BF&M Bovespa stock exchange in São Paulo

PHOTO: RAFAEL MATSUNAGA

Not For The Fainthearted

Small, but quite competitive, Latin America's investment banking markets are upbeat this year, driven mainly by infrastructure growth.

Latin America's investment banking markets are small: Last year total revenues garnered by investment banks, a bare $2 billion, were dwarfed by the United States' $38 billion and Europe's $18 billion. Even the Middle East and North Africa, a region that is smaller in population and has around a third of Latin America's GDP, did better in comparison, with total investment banking revenues of around $1.1 billion.

Investment banking in Latin America is mainly dominated by big, global players from the US and Europe, plus a few Brazilian names. Of the top 10 players in 2013, according to data provider Dealogic, only three were local institutions—and those were all from Brazil: Itaú BBA, BTG Pactual and Bradesco. The top 10, ranked by IB revenue and market share, had only one change from five years ago: Back then Banco do Brasil was at 10th place, a spot most recently taken by Spain's BBVA. The top five American banks active in the region are Bank of America Merrill Lynch, Citi, Goldman Sachs, J.P. Morgan and Morgan Stanley. Credit Suisse is the strongest among the Europeans.

"Competition is fierce," notes Gregoire de Lestapis, head of corporate and investment banking Latin America at BBVA, "and it is increasing fast—from the global players who are looking at the Andean region as an emerging power and from the local players, who aim to become more regional." He says that Chile, Mexico and Brazil are somewhat saturated in terms of investment banking coverage, with Colombia and Peru growing fast and a relatively low banking presence in remaining countries such as Argentina, Venezuela and Uruguay.

Brazil and Mexico represent the lion's share of the investment banking business. "The global players are especially active in Brazil and Mexico, while local and regional players have stronghold positions in other markets," says de Lestapis. BBVA Bancomer is a leading presence in Mexico, where a raft of recent reforms, such as the opening of the energy and oil markets, approved last December, are creating expectations of a future flurry of deals and a boost of foreign direct investment.

As elsewhere, equity markets started this year very slowly, but they are expected to pick up in the second half. "We are

positive for the coming months. For ECM [equity capital markets], we are already working on some deals that could come out in the third and fourth quarters, if capital markets allow. We have both IPOs and follow-ons in the works," says Adriano Otero, head of corporate and investment banking at BBVA Bancomer, which is Mexico's largest bank by assets.

Ricciardi, Espírito Santo: We continue to foresee interesting opportunities in Brazil, particularly in the project finance and capital markets areas.

FRANCHISING FROM BRAZIL

Brazil remains the most important Latin American nation, despite slowing economic growth, the uncertainty stemming from October's governmental elections and, according to some, the distraction coming from the FIFA World Cup in the summer. So far, IB has been dominated by M&A deals and the debt capital markets. Latin America's M&A volume in the first quarter totaled $22.9 billion, up 25% from $18.3 billion a year before but down 44% from the previous quarter. Brazil led the way, followed by Chile, which was the second-most-targeted nation.

Itaú BBA had the highest M&A volume in the region, with deals for $10.8 billion in the first quarter. "We expanded our Brazilian platform into a more regional platform; we have a presence in Chile, Argentina, Peru and Colombia and a growing presence in Mexico for our investment banking practice," says Fernando Iunes, global head of the investment bank department at Banco Itaú BBA in São Paulo. "It is our core market and it is what we know best, and this is why we plan to increase our presence," he says of Itaú's expansion strategy. In January, Itaú launched a $1.8 billion cash-and-share offer for a third of Chile's CorpBanca. Once the deal is approved, it will trigger a $652 million investment for Chile and Colombia, increasing the share of Itaú's total assets outside Brazil.

Iunes, Itaú BBA: We have expanded our Brazilian platform into a more regional platform.

DOMESTIC LEVERAGE

"Domestic players in each country are using their corporate contacts as a leverage to get more business also for private equity, debt sales and M&A operations," says Alcir Freitas, Moody's vice president and senior analyst in São Paulo.

"What we see in Brazil are some banks which are creating a regional franchise to boost their business and also in part to compensate for the fact that the Brazilian market has been slowing down at least since last year. They are going after the high-growth markets."

BTG Pactual too is expanding its franchise outside the nation's border. It scored second in advisers for M&A activity in the first quarter of 2014, with deals valued over $7 billion, and it sees growing prospects outside its domestic turf. "We found very good opportunities to replicate our strong integrated business platform from Brazil into Latin America," says Mateus Carneiro, the partner responsible for the integration of Latin American operations. "BTG Pactual is present in Brazil, Chile, Colombia, Mexico and Peru. In these countries we have an opportunity to step into the market at exciting times. Colombia and Peru are offering great opportunities for investing in infrastructure, while Mexico is offering great business with its energy reform that allows a range of investments into oil, power and midstream assets," Carneiro says.

