

Intrinsic Value Weekly

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"Double Dip"

For much of December, **Wendy's (WEN - NYSE)** stock price hovered near the company's intrinsic value. The price got as high as \$27 vs. a \$28.69 intrinsic value. You may notice that the intrinsic value is expressed as a single point estimate, precise to two decimal points. That precision overstates the accuracy with which any analyst can determine the intrinsic worth of any company, no matter how predictable its cash flows. We suggested that holders of **WEN** be alert for an opportunity to sell. Because the stock only came within 6% or so of our estimate, we did not remove **WEN** from our list. Now that concerns about diseased beef and worries regarding recession have depressed the stock to a discount of more than 30% from our newest estimate, investors have an opportunity to "double dip". We included a low sales growth, 2.7%, for the year 2001 and a longer term average growth of 8%, fading slowly to 5.9% in the far distant future. We also expect the company to continue to repurchase shares. They shrank shares outstanding by 3.7% in 2000. In addition, the company's management has depth of talent and experience which will help them manage through difficult times.

We are compelled to comment on proposals to accelerate tax reduction through the issuance of \$300 rebates. This is reminiscent of President Ford's April 1975 \$50 rebate program which did less than zero in helping to offset the 1974-75 recession. This event reminds us that few politicians learn anything from the study of economics and even less from studying history. We hope that the roars of laughter that should meet this proposal will deep-six it quickly.

As we have said before, without the acceleration of the total tax rate reduction program to a retroactive Jan. 1, 2001, the effect of the tax rate cuts will reduce economic growth somewhat until it is fully in place. No one with any experience with the vagaries of Congress would ever incorporate tax cuts into their plans until they are in effect. Congress doesn't need "triggers" to change course 180 degrees. Further Federal Reserve cuts in short term rates will not reverse the current weakness until the "yield curve", the relationship of interest rates at each point in future maturity, becomes positively sloped with long rates higher than short rates, and even then slowly.

Intrinsic Value Portfolio

Companies that create Intrinsic Value

Symbol	Name	Updated Valuation	3/23/2001	Intrinsic Value	Over/ (Under) Priced	Q Ratio	Weekly Price Change
BGP	Borders Group, Inc.	9/22/2000	\$ 16.500	\$29.31	(43.7%)	1.0	2.4%
BGG	Briggs & Stratton	9/22/2000	\$ 39.710	\$98.87	(59.8%)	1.3	1.4%
CTL	CenturyTel, Inc.	9/22/2000	\$ 27.920	\$40.74	(31.5%)	1.4	3.6%
DAL	Delta Air Lines, Inc.	3/6/2000	\$ 37.970	\$66.30	(42.7%)	0.8	(3.6%)
MLHR	Herman Miller, Inc.	3/6/2000	\$ 24.125	\$46.28	(47.9%)	2.5	1.6%
NUE	Nucor Corporation	9/22/2000	\$ 40.460	\$60.65	(33.3%)	1.2	(3.2%)
WEN	Wendy's International	3/26/2001	\$ 21.050	\$30.37	(30.7%)	1.7	(8.2%)
Average:					(41.4%)	Average:	(0.9%)
						S&P 500	(0.9%)

Bold - Outperformed the S&P 500 for the week

Value Drivers

Standard Market Statistics

Symbol	Capital Turnover	Sales Growth		Return On Capital	Quarterly Sales Y/Y	Yield	PE Last 12M	Price/ Book	Price/ Sales	Market Cap (\$billions)
		Last 12M	EBIT Margin %							
BGP	1.5	9.2%	5.2%	7.9%	9.0%	0.0%	13.1	1.5	0.4	1.3
BGG	2.2	(13.5%)	12.9%	30.5%	(12.9%)	3.1%	10.6	2.1	0.6	0.9
CTL	0.4	10.1%	30.3%	11.1%	23.6%	0.7%	17.5	2.2	2.1	3.9
DAL	0.6	13.8%	11.6%	11.9%	1.5%	0.3%	6.0	1.1	0.3	4.7
MLHR	1.9	18.0%	12.1%	17.6%	12.6%	0.6%	13.4	6.8	0.9	1.8
NUE	1.4	14.4%	9.3%	14.4%	(7.5%)	1.5%	11.6	1.7	0.8	3.2
WEN	0.9	8.2%	13.8%	10.2%	7.6%	1.1%	16.7	2.7	1.1	2.4

