

Seeking Alpha α

A Review of Chilean Investment Opportunities

March 25, 2011

by: Jim Pyke

| includes: [AKO.A](#), [AKO.B](#), [BSAC](#), [CCU](#), [CH](#), [ECH](#), [ENI](#), [EOC](#), [LFL](#), [MYS](#), [PVD](#), [SQM](#), [VCO](#)

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.

...

More »

I previously wrote an [article](#) on investing in Latin American ETFs. I took a look at Chile and wanted to dig a little deeper.

Chile was very unique among the countries I looked at, since it had a greater ratio of equity market capitalization to GDP than even the United States. This is somewhat interesting, since it suggests well developed capital markets. Its 231 publicly-traded companies have an average size of about \$1.5 billion. Also, there are enough Chilean companies that are traded on U.S. exchanges to dig further rather than just suggesting you invest in iShares MSCI Chile Investable Market Index ([ECH](#)). Furthermore, ECH exhibits a low correlation to SPDR S&P 500 Trust ETF ([SPY](#)). Another ETF alternative is the Aberdeen Chile Fund, Inc. ([CH](#)).

Country Statistics

Statistic	United States	Brazil	Chile	Ratio (Chile: U.S.)
2010 GDP (\$ Billions) estimated	14,660	2,023	198	1.4%
2010 Total Equity Market Capitalization (\$ Billions)	17,283	1,546	342	2.0%
Population (Millions)	309	194	17	5.5%
Per Capita GDP (\$)	47,483	10,608	11,587	24.4%
No. of Public Companies (2010)	5,095	381	231	4.9%

Source: *Wikipedia, World Federation of Exchanges, IMF, Google.com.*

So Chile is a relatively small country compared to either Brazil or the U.S. However, it has a higher per capita GDP than Brazil. Looking further shows Chile to exhibit much lower growth rates than Brazil – both in terms of population and economy.

Per Wikipedia:

Today, Chile is one of South America's most stable and prosperous nations and a recognized middle power. It leads Latin American nations in human development, competitiveness, income per capita, globalization, economic freedom, and low perception of corruption.

Chile's economy is also driven by copper since it is the world's largest exporter of that metal. The recent price increases in copper should have created additional benefits for the Chilean economy.

Company Snapshots

I limited the review to the following companies:

Chilean ADRs

Ticker Name		Market Capitalization (\$ Billions)	Dividend Yield	Industry
SAN	Banco Santander-Chile	15.0	2.6%	Banking
EOC	Empresa Nacional de Electricidad S.A.	14.7	1.2%	Utility
SQM	Sociedad Quimica y Minera S.A.	14.1	1.0%	Mining
ENI	Enersis S A	13.2	1.1%	Utility
BCA	CorpBanca S.A.	3.2	6.7%	Banking
BCH	Banco De Chile	11.2	3.5%	Banking
LFL	Lan Chile S.A.	8.8	2.2%	Airline
CCU	Compania Cervecerias Unidas, S.A.	3.5	1.4%	Beverages
AKO.A	Embotelladora Andina, S.A. (A shares)	2.9	1.5%	Bottling
AKO.B	Embotelladora Andina, S.A. (B shares)	2.9	1.5%	Bottling
VCO	Vina Concha Y Toro	1.7	0.9%	Beverages
PVD	Administradora de Fondos de Pensiones-Provida, S.A.	1.6	7.8%	Financial

Source: Yahoo Finance downloaded on March 24, 2011 and Zacks.com services.

Banco Santiago, S.A.: Banking. SAN has a market capitalization of \$15.0 billion. SAN closed recently at \$82.74 per share with a dividend yield of 2.6 percent. SAN has an enterprise value of \$18.8 billion and shows some financial leverage. SAN shows a trailing P/E ratio of 14.6x which decreases compared to its forward P/E which is 13.1x. This suggests some earnings per share growth. Its high debt level could prove to be challenging. SAN just closed at \$82.74 per share, which is 39.3% above its 52-week low of \$59.4 and 20.2% below its 52-week high of \$99.44 per share. SAN has a medium price to sales ratio at 3.8x. On an operating cash flow basis, SAN appears to have little upside improvement.

Empresa Nacional de Electricidad S.A.: Utility. EOC engages in the generation, transmission, production, and distribution of electricity in Latin America. It has 5.6 GW of generating capacity in Chile. EOC has a market capitalization of \$14.7 billion. EOC closed recently at \$53.72 per share with a dividend yield of 1.2 percent. EOC has an enterprise value of \$17.7 billion and shows some financial leverage. EOC shows a trailing P/E ratio of 10.2x, which increases compared to its forward P/E, which is 13.6x. This suggests an earnings decline. Its modest debt level appears to be manageable. EOC just closed at \$53.72 per share, which is 24.6% above its 52-week low of \$43.11 and 7.5% below its 52-week high of \$57.73 per share. EOC has a low price to sales ratio at 2.1x. On an operating cash flow basis, EOC appears to be a good value with upside.

Sociedad Quimica y Minera S.A.: Mining. SQM has a market capitalization of \$14.1 billion. SQM closed recently at \$53.65 per share with a dividend yield of 1.0 percent. SQM has an enterprise value of \$14.9 billion and shows a little financial leverage. SQM shows a trailing P/E ratio of 37x which decreases compared to its forward P/E, which is 27.1x. This suggests strong earnings per share growth. Its low debt level should not be a challenge. SQM just closed at \$53.65 per share, which is 68.1% above its 52-week low of \$31.91 and 10.3% below its 52-week high of \$59.15 per share. SQM has a high price to sales ratio at 7.7x. On an operating cash flow basis, SQM appears to be possibly overpriced.

