

- *Andrés Manuel López Obrador alarmed markets by cancelling a major airport project and suspending auctions of oil rights to private companies, but has kept to his promise of no nationalizations or expropriations.*
- *A priority for the new government is the rehabilitation of struggling Pemex, which has suffered from mismanagement and corruption.*
- *For an overview of policy effects on issuers covered by Debtwire, see pages 2 and 3.*

Mexican President Andrés Manuel López Obrador (commonly referred to as AMLO) was elected in July 2018 with over half the popular vote, and took office on 1 December. With strong public support and his National Regeneration Movement (MORENA) holding a majority in both houses of Congress and two-thirds of state legislatures, he has the political capital to pass economic and social reforms promised during his campaign. Elected on a populist platform promising to fight corruption, violence and inequality, his first initiatives have included efforts to stop fuel theft at state-owned Pemex, cap public-sector salaries, and create a new national guard to fight organized crime.

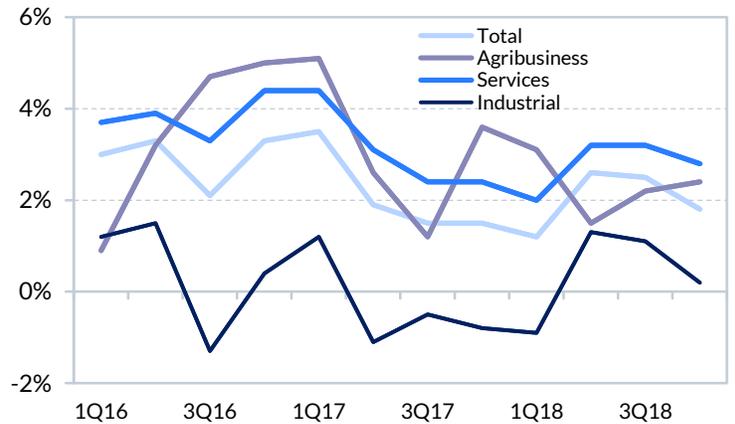
While AMLO has pledged to avoid nationalizations and expropriations, investors fear what his leftist populism could mean for Mexican business, especially since he took office amid slowing economic growth (Figure 1). Even before his inauguration, he announced he would cancel a partly completed USD 13bn Mexico City airport project, for which USD 6bn in bonds had been issued. To justify the cancellation, he held a [questionable unofficial referendum](#) in October, in which only 1% of the population voted. The Mexico City Airport Trust completed a [USD 1.8bn tender offer in December after the cancellation](#), and is in the process of [terminating contracts](#) with construction companies including Empresas ICA, the project's largest contractor. The cancellation contributed to a 10% drop in the MXN against the USD in just over a month. The Z-spreads of Pemex and Mexico's benchmark bonds also reflected concerns about AMLO, but have narrowed recently (Figure 2). Corporate high-yield issuance in 1Q19 was nearly half of last year's total (Figure 3), but slightly below the USD 1.2bn issued in 1Q18.

PEMEX REFORMS

Another controversial move was the partial rollback of a 2014 energy reform which allowed for private investment in the oil and gas sector, ending state-owned Pemex's monopoly. In December, AMLO announced the suspension of oil-rights auctions to private companies for three years. During the campaign, he had promised to review all contracts awarded since the reform to prevent corruption, but later said he was [not cancelling the contracts](#). However, he announced in February that the government would [review inactive pipeline contracts](#) signed by state-owned utilities company Comisión Federal de Electricidad (CFE) with three companies. The contracts, under which the CFE pays private companies to rent the pipelines even if they are inactive, have caused a loss of MXN 62bn since 2015, according to a CFE executive cited in *El Financiero*.

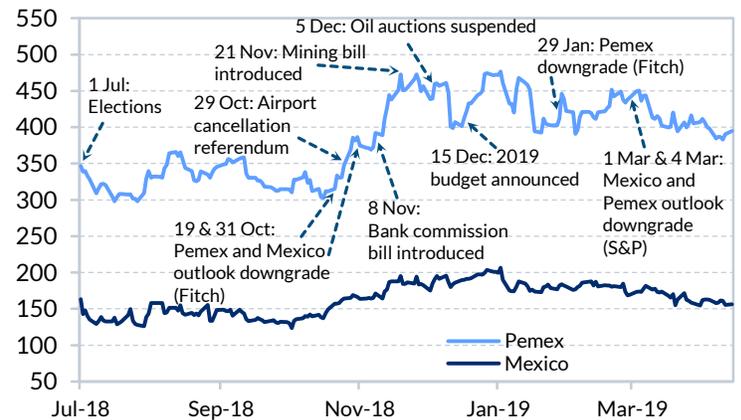
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FIGURE 1: Quarterly GDP Growth (YoY)



