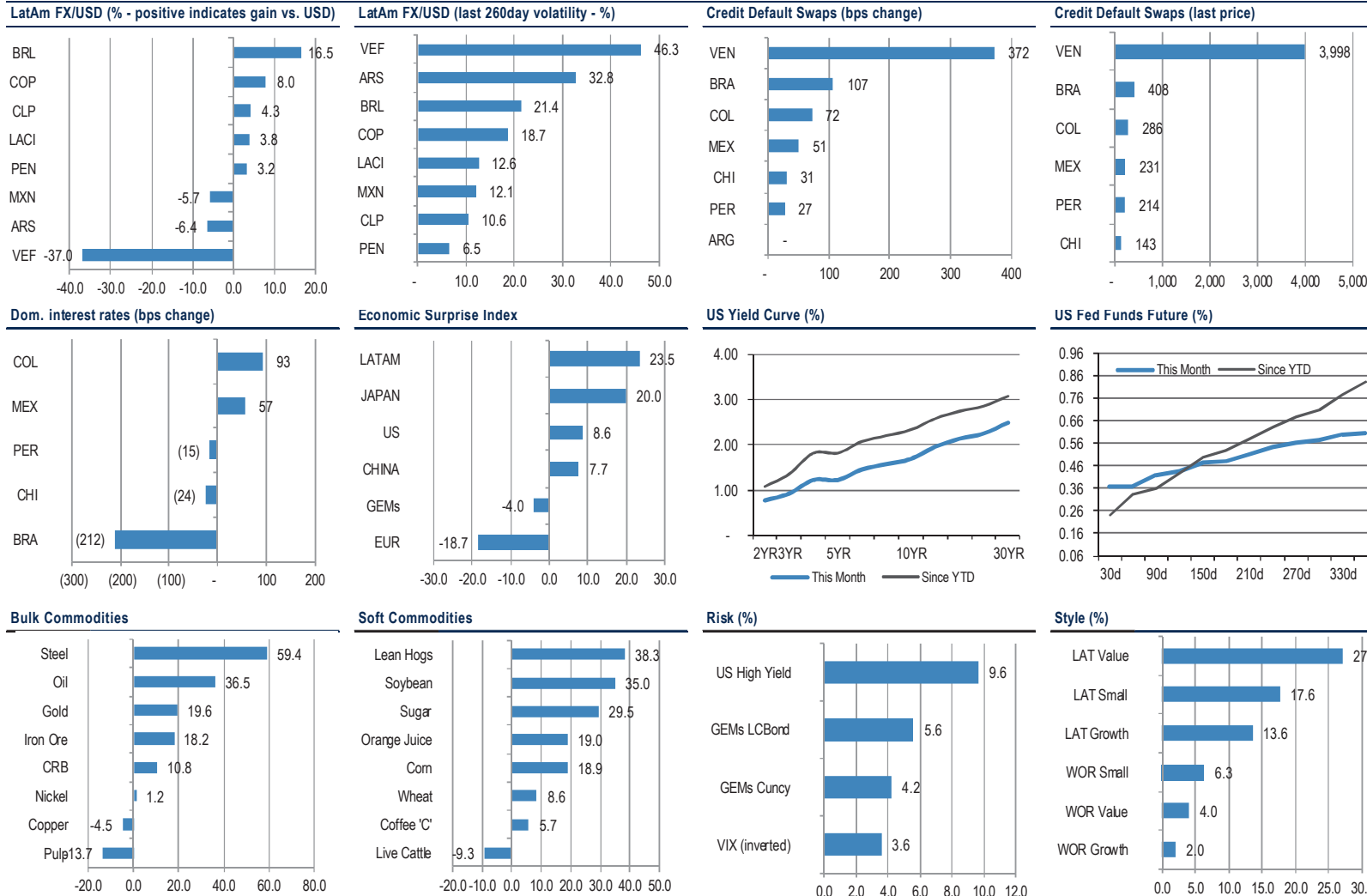
Note 1: ARS=Argentina Peso, BRL=Brazilian Real, CLP=Chilean Peso, COP=Colombian Peso, MXN=Mex ican Peso, PEN=Peruv ian Sol

Note 2: 1Yr market interest rates for all countries, ex cept Argentina (1 month) and Colombia (sw ap)

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

**YTD Global and LatAm Macro Indicators (USD price change from 31-Dec-15 to 09-Jun-16)**



Note 1: ARS=Argentina Peso, BRL=Brazilian Real, CLP=Chilean Peso, COP=Colombian Peso, MXN=Mexican Peso, PEN=Peruvian Sol

Note 2: 1Yr market interest rates for all countries, except Argentina (1 month) and Colombia (swap)

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

## LatAm: 25 Best Monthly Performers (ranked by USD price change from 09-May-16 to 09-Jun-16)

Company	Ticker	Ind.	Cnt.	Absolute Price Change (USD)			Relative to MSCI LatAm		
				1M	YTD	12M	1M	YTD	12M
Oi Sa	OIBR3 BZ	TEL	BRL	131.4%	-13.1%	-72.3%	124.8%	-28.1%	-74.4%
Rodobens	RDN3 BZ	CDS	BRL	46.5%	77.2%	20.9%	42.3%	46.6%	11.7%
Biosev Sa	BSEV3 BZ	CST	BRL	45.5%	137.6%	NA	41.4%	96.5%	NA
Cnova Nv	CNV US	CDS	BRL	43.3%	114.1%	-11.9%	39.2%	77.1%	-18.7%
Estacio	ESTC3 BZ	CDS	BRL	42.3%	29.8%	-3.9%	38.3%	7.4%	-11.2%
Avianca Holdings	PFAVH CB	IND	COP	32.8%	74.9%	0.7%	29.0%	44.7%	-7.0%
Canacol Energy L	CNE CN	ENE	CAD	30.2%	80.2%	67.1%	26.5%	49.1%	54.3%
Gran Tierra Ener	GTE US	ENE	COP	28.9%	60.4%	18.4%	25.2%	32.6%	9.3%
Qualicorp Sa	QUAL3 BZ	HCA	BRL	28.5%	45.9%	2.1%	24.8%	20.7%	-5.7%
Lopes Brasil	LPSB3 BZ	FIN	BRL	26.8%	67.5%	-37.1%	23.2%	38.6%	-41.9%
Jbs	JBSS3 BZ	CST	BRL	26.4%	-2.4%	-27.2%	22.8%	-19.3%	-32.8%
Gaec Educacao Sa	ANIM3 BZ	CDS	BRL	25.9%	1.5%	-37.2%	22.3%	-16.1%	-42.0%
lochp-Maxion	MYPK3 BZ	IND	BRL	25.2%	50.2%	40.5%	21.7%	24.2%	29.7%
Somos Educacao S	SEDU3 BZ	CDS	BRL	24.0%	-12.1%	-9.6%	20.5%	-27.3%	-16.6%
Ternium Sa-Adr	TX US	MAT	OFF	22.9%	60.7%	6.1%	19.4%	32.9%	-2.0%
Relapasa	RELAPAC1PE	ENE	PEN	22.9%	124.3%	24.4%	19.4%	85.5%	14.9%
Trevalli Mining C	TV CN	MAT	CAD	22.2%	28.0%	-38.1%	18.8%	5.8%	-42.9%
Emp Agro Pomal-C	POMALCC1PE	CST	PEN	22.1%	27.0%	NA	18.7%	5.0%	NA
Elektrobras	ELET3 BZ	UTE	BRL	21.8%	83.4%	39.8%	18.3%	51.7%	29.1%
Atacocha-B	ATACOCB1PE	MAT	PEN	21.4%	206.5%	71.5%	17.9%	153.5%	58.3%
Yamana Gold Inc	YRI CN	MAT	CAD	21.2%	183.5%	62.2%	17.8%	134.5%	49.8%
Coeur Mining Inc	CDE US	MAT	OFF	20.6%	252.4%	58.3%	17.1%	191.5%	46.2%
Smiles Sa	SMLE3 BZ	CDS	BRL	20.4%	57.2%	5.8%	17.0%	30.0%	-2.3%
Metal Leve	LEVE3 BZ	CDS	BRL	19.6%	21.0%	28.8%	16.2%	0.0%	18.9%
Cvc Brasil Opera	CVCB3 BZ	CDS	BRL	18.2%	80.3%	23.0%	14.8%	49.2%	13.6%

Note: Performance of key LatAm benchmarks equity index constituents and/or J.P. Morgan LatAm coverage universe. Source: Bloomberg and J.P. Morgan.



## LatAm: 25 Worst Monthly Performers (ranked by USD price change from 09-May-16 to 09-Jun-16)

Company	Ticker	Ind.	Cnt.	Absolute Price Change (USD)			Relative to MSCI LatAm		
				1M	YTD	12M	1M	YTD	12M
Nii Holdings Inc	NIHD US	TEL	OFF	-23.7%	-29.1%	NA	-25.8%	-41.4%	NA
Sid Nacional	CSNA3 BZ	MAT	BRL	-22.2%	119.6%	22.1%	-24.4%	81.6%	12.8%
Pdg Realty	PDGR3 BZ	CDS	BRL	-19.9%	86.5%	-84.7%	-22.2%	54.3%	-85.9%
Emp Ica	ICA* Mm	IND	MXN	-19.8%	-35.7%	-81.7%	-22.1%	-46.8%	-83.1%
Rossi Resid	RSID3 BZ	CDS	BRL	-16.5%	19.0%	-53.6%	-18.9%	-1.5%	-57.2%
Brasil Pharma Sa	BPHA3 BZ	CST	BRL	-15.1%	-4.2%	-89.6%	-17.6%	-20.8%	-90.4%
Br Properties Sa	BRPR3 BZ	FIN	BRL	-14.1%	13.6%	2.8%	-16.6%	-6.1%	-5.0%
Met Gerdau-Pref	GOAU4 BZ	MAT	BRL	-13.3%	53.0%	-71.6%	-15.8%	26.5%	-73.7%
Ohl Mexico Sab D	OHLMEX* Mm	IND	MXN	-12.4%	16.7%	-1.3%	-14.9%	-3.5%	-8.9%
Cesp	CESP3 BZ	UTE	BRL	-11.3%	5.0%	-39.0%	-13.9%	-13.2%	-43.6%
Tupy	TUPY3 BZ	CDS	BRL	-10.8%	-19.4%	-12.5%	-13.3%	-33.3%	-19.2%
Banco Do Brasil	BBAS3 BZ	FIN	BRL	-10.4%	37.5%	-12.8%	-13.0%	13.7%	-19.5%
Suzano Pa-Pref A	SUZB5 BZ	MAT	BRL	-10.1%	-22.7%	-14.4%	-12.7%	-36.1%	-21.0%
Empresas Copec	COPEC CI	ENE	CLP	-9.5%	1.3%	-12.2%	-12.1%	-16.2%	-18.9%
B2W Cia Digital	BTOW3 BZ	CDS	BRL	-9.4%	-26.3%	-58.2%	-12.0%	-39.0%	-61.4%
Concentradora Fi	DANHOS13 Mm	FIN	MXN	-8.3%	-10.5%	-8.5%	-10.9%	-26.0%	-15.5%
Direcional Engen	DIRR3 BZ	CDS	BRL	-8.3%	71.9%	10.2%	-10.9%	42.2%	1.8%
Braskem	BRKM3 BZ	MAT	BRL	-8.3%	29.9%	99.2%	-10.9%	7.4%	83.9%
Gerdau-Pref	GGBR4 BZ	MAT	BRL	-7.4%	54.8%	-24.6%	-10.0%	28.0%	-30.3%
Antarchile	ANTAR CI	IND	CLP	-7.2%	-0.4%	-13.1%	-9.9%	-17.6%	-19.8%
Grupo Lala Sab D	LALAB Mm	CST	MXN	-6.6%	2.5%	31.9%	-9.3%	-15.2%	21.8%
Grupo Elektra Sa	ELEKTRA* Mm	FIN	MXN	-6.5%	-30.0%	-27.8%	-9.1%	-42.1%	-33.4%
Gafisa	GFSA3 BZ	CDS	BRL	-6.3%	-11.8%	-18.0%	-8.9%	-27.0%	-24.3%
Soc Comercial PI	COME AR	ENE	ARS	-6.3%	-25.8%	1.9%	-8.9%	-38.6%	-5.9%
Saam Sa	SMSAAM CI	IND	CLP	-6.2%	11.9%	-5.6%	-8.9%	-7.5%	-12.8%

Note: Performance of key LatAm benchmarks equity index constituents and/or J.P. Morgan LatAm coverage universe. Source: Bloomberg and J.P. Morgan.

Market and Stock Performance

Earnings Outlook and Revisions

Regional, Country and Sector Valuation

Bulk and Soft Commodities

Macroeconomic Forecasts

Emerging Capital Markets

LatAm Model Portfolio

## Profit Outlook: Earnings Forecast Matrix for Countries and Sectors (% USD)

<b>WORLD</b>						<b>GEMs</b>						<b>LATAM</b>					
<b>USD</b>						<b>USD</b>						<b>USD</b>					
MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		
Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017	
Total Market	100%	NA	NA	1.5	13.1	Total Market	100%	NA	NA	6.3	13.6	Total Market	100%	20.6	11.2	43.7	13.8
Energy	6%	NA	NA	-49.8	135.6	Energy	8%	NA	NA	-18.6	32.8	Energy	7%	175.6	274.0	211.6	174.8
Materials	5%	NA	NA	-9.3	18.2	Materials	6%	NA	NA	222.4	18.4	Materials	11%	830.5	-16.3	217.2	3.0
Industrials	11%	NA	NA	11.7	10.0	Industrials	6%	NA	NA	12.7	17.0	Industrials	7%	46.6	-0.7	77.6	15.9
Financials	21%	NA	NA	-0.6	9.4	Financials	26%	NA	NA	0.6	8.6	Financials	27%	0.4	0.1	-2.0	4.0
Cons. Discretionary	13%	NA	NA	11.7	11.9	Cons. Discretionary	10%	NA	NA	12.6	13.5	Cons. Discretionary	7%	-3.0	15.8	9.5	12.1
Cons. Staples	10%	NA	NA	4.4	9.6	Cons. Staples	8%	NA	NA	16.3	15.4	Cons. Staples	24%	17.2	11.7	29.1	8.6
Inf. Technology	14%	NA	NA	1.7	12.1	Inf. Technology	23%	NA	NA	5.5	15.1	Inf. Technology	2%	27.7	4.8	34.0	3.4
Healthcare	14%	NA	NA	7.1	10.2	Healthcare	3%	NA	NA	16.1	20.7	Healthcare	1%	26.4	10.0	275.0	-34.2
Telecom	3%	NA	NA	6.3	8.9	Telecom	7%	NA	NA	10.1	10.0	Telecom	6%	21.4	12.9	59.3	6.5
Utilities	3%	NA	NA	-2.6	3.5	Utilities	3%	NA	NA	-6.6	2.5	Utilities	8%	46.9	-8.4	152.6	4.1

