IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil23s	90	+40ct
Mex 23	100.2	+20ct
Boden 15	94.7	-30ct
Vene 22	98.7	-15ct

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	154bp	-1bp
Mex 5-yr	106bp	-2bp
Arge 5-yr	2300bp	-15bp

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
Codelco43s	98.8	+30ct
OGX2018	10.3	-1.20

Source: Thomson Reuters

DCM LEAGUE TABLE

Bank	Total US$(m)	No. of deals
JP Morgan	10,016.7	37
Citi	9,912.8	40
BofA Merrill Lynch	9,786.1	32
Deutsche Bank	8,850.3	32
HSBC Holdings PLC	7,666.1	27

Source: Thomson Reuters

Mexican oil services company ORO NEGRO has priced a US$175m 8.70% one-year senior secured note as it seeks to expand its fleet of rigs and take advantage of the country's energy reforms. The transaction is a first for the issuer, which typically raises funds through private equity, and follows several other bond offerings in this segment over the last month.

The deal came through Norwegian shop Pareto, which specializes in the sector and has led several bonds for Latin American offshore oil service firms – sometimes with surprising success given the construction and credits risks involved. It has previously placed bonds for Brazilian magnate Eike Batista's OSX and Mexican marine oil services company Oceanografia.

Oro Negro is a start-up with a strong shareholder group ,including Singapore sovereign wealth fund Temasek and private investment firm Axis Capital Management. It has hired experienced personnel, including executive president Luis Ramirez Corzo, who was once CEO of state-owned Mexican oil company Pemex.

"What is interesting about Oro Negro is that PE shops typically buy into established businesses or projects," said a banker. "In this case, it seems that they are betting solely on management … they just gave them money and said run with it."

Energy reform should benefit local providers, such as Oro Negro, as Pemex looks to invest US$20bn–$30bn annually over the next five years and reverse declining production levels. Barclays analysts calculate that reform may also result in US$13bn increase annually in oil-and-gas investments in Mexico.

Oro Negro has been acquiring rigs at a rapid clip and has already invested close to US$2bn for this purpose, creating one of the largest rig fleets in Mexico. It recently ordered two deepwater jack-up rigs worth US$417m from the PPL Shipyard in Singapore.

Axis Capital injected US$200m worth of capital into the company in May to become a majority shareholder. Funds were raised through private-equity security that local pension funds bought. Other investors include Ares Management.

Proceeds from the bond will finance a final yard installment on a jack-up rig, called Fortius, being built in Singapore, with delivery expected around October 22. The issuer is Singapore company Oro Negro Fortius, the ultimate owner of which is Mexico's Integradora de Servicios Petroleros Oro Negro. Oro Negro Fortius will bareboat charter the rig to Todco Mexico, which, in turn, will charter it to Pemex, according to the term sheet.

The senior bond, which is secured against the mortgage on the rig, was priced at par to yield 8.70% and steps up to 11.70% starting February 28 2014. All earnings under the bareboat charter will go to the issuer's earnings account, which can only be used for certain purposes, including debt servicing.

The bonds are callable at 101.00, plus accrued interest, from the expected settlement date of October 18 2013. Final maturity falls on October 18 2014. Governing law will be Norwegian.

Bond issues in this space have met with a mixed response over the last month. Grupo R, a diversified Mexican energy and construction firm, saw books reach just US$1.5bn on its US$950m 7NC4, which priced at 99.351 with a 8.375% coupon to yield 8.5%. However, the bond proved to be one of the few outperformers among a string of new issues, climbing several points in the wake of issuance in mid-September.

Collateral on that bond was a first priority security interest in and mortgage on rigs Centenario GR and Bicentenario, as well as certain future drilling assets owned by the issuer or the guarantors. The deal was also backed with a pledge of shares in the issuer and subsidiaries, as well as receivables from existing vessel contracts. Proceeds will pay down debt, including a 11.875% 2017 that RDS issued.

Recently, Pareto also put to bed Oceanografia's US$160m five-year bond, backed with a subsea vessel, but not before downsizing from US$300m and tweaking the structure to comply with investor demands. Oceanografia was long seen as a tough sell because its history of downgrades and poor cash-flow generation left investors skeptical about the credit.

