# Intrinsic Value Weekly

Volume 4, No. 14 | Published Weekly by Intrinsic Value Associates, LLC | April 2, 2001

## "Sunspots: The Pause that Refreshes"

A mixed week for the Intrinsic Value Portfolio. Weakness in the economically sensitive stocks like **BGG, MLHR** and **NUE** were offset by some bounce in **WEN, DAL, CTL** and **BGP.** The big news was labor trouble at **DAL,** which we've mentioned frequently since December and worried about. A strike at their ComAir subsidiary does not bode well for the outcome of negotiations with Delta's own pilots. We expect that stock weakness and volatility will surround **DAL** until this trouble has passed. Then, an assessment of the cost damage that will ensue can be made and a re-forecast of the company's profitability and growth done.

The recent moves by the steel industry to erect protectionist barriers reveals two things: first, the inclination of steel producers to sell excess inventories at depressed prices; and second, the deflation caused by Federal Reserve errors increases the risk of bad trade policy. Increased tariffs and quotas potentially have the same effect as a tax increase on the users of the "protected" industry's goods. All parts of the economy that are intensive in the use of steel; construction, autos, and machinery, will experience higher costs. And especially in the auto industry, where competition with foreign makers is intense, US producers (and workers) would feel the pinch acutely. In the first real test of the new administration on trade policy, showing the guts to say no to Big Steel will help markets in the long run. Telling the Fed to start running a zero inflation, not a deflation, policy will help all markets in the short run, especially those in Steel stocks.

This weekend we're told that sunspots will begin to raise havoc with communications of all kinds. What with news about Hoof and Mouth disease, Mad Cow disease, school shootings, plane crashes and strikes, we could all probably use a break right now.

## Intrinsic Value Portfolio

Companies that create Intrinsic Value

| Symbol | Name | Updated Valuation | 3/30/2001 | Intrinsic Value | Over/ (Under) Priced | Q Ratio | Weekly Price Change |
|---|---|---|---|---|---|---|---|
| **BGP** | **Borders Group, Inc.** | **9/22/2000** | **$ 16.830** | **$29.31** | **(42.6%)** | **1.3** | **2.0%** |
| BGG | Briggs & Stratton | 9/22/2000 | $ 38.370 | $98.87 | (61.2%) | 1.3 | (3.4)% |
| **CTL** | **CenturyTel, Inc.** | **9/22/2000** | **$ 28.750** | **$40.74** | **(29.4%)** | **1.3** | **3.0%** |
| **DAL** | **Delta Air Lines, Inc.** | **3/6/2000** | **$ 39.500** | **$66.30** | **(40.4%)** | **0.8** | **4.0%** |
| MLHR | Herman Miller, Inc. | 3/6/2000 | $ 23.125 | $46.28 | (50.0%) | 2.5 | (4.1)% |
| NUE | Nucor Corporation | 9/22/2000 | $ 40.070 | $60.65 | (33.9%) | 1.2 | (1.0)% |
| **WEN** | **Wendy's International** | **3/26/2001** | **$ 22.320** | **$30.37** | **(26.5%)** | **1.9** | **6.0%** |
| | | | | **Average:** | (40.6%) | **Average:** | 0.9% |
| | | | | | | **S&P 500** | 1.8% |

**Bold - Outperformed the S&P 500 for the week**

## Value Drivers / Standard Market Statistics

| Symbol | Capital Turnover | Sales Growth Last 12M | EBIT Margin % | Return On Capital | Quarterly Sales Y/Y | Yield | PE Last 12M | Price/ Book | Price/ Sales | Market Cap ($billions) |
|---|---|---|---|---|---|---|---|---|---|---|
| **BGP** | **1.6** | **9.2%** | **5.2%** | **8.5%** | **9.0%** | **0.0%** | **13.1** | **1.5** | **0.4** | **1.3** |
| BGG | 2.2 | (13.5%) | 12.9% | 30.5% | (12.9%) | 3.2% | 10.6 | 2.1 | 0.6 | 0.8 |
| **CTL** | **0.3** | **10.1%** | **28.5%** | **10.4%** | **23.6%** | **0.7%** | **17.5** | **2.2** | **2.2** | **4.0** |
| **DAL** | **0.6** | **13.8%** | **11.6%** | **11.9%** | **1.5%** | **0.3%** | **6.0** | **1.1** | **0.3** | **4.9** |
| MLHR | 1.9 | 18.0% | 12.1% | 17.6% | 12.6% | 0.6% | 13.4 | 6.8 | 0.8 | 1.8 |
| NUE | 1.4 | 14.4% | 9.3% | 14.4% | (7.5%) | 1.5% | 11.6 | 1.7 | 0.8 | 3.1 |
| **WEN** | **1.1** | **8.2%** | **13.9%** | **15.0%** | **7.6%** | **1.1%** | **16.7** | **2.7** | **1.1** | **2.5** |

