

Seeking Alpha α

Investment Opportunities in Chile's Commodity-Based Economy

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| includes: [BCA](#), [BCH](#), [BSAC](#), [CCU](#), [CH](#), [ECH](#), [EOC](#), [FRN](#), [PVD](#), [SQM](#)

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For decades, investors with an interest in Latin America were essentially looking at a few nations like Brazil, Argentina and Mexico. While Brazil continues to be the most talked about investment destination in Latin America, the serious investors with an eye for detail have been happily playing the Chilean markets with much more growth potential. Though it's evident that Chile doesn't quite enjoy the celebrity status of rival Brazil, there is no denying the fact that **Chile has weathered the current global economic meltdown better than most countries and offers good wealth creation opportunities for the global investor.**

Chile essentially has a commodity-based economy whose primary exports are minerals, food, and timber as well as a world-class wine production sector. **Most of these important exports have kept Chile in a strong economic position worldwide, as there is an ever-increasing demand for commodities especially from the developing nations in Asia and other parts of the world.**

Chile, which was ruled by dictator Augusto Pinochet from 1973-1990, established free-market norms by reducing the size of the state, and privatized the pension provisions but since his fall the power was transferred to the Left which slowed down the development pace of the economy. Now businessman Sebastián Piñera has been elected as the new president of Chile this year, making him the first right-of-center leader since Pinochet. Piñera's government has already initiated plans to increase the pace of economic growth by freeing up regulation by cutting taxes on business.

According to some of the latest rankings, Chile is 1st among Latin American economies in terms of business and private investment attractiveness, market access, and transportation and communication infrastructure. *(Click to enlarge)*

Ranking Institutions	Ranking among Latin American Countries
2009 Trade Enabling Index World Economic Forum (www.weforum.org)	1
Best Place to do Business 2009 to 2013 Economist Intelligence Unit (www.eiu.com)	1
World Ranking of Economic Freedom 2009 The Heritage Foundation & The Wall Street Journal (www.heritage.org)	1
2009-2010 Global Competitiveness Index World Economic Forum (www.weforum.org)	1
IT Industry Competitiveness Index 2009 Economist Intelligence Unit (www.eiu.com)	1

Chile also leads all Latin American countries with the lowest corporate tax rate.

The Chamber of Commerce in Santiago after the world report on the influx of FID by the United Nations Conference on Trade and Development ((UNCTAD)) has projected that **Chile 's foreign investment is likely to overtake Brazil and Mexico and would achieve record figures in 2010**. Projections for this year are pointing a range between US\$15,000 and US\$20,000 million.

- According to the Banco Central, the Chilean Central Bank, the Chilean economy's GDP has had an increase of 6.5% in the second quarter achieving its highest advance in 5 years.
- Chile is ranked as one of the safest offshore locations in the world, with a world-class telecommunications infrastructure and higher-level education.
- Chile is a major producer of agricultural products and a number of commodities, particularly copper. Chile is the number one exporter of copper in the world, with US\$ 37 billion planned investment in the mining industry before 2018.
- According to a [Bloomberg report](#), Chile's economy is recovering from last year's recession and February's earthquake and is on track to expand 4.5 percent to 5 percent this year and 6 percent to 7 percent next year.
- Through transparent regulations and economic incentives Chile has attracted approximately US\$ 170 million of foreign investment in biotechnology. Over 200 companies and institutions are currently involved in biotechnology within Chile.

Chile Stock Market Index: The Selective Stock Price Index or IPSA Index is a Total Return Index and is composed of the 40 stocks with the highest average annual trading volume in the Santiago Stock Exchange (Bolsa de Comercio de Santiago). On the last trading day of the year, the index is re-based back to 1000. The index has been calculated since 1977 and is revised on a quarterly basis.

Chilean Companies Listed On US Stock Exchanges (ADRs)

- AFP Provida ([PVD](#)) Financial Services
- Banco de Chile ([BCH](#)) Banks
- Banco Santander Chile ([SAN](#)) Banks
- Compania Cervecerias Unidas ([CCU](#)) Beverages
- Corbanca ([BCA](#)) Banks
- Embotelladora Andina - A Shares ([AKO.A](#)) Beverages
- Embotelladora Andina - B Shares ([AKO.B](#)) Beverages

- Endesa-Empresa Nacional de Electricidad ([EOC](#)) Electricity
- Enersis ([ENI](#)) Electricity
- Lan Airlines ([LFL](#)) Travel & Leisure
- Soc. Quimica y Minera de Chile ([SQM](#)) Chemicals
- Vina Concha y Toro ([VCO](#)) Beverages
- Inversiones Aguas Metropolitanas Gas, H2O & Multiutility
- Supermercados Unimarc Food & Drug Retailers

Close Ended Chile Fund: Aberdeen Chile Fund, Inc. ([CH](#)): Aberdeen Chile Fund, Inc. (the Fund), formerly Chile Fund, Inc., is a closed-end equity fund. The Fund seeks total return, consisting of capital appreciation and income, by investing primarily in Chilean securities. The Fund's portfolio includes utilities, diversified, basic materials, cyclical consumer, non-cyclical consumer, financials, communications and other. Aberdeen Asset Management Investment Services Limited is the Fund's Investment Adviser.

