



Understanding Risk and Opportunity in Latin America

Description

Latin America has been generating headlines in recent times. Brazil's ongoing political ructions, which include the emergence of a dominant far-right popular political party, fears that Argentina's economy is again on the verge of collapse, and the end of Latin America's longest-running civil conflict in Colombia have brought the region firmly under the spotlight. Further attention is being garnered because of significant concern that a few emerging markets in Latin America are coming under considerable pressure because of rising U.S. interest rates and a firmer dollar. It is feared this has the potential to trigger a broader [emerging markets crisis](#), which could spark a global financial conflagration.

Hazards abound

There are also jurisdictional risks in the region that investors need to understand before investing hard-earned capital in the region. A key hazard is resource nationalism and a desire by many local communities to prevent the extraction of mineral reserves by foreign companies, which is aggravated by opaque legal and regulatory environments. This is illustrated by **Tahoe Resources**, which was forced to [shutter operations](#) at its flagship Escobal mine in Guatemala because of its licence being suspended after a legal battle with community groups opposed to the mine.

There is considerable opportunity

Nonetheless, opportunity abounds in Latin America for investors seeking to geographically diversify their portfolios and enhance returns by gaining access to some of the world's fastest-growing economies. Many Canadian companies operating in Latin America are focused on mining and oil. Because of overbaked apprehension about jurisdictional and geopolitical risk, many are trading at discounts to their indicative fair value, creating opportunities for risk-tolerant investors seeking attractively valued stocks to play higher gold and oil.

One precious metals miner to consider is **Continental Gold** (TSX:CNL). Its stock has lost 36% for the year to date in the wake of the fatal attack on its operations at the property in northwestern Colombia, where three employees were murdered. The security situation in Colombia has improved vastly since the largest guerrilla group, the FARC, demobilized as part of the peace deal established in 2016.

Continental's flagship Buritica project was unaffected by the incident and remains on track to commence production in 2020. The quality of that asset is underscored by its considerable reserves of 3.7 million gold ounces, with a notable grade of 8.4 grams of gold per tonne of ore. Because of the high ore grade, Buritica's all-in sustaining costs are estimated to be less than US\$600 an ounce, which are some of the lowest in the industry. Continental recently reported some strong drilling results at Buritica, underscoring the [considerable potential](#) held by the property.

Another opportunity in Colombia benefiting from the improved security situation is upstream oil explorer and producer **Gran Tierra Energy** ([TSX:GTE](#))(NYSE:GTE). Through a series of acquisitions, it has become one of the Andean nation's leading privately owned oil producers. It has oil reserves of 137 million barrels, which have a net present value of almost \$11 per share before tax, which is almost triple its current market price, highlighting the considerable potential upside. The driller is in the process of boosting its liquidity and access to capital by listing on the London Stock Exchange and has a solid history of growing oil reserves and production.

Another means of gaining lower-risk exposure to Latin America is by investing in globally diversified infrastructure provider **Brookfield Infrastructure Partners** ([TSX:BIP.UN](#))(NYSE:BIP). It provides investors with exposure to utilities and transport infrastructure in Brazil, Peru, Chile, and Colombia with the last three among the fastest-growing economies in the region. Furthermore, after suffering its deepest economic slump in over a century, Brazil has returned to growth. This all bodes well for Brookfield Infrastructure to continue unlocking value for investors.

The partnership has a long history of operating in the region and has demonstrated an ability to successfully negotiate many of the risks as well as obstacles that have caused other foreign companies to flounder. While investors wait for earnings to grow and Brookfield Infrastructure's stock to appreciate, they will be rewarded by its sustainable distribution yielding almost 4%.

Don't fear investing in Latin America

Investing in Latin America is not for the faint-hearted, but the region provides plenty of opportunity for investors seeking to diversify their portfolios to reduce risk and enhance returns. It also is typically less correlated to the U.S. and other major developed markets, which means that during downturns affecting those economies the fallout is less severe, making it an appealing way of reducing investment risk.

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

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1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
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