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Sectoral Analysis: INFRASTRUCTURE

The Legacy of Sports

The delay in Brazilian infrastructure is configured as one of the main segments that attracts investors seeking high returns in an environment of structural reduction of the basic interest rate.

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Brazil, one of the largest economies in the world, is currently in the midst of an excellent economic environment and has become a major hub for global investments, alongside countries such as China and India. It is expected that the major events that will be hosted in the country, i.e. the World Cup in 2014 and the Olympics in 2016, transform Brazil in a veritable construction site with billions of Reais being invested.

Among several possibilities, the infrastructure sector, considered the most unstable factor limiting the performance of the Brazilian economy, is by far, the main focus for resources employed by businesses and government.

Top Investments

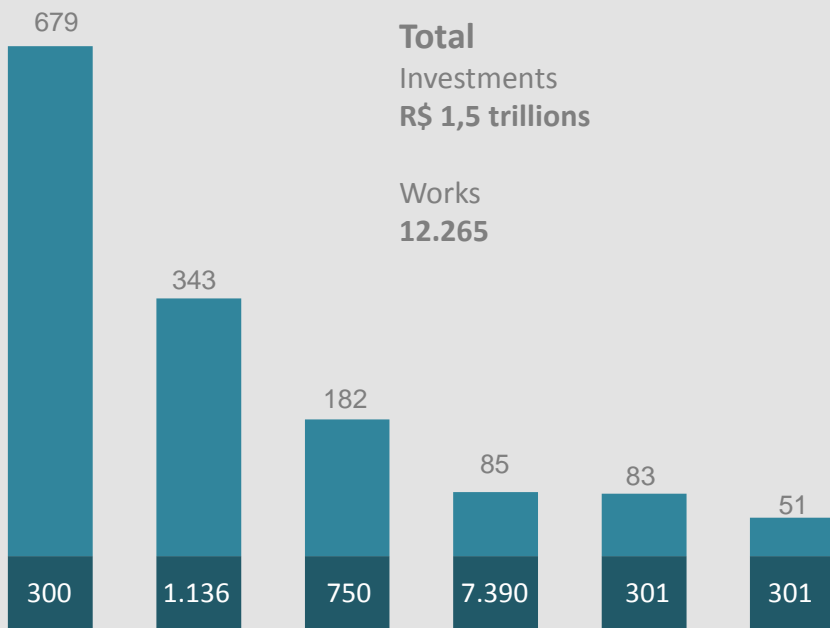
The construction of railways, urban transportation projects, oil rigs, hydro power plants, among other works, are factors that have solid

prospects for the sector, which should improve the country's infrastructure by the end of this decade. According to SOBRATEMA (Brazilian Association for Equipment and Maintenance Technology), it is estimated that there will be 12,265 construction projects with projected investments of R\$ 1.479 trillion by 2016. Other factors that characterize great prospects for the sector are

opportunities in machinery and equipment and supplies segment. Furthermore, new business may improve significantly as a result of the prospects for the auction of more than 15 thousand kilometers of electric energy transmission lines in 2012 and 2013, new concessions of airports, highways, and the design of a High Speed Train (HST).

