Signs of hope

Privatisations and real estate offer optimism, as Portugal sets off on the long, hard road to recovery

Burhan Khadbai

Last month Portugal announced its budget for 2014, showing GDP increasing by 0.8 per cent, the first sign of growth in the country since 2010.

"Things will improve in 2014 – public spending is under control and the economy is stabilising," says **PLMJ** managing partner Manuel Santos Vitor.

"It is expected that next year restructuring processes will come to an end and there will be an increase in investment which, although it won't be huge, is good news," adds **MLGTS** partner Fernanda Matosa.

So, the general sentiment is one of hope for 2014, the year the country expects to emerge from its €78bn (£67bn) bailout programme.

The sell-off solution

The past few years have brought significant change to the Portuguese legal market. A market traditionally reliant on M&A has seen a big fall in the size and number of transactions.

"I expect there to be more transactional work in Portugal in the next 12 months"

Manuel Santos Vitor

"Some players are looking at a lot of transactions, although few are closing," says **Gómez-Acebo & Pombo** partner Fermin Garbayo.

Instead, there is an influx of work in privatisations.

"Although there's still work in M&A it's not what it used to be," adds **Uría Menéndez** Portuguese managing partner Duarte Garin. "However, the fall in M&A has been compensated for by privatisations – they are providing good work for firms."

The past few years have seen the likes of ANA Aeroportos de Portugal, Energias de Portugal (EDP) and Redes Energeticas Nasionai (REN) privatised by a government under pressure to sell state-owned companies as part of its bailout agreement.

Postal service CTT (Correios de Portugal) is the latest company to be sold off.

"The sale of CTT is generating some work, especially with foreign companies analysing the process in terms of deciding whether to bid or not," says **Raposo Bernardo** managing partner Nelson Raposo Bernardo. His is one of the firms working on the privatisation.

Unlike the other privatisations in Portugal, the CTT sale will be an IPO – as was the Royal Mail sell-off in the UK – with 70 per cent set to float on the stock exchange in December.

Other privatisations underway include waste management company EGF-Empresa Geral de Fomento, a sub-holding company of Aguas de Portugal. MLGTS is representing Parpública – the public company that runs privatisations – in the sale of EGF.

However, firms remain optimistic about M&A.

"Some international groups have begun to look at Portugal as a coun-

In brief

Portugal's projected budget for 2014 shows GDP returning to growth, and hopes are high for a modest rise in investment as the economy stabilises after a horribly painful adjustment.

"Things are starting to happen in health tourism, an area not traditionally known in Portugal"

Fernanda Matosa

Portugal's pain and slow revival in figures

€3.18bn
Spending cuts in 2014

0.8%
2014 GDP growth, up from a previous forecast of 0.6%

17.4%
Unemployment this year, down from a previous estimate of 18.2%

4%
Budget deficit next year, down from 5.5% this year

1.8%
How much the economy will shrink this year, down from a previous forecast of 2.3%

€600
Minimum monthly earnings of public sector employees who face pay cuts of between 2.5% and 12%

66
New minimum retirement age, up from 65

Portugal

try of opportunities for M&A in a variety of sectors," says Bernardo. "2014 will be an even better year in terms of M&A, with investment coming mainly from countries such as Angola, Brazil, Canada, China, the UAE and the Asia region in general."

"I expect there to be more transactional work in Portugal in the next 12 months," adds Vitor. "There will be more opportunities."

There is also optimism around real estate and urban planning – another area that has seen a big decline in recent years.

"The sale of the CTT building to German investor Deka could be a sign of real estate picking up, at least we hope so," adds Garin.

In October, Deka Immobilien bought the 14,400sq m office building leased by CTT for €43m (£37m). It was sold by construction company Mota-Engil.

The Golden Visa effect

"Foreign investment is slowly returning, with opportunities in privatisations, distressed assets and real estate," says **Abreu Advogados** managing partner Miguel Castro Pereira. "Real estate is on the move with the Golden Visa programme that allows investors from countries outside the EU to obtain residency permits, meaning they can freely circulate. Chinese investors are some of the most interested in this programme."

