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WORLD WIDE WONDERS

Following the £81 billion in spending cuts pushed through by George Osborne, debate over the fate of the UK economy continues to rage. For those worried about the nation's growth prospects, Dan Coatsworth and the *Shares* team identify ten stocks that tap into the dynamic economies of five overseas countries

The economic growth underway in certain parts of the world is simply too strong to ignore. As it has never been easier to invest in overseas-listed companies or get exposure to foreign countries, *Shares* believes five powerhouses in particular will add important diversification to your portfolio and boost potential returns.

We believe the positive economic outlook for Germany, India, Mexico, Mongolia and Norway warrants an investment in each region. Our picks among overseas-listed stocks to gain exposure are chemicals group **Bayer (BAY:DE)**, car maker **Tata Motors (TTM:NYSE)**, drinks bottler **Coca-Cola FEMSA (KOF:NYSE)**, coal producer **Mongolian Mining Corp (0975:HK)** and oil services group **Acergy (ACY:OL)**. We have also identified UK-quoted companies which have operations embedded in these countries, namely engineer **Bodycote (BOY)**, oil-to-power group **Essar Energy (ESSR)**, silver and gold miner **Fresnillo (FRES)**, private equity investor **Origo Partners (OPP:AIM)** and oil producer and explorer **Faroe Petroleum (FPM:AIM)**.

With questions being asked about the economic stability of many countries, including the UK, investors should take measures to diversify their holdings and seek out those areas with the strongest prospects. One way is to have exposure to different nations. If one location suffers a setback, your overall portfolio will not take a bad knock, while the robust economic picture in some countries could well be reflected in premium share price performance from firms with a strong presence there.

Plodding along

The UK economy is forecast to grow by 1.7% this year and by 2.0% in 2011, according to new data (6 Oct) from the International Monetary Fund (IMF). Yet concerns over government spending cuts prompting a rise in unemployment have cast a shadow over whether the UK can achieve even this level of growth next year. Forecasting group Ernst & Young ITEM Club last week (18 Oct) warned the UK economic recovery was losing momentum and would slow over the winter, although the consultant did not predict a full-blown double-dip recession. Investors put off by the cautious near-term outlook could therefore look to other countries with a more robust economic outlook. These include India and Norway, forecast to show 8.4% and 3.1% GDP growth respectively in 2011.

Most stockbrokers offer the ability to trade shares in the main overseas exchanges, such as New York, Frankfurt, Milan and Paris. Exchange-traded funds (which trade on the London Stock Exchange and other major markets around the world) can support investments further afield such as Vietnam and Indonesia; and the trend for tapping into international capital markets means many companies have listings on more than one stock exchange. So there is a good chance you will be able to invest in the foreign company or index of your choice.

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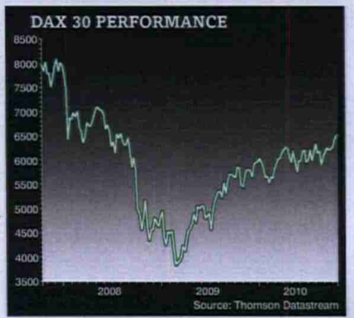
GERMANY

POPULATION: 82.2 million
CAPITAL: Berlin
CURRENCY: Euro
INDUSTRY: Iron, steel, coal, cement, chemicals, machinery, vehicles, machine tools, electronics, food and beverages, shipbuilding, textiles



Germany is leading Europe out of recession. The IMF reckons its economy should expand by 3.3% in 2010 and 2.0% in 2011. A weakened euro has helped drive its overall export performance, while low interest rates across Europe, due to the Greek crisis, have in turn helped stimulate demand in certain sectors. The German government said in early October industrial production in Europe's biggest economy was better than expected in August — growing by 1.7% against forecasts of 0.5%. In July, growth was just 0.1%.

