Sand Spring Advisors LLC

Complicated Moves: A Short-Term Update
Part II

by,

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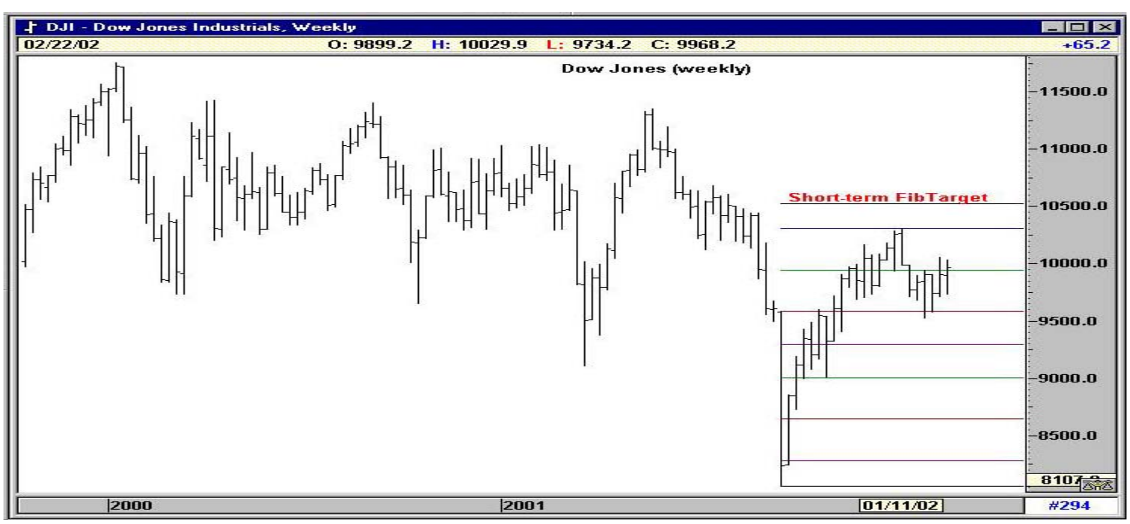
We promised in our quick update of February 20th, to revert with more specific long value ideas, and we do so below.

As a first note, we view what has happened to the stock market in the last few days to be reasonably healthy. Pure froth and hype stocks such as Intel and Cisco have started to truly fall from grace, as have certain financial stocks such as JP Morgan and Morgan Stanley. While Tyco's accounting indiscretions are likely just that – minor indiscretions – we're more suspicious of a company like Computer Associates that came under the spotlight once again on Friday, and got knocked down by 15%.

Meanwhile more value-oriented and big name stocks have continued to return to favor. We also received a slight renewed whiff of renewed merger fever when Northrop Grumman's announced its unsolicited bid for TRW. For those that don't follow such things, the merger business has been more or less dead for quite some time, so this represents a potentially new trend.

Blue Chip Dow Jones stocks in particular have been in sudden favor, and while we think the willingness of the market (driven in part by overseas investors) to pile into Dow stocks will ultimately be a passing phenomenon, we recognize the trend for now, and have a definitive upside target for the Dow of 10,523.



This anticipated rally in the Dow does not mean that other equity indices will necessarily participate in similar fashion. Indeed, the NASDAQ Composite Index currently sports Fibonacci bands that look far happier when drawn from the already established December 6th high. This leaves us with little to say about the NASDAQ in the short term except that 1581 to 1241 looks like an eminently fair range for this index to flop and chop through.

But just as we still dislike many previously discussed financial and restaurant stocks, and just as we remain highly skeptical of yesteryear's big tech winners such as Dell, Intel, and IBM, there are of course many stocks out there that represent exceptional value.

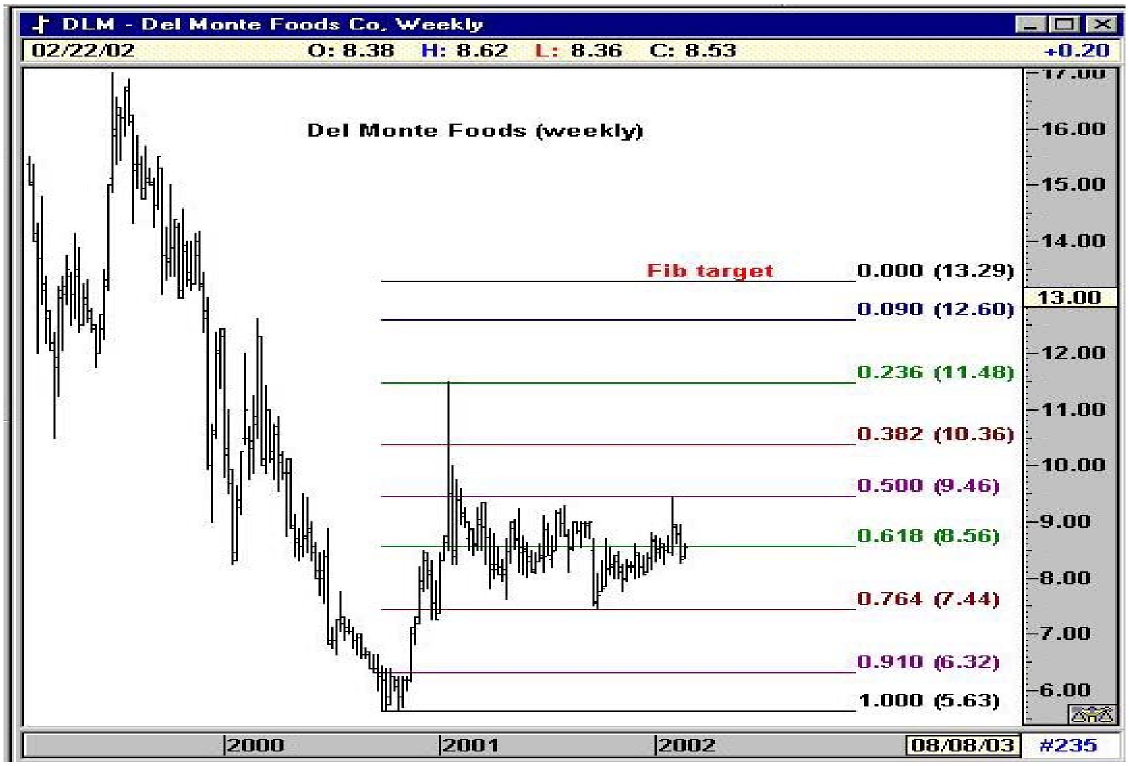
In no particular order, here are three. They may not initially knock your sox off as to their sexiness, but over time, they should produce positive returns.

