

## Mexico leads in number, but Brazil leads in value.

BY JOACHIM BAMRUD

The value of initial public offerings in Latin America last year jumped 155 percent to \$16.3 billion, according to *Latinvex* research.

That included 22 different IPOs in four countries. Mexico had the largest number, but Brazil outperformed in overall value.

“A number of factors led to the strong increase in Latin America IPOs,” says **Roderick Branch**, a partner at Latham & Watkins. “Broadly, local economies experienced a slowdown that was less severe compared to developed economies in North America and Europe coming out of the recent recession and thus returned to growth more robustly. Local markets have become richer, more sophisticated and more available as sources of capital. International investors flocked to invest in local businesses in a search for better growth rates compared to other economies. Political systems, market structures and companies throughout the region have earned a reputation as stable and more accessible repositories for investment. And demographic growth continues to drive capital needs. Add all of these together, and you get a high rate of IPO activity throughout the region.”

The largest deal by far was the \$5.7 billion IPO by BB Seguridade, the insurance unit of Brazil’s largest bank, in April. It also managed to become the largest global IPO last year, surpassing offerings by such prominent companies as Royal Mail, Twitter and Hilton.

Another Brazilian company – retailer Via Varejo – accounted for Latin America’s second-largest IPO after it raised \$1.2 billion in December. Meanwhile, the \$1 billion IPO of Colombian cement maker Argos in May became the third-largest last year.

Two Mexican companies rounded out the top five IPOs. Sanborns, the retailer owned by Mexican mogul Carlos Slim, and dairy company Grupo Lala. Sanborns’ IPO in February raised \$950 million, while Lala’s IPO in October raised \$938 million.

Latin America’s total IPO value last year compares with \$6.4 billion in 2012 and \$6 billion in 2011, according to Renaissance Capital.



Executives of BB Seguridade at the Brazil end of the \$5.7 billion IPO, the largest in the world and Latin America last year. (Photo: BMFBovespa)



Roderick Branch, a partner at Latham & Watkins, expects another strong IPO year in 2014.

## BRAZIL

Brazil's eight IPOs raised a total of \$9.2 billion. Apart from BB Seguridade and Via Varejo they included the \$564.7 million IPO in April by *Smiles* SA, the frequent-flier program for airline Gol.

April also saw two other IPOs. Sugar and ethanol company Biosev raised \$407 million, while electricity transmission and generation company Alupar Investimento raised \$421 million in what became South America's first initial public offering by a power utility since the Lehman Brothers bankruptcy in 2008, according to Bloomberg.

Brazil saw three other IPOs during the year. They included the \$403 million IPO in July by CPFL Energias Renováveis; the \$213 million IPO in October by university operator Anima and the \$245 million IPO in December by CVC Brasil Operadora e Agencia de Viagens SA.

## MEXICO

Mexico's ten IPOs raised a total of \$5.2 billion. Apart from Sanborns and Grupo Lala they included the \$765.7 million IPO by real estate investment trust Terrafina and the \$600 million IPO by IEnova (a unit of U.S. energy company Sempra Energy), both in March. The IEnova IPO was the first ever by a Mexican energy company.

Two other REITs -- Fibra Danhos and Fibra Inn -- also raised funds through IPOs during last year. The Danhos IPO in October raised \$456 million, while Fibra Inn's IPO in March raised \$318 million.

Meanwhile, low cost carrier Volaris reached \$346 million in July; Mexican bank Interacciones raised \$327 million in an IPO in October, while hotel chain City Express raised \$200 million in June.

The year started with Pepsi bottler and sugar producer *Cultiba* raising \$310 million in its IPO in January.

## COLOMBIA AND PERU

Colombia and Peru each saw two IPOs last year.

In addition to Argos, Colombian airline Avianca raised \$409 million through an IPO in November. The airline had originally planned to list in the United States but decided in the end to only list in Colombia.

In Peru, engineering and construction firm Grana y Montero raised \$413 million through an ADS listing in the United States in July. Earlier in the year -- in February -- Andino Investment Holding raised \$43 million. Andino is a *holding* comprising 14 companies in infrastructure, maritime services and logistics.

