Latinvex

Wednesday, August 21, 2013
Special Reports

Latham & Watkins: Strong Mexico Interest

Antonio Del Pino, Co-chair, Latham & Watkin's Latin America Practice

M&A, capital markets and projects are driving Latham & Watkins's Latin America practice.

BY JOACHIM BAMRUD

Mexico, along with Colombia and Peru, are seeing strong interest among Latham & Watkins clients, driving the law firm's Latin America practice despite sluggish growth in Brazil.

"We're getting calls all the time for folks interested in investing in Mexico," says **Antonio Del Pino,** Co-chair of the firm's Latin America Practice. "I haven't seen as much optimism in Mexico as we're seeing now."

Energy is one key area driving interest and business in Mexico, although Latham & Watkins is also seeing healthy demand in areas such as technology. "There's a tremendous interest in the Mexican energy sector right now," Del Pino says.

The Mexican government's proposed reform to the energy sector – including lifting the monopolies of Pemex and electricity company CFE – is garnering strong interest among foreign and local investors alike.

However, Del Pino points out that even before the reform, the Mexican energy sector was seeing strong interest.

He points to the IPO by Infraestructura Energetica Nova (IEnova) in March which raised $596 million. Latham & Watkins acted as advisor to IEnova on US law matters. Latham partner **Roderick Branch** and counsel **Michael Sullivan** led the firm's team advising IEnova, which also included associates **Matthew Grant** and **Max Kamer.**

IEnova's IPO, the first by an energy company in Mexican history, shows the strong appetite for investments in the Mexican energy sector, Del Pino says. (Photo: IEnova)

"That was exciting," Del Pino says. "It was a groundbreaking IPO, the first by an energy company in Mexican history. It showed the strong appetite for investments in the Mexican energy sector. It was also a home run, tremendously well received and really looking very good. Everyone involved was very pleased."

Latham currently represents ArcLight Capital and portfolio company NET Midstream Holdings LLC in the equity investment with MGI Trading LTD, a wholly-owned affiliate of Pemex, in the $700 million natural gas Agua Dulce-Frontera pipeline to transport gas from the Eagle Ford shale deposit to Mexico for use in power generation by CFE. Latham represents the joint venture, NET Mexico Pipeline Partners LLC and the sponsors in the project financing of the pipeline with a consortium of banks. Closing is slated for the fourth quarter of this year. The deal is being led by **Chris Cross**, who is Co-chair of the firm's Energy, Oil & Gas Industry Group.

Latham also advised Foster Wheeler in its acquisition of NorthAm Engineering, a Mexican-based engineering and project management company focused on the oil and gas sector. The parties have not announced the value of the deal, which closed in May. The Latham team included Del Pino, **Noemi Abasta-Vilaplana, Nicholas Denovio** and **Rene de Vera.**

Last year, Latham represented Fermaca Global L.P. in a the $376 million financing related to the construction and operation of the Chihuahua Pipeline, a 381 km gas transmission pipeline in Mexico. Cross, Del Pino, **Paola Agrati** and **Yiheng Feng** were on the Latham team that handled the deal, which closed in April last year.

The planned energy reform comes after Mexico's Congress in April passed a telecommunications reform which will open the sector to more competition. Mexican and foreign investors have for years complained that the lack of competition has led to high telecom costs and hurt Mexico's competitiveness.

"It will be interesting to see what happens in the telecom sector," Del Pino says. "It's a promising sign that will have a positive effect on investment."

Latham has several clients in the communications and technology sectors, which have been in a growth mode, he says.

In 2011, Latham & Watkins advised Jefferies as initial purchaser in the offering of senior secured notes from Mexican satellite operator Satmex, which was being restructured. As one of the few options left for the company, the Satmex restructuring was described by industry players as the "most complex and multifaceted ever implemented in Mexico." The successful offering partly financed the company's exit from Chapter 11 bankruptcy proceedings, and was the first exit financing for a Latin American company through a bond offering.

