

# The Deal

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BY MANUEL BALBONTÍN

## GOING SOUTH

LATIN AMERICAN EQUITIES MAY OFFER INVESTORS GROWTH WITH STABILITY

THE SAYING USED TO BE “WHEN THE U.S. SNEEZES, Latin America catches a cold.” Investors viewed Latin America as a source of perpetual economic crisis and a mere technical bet when it came to portfolio diversification.

But things have changed—definitively and decisively.

The regional story is now one of stability, economically, fiscally and even, in many cases, politically. Investors looking for opportunities to diversify and find some potential protection from unfolding global crises would do well to take another look at Latin America.

The region has gone through a significant economic sea change, “decoupling” from the U.S. Its economic health no longer depends directly on U.S. growth.

Fiscal discipline is the order of the day. Latin American governments and financial institutions have learned their lessons from past crises. For example, many have let their currencies appreciate against the dollar (compared with China and Gulf countries, which have kept currencies pegged to the dollar). As uncertainty has dissipated, the debt of Latin American countries—specifically Mexico, Peru, Colombia, Chile and Brazil—has strengthened and is now largely investment grade or near.

And contrary to the fears of some, the left-leaning leaders in Latin America look like the European left, not like the irresponsible South American governments of the past. Hugo Chávez, Evo Morales and Rafael Correa are really the exceptions. Most leaders, including those in Brazil, Mexico, Peru, Colombia and Chile, are making very responsible monetary, fiscal, trade and pro-business decisions.

In terms of near- and medium-term performance, while Asia will still be a huge driver of global growth, all three of the global crises will hurt it: the bursting credit bubble, oil price shocks and food-price inflation. But as a net exporter of energy and food, Latin America will benefit economically from two of these trends.

Investors have an opportunity, now, to invest relatively early in Latin America’s stability.

There’s already significant cross-border investment, M&A activity and private equity initiatives. Brazil was a major receptor of foreign direct investment and had the largest initial public offering, Bolsa de Valores de São Paulo SA,

the São Paulo stock exchange, known as Bovespa, in Latin America last year. In Peru, eight IPOs are expected in the next year; Dubai Investments bought what is expected to be the most efficient port in Peru; and Grupo Lakas, a Panamanian company, is building a Peruvian thermoelectric plant that involves a \$500 million investment. Fort Lauderdale,

Fla.-based Global Energy Trading Co. now has operations in Colombia and is also entering Peru for the production of biodiesel. Phillip Morris International Inc. owns Medellín, Colombia-based Cia. Colombiana de Tabaco SA, known as Coltabaco; Xstrata plc of Switzerland has purchased El Cerrejón coal mine of Colombia; ING Groep NV of the Netherlands has purchased Colombian insurer AFP y Cesanta Santander; and a U.S. consortium including American International Group Inc. has recently invested in Colombian finance company Gran Central de Abastecimientos e Inversiones Comerciales SA. General Electric Co. is expected to invest \$1 billion in Colombian media and

banking properties, and Anglo Gold Ashanti Ltd. is expected to invest \$10 billion in new gold discovery in Colombia.

It’s also noteworthy that the largest foreign investor in Peru is Chile and that the Colombian and Peruvian stock exchanges recently signed a joint venture to increase cross-border securities trading.

The key for investors in the future will be to look beyond the region’s main indexes, which overweigh commodity exporters, utilities and big conglomerates. The most solid growth in Latin America will be with individual companies that benefit from intraregional trends—specifically infrastructure investment and domestic consumption. High-growth areas will include retail, real estate and banking.

The most significant risks for investors in Latin America—indeed, for investors in any market—would be an extremely deep U.S. recession and/or the (unlikely) collapse of hard commodities. Though these events could have less impact in Latin America, they would have repercussions throughout the world. ■

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