INFRASTRUCTURE, POWER & UTILITIES

DRIVING GROWTH IN THE PACIFIC ALLIANCE

Scotiabank™

Capital that works

EXPLORING OPPORTUNITIES IN THE PACIFIC ALLIANCE

Growing infrastructure, fueling investment opportunity, and financing activity in this emerging markets region

As the global economy evolves, investors are always looking for the next investment opportunity. Developed markets like the U.S., Canada, Japan and much of Europe have each had periods of significant growth that have rewarded investors well. However, it has become increasingly challenging to discover untapped investment opportunities in these mature markets. Even emerging markets like China and India have caught the attention of investors for years, and often the valuations already reflect anticipated future growth.

POTENTIAL IN THE PACIFIC ALLIANCE

One less-followed emerging markets region that still offers attractive opportunities is the Pacific Alliance.

Formed in 2011, the Pacific Alliance is a Latin American trade bloc composed of four well-established countries bordering the Pacific Ocean: Mexico, Chile, Peru and Colombia. Together, these countries account for a significant portion of Latin America's gross domestic product (GDP). Similar in intent to the North American Free Trade Agreement, the Pacific Alliance came about as a way to promote business activity among member countries and remove barriers to the trading of goods and services within the bloc.

In fact, the four countries have made a firm commitment to cooperate for the common good by aligning overall political, economic and investment market objectives. They are working together to develop best practices and harmonize some regulatory and taxation differences among members to help facilitate the intra-region movement of capital. The governments are also collaborating to codify their relationship through different regulatory efforts in order to promote deeper regional integration. This move toward greater consistency across countries is beneficial for foreign investors who favour uniformity when analyzing opportunities in a given region. Let's consider some powerful opportunities in the Pacific Alliance.

OPPORTUNITY: INFRASTRUCTURE INVESTMENT

When examining an emerging market, the potential for substantial growth is integral to its attractiveness. Coinciding with that expectation for growth is the requisite expansion of important infrastructure elements like power and utilities. Investment in power infrastructure is essentially another way of investing in the growth and development of these burgeoning economies.

Within the power sector, many component parts need investment ranging from upgrading legacy systems to building new capabilities. Investment in low-cost, renewable, clean energy is increasing. Furthermore, new transmission lines are needed to connect areas rich in renewable energy resources to major load sites (e.g., key population centres). Then there is also the infrastructure aspect behind the power, such as a natural gas fuel supply delivered through pipelines or liquefied natural gas terminals.

Much of the investment has utilized private sector capital, including local investors partnering with global investors from the Americas, Asia and Europe. Particularly in the context of substantial merger and acquisition transactions, considerable market expertise and a prompt response are paramount. As such, Scotiabank has a distinct advantage with its existing strong presence and a long track record of success in the region. Local and global clients seeking customized solutions and confidence in their financing plan want to work with a highly experienced firm that can structure, execute and deliver the optimal solution to meet their needs and objectives.

OPPORTUNITY: INCREASING POWER ACTIVITY IN THE REGION

The Mexican power sector has been one of the most dynamic in the Pacific Alliance, given recent regulatory changes that facilitate private investment. Renewable power generation in Mexico has become extremely competitive relative to conventional energy. Record-low prices for new power purchase agreements in Mexico have helped stoke this competitiveness. There is an effort to modernize the transmission infrastructure so renewable energy can flow efficiently through the country, as well as notable investment in the natural gas transportation space to import cost-efficient natural gas, mostly from the U.S., which will fuel new natural-gas-fired power plants capable of providing an efficient base-load power generation.

In Chile, the long-term trend points to an increase in renewable energies and sustainable "green" technologies within the power matrix, such as solar and wind power. Accordingly, power transmission lines that connect the northern and central grids will facilitate the transfer of solar-generated power in the north to the middle of the country where demand is greatest. Peru has continued to tender new transmission lines that will build additional efficiency into the power matrix and allow for more efficient energy distribution. Colombia has been making progress updating its regulatory environment to achieve greater diversification of its energy portfolio, as well as encourage foreign direct investment.

