Five Stocks I Love Webinar

Howard Reisman, CEO and co-founder of Stock Rover – June 26th, 2014

So Where Do We Start

Well I looked at stocks that I own and I follow and there were 12 that really stood out me. So I have put them in their own watchlist. What we are going to do, is use Stock Rover to whittle the list to what I think are the 5 best.

The Twelve Candidates

Note that the Watchlist is stored in the Stock Rover Library as "Twelve Strong Large Cap Growth Stocks"

Selection Criteria

- Consistent sales and income growth
- Increasing market share
- Clear economic moat
- Well managed
- Reasonable valuation given the context of expected growth and the current market

The Players

Ticker	Company	Sector	Employees	Market Cap ($M)	Dividend Yield	Beta 1-Year
BEAV	B/E Aerospace	Industrials	10,285	$9,949	0.0%	1.23
CMCSA	Comcast	Communication Services	136,000	$132,848	1.7%	0.99
DIS	Walt Disney	Consumer Cyclical	175,000	$140,692	1.0%	1.27
GOOGL	Google	Technology	49,652	$387,337	0.0%	1.25
HBI	Hanesbrands	Consumer Cyclical	49,700	$8,811	1.4%	1.00
LEA	Lear	Consumer Cyclical	122,300	$7,248	0.9%	1.13
PCLN	Priceline.com	Consumer Cyclical	9,650	$63,035	0.0%	1.54
TRW	TRW Automotive Holdings	Consumer Cyclical	78,200	$9,798	0.0%	1.44
UNP	Union Pacific	Industrials	46,445	$91,635	1.8%	0.97
URI	United Rentals	Industrials	11,850	$10,276	0.0%	2.20
WFC	Wells Fargo	Financial Services	158,900	$280,982	2.6%	1.07
WLP	WellPoint	Healthcare	48,200	$30,755	1.6%	0.70
Average			**74,682**	**97,781**	**0.9%**	**1.23**

Some General Notes on the Candidates

- Market cap ranges from 7B (Lear) to 387B (Google)
- Employees ranges from 9,600 (Priceline) to 175,000 (Disney)
- Dividend yield ranges from 0% (BEA, GOOGL, URI) to 2.6% (Wells Fargo)
- 5 Consumer Cyclical, 3 Industrials, 1 Tech, 1 Telecom, 1 Financial, 1 Healthcare

Brief Synopsis of the Candidates

B/E Aerospace (BEAV)

- Cabin interiors for commercial and business jets
- Also do aerospace fasteners, consumables and logistics services
- Splitting into two companies to get better valuation
- Each company will be a global force in its market

Comcast (CMCSA)

- Huge, growing and acquisitive cable and internet operator
- Owns content via NBC Universal
- Buying Time Warner Cable (TWC)
- Management has a very impressive operational track record

Disney (DIS)

- Theme parks, Movies, Pixar, ESPN, ABC
- Dominant media and entertainment player

Google (GOOG, GOOGL)

- Dominant in search
- Advertising growing, especially mobile
- Secular shift to on line advertising
- Android is the dominant phone OS
- Inroads to enterprise via Chrome OS, Google Docs

Hanesbrands Inc. (HBI)

- Undergarments - replenishment products (Hanes, Champion)
- #1 or #2 in all product categories
- Efficient manufacturer with premium pricing due to comfort and fit advantages

Lear (LEA)

- Global automotive supplier – seating and power management
- Both are key areas for added investment in automobiles

Priceline (PCLN)

- World's largest on-line travel agent
- Expect growth internationally and from consolidation of small operators
- Increased market share of global bookings from 1% to 4% in 5 years, still growing
- Just bought Open Table for twice its market cap

TRW Automotive Holdings (TRW)

- Dominant worldwide supplier of active and passive automotive safety systems
- Safety sells and is becoming a bigger and bigger percentage of automobile content

Union Pacific (UNP)

- Massive railroad with strong focus on efficiency
- Excellent track routes in the west
- Less expensive than trucks for long distance shipping
- Impressive management team – operations and capital efficiency superb

United Rentals (URI)

- Construction, industrial and residential equipment rental
- Helps other firms achieve capital efficiency by not having to own equipment

Wells Fargo (WFC)

- Dominant bank that managed to mostly miss the sub-prime debacle
- Largest deposit gatherer in major U.S. markets is a huge competitive advantage
- Reputed to be the most well run of the major banks

WellPoint (WLP)

- Managed health care (e.g. Blue Cross / Blue Shield)
- New management team appears to be turning around a historical operational laggard

So How Do We Investigate

Let's Start With the Views

We are going walk through the views and discuss some key metrics. Normally I would keep notes on what follows, but what I am going to do is a running commentary on the stocks as we start to develop preferences among the twelve.

We are going to look at the views in a structured fashion, focusing the following four factors in order of importance.