## CANCELLATIONS AND DELAYS

Last year also saw several planned IPOs that were cancelled or postponed due to market conditions. They include Votorantim Cimentos which cancelled its IPO twice during the year, first in June (for \$4.8 billion), then in August (for \$3.7 million).

Colombian financial group Grupo Aval had planned a \$100 million IPO in the United States but cancelled it in October.

Brazilian oil company QGOG Constellation cancelled its \$550 million IPO in April, while Mexican REIT Sendero in November cancelled its \$405 million IPO, which will still go ahead at a later date.

Another Mexican company -- hotel company Santa Fe -- in October cancelled its planned IPO for \$250 million.

## COMING UP

IPO experts like Branch see another solid year for Latin American IPOs.

"There are many signs that 2014 will be equally positive," he says.

Some of the cancelled IPOs from last year may be re-launched this year. There are also several other IPOs that are in the pipeline without specific dates.

In Mexico, for example, a new presidential administration, watershed reforms in energy, taxes, telecommunications, competition, labor and education, increased infrastructure spending and a demographic profile poised for greater expansion will continue to support capital markets activity, Branch points out.

“The potential for increased participation by private companies in the Mexican energy industry through constitutional reforms that will in all likelihood become effective in 2014 promises to open a floodgate to billions of dollars of investment, and we expect that a significant portion of that capital will be raised in the IPO markets,” he says.

Branch led the Latham & Watkins team that advised IEnova on its \$600 million IPO.

Mexican conglomerate Alfa, which manufactures car parts, petrochemicals and other products, is planning an initial public offering of its food unit Sigma Alimentos, according to Bloomberg. The IPO is expected to get a boost from its \$970 million purchase of Spanish food company Campofrio.

Mexican retailer Grupo Gigante is planning an IPO this year of its Office Depot unit in Mexico, according to a filing last week.

Mexican airline Interjet is also eyeing an IPO, [Bloomberg](#) reported in November.

Banco del Bajío SA, Mexico's eighth-biggest bank, is considering an initial public offering, according to Bloomberg.

All in all there are six companies that have filed to launch IPOs, according to local newspaper [Milenio](#).

Branch also expects several IPOs from Colombia and Peru. “While Colombia and Peru are smaller economies, they are expected to post higher GDP growth rates compared to their larger neighbors Mexico and Brazil this year,” he says. “Both countries are viewed as good bets by international investors, and their demographic profiles as well as their capital requirements in sectors such as infrastructure will continue to drive IPO activity in 2014.”

One major IPO that may come this year is Peru's state oil company Petroperu. In December, President Ollanta Humala signed into law a reform that allows the company to sell 49 percent of its shares to the public through an IPO.

As for Brazil, Branch is more cautious. “The 2014 presidential election in Brazil will be an important factor, but some international investors have soured on Brazil due to its slower growth over the past couple of years, especially compared to neighboring economies,” he says. “That said, Brazil's middle class is large and growing, and the local market is well known and viewed as stable. There are signs that the number of IPOs that came out of Brazil in 2013 will grow [this] year”

France-based retailer Carrefour is planning a \$6.9 billion IPO of its Brazilian unit, possibly as early as this month.

Other possible IPOs this year include Argentina-based technology company Globant, which could raise more than \$86 million during the first quarter, according to Bloomberg. It would be the first Argentine company to go public since the March 2011 IPO of McDonald's Corp. restaurant operator Arcos Dorados Holdings.

## US LISTINGS

Notwithstanding the decision by Avianca and Aval to pull their US listings last year, the trend by Latin American companies of listing on the New York Stock Exchange is likely expected to continue this year, Branch predicts.

“We certainly expect more Latin American companies to choose to list in New York in addition to listing at home,” he says.

Last year, NYSE accounted for 95 IPOs compared with only nine at the Sao Paulo stock exchange Bovespa, according to Renaissance Capital.

For eligible companies, the US JOBS Act’s reforms facilitate the US public offering process and reduce some of the requirements of being a public company (including under Sarbanes-Oxley) that were perceived as overly onerous by some non-US issuers, Branch points out. “We expect the JOBS Act to continue to stimulate US IPO activity, including US listings by Latin American issuers,” he says.

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