

# Intrinsic Value Weekly

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Now, after the powerful five-week rally in stocks, few would question the utility of an active and intelligent monetary policy. The reduction of risk premiums has been felt most powerfully in those stocks which are exposed to international economic conditions. This has led to over-valuation in large **Consumer Staples** especially. This sector has very low revenue growth, but stable margins and strong brand recognition. Little investment opportunity exists within Consumer Staples groups and even most of the undervaluation in Mid Cap Consumer Staples has disappeared. With undervaluation now present in Mid Cap and Small Cap sectors, we suggest looking for new opportunity there. Especially now, with speculation in Internet companies raging again, we think one ought to look at **Mid Cap Utility** names with a fresh eye (see Page 3). If that seems contrarian, one shouldn't be surprised. The search for Intrinsic Value involves uncovering the positive trend change in unpopular and out of favor groups.

## ECONOMIC SECTOR VALUATION - FUNDAMENTALS AS OF September, 1998

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	14.3%	(10.0%)	(5.7%)
CONSUMER CYCLICALS	(5.4%)	(23.4%)	3.8%
CONSUMER STAPLES	62.1%	(11.3%)	12.1%
HEALTH	10.5%	(19.3%)	(1.6%)
ENERGY	(2.2%)	(12.7%)	(24.9%)
FINANCIAL	3.4%	4.2%	(17.8%)
CAPITAL GOODS	18.4%	(11.8%)	(16.7%)
TECHNOLOGY	37.5%	(3.3%)	(2.5%)
COMMUNICATIONS	19.5%	5.3%	(18.1%)
UTILITY	(4.6%)	(19.9%)	(4.3%)
TRANSPORTATION	(9.0%)	12.5%	(6.4%)

Black - Overvalued

Red - (Undervalued)

## WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	% Change	Weight	% Change	Weight	% Change
prices as of 11/20/98	% of Total		% of Total		% of Total	
BASIC INDUSTRY	3.6%	(0.0%)	6.2%	(2.0%)	5.5%	(0.2%)
CONSUMER CYCLICALS	9.4%	3.8%	14.4%	5.2%	19.2%	3.2%
CONSUMER STAPLES	15.4%	2.9%	8.6%	0.7%	9.3%	5.9%
HEALTH	12.6%	2.6%	9.0%	2.4%	10.5%	3.1%
ENERGY	6.7%	(1.3%)	3.8%	(6.0%)	3.0%	(6.0%)
FINANCIAL	15.3%	5.1%	14.8%	5.7%	16.9%	2.3%
CAPITAL GOODS	8.2%	3.1%	9.7%	0.8%	12.1%	0.4%
TECHNOLOGY	17.5%	0.3%	17.7%	(5.8%)	15.4%	2.4%
COMMUNICATIONS	7.5%	4.8%	2.4%	1.3%	0.3%	6.1% *
UTILITY	3.3%	0.6%	12.3%	0.1%	4.8%	0.4%
TRANSPORTATION	0.8%	1.9%	1.8%	5.0%	3.2%	-0.2%

\* Sector contains only 2 companies

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## Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol Name	Price 11/20/98	Intrinsic Value	+/- %	Q Ratio
ALD AlliedSignal Inc.	\$ 41.813	\$48.89	(14%)	2.0
CTL Century Telephone Enterprises, Inc.	\$ 56.813	\$54.16	5%	1.8
DAL Delta Air Lines, Inc.	\$ 52.188	\$74.44	(30%)	1.0
G Gillette Company	\$ 47.438	\$48.20	(2%)	5.6
INTC Intel Corporation	\$112.063	\$112.11	(0%)	6.5
NUE Nucor Corporation	\$ 43.500	\$68.82	(37%)	1.7
PNM Public Service Company of New Mexico	\$ 20.813	\$28.66	(27%)	0.8
SLB Schlumberger Limited	\$ 51.438	\$55.18	(7%)	2.6
WEN Wendy's International	\$ 20.125	\$25.43	(21%)	1.5