The Bundesbank's October bulletin confirmed unemployment is on the verge of dropping below the level where it stood directly before the crisis. Moreover, the importance of domestic demand in the country's economy is steadily increasing.

Germany's public budget deficit is expected to remain below 4%, the central bank reiterated. The nation's debt levels are nevertheless expected to rise significantly, primarily because of the measures taken to support the financial system during the credit crunch of 2008 to 2009 and subsequent sovereign debt crisis of 2009 to 2010.

The recent surge in Germany's growth has been driven by exports to the US and China. Anything that affects their economies will have repercussions even for Europe's powerhouse economy. The US continues to follow an expansionary monetary policy but China's first interest rate increase since 2007 (12 Oct) should be borne in mind.

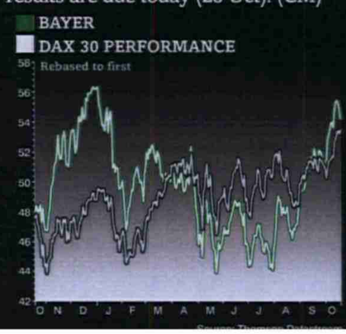
There is a view Germany could be doing more to stimulate domestic demand by spending some of its huge balance of payments surplus. A weakened euro is boosting the competitiveness of German exports and driving up the price of imports. The world's fourth largest economy has many world class companies offering good value and sound earnings.

Frankfurt is the main stock exchange in Germany, accounting for around 90% of the country's market. The DAX is the main index, representing the top 30 companies trading on Frankfurt. Nearly all the UK stockbrokers which provide the ability to trade international shares will include German stocks. (CM)

Bayer (BAY.DE) €53.10

+ BUY

Bayer (BAY:DE) is more than a top-class chemicals company since it has exposure to a wide range of fast growing, high-tech areas, including pharmaceuticals, crop science and healthcare. It therefore offers a combination of defensive qualities and growth. Half-year results (29 Jul) showed pre-tax profits had risen by 24% to €1.7 billion. Consensus earnings per share forecasts for the full year are €4.05 rising to €4.43 in 2011, placing it on a prospective price/earnings ratio of 12.2 for next year. This looks too cheap considering the European sector average for the same period is 13.2. Third-quarter results are due today (28 Oct). (CM)

