

## QUANTITATIVE ANALYSIS

The following criteria's were used to filter the stocks:

P/E – 0-20

The P/E ratio is a much better indicator of the value of a stock than the market price alone. A company with a high P/E ratio will eventually have to live up to the high rating by substantially increasing its earnings, or the stock price will need to drop.

PEG – below industry average

We used PEG ratio to find the stocks, which are undervalued. When used in conjunction with P/E, it provides investors a perspective of how the market views a stock's growth potential.

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3-yr Revenue Growth – below industry average

Since the companies already have strong revenues due to market share it may not be possible to increase their revenue growth drastically as compared to the industry. Thus a below average industry revenue growth doesn't necessarily reflect on the companies growth potential. New entrants and small players may have better than industry average since they are in the growth stage.

3 yr Income Growth – above industry average

Due to well-established supply chain management, economies of scale and better synergies of operation we expect these companies to beat the industry income growth rate.

Market Share – 15% share

We chose this criterion to find companies, which have strong market presence in their industry and have potential to increase their market dominance in respective sectors.

ROE – above industry average

We are targeting the companies with better margins, leverage and asset management utilization.



*Based on the above factors we derived following companies through screening process:*

Name	Symbol	Market Cap (MM)	PE Ratio	Price/Book	Price/Sales	Div Yield	3 yr Inc Growth	3 yr Rev Growth	Price*
CATERPILLAR INC	<a href="#">CAT</a>	15,726.64	20	2.88	0.78	3.1	-7.49	0.80	45.80
DIAGEO PLC ADS	<a href="#">DEO</a>	31,956.15	15	3.48	1.85	4.3	13.37	-2.17	39.76
ELECTROLUX AB ADR	<a href="#">ELUX</a>	5,559.97	9	1.60	0.40	2.6	0.71	-1.24	32.83
EMERSON ELECTRIC CO	<a href="#">EMR</a>	19,748.93	19	3.36	1.43	3.3	-9.16	-1.97	46.92
GENUINE PARTS CO	<a href="#">GPC</a>	4,925.29	13	2.36	0.60	4.2	-3.36	0.85	28.20
NIKE INC CL B	<a href="#">NKE</a>	12,984.74	19	3.44	1.27	1.1	7.49	3.99	49.10
PIER 1 IMPORTS INC	<a href="#">PIR</a>	1,464.02	12	2.32	0.85	1.5	16.43	10.86	15.77
SBC COMMUNICATIONS INC	<a href="#">SBC</a>	68,030.96	9	2.17	1.58	5.3	2.96	-5.14	20.49
TENET HEALTHCARE CORP	<a href="#">THC</a>	8,153.04	7	1.38	0.55	0.0	58.92	7.82	17.21
TIFFANY & CO	<a href="#">TIF</a>	3,347.25	18	2.98	1.96	0.7	7.27	4.35	23.06

## FUNDAMENTAL ANALYSIS

*Following five companies were selected for fundamental analysis:*

### 1. Caterpillar Inc

We believe revenues will be flat in 2003, as market share expansion in the Asia Pacific region, most notably in China, and an improving pricing environment, resulting from a weak domestic currency, are offset by continued capital spending weakness in North American and European markets. Margins should narrow, as significantly higher pension-related expenses are only partly offset by benefits of cost control programs. With decreased profitability, we expect 2003 earnings to decline about 5% to 6%. For the longer term, revenues should grow at only modest annual rates, reflecting saturated North American and European markets. As a result, we believe it will be difficult for CAT to maintain pricing power in these slow growing market environments. In addition, we are not optimistic about outsized long-term growth prospects in emerging regions such as Asia and Latin America, due to endemic financial and political problems there.

We believe that the stock is trading near its fair value range.

## **2. Diageo Plc Ads**

Profit growth is likely to moderate following strength last year, due to lapping of lower raw material costs and lower interest rates in 2002, and some pricing pressures. Longer term alcoholic beverage area is likely to remain in a slow-growth mode, with most of any growth generated from new product activity and penetration into developing regions abroad. Besides, after analyzing the financials of the company we found that Diageo will be having an increasing debt. A rising percentage implies greater financial risk, all else being equal. Rising debt leverage without a related rise in Return on Equity would result in potential cash flow problems.

## **3. Electrolux Ab ADR**

Our near-term investment outlook for the household appliances industry in 2003 is modestly positive. Aggressive interest rate cuts by the Fed were factors in an improving economic environment, and strong housing activity and increased demand for household durables bode well for earnings of appliance manufacturers and retailers. Although we expect housing activity to decline in 2003, Electrolux 's longer-term uptrend in sales and earnings is likely to continue in 2003.

## **4. Nike Inc Cl B**

Sales are expected to advance 6% to 7% in FY 03 (May), as steady international growth, benefiting from euro strength and continuing worldwide penetration of apparel and equipment, outweighs likely contraction in U.S. footwear sales. Non-U.S. revenues should, for the first time, outgrow domestic revenues in FY 03. We project slightly higher operating margins, as sales mix realignment, efficiency improvements, favorable currency effects, improved sourcing, and gains from faster inventory turns and streamlined European supply chain infrastructure upgrades results in higher sales revenue.

In December, NKE reported modest 2.4% growth in apparel and footwear futures orders, mainly on continued strength in Europe and Asia Pacific. Ongoing efforts to realign apparel categories as well as the recent Hurley acquisition bode well for long-term results. Nike has consistently beaten analysts' estimates since last four quarter.

## **5. Pier 1 Imports Inc**

Sales growth is expected to reach 14% in FY 04, on mid- to high single digit same-store sales gains, and contributions from about 80 new Pier 1 stores, 35 relocated Pier 1 stores, which have been moved into larger and more convenient locations, and 20 to 25 new Cargokids stores. Better full-priced sales and a continuing shift from furniture to more profitable decorative accessories offset higher occupancy and buying costs. Store operating and management costs and marketing expenses should grow slower than revenues as a result of tight cost controls and modest productivity gains.

After reporting in-line November quarter results, PIR continues to expect solid same-store sales growth through the holiday season, with December same-store sales in the low single digit range. Continued consumer focus on home and family, demographic shifts, and strength in the housing sector should help maintain demand for decorative home furnishings. Over the next few years, we expect PIR to sustain its rapid expansion, with likely favorable prospects for the new and attractively priced Cargokids concept (on an accelerated roll-out schedule).

## TECHNICAL ANALYSIS

*Following three companies were selected for technical analysis:*

### 1. Nike Inc Cl B

The price has been touching the upper bollinger band consistently showing an uptrend. MACD has been above signal line and shows commitment with the rising OBV. The stock is still not overbought since the RSI is hovering around 60.

We recommend BUY.

### 2. Diageo Plc Ads

The stock shows continued downtrend i.e. lower lows and lower highs. The fall in stock price is complemented with the falling volumes. RSI has been consistently around the 50 level.

We recommend SELL.

### 3. Pier 1 Imports Inc.

The price has touched the lower bollinger band and the RSI shows some support at 45. The MACD has crossed the signal line from below. The volume has steadied from last month showing market interest.

We recommend BUY.