

# Intrinsic Value Weekly

Volume 2, No. 10

Published Weekly by Intrinsic Value Associates, LLC

March 8, 1999

## Trolling for Value

In our discussions with a client last week, we were asked about whether there are still stocks which have no growth expectations incorporated in their price, but that still have growth in their fundamentals. To answer this question, we ran a screen on the combination of the S&P 500, S&P MidCap and S&P Small Cap Index components:

1. Enterprise Value divided by NOPAT Annuity (NOPAT divided by the 30 year Treasury Bond Yield)
2. Return on Capital greater than Weighted Average Cost of Capital.
3. NOPAT growth of at least 10% in the past year.
4. Sales growth of at least 10% in the past year.
5. Market Capitalization of at least \$1 billion.

We found 42 companies for which the market is so pessimistic that it assumes that the firm is simply the current Net Operating Profit After Tax extended forever with zero growth. These characteristics are just the opposite of the dominant large cap winners over the past three years. Those winners are priced largely to keep growing at current rates forever, an impossibility if we've ever heard of one.

The results of the screen don't have any forecast information in the screened data; it's all historical. So the market is expecting worse to come. Any use of these names needs careful and thorough analysis to go with it and lots of conservative assumptions, too. But with the market already incorporating a large measure of pessimism into the prices, we'd expect much less risk in many of these names - just in case of a hiccup in the expectations for growth. Our standard data set for these companies appears on Page 4. Further explanation of the screen is available on request.

Ticker	Company Name	Ticker	Company Name
ALNT	ALIAN COMMUNICATIONS INC	LEA	LEAR CORP
ASD	AMERN STANDARD CO INC	MAN	MANPOWER INC/WI
BKS	BARNES & NOBLE INC	MAS	MASCO CORP
CSL	CARLISLE COS INC	MTG	MGIC INVESTMENT CORP/WI
CTX	CENTEX CORP	MLHR	MILLER (HERMAN) INC
CLE	CLAIRES STORES INC	MPS	MODIS PROFESSIONAL SVCS INC
CNF	CNF TRANSPORTATION INC	NE	NOBLE DRILLING CORP
CA	COMPUTER ASSOCIATES INTL INC	OMX	OFFICEMAX INC
CR	CRANE CO	OI	OWENS-ILLINOIS INC
CUM	CUMMINS ENGINE	PCAR	PACCAR INC
CYT	CYTEC INDUSTRIES INC	PMS	POLICY MANAGEMENT SYSTEMS CP
DDS	DILLARDS INC -CL A	PMI	PREMARK INTERNATIONAL INC
EC	ENGELHARD CORP	TROW	PRICE (T. ROWE) ASSOCIATES
ETR	ENTERGY CORP	REI	RELIANT ENERGY INC
FNM	FANNIE MAE	RFH	RICHFOOD HOLDINGS INC
FHS	FOUNDATION HEALTH SYS -CL A	RAD	RITE AID CORP
GD	GENERAL DYNAMICS CORP	ROST	ROSS STORES INC
HRC	HEALTHSOUTH CORP	SMS	SHARED MEDICAL SYSTEMS CORP
HNI	HON INDUSTRIES	TRN	TRINITY INDUSTRIES
HUM	HUMANA INC	UNH	UNITED HEALTHCARE CORP
ICN	ICN PHARMACEUTICALS INC	WAC	WARNACO GROUP INC -CL A

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## ECONOMIC SECTOR VALUATION

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	5.4%	(22.3%)	(19.8%)
CONSUMER CYCLICALS	4.3%	(8.2%)	(12.8%)
CONSUMER STAPLES	12.0%	(8.3%)	(4.0%)
HEALTH	(9.7%)	(17.5%)	(21.5%)
ENERGY	(4.1%)	(19.3%)	(41.8%)
FINANCIAL	5.8%	(10.7%)	(17.2%)
CAPITAL GOODS	8.4%	(10.2%)	(13.6%)
TECHNOLOGY	24.6%	(3.7%)	5.0%
COMMUNICATIONS	24.2%	24.1%	(44.3%)
UTILITY	(13.7%)	(15.3%)	(7.0%)
TRANSPORTATION	(5.2%)	1.8%	(15.0%)
<b>Weighted Total</b>	<b>8.9%</b>	<b>(10.0%)</b>	<b>(11.5%)</b>