All four Pacific Alliance countries have instituted constructive market and regulatory policies to entice private investment in these sectors, leading to robust growth and increasing domestic consumption. A rising middle class leads to higher power consumption and, as lower-cost power emerges, disposable income and GDP grow in tandem. This bodes well for the Pacific Alliance and may attract continued investment in the region's power infrastructure.

FINANCING THE OPPORTUNITY: THE GROWING ROLE OF DEBT CAPITAL MARKETS

Increased investment activity precipitates the need for financing – loans and bonds are important avenues that help fulfill the capital requirements of growing businesses. An important component of financing is debt capital markets, which acts as a complement to bank loans and is part of the comprehensive toolkit of financing solutions Scotiabank offers to companies in the Pacific Alliance region.

Bank loans are still the most common approach to capex financing. When borrowers need to undertake large, capital-intensive (and often long-term) growth initiatives, however, they frequently incorporate financing from the debt capital markets by issuing investment-grade and high yield bonds. As a growing number of Pacific Alliance companies accesses the international markets seeking hard-currency financing – often U.S.-dollar financing – demand for debt capital by infrastructure (namely power and utilities) companies is mounting. Power and utilities is an area in which the Scotiabank debt capital markets team has particular strength. This stems from the team's deep knowledge of the power and utilities industry, as well as unprecedented access to the investor base that follows the Pacific Alliance region.

For example, as the Pacific Alliance region experiences an intensifying period of renewable energy initiatives, the magnitude of its growth must be supported by corresponding infrastructure development. Until recently, Chile relied heavily on fossil fuels, but now that country is at the forefront of transitioning to a power matrix anchored by renewable energy. It's not only power generation that is in play, but also transmission and distribution, as the electricity must travel from Point A to Point B and, ultimately, to the end user. These infrastructure efforts require massive long-term capital expenditures that can benefit from a range of debt financing tools, including bank loans and issuances in the debt capital markets.

As a major underwriter of bonds related to power, utilities and infrastructure, Scotiabank works with multinational businesses that may lack local expertise in a specialized region like the Pacific Alliance. Expert local advice and counsel helps companies to better understand these distinct markets and create appropriate funding solutions to promote sustainable long-term growth.

In such cases, Scotiabank provides professional advice on how to achieve an efficient capital structure based on the business's goals and capital requirements. Scotiabank then provides guidance on the origination, structuring and execution of fixed income products for successful placement. Overall, businesses seek a partner like Scotiabank for its financial strength, scale, reach and speed of execution to help these businesses meet their medium- to long-term goals. Scotiabank has an established track record and presence in the Pacific Alliance region, as well as a leading bond franchise.

To corporate bond issuers, Scotiabank is a conduit to important local and international investment networks through its dedicated debt capital markets teams across the region. Scotiabank's global distribution network allows the team to strategically price and place new issues on the global stage – seamlessly connecting issuers to those interested in exposure to the Pacific Alliance for its attractive yield and diversification benefits.

POISED TO FULFILL THE PACIFIC ALLIANCE'S GROWING CAPITAL NEEDS

Scotiabank has been at the forefront of Pacific Alliance issuance activity, guiding its clients through the issuance process as a trusted partner throughout all phases, including rating agency advisory, transaction structuring and documentation, global marketing and distribution, transaction execution and after-market support.

With deep roots in the region, Scotiabank has a successful legacy operating across all Pacific Alliance markets, with the ability to fulfill the capital requirements of businesses with innovation and flexibility. As business needs evolve, an array of capital financing strategies – ranging from bilateral and syndicated bank loans to local and international capital markets – will be required to help businesses achieve their goals. Scotiabank's breadth of financing capabilities and deep regional expertise positions it well to support the continued growth and evolution of the Pacific Alliance infrastructure sector.

To learn more about strategies to finance investments in the Pacific Alliance infrastructure, power and utilities sectors, please contact:

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