/Carey

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SCOTIABANK COMPRA 51% DE CENCOSUD

Scotiabank buys controlling stake in Cencosud

Lulu Rumsey

Chile's Carey has helped Canada's Scotiabank buy a majority stake in Cencosud's financial services arm, at the same time as it granted it a US$3 billion loan – part of a new alliance by the two parties.

Cencosud, Chile's largest retailer, was advised by Philippi, Yrarrázaval, Pulido & Brunner for the acquisition and Baker & McKenzie (Chile) for the financing. Scotiabank is also thought to have been advised by Canadian firm Torys LLP.

Scotiabank bought a 51 per cent stake in Cencosud Administradora de Tarjetas for US$280 million. "From Cencosud's perspective, it allowed it to reduce its debt and increase its financing for consumer credit at the same time. From Scotiabank's, which previously had a smaller participation in the Chilean market, it allows them to participate in the Chilean consumer credit business, partnering with a top company in a way that would have been very difficult for them to do [other than through an alliance]," says Diego Ferrada, a partner at Baker & McKenzie.

The acquisition is tied to a 15-year alliance the two parties signed that will make Scotiabank Chile's third-largest credit card provider. In the week following the announcement, Cencosud's stock increased by around 7 per cent. "It's the first time in Chile that there has been a retail and banking association of this size so nearly everything we were working on was new ground," says Carey partner Diego Peralta.

Cencosud's credit-card business will now legally be a subsidiary of the Canadian bank, which is why Scotiabank agreed to fund Cencosud's entire credit portfolio with a US$3 billion loan. "The change in status means that the credit card business will now be subjected to banking regulations, which are generally stricter in Chile than those that govern consumer finance businesses, although those too have been tightened in the last five years," explains Philippi

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Yrarrázaval partner Andrés Sanfuentes.

The deal had a limited time in which to close after a previous offer from Itaú Unibanco fell through, leaving Cencosud eager to find a buyer when the offer to sell was made public. Itaú backed out of the US$307 million deal with Cencosud at the end of last year, choosing instead to buy a US$2.2 billion stake in Corpbanca, which reportedly would have resulted in a conflict of interest were it to go ahead with the Cencosud tie-up.

The 15-year term was agreed upon to allow the business a reasonable amount of time to grow without affecting the structure of either party involved and follows the example of Cencosud's other alliances in Argentina and Brazil. After the term is up, the Chilean retailer will have an option to buy back the 51 per cent stake.

The deal was signed on 20 June, but is subject to regulatory approvals.

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