

# Mexico Outlook 2024: Market expecting Mexico's next leader will be less intransigent

By [Eva Llorens](#) and [Jonathan Carmody](#) | 24 Apr 2024 | 09:31 BT

*Private investors had to batten down the hatches and weather a populist storm during the mandate of President Andrés Manuel López Obrador, who took them to task for what he described as exorbitant profiteering from state contracts. With two female candidates set to dispute the June general elections and the country well placed to reap the benefits of macroeconomic trends, Infralogic's Eva Lloréns Vélez and Jonathan Carmody take the temperature among market participants ahead of the vote.*

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Mexico's upcoming 2 June presidential election should usher in a more business-friendly administration than that of incumbent President Andrés Manuel López Obrador's (AMLO) government, market observers and participants told *Infralogic*.

Private infrastructure investors are hopeful they can make a comeback, following a six-year term in which private investors regularly bore the brunt of AMLO's populist diatribes, and there is a growing sense of optimism about the investment opportunities that could lie ahead.

Regardless of the outcome of the general election, Mexico needs new investments in developing improved infrastructure and energy generation and transmission to meet the demands for more electricity, transportation and logistics assets coming from companies 'nearshoring' their manufacturing and industrial businesses from Asia to the North American country, especially near the Mexican border, Mauricio Valdespino, an M&A and Private Equity Partner with DLA Piper in Mexico City, told *Infralogic*.

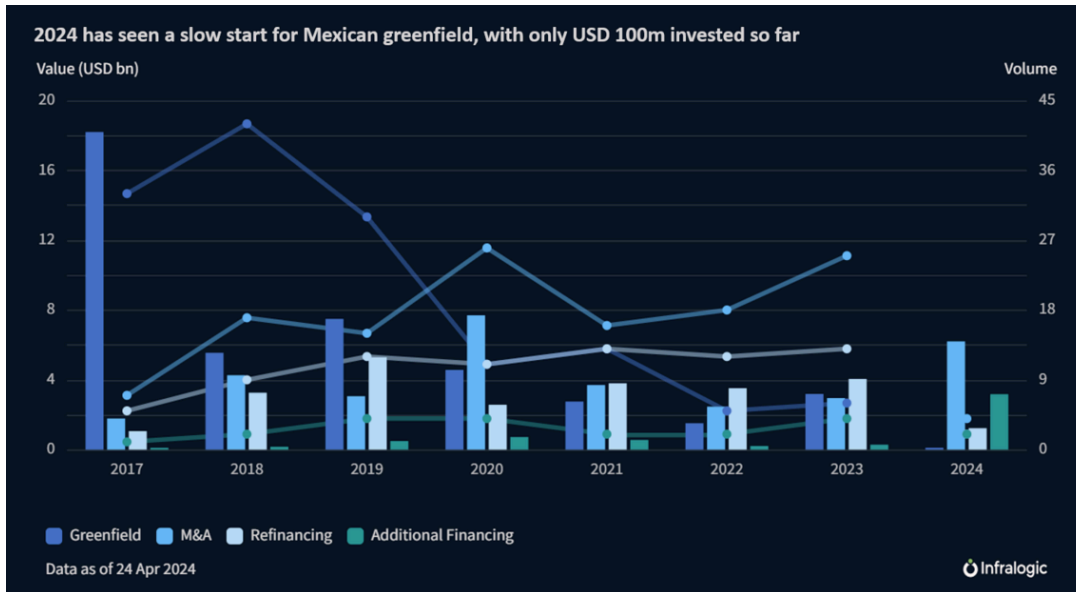
"We need infrastructure, we need energy," he said. "The risk / reward of all the challenges Mexico presents is huge. So, I do see optimism in investors regardless of the outcome of the election. Perhaps in the coming months, things will slow down a little as the elections approach, but will soon rebalance again as those investments are needed."

AMLO became president on 1 December 2018 and the next year, in 2019, an estimated USD 16bn in private funds were invested in infrastructure assets, according to *Infralogic* data.

Dino Barajas, chair of the Global Project Finance Practice Group at Baker Botts, said that during his term AMLO changed foreign investment laws, stalling public-private partnerships, especially in the energy sector, which resulted in high energy costs and lower efficiencies.

President AMLO demanded gas pipeline concessionaires renegotiate their long-term contracts, didn't seriously consider new public-private partnerships at the federal level, even attempting to terminate many ahead of schedule, and cancelled the country's billion-dollar airport project. Under such policies, private investment in infrastructure and energy fell to a low of USD 7.7bn in 2022.

