3 Get to the Point Stock Analysis

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What I'm going to try to do this year is to write more stock analyses. Whether it be official ones published on the blog or point form published on the forum, I want to keep training myself to continually read, write and come up with new and better ideas. I like to write in point form because it's quick and straight to the point. I don't have to worry about prettying it up like I do when writing on this blog.

Each of the below analysis was written after reading one 10-k or 10-Q. You know the 80-20 rule right? Well 80% of the information will come from one annual report which only takes 20% of the time.

Articles by other authors help to speed things up in getting to know the company. Financial analysis and stock valuation is then performed with the **stock valuation tools**.

So far, here are three that I have written.

1. ADDvantage Technologies Group (AEY)

2. Hibbett Sports (HIBB)

3. iGo Inc (IGOI)

ADDvantage Technologies Group (AEY)

ADDvantage Technologies Group, Inc., through its subsidiaries, distributes and services a line of electronics and hardware for the cable television (CATV) industry. The products, the Company sells and services are used to acquire, distribute, receive and protect the communications signals carried on fiber-optic, coaxial cable and wireless distribution systems.

Why is it Cheap?

- Boring business
- Reseller of equipment to companies such as Comcast, Direct TV, CenturyLink etc
- Industry risk. Consolidation could mean loss in revenue. Customers have slowed down their network upgrades.
- Builds up inventory of new and used equipment to sell
- Not followed or held by any of the big boys

Management

- Not much insider buying even at these low levels
- Total exec compensation was 2.4% of revenue in 2010. Below my 3% threshold which is good.

Growth

- Not much room for growth. But with such a healthy balance sheet, their returns do not have to be high to produce growth.
- Market is assuming that the max it can do is 4% growth by reverse engineering prices
- Acquisitions will help with growth. Their acquisitions are small and targeted based on the target's distribution channel and product offerings.

Moat

- Niche player. Can't beat the OEM's in providing equipment, but does take advantage of the many black holes left behind by them.
- Sustainability is absent. A new competitor with money could come overnight and take them out.

Competitors

- Competitive business
- Trading at net net value means there are better competitors otherwise it wouldn't trade below asset value

Risks

- Inventory valuation. If it had to be liquidated, how much would it be worth?
- Strategy of building up inventory – very low inventory turnovers. All costs money and working capital.
- New agreement with CSCO isn't the best. They now have to resell CSCO products which will lower margins.
- No dividends. Just builds cash.
- Don't see much chance of buyout for such a company

Valuation

- no matter what I try, I keep coming up with a low range of $2.80 to $3 which gives 34% upside potential as a minimum.
- Operating at low end of business cycle as the industry has slowed down. Cash flow will reduce.
- I'm estimating EPS of $0.28 for 2011 without doing much more work.

Catalysts

- Industry starts spending for network upgrades
- (hmm can't think of many catalysts other than being cheap)

Conclusion

Quality net net currently operating at the down cycle. Room for revenue and cash flow growth if the industry picks up. A bit too reliant on external factors but management has been able to handle the business very well. Great ROE, CROIC for a net net. Not many profitable ones out there. Business is easy to understand and the biggest risk really comes down to whether the inventory is really worth what it is.

I wouldn't call it a value trap because their business model is consistent.

Verdict

- Management: B
- Growth: C
- Moat: C
- Risk: A
- Valuation: A
- Total: B

Buy a small position and wait for a long time to play out.

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Other links on AEY

http://www.whopperinvestments.com/addvantage-technologies-aey

http://seekingalpha.com/article/270351-addvantage-technologies-group-bad-quarter-good-price

http://seekingalpha.com/article/252702-the-safer-and-cheaper-addvantage

http://seekingalpha.com/article/237046-addvantage-technologies-high-quality-micro-cap

Hibbett Sports (HIBB)

HIBBETT SPORTS®
GAME TESTED. ATHLETE APPROVED.™

Hibbett Sports, Inc. operates sporting goods stores in small to mid-sized markets, in the Southeast, Southwest, Mid-Atlantic and lower Midwest regions of the United States. The Company's stores offer a range of athletic equipment, footwear and apparel.

Have to say that this is one of the best smaller cap retail businesses. Sports retail business just like Dicks, Big 5 Sports and Sports Authority.

