

GRANT'S

I N T E R E S T R A T E O B S E R V E R®

Vol. 34, No. 08n

Two Wall Street, New York, New York 10005 • www.grantspub.com

APRIL 22, 2016

South of the border

The stars are profitably aligned for U.S. investors in Latin America, John Haskell, director of research at Explorador Capital Management, told conference-comers: Local currencies are cheap, multiples are reasonable and corporate earnings have troughed.

Haskell's picks to click comprised InRetail Peru Corp. (INRETC1 on Lima) and Empresa Nacional de Telecomunicaciones SA (ENTEL on Santiago), or Entel. "InRetail is a pure play Peruvian retailer," Haskell said. "They are essentially three parts: one third shopping malls, the second-largest mall owner in Peru with half a million square meters of [gross leasable area]; supermarkets, they have 106 essentially stop-and-shops across the country; and then pharmacies, they are the

Duane Reade or the Walgreens of Peru with 59% store growth since 2012."

While InRetail's stores have performed well ("same-store sales are above GDP"), 72% of the company's debt was funded dollar-denominated debt. "So the credit metrics deteriorated," Haskell continued. "They've essentially reduced their dollar debt exposure to 23%." Today, InRetail trades at 14.5 times 2018 earnings vs. 24.2 times for Raia Drogasil SA, a rapidly growing Brazilian pharmacy chain.

Entel, Haskell continued, is "the Verizon of Chile," the mobile operator with the highest revenue per user and "the most 4G and data service." Three years ago, Entel bought the assets of Nextel Peru for \$425 million out of bankruptcy. So far, the former Nextel

operations remain unprofitable as Entel continues to spend on infrastructure and customer acquisition ("every time they take a new net subscriber, the cost of [the] cell phone is up-front").

At current valuations, the market projects that the Peruvian operations will never turn profitable. "[I]f you take a conservative fair value for Entel Chile home market of 5.5x EBITDA," Haskell went on, "what this means is the market is effectively ascribing negative \$1 billion of enterprise . . . that makes little sense given the fundamental attractiveness of the Peruvian market . . . a market with a young and growing population that wants to adopt technology."

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