

Date: Nov 10th 2012

Analyst: Tung Linh

CIF Sector Recommendation Report (Fall 2012)

Sector: Industrial

Review Period: Oct 25th 2012 - Nov 7th 2012

Section (A) Sector Performance Review

IND										
	Ticker	Current Price	Beg. Price	Stop-loss Price	Target Price	% Cap Gain	# Shares	Current Value	vs. Sector	s. S&P 500
S&P 500	\$INX	1394.53	1408.75			-1.01%				
Sector ETF	XLI	\$36.55	\$36.09			1.27%	3160	\$115,498.00		2.28%
Current Holdings										
FedEx	FDX	\$91.51	\$90.83	\$77.76	\$105.00	0.75%	300	\$27,453.00	-0.53%	1.76%
Dover	DOV	\$60.16	\$57.52	\$50.00	\$67.00	4.59%	240	\$14,438.40	3.32%	5.60%



Compare to the broad market, the industrial sector has been performed slightly better but they headed in the same direction. Being a cyclical sector, it is sensitive to the business cycle. Looking at the two-week window reviewed price chart from finance.yahoo.com, we can see that both the sector and the S&P500 were both increased until the drop started on Nov 6.

When the election is over, everyone is focusing on the “fiscal cliff”. This term refers to the effect of several laws that will increase tax, cut spending such as the Budget Control Act of 2011.

The reelection of Obama has a negative effect on U.S based defense companies. According to reuters.com, shares of Lockheed Martin (LMT), Northrop Grumman (NOC), General Dynamics (GD), L-3 Communications (LLL) and Raytheon (RTN) decreased between 4.5 percent and 5.8 percent after the election. According to finance.yahoo.com, Boeing (BA) said that they will close several facilities in California and consolidate some business units, and cut 30% of management jobs in order to achieve a \$1.6 billion cut in cost by the end of 2015. CEO of General Electric (GE), Jeff Immelt decided to buy back stock to lower its share outstanding to less than 10 billion. So far, they have purchased \$3 billion worth of shares. GE also donated \$1 million to the American Red Cross Disaster Relief Fund to support the hurricane Sandy victims. With an expectation of a 10% increase in holiday season shipments, United Parcel Service (UPS) planned to hire 55,000 seasonal workers. Honeywell International hit a new 52-week high at \$63.56, above the previous 52 week high of \$63.48.

The biggest positive mover from the sector holdings during the review period is Quanta Services (PWR): the stock price increased 13.16% (reached new 52-weeks high on Nov 7th). Quanta provides repair electrical and transmission lines. I think the hurricane Sandy is the cause of this raise in stock price. The third quarter report ended Sep 30th also showed that the company beaten both expectations on revenues and earnings per share. The biggest negative mover from the sector holdings during the review period is Pitney Bowes (PBI): the stock price decreased 14.98%. The reason is the company’s weak third quarter results: both revenue and earnings were downed compare to last year period.

Two largest holdings in the industrial sector are General Electric Co. (GE) weighted 12.73% and United Technologies Corp (UTX) weighted 5.12%. According to finance.yahoo.com, GE Healthcare, the healthcare division of GE, had acquired U-System Inc., a manufacturer of ultrasound products specifically designed for breast applications. GE is involving with a wind project in Turkey, in which they will supply 43 turbines to Fina Enerji Holding. A shareholder of UTX sued the company and sought to replace the board due to a previous lawsuit involving the developing attack helicopters, the Harold Grill 2 IRA. UTX prepaid \$1.0 billion of the total \$2.0 billion for the acquisition of Goodrich Corp.

With a high uncertainty of how Obama and the Fed will solve the fiscal cliff problem, it is possible that the market will continue to go down and the industrial sector will get hit harder. On the other hand, with the reconstruction after the hurricane Sandy and the upcoming holiday season, the industrial sector is still expected to show good performance.

Section (B) Sector Holding Updates

Company #1: FedEx (FDX)

Date Recommended: 10/25/2012

Date Re-evaluated: 11/13/2012

Company Update

According to finance.yahoo.com, there were several news about the company. On Nov 1st, FedEx opened a 216,000 square-foot, \$43 million automated distribution facility for FedEx Ground in Norcross. This action is expected to create about 1000 jobs in two years. On Nov 2nd, the Board of Directors of FedEx declared a quarterly cash dividend of \$0.14 per share on FedEx common stock. On Nov 5th, FDX announced an expansion and enhancement of its SenseAware service. According to Carl Asmus, the vice president of market development for FedEx, this service focuses on giving information to customers, increasing their visibility and helping them make better and more timely decisions. On Nov 6th, a plane of FDX crashed near the Wichita Mid-Continent Airport. According to the Kansas City Star report, the plane experienced mechanical problems after take-off. The pilot was trying to turn the plane around to return to the airport when the crash occurred.

