Powering progress: infrastructure investing in Brazil

Q&A with **Renato Mazzola**, managing partner of BTG Pactual

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Brazil is modernizing its aging infrastructure and positioning itself as a compelling investment destination for international capital. With large-scale privatization programs, a pro-business regulatory framework, and a strong commitment to infrastructure development across key sectors, the country is positioning itself as a prime destination for long-term investment.

While navigating an evolving market requires insight and adaptability, Brazil is actively addressing past barriers and fostering an environment where investors can capitalize on its economic momentum. Renato Mazzola, managing partner and head of infrastructure, private equity, impact investments and venture capital at BTG Pactual, shares how these strategic efforts are shaping a dynamic and rewarding landscape for those looking to be part of Brazil's continued progress.

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Renato Mazzola

Managing partner of BTG Pactual

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Renato Mazzola, managing partner of BTG Pactual

Renato Mazzola is a managing partner of BTG Pactual, member of the BTG Pactual Partners' Committee and Operational Committee and global head of the Private Capital division. Renato joined BTG Pactual in June 2011 and has more than 25 years of experience in the investment industry.

He is currently on the board of several companies, such as Eneva, V.tal, Inspira, Estapar, Beontag, Porto Serviço and Gran. Prior to joining BTG Pactual, Renato spent five years as the senior investment officer at the Inter-American Development Bank (IDB) in Washington DC, in the Infrastructure division.

Previously, Renato worked for five years at JP Morgan in Sao Paulo and New York. Renato holds a B.A. in Economics from Pontificia Universidade Catolica (PUC-SP), an MBA in Capital Markets from Universidade de São-Paulo (USP) and a master's in International Relations from The Fletcher School (Tufts University). Renato is also a member of ANBIMA.

IJGlobal: Taking a macro view, what makes Brazil an attractive place for international capital today? What were the challenges in the past that prevented investors from allocating in Brazil and how have they evolved?

Renato Mazzola*:* In our view, Brazil boasts substantial growth potential across multiple sectors. The region is rich in natural resources, has a growing middle class, and is experiencing increasing urbanization and digitalization. These factors contribute to a favorable investment environment, creating opportunities for companies to expand, innovate, and generate attractive returns over the long term. We believe Brazil is a strong environment for sustaining company growth trajectories and a rapid gain in their scale, given its size, population, and large commercial cities.

When it comes to how the region has evolved, the scenario two decades ago is very different now than it was before. While it is true that some Latin American countries have experienced volatility in the past, many countries, such as Brazil, have made significant efforts in improving their economic stability. Over the past 15 years, Brazil has experienced a stricter monetary policy and a finally tamed inflation. The government has implemented measures to strengthen its currency, by adopting inflation targeting policies and promoting fiscal discipline when compared to the last decade. The Dornbusch Model suggests that, despite short-term exchange rate overshooting, Brazil's commitment to sound monetary policies and structural reforms should lead to a long-term equilibrium, stabilizing the real against FX volatility. We believe this enhanced economic stability has the potential and is expected to mitigate the impact of currency fluctuations on private capital investments. Capital markets have expanded in parallel to this, aided by improvements in corporate governance and minority shareholder protection, providing viable exit routes for PE investors. Complex regulatory and legal hurdles also hindered investments, with Brazil's tax policies and bureaucratic inefficiencies posing significant obstacles. However, reforms in taxation and streamlined licensing processes, especially for infrastructure projects, are reducing these challenges.

IJGlobal: As a group that has been active in transmission, what makes it difficult but rewarding to invest in Brazil's grid?

RM: We see the transmission sector as very attractive when thinking of infrastructure in Brazil. Power transmission has the lowest risk profile in the power sector, especially taking into consideration that auctions provide long-term concessions with protection against inflation, very low default risk on revenues and no energy contract risk. When you win a transmission auction in Brazil, you can expect stable revenues, high margins, and minimal credit risk after (and in case) you successfully deliver your plants. So, it's definitely a sector we have been looking closely at.

Last year, we won ANEEL (Brazilian Electrical Energy Regulatory Agency)'s 2nd largest transmission auction ever, with 2,000 kilometers (1,242.74 miles) won and over $ 1.3 billion in estimated in CapEx.

In our view, the project exemplified a complex, innovative, and impactful transaction, representing an important example of infrastructure development in emerging markets.

The complexity of the transaction is mainly rooted in the intricacies of Brazil's regulatory and auction processes. The auction involved multiple stakeholders, including competitors, regulatory bodies, and financing institutions. The process required a deep understanding of Brazil's regulatory framework. The successful bid required meticulous preparation, including detailed feasibility studies, technical assessments, and financial modeling. Additionally, navigating the regulatory approval process and aligning with local regulations added layers of complexity.

