

SPECIAL COMMENT

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2014 FIFA World Cup Brazil

A Quick Score for the Beverage, Travel, Construction and Broadcast Sectors

Little impact for host cities, infrastructure operators and Brazil itself

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- » **Football's biggest tournament will have fleeting effects.** Successfully hosting the 2014 World Cup will raise Brazil's stature on the world stage, but the benefits will be short-lived for most rated Brazilian companies, infrastructure providers, host cities and states and the Brazilian government. The tournament will capture the world's attention, but an estimated BRL25.2 billion (\$11.1 billion) economic boost pales before Brazil's \$2.2 trillion economy, normal levels of investment spending and annual revenues of companies that will provide food, drink, transport, lodging and services to football fans.
- » **A boost for corporate brand image more than sales.** Some 3.6 million World Cup tourists will bring a revenue boost for the food and beverage, lodging, car rental, TV broadcasting and advertising sectors, but disruptions associated with traffic, crowding and lost work days will take a toll on business. For most Brazilian companies, the 32-day event in 12 cities will produce short-lived sales increases that are unlikely to materially affect annual earnings. Still, the World Cup is the infrequent sporting event that offers an opportunity for global media exposure, benefitting big corporate sponsors including [Coca-Cola Co.](#) (Aa3 stable), [Adidas AG](#) (unrated), [Anheuser-Busch InBev SA/NV's](#) (A2 positive) [Budweiser](#) and [Oi S.A.](#) (Baa3 negative).
- » **World Cup infrastructure spending is a fraction of investment in Brazil.** Some BRL26 billion (\$11.5 billion) in planned spending on football stadiums and airport, port and urban mobility upgrades is positive for infrastructure providers, but much of the impact has already been felt and it is only about 0.7% of overall planned investment in Brazil in 2010-14. [Invepar](#) (Ba3 stable) stands out as the most affected by World Cup spending. Heavy construction companies have gained substantially as well. [Construtora Andrade Gutierrez S.A.](#) (Ba1 stable), [OAS S.A.](#) (B1 stable) and [Mendes Junior Trading e Engenharia S.A.](#) (B1 stable) have seen the largest relative contributions to their backlogs.
- » **World Cup spending is well within revenues for host cities and states.** Official estimates of spending related to the World Cup for Moody's rated sub-sovereign issuers range from a minuscule 0.24% to 12.75% of estimated 2014 revenue. Even under a pessimistic scenario, spending on World Cup projects would remain well within government revenues. Among rated sub-sovereigns, World Cup spending as a percentage of revenues is highest for the state of [Mato Grosso](#) (Baa3 stable).
- » **Impact of games pales before Brazil's economy.** We see little impact on [Brazil](#) (Baa2 stable) considering the limited duration of the World Cup and the size of the country's economy. While the event offers a potential reputational benefit, it could be marred by a reprise of the social unrest seen last June or if needed infrastructure was not ready.

Football's biggest tournament will have fleeting effects

The 2014 FIFA World Cup will put host country Brazil in the global spotlight. Brazil boosters hope that football's marquee event and the Summer Olympics that follow in 2016 will help lift the country out of its economic slowdown. But the effects of the World Cup will be short-lived. While successfully hosting the event will raise Brazil's stature on the world stage, it will have little lasting impact on most rated Brazilian companies, infrastructure providers, city and state governments and the Brazilian sovereign. Social unrest during the games or failure to have needed infrastructure in place could sully the country's image, with negative implications across sectors.

The World Cup will draw hundreds of thousands of visitors to Brazil and stimulate economic activity during the 32-day event, from 12 June to 13 July. Billions of people worldwide will watch at least part of the 64-match tournament on television. Governments in Brazil are spending about BRL26 billion (\$11.5 billion) on infrastructure projects ranging from stadium construction to improvements at airport terminals. But ultimately the activity associated with the World Cup pales before Brazil's \$2.2 trillion economy, its normal levels of investment spending and the annual revenues of the companies that will provide food, drink, transportation, lodging and other services to football fans.

For **non-financial corporate sectors**, the impact will be limited to short-lived sales increases and the intangible benefits of marketing exposure in stadiums and on television. World Cup-related infrastructure investment of about BRL26 billion is positive for **operators of airports, toll roads and ports** and will strengthen Brazil's economic competitiveness, but with just months until the opening match, most of the impact has already been felt. For the **Brazilian sovereign**, the tournament holds out the promise of a reputational boost, but its impact will be slight in the context of Brazil's economy. At the local level, the 12 **host cities** have assumed debt to fund infrastructure projects, but not enough to pose a credit challenge.

