

Intrinsic Value Weekly

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"Health Gets Better"

ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	32.0%	(17.7%)	(5.0%)
CONSUMER CYCLICALS	(13.9%)	(13.1%)	(11.0%)
CONSUMER STAPLES	(2.3%)	(9.1%)	(0.2%)
HEALTH	(27.4%)	(11.2%)	(25.0%)
ENERGY	19.6%	49.4%	30.4%
FINANCIAL	(7.3%)	(21.0%)	(20.7%)
CAPITAL GOODS	19.3%	(1.2%)	(1.2%)
TECHNOLOGY	4.5%	8.6%	14.3%
COMMUNICATIONS	9.3%	10.9% *	6.1% *
UTILITY	(11.9%)	(22.6%)	1.4%
TRANSPORTATION	(21.5%)	(22.7%)	(16.4%)
Weighted Total:	(0.2%)	(5.6%)	(4.5%)

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

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 8/20/1999	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.5%	2.3%	5.3%	(0.2%)	4.3%	(1.4%)
CONSUMER CYCLICALS	8.9%	1.5%	15.7%	0.2%	19.0%	(1.2%)
CONSUMER STAPLES	12.5%	0.5%	9.0%	2.1%	9.6%	0.1%
HEALTH	10.7%	4.2%	10.5%	1.0%	9.5%	1.4%
ENERGY	6.6%	(3.4%)	5.3%	(0.1%)	3.9%	1.9%
FINANCIAL	14.4%	2.2%	12.5%	(0.8%)	14.8%	0.3%
CAPITAL GOODS	8.6%	2.0%	8.5%	(0.6%)	12.5%	(0.6%)
TECHNOLOGY	22.7%	(2.8%)	21.2%	(1.4%)	18.4%	(0.9%)
COMMUNICATIONS	8.4%	(5.3%)	1.0%	(1.3%) *	0.5%	0.0% *
UTILITY	2.9%	(1.2%)	9.5%	0.3%	4.5%	3.3%
TRANSPORTATION	0.9%	(1.6%)	1.5%	(0.8%)	3.1%	(0.5%)
Index Total:		0.7%		0.1%		(0.1%)

* Sector contains only 3 companies

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

Sector Comments

Health stocks were the overwhelming winners last week, and the lack of much apparent volatility in the weekly numbers masked a great deal of daily volatility. The rise in interest rates this year has had the effect of increasing the cost of capital for all stocks. But the Health stocks have had the one of the worst total returns. The combination of high revenue growth, high return on capital and some over-enthusiasm in stock pricing has dropped large-cap Health stocks by an average of 4.5% compared to an increase of nearly 10% in the S&P 500 Index. It is usually the case that stocks that have the best performance as companies are the most shabbily treated by the market when the cost of capital rises. Not only does investors' estimates of the sustainability of revenue growth contract, but the present value of those cash flows drops as well. We added PFE to the Intrinsic Value Portfolio in June because the price had dropped well below Intrinsic Value. Even though the intrinsic value dropped due to the rise in the cost of capital, the price dropped even more. Add to that the concern about potential drug price controls lurking in the proposed Medicare prescription drug benefit and you have the recipe for opportunity. The stock is still about 14% under-priced and if the cost of capital drops in the future, the gains would be even larger. Our Page 3 data table looks at the large cap Health stocks this week and shows many favorable fundamental value driver opportunities.

(\$millions)	<u>Large Capitalization</u>	<u>Mid-Cap Capitalization</u>	<u>Small-Cap Capitalization</u>
\$	10,895,791	857,214	344,919
	90.1%	7.1%	2.9%

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Notes on Intrinsic Value Portfolio The advance of **NUE** from the panic of management changes has been underscored by the report of cash flow for the most recent quarter. A drop in the cash from operations was offset by a reduction in capital expenditures and the company continued to repurchase stock, a sign of confidence that future cash flows are likely to be higher. **NUE** remains about 10% under-priced and the long term outlook intact. In the short-run, improvements will likely parallel the recovery in the world economy, particularly in Asia. The Japanese yen's strength will provide considerable pricing support as well.

INTC's strength is consistent with market enthusiasm for Technology stocks, but the valuation has out-run the business fundamentals for now. We'd expect a less-than-superior result going forward for a while.

Angst about labor negotiations has depressed **DAL**, but these temporary dips have historically been a good time to acquire additional shares. When **DAL** files its SEC Form 10k we will do a new valuation.

