

Intrinsic Value Weekly

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"Valuation Counts When the Good Stuff Happens"

CenturyTel, Inc. (CTL - NYSE) announced this past week that not only was it going to report better than expected results for the third quarter, but that it planned to fund its purchases ultimately with intermediate term debt and that the rating agencies had confirmed their prior ratings. In a sector that has taken more than a few lumps, this was good news indeed, and the stock promptly shot up 21%. We had reduced our estimate of the intrinsic value of **CTL** last month to reflect a slower growth rate of revenues over the longer term. And now the discount is shrunk below 20%. We look forward to the moment that we can declare victory, but don't hold your breath. With major telecom players again making new price lows for the year last week, we're still swimming upstream.

Too many people working again. Some think that's inflationary, or at least they think the Federal Reserve Open Market Committee thinks that's inflationary and that interest rates will resume an upward trend. Not only do we think that the unemployment rate is totally unrelated to inflation, we think that trying to reduce prices by raising interest rates is doomed to failure. There is every evidence that until recently, that the inflation rate has risen in tandem with interest rates. Since June, bond interest rates have fallen and the inflation rate has been stable. But now, with manufacturing output slowing rapidly, as shown by falling manufacturing employment in August and September, the cost pressures within the system will increase, cutting profit margins and causing havoc in the markets. With the Euro managers trying everything but the kitchen sink to increase its exchange value, the price pressures within the dollar-denominated economies, which had benefited from a depreciating Euro, will increase tremendously. Obviously, the EC wants the inflation-reducing effects of a strong currency to alleviate the inflation pressures there too. Too bad all currencies can't be strong at the same time. Isn't this a good time to consider a system of stable exchange rates?

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	10/6/2000	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
HON	Honeywell Int'l Inc.	9/22/2000	\$ 36.500	\$59.52	(38.7%)	1.7	2.5%
BGP	Borders Group, Inc.	9/22/2000	\$ 13.250	\$29.31	(54.8%)	1.1	(4.9%)
BGG	Briggs & Stratton	9/22/2000	\$ 36.500	\$98.87	(63.1%)	1.5	(3.5%)
CTL	CenturyTel, Inc.	9/22/2000	\$ 33.000	\$40.74	(19.0%)	1.4	21.1%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 47.688	\$66.30	(28.1%)	0.7	7.5%
G	Gillette Company	9/14/2000	\$ 31.188	\$40.84	(23.6%)	3.4	1.0%
INTC	Intel Corporation	9/11/2000	\$ 39.938	\$67.55	(40.9%)	13.2	(3.9%)
LOW	Lowe's Companies	9/22/2000	\$ 40.813	\$56.04	(27.2%)	2.5	(9.1%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 31.063	\$46.28	(32.9%)	3.5	(3.1%)
NYT	New York Times Co.	9/22/2000	\$ 38.063	\$46.26	(17.7%)	2.6	(3.2%)
NUE	Nucor Corporation	9/22/2000	\$ 30.500	\$60.65	(49.7%)	1.1	1.2%
WEN	Wendy's International	9/22/2000	\$ 19.938	\$28.69	(30.5%)	1.4	(0.6%)

Average: (35.5%) Average: 0.4%

S&P 500 (1.9%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Sales					Standard Market Statistics				
	Capital Turnover	Growth Last 12M	EBIT Margin %	Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/Book	Price/Market Cap Sales (\$billions)	Market Cap (\$billions)
HON	1.2	0.7%	13.8%	14.0%	5.9%	2.1%	17.7	3.6	1.6	29.2
BGP	1.0	13.7%	5.7%	10.9%	10.9%	0.0%	10.9	1.3	0.3	1.0
BGG	2.2	5.9%	12.9%	30.5%	(9.2%)	3.3%	7.2	2.3	0.5	0.8
CTL	0.4	2.0%	30.3%	11.1%	1.5%	0.6%	17.5	2.2	2.7	4.6
DAL	0.7	8.0%	11.6%	8.6%	12.9%	0.2%	4.8	1.5	0.4	5.8
G	0.9	(0.1%)	21.3%	14.5%	2.0%	2.1%	25.4	9.6	3.4	32.8
INTC	0.9	12.9%	34.6%	24.3%	23.0%	0.2%	53.1	15.3	8.4	268.1
LOW	2.2	18.9%	7.4%	11.1%	18.7%	0.3%	21.9	3.6	0.9	15.6
MLHR	2.2	11.2%	12.1%	26.5%	11.4%	0.5%	18.1	12.2	1.2	2.4
NYT	1.1	12.0%	18.7%	13.1%	13.6%	1.2%	19.2	4.7	2.0	6.4
NUE	1.4	20.1%	9.3%	14.4%	21.7%	2.0%	9.6	1.4	0.6	2.5
WEN	0.9	9.6%	13.8%	10.2%	7.8%	1.2%	12.9	2.1	1.1	2.3

