

# Intrinsic Value Weekly

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In the long bull market of the nineties, the trend has been interrupted only a few times. In 1994 and 1998, the cost of equity capital rose. In each case the rise had a different cause. In 1998, the risk premium applied to MidCap and Small Cap stocks rose sharply and it is still higher than before the unpleasantness. In 1994, the shock of an increase in marginal tax rates caused an increase in the pre-tax required return applicable to dividend payments. Stocks in general were weak that year and bonds were terrible. But higher yield stocks were worse than most. This brings us to the current market. A very nasty idea has recently been floated about for "fixing" Social Security: the lifting of the wage cap entirely. Thus "payroll" taxes would apply to all forms of income, interest and dividends, as well as wages and salaries. This would be combined with targeted tax cuts, all of which would increase the "progressivity" of the tax code and reduce the flexibility of the US economy. We calculate that this increased tax rate would, at minimum, increase the weighted average cost of capital for the average stock by 100 basis points. This rise would lead to a drop in stock prices of about 15%. Some might call that a bear market. The only good news is that "capital gains" stocks, those that reinvest earnings and/or repurchase stock, would be spared some of the pain.

## ECONOMIC SECTOR VALUATION

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	(2.0%)	(27.1%)	(24.2%)
CONSUMER CYCLICALS	(3.1%)	(20.4%)	3.6%
CONSUMER STAPLES	24.0%	(13.2%)	(14.5%)
HEALTH	2.4%	(16.8%)	(27.5%)
ENERGY	(4.8%)	(36.2%)	(48.1%)
FINANCIAL	(6.8%)	(19.2%)	(24.7%)
CAPITAL GOODS	13.0%	(18.0%)	(18.4%)
TECHNOLOGY	30.3%	(6.9%)	4.3%
COMMUNICATIONS	18.4%	(9.3%)	(26.5%)
UTILITY	(23.6%)	(34.7%)	(15.6%)
TRANSPORTATION	(16.0%)	7.7%	(18.3%)
<b>Weighted Total:</b>	<b>10.4%</b>	<b>(18.4%)</b>	<b>(12.5%)</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 2/12/99	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	3.2%	(2.5%)	5.6%	(4.0%)	4.6%	(3.0%)
CONSUMER CYCLICALS	9.2%	(1.3%)	17.1%	(2.1%)	19.3%	(2.2%)
CONSUMER STAPLES	14.7%	(0.5%)	7.9%	(3.3%)	9.4%	(2.3%)
HEALTH	12.2%	(0.2%)	10.1%	(1.3%)	10.4%	(4.1%)
ENERGY	5.4%	(2.9%)	3.1%	(4.9%)	2.2%	(8.5%)
FINANCIAL	14.2%	0.9%	14.3%	(0.8%)	16.0%	(2.2%)
CAPITAL GOODS	8.0%	(0.9%)	9.0%	(1.8%)	12.2%	(3.0%)
TECHNOLOGY	20.8%	(1.2%)	17.6%	(0.8%)	17.7%	(2.9%)
COMMUNICATIONS	8.7%	0.1%	1.9%	(3.9%)	0.2%	(8.2%) *
UTILITY	2.8%	(2.6%)	11.3%	(2.7%)	4.5%	(2.9%)
TRANSPORTATION	0.9%	(3.9%)	2.0%	(2.3%)	3.4%	(4.3%)

\* Sector contains only 2 companies

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

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## Intrinsic Value Portfolio

Current Data on stocks with Current Intrinsic Value Reports

Symbol	Name	Price 2/12/99	Intrinsic Value	+/- %	Q Ratio	Weekly Price Change
ALD	AlliedSignal Inc.	\$ 43.000	\$48.89	(12%)	2.0	(0.1%)
CTL	Century Telephone Ent.	\$ 64.313	\$62.64	3%	2.1	(4.5%)
DAL	Delta Air Lines, Inc.	\$ 52.563	\$74.44	(29%)	1.0	(8.7%)
G	Gillette Company	\$ 55.375	\$48.20	15%	7.1	(2.7%)
HD	Home Depot	\$ 56.875	\$54.30	5%	7.3	1.8%
INTC	Intel Corporation	\$126.500	\$112.11	13%	10.2	(0.8%)
LOW	Lowe's Companies	\$ 54.000	\$43.76	23%	4.8	(1.8%)
NYT	New York Times Co.	\$ 32.188	\$47.61	(32%)	2.4	(2.8%)
NUE	Nucor Corporation	\$ 46.625	\$68.82	(32%)	1.8	(4.4%)
SLB	Schlumberger Limited	\$ 50.313	\$55.18	(9%)	2.6	(5.1%)
WEN	Wendy's International	\$ 23.188	\$30.05	(23%)	1.8	2.8%
<b>Average:</b>						<b>(2.4%)</b>

### Value Drivers

### Standard Market Statistics

	Sales		EBIT		Leverage at		Yield	PE	PB	PS
	Growth Last 12M	Margin %	ROC	Market						
ALD	4.5%	11.4%	11.8%	19.1%	1.4%	16.5	5.0	1.5		
CTL	74.9%	29.7%	9.1%	31.2%	0.4%	27.2	4.8	3.9		
DAL	3.2%	12.0%	14.2%	63.0%	0.2%	7.6	2.0	0.6		
G	-1.7%	23.1%	20.2%	5.8%	0.9%	60.9	12.7	6.5		
HD	22.7%	8.3%	11.8%	6.3%	0.2%	59.3	12.5	3.1		
INTC	4.8%	39.4%	33.5%	0.5%	0.1%	38.7	10.8	8.8		
LOW	19.9%	6.2%	10.4%	8.9%	0.2%	45.7	7.9	1.7		
NYT	2.5%	16.5%	10.5%	17.3%	1.2%	22.6	3.8	2.3		
NUE	-0.8%	11.0%	21.1%	5.7%	1.0%	16.3	2.3	1.0		
SLB	2.4%	15.5%	14.6%	12.5%	1.5%	25.5	3.5	2.0		
WEN	-1.5%	14.9%	11.9%	25.3%	1.0%	28.3	2.3	1.6		

#### Notes on Intrinsic Value Portfolio

The market gives and takes. Last week was a "take" for the Intrinsic Value stocks. **INTC** moved closer to its intrinsic value, though, as did **WEN**, **CTL**, **LOW**, and **G**.