Black - Overvalued

Red - (Undervalued)

## WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 2/26/99	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.0%	1.5%	5.5%	0.3%	4.4%	0.1%
CONSUMER CYCLICALS	9.5%	4.9%	17.0%	(0.6%)	19.2%	1.5%
CONSUMER STAPLES	14.7%	2.6%	8.0%	1.6%	9.3%	(0.1%)
HEALTH	12.3%	(3.7%)	9.6%	3.9%	10.6%	4.2%
ENERGY	5.3%	6.0%	3.1%	7.3%	2.2%	8.8%
FINANCIAL	15.2%	4.6%	14.9%	3.9%	16.3%	1.5%
CAPITAL GOODS	8.0%	2.7%	8.9%	0.6%	12.0%	1.7%
TECHNOLOGY	19.7%	(1.2%)	17.4%	2.8%	17.6%	2.5%
COMMUNICATIONS	8.5%	0.1%	1.9%	3.3%	0.2%	(13.1%)
UTILITY	2.8%	3.0%	11.8%	2.0%	4.6%	1.3%
TRANSPORTATION	1.0%	3.6%	2.0%	1.4%	3.5%	3.7%
<b>Weighted Total:</b>		1.57%		2.08%		1.98%

\* Sector contains only 2 companies Weekly prices changes may not match prior issues due to changes in composition of sectors.

The importance of inflation expectations to the current market cannot be over-estimated. This statement was underscored emphatically this past week. Whatever strange logic the bond market uses to expect inflation from too many people working, the tide seemed to turn at the higher unemployment number. Still, the 30-year Treasury yield at 5.6% is higher than warranted by a 1% inflation rate. We've talked about a "dead-cat" bounce in the measured rates of inflation and that such would not be an indication of a change in trend. Keep an eye on gold and the dollar. Trade wars are not good for price stability, so keep your third eye on the progress of the banana dispute. With all this to worry about, the market could indeed continue to make new highs. But watch out if something beyond worry actually happens on gold, dollars or bananas.

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## Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Price 3/5/99	Intrinsic Value	+/- %	Q Ratio	Weekly Price Change
ALD	AlliedSignal Inc.	\$ 44.688	\$50.08	(11%)	2.1	8.0%
CTL	Century Telephone Ent.	\$ 64.688	\$63.77	1%	1.9	4.8%
DAL	Delta Air Lines, Inc.	\$ 63.438	\$66.79	(5%)	1.0	4.3%
G	Gillette Company	\$ 57.688	\$52.66	10%	6.6	7.0%
HD	Home Depot	\$ 62.250	\$53.65	16%	7.2	4.3%
INTC	Intel Corporation	\$114.625	\$118.34	(3%)	8.7	(4.4%)
LOW	Lowe's Companies	\$ 62.000	\$52.28	19%	4.9	4.5%
NYT	New York Times Co.	\$ 31.500	\$48.21	(35%)	1.7	1.6%
NUE	Nucor Corporation	\$ 43.000	\$57.99	(26%)	1.6	(3.5%)
SLB	Schlumberger Limited	\$ 55.000	\$51.09	8%	2.6	13.3%
WEN	Wendy's International	\$ 27.313	\$29.86	(9%)	1.8	14.1%
<b>Average:</b>						<b>4.9%</b>