Some highlights off the top of my head

- Extraordinarily high ROE of 25% and above. Consistent as well.
- Good steady margins
- Good FCF growth
- Tight inventory control
- Strong balance sheet
- No accrual build ups
- No debt

- Good growth in bad economies. Earnings revised up in 2011.

Strategic advantages

- Shadows WMT. Wherever WMT is, HIBB tries to open a store within the vicinity PROVIDED that the demographic is their target
- Won't expand into bigger cities. Takes advantage of smaller population markets where bigger competitors wont do business
- Has relationships with local schools to supply them equipment and gear
- Customizes merchandise to match the target market. e.g. Shops in Alabama will have a lot of Alabama football team gear during football season while another store in Texas takes advantage of the Texas rangers world series games.
- HIBB trains their employee to be sales professionals instead of just regular store helpers. They sell more technical sports gear which requires better explanations.

Valuation

- Reverse valuation show that the current stock price is expecting about 15% growth from the company. Too high for me.
- Fair value is around current price of $40-50. Not much margin of safety.
- Currently trading at much higher multiples than competitors. This could easily revert to the mean as HIBB is operating at max margins at the moment.

Risks

- HIBB purchases majority of products from Nike. If their relationship fails, no more products to sell
- Retail business could turn down any minute
- Customized products means that they could be missing, or be slow, to a bigger trend
- They have 800 stores. How many smaller markets are there that HIBB can take control of?
- Centralized distribution strategy. If the warehouse gets hit by a hurricane, company will suffer.
- Retail business has a lot to do with management and experience. But HIBB has been doing this with conservative smart growth and store openings.

Others

- Good company to work for
- No complaints from previous employees other than the pay was low. (glassdoor.com)
- Joel Greenblatt has been a recent buyer (small buyer)
- Insiders consistently selling at current prices. Sign that stock price is fairly valued?
- Executive chairman's salary and stock option is enormous.

Verdict

- Management: A
- Growth: C
- Moat: B

- Risk: A
- Valuation: C
- Total: B

Time to start buying around $30 ~ $35, or lower if opportunity is given.

iGo Inc (IGOI)

iGo, Inc. (iGo) is a provider of accessories and power management solutions for the electronics industry. As of December 31, 2010, the Company marketed its electronics accessory products in three categories: power, protection and audio. It also markets other mobile electronic accessories, including laptop cooling stands, mounts, and mini-projectors (also known as pico projectors) that attach to mobile electronic devices for displaying video.

iGo primarily sells its products through retailers, such as RadioShack, Walmart, Office Depot, Hudson News and Inmotion Entertainment; resellers, such as Ingram Micro, Inc., Microcel, and Superior Communications, and directly to end users through its iGo and Aerial7 websites.

Business Overview

- Company makes after market power (laptop power adapter, phone chargers), batteries, audio (ear phones), protection (skins, cases, screen protectors)
- Highly competitive and commodity business. No moat or advantage in any of the products. Maybe the power adapter, but not really.
- Theoretically for this type of business, the only competitive advantage would be distribution channels and pricing.

Risks

- Wal-Mart is the biggest customer. Lose Wal-Mart and the company is finished. They already lost Belkin a few years back.
- Revenue from Radioshack continues to decline
- Commodity business. A better competitor could come along any time. Batteries, audio, protection products all suck.
- Volatile business. Retail business. Subject to macro.
- Recent acquisitions worth it? Will it work?

Management

- Management compensation levels are fair. Does not exceed 3% of revenues.
- Open market purchase by President/CEO Heil in Dec.

Financials

- Historically lost more money than made
- SG&A rising offset by cost of revenues

- R&D expense decreasing
- Bad returns. ROE in the low single digits, CROIC regularly in negative territory
- DSO has increased dramatically
- Inventory turnover decreased

Valuation

- Same thoughts as when I held it in 2009. Business and management sucks.
- Only thing going for it is the asset valuation.
- NCAV is $0.88 vs current $0.77. Net net (NNWC) value is $0.62.
- Wouldn't buy IGOI at anything other than 10-15% below NNWC value.

Other

A lot of hope seems to be placed in the partnership with Texas instruments in energy saving chips, but that is too far down the road. Even if you try to put a value on that relationship and the growth that "could" come out of it, it isn't worth it.

Verdict

- Management: C
- Growth: B
- Moat: C
- Risk: B
- Valuation: B
- Total: B-

Not a company to value based on earnings. Best play would be when it falls below NCAV or NNWC. Anything else is too risky.

Disclosure

Long AEY.