# Intrinsic Value Weekly



**ECONOMIC SECTOR VALUATION**

| SECTORS | S&P 500 | S&P MIDCAP | S&P SMALL CAP | |
|---|---|---|---|---|
| BASIC INDUSTRY | **(9.5%)** | **(31.2%)** | (14.1%) | |
| CONSUMER CYCLICALS | **(29.0%)** | (18.6%) | (12.6%) | |
| CONSUMER STAPLES | **(13.3%)** | **(17.0%)** | **2.3%** | |
| HEALTH | **(30.5%)** | **(14.3%)** | **(4.5%)** | |
| ENERGY | 10.2% | 102.1% | 78.9% | |
| FINANCIAL | **(17.7%)** | **(23.3%)** | **(29.9%)** | |
| CAPITAL GOODS | (27.9%) | (14.4%) | (15.8%) | |
| TECHNOLOGY | (56.0%) | (34.8%) | (28.9%) | |
| COMMUNICATIONS | **(39.3%)** | (5.0%) | **(41.0%)** | * |
| UTILITY | **0.3%** | **(22.9%)** | **(11.9%)** | |
| TRANSPORTATION | **(35.9%)** | **(19.0%)** | **(15.9%)** | |
| Weighted Total: | (26.5%) | (13.4%) | (8.5%) | |

RED - Overvalued

BLUE - (Undervalued)

**Bold - outperformed the relevant index**

**WEEKLY PRICE CHANGE**

| SECTORS | S&P 500 Weight | S&P 500 Price | S&P MIDCAP Weight | S&P MIDCAP Price | S&P SMALL CAP Weight | S&P SMALL CAP Price | |
|---|---|---|---|---|---|---|---|
| prices as of 3/30/2001 | % of Total | % Change | % of Total | % Change | % of Total | % Change | |
| BASIC INDUSTRY | **2.5%** | **(11.3%)** | **4.2%** | **(32.5%)** | 4.7% | (15.0%) | |
| CONSUMER CYCLICALS | **8.9%** | **(31.7%)** | 14.7% | (18.9%) | 19.0% | (13.4%) | |
| CONSUMER STAPLES | **12.0%** | **(16.8%)** | **8.1%** | **(19.8%)** | **10.3%** | **(1.1%)** | |
| HEALTH | **13.8%** | **(33.0%)** | **10.8%** | **(19.9%)** | **10.8%** | **(8.6%)** | |
| ENERGY | 6.9% | 8.5% | 7.5% | 118.4% | 7.6% | 81.7% | |
| FINANCIAL | **17.7%** | **(21.8%)** | **16.0%** | **(25.4%)** | **12.1%** | **(31.8%)** | |
| CAPITAL GOODS | 8.9% | (29.4%) | 6.7% | (13.6%) | 12.5% | (16.2%) | |
| TECHNOLOGY | 18.4% | (51.9%) | 20.1% | (29.6%) | 15.4% | (25.5%) | |
| COMMUNICATIONS | **6.3%** | **(43.8%)** | 1.5% | (3.5%) | **0.2%** | **(43.2%)** | * |
| UTILITY | **3.9%** | **(6.6%)** | **8.3%** | **(27.7%)** | **4.6%** | **(16.9%)** | |
| TRANSPORTATION | **0.7%** | **(39.6%)** | **2.0%** | **(21.9%)** | **2.9%** | **(19.6%)** | |
| Index Total: | | 1.8% | | 0.4% | | 1.2% | |

