

Broadening your horizons

How to benefit from international trading companies

2010 could prove to be a difficult year for investors. Nick Raynor, Investment Adviser, looks at how investors could broaden their horizons and perhaps benefit from UK companies with international exposure.

With the UK economy not yet showing signs of a major recovery, it's worth knowing that you can also profit from buying the shares of UK companies with international exposure. If you've read our economic update on page 8 you'll know that it is estimated that 70% of the profits of FTSE 100 companies come from overseas earnings and according to Morgan Stanley, a fifth of UK PLC's whole market, all-share revenues are derived from emerging markets. That means that not only could you benefit from economic improvements in other continents you could also benefit from currency movements. For example, if sterling weakens against the dollar the stock market will benefit as 40% of

UK PLC's earnings and dividends come from companies that report in dollars. Obviously if sterling were to strengthen against the dollar, the reverse would be true.

In the remainder of the article, we highlight some sectors and FTSE 100 companies that have a large international exposure and others that don't.

Retailers

In the retailing sector there are a number of companies which have significant international exposure. Tesco has an established presence throughout Europe including operations in the Czech Republic, Hungary, Poland, Slovakia and Turkey which all help add to company profits. Outside Europe they have operations in

China, Japan, Malaysia, South Korea and Thailand. Their American operation Fresh & Easy has not fared well, adding losses rather than gains to Tesco's worldwide earnings.

Other UK listed supermarkets have either small or no exposure to overseas markets. Sainsbury's had a brief foray into Egypt which was sold in 2000 and the company's successful US investment in Shaw's Supermarket was sold in 2004 when it refocused on its UK business.

Kingfisher, the home improvement retailer that we know as B&Q and Screwfix Direct, is the world's 3rd largest retail hardware store: it is known in other countries as Castorama and Brico Depot. It has

operations in France, Poland, Italy, Turkey, China and Taiwan, as well as a strategic alliance with German firm Hornbach holdings which itself has exposure to other European markets.

By contrast, Home Retail, the owner of Argos and Homebase has no overseas exposure. They are completely reliant on UK consumers who may find 2010 a little tougher than previous years. Half-year sales have picked up slightly from 2008 figures but this takes into account lower interest rates and they won't be reducing further in 2010.

Burberry is a global retailer of branded luxury goods — primarily outerwear — with international exposure through shops and concessions as well as online businesses and franchise stores. Its operations span Europe, The Middle East, Africa, Spain, The Americas and Asia Pacific. Conversely, Next, another dominant UK clothing retailer does not have any significant overseas exposure and is generally more famous for its sales.

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Insurance companies

The Insurance sector also has a great deal of international exposure and there are many companies to choose from in this sector. Aviva has a growing international exposure; its operations stretch to Europe, Australia, China, India and other Far East regions. Its most impressive growth during the first 9 months of 2009 was in Italy, China and South Korea. For Aviva the emerging markets look to offer the most growth potential but investments in these regions carry an increased level of risk.

Prudential is generally viewed as a predominantly UK company but trading results reported in October 2009 showed that its 9-month turnover was split three-ways. Asia, US and the UK are the prominent regions with its Asian market currently yielding the highest level of sales, the US second and the UK over £300 million behind Asia. The US is clearly a growth market for Prudential and grew by 51% in 2009, but it is the Asian market that has the potential for returning the best gains. With its established presence in the region, the right marketing could reap impressive rewards.

Utilities

With utility companies, sometimes the name gives it away: International Power's operations are spread over North America, Europe, the Middle East, Australia and Asia and include power generation from gas, wind, coal, pumped storage, oil and water. It has a number of projects under construction which would increase power generation overall by nearly 5%.

Scottish & Southern Energy does not have any international exposure but does run a varied business. It generates 10,000 megawatts of electricity, runs 50 hydro electric power stations in Scotland, has a gas storage facility and operates 7,500 kilometres of telecoms network. Elsewhere in the sector, United Utilities is another UK-only company, operating a vast sewer network, pumping stations, reservoirs and over 40,000 kilometres of clean water mains.

Natural Resources

Companies whose profit stems from natural resources that are not found in serviceable quantities within the UK are perhaps the most obvious earners of international income. For example, BHP Billiton and Rio Tinto are just 2 of the 11 mining companies within the FTSE 100 who generate significant earnings from outside the UK. The oil sector, represented by companies such as BP and Tullow Oil doesn't generate much UK revenue either.

Banks

The banking sector includes the largest capitalised company on the FTSE 100: HSBC. Although it is headquartered in London, its international network comprises around 8,500 offices in 86 countries and territories in Europe, the

At a glance

70% of FTSE 100 companies' profits come from overseas earnings.

20% of UK PLC's revenues come from emerging markets.

International trading companies include Tesco, Kingfisher, Burberry, Aviva, Prudential, International Power, BHP Billiton, Rio Tinto, HSBC and Barclays.

Asia-Pacific region, the Americas, the Middle East and Africa.