Another difficulty is the current high interest rates in the country, which could have made funding for the project a significant market challenge, as private investors turn to risk-free allocations and typically avoid allocating into medium-term greenfield projects. However, our track record in delivering consistent returns alongside investor confidence allowed for multimillion dollar fundraising in a short period of 2 months. It is important to mention that high interest rates, while challenging for fundraising, also create unique opportunities in terms of investment timing, especially in the infrastructure segment. First, we can benefit from a potential yield compression at the exit stage, offering an upside to investment returns as interest rates can decline over time. Second, the current environment has limited the participation of highly leveraged strategic players, making them less aggressive in auctions. This opens the door for financial investors like us to be more competitive and secure an attractive entry point.

In terms of the importance of investing in transmission today, the transaction is transformational for the Brazilian energy system. The country's push for renewable energy cannot be sustained without the transmission lines to do so. While many generation plants were built, especially in the northeast to support the increasing demand of energy, there are not enough transmission lines to support them. Our project helps to do exactly that. As the country develops economically and socially, the ever-growing need for energy must have high-quality grid technology to allow for the energy to be transported through a safe and efficient system. The successful execution of the project sets a benchmark for future infrastructure investments in Brazil, demonstrating the viability of complex, large-scale infrastructure projects and encouraging further investments.

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IJGlobal: This wasn't your first experience in the sector. Talk us through your investment in the Tropicalia asset – what are the barriers to entry, transaction complexities, financing environment?

RM: Tropicália is the result of a winning bid of a 2016 auction for a 30-year concession to build and operate a transmission line in Brazil. Our team leveraged our track record to make the winning bid, build, operate and sell the company, delivering strong returns to its investors. The team was able to add value to the project in many different areas, improving the returns to the Brazilian ecosystem and to its investors.

For the investment phase of the asset, we had a very favorable macro environment for this kind of project. There was a less competitive landscape than previous auctions (fewer players and target projects), and strong expected yield compression (which proved to be right – the basic interest rate went from 14% in October 2016 when we invested to 2.75% when we divested in March 2021).

Then, when it comes to managing the asset and delivering the works, firstly, we were able to obtain the environmental license (IBAMA) four months in advance to our base case, which consequently helped the start of construction move ahead five months. We also were able to achieve tax benefits in the state of Bahia, where the project was located, which also boosted our return versus our base case. Lastly, through our financing expertise, we were able to achieve financing with optimal conditions (as no leverage was assumed in the original investment), substantially improving investor returns. As a result, we exited the asset just four years later with and IRR of 43.3% and an MOIC of 2.8x in USD.

With all that in mind, we decided to replicate our strategy in 2024, when the macroeconomic context was similar to what we saw in 2016. This is when we decided to bid for last year's auction, when interest rates were also high, and we were able to bid competitively in the auction. We hope to be able to surf a yield compression when we exit to boost returns, just like we did with Tropicalia.

IJGlobal: Brazil is known for its renewables dominated energy matrix, but with power demands increasing what opportunity exists for investment in conventional thermal generation?

RM: That's actually a good point. Brazil's power matrix is composed of more than 80% renewable sources, with hydropower alone accounting for approximately 50% of installed capacity. In recent years, the country has undergone a significant transformation, driven by the rapid expansion of wind and solar energy, particularly in the Northeast, supported by substantial subsidies. This accelerated growth of renewables has resulted in a highly intermittent energy generation mix – over the past five years, wind energy has grown by 480% and solar by an astonishing 2,600%, further exacerbated by water shortages in hydropower plants.

Given that energy consumption is concentrated in the southeast, extensive transmission infrastructure was required to transport electricity from the northeast to primary demand hubs. These infrastructure investments, along with subsidies, have significantly increased costs for consumers. Moreover, while wind and solar power plants can be built in 8 to 18 months, transmission lines typically take 5 to 10 years to complete. This mismatch has introduced a major challenge to Brazil's power system: curtailment—the forced reduction or limitation of electricity generation due to transmission constraints or insufficient demand at specific times. As a result, valuable energy is wasted, highlighting inefficiencies in the country's power grid. While battery storage in other countries helps mitigate intermittency by storing surplus electricity and releasing it when needed, this approach remains economically unfeasible in Brazil. High battery costs, combined with minimal variation in electricity prices between low and peak demand periods, make the investment unjustifiable.