Meanwhile, DCM could see a possible spike in activity today if markets remain optimistic about a resolution to the debt-ceiling debate in Washington. Healthy demand in the US high-grade market yesterday for such names as Wrigley – a US$22bn book on a

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US$3bn multi-tranche offering – only underscored healthy demand for top credits, despite broader political uncertainty in the US. Opportunities may also exist in the euro markets.

"Any frequent borrower could opportunistically tap [today] if the market remains strong," said one banker. "I think the Wrigley book was something astronomical today. Hence, momentum is definitely there for the right names at the right price."

Brazilian beef company JBS became the latest LatAm borrower to start fixed-income investor meetings this week as it looks to market a possible 144A/Reg S bond. *BB Securities*, *Bradesco*, *BTG Pactual*, *JP Morgan* and *Santander* are taking it on the road.

The borrower will be in Los Angeles today and in Boston tomorrow. The following week, it is in New York, London and Hong Kong on Monday and in Frankfurt and Singapore on Tuesday.

Proceeds from any offering are expected to refinance debt used to acquire Seara Brasil from Marfrig Alimentos.

Elsewhere, Moody's yesterday downgraded troubled Chilean transportation firm ALSACIA to Caa2 from B2 and kept it under review for further downgrades. This comes after the company extended, for the fourth time, the deadline on consent solicitation for its 8% 2018s. Consent solicitations are now due tomorrow. The 2018s were down one point in mid-afternoon trading to 79.125 mid-market.

While Alsacia last month moved up the suspension of debt-service-coverage ratio (DSCR) requirements until October 31 2014 as opposed the January 31 2015 cutoff in the original waiver, it also wants to cut the DSCR from 1.1x to 0.95x, 1.0x and 1.05x for reporting periods ending October 2014, January 2015 and April 2017, respectively, according to an analyst report from September.

Moody's analysts cited a "greater likelihood of default in the near to medium term as evidenced by a breach of covenants pertaining to minimum debt service coverage ratios", along with underfunded debt-service reserves, expected to be exhausted by the next coupon payment of February 2014.

Shareholders are providing up to US$5m to cover bond payments, and the company is now seeking permission for vendor financing of US$11m to go towards an overhaul program and spare parts, according to a separate analyst report. Alsacia had been offering a US$2.50 consent payment for US$1,000 in principal.

Bondholders may be left with a riskier bond if they accept covenant waivers, but Alascia's cash flow would not sustain an acceleration of debt payments. The 2018 bond struggled from the start after pricing in 2011 at par to yield 8%, wide to initial guidance of 7.50%–7.70% area. At the time, the higher-than-expected 8% coupon prompted Fitch to downgrade the deal to BB from BB+.

Equities

Brazilian foundry TUPY has priced a R$455m (US$208m) re-IPO at R$17.5 per share, a discount to today's R$18.59 closing price. Leads have sold 26m shares, but have yet to decide if they will exercise the 15% greenshoe.

Leads were *Banco do Brasil*, *Brasil Plural*, *BTG Pactual*, *Citigroup* and *Itau*. The company went public in 2002, but it wanted to enhance liquidity through the re-IPO. Banco do Brasil pension fund unit Previ and BNDESpar each hold 35.6% of the company.

Travel agency CVC BRASIL OPERADORA E AGENCIA DE VIAGENS has refiled for an all-secondary IPO after postponing it in February 2012 due to market conditions. The deal size could be around R$1bn (US$470m) and should price before the end of the year, according to an ECM banker on the trade.

US private-equity firm Carlyle Group purchased a majority 63.6% stake in CVC in December 2009 for US$250m, valuing the company at some US$393m. CVC chairman Guilherme Paulus owns the remaining 36.4%. BTC, the vehicle Carlyle used to buy the stock in Brazil, is the sole seller in the IPO. The wholly secondary share sale means that all proceeds will go to the shareholders, not the company itself.

Itau BBA is the lead co-ordinator, with *Morgan Stanley* as stabilizing agent and *Bank of America Merrill Lynch*, *BTG Pactual* and *JP Morgan* acting as joint bookrunners.