Barclays also has a large overseas exposure with operations in Europe, North America, Africa and Asia. This meant that when things got tough it turned to its friends in Qatar rather than relying on hand outs from the British taxpayer. As a result, Barclays is still an independent bank. Note, however, that Barclays does have exposure to the American mortgage market which is still in a state of turmoil.

Lloyds Banking Group increased its international exposure when it merged with HBOS. However, the overseas positions are being sold off gradually in an effort to cut costs. Royal Bank of Scotland is also trying to sell off some overseas operations. However, finding buyers is the problem.

Have a look at our chart overleaf for an indication of which of the FTSE 100 companies generate the greater portion of their income from international operations.

Please remember the value of investments and the income from them can go down as well as up and you may not get back your original investment.

	Opinion	Price (p)	Div Yield (%)	Market Cap (£m)	52 Week High (p)	52 Week Low (p)	Overseas Exposure
3i Group	sell	250.00	2.52	2,425.80	310.70	109.72	●
Admiral Group	sell	1,163.00	2.12	3,099.13	1,189.00	809.00	○
Aggreko	hold	912.00	1.11	2,496.64	940.50	349.50	●
Alliance Trust	buy	308.60	2.59	2,058.55	337.00	233.00	●
Amec	hold	754.50	2.04	2,503.87	866.00	492.25	●
Anglo American	sell	2,310.00	1.21	31,021.65	2,897.00	914.00	●
Antofagasta	hold	855.50	0.67	8,434.00	1,040.00	410.50	●
ARM Holdings	buy	197.40	1.23	2,577.58	205.20	85.50	●
Associated British Foods	hold	899.50	2.33	7,121.11	905.08	613.00	●
AstraZeneca	sell	2,780.50	5.27	40,393.41	3,102.50	2,147.00	●
Autonomy Corporation	hold	1,502.00	0.00	3,614.11	1,636.00	1,114.00	●
Aviva	buy	359.90	9.17	9,957.04	467.50	163.30	●
BAE Systems	hold	341.70	4.24	12,100.76	405.00	306.00	●
Barclays	hold	262.00	4.39	29,900.13	383.60	61.40	●
BG Group	buy	1,141.00	1.08	38,508.29	1,235.00	893.50	●
BHP Billiton	buy	1,898.00	2.76	41,872.36	2,115.50	1,034.00	●
BP	buy	573.70	6.22	107,667.64	635.50	404.50	●
British Airways	hold	195.50	0.00	2,255.37	239.90	118.00	●
British American Tobacco	hold	2,157.50	3.88	43,076.34	2,170.00	1,495.00	●
British Land Co	buy	444.40	7.79	3,858.09	528.00	301.25	○
British Sky Broadcasting Group	hold	526.50	3.34	9,228.72	583.50	417.00	●
BT Group	hold	122.50	5.31	9,496.83	149.60	71.40	●
Bunzl	hold	629.00	3.28	2,065.49	675.00	481.75	●
Burberry Group	hold	602.00	1.99	2,614.73	649.00	238.75	●
Cable & Wireless	hold	136.70	6.22	3,546.21	162.60	125.70	●
Cairn Energy	buy	333.50	0.00	4,660.45	370.30	175.70	●
Capita Group	hold	717.00	2.01	4,479.37	781.50	617.50	●
Carnival	hold	2,228.00	0.00	4,755.71	2,320.00	1,287.00	●
Centrica	hold	271.20	4.50	13,919.78	287.50	214.75	●
Cobham	hold	227.10	2.18	2,603.98	252.20	165.10	●
Compass Group	buy	450.50	2.93	8,498.79	465.50	281.50	●
Diageo	hold	1,030.00	3.50	25,795.32	1,090.00	733.00	●
Eurasian Natural Resources	hold	938.00	2.11	12,079.10	1,034.00	311.00	●
Experian Group	buy	602.50	2.12	6,182.00	623.00	378.00	●
Fresnillo	hold	720.50	1.20	5,167.14	920.00	323.25	●
G4S	buy	259.30	2.48	3,657.47	267.90	173.00	●
GlaxoSmithKline	buy	1,229.00	4.96	63,801.17	1,339.50	987.00	●
Hammerson	hold	385.30	7.24	2,706.00	453.10	210.89	●
Home Retail Group	hold	259.00	5.68	2,272.58	329.70	189.00	○
HSBC Holdings	hold	649.70	5.47	113,191.74	761.20	304.13	●
ICAP	hold	329.30	5.18	2,156.54	467.20	206.50	●
Imperial Tobacco Group	hold	2,057.00	3.55	20,944.62	2,072.70	1,430.00	●
Inmarsat	hold	717.50	2.70	3,297.31	725.00	402.75	●
InterContinental Hotels Group	sell	915.00	2.91	2,631.74	937.00	446.00	●
International Power	buy	329.20	3.69	5,011.92	331.30	193.70	●
Intertek Group	hold	1,177.00	1.77	1,868.16	1,354.00	784.00	●
Invensys	sell	306.00	0.49	2,469.60	323.00	145.00	●
Johnson Matthey	hold	1,552.00	2.39	3,424.85	1,637.00	900.50	●
Kazakhmys	sell	1,253.00	0.71	6,706.56	1,499.00	235.50	●
Kingfisher	hold	209.60	2.54	4,950.00	247.20	118.00	●