<b>USD-BRL</b>						<b>USD-MXN</b>						<b>USD-CLP</b>					
<b>BRAZIL</b>						<b>MEXICO</b>						<b>CHILE</b>					
<b>USD</b>						<b>USD</b>						<b>USD</b>					
MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		
Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017	
Total Market	3.40			3.49	3.76	Total Market	18.39			18.09	18.14	Total Market	679			687	701
Energy	9%	138.5	605.7	247.1	223.7	Energy	0%	NA	NA	NA	NA	Energy	8%	5.4	-18.3	11.9	8.2
Materials	8%	211.2	-44.8	136.6	-14.9	Materials	11%	38.4	14.9	19.7	21.2	Materials	9%	69.4	-7.2	183.2	1.5
Industrials	6%	63.0	-10.5	105.3	7.5	Industrials	12%	3.8	6.0	51.6	16.2	Industrials	4%	112.7	285.9	168.8	158.8
Financials	32%	2.8	-1.2	-7.9	0.9	Financials	16%	11.2	15.3	13.3	14.1	Financials	23%	5.4	8.9	31.2	10.0
Cons. Discretionary	5%	20.3	14.8	37.6	13.7	Cons. Discretionary	10%	-15.3	20.1	1.9	12.6	Cons. Discretionary	12%	5.6	11.3	9.5	10.8
Cons. Staples	22%	19.1	10.8	35.6	7.3	Cons. Staples	38%	12.7	13.9	12.4	12.5	Cons. Staples	12%	12.8	12.9	38.5	10.6
Inf. Technology	4%	27.6	4.8	33.2	3.4	Inf. Technology	0%	NA	NA	NA	NA	Inf. Technology	1%	47.1	1.5	40.9	6.8
Healthcare	1%	29.8	11.3	75.5	11.8	Healthcare	0%	32.8	13.4	258.4	16.2	Healthcare	1%	13.4	3.8	458.8	-79.1
Telecom	4%	28.4	-5.3	67.7	1.6	Telecom	11%	18.9	19.5	56.1	7.5	Telecom	1%	5292.7	-37.4	3411.7	140.7
Utilities	8%	55.4	-7.7	356.5	9.1	Utilities	1%	NA	NA	69.0	33.7	Utilities	27%	39.6	-9.1	20.1	-2.4

<b>USD-COP</b>						<b>USD-PEN</b>						<b>USD-ARS</b>					
<b>COLOMBIA</b>						<b>PERU</b>						<b>ARGENTINA</b>					
<b>USD</b>						<b>USD</b>						<b>USD</b>					
MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		Weight	MCap.	J.P. Morgan		Consensus		
Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017		Weight	2016	2017	2016	2017	
Total Market	2,939			3,169	3,225	Total Market	3.31			3.37	3.50	Total Market	13.82			14.26	16.40
Energy	22%	135.5	160.5	133.7	144.2	Energy	0%	NA	NA	NA	NA	Energy	29%	12.5	-3.3	110.0	24.7
Materials	14%	18.2	16.8	44.8	27.0	Materials	55%	21.4	-17.6	10.9	18.5	Materials	13%	NA	NA	-154.0	145.0
Industrials	2%	168.4	65.2	229.7	64.2	Industrials	3%	107.6	0.8	96.7	22.1	Industrials	0%	NA	NA	NA	NA
Financials	41%	-7.0	7.6	8.2	23.4	Financials	35%	18.5	7.1	30.3	10.5	Financials	39%	18.0	4.6	12.6	3.3
Cons. Discretionary	0%	NA	NA	NA	NA	Cons. Discretionary	0%	NA	NA	NA	NA	Cons. Discretionary	0%	NA	NA	NA	NA
Cons. Staples	7%	-39.0	36.7	-5.4	13.8	Cons. Staples	7%	22.9	11.8	85.6	18.4	Cons. Staples	0%	12.2	10.3	NA	NA
Inf. Technology	0%	NA	NA	NA	NA	Inf. Technology	0%	NA	NA	NA	NA	Inf. Technology	0%	NA	NA	NA	NA
Healthcare	0%	NA	NA	NA	NA	Healthcare	0%	NA	NA	NA	NA	Healthcare	0%	NA	NA	NA	NA
Telecom	1%	NA	NA	NA	NA	Telecom	0%	NA	NA	NA	NA	Telecom	13%	15.8	8.9	26.1	2.6
Utilities	14%	NA	NA	5.1	12.3	Utilities	0%	NA	NA	NA	NA	Utilities	2%	NA	NA	-23.4	67.5

Note: Market capitalization weighted earnings for LatAm and countries. Universe defined by JPM stock coverage plus stocks that are members of relevant equity indices in their respective countries. FX for each country is the average of Bloomberg consensus and USD forward curve. Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-16 31

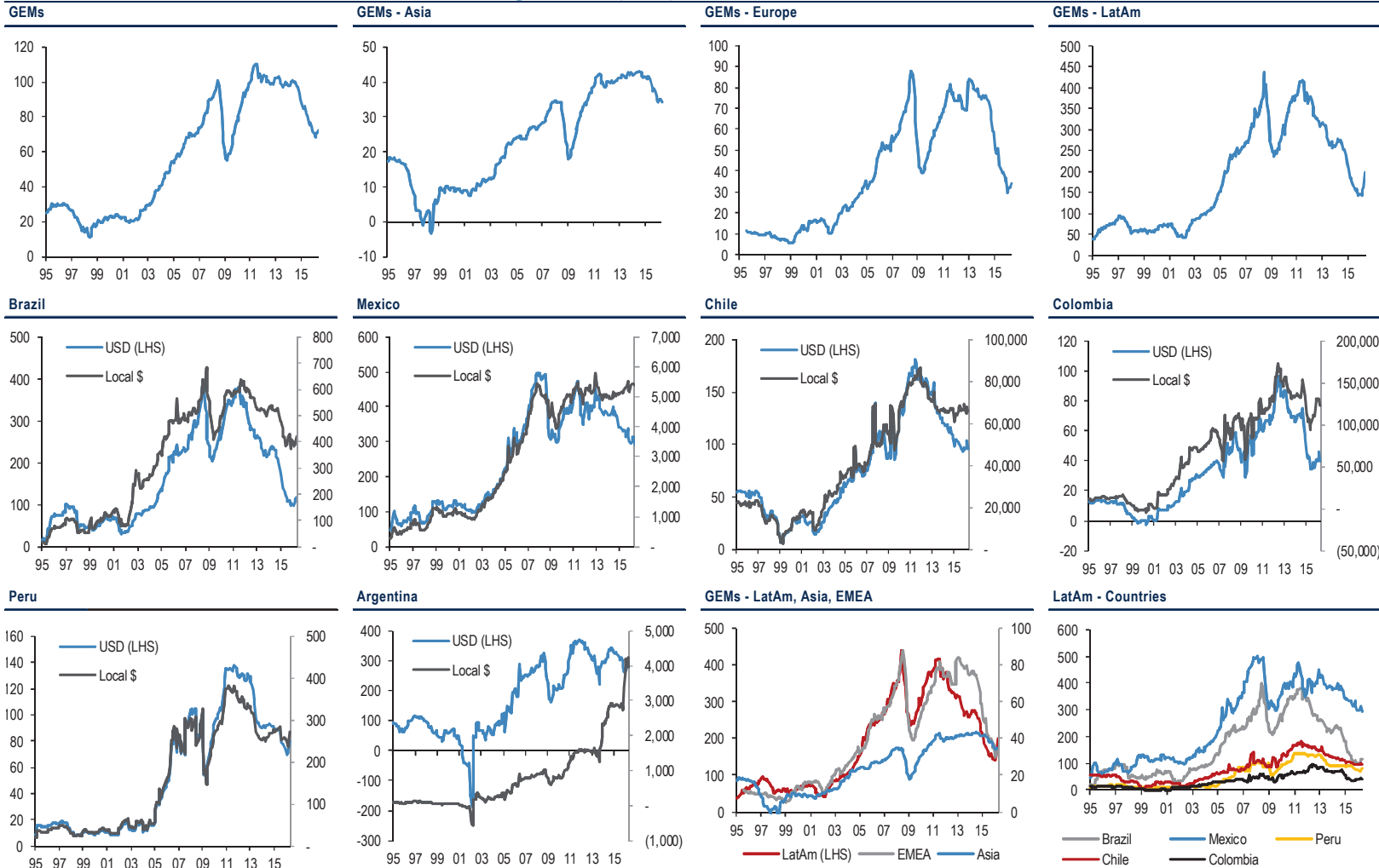
### Earnings Revisions: Regions and Sectors (12-month forward earnings - %)

Country / Sector	May-16 vs. Apr-16	Apr-16 vs. Mar-16	Mar-16 vs. Feb-16	May-16 vs. May-15	From LatAm 2008 High	From LatAm 2009 Low	From Own 10 Year High	From Own 10 Year Low
Emerging Markets	1.9	0.6	3.7	(16.1)	(27.6)	27.4	(34.6)	98.3
Emerging Asia	(2.0)	(0.0)	2.1	(17.4)	(0.1)	79.0	(20.8)	111.0
Emerging Europe	6.4	(0.3)	8.4	(32.9)	(58.8)	(17.1)	(61.0)	61.9
LatAm	23.7	4.1	9.3	11.6	(54.7)	(16.3)	(54.7)	107.5
Argentina	(4.5)	8.1	3.0	(12.3)	(10.4)	65.4	(23.9)	424.7
Brazil	1.2	5.1	13.4	(12.9)	(70.9)	(43.6)	(70.9)	37.3
Chile	(7.5)	6.8	1.4	(8.0)	(5.6)	(18.8)	(47.2)	147.8
Colombia	(13.6)	6.9	7.9	(5.8)	(30.0)	(7.2)	(59.1)	137.0
Mexico	(7.3)	0.4	5.0	(11.8)	(40.2)	(6.6)	(41.3)	109.4
Peru	8.9	3.6	1.8	(9.4)	(23.1)	32.2	(41.6)	639.0
Energy	38.4	3.7	12.1	(31.4)	(88.0)	(77.7)	(88.0)	60.7
Materials	(3.2)	25.5	5.2	13.7	(86.9)	(63.3)	(86.9)	147.5
Industrials	(0.9)	(1.6)	33.2	12.5	(29.2)	16.8	(40.0)	37.8
Inf. Technology	(3.2)	3.3	11.6	(5.3)	2.3	9.9	(31.4)	38.0
Financials	(2.2)	0.7	8.7	(13.8)	(31.3)	8.2	(41.4)	383.9
Cons. Discretionary	(7.0)	1.3	8.1	(22.8)	(69.1)	(36.7)	(69.1)	51.4
Cons. Staples	(6.4)	1.6	8.4	(8.7)	7.0	12.8	(29.2)	168.2
Health Care	(6.3)	1.2	13.7	(20.4)	NM	NM	(62.9)	17.0
Telecom, Media, Tech	(10.7)	3.0	3.0	(32.7)	(57.2)	(43.3)	(65.5)	62.5
Utilities	350.0	16.4	6.9	376.5	189.8	217.7	0.0	742.4

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

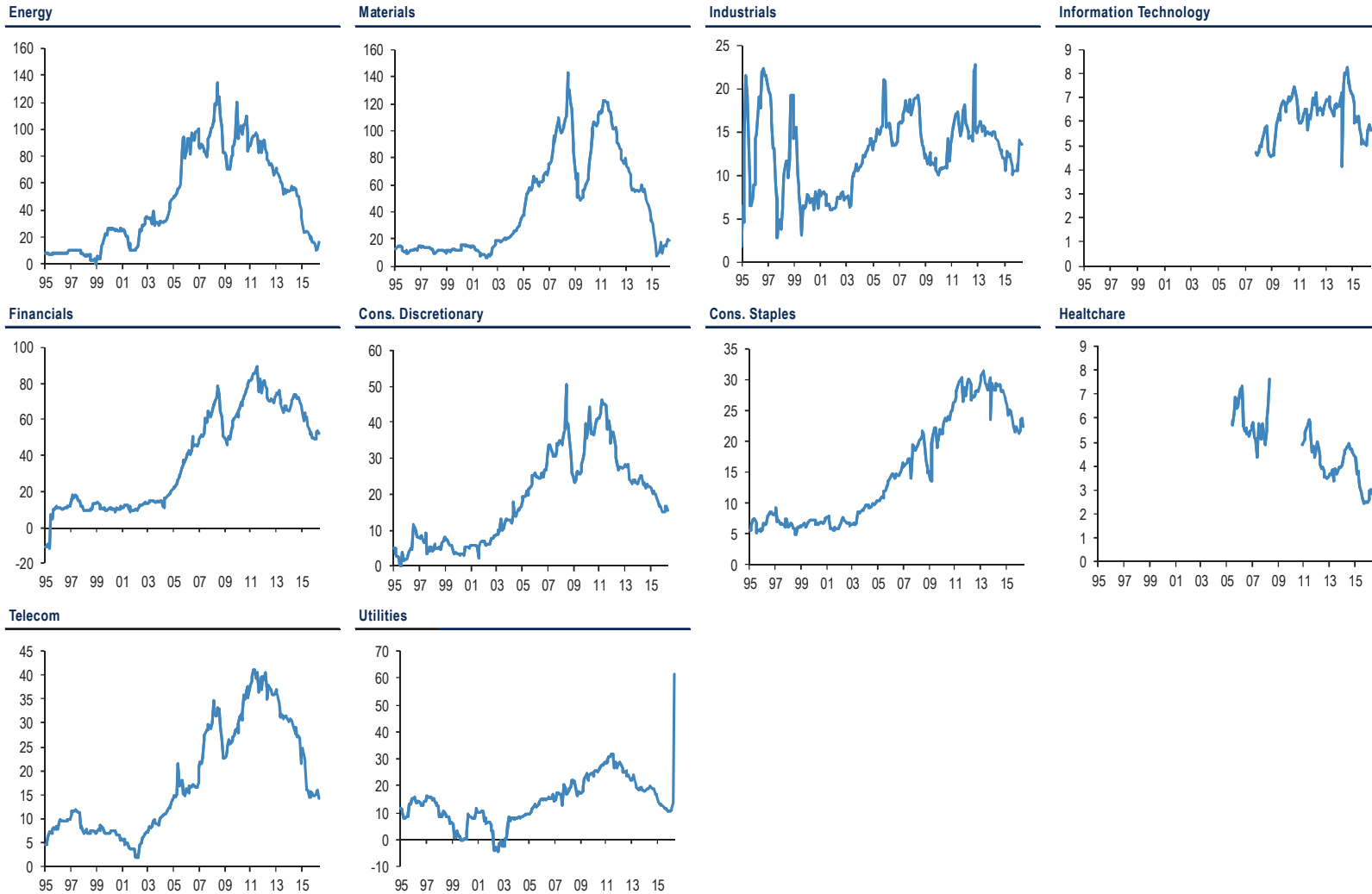
Countries - Consensus 12-Month Forward Earnings Factor (USD)



Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

### LatAm Sectors - Consensus 12-Month Forward Earnings Factor (USD)



Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

LatAm Quarterly Earnings Tracker (updated as of 09-Jun-2016 / consensus data as of 09-Jun-2016)

LatAm - Q1 2016 Earnings Tracker (USD)

