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Heading Mexican ECM to take short hit post US Republican victory but expected to quickly resume

Mexican initial public offerings (IPOs), follow-ons and other equity capital investment vehicles, such as trusts, could stall in Mexico after the Republican Party's victory in the US, but are likely to bounce back quickly, market participants told this news service.

The Mexican market is characterized by a small number of institutional players, and if several of them were to take cautionary measures simultaneously, that could decelerate IPOs; however, over the short run, activity should resume, said Ariel Fischman, Mexico head at Capital 414, the Mexico City-based consulting and corporate advisory firm.

Companies might have to face a slightly drier market, but "if you need the money, you need the money," said Samuel Kobisher, a portfolio manager at securities broker Monex Casa de Bolsa.

The Mexican Bolsa was down 1.9% at the lunch close Wednesday. The peso lost as much as 14% of its value against the US dollar, hitting its lowest level ever of MXN 20.27.

The Mexican Stock Exchange is not likely to fall more than 3%, and it might erase such losses in a couple of weeks, said Juan José Ledón, an investment manager at Mexico City-based Interacciones Grupo Financiero

Appetite for IPOs and Fibras, the Mexican version of US real estate investment trusts, is strong and will continue regardless of the winner, said Ricardo Pérez Vas, a banker at RION, a Mexico-based boutique firm. There is plenty of money trying to be invested in the country and most IPOs and Fibras have been relatively successful, the banker added.

Pulso Inmobiliario has said it planned to launch Fibra Resorts this year after the US election. The trust plans to acquire hotel assets at top Mexican beach sites, which would not cause a major problem despite the election, Perez Vas said. Tourism in Mexico continues to be a huge industry and attracts many foreign visitors who pay in dollars and would continue to see prices attractive for them, he said.

Grupo Axo, marketer of retail brands including Tommy Hilfiger and Emporio Armani, and tequila maker José Cuervo, both postponed IPOs until after the election, which are now likely to come to the market, said Juan Pablo Ávila Quevedo, a partner at Axan, a boutique professional services firm focused on the financial sector.

We expect Cuervo to get on with its offer quickly, as it is in a very nice market segment which will attract interest, Ledón said. He and Pérez Vas said Axo, which operates premium brand shops and discount outlets, may have a tougher time and could continue to wait if volatility in the currency remained.

Axo and Jose Cuervo did not respond to requests for comment.

The Republican victory could add pressure to the peso and take it to levels of as much as MXN 22.5 against the dollar and force the Mexican central bank to raise taxes, said Ledón. Marco Oviedo, chief economist at Barclays Mexico, said while the peso could fall to as much as MXN 22, speculation about a depreciation of as much as MXN 25 is exaggerated and groundless.

The Mexican Central Bank left the exchange rate unchanged after the election results, a spokesperson at a 9 November press conference in Mexico City said. A rate move from the central bank could come as early as its next meeting on 17 November, Oviedo said.

It would not be surprising to see a rate hike in the short and medium term, making access to debt more expensive, Fishman said.

In a worst case scenario, international investors could flee emerging markets like Mexico, selling stocks and even sovereign bonds, said Jorge Salim, partner at Sinergia Capital.

The negative short-term impacts, however, would likely be reversed as many of the negative campaign promises made by President-elect Donald Trump, such as renegotiating the North American Free Trade Agreement, taxing remittances, building a wall along the border and deportations of illegal immigrants, are difficult-to-impossible to actually carry out, the market participants said.

by Adriana Curiel and Sheky Espejo in Mexico City.