

PORTUGUESE INSIGHTS
ANNOUNCED SALES OF IMPORTANT PORTUGUESE
HOTEL PORTFOLIOS

14.04.2021

The Covid-19 pandemic has put the tourism and leisure industry in stress. Portugal is no exception. Successive waves of the pandemic followed by strict lock downs have led to a sharp drop in hotel occupancy.

The moratoria on bank loans, which relieved debtors from making loan payments in most of 2020 and the first months of 2021 is raising concerns for banks regarding the borrowers' ability to honour their obligations once the loan moratoria are lifted. To protect themselves against a sharp rise in new non-performing loans at the end of the loan moratoria Portuguese banks have been increasing their reserves beyond what is statutorily required and continue deleveraging their non-performing assets.

Against this background, in the last few months, three very important hotel portfolios have been put in the market: Fundo Recuperação Turismo (**FRT**) and FLIT-Ptrel SICAV (**FLIT**), both managed by ECS, Sociedade Gestora de Fundos de Capital de Risco (**ECS**), and the Discovery Portugal Real Estate Fund (**Discovery**), managed by Explorer Investments SCR SA (**Explorer**).

FRT was incorporated in 2011 to manage non-performing tourism assets of Portugal's main banks. FRT is owned by BCP (38.9%), CGD (5.9%), Novo Banco (36.6%), Banco Santander (15.9%) and Oitante (the bad bank legacy of Banif) (2.7%). FRT's assets include Salgados /Pólo São Rafael hotels in Albufeira, Pousada Solar da Rede on the Douro River and Morgado do Reguengo in Portimão.

FLIT which was set up in 2012, is owned by Millennium BCP (29.7%), CGD (36.2%), Novo Banco (28.8%) and Oitante (5.3%). This fund invested in companies in insolvency or financial difficulties related to leisure, real estate and tourism, such as Vale do Lobo, Conrad Algarve Quinta do Lago, Colombos Resort in Porto Santo and Vigia.

Discovery was incorporated in 2012 and is managed by Explorer Investments. Discovery owns various resorts and hotels, such as the Six Senses Douro Valley and the Eden Resort, the latter in the Algarve. Discovery has recorded net assets of €850 million, which, according to the press, are now valued at around €420 million. The sale process is being led by investment firm Holihan Lokey.

Several international funds have been invited to look at the Discovery portfolio, with non-binding bids expected around the second half of April. The circumstances of this deal are different than the sale of FRT and FLIT because the buyers are expected to assume a more passive management of the fund, as the management of the assets would remain with Explorer Investments.

According to the press, Bain Capital, Brookfield, Blackstone, Cerberus, Fortress, Davidson Kempner Capital Management, H.I.G. Capital e Kildare Partners had been invited to bid in the sale of ECS tourism portfolios, but, meanwhile, news surfaced in the Portuguese economic press that ECS and its entire portfolio were being put in the market. ECS funds include the tourism funds that we mentioned above, FRT and FLIT, as well as Fundo Recuperação

(FCR) which owns non-financial assets in various sectors, namely textiles, hotels, logistical and industrial parks and piped gas distribution, such as Iberol, Biovegetal, the Montalva/Montebravo group and Hilton Vilamoura.

The sales of FRT, FLIT and Discovery are very interesting opportunities for equity investors, lenders hotel managers and operators that may want to consolidate their presence in Portugal or enter the Portuguese market because many of the hotels and resorts in those portfolios are being managed directly by the hotel owners. The new owners may make significant improvements in the assets management by aligning with international players. Lastly, some smaller secondary transactions are likely to occur once the new owners recompose their portfolios and dispose of non-core assets, in particular if ECS' assets are sold in block.

CONTACT PARTNERS:

António de Macedo Vitorino

Email: avitorino@macedovitorino.com

Mobile: 351 935 241 911

André Vasques Dias

Email: adias@macedovitorino.com

Mobile: 351 935 241 904

INFORMATION IN PORTUGUESE LANGUAGE MEDIA

<https://eco.sapo.pt/2021/03/29/banca-poe-a-venda-fundo-discovery-em-negocio-de-400-milhoes/>

<https://eco.sapo.pt/2021/02/05/ecs-vende-fundos-de-reestruturacao-de-15-mil-milhoes/>

<https://jornaleconomico.sapo.pt/noticias/oito-gestoras-internacionais-na-corrída-aos-fundos-de-recuperacao-da-ecs-capital-698033>

INFORMATION IN ENGLISH LANGUAGE MEDIA

<https://www.essential-business.pt/2021/03/29/banks-to-sell-discovery-fund-for-e400m/>

The opinions expressed in this article are of a general nature and should not be considered as professional advice. Should you need legal advice on these matters you should contact a lawyer. If you are a client of MACEDO VITORINO, you may contact us by email addressed to mv@macedovitorino.com