LATAM	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Brazil	114	100%	22%	60%	-13%	-11%	-38%	-23%	-29%	-47%
Mexico	53	100%	40%	28%	-3%	2%	4%	-8%	-8%	24%
Chile	41	100%	29%	29%	-8%	-8%	21%	-12%	2%	36%
Colombia	16	50%	13%	38%	3%	31%	44%	32%	-19%	-16%
Peru	27	100%	26%	11%	-3%	12%	11%	-4%	15%	1%
<b>LatAm</b>	<b>251</b>	<b>97%</b>	<b>27%</b>	<b>42%</b>	<b>-9%</b>	<b>-5%</b>	<b>-16%</b>	<b>-15%</b>	<b>-18%</b>	<b>-21%</b>
Energy	8	100%	38%	38%	-18%	-4%	-90%	-28%	-27%	-96%
Materials	33	97%	50%	28%	-5%	13%	43%	-14%	5%	NM
Industrials	28	100%	29%	21%	-4%	3%	9%	-11%	5%	76%
Information Technology	4	100%	50%	50%	NA	NA	-4%	NA	NA	-17%
Financials	54	91%	20%	41%	-1%	5%	-4%	-18%	-24%	-19%
Consumer Discretionary	35	100%	31%	46%	-7%	-4%	-7%	-20%	-24%	-35%
Consumer Staples	43	98%	14%	55%	-6%	-5%	-33%	-2%	-15%	-46%
Health Care	7	100%	29%	43%	-2%	-1%	10%	-13%	-8%	3%
Telecommunication Services	6	100%	17%	83%	-5%	-7%	-55%	-18%	-22%	-36%
Utilities	33	97%	22%	44%	-18%	-35%	-61%	-27%	-47%	-71%

Brazil - Q1 2016 Earnings Tracker (USD)

BRAZIL	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Energy	4	100%	25%	50%	-21%	-8%	NM	-28%	-26%	NM
Materials	11	100%	36%	45%	-9%	6%	24%	-20%	-1%	NM
Industrials	12	100%	25%	50%	-4%	-2%	0%	-9%	-1%	211%
Information Technology	3	100%	33%	67%	-9%	-8%	-7%	-7%	-14%	-22%
Financials	21	100%	24%	52%	-4%	-3%	-8%	-22%	-24%	-28%
Consumer Discretionary	25	100%	24%	52%	-11%	-6%	-24%	-33%	-37%	-61%
Consumer Staples	14	100%	NA	86%	-12%	-16%	NM	-14%	-36%	NM
Health Care	5	100%	20%	60%	-4%	-6%	-7%	-16%	-14%	-17%
Telecommunication Services	3	100%	NA	100%	-10%	-3%	NM	-25%	-17%	NM
Utilities	16	100%	25%	69%	-16%	-55%	NM	-38%	-74%	NM
<b>Brazil</b>	<b>114</b>	<b>100%</b>	<b>22%</b>	<b>60%</b>	<b>-13%</b>	<b>-11%</b>	<b>-38%</b>	<b>-23%</b>	<b>-29%</b>	<b>-47%</b>

Mexico - Q1 2016 Earnings Tracker (USD)

MEXICO	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Energy	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Materials	7	100%	86%	NA	-4%	29%	150%	-9%	16%	100%
Industrials	7	100%	29%	NA	-4%	7%	9%	-5%	11%	122%
Information Technology	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Financials	14	100%	29%	36%	9%	19%	-1%	-13%	-27%	27%
Consumer Discretionary	7	100%	57%	14%	-4%	-1%	8%	-7%	-14%	-6%
Consumer Staples	14	100%	29%	43%	-3%	-2%	0%	-3%	-3%	-5%
Health Care	1	100%	100%	NA	2%	21%	114%	-15%	-7%	154%
Telecommunication Services	2	100%	NA	100%	-2%	-10%	-38%	-16%	-25%	11%
Utilities	1	100%	NA	100%	-18%	7%	-32%	-19%	19%	24%
<b>Mexico</b>	<b>53</b>	<b>100%</b>	<b>40%</b>	<b>28%</b>	<b>-3%</b>	<b>2%</b>	<b>4%</b>	<b>-8%</b>	<b>-8%</b>	<b>29%</b>

Chile - Q1 2016 Earnings Tracker (USD)

CHILE	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Energy	2	100%	50%	50%	-4%	-12%	14%	-19%	-19%	-2%
Materials	3	100%	33%	67%	-7%	-9%	-31%	-2%	1%	4573%
Industrials	7	100%	14%	NA	-2%	8%	12%	-15%	3%	-11%
Information Technology	1	100%	100%	NA	-8%	-4%	27%	-17%	-15%	104%
Financials	8	100%	13%	25%	NA	NA	47%	NA	NA	38%
Consumer Discretionary	3	100%	33%	67%	-5%	-7%	-6%	-6%	-6%	-7%
Consumer Staples	7	100%	29%	43%	-5%	13%	19%	-14%	13%	55%
Health Care	1	100%	NA	NA	0%	0%	0%	-7%	7%	-3%
Telecommunication Services	1	100%	100%	NA	-6%	15%	1073%	-5%	-4%	108%
Utilities	8	100%	38%	25%	-29%	-23%	17%	-7%	5%	52%
<b>Chile</b>	<b>41</b>	<b>100%</b>	<b>29%</b>	<b>29%</b>	<b>-8%</b>	<b>-8%</b>	<b>21%</b>	<b>-12%</b>	<b>2%</b>	<b>36%</b>

Colombia - Q1 2016 Earnings Tracker (USD)

COLOMBIA	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Energy	1	100%	100%	NA	-10%	33%	NM	-35%	-36%	-22%
Materials	2	50%	NA	100%	98247%	96773%	-26%	2%	6%	-3%
Industrials	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Information Technology	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Financials	7	29%	NA	50%	NA	NA	-23%	NA	NA	-35%
Consumer Discretionary	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Staples	2	50%	NA	100%	0%	0%	-9%	224%	326%	-34%
Health Care	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Telecommunication Services	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Utilities	4	75%	NA	NA	0%	0%	0%	10%	-6%	47%
<b>Colombia</b>	<b>16</b>	<b>50%</b>	<b>13%</b>	<b>38%</b>	<b>3%</b>	<b>31%</b>	<b>44%</b>	<b>32%</b>	<b>-19%</b>	<b>-16%</b>

Peru - Q1 2016 Earnings Tracker (USD)

PERU	# of		% Income Surprise		Reported v.s. Consensus			Year v.s. Year (Blend)		
	Cos.	Reported	Pos.	Neg.	Sales	EBITDA	Income	Sales	EBITDA	Income
Energy	1	100%	NA	NA	0%	0%	0%	-22%	14%	NM
Materials	10	100%	50%	10%	-1%	6%	46%	2%	7%	13%
Industrials	2	100%	100%	NA	-11%	-14%	83%	-18%	6%	184%
Information Technology	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Financials	4	100%	NA	25%	NA	NA	-12%	NA	NA	-27%
Consumer Discretionary	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Consumer Staples	6	100%	NA	17%	-3%	65%	-1%	-6%	61%	41%
Health Care	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Telecommunication Services	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
Utilities	4	100%	NA	NA	0%	0%	0%	11%	8%	4%
<b>Peru</b>	<b>27</b>	<b>100%</b>	<b>26%</b>	<b>11%</b>	<b>-3%</b>	<b>12%</b>	<b>11%</b>	<b>-4%</b>	<b>15%</b>	<b>1%</b>

Notes: (1) Positive (green) / Negative (red) surprises consider a tolerance of 5 percentage points deviation to consensus estimates; (2) Tracking for companies only with valid consensus estimates; (3) Blend: actual reported earnings / EBITDA / sales or consensus estimates for companies that did not report yet. Source: Bloomberg data and J.P. Morgan calculation

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LatAm Model Portfolio



## Value: Regional, Countries and Sector Valuations

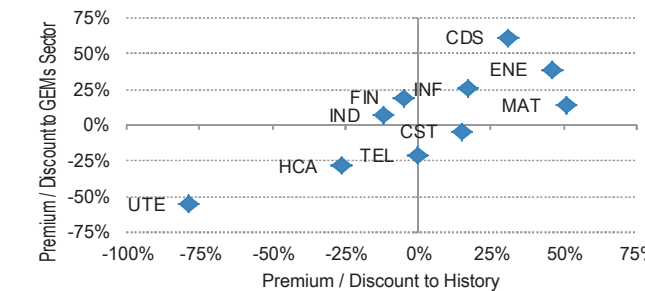
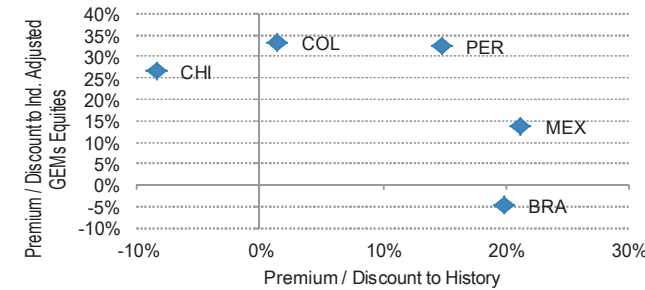
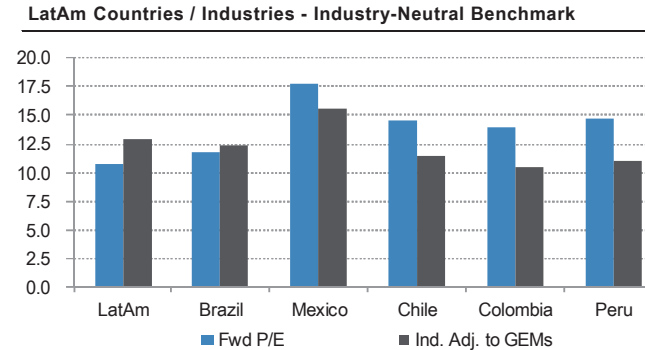
Country / Sector	P / E				P / B		ROE %		Div Yield	
	Current Trailing	Consensus 12M Forward	10Y Hist. Average	# of SD from Avg.	Current Trailing	10Y Hist. Average	Current Trailing	10Y Hist. Average	Current Trailing	10Y Hist. Average
World	20.3	16.0	13.6	1.4	2.1	2.0	13.2	14.6	2.6	2.7
US	21.9	17.1	14.3	1.7	2.8	2.4	16.5	16.6	2.1	2.2
GEMs	13.6	11.4	11.0	0.3	1.4	1.8	12.4	16.3	2.4	2.7
EM Asia	12.6	11.8	11.7	0.1	1.4	1.8	11.9	15.1	2.2	2.5
EM Europe	11.0	7.9	7.8	0.0	0.9	1.3	10.8	17.0	2.8	2.8
EM LatAm	21.2	10.8	11.5	(0.4)	1.7	2.0	15.8	17.8	3.2	3.0
Argentina	12.8	9.8	8.7	0.4	1.6	1.6	16.4	18.4	0.8	2.7
Brazil	19.1	11.8	10.1	1.0	1.4	1.8	12.1	18.0	3.2	3.7
Chile	22.8	14.5	15.9	(0.7)	1.6	2.0	11.2	12.9	2.4	2.2
Colombia	24.8	14.0	14.6	(0.2)	1.2	1.7	8.8	12.2	3.0	3.0
Mexico	24.4	17.7	14.9	1.1	2.7	2.8	15.0	19.3	1.4	1.8
Peru	23.4	14.7	11.9	1.2	2.1	3.0	14.5	25.9	1.1	3.2
Energy	29.4	13.2	9.5	1.5	0.8	1.5	5.7	17.2	1.5	3.0
Materials	25.9	15.9	10.8	1.3	1.0	1.8	6.4	18.4	3.1	3.4
Industrials	26.2	13.7	16.1	(0.7)	2.3	2.5	16.9	15.9	1.8	2.1
Financials	10.4	10.1	10.6	(0.4)	1.6	2.1	15.9	19.3	4.1	3.4
Cons. Discretionary	24.5	21.4	16.4	1.6	3.1	3.2	14.3	20.0	1.0	1.4
Cons. Staples	27.9	20.9	18.7	0.9	3.7	3.1	17.5	16.7	2.3	2.5
Information Tech.	22.2	18.5	15.8	0.9	7.5	16.0	40.3	99.1	1.7	3.0
Healthcare	16.7	15.6	21.1	(1.0)	3.3	4.1	21.2	20.5	4.4	1.7
Telecom	22.6	11.6	11.6	(0.0)	2.6	3.1	22.4	27.0	3.0	3.0
Utilities	31.2	2.4	11.2	(5.1)	1.4	1.2	59.6	11.0	2.9	4.6
China	10.3	9.9	11.5	(0.5)	1.3	1.9	12.8	16.4	2.3	2.7
Korea	10.8	10.3	9.7	0.6	0.9	1.2	9.1	12.9	1.6	1.6
Taiwan	13.2	13.1	13.9	(0.2)	1.6	1.8	12.5	13.6	3.5	3.8
India	22.7	17.6	15.7	0.8	3.2	3.0	18.4	19.5	1.4	1.4
South Africa	19.9	14.6	12.0	1.3	2.3	2.3	15.6	19.9	3.3	3.3
Russia	7.3	6.7	6.8	(0.0)	0.8	1.2	11.3	17.9	2.9	2.6
Turkey	9.4	8.2	9.5	(0.8)	1.2	1.6	14.9	16.3	4.1	3.1

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

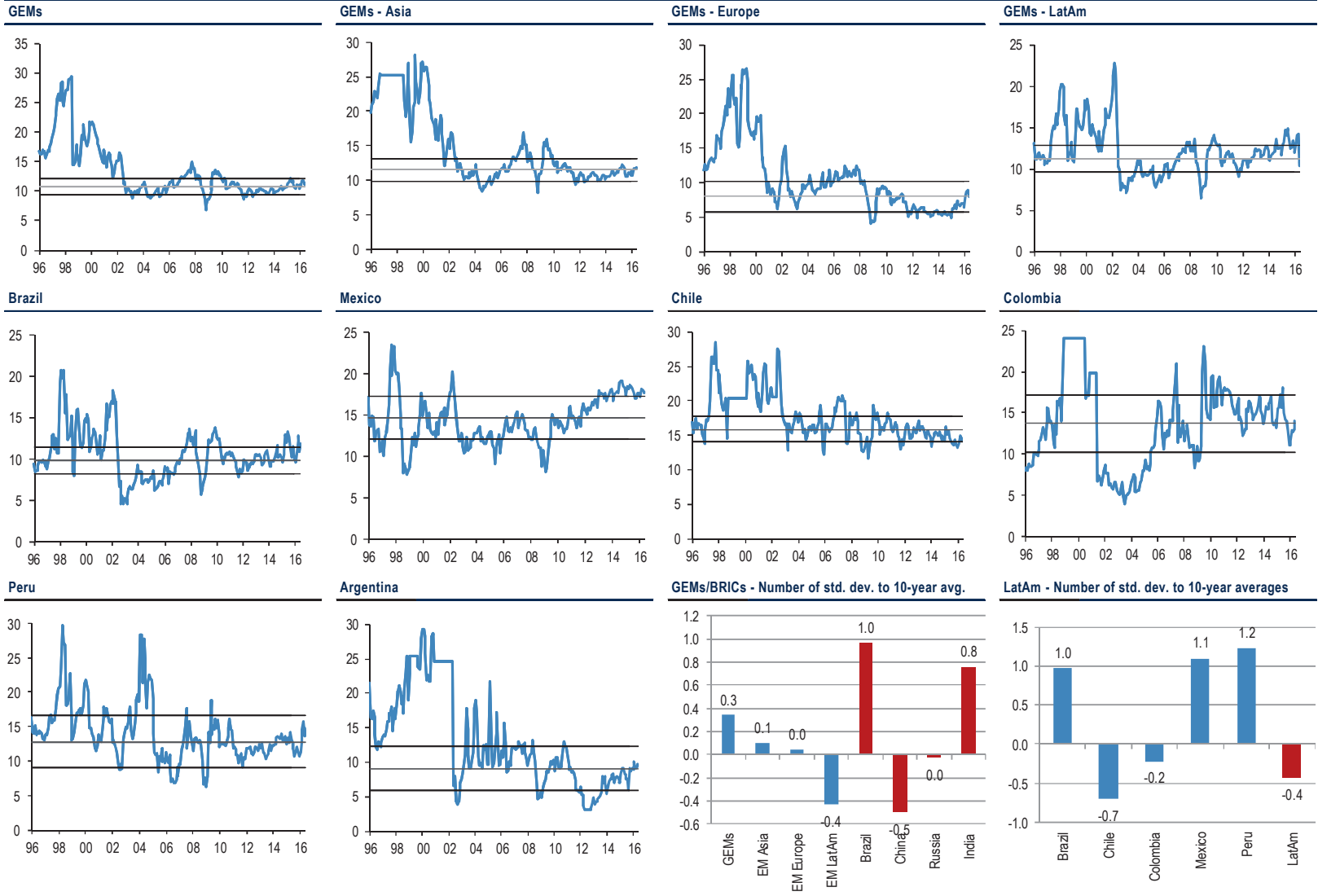
### Region, LatAm Countries and Sectors - Consensus Forward P/E's

