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HD **Distant horizons promise sunny returns**

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As the flag-waving and lamington consumption gets into full swing this Australia Day weekend, it may disappoint the patriots out there to hear that some of the best returns in 2014 will be in companies that generate a large proportion of their revenue from overseas.

With economies in the United States and Europe in recovery mode and the Australian dollar expected to weaken further, stocks generating revenue in US dollars have a chance to shine.

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Statistics published by Goldman Sachs this week highlight the potential value in the small number of Australian companies that take the risky and often unpopular leap offshore.

Firms that earn more than 30 per cent of sales overseas make up 34 per cent of the ASX200 industrials markets index but account for 54 per cent of consensus earnings per share (EPS) growth for the 2014 financial year. Offshore plays are risky though, which has been highlighted in the lack of momentum these kind of stocks had last year, and Goldman Sachs notes that 50 per cent of globally exposed stocks have had downgrades compared to 34 per cent for domestic firms.

But if the dollar keeps falling, companies like James Packer's Crown which is expanding in Macau, Sri Lanka and the Philippines, global pallet **group** Brambles, and Macquarie **Group** should benefit.

Australia Day is a good excuse to assess the nation's **business** relationship with the region and the rest of the world. Whether it is Aussies selling flat whites in New York and **Hong Kong** or R.**M**. Williams teaming up with Louis Vuitton, there is still a lot of **brand** value in Australian products offshore. But only a handful of local companies have worked out how to capitalise on this.

The nation's **dairy** industry is a classic example of a missed opportunity as smaller but more productive countries like New Zealand and Ireland ramp up their **milk** exports to fuel **China**'s insatiable demand.

When I recently asked friends in **Hong Kong** if I could bring anything from Australia on my next visit, the response was overwhelming: instant baby formula – as many of the massive 900-gram tubs of the stuff I can physically (or legally) carry into the former British colony.

Though **Hong Kong** is copping the fallout from a severe shortage of formula in **China**, a lot of it had to do with the fact that people in **Hong Kong** (and I'**m** talking local **Chinese** as well as foreign expatriates) trust Australian brands a lot more than the product on their own shelves. **Chinese** residents and tourists in Australia have also reportedly been stripping the shelves of Australian supermarkets of formula.

This should be translating into a boom in Australian **dairy** exports to the region. The takeover battle for Warrnambool **Cheese** & **Butter** has highlighted this failure.

More foreign investors like Canada's Saputo and Japan's Kirin are expected to pick off assets one by one because local investors fail to understand the value in local agriculture assets.

Clime Asset Management chief investment officer John Abernethy visited Ireland recently and was impressed with what he found. Perhaps it was desperation as that country clawed its way out of a financial black hole, but Ireland's dairy industry has capitalised on Chinese demand.

Abernethy, who first dabbled in dairy while working for NRMA Investments 20 years ago, notes that China's demand for dairy products from Ireland has risen 20 per cent per annum in recent years. China will surpass the United Kingdom as that country's biggest exporter in the next decade.New Zealand makes Australia look bad

New Zealand is also making Australia look bad. About 95 per cent of the 19 billion litres of milk produced by New Zealand farmers is exported.

This compares to the 9.2 billion litres of milk produced in Australia in 2013, according to Dairy Australia figures. Forty per cent of that was exported. Tasmania and Victoria dominate production. Milk production and the percentage exported has fallen since 2001-02 when it peaked at 11.3 billion.

Part of the problem for the entire agriculture sector is that it has struggled to attract the capital needed from local investors. This was an issue raised in the debate over last year's failed takeover bid for grains handler GrainCorp by US food groupArcher Daniels Midland.

Abernethy believes the dominance of Coles and Woolworths in the dairy space is contributing to the problem by driving out the marginal milk players and forcing down the farmgate price of milk.

The argument now surfacing in the industry is that Australia has not destroyed its dairy industry. It has just sold it off. Co-op Murray Goulburn this week threw in the towel after being outmanoeuvred by Canada's Saputo for control of Warrnambool.

The outcome means all the bidders walk away with a profit and those millions will be injected back into the industry. There will be expansion and potentially an uplift in exports but it will be fuelled by foreign capital.

A lower Australian dollar and the cooling of the mining boom should fuel the appetite for more Australian firms to look offshore for revenues.

It is certainly hard to argue that corporate Australia is inward-looking. About 25 per cent of chief executives of Australia's top 100 listed companies were born and raised overseas, according to numbers crunched by Chanticleer. Many are American, British, Dutch, Scottish, Irish or South African.

But boards and investors remain nervous about offshore acquisitions and expansion.

If the Queensland government had any doubts about its decision to spin off QR National three years ago they have been put to bed over the last year as cost cuts and solid coal haulage volumes drove the rail-freight company's share price to fresh highs.

Aurizon, as it is now known, is trading at a record high of $5.02, which is double its $2.55 initial offer price in late 2010. It took a while for the market to warm to a company riddled with inefficiencies from years as a public company.

Aurizon is now talked about as a role model by investment bankers spruiking the next wave of government privatisations. Chief executive Lance Hockridge looks set to follow through on his promise to bring down the company's efficiency ratio from 91 per cent to 75 per cent by 2015.

Working in his favour was the fact that the market underestimated the excess to be trimmed. Executives say the level of inefficiency at the time of privatisation was staggering. The company has also benefited from growing iron ore operations in the past few years as customers started producing. There is a risk, though, that this growth levels off in financial 2014 as there will be fewer opportunities to significantly grow volumes.

Analysts have been saying for some time the company is fully priced, but the shares keep inching higher. The latest share price rally this week came ahead of the some stronger-than-expected December coal-haulage volumes.

Despite its success, there are still challenges changing the culture at Aurizon as it transforms from an old-school government entity into a nimble modern player. It has brought in offshore executives such as Mike Franczak, who joined the company in April after a 25-year career with Canadian Pacific Railway. Paul Scurrah, who headed the company's commercial and marketing operations, left late last year to run DP World Australia. The Australian Shareholders Association last year called for chairman John Prescott to resign.

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Tony Boyd is on leave

CO dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

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