The Oxford Club's

Lifetime Fellowship Report

Manufacturing in Mexico:

How to Cash in on the "Next China"

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The "Next China" is Emerging… 8,031 Miles Away from Shanghai

Rising from the depths of poverty in the 1970s… to surpassing Japan as the world's second largest economy in 2010… China has made incredible strides transforming its economy into a global powerhouse.

Yet more and more data indicate the next 30 years won't belong to China the same way the last thirty did.

According to consultancy firm AlixPartners, China has lost its title as the cheapest country in the world for companies looking to manufacture goods for the United States.

To what country? Mexico.

That's right; Mexico is the next #1 global manufacturing platform – pushing China aside due to its geographic location and low labor costs.

In fact, Mexico is so much cheaper now than China that even Chinese companies are spending billions of dollars to set up their own operations there.

By the end of last year, 200 Chinese companies told their government they're ready to move their operations to Mexico at any moment.

This move alone opens the doors to a potential $300 billion-a-year market for Mexico. And it could double the nation's GDP over the next 36 months… catapulting it the 8th largest economy in the world.

But here's the best part…

China isn't the only country with manufacturers moving into Mexico.

In fact, companies from **forty-one different countries around the world are looking to set up multi-million-dollar operations in Mexico right now**.

In this report, we'll highlight three Mexican companies – which can easily be purchased right here in the U.S. – best positioned to profit as these foreign manufacturers pour in.

Here's everything you need to know…

Five Reasons Mexico's Growth is Here to Stay

Most of the news that comes out of Mexico these days pertains to its ongoing drug wars. And while this is a legitimate issue, the country's finance minister, Ernesto Cordero, assures that this is not affecting investors or the economy.

"There is no evidence investment is not coming to Mexico or that investors are being put off because of violence," he said.

In fact, some big arrests have been made in just the past few weeks.

In early July, Mexican police arrested the man third in line to command Mexico's largest drug cartel, the Zetas.

In late June the top boss of La Familia, another drug cartel, was captured.

And looking forward, more arrests are sure to come… as well as billions of dollars in foreign investment.

HSBC, one of the world's largest banks, reports that certain industries in Mexico are "well placed to bankroll growth" over the coming weeks and months.

But it should be no surprise…

Because besides being the cheapest country to manufacture goods for the world's largest importers… there are many other reasons Mexico is on track to become a global leader.

Here's our top five to consider:

1. **Government Debt is a Non-Issue:** While most nations keep piling on more and more debt, last year the Mexican government managed to slash its debt… to 38% of GDP. That's over 1.5 times less than current levels in the United States. And nearly half the average level of sovereign debt around the world.
2. **Low Inflation Makes Room for Higher Growth:** In April, Mexico reported its annual inflation rate slowed to its lowest level in nearly five years… just 3.04%. This is giving the central bank ample room to keep borrowing costs on hold while the economy strengthens. And as Mexico's central bank chief recently stated, "[For Mexico] there is no better combination... than an accelerating growth rate and lower inflation."

3. **More Free-Trade than Anywhere in the World:** Mexico has 11 free-trade agreements involving over 40 countries. That's more than any other country. As foreign companies continue expanding their operations in Mexico thanks to its already low cost advantages, free trade makes doing business there even more irresistible. Plus… rock-bottom interest rates have only made it even more attractive for companies everywhere around the world.
4. **Foreign Investment Skyrocketing Growth:** Direct foreign investment hit $19 billion in Mexico in 2010. The fact is, the world's biggest manufacturers would not be investing **hundreds of millions** of dollars into new facilities in Mexico unless they were 100% certain its low cost advantages and positive growth outlook were there to stay.
5. **A Rare Bright Spot in a Dismal Global Economy:** Mexico is one of the rare places you'll find today actually benefitting from the soaring cost of goods. And as they continue to rise worldwide, Mexico is one of the only places left that can keep expenses to a minimum. Not to mention… rising Chinese wages and an appreciating Yuan are only shooting Mexico's success even higher.

These are just a few examples…

But they're the foundation that's setting Mexico up to be the biggest growth trend of the next 30 years.

It won't be long before Wall Street catches wind of what's going on. For now though, there's still time for investors to stake a claim in this emerging trend.

Just how much economic growth are we looking at?

Let's take a look…

Mexico to Become the 4th Fastest-Growing Economy?

If you've been following the markets for a few years, you probably know that anytime economic growth is mentioned in the media, the term "BRIC nations" usually follows.

This was a moniker coined by Goldman Sachs' Jim O'Neill in 2001. It refers to some of the fastest growing economies in the world: Brazil, Russia, India, and China.

