

Alto Sertão II, Brazil

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09/07/2014

When Brazilian renewable power developer Renova Energia closed a R\$1.044 billion (\$468 million) debt-financing for a 386.1MW wind complex in Bahia state, it marked one of the largest ever financings in Brazil's renewable sector. The transaction is considered break-through as it attested a new structure for portfolio finance transactions in Brazil, which have historically been rare.

Thriving wind sector

Brazil has one of the cleanest energy matrices in Latin America. Although this is mainly composed of hydroelectric power, the country also boasts a thriving onshore wind sector. Energy demand is forecast to rise by 20GW annually over the next decade and industry experts say wind generation could constitute the fastest growing source of power. Wind projects have historically dominated the renewable energy tenders established in 2009, thanks to what is perceived a clear regulatory framework, which offers favourable tax incentives to both local and international players. Stringent local content requirements have also encouraged a number of prominent foreign turbine suppliers to set up shop in the country. In the recent A3 energy auction held in June 551MW of the total 968.8MW awarded pertained to wind projects.

Renova, of the Cemig group, is one of the largest wind developers in Brazil, with a portfolio of approximately 1.8GW installed capacity. It reached financial close on the Alto Sertão II complex on 4 June 2014. The project comprises 15 wind farms located in the municipalities of Caetitê, Guanambi, Igaporã and Pindaí, which were won by Renova in separate public auctions in 2010 and 2011.

There are three tranches to the debt. The Brazilian Development Bank (BNDES) is providing a direct loan of R\$734 million, as well as R\$310 million under the repasse structure, which is being on-lent by Banco do Brasil. Both will mature in December 2031.

The loans will be accompanied by a future issuance of up to R\$146 million in project bonds in two series by the holding company, the first of which is expected at the end of 2014. Three banks Santander, BTG Pactual and Bradesco are guaranteeing a portion of the senior debt (\$200 million) for up to 24 months, until the project reaches financial completion. The long-term financing will take out three bridge loans totalling R\$600 million provided to the project by BNDES, as well as a R\$400 million issuance of promissory notes. Following the issuance of tax-incentivised infrastructure debentures, the sponsor aims to achieve a debt:equity split of 80:20.

Turning point

"While portfolio financing is common in the US and Europe, it has not really been used in Brazil because we had not managed to properly structure the stream of recourses or revenues. In the past, attempts were made using intercompany loans, but it was not cost effective" says Rafael D'Avila Dutra a partner at local law firm Barbosa Mussnich e Aragão (BM&A) who led the team advising Renova on the deal.

Within the structure, revenues from the power purchase agreements (PPAs) are received by each of the wind farms but the senior loans are contracted by its controlling shareholder. In order to allow the upstream of cash resulting from the PPAs from the wind farms to the holding, a structure consistent of redeemable shares and capital reserves in each wind farm has been created, which is more efficient from a tax perspective. This is understood to be the first time that such a structure has been adopted in project finance in Brazil.

"This development is key from both a lender and sponsor perspective, it allows for the mitigation of risk in projects where the financial model is less attractive, which will ultimately affect spreads, making it a win-win situation" says D'Avila. "If a project is performing better financially, the risk is well protected and sponsors can access the dividend from the structure. This is a turning point for project finance in Brazil".

The structure allowed for the financing of projects which participated in different public bids, which is rare as the risks and mechanisms of each public bid is different. The structure also serves to finance portfolios of various projects at different stages, which would mean the construction risk for some projects would be diluted by those operational projects, making it more suitable for capital market financing. Sources say there are currently as many as 20 more transactions which could replicate this structure. The structure created by BM&A is understood to have been approved by BNDES, as well as all of the main Brazilian banks and ratings agencies.

Bond follow-on

The debt structure resembles that used to [fund the expansion, maintenance and operation of the Guarulhos and Viracopos international airports in São Paulo](#) and the Santo Antonio hydro project in the state of Rondônia, whereby project bonds are issued subsequently, to complement the long-term BNDES financing. As Brazil's infrastructure needs becomes more urgent, BNDES is encouraging the use of debentures, as an alternative means of financing. They are only ever expected to be issued in addition to long-term loans from the local development bank.

Barbosa, Müssnich & Aragão (BM&A) provided overall counsel to Renova and Tauil & Chequer advised the firm on the issuance of promissory notes. BNDES used in-house counsel for the transaction, while Machado, Meyer, Sendacz e Opice advised the bank guarantors.

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