### Value Drivers

### Standard Market Statistics

	Sales		EBIT Margin %	Leverage at ROC Market	Yield	PE	PB	PS
	Growth Last 12M							
ALD	4.5%	11.4%	11.8%	18.6%	1.5%	17.5	5.3	1.5
CTL	74.9%	29.7%	9.1%	31.1%	0.4%	24.7	4.4	3.5
DAL	3.2%	12.0%	14.2%	59.1%	0.2%	8.4	2.3	0.6
G	-1.7%	23.1%	20.2%	5.6%	0.9%	56.2	11.7	6.0
HD	25.1%	8.3%	11.8%	5.8%	0.2%	54.3	12.3	2.9
INTC	4.8%	39.4%	33.5%	0.5%	0.1%	32.9	9.2	7.5
LOW	20.8%	6.2%	10.4%	7.8%	0.2%	43.3	8.0	1.7
NYT	2.5%	17.5%	16.0%	0.0%	1.2%	20.4	3.5	2.0
NUE	-0.8%	11.0%	21.1%	6.1%	1.1%	14.9	2.1	0.9
SLB	2.4%	15.5%	14.6%	11.5%	1.4%	26.0	3.6	2.0
WEN	-4.4%	14.9%	11.9%	22.4%	0.9%	24.9	2.3	1.6

### Notes on Intrinsic Value Portfolio

Short-term performance is nothing to get excited about. Just because the Intrinsic Value Portfolio rose twice as much as the market, no big deal. With a concentrated portfolio of value-building companies, short-term volatility can be large in either direction. Nevertheless, we should comment on the continued progress of WEN toward our target price. The company is beginning to build revenues at a faster pace, which makes all the other changes easier. And DAL actually traded at its target price briefly this past week. Do not get on the momentum bandwagon with these companies. Reason suggests that once the target price is reached, further rises are mainly speculative and, thus, unsustainable.

### Sector Comments

Last week, the under-priced Mid Cap and Small Cap markets rose more than Large Cap stocks for one of the few times this year. Overall while Large Cap stocks remain over-priced, the price weakness in technology and health stocks seems to have been the culprit causing the performance lag. We expect additional weakness in technology and communications stocks.