Region, Country Sector	Fwd P/E	Relative to GEMs	Industry	Fwd P/E	Relative to GEMs
Regions			Sectors by Country		
EM Europe	7.9	69%	Mexico TEL	10.5	71%
LatAm	10.8	94%	Argentina CST	15.5	71%
GEMs	11.4	100%	Brazil HCA	15.6	71%
EM Asia	11.8	104%	Argentina TEL	10.6	72%
			Brazil IND	10.4	81%
			Argentina CDS	10.9	82%
			Brazil MAT	11.5	82%
			Brazil CST	18.2	83%
			Chile CST	18.9	86%
Countries			Argentina ENE	8.5	90%
Argentina	9.8	86%	Brazil TEL	15.6	105%
LatAm	10.8	94%	Brazil FIN	9.2	109%
Brazil	11.8	103%	Mexico CST	24.9	114%
Colombia	14.0	122%	Colombia FIN	9.7	115%
Chile	14.5	127%	Argentina FIN	9.8	116%
Peru	14.7	129%	Chile MAT	16.5	118%
Mexico	17.7	155%	Chile INT	17.6	119%
Countries - Sector Adjusted to GEMs Sectors			Chile FIN	10.5	125%
Colombia Ind. Adj.	10.5	92%	Brazil INT	18.5	125%
Peru Ind. Adj.	11.1	97%	Brazil CDS	16.9	127%
Chile Ind. Adj.	11.5	100%	Mexico IND	16.6	130%
Brazil Ind. Adj.	12.3	108%	Brazil ENE	12.6	132%
LatAm Ind. Adj.	12.9	113%	Peru FIN	11.4	135%
Mexico Ind. Adj.	15.6	136%	Mexico MAT	19.6	141%
Sectors In LatAm			Chile TEL	22.0	149%
LatAm UTE	2.4	44%	Chile CDS	20.4	154%
LatAm HCA	15.6	71%	Colombia ENE	15.0	157%
LatAm TEL	11.6	79%	Mexico FIN	13.8	163%
LatAm CST	20.9	96%	Chile ENE	17.8	187%
LatAm IND	13.7	107%	Brazil UTE	10.2	192%
LatAm MAT	15.9	114%	Peru MAT	27.2	195%
LatAm FIN	10.1	119%	Chile IND	26.2	204%
LatAm INT	18.5	125%	Argentina INT	#N/A	209%
LatAm ENE	13.2	139%			
LatAm CDS	21.4	161%			



Note: a) Red (Green) - Premium (discount) to World P/E; b) (sector weight of each respective countries) \* (consensus fwd P/E for the consensus fwd P/E for the respective countries, GEMs and Global). CDS = Consumer Discretionary, CST = Consumer Staples, ENE = Energy, FIN = Financials, HCA = Health Care, IND = Industrials, INT = Information Technology, MAT = Materials, TEL = Telecommunications, UTE = Utilities. Source: Bloomberg and J.P. Morgan  
 Pricing as of 09-Jun-2016

GEMs, LatAm and Countries - Consensus Forward P/Es

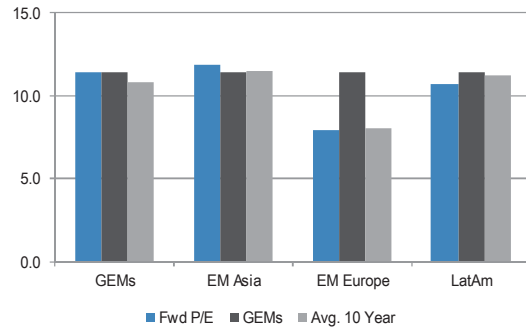


Source: Bloomberg and J.P. Morgan

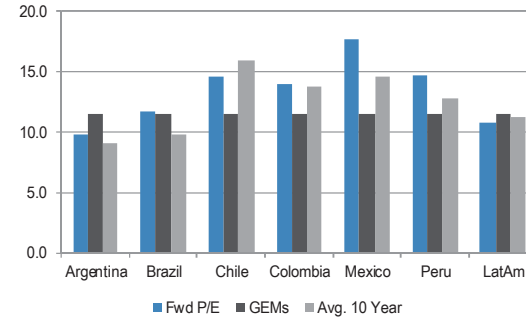
Pricing as of 09-Jun-2016

### Consensus Forward P/Es vs. GEMs and Historical Averages

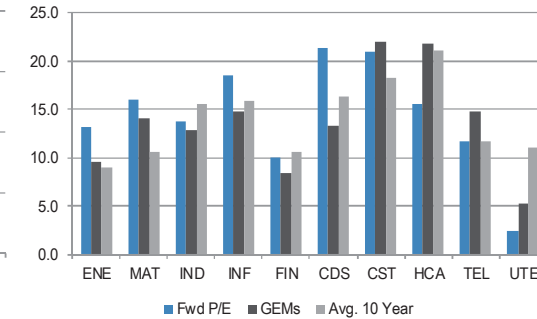
Global Regions



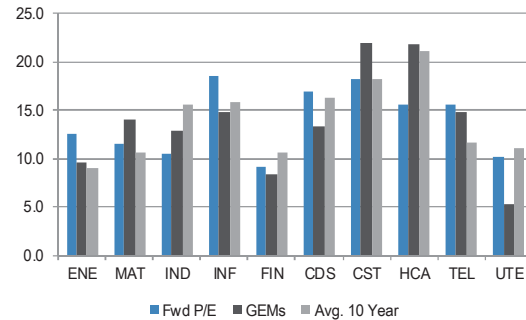
LatAm Countries



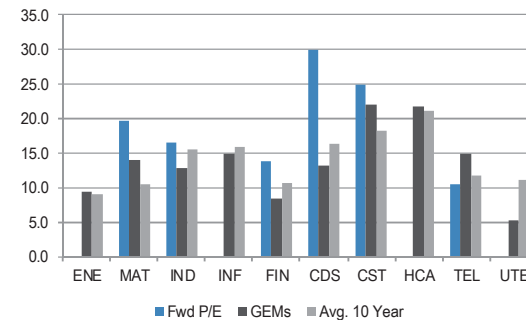
LatAm Industries



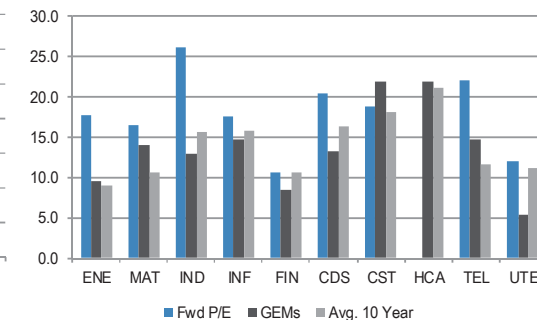
Brazil Industries



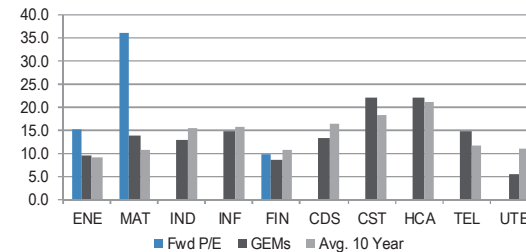
Mexico Industries



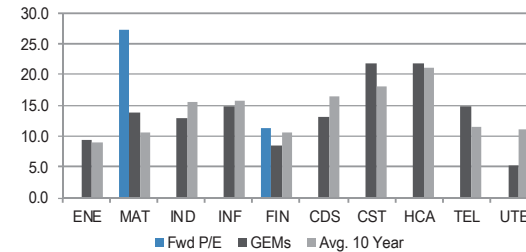
Chile Industries



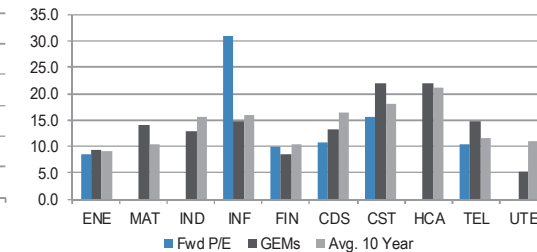
Colombia Industries



Peru Industries



Argentina Industries

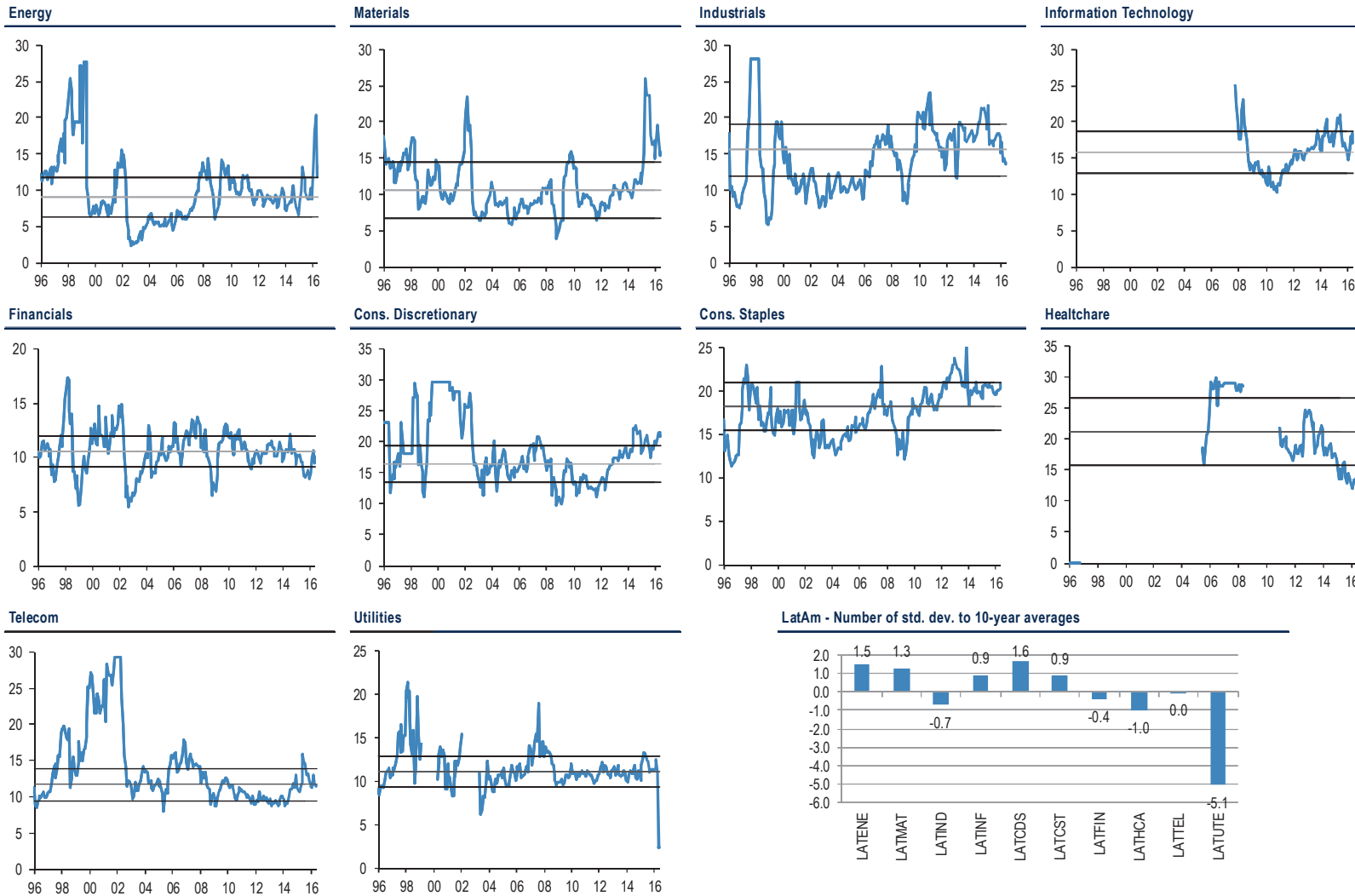


Note: CDS = Consumer Discretionary, CST = Consumer Staples, ENE = Energy, FIN = Financials, HCA = Health Care, IND = Industrials, INT = Information Technology, MAT = Materials, TEL = Telecommunications, UTE = Utilities

Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

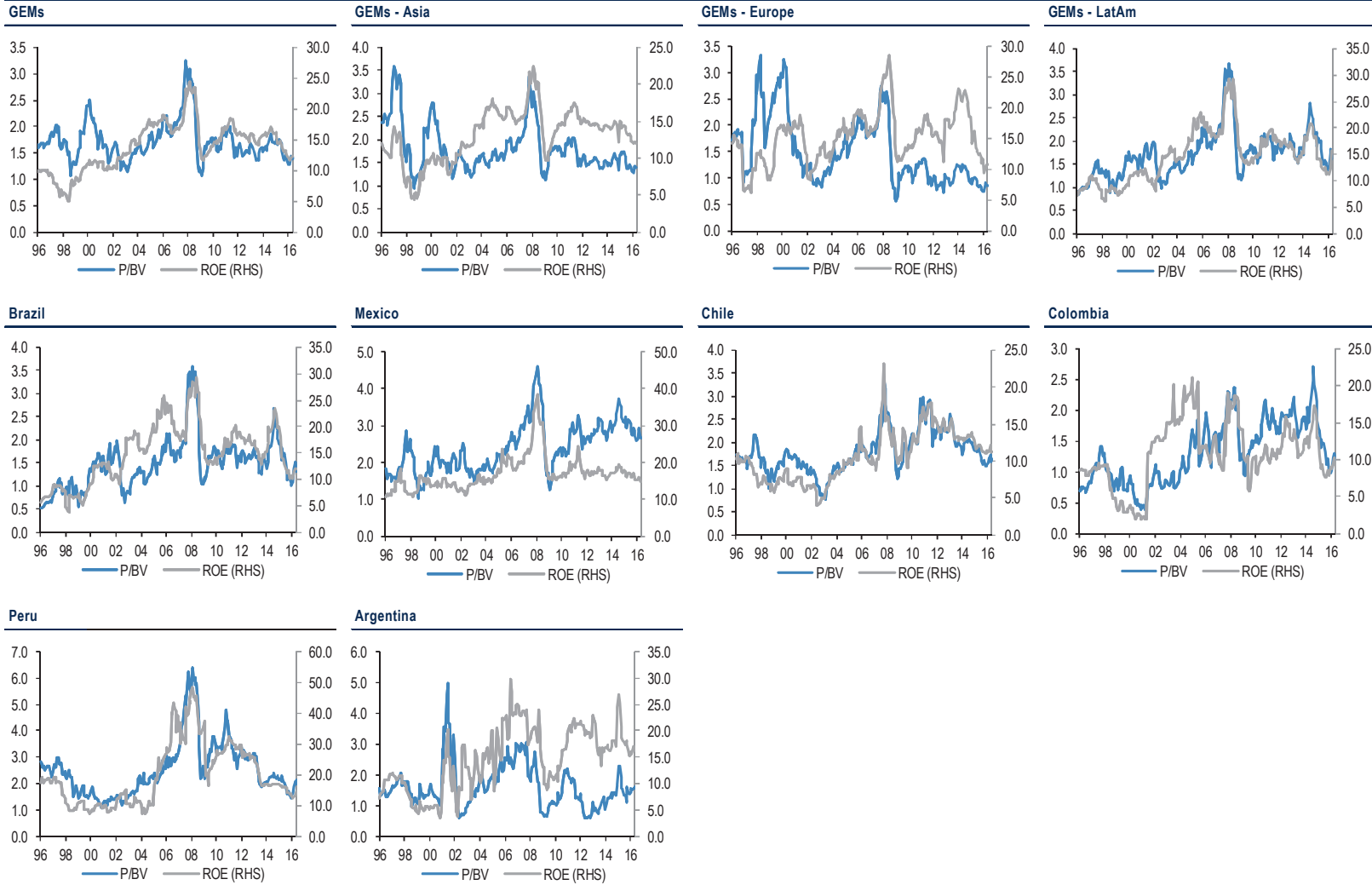
LatAm Sectors - Consensus Forward P/Es



Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

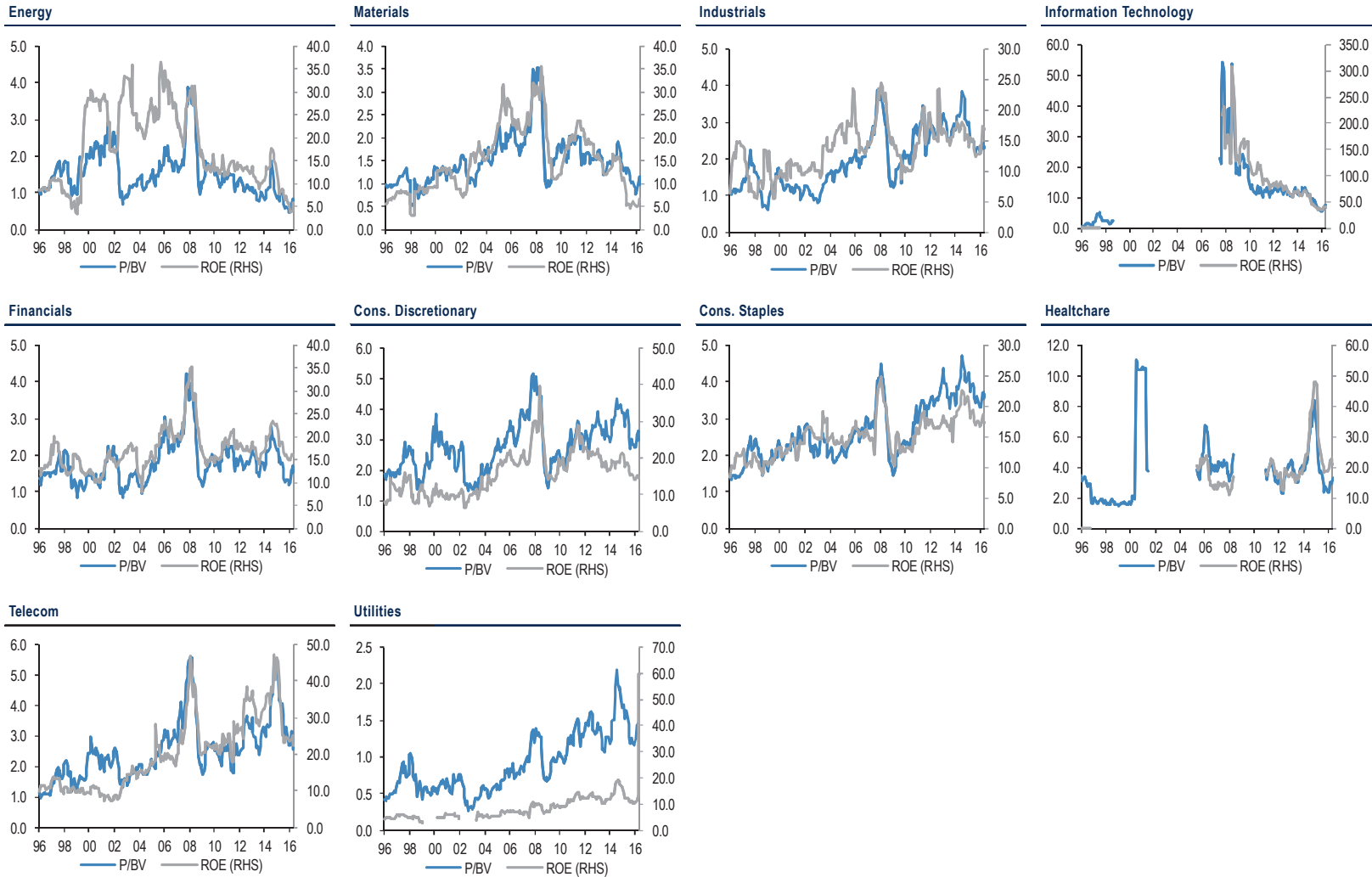
Global, GEMs, LatAm and Countries - P/BV and ROE (%)



Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

LatAm Sectors - P/BV and ROE (%)



Source: Bloomberg and J.P. Morgan

Pricing as of 09-Jun-2016

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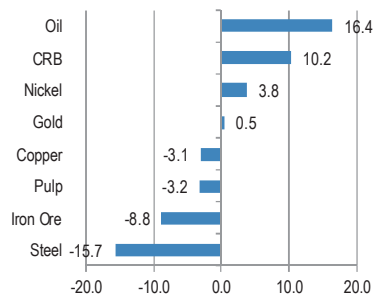
Emerging Capital Markets

LatAm Model Portfolio

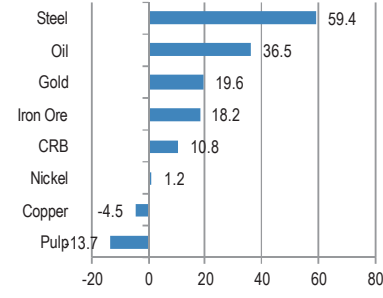


### Key Bulk Commodity Prices

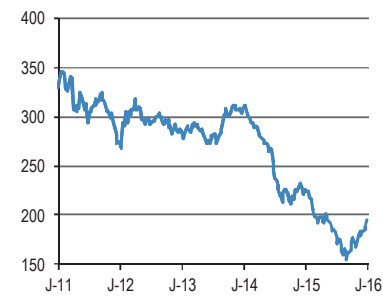
Price change % (from 09-May-16 to 09-Jun-16)



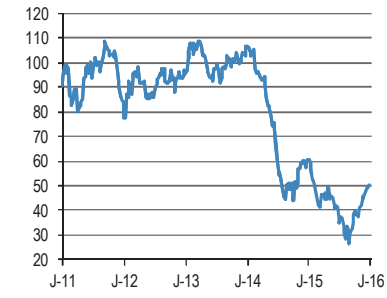
Price change % (from 31-Dec-15 to 09-Jun-16)



CRB - Commodity Index



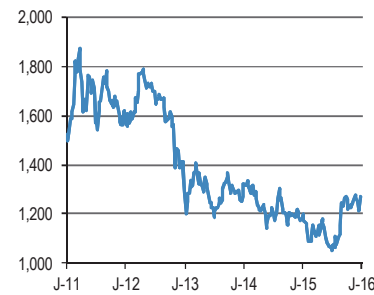
Oil WTI - (USD/barrel)



Copper - Spot (USD/lb)



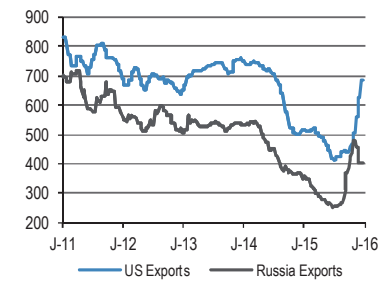
Gold - Spot (USD/roy ounce)



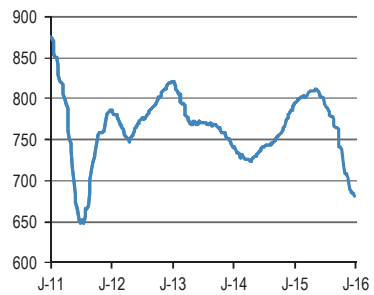
Iron Ore - Spot (USD/metric ton)



Steel - Hot Rolled Coil FOB (USD/metric ton)



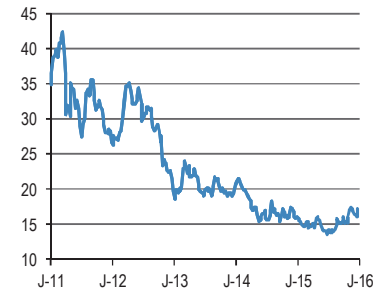
Market Pulp - BHKP European CIF (USD/ton)



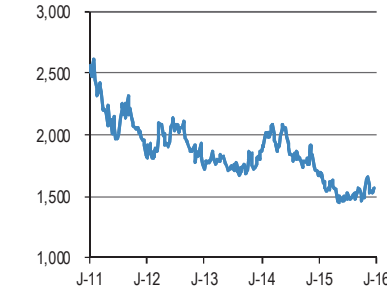
Nickel - Futures (USD/metric ton)



Silver - Futures (USD/5,000 troy ounce)



LME Alum HG - Futures (USD/25 metric ton)

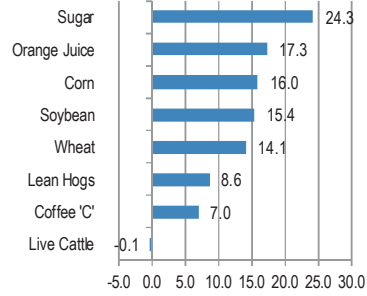


Source: Bloomberg and J.P. Morgan

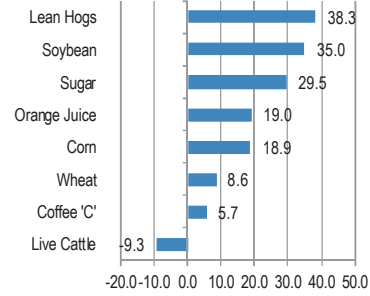
Pricing as of 09-Jun-2016

### Key Soft Commodity Prices

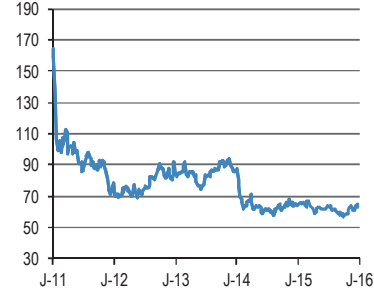
Price change % (from 09-May-16 to 09-Jun-16)



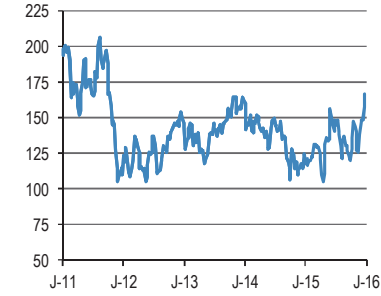
Price change % (from 31-Dec-15 to 09-Jun-16)



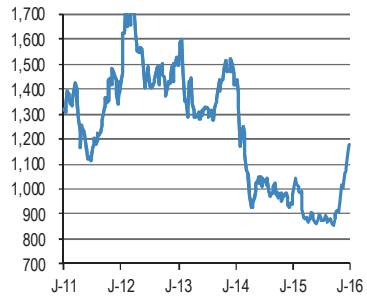
Cotton - Futures (USD/5,000 lbs)



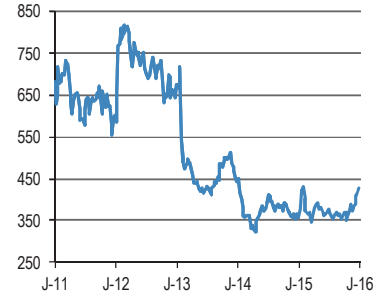
Orange Juice - Futures (USD cents/lb)



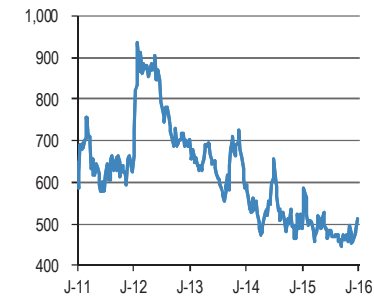
Soybean - Futures (USD cents/bu)



Corn - Futures (USD cents/bu)



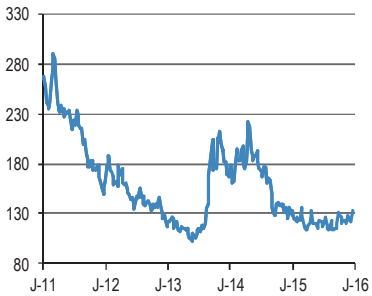
Wheat - Futures (USD cents/bu)



Sugar - Futures (USD cents/lb)



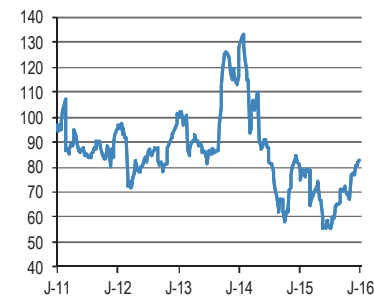
Coffee 'C' - Futures (USD cents/lb)



Live Cattle - Futures (USD cents/lb)



Lean Hogs - Futures (USD cents/lb)



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## LatAm - Key Macroeconomic Indicators

