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Where to Invest 2012

The world's growing population needs more food, fuel and bandwidth. In our annual guide, we pick 10 stocks for the feeding frenzy.

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Making stock predictions is like forecasting the weather: For all the fancy charts, what happens next is often anyone's guess. But despite the uncertainty, there's plenty we do know about 2012: More of the world will get wired, eat more protein and drive more cars. And companies with global reach will have a growing edge. Here, we've picked 10 stocks that the pros say should benefit from these big trends -- and others just as significant.

Emerging Markets

On a recent trip to Lagos, Nigeria, Mark Mobius found himself trapped in a hotel elevator -- twice in one day. The veteran emerging-markets investor and manager of the $2.3 billion Templeton Developing Markets Trust was hardly slumming; even the nicest establishments in Nigeria experience frequent electricity outages. "There's an incredible growing demand for power," Mobius says. And as living standards rise in the developing world and its consumers get access to everything from refrigeration to cell phones to cars, they will be demanding more of that power. These growing and increasingly affluent populations will also want to eat more, and better. Companies that can meet these consumption surges, experts say, will be poised to benefit.

PotashCorp

Price: $46
P/E: 10
Estimated 2012 Earnings: $3.9 Bil.

The world's population is expected to grow by 44 percent through 2100, which means an additional 3 billion mouths to feed. That math works in favor of **Potash Corporation** (POT: 41.28, 0.07, 0.17%) of Saskatchewan, the Canadian maker of a fertilizer component that helps increase crop yields. PotashCorp is the world's largest supplier of the potassium compounds commonly called potash. The company enjoys a strong competitive position in this concentrated industry: Potash is produced in only 12 countries globally, and a new potash mine costs about $4 billion to build.

Despite the company's dominance, its stock trades at 10 times its expected earnings for 2012, well under its 10-year average of 34. Ben Landy, equity analyst for T. Rowe Price, says many investors doubt that PotashCorp can get bigger or more profitable than it already is. But the long-term trajectory for potash consumption is undisputedly upward. To prosper, emerging markets need to increase the productivity of their land; farmland in parts of the developing world yields just half as much as U.S. cropland. China and India, already the world's biggest fertilizer consumers, each account for 7 percent of PotashCorp's revenue -- shares that analysts expect will grow.

Cnooc

P/E: 9
Estimated 2012 Earnings: $10.9 Bil.

In recent years, China's ravenous appetite for resources -- steel to build bridges, oil to fuel cars -- has powered the global economy. Now there's much speculation about whether that hunger has begun to wane; but even if it has, many analysts say, that's unlikely to hurt the prospects of China National Offshore Oil Corp., China's largest producer of crude oil and natural gas. Commonly known as Cnooc (pronounced See-nook), it's majority owned by the Chinese government. It enjoys a sweet deal with foreign oil companies exploring off China's shores: **Cnooc** (CEO: 174.68, -0.11, -0.06%) shares in the profits when they find oil but bears no financial risk when they fail. Its biggest customer is Sinopec, one of China's major integrated oil companies, which can't drill enough oil on its own to satisfy domestic demand. And Cnooc's low cost structure means it generates a lot of cash (and profit), even when oil prices are depressed, says Lewis Kaufman, manager of the $60 million Thornburg Developing World fund and a shareholder.

Standard & Poor's estimates that China will register a 6 percent increase in crude oil consumption for 2011, a "comfortable" amount for Cnooc, says analyst Ahmad Halim. The company says it's also diversifying its business lines by developing natural gas projects and striking production deals in other emerging markets. Still, the stock trades at just nine times 2012's expected earnings, making it a bargain in the eyes of many pros.

European Exporters

Investors remain riveted by every episode of the ongoing drama As Europe Turns. The sovereign debt crisis has shaken their confidence, along with shares of the continent's businesses. But many companies are performing better than the fear would suggest, especially those in Germany, the euro zone's strongest economy. The weak euro has given a boost to the big exporters Siemens and SAP, by making their products' prices even more attractive in markets outside Europe. And with dividend yields of 3.7 percent and 1.5 percent, respectively, their shareholders get paid as they wait for prices to improve, says David Marcus, manager of the $40 million Evermore Global Value fund.