- Growth
- Valuation
- Efficiency
- Momentum and Stock Performance

Growth Views

- Growth
    - Sales 5-Year Average Growth
    - EPS 5-Year Average Growth
    - EPS Next-Year Chg (Est %)
- Grades
    - Growth Grade

Takeaways

- Priceline leads the horse race
- B/E Aerospace and Google look very good
- Comcast, United Rentals are solid
- LEA is expected to good earnings growth next year

Valuation Views

- Valuation
    - EV/EBDITA
    - PEG forward
    - Cash per share
    - Debt per share
    - Net Cash per share (added - not in standard view)
- Historical Valuation
    - Price / Earnings
    - Price / Cash Flow
    - 5 Year P/E Range

Takeaways

- TRW looks really cheap, LEA, CMCSA and URI aren't bad
- PCLN is the most expensive, but also the fastest growing
- Google and Priceline have bulletproof balance sheets – the others don't

Efficiency Views

- Profitability (view all metrics over time to see how they change for each company)
    - Net Margin
    - Return on Assets
    - Return on Equity
    - Return on Invested Capital
- Vs Industry (note an added view, not part of standard Stock Rover views)
    - Net Margin
    - Return on Assets
    - Return on Equity

Takeaways

- Priceline is the clear winner, followed by TRW, UNP and GOOGL
- URI last – because of all the debt and the cost of owning all the equipment

Momentum and Stock Performance

- Current Returns
  - Price vs 52 Week High (momentum)
  - 52 Week Range (good for visualization)
- Historical Returns vs. S&P 500
  - 3 month (recent performance)
  - 1 year (momentum)
  - 3 year (track record)
- Historical Returns vs. Industry
  - 3 month (recent performance)
  - 1 year (momentum)
  - 3 year (track record)
- Momentum
  - RSI
  - MFI (RSI with volume factored in, prefer it to RSI)

Takeaways

- Will underperformers revert to mean?
  - PCLN and BEAV were both hurt by corporate events
    - Acquisition (PCLN) and divesture (BEAV)
  - GOOGL, DIS may flip to period of outperformance as both have lagged a bit

Other Views of Value

- Dividends
  - Dividend Yield
  - Payout Ratio
  - Dividend 5-Year Average Growth
- Income Statement
  - Shares – (view over time to see change in share counts – buybacks or dilution)
  - Sales per employee
- Balance Sheet (view over time to see how debt load is changing)
  - Long Term Debt
  - Debt / Equity

What Do the Analysts Say?

- Insight Panel – Detail Tab – Analysts Estimates panel
  - EPS growth
  - Sales growth
  - EPS revisions (avoid companies with negative revisions)

How Are the Charts

- Chart 2 year with SMA technicals
  - Is the chart healthy?

17 Factor Growth Stock Ranker

The 17 Factor Growth Stock Ranker is in the Stock Rover Library. Note it is Quant (ranking) Screener, so a premium subscription is needed to utilize its ranking capabilities

Growth (35%)

- Sales 5-Year Average Growth   15%
- EPS 5-Year Average Growth   15%
- EPS Next-Year Chg (Est %)   5%

Valuation (30%)

- EV/EBDITA   20%
- PEG forward   10%

Efficiency (20%)

- Return on Assets vs Industry   3%
- Return on Equity vs Industry   3%
- Operating Margin vs Industry   4%
- ROIC   5%
- Gross Profit / Total Assets   5%

Momentum and Stock Performance (15%)

- Price vs 52 Week High   3%
- 3-Month Return vs Industry   2%
- 2-Year Return vs Industry   2%
- 5-Year Return vs Industry   2%
- 3-Month Return vs S&P 500   2%
- 2-Year Return vs S&P 500   2%
- 5-Year Return vs S&P 500   2%

Run the 17 Factor Quant Screener

- Does it agree with our qualitative preferences developed while researching the twelve stocks from different points of view?
- Soft factors
  - Liked PCLN, CMCSA, GOOGL a lot
  - Like URI's growth and valuation, didn't love the debt
  - A bit worried about WLP, WFC (perhaps extended valuation)
- The quant likes the twelve stocks in the following order
  1. Comcast (CMCSA)
  2. Priceline (PCLN)
  3. Union Pacific (UNP)
  4. Google (GOOGL)
  5. United Rentals (URI)
  6. TRW Automotive (TRW)
  7. Wells Fargo (WFC)
  8. Disney (DIS)
  9. WellPoint (WLP)
  10. Hanesbrands (HBI)
  11. B/E Aerospace (BEAV)
  12. Lear (LEA)
- It seems that the Qualitative and Quantitative analysis match up well
- Any in the top five we want to throw out on other factors?
  - URI has a lot of debt, and TRW is next at #6, but TRW has downward earnings estimates
  - URI has great growth and valuation, we will live with the debt

Wrap Up

Let's summarize what we have done. We started with a population of twelve large cap growth orientated stocks that we "like" for various reasons. We used Stock Rover in a methodical way to whittle those down to the 5 we liked best. We did that by first creating a watchlist of those stocks. Then we viewed each stock in each key view, noting growth, valuation, capital efficiency and price performance and momentum. From there, we did a quick check of the analyst estimates and the technicals via the chart, looking for red flags. Finally we ran the stocks through our all seeing all knowing 17 factor quant. The results jibed pretty much with how we were mentally ranking the stocks as we stepped through the views. The result are five large cap stocks (Comcast, Priceline, Union Pacific, Google and United Rentals) that look like intriguing long term investment opportunities for the growth investor. Although the other seven aren't too shabby either.

Before investing in any of these stocks be sure to do your own thorough independent research!