	Real GDP YoY%			Current	Interest Rates		Retail Inflation		
	2015E	2016E	2017E		3Q16E	1Q17E	2Q16E	4Q16E	2Q17E
Argentina	2.1	-1.4	3.4	NA	NA	NA	42.7	38.5	22.0
Brazil	-3.8	-3.6	0.7	14.25	13.50	12.75	9.2	7.6	6.2
Chile	2.1	1.8	2.3	3.50	3.50	3.75	4.3	3.6	3.3
Colombia	3.1	2.2	3.2	7.25	7.50	5.75	8.2	6.3	4.0
Mexico	2.5	2.5	2.6	3.75	4.25	4.75	2.8	3.2	3.5
Peru	3.3	4.0	3.5	4.25	4.50	4.50	3.7	3.2	2.7
LatAm	-0.4	-0.8	1.8	9.57	9.35	8.97	6.7	5.8	4.9
Global	2.6	2.5	2.9	2.29	2.26	2.35	1.7	2.2	2.4
US	2.4	1.8	2.0	0.50	0.75	1.25	1.1	1.8	2.5
Euro area	1.5	1.7	1.8	0.00	0.00	0.00	-0.1	0.8	1.4
Japan	0.6	0.5	1.1	-0.10	-0.30	-0.30	-0.4	0.4	1.0
China	6.9	6.7	6.4	4.35	4.10	4.10	2.3	2.7	2.4
India	7.5	7.3	7.1	6.50	6.50	6.50	5.1	5.0	4.8
Russia	-3.7	-0.3	1.5	11.00	10.50	9.50	7.4	6.6	5.5

Note: Inflation: % over a year ago. Source: J.P. Morgan

	Currency	Price			J.P. Morgan estimates			12-Month Est. Variation	Volatility 30 Days
		Last	High 52week	Low 52week	2015A	2016E	2017E		
Argentina	Peso	13.82	15.95	9.03	12.93	15.60	17.00	-15.2%	5.0
Brazil	Real	3.40	4.25	3.03	3.96	4.10	4.40	-20.0%	19.0
Chile	Peso	679	733	627	709	720	722	-5.8%	10.2
Colombia	Peso	2,939	3,453	2,511	3,175	3,200	3,250	-8.9%	17.1
Mexico	Peso	18.25	19.44	15.17	17.21	19.20	18.50	-3.2%	14.1
Peru	Nuevo Sol	3.31	3.54	3.15	3.41	3.42	3.42	-3.3%	6.9

Source: J.P.Morgan and Bloomberg

	Credit Default Swap (bps over US Treasury)			Sov Rating & Outlook					
	1 year	5 years	10 years	Moody's	Outlook	S&P	Outlook	Fitch	Outlook
Argentina	NA	509	NA	NA	Stable	NR	NA	WD	NM
Brazil	86	334	408	Ba2	NA	BB	Neg	BB	Neg
Chile	37	101	143	Aa3	Stable	AA-	Stable	A+	Stable
Colombia	65	212	286	Baa2	Stable	BBB	Neg	BBB	Stable
Mexico	49	162	231	A3	Neg	BBB+	Stable	BBB+	Stable
Peru	38	144	214	A3	Stable	BBB+	Stable	BBB+	Stable

Source: Bloomberg

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## Perspective: Demographics and Key Economic Statistics

	Population and Demographics					Nominal GDP				Real GDP	
	Population		Age		Gross Enrollment Ratio Secondary**	2015		10 year CAGR***		10 year CAGR***	
	2015 million	Growth %YoY	Dependency Ratio*			US\$ billion	Per capita (US\$)	Total (%)	Per capita (%)	Total (%)	Per capita (%)
			Young	Old							
<b>USA</b>	<b>321</b>	<b>0.7</b>	<b>0.3</b>	<b>0.2</b>	<b>94.0</b>	<b>17,938</b>	<b>55,810</b>	<b>3.6</b>	<b>2.7</b>	<b>1.4</b>	<b>0.6</b>
<b>LATAM</b>											
Brazil	204	0.8	0.3	0.1	na	1,792	8,763	7.3	6.3	2.7	1.7
Mexico	121	1.1	0.4	0.1	88.0	1,141	9,421	2.7	1.5	2.3	1.1
Colombia	48	1.1	0.4	0.1	93.0	469	9,733	12.5	11.2	4.5	3.3
Peru	32	1.5	0.4	0.1	94.0	240	7,512	11.7	9.9	5.7	4.1
Chile	18	1.0	0.3	0.1	99.0	236	13,085	7.1	6.0	3.8	2.7
<b>EMEA</b>											
Russia	146.3	0.0	0.2	0.2	97.0	1,312.2	8,969.1	5.6	5.3	2.3	2.1
Turkey	77.7	1.1	0.4	0.1	102.0	718.9	9,248.2	4.1	2.8	3.7	2.4
Poland	38.0	0.0	0.2	0.2	109.0	489.6	12,882.8	4.9	4.9	3.9	3.9
South Africa	54.9	1.6	0.4	0.1	111.0	322.0	5,870.1	2.7	1.2	2.6	1.1
Greece	10.9	-0.6	0.2	0.3	109.0	238.1	21,785.6	-0.3	-0.2	-2.3	-2.1
Czech Rep.	10.5	NA	0.2	0.3	103.0	182.9	17,375.6	3.5	3.1	1.8	1.5
Hungary	9.9	-0.2	0.2	0.3	108.0	120.6	12,236.7	0.9	1.1	0.8	1.0
<b>Asia</b>											
China	1,373.9	0.5	0.2	0.1	92.0	10,769.2	7,838.4	16.7	16.1	9.5	8.9
India	1,302.2	1.4	0.4	0.1	71.0	2,129.5	1,635.3	9.8	8.2	7.7	6.1
Korea	49.1	0.1	0.2	0.2	97.0	1,372.9	27,955.2	5.0	4.8	3.5	3.3
Indonesia	254.2	1.2	0.4	0.1	83.0	887.8	3,492.8	12.0	10.8	5.7	4.6
Taiwan	23.5	0.3	0.2	0.2	na	498.4	21,175.6	3.2	2.8	3.4	3.1
Thailand	71.2	0.6	0.2	0.1	86.0	403.7	5,669.8	8.7	8.0	3.3	2.6
Malaysia	31.4	2.2	0.4	0.1	71.0	295.6	9,425.3	7.5	5.5	4.9	3.0
Philippines	101.9	1.8	0.6	0.1	85.0	291.9	2,865.3	11.4	9.5	5.4	3.6

Source: CEIC, Datastream, Bloomberg, US Census Bureau, World Bank, IMF, UNESCO, J.P. Morgan estimates

\* Age dependency ratio defined as dependents to working-age population.

\*\* Gross Enrollment Ratio is defined as pupils enrolled in a secondary level, regardless of age expressed as a percentage of the population in the relevant official age group.

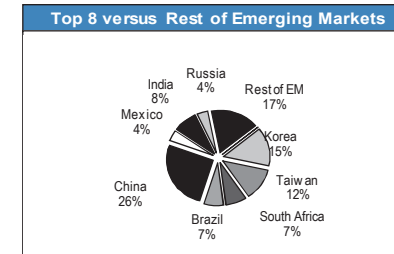
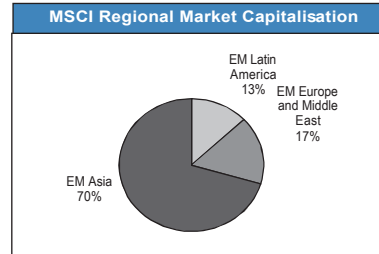
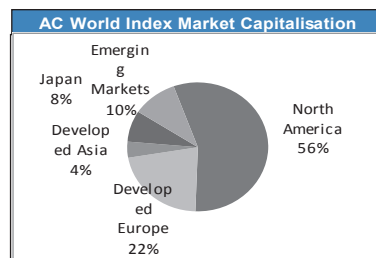
\*\*\* 10-year CAGR for period 2005-2015, in local currency.

Data for Gross enrollment is for 2013 or as of latest data available

Updated as of February 2016

## Perspective: Global Emerging Capital Markets

	MSCI EMF Index						Markets Concentration		J.P. Morgan EMBI Global	
	Total Market Cap US\$ Bn	Estimated Free (%)	Companies Number	Average Daily US \$ Mn	% of Emerging %	Weighting in (%)	Stocks constituting 75% Number	Stocks constituting 75% (%)	Market US\$ Bn	Issues Number
<b>LATAM</b>										
Brazil	498	51	60	1627	9.0	6.7	20	33	38.5	25
Mexico	271	58	27	393	2.2	4.1	12	44	89.1	45
Chile	122	37	20	69	0.4	1.2	12	57	19.5	24
Colombia	50	37	9	31	0.2	0.5	6	67	21.0	11
Peru	25	68	9	76	0.4	0.5	6	60	na	na
<b>EM EMEA</b>										
South Africa	364	76	54	1050	5.8	7.3	20	37	16.7	na
Russia	376	39	21	583	3.2	3.9	8	40	52.5	na
Turkey	175	34	23	116	0.6	1.6	11	50	33.1	na
Poland	89	52	23	140	0.8	1.2	10	43	15.7	na
UAE	110	31	13	39	0.2	0.9	7	54	na	na
Qatar	136	24	11	92	0.5	0.9	6	55	na	na
Greece	36	41	3	120	0.7	0.4	2	67	14.7	na
Hungary	17	64	3	33	0.2	0.3	2	67	17.6	11
Czech Republic	9	75	3	21	0.1	0.2	1	33	1.1	1
Egypt	21	32	3	19	0.1	0.2	2	67	na	na
<b>EM ASIA</b>										
China	1829	54	150	6178	34.3	26.0	43	28	39.0	41
Korea	901	62	107	2373	13.2	14.7	33	31	na	na
Taiwan	620	74	90	1371	7.6	12.1	26	30	na	na
India	895	35	74	1485	8.2	8.4	28	38	3.9	na
Malaysia	271	41	43	308	1.7	2.9	18	41	12.3	8
Indonesia	262	38	31	208	1.2	2.6	12	39	53.7	34
Thailand	254	34	34	638	3.5	2.3	16	50	na	na
Philippines	131	39	24	1068	5.9	1.4	13	52	na	na
<b>Total</b>	<b>7462</b>	<b>51</b>	<b>835</b>	<b>18037</b>	<b>100</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>427</b>	<b>188</b>



Source: MSCI, J.P. Morgan.

Updated as of 08-Jun-2016

## Perspective: MSCI Emerging Market Index Composition by Country and Sector

Number of Companies: 835      Total Market Capitalization (in billion US\$): 7462      Estimated Free float : 50%

MSCI Emerging Markets Free Index	Consumer Discretionary	Consumer Staples	Energy	Financials	Health care	Industrials	Information Technology	Materials	Telecom Services	Utilities	Total
Brazil	0.3	1.3	0.8	2.4	0.1	0.3	0.3	0.7	0.2	0.4	6.7
Mexico	0.4	1.4		0.7		0.5		0.6	0.5		4.1
Chile	0.1	0.2	0.1	0.2		0.1		0.1	0.0	0.4	1.2
Colombia			0.1	0.3				0.1		0.0	0.5
Peru				0.3				0.1			0.4
<b>LatAm</b>	<b>0.8</b>	<b>2.8</b>	<b>1.0</b>	<b>3.9</b>	<b>0.1</b>	<b>0.9</b>	<b>0.3</b>	<b>1.6</b>	<b>0.8</b>	<b>0.8</b>	<b>13.0</b>
South Africa	2.7	0.6	0.5	2.1	0.3	0.1		0.6	0.5		7.3
Russia		0.3	2.1	0.8				0.4	0.2	0.0	3.9
Turkey	0.1	0.2	0.1	0.6		0.2		0.1	0.1		1.4
Poland	0.1	0.0	0.2	0.6				0.1	0.0	0.1	1.2
Egypt				0.2					0.0		0.2
Czech Republic				0.1					0.0	0.1	0.2
Hungary			0.1	0.2	0.1						0.3
Greece	0.1			0.3				0.0	0.1		0.5
UAE				0.5		0.1			0.2		0.9
Qatar			0.0	0.6		0.1			0.1	0.0	0.9
<b>EMEA</b>	<b>3.0</b>	<b>1.1</b>	<b>3.0</b>	<b>5.9</b>	<b>0.4</b>	<b>0.4</b>		<b>1.1</b>	<b>1.3</b>	<b>0.3</b>	<b>16.6</b>
China	2.0	0.7	1.8	8.0	0.5	1.6	7.8	0.3	2.3	0.8	26.0
Korea	2.1	1.5	0.4	1.9	0.3	1.5	5.2	1.1	0.2	0.4	14.7
Taiwan	0.5	0.4	0.1	2.0	0.1	0.2	7.1	1.1	0.6		12.1
India	1.2	0.9	0.7	1.5	0.9	0.5	1.7	0.6	0.3	0.2	8.4
Malaysia	0.3	0.3	0.1	0.8	0.1	0.4		0.1	0.3	0.5	2.9
Indonesia	0.4	0.4	0.1	0.9	0.1	0.1		0.1	0.4	0.1	2.6
Thailand	0.1	0.3	0.4	0.6	0.1	0.2	0.0	0.3	0.2	0.1	2.3
Philippines	0.1	0.1	0.0	0.8		0.4			0.2	0.1	1.6
<b>Asia</b>	<b>6.7</b>	<b>4.5</b>	<b>3.6</b>	<b>16.5</b>	<b>2.2</b>	<b>4.9</b>	<b>22.0</b>	<b>3.6</b>	<b>4.5</b>	<b>2.0</b>	<b>70.4</b>
<b>Total</b>	<b>10.6</b>	<b>8.4</b>	<b>7.5</b>	<b>26.3</b>	<b>2.6</b>	<b>6.2</b>	<b>22.2</b>	<b>6.4</b>	<b>6.6</b>	<b>3.1</b>	<b>100.0</b>

Source: MSCI, J.P. Morgan.

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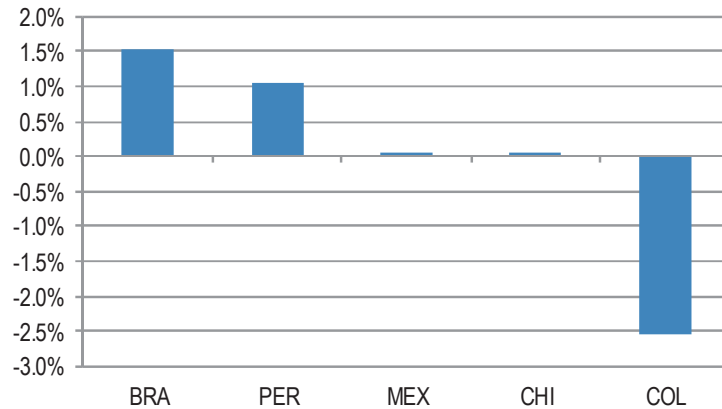
Economic Forecasts

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**LatAm Model Portfolio**

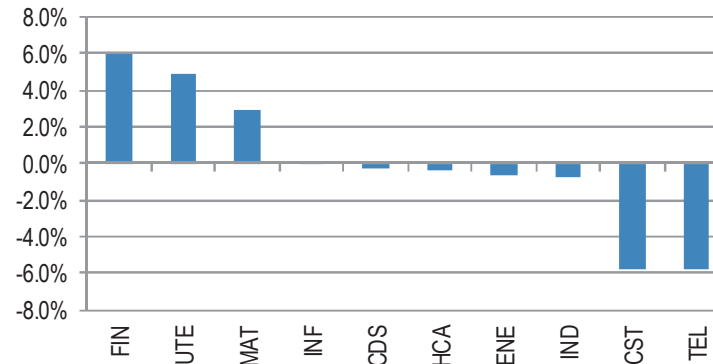
## LatAm Model Portfolio - Country and Sector Allocations

LatAm Model Portfolio – Countries



Note: BRA = Brazil, CHI = Chile, COL = Colombia, MEX = Mexico, and PER = Peru. Source: J.P. Morgan.