Yet, these countries may be getting more hype than they should be.

Reuters thinks so. As it reported just a few months ago:

> "Though it exports more than Brazil and India and enjoys the kind of population growth Russia can only dream about, Mexico has long been in the shadow of its more dynamic emerging market cousins.
>
> Today [though] Mexico has a growing body of supporters who believe it is closing the gap on the so-called BRIC nations as a driver of global growth, powered by rising competitiveness and the willingness to capitalize on untapped financial resources."

But that's not all…

In 2010, Mexico overtook Russia in terms of economic growth.

And looking ahead, according to HSBC Bank, Mexico will expand 3.5 times faster than the U.S. economy this decade.

That's an estimated average growth rate of 11.55%. More than double its current annual GDP growth rate of 5.5%.

Such tremendous growth would also propel the Latin nation to become the 4th fastest growing economy in the world.

In other words… Mexico could very well blow past all the "BRICs" in terms of annual economic growth in just the next few years.

And here's something else sending Mexico's economy soaring…

Why It Pays to Be the Wealthiest Nation's Next Door Neighbor

As was mentioned earlier, Mexico has more free-trade agreements with other countries than any other nation worldwide… 11 total involving more than 41 countries.

In 1994, Mexico, the United States, and Canada, signed one of those agreements, the North American Free Trade Agreement (NAFTA).

As you may already know, this opened up Mexico, the U.S., and Canada to begin trading tax-free with each other.

But what you may not know is since NAFTA was enacted…

Mexico's trade with the United States and Canada has tripled.

In 2009 (latest data available) the U.S. spent $215 billion on Mexican exports. Canada added another $14.5 billion.

And with the U.S. spending $2.1 trillion spent each year on imports, foreign companies want to get in on a piece of this free trade action…

By setting up their manufacturing facilities in Mexico, foreign companies have a "back door" way to sell goods, essentially tax-free, to U.S. consumers.

That explains why in 2010, foreign companies spent $19 billion setting up and updating their facilities in Mexico.

And the fact is, they're likely to do the same again this year… and next year… and so on.

We've uncovered three ways to "funnel" this money into your account…

How can Mexico's hottest companies also trade on U.S. exchanges?

It's simple.

All of the companies you're about to discover trade as American Depository Receipts, or ADRs, in the United States.

For individuals, ADRs are an excellent way to buy shares in a foreign company and capitalize on its growth potential.

The way it works… U.S. banks will purchase a large lot of shares from a foreign company, bundle the shares into groups and reissue them on the NYSE, AMEX, or Nasdaq. This way, it's just as easy to buy shares of a foreign company as it is another stock in based in the U.S.

And now with so much opportunity brimming in Mexico, there's never been a better (or simpler) way to take advantage of Mexican growth right in America.

These three ADRs are set to jump higher starting in just the next few days…

Profit Play #1: Mexico's Top Construction Company is about to Get Even Bigger

With a market cap of $1.46 billion, **Empresas ICA, S.A.B. de C.V. (NYSE: ICA)**, is set to benefit tremendously as foreign capital enters Mexico's markets over the coming years.

That's because, as foreign companies spend billions of dollars expanding their operations in Mexico, they'll be looking for a well-known company to build their facilities.

And that's where Empresas comes in… this construction company has been a trusted name in Mexico for over 60 years.

In fact, here are just a few of the major achievements ICA has under its belt…

- In 2003 it built a 230 meter-high skyscraper, the tallest building in Latin America at the time.
- Has constructed thermoelectric, hydroelectric, and combined cycle facilities projects equivalent to a capacity of over 20,000mw, more than the combined electrical power of Chile and Peru.
- Built more than 220km of subway system or mass transit rail projects in Mexico, Chile, Puerto Rico, and the USA, greater than the entire subway system in Paris.
- Constructed more than 1,000 buildings, including 24 grand-class hotels.
- Put in more than 7,600km in roads, enough to build a transatlantic highway.

The list goes on…

Today the company is the largest construction company in Mexico.

And now ICA has more work lined up than it ever has before. In the first quarter of 2011 alone, the company signed deals on 16,428 construction projects. That's an all-time record high.

But as Empresas confidently states, "Our backlog has remained at record levels for more than 3 years."

What does that mean, specifically, for the company's bottom line?

Over the next 24 months, ICA will bank as much as $25 billion, constructing and updating buildings, roads, plants, bridges, and more.

And for a company that currently brings in $3 billion a year, that means revenues are set to erupt 733% over the next 2 years.