SAP

P/E: 14
Estimated 2012 Earnings: $5.1 Bil.

Businesses have done more with less in recent years, but they haven't scrimped on software that could boost profitability. Global spending on so-called business-intelligence software totaled $10.5 billion in 2010, according to research firm Gartner, and it jumped an estimated 11 percent in 2011. Industry watchers say this may bode well for SAP, one of the world's largest software providers. The German company dominates the market for products that handle unglamorous but essential back-office tasks; in August, it launched new intelligence applications that can perform complex analysis in a matter of seconds, says co-CEO Bill McDermott.

SAP (SAP: 52.95, 0.06, 0.11%) gets the bulk of its revenue from Europe, and its stock has taken a beating as the continent's debt woes have dragged on. But sales in all of its geographic regions still posted double-digit year-over-year growth in the most recent quarter. Sarah Ketterer, CEO of Causeway Capital Management, took advantage of a dip in the stock's price to scoop up shares last fall. "We'd looked at them longingly for years," she says. The stock's price/earnings ratio of 14 is reasonable, given its strong finances, says Robert Taylor, director of international research at Harris Associates, which manages $60 billion and is a longtime shareholder.

Siemens

P/E: 10
Estimated 2012 Earnings: $8.7 Bil.

Siemens, the German manufacturer, makes everything from medical diagnostic equipment to gas turbines -- and because of that diversity, its fortunes are less dependent on economic ups and downs than they used to be.

Indeed, Siemens is that rare corporate entity, a nimble giant, says Ben Elias, an analyst with asset-management firm Sterne Agee. And it's "very cheap," he adds, trading at 10 times expected earnings.

Siemens (SI: 95.61, 0.27, 0.28%) operates in 190 countries and gets at least a third of its revenue from outside Europe. In recent years, the company has been shedding less profitable businesses and strengthening those that remain (the company calls them sectors). Nearly half of Siemens's 2010 revenue of $104 billion came from its industry sector, which builds big projects like factory-automation systems and stands to gain from China's ongoing urbanization. Its health care sector, meanwhile, is capitalizing on the growing middle class in the developing world with products like mobile CT-scan devices. Lower-cost labor in China and elsewhere represents a long-term threat to Siemens, but for now, Elias says, those competitors can't challenge its high-quality manufacturing.

Going Abroad for Revenue
National debt crises have been driving down the prices of European stocks. But Siemens and SAP, both of Germany, get the bulk of their sales outside their homeland, giving them a more comfortable cushion. (Sources: SAP; Siemens)

Dividend Payers

Many investors have been transfixed by the paltry yields on Treasurys, and some pros are turning to stocks to pick up the slack. Indeed, on a few occasions in recent months, the average dividend yield on Standard & Poor's 500-stock index has exceeded the yield on the 10-year Treasury bond -- something that's happened very rarely in the past 60 years. In all, more than 200 stocks in the S&P 500 boast yields that best the Treasury mark, and the yields on some well-regarded firms are much, much higher.

AT&T

P/E: 12
Estimated 2012 Earnings: $14.9 Bil.

Everyone knows the AT&T brand -- it has been around, in one form or another, since 1885. But Ma Bell's name recognition might be a drawback for some investors. After all, AT&T still sells old-fashioned landline telephone service to customers, and that business is certainly on the wane. But in fact, investors say, **AT&T** (T: 30.24, 0.07, 0.23%) has made steady progress in bringing itself into the digital age. AT&T's wireless revenue represented half of its $94 billion in revenue in the first three quarters of 2011, up from about a third in early 2007, after it gained full ownership of Cingular Wireless. And while revenue from AT&T's legacy telephone business continues to decline, the loss is essentially offset by revenue from Internet data and cable services, which grew 8 percent in the first three quarters of 2011. "Every Wi-Fi in the world is connected to a fixed-line network somewhere," says Brian McMahon, comanager of the $8.8 billion Thornburg Investment Income Builder fund. Wall Street analysts expect the company's revenue to edge up about 1.4 percent in 2012, to $127.9 billion.

