



Adviser Soapbox

Five International Dividend Darlings

Joseph Tatusko, Westport Resources 03.02.07, 5:15 PM ET

Events and higher volatility over the past week aside, there remain many attractive investment opportunities outside the U.S.

There is no question that non-U.S. equities have performed admirably the past two years, and most markets have easily bested the major U.S. stock market indexes. Nevertheless, many U.S. investors fail to add a sufficient amount of exposure to their portfolios that extends beyond North America. Here are five candidates to consider, which may also pique the interest of income-oriented investors. As always, we advocate you do your homework before investing, but the following stocks still appear attractively valued, while providing generous annual dividend distributions.

These stocks' valuations appear very reasonable at current levels, and remain attractive from a total return perspective (the sum of cash dividends plus the potential for capital appreciation). In addition, we shouldn't forget that these stocks' underlying businesses remain strong, and the management of each company is in process executing controlled, well-thought-out strategies intended to fuel future growth.

Chunghwa Telecom, Taiwan's largest telecom company, like its U.S. counterparts, is dealing with high single-digit annual declines in the land line business by successfully transitioning customers to voice and data services through wireless and fiber. The company's cash flow from operations grew 22% the first three quarters of 2006, and there are efficiencies still to be realized from head count and other cost reductions.

Lloyds TSB, the fourth-largest U.K. retail bank, has made major strides by focusing on improving operational efficiency over the last three years. The bank's efficiency ratio stands at 50% (expenses/net revenue), very low by industry standards, and its most recent return on equity was an excellent 24%. One cautionary signal worth monitoring, however, is mounting evidence of credit quality deterioration the last couple of quarters owing to a 55% increase in U.K. individual insolvencies. While still a low number in absolute terms, the bank's proven management team should be up to the task.

CPFL Energia, a Brazilian electric utility, has seen a 10% increase in electricity sales and an even larger increase in free cash flow and dividends in 2006. The company plans on doubling generating capacity by 2010, primarily by adding low-cost hydro plants, which are needed to service Brazil's growing economy and thirst for electricity. An increasing portion of this new and current generating capacity is being sold at free market rates, which should enhance the company's operating margins.

ENI is the largest integrated energy exploration and production company in Italy. From a pure valuation standpoint, the company very cheap at a 5.3x cash flow to price ratio. Like many of the large integrated oil and gas companies, cash flow in 2006 was exceptional, generating 15.2 billion euros through the first nine months. ENI currently pays the highest dividend yield (4.5%) within its peer group, and the dividend increased 22% over the 2005 payout. Projects underway in

Kazakhstan, Angola and Nigeria should help the company maintain a reserve replacement ratio greater than 100%.

ENEL, another Italian company, is the third-largest electric and gas utility in Europe and has had a 40% total return over the last year. ENEL still may have some legs, aside from the attraction of its healthy 7.8% dividend yield. The demand side of the equation is very compelling. Electricity demand in Italy is rising 2.5% per year, and the country must import 15% of its electricity. The real growth story, however, may lie with ENEL's international operations in Eastern Europe, U.S. and Canada. ENEL owns over 400 megawatts in renewable energy generating capacity in the U.S. (mainly hydro) and is building wind farms capable of generating 1,000 megawatts. Like CPFL, management is focused on increasing the proportion of energy sales done at free market rates.

The main argument for holding non-U.S. equities, besides enhancing total expected return, lies in the diversification benefit a non-U.S. component can provide for any portfolio. The following table illustrates the relatively low correlations these five individual stocks have had to the daily price movements of the S&P 500 over the past year.

	S&P 500 Correlation
iShares MSCI EAFE Index	0.80
Chunghwa Telecom	0.46
Lloyds TSB	0.63
CPLF Energia	0.49
ENI	0.52
ENEL	0.54

In general, the lower the price correlation among your holdings, the greater the risk reduction for your portfolio, as well as the opportunity to increase your portfolio's total return. Risk cannot be totally eliminated (nor would you want it to be), but these kinds of holdings certainly help your cause.

In Pictures: Five Global Buys With Yield

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