

Credit Where It's Due

Debt markets, like equities, have been pounded by the financial crisis – leading many smart investors to see more opportunity today in bonds than stocks.

A part from the occasional outlier like Bill Gross of Pimco, fixed-income investors tend to operate well out of the spotlight, thought to ply their trade in a world of financial esoterica and workman-like, if hardly sexy, returns.

So it came as some surprise that a chorus of savvy investors in recent months have echoed GoldenTree's Steven Tananbaum, who says, "It's a grand time to be a credit investor." The basic message: as the vast market for corporate credit has been hit hard by the crisis, discerning investors can find plenty of opportunities offering equity-like returns with less than equity-like risk.

For insight into the subject, we asked four top investors to describe how they're separating the good ideas from the bad in today's chaotic credit markets. [See page 2](#)

INVESTING IN CREDIT

Insight and ideas for taking advantage of unique opportunities in today's credit markets from:

Steven Tananbaum
GoldenTree Asset Management

Charles de Lardemelle
International Value Advisers

Michael Lewitt
Harch Capital Management

Jason Brady
Thornburg Investment Management

The Forest and the Trees

"Investing success is 50% analysis and 50% playing off market psychology," says Ralph Shive, who has proven to be highly skilled on both fronts.

INVESTOR INSIGHT



Ralph Shive
Wasatch Advisors, Inc.

Investment Focus: Seeks companies that are well positioned to capitalize on secular trends but whose shares trade at historically low multiples of trailing earnings.

Even with 35 years of experience under his belt, Ralph Shive doesn't at all want to come across as having it all figured out as an investor. "Our profession has become enamored with rules and process," he says. "I'd argue that flexibility is very much underappreciated."

Acting on that insight helps explain why Shive has beaten the S&P 500 for nine years running. Over the past ten years through February, his Wasatch-1st Source Income Equity mutual fund has earned an annualized 4.9%, versus minus-1.2% for the Russell 1000 Value index, its primary benchmark.

While still leery of the overall market's near-term prospects, Shive is finding select opportunities today in such industries as food processing, food distribution, discount retail and gold mining. [See page 10](#)

Inside this Issue

FEATURES

Investor Insight: Credit Markets

Finding equity-like returns in the debt of such companies as Tribune, Frontier Oil, Freeport-McMoran, Affinion and NII Holdings. [PAGE 1 »](#)

Investor Insight: Ralph Shive

Combining macro and micro views to uncover value in firms such as Archer Daniels Midland, Sysco, Wal-Mart and Newmont Mining. [PAGE 1 »](#)

Uncovering Value: Acergy

Having been well rewarded the last time this stock was deeply out of favor, Robert Robotti thinks the time is ripe for an encore. [PAGE 17 »](#)

Of Sound Mind: Time Horizon

Exploring whether the rules of the investment game have changed so much that taking a long-term perspective has become passé. [PAGE 18 »](#)

Editors' Letter

Adding substance to what is often a less-than-substantive thought process in searching for the market's bottom; Balance sheet humor. [PAGE 20 »](#)

INVESTMENT HIGHLIGHTS

INVESTMENT SNAPSHOTS	PAGE
Acergy	17
Archer Daniels Midland	13
Newmont Mining	16
Sysco	14
Wal-Mart	15

Other companies in this issue:

[Affinion Group](#), [Building Materials Corp.](#), [CommScope](#), [Freeport-McMoran](#), [Frontier Oil](#), [General Electric](#), [Intel](#), [McKesson](#), [National Rural Utilities](#), [NII Holdings](#), [Republic Services](#), [Subsea 7](#), [Tribune](#), [Waste Management](#)

Looking for an Encore

Robert Robotti was well rewarded the last time he bet on Acergy, S.A. when it was out of favor but positioned to take advantage of strong demand growth for its services. He thinks the time is ripe to do it again.

Norwegian deep-sea oil-services firm Acergy, S.A. had few friends on Wall Street as it was coming out of a painful operating and financial restructuring in May 2004. Demand for its secondary rights offering was so weak that Robotti and Co.'s Robert Robotti [VII, August 25, 2006] was able to quadruple his position in the company at the offering price of \$2.20 per share. His confidence was well rewarded: With a new focus, a new CEO and a repaired balance sheet, Acergy prospered as demand took off for its services in designing and building undersea infrastructure for extracting and transporting oil and natural gas. Within four years of the rights offering, Acergy's U.S. ADRs had risen above \$30.

Now that collapsing oil prices have again taken the shine off Acergy shares – they currently trade around \$6 – Robotti thinks the market's view of the company is as misguided today as it was five years ago. “The long-term thesis hasn't changed,” he says, “just the stock price.”

At the core of the thesis is Robotti's belief that a particularly high-growth area for future oil exploration will be offshore and in deeper water, where Acergy's expertise lies. While four major regions – the North Sea, the Gulf of Mexico, offshore Brazil and offshore western Africa – account for the bulk of deep-water drilling activity today, several new regions are rapidly developing, including those off the coasts of Canada, Mexico, India, Malaysia, Australia and China. New seismic and drilling technology continues to identify previously inaccessible offshore fields big enough to make them economic to develop at even today's oil prices, says Robotti, let alone at the much higher prices he expects when the global economy eventually returns to normal. When the world stops contracting, he says, Acergy should again generate the 15% annual revenue growth it enjoyed over the past five years.

Acergy shares hardly reflect this sanguine view of the future. After subtracting \$150 million in net cash and the \$525 million Robotti estimates two non-core joint ventures are worth, the company's enterprise value today has been moving between \$500 and \$600 million. That's less than 1.5x the roughly \$400 million in EBITDA he expects it to earn this fiscal year, and 1.2x the \$510 million EBITDA its core operations earned last year.

Acergy's depressed value has already attracted the attention of competitor

Subsea 7 and its highly regarded Chairman Kristian Siem, who last year bought 4.4 million Acergy shares – at a \$16 average price – prior to proposing preliminary merger discussions between the two companies. Nothing came of the talks, but Robotti was encouraged by the approach. “It's nice to see that one of the industry's best capital allocators thought \$16 per share was an economic price to pay just six months ago,” he says. “That tells me he sees the same kind of prospects for the business that I do.” VII

INVESTMENT SNAPSHOT

Acergy (Nasdaq: ACGY)

Business: Builds and services surface and subsurface infrastructure facilities for the global offshore oil and gas industry.

Share Information (@3/30/09):

Price	5.95
52-Week Range	3.53 – 28.10
Market Cap	\$1.16 billion

Financials (TTM):

Revenue	\$2.52 billion
Operating Profit Margin	18.3%
Net Profit Margin	13.1%

Valuation Metrics

(@3/30/09):

	ACGY	Nasdaq
Trailing P/E	3.8	11.1
Forward P/E Est.	6.7	16.6

Largest Institutional Owners

(@12/31/08):

Company	% Owned
NWG Inv Mgmt	3.2%
Robotti & Co.	2.0%
Fisher Inv	1.6%

Short Interest (As of 3/10/09):

Shares Short/Float n/a

ACGY PRICE HISTORY



THE BOTTOM LINE

Robert Robotti expects growth in offshore and deep-water oil exploration to greatly benefit the company, but he believes the market is treating its stock – effectively trading at less than 1.5x estimated EBITDA – as if today's down energy cycle is permanent.

Sources: Company reports, other publicly available information