

Intrinsic Value Weekly

Volume 2, No. 12

Published Weekly by Intrinsic Value Associates, LLC

March 22, 1999

ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	9.6%	(25.2%)	(17.0%)
CONSUMER CYCLICALS	4.1%	(11.2%)	(13.5%)
CONSUMER STAPLES	9.5%	(13.4%)	(5.3%)
HEALTH	(8.8%)	(19.8%)	(22.7%)
ENERGY	4.5%	(2.9%)	(27.6%)
FINANCIAL	7.3%	(8.6%)	(20.8%)
CAPITAL GOODS	11.3%	(12.0%)	(13.4%)
TECHNOLOGY	22.3%	(6.2%)	(0.5%)
COMMUNICATIONS	24.8%	32.4%	(32.9%)
UTILITY	(13.5%)	(19.4%)	(7.9%)
TRANSPORTATION	(3.7%)	(1.7%)	(18.0%)
Weighted Total:	9.3%	(11.3%)	(13.1%)

Black - Overvalued

Red - (Undervalued)

WEEKLY PRICE CHANGE

<u>SECTORS</u>	<u>S&P 500</u>		<u>S&P MIDCAP</u>		<u>S&P SMALL CAP</u>	
	Weight	Price	Weight	Price	Weight	Price
prices as of 3/19/99	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.1%	1.7%	5.5%	(0.6%)	4.5%	3.9%
CONSUMER CYCLICALS	9.3%	(0.8%)	17.0%	(2.5%)	19.6%	(1.9%)
CONSUMER STAPLES	14.1%	(0.7%)	7.6%	(2.9%)	9.4%	(1.1%)
HEALTH	12.2%	(0.5%)	9.4%	(2.5%)	10.8%	(1.5%)
ENERGY	5.6%	1.8%	3.7%	2.9%	2.9%	2.6%
FINANCIAL	15.9%	(1.1%)	15.1%	1.0%	15.0%	(6.0%)
CAPITAL GOODS	8.1%	0.5%	8.7%	0.7%	12.4%	(0.2%)
TECHNOLOGY	19.7%	2.4%	17.4%	0.3%	17.0%	(1.2%)
COMMUNICATIONS	8.3%	(0.0%)	2.1%	3.5%	0.3%	5.2%
UTILITY	2.8%	(0.1%)	11.5%	(3.7%)	4.6%	(0.4%)
TRANSPORTATION	1.0%	1.9%	2.0%	0.5%	3.5%	(2.4%)
Weighted Total:		0.27%		(0.89%)		(1.60%)

* Sector contains only 2 companies

Weekly prices changes may not match prior issues due to changes in composition of sectors.

Sector Comments Basics and Energy continue to set the pace, and large Techs rebounded. Health stocks are now solidly underpriced across the board. If a stalemate emerges on Medicare policy, thies stocks ought to move back toward intrinsic value. Over-pricing in the Communications sectors continues and, until FCC involvement is reduced by an impatient Congress, we expect the speculative enthusiasm arising from Internet growth to dominate what we expect will be a pricing war. Some of this ferocious competition can currently be seen in cellular and PCS companies. Microsoft is largely responsible for the large cap Technology Sector overpricing. A continuation of the revenue growth and margins implied by the current price is unlikely. Finally, the dominance of Large Cap stocks continues to confound those who expect a rebound in Small Cap and Mid Cap stocks. That rebound is warranted by valuation, but the trend is currently headed in the opposite direction.