LatAm Model Portfolio – Sectors



Note: CDS = Consumer Discretionary, CST = Consumer Staples, ENE = Energy, FIN = Financials, IND = Industrials, INT = Technology, HCA = Health Care, MAT = Materials, TEL = Telecom, UTE = Utilities. Source: J.P. Morgan.

Our Latin America model portfolio is a vehicle to express our strategy views on regional equity markets, sectors, and stocks. This portfolio will normally include stocks that will be constructed relative to the MSCI EM Latin America Index. The portfolio is primarily driven by our fundamental analyst views, and we use our analysts' published company valuation and estimates to support inclusion, but a strategy overlay is incorporated and hence the published strategy may on occasion differ from analyst views. Fundamental analysts' ratings are driven by company attractiveness relative to their sector coverage, whereas as strategists we take a regional, Latin America-wide view.

The portfolio can include 1) non-Latin America listed stocks, to the extent the region is a significant driver of the company's business, and 2) stocks not currently covered by JPM analysts, to the extent these are heavily weighted MSCI Latin America Index companies, though these companies must always be incorporated at a neutral relative weighting so as to express no strategy or fundamental view.

The LatAm model portfolio is always updated and modified through our *LatAm Key Trades* publication. Please see the publication on [www.jpmorganmarkets.com](http://www.jpmorganmarkets.com) for further information, including important disclosures.

## Latin America Model Portfolio by Country

	Bloomberg Ticker	JPM Rating	Price Last Local Currency	M. Cap USD Mn	Portfolio Weight	P/E		Div Yield 2016E	Earn. Growth		Analyst
						2016E	2017E		2016E	2017E	
<b>Brazil</b>											
AES Tietê Energia	TIET11 BZ	OW	14.0	1,555	4.0%	8.7	8.2	NA	-17%	6%	Peretti, Henrique
AmBev	ABEV3 BZ	N	19.3	88,391	3.5%	22.0	18.6	4.1	11%	18%	Teixeira, Andrea
BR Malls	BRML3 BZ	OW	12.4	2,175	4.0%	17.2	15.1	1.9	1652%	14%	Motta, Marcelo
CCR	CCRO3 BZ	OW	16.0	8,298	3.0%	17.3	22.9	4.2	87%	-25%	Abdalla, Fernando
Cielo	CIEL3 BZ	N	33.6	22,040	2.5%	17.8	15.8	1.7	12%	13%	Falavina, Domingos
Cosan	CSAN3 BZ	OW	34.4	4,050	4.0%	25.1	20.3	NA	-18%	23%	Recchia, Marcella
Ecorodovias	ECOR3 BZ	OW	8.4	1,362	1.5%	21.6	14.7	1.2	97%	47%	Abdalla, Fernando
Itau Unibanco	ITUB4 BZ	OW	30.5	50,129	12.0%	9.0	8.6	3.6	-13%	5%	Falavina, Domingos
Itausa	ITSA4 BZ	OW	7.5	16,396	4.5%	5.8	5.8	NA	0%	0%	Falavina, Domingos
Klabin	KLBN11 BZ	OW	16.8	5,744	3.5%	12.8	11.2	2.6	208%	14%	Ferreira, Lucas
Rumo Logistica	RUMO3 BZ	OW	4.9	1,878	1.5%	Loss	13.0	NA	Loss	1586%	Abdalla, Fernando
Sabesp	SBSP3 BZ	OW	27.8	5,679	2.8%	8.3	6.8	NA	336%	22%	Peretti, Henrique
Sao Martinho	SMT03 BZ	OW	53.0	1,742	3.0%	9.2	9.6	1.2	122%	-4%	Recchia, Marcella
Suzano	SUZB5 BZ	OW	12.6	4,040	3.5%	8.0	6.1	2.2	283%	32%	Ferreira, Lucas
<b>Chile</b>											
Enersis Americas	ENERSIAM CI	OW	78.8	5,582	4.0%	13.1	12.8	NA	1%	3%	Peretti, Henrique
Falabella	FALAB CI	N	4,861.9	17,715	2.3%	22.3	19.7	2.2	2%	14%	Teixeira, Andrea
Parque Arauco	PARAUCO CI	OW	1,285.0	1,716	3.0%	19.9	16.6	NA	-10%	20%	Motta, Marcelo
<b>Colombia</b>											
Cemex LatAm	CLH CB	OW	12,740.0	2,429	1.1%	19.5	15.5	5.1	31%	26%	Huerta, Adrian E
<b>Mexico</b>											
Alpek	ALPEKA MM	OW	27.5	3,166	5.0%	15.9	12.7	6.8	46%	26%	Dos Santos, Felipe
Banorte	GFNORTEO MM	OW	96.7	14,521	8.0%	13.9	11.9	1.9	12%	17%	Falavina, Domingos
Fibra Macquarie	FIBRAMQ MM	OW	23.6	1,053	3.0%	11.1	10.6	8.1	-55%	4%	Huerta, Adrian E
KC Mexico	KIMBERA MM	OW	43.8	7,094	5.0%	25.6	22.3	3.7	18%	15%	Teixeira, Andrea
Megacable	MEGACPO MM	OW	76.7	3,592	4.0%	18.1	16.2	2.3	22%	12%	Baggio, Andre
Walmex	WALMEX* MM	OW	44.1	40,841	7.0%	25.7	23.4	3.9	11%	10%	Teixeira, Andrea
<b>Peru</b>											
Buenaventura	BVN US	OW	11.0	3,109	2.2%	28.0	16.7	0.3	266%	67%	Bridges, John D
Credicorp	BAP US	OW	152.8	12,327	2.2%	12.1	11.0	1.5	5%	10%	Falavina, Domingos

Note: \*For ADR shares, numbers are in US\$. All estimates are for the calendar year. Recommendations: OW = Overweight; N = Neutral; UW = Underweight. Prices as of 09-Jun-16 Source: Bloomberg and J.P. Morgan

						UNDERWEIGHT	NEUTRAL	OVERWEIGHT
						Country Industry		
	LatAm Sector	MSCI Neutral	JPM Port.	Deviation	LatAm Model Portfolio Stocks			
OVERWEIGHT	Financials	30.8%	36.7%	5.9%	Itau Unibanco, Itausa BR Malls Banorte, Fibra Macquarie Parque Arauco, Credicorp	Colombia Financials	Peru Financials	Brazil Financials Chile Financials Mexico Financials
	Utilities	6.0%	10.8%	4.8%	AES Tiete Energia Sabesp Enersis Americas	Colombia Utilities		Brazil Utilities Chile Utilities
	Materials	12.4%	15.3%	2.9%	Klabin, Suzano Alpek Cemex LatAm Buenaventura	Chile Materials	Colombia Materials Mexico Materials	Brazil Materials Peru Materials
	Information Technology	2.5%	2.5%	0.0%	Cielo	Chile Information Technology	Brazil Information Technology	
NEUTRAL	Health Care	0.4%	0.0%	-0.4%		Brazil Health Care Mexico Health Care		
	Energy	7.6%	7.0%	-0.6%	Cosan Sao Martinho	Chile Energy Colombia Energy		Brazil Energy
	Industrials	6.7%	6.0%	-0.7%	CCR, Ecorodovias Rumo Logistica	Chile Industrials Mexico Industrials		Brazil Industrials
	Consumer Discretionary	6.6%	6.3%	-0.3%	Megacable Falabella	Brazil Consumer Discretionary		Chile Consumer Discretionary Mexico Consumer Discretionary
UNDERWEIGHT	Consumer Staples	21.3%	15.5%	-5.8%	AmBev KC Mexico, Walmex	Brazil Consumer Staples Chile Consumer Staples		Mexico Consumer Staples
	Telecommunication Services	5.8%	0.0%	-5.8%		Brazil Telecommunication Services Chile Telecommunication Services Mexico Telecommunication Services		

Source: J.P. Morgan

## LatAm Coverage List

Unless otherwise noted, all ratings and stock prices in this report are as of the close on 9 June 2016.

Company Name	Ticker	Price	Curr	Rating	Analyst
Adecoagro	AGRO	11.42	USD	OW	Marcella Recchia
AES Eletropaulo	ELPL4.SA	7.45	BRL	OW	Henrique Peretti
AES Gener	ASG.SN	318.37	USD	OW	Henrique Peretti
AES Tiete	TIET11.SA	13.87	BRL	OW	Henrique Peretti
Aliansce	ALSC3.SA	13.35	BRL	N	Marcelo Motta
Alpek	ALPEKA.MX	27.51	MXN	OW	Felipe Dos Santos
Alsea	ALSEA.MX	71.74	MXN	N	Andrea Teixeira, CFA
Alupar	ALUP11.SA	12.37	BRL	OW	Henrique Peretti
AmBev	ABEV3.SA	19.16	BRL	N	Andrea Teixeira, CFA
AmBev ADR	ABEV	5.64	USD	N	Andrea Teixeira, CFA
America Movil	AMX	12.59	MXN	UW	Andre Baggio, CFA
Anima	ANIM3.SA	12.02	BRL	UW	Marcelo Santos, CFA
Arca Continental	AC.MX	122.99	MXN	N	Andrea Teixeira, CFA
Arteris	ARTR3.SA	10.01	BRL	OW	Fernando Abdalla
Avianca	AVH	7.51	USD	OW	Fernando Abdalla
B2W Companhia Digital	BTOW3.SA	9.64	BRL	UW	Andrea Teixeira, CFA
Bachoco	BACHCOB.MX	76.18	MXN	OW	Pedro Leduc
Bachoco ADR	IBA	50.02	MXN	OW	Pedro Leduc
Banco Bradesco	BBDC4.SA	25.04	BRL	NR	Domingos Falavina
Banco Bradesco ADR	BBD	7.3	USD	NR	Domingos Falavina
Banco de Chile	BCH	61.84	USD	N	Domingos Falavina
Banco do Brasil	BBAS3.SA	17.4	BRL	N	Domingos Falavina
Banco Macro	BMA	69.08	USD	N	Domingos Falavina
Banco Santander Chile	BSAC	18.79	USD	N	Domingos Falavina
Bancolombia	BIC.CN	25900	COP	N	Domingos Falavina
Bancolombia ADR	CIB	35.2	USD	N	Domingos Falavina
Banorte	GFNORTEO.MX	96.27	MXN	OW	Domingos Falavina
Banregio	GFREGIOO.MX	100.86	MXN	N	Catalina Araya, CFA
Banrisul	BRSR6.SA	7.99	BRL	N	Domingos Falavina
BB Seguridade	BBSE3.SA	27.65	BRL	N	Domingos Falavina
BIOSEV	BSEV3.SA	9.85	BRL	N	Marcella Recchia
Bladex	BLX	27.24	USD	OW	Catalina Araya, CFA
BM&F Bovespa	BVMF3.SA	16.8	BRL	N	Domingos Falavina
Bolsa Mexicana	BOLSAA.MX	28.71	MXN	N	Domingos Falavina
BR Brokers	BBRK3.SA	1.61	BRL	N	Marcelo Motta
BR Malls	BRML3.SA	12.18	BRL	OW	Marcelo Motta
BR Pharma S.A.	BPHA3.SA	4.07	BRL	UW	Joseph Giordano
BR Properties	BRPR3.SA	8.21	BRL	N	Marcelo Motta
Bradespar	BRAP4.SA	7.93	BRL	N	Rodolfo Angele, CFA
Braskem	BRKM5.SA	19.99	BRL	N	Felipe Dos Santos
Braskem ADR	BAK	11.78	USD	N	Felipe Dos Santos
BRF ADR	BRFS	14.15	USD	OW	Pedro Leduc
BRF SA	BRFS3.SA	48.14	BRL	OW	Pedro Leduc
CAP	CAP.SN	2291.8	USD	N	Rodolfo Angele, CFA
CBD	PCAR4.SA	43.53	BRL	NR	Andrea Teixeira, CFA
CBD ADR	CBD	12.85	USD	NR	Andrea Teixeira, CFA
CCR	CCRO3.SA	15.98	BRL	OW	Fernando Abdalla
CCU	CCU	23.47	USD	N	Andrea Teixeira, CFA
CCU Local	CCU.SN	7943.5	CLP	N	Andrea Teixeira, CFA
Cementos Argos SA	CCB_p.CN	11000	COP	N	Adrian E Huerta
Cementos Pacasmayo	CPAC	9.09	PEN	N	Adrian E Huerta
Cemex	CX	6.58	USD	OW	Adrian E Huerta
Cemex Latam Holdings	CLH.CN	12840	USD	OW	Adrian E Huerta
Cemig	CMIG4.SA	5.77	BRL	N	Henrique Peretti
Cencosud	CEN.SN	1839.5	CLP	NR	Andrea Teixeira, CFA
Cesp	CESP6.SA	12.2	BRL	N	Henrique Peretti
Cetip	CTIP3.SA	42.11	BRL	N	Domingos Falavina

