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Bringing industry insight to an uncertain Mexican pipeline investment

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# Bringing industry insight to an uncertain Mexican pipeline investment

## **Specialist knowledge before investing**

If you are part of a consortium preparing to invest heavily in an industry in which you have limited experience and very little information, you are likely to want some expert guidance before going ahead with your bid. When the investment in question relates to the gas industry, we are ideally placed to provide the required expertise.

In this case, our client was a consortium of international pension funds and sovereign wealth investors interested in buying a 50% stake in a Mexican pipeline business. The investors had no previous experience of the Mexican gas market and needed a detailed but prompt assessment of the risk and potential rewards attached to the investment.

## **Uncertain risk and reward**

The business included a portfolio of pipelines some operational and some still under construction. Our client knew that some of the future revenue was supported by a long-term contract with state-owned electricity company CFE. Beyond that, the future value of the pipeline business was much less clear and dependent on the growth of uncontracted gas flows through the system.

The uncertainty was increased because the majority of the pipeline system was in state ownership and there was a limited track record of private pipeline operation against which to assess risk.

## **Future revenue forecasts**

We immediately brought a detailed understanding of the Mexican market and regulatory environment. We built on that foundation of industry knowledge with in-depth research. This enabled us to construct for our client a detailed representation of the entire Mexican gas pipeline system, something that did not previously exist in the public domain.

The information uncovered by our research and our existing industry knowledge was applied through a proprietary modelling tool to assess future flows through the entire Mexican system under different supply and demand scenarios. Through this we were able to demonstrate how the target pipelines competed through time within the wider Mexican system.

We were able to present forecasts of future revenues based on each of these scenarios. Our analysis was used as the basis for our client's binding bid for the 50% stake in the pipeline.



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