A boost for corporate brand image more than sales

The 2014 World Cup will have a minimal impact on most Brazilian companies. The 32-day event will produce only short-lived sales increases that are unlikely to materially affect annual earnings. Marketing exposure at the matches and on television will increase brand awareness for corporate sponsors, although the benefits are difficult to measure. For some companies, the event will prove disruptive as football mania idles workers and snarls traffic.

The food and beverage, lodging, car rental, TV broadcasting and advertising sectors will see the most benefit from the influx of visitors. Heavy construction companies have already seen much of the benefit from stadium construction, airport improvements and other infrastructure projects associated with the World Cup. Furniture and white-line goods companies should see more concentrated sales in the second half of the year because consumers will be focused on acquiring televisions before the event.

The flow of tourists will boost regional retail sales and benefit the food and beverage industry, in particular. For example, we expect that World Cup sponsor [Anheuser-Busch InBev SA/NV](#) (A2 positive), the sole beer vendor at World Cup venues and the beer-market leader in Brazil with a 63% share, will see at least a 2% increase in annual sales volume in the country this year through its subsidiary [Companhia de Bebidas das Americas](#) (AmBev; Baa1 stable). Hotels and car rental companies will get a boost as well, but the airline sector might be hurt by operational disruptions and a falloff in business travel.

For most companies, the reach and importance of the World Cup will provide brand exposure that will be more important than incremental sales volume increases during the event itself. Companies such as AmBev, [BRF S.A.](#) (Brasil Foods; Baa3 stable) and [Marfrig Alimentos S.A.](#) (B2 stable) will benefit from sponsorship of the event or the Brazilian Football Confederation (CBF), which oversees football in Brazil.

One lasting benefit for many companies across sectors will be a permanent improvement in Brazil's transportation infrastructure. This could facilitate increased supply chain efficiency, which would help lower costs for companies over the long run.

EXHIBIT 1

2014 World Cup Impact by Corporate Sector

Sector	Potential Direct Benefit	Comments	Rated Companies Affected
Airlines	Mixed	Increase in traffic but profitability may be hurt	Gol Linhas Aéreas Inteligentes S.A.
Food and Beverage	High	Higher consumption and brand exposure	AmBev
Heavy Construction	High	Primary beneficiary, effects already incorporated	CNO, Construtora Andrade Gutierrez S.A.; OAS S.A.; Mendes Junior Trading e Engenharia S.A.
Industrials	Low	No direct benefit; exporters may be insulated from potential disruptions during the games	Braskem S.A.; Steel, Pulp & Paper, Mining companies
Payment Processors	Medium	Marginal benefit from increased retail activity	Cielo S.A.
Protein	High	Marketing exposure and potential higher consumption	BRF S.A.; Marfrig Alimentos S.A.
Advertising/TV Broadcast	High	Strong growth in advertising revenues	Globo Comunicações e Participações S.A.
Transportation	High	Car rental companies to benefit from influx of tourists	Localiza Rent a Car S.A.

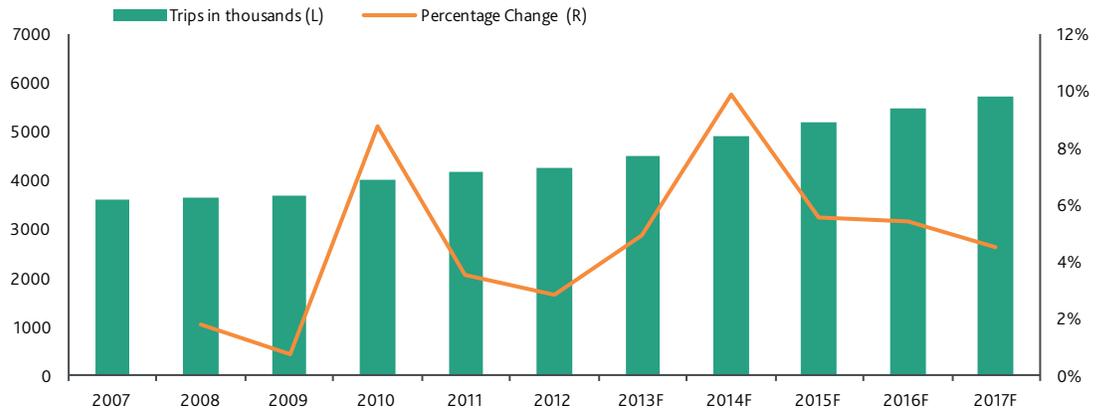
World Cup to draw a large audience and influx of tourists

The World Cup is the infrequent sporting event that offers global media exposure for corporate sponsors, which this year include [Coca-Cola Co.](#) (Aa3 stable), Adidas AG (unrated), Anheuser-Busch InBev's Budweiser and [Oi S.A.](#) (Baa3 negative). The last World Cup, in South Africa in 2010, reached a total in-home audience of 3.2 billion people, or nearly half the world's population.¹ The average global audience for each game was 188.4 million, and 1 billion people watched at least part of the championship match.