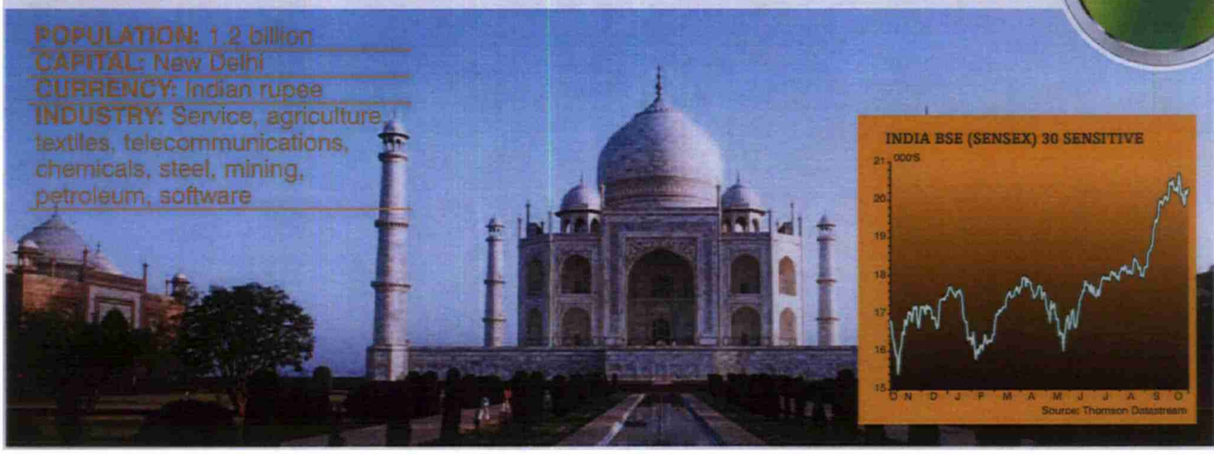


Bodycote (BOY) 293.8p

+ BUY

This industrial engineer derives 40% of its revenues from Germany and France. It offers good exposure to industrial recovery in Europe and has translational benefits. It will benefit if the euro goes up in value against sterling, as it reports in the latter currency. Analysts have been raising their earnings forecasts and see further upside in its end markets, helped by **Bodycote (BOY)** winning market share from weakened local competitors. Next year should see recovery in the later-cycle, higher margin aerospace and power markets. (CM)

INDIA



The world's largest democracy offers the prospect of near-double digit GDP growth. Unlike China, much of this expansion is driven by domestic demand rather than exports, so the country is less reliant on a continuing global recovery.

India faces a huge logistical challenge in the construction of the necessary roads, power plants, schools and hospitals to cope with a growing population and economic expansion. This offers a significant opportunity to India-focused companies, listed both domestically and overseas.

It was estimated the country needed to spend $500 billion on infrastructure between 2007 and 2012. Yet it is behind that schedule and, in an indication of how much work there is to do, around 44% of Indian households still have no direct access to electricity.

In addition, the Indian middle class is growing and this is expected to put increasing demands on the manufacturers of relative luxuries such as cars and mobile phones. Consulting firm McKinsey forecasts that, by 2025, India's middle class will grow to 600 million people, or roughly 40% of the population. Indian automotive giant **Tata Motors (TTM:NYSE)** is an obvious candidate to benefit from this trend.

In a sign investors are picking up on the potential on offer, the Sensex, the benchmark index of the Bombay Stock Exchange, hit a 33-month high above 20,800 earlier this month (14 Oct). Buying from foreign institutional investors accounted for much of this strength. India has attracted a record $21.4 billion in foreign funds into stocks this year, one-third of that since September.

The Sensex is dominated by financial, resource, industrial and information technology plays. While it is difficult for UK private investors to access the Indian stock market directly, it is possible to glean exposure to a number of larger Indian firms via American Depositary Receipts (ADRs), listed in New York.

Those looking for a more diverse way of investing in India could look at a product such as **Lyxor ETF India (LNFT)**, which tracks the 50 largest and most liquid stocks listed on the National Stock Exchange of India. There are also over 20 Indian or India-focused stocks listed on Aim with an aggregate market capitalisation in excess of £2.5 billion. (TS)

DAN COATSWORTH OWNS SHARES IN DB-X TRACKERS S&P CNX NIFTY ETF (XNIF) WHICH TRACKS SOME OF THE SAME INVESTMENTS AS LYXOR ETF INDIA

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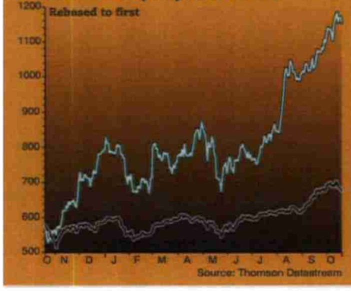
Tata Motors ADR (TTM:NYSE) $27.76

+ BUY

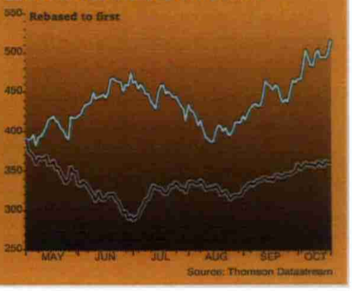
It is worth buying American Depositary Receipts (ADRs) in the Indian automaker with demand for cars likely to grow in line with India's expanding middle class. The ADRs have already gained 64% so far this year but there should be scope for further gains with the Indian car market projected by consultancy firm Ernst & Young to grow at a compound annual growth rate (CAGR) of 14% between 2009 and 2020, against, for example, an estimated 6% in China. (TS)