However, according to *Infralogic* data, there was a slight rise in 2023 of 10 more closed transactions vs 2022 (49 in 2023 vs 39 in 2022) and a higher total value of deals (USD 11bn) coupled with resurgent activity year-to-date could be a sign that the market doesn't believe the next president will be as bad for business.



During AMLO's term, he pushed for an energy reform that would have given the nation's Federal Electricity Commission (CFE) preference in the energy market by limiting the participation of private energy suppliers. The intended reform triggered complaints from the Mexico's neighbors and USMCA partners on behalf of the American and Canadian companies that had invested heavily in Mexican energy, power and renewables projects during previous administrations, and who subsequently, opened trade disputes with Mexico through the trio's trade pact. However, the Mexican Supreme Court declared the proposed energy reform unconstitutional in February of this year, with AMLO announcing at the time a new attempt at energy reform.

Some developers who were active in Mexico before the current administration took office in 2018 have been waiting to return because Mexico provided good investment opportunities, returns were good, and political risks were controllable, Barajas said. "What I tell clients is that right now is the best time to look for investment opportunities in Mexico. If you start buying development rights now, you will see appreciation value. However, the new presidential candidates will have to work to regain the trust of the lending market in terms of project financing and show them they are not going to change the law and put their investments at risk," he added.

### A woman to chart Mexico's course

Presidential candidate Claudia Sheinbaum Pardo is the current Mayor of Mexico City. She received her Ph.D. in energy engineering from the National Autonomous University of Mexico (UNAM) and will be representing AMLO's Sigamos Haciendo Historia (Let's Continue Making History) coalition in the elections. Sigamos Haciendo Historia comprises the Morena party AMLO founded, the Workers' Party (P.T.), and the Green Ecologist Party of Mexico (PVEM).

Many are yet unsure of how closely Scheinbaum will tuck to AMLO's policies and anti-neoliberal ideology if, as is most likely according to the latest polling, she wins the elections this summer. Her political platform "100 pasos para la transformación", or 100 Steps to the Transformation, calls for sustainable development that makes sense. She has said publicly that she would focus on developing logistical infrastructure, telecommunications infrastructure, and water, energy, and natural gas services.

Scheinbaum intends to continue AMLO's plan to expand the use of the 18,000km (11,184.6 miles) of existing cargo railways for passenger services, and to continuing strengthening the CFE, which under AMLO achieved his stated aim of controlling over 54% of the energy market when a government-funded trust administered by Mexico Infrastructure Partners agreed to acquire 13 thermal and wind generation assets from Iberdrola. She could yet beat her own path forward and push harder to transition Mexico's matrix to renewables, while also returning somewhat to the old days when there were more federal projects to expand or develop highways. She is considering at least 13 highway developments and the improvement of at least ten ports and several airports, while developing improved bus transportation in big cities, according to her platform.

Her closest rival, Xóchitl Gálvez has similarly proposed pushing private investment in infrastructure and renewables. The infrastructure platform of Gálvez, the candidate for the Fuerza y Corazón por México (Strength and Heart of Mexico) coalition, comprised of the more conservative National Action Committee (PAN), the Institutional Revolutionary Party (PRI) and the Democratic Revolutionary Party (PRD), promises to uphold the rule of law; enhance water and energy generation and transmission, develop new highways and railways, and to withdraw the military from engaging in the development of infrastructure.

Jorge Álvarez Máynez of the small Citizen's Movement (MC) party, announced his candidacy in January after the party's original candidate and incumbent governor of Nuevo León, Samuel Garcia, withdrew from the presidential race. Álvarez Máynez has tried to strike a more middle way between Morena populism and the opposition's business-centric approach, arguing there should be room for both. His platform calls for the transition to renewable energy and the expansion of the telecommunications sector. The MC also promotes a new economic policy, in which clear rules of competition, economic security, and guarantees for investments guarantee the liberties and advantages of the market.

Some industry observers opined that Sheinbaum's infrastructure policy is not on the surface that different from AMLO's. Should Galvéz be elected, she would likely encourage a return to country's 2013 energy reforms, which facilitated the entrance of the private sector into the energy market and has resulted in the development and financing of dozens of renewables projects across the country. Before AMLO came to power, for instance, the government awarded in 2017 about 2.73 GW in power purchase agreements in a renewable energy auction tender to international companies such as Canadian Solar, Enel and X-Elio Energy.



