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Brazil at 25% Discount to Global Stocks Becomes Mobius Favorite
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By Michael Patterson and Tal Barak Harif

Jan. 26 (Bloomberg) -- The biggest decline in the Bovespa index in three months has turned Brazilian stocks into Latin America's best bargain, according to Templeton Asset Management and Emerging Markets Management LLC.

The Bovespa retreated 6.4 percent from a 19-month high on Jan. 6, the most since an 11 percent decline in the second half of October. The 63-company gauge trades for 20.5 times reported earnings over the past 12 months, a 25 percent discount to the 27.5 times for the MSCI AC World Index of emerging and developed nation shares, according to data compiled by Bloomberg.

"The most attractive market in Latin America is Brazil," Mark Mobius, who oversees about $34 billion of developing-nation assets as chairman of Templeton Asset Management, said in an interview in Bangkok yesterday. "Its valuation is not excessive."

Brazilian stocks have surged 178 percent in the past five years, more than 20 times the 7.2 percent gain in the MSCI AC World. The Bovespa sank this month as steps by China to curb growth in the world's fastest-expanding major economy spurred concern that demand for Brazilian exports will weaken. Mobius, whose Templeton Emerging Markets Investment Trust beat its benchmark by 21 percentage points the past 12 months, said Chinese consumption of iron ore and oil produced by Brazil's Vale SA and Petroleo Brasileiro SA will increase.

"It's a buying opportunity," John Ditieri, who helps oversee about $13.5 billion in emerging market equities at Arlington, Virginia-based Emerging Markets Management, said in an interview. "You want to be in emerging markets and especially in Brazil."

Bullish Analysts

The Bovespa trades for 13.2 times analysts' 2010 earnings estimates, compared with 14.9 times for Mexico's Bolsa and 17.4 times for Chile's Ipsa. The IGBC Index in Colombia is valued at 19.8 times profit estimates, Bloomberg data show.

Stock analysts expect an average 24 percent gain for shares in the Bovespa during the next 12 months, according to 696 price estimates compiled by Bloomberg. That's almost double the 14 percent projected advance for MSCI AC World companies.

Vale, the world's largest iron-ore producer, may climb 23 percent and Petrobras, as the nation's state-controlled oil company is known, may advance 36 percent, according to analysts' projections for the Rio de Janeiro-based companies.

Equities in the MSCI World Index for advanced nations, which trades at 28.6 times reported profits, are projected to gain 13 percent on average, according to analysts.

'Slamming the Brakes'

The Brazilian benchmark index sank to a one-month low of 66,220.04 on Jan. 22. Petrobras, Latin America’s largest company by market value and the 13th-biggest in the world, has contributed the most to the gauge’s drop since Jan. 6 as crude prices fell more than 10 percent through last week on speculation fuel demand from China will weaken. Brazil exchanges were closed yesterday for a Sao Paulo holiday.

Preferred shares of Petrobras lost 7.3 percent since Jan. 6, while Vale declined 2.8 percent. The MSCI AC World index retreated 4.8 percent.

China moved to cool its economy this month after gross domestic product climbed 10.7 percent in the fourth quarter, the fastest pace since 2007 and more than the median forecast of 10.5 percent in a Bloomberg News survey. China allowed yields on three-month bills to increase and raised the proportion of deposits that lenders must set aside as reserves in an effort to remove funds from the banking system.

Inflation

“If China is really slamming the brakes, that’s not good for Brazil,” said Uri Landesman, who helps oversee about $3 billion at ING Investment Management in New York. “We’ll need to see renewed appetite for risk or Brazil could fall another 8 percent short term.”

Investors in Latin American stocks should reduce their holdings in Brazil to a “neutral” position relative to benchmark indexes because shares tied to consumer demand are “over-owned” and vulnerable to rising interest rates, JPMorgan Chase & Co. strategists wrote in a research note yesterday.

Brazil’s central bank President Henrique Meirelles may act to stem price increases, according to a survey of economists published yesterday by the bank. Brazil’s inflation will exceed the target of policy makers this year, while the benchmark lending rate will rise to 11.25 percent by year-end from a record low 8.75 percent, according to the survey.

Retail Sales Surge

Brazil implemented a 2 percent tax on the purchases of equity and fixed-income assets by overseas investors in October.
The government’s success curbing a rally in the nation’s currency is a “scary” and “dangerous” precedent that may encourage officials to adopt more measures to stem the real’s appreciation, according to Citigroup Inc.’s New York-based equity strategist Geoffrey Dennis.

Surging demand from Brazilian consumers is driving the country’s economic growth along with commodity exports, said Federated Investors Inc.’s Audrey Kaplan. Brazil’s retail sales jumped in November at the fastest pace since October 2008, climbing 8.7 percent from a year earlier.

“We do still find Brazil equities attractive,” said Kaplan, who helps manage about $392 billion as the co-head of international equities at Federated in New York. “It’s not only about higher commodities. Domestic consumption seems to be recovering much stronger than its peers.”

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