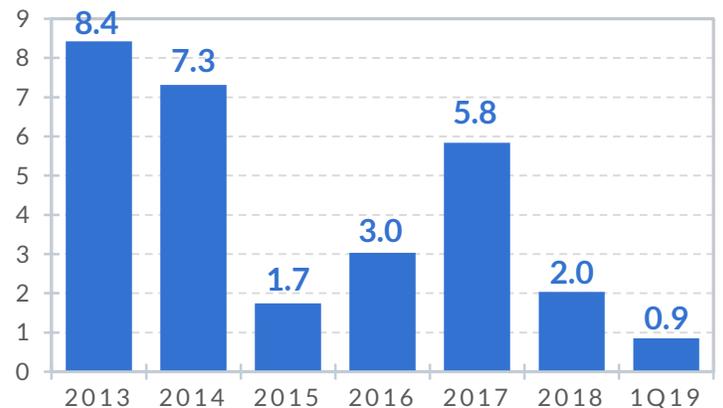
Source: Debtwire, Ministry of Finance and Public Credit (SHCP)
Industrial sector includes mining, energy, construction and manufacturing

FIGURE 2: Pemex 2028 and Mexico 2027 Z-spread



Source: Debtwire, Thomson Reuters

FIGURE 3: High-yield and split bond issuance in Mexico (USD bn)



Source: Debtwire

One of the administration's main economic challenges will be addressing Pemex's poor financial performance and falling production. Mexico has been increasingly dependent on fuel imports, due in part to rising demand. The state-owned oil company had over MXN 2tn in financial debt at year-end and an MXN 149bn annual net loss, partly reflecting a lack of investment as well as corruption. Reuters reported in 2015 that the Federal Audit Office (ASF) had identified over 100 Pemex contracts worth USD 11.7bn, signed between 2003 and 2012, with serious problems ranging from fraud to overpayment for services. The company has avoided taking significant action in most of the cases. In April, AMLO nominated [three new independent directors](#) to Pemex's board after their predecessors resigned, reportedly amid disagreements with the president. One of his nominees was rejected by the Senate.

The government's rescue plan for Pemex includes a roughly 18% increase in its budget this year to MXN 465bn (USD 23bn), as well as [MXN 15bn in tax breaks and an MXN 25bn capital injection](#). It will also receive an [MXN 100bn equity injection](#) from the government's MXN 300bn Public Income Stabilization Fund to repay debt maturing in 2019. AMLO has also announced plans to build a new USD 8bn refinery in his home state of Tabasco, for which [Pemex's budget includes USD 2.5bn earmarked](#). The government invited [four foreign companies for a restricted bid](#) for the project. This year, the company is set to develop [20 new oil fields](#), for which it will award infrastructure and drilling contracts to private companies.

AMLO has also taken aim at organized fuel theft, which causes Pemex MXN 60bn in yearly losses and involves the participation of Pemex employees. In January, he ordered the closure of pipelines targeted by thieves, causing fuel shortages in several states, and ordered the army to guard pipelines. Despite shortages, 73% of the population supported the measures, according to a poll by Reforma.

SOVEREIGN RISK

Pemex's rescue package, coupled with increased social-welfare and pension spending, has the potential to strain government finances. The 2019 budget announced in December eased some concerns by cutting salaries of civil servants and funding across 15 ministries, and setting aside smaller than expected amounts for welfare programs. However, fiscal pressures remain as Pemex is likely to need further government support in the coming year. AMLO's announcement that his government would not award new mining concessions could result in decreased investment. Mexico's central bank in 4Q18 cut its 2019 growth forecast from 1.7%-2.7% in its previous quarterly report to 1.1%-2.1%. Fitch revised Pemex and Mexico's outlook to negative from stable in October, and downgraded Pemex to BBB- from BBB+ in January, citing the company's high leverage. S&P revised Pemex and Mexico's outlook to negative in March. Oil accounts for roughly 20% to 25% of federal revenue.

Rating agencies have also pointed to an increased centralization of power around AMLO as a potential threat to macroeconomic stability. He has clashed with Supreme Court justices regarding his party's bill to cap public-sector salaries at the level of the president's salary, which passed in Congress in September. The court blocked the law, ruling that it violated the constitution and could not apply to the court or to other autonomous bodies. He has also been criticized for cutting the budgets of independent institutions such as the Energy Regulatory Commission (CRE), the National Institute for Transparency, Access to Information and Personal Data Protection (INAI) and the National Institute for Evaluation of Education (INEE). AMLO has pledged to change election laws to allow referendums to be held more frequently.