The tournament will also be a significant boost for international and domestic tourism in Brazil. The Brazilian Ministry of Tourism estimates that the World Cup will attract 600,000 international tourists to Brazil. That would contribute to a nearly 10% increase in leisure travel, according to Euromonitor International (see Exhibit 2). An additional 3 million domestic tourists will travel around the country to watch the matches, according to the Tourism Ministry, which predicts a BRL25.2 billion (\$11.1 billion) economic boost from the event. After the event, Brazilian tourism should continue to benefit from the country's exposure and its improved transportation infrastructure, such as better airports and enhanced urban mobility.

¹ 2010 FIFA World Cup South Africa: Television Audience Report, prepared for FIFA by KantarSport, a sports and entertainment market research firm.

EXHIBIT 2

Inbound Leisure Travel to Brazil

Source: Euromonitor International

World Cup will also pose several challenges

While the World Cup will generate significant economic activity over its 32 days, 3.3 million ticketholders watching 64 football matches in 12 cities will also bring a few adverse effects that will pose challenges for companies.

An event of this duration and magnitude will disrupt the routine of major cities and consumers. Crowding and traffic will make it more difficult to move goods and provide services, and may dissuade consumers from routine daily shopping, hurting apparel retailers, drugstores and retail fuel sales, for example. Already challenging domestic air travel may be more complicated. Companies are also likely to see reduced productivity as workers take time off during the World Cup, which will affect labor-intensive businesses such as construction and manufacturing, in particular.

Governments in Brazil may also declare holidays. The World Cup Law (Lei N° 12,663) enacted in 2012 permits the federal government to decree national holidays on days when the Brazilian national team plays. Additionally, all municipalities that host matches involving other teams may decree municipal holidays on days those matches take place. These holidays would have an effect similar to the vacation months of January and February, when retail sales tend to be softer.

There is also a risk of street protests, which could further disrupt business activity during the tournament. During last June's Confederations Cup, a football tournament that takes place one year prior to the FIFA World Cup, protests coinciding with the matches caused some disruption but had little effect on fan presence at the venues. However, protests away from the Confederations Cup venues escalated to riots that seriously disrupted regional retail sales due to early store closings, traffic problems and episodes of looting and vandalism.

Macroeconomic conditions could also damp the impact of the World Cup. The benefit for Brazil's economy and companies would be vulnerable to any international macroeconomic slowdown that limits travel to or within Brazil, domestic concerns such as higher inflation and interest rates that could reduce consumption and travel and the availability of public and private funding to complete infrastructure projects.

Impact by sector

Airlines, Car Rentals and Lodging

Domestic airlines will benefit from an increase in passenger traffic associated with the World Cup, but the event will likely be disruptive and could hurt profitability. In addition to 600,000 arriving international tourists, some of the expected 3 million domestic tourists will fly among the 12 host cities, many of which are separated by thousands of kilometers (see Exhibit 3). But tourists might displace higher-yielding business travelers during the event, hurting airline profits. We expect to see business travel decline as a result of elevated hotel rates, traffic and crowding during the event.

Local airlines will need to increase the number of seats available by 15%-20% and make changes in existing routes to accommodate World Cup demand. The airlines have already requested that Brazil's aviation regulator approve 1,973 new flights during the games. The requirement to operate additional aircraft and temporarily change routes could be quite disruptive for the domestic aviation market, particularly at a time when Brazilian carriers have adopted more disciplined capacity management to cope with higher taxes, rising fuel costs and lower demand due to soft GDP growth. The increased air traffic might also strain airports, some of which may not have completed expected upgrades before the World Cup begins.

[Gol Linhas Aereas Inteligentes S.A.](#) (B3 stable), the largest low-cost and low-fare airline in Latin America, will be affected the most. But as the official airline carrier for Brazil's national football team and the other teams participating in the games, it stands to gain in terms of brand awareness.

Rental car companies will also benefit from tourists' need to travel among World Cup cities. [Localiza Rent a Car S.A.](#) (Baa3 stable) is best placed because of its dominant market position. The company has strategic store locations across the country that grant access to both on- and off-airport markets. The flow of tourists during the tournament should contribute to 10%-15% growth in Localiza's car rentals this year. We believe the company can accommodate this growth with just a moderate increase in net fleet because it is currently operating at 68% capacity utilization.

