

Foresight

Brazil's latest privatization drive should prove attractive to investors

59th edition — September 2017

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Brazil's government has announced a sweeping privatization drive that includes everything from the country's mint to its state lottery and the country's largest power generation utility and potential investors will no doubt be turning their attention to this comprehensive package of assets before being tendered in the fourth quarter of 2017 and in 2018.

Brazilian President Michel Temer's goal is to raise critically needed revenue and boost infrastructure investment at a time when Latin America's largest economy is struggling to escape a deep recession. As a result, Brazil has announced to put on the auction block an array of 57 federal holdings through the government's Investment Partnership Program (PPI). The goal is to raise a total of 44 billion Brazilian real (BRL) or about 13.9 billion US dollars (USD) in fees and future infrastructure investments.

The package of major Brazilian assets, which should provide interesting opportunities for the right investors, includes:

- divestment of six state owned assets:
 - Eletrobras — the national power generation, transmission and distribution company
 - Casa da Moeda — national mint company
 - Lotex — national electronic lottery
 - CODESA — Espírito Santo State's port area
 - CEASAMINAS — Minas Gerais State's agricultural products distribution center
 - CASEMG — Minas Gerais State silo and warehouse
- concession of two highways
- concession of 14 airports

- concession of 15 port terminals
- concession of one brownfield hydro power plant
- concession of 11 greenfield power transmission lines
- public-private partnership of the air force's Integrated Communications Network
- four rounds of auction for offshore and onshore oil exploration areas.

Eletrobras and Lotex among assets on block

Key assets among the privatization initiative also include the Brazilian mint Casa da Moeda, the state-owned electronic lottery Lotex, São Paulo's domestic airport Congonhas — the second-largest airport in Brazil — and a controlling stake in Eletrobras, the largest power generator in Latin America.

The proposed move to privatize Eletrobras involves divesting the government's controlling stake to modernize the state-owned utility and increase its efficiency and competitiveness. The privatization of the utility is also expected to benefit the industry overall by attracting long-term investment and enhancing transparency. The government currently is the majority shareholder in Eletrobras with a stake of 51 percent. Brazil expects to raise BRL20 billion or USD6.3 billion by offloading its holding and hopes that the privatization will be completed by the end of the first half of 2018.

The entire package of assets being offered comes just at a time when the country's troubled economy has been slowly recovering, with improved GDP numbers this year and an outlook for slow but continued economic progress. Brazil's economy contracted by 7.4 percent in the past 2 years and the government is struggling to manage soaring budget deficits. Strapped for revenues, Brazil's government recently announced it was increasing the nation's budget deficit target in 2017 from BRL139 billion to BRL159 billion while continuing to slash its costs.

Package should attract investors

This latest initiative contains a significant new group of assets up for sale and beyond the huge potential benefits to the government, it could generate considerable interest among investors in the domestic market as well as international investors.

That said, the success of this ambitious program will present challenges for Brazil's government, which has failed to attract significant international investment interest in recent years.

Brazil's PPI has been a positive recent initiative by the new government to lead privatization opportunities and enhance the confidence of the marketplace and it will no doubt continue to play a key role in generating valuable new opportunities and attracting domestic and international investors.

But this program's success will depend on the government's ability to continue adjusting project structuring to attract international investors. While we have seen some progress thanks to PPI, additional changes are required to make deals more attractive in a market that has been dominated by domestic players. This includes: project structuring, project financing, and clarity on variations and termination.

With a more strategic approach, this latest ambitious offering from Brazil's government holds interesting opportunities for success.

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Designed by Evalueserve. Publication name: Foresight. Publication number: 134743-G. Publication date: September 2017