Essar Energy (ESSR) 500p

+ BUY

Comprising of Indian conglomerate Essar Group's Essar Oil & Gas and Essar Power businesses the £6.5 billion market cap looks the best London-listed play on the Indian economy and the increasing demand for energy. Nearly half of Indian households have no electricity and FTSE 100 firm Essar **Energy (ESSR)** is aiming to increase its own generating capacity almost ten-fold from 2009's 1,220 megawatts (MW) to 11,470 MW by 2014. This would make it the leading private sector player in the Indian energy market. (TS)



Overseas investment risks

If you are investing directly overseas in a foreign-domiciled business the key risk you face is dilution of ownership. Pre-emption rights, whereby existing investors have first refusal on the issue of new shares, are enshrined in UK company law, as set out in the Companies Act 2006. Any UK-domiciled business is bound by them. Statutory protection in overseas territories may not be as good.

FTSE Group is very careful when it decides which overseas domiciled companies are to be granted entry to the main FTSE indicies. It vets the legislative framework of the country in question to ensure the equivalent protection as you would get under UK law. **Hutchison China Meditech (HCM:AIM)**, one of the best-performing stocks on Aim this year, is registered in the Cayman Islands, and clearly warns on its website 'the rights of shareholders may be different from the rights of shareholders in a UK-incorporated company'.

But qualitative factors can sometimes offset any cut-and-dried investor protection rules. This holds true for Hutchison by virtue of the fact former owner, Hong Kong Stock Exchange quoted conglomerate **Hutchison Whampoa (0013:HK)**, retains a 70% stake. Given Hutchison's long track record of spinning off companies by flotations, minority investors have good reason to feel secure Hutchison will not let their rights be abused. (SK)

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Citigate Dewe Rogerson

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MEXICO

POPULATION: 109.6 million
CAPITAL: Mexico City
CURRENCY: Mexican peso
INDUSTRY: Food and beverages, tobacco, chemicals, iron and steel, petroleum, mining, textiles, clothing, motor vehicles, consumer durables, tourism

News the IMF has upgraded its economic forecast for Mexico underpins our interest in the Central American country. The IMF predicted (6 Oct) Mexico's economy would grow by 3.9% in 2011, significantly ahead of its previous forecast of a 0.5% decline. It also upgraded 2010 growth forecasts from 0.5% to 5.0%.

The state of the country's finances has drastically improved since the mid-1990s, when the 1994 Tequila crisis led to a sudden devaluation of the peso and obliged the USA and IMF to coordinate a $50 billion package to bail out Mexico. Debt now stands at 4.8% of GDP, down from a peak of 16.5%.

Risks do remain. The IMF warns the country's 'deep real and financial links' to the US economy mean it will suffer should North America experience any major setbacks. We are also disappointed with the country's falling oil output, as the former energy-producing giant could become a net importer within just five years.

Investors do not seem worried at the moment. The country earlier this month offered a staggering $1 billion of bonds where the debt was to be repaid in 100 years' time. This is double the amount it originally planned due to high demand. The yield on the century bonds is 6.1% at the time of writing.

The economy is dominated by the service sector including transportation, commerce, tourism and banking. Manufacturing is contributing to the country's economic recovery, where it is particularly strong in electronics and cars. The local currency, the peso, has risen nearly 6% this year against the dollar amid economic growth in the country.

Mexico's stock exchange is called BVM. Its benchmark index, the IPC, has risen by 12% in the past 12 months to 34,741.5. Many of the country's best-known companies have listings, including the largest cement maker in the Americas **Cemex (CEMEXCPO:BMV)**, media conglomerate **Televisa (TLEVISA:BMV)** and retail giant **Wal-Mart de Mexico** (also known as Walmex) **(WALMEXV:BMV)**.

