Brazil: Goias Power Privatization

CELG-D is the 8th largest power distribution company in Brazil and is jointly owned by Eletrobras and the State of Goias. CELG-D provides power to 2.7 million people across 237 cities, but Brazil’s energy regulator ranked CELG-D the worst performing power utility in the country in 2015 with more than twice the number of power outages than the national average, a negative net worth of $1 billion, and recurring losses. This affected communities, economic development, and public finances. In 2015, the Government of Brazil (GoB), through the Brazilian Development Bank (BNDES), approached IFC to advise on privatizing CELG-D, with the aim to (i) attract the best possible operator to improve services for residents, (ii) invest in the company’s future, impacting 2.7 million people and the overall economy; and (iii) maximize GoB’s revenues by securing the best price for CELG-D.

In November 2016, Italian energy giant ENEL won the tender, acquiring a 95% stake in CELG-D for US $706 million, 28% over the minimum price. The Share Purchase Agreement was signed in February, 2017.

IFC’s advisory work was undertaken in partnership with the Brazilian National Development Bank (BNDES) and the Inter-American Development Bank (IDB). IFC, BNDES and IDB work together in Brazil through the Brazil PSP Program, which aims to fund and foster the development of PPPs.
BACKGROUND

In May 2015, CELG D was included in Brazil’s National Privatization Program (PND), and the Ministry of Mines and Energy (MME) and the Brazilian Development Bank (BNDES) approached IFC to help design and implement the sale of shares in CELG-D. This project represented the first privatization in 15 years in Brazil, and unlike the privatizations in the 90s, where Brazil offered incentives to investors, CELG-D would be privatized without any public-sector financing, such as public pension funds co-participation, subsidized loans for acquisitions or special tariff schemes.

The project context was also challenging, the Project took place in a delicate moment, one of the worst crisis Brazil has ever faced, combining political and economic issues, deep recession, high inflation and political instability that culminated in Brazil’s credit downgrade. This meant the successful sale of CELG-D would have an important impact on future privatizations being considered by the Government of Brazil in the electricity sector.

IFC’S ROLE

BNDES engaged IFC as the lead transaction advisor. IFC’s work included:

- Lead the elaboration of technical, financial and legal due diligences, technical projections and two financial valuations, which were consolidated in the transaction report encompassing all key aspects of the project and recommendations for project structuring.
- Coordination, integrated project management and being responsible for the quality of final products, ensuring that the studies prepared by different specialists were adequately represented in the final reports;
- Define a strategy for the alienation of shares, considering a financial and managerial turnaround strong enough to create value and still leave potential upside for bidders;
- Leading market consultations, which were a key factor as the deteriorated environment and complexity of the sector severely limited the attractiveness of the transaction.

EXPECTED POST-TENDER RESULTS.

- 2.7 million people benefited from improved service provision per year.
- Expected mobilization of $ 2.5 billion in private sector investments over the concession period.
- Long-term and sustainable improvements based on sound commercial principles and in line with industry best practices.
- Savings of over 10,000 GWh of power over the life of the contract through reduced power losses.

TRANSACTION STRUCTURE

CELG’s financial situation was critical and deteriorated throughout the structuring of the project, which included negative net worth of approximately USD 1 billion, recurring losses and quality indications among the worst in the country. The key to the valuation was to consider a financial and managerial turnaround, strong enough to create value and still leave upside potential for bidders.

The final structure included the joint alienation of Eletrobras’ and the State of Goias’ shares. From the average results of the two independent economic and financial valuations, the minimum price was set as US $551 million for 95% of the shares, an average of US $3.86 per share. The remaining 5% of shares would be sold to the workers at US $3.47 per share.

BIDDING

Bidding took place on November, 25th, 2016, with ENEL BRASIL winning the bid with an offer of US $706 million for a 95% stake of shares. This represented a 28% premium over the minimum price. The shares purchase agreement was signed in February, 2017.