The lodging sector will benefit from higher occupancy and higher room rates in the 12 host cities during the World Cup. According to a study by Ernst & Young,² approximately BRL3.16 billion (\$1.4 billion) was spent to increase hotel capacity by about 15%, or 19,493 new rooms for the World Cup. However, the sector may suffer from overcapacity after the games because some cities, especially medium-sized state capitals, may not have enough demand to absorb the added rooms. For major rated international hotel chains whose Brazilian locations are primarily in Sao Paulo and Rio de Janeiro, heightened activity during the World Cup will not have a material impact on overall global revenue.

² Sustainable Brazil: Social and Economic Impacts of the 2014 World Cup

EXHIBIT 3

Distances Between World Cup Cities

Distance Matrix in Km	Sao Paulo	Belo Horizonte	Curitiba	Porto Alegre	Cuiaba	Brasilia	Rio de Janeiro	Salvador	Recife	Natal	Fortaleza	Manaus
Sao Paulo		586	408	1,109	1,614	1,015	429	1,962	2,660	2,947	3,127	3,971
Belo Horizonte			1,004	1,712	1,594	716	434	1,358	2,061	2,348	2,528	3,951
Curitiba				711	1,679	1,366	852	2,385	3,078	3,365	3,541	4,036
Porto Alegre					2,206	2,027	1,553	3,090	3,779	4,066	4,242	4,563
Cuiaba						1,133	2,017	2,566	3,255	3,543	3,406	2,357
Brasilia							1,148	1,446	2,135	2,422	2,200	3,490
Rio de Janeiro								1,649	2,338	2,625	2,805	4,374
Salvador									839	1,126	1,389	5,009
Recife										297	800	5,698
Natal											537	5,985
Fortaleza												5,763
Manaus												

Source: [DNIT](#)

Heavy Construction

Heavy construction companies will be among the primary beneficiaries of the World Cup, but the positive effects are softening as projects near completion. Nevertheless, we expect average operating income for companies in this segment to rise more than 7% in 2014, supported by the Brazilian government's focus on infrastructure investments and public-private partnerships.

The largest players, which include [Construtora Norberto Odebrecht S.A.](#) (Baa3 stable), [Construtora Andrade Gutierrez S.A.](#) (Ba1 stable), [OAS S.A.](#) (B1 stable) and [Mendes Junior Trading e Engenharia S.A.](#) (B1 stable), have been involved in all of the major World Cup projects, including the construction or renovation of stadiums and upgrades to airports and marine ports. Infrastructure projects for the World Cup, estimated at BRL26 billion (\$11.5 billion), have been an important contributor to revenues in Brazil during the past few years. Nevertheless, total stadium investments of about BRL 8 billion (\$3.5 billion) constitute only a minor portion of the rated players' total backlog of more than BRL 120 billion (\$52.9 billion). At its peak, backlog related to the World Cup represented, on average, about 10% of the total for the large companies in the industry, with the most impact on Construtora Andrade, OAS and Mendes. (See page 8 for impact on rated infrastructure operators.)

During the 32 days of the World Cup, heavy construction companies may be negatively affected by a decrease in working hours and lower productivity. Mendes Junior and OAS are more vulnerable to this risk owing to their higher exposure to Brazilian projects.

Food and Beverage

The World Cup represents a major opportunity for Brazilian consumer goods companies to strengthen connections with consumers through their association with an event that is deeply ingrained in the country's culture. It will also be a chance for wide exposure outside Brazil, which is especially important to companies with global aspirations. This will be more significant in the long run than the expected incremental boost in sales during the tournament.

We expect the World Cup to help lift AmBev's annual beer volume in Brazil by 2%. The company has significant experience with football-related events as a sponsor of 21 regional clubs in nine Brazilian states and its sponsorship of the Brazilian national football team with the domestic beer brand Brahma and the carbonated soft drink Guaraná³ Antarctica. AmBev was a sponsor of the 2010 World Cup in South Africa and the sole provider of beer and refreshments at Confederations Cup matches last year. The company has expanded its production and distribution capacity during the past few years.

AmBev's marketing expenditure related to the event should be concentrated in the first half of the year, much as it was in 2013 prior to the Confederations Cup. The company has indicated that the percentage increase in its selling, general and administrative expenses in the second quarter should be in the high-single digits to low-double digits from an already elevated year-ago level.