Many of the large Mexico-listed stocks also trade as depositary receipts (which are packets of shares) on other exchanges – predominantly New York. This is the easiest way for UK investors to get exposure to individual companies. An alternative is to look at funds. The New York-listed **Mexico Fund (MXF:NYSE)** invests in Mexico-listed companies involved in numerous different sectors. (DC)

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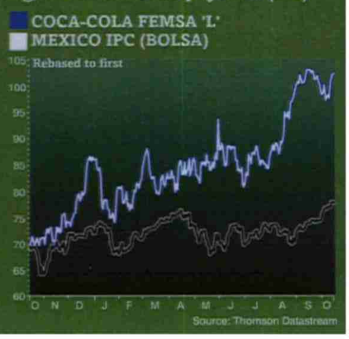
Fresnillo (FRES) £12.80 + BUY

While Mexico's oil industry is shrinking, the opposite can be said with mining. The country is rich with gold and silver and an ideal way of playing this situation is to buy FTSE 100 constituent **Fresnillo (FRES)**. This is the world's largest primary silver producer and Mexico's second largest gold producer. Not only will rising metal prices benefit Fresnillo; it is also producing more metal after starting a new mine, Soledad-Dipolos, earlier this year. Fresnillo's mining costs remain at the lower end of the industry spectrum. (DC)

Coca-Cola FEMSA (KOF:NYSE) $81.11 + BUY

The Mexican company is the second largest Coca-Cola bottler in the world and the largest in Latin America. It is 53.7% owned by Mexican drinks-to-convenience stores business **FEMSA (FEMSA:BMV)**, while **Coca-Cola (KO:NYSE)** has a 31.6% stake. Although it is fighting currency issues, mainly the devaluation of the Venezuelan bolivar, the company continues to report solid earnings and has attracted a top-tier investor in **Microsoft (MSFT:NDQ)** founder and chairman Bill Gates who has bought stock on several occasions this year. Volumes and profits are rising, as are dividend payouts. (DC)



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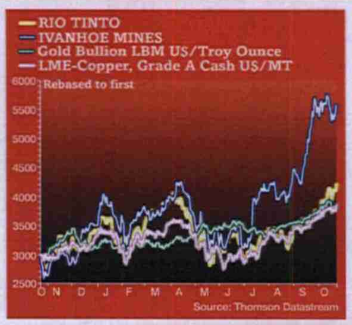
MONGOLIA

POPULATION: 2.7 million
CAPITAL: Ulan Bator
CURRENCY: Tugrik
INDUSTRY: Construction, mining, oil, agriculture, food and beverages, animal product processing, cashmere, natural fibre manufacturing



Its close proximity to China and wealth of natural resources including coal, copper and uranium makes Mongolia an exciting place in which to invest.

Mongolia's economy is forecast to grow by 8.5% in 2010 and by 7% next year. This compares with a 1.6% decline in 2009 when the banking system was under pressure and the economy was on the verge of collapse. It has been saved by international investment, financial support from the IMF, strong demand for natural resources from China, which is building rail links to the Mongolia border to purchase coal, and higher commodity prices.

Ivanhoe Mines (IVN:NYSE) and **Rio Tinto (RIO)** are joint developers of Oyu Tolgoi, a copper gold project which will cost $5 billion to bring into production – equivalent to Mongolia's current GDP level.

The Mongolian equity market is relatively small but the index of its top 20 companies has risen by an impressive 75% in the past year to 12,934.9. You cannot directly invest in shares; there is not yet a mainstream ETF to track the index; nor are there straightforward tracker funds. Instead, the best way to invest is through companies listed on more established stock exchanges and which are doing business in the country.

There include oil explorer **PetroMatad (MATD:AIM)**, and miner **Peabody Energy (BTU:NYSE)** which owns coal assets in Mongolia acquired from **Polo Resources (POL:AIM)** in June. **SouthGobi Resources (SGQ:TSX)** is one of the largest coal producers in Mongolia with one producing mine and two development projects.

