

KANAN



Investment Climate Nearshoring in Mexico

February 2024

Introduction

Foreign Direct Investment in Mexico recorded an annual increase of 3% in 2023, as foreign companies increasingly seek to expand their operations into the country.

The high demand reflected itself in the increase of industrial parks, land construction and land availability, positioning Nuevo Leon as the principal supplier of industrial land.

If Mexico intends to capitalize from the current investment trends, the government needs to focus on ensuring that it offers the necessary resources and conditions that would foster an optimal investment environment.

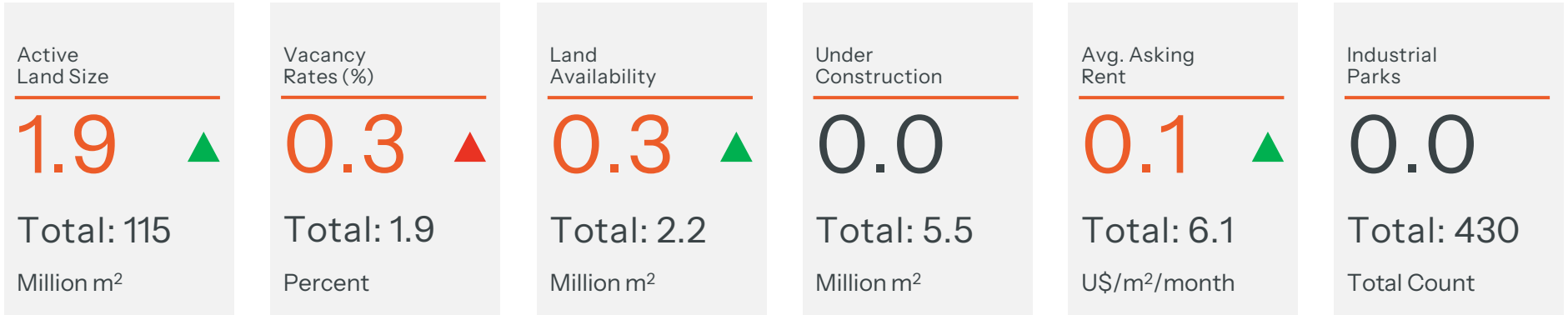
Key Takeaways

- Due to Nearshoring, in 2023 alone, a total of 378 new investments were announced, amounting to a total of USD110,744 M.
- In 2023 more than 5.5 million m² were constructed, including more than 350 industrial projects.
- Mexico became the main commercial partner of the US during 2023, surpassing China for the first time in 20 years, totaling exports for more than USD439 Bn; representing a 3% increase compared with 2022.

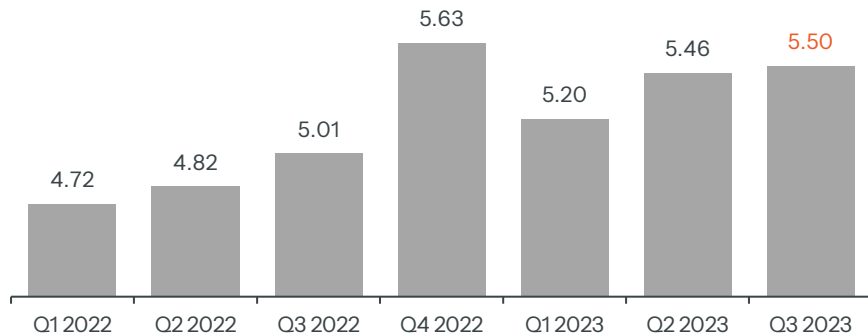
Industrial Real Estate Key Performance Indicators

Land availability recorded a 18.48% quarterly increase at Q3 2023, reflecting the ever-growing interest from international companies to relocate their operations in Mexico

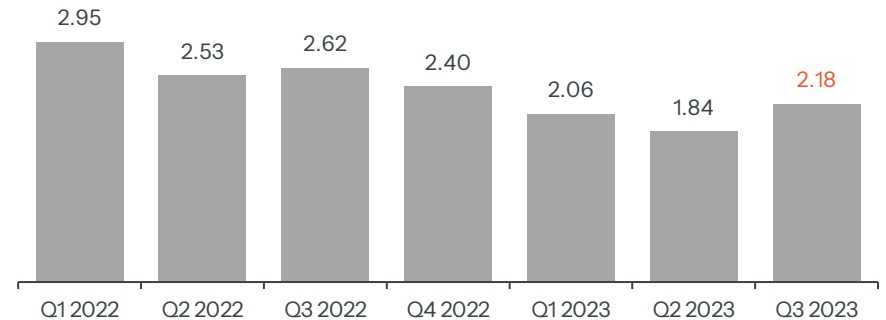
Latest Activity | Q3 2023 vs Q2 2023



Under Construction (Million m²)