Processed-foods companies like BRF and Marfrig also stand to benefit from marketing exposure. BRF has recently started to sponsor the Brazilian national football team with the Sadia food brand. We expect it to see about a 1% boost in annual sales from the World Cup. The company gains 56% of its revenues from Brazil and 46% from its processed-foods and food services portfolio.

Marfrig will focus its marketing effort in Europe, where it can leverage its connection with regional customers by spotlighting the Moy Park brand, increasing its brand penetration. The company was a sponsor of the FIFA 2010 World Cup, where the brand could be seen on the sidelines of the matches involving England, France and the Netherlands. Marketing efforts will include an on-pack promotion that will take selected shoppers to the tournament's semifinal matches in Brazil. It could also use the event to increase consumer familiarity with recently launched Marfrig brand products and promote commercial relations.

Broadcast Television

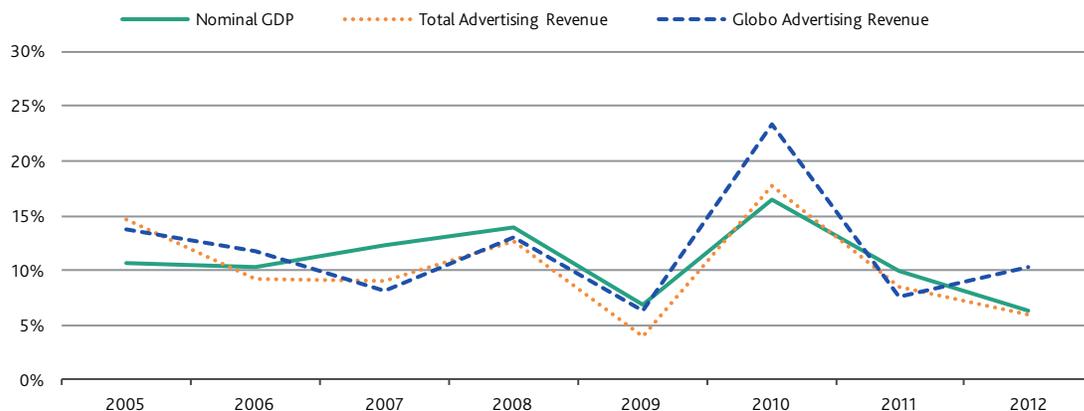
The Brazilian advertising market is expected to grow 12.7% in 2014 compared with 6.1% growth in 2013, according to Magna Global, a strategic global media unit of IPG Mediabrands. That would be positive for [Globo Comunicacao e Participacoes S.A.](#) (Baa1 stable), Brazil's leading TV broadcasting company. Globo, which will broadcast all 64 World Cup matches, has historically grown more than the overall Brazilian advertising market – notably during the previous World Cup years of 2006 and 2010 (see Exhibit 4).

Globo has already sold out its World Cup advertising space to eight sponsors: Ambev, [Johnson & Johnson](#) (Aaa stable), Coca-Cola, [Itaú Unibanco S.A.](#) (Baa2 stable), Oi, [Hyundai Motor Co.](#) (Baa1 stable), [Nestle S.A.](#) (Aa2 stable) and Magazine Luiza (unrated). Most of these sponsors are Globo's regular advertisers for other major events, such as Formula 1 auto racing and the Brazilian football championships, so it is hard to assess the exact direct benefit of the World Cup for Globo's revenues and cash flows this year.

In accounting terms, Globo had completely paid FIFA for the exhibition rights as of early 2012, and received up-front payments from advertisers in the second half of 2012 and accounted for them in the same period. Revenues, however, will be recognized as the advertisements are aired on broadcast and pay TV, mostly during the first half of 2014.

³ Guaraná, *paullinia cupana*, is a fruit from the Amazon known to have properties that stimulate physical and mental activity.

EXHIBIT 4

Growth of Nominal GDP, Total Advertising Revenue and Globo Advertising Revenue

Source: *Globo Comunicação e Participações S.A.*

Payment Processors

Payment processors such as [Cielo S.A.](#) (Baa2 stable) will benefit marginally from retail activity associated with the World Cup, since the extra volume brought in by foreign tourists should be offset by lower utilization of payment cards on holidays and off-days. But acquirers should take advantage of the event to accelerate penetration of point-of-sale terminals, especially in more remote regions of Brazil where important matches will take place and local retailers' acceptance of debit and credit cards is still lower than in more developed locations. Brand promotion by [Visa Inc.](#) (A1 stable), an official partner of FIFA, should also increase merchants' demand for POS terminals.

Commodity Exporters and Industrials

We do not see any clear benefit from the World Cup for commodity exporters and industrial companies. However, exporters and commodity producers that target international markets may have an advantage over companies dependent on the domestic market because the latter will be more vulnerable to the same disruptions in major Brazilian cities and loss of working days that will affect the heavy construction sector.

