



## Top Ten for 2010: Part 3

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My top 10 list for 2010 was compiled using the same strategy as my Top 10 list for 2009, a list that's up 96% vs. a 25% return for the **S&P 500**. Here's how I articulated it one year ago:

The way to find the big winners in the next cycle is simple: Sift through the stocks that have been crushed by 80% or more. There are lots of nuggets to be found in the rubble, including many profitable companies with defensible competitive positions and strong balance sheets.

Amazingly enough, scores of stocks still fit the description above, even after the market rally that started back in March -- a testament to the breadth and depth of the damage wrought by the mega-bear market. As with my earlier picks, the final additions to my top 10 list detailed below have a long way to go to reach their old highs. The stock selections are down 80%, on average, from their 2007 highs. In other words, they're selling at 20 cents on the dollar compared to 2007. That means they could double to 40 cents on the dollar and they would still be down 60% from 2007 levels.

### **MEMC Electronic Materials (WFR)**

With the stock down from \$90 two years ago to \$12 recently, it's an ideal time to invest in silicon-wafer maker **MEMC Electronic Materials** (WFR). MEMC gives investors a way to participate in a rebound in semiconductor industry while its cash-rich balance sheet mitigates potential downside. This \$2.9 billion market-cap company has over \$1.1 billion in cash, net of all liabilities.

After recently buying the largest solar energy services provider in North America (**SunEdison**), MEMC is now a major player in the solar industry. If you anticipate a modest rebound in the primary business -- silicon wafers -- it's easy to make a case for the stock to return to the \$20s at a minimum. Add the solar business, and depending on how the business evolves, you've got enough upside to make this a multi-bagger.

### **Manitowoc (MTW)**

Either I'm stubborn or stupid: This is the fourth time I've touted this stock since late last year. After telling readers to buy **Manitowoc** (MTW) at \$10.67, \$10.29 and \$9.76, I'm doing it again with the stock trading around \$10.15. Down from \$49 two years ago, my calculation of minimum value has not changed from several months ago: It's worth at least \$20 a share. The stock has yet to be bid up in anticipation of better results, and better results are just around the corner, with easy comps throughout 2010 and a realigned cost structure that will result in earnings gains even if the economy stays sluggish.

### **KHD Humboldt Wedag (KHD)**

Down from \$43 two years ago, this \$12 stock is a low-risk way to participate in infrastructure development in emerging countries. **KHD Humboldt Wedag** (KHD) provides engineering and other services to the cement industry, primarily in Eastern Europe, Asia and the Middle East. While investors should expect the stock to

rebound to the mid-\$20s in a couple of years, it's possible that we'll see a full retracement all the way back to the \$40s.

As with other picks in this column, this is a stock that makes sense for conservative investors. The balance sheet of this \$414 million company is impeccable, with no debt and more than \$100 million in excess cash. Because the company's model has minimal capital expenditure requirements, KHD has already demonstrated its durability. It generated positive cash flow over the last couple of years in the midst of the worst demand backdrop in 50 years.

### **Legg Mason (LM)**

Figuring out the worth of an asset manager like **Legg Mason** (LM) is not all that difficult. Plenty of publicly owned comparables exist, such as Franklin Resources, T. Rowe Price and Janus Capital, and its operations are simple to model.

If you don't want to build an operating model, here's a shortcut that will get you the same result: Asset managers have always been valued at a 2% to 3% multiplier of assets under management by private buyers. Using a 1.5% multiplier to be conservative, Legg's \$700 million in assets under management business is worth \$10.5 billion, or \$65 a share. That's essentially the same share value I came up with after modeling the earnings stream for 2010 and 2011. However you get there, the bottom line is that this \$29 stock is worth more than double the current quote.

### **The Complete List**

To review other stocks on the top 10 List for 2010, see Part 1 of this column, when I recommended **Smart Balance** (SMBL) , **Metro Bancorp** (METR) and **Liz Claiborne** (LIZ) ; and Part 2 , when I added **Huntsman** (HUN) , **NCR** (NCR) and **Leucadia National** (LUK) .

Look for my next column early next week, when I'll take a final look at the Top 10 lists for both 2009 and 2010. I'll lament mistakes from my earlier list, and I'll also identify my five favorite stocks from the 2010 list, including two that I expect to be multi-baggers.

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*At time of publication, Alsin and/or ACM was long HUN, KHD, LIZ, LM, LUK, METR, MTW, NCR, SMBL and WFR, although holdings can change at any time.*

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