Latin America's project procurement promises gain credibility

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Latin American procurement agencies often say their pipelines of infrastructure projects are robust. They will point to data indicating that governmental and private investment are on the increase, and their efforts to strengthen regulatory frameworks. But deal flow never quite matches the promises.

But as 2013 draws to a close, their promises are starting to look more credible. Financing opportunities in established Latin American project finance markets look plentiful.

Brazil recently awarded concessions for two prominent airports, as well as for road and wind projects. Peru may prove to be among the most active markets in 2014, as at least five big-ticket projects are expected to reach financial close. Chile is emerging as a regional renewables leader and appears poised to revive a programme of transport and social PPPs that once led the world. Colombia has launched a $4 billion slate of roads projects, and is creating a governmental development bank to help spur its infrastructure programme. After a year in office, Mexicos president Enrique Peña Nieto, already appears intent on making infrastructure improvements his legacy.

ProInversión, Perus investment promotion and procurement agency, expects that about $500 million of projects awarded in 2013 will reach financial close in 2014. Sponsors Graña y Montero and Ferrovías plan to launch a bond for the rolling stock component of Limas first metro line in early 2014. Chile has witnessed closings for solar photovoltaic projects that are exposed to spot power price risk and more solar sponsors are looking to close such merchant financings in 2014.

The supply of debt is keeping pace with the supply of projects. In 2012 a Chinese lender made its first commitment to a Latin American PPP on the 2012 financing for Bogotás airport. Japanese export credit agency JBIC participated in its first Latin American power project financing in Chile in 2013, and Japanese sponsor interest in the countrys power sector means that more deals are likely.

Multilateral banks, which compensated for poor commercial bank liquidity after the 2008 financial crisis, remain active, and participate in most financings of more than $400 million. One-time local banks, including Itaú BBA and Bancolombia, have emerged as regional leaders. French banks, particularly BNP Paribas, have reinvented themselves as advisers and underwriters, while Japanese mega-banks SMBC and BTMU, have put their balance sheets to work and expanded their regional groups. Cross-border bond refinancings such as Accionas Oaxaca II and IV wind farms and the MGE conventional power portfolio, both of which closed in Mexico in 2012, highlight the potential for capital markets involvement in power assets. Peru has a vibrant domestic project bond market both for energy and infrastructure assets.

The list of projects is undoubtedly stronger today than this time last year, so yes theres promise, says a senior banker at a European lender. But you still see delays of projects. Peru, for instance, promised to launch some procurements by November, but has pushed them back until early 2014.

Slow progress in strongest markets

Brazil has long frustrated developers and financiers with failed procurements. The looming World Cup and Summer Olympics in Rio de Janeiro should have inspired a raft of privately built infrastructure projects in much of Brazil, but that has only just begun to materialise.

Some of the concessions for the first round of airports and the second round of federal roads were poorly structured. The airport concessions mostly attracted inexperienced operators. Brazil delayed the procurements of new infrastructure projects, including the second round of airports.

The pace of new construction has been slow. In early December 2013, Brazilian officials admitted that the six stadiums for the 2014 World Cup are behind schedule. Brazils headline deals in 2013 were primarily for drill-ships and floating, production, storage and offloading projects (FPSOs). The recent struggles of the EBX conglomerate and mounting investor nervousness about the debt load of Brazils national oil company, Petrobras, make continued healthy volumes from that sector unlikely.

Chile is the lone Latin American member of the Organisation for Economic Co-operation and Development (OECD), and a global pioneer in PPP procurement methods. But in recent years its pace of infrastructure development slowed to a crawl. Chiles Ministerio de Obras Públicas (Ministry of Public Works, or MOP) says that it needed about 18 months to review the state of Chiles infrastructure, before deciding on projects, then obtaining their permits and environmental approvals.

Colombias Agencia Nacional de Infraestructura (ANI) has had to justify the way it handled recent roads procurements. On the latest round of procurements, ANI has created shortlists of 10 above the industry average of 3-5. Bankers following the market suggest this is the result of less-than-exacting qualification criteria. CONFIS, Colombias ministry of finance and public credit, recently limited the US-dollar indexation it will offer on most of its open road procurements to 15-17.61%. Such a limited component may dampen offshore lender interest, these bankers add.

Concessions coming through

In November, Brazil awarded an Odebrecht-led consortium a 25-year concession for Galeão international airport in Rio de Janeiro and CCR-Flughafen Zurich a 30-year concession for Confins airport in Belo Horizonte. Brazilian development bank Banco Nacional de Desenvolvimento Econômico e Social (BNDES) will be the main lender on the concessions, with a combination of bridge loans and long-term debt.

In late November, the concessionaire for São Paulos international airport launched a maiden local infrastructure debenture for a Brazilian airport. The deal may price in 2013, though a delay to 2014 would not be a cause for concern. Odebrecht, which had a banner year in 2013, and may be even more active regionally in 2014, also won the R4.6 billion BR-163, a toll road in Mato Grosso, Brazil.