Infrastructure spending is just a fraction of investment in Brazil

Immediately after Brazil's selection in 2007 as the site of the 2014 World Cup, the Brazilian federal government announced a plan to foster public and private investments in the infrastructure sector estimated at around BRL26 billion (\$11.5 billion). Much of this spending was earmarked for transportation projects, such as expansions at airports and marine ports; urban mobility initiatives including highways, terminals, bus stops and monorails; and construction or renovation of 12 football stadiums. In addition, the Brazilian Ministry of Mines and Energy planned capital expenditures of BRL1.7 billion (\$750 million), mostly to strengthen the electricity distribution network to meet an expected increase in energy consumption during the World Cup.

While this spending is credit positive for infrastructure issuers, much of the impact has already been felt and is already factored into our credit assessments. The spending is also relatively minor: We expect that infrastructure spending associated with the World Cup will represent only about 0.7% of overall planned investment in Brazil during 2010-14. Further, the BRL1.7 billion of spending on electricity distribution is a relatively small amount in terms of the distribution utilities' historical investments. In 2012, for example, capital expenditures among the 63 Brazilian electricity distribution companies totaled about BRL10 billion (\$4.4 billion), according to the Brazilian Association of Energy Distribution Companies.

EXHIBIT 5

2014 Brazil World Cup Planned Investments by Sector and Source of Financing

Sector	Number of Projects	Total Planned Investment (BRL mm)	Public	Private	Disbursed as of February 2014
Airports	29	6,740	3,344	3,396	4,735
Ports	6	585	585	-	432
Urban Mobility	45	8,020	8,020	-	2,942
Stadiums	12	8,005	4,002 ¹	4,002 ¹	4,536
Other ²	209	2,628	2,628	-	333
Total	303	25,978	18,580	7,398	12,978

¹ Moody's estimate.

² Includes investments in various fields such as public security, telecommunications, tourism development and temporary physical structures.

Source: [Office of the Comptroller General of Brazil \(CGU\)](#), as of 5 March 2014

Among rated infrastructure issuers, [Invepar](#) (Ba3 stable) stands out as the most affected by World Cup spending. In February 2012, the Invepar-ACSA consortium won the São Paulo International Airport (GRU) concession with a bid of BRL16.2 billion (\$7.1 billion). Of this amount, Invepar will be responsible for BRL7.5 billion (\$3.3 billion) in proportion to its share in the consortium. We expect Invepar's net revenue to increase by about 50% over the next two years from BRL4.6 billion (\$2 billion) for the 12 months ended 30 September. But it will incur about BRL9.5 billion (\$4.2 billion) of additional debt, of which BRL7.5 billion is to be paid over the 20-year life of the concession in the form of concession payments. The additional indebtedness could have a material negative impact on Invepar's credit metrics if the company were not able to increase operating revenues and cash flows as expected and to secure long-term funding at adequate terms.

Several electric utilities will also be affected by the World Cup, including [Companhia de Eletricidade do Estado da Bahia](#) (Coelba; Baa2 stable), [Companhia Energetica de Minas Gerais](#) (Cemig; Ba1 review for downgrade), [Eletropaulo Met. Elet. de Sao Paulo](#) (Ba1 stable) and [Light Servicos De Eletricidade S.A.](#) (Ba1 stable). Electricity distributors have been exceeding regulatory requirements for capital spending to meet service quality standards, avoid fines and enhance their corporate image during this high-visibility event.

Of the total BRL27.7 billion (\$12.2 billion) of World Cup capital expenditures associated with infrastructure, including investments in electricity distribution, we estimate that around 72% will be executed by the public sector at the federal, state and municipal levels. In addition, the federal government through its public financial institutions will finance BRL9.9 billion (\$4.4 billion), or 38% of total planned capital expenditures.

Airports

Airports pose one of the main challenges for the 12 Brazilian host cities scattered across the country, from Manaus in the Amazon State to Porto Alegre in the southernmost state of Rio Grande do Sul. Brazil's airports have not received sufficient investment to keep pace with the sharp growth in passenger traffic during the past decade. Nevertheless, refurbishment and expansion projects for key airports, such as São Paulo – GRU and Rio de Janeiro, are in the advanced stages and are expected to be ready for public use in May.