Juan Francisco Toro, managing director in the Mexico City office of boutique financial advisory firm Atlántico Capital Partners, said Galvéz would encourage more private sector investment in energy and transportation, while Scheinbaum will take a more “pragmatic” approach, in which the state will support the private sector in terms of infrastructure strategy but recognize that the private sector has the experience and liquidity to deliver projects more efficiently.

Some investors, like Amsterdam-based renewable energy developer MPC Energy Solutions (MPCES) have said they are “observant” of events in Mexico but still planning developments in the country. Fernando Zúñiga, the firm's managing director for Latin America and the Caribbean, told *Infralogic* that MPCES sees Mexico positively. “We believe that any of the candidates, probably one better than the other, want to follow the energy transition,” he said. “We see a brighter future in terms of renewable energy because, first of all, the nearshoring that has taken place over the past year has impacted energy demand in Mexico, and for that, there is a need to invest in infrastructure in the country.”

He said he believes the candidates “are not against us, and that is positive news. They are raising the need for this transition. We are seeing this with high expectations.”

MPCES acquired a solar facility in the state of Chihuahua two years ago. Working on that project has helped the firm understand the market, the processes, and the investment environment, Zúñiga told *Infralogic*, and the firm is planning to identify new projects to continue participating in the energy transition, especially in northern Mexico.

Despite being the target of frequent attacks from the outgoing president, Spain-based IPP Iberdrola intends to stay and indeed expand in Mexico. As mentioned above, the company on 26 February this year sold to a fund backed by the CFE a 13-asset thermal and wind generation portfolio representing approximately 55% of its Mexican business, but it still has a portfolio of more than 6,000 MW of renewable projects in the country, of which more than 2,000 MW will be developed in the next five years, to ensure energy for its private clients and contribute to the renewable development of Mexico, company President, Ignacio Sánchez Galán, said in a press release at the time.

Mexico, Sánchez Galán said, is a "core country for us after more than 20 years of presence. "

Renewable energy advisory firm Finergreen's Chief Executive Officer Alain Renaud said that those in the market he has spoken to agree that "regardless of the outcome of the election, the renewable market is very probably on the verge of success... You can feel there is a consensus."

While some of the firm's merger and acquisition mandates in Mexico have not resulted in deals, Renaud said he is hopeful that the situation will change after the election.

### **In it for the long haul (fiber)**

Regardless of who wins, the weight behind certain global trends means that investments in infrastructure are more likely to be investor-driven and than not policy-driven, according to Robert da Silva Ashley, global finance partner at DLA Piper and Latin America Co-Head of Energy Infrastructure and P3, who collaborates with Valdespino on energy and infrastructure deals in Mexico, said investments in infrastructure are currently more investor-driven rather than policy-driven.

He expects a growth in demand for water, electrical, and digital infrastructure opportunities and highlighted data centers as a sector he expects to flourish, especially along the US-Mexican border corridor.

Investment in the digital infrastructure sector is thriving in Mexico, a country with a relatively large population of 127.5 million and a well-developed telecoms market. *Infralogic* has tracked and observed multiple situations where digital infrastructure investors are committing capital to data centers, fiber optic cables and wireless towers. Macquarie-backed ODATA announced in February that it has started to build two new hyperscale data center campuses in Mexico, Ardian Americas Infrastructure Fund V closed a deal to invest in Mexican digital infrastructure company MXT Holdings in November 2023, and startup company Layer 9 Data Centers is seeking investors for a Series B equity round to complete construction of the first of three buildings that make up its 96 MW Falcon data center in the Bajío area. Mexican investors Fernando and Miguel Calvillo, who were the founders of the Esentia Energy pipeline business now owned by Partners Group, have founded a new company, Fermaca Networks, which is working with BNP Paribas to raise capital for a proposed 2,000km, cross-border, underground fiber network that will connect data centers in El Paso, Texas to those in Querétaro in central Mexico.