The Golden Visa programme was put in place last year as a way of attracting investment from outside the EU. Investment options include the acquisition of a property with a minimum value of €500,000, the transfer of capital of more than €1m or the creation of 10 or more permanent jobs.

Chinese investors have been particularly busy taking advantage of it. The past year has seen the likes of State Grid International buy a 25 per cent chunk of privatised power and gas grid operator Redes Energeticas Nasionai (REN) for €382m. And China Three Gorges (CTG) bought a 21.35 per cent stake in EDP for €2.69bn.

Brazil has also been interested in investing in the country. Abreu Advogados' big-ticket client over the past year has been MIL Participações (Amil), Brazil's largest health plan provider. The firm has been helping Amil acquire an €85m stake in the privatised HPP Health Group. HPP is a dominant force in the health sector, with nine hospitals and healthcare units. It is owned by Caixa Geral de Depósitos, Portugal's largest banking group.

Key figures: Portugal

GDP
$212.5bn

Population
10.5m

Inflation
2.7%

Life expectancy at birth
81

Unemployment
16.4%

Source: World Bank, Statistics Portugal

"Some players are looking at a lot of transactions, although few are closing"
Fermin Garbayo

The health sector – and, in particular, health tourism – is an emerging area in Portugal, with the government making it a priority.

"Things are starting to happen in health tourism, an area not traditionally known in Portugal," says Matosa.

Other growing areas include litigation, insolvency, tax, labour and restructuring. Uría Menéndez was recently involved on a restructuring of one of the country's biggest construction companies, a significant mandate.

Think small

While the big firms are weathering the storm well and looking confidently to the future, it is the smaller ones that are facing the biggest challenges.

The obvious option is for smaller firms to merge with larger ones, but there are complications – for example, many big firms are not interested in merging.

"Mergers always provide distractions from the main focus of the firm – the clients," says Garin.

He argues that Uría is stable following its 2004 merger with Vasconcelos F Sa Carneiro Fontes & Associados. That deal helped the firm grow from 25 to 80 lawyers, an important step it needed to take to compete at the highest level.

Matosa says the solution lies in smaller firms opting to become boutiques, something not previously known in the Portuguese legal market.

"The main reason small and medium-sized firms are facing big challenges is that they are competing with large firms," says Matosa.

The Portuguese legal market is dominated by three firms – PLMJ, MLGTS and **Viera de Almeida** – which all grew rapidly from being family firms to successful businesses in about 20 years.

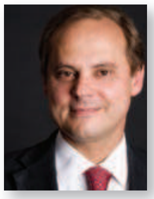
"If I was a small or medium-sized firm in Portugal I'd become a boutique – I'd target a specific sector such as health, tax or tourism," muses Matosa.

Africa, land of hope

International growth remains key for Portuguese law firms.

As the economy has shrunk, so have opportunities in the country, resulting in the need to look elsewhere for growth. International investment escalated in 2009, at the peak of the crisis.

Pereira says: "We're looking to expand our international network, Abreu International Legal Solutions. We're already in Angola, Brazil, China and Mozambique, in association with top law firms."



"Mergers always provide distractions from the main focus of the firm – the clients"
Duarte Garin

Firms have also begun expanding to other Portuguese-speaking jurisdictions.

"We have strong connections with these markets for reasons of language and culture, which makes it easier to work in these jurisdictions," adds Vitor, whose firm, PLMJ, is seeking continued international growth. "We expect the firm to grow significantly internationally in the next few years."

Its international presence is currently about 10 per cent.

Angola and Mozambique are hotspots for investment, but not without their challenges.

"The markets in Angola and Mozambique are challenging but rewarding – they are opportunities we can't ignore," says Vitor.

Garin says: "We don't have a presence there, but we'll be looking. If we decide to have a presence there it will be through an association with an Angolan firm."

"Angola is a much more aggressive market, but in a good way," says Matosa, whose firm has a presence in both Angola and Mozambique. "The Angolan state has severe rules and regulations, making it tricky to operate there."

While firms may have survived the worst of the storm, the path to recovery is unlikely to be smooth.

"The worst may have passed, but there's still a severe crisis with deep consequences for business," says Bernardo.

Adds Matosa: "We've suffered so much and hope to regain control in 2014. The country just has to move forward."