



# Why investing in Mexico is a good idea

For: WPTF

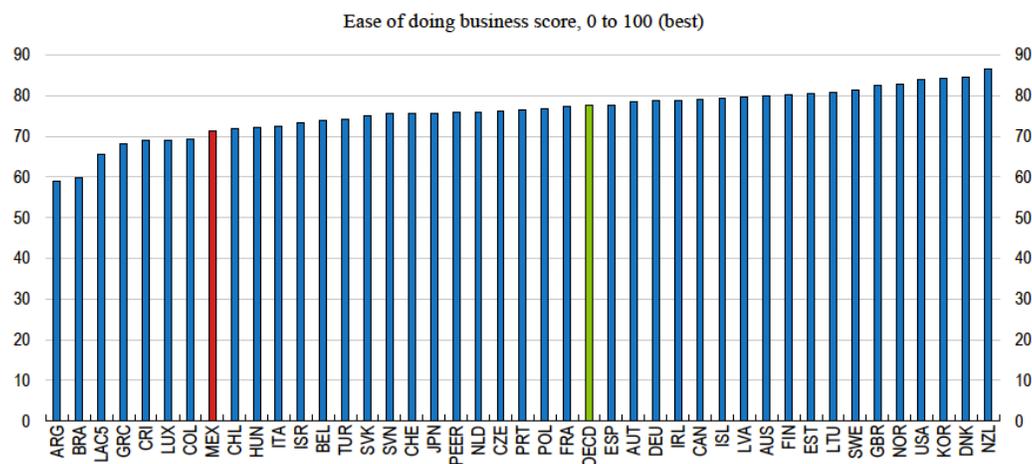
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## Information about Mexico \*

Mexico is among the largest 20 economies in the world, it has a territory of 2 million Km<sup>2</sup> and a population of almost 130 million people as of January 2020.

83% of its population lives in urban areas with more than 100,000 inhabitants.



|                               | 2017                           | 2018 | 2019 | 2020 |
|-------------------------------|--------------------------------|------|------|------|
|                               | % change, volume (2013 prices) |      |      |      |
| <b>GDP at market prices</b>   | 2.3                            | 2.0  | 1.6  | 2.0  |
| Private consumption           | 3.4                            | 2.2  | 1.3  | 2.2  |
| Government consumption        | 1.0                            | 1.4  | -0.6 | 0.3  |
| Gross fixed capital formation | -1.6                           | 0.6  | -1.8 | 2.2  |
| Exports of goods and services | 4.0                            | 5.7  | 2.9  | 4.9  |
| Imports of goods and services | 6.7                            | 6.2  | 4.2  | 4.5  |
| Consumer price index          | 6.0                            | 4.9  | 3.8  | 3.6  |
| Current account bal. (% GDP)  | -1.7                           | -1.8 | -1.9 | -1.8 |

|  | 2015           | 2016                       | 2017 | 2018 | 2019 | 2020 |
|--|----------------|----------------------------|------|------|------|------|
|  | Current prices | Percentage changes, volume |      |      |      |      |
|  | MXN billion    | (2013 prices)              |      |      |      |      |
| <b>GDP at market prices</b>                        | 18562.7        | 2.7                        | 2.3  | 2.0  | 1.6  | 2.0  |
| Private consumption                                | 12167.5        | 3.5                        | 3.4  | 2.2  | 1.3  | 2.2  |
| Government consumption                             | 2288.3         | 2.6                        | 1.0  | 1.4  | -0.6 | 0.3  |
| Gross fixed capital formation                      | 4179.4         | 1.1                        | -1.6 | 0.6  | -1.8 | 2.2  |
| Final domestic demand                              | 18635.2        | 2.8                        | 2.0  | 1.7  | 0.4  | 2.0  |
| Stockbuilding <sup>1</sup>                         | 308.7          | 0.1                        | 0.0  | 0.1  | 0.0  | 0.0  |
| Total domestic demand                              | 18943.9        | 2.9                        | 1.9  | 1.8  | 0.4  | 1.9  |
| Exports of goods and services                      | 6410.3         | 3.7                        | 4.0  | 5.7  | 2.9  | 4.9  |
| Imports of goods and services                      | 6791.5         | 2.4                        | 6.7  | 6.2  | 4.2  | 4.5  |
| Net exports <sup>1</sup>                           | -381.2         | 0.4                        | -1.1 | -0.3 | -0.6 | 0.1  |
| <i>Memorandum items</i>                            |                |                            |      |      |      |      |
| GDP deflator                                       | -              | 5.5                        | 6.7  | 5.3  | 4.7  | 5.1  |
| Consumer price index                               | -              | 2.8                        | 6.0  | 4.9  | 3.8  | 3.6  |
| Core inflation index <sup>2</sup>                  | -              | 3.0                        | 4.7  | 3.8  | 3.5  | 3.4  |
| Potential growth                                   | 2.8            | 2.7                        | 2.6  | 2.4  | 2.3  | 2.3  |
| Output gap (% of GDP)                              | -0.1           | -0.1                       | -0.4 | -0.8 | -1.6 | -1.8 |
| Unemployment rate <sup>3</sup> (% of labour force) | -              | 3.9                        | 3.4  | 3.3  | 3.5  | 3.4  |
| Current account balance (% of GDP)                 | -              | -2.2                       | -1.7 | -1.8 | -1.9 | -1.8 |
| Public sector borrowing requirement <sup>4</sup>   | -              | -0.5                       | -1.1 | -2.5 | -2.5 | -2.2 |
| Public sector primary balance (% of GDP)           | -3.2           | -0.7                       | 0.4  | 0.6  | 0.9  | 1.4  |
| Fiscal impulse (% of GDP)                          | -0.3           | -0.5                       | -2.2 | 0.1  | -    | -    |