### Value Drivers

### Standard Market Statistics

	Sales Growth 12M	EBIT Margin %	Leverage ROC at Market	Yield	PE	PB	PS	
ALD	7.9%	11.4%	11.8%	19.6%	1.4%	16.9	5.0	1.5
CTL	74.6%	29.7%	9.1%	33.9%	0.5%	18.8	4.0	3.6
DAL	4.9%	12.0%	14.2%	76.5%	0.4%	7.4	2.0	0.5
G	2.4%	23.1%	20.2%	6.7%	1.1%	45.5	9.8	5.0
INTC	0.7%	39.4%	33.5%	0.5%	0.1%	25.7	6.8	5.8
NUE	6.0%	11.0%	21.1%	6.0%	1.1%	14.3	2.1	0.9
PNM	20.3%	14.3%	7.0%	51.0%	3.8%	12.2	1.1	0.7
SLB	9.6%	15.5%	14.6%	12.2%	1.5%	24.9	3.9	2.2
WEN	-1.5%	14.9%	11.9%	30.3%	1.2%	25.0	2.1	1.4

#### Notes on Intrinsic Value Portfolio

Few stocks in the portfolio remain undervalued now, with the strong rise in Intel shares. Only, the out of favor Nucor, Delta, Wendy's and PNM are more than twenty percentage points below Intrinsic Value. This condition exists also in the general market for stocks.

We expect that the next phase of the market will involve the usual search for "laggards", and thus our undervalued companies will likely perform better. There's no guarantee however.

**Breaking News on ALD:** The bid by Tyco Int'l (TYC - NYSE) for AMP, Inc. (AMP- NYSE) is not expected by us to create a bidding war with AlliedSignal (ALD - NYSE). In fact, we believe that ALD's stock price will move rapidly back up to intrinsic value (our estimate, about \$49).

