Financial Aspects of the Mexican Sugar Market

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Global Liquidity Vacuum-Commodities Finance

- **Continued Global Scarcity of Credit**
  - Post crisis, traditional suppliers not quickly returning to the market
  - Historically housed within international banks
    - No top-10 player with head office located in the Americas
    - Redeployment of capital and staff to core markets

- **Changed Landscape in 2009**
  - *Deallogic* reports 21% contraction of global trade finance deals after a 51% reduction in 2008
  - Commodity finance bank exit trend continued
    - HSH Nordbank, Lloyds TSB
    - BNPP exits soft commodities and Latin markets
    - DZ announces exit from Mexico
  - Consolidation of sector
    - BNPP acquisition of Fortis
  - Relatively few new players emerging
### Tight Mexican Bank Market

**Mexico’s Top Five Banks:**

<table>
<thead>
<tr>
<th>#</th>
<th>Bank</th>
<th>Parent Company (Country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>BBVA Bancomer</strong></td>
<td>BBVA (Spain)</td>
</tr>
<tr>
<td>2</td>
<td><strong>Banamex</strong></td>
<td>Banco Nacional de Mexico (Banamex)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Citigroup (United States)</td>
</tr>
<tr>
<td>3</td>
<td><strong>Santander</strong></td>
<td>Banco Santander</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grupo Santander (Spain)</td>
</tr>
<tr>
<td>4</td>
<td><strong>HSBC Mexico (formerly Bital)</strong></td>
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</tr>
<tr>
<td></td>
<td></td>
<td>HSBC Holdings (UK)</td>
</tr>
<tr>
<td>5</td>
<td><strong>Banco Mercantil del Norte (Banorte)</strong></td>
<td>Banco Mercantil del Norte (Banorte)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grupo Financiero Banorte (Mexico)</td>
</tr>
</tbody>
</table>

Foreign banks control 70% of loans and deposits in Mexico
Mexico Sovereign Credit Rating History

Source: Standard & Poor’s, Sovereign Rating and Country T&C Assessment Histories
USD/MXN Exchange Rate

Difficult Financial Climate in Mexico

- History of Negative Credit Events
  - Sovereign debt defaults in 1982
  - Lasting effects of 1994 “Tequila Crisis”
    - Explosion of bad debts
    - Triple digit inflation
    - Peso Devaluation

- Challenging legal system for creditors

- Headline risks remain
  - Corruption
  - Drug related incidents

- Primarily private unrated companies
Credit Availability in the Americas

Source: World Bank: *World Development Indicators*
Government Plays Prominent Role in Mexican Sugar Industry

- Social and political pressures motivate continued government intervention and support
- Through FEESA/FICO, government controls 25% of sugar market
- Ongoing mandate to re-privatize industry
- Subsidies provided to cane growers
- Highly negotiated sugar cane prices
- Government controls import quotas

➢ Public funds are primary financing source for Mexican sugar industry
Mexican Sugar Prices Since 1994

FIRA Sugar Cane and Sugar Inventory Financing in Mexico

<table>
<thead>
<tr>
<th>Year</th>
<th>Working Capital</th>
<th>Capex</th>
<th>Repos</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,924,951.12</td>
<td>427,041.04</td>
<td>-</td>
<td>3,124,578.16</td>
</tr>
<tr>
<td>2003</td>
<td>1,762,746.01</td>
<td>695,871.13</td>
<td>-</td>
<td>2,458,617.15</td>
</tr>
<tr>
<td>2004</td>
<td>2,331,887.49</td>
<td>683,881.73</td>
<td>1,014,487.56</td>
<td>4,030,256.77</td>
</tr>
<tr>
<td>2005</td>
<td>2,261,649.66</td>
<td>759,603.07</td>
<td>1,239,839.96</td>
<td>4,261,092.69</td>
</tr>
<tr>
<td>2006</td>
<td>2,230,616.76</td>
<td>723,712.82</td>
<td>231,138.84</td>
<td>3,185,468.42</td>
</tr>
<tr>
<td>2007</td>
<td>2,924,367.82</td>
<td>1,006,389.01</td>
<td>1,549,265.49</td>
<td>5,518,938.10</td>
</tr>
<tr>
<td>2008</td>
<td>3,136,147.49</td>
<td>1,120,581.87</td>
<td>1,102,571.20</td>
<td>5,359,300.56</td>
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<td>2009</td>
<td>3,136,147.49</td>
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</tr>
</tbody>
</table>

Source: FIRA

PESOS OF 2009 (THOUSANDS)

2002 2003 2004 2005 2006 2007 2008 2009

| Working Capital | 1,365,314.75 | 1,924,951.12 | 1,762,746.01 | 2,331,887.49 | 2,261,649.66 | 2,230,616.76 | 2,924,367.82 | 3,136,147.49 |
| Capex           | 265,251.16   | 427,041.04   | 695,871.13   | 683,881.73   | 759,603.07   | 723,712.82   | 1,006,389.01 | 1,120,581.87 |
| Repos           | 1,494,012.25 | 570,587.91   | -             | 1,014,487.56 | 1,239,839.96 | 231,138.84   | 1,549,265.49 | 1,102,571.20 |
| Total           | 3,124,578.16 | 2,922,580.08 | 2,458,617.15 | 4,030,256.77 | 4,261,092.69 | 3,185,468.42 | 5,518,938.10 | 5,359,300.56 |
**Additional Financial Services Providers**

**Mexican Banks**
- **Strengths:** Understanding of Mexican creditor system, peso loan book
- **Weaknesses:** Foreign ownership, liquidity strains, lack operational expertise
- **Other:** Limited culture of financing agribusiness, Highly politicized industry

**Sofoles**
- **Strengths:** FIRA funding, FEGA guarantees, local presence & knowledge
- **Weaknesses:** Limited size, lack of scale
- **Other:** Reasonably new players, focused on field finance

**International Banks**
- **Strengths:** Structuring expertise, history of sugar industry lending
- **Weaknesses:** Cultural divide, limited capital resources, dollar loans, slow to execute
- **Other:** Tenuous commitment over long-term

**Trade Houses**
- **Strengths:** Local presence, investing in assets, vertical integration, risk management
- **Weaknesses:** Higher cost of capital, finance is non-core activity
- **Other:** Link credit with commercial activities, limited structures
Summary

- Mexican sugar industry remains undercapitalized

- Despite difficult environment and limited funding alternatives:
  - Sustained higher prices improving industry health
  - Investment in co-generation, irrigation and land
  - Foreign investment continues
  - Re-privatization and consolidation occurring
  - Ethanol may play a future role