



Brazil Stocks Beat Peers and Seen Still Having Room To Run

By Kenneth Rapoza
October 19, 2009

Brazil's stock market is up 138% since January, in U.S. dollar terms, and may still have plenty of value left for new investors.

Brazilian stocks might look expensive after doubling in value this year, said Gabriella Antici, chief investment officer at Goldman Sachs Asset Management in Sao Paulo, but Brazil's 2010 price-to-earnings forecast is below all major emerging markets except Russia.

Brazil's price-to-earnings ratio for 2010 is 13.4 times. China's forward P/E ratio is 14 times, while India is 16.9 times 2010 P/E. Mexico, Latin America's other big market, is trading at 14.3 times for 2010, said Antici. Only Russia looks like a value play, trading at a multiple of 8.9 times. Russia's stock market has risen 118%, year to date. China and India have risen 66% and 88%, respectively, and Mexico's total return is 38.9% as of Oct. 16.

"The reality in Brazil has changed," Antici said. "It's investment grade. Much of the rally we have seen this year is because investors are impressed with how Brazil came out of the crisis. Consumers actually did pretty well and we can grow (GDP) by 0.5% in 2009, whereas a few months ago no one was saying that. Next year's growth estimates are being revised upward every day."

Greater GDP growth means stronger cash flow for Brazilian companies and investors are building positions for 2010 with that in mind.

Foreign investors, who accounted for 35% of Bovespa's volume as of Oct. 13, also like Brazil's domestic story. Cash is flowing into the stock market and the local currency has appreciated 37% against the dollar so far in 2009 to BRL1.70, another factor contributing to the double-digit growth in stocks.

The first 13 days of October saw foreign investment inflows of 2.6 billion Brazilian reals (\$1.5 billion) compared to BRL4 billion in all of September.

The MSCI Brazil index has outperformed the MSCI Emerging markets index over the last three months. The hotly traded iShares MSCI Brazil exchange traded fund (EWZ) has done even better, outperforming its benchmark by a country mile all year. The iShares Brazil fund is up 115.7% year-to-date as of Oct. 16.

"The market in Brazil is looking pretty stretched, but we prefer it over China as an emerging

market investment," said Rajiv Jain, portfolio manager at Vontobel Asset Management in New York.

"China's corporate profits are disappointing and Brazil's are not. China's corporate governance is not transparent, and Brazil's is. We like anything that has to do with the local economy and our Brazil investments are equal to five times what we have in China," Jain said about his company's Virtus Foreign Opportunities Fund (JVIAX) and Virtus Emerging Markets Opportunities I fund (HIEMX).

Last week, even normally conservative Citigroup revised its year-end target for the Ibovespa stock index, Brazil's benchmark, to 70,000 points from 65,000. That would still be below Ibovespa's all-time high of 73,920 back in May 2008. Yet, expectations are that 4.5% GDP growth in Brazil next year will help push stocks even higher. Ibovespa is currently at about 66,000 points.

On Friday, Oct. 16, Barclays revised its year-end forecast for the local currency, the real, to BRL1.65 to the dollar from BRL1.75 since investment is coming in faster than expected.

But some investors offer caveats.

"Some of this growth is surely taking away from 2010 growth potential in equities," said Robert Lutts, chief investment officer of Cabot Money Management in Massachusetts. Nevertheless, Lutts added, "I have 40% of my aggressive growth money in emerging markets like Brazil. Honestly, I think it should be 50%."

Brazil's stock market is unlikely going to grow another 75% from where it is now, said Yu-Dee Chang, head trader at ACE Investment Strategies LLC in McLean, VA. "The growth potential is still there, though. We are waiting for a pullback and then we will get in."

Past performance is not indicative of future results. People can and do lose money in futures trading.