* Sector contains only 3 companies

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

**Sector Comments:** By the end of this past week you were probably feeling better about the rationality of other investors, except of course if you are a technology investor. All of the other sectors performed pretty well except Energy where prices for crude oil and natural gas have been sluggish. A quick scan of the valuation table shows the tremendous opportunity to re-enter the investment fray with confidence that you aren't overpaying for the privilege. Past slumps have run their course and so will this one. Many have asked: "Where will growth come from?" It will come from whence it always comes; the ingenuity and creativity of the American people. Right now the impetus for growth is stymied by regulatory burdens, tax bracket creep and worries about the stability of some regions of the world such as Asia. Many of these concerns will be addressed by summer time and more will simply fade with time and more interest rate cuts. By the way, we would not expect huge run-ups in the market until the Fed is finished dropping overnight interest rates. You may have noticed that the increase in stocks last week was accompanied by weakness in bonds. Too much growth was sensed by bond investors we surmise. Investors ought to take the longer view, knowing that growth will return. This is not Japan.

Page 3 this week concentrates its focus on the value drivers for the best performing large cap sector of last week (and perhaps a precursor for Tech's) the Communications stocks.

| ($millions) | Large Capitalization | | Mid-Cap Capitalization | | Small-Cap Capitalization | |
|---|---|---|---|---|---|---|
| | $ 10,148,511 | 90.2% | $773,402 | 6.9% | $ 323,791 | 2.9% |

# Intrinsic Value Weekly



| Company Name | Ticker | Market Value - Equity | 12 Mo. Quarterly Sales Growth | Current Price | Free Cash Flow Annuity | NOPAT Margin | PE Ratio | Price/ Book Ratio | Leverage At Market | Return on Capital | Dividend Yield |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ALLTEL CORP** | **AT** | **$8,134** | **12.5%** | **52.5** | **67.39** | **25.71** | **8.6** | **3.3** | **29.0%** | **16.10** | **2.5%** |
| AT&T CORP | T | $79,953 | 3.4% | 21.3 | 18.18 | 13.31 | 25.8 | 0.9 | 35.0% | 7.01 | 0.7% |
| BELLSOUTH CORP | BLS | $76,602 | (7.8%) | 40.9 | 58.30 | 32.68 | 18.6 | 4.6 | 24.8% | 18.28 | 1.9% |
| **CENTURYTEL INC** | **CTL** | **$4,044** | **23.6%** | **28.8** | **35.31** | **30.16** | **17.5** | **2.2** | **45.7%** | **10.39** | **0.7%** |
| CITIZENS COMMUNICATIONS C | CZN | $3,362 | 18.7% | 12.7 | (5.69) | 11.21 | (103.1) | 2.4 | 50.4% | 3.29 | 0.0% |
| GLOBAL CROSSING LTD | GX | $11,909 | 15.0% | 13.5 | (9.64) | 4.46 | (8.5) | 1.4 | 30.7% | 0.73 | 0.0% |
| NEXTEL COMMUNICATIONS | NXTL | $10,954 | 68.0% | 14.4 | (32.69) | (16.70) | (19.9) | 7.8 | 50.0% | (3.55) | 0.0% |
| QWEST COMMUNICATION INTL | Q | $58,611 | 43.7% | 35.1 | 19.71 | 23.22 | (616.2) | 1.5 | 32.0% | 7.47 | 0.0% |
| SBC COMMUNICATIONS INC | SBC | $151,149 | (5.2%) | 44.6 | 43.26 | 23.92 | 20.3 | 5.3 | 22.8% | 15.07 | 2.3% |
| SPRINT FON GROUP | FON | $19,452 | (0.3%) | 22.0 | 24.32 | 17.10 | 15.2 | 1.6 | 54.6% | 9.00 | 2.3% |
| SPRINT PCS GROUP | PCS | $18,548 | 94.6% | 19.0 | (45.55) | (27.66) | (12.9) | 14.9 | 49.6% | (8.59) | 0.0% |
| **VERIZON COMMUNICATIONS** | **VZ** | **$133,230** | **96.0%** | **49.3** | **59.29** | **25.65** | **12.4** | **4.8** | **33.2%** | **15.40** | **3.1%** |
| WORLDCOM INC | WCOM | $53,757 | (8.5%) | 18.7 | 36.60 | 22.22 | 11.4 | 0.9 | 36.1% | 8.24 | 0.0% |



@AF - Annual Figure @NA - Not available @CF - Combined Figure @SF - SemiAnnual Figure Red - Warning

**Bold Blue - Favorable Drivers** Source: Standard & Poors Corporation Compustat Research Insight®, Intrinsic Value Associates, LLC


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