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Debt capital markets league table 2019: Mexico

Eloise Hardy– May 26, 2020

Latin Lawyer gathered data on debt capital markets activity across Latin America during 2019. Here, we present our findings for Mexico.

Ritch, Mueller, Heather y Nicolau, SC dominated the league table, with the highest number of debt capital markets transactions and highest combined value for those types of deals than any other Mexican law firm in 2019, according to Latin Lawyer's data.

Our findings are based on deals submitted to Latin Lawyer by law firms that took place in 2019. Ritch Mueller worked on 18 debt transactions and helped companies raise a combined US$19.5 billion.

The data shows law firms helped Mexican companies raise a total of some US$32.7 billion across 65 debt capital markets deals in 2019.

Kuri Breña Sánchez Ugarte y Aznar was next in line for deal volume with 11 deals, while Galicia Abogados recorded 10 deals. Mijares, Angoitia, Cortés y Fuentes SC and Creel, García-Cuéllar, Aiza y Enriquez, SC reported nine deals each.

Other firms also scored highly on combined deal value. Bufete Robles Miaja, SC. raised US$4 billion in 2019, working on three deals reported to Latin Lawyer. The firm placed second in the league table for deal value.

According to Latin Lawyer's data, the largest Mexican debt deal in 2019 was by state-run oil company Pemex. Worth US$7.5 billion, it took place in September and saw the company sell medium and long-term bonds to refinance its short-term debt. Cleary Gottlieb Steen & Hamilton LLP advised Pemex, while Ritch Mueller helped the banks.

The issuance saw Pemex pay more than initially predicted to swap bonds with large repayments – worth US$7.5 billion – in a move which excited investors and decreased the risk of a downgrade. Demand for the bond reached a record high, with the offering more than five times oversubscribed by investors.

"There were two salient aspects of this transaction. Firstly, Pemex had to take advantage of the market window, so it was done very rapidly," says Luis Nicolau, partner at Ritch Mueller. "Second, Pemex's credit condition was rapidly deteriorating – which meant it was a challenge to market the issuance in a positive light to investors. This made it difficult to complete the transaction successfully." Pemex also launched a five-year issue of stock exchange certificates in December, worth 5 billion pesos (US$264 million) as part of its refinancing efforts.

Mexico's capital markets have seen many twists and turns in recent years – the renegotiation of the North American Free Trade Agreement (NAFTA), now the United States-Mexico-Canada Agreement (USMCA) – caused market uncertainty and trepidation among investors unsure about the impact of the deal on Mexico's industries. "2018 saw a significantly lower number of debt capital markets deals, both by number of deals and transaction value – the market had high levels of uncertainty and volatility," says partner Patrick Meshoulam from Mijares.

2019, however, was different. The election of President Andrés Manuel López Obrador's (AMLO) in late 2018 and his less-than-friendly stance towards the business community meant companies were in a hurry to issue their debt for liquidity early on in his presidency before market tides changed. "There's been a change happening since 2018," says partner Guillermo Pérez-Santiago at Galicia Abogados. "Medium and large-sized Mexican companies had to prepare for the potential economic and financial consequences of the government transition that happened in 2019."

Issuers that had rushed to sell their debt before AMLO could usher in such policies had their fears confirmed when he cancelled the partially completed US$13 billion New International Airport of Mexico City (NAIM) after he took office in December 2018. His decision followed a public consultation that drew just over one million votes, of which 70% opted for an alternative project.

"The primary challenge was the arrival of AMLO. The cancellation of the airport, coupled with the desire to beat the turning tides of the market with the new government – and thus the potential reduction of credit ratings – meant companies wanted to issue quickly," says Ritch Mueller's Nicolau. "A number of transactions were accelerated and in order to be completed before the market changed."