The company still faces risks, of course. A double-dip recession could prompt still more customers to drop their home phones, while discouraging them from signing up for more mobile ones. The company no longer has exclusive network rights to the iPhone, and it recently abandoned one of its biggest strategic bets -- its proposed $39 billion combination with T-Mobile -- in the face of antitrust objections.. A spokesperson says the company is working to resolve the antitrust issues and that its iPhone sales have continued to grow despite the expanded competition. And even taking the various challenges into account, many analysts say, AT&T's fat 6 percent dividend yield still looks attractive -- and secure. The firm is on track to generate roughly $36 billion in cash in 2011, enough to cover the dividend payout and still put $20 billion back into the business.

Exelon

P/E: 15
Estimated 2012 Earnings: $2.0 Bil.

The crippling of Japan's Fukushima Daiichi power plant by an earthquake this spring shook the public's confidence in nuclear power. But after a preliminary review by the Nuclear Regulatory Commission, nuclear plants in the U.S., which provide about one-fifth of the nation's power, appear to have avoided facing costly new upgrades (or shutdowns, for that matter). Analysts say that means the basic investment case for nuclear still holds: Nuclear-power providers stand to benefit from moves to curb use of fossil fuels. That may be good news for Chicago-based **Exelon** (EXC: 43.37, -0.34, -0.78%), the nation's largest nuclear-power producer, with 17 reactors, in Illinois, Pennsylvania and New Jersey. The company, whose 5 percent dividend yield is one of the highest among U.S. power utilities, could soon gain an ownership stake in five more reactors, plus energy-supply assets, if regulators approve its $8 billion proposed acquisition of Constellation Energy.

One big wart on the Exelon picture: The company's recent profits have been helped by its past moves to hedge energy prices. Even as electricity rates generally fell in 2011, the firm sold the power it produced at higher prices. The company won't be able to count on that boost in 2012, however, and analysts expect its profits to fall by 28 percent, to about $2 billion. Nevertheless, the company says its dividend won't be threatened by the drop-off. John Kohli, portfolio manager of Franklin Utilities fund, agrees (at least for the short term) and points out that Exelon will continue to generate steady cash from its regulated power business.

Gold Miners

"What's gold going to do?" It's a question almost every investor has to grapple with these days. But in 2012, some pros say, investors should focus not on the metal itself, but on the firms that dig it out of the ground. Traditionally, when the price of gold rises, gold mining stocks rise faster. A miner's costs are mostly fixed, so if the metal's price goes up, nearly all of those extra dollars go right to a miner's bottom line. But over the past year, as gold's price has jumped 25 percent, gold mining stocks, as a group, are down 1 percent. It's the reason why some veteran gold investors are convinced that as long as gold doesn't tank, the mining stocks should excel. "Financially, they've never been in better shape," says Joe Foster, a portfolio manager at investment firm Van Eck Global, which owns both the stocks described below.

Newmont Mining

P/E: 11
Estimated 2012 Earnings: $3.3 Bil.

Gold miners have long been criticized for paying paltry dividends and instead plowing their profits into acquiring and developing new mines. Some investors have voted with their feet, taking money out of the miners and moving it to exchange-traded funds. So Denver-based **Newmont** (NEM: 60.01, -0.35, -0.58%), the world's second largest miner by production, recently took action: In April, the firm announced it would link its dividend to gold prices. Newmont has doubled its dividend since then, and it says it will keep paying out higher amounts as long as gold stays above $1,500 an ounce.

For some investors, that dividend doesn't make up for the fact that Newmont's giant Boddington, Australia, mine has been dogged by cost overruns and lower-than-expected grades of ore. (The company says the mine remains one of its "cornerstone assets.") Although the company has other promising projects -- such as Akyem, in Ghana, and Conga, in Peru -- analysts don't expect these to significantly boost its production numbers until 2015, at the earliest. Still, Newmont is estimated to be sitting on 94 million ounces of gold -- $42 billion worth after extraction costs, according to investment bank Stifel Nicolaus -- while the company's market value is just $34.1 billion. Analysts say that means its shares are comparatively cheap: While it's not unusual for gold miners to be trading at less than the value of the gold they own, that's one of the highest discounts seen in years, says George Topping, a mining analyst at Stifel Nicolaus.

