

By Jason Mitchell

BTG Pactual has reinforced its position as Brazil's leading independent investment bank by issuing a USD500m international bond and by raising a USD1.6bn private equity fund, the third biggest ever in Latin America.

On 30 June, the bank's Cayman Islands branch priced the US dollar-denominated five-year bond, yielding 5%. It was heavily oversubscribed and total demand reached USD1.25bn, although the bank decided to go ahead with the original offer of USD500m.

BTG Pactual had been working on the deal since last year but only offered it after the Cayman Islands office was authorised as a bank branch on 13 June. It is part of a bigger programme involving total issuance of USD3bn during the next few years, although the bank says it will not issue more than USD1bn during any one year and it does not expect to return to the market this year (it does not plan to be a frequent issuer).

On 28 June, the bank raised USD1.6bn for a private equity fund, called BTG Pactual Brazil Investment I fund. This is the third largest sum ever raised in Latin America, after Southern Cross's USD1.7bn fund last October and Advent International's USD1.65bn fund in April last year.

More than half the fund's capital comes from investors in the United States, Europe, Asia and Latin America. BTG is contributing USD500m of its own money while the bank's partners and employees will put in another USD200m.

"There are three main reasons for the bond issue," says Sandy Severino, the bank's managing director of investment banking. "Firstly, it enables the bank to expand its offshore operations, especially in New York and London. Secondly, it was of strategic value because it enables the bank to establish a yield curve for the first time. Thirdly, and also strategically, it raises the bank's profile and helps it get out into the market."

Severino says the bank first started to get exposure to international investors at the start of December when a consortium of investors, including the sovereign wealth funds of the Abu Dhabi Investment Council, China Investment Corporation and the Government of Singapore Investment Corporation, acquired an 18.65% stake in the bank for USD1.8bn.

The bond issue took place after a recent road show in Europe, the U.S. and Latin America. The bank was pleased at achieving a 5% yield, as the market conditions were tricky given the Greek crisis. Furthermore, the return is only 75 basis points higher than the yield that major established Brazilian banks such as Bradesco and Itau Unibanco expect when they come to the market.

BTG Pactual's investment banking arm managed the sale while JPMorgan and Bradesco advised on the deal. Moody's and Fitch gave the notes a Baa3 long-term rating and a BBB- rating, respectively.

With the USD1.6bn PE fund raising, BTG Pactual has also signalled that it wants to be a major player in one of the fastest growing industries in Brazil. Private equity investment has taken off in the country during the past five years and many first round investments are now considering IPOs, creating a buoyant buy-out market.

The fund has already invested in two companies, Brasbunker, the Brazilian oil services company, and Brazil Pharma, a major drugstore chain in the country. Previously, the bank had made private equity investments through its merchant banking area. Its portfolio companies include: Derivados do Brasil, the gas and service stations operator; Estapar, the parking-garage operator; the Brazilian operations of Mitsubishi; the Brazilian operations of Suzuki; and Rede D'Or, a Brazilian healthcare company.

BTG Pactual partner Carlos Fonseca is responsible for the merchant banking area and will oversee the private equity investments.

The bank says that the fund will be more deal oriented than sector oriented and its goal is to maximise returns irrespective of the specific activity or sector.

One of the reasons behind the fund was to help finance one of the biggest investment banking deals in Brazil that the bank would have been involved in until now: the proposed merger of Brazil's Pão de Açúcar retail chain with the Brazilian operations of France's Carrefour. BTG Pactual had agreed to contribute 300m euros (USD426m) to fund the transaction.

However, on 12 July, Pão de Açúcar decided to suspend the deal after one of its largest shareholders, Casino Guichard-Perrachon, one of Carrefour's biggest French rivals, said it thought it did not offer value for money. BNDES, Brazil's state-backed development bank, was also lined up to support the deal but pulled out after Casino signalled that it did not agree to the merger.

Together with BTG Pactual, BNDES had agreed to provide up to 2.5bn euros in financing but this was on the condition that the transaction was a 'friendly' one.

Furthermore, in June, BTG Pactual offered to buy the equity holdings of minority shareholders that it already does not own of Banco PanAmericano, the beleaguered Brazilian bank that BTG Pactual agreed to acquire earlier this year.

“BTG Pactual has become so successful in Brazil because it has the longest track record as an independent investment bank,” says Victor Rodriguez, the chief executive officer of LatAm Alternatives, a Miami-based hedge fund manager. “Some competitors, such as BBA, Garantia, and Matrix, were acquired by big commercial banks. It is more flexible, efficient, and faster than bigger financial institutions.

“Increasing volume of IPOs, debt underwriting, MA activity and continuing improvement regarding access to international capital markets have been key to the development of not only BTG Pactual but also other investment banking platforms in Brazil.”