Policies and Companies	
Automotive	Trump's threatened 25% import tax on cars made in Mexico would hurt auto-part manufacturers Grupo KUO, Metalsa, Tenedora Nemak and Vitro . The tax is less likely to be imposed if Mexico makes efforts to reduce illegal immigration along its southern border, as Trump has requested. AMLO promised a USD 5bn job-creation program intended to address the issue of Central American migration.
Banking	AMLO has advocated reducing bank commissions, but has promised not to create new banking regulations during his first three years. However, in November 2018 MORENA introduced a bill to cap or eliminate certain banking commissions, causing a drop in the share price of Banorte, Unifin, Inbursa, Santander and Crédito Real . AMLO did not support the proposal, but negotiations between the banking association and senators for a new bill targeting commissions are ongoing. AMLO has also pledged to offer new banking licenses to increase competition.
Consumer Goods	Tortilla producer Gruma and baked-goods producer Grupo Bimbo depend on US grain imports, and are vulnerable to Trump's threatened border shutdown.
Energy	AMLO has suspended the auction of oil rights to private companies until 2021, effectively rolling back a reform passed by his predecessor in 2014 to end the state's oil-and-gas monopoly. He has backed the construction of a new USD 8bn Pemex oil refinery, for which the government invited four foreign bidders. The government increased Pemex's 2019 budget by 18% and announced capital injections and tax cuts, but with over USD 100bn in debt and falling oil production, the rescue package may fall short. The company is holding tenders for 20 new infrastructure and drilling contracts this month, and Latina Offshore is participating . A consortium led by Grupo R was awarded a USD 360m drilling contract in January. AMLO has said that the government will review inactive pipeline contracts the Comisión Federal de Electricidad has signed with private companies including IEnova . The government also cancelled a long-term electricity auction set to take place in December.
Infrastructure	The Mexico City Airport Trust , which had issued USD 6bn in bonds to fund the construction of the Texcoco airport to replace Mexico City's existing airport, completed a USD 1.8bn tender offer after the project's cancellation in November. Construction contracts, including with Empresas ICA and Arendal , are in the process of being terminated . The 2019 government budget included MXN 15bn for the conversion of the Santa Lucia military airbase into a civilian airport, whose profits will go to the Ministry of Defense, and MXN 6bn to improve Mexico City's airport. French airport operator Aéroports de Paris and Canadian airline-operations software company NavBlue have been awarded contracts for the Santa Lucia project. The federal budget also includes MXN 6bn for the construction of the Tren Maya rail project, for which some planning and advisory contracts have been awarded. <i>(Table continues on next page)</i>

US-MEXICO RELATIONS

The new government has showed a commitment to maintaining good relations with the US, the destination of about 80% of Mexico's exports. The new United States-Mexico-Canada agreement, signed a day before AMLO took office, has not yet been ratified by Mexico's Senate, but the president has expressed support for the deal. In recent weeks, US President Donald Trump has dialed back threats of shutting down the border or imposing tariffs on imports in order to pressure Mexico to crack down on illegal immigration. A border shutdown would hurt both exporters, such as auto-parts makers, and importers, such as consumer-goods producers dependent on US corn and wheat. AMLO said that the 2019 budget would include USD 5bn for creating jobs in Mexico and Central America, with a view to mitigating migration.

BUSINESS RELATIONS

AMLO has balanced his left-leaning policy initiatives with efforts to cultivate business relationships. In November, he formed an economic advisory council made up of eight prominent business leaders, and appointed his chief-of-staff Alfonso Romo Garza, himself a wealthy investor, to coordinate the council. Prior to joining AMLO's campaign, Romo Garza was CEO of investment firm Plenus and honorary CEO of brokerage Vector Casa de Bolsa. He is part of the influential Monterrey-based [Garza Sada family](#), which controls beverage and retail-focused Femsa, industrial conglomerate Alfa and glassmaker Vitro, although he is not involved with the family's flagships.

One of the highest-profile members of AMLO's economic advisory council is [Ricardo Salinas Pliego](#), who controls retailer Grupo Elektra, broadcaster TV Azteca and Banco Azteca. His companies' focus on lower-income consumers puts him in a position to benefit from the president's populist policies. In October, Banco Azteca was selected without a tender to issue payment cards for welfare programs. AMLO also named Esteban Moctezuma, the long-serving head of Salinas' non-profit Fundación Azteca, as his education minister.

