



Top Ten for 2010: Part 1

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Up by 91% since it was posted last December, my top 10 list for 2009 has run circles around the **S&P 500** index, which returned 26% for the same period. While it's impossible to predict performance for my new top 10, there is reason for optimism. There continues to be a massive disparity between price and value in many smaller companies. And so, like last year, the top 10 list for 2010 will be filled with smaller companies.

In this, the first of three installments, I'll recommend companies in banking, apparel and food products. While their respective market caps range from \$150 million to \$400 million, I expect each will grow to at least \$1 billion in market value in the coming years.

Metro Bancorp (METR) : Everybody in the galaxy (and beyond) is afraid of small bank stocks, making it fertile ground for bargain-hunting. Also, it's worth rummaging through this sector because consolidation and closure have shuttered a lot of capacity. It sets the stage for a growth-oriented small bank like Metro, based in Philadelphia.

Metro was founded in 1985 as a franchisee of Commerce Bancorp. It became independent when parent company Commerce Bank was sold to Toronto Dominion bank in 2007. Metro is in the final stages of acquiring **Republic First Bancorp** (FRBK) and, upon completion, the bank will have 45 branches. It currently sells at 75% of book value.

Metro stock is especially compelling because of its a long-term growth potential. Many of its executives are from Commerce Bank, a bank that grew in value from \$200 million to \$4 billion in 15 years, through deposit growth that averaged nearly 25% per year. Through exceptional branch convenience and service (longer hours, better sites and so on), and a unique culture, Metro has a chance to grab large chunks of market share. Using the same strategy, Commerce grew its market share in Philadelphia from 1.6% in 1995 to 11.4% in 2008. That's the sort of opportunity Metro is contemplating today, and, if successful, shareholders will benefit handsomely.

Liz Claiborne (LIZ) : Nothing has changed since I recommended apparel maker Liz Claiborne earlier this year at \$4.38 per share, and again on Sept. 16 at \$6.27. With the stock trading at \$4.37, it's an easy pick for the top 10 list. The company is worth far more than its current market cap of \$380 million. By this time next year, the earnings power of this company will become evident. With \$3 billion in sales and a diversified cadre of brands, I expect the earnings rebound will increase its value to a minimum of \$1 billion to \$1.5 billion, or \$10-\$15 per share.

Smart Balance (SMBL) : While the food-products industry is notoriously slow-growth -- think Kraft, General Mills, Kellogg -- it's possible to find a growth company in this sector every once in a while. On the back of strong growth of its buttery spreads products, this \$340 million (market cap) company has seen sales grow from \$99 million in 2005 to \$240 million this year. CEO Steve Hughes has built food-products growth companies before -- he led the team that launched the Healthy Choice brand, growing revenue to \$1 billion in just four years. And he led the turnaround at Tropicana, doubling revenue from \$1 billion to \$2 billion, also in just four years.

A number of innovative new products will be introduced by Smart Balance over the next couple of years. Next up is the nationwide launch of Smart Balance milk, a new "heart healthy" product that has been thoroughly vetted in major test markets, with impressive success. What's particularly interesting about Smart Balance is its operating model. It produces a robust stream of free cash flow because it outsources all of its production. That allows the management team to focus on marketing and innovation, while minimizing capital-expenditure requirements.

I expect sales at the company to double over the next 3 years, led by milk and other new products, to \$500 million, with cash operating income of \$100 million. It's only a matter of time before its market cap heads north of \$1 billion. Investors are fortunate to be able to buy the stock in the mid-\$5 range, since it's worth at least \$8-\$10 per share right now.

Look for Part 2 of this column next Monday, when I'll reveal three more stocks from my top 10 list for 2010.

At time of publication, Alsin and/or ACM was long METR, LIZ and SMBL, although holdings can change at any time.

Arne Alsin is the founder and principal of Alsin Capital Management, a California-based investment adviser. Under no circumstances does the information in this column represent a recommendation to buy or sell stocks.
