

AHEAD OF THE CROWD

3 Cheap Stocks With Above-Average Growth

GNC, DirecTV and Qualcomm have bright prospects but are undervalued compared to the S&P 500.

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By JACK HOUGH
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By one measure, the U.S. stock market looks fully priced. The Standard & Poor's 500 index trades at 15 times projected earnings for the coming year, close to its historical average. Within the index, however, stocks are priced as differently as Maseratis and mopeds. Twenty-five issues fetch more than 40 times earnings, including Amazon.com (ticker: AMZN), Netflix (NFLX), Facebook (FB) and Chipotle Mexican Grill (CMG). About 30 go for just 10 times earnings or below, including Deere (DE), Citigroup (C) and General Motors (GM).

The best place to search for bargains is among stocks that trade at slight discounts, not deep ones, says John Maloney, founder of Manhattan-based M&R Capital Management, which oversees about \$600 million, mostly for institutions. "Like Warren Buffett, I'd rather buy a wonderful company at a fair price than a fair company at a wonderful price," Maloney says. He recently offered three examples.

Vitamin seller GNC (GNC) is benefitting from an aging population and rising demand for sports nutrition products. The company has a discount program for members and a fast-growing line of private-label products. The stock, which fell to \$45 last year, has since backtracked to \$45. On Feb. 13 the company reported same-store sales growth of 5% and adjusted earnings of 63 cents a share, up from 50 cents a year earlier, but Wall Street was looking for 64 cents. Worse, management guided toward flat same-store sales in the first quarter and 2014 earnings well below Street estimates.

Harsh winter weather seems largely to blame. Management highlighted a stark difference between store performance in weather-affected markets and unaffected ones, and said same-store sales after the first quarter should return to a mid-single-digit growth rate. Long-term forecasts show GNC's earnings growth rebounding from 13% this year to between 15% and 20% over the next few years. Shares go for 14 times projected 2014 earnings.

Satellite TV specialist DirecTV (DTV) on Thursday morning reported fourth-quarter sales that beat forecasts and said it will buy back \$3.5 billion of stock, equal to nearly 10% of its market value. The company collects more than three-quarters of its revenue in the U.S., but enjoys faster growth in Latin America. On Thursday, it said it added 93,000 U.S. subscribers during the fourth quarter, more than four times what analysts were expecting, and 231,000 customers in Latin America, roughly matching forecasts.

The U.S. market is sometimes referred to as a zero-sum battle between cable and satellite for pay TV, and DirecTV's strong U.S. subscription growth last quarter could be a



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sign that satellite is taking share. In Latin America, where cable services are concentrated in large cities, satellite is seen as having more long-term growth potential, despite challenging economic conditions in markets like Venezuela, Argentina and Brazil. DirecTV shares trade below 13 times projected 2014 earnings, with earnings projected to grow at double-digit rates over the next few years.

[Qualcomm](#) (QCOM) makes chips for smartphones and other mobile devices, and its revenues have more than doubled over the past three years. Smartphone adoption has slowed but not stalled, and emerging markets such as China have plenty of room for growth in high-speed "4G" devices. Wall Street expects Qualcomm to increase earnings per share by 13% this year and 11% next year. The stock sells for just under 15 times analysts' estimates of 2014 earnings. Subtract the company's cash and securities, equal to about one-quarter of its market value, from the stock price, and shares go for closer to 11 times earnings. Qualcomm yields 1.8% and has lately spent nearly twice as much on share repurchases as on dividends.

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