We still strongly recommend **WEN**, **NUE**, **NYT**, **DAL** and **ALD**, though the last has moved closer to intrinsic value nicely this year.

Our fundamental table above may seem a little dated, but we only include data which has actually been entered into our source database, Standard & Poors COMPUSTAT®.

#### Sector Data

Our Page 3 look this week is again the worst-performing large-cap sector year-to-date: Energy

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Energy Industry - S&P 500 Index

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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
AMERADA HESS CORP	AHC	\$ 4,382.70	-20.0%	0.2	0.8	(9.3)	1.4	28.1	0.8	1.24%
ANADARKO PETROLEUM CORP	APC	\$ 3,659.83	-16.8%	9.6	27.1	(66.0)	2.9	20.4	6.9	0.67%
APACHE CORP	APA	\$ 1,955.14	-25.7%	9.0	22.5	(14.4)	1.0	7.2	7.5	1.40%
ASHLAND INC	ASH	\$ 3,397.54	-35.0%	9.5	1.8	25.8	1.7	10.7	2.0	2.41%
ATLANTIC RICHFIELD CO	ARC	\$ 18,891.91	-33.2%	21.7	8.8	(28.0)	2.1	7.9	6.3	4.85%
<b>BAKER-HUGHES INC</b>	<b>BHI</b>	<b>\$ 5,596.45</b>	<b>71.3%</b>	<b>4.2</b>	<b>8.9</b>	<b>(18.3)</b>	<b>1.1</b>	<b>0.0</b>	<b>9.5</b>	<b>2.69%</b>
BURLINGTON RESOURCES INC	BR	\$ 5,959.39	-18.2%	10.6	24.3	63.0	1.8	8.7	11.2	1.64%
CHEVRON CORP	CHV	\$ 52,111.01	-22.5%	18.6	9.5	24.7	2.8	11.3	10.1	3.05%
EXXON CORP	XON	\$ 168,803.78	-15.0%	19.3	5.7	26.6	4.0	14.3	7.7	2.36%
HALLIBURTON CO	HAL	\$ 13,319.53	6.6%	17.6	7.3	(989.6)	3.0	0.0	15.1	1.65%
<b>HELMERICH &amp; PAYNE</b>	<b>HP</b>	<b>\$ 821.56</b>	<b>10.1%</b>	<b>12.8</b>	<b>19.3</b>	<b>10.3</b>	<b>1.1</b>	<b>4.9</b>	<b>12.1</b>	<b>1.68%</b>
KERR-MCGEE CORP	KMG	\$ 1,415.01	0.5%	13.5	16.1	(7.1)	1.1	3.6	10.1	6.00%
MOBIL CORP	MOB	\$ 67,617.54	-17.5%	16.8	4.5	41.3	3.6	16.0	6.6	2.63%
OCCIDENTAL PETROLEUM CORP	OXY	\$ 5,188.81	-17.7%	4.1	7.4	17.3	1.7	4.4	3.8	6.67%
ORYX ENERGY CO	ORX	\$ 1,128.74	-34.2%	109.6	23.6	(13.5)	8.2	4.6	10.4	0.00%
PHILLIPS PETROLEUM CO	P	\$ 10,113.30	-24.1%	19.9	6.9	42.0	2.1	6.4	8.3	3.43%
ROWAN COS INC	RDC	\$ 753.21	1.6%	24.0	27.0	6.1	1.2	4.3	16.3	0.00%
ROYAL DUTCH PET -NY REG	RD	\$ 92,740.80	-22.5%	13.4	13.7	24.3	2.4	11.5	16.7	3.40%
SCHLUMBERGER LTD	SLB	\$ 27,465.76	2.4%	19.4	14.0	25.5	3.5	0.0	14.6	1.49%
SUNOCO INC	SUN	\$ 3,151.07	-17.6%	29.6	1.7	11.4	3.4	6.2	3.1	2.97%
TEXACO INC	TX	\$ 26,826.99	-31.5%	21.0	5.3	45.6	2.1	11.2	8.2	3.59%
<b>UNION PACIFIC RESOURCES GI UPR</b>	<b>\$ 2,244.44</b>	<b>12.4%</b>	<b>18.9</b>	<b>18.7</b>	<b>(2.3)</b>	<b>1.1</b>	<b>1.5</b>	<b>8.7</b>	<b>2.24%</b>	
UNOCAL CORP	UCL	\$ 7,211.14	-10.7%	28.9	12.0	52.8	3.0	7.6	8.6	2.68%
<b>USX-MARATHON GROUP</b>	<b>MRO</b>	<b>\$ 6,659.86</b>	<b>47.9%</b>	<b>12.6</b>	<b>4.9</b>	<b>21.5</b>	<b>1.8</b>	<b>5.3</b>	<b>6.3</b>	<b>3.68%</b>