To address intermittency, curtailment, and climate-related energy risks, investments in reliable and dispatchable energy generation are crucial. This is where gas-fired thermal power plants play a strategic role. Unlike wind and solar, which depend on weather conditions, gas-fired plants can be activated on demand, particularly during peak consumption hours or when solar and wind generation is insufficient. They are also essential during hydropower shortages, serving as a backup energy source while helping to manage water reservoirs. By reducing the need to deplete reservoirs, gas-fired plants contribute to water conservation for both electricity generation and public consumption. The urgency of increasing thermal backup is evident when comparing growth rates: while renewables expanded by 961% over the past 5 years, thermal power grew by only 31%. This stark contrast underscores a critical imbalance—without sufficient thermal backup, the grid remains vulnerable to supply shortages when renewables are unavailable or curtailed.

As Brazil navigates its energy transition, it must adopt a balanced strategy that integrates renewables with complementary thermal generation to ensure energy security, affordability, and sustainability. While renewable energy will continue to play a dominant role, a diversified mix that includes reliable backup sources, such as natural gas, is essential for grid stability. Without these strategic investments, Brazil risks higher energy costs, increased curtailment, and potential power shortages. A well-planned, diversified energy matrix will support economic growth while ensuring long-term energy resilience, affordability, and sustainability.

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With that in mind, we invested in Linhares – a 240MW natural gas thermal plant located in Espírito Santo, Brazil – in 2020, through our listed infrastructure fund. Since then, we focused on delivering strong operational performance and seeking new value levers. This proactive approach led us to participate in 2 strategic auctions in 2021, both of which we won, securing transformational contracts for the company.

In the first of these, the Capacity Reserve Auction, we successfully sold 191MW of power over a 15-year period beginning in 2026. This contract renewal surpassed investor expectations and achieved pricing above initial projections. Additionally, we responded to the Emergency Auction, a government initiative to combat the worst water crises in the last 91 years. To ensure the continuity and security of energy supply, we sold 34.6MW of energy generation capacity. These auctions not only reinforced our role as a reliable energy provider but also positioned us as an adaptable partner capable of meeting national needs in times of crisis.

Executing a project of this scale is not without its challenges. Several unforeseen obstacles tested our resilience: heavy rains disrupted access to the plant, flooding and road closures complicating operations, COVID-19 pandemic resurgence, global supply chain disruptions, logistical bottlenecks spurred by the Russia-Ukraine conflict and port congestion all created uncertainties. Yet, to ensure timely completion, we undertook numerous proactive measures, such as repairing access roads, organizing 700 employees into two 10-hour shifts, using air freight for urgent equipment deliveries, and strengthening our logistics team. Considering the typical challenges faced in constructing a plant of this nature, projects of this scale usually require more than 3 years to complete. Thanks to our team's experience, we delivered in just seven months. Our success reflects not only our commitment to excellence and efficient project management but also the exceptional dedication and adaptability of the team. It also highlights our capability to deliver under pressure and readiness to adapt to challenges.

These results attracted the interest of one of the largest energy companies in the country, which is alone responsible for 14% of gas thermal generation in the whole country. Eneva made an offer for our asset in July, and we concluded the sale of the asset with an IRR of 47.7% and a MOIC of 2.54x at the asset level, being marked as one of the most profitable transactions in the region. The fund, which already was the highest dividend paying fund in its category (leading Brazilian listed infrastructure fund in terms of dividend payouts every year since its inception), was awarded by IJInvestor as the best infrastructure fund in the Americas.

IJGlobal: Looking ahead what areas within Brazil's infrastructure asset class will be attractive for investment? What returns can international investors expect from investing in Brazilian infrastructure?

RM: In the current high-interest-rate environment, infrastructure investing presents notable opportunities. The elevated cost of capital and debt is compressing valuations, while also pushing many strategic companies, most of which are highly leveraged, to adopt more conservative pricing strategies. This dynamic creates a favorable landscape for well-capitalized players and funds, which can exploit reduced competition and less aggressive bidding. Track record also matters: in the past, we have successfully invested projects across thermal, wind and hydro generation, transmission, logistics, water & sanitation, digital infrastructure, and toll roads - not only in Brazil but also in other Latin American countries, so we are well positioned to take advantage of these opportunities.

I believe the country's strengths lie in sectors such as energy, transportation, logistics, healthcare, and technology, which align well with global investment priorities. The need for infrastructure improvements in areas such as roads, ports, airports, and urban transit presents a vast playing field for private capital, particularly as public funding remains constrained.

Along with that, digital infrastructure is increasingly crucial in Latin America, driven by the rapid adoption of new technologies and the growing demand for connectivity. As businesses and consumers deepen their reliance on digital solutions, there is a heightened need for robust telecommunications networks, fiber optics, and data centres to support this technological evolution. I believe the region's increasing internet penetration, coupled with the expanding availability of energy, creates significant potential for investment in telecommunications, data centers, and fiber optic networks. This potential was showcased by our recent investment in the biggest optic fibre network in Latin America – V.tal – in 2022, which was the largest deal of the year in the region.