\* OECD data

# Mexico's Energy Sector Today

- The sector went through important changes in 2013, consisting of amendments to the Mexican Constitution resulting in the publication of new laws for deregulating the oil, gas, refined products and electricity sub-sectors. Such reforms allowed investment from private companies -whether domestic or international- in the energy sector.
- Private companies can build private transmission and distribution lines if they need to, such private lines are not considered as part of the National Grid operated by CENACE.
- On-site power generation can be built, owned and operated by a private companies, they can supply electricity to one or more end-users, such power plant could be interconnected to the National Grid or not, working as an isolated facility.
- Although Power Auctions were canceled by the government in recent months, the development of fossil and renewable or clean power generation plants is not forbidden not restricted.
- The Energy Reform in Mexico didn't fully deregulate the energy sector, but imposed certain restrictions leaving many loops in the regulations which can be translated into potential business opportunities.
- Some opportunities for private companies participating in the energy sector are:
  - a).- Direct participation in the wholesale or retail market,
  - b).- Providing goods and services to the participants of the market,
  - c).- Providing goods, services and supplying electricity to the incumbent CFE,
  - d).- Supplying electricity to end-users through a bilateral contract, and
  - e).- Implementing business schemes which are not explicitly indicated in the laws but they are not forbidden either.

Companies can target private clients, developers, end users and projects or government related projects.

# SWOT I – Mexico energy sector

Mexican energy sector is still undergoing a consolidation process, the country has suffered a drug-war, insecurity issues such as homicides which have been increasing year on year since 2007 and the economy grew almost Zero in 2019 due internal and external factors. Financial institutions and experts foresee a GDP growth rate between 0.8 and 1.8% for 2020.

## Strengths

- Proximity to the US
- More manufacturing plants are being built
- Consolidated industries e.g. Automotive and electronics
- Energy market open for competition
- Additional ports infrastructure is planned
- Access to the Gulf of Mexico, the Caribbean and the Pacific Ocean.
- Access to Central American countries
- 2nd largest economy in Latin America
- Broad network of gas transport and distribution pipelines, electricity transmission and distribution lines
- Access to US natural gas and LNG
- Independent energy regulators
- 12 free trade agreements (46 countries)
- Growing internal market
- Competitively priced qualified workforce

## Weaknesses

- Short regulatory experience
- Not fully deregulated electricity market
- Political corruption
- High criminality and murder rates
- Federal government skepticism about the 2013 energy reform and deregulation
- CFE and Pemex' debt and liabilities
- Highly dependent on the US economy
- Low trust bureaucracy
- Complicated bureaucratic formalities
- Energy reform "sales pitch" didn't match all the results

## SWOT II – Mexico energy sector

It is important to bear in mind that the current Administration has 5 years left in office, the projects developed in that period are less likely to be canceled than those of previous Administrations. Some agencies such as the Energy Regulatory Commission -CRE- recently appointed new Commissioners. Geopolitical changes could play in favor or against implementing energy security policies, as of January 2020 the world events are likely to push Mexico (and other countries) in favor of reducing energy dependency from the US and other countries.

### Opportunities

- Year to year population and electricity consumption growth
- More investment is required
- Few electricity production technology made in Mexico
- Old and inefficient electricity transmission and distribution infrastructure in some regions of the country
- Some risk-averse companies are losing interest in Mexico, risk-taker companies could benefit from it
- Innovative contractual and business schemes can be implemented as long as they are not forbidden by law
- Renewable and conventional power generation are considered in the plans for the next 20 years, including hybrid power plants
- State companies need help from experienced companies in order to develop power generation projects

### Threats

- Energy policies can suddenly change
- Downgrades from credit rating agencies
- Projects could be canceled by the Government
- Projects facing delays due to social opposition
- Delays in obtaining permits
- Trade tariffs imposed by the US
- Incidents of piracy in Mexican waters
- Drug cartels and organized crime extortion
- Environmental organizations opposing to development of certain projects
- Changes in existing laws
- Renegotiation of the contracts after they are signed
- Competitors with more experience in projects located in Mexico

## Why investing in Mexico's energy –electricity- sector

- 1.- Mexico is a democratic and free country not a dictatorship.
- 2.- Political misinformation has always been part of Mexico's history, especially between ruling and opposition parties at the beginning of each Presidential period.
- 3.- Many private companies continue investing in Mexico because the market is attractive for them, some of them continue adapting, improving and diversifying their activities or portfolio.
- 4.- Mexican population continue growing, so their needs.
- 5.- Industrial and manufacturing sectors are growing, especially because of geopolitical tensions.
- 6.- US-China trade war is not likely to end after a few agreements are signed between both countries, but will continue for many reasons, Mexico as a neighbour country to the US will gain additional strategic meaning.
- 7.- In the mid and long term, manufacturing in Mexico will not only target the US market but emerging and less developed markets as they increase their purchase power.
- 8.- There are more potential clients than the Mexican government.
- 9.- The contracts are not likely to be canceled without a valid reason or without a valid legal process.
- 10.- Pemex and the CFE are backed up by the government, the possibility for them to go bankrupt is very unlikely, assuming they are State owned companies and bankruptcy does not apply as it does to a private company.
- 11.- Mexican Peso is considered as a strong currency, it has fluctuated in a positive range in spite of economic and political situations happening around the world.

Thank you!



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