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How to get into the right international markets

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By Robert Powell, MarketWatch

BOSTON (MarketWatch) — In times like these, when the debt of one of the world's oldest countries gets downgraded and the value of homes in the U.S. falls for the 57th straight month, it would be easy to overlook whatever good investment ideas are floating around out there.

But the truth of the matter is that it's still possible to make money here and there, even in these choppy waters. And plenty of investors feel that way. In fact, half of some 13,000 investors across 12 countries plan to invest outside their home country in 2011, according to the Franklin Templeton Global Investor Sentiment survey.

And feeding into that craze, fund firms are more than happy to serve up product to meet the demand. Vanguard, Dreyfus Corp. and Russell Investments are just a few of the firms launching new international products.

Stephen P. Carr

For his part, Stephen P. Carr, a CFA charter holder and director of research at Peloton Wealth Strategists said in an interview that "international investing" does hold promise. The key to making it work, however, is the screening process.

And the first big screen, from his perspective, is searching for companies, mostly mid caps, that have good governance and access to and/or are generating revenue in growing markets. They are either companies based overseas that have ADRS or they are U.S.-based firms that generate a good portion of their revenue outside the U.S. "International investing has changed and U.S. companies aren't necessarily U.S. companies," he said. "The key is revenue source."

ADRs with good governance and access

At least two companies pass the first screen and one such firm is Millicom International Cellular SA , which is based in Europe and tapping into the fastest-growing markets for cell phones and pre-paid cell phone cards, those being sub-Sahara Africa and Central America.

According to report released by Pyramid Research this week, for instance, total mobile phones sold to end users globally will reach 1.46 billion in 2011 and smart phone sales will account for 27% of total handset sell-through. "Much of the projected total market growth in 2011 will come from the Africa and Middle East region, which will see a strong demand for low-end smart phone models, ultra low-cost handsets and dual-SIM and full touch-screen feature phones," Stela Bokun, an analyst for Pyramid Research, said in a release.

Millicom is trading close to Peloton's price target of $115 and the stock just touched a 52-week high, but Carr did note the target is subject to revision.

A similar story — where a company has good governance and access to attractive emerging markets — can be found in South America. Endesa Chile (NYSE:EOC) is the largest electric utility company in Chile and it's growing at a rate of 5.5%, more than 3½ times the growth rate of electric utility companies in the U.S., according to Carr. “Demand is growing in what some think is a sleepy industry,” he said. Peloton’s price target for Endesa is $64, so it has some room to go before hitting the target.

Joint ventures in emerging markets

U.S. based firms that are using joint-venture model to gain access to and generate revenue in the right emerging markets also fit the bill. When it comes to overlooked investment ideas, Carr said, “I’d go with the importance of the joint-venture model both for specific operating company performance and as a signal about an emerging economy transitioning from commodity production to internal consumption.”

And one company that passes through this screen is Cummins Inc. (NYSE:CMI) , which makes diesel engines. According to Carr, Cummins is an example of a U.S. based company that’s not really a U.S. company.

Consider: Cummins didn’t have access to key emerging markets such as India, China and Brazil so it formed joint venture with firms based in those countries. In India, it teamed up with Tata Motors Limited, that country’s largest automobile maker, to form Tata Cummins Limited. And now, Cummins plans to do the same in Africa.

To be sure, Cummins might not be an undiscovered gem. The company is trading close to its 52-week high as well as close to Peloton’s target price of $122 per share. But Carr suggests the company has the ability to continue its streak of surprising Wall Street. Revenues are forecast to rise from $10.8 billion in 2009 to $20 billion by 2014, but it’s possible the company will reach $17.5 billion this year.

And though it’s not a mid-cap company, nor is it a stock held by Peloton as of this writing, Carr said Merck & Co. (NYSE:MRK) also fits the model of a firm generating revenue outside the U.S. in the right markets, using the joint-venture model. In April, Merck and India’s Sun Pharmaceutical Industries announced plans to create a joint venture that will focus on marketing branded generic drugs in emerging markets. According to Carr, the pharmaceutical industry anticipates quite a bit of growth in emerging markets.

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