The Mexican state of Morelos recently granted a concession to the Ps2.8 billion ($210 million) Siglo XXI highway concession to Pinfra, Grupo Bursátil Mexicano and a local subsidiary of Spains Aldesa to connect Morelos with Guerrero. Mexican PPPs tend to be structurally complex. At least two 2012 deals, for instance, relied on Mexico Citys master trust for credit enhancement.

Chiles MOP is about to launch a procurement for the expansion Santiagos international airport. The new concession would entail building a new terminal to handle international traffic, as well as remodelling an existing building to accommodate domestic-only travel, though the expansion may take place in stages. MOP is planning to award a concession in 2014 for a 9.3km western stretch of the Vespuccio ring road around Santiago, and has $1.7 billion of hospitals at various stages of procurement.

Chiles long-awaited $740 million Chacao Bridge to the island of Chiloé is also near market. One bidder bidder remains on Chacao a consortium of OAS, Hyundai, Systra and Aas-Jakobsen. The MOP expects to decide on the bids financial validity by the first quarter of 2014.

ANIs unorthodox approach to procuring Colombian large roads programme has not discouraged sponsors. For a proposed highway PPP from Bogotá to Villavicencio, ANI received formal expressions of interest from 19 consortiums.

Perus ProInversión says that $11 billion in projects will move ahead between 2014 and 2015. It expects to award a 40-year design-build-finance-operate-maintain concession in 2014 for the new $659 million Chinchero-Cusco international airport. It could award the second line of Limas metro, referred to as Linea 2, in the first quarter of that year. ProInversión also is pushing ahead with the Southern Gas Pipeline concession, for a network covering Cusco, Arequipa and Moquegua, two hospitals and a desalination project.

Power and energy perk up

Peru could be the most exciting Latin American market heading into 2014, in large part thanks to the health of its project bond market. On 5 December 2013, the first greenfield project power bond in Latin America, for Enersa and Cobras 223MW Eten single-cycle cold reserve project, closed. BTG Pactual led the cross-border private placement, which benefited from a CAF-provided guarantee of 20% of the debt.

Mexico will probably have the strongest pipeline of energy projects in Latin America, including a mix of transmission, wind, some hydro and thermal. But the immediate outlook for its gas pipeline projects is murkier. In October, Mexican state-owned oil company Petróleos Mexicanos (Pemex) scrapped the procurement of the $1.8 billion Ramones II pipeline perhaps the countrys most high-profile oil and gas deal. It declared the bid from lone final bidder invalid, even though the offer from GDF Suez and Enagás that was said to be 8% below target.

Pemex then divided the project in two, and the $1.1 billion Ramones North went to a joint venture of TAG Pipelines, a Pemex affiliate, and Gasoductos de Chihuahua, of which Pemex and Sempra are shareholders. Pemex granted the $795 million southern section to TAG and GDF. Pemex could still decide to finance the Ramones II pipelines in the project finance markets, as the GDF-Enagás consortium had planned to do.

Market observers described the decision as troubling, but hope that it will prove an exception. Ramones II was a mess, says on financial adviser active in the market. It was clearly a poor start from this government. But people still have hope that it wont be duplicated. Its not enough of a sample size to judge them by. Mexicos federal government is pushing a fresh round of energy reforms that may open the country to private investment, though past efforts have amounted to little.

Even when political impetus exists, social activism and unrest can slow deal flow in Chile and threatens to do so in parts of Mexico. Mexicos Oaxaca state is home to one of the worlds strongest wind regimes and activists whose protests have slowed or delayed construction at wind projects, including 396MW Mareña. Delays to Mareñas construction have required the projects lenders and engineering, procurement and construction (EPC) contractor to sign forbearance agreements. Vestas, the contractor, approved a forbearance agreement until 30 November 2013, and has now agreed to extend it until 28 February 2014. Macquarie Mexican Infrastructure Fund, Mitsubishi and PGGM are Mareñas sponsors.

Chiles high courts, including the Supreme Court, have upheld challenges to power and mining projects from environmental activists. Endesa, the Chilean power generator, has encountered legal challenges to its proposed 740MW Punta Alcalde coal-fired project. In 2012 the Chilean Supreme Court cancelled the environmental permit for MPX Energias proposed 2.1GW Castilla pulverised coal-fired project near Copiapó. The court ruled that a joint assessment of the project and Puerto Castilla, the port that would handle its coal supply, was necessary. MPX, a part of the stricken EBX conglomerate, has since changed its name to ENEVA.

AES Gener has been a rare sponsor to make recent headway in big-ticket generation, including the 472MW Cochrane coal-fired project and the 531MW Alto Maipo run-of-river hydro project.