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ECONOMIC SECTOR VALUATION

<u>SECTORS</u>	<u>S&P 500</u>	<u>S&P MIDCAP</u>	<u>S&P SMALL CAP</u>
BASIC INDUSTRY	(11.3%)	(32.5%)	(15.0%)
CONSUMER CYCLICALS	(31.7%)	(18.9%)	(13.4%)
CONSUMER STAPLES	(16.8%)	(19.8%)	(1.1%)
HEALTH	(33.0%)	(19.9%)	(8.6%)
ENERGY	8.5%	118.4%	81.7%
FINANCIAL	(21.8%)	(25.4%)	(31.8%)
CAPITAL GOODS	(29.4%)	(13.6%)	(16.2%)
TECHNOLOGY	(51.9%)	(29.6%)	(25.5%)
COMMUNICATIONS	(43.8%)	(3.5%)	(43.2%) *
UTILITY	(6.6%)	(27.7%)	(16.9%)
TRANSPORTATION	(39.6%)	(21.9%)	(19.6%)
Weighted Total:	(28.9%)	(12.3%)	(9.2%)

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 3/23/2001	% of Total	% Change	% of Total	% Change	% of Total	% Change
BASIC INDUSTRY	2.4%	(2.9%)	4.2%	(2.6%)	4.6%	(0.8%)
CONSUMER CYCLICALS	8.7%	(1.7%)	14.7%	(1.7%)	19.1%	0.6%
CONSUMER STAPLES	11.8%	(3.6%)	8.1%	(4.4%)	10.1%	0.5%
HEALTH	13.1%	(2.3%)	10.0%	(2.8%)	10.4%	(0.9%)
ENERGY	7.0%	(3.0%)	7.9%	1.7%	7.8%	3.7%
FINANCIAL	17.1%	(4.8%)	15.6%	(2.4%)	11.9%	(1.6%)
CAPITAL GOODS	8.9%	(2.0%)	6.8%	0.2%	12.5%	(0.5%)
TECHNOLOGY	20.5%	6.7%	21.6%	4.7%	16.2%	5.9%
COMMUNICATIONS	6.1%	(2.6%)	1.5%	(1.7%)	0.2%	4.9%*
UTILITY	3.7%	(3.9%)	7.8%	(4.1%)	4.4%	(1.8%)
TRANSPORTATION	0.6%	1.0%	1.9%	3.5%	2.8%	4.2%
Index Total:		<u>(0.9%)</u>		<u>(0.4%)</u>		<u>0.6%</u>

* Sector contains only 3 companies

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

Sector Comments: The deepest discount sectors tended to do better last week with both Technology and Transportation rebounding to sell at huge discounts instead of vast discounts. The current valuation of Technology stocks is reminiscent of previous periods of disruptive change when many investors, and corporate executives, thought that development of technology had pretty much run its course and growth for the sector was likely to be modest from there on. Investors and suits were wrong then and they are wrong now. Growth is a function of the inventiveness and creativity of engineers, scientists and entrepreneurs. The silliness of the internet speculation is reviled now by one and all, but that mess was not representative of the progress of technology. Keep an eye on new products coming out over the next year or so. The overwhelming bulk of progress in technology is yet to be seen or even imagined.

Last week's debate about whether we are in a "bear" market is close to as silly as it gets in the media that reports on financial matters. Clearly, valuations are down from levels of the past year. Economic growth has slowed, prices of commodities have fallen, job growth has halted and companies are reporting an abrupt slowing in sales and profit growth. The last is expressed as "below expectations", as if analysts have ever been any good at short term forecasting (without company guidance).

Page 3 this week displays the value drivers for Large Cap Energy stocks, which are on average only modestly over-priced assuming moderate long term energy prices. Watch for efforts to expand energy supplies.