Del Monte Foods (DLM -$8.53)

We last mentioned Del Monte back in July, 2000 at the price of $7.25. At the time it was trading at a mere 4x current earnings. Since then, during a relentless bear market no less, this stock has moved up as high as $11.48, until more recently pulling back once again to $8.53. The company continues to represent a solid brand name within the canned vegetable and Italian cuisine market, controlling not only the Del Monte label but also the Contadina label. Over the years, the company has accumulated too much debt, and seen its earnings growth hit some potholes, but at the same time, the company also generates a healthy annual cash flow, even if its total profit margin is slim. Most importantly, the stock is closely held by the Texas Pacific Group, and someday they are going to want to see a pay-day for the patience they have shown standing behind Del Monte.

Jean-Pierre Conreur, manager of the Tocqueville Small Cap Value Fund (up 10% last year even in rough markets) calls Del Monte "the most undervalued stock in his portfolio. Everyone knows their brands…insiders own 45 percent of the company…They should earn a dollar within a year or so."

At a $445 million market capitalization, the company is also small enough to be "bite-size" if a larger packaged food company ever were so inclined to take Del Monte over. Most importantly perhaps, our Fibonacci band rhythm suggest a $13.29 target with time.



Delta & Pine Land Co. (DLP -- $19.70)

Anyone notice the price of cotton these days? It is in the absolute sewer, as is this major cotton seed producer Delta Pine & Land Co. But if our Fibonacci techniques are correct, cotton should have seen the worst of its decline already, and Delta Pine & Land could easily get snapped up in a merger.

Monsanto was previously sniffing around to buy this company back in 1998 for $1.8 billion or more than two times DLP's total capitalization today. Monsanto eventually walked away from that merger citing unfair Justice Department antitrust demands, but Delta & Pine Lands has since sued Monsanto for breach of contract, and recently won initial favorable court rulings denying Monsanto's motion to dismiss the case. The suit is for $2 billion dollars in damages.

Although we are not personally pre-disposed to genetic seed alteration, Delta Pine & Land already controls three-quarters of the U.S. Cotton seed industry, and has the most advanced new products (inclusive of the so-called Terminator seed) in development. This latter seed is so pest-resistant that while 3-4 times as expensive as traditional seeds, it can save farmers far more money otherwise required for herbicides and pest-control. As such, the company could clearly become a prize possession to someone, particularly if the price of cotton were to turn back up.

We think Monsanto or someone else will return to consummate the take-over of DLP. In addition to Monsanto (now owned by Pharmacia), DuPont, Dow, Syngenta, Bayer, and BASF are all possible suitors.

Pushing the situation along as well is pro-activist shareholder Guy Wyser-Pratte, a Wall Street merger arbitrage specialist who is currently goading management to maximize shareholder value. Wyser-

Pratte has a past 90% success batting average at corporate "governance" campaigns he takes on. We think he is on the right track here at the right time.

Cooper Industries (CBE-- $34)

Of note, our final "value" situation also involves another takeover candidate currently being harangued by Guy Wyser-Pratte: Cooper Industries, an electrical products and tools company that recently staved off an unfriendly takeover by Danaher Industries.

Currently trading at just 14 times 2001 earnings and 1.5x book value, Cooper is a $3 billion company that would make a nice addition to many larger companies. There has been no insider selling of the stock in over a year, and while the company has gone to some lengths to reincorporate itself in Bermuda in order to make a takeover more difficult (as well as to save on taxes), its current share price is well below Danahar's former offer that was worth $54-$58 a share.

Perhaps of most importance, many have been nervous about the company's potential legal liability related to asbestos lawsuits against a former Cooper subsidiary. This subsidiary and all of its liabilities was previously sold to Federal-Mogul back in 1998, but when Federal-Mogul subsequently went bankrupt, many have feared that these liabilities would end up back on Cooper's doorstep.

The good news however is that outside consultants have recently completed a study demonstrating that at most Cooper's asbestos liability stands at $30 million, and the company has already reserved for such. On January 24th the company even went a step further to promise that "No diminution of future earnings [will be] arising from this matter."

It may take some time to sort out, but we think Cooper Industries will indeed get taken over, and if Danaher was willing to pay $54-$58, the current price toward $34 is a pretty attractive level to pick this stock up. We do have an alternative Fibonacci rhythm to the one shown below whereby CBE still might fall toward $26, but if it were to do so, we would simply buy more there.

Lastly, on other fronts, energy exploration stocks such as Anadarko Petroleum and Apache Energy (previously referred to favorably in our pages) have held up extraordinarily well despite the recent weakness in the energy products markets. We continue to look at them favorably.

Send us your comments at information@Sandspring.com.

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