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ECONOMIC SECTOR VALUATION

SECTORS	S&P 500	S&P MIDCAP	S&P SMALL CAP
BASIC INDUSTRY	(21.0%)	(37.7%)	(19.0%)
CONSUMER CYCLICALS	(33.9%)	(26.4%)	(15.9%)
CONSUMER STAPLES	(7.6%)	(25.2%)	(10.1%)
HEALTH	(24.3%)	21.8%	19.7%
ENERGY	18.0%	114.1%	60.4%
FINANCIAL	(10.1%)	(29.3%)	(24.5%)
CAPITAL GOODS	(11.6%)	(0.9%)	(3.2%)
TECHNOLOGY	(10.3%)	(0.9%)	2.2%
COMMUNICATIONS	(26.7%)	43.6%	(52.7%)*
UTILITY	9.0%	(7.7%)	(22.4%)
TRANSPORTATION	(38.4%)	(25.5%)	(16.1%)
Weighted Total:	(12.5%)	0.5%	(3.1%)

RED - Overvalued

BLUE - (Undervalued)

Bold - outperformed the relevant index

WEEKLY PRICE CHANGE

SECTORS	S&P 500		S&P MIDCAP		S&P SMALL CAP	
	Weight	Price	Weight	Price	Weight	Price
prices as of 10/6/2000	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	1.8%	3.1%	3.6%	(1.0%)	3.5%	(1.3%)
CONSUMER CYCLICALS	6.8%	(3.7%)	12.0%	(3.9%)	18.3%	(3.2%)
CONSUMER STAPLES	10.7%	3.5%	7.0%	(2.1%)	8.6%	(1.0%)
HEALTH	11.6%	(0.8%)	13.5%	(6.7%)	13.3%	(5.8%)
ENERGY	5.9%	(0.8%)	7.1%	(4.7%)	5.6%	(4.2%)
FINANCIAL	15.5%	(3.2%)	11.5%	(1.9%)	13.2%	(4.9%)
CAPITAL GOODS	8.9%	1.3%	7.1%	(5.7%)	13.8%	(4.4%)
TECHNOLOGY	28.8%	(5.1%)	23.6%	(8.1%)	17.1%	(10.4%)
COMMUNICATIONS	6.4%	0.1%	1.6%	1.1%	0.2%	(2.2%)*
UTILITY	3.1%	(4.9%)	11.7%	(5.3%)	3.3%	(4.2%)
TRANSPORTATION	0.6%	2.3%	1.3%	(2.7%)	3.2%	(3.2%)
Index Total:		(1.9%)		(4.8%)		(4.9%)

* Sector contains only 2 companies

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

Utilities got hammered last week, along with more carnage in the Tech sector. But small cap Utilities are still attractive and likely to be acquisition targets as well. We present the value drivers for Small Cap Utilities on Page 3 this week.

Communications stocks improved, as we guessed might be coming in our comments last week. Energy continued its ascent but with ever-escalating valuation premiums, the risks in investing in this group are getting to levels experienced by the Technology Sector just six months ago. (Remember that? see IVW Vol. 3 No. 12 March 20, 2000). For those of you looking for Tech bargains, the gloom is now turning to fear and the short term risks are high. But, times like this are full of opportunity if you have a longer-term investment time horizon.