Partners **Marc Jaffe, Wesley Holmes** and **Mitchell Seider** led the Latham team, which also included partners **Jiyeon Lee-Lim** and **John Janka** and associates **Lewis Kneib, David Hammerman, Chase Leavitt, Mathew Davis-Ratner, Kevin Brogan, Katherine Page** and **Jarett Taubman.**

Latham also advised on the recent sale of Satmex to Eutelsat, one of the most significant M&A transactions announced in Mexico during the first half of this year.

Del Pino points out that M&A activity in Mexico has generally been slower than expected this year. "Mexican M&A was not as robust as many had hoped in the first semester, but the pipeline is promising" he says.

Part of the reason is the close connections with the US economy. Case in point: when Ben Bernanke, the chairman of the Federal Reserve, announced in June that the bank planned to cut its economic stimulus sooner than expected, investors reacted negatively on Wall Street and in Mexico. "That had a dramatic impact on equity markets which resulted in a couple of IPOs getting delayed for the time being," Del Pino says.

While Mexico still struggles with some social and political issues, including violence, overall investor interest is at a long-time high, he points out. "These are good times in Mexico [and] we're cautiously optimistic," Del Pino says about the country.

COLOMBIA

Colombia is another star market for Latham & Watkins. "Colombia continues to be a dynamic and exciting market where we are seeing a lot of interest," Del Pino says. "There's a fair amount of M&A activity, a number of private equity funds have opened local offices over the last few years and are very focused on the market. There's a lot of competition for deals, which has resulted in prices going up over the last few years."

Colombia last year ranked third in Latin America in foreign direct investment (behind Brazil and Chile). and had the fourth-highest GDP growth among the region's top seven economies, outperforming both Brazil and Mexico.

Among key deals there, Latham advised Grupo Aval (Colombia's largest banking conglomerate) in its $646 million acquisition of the Panama unit of BBVA (Spain's second-largest bank). The Latham team handling the deal, which was announced last month includes Del Pino, **Liliana Parias Neuburg, Samuel Weiner,** de Vera, **Jed Brickner, Rifka Singer** and **Carrie Girgenti.**

Latham also advised Aval on its $530 million acquisition of BBVA Horizonte, one of the largest Colombian based asset managers. The deal was announced in December last year and completed in April this year. The Latham deal included Del Pino**,** Parias Neuburg, **Spencer Ricks**, **Brendan O'Connor, Joe Hurtado**, Denovio, de Vera, Brickner, Singer and Girgenti.

"We're generally seeing that generally Colombian financial players, groups like the Avals, Davivienda and Bancolombia, all of them have been looking at deals in Central America to expand their footprint," Del Pino says.

Latham also represented Linzor Capital Partners in the sale of its stake in Colfondos, a Colombia-based pension fund company, to Scotiabank. Del Pino and Parias Neuburg handled the deal, which closed in December last year.

Meanwhile, the law firm represented sponsors led by Grupo Rios (a Colombian family group) and Recaudo Bogota in approximately $180 million senior secured project financing for the implementation, development and operation of a fare collection system for mass transit in the Colombian capital Bogota. The team that handled that deal, which closed in March this year, included Del Pino, **Veronica Relea** and **Isabel Bello.**

Latham also closed a significant project financing deal in Colombia earlier this year. "There's a real need for investment in infrastructure," he says. "The Colombian government has an ambitious plan. It needs to eventually put it in place to keep up with the growth in the economy."

Colombia's transport infrastructure is today Latin America's fifth-worst, according to a ***Latinvex*** ranking of 19 countries in the region.

Del Pino is struck by the difference in Colombia and Central America today compared to their recent past. "One of the interesting things, all the markets, including Colombia 10-15 years ago, were dramatically different places," he says. "I remember going to these markets when there wasn't a lot of optimism. Now there is. Bogota [today] is a great dynamic city. An exciting place to be"

All in all, Latham's Colombia business has mostly been concentrated on transactional M&A, private equity, finance debt finance and project financing. "There has also been a fair amount on the capital markets side, but not as many as in Brazil and Mexico recently," Del Pino says.

PERU

Colombia's neighbor Peru also is a key market for Latham & Watkins in Latin America. "It's definitely an active market," Del Pino says. "It's a similar story to Colombia of growth, stability and investment."

Latham is currently working on significant transaction in Peru that Del Pino declined to name until it has been made public.