EXHIBIT 6

Airport Improvement/Expansion Projects

Airports	Number of Projects	Total Planned Investments (BRL mm)	Disbursed as of February 2014
Belo Horizonte	3	509	96
Brasília	3	651	341
Cuiabá	2	91	45
Curitiba	3	84	41
Fortaleza	1	350	57
Manaus	1	395	283
Natal	2	558	115
Porto Alegre	2	351	3
Recife	-	-	-
Rio de Janeiro	3	813	240
Salvador	3	48	27
São Paulo	6	2,890	3,487
Total	29	6,740	4,735

Source: [Office of the Comptroller General of Brazil \(CGU\)](#), as of 5 March 2014

Urban Mobility

Urban mobility investments consist of 45 projects, including highways, terminals and monorails. These investments are scattered across all 12 cities that will host matches, depending on each municipality's transportation demand. The Brazilian federal government is providing municipalities with long-term financing for these projects through the federally controlled banks [Caixa Economica Federal](#) (Baa2 stable) and [BNDES](#) (Baa2 stable).

EXHIBIT 7

Urban Mobility Project Statistics

Urban Mobility	Number of Projects	Total Planned Investments (BRL mm)	Disbursed as of February 2014
Belo Horizonte	7	1,405	608
Brasília	1	44	-
Cuiabá	3	1,719	647
Curitiba	10	464	160
Fortaleza	6	575	70
Natal	3	472	-
Porto Alegre	2	16	-
Recife	7	890	513
Rio de Janeiro	3	1,867	944
Salvador	2	20	-
São Paulo	1	548	-
Total	45	8,020	2,942

Source: [Office of the Comptroller General of Brazil \(CGU\)](#), as of 5 March 2014

World Cup spending is well within revenues for host cities and states

The World Cup will not have any effect on the long-term credit quality of Moody's-rated Brazilian cities and states that host the games. Most investments tied to the World Cup are one-time expenditures in areas such as roads and urban and housing development. While accelerated public spending will create small, near-term credit-positive effects in some states, this spending will not lead to sustained credit improvement.

Official estimates of spending related to the World Cup for Moody's rated sub-sovereign issuers range from a minuscule 0.24% to 12.75% of estimated 2014 revenue (see Exhibit 9). Even under a pessimistic scenario that assumes a 100% cost overrun,⁴ spending on World Cup projects would remain well within government revenues for most of these issuers.

The 12 cities hosting the World Cup will benefit from accelerated economic activity during the games, but the longer-term benefits are less certain. Many of the transportation improvements arising from the World Cup were part of the cities' normal expansion plans.

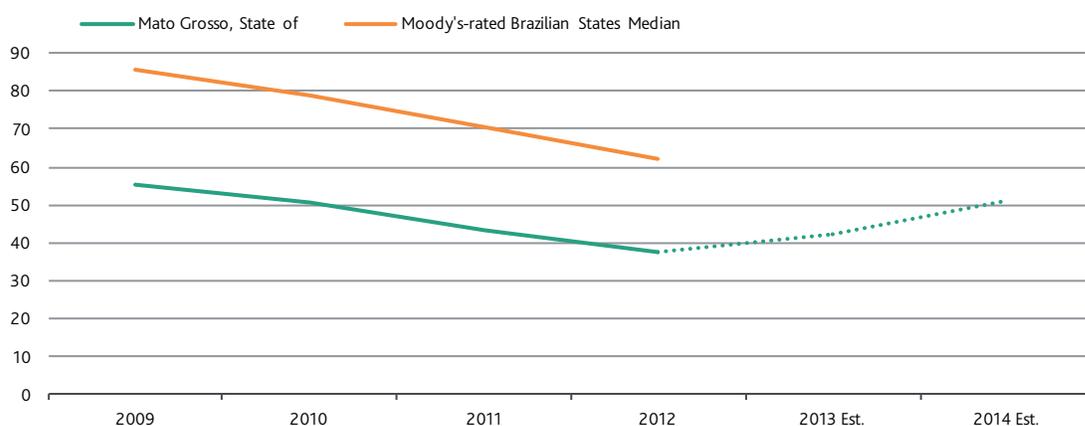
Mato Grosso Will Have Biggest Increase in Spending

The rated Brazilian state with the largest exposure to World Cup spending is [Mato Grosso](#) (Baa3 stable), but its costs will be manageable. Mato Grosso is located in the center-west portion of the country; its capital, Cuiaba, is one of the host cities.

Projects the state is financing include construction of a new, 42,968-seat stadium; a light-rail system and an initiative to promote tourism. Though this will increase Mato Grosso's debt-to-total-revenues ratio to 51.25% from an estimated 42.58%, the ratio will still be below the median for Moody's-rated sub-sovereigns (see Exhibit 8).

