

Latin America private equity sees little impact from US credit crunch, says KPMG survey

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Few Latin America private-equity fund managers expect a significant impact from the US credit crunch, although they fear some ripple effects as US investors reassess priorities once they know the full extent of the credit issues, according to KPMG's latest annual Latin America Private Equity Survey.

Governments seeking to compete in a global market are bolstering investment opportunities with plans for improving infrastructure, water treatment, energy and natural resources in Latin America, according to the survey.

About 55 per cent of Latin America fund managers expect some impact from tighter credit criteria in the US, but only 21 per cent expect the impact to be significant. Eight per cent of survey respondents predict little or no impact from US credit issues, while 16 per cent said it was too early to tell.

'Latin America private equity investors remain wary, but apparently are not overly concerned about the effect of the US market, mainly because there is still good availability of funding for the small- and medium-sized deals that comprise the bulk of their portfolios, and because sub-prime debt is not a factor in the region,' says Jean-Pierre Trouillot, a Miami-based partner in KPMG's transaction services practice. 'Of course, if a US recession materialized, the outlook could change.'

Of the respondents whose funds are based in Latin America, 17 per cent said they expected the US credit issue to have little or no impact, 61 per cent expected some impact, just 6 per cent said they expected significant impact, and another 17 per cent said it was too early to tell.

'Fund managers operating in Latin America are a somewhat resilient group, since they've seen their share of major economic and political upheavals locally, and any effect of the present US market conditions tends to pale by comparison,' Trouillot says.

Brazil remains the region's overall investment favourite, named by 42 per cent of survey respondents as their focus for spending over the next two years, while Mexico was cited by 34 per cent of respondents as their primary target for deals.

Colombia, where fund managers have shown little interest in recent years, surged in popularity in the 2008 survey, and was cited by 30 per cent of respondents as their primary target for spending over the next two years.

Funding sources remain largely US-based, although there's been a steady rise in European investors since 2004. In the 2008 survey, more than 41 per cent of respondents said US institutional investors constituted their primary source of funds, compared with 49 per cent four years ago. European institutional investors have steadily gained a foothold, growing from no presence in 2004 to more than 13 per cent of fund sourcing this year.

'Funding origination continues to change as the marketplace becomes more global in nature, and because US investors, skittish from their own domestic woes, are seeking more established marketplaces in which to make investments,' Trouillot says.

Fund-raising may level off in 2008, after two years of activity not seen since the 1990s, with just 39 per cent of survey respondents expecting fund-raising to exceed the level in 2007. 'After an extremely busy period of raising capital not seen in the region since the record-setting 1990, fund managers now must look to putting their capital to work,' Trouillot says. 'Investment activity should experience an uptick in 2008 as a result.'

Over the next two to three years, infrastructure deals in communications and distribution channels such as ports, airports, pipelines, water treatment plants and roads comprise the most attractive investment opportunity for private equity, according to 69 per cent of respondents, while 66 per cent said energy and natural resources offered the greatest opportunity.

Among other sectors, consumer markets was cited by 55 per cent of respondents and financial services by 50 per cent, while 35 per cent saw opportunities in health care. Communications and industrial markets were cited by 23 and 21 per cent respectively.

'As economic and political stability takes hold in the region, demands by an emerging middle class of workers for infrastructure and energy have spurred significant investment by governments and private equity funds,' Trouillot says. 'And with this added prosperity comes additional needs for increased banking, mortgages and other financial services.'

The survey also found that 74 per cent of fund managers point to ineffective management as a primary reason when a deal fails, while 71 per cent of respondents said deal failure stemmed from incomplete or unreliable findings from due diligence.

'Fully understanding the target with a high confidence level in the information presented for a potential deal and a strong team to manage an acquisition through the important early stages remain critical to long-term success,' Trouillot says.

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