The other members of the council are Bernardo Gómez (co-CEO of broadcaster Televisa), Carlos Hank González (shareholder and CEO of financial services group Banorte, vice-chairman of tortilla producer Gruma and CEO of infrastructure-focused Grupo Hermes), Miguel Rincón (shareholder and CEO of Bio-Pappel), Olegario Vázquez Aldir, (shareholder and CEO of healthcare, media and hospitality conglomerate Grupo Empresarial Ángeles), Sergio Gutierrez (shareholder and CEO of steelmaker DeAcero), Miguel Alemán Magnani (shareholder and CEO of airline Interjet) and Daniel Chávez (shareholder and CEO of hospitality-focused Grupo Vidanta).

AMLO has a complicated relationship with Mexico's richest man, Carlos Slim, whose son is married to the daughter of the current tourism minister. When AMLO led the Federal District government from 2000 to 2005, Slim invested in his project to remodel Mexico City's historic center, where Slim owns several real estate assets. However, as president, AMLO has already made some moves that could be damaging to Slim's companies. Slim's construction company CICSA was the second-largest contractor of the cancelled Mexico City airport project. AMLO has also vowed to strengthen a telecom reform aimed at decreasing the market dominance of Slim's América Móvil, and said he will review gas pipeline contracts with Slim's Grupo Carso. While AMLO's agenda and rhetoric have unnerved many investors, his cultivation of ties with tycoons reflects a long and pragmatic career in politics. When he led the Federal District, he worked closely with private developers on urban renewal and development programs. As president, his economic challenge will be to balance his ambitious anti-poverty, anti-corruption and anti-crime agenda with economic reality.

Policies and Companies (continued)

Mining	AMLO has said he will maintain current mining concessions, but will not award new ones. In November, MORENA introduced legislation to tighten mining regulations , causing a drop in the share prices of miners Grupo Mexico , Industrias Peñoles , Fresnillo , but the bill was rejected in March. State governors have challenged the federal government's decision to directly manage proceeds of a 7.5% mining tax imposed in 2014 to fund the development of local communities. The tax revenue was previously divided between federal, state and municipal governments. In March, AMLO cancelled the Los Cardones mining project (owned by Ricardo Salinas Pliego-linked Inventure Group) due to environmental concerns.
Retail	Retailers Grupo Famsa and Grupo Elektra , which target low-income consumers, may benefit from increased welfare distribution and a 16% increase in the minimum wage. In October, AMLO selected Grupo Elektra subsidiary Banco Azteca to issue payment cards for welfare programs, without holding a public tender.
Telecom	Telecom-sector reforms in 2013 had a limited impact on the market dominance of Carlos Slim's América Móvil , which AMLO has promised to tackle. The president has also pledged to expand broadband coverage, including in rural areas. In March, the Comisión Federal de Electricidad launched a tender for a 50,000-km, 20-year fiber-optic contract to provide free internet access in schools, hospitals and parks, and Axtel was considering bidding . Under the previous administration, the Ministry of Communications and Transportation (SCT) launched a tender for a 25,000-km fiber optic contract under a public-private partnership with government agency Telecomunicaciones de México. AMLO suspended the tender in January, but revived it in March, with bids due in August.

DEBTWIRE COVERAGE

14 Apr 2019	Pemex: Mexican government to use MXN 100bn from stabilization fund for 2019 debt maturities (translated)
12 Apr 2019	Pemex: Senate ratifies two independent directors proposed by Mexico president, rejects one
11 Apr 2019	Pemex access to stabilization fund should be conditioned on revenue increase - central bank
08 Apr 2019	Mexico president nominates Pemex independent directors; proposal to be reviewed by Senate
05 Apr 2019	Pemex: Regulator approves USD 339m development plan for Cheek block
03 Apr 2019	Pemex merges two subsidiaries, cuts 222 jobs to generate USD 14.7m in savings
01 Apr 2019	Mexico prices EUR 2.5bn dual-tranche bond sale
29 Mar 2019	CFE could cancel gas pipeline contracts if no new agreements are reached
28 Mar 2019	Pemex to eliminate up to 16,000 jobs; must cut USD 155.9m-equivalent in payroll, pension spending
26 Mar 2019	COURT: Pemex dodges USD 32m bond in legal dispute with Oceanografia
24 Mar 2019	Pemex finances may get boost via Mexico's stabilization fund under Finance Ministry evaluation
19 Mar 2019	Axtel considers participation fiber optic network auction (translated)
19 Mar 2019	Pemex: Mexico unveils invited bidders for Tabasco refinery
18 Mar 2019	Pemex: Mexico to invite four companies to bid for USD 8bn Tabasco oil refinery
13 Mar 2019	Pemex: Mexico may postpone farm-out auctions scheduled for October to 2020
12 Mar 2019	Pemex: Mexico halts USD 8bn Tabasco oil refinery, AMLO denies delay
06 Mar 2019	Latina Offshore participating in Pemex contract tenders, would seek third-party rigs if successful
06 Mar 2019	Pemex: Regulator approves development plans of two onshore farmout partners
05 Mar 2019	Mexico City Airport Trust BBB+ rating placed on CreditWatch negative - S&P
05 Mar 2019	CFE outlook revised to negative - S&P
04 Mar 2019	Pemex outlook revised to negative - S&P
04 Mar 2019	Pemex allocates USD 11.16bn-equivalent for 11,548 bidding processes in 2019
01 Mar 2019	Mexico outlook revised to negative - S&P
27 Feb 2019	Pemex plans to refinance USD 6.6bn in bond maturities in 2019; new refinery construction to start in 2H19