Overall, the market is looking pretty undervalued and if we're right about the Fed, the next move for rates will be down, not up. Growth will ameliorate inflation pressures, keep the dollar strong in absolute terms, and take the pressure off manufacturing companies to try raising prices, not to mention reducing the pressure on profit margins.

(\$millions)	Large Capitalization	Mid-Cap Capitalization	Small-Cap Capitalization
	\$ 12,327,418	\$913,989	\$ 358,476
	90.6%	6.7%	2.6%

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Small Cap Utilities Seem Relatively Attractive

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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	Return on Capital	Dividend Yield
AMERICAN STATES WATER CC	AWR	\$284	7.9%	31.7	36.46	24.1	15.1	1.5	9.5	8.76	4.0%
ATMOS ENERGY CORP	ATO	\$613	39.0%	19.3	12.58	9.0	35.8	1.7	8.1	5.73	5.9%
AVISTA CORP	AVA	\$878	-4.1%	18.6	(43.83)	0.5	(18.4)	1.7	6.5	1.22	2.6%
BANGOR HYDRO-ELEC CO	BGR	\$179	2.7%	24.3	44.43	22.8	11.5	1.3	6.8	8.15	3.3%
CASCADE NATURAL GAS CORP	CGC	\$192	-3.0%	17.4	29.19	15.5	11.9	1.6	7.1	10.79	5.5%
CENTRAL VERMONT PUB SERV	CV	\$116	-20.7%	10.1	24.11	9.0	14.0	0.7	3.5	7.27	8.7%
CH ENERGY GROUP INC	CHG	\$641	25.9%	38.0	48.33	18.9	13.4	1.3	6.5	7.04	5.7%
ENERGEN CORP	EGN	\$887	7.4%	29.6	27.38	15.6	16.7	2.1	6.8	8.22	2.3%
GREEN MOUNTAIN POWER CC	GMP	\$40	4.0%	7.3	4.82	4.8	(66.7)	0.4	1.9	4.23	7.6%
LACLEDE GAS CO	LG	\$429	35.4%	22.8	30.35	12.5	16.1	1.4	9.0	8.63	5.9%
NEW JERSEY RESOURCES	NJR	\$688	55.5%	39.0	51.32	9.7	15.0	2.3	9.3	10.43	4.4%
NORTHWEST NATURAL GAS C	NWN	\$565	-8.7%	22.4	34.59	20.8	14.6	1.3	5.9	8.27	5.5%
NORTHWESTERN CORP	NOR	\$461	167.9%	19.9	8.39	3.4	12.5	1.7	4.3	6.00	4.6%
NUI CORP	NUI	\$391	23.9%	30.1	42.21	7.4	15.9	1.6	7.4	7.67	3.3%
PHILADELPHIA SUBURBAN CO	PSC	\$901	3.5%	21.9	21.65	41.1	20.0	2.6	13.4	11.16	3.5%
PIEDMONT NATURAL GAS CO	PNY	\$934	35.6%	29.4	45.93	19.0	13.9	1.8	9.0	12.05	5.0%
SOUTHERN UNION CO	SUG	\$925	59.8%	18.7	6.26	11.2	71.8	2.0	14.0	6.30	0.0%
SOUTHWEST GAS CORP	SWX	\$645	-1.3%	20.6	28.13	14.0	19.5	1.2	4.4	7.73	4.0%
SOUTHWESTERN ENERGY CO	SWN	\$205	40.1%	8.2	5.26	12.9	(3.8)	1.0	4.0	6.04	2.9%
UGI CORP	UGI	\$630	29.5%	23.3	33.62	11.2	14.6	2.5	4.3	7.72	6.6%
UIL HOLDINGS CORP	UIL	\$708	-0.3%	49.4	104.12	24.7	11.2	1.5	6.3	9.93	5.8%
UNISOURCE ENERGY CORP	UNS	\$520	22.5%	16.1	23.22	23.0	7.3	1.6	3.5	7.15	2.0%

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