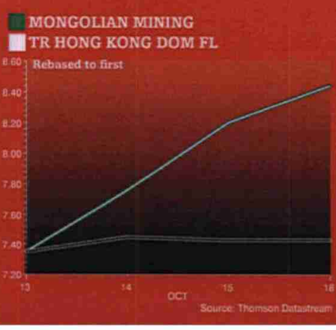
Central Asia Mines (CAML:AIM) has early stage Mongolian copper and molybdenum exploration projects, as well as two more advanced gold assets which are up for sale.

Mongolia is trying to entice companies listed elsewhere in the world to also take a listing on its stock exchange. This would increase the overall value of the constituents and entice institutional investors. This in turn could trigger the launch of tracker funds or ETFs. Mongolia is set to choose a stock exchange operator this month and London is seen to be the front runner.

Mongolian Mining Corp (0975:HK) HKD$8.47

+BUY

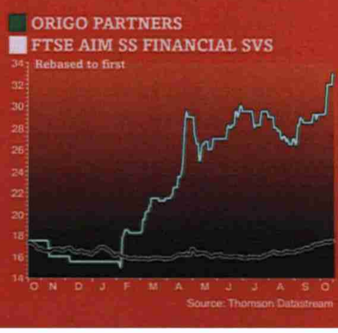
After raising $650 million at its initial public offering in Hong Kong two weeks ago (13 Oct), **Mongolian Mining Corp (0975.HK)** is one of the best ways to invest in Mongolia. The HK$30 billion business is the country's largest coking coal producer and sells product to steel makers. The retail part of its share offering was ten times oversubscribed, according to reports. The company plans to be acquisitive and is targeting coal and iron ore close to the Mongolian-Chinese border. (DC)



Origo Partners (OPP:AIM) 32p

+BUY

The private equity group is focused on China-linked economic growth opportunities which includes Mongolia business. **Origo (OPP:AIM)** invests in early-stage companies for a future exit either through a trade sale or initial public offering. Its portfolio includes stakes in several Mongolian natural resource companies: Gobi Coal & Energy, Bumbat Consolidated and Huremtiin Hyar. Origo also has a corporate finance joint venture with a Mongolian partner called ResCap to advise companies in, or looking to enter, the Mongolian natural resources sector. (DC)



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NORWAY

POPULATION: 4.8 million
CAPITAL: Oslo
CURRENCY: Norwegian krone
INDUSTRY: Oil and gas, food processing, shipbuilding, pulp and paper products, metals, chemicals, timber, mining, textiles, fishing

Low unemployment, decent economic growth forecasts and a wealth of exports are reasons to buy Norway. Although most of its main industries of oil, gas, fishing and shipping are cyclical, we see little reason why Norway will not be a solid investment for at least the next year.

The economy is forecast to grow by 1.7% this year, following a 1.4% decline in 2009. More importantly, GDP is predicted to rise by 3.1% in 2011. Unemployment has averaged 4.25% in the past 20 years but should come in at 3.5% this year and next.

Norway is the world's seventh largest oil exporter. It puts surplus revenue into a sovereign wealth fund (SWF) managed by the central bank. These petroleum investments helped steer the country through the recession and avoid the severe pains felt by many other industrialised nations. Norway plans to cut excess spending from oil and gas proceeds from NOK19 billion this year to NOK7.2 billion in 2011.

Keep an eye on retail spending as consumer demand looks to be somewhat weaker than policy makers had originally expected. This could delay the anticipated increase in bank interest rates in the new year and may temporarily weigh down on its currency, the Norwegian krone. Norway was the first European country to raise interest rates after the financial crisis, pushing up the cost of borrowing by 25 basis points to 1.5% in October 2009. Rates have since reached 2%. Many would argue a key attraction to Norway is it has not adopted the Euro.

