


1Q21 DEAL: HIGHWAY REFINANCING DEMONSTRATES EVOLUTION OF MEXICAN PPP MARKET

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Mexico Infrastructure Partners (MIP) refinanced a highway as part of a broader trend of local investment vehicles acquiring local PPP assets. Jonathan Carmody reports on this trend as well as MIP's growing role investing in country.

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Inframation

On 3 February, [Mexico Infrastructure Partners \(MIP\)](#) refinanced an eight-year old toll road concession in central Mexico.

The deal wasn't the largest in the quarter in the Latin American region but it demonstrated an ongoing trend that has seen local developers sell their PPP assets to asset managers that have set up dedicated infrastructure investment vehicles in the country over the past decade.

MIP launched their first CKD fund, [EXI - Fomento a la Energía e Infraestructura de México](#), in 2014, raising approximately MXN 2.65bn (USD 133.51m). CKD funds were designed in 2009 to permit Mexican institutional investors like the AFORES (pension funds) to invest in real assets.

Two years later, in 2016, the fund acquired a 17% stake in the Palmillas-Apaseo El Grande toll road from local developer Empresas ICA, simultaneously obtaining the right to preference in case ICA decided to sell the rest of its share.

Since then, EXI has raised a total of three CKD funds, with the most recent launching in the first quarter of 2020, and one CERPI fund (a vehicle similar to the CKD but with the possibility to invest 90% of the capital outside of Mexico).

The February refinancing of the Palmillas-Apaseo el Grande highway consists of a MXN 7.7bn, 19-year term loan from Mexican lender Inbursa. The debt is denominated in Investment Units (UDI), an index unit used in Mexico that can be traded in many currency markets because its value changes with respect to currencies and priced at 6% lower than the price of the UDI. Santander and BBVA acted as agents on the deal.

"The original project finance for the Palmillas highway, which was issued in 2013 to finance the construction, had a balloon payment at the end of 2023," Colosio said. "The initial construction debt was conceived from the beginning to be refinanced before that time," said Gerardo Colosio, Partner and COO at MIP.

"When ICA sought to divest its stake in its main concessions (The Palmillas highway and Operadora de Vias Terrestres (OVT), which includes four road concessions, and its prison PPPs CPS Sarre and CPS Pápagos), MIP and the funds it manages became the natural buyers of said projects," said Colosio.

The company engaged with ICA in a two-year acquisition process, which included due diligence on the assets, and in parallel began to assemble a team to operate the projects, which it would name EXI Operadora [Quantum](#).

That team includes ex-ICA CFO of eight years, Pablo Garcia, and ex-[Impulsora del Desarrollo y el Empleo en América Latina \(IDEAL\)](#) CEO and General Director of Concessions of 13 years, Andrés Alija Guerrero.

IDEAL, another of the largest Mexican infrastructure developers, with 17 PPPs and concessions under its management, found a different way to raise capital from its investments by inviting its co-investors to take a stake in the company.

Whereas ICA, which had been struggling due to [bankruptcy](#) proceedings, sold all of its stakes in the above-mentioned assets, IDEAL [invited long-term partners](#) to acquire a stake in the company and join it in a Fibra E investment trust - another Mexican financial innovation that functions like an Master Limited Partnership for infrastructure and energy projects, granting tax benefits for institutional investors.

That deal saw IDEAL sell Canada Pension Plan Investment Board (CPP Investments) and Ontario Teachers' Pension Plan Board (Ontario Teachers') a 40% stake in the developer for MXN 50.4bn, as well as selling 11.09% and 7.65% stakes in the Fibra E trust, respectively.

Having already raised four fund vehicles with the support of Mexican institutional investors, MIP has now filed the paperwork to raise its own Fibra E investment trust, which will hold the highway stakes the company recently acquired from ICA, Colosio said.

“The Fibra E in Mexico is a natural outlet for projects in the hands of CKDs,” he said. “Fibra EXI will be a long-term vehicle that provides an investment opportunity with attractive returns with predictable and stable distributions, and with tax benefits, due to the nature of Fibra E trusts.

Colosio said that Fibra EXI will boast the extensive experience of the management team and the competitive advantages of an internalized operation of the projects being managed by EXI Operadora Quantum. He says the initial portfolio will consist of attractive, resilient and strategically located assets and investors will be committing funds towards the potential drop down of assets managed by MIP in the short-term and its ability to originate drop downs in the medium-/long-term.

“MIP is in the process of issuing a Fibra E in the national and international market, and one of the necessary conditions to comply with the Fibra E’s fiscal rules is that, basically, the projects deliver dividends to their shareholders, which was not the case with a cash sweep structure that had the initial financing of the highway,” he added.

Colosio said that MIP decided to form EXI Operadora Quantum rather than hiring a third-party manager for the operation and maintenance of the assets because it helped them achieve additional benefits for their investors.

“Rather than giving the role to a third party, MIP will benefit from running the operations at cost, with zero profits held by the operating company, which will generate efficiencies and transfer all its benefits to shareholders. The vehicle will also be free of conflicts of interest between shareholders and the operator, aligning the operator’s interests based on objectives to maximize the value of each asset,” he said.

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