INVESTOR APPETITE FOR IBERIAN ASSETS BOOSTING MARKET ACTIVITY

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Renewed interest a good sign for the market, signalling a return to confidence and the promise of a rise in transactional activity

After a cooling of investor interest since the crisis, foreign funds are once again turning their attention to Spain and Portugal. Investors are shifting from distressed to strategic assets, and their interest is buoyed by privatisation and infrastructure projects, say lawyers.

This renewed interest is important in the wake of the financial crisis, and their arrival bodes well, agree lawyers, pointing to an improvement in stability and a promise of further transactions. “These private equity funds are here to stay while their investments mature,” says Rafael González Gallarza, Finance Partner at Garrigues, “and as well as these transactions, there will be new clients that will bring ongoing work to law firms in Spain”.

The investment climate in Spain has improved, González Gallarza adds, evidenced by the recent ‘investor day’ organised by the FROB attended by international private equity firms. “Eighteen months ago it was difficult to persuade funds to invest in Spain, and now they are asking why they are not involved in more transactions here. The economy will remain flat for a while, or will not grow much, but there is a belief that the country is not going to collapse, and opportunistic investors are becoming very interested in what’s on offer.”

The dominant funds showing interest in Spain are from the UK and US, but there is also interest from sovereign wealth funds, particularly from Gulf states, for example the rental of the Bankia Tower – Spain’s second-tallest skyscraper – by Cepsa, Compañía Española de Petróleo, owned by International Petroleum Investment Company, an Abu Dhabi sovereign wealth fund.

While distressed assets in general remain investors’ principal focus, including commercial real estate, interest has widened to include project finance loans in infrastructure and renewable energy, and also in the non-performing loans of small and medium-sized businesses, says González-Gallarza. As examples, the recent €60m sale of Evo Banco by its parent company NCG Banco to US-based private equity firm Apollo Global Management, a deal on which Garrigues advised, and which put an end to the troubled Spanish lender’s tenure since being privatised in 2011.

According to Miguel Lamo de Espinosa, Resident Partner in the London office of Gómez-Acebo & Pombo, while investors are still targeting mostly distressed assets and lending, there is now more equity in play. “The past three years has seen the divestiture of distressed assets and constant debt restructuring. Most funds have come from the UK and US, and we are seeing less activity in the distressed space from sovereign wealth funds.”

Portugal has also seen an increase in investment, sparked by the Government’s privatisation and infrastructure drive, say lawyers, which will bring more investment activity as more assets are put up for grabs. The privatisation drive has shifted the investment panorama since last year, and has awoken interest from bidders in Angola, Brazil, China and France, according to Rafael Lucas Pires, Corporate and M&A Partner at Serra Lopes, Cortes Martins & Associados. He points to private equity participation in ANA – Aeroportos de Portugal, and the sale of shareholder stakes in EDP – Energias de Portugal and REN – Redes Energéticas Nacionals. “We have good quality assets, at good prices, hence the enthusiasm from abroad,” says Pires.

And outside the sphere of privatisation, distressed assets – mainly in the real estate and tourism sector – remain attractive, and there are good quality assets and debt leverage. However, of these acquisitions, a much smaller percentage have been snapped up by foreign firms, Pires says. Eastern European and Russian investors are showing interest, particularly in real estate, due to the new ‘Golden Visa’ rule granting residency status to investors channelling more than €500m into property.

Law firms are benefiting from this growing interest from abroad, which is being demonstrated by a wide range of markets that also include Colombia, Germany and Oman, says Maria Castelos, a Partner at Campos Ferreira, Sá Carneiro & Associados, although she acknowledges that, over and above the healthy number of bids and their geographical spread, structural changes at home are necessary in order to facilitate foreign investment.

“The situation is still difficult, but improving. And there is still a certain degree of uncertainty on whether the structural changes that are needed to make Portugal more attractive to investors are actually going to be implemented. But, with the Government having announced that it will be focusing on growth, the political driver for some of those changes could finally be put in place,” Castelos explains.

Caution remains the pervasive mood across the Iberian market, and while the problems of the crisis will not be solved in the short-term, both Portugal and Spain are now attracting far more interest than lawyers expected.

Confidence is returning, slowly but surely, and lawyers are optimistic that the recent investment inflows will continue, boosting the market and bringing much needed activity and funding to the Iberian Peninsula.