	Opinion	Price (p)	Div Yield (%)	Market Cap (£m)	52 Week High (p)	52 Week Low (p)	Overseas Exposure
Land Securities Group	buy	629.00	8.98	4,772.56	726.50	341.00	○
Legal & General Group	hold	69.80	5.82	4,091.95	88.80	23.00	●
Liberty International	hold	453.50	3.64	2,819.99	569.00	268.53	●
Lloyds Banking Group	hold	46.59	12.14	29,709.36	74.14	20.00	●
London Stock Exchange Group	hold	641.00	3.81	1,737.81	941.00	370.00	●
Lonmin	sell	1,806.00	0.00	3,487.23	2,157.00	952.77	●
Man Group	buy	220.50	12.72	3,774.30	371.20	152.60	●
Marks & Spencer Group	hold	327.90	5.43	5,186.80	412.40	237.25	●
Morrison (Wm) Supermarkets	hold	297.80	1.95	7,894.98	300.80	234.50	○
National Grid	buy	640.00	5.57	15,816.85	682.00	515.00	●
Next	sell	1,917.00	2.87	3,646.30	2,139.00	1,088.00	●
Old Mutual	hold	100.70	2.43	5,464.72	121.30	30.80	●
Pearson	buy	868.50	3.89	7,045.80	909.00	578.00	●
Petrofac Ltd	buy	988.00	1.64	3,414.82	1,063.00	422.00	●
Prudential	buy	571.00	3.31	14,459.21	650.50	207.00	●
Randgold Resources	hold	4,486.00	0.24	4,038.57	5,345.00	2,823.00	●
Reckitt Benckiser Group	buy	3,313.00	3.02	23,860.99	3,356.00	2,454.00	●
Reed Elsevier	sell	489.00	4.15	6,099.12	543.00	420.00	●
Resolution	hold	75.50	0.00	1,821.40	112.00	74.00	●
Rexam	hold	282.80	6.62	2,479.67	303.20	199.35	●
Rio Tinto	hold	3,206.00	2.23	48,867.48	3,638.50	1,337.46	●
Rolls-Royce Group	buy	506.50	2.96	9,391.04	520.50	258.50	●
Royal Bank of Scotland Group	sell	31.25	0.00	17,614.29	57.65	18.10	●
Royal Dutch Shell 'B'	hold	1,663.50	6.44	44,844.77	1,890.50	1,322.00	●
RSA Insurance Group	hold	127.60	6.04	4,365.88	143.80	113.40	●
SABMiller	sell	1,678.00	2.20	26,436.71	1,852.00	921.00	●
Sage Group	hold	223.30	3.33	2,934.08	239.40	162.10	●
Sainsbury (J)	hold	326.10	4.05	6,042.42	347.80	289.75	○
Schroders	hold	1,116.00	2.78	2,418.50	1,360.00	684.00	●
Scottish & Southern Energy	hold	1,163.00	5.67	10,735.39	1,218.00	1,039.00	●
SEGRO	hold	302.90	0.15	2,224.30	395.10	146.35	●
Serco Group	buy	503.00	0.99	2,469.56	539.50	348.75	●
Severn Trent	hold	1,132.00	5.95	2,678.11	1,180.00	933.00	●
Shire Plc	buy	1,259.00	0.50	7,069.40	1,278.00	780.00	●
Smith & Nephew	hold	653.00	1.41	5,834.14	661.50	420.00	●
Smiths Group	sell	1,006.00	3.38	3,924.78	1,069.00	649.00	●
Standard Chartered	hold	1,413.50	3.07	28,626.20	1,689.50	587.00	●
Standard Life	hold	192.70	6.11	4,309.44	234.20	131.80	●
Tesco	buy	424.00	2.82	33,717.03	435.65	306.20	●
Thomas Cook Group	sell	229.50	4.68	1,969.78	297.50	193.10	●
TUI Travel	hold	264.00	4.05	2,951.55	279.25	217.00	●
Tullow Oil	hold	1,179.00	0.51	10,431.20	1,369.00	667.50	●
Unilever	hold	1,867.00	2.49	23,962.19	2,015.00	1,230.00	●
United Utilities Group	hold	538.00	6.07	3,666.66	557.00	432.00	○
Vedanta Resources	sell	2,363.00	1.12	6,519.08	2,886.00	503.50	●
Vodafone Group	buy	139.00	5.59	73,136.69	143.80	112.00	●
Whitbread	hold	1,369.00	2.67	2,405.60	1,443.00	693.50	○
Wolseley	sell	1,355.00	0.00	3,846.04	1,521.00	585.45	●
WPP Group	hold	594.50	2.60	7,455.62	626.00	353.00	●
Xstrata	hold	1,005.00	0.51	29,537.07	1,246.50	298.25	●

○ no exposure ● minimal exposure ● moderate exposure ● a lot of exposure