You can imagine what that will mean for shareholders. But just take a look at a few projects ICA has lined up…

- Building Mexico City Valley's new deep drainage system, considered the world's largest sewer project.
- Building and operating Latin America's largest water treatment plant.
- Building La Yesca, the world's second largest dam of its type. By pure height, it would be Latin America's 3rd tallest building.
- Currently raising the San Marcos Bridge, the world's second tallest, with a towering 220m pier.

Now foreign companies setting up shop in Mexico could add as much as $38 billion to the company's bottom line over the next 2 years as well.

That's why we recommend you get in on this soon-to-be high flying stock today.

Action to take: Buy shares of **Empresas ICA, S.A.B. de C.V. (NYSE:ICA)** at market and use a 25% trailing stop to protect your principal and your profit.

Take note that ICA also trades on the Mexican Stock Exchange. You should have no trouble purchasing it. But you may need to contact your broker for details.

Profit Play #2: The World's Third Largest Cement Maker Set to Bankroll Huge Profits in Mexico

Based in Garza Garcia, Mexico, **Cemex (NYSE:CX)** is the third largest cement maker in the world.

The company boasts a market cap of $8.36 billion.

Its annual production capacity totals a mind boggling 96 million tons of concrete. And its products can be found in over 100 countries worldwide with annual sales totaling a whopping $14 billion.

Now, with 41 countries flooding nearly $20 billion into Mexico to build and update facilities over the next 12 months alone, the future looks even brighter for Cemex.

But there's no denying… The last 4 years haven't all been good.

Cemex nearly floundered after its leveraged 2007 purchase of Australia's Rinker was undermined by the implosion of the U.S. housing market.

At the time, it was a major hit to the company's bottom line. But now things are looking better… much better…

As Mexico-based financial services leader, Actinver, recently told Reuter's in an interview, "[Cemex] is a big opportunity."

And today, the company is more ready than ever to create value for its shareholders.

First order of business? In March, it bought back $5.9 billion of its debt. Cemex also reported it plans on saving another $250 million this year thanks to cutting costs.

Credit Suisse also reports that growth in Mexico could shoot Cemex's share price significantly higher over the coming months.

In fact, it and three other institutional houses slapped a "buy" rating on the company just a few months ago.

Now you can easily cash in on Cemex's resurgence.

Action to take: Buy shares of **Cemex, S.A.B. de C.V. (NYSE:CX)** at market and use a 25% trailing stop to protect your principal and your profit.

Take note that CX also trades on the Mexican Stock Exchange. You should have no trouble purchasing it. But you may need to contact your broker for details.

Profit Play #3: The Steel Company You've Never Heard of… Making Waves Across Mexico

With billions of dollars in foreign investment piling into Mexico to build new manufacturing facilities, perhaps the most significant growth is taking place in the automotive industry.

A few examples…

- Volkswagen AG will invest $550 million to develop a new engine facility in central Mexico to supply parts to two of its North American plants.
- Mazda will spend $500 million on a brand new production facility over the coming months.
- Nissan just started sinking $600 million into updates on one of its Mexican auto making facilities.
- Chrysler is about to invest $550 million into a new facility that will be the only plant in North America that makes the Fiat 500… and the only one in the world that makes the Dodge Journey.

Today, Mexico's automotive industry is poised to outpace growth in the U.S.

And for **Grupo Simec, S.A.B. de C.V. (AMEX:SIM)**, this news couldn't be better.

In short, it's set to be the go-to steel solutions provider for all of these foreign auto makers when they arrive, cash in hand, in Mexico.

And with 5-million tons of steel at its disposal this year, the firm is more than ready to tackle any task.

But that's not all…

Recent investment in Grupo Simec's melt shops has allowed the company's steel mills to become self sufficient, putting in place the foundation for many years of tremendous growth.

Also, after recently trading below book value, the company also maintains the strongest free cash-flow margin of any of its major steel competitors. It has nearly $300 million in its cash reserves.

And with only $49 million in debt, Grupo Simec is one of the hottest Mexican stocks to own today.

Action to take: Buy shares of **Grupo Simec, S.A.B. de C.V. (AMEX:SIM)** at market and use a 25% trailing stop to protect your principal and your profit.

Take note that SIM also trades on the Mexican Stock Exchange.

You should have no trouble purchasing it. But you may need to contact your broker for details.

These three companies are available for purchase directly on either U.S. or Mexican exchanges. They are ready to explode higher as foreign businesses increase their investments and continue to build new facilities in Mexico.

These companies will not be official recommendations for *The Oxford Club*'s portfolios, and therefore will not be followed in e-mail alerts or on our website. Remember to never invest more than you can afford to lose, and to always use a trailing stop (we recommend 25%). OC