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GENERAL OTHER

12 of the Best Emerging Markets Stocks to Buy

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7 Min Read

Keep in mind commodity prices and foreign-exchange rates.

In addition to individual company issues, emerging market investors often need to pay attention to currency and commodity fluctuations in ways they don't with developed nations. That's because emerging market economies are often more dependent on commodity exports. When commodity prices decline, those exports suffer and the nation's currency can fall, making it harder for local companies to pay back loans dominated in, for example, U.S. dollars. You can't talk about emerging markets without discussing the BRICs — Brazil, Russia, India and China. As some of the world's largest economies, it might seem odd that these four are considered emerging markets. But keep in mind that their gross domestic product per capita is still relatively low. Here are 10 emerging market picks to consider.

China Mobile (ticker: CHL)

As an example of comparative bargains that can be had by investors willing to look abroad, Dave Iben, chief investment officer with Kopernik Global Investors, points to China Mobile, which he says offers better value than Verizon Communications (VZ). Both of these companies have a strong market share and world-class technology, but he says China Mobile is valued more cheaply — with a recent price-to-earnings ratio of 6.9 compared with Verizon's PE ratio of nearly 14. One more thing to consider is that China Mobile has a current dividend yield of about 7%, while Verizon's dividend is only yielding around 4%.

Gazprom (OGZPY)

With 16% of global natural gas reserves and 71% of those in Russia, Gazprom says it holds the largest reserves of the commodity in the world. Those reserves are also low-cost, Iben points out. Given that background and growth opportunities from selling gas to Europe and China, he says the stock is surprisingly cheap. The company is "one of the least expensive large-cap stocks in the world," he adds. The company also yields 8.2%, making its dividend particularly attractive at a time when the benchmark 10-year Treasury note is yielding less than 1%.

Eletrobras (EBR)

Centrais Eletricas Brasileiras, also known as Eletrobras, is the largest company in the electric energy sector in Latin America. Iben likes this emerging market stock because it's one of the world's largest producers of cheap, greenhouse gas-free hydroelectric power. Economic growth in Brazil — Latin America's largest economy — has been in recovery mode since it fell into a recession in 2015 because of factors including lower prices for Brazil's main commodities of oil, sugar, coffee and metals. But the thing about utilities is that they are often considered defensive stocks because households need electricity regardless of what the economy is doing, leaving Eletrobras in a relatively good position with its large role in generating and transmitting electricity in Latin America's biggest economy. To top it off, Iben says Eletrobras is also trading inexpensively today.

Guangshen Railway (GSHHY)

Railroad companies have been hit hard by the pandemic. Travel restrictions have put a dent in passenger traffic, and global economic malaise has weighed on the shipment of freight. So it's probably no surprise that Guangshen Railway, which is involved in train service between Hong Kong and mainland China, is currently down by more than 40% year to date, especially when you also take into account other geopolitical factors. "The problems with COVID-19, with unrest in Hong Kong, and growing tension between the U.S. and China are all well-known and thus well reflected in the stock price," Iben says, but that helps to make the stock a "deep value." Investors can also take the emergence of several promising vaccines as a bullish factor for the industry.

Kazatomprom (KAP)

Although accidents involving radiation make headlines and disposing of nuclear waste is tricky, nuclear power functioning properly is a source of greenhouse gas-free electricity. This type of electricity generation is powered by uranium. Uranium prices have been under pressure for years, in no small part due to the 2011 reactor disaster in Japan removing a major uranium buyer from the market. But with those low prices, supply has been dwindling and inventories falling, which should eventually lead to rising prices, Iben notes. "Those willing to venture into frontier markets can own the world's largest producer for a song," he says. That's the Kazakhstan-based National Atomic Company Kazatomprom Joint Stock Company.

Housing Development Finance Corp. (HDFC)

An India-based company that Jack Nelson, portfolio manager with Stewart Investors, points to is mortgage provider Housing Development Finance Corp. With a low level of write-offs, bond investors see the company as a very low-risk credit, he says. That allows the company to borrow money at a lower cost, offer mortgages at attractive rates and have its pick of the most creditworthy clients. In addition to making residential and commercial loans, the company has stakes in businesses involved in banking, insurance and mutual funds. “HDFC itself has thus become a financial conglomerate which is superbly geared to benefit from the sustainable economic development of India over coming decades,” Nelson says. As for the impact of the pandemic, the company says low interest rates and softer property prices have helped loan disbursements to revert to pre-pandemic levels.

Taiwan Semiconductor Manufacturing Co. (TSM)

With more people working, learning and entertaining themselves at home because of the pandemic, semiconductor makers have been doing well, and Taiwan Semiconductor Manufacturing Company is no exception. The company is part of the so-called “stay at home” trade that is benefiting from the health crisis, meaning it could be at risk for slowing growth once the pandemic is over. Lou Stanasolovich, CEO of Legend Financial Advisors, says he doesn’t see that slowdown being a major headwind for the company. “The barriers to entry in this industry are clearly tremendous,” Nelson adds, “enabling TSM to generate very attractive returns in an industry which is likely to have decades of growth ahead of it as technology becomes an even more integrated part of daily life in the 21st century.”

Alibaba Group Holding (BABA)

Probably no list of emerging market stocks would be complete without at least mentioning Alibaba, the China-based e-commerce and cloud services giant. Ryan Johnson, director of portfolio management and research at Buckingham Advisors, likes the company’s business model of connecting buyers and sellers — but not being directly involved with the physical inventory. He says Alibaba’s cloud computing infrastructure business has a large runway for growth because China has been slower to adopt cloud infrastructure than the U.S. With cloud adoption and increasing online commerce, including with mobile devices, in China and elsewhere, Alibaba “makes a great deal of sense to us looking out a few years,” Johnson says.

Baozun (BZUN)

Another China-based e-commerce company worth considering is Baozun, according to Stanasolovich. The company helps brands execute their e-commerce strategies by selling their goods directly to consumers online or by providing services — including digital marketing, customer service and warehousing — to assist with their e-commerce operations. As the pandemic continues, e-commerce is an important way for many people to buy goods while still maintaining social distancing. That seems to have benefited Baozun. The company’s third-quarter total net revenue rose 21.7% year over year to $269.4 million, while net income rose 64.2% over the same period. That’s on top of a second-quarter sales increase of 26.3% to $304.6 million and net income increase of 78.6%. It’s also notable that Baozun’s first-quarter performance, during the early days of the pandemic when global markets were tanking, showed total net revenue increasing 18.4% — though increasing expenses caused its net income to decline from the previous year.

XP (XP)

This financial services company has been shaking up the buttoned-down brokerage business in Brazil that has been dominated by big banks. In September, XP announced that it was eliminating brokerage fees for online stock trades at Rico, its online-only solution for self-directed investors. The company also said it was reducing those fees by 75% for online stock trades at XP Direct. As ripples from the Robinhood effect of commission-free trading continue to spread, Holmes Osborne, principal at Osborne Global Investors, says that XP is a "highly profitable growth stock." For its most recent quarter, XP reported revenue increased 55% year over year to 2.2 billion reals and gross profit that rose 53% over the same period.

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