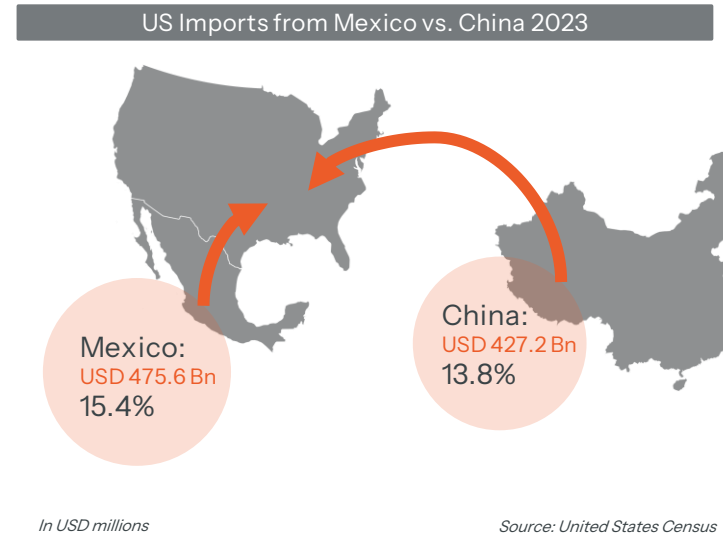
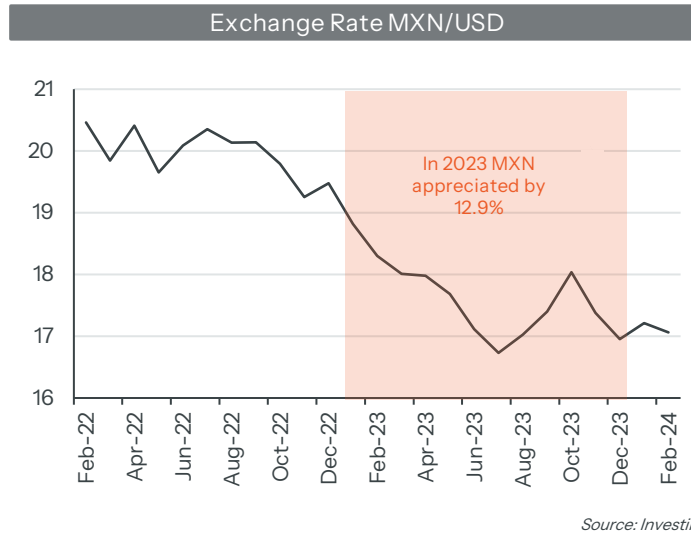
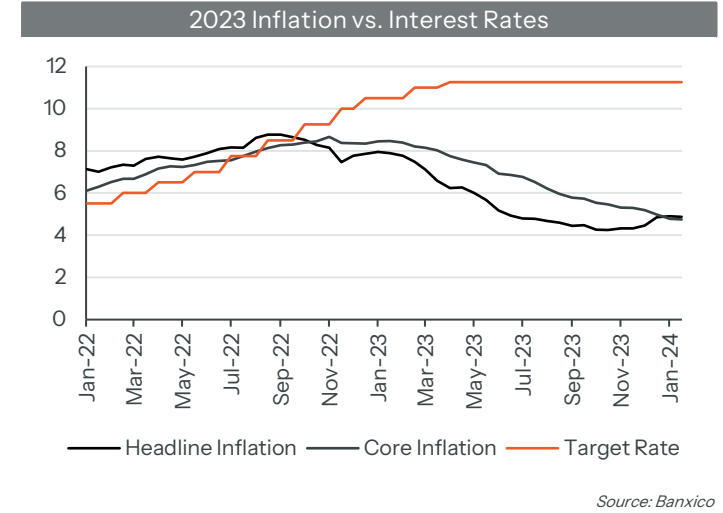
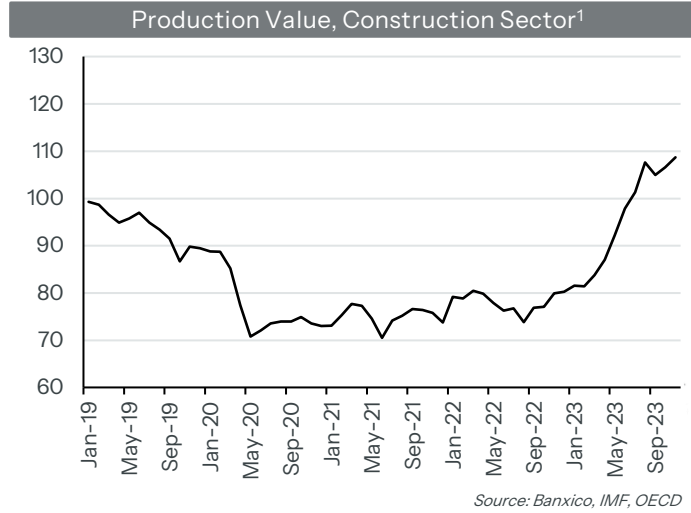
Land Availability (Million m²)