Disclaimer: We have obtained the information provided in this report in good faith from sources that we consider to be reliable, but we do not independently verify the information. The information is not intended to provide tax, legal or investment advice. We shall not be liable for any mistakes, errors, inaccuracies or omissions in, or incompleteness of, any information contained in this report. All such liability is excluded to the fullest extent permitted by law. Data has been derived from corporate disclosures, regulatory announcements, government publications, media reports, press releases, presentations and Debtwire intelligence.

SHAREHOLDER PROFILES

Family	Country	Companies
Elzstain	Argentina	IRSA, Cresud, Banco Hipotecario, IDB Development
Eurnekian	Argentina	Aeropuertos Argentina 2000, Compania General de Combustibles
Loson	Argentina	Albanesi
Mindlin	Argentina	Pampa Energía, Transener, Edenor
Roggio	Argentina	Clisa
Uribelarrea	Argentina	MSU Energy
Andrade & Gutierrez	Brazil	Andrade Gutierrez, AG Engenharia, AG Participações
Araújo	Brazil	Banco Mercantil do Brasil
Batista	Brazil	JBS, J&F Investimentos
Camargo	Brazil	Camargo Corrêa, Intercement, Cimpor
Constantino	Brazil	Gol Linhas Aéreas Inteligentes
Ermírio de Moraes	Brazil	Votorantim SA, Votorantim Cimentos, Banco Votorantim, Fibria Celulose
Efromovich	Brazil	Avianca, Synergy
Feffer	Brazil	Suzano Papel e Celulose
Gerdau	Brazil	Gerdau SA
Klabin	Brazil	Klabin SA
Molina dos Santos	Brazil	Marfrig Global Foods
Odebrecht	Brazil	Odebrecht SA, Braskem, Odebrecht Óleo e Gás, Odebrecht Engenharia e Construção
Ometto	Brazil	USJ Açúcar e Álcool SA
Queiroz Galvão	Brazil	Queiroz Galvão SA, QGOG Constellation SA, Galvão Engenharia SA
Rubens Ometto Silveira Mello	Brazil	Cosan SA Indústria e Comércio, Cosan Ltd, Rumo SA, Raízen
Simões	Brazil	JSL
Steinbruch	Brazil	Companhia Siderúrgica Nacional (CSN), Banco Fibra, Vicunha Têxtil
Veronezi	Brazil	General Shopping e Outlets do Brasil SA
Vilela de Queiroz	Brazil	Minerva
Wanderley	Brazil	Usina Coruripe Açúcar e Álcool, Coruripe Energética
Paulmann	Chile	Cencosud
Saieh	Chile	SMU, Itau Corpbanca, Copesa
Daes	Colombia	Tecnoglass
Gilinski	Colombia	Banco GNB Sudameris
Simán	El Salvador	Unicomer
Denis O'Brien	Jamaica	Digicel
Del Valle	Mexico	Mexichem, Elementia, CP Latina
Garza Sada	Mexico	Alfa (incl Alpek, Axtel, Nemak, Newpek, Sigma) , Femsas (incl Coca Cola Femsas), Vitro, Cydsa
Kalach	Mexico	Grupo Kaltex
Salinas	Mexico	Grupo Elektra, TV Azteca, Cobre del Mayo
Dyer	Peru	Camposol
Hochschild	Peru	Hochschild Mining, Cementos Pacasmayo