Company Name	Ticker	Price	Curr	Rating	Analyst
Cielo	CIEL3.SA	33.1	BRL	N	Domingos Falavina
CMPC	CAR.SN	1434.7	USD	OW	Lucas Ferreira
Coca Cola FEMSA Local	KOFL.MX	149.34	MXN	N	Andrea Teixeira, CFA
Coca-Cola Femsa	KOF	82.08	USD	N	Andrea Teixeira, CFA
Colbún	COL.SN	168.92	USD	N	Henrique Peretti
Comerci	COMEUBC.MX	32	MXN	NR	Andrea Teixeira, CFA
Consortio Ara	ARA.MX	6.63	MXN	UW	Adrian E Huerta
Copa Holdings, S.A.	CPA	54.68	USD	N	Fernando Abdalla
Copec	COP.SN	5908	USD	N	Lucas Ferreira
Copel	CPLE6.SA	25.8	BRL	N	Henrique Peretti
Cosan Ltd.	CZZ	6.07	USD	OW	Marcella Recchia
Cosan S.A.	CSAN3.SA	33.82	BRL	OW	Marcella Recchia
CPFL Energia	CPFE3.SA	19.64	BRL	NR	Henrique Peretti
CPFL Energias Renovaveis SA	CPRE3.SA	12.28	BRL	N	Henrique Peretti
Credicorp	BAP	154.55	USD	OW	Domingos Falavina
CSN	SID	2.22	BRL	UW	Rodolfo Angele, CFA
Cultiba	CULTIBAB.MX	22.19	MXN	UW	Andrea Teixeira, CFA
CVC Brasil	CVCB3.SA	20.9	BRL	N	Andrea Teixeira, CFA
Cyrela Brazil Realty	CYRE3.SA	10.78	BRL	OW	Marcelo Motta
Direcional	DIRR3.SA	5.18	BRL	N	Marcelo Motta
Duratex	DTEX3.SA	7.55	BRL	OW	Lucas Ferreira
Ecopetrol ADR	EC	10	USD	UW	Felipe Dos Santos
Ecopetrol S.A.	ECO.CN	1450	COP	UW	Felipe Dos Santos
Ecorodovias	ECOR3.SA	8.29	BRL	OW	Fernando Abdalla
EDP Energias do Brasil	ENBR3.SA	12.84	BRL	N	Henrique Peretti
Embotelladora Andina	AKOb	20.76	USD	UW	Andrea Teixeira, CFA
Embotelladora Andina Local B	AND_pb.SN	2314.4	CLP	UW	Andrea Teixeira, CFA
Endesa Chile	END.SN	587.19	CLP	N	Henrique Peretti
Endesa Americas	ENDA.SN	289.14	CLP	N	Henrique Peretti
Enersis Chile	ENCH.SN	77.24	CLP	OW	Henrique Peretti
Enersis Americas	ENE.SN	110.3	CLP	OW	Henrique Peretti
Entel	ENT.SN	6025.1	CLP	UW	Andre Baggio, CFA
Equatorial	EQTL3.SA	46.98	BRL	OW	Henrique Peretti
Estacio	ESTC3.SA	15.55	BRL	N	Marcelo Santos, CFA
Even	EVEN3.SA	4.15	BRL	N	Marcelo Motta
EZ Tec	EZTC3.SA	16.6	BRL	OW	Marcelo Motta
Falabella	FAL.SN	4943.4	CLP	N	Andrea Teixeira, CFA
FEMSA	FMX	94.4	USD	OW	Andrea Teixeira, CFA
FEMSA Local	FMSAUBD.MX	172.34	MXN	OW	Andrea Teixeira, CFA
Fibra Danhos	DANHOS13.MX	33.78	MXN	N	Adrian E Huerta
Fibra Hotel	FIHO12.MX	14.5	MXN	OW	Adrian E Huerta
Fibra Macquarie	FIBRAMQ12.MX	23.87	MXN	OW	Adrian E Huerta
Fibra Terrafina	TERRA13.MX	30.62	MXN	OW	Adrian E Huerta
Fibra Uno	FUNO11.MX	39.98	MXN	N	Adrian E Huerta
Fibria	FIBR3.SA	28.84	BRL	N	Lucas Ferreira
Fibria ADR	FBR	8.54	USD	N	Lucas Ferreira
First Cash Financial	FCFS	46.82	USD	N	Nur Cristiani, CFA
Fleury	FLRY3.SA	27.24	BRL	OW	Joseph Giordano
Gafisa	GFS3.SA	1.84	BRL	N	Marcelo Motta
Genomma Lab	LABB.MX	18.85	MXN	UW	Andrea Teixeira, CFA
Genera	GENTERA.MX	32.42	MXN	N	Catalina Araya, CFA
GeoPark	GPRK	2.86	USD	N	Felipe Dos Santos
Gerdau S.A.	GGBR4.SA	6.18	BRL	OW	Rodolfo Angele, CFA
GICSA	GICSAB.MX	13.07	MXN	OW	Adrian E Huerta
GOL	GOLL4.SA	2.76	BRL	N	Fernando Abdalla
Gran Tierra Energy	GTE	3.4599	USD	N	Felipe Dos Santos
Graña y Montero	GRAM	7.31	PEN	N	Adrian E Huerta
Gruma	GRUMAB.MX	261.54	MXN	OW	Pedro Leduc
Grupo Aeroportuario del Centro Norte SA	OMAB.MX	106.11	MXN	N	Fernando Abdalla
Grupo Aeroportuario del Pacifico SA	GAPB.MX	181.39	MXN	OW	Fernando Abdalla
Grupo Aeroportuario del Sureste SA	ASURB.MX	289.91	MXN	N	Fernando Abdalla

Company Name	Ticker	Price	Curr	Rating	Analyst
Grupo Alfa	ALFAA.MX	32.1	MXN	NR	Marcella Recchia
Grupo Aval	GAA.CN	1170	COP	UW	Domingos Falavina
Grupo Aval ADR	AVAL	7.96	USD	UW	Domingos Falavina
Grupo Bimbo	BIMBOA.MX	54.25	MXN	OW	Pedro Leduc
Grupo Exitto	IMI.CN	15300	COP	N	Andrea Teixeira, CFA
Grupo Financiero Galicia	GGAL	29.65	ARS	N	Domingos Falavina
Grupo Financiero Inbursa	GFINBURO.MX	31.75	MXN	N	Domingos Falavina
Grupo Lala	LALAB.MX	43.4	MXN	N	Pedro Leduc
Grupo Mexico	GMEXICOB.MX	40.77	USD	N	Rodolfo Angele, CFA
Hering	HGTX3.SA	13.74	BRL	UW	Andrea Teixeira, CFA
Hoteles City	HCITY.MX	19.49	MXN	OW	Adrian E Huerta
Hypermarcas	HYPE3.SA	29.02	BRL	N	Andrea Teixeira, CFA
ICH	ICHB.MX	75.31	MXN	N	Rodolfo Angele, CFA
Iguatemi	IGTA3.SA	27.63	BRL	OW	Marcelo Motta
ILC	ILC.SN	7600	CLP	OW	Diego Celedon
InRetail	INR.LM	16.7	PEN	N	Andrea Teixeira, CFA
lochpe-Maxion	MYPK3.SA	15.5	BRL	OW	Carlos Louro
ISA CTEEP	TRPL4.SA	60.22	BRL	N	Henrique Peretti
Itau Unibanco	ITUB4.SA	30.46	BRL	OW	Domingos Falavina
Itau Unibanco ADR	ITUB	8.93	USD	OW	Domingos Falavina
ITAUSA	ITSA4.SA	7.56	BRL	OW	Domingos Falavina
JBS	JBSS3.SA	10.35	BRL	N	Pedro Leduc
Kimberly Clark Mexico	KIMBERA.MX	42.53	MXN	OW	Andrea Teixeira, CFA
Klabin	KLBN11.SA	16.46	BRL	OW	Lucas Ferreira
Kroton	KROT3.SA	13.5	BRL	N	Marcelo Santos, CFA
LATAM Airlines Group	LFL	6.59	USD	N	Fernando Abdalla
Light	LIGT3.SA	9.11	BRL	OW	Henrique Peretti
Linx	LINX3.SA	45.75	BRL	OW	Andre Baggio, CFA
Liverpool	LIVEPOLC1.MX	203.42	MXN	N	Andrea Teixeira, CFA
Localiza	RENT3.SA	33.52	BRL	N	Fernando Abdalla
Lojas Americanas (Non-Voting)	LAME4.SA	15.11	BRL	UW	Andrea Teixeira, CFA
Lojas Americanas (Voting)	LAME3.SA	11.13	BRL	UW	Andrea Teixeira, CFA
Lojas Renner	LREN3.SA	22.61	BRL	OW	Andrea Teixeira, CFA
Lopes	LPSB3.SA	3.25	BRL	UW	Marcelo Motta
MAHLE Metal Leve	LEVE3.SA	25.7	BRL	N	Carlos Louro
Marcopolo	POMO4.SA	2.4	BRL	UW	Carlos Louro
Marfrig	MRFG3.SA	6.14	BRL	OW	Pedro Leduc
Megacable	MEGACPO.MX	76.88	MXN	OW	Andre Baggio, CFA
MercadoLibre, Inc.	MELI	137.46	USD	N	Andre Baggio, CFA
Metalurgica Gerdau	GOAU4.SA	2.18	BRL	N	Rodolfo Angele, CFA
Mexichem	MEXCHEM.MX	39.98	USD	OW	Felipe Dos Santos
Minerva	BEEF3.SA	9.5	BRL	OW	Pedro Leduc
MRV	MRVE3.SA	10.67	BRL	OW	Marcelo Motta
Multiplan	MULT3.SA	58.55	BRL	N	Marcelo Motta
Multiplus	MPLU3.SA	35.67	BRL	UW	Fernando Abdalla
NATURA	NATU3.SA	22.9	BRL	UW	Andrea Teixeira, CFA
NEMAK	NEMAKA.MX	23.34	USD	OW	Carlos Louro
NII Holdings	NIHD	3.58	USD	UW	Andre Baggio, CFA
OdontoPrev	ODPV3.SA	10.86	BRL	N	Joseph Giordano
OHL Mexico	OHLMEX.MX	22.32	MXN	N	Fernando Abdalla
Oi	OIBR4.SA	1.65	BRL	UW	Andre Baggio, CFA
Organizacion Soriana	SORIANAB.MX	42.74	MXN	UW	Andrea Teixeira, CFA
Ourofino Saúde Animal	OFA3.SA	43.9	BRL	OW	Joseph Giordano
PAR Corretora	PARC3.SA	11.35	BRL	N	Domingos Falavina
Parque Arauco	PAR.SN	1310	CLP	OW	Marcelo Motta
PDG Realty	PDGR3.SA	2.61	BRL	UW	Marcelo Motta
Penoles	PENOLES.MX	316.63	MXN	OW	Mandeep Singh Manihani, CFA
PETROBRAS ON	PETR3.SA	11.75	BRL	N	Felipe Dos Santos
PETROBRAS ON ADR	PBR	6.89	USD	N	Felipe Dos Santos
PETROBRAS PN	PETR4.SA	9.18	BRL	N	Felipe Dos Santos

Company Name	Ticker	Price	Curr	Rating	Analyst
PETROBRAS PN ADR	PBRa	5.35	USD	N	Felipe Dos Santos
Pinfra	PINFRA.MX	212.3	MXN	N	Fernando Abdalla
Porto Seguro	PSSA3.SA	26.53	BRL	N	Domingos Falavina
Profarma S.A.	PFRM3.SA	8.48	BRL	OW	Joseph Giordano
QGEP	QGEP3.SA	3.87	BRL	UW	Felipe Dos Santos
Qualicorp S.A.	QUAL3.SA	17.7	BRL	OW	Joseph Giordano
RaiaDrogasil	RADL3.SA	61.06	BRL	OW	Joseph Giordano
Randon	RAPT4.SA	3.07	BRL	N	Carlos Louro
Restoque	LLIS3.SA	3.75	BRL	UW	Andrea Teixeira, CFA
Rodobens	RDNI3.SA	6.8	BRL	N	Marcelo Motta
Rossi Residencial	RSID3.SA	3.27	BRL	UW	Marcelo Motta
Rumo Logistica	RUMO3.SA	4.77	BRL	OW	Fernando Abdalla
Sabesp	SBSP3.SA	28.25	BRL	OW	Henrique Peretti
Santander Brasil	SANB11.SA	18.39	BRL	UW	Domingos Falavina
Santander Brasil ADR	BSBR	5.42	USD	UW	Domingos Falavina
Santander Mexico	SANMEXB.MX	34.76	MXN	OW	Domingos Falavina
Santander Mexico ADR	BSMX	9.56	USD	OW	Domingos Falavina
Santos Brasil	STBP11.SA	12.5	BRL	UW	Fernando Abdalla
Sao Martinho	SMT03.SA	52.25	BRL	OW	Marcella Recchia
Ser Educacional	SEER3.SA	13.05	BRL	OW	Marcelo Santos, CFA
Simec	SIMECB.MX	53.9	MXN	OW	Rodolfo Angele, CFA
SLC Agricola	SLCE3.SA	15.35	BRL	OW	Marcella Recchia
Smiles	SMLE3.SA	46.95	BRL	N	Fernando Abdalla
Sonae Sierra Brasil	SSBR3.SA	16.99	BRL	N	Marcelo Motta
Sonda	SON.SN	1235.1	CLP	N	Andre Baggio, CFA
Southern Copper Corporation	SCCO	26.17	USD	N	Rodolfo Angele, CFA
SQM	SQM	23.88	USD	N	Marcella Recchia
SulAmerica	SULA11.SA	15.91	BRL	N	Domingos Falavina
Suzano	SUZB5.SA	12.4	BRL	OW	Lucas Ferreira
Taesa	TAE11.SA	17.88	BRL	N	Henrique Peretti
Tahoe Resources (C\$)	THO.TO	17.53	USD	OW	Mandeep Singh Manihani, CFA
Tahoe Resources (US\$)	TAHO	13.75	USD	OW	Mandeep Singh Manihani, CFA
Telecom Argentina	TEO	19.42	ARS	N	Andre Baggio, CFA
Telefonica Brasil	VIVT4.SA	42.2	BRL	OW	Andre Baggio, CFA
Telesites	SITESL.MX	12.03	MXN	UW	Andre Baggio, CFA
Televisa	TV	25.94	MXN	N	Andre Baggio, CFA
Tenaris SA	TS	28.92	USD	UW	Felipe Dos Santos
Ternium	TX	19.97	USD	OW	Rodolfo Angele, CFA
TIM Participacoes	TIMP3.SA	6.98	BRL	N	Andre Baggio, CFA
Totvs	TOTS3.SA	30.69	BRL	OW	Andre Baggio, CFA
Tractebel	TBLE3.SA	36.6	BRL	N	Henrique Peretti
TUPY	TUPY3.SA	12.94	BRL	OW	Carlos Louro
Ultrapar ADR	UGP	19.64	USD	N	Felipe Dos Santos
Ultrapar S.A.	UGPA3.SA	67	BRL	N	Felipe Dos Santos
Usiminas	USIM5.SA	1.99	BRL	N	Rodolfo Angele, CFA
Vale ON	VALE	4.63	USD	N	Rodolfo Angele, CFA
Vale PN	VALEp	3.64	USD	N	Rodolfo Angele, CFA
Vesta	VESTA.MX	27.03	MXN	OW	Adrian E Huerta
Via Varejo	VVAR11.SA	6.23	BRL	NR	Andrea Teixeira, CFA
Wal-Mart de Mexico	WALMEX.MX	43.01	MXN	OW	Andrea Teixeira, CFA
Weg	WEGE3.SA	14.82	BRL	N	Marcella Recchia
Yamana Gold (C\$)	YRI.TO	6.72	USD	N	Mandeep Singh Manihani, CFA
Yamana Gold (US\$)	AUY	5.27	USD	N	Mandeep Singh Manihani, CFA
YPF	YPF	21.64	USD	OW	Felipe Dos Santos



**Analyst Certification:** The research analyst(s) denoted by an “AC” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an “AC” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. For all Korea-based research analysts listed on the front cover, they also certify, as per KOFIA requirements, that their analysis was made in good faith and that the views reflect their own opinion, without undue influence or intervention.

In compliance with Instruction 483 issued by Comissao de Valores Mobiliarios (the Brazilian securities commission) on July 6, 2010, the Brazilian primary analyst signing this report declares: (1) that all the views expressed herein accurately reflect his or her personal views about the securities and issuers; (2) that all recommendations issued by him or her were independently produced, including from the entity in which he or she is an employee; and (3) that he or she will set forth any situation or conflict of interest believed to impact the impartiality of the recommendations herein, as per article 17, II of Instruction 483.

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"Other Disclosures" last revised April 09, 2016.

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