IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil23s	90	+70ct
Mex 22	101.75	-15ct
Boden 15	92	+50ct
Vene 22	104.6	+2.10

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	166bp	+3bp
Mex 5-yr	115bp	+4bp
Arge 5-yr	2200bp	-70bp

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
Voto41s	107.00	+1.25
OGX2022s	15.75	+50ct

Source: Thomson Reuters

DCM LEAGUE TABLE

Bank	Total US$(m)	No. of deals
JP Morgan	7,374.1	23
Citi	6,726.2	27
BofA Merrill Lynch	5,264.0	22
HSBC Holdings PLC	4,626.5	14
Deutsche Bank	4,155.0	17

Source: Thomson Reuters

Lawyers are urging holders of billions of dollars of bonds from OGX to engage quickly with the troubled Brazilian oil-and-gas company, as it looks headed for the biggest corporate debt restructuring of all time in Latin America.

As tycoon Eike Batista's vast business empire crumbles, top law firms with long experience in LatAm restructuring are trying to organize bondholders and rescue some value for them if, as many fear, OGX should default.

"They don't have many options," said Omar Zeolla, a credit analyst at Oppenheimer & Co. "They could force to bring the company to the table, but a restructuring doesn't solve the whole problem," he added.

Many see debt restructuring as inevitable at OGX, the former crown jewel in Batista's X empire, which is now hemorrhaging cash, while struggling to achieve the promised levels of oil production at its offshore fields.

Last week, the company's bonds hit new lows, with its 2018s and 2022s reaching mid-market levels of 15.20 and 14.30 on Wednesday – and that only intensified fears about what can be retrieved from the stumbling company if a default occurs.

Law firm Cleary Gottlieb Steen & Hamilton organized a call with a number of OGX creditors earlier this month and, last week, was preparing follow-ups with a small group of investors that own a significant amount of the company's debt.

According to documents IFR saw, the lawyers said creditors should consider an out-of court deal to recoup some money from the US$3.6bn in outstanding OGX bonds.

OGX has already sold a 40% stake in one offshore field to Malaysia's Petronas, and has made a US$449m cash payment to sister company OSX. Market chatter that Batista is looking for potential buyers of OGX's other offshore oil fields has left the impression that the company is being drained of assets, which is to the detriment of bondholders obviously.

However, as local private and state-owned banks also have significant exposure to Batista's debt, some say OGX's foreign bondholders – outsiders faced with an unfamiliar legal system not necessarily creditor-friendly – may well be at a severe disadvantage.

"You have local creditors and large banks highly exposed. They are doing everything to have access to the best issuer or guarantees and bondholders are just left waiting to see how the story unfolds," said a Brazil-based credit analyst.

OGX investors should take into account the broader ownership structure and liabilities at the holding company EBX, said Morgan Stanley credit analyst Jose Kliksberg in a recent report.

"The solution to this situation does not lie only at OGX and its balance sheet, but also within the largest Brazilian banks involved at EBX and its subsidiaries," he wrote.

Outstanding debt at Batista's X companies stands at around US$10bn, not including undisclosed liabilities at the holding level, according to a presentation business advisory firm FTI Consulting made to bondholders.

In its own presentation to bondholders, Cleary urged them to engage OGX and encourage it to "preserve cash, maintain liquidity and find new funding".

While local insolvency law tends to be debtor friendly, Cleary suggests that OGX's high profile and sheer debt size, as well as the broader implications for corporate Brazil, will work to the advantage of bondholders. Without a positive response from the company, the law firm said, investors should consider filing suits in Brazil and abroad.

In Brazil, at least, that may prove to be a tricky undertaking. So-called substantive consolidation used in US bankruptcy proceedings – the pooling of assets and liabilities of related debtors – is not applicable under Brazilian law, which views each subsidiary as a separate entity, according to Cleary. This means that OGX bondholders may not be able to gain access to the assets of other companies in Batista's X group.

Under a judicial reorganization in Brazil – something akin to a Chapter 11 filing in the US – creditors may have to face either a deal that favors debtors or accept liquidation, which, in OGX's case, would likely wipe out any remaining value.

A voluntary debt exchange may also be an option. Yet while this may help OGX reduce its cash drain, it may also prompt regulators to view the company as insolvent, which would trigger the termination of vital concession, according to one analyst. Nor does it solve the problem of how OGX will raise the funds to remain in operation long term.

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"They are not generating any cash," Oppenheimer's Zeolla said. "They need more capital to keep the company going."

Equities

Two equity trades – one Peruvian and the other Mexican – are due to price tomorrow in, possibly, the last hurrah before the market closes for the summer.

Peruvian engineering and construction company GRANA Y MONTERO will price a re-IPO of up to US$389m tomorrow with books covered as of last week. Peruvian growth, which is set to be 6.3% this year and 6.1% in 2014, is working in its favor, along with a shift in investors' focus to the Andean region. However, like any trade, it is not without risks.

"The strong macro stories from Peru, Colombia and Chile, coupled with disappointing numbers in Brazil and high valuations in Mexico, have generated more attention in the Andean Region," according to an analyst's report.

Lead banks are hoping the company will benefit from EM investors' desire to gain exposure outside of Brazil. The company is involved in high-profile Peruvian infrastructure projects, but is also looking to expand outside its home country, particularly in Chile and Colombia in plans that depend on Grana y Montero's ability to access financing in the debt and equity markets.

The offering is 100% primary, according to an ECM banker. Of the proceeds, 60% will be put into infrastructure investments, 20% towards acquisitions and 20% for land.

The company has set an expected price range of US$19.70–$23.50 per ADS, or the equivalent of about S11.00–S13.00 per common share, based on the exchange rate on July 5, when its shares were trading on the Lima Stock Exchange at S10.80 each, or the equivalent to US$19.35 per ADS, according to an SEC filing.

The borrower is offering 16,279,070 ADSs, representing 81,395,350 common shares, while also giving the underwriters an option to purchase up to 2,44,860 additional ADSs to cover overallotments. Grana y Montero is expected to garner about US$338m through the sale, or US$389m if the overallotment option is exercised. The issue will be 100% primary and will include a 15% greenshoe option. Each ADS will represent five common shares.

Global co-ordinators are *Credit Suisse*, *JP Morgan*, *Morgan Stanley* and *BTG Pactual*, with *BBVA Continental*, *Credicorp Capital* and *Interbank* on as co-managers.

The Fibra asset class, or Mexican REIT, continues to grow as FIBRA SHOP prepares to issue a Ps5.8bn (US$440m) IPO tomorrow, as well. The deal will be 36% secondary with three sponsors selling stakes and 64% primary, according to an ECM banker on the trade.

"The sponsors are looking to diversify their wealth," said the banker. "With their offering of shares, they made the float larger to add liquidity, but will be putting capital back into the Fibra."

Bank of America Merrill Lynch and *BTG Pactual* will lead the international book, while *Actinver* and *Banorte* will be local leads.

"We didn't see the value in the Fibras when they first came to market," said a Mexican broker. "We are now trying to get in on the new deals, but it is a little more difficult as the valuations have gone up. Still, it seems … these investment trusts are striking a real chord with the growth in the country and peoples' mindset about traditional real-estate investment."

LATIN AMERICA DCM PIPELINE

Issuer	Size (US$m)	Tenor (years)	Leads
Ecopetrol	TBD	TBD	TBD
BNDES	TBD	TBD	DB/Itau/JPM
Odebrecht	1800	10	HSBC/Itau/MS
Transelec	TBD	TBD	TBD
Bolivia	TBD	TBD	BAML/HSBC
Gigante	TBD	10	CS/BBVA