Enersis S.A.: Utility. ENI has a market capitalization of \$13.2 billion. ENI closed recently at \$20.15 per share with a dividend yield of 1.1 percent. ENI has an enterprise value of \$18.8 billion and shows some financial leverage. ENI shows a trailing P/E ratio of 13.4x, which increases compared to its forward P/E, which is 13.6x. This suggests an earnings decline. Its modest debt level appears to be manageable. ENI just closed at \$20.15 per share, which is 9.9% above its 52-week low of \$18.34 and 25.5% below its 52-week high of \$25.29 per share. ENI has a low price to sales ratio at 1x. On an operating cash flow basis, ENI appears to be cheaply valued.

CorpBanca S.A.: Banking. BCA has a market capitalization of \$3.2 billion. BCA closed recently at \$21.59 per share with a dividend yield of 6.7 percent. BCA has an enterprise value of \$6.2 billion and shows a fair bit of financial leverage. This suggests phenomenal earnings per share growth. Its high debt level could prove to be challenging. BCA just closed at \$21.59 per share, which is 77.4% above its 52-week low of \$12.17 and 30.7% below its 52-week high of \$28.21 per share. BCA has a medium price to sales ratio at 3.9x.

Banco De Chile: Banking. BCH has a market capitalization of \$11.2 billion. BCH closed recently at \$81.47 per share with a dividend yield of 3.5 percent. BCH has an enterprise value of \$15.9 billion and shows some financial leverage. BCH shows a

trailing P/E ratio of 15x, which decreases compared to its forward P/E, which is 13.1x. This suggests some earnings per share growth. Its high debt level could prove to be challenging. BCH just closed at \$81.47 per share, which is 44.8% above its 52-week low of \$56.25 and 13.5% below its 52-week high of \$92.5 per share. BCH has a high price to sales ratio at 4.3x. On an operating cash flow basis, BCH appears to have little upside improvement.

Lan Chile S.A.: Airline. LFL has a market capitalization of \$8.8 billion. LFL closed recently at \$25.83 per share with a dividend yield of 2.2 percent. LFL has an enterprise value of \$11.1 billion and shows some financial leverage. LFL shows a trailing P/E ratio of 20.8x, which decreases compared to its forward P/E, which is 17.9x. This suggests some earnings per share growth. Its modest debt level appears to be manageable. LFL just closed at \$25.83 per share, which is 52.7% above its 52-week low of \$16.91 and 23.4% below its 52-week high of \$31.88 per share. LFL has a low price to sales ratio at 1.9x. On an operating cash flow basis, LFL appears to have little upside improvement.

Compania Cervecerias Unidas, S.A.: Beverages. CCU produces, bottles, sells, and distributes alcoholic and non-alcoholic beverages in Chile and Argentina. CCU has a market capitalization of \$3.5 billion. CCU closed recently at \$54.99 per share with a dividend yield of 1.4 percent. CCU shows a trailing P/E ratio of 17.1x, which decreases compared to its forward P/E, which is 14.9x. This suggests some earnings per share growth. Its low debt level should not be a challenge. CCU just closed at \$54.99 per share, which is 50.2% above its 52-week low of \$36.61 and 11.7% below its 52-week high of \$61.42 per share. CCU has a low price to sales ratio at 2.1x. On an operating cash flow basis, CCU appears to have little upside improvement.

Embottelladora Andina, S.A.: Bottling. AKO.A engages in the production, bottling, and distribution of Coca-Cola ([KO](#)) products in Chile and other parts of Latin America. AKO.A has a market capitalization of \$2.9 billion. AKO.A closed recently at \$23.63 per share with a dividend yield of 1.5 percent. AKO.A just closed at \$23.63 per share, which is 54.5% above its 52-week low of \$15.29 and 9.6% below its 52-week high of \$25.9 per share. AKO.A has a low price to sales ratio at 1.6x.

Vina Concha Y Toro: Beverages. VCO with over 2,900 employees is engaged in grape growing and wine making. VCO has a market capitalization of \$1.7 billion. VCO closed recently at \$46.25 per share with a dividend yield of 1.5 percent. VCO shows a trailing P/E ratio of 19.9x. Its low debt level should not be a challenge. VCO just closed at \$46.25 per share, which is 18.6% above its 52-week low of \$39 and 8.7% below its 52-week high of \$50.28 per share. VCO has a low price to sales ratio at 2.3x.

Administradora de Fondos de Pensiones-Provida, S.A.: Financial. PVD has a market capitalization of \$1.6 billion. PVD closed recently at \$72.25 per share with a dividend yield of 0.9 percent. PVD shows a trailing P/E ratio of 8.5x. PVD just closed at \$72.25 per share, which is 72.8% above its 52-week low of \$41.8 and 20.3% below its 52-week high of \$86.91 per share. PVD has a high price to sales ratio at 5.5x.

Data provided by Zacks.com services and Yahoo Finance for company snapshots. Market caps and prices reflect March 23, 2011 closing prices.

ETF Snapshots

Here are two other options for investing in Chile:

Chile ETF/Closed End Funds

Ticker Name	Assets/Market cap	\$ Millions	Yield
CH Aberdeen Chile Fund, Inc.	172		0.6%
ECH iShares MSCI Chile Index Fund	873		0.7%

Source: Yahoo Finance

Conclusion

Chile could be an interesting country to look at. For dividend investors, LFL, BCH, BCA and PVD could be interesting options to research further. Utilities ENI and EOC may offer some upside valuation potential.