Last year, Latham represented Especialistas de Gas del Peru (EGP), a leading company in natural gas distribution in Peru, in a $51 million senior secured term loan facility arranged by Goldman Sachs. It represented the first significant financing for EGP. The team that advised on the deal, which closed in December, included Del Pino and Relea.

"We continue to see M&A interest in Peru, bond financing and capital markets work," Del Pino says.

BRAZIL

Brazil, Latin America's largest economy, has slowed over the last several months. Its economy has performed worse than expected this year after a weak 2012. GDP only expanded by 0.6 percent in the first quarter.

"The first half in Brazil has been somewhat disappointing," Del Pino says.

However, he says there may be some positive changes in the second half.

"My sense is that this is a temporary thing," he says. "In talking to our friends in Brazil these past weeks, there's a sense that pipeline will be better for the second half of the year and M&A, FDI and capital markets activity will pick up."

Latham has been involved in several major deals in Brazil this year in sectors such as oil and gas and sugar and ethanol. Details have not yet been made public.

Latham also represented Carlysle Group in its investment in health-care company Grupo Qualicorp as well as Qualicorp's subsequent $800 million IPO on the Sao Paulo Stock exchange in 2011. The team included **Dennis Lamont, Daniel Lennon, Jennifer Perkins** and **Andrew Lyle.**

KEY SECTORS & SEGMENTS

In terms of sectors that are driving growth, Del Pino is clear: "No question, it's energy."

"Our global energy practice has been booming, a real strength of ours as a firm," he says. "The IEnova IPO, for example, was the eighty-second oil and gas capital markets transaction in which we acted as counsel over the twelve months preceding that offering," he says. "We expect that to continue to be the case."

Energy is a very important sector and strong sector in Brazil, Colombia, Peru and Mexico and may also become so in Argentina, where Chevron has signed a controversial deal with nationalized oil company YPF to develop shale gas, Del Pino says. Chevron will invest $1.3 billion initially and possibly as much as $15 billion in the Vaca Muerta field, which is the world's second-largest shale gas deposit and fourth-largest shale oil reservoir, according to Bloomberg. "Hopefully that will be a game changer for Argentina as well," he says.

Meanwhile, in Chile, mining continues to be a strong sector for investment and that will continue to be the case, according to Del Pino. Latham's business also includes advising in a major energy deal in the country.

And then there's infrastructure. "There's a tremendous need for infrastructure," he says. "There's a lot happening beyond energy --- roads, ports. "

In Brazil alone there are some very ambitious plans to expand and improve the airports and ports, he points out. “The problem is that projects are so large and require a tremendous amount of investment,” Del Pino says.

In terms of key segments, he points to M&A as the most active, followed by capital markets and project finance. “Debt offerings have more volume, but a lot of interest in equity offerings as well,” Del Pino says. “One of the things we’re doing around the region right now is explaining to our clients the recent reforms in the United States that have facilitated the public offering and listing process. The JOBS Act led to an uptick in listings in the United States and on the New York Stock Exchange. We do anticipate more Latin American issuers listing in the United States as result.”

He expects the trend to continue next year as well. “M&A will continue, depending what happens globally,” Del Pino says. “I think there’s a fair amount of interest from issuers in Mexico, Colombia and Peru to access debt and equity markets in the United States. Enormous projects need to be addressed.”

COUNTRY OUTLOOK

Mexico, Colombia and Peru are expected to help drive Latham & Watkins’ Latin America practice next year as well, Del Pino says, adding that there’s also growing interest in Central America.

“A lot of foreign investors are looking at Central America as a region, more than specific countries,” he says. “Some clients will look at specific acquisitions in a specific country. Aval is an example. They recently agreed to buy a Guatemalan bank, Reformador. And they have a strong presence, from Guatemala to Panama. BBVAs Panama unit fits well in their Central America strategy.”

Meanwhile, Brazil may also stage a return. “Hopefully Brazil will bounce back,” Del Pino says.

Overall he remains optimistic about the outlook for this and next year. “I’m cautiously optimistic,” he says. “Our practice in the region has continued to expand steadily and I expect to see more activity over both the short and long term.”