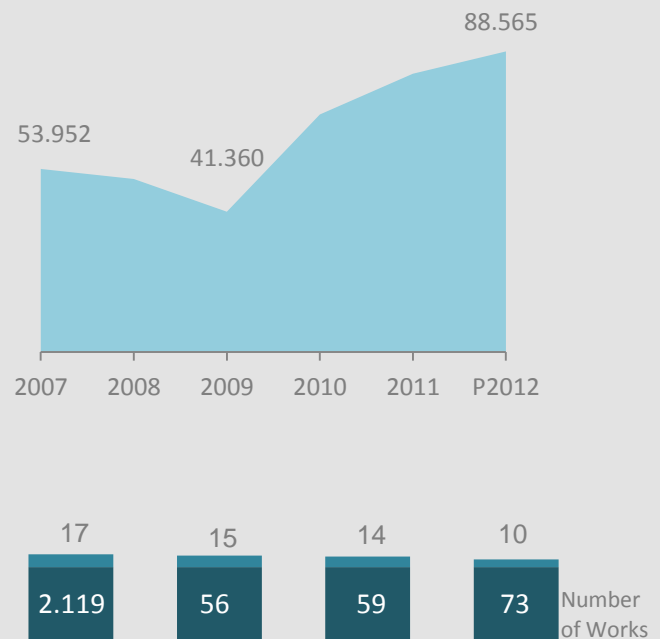
Investment Expected by 2016

In R\$ bilions



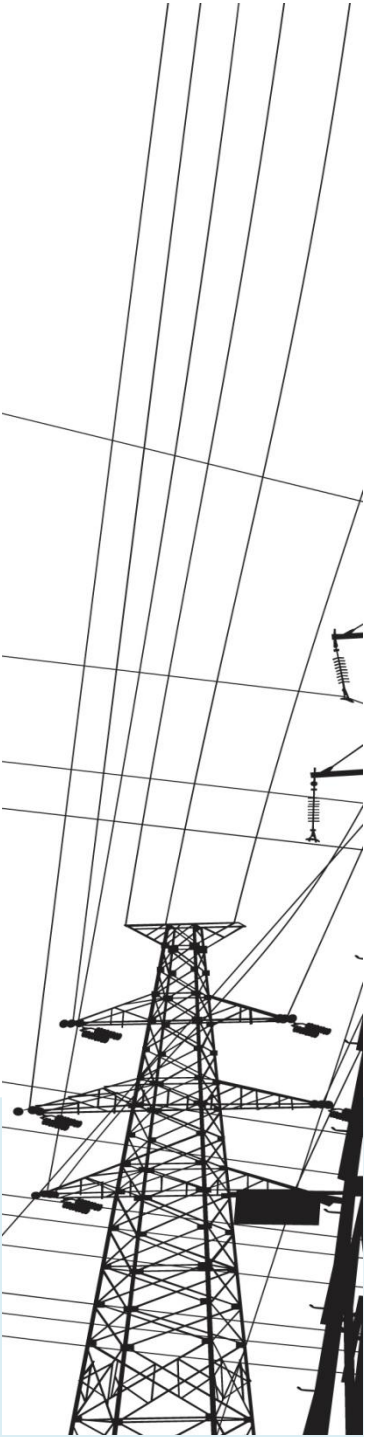
Sales in the Brazilian Market

Construction Equipment - units



Pretending to achieve this demand, sales of construction equipment in the Brazilian market increased from 41,360 units in 2009 to a projected 88,565 in 2012. Add to this the fact that projected investments are not only in the government department, with increasing

interest of large companies to seize opportunities in the sector and finance large projects themselves, add to this high investment of international companies for the Brazilian market, such as large Chinese electricity companies.



Noteworthy Segments

The segments that stand out for their participation in investments include the oil & gas segment with 300 projects and R\$ 679 billion projected by 2016. It is estimated an investment of 343 billion dollars on transport/urban roads in 1136 projects. Furthermore, areas of energy, sanitation, manufacturing, hotel/resort, housing, infrastructure/sports and shopping malls will consume investments of around R\$ 10 billion.

However, the industry faces significant challenges. The shortage of manpower, competition from new players, which could harm the domestic industry, and the need for new sources of long-term debt - now concentrated in the hands of three financial institutions – are questions that still need government policy development.

Concentration of resources

The concentration of sources of financing with maturity exceeding five years primarily in BNDES (60%), negatively impacts the dynamic necessary for the industry to accelerate growth. Other sources of

financing are necessary such as debentures, concessions and public-private partnerships. Depending on the credit line, BNDES may hold between 70% and 95% of the credit line. Despite this, the government plan to reduce the bank's presence, with strive in the creation of a private debt market through incentivized securities.

Prospects

Finally, between 2006 and 2009, Brazil invested 2.1% of GDP in infrastructure, well below the 5% to 7% invested in Asian countries. This percentage could rise to between 2.5% and 3% of GDP by 2014, according to a study on infrastructure projects. This environment reflects the fact that the country may invest more resources, albeit below other emerging market countries. This shows that optimism in the sector has the potential to be even greater.

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Sobratema*