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Investing in our home stars for global growth and diversity.

You don't have to go offshore to get offshore exposure. ASX houses many companies whose businesses extend internationally, including some true success stories.

Indeed, in our view, some of the more interesting investment opportunities on ASX at present are those with international exposure. Importantly, they also provide diversity for an Australian equities portfolio.

(Do not read the following ideas as investment recommendations. Do further research of your own or talk to a licensed financial adviser before acting on themes in this story).

Twelve of the top 20 stocks on ASX are essentially uni-nationals (or bi-nationals if you include New Zealand). Together they account for a third of the value of the entire market. As a corollary, this means investors' exposure to ASX is, on average, one third to these stocks.

They are the big four banks (CBA, Westpac, NAB and ANZ); mass-market retailers Wesfarmers and Woolworths; insurers IAG, Suncorp and AMP; and Telstra, Transurban and Scentre.

Some of them have tried to go offshore but have generally failed and ultimately retreated. More prominent examples include NAB in the UK, ANZ and IAG in Asia, and more recently Wesfarmers in the UK with its rollout of Bunnings.

The dominance up the top end of ASX of Australian-bound companies is somewhat surprising. We live in a world that is increasingly globalising and Australia is an outwardly focused country. In contrast, the largest 20 stocks in the US are almost all global businesses, led by the likes of Apple, Amazon, Facebook, Alphabet/Google and Microsoft.

The 12 uni-nationals that dominate ASX are all strong but mature businesses in a market limited by a population of 25 million. As such, they lack any real growth. Their investment attraction lies in their generous fully franked dividend yields, making them quite bond-like. Their homogeneity presents considerable concentration risk.

Offshore exposure aids diversification

One obvious way to truly diversify, and to find real long-term growth on ASX, is to invest in those companies with offshore exposure. The issue for investors then is which companies can actually succeed offshore? The general experience of the 12 uni-nationals shows that it is not always the easy road to riches.

Being able to win on the global stage requires something to win with and we call this winning edge an "exportable competitive advantage". This might be a brand, product superiority or unique intellectual property that is applicable in offshore markets and grants an edge over international competition.

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Essentially the global successes tend to have competitive advantages that travel easily offshore. Among them, we get to understand what Australia is good at. The global successes are increasingly important for investors, not least because their valuations are growing to push them higher up the rankings of the leading ASX stocks. Here are some examples.

Three winning themes

First, Australia is winning globally with its reputation internationally for quality agricultural produce. For example, Treasury Wine Estates quickly sells out of its Penfolds and other luxury wine brands at ever-increasing prices, as does Bellamy's and a2 Milk's infant formula products. As well, Costa Group is leveraging its intellectual property around berry varieties to establish farms in Morocco and China that produce quality product with all-year-around availability.

In large part because of their offshore success, these stocks are growing fast, with reported first-half earnings growth in each case of 25 per cent or more. Their valuations are growing commensurately, with, for example, Treasury Wines now a top 30 ASX-listed company and a2 Milk a top 40 company and about one-third the value of Woolworths.

Second, Australia excels globally in healthcare research and development. Companies such as CSL, Cochlear and ResMed continue to grow strongly by continually investing behind their world-leading intellectual property that can be easily exported via medicines and medical products into growing global markets.

CSL was a small-cap two decades ago and is now the sixth largest on ASX. It continues to grow strongly into a large global marketplace, evidenced by first-half earnings growth of 31 per cent. If this sort of growth continues, CSL could conceivably become the largest ASX-listed company over the next decade.

Similarly, Australia has found a talent in the design of engineered products. Known for practical and innovative features, products such as ARB's 4WD bull bars and Reliance Worldwide's Sharkbite push-to-connect plumbing fittings, these companies are leading international competition in their specific niches.

Likewise, Australia is developing technology businesses that are leading niche market segments. ASX-listed examples include Appen, WiseTech Global, Aconex and Altium. Some of these companies are now even being targeted by offshore companies for takeover.

For these companies, the leading design, software or product can easily travel globally into new markets, adding value to the smarts behind them and producing fast-growing profits.

Not to be overlooked is Australia's strength in two of its largest export industries: education and tourism. Both enjoy strong secular growth, particularly as a result of our popularity on both fronts with the Chinese.

In education, companies like IDP Education are attracting the growing cohort of international students to our well-respected institutions, and educating and testing on English language, including through the world's most recognised proficiency test brand, called IELTS. This business benefits from both strong demand for university placements and immigration.

In tourism, Sydney Airport and tourist asset operators are benefiting particularly from inbound tourism. Meanwhile, our love of travel plays through into the success of those organising it. Travel agencies such as

Flight Centre, Corporate Travel Management and Webjet have built successful businesses offshore, and indeed the recent financial results showed these businesses are gaining particular momentum.

Perhaps most obviously, Australia has a natural advantage in resources. This reflects their abundance and low-cost extraction in Australia, most notably in iron ore and coal, for which BHP and Rio Tinto dominate international markets.

Interestingly, however, we are not so advantaged in oil and gas. In these commodities Australia has an abundance but we are actually a relatively high-cost producer. Correspondingly, ASX does not have the equal of an Exxon, Shell or PetroChina, often found among the top of many other exchanges. Our dominant position in commodities is not absolute.

In contrast to our global successes, consider the competitive advantage of the 12 uni-nationals discussed. In general, their success lies in a dominant scale position in Australia that is hard to export offshore.

Greater growth tends to be found in those companies with the world at their feet, with a marketplace of over seven billion people. Expect more of our global champions to emulate CSL in moving up the ranks of ASX.

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