Edward Lampert and Francis Chou's New Stocks See Biggest Gains

By GuruFocus, March 18, 2013, 06:44:01 PM EDT

The Score Board of Gurus on GuruFocus gives a picture of how investors' stock picks have performed in various time periods. Over the short-term period of the past six months, the Gurus whose new stocks have posted the greatest market gains are Edward Lampert and Francis Chou , with average returns of 47.67% and 46.5%, respectively.

Lampert is the founder of ESL Investments, a hedge fund, who has taken to retail turnaround projects such as with Sears Holdings (SHLD). Francis Chou operates Chou Associates Management, a group of mutual funds based in Canada with a thoroughly value-oriented perspective.

Both of the investors' stock portfolios are characterized by relatively high concentration and low turnover.

Eddie Lampert

Lampert has purchased six stocks in the past six months and has a quarter-over-quarter turnover rate of 8%. He keeps only 11 stocks in his portfolio, which has a total value of $3.84 billion and an overwhelming 94.6% weighting in the consumer cyclical sector.

Lampert's best-performing new buy of the fourth quarter is Safeway Inc. (SWY), of which he purchased 844,929 shares, a miniscule fraction of his portfolio, for an average price of $17. The price has since increased roughly 48% to $24.70 per share in Monday afternoon trading, almost reaching its highest level in three years. Lampert reportedly owned a significant portion of Safeway earlier in the decade, but had since sold out.

With a market cap of $5.95 billion, Safeway is a North American grocery store chain, with interest in a prepaid products and payments services, and an online grocery channel. In the past five years leading to year-end 2012, the company's market cap has diminished by almost half, then had a dramatic 37% increase so far in 2013.

Fourth quarter results helped boost the stock in February. Safeway reported an increase in revenue to $13.77 billion from $13.6 billion in the prior-year quarter. Net income increased to $244 million, or $1.02 per diluted share, from $215.6 million, or $0.67 per diluted share, in the prior-year quarter.

The company also increased its U.S. market share for the third consecutive quarter, which has been driven by its digital discount and fuel loyalty programs. Safeway's new discount program is the first online and mobile shopping tool, offering customized deals through an iPhone or Android app, based on personal shopping history, obviating the need for coupons or other flyers.

The company has It did not repurchase any shares in the fourth quarter, but bought $1.24 billion worth of its shares for an average cost of $21.51 per share in 2012. The transactions left $0.8 billion under its authorization for further repurchases.

Safeway is a growing enterprise, with 14.9% average annual revenue growth and 24.4% average annual EBITDA growth over the past five years. It has also boosted its margins, with the fourth quarter marking its fourth in a row of net margin expansion, to 1.8%.

Safeway's dividend yield at 2.7% is close to a one-year low. It also has a P/E of 10, P/B of 2 and P/S of 0.14.

On Monday, Safeway filed an IPO offering for the spinoff of a portion of its gift card business, Blackhawk Network, which could raise $200 million.

Some of his other new holdings were Sears Hometown & Outlet Stores Inc. (SHOS), which has gained 24% from his average cost of $32 per share, Big Lots (BIG), and Netflix Inc. (NFLX), which gained 188.5% from his third quarter share price of $64 per share, but which he sold out of in the fourth quarter.

Francis Chou

Francis Chou's four stock buys of the past six months have returned 46.5% on average. One of the largest gainers is Research In Motion (BBRY), whose price has increased 109% from the average price of $7 per share at which he purchased 200,000 shares in the third quarter. The purchase is less than 1% of his portfolio.

Chou has said, "You won't find bargains unless there is a stink or cloud (financial or otherwise) overhanging the stock. We carefully analyze the company and if our analysis indicates that the stock price has more than fully discounted the problem, we hold our nose and may purchase the stock." Research In Motion has faced an onslaught of competition against its one-time transformative BlackBerry smartphone, which dragged its five-year stock price down more than 85% before Chou purchased it.

After years of growth, Research In Motion in the quarter ended Dec. 1, 2012, reported 47% year-over-year shrinkage in revenue to $2.7 billion, and an adjusted net loss of $114 million, or $0.22 per diluted share, which excluded the impact of pre-tax charges for cost reduction actions, compared to a net gain of $265 million, or $0.51 per diluted share, a year previously. However, the company increased its cash position in the quarter to more than $2.9 billion and generated $950 million in cash flow from operations.

BlackBerry was expecting pressure on results as it set to launch its new phone, the BlackBerry 10, which it did in 2013. BlackBerry's CEO, Thorsten Heins, announced that Feb. 5 was the best first day ever for sales of a BlackBerry smartphone, and 50% better than any of its other launches in Canada. Its sales in the UK were three times higher than its previous best performance for a first week of smartphone sales. Blackberry 10 sales numbers have not been released yet, but the company on March 14 announced that one of its partners had ordered 1 million of the smartphones for immediate shipment - the highest order in the company's history. Fourth quarter results are scheduled to be announced on March 28.

BlackBerry as of Monday has a P/E of 6.8, P/B of 0.84 and P/S of 0.63.

Fellow Canadian investor Prem Watsa who took a large stake in BlackBerry and has been assisting in turning it around, commented in his 2012 annual letter on March 11 on BlackBerry:

"*At its low of approximately $6 1/2 per share, it sold at 1/3 of book value per share and a little above cash per share (it has no debt). The stock price had declined 95% from its high! The company produces the BlackBerry which for years was synonymous with the smart phone. The BlackBerry brand name is perhaps one of the more recognizable brand names in the world and the company has 79 million subscribers worldwide. Revenues went from essentially zero to $20 billion in about 15 years - and then it hit an air pocket! The company got complacent, perhaps overconfident, and did not respond quickly enough to Apple and Android. Mike Lazaridis, the founder and a technological genius - and a good friend - asked me to join the Board, which I did after meeting Thorsten Heins, whom Mike recommended as the next CEO of the firm.*"

Chou's other new buy, MBIA (MBI), climbed 33% from his average share price of $9 and Dell (DELL) increased 29% from his average price of $11 per share. He also has 7.4% of his portfolio weighted in Edward Lampert's company, Sears Holdings (SHLD).

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of The NASDAQ OMX Group, Inc.

This article appears in: Investing

Read more: http://www.nasdaq.com/article/edward-lampert-and-francis-chous-new-stocks-see-biggest-gains-cm228285#ixzz2Nzlgx9SU