EXHIBIT 8

Net Direct and Indirect Debt/Total Revenue



Source: Moody's Investors Service

⁴ We view a 100% cost overrun as a pessimistic scenario. But we note that much larger overruns are common in the staging of the Olympic Games, which require a larger variety of sports venues than the World Cup, an Olympic village and other amenities. In a June 2012 research paper, "Olympic Proportions: Cost and Cost Overrun at the Olympics 1960-2012," academics at the Said Business School, University of Oxford, found that the average cost overrun for an Olympic Games is 179% of budget-at-bid in real terms.

Under our pessimistic scenario, World Cup spending would consume a quarter of Mato Grosso's annual revenue. Even if the pessimistic scenario materializes, we do not expect a significant increase in debt because changes in the debt and budget ceilings must be approved by the local congress. However, budgetary reallocations would put pressure on Mato Grosso's financial flexibility and liquidity management.

EXHIBIT 9
2014 World Cup Impact by Moody's-rated Sub-Sovereign Issuer

Moody's Rated Issuer	World Cup Host City	Budget for World Cup-related Activities		2014 Budget (BRL mm)	Financing* (BRL mm)	2014 Revenues** (BRL mm)	Official Estimates as Share of Revenues	Moody's Scenario as Share of Revenues	Source of Official Estimate***
		Official Estimate (in BRL millions)	Moody's Pessimistic Scenario (BRL mm)						
Belo Horizonte, City of	Belo Horizonte	253.1	506.1	11,468.7	1,256.2	10,212.5	2.5%	5%	Municipality's transparency website
Minas Gerais, State of		372.2	744.5	66,026.4	3,281.4	62,744.9	0.6%	1.2%	World Cup transparency website
Mato Grosso, State of	Cuiabá	1,440.8	2,881.6	13,345.6	2,048.9	11,296.7	12.8%	25.5%	World Cup transparency website
Paraná, State of	Curitiba	113.3	226.6	34,706.5	1,283.9	33,422.6	0.3%	0.7%	State's Budget Law
Rio de Janeiro, City of	Rio de Janeiro	514.2	1,028.5	23,449.8	2,408.4	21,041.4	2.4%	4.9%	World Cup transparency website
Sao Paulo, State of	Sao Paulo	397.9	795.8	178,234.8	9,298.6	168,936.2	0.2%	0.5%	State's Budget Law

* Borrowing authorized by the issuers' local congresses

**Excluding financing

***Issuers' transparency sites and World Cup transparency sites were consulted for this work. In the case of discrepancies between the two sources, we took the higher estimate.

Impact of games pales before Brazil's economy

We view the World Cup as neutral for the Brazilian sovereign's credit quality. The games will last just one month and the associated economic stimulus will pale before Brazil's \$2.2 trillion economy. The Brazilian government expects the World Cup to boost GDP by just 0.4% from 2010-19. Much of the macroeconomic impact has already been felt through infrastructure spending. Overall, the impact will be more meaningful at the local level.

While the World Cup presents a potential reputational benefit, this could be marred if there were a reprise of the social unrest seen last June during the Confederations Cup or if needed infrastructure was not ready.

Moody's Related Research

Credit Analysis:

- » [Brazil, Government of, January 2014 \(162135\)](#)

Credit Focus:

- » [Brazil: Ongoing Protests Have Limited Impact on Sovereign Credit Perspective, July 2013 \(156113\)](#)

Special Comments:

- » [Sochi 2014 Winter Olympics: Uncertainty over Long-term Legacy Overshadows Benefits, February 2014 \(163533\)](#)
- » [London 2012 Olympics Provide a Short-term Boost, But No Gold Medal for Corporates, May 2012 \(141487\)](#)
- » [State of Utah, City of Salt Lake Olympic Winter Games – 2002, June 1999 \(45594\)](#)
- » [Global Beverage Industry: 2014 Sporting Events Will Boost Coca-Cola and Anheuser-Busch in Key Emerging Markets, February 2014 \(164276\)](#)
- » [Below-Trend Growth in Brazil Presents Limited Credit Risks to Rest of Latin America, January 2014 \(163059\)](#)
- » [Brazil's Airport Concessions: Continuing the Learning Curve, November 2013 \(160248\)](#)
- » [Brazil's Airport Concessions – The Fundamentals, December 2011 \(138394\)](#)

Sector Comments:

- » [Japan: Olympic Games in Tokyo Are Credit Positive for Condominium Developers, September 2013 \(SF343483\)](#)
- » [Brazilian Corporate Credit Quality Poised for Improvement on World Cup, Olympic Spending, October 2009 \(120673\)](#)

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