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Trolling for Value Screen

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Company Name	Ticker	Market Value Equity	Last 12MM Sales Growth	ROE	NOPAT Margin	PE Ratio	Price/ Book Ratio	Price/ Cash Flow	Return on Capital	Dividend Yield
ALIAN T COMMUNICATIONS INC	ALNT	\$ 1,390	18.0%	17.4	31.1	23.9	4.8	12.2	17.5	1.85%
AMERN STANDARD CO INC	ASD	\$ 2,351	10.8%	(19.7)	6.7	71.4	(4.0)	10.8	13.4	0.00%
BARNES & NOBLE INC	BKS	\$ 1,887	10.1%	12.2	7.8	35.7	3.8	13.9	10.2	0.00%
CARLISLE COS INC	CSL	\$ 1,279	20.4%	20.3	10.1	14.7	3.6	10.2	19.8	1.51%
CENTEX CORP	CTX	\$ 2,182	25.4%	14.6	8.1	10.5	2.2	9.0	14.4	0.44%
CLAIRES STORES INC	CLE	\$ 1,289	23.3%	23.1	17.2	15.6	4.2	12.0	35.3	0.63%
CNF TRANSPORTATION INC	CNF	\$ 2,023	15.8%	17.2	6.4	15.4	2.6	7.3	9.0	0.94%
COMPUTER ASSOCIATES INTL	CA	\$ 22,223	14.2%	47.1	32.2	40.0	9.2	25.2	28.5	0.19%
CRANE CO	CR	\$ 1,827	11.4%	21.2	7.1	13.6	3.5	9.7	12.5	1.50%
CUMMINS ENGINE	CUM	\$ 1,587	11.4%	14.9	4.3	(74.5)	1.1	9.4	7.5	2.65%
CYTEC INDUSTRIES INC	CYT	\$ 1,107	11.9%	29.3	12.9	9.6	3.1	5.6	11.8	0.00%
DILLARDS INC -CL A	DDS	\$ 2,617	12.0%	9.2	6.0	15.7	1.0	6.8	8.1	0.65%
ENGELHARD CORP	EC	\$ 2,713	15.0%	6.1	6.7	13.7	3.3	9.0	13.4	2.11%
ENTERGY CORP	ETR	\$ 7,258	20.2%	3.7	19.4	9.4	1.0	3.9	8.0	4.08%
FANNIE MAE	FNM	\$ 72,491	13.4%	23.5	96.4	21.3	5.7	20.8	7.3	1.53%
FOUNDATION HEALTH SYS -CL	FHS	\$ 1,169	20.8%	(7.6)	5.0	(32.0)	1.1	11.0	21.1	0.00%
GENERAL DYNAMICS CORP	GD	\$ 7,524	22.4%	16.5	12.0	21.0	4.0	15.8	39.5	1.48%
HEALTHSOUTH CORP	HRC	\$ 5,232	32.2%	10.5	17.9	14.0	1.5	7.7	11.0	0.00%
HON INDUSTRIES	HNI	\$ 1,455	24.5%	22.8	8.2	13.8	3.8	9.5	20.5	1.61%
HUMANA INC	HUM	\$ 3,079	21.7%	11.5	3.6	22.7	1.9	11.4	12.1	0.00%
ICN PHARMACEUTICALS INC	ICN	\$ 1,827	11.4%	13.6	17.8	(4.6)	2.0	(5.4)	13.5	0.97%
LEAR CORP	LEA	\$ 2,346	23.4%	17.2	5.1	20.8	2.0	7.1	13.8	0.00%
MANPOWER INC/WI	MAN	\$ 1,915	21.1%	26.5	2.5	14.3	3.1	10.2	13.4	0.83%
MASCO CORP	MAS	\$ 9,272	15.6%	17.2	17.5	18.9	3.9	0.0	16.0	1.61%
MGIC INVESTMENT CORP/WI	MTG	\$ 3,737	11.9%	21.8	52.6	10.0	2.6	9.5	18.9	0.59%
MILLER (HERMAN) INC	MLHR	\$ 1,423	13.9%	55.6	8.9	10.3	6.4	7.2	24.0	0.87%
MODIS PROFESSIONAL SVCS II	MPS	\$ 1,428	15.0%	12.6	5.1	22.4	1.7	0.0	11.6	0.00%
NOBLE DRILLING CORP	NE	\$ 1,761	10.5%	23.0	20.0	9.8	1.4	6.7	10.6	0.00%
OFFICEMAX INC	OMX	\$ 1,125	15.2%	7.7	3.9	19.4	0.8	0.0	12.3	0.00%
OWENS-ILLINOIS INC	OI	\$ 3,777	13.9%	20.5	11.3	33.7	2.6	8.0	8.5	0.00%
PACCAR INC	PCAR	\$ 3,446	16.8%	23.0	8.9	7.8	2.2	0.0	13.7	1.81%
POLICY MANAGEMENT SYSTEMS	PMS	\$ 1,354	17.2%	12.2	14.3	24.9	3.3	10.5	16.3	0.00%
PREMARK INTERNATIONAL INC	PMI	\$ 2,137	13.8%	11.4	6.8	14.5	2.2	9.2	12.3	1.15%
PRICE (T. ROWE) ASSOCIATES	TROW	\$ 4,185	17.4%	29.7	32.5	21.1	7.5	17.6	52.1	1.14%
RELIANT ENERGY INC	REI	\$ 7,998	67.0%	8.6	16.4	(53.6)	1.6	10.7	8.3	5.33%
RICHFOOD HOLDINGS INC	RFH	\$ 1,085	13.4%	16.9	2.9	20.5	3.5	10.9	13.7	0.88%
RITE AID CORP	RAD	\$ 9,961	14.0%	10.8	8.5	52.4	3.7	22.0	10.1	1.19%
ROSS STORES INC	ROST	\$ 2,125	10.3%	30.9	9.8	16.9	5.8	13.0	51.8	0.48%
SHARED MEDICAL SYSTEMS CO	SMS	\$ 1,315	23.2%	18.4	9.9	19.0	3.9	0.0	16.5	1.70%
TRINITY INDUSTRIES	TRN	\$ 1,474	24.9%	11.7	10.4	7.8	1.6	5.6	23.2	1.99%
UNITED HEALTHCARE CORP	UNH	\$ 9,666	47.2%	9.5	6.3	(44.0)	2.1	486.5	22.3	0.06%
WARNACO GROUP INC -CL A	WAC	\$ 1,424	61.2%	2.9	13.4	28.1	1.7	11.2	14.4	1.51%

Source: Standard & Poors Corporation Compustat PC Plus®, Intrinsic Value Associates, LLC