PZENA Investment Management

Giving Credit: Emerging Markets Banks

December 2020

More prepared to face today's unique crisis than at any other time

Related

Article Podcast

While bank stocks suffered as investors contemplated meaningful COVID-related credit losses, our research indicates that today's environment bears little resemblance to the notorious emerging markets banking crises of the past.

At current valuations, banks present a compelling risk/reward opportunity.

Country (Figure 1) and company balance sheets (Figure 2) are much stronger than in the past.

Figure 1.
Foreign Exchange Reserves Are Significantly Higher

Reserves to GDP	1997	2019
Brazil	6%	19%
Indonesia	8%	12%
India	7%	16%
Korea, Rep.	4%	25%
Thailand	18%	41%
Turkey	10%	14%

Source: IMF Balance of Payments Yearbook, World Bank

Figure 2.
Emerging Market Banks are in a Strong Position to Absorb Credit Losses

Percent of Loans (2019)	Brazil	Turkey	Thailand	USA
Systemwide Excess Capital	2.7%	2.7%	7.8%	7.8%
Provision	2.7%	5.5%	5.7%	1.2%
3 Year PPOP*	24.1%	13.2%	11.2%	10.1%
Total	29.4%	21.5%	24.8%	19.1%

*Pre-provisioning operating profit. Source: Company reports, Pzena analysis

We believe it's at this intersection of supportive macro and better-governed institutions that the best value opportunities lie.

Selection is key. Country factors and company fundamentals must be evaluated individually.

Thailand

Weak economic growth, but strong bank balance sheets

Brazil

Strong banking industry fundamentals

Turkey

Challenging macro, selectivity is critical

Some countries have learned from the past, while others continue to repeat mistakes. Within our related material we spotlight these three countries, comparing how each has managed key macro issues and the fundamentals of their banking systems.

Contact us to learn more +1 347-643-0912 info@pzena.com www.pzena.com Follow us on

FURTHER INFORMATION

This document is intended solely for informational purposes. The views expressed reflect the current views of Pzena Investment Management ("PIM") as of the date hereof and are subject to change. PIM is a registered investment adviser registered with the United States Securities and Exchange Commission. PIM does not undertake to advise you of any changes in the views expressed herein. There is no guarantee that any projection, forecast, or opinion in this material will be realized. Past performance is not indicative of future results. All investments involve risk, including risk of total loss.

This document does not constitute a current or past recommendation, an offer, or solicitation of an offer to purchase any securities or provide investment advisory services and should not be construed as such. The information contained herein is general in nature and does not constitute legal, tax, or investment advice. PIM does not make any warranty, express or implied, as to the information's accuracy or completeness. Prospective investors are encouraged to consult their own professional advisers as to the implications of making an investment in any securities or investment advisory services.

For European Investors Only: This financial promotion is issued by Pzena Investment Management, Ltd. Pzena Investment Management, Ltd. is a limited company registered in England and Wales with registered number 09380422, and its registered office is at 34-37 Liverpool Street, London EC2M 7PP, United Kingdom. Pzena Investment Management, Ltd is an appointed representative of DMS Capital Solutions (UK) Limited and Mirabella Advisers LLP, which are authorised and regulated by the Financial Conduct Authority. The Pzena documents are only made available to professional clients and eligible counterparties as defined by the FCA. Past performance is not indicative of future results. The value of your investment may go down as well as up, and you may not receive upon redemption the full amount of your original investment. The views and statements contained herein are those of Pzena Investment Management, LLC and are based on internal research.

For Australia and New Zealand Investors Only: This document has been prepared and issued by Pzena Investment Management, LLC (ARBN 108 743 415), a limited liability company ("Pzena"). Pzena is regulated by the Securities and Exchange Commission (SEC) under U.S. laws, which differ from Australian laws. Pzena is exempt from the requirement to hold an Australian financial services license in Australia in accordance with ASIC Corporations (Repeal and Transitional) Instrument 2016/396. Pzena offers financial services in Australia to 'wholesale clients' only pursuant to that exemption. This document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

In New Zealand, any offer is limited to 'wholesale investors' within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not to be treated as an offer, and is not capable of acceptance by, any person in New Zealand who is not a Wholesale Investor.

For Jersey Investors Only: Consent under the Control of Borrowing (Jersey) Order 1958 (the "COBO" Order) has not been obtained for the circulation of this document. Accordingly, the offer that is the subject of this document may only be made in Jersey where the offer is valid in the United Kingdom or Guernsey and is circulated in Jersey only to persons similar to those to whom, and in a manner similar to that in which, it is for the time being circulated in the United Kingdom, or Guernsey, as the case may be. The directors may, but are not obliged to, apply for such consent in the future. The services and/or products discussed herein are only suitable for sophisticated investors who understand the risks involved. Neither Pzena Investment Management, Ltd. nor Pzena Investment Management, LLC nor the activities of any functionary with regard to either Pzena Investment Management, Ltd. or Pzena Investment Management, LLC are subject to the provisions of the Financial Services (Jersey) Law 1998.

For South African Investors Only: Pzena Investment Management, LLC is an authorised financial services provider licensed by the South African Financial Sector Conduct Authority (licence nr: 49029).