The performance of the **Intrinsic Value Portfolio** year-to-date has been quite good, exceeding the return of the Standard & Poors 500 Index by more than 7 percentage points. With fewer stocks now under-priced, we'd expect that margin to remain flat or even decline for the balance of 1999.

Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Updated Valuation	Price 8/20/1999	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change	
ALD	AlliedSignal Inc.	4/29/99	\$ 62.938	\$64.60	(2.6%)	2.7	(0.6%)	
CTL	Century Telephone Ent.	3/1/99	\$ 39.125	\$42.51	(8.0%)	1.9	(6.6%)	
DAL	Delta Air Lines, Inc.	3/1/99	\$ 51.188	\$66.79	(23.4%)	1.0	(4.1%)	
G	Gillette Company	5/24/99	\$ 45.063	\$48.52	(7.1%)	5.2	0.1%	
HD	Home Depot	3/1/99	\$ 62.813	\$53.65	17.1%	6.5	(0.9%)	
INTC	Intel Corporation	7/23/99	\$ 79.938	\$62.52	27.9%	8.9	0.2%	
LOW	Lowe's Companies	3/1/99	\$ 48.125	\$52.28	(7.9%)	4.0	(3.6%)	
MLHR	Herman Miller, Inc.	3/1/99	\$ 24.813	\$46.47	(46.6%)	4.6	(2.2%)	
NYT	New York Times Co.	3/1/99	\$ 37.438	\$48.21	(22.3%)	2.7	0.7%	
NUE	Nucor Corporation	3/1/99	\$ 52.500	\$57.99	(9.5%)	1.7	4.7%	
PFE	Pfizer, Inc.	6/23/99	\$ 36.938	\$42.73	(13.6%)	10.2	7.1%	
SLB	Schlumberger Limited	3/1/99	\$ 67.438	\$51.09	32.0%	2.6	3.4%	
WEN	Wendy's International	3/1/99	\$ 28.438	\$29.86	(4.8%)	2.2	1.3%	
Average:					(5.3%)	Average:	(0.0%)	
							S&P 500	0.7%

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Sales Growth		ROC	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Sales
	Last 12M	EBIT Margin %						
ALD	-0.4%	13.0%	11.5%	-1.3%	1.1%	25.4	6.8	2.4
CTL	31.6%	30.4%	10.9%	7.3%	0.5%	26.6	3.9	3.6
DAL	4.1%	12.0%	11.0%	5.2%	0.2%	7.8	2.2	0.6
G	-1.5%	23.1%	18.5%	3.8%	1.3%	48.5	10.2	4.8
HD	26.2%	8.8%	13.0%	28.1%	0.3%	53.2	10.8	2.7
INTC	14.7%	32.5%	25.8%	13.8%	0.2%	31.2	9.7	8.2
LOW	22.8%	6.8%	11.0%	29.5%	0.2%	33.8	5.9	1.3
MLHR	2.8%	12.7%	41.3%	-7.1%	0.6%	15.5	9.9	1.2
NYT	2.0%	17.5%	11.9%	4.0%	1.1%	25.2	4.7	2.5
NUE	-14.3%	9.9%	12.6%	-11.6%	1.0%	20.7	2.0	1.1
PFE	22.5%	27.0%	20.8%	14.1%	0.8%	54.3	14.9	8.6
SLB	-16.7%	14.7%	11.9%	-29.5%	1.1%	71.2	4.1	3.2
WEN	-2.8%	12.6%	9.7%	-0.3%	0.8%	26.9	3.4	1.9

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Health Stocks have all the value