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Utility - S&P Mid cap Index

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Company Name	Ticker	Last 12		ROE	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow	Return on Capital	Dividend Yield
		Market Value - Equity	Mo. Sales Gr. %							
AGL RESOURCES INC	ATG	\$ 1,225.5	4.0%	12.3	13.3	15.2	2.0		10.2	5.04%
ALLEGHENY ENERGY INC	AYE	\$ 4,109.3	12.4%	12.5	26.2	13.9	1.8	7.3	9.9	5.16%
AMERICAN WATER WORKS INC	AWK	\$ 2,541.6	6.8%	10.1	23.7	20.6	2.2	10.4	5.5	2.55%
BLACK HILLS CORP	BKH	\$ 555.7	145.3%	15.8	19.5	16.5	2.7	9.7	13.7	3.86%
CALENERGY INC	CE	\$ 1,890.5	36.2%	3.6	12.0	29.3	1.9	5.1	4.6	0.00%
CLECO CORP	CNL	\$ 775.8	17.8%	12.3	23.4	14.6	1.9	7.5	8.7	4.67%
CMP GROUP INC	CTP	\$ 571.8	-2.3%	1.1	7.4	43.4	1.2	7.7	3.5	5.18%
CMS ENERGY CORP	CMS	\$ 4,971.5	14.5%	13.6	16.9	20.2	2.6	7.1	9.9	2.78%
CONNECTIV INC	CIV	\$ 2,353.9	90.3%	10.6	16.5	14.2	1.5	7.3	8.3	6.52%
EL PASO ENERGY CORP/DE	EPG	\$ 4,321.4	19.0%	9.5	9.2	19.0	2.2	8.7	6.2	2.15%
ENERGY EAST CORP	NEG	\$ 3,365.8	17.0%	9.7	20.8	17.7	2.0	8.4	8.8	3.01%
FLORIDA PROGRESS CORP	FPC	\$ 4,088.1	10.1%	3.1	8.2	24.0	2.3	7.4	5.3	5.09%
HAWAIIAN ELECTRIC INDS	HE	\$ 1,246.8	2.5%	10.6	25.3	12.8	1.5		10.1	6.34%
IDACORP INC	IDA	\$ 1,285.9	55.7%	12.2	24.7	14.3	1.8	7.6	8.4	5.45%
ILLINOVA CORP	ILN	\$ 1,900.4	4.4%	7.6	13.6	(58.3)	1.4	10.0	6.4	4.72%
INDIANA ENERGY INC	IEI	\$ 685.2	-12.1%	7.0	6.9	17.1	2.3	8.8	6.2	4.10%
INTERSTATE ENERGY CORP	LNT	\$ 2,427.4	13.3%	10.1	14.0	20.9	1.6	8.1	6.8	6.34%
IPALCO ENTERPRISES INC	IPL	\$ 2,161.8	4.3%	18.2	31.0	19.1	4.1	10.2	11.9	2.29%
K N ENERGY INC	KNE	\$ 1,985.2	119.1%	12.7	6.2	18.3	2.3	8.0	8.6	2.54%
KANSAS CITY POWER & LIGHT	KLT	\$ 1,872.4	4.8%	8.3	26.1	16.0	2.1	8.0	8.2	5.49%
KEYSPAN ENERGY	KSE	\$ 4,744.2	-1.6%	11.8	14.0		1.6	33.2	9.4	5.96%
LG&E ENERGY CORP	LGE	\$ 3,647.3	9.4%	11.7	4.9	18.7	2.3	10.5	8.3	4.37%
MCN ENERGY GROUP INC	MCN	\$ 1,540.1	2.3%	12.3	13.7	(5.9)	1.3	(21.2)	9.0	5.23%
MIDAMERICAN ENERGY HLDG	MEC	\$ 2,446.7	-1.6%	10.7	14.4	17.2	1.9	7.2	6.7	4.62%
MINNESOTA POWER & LIGHT	MPL	\$ 1,544.0	6.3%	11.6	(19.1)	16.0	2.2		(6.2)	4.76%
MONTANA POWER CO	MTP	\$ 2,973.5	13.6%	12.4	21.2	19.7	2.8	11.6	8.5	2.96%
NATIONAL FUEL GAS CO	NFG	\$ 1,823.8	-1.4%	12.6	18.7	52.9	1.9	12.3	11.2	3.79%
NEVADA POWER CO	NVP	\$ 1,214.4	5.6%	9.8	22.6	15.1	1.5	7.9	8.5	4.22%
NEW CENTURY ENERGIES INC	NCE	\$ 5,331.1	10.0%	11.1	19.8	16.4	2.2	9.2	12.0	4.85%
NEW ENGLAND ELECTRIC SYSTEM	NES	\$ 2,663.1	1.6%	12.6	20.9	12.5	1.6	6.1	10.6	5.57%
NIPSCO INDUSTRIES INC	NI	\$ 3,657.0	26.6%	15.1	15.9	19.7	3.0	8.0	9.7	3.15%
NORTHEAST UTILITIES	NU	\$ 2,147.7	-0.1%	(6.1)	5.6	(34.1)	1.0	5.9	2.2	0.00%
OGE ENERGY CORP	OGE	\$ 2,190.9	23.8%	13.2	18.5	13.2	2.2	6.9	10.7	4.90%
PINNACLE WEST CAPITAL	PNW	\$ 3,919.2	6.7%	11.6	27.9	17.3	1.9	6.4	7.8	2.81%
POTOMAC ELECTRIC POWER	POM	\$ 3,141.0	8.7%	8.9	23.8	17.6	1.7	7.2	6.8	6.26%
PUBLIC SERVICE CO OF N MEX	PNM	\$ 869.4	20.3%	10.0	14.3		1.1	5.1	7.0	3.84%
PUGET SOUND ENERGY INC	PSD	\$ 2,293.7	9.7%	8.0	15.7	16.4	1.7	7.2	7.2	6.78%
QUESTAR CORP	STR	\$ 1,626.9	-2.2%	12.4	18.7	16.4	1.9	7.3	10.5	3.34%
SCANA CORP	SCG	\$ 3,500.2	10.3%	12.4	27.5	14.3	2.0	8.5	9.2	4.65%
TECO ENERGY INC	TE	\$ 3,571.6	5.1%	14.6	22.2	17.7	2.5	8.3	11.8	4.57%
UTILICORP UNITED INC	UCU	\$ 1,948.6	65.3%	11.5	3.3	15.6	1.7	7.0	7.8	4.97%
WASHINGTON GAS LIGHT CO	WGL	\$ 1,131.6	-1.4%	13.7	15.5	16.8	1.9	9.2	12.1	4.64%
WISCONSIN ENERGY CORP	WEC	\$ 3,559.1	9.2%	3.3	15.7	25.2	1.9	9.1	6.1	5.05%