

Real Estate Stocks Trade at Bargain Prices

Gregg Greenberg

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RICHMOND, Va. ([TheStreet](#)) -- Shares of real estate developers **Alexander & Baldwin**([ALEX](#)) and **Tejon Ranch**([TRC](#)) are trading at bargain prices as they recover from a painful downturn in the property market, says Steve Goddard, manager of the **Touchstone Small Cap Core Fund**([TSFAX](#)).

The \$78 million fund, which debuted on Sept. 30, has lost 1% this year, outperforming its category by 3 percentage points, according to **Morningstar**([MORN](#)). One-quarter of the fund's assets are invested in financial companies and 19% is in consumer goods stocks. About 2% of the fund is in cash.

Welcome to *TheStreet's* Fund Manager Five Spot, where America's top mutual fund managers give their best stock picks and views on the market in a five-question format.

Are small-cap companies getting the financing they need?

Goddard: Virtually 80% of small-cap companies are debt-free. They're underleveraged. So they have plenty of opportunities to get funding from debt if they need it at costs that are 500 to 600 basis points below the implied cost of their equity. Most companies today who are A-rated already can get 30-year long-term fixed income at less than 6%. So that's pretty cheap relative to cost of equity, which is 10% to 11%, or higher, in many cases.

Why is Hawaiian shipper and landowner Alexander & Baldwin one of your favorite stocks?

Goddard: The company has 80,000 acres as one of the largest landowners in Hawaii and 8 million square feet of industrial and commercial real estate on the mainland and in Hawaii. The land is priced at \$150 per acre on the books. And, finally, they operate the dominant ocean transport, which is probably worth three-quarters of the stock price on a normalized EBITDA basis. So if you add all of the components, you could get well over \$50 per share and the stock is trading at \$31.

Another company you like is Tejon Ranch, which owns land in California. Is now the best time to own California real estate?

Goddard: If you can get it for less than \$2,000 an acre, sure. Real estate in the next county sold subdivided, fractional acre, residential lots for \$38,000 per lot 6 years ago. Tejon Ranch owns well over 200,000 acres of land that's 50 miles north of Los Angeles. Part of it is on a major highway, where they have developed industrial property. Basically when you pay \$25 per share, you're getting their real estate for less than \$2,000 an acre and it is worth far more than that, even in this weak market. Even though a substantial portion of their 200,000 plus acreage will never be developed, it's worth double or maybe triple the stock's price today.

Another stock you like is NewMarket(NEU), which makes petroleum additives. Why is this a good market right now?

Goddard: NewMarket is very well-managed and shareholder-oriented. They, along with one or two other players, pretty much dominate the market for lube and petroleum additives. With worldwide driving demand increasing in emerging markets, they're in the "driver's seat" in terms of capturing demand going forward. Yet they're trading at 4.5 to five times on a run rate EBITDA. They're probably worth eight to 10 times. It's a plain vanilla, steady manufacturing business, with consistent high return and free cash flow characteristics. They've been around a long time and are one of the few suppliers left, allowing good pricing power.

Why do you like the security company Brink's(BCO)?

Goddard: Brink's is another relatively stable franchise, offering cash in transit services, with a increasing transition to higher margin related businesses. It's a well-known brand name. And you are seeing increased demand for their services in Latin America and Asia to help their mature, low margin markets in the U.S. and Europe. Brink's is in a very good position to capture the industry upturn with a gradual global economic rebound. It's also trading at less than five times cash flow on a normal basis. And we like businesses that are fairly steady, have predictable cash flow. If you find one with five times

cash, it's hard to go wrong.

-- Reported by Gregg Greenberg in New York.

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IDC calculates the Market Cap for the basic symbol to include common shares only. Year-to-date mutual fund returns are calculated on a monthly basis by Value Line and posted mid-month.

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