Macroeconomic Outlook





Even though GDP in 2024 is expected to have a slower growth, there is a positive outlook owing to a continued appreciation of Mexican peso and a good relationship with US as his major commercial partner

- Mexico has shown a greater than expected performance, with a GDP growth of 3.4% in 2023 and an estimated expansion of 2.5% for 2024.
- Although the ongoing efforts of Mexican central bank had successfully reduced inflation throughout most of 2023, inflation recorded an end-year surge. This, adds uncertainty for the next monetary policy decision in March 21st, when a couple months ago, there was a higher sentiment for a rate cut. Experts estimate Headline Inflation in 2025 will be between 3.73%-3.76%.
- The Mexican peso has continued to strengthen against the US dollar, one of the main causes is an offset between both countries restrictive monetary policies and high remittances.
- By year-end 2023, Mexican exports reported a total of USD 593 Bn from which 82.6% were exported to the US, promoting Mexico as the main commercial partner of US, surpassing China.



Leading Investments

Nearshoring represents an opportunity for companies to access qualified labor at a cheaper rate and the advantages of a privileged geographical position to engage in trade activities with the U.S.

USD millions							Highlighted Announced Investments -2023						
Investment	Investment Size	Sector	Announcement Date	Company	Location	Details							
Gas Pipeline and Liquefaction Plant	14,000	Energy	02/05/2023	 Mexico Pacific	Sonora	The biggest private investment project in the country which will position Mexico as the fourth producer of LNG ¹ worldwide and Sonora as the first national producer, therefore, increasing commerce transactions between Mexico and China in more than 71,000 million dollars annually, as a result of the shipment of approximately 15 million tons per year sent to the Asian market.							
Oil Field	11,000	Energy	03/10/2023	 Woodside Energy	Tamaulipas	In a plan to get most of the oil resources in a zone in Tamaulipas, Woodside Energy in association with PEMEX will develop an oil field which will produce in 2028 around 110,000 barrels of crude oil and 90 million cubic feet of gas.							
Plant Construction	10,000	Automotive	01/04/2023	 TESLA	Nuevo Leon	The project represents the creation of a gigafactory that will be a manufacturing plant for electric cars, after the announcement there were created two subsidiaries from Tesla in Mexico. So far, the first investment made by the company is the purchase of 1,300 hectares of land.							
Green Hydrogen Plant	10,000	Renewable Energy	22/08/2023	 CIP Copenhagen Infrastructure Partners	Oaxaca	It will be the largest plant dedicated to the production of green hydrogen in the world representing a commitment to the decarbonization in the shipping industry, aiming to replace fossil fuels used on ships located in the port of the Pacific Coast. This project will be carried out through the Growth Markets Funds II and Energy Transition Fund I from the company.							
Green Methanol Production Plant	2,200	Renewable Energy	09/11/2023	 TRANSITION INDUSTRIES IFC	Sinaloa	This project represents the creation of the largest green methanol plant in the world with an expected annual production of 300,000 tons of green methanol and 1.8 million tons of blue methanol, representing the creation of 450 direct and indirect jobs.							

*Note: The information included in this slide is based on public announced investments. Source: Secretary of Economy

¹LNG: Liquefied Petroleum Gas

Recent Investments

The beginning of 2024 has brought many investments into the automotive sector, taking advantage of the country's affection for the industry; moreover, investments in consumer staples were also announced