Range 19.75 - 19.89
 # 52 week 14.50 - 20.35
 # Open 19.75
 # Vol / Avg. 2,775.00/29,000.00
 # Mkt cap 201.94M
 # P/E 2.26
 # Div/yield 0.44/8.86
 # EPS 8.79
 # Shares 10.17M
 # Beta 0.94

Chile Exchange Traded Funds (ETFs)

Although there are many Chilean companies listed on exchanges in the United States or European Union, investors can still take part in Chilean economic rise through the iShares MSCI Chile Investable Mkt Index.

iShares MSCI Chile Investable Mkt Idx ([ECH](#)): The index measures the performance of the Chilean equity market with almost 19% of this fund is in materials. Financials constitute fewer than 10% in this ETF. The fund has an asset base of \$380M and has 32 holdings

ECH Top Ten Holdings

1. Empresas COPEC: 13.80%
2. Enersis SA (XENI): 9.79%
3. Empresa Nacional de Electricidad (chile) (XEOC): 9.52%
4. Empresas Cmpc SA: 9.27%
5. Cencosud SA: 7.60%
6. Banco Santander-Chile: 5.16%
7. Lan Airlines SA: 4.78%
8. CAP: 4.60%
9. Sociedad Quimica y Minera de Chile: 4.58%
10. S.A.C.I. Falabella: 3.87%

Expense Ratio: 0.63%

Claymore/BNY Mellon Frontier Markets ETF ([FRN](#)): The Index tracks the performance of depositary receipts, in ADR or GDR form, that trade on the London Stock Exchange, New York Stock Exchange, NYSE Amex and Nasdaq Stock Market of companies from countries that are defined as the Frontier Market. The Fund has 27.92% holdings in Chile.

Expense Ratio: 0.65%

Overview Of The Chilean Economy

Chile offers numerous advantages to the potential investor. The Chilean market is open, stable and well-regarded both regionally and worldwide. Free trade agreements allow companies in Chile to access 86% of the world's GDP while the government's macroeconomic policies provide market stability and decreased investor risk. Chile is one of the 21 members of APEC (Asia Pacific Economic Cooperation), which is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. **Chile has already built strong trade ties with China, including a free trade agreement which makes approximately 92% of exports tariff free.**

Progressive Democracy: Chile is on the path to becoming a member of the Organization for Economic Co-operation and Development (OECD) and the government is adopting the necessary guidelines set by the organization. These guidelines are creating greater transparency and accountability of financial transactions, as well as further modernizing Chile's laws, public policies and procedures. Once accepted, Chile will have and maintain the same standards and practices of the current member nations.

The dependence of the economy on copper prices and the production of an adequate food supply are two of Chile's major economic problems. Chile's main imports are petroleum and petroleum products, chemicals, electrical and telecommunications equipment, industrial machinery, vehicles, and natural gas. In addition to minerals, it also exports fruit, fish and fish products, paper and pulp, chemicals, and wine.

Chile Outlook 2010

Inflation Forecast: For the Chile Inflation Rate, forecasters use data consisting of averages for the given year rather than data from end-of period. In 2008, inflation for the country was around 8.72% regarding change for average consumer pricing. From the end of 2008 to the end of 2009, a reduction of 80.73% occurred, putting 2009 at 1.68%. With that, Chile was positioned at number 124 for world rankings. Then for the 2010 forecast, an increase of 16.13% is expected, which would close the year out at 1.95%. Going out another five years to 2015 places the inflation rate forecast at 3%.

The Economist Intelligence Unit predicts that "growth will be underpinned by recovering investment and a gradually improving export performance, supported by firms seeking to take advantage of new opportunities created by existing and prospective Free Trade Agreements. Export diversification and demand from Asia will underpin export growth in the medium term."

As shown in the figure below, Chile's GDP is predicted to recover in 2010 along with the global economy.

Key Indicators*	2008	2009	2010	2011	2012
Real GDP growth (%)	3.2	-1.0	2.2	2.7	3.4
Consumer price inflation (avg; %)	8.7	2.1	3.1	3.1	3.0
Current account balance (% of GDP)	-2.0	-0.9	-1.1	-1.4	-3.7
Short-term lending rate	13.3	7.6	8.4	8.4	7.9