New Gold

P/E: 17
Estimated 2012 Earnings: $324 Mil.

Big miners, like many larger companies, have a tough time growing sales and profits significantly over the long haul. Small miners, however, don't have this problem, as any new mine they start can have a big impact. Vancouver-based New Gold has one advantage over other small rivals, analysts say -- its management team includes two well-known gold industry hands: executive chairman Randall Oliphant, who previously ran Barrick Gold, the largest gold company, and director Pierre Lassonde, previously president of Newmont. Both have also invested a significant amount in New Gold stock, according to regulatory filings. New Gold produced 383,000 ounces of gold in 2010 and expects to reach nearly half a million ounces by 2013, as it develops two of its most promising projects -- the Blackwater mine, in Canada, and the El Morro mine, in Chile. It's also cutting its production costs, from $400 an ounce in 2011 to an estimated $230 an ounce in 2012. Analysts expect profits to jump 66 percent, to $324 million, in 2012.

New Gold (NGD: 10.08, 0.16, 1.61%) stock rose 67 percent in the 12 months ended October 2011, but it still has plenty of room to grow, says T. Rowe Price analyst Rick de los Reyes. Once small miners prove themselves in terms of growing production and bringing down costs, they tend to be "revalued at a higher level," he says. "It's something gold investors latch onto."

Internet Advertisers

No matter how sluggish the economy gets, consumers still seem to be jumping on their computers to gaze at shoes, cars and perfume. Advertisers are willing to pony up for all those potential customers too. Even as consumer confidence remains painfully low, Internet ad spending is on the rise -- to about $15 billion in the first half of 2011, up nearly 25 percent from the same period in 2010. And millions of people in emerging markets are getting online -- and Internet window shopping -- for the first time. Analysts say these two firms should capitalize on the dot-com ad spree this year.

Google

P/E: 14
Estimated 2012 Earnings: $14.4 bil.

If Google sounds like a familiar "Where to Invest" pick, it should: It was on SmartMoney's list last year. We're doubling down. Yes, Google is being dogged by the kind of problems that often nip at the heels of market behemoths. Even as Internet advertising grows at a rapid clip, some worry that search ads -- Google's bread and butter -- may grow less quickly than other forms of the medium, such as banners or videos. And in a move some analysts have questioned, the Mountain View, Calif., Internet firm is paying $12.5 billion for Motorola Mobility, a cell phone business that's less profitable than Google's core operations. (Google has said it's buying the firm, in part, for its many phone-related patents.)

In the end, though, these all seem like distractions from the bottom line: The word **Google** (GOOG: 645.90, 3.50, 0.54%) is still synonymous with finding quick information online. Analysts expect profits to rise 20 percent in 2012, to $14.4 billion. Google has a track record of beating those figures too. If Google was a good buy a year ago, when its stock traded as high as 24 times estimated earnings, analysts say, it's a better one at its current multiple of 14. "With Google-like growth, you should see a higher multiple," says Raymond James analyst Aaron Kessler.

Baidu

P/E: 30
Estimated 2012 Earnings: $1.6 Bil.

More than 75 percent of revenue from Internet searches in China goes to one firm: **Baidu** (BIDU: 116.47, 1.75, 1.53%). Of course, the Chinese firm got a big assist after Google largely abandoned that market in 2010, and its lead is threatened by rivals like Sohu.com and Alibaba.com. But as with Google in other markets, Baidu's dominance poses immense challenges to rivals, and the company has been aggressive in launching ventures in areas such as mobile and video. "They're doing everything they can to up the ante," says Scott Kessler, Internet equity analyst at S&P Capital IQ. Profits have grown 80 percent in the past three years, and Wall Street expects them to climb 53 percent in 2012, to $1.6 billion.

Some investors have stayed away from Baidu because of nagging questions about the legal and corporate governance standards of Chinese companies in general. Baidu's stock briefly plunged after news hit that U.S. regulators were eyeing Chinese stocks. But analysts say that Baidu, which hasn't been accused of any wrongdoing, is likely a victim of guilt by association -- and its stock price has quickly snapped back.