Intrinsic Value Weekly

Page 2

Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Price 3/19/99	Intrinsic Value	+/- %	Q Ratio	Weekly Price Change
ALD	AlliedSignal Inc.	\$ 45.938	\$50.08	(8%)	1.9	1.0%
CTL	Century Telephone Ent.	\$ 73.313	\$63.77	15%	1.7	7.0%
DAL	Delta Air Lines, Inc.	\$ 68.625	\$66.79	3%	1.0	7.2%
G	Gillette Company	\$ 62.000	\$52.66	18%	6.6	0.0%
HD	Home Depot	\$ 63.250	\$53.65	18%	7.2	(3.1%)
INTC	Intel Corporation	\$ 119.000	\$118.34	1%	8.7	0.6%
LOW	Lowes Companies	\$ 63.750	\$52.28	22%	4.9	(1.7%)
MLHR	Herman Miller, Inc.	\$ 15.938	\$37.95	(58%)	2.8	(0.8%)
NYT	New York Times Co.	\$ 30.063	\$48.21	(38%)	2.3	0.6%
NUE	Nucor Corporation	\$ 44.813	\$57.99	(23%)	1.6	5.3%
SLB	Schlumberger Limited	\$ 57.063	\$51.09	12%	2.6	1.1%
WEN	Wendy's International	\$ 28.875	\$29.86	(3%)	1.8	6.5%
				Average: (3.5%)	Average: 2.0%	
					S&P 500	0.3%

Value Drivers

Standard Market Statistics

	Sales		EBIT Margin %	Leverage at Market	Yield	PE	PB	PS
	Growth Last 12M	ROC						
ALD	4.5%	14.9%	13.0%	21.4%	1.5%	17.5	4.4	1.5
CTL	74.9%	9.9%	30.4%	-3.9%	0.4%	24.7	4.4	3.6
DAL	3.2%	14.2%	12.0%	57.3%	0.1%	8.4	2.3	0.6
G	-1.7%	20.2%	23.1%	5.2%	0.8%	56.2	11.7	6.0
HD	25.1%	11.8%	8.3%	5.7%	0.2%	54.3	12.3	2.9
INTC	4.8%	0.5%	39.4%	0.5%	0.1%	32.9	9.2	7.5
LOW	20.8%	7.6%	6.2%	7.6%	0.2%	43.3	8.0	1.7
NYT	2.5%	19.2%	17.5%	19.2%	1.3%	20.4	3.7	2.0
NUE	-0.8%	5.9%	11.0%	5.9%	1.1%	14.9	2.1	0.9
SLB	2.4%	11.2%	15.5%	11.2%	1.3%	26.0	3.6	2.0
WEN	-4.4%	21.5%	14.9%	21.5%	0.8%	24.9	2.3	1.6

Notes on Intrinsic Value Portfolio

Three stocks are getting nearly 20% over-priced: **G**, **HD** and **LOW**. The question of removal from the list is tough. Are the stocks indicating that improvements in their value drivers make our intrinsic value estimates obsolete? To check that, we looked at the sales assumptions in each. In the case of G, the most recent drivers are actually below our assumptions. For HD and LOW, drivers are only slightly better than our assumptions. The enthusiasm inherent in current prices may be correctly forecasting an improvement in sales growth or margin improvement. Because we expect these companies to produce excellent results and could surprise us pleasantly, we'd recommend holding on in taxable accounts. For tax-deferred holders, some trimming of these stocks to minimal levels is probably warranted.

For **CTL**, **DAL**, **SLB** and **WEN**, stock prices are close to or above our intrinsic value estimate. The substantial improvement in WEN value drivers certainly accounts for the stock's rapid recent rise. But those results only confirm our estimates and no current boost in our assumptions is yet warranted. In the **DAL** case, current destructive forces in Congress could seriously damage airline economics. Until those "rights" issues are resolved, the prudent course would be to trim holdings, even though the stock is only fairly priced. Lastly, **CTL** has shown the ability to over-achieve and as yet is only somewhat over-priced. Concentrate on adding to **NUE**, **NYT** and **MLHR**. This week Page Three is back and looks at the Large Cap Health Sector.