Lawyers note the tax stimulus decree passed in early 2019, which gave incentives to parties subject to retention tax (income tax paid to the government by a buyer rather than a seller of assets) should have had an effect on 2019 capital markets activity. The decree also reduced the tax rate for certain taxpayers on sales of public shares through an initial public offering (IPO). "The stimulus exempted issuers from withholding interest payments for foreign investors, as is already the case with government bonds," says Mijares' Meshoulam.

But, according to Meshoulam, the decree was confusing for investors, and left many unwilling to try their chances on Mexican capital markets. "The incentive has been hardly used by corporate debt issuers," he says.

Because of market uncertainty in early 2019, banks and corporates relied heavily on issuing convertible notes as the quickest and most reliable way to keep up with their capital requirements. But law firm partners say that companies had gradually looked to crowdfunding or peer-to-peer lending as an alternative form of financing as the market became a little more predictable under AMLO. "2020 has seen both investment banks and companies exploring financing alternatives that include other types of financial instruments," notes Pérez-Santiago.

But experimentation in the financing market is likely to be put on hold on the wake of the covid-19 pandemic. The National Institute of Statistics and Geography (INEGI) in Mexico reported a 1.6% fall in GDP in the first quarter of 2020, compared with the last quarter of 2019. "There has been a noticeable slowing down of the Mexican economy," says Miguel Gallardo Guerra, partner at BGBG Abogados.

According to law firm partners, developments in Mexican energy policy – such as AMLO's recent vow to strengthen the state's role in energy production and to reduce the influence of private energy producers – is also affecting projections for the year ahead. Mexico published new rules giving the state more control over the approval of new renewable energy projects, causing concern among investors that they were being pushed out. "These factors are all likely to affect Mexican issuers trying to tap the international capital markets – and vice versa," says Nicolau.

The combined effect of the economic slowdown, the recent cancellation of the Constellation brewery project and Mexico's new policy towards energy, as well as the covid-19 pandemic, are all affecting lawyers' projections for 2020. Uncertainty at what is to come is affecting the market, and further downgrading and the continuous devaluation of the Mexican peso may force some companies abroad. "It is difficult to predict how large and deep the impact will be. Earlier this year, a large Mexican bank tried to secure a local debt transaction but ultimately found more appetite for their offering and better prices abroad," concludes Galicia's Pérez-Santiago.

To see all Mexican debt capital markets deals that took place between July and December in 2019 and were submitted to Latin Lawyer, click here. To find information about deals that occurred during the first half of 2019, follow links here for January-February; March-April and May-June. To read our methodology for Latin Lawyer's transactional league tables, click here.

Latin Lawyer previously published debt capital markets league table for Argentina, Chile and Colombia. We will continue reporting on our Latin Lawyer 2019 debt capital markets data in upcoming briefings.

Top Mexican firms for debt capital markets by total volume:

LAW FIRM	TOTAL NUMBER OF DEALS
Ritch, Mueller, Heather y Nicolau, SC	18
Kuri Breña, Sánchez Ugarte y Aznar, S.C.	11
Galicia Abogados	10
Mijares, Angoitia, Cortés y Fuentes SC	9
Creel, García-Cuéllar, Aiza y Enriquez, SC	9
González Calvillo SC	6
Nader, Hayaux & Goebel	4
Bufete Robles Miaja SC	3
Greenberg Traurig (Mexico)	3
Holland & Knight (Mexico)	3

Top Mexican firms for debt capital markets by total value:

LAW FIRM	TOTAL DEAL VALUE IN US$ MILLION
Ritch, Mueller, Heather y Nicolau, SC	19,543
Bufete Robles Miaja SC	4,124
Galicia Abogados	3,832
Mijares, Angoitia, Cortés y Fuentes SC	3,375
Creel, García-Cuéllar, Aiza y Enriquez, SC	2,845
Greenberg Traurig (Mexico)	1,633
Holland & Knight (Mexico)	1,175
González Calvillo SC	1,073
Nader, Hayaux & Goebel	979
Chávez Vargas Minutti Abogados, S.C.	717

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