(\$millions)	<u>Large Capitalization</u>		<u>Mid-Cap Capitalization</u>		<u>Small-Cap Capitalization</u>
	\$ 9,969,438	90.1%	\$771,227	7.0%	\$ 320,614 2.9%

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Not All Energy Stocks are Over-priced

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Company Name	Ticker	Market Value - Equity	12 Mo.	Current Price	Free Cash Flow Annuity	NOPAT Margin	PE Ratio	Price/Book Ratio	Leverage At Market	Return on Capital	Dividend Yield
			Quarterly Sales Growth								
AMERADA HESS CORP	AHC	\$8,134	62.4%	74.8	15.93	7.80	6.3	2.1	48.3%	5.26	0.8%
ANADARKO PETROLEUM CORP	APC	\$15,732	977.5%	62.6	64.25	27.89	14.1	6.0	18.7%	16.41	0.3%
APACHE CORP	APA	\$7,254	83.9%	58.7	143.42	60.00	9.9	2.6	23.2%	21.86	1.0%
ASHLAND INC	ASH	\$2,553	(0.9%)	36.7	112.95	9.26	8.8	1.4	56.1%	12.12	3.0%
BAKER-HUGHES INC	BHI	\$13,181	16.0%	39.5	14.25	8.88	126.5	4.2	14.6%	6.97	1.2%
BURLINGTON RESOURCES INC	BR	\$9,705	59.3%	45.0	71.60	38.54	14.4	2.6	23.2%	18.60	1.2%
CHEVRON CORP	CHV	\$55,646	26.8%	86.7	41.88	9.08	10.7	3.2	20.0%	7.62	3.0%
CONOCO INC	COC.B	\$17,768	35.2%	28.5	82.12	12.06	9.4	4.0	24.3%	23.74	2.7%
DEVON ENERGY CORPORATIO	DVN	\$7,718	163.1%	60.0	139.78	48.73	10.1	2.6	21.8%	24.99	0.3%
EOG RESOURCES INC	EOG	\$5,075	120.6%	43.5	(7.44)	4.23	13.2	5.3	16.0%	1.32	0.3%
EXXON MOBIL CORP	XOM	\$267,304	22.6%	76.9	41.27	7.95	17.6	4.4	13.6%	11.34	2.3%
HALLIBURTON CO	HAL	\$17,366	(15.3%)	38.9	9.29	3.87	94.8	4.1	25.1%	5.62	1.3%
KERR-MCGEE CORP	KMG	\$6,198	37.0%	65.7	58.33	21.12	7.2	3.7	33.6%	14.75	2.7%
NABORS INDUSTRIES	NBR	\$8,108	90.1%	55.4	(1.56)	6.20	60.3	5.3	8.2%	2.22	0.0%
NOBLE DRILLING CORP	NE	\$6,472	39.0%	48.5	26.57	32.04	37.5	4.4	9.8%	11.80	0.0%
OCCIDENTAL PETROLEUM CO	OXY	\$8,776	64.9%	23.7	87.20	21.47	5.6	1.9	48.4%	17.96	4.2%
PHILLIPS PETROLEUM CO	P	\$13,893	33.5%	54.4	220.98	20.95	7.3	3.0	37.1%	27.25	2.5%
ROWAN COS INC	RDC	\$2,768	51.7%	29.4	16.82	21.13	37.6	3.3	13.8%	8.10	0.0%
ROYAL DUTCH PET -NY REG	RD	\$117,700	25.0%	54.9	50.64	12.62	16.4	3.7	9.5%	14.14	2.5%
SCHLUMBERGER LTD	SLB	\$35,973	23.4%	62.8	24.94	14.64	49.4	4.4	17.1%	8.73	1.2%
SUNOCO INC	SUN	\$2,786	24.0%	31.0	116.33	6.99	7.0	1.8	47.0%	15.30	3.2%
TEXACO INC	TX	\$35,870	37.8%	65.2	11.60	3.66	13.8	3.0	24.2%	4.72	2.8%
TOSCO CORP	TOS	\$6,034	77.8%	41.7	94.02	3.57	10.9	2.7	0.0%	25.10	0.8%
TRANSOCEAN SEDCO FOREX	IRIG	\$9,492	139.7%	45.1	8.27	18.99	94.4	2.6	13.4%	3.69	0.3%
UNOCAL CORP	UCL	\$8,302	48.5%	34.2	71.31	16.56	11.8	3.9	33.2%	15.93	2.3%
USX-MARATHON GROUP	MRO	\$8,169	16.6%	26.5	38.09	3.89	19.9	1.8	25.3%	8.46	3.5%

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