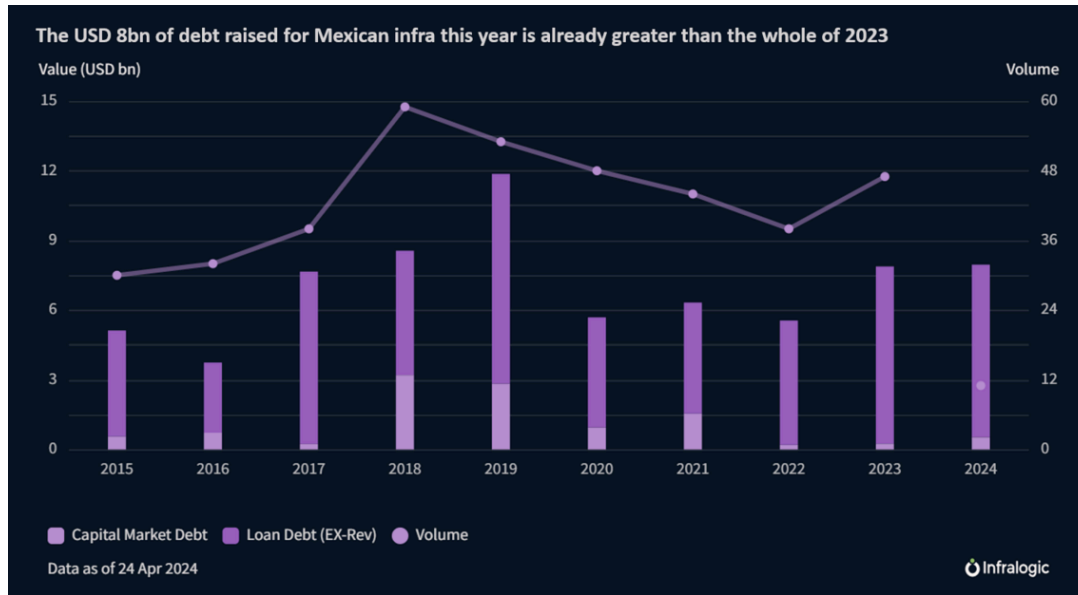
da Silva said he expected private investor-driven opportunities as a combination of increased equity "with more balanced sheet exposure and lower levels of acquisition or project finance debt support components."

"You are going to see a lot of M&A that has to do with power generation and infrastructure-from large-scale single assets to more and more portfolios of assets that are going to be acquired. And there will be hybrid financing, which is acquisition finance with project finance principles and features," he said.

Just this year, *Infralogic* has tracked several new M&A mandates for Mexican assets, especially in the renewables space. Some of those include Spanish firms Grupo TSK and Eosol Energy mandating BBVA to sell an operational, 146.5 MW solar portfolio, a Korean investor working with a local boutique financial advisor to sell a 69.5% stake in a 370 MW solar portfolio, and Canadian asset manager Brookfield Infrastructure Partners working with Morgan Stanley to sell its stakes in the Los Ramones II gas pipelines, among others.

"When we are talking about pure play project finance, that is still going to be selective because it is all going to be about development and construction risks in addition to sufficiency of eventual cash flow. So, there is going to continue to be a lot of scrutiny there. I don't see a 300% increase in your traditional project financing from U.S. and international banks. You are going to see more equity investor money and smaller financing tickets and some of those are going to have instead of the traditional project finance, you are going to have less traditional portfolio financings and corporate financings whether they be acquisition finance or sort of corporate-backed or guaranteed, focused on existing assets that are operating well or could benefit from operational improvements, and new assets that are linked to core corporate investor interests." he said.

Barajas, however, noted that regardless of who it is, the new president will have to work to regain the lending market's trust in project financing and demonstrate they will not change the law and put their investments at risk, as was so often the case under AMLO.



Da Silva's fellow DLA Partner Valdespino noted a wide diversity of sources of funds for infrastructure projects in Mexico, including development banks, the national infrastructure fund (FONADIN), commercial banks, and other players in the infrastructure financing market. He also said investors can diversify their equity portfolios through investment vehicles such as Fibra-E, which main purpose is to invest in energy and infrastructure projects in Mexico.

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Barajas expects to see a surge of investors joining strong conglomerates to make deals.

"At the end of the day, what the new generation of candidates sees is the need of investors to use money to use it for capital intensive projects, to free up the national budget for social programs," he said.

While Pedro Freyre, chair of the International Practice at Akerman LLP, also views the change in leadership from AMLO to a candidate with slightly more conservative policies as a positive, he said that Mexico should also be concerned about who may win the upcoming US elections in November. Freyre noted that if presumptive Republican presidential candidate Donald Trump beats the Democratic incumbent Joseph Biden in the 2024 election, there is a chance that the United States will return to an even more confrontational stance against Mexico, as during his first term (2020-2024) he railed against

Mexico for not doing more to stop migrant crossings on the US-Mexico border and the influence of China on the countries' trade relationship.

Whoever emerges victorious from the Mexican elections this summer, the experts who spoke to *Infralogic* for this piece are bullish on the prospects for increased investment in the country and are looking forward to seeing the back of AMLO... for now.



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