

Santa Vitoria do Palmar financing, Brazil

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IDB Invest recently closed a total credit guarantee to help finance Atlantic Renewable Energy's 207MW Santa Vitoria do Palmar wind complex in Rio Grande do Sul, in a peculiar transaction that saw the private sector arm of the Inter-American Development Bank (IDB) Group provide a guarantee greater than the total value of the infrastructure debentures issued to fund the project.

The measure improved the credit rating of the papers to a grade better than the Brazilian sovereign rating, leading the bonds to be five times oversubscribed and to close at the lowest range of interest rates.

IDB Invest has never used this structure before, but intends to do it again – and soon, and not only in Brazil. Other Latin American countries such as Mexico, Peru, Colombia and Chile may see similar structures in the coming months, IDB Invest Infrastructure and Energy division chief Javier Rodriguez de Colmenares has told *IJGlobal*.

Understanding the transaction

Located in the southern state of Rio Grande do Sul, the Santa Vitoria do Palmar wind complex consists of 12 wind farms and has been fully operational since 2017. The project was developed by SPV Atlantic Renewable Energy, a Brazilian generation platform 100% controlled by UK fund manager Actis.

Atlantic Renewable Energy raised R1.4 billion (\$341 million) in financing for the project through the help of development banks and institutional investors. The last facility closed in July (2018), when Atlantic Renewable Energy emitted R105 million in infrastructure debentures with local investors.

IDB Invest provided a R125 million total credit guarantee to cover the infrastructure debentures' issuance – which was R20 million more than the private bond emission, since the guarantee also included a cushion for eventual fluctuations. The bonds priced at a premium on top of the Brazilian national treasury bond NTN-B, which is indexed on inflation.

IJGlobal has learnt that the debentures were privately placed with 16 investors and have a 13.5-year tenor. Investors included private banking institutions, high net worth individuals within private banks, multifamily offices and trading desks of major banks.

Underwriters on the deal were:

- Bradesco
- Itau BBA
- XP Investimentos

Brazilian development bank BNDES last year (2017) approved R679 million in funding for the project, divided:

- R449 million directly provided by the bank through the emission of [green bonds](#)

- R230 million from the regional development bank of the Far South Regional Development Bank (BRDE)

BNDES and BRDE have started disbursing the funding in different tranches.

As such, the total financing for Santa Vitoria do Palmar included:

- R679 million from BNDES and BRDE
- R635 million in equity and cash
- R105 million in debentures

Since the wind complex started coming online in 2016, it began generating revenues before it officially commenced operations in 2017 which helped financing part of the construction cost.

Santa Vitoria do Palmar has a 20-year PPA denominated in reais at fixed average price of around R124.5 per MWh, indexed to inflation (IPCA, IGPM) and signed with system distribution companies. 10 of the project's 12 wind farms were awarded contracts in Brazil's [A-5 power auction](#) in 2013, while the remaining two wind farms were contracted in the A-3 auction of 2014.

Actis acquired a majority shareholding in the project in 2012 through its local fund [Actis Brasil Energia Fundo de Investimento em Participações](#) (Actis Brasil). It took full control of Atlantic Renewable Energy in 2015.

IDB's role

IDB Invest's Colmenares has told *IJGlobal* that the provision of guarantees in Brazil is intended to complement financing provided by local development banks such as BNDES, BRDE and Banco do Nordeste (BNB). By improving the credit profile, extending tenors and reducing financing costs, IDB Invest looks to attract additional investors to a market that is seen to have great potential, but also great risk.

The Santa Vitoria do Palmar deal is part of IDB Invest's attempt at increasing its exposure to the country and, at the same time, attract more private investments. IDB Invest has in recent years directed \$300-500 million per year to Brazil, and it looks to double this figure both through guarantees to private investments and by direct loans.

IDB Invest recently provided a [\\$288 million debt package](#) to help finance Brazil's largest planned LNG-to-power plant to date, [Porto de Sergipe I](#), developed by Centrais Elétricas de Sergipe (Celse). Celse closed a R5 billion financing for the project on 19 April (2018), which included \$400 million in equity alongside \$1.34 billion of non-recourse debt provided by Goldman Sachs, the International Finance Corporation (IFC) and IDB Invest.

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