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Company Name	Ticker	Market Value - Equity	Quarterly Sales Growth	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Price/Cash Flow per sh.	Return on Capital	Dividend Yield
ABBOTT LABORATORIES	ABT	\$65,409	5.8%	43.0	29.25	27.6	26.5	11.4	20.9	36.55	1.6%
AETNA INC	AET	\$11,013	23.2%	78.1	@CF	8.1	15.2	1.1	9.4	1.71	1.0%
ALLERGAN INC	AGN	\$6,421	14.4%	96.9	86.01	12.7	80.1	9.0	(467.5)	13.58	0.6%
ALZA CORP	AZA	\$5,080	23.3%	50.0	(26.16)	26.3	49.2	9.3	31.8	10.88	0.0%
AMERICAN HOME PRODUCTS (AHP	\$61,383	-0.7%	46.9	26.74	17.9	33.1	7.0	19.6	13.98	1.9%
AMGEN INC	AMGN	\$40,829	24.9%	80.1	26.05	43.9	40.1	15.3	40.5	45.32	0.0%
BARD (C.R.) INC	BCR	\$2,493	-14.2%	48.8	108.03	(2.0)	10.7	4.4	8.1	(2.22)	1.6%
BAUSCH & LOMB INC	BOL	\$4,070	11.0%	70.9	(139.14)	7.5	114.0	4.8	28.1	6.19	1.5%
BAXTER INTERNATIONAL INC	BAX	\$19,602	8.9%	68.0	(7.88)	14.6	41.9	6.9	29.0	14.11	1.7%
BECTON DICKINSON & CO	BDX	\$6,790	4.7%	27.1	(5.10)	12.5	23.9	4.3	14.4	12.41	1.3%
BIOMET INC	BMET	\$4,271	11.3%	37.9	12.61	30.3	35.0	5.3	31.1	27.52	0.4%
BOSTON SCIENTIFIC CORP	BSX	\$14,811	48.8%	35.8	(63.65)	16.2	(86.3)	19.5	(104.0)	14.21	0.0%
BRISTOL MYERS SQUIBB	BMJ	\$140,392	11.1%	70.7	36.65	24.9	38.8	17.5	37.3	40.68	1.2%
COLUMBIA/HCA HLTHCR -VTG	COL	\$13,361	-13.0%	23.7	103.31	7.1	24.5	1.9	9.3	6.98	0.3%
GUIDANT CORP	GDT	\$17,729	23.7%	58.8	9.23	20.6	1,952.1	31.8	343.3	34.69	0.0%
HCR MANOR CARE INC	HCR	\$2,307	-2.7%	21.2	(192.49)	11.6	(46.3)	1.9	36.4	14.99	0.0%
HEALTHSOUTH CORP	HRC	\$3,994	7.0%	9.6	(30.68)	15.2	136.1	1.5	10.4	8.95	0.0%
HUMANA INC	HUM	\$1,676	2.4%	10.0	21.64	3.9	47.3	1.1	6.5	11.77	0.0%
JOHNSON & JOHNSON	JNJ	\$132,999	18.5%	98.9	10.69	16.7	36.9	9.0	30.9	19.79	1.1%
LILLY (ELI) & CO	LLY	\$73,834	8.7%	67.6	51.82	30.4	34.2	16.3	28.6	38.99	1.4%
MALLINCKRODT INC	MKG	\$2,351	3.5%	33.3	(94.23)	7.5	14.1	2.5	(15.8)	5.98	2.0%
MEDTRONIC INC	MDT	\$44,111	16.7%	75.4	(15.18)	24.8	89.0	11.5	64.7	30.84	0.4%
MERCK & CO	MRK	\$158,939	23.9%	67.6	16.14	27.5	28.8	12.5	25.7	30.55	1.6%
PFIZER INC	PFE	\$143,133	14.1%	36.9	11.11	20.2	54.3	14.9	59.4	20.84	0.8%
PHARMACIA & UPJOHN INC	PNU	\$25,587	4.1%	50.5	42.05	11.4	35.2	4.9	22.9	8.58	2.1%
SCHERING-PLOUGH	SGP	\$75,878	15.4%	51.7	8.39	23.8	37.1	18.0	39.1	35.76	1.0%
ST JUDE MEDICAL INC	STJ	\$3,229	11.3%	38.3	34.58	14.2	36.8	3.9	18.4	11.64	0.0%
TENET HEALTHCARE CORP	THC	\$5,240	14.4%	16.9	(17.05)	12.5	22.4	1.6	7.2	9.37	0.0%
UNITED HEALTHCARE CORP	UNH	\$10,872	14.7%	62.5	46.51	3.4	22.2	2.8	605.0	15.81	0.0%
WARNER-LAMBERT CO	WLA	\$57,779	17.4%	67.8	23.27	16.3	37.7	15.0	35.9	25.15	1.2%
WATSON PHARMACEUTICALS	WPI	\$3,687	11.5%	38.5	(31.22)	23.1	22.8	4.1	22.6	15.40	0.0%
WELLPOINT HLTH NETWRK -C WLP		\$5,282	18.9%	77.9	89.44	5.3	15.4	4.2	13.9	14.91	0.0%

Bold Blue - Favorable Drivers

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@AF - Annual Figure

@NA - Not available

@CF - Combined Figure

@SF - SemiAnnual Figure

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http://www.intrinsicvalue.com

Phone: 973-635-5335 Fax: 973-635-8307
Email: gbollman@intrinsicvalue.com