Intrinsic Value Weekly

Health Sector - S&P 500 Index

Page 3

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
ABBOTT LABORATORIES	ABT	\$ 72,771	5.0%	40.8	27.6	30.3	12.3	22.5	36.6	1.25%
AETNA INC	AET	\$ 11,470	10.6%	7.5	8.1	13.5	1.0	@CF	1.7	0.99%
ALLERGAN INC	AGN	\$ 6,208	12.8%	15.2	9.8	(59.1)	6.3	@CF	9.3	0.59%
ALZA CORP	AZA	\$ 4,340	25.9%	(86.7)	18.8	40.4	14.9	31.8	6.1	0.00%
AMERICAN HOME PRODUCTS C	AHP	\$ 86,742	-5.2%	25.0	15.5	31.6	9.5	24.9	13.0	1.37%
AMGEN INC	AMGN	\$ 39,495	13.2%	33.7	43.9	36.8	@NA	31.6	39.5	0.00%
BARD (C.R.) INC	BCR	\$ 2,900	-4.0%	44.5	42.1	12.4	@NA	@SF	44.5	1.35%
BAUSCH & LOMB INC	BOL	\$ 3,702	23.3%	6.0	10.3	134.0	4.1	25.1	8.0	1.58%
BAXTER INTERNATIONAL INC	BAX	\$ 19,774	7.5%	11.5	13.4	63.4	7.5	29.8	14.1	1.68%
BECTON DICKINSON & CO	BDX	\$ 8,793	11.5%	14.7	17.3	33.8	5.2	17.1	17.2	0.96%
BIOMET INC	BMET	\$ 4,801	18.8%	18.7	30.1	29.4	6.2	25.2	29.8	0.28%
BOSTON SCIENTIFIC CORP	BSX	\$ 16,306	19.3%	16.6	26.6	(39.0)	10.4	@CF	34.1	0.00%
BRISTOL MYERS SQUIBB	BMJ	\$ 120,446	9.5%	41.5	27.7	39.9	@NA	33.1	37.8	1.42%
COLUMBIA/HCA HLTHCR -VTG	COL	\$ 11,537	-0.7%	2.5	7.8	21.8	1.6	6.5	7.5	0.45%
GUIDANT CORP	GDT	\$ 18,246	42.8%	25.8	19.7	378.3	29.4	@CF	27.6	0.04%
HCR MANOR CARE INC	HCR	\$ 2,576	@SF	16.2	10.2	172.1	2.3	@SF	11.0	0.00%
HEALTHSOUTH CORP	HRC	\$ 4,545	30.5%	10.5	17.9	105.7	1.5	14.1	11.0	0.00%
HUMANA INC	HUM	\$ 3,141	21.7%	11.5	3.6	22.7	1.9	11.4	12.1	0.00%
JOHNSON & JOHNSON	JNJ	\$ 122,474	4.5%	26.7	14.9	38.3	9.3	27.6	19.3	1.10%
LILLY (ELI) & CO	LLY	\$ 95,867	8.4%	47.3	30.6	49.5	@NA	@CF	30.0	1.05%
MALLINCKRODT INC	MKG	\$ 2,033	24.9%	(27.0)	12.4	20.6	2.3	@SF	9.8	2.32%
MEDTRONIC INC	MDT	\$ 40,800	22.3%	22.4	26.8	80.3	16.2	@CF	30.5	0.37%
MERCK & CO	MRK	\$ 203,140	13.8%	36.6	27.4	37.0	15.4	@CF	30.8	1.26%
PFIZER INC	PFE	\$ 182,664	18.0%	27.9	20.2	85.7	21.5	@CF	20.2	0.63%
PHARMACIA & UPJOHN INC	PNU	\$ 28,610	2.7%	5.6	9.2	41.6	5.0	24.7	6.4	1.92%
SCHERING-PLOUGH	SGP	\$ 85,928	19.2%	43.9	29.7	46.4	20.5	41.1	44.6	0.75%
ST JUDE MEDICAL INC	STJ	\$ 2,104	2.2%	5.5	11.6	16.6	2.3	10.7	10.2	0.00%
TENET HEALTHCARE CORP	THC	\$ 5,930	9.7%	10.6	12.5	15.9	1.7	8.0	9.4	0.00%
UNITED HEALTHCARE CORP	UNH	\$ 10,052	47.2%	9.5	6.3	(44.0)	2.1	486.5	22.3	0.06%
WARNER-LAMBERT CO	WLA	\$ 58,074	24.9%	34.7	17.3	45.0	@NA	36.5	22.6	1.13%

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

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