USD millions Latest Investments Announced - 2024

Investment	Investment Size	Sector	Announcement Date	Company	Location	Details
Plant Construction	408	Automotive	25/01/2024		Colima	ELAM will develop a joint venture with FAW for the construction of a manufacturing plant that is expected to triple annual production of trucks, thereby generating ~300 direct jobs and ~650 indirect jobs. The delivery of the first materials for this project was made in the first week of February.
Investment in Production Lines and Innovation	108	Consumer Staples	17/01/2024		Mexico	This investment will be used for the upgrading of production lines in plants and for the improvement of logistics and distribution of consumer goods across the country.
Grinding Plant	55	Construction	13/02/2024		Tabasco	The company announced an investment of a new grinding plant in Macuspana, which will represent the production of 1.5 million tons of cement annually distributed to Tabasco, Chiapas, Campeche, Yucatan and Quintana Roo. The plant is expected to start operations in 2025 with a creation of 800 jobs during the construction, and 300 after the construction.
Production Plant	50	Automotive	04/01/2024		Mexicali	The expansion of different areas of the Mexicali plant will directly benefit the automotive sector, given that around 70% of trades between the US and Mexico is transported by truck, and PACCAR is the main manufacturer of trucks in the country.
Plant Expansion	46	Automotive	09/01/2024		Coahuila	The company is planning the expansion of its only plant in America which is located in Mexico, this translates in the creation of an estimate of more than 1,000 jobs in the region. The plant will ensure the production of components for electric cars given the Company's signed contracts with Honda, Volvo and Stellantis until 2030.

*Note: The information included in this slide is based on public announced investments

Nearshoring Drivers

Decision making by enterprises and investors is influenced by circumstances such as the monetary policy of a country, economic cycle and trends, macroeconomic insights and political factors

01 Infrastructure Development

Banobras has conducted a study to focus on the states with the highest demand for Nearshoring projects which depend on road infrastructure. As mentioned, states are: Nuevo León, Guanajuato, Querétaro, Aguascalientes and Mexico City. Based on this, the bank plans to allocate USD 19,000 M for the construction of infrastructure in municipalities of those states.

02 Monetary Policy

Mexican central bank has kept interest rates at 11.25%, after the inflation rate in the first month of 2024 closed in 4.88%. Different factors such as cost pressures and resilience of the economy have led to inflation not reaching its objective, which is expected until the second half of 2025. Experts are hopeful that the phased reductions will start in the first quarter of 2024.

03 Skilled Labor

Mexico takes into account the importance of having a highly qualified labor force, particularly in the aerospace, automotive, medical and electronic industries, due to that, the country has invested in programs that promotes technical skills. The number of graduated engineers per year amounts to a total of more than 110,000 people, becoming in 2023 the 6th position in engineering graduates, globally.

04 Fiscal Incentives

The country will give fiscal incentives to any company with interest in relocating its activities in any part of the Mexican Republic. The deduction amount is of 56%-89% with an extra deduction of 25% for training expenses. This incentives are delimited for a handful of sectors including fertilizers and agrochemicals, pharmaceutical, electric components, among others.

05 ESG Principles

Companies that prioritize ESG considerations are likely to enjoy broader investor support, better access to capital, and enhanced brand reputation, ultimately contributing to the growth and success of the nearshoring phenomenon in Mexico. The regions that prioritize ESG regulations are EU and US, where the largest investments come from, consequently companies in Mexico have been implementing ESG strategies.

06 World Economics

Factors such as trade dynamics, exchange rates, global demand trends, labor market conditions, technological innovation, and supply chain resilience all influence companies' decisions to relocate production to Mexico or explore alternative sourcing strategies. Understanding these global economic factors is essential for assessing the opportunities and challenges associated with nearshoring.

Relevant News

This year the government of Mexico will incur a fiscal deficit that could affect investors decisions. According to the needs of investors, institutions need to speed up processes in order to guarantee the access to resources

Frozen Permits

There is a pressure on the CRE¹ to speed the permits process regarding electricity, natural gas, LPG², petroleum and oil terminals in order to being able to guarantee energy for projects regarding Nearshoring. Many procedures have been rejected and the number of outstanding procedures in the beginning of 2023 were +4,000.

Tesla's New Management

The new country manager of Tesla in Mexico is the Mexican Teresa Gutiérrez. This was announced in the first month of 2024. Her challenge is to lead the company of Elon Musk in Mexico, which has its upcoming project, the gigafactory, representing an investment of more than 10 billion dollars.

Recent Developments



PEMEX Tightened by Debt

PEMEX, after becoming the most indebted oil company with a debt of USD106.5 M, Moody's Rating Agency has downgraded its credit rating from B1 to B3 after considering the increase in costs and debt maturities of the company, turning its bonds into junk bonds and causing their yield to surge and their price to fall.

Mexico Credit Rating

S&P Global Ratings issued a report which exhibited the importance of verifying the credit rating for Mexico if the fiscal debt increases; for the moment, it will remain in BBB for foreign currency and BBB+ for local currency. S&P suggests that the next administration should take in account decrease fiscal deficit.

¹CRE: Regulatory Commission of Power and Gas.

²LPG: Liquefied Petroleum Gas

About Us

Kanan provides a comprehensive approach and offers an extensive array of corporate finance, investment banking, and restructuring solutions tailored to meet the needs of investors, companies, and lenders across all company life stages.

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