De Lestapis, BBVA: Global players are especially active in Brazil and Mexico, while local and regional players have strongholds in other markets.

Bradesco, fourth in the ranking for revenue in M&A deals and second for Latin American domestic debt capital markets in the period from January to March, also sees opportunities outside Brazil. "In the old days, Latin American equity offerings were one-third outside Brazil with the other two-thirds linked to domestic issuers. Now the opposite is true, and therefore the weight of other Latin American countries is becoming more important," says Renato Ejnisman, managing director of Bradesco's investment banking arm. Last year was an exception, he says, because of the $4.2 billion IPO of BB Seguridade Participacoes, the insurance unit of state-run Banco do Brasil.

"We have been able to run our business from São Paulo," says Ejnisman, commenting indirectly on the foreign expansion spree of his competitors. Bradesco raised its market share, gaining ground from foreign players, notes Ejnisman: "It was also able to increase


BTG Pactual trading floor, São Paulo, Brazil.

the market itself as it was able to offer innovative solutions that did not exist before." He mentions deals such as the $410 million bond sold in 2014 by Brazilian mining giant Vale at tax-free returns for retail investors under a new government program aimed at financing infrastructure projects. Vale will use the proceeds to fund its railway network to move iron from mines to ports.

CHILE: MATURE BUT STILL ATTRACTIVE

Even if the Chilean market has been stable for many years with well-established franchises and strong competition for fees, Brazil's BTP Pactual says that there is room to grow. "Growth for us still remains wide open. In particular M&A and equity operations are a segment where BTG intends to expand into," says Andre Porto, COO of BTG Pactual Chile.

Also thanks to its role as bookrunner in the placement of 7.2% of Banco de Chile, a stake sold at around $822 million in January, LarrainVial, Chile's largest brokerage firm, was fifth in Dealogic's ECM ranking in the first quarter. "Going forward we have more deals in the pipeline for equity, both IPOs and follow-on deals," says Sebastián Cereceda, corporate finance manager for LarrainVial. "I would be glad if we could repeat the performance of 2013, a good year for equity deals for us. Obviously the tax reform in Chile is a potential great change in the rules of the game, so it is natural that most of the issuers are waiting to have certainty about the new tax scenario before moving forward."

But it is not just Chile. Bankers in the region as a whole are upbeat, mainly thanks to the infrastructure business. "With global economic conditions expected to improve in the medium term, the economic outlook for this region is positive," says José Maria Ricciardi, CEO for Espírito Santo Investment Bank. "Contrary to other European banks, Espírito Santo Investment Bank continued to expand its presence in Latin America in recent years. We continue to foresee interesting opportunities in Brazil, particularly in the project finance and capital markets business areas, as the country needs to significantly expand its infrastructure sector, but also in Spanish-speaking Latin America, namely in Mexico." ■

CROSS-BORDER M&A DEALS IN LATIN AMERICA'S BANKING MARKETS

Acquirer / Country	Target / Country	Announcement Date	Price	Financing	Ownership	Business Focus	Credit Implication
Itaú Unibanco / Brazil	CorpBanca / Chile	Jan-14	$1.8 billion	Stock-for-stock transaction	Controlling shareholder with 33.6%	Universal	Positive
Banesco Group / Venezuela	NCG Banco / Spain	Dec-13	€1 billion		88.30%	Universal	Negative
Promerica Financial / Panamá	Banco de la Producción / Ecuador	Dec-13		Majority stake		Corporate	
China Construction Bank / China	Banco Industrial e Comercial / Brazil	Oct-13	$725 million	Cash	72% stake	SME	Positive
Banco de Bogotá / Colombia	BBVA Panamá / Panamá	Jul-13	$630 million	Cash	98.90%	Universal	Mixed
BAC International Bank / Panama	Grupo Financiero Reformador / Guatemala	Jun-13	$411 million	Cash	100%	Commercial/ Corporate	Positive
Grupo Ribadeneira de Ecuador / Ecuador	Banco de Antigua / Guatemala	May-13				Microfinance	
Banco de Crédito e Inversiones / Chile	City National Bank of Florida / USA	May-13	$883 million	Cash	100%	Commercial/ Residential Real Estate	Negative
Bancolombia / Colombia	HSBC / Panamá	Feb-13	$2.2 billion	Cash	100% of ordinary shares	Commercial/ Retail	Negative

Source: Moody's Investors Service