Oslo is the main stock exchange. The OBX Index, which lists the 25 most liquid companies, has risen by 12.9% to 304.6 in the past 12 months. It is dominated by oil services, production and drilling companies including **Statoil (STL:OL)** and **Seadrill (SDRL:OL)**. Industrial conglomerate **Orkla (ORK:OL)**, banking group **DnB NOR (DNBNOR:OL)** and telecommunications business **Telenor (TEL:OL)** are also all quoted. Barclays is among UK stockbrokers that offer the ability to deal in Oslo-listed shares. Redmayne-Bentley says it can offer dealing on certain Oslo stocks so customers should call to enquire. (DC)

Guide to EPIC codes in this article

BMV: Mexico Stock Exchange, aka Bolsa Mexicana de Valores
FWB: Frankfurt Stock Exchange, aka Frankfurter Wertpapierborse
HK: Hong Kong Stock Exchange
OSE: Oslo Stock Exchange (Norway)
NYSE: New York Stock Exchange

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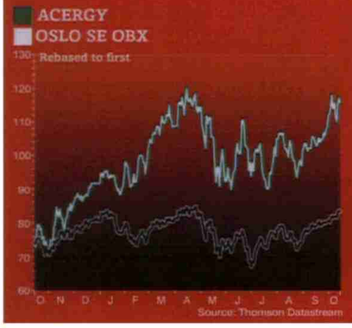
Acergy (ACY:OL) NOK115.8

+ BUY

Founded in Norway and based in the UK, engineer and construction contractor **Acergy (ACY:OL)** is a great way to play activity in the offshore oil and gas industry as it works in numerous countries. Margins are ahead of expectations and it is enjoying strong activity in West Africa. Net operating income for the nine months to August grew by 24% to $229.2 million. It is merging with **Subsea 7 (SUB:OL)** to create a major force in the oil services arena. (DC)



Faroe Petroleum (FPM:AIM) 193.25p

+ BUY

Although listed in London, Faroe is a great play on the Norwegian oil industry as two of its producing oil fields and several exploration discoveries are located in Norway. The former includes its Glitne operating field which has 'significantly outperformed expectations'. Since entering Norway in 2006 for exploration, Faroe has developed 19 projects. This year it has made two major oil discoveries and also pre-qualified as an operator in the country. Other interests include oil projects in the North Sea. (DC)

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HOW TO INVEST IN OVERSEAS SHARES

For the majority of brokers which offer international dealing, buying overseas stocks is no more complicated than setting up a standard trading account.

Yet not all markets are available and the fees charged by different providers vary considerably. Rob Kilner, stockbroker at Redmayne-Bentley, says: 'There are added costs [to overseas dealing], as a broad rule, the further away the market you're dealing in, the higher the costs.'

Some overseas services can only be accessed through telephone broking, which is more expensive than dealing online. The US remains the easiest market for a UK investor to trade on the web and it is possible to gain exposure to a large number of non-US firms on this market through American Depositary Receipts (ADRs).

TD Waterhouse has one of the broadest offerings. Clients can get online access to all the main markets in Europe, North America and Asia, or at least those which are not rendered inaccessible by domestic regulation like China and India. It should also be worth consulting with your individual broker as it may be possible in some cases to trade individual stocks on more obscure exchanges.

It is prudent to take account the impact currency changes can have on your investment return. While foreign exchange (forex) costs vary, it is typical for conversions into the local currency to be done on a deal-by-deal basis, with dividends also converted into sterling when they are received. In addition, currency movements can add to, or erode, any profits accrued on your stock selection. If sterling strengthens against the foreign currency in question, your international holdings will be worth less in pounds and pence, while if the British currency declines your foreign assets will rise in value.

Kilner adds 'We do trade in sterling but we can also trade in dollars and euro, but there are extra costs associated with multi-currency. You'll need a nominee account because overseas shareholdings are not evidenced by certificates, but are electronically held. You'll also need to sign a US tax form called a W8-Ben. Dividends are paid in local currency and are then translated into sterling'. (TS)

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