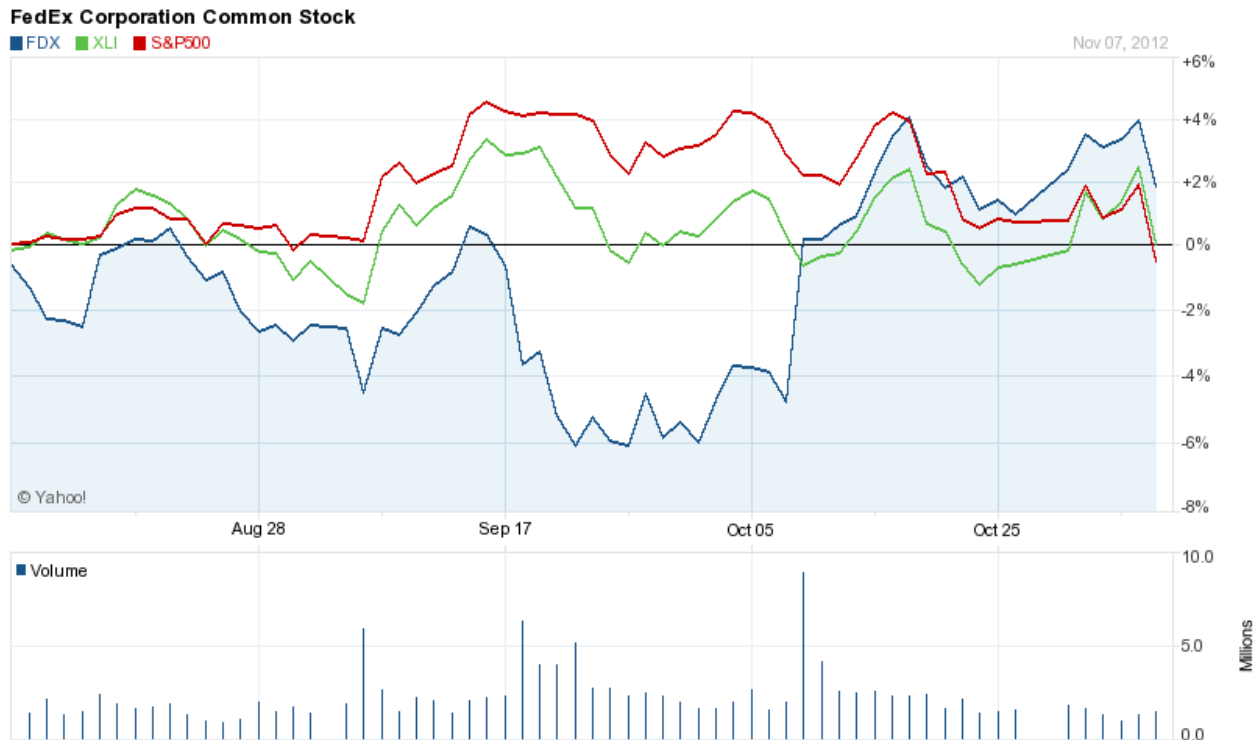
Relative Performance



From the chart on finance.yahoo.com, we can see that the stock behaved similar to both the sector and the S&P500. It outperformed the S&P500 but underperformed the sector over the two-week review period.

Price Charts

The most recent three months



Over the past three months, we can see that the stock had been underperformed both the sector and the market the first two months but got back up afterward. The reason for this rise in stock was the outline plan announced by FedEx CEO Frederick Smith to improve annual profitability by \$1.7 billion within three years.

The most recent one year

FedEx Corporation Common Stock

■ FDX ■ XLI ■ S&P500

Nov 07, 2012



Looking at the chart of the stock over the most recent year, we can see that FedEx's stock outperformed both the sector and the market in the first half of the year. Then the stock price decreased in the second half of the year and then got back up recently. The stock behaved mostly like the industrial sector but more volatile. This is understandable since the stock is more sensitive to the business cycle.

Valuations Analysis

Original Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	14.39	9.25	22.71
P/S (TTM)	0.67	0.47	1.74
P/B (MRQ)	1.94	1.23	1.16
P/CF (TTM)	6.88	4.63	15.27

Re-evaluation Analysis

Valuation Ratios

	Company	Industry	Sector
P/E Ratio (TTM)	14.02	8.92	22.17

Price to Sales (TTM)	0.66	0.52	1.67
Price to Book (MRQ)	1.89	1.14	1.21
Price to Cash Flow (TTM)	6.70	4.42	12.89

P/E	-2.57%	-3.57%	-2.38%
P/S	-1.49%	10.64%	-4.02%
P/B	-2.58%	-7.32%	4.31%
P/CF	-2.62%	-4.54%	-15.59%

From the percentage change compare to original analysis, we can see that all the ratios of the company have been revised down. The P/S of the industry has been revised up about 10% while both the company and the sector have been revised down. The P/CF of the sector has been changed down more severely than the company and the industry. From this data, we can see that the company performed worse than before. But if we compare the company's ratios change with the industry and the sector, we can see that the company's performance is similar to the industry and the sector.

Historical Surprises

Original Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Aug-12	10,696.00	10,792.00	96.05	0.90
Quarter Ending May-12	11,141.40	11,000.00	141.38	1.27
Quarter Ending Feb-12	10,600.80	10,560.00	40.77	0.38
Quarter Ending Nov-11	10,608.10	10,590.00	18.14	0.17
Quarter Ending Aug-11	10,320.80	10,521.00	200.15	1.94
Earnings (per share)				
Quarter Ending Aug-12	1.42	1.45	0.03	2.26
Quarter Ending May-12	1.93	1.99	0.06	3.14
Quarter Ending Feb-12	1.35	1.55	0.20	14.92
Quarter Ending Nov-11	1.52	1.57	0.05	3.00
Quarter Ending Aug-11	1.45	1.46	0.01	0.66

Re-evaluation Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
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SALES (in millions)				
Quarter Ending Aug-12	10,696.00	10,792.00	96.05	0.90
Quarter Ending May-12	11,141.40	11,000.00	141.38	1.27
Quarter Ending Feb-12	10,600.80	10,560.00	40.77	0.38
Quarter Ending Nov-11	10,608.10	10,590.00	18.14	0.17
Quarter Ending Aug-11	10,320.80	10,521.00	200.15	1.94
Earnings (per share)				
Quarter Ending Aug-12	1.42	1.45	0.03	2.26
Quarter Ending May-12	1.93	1.99	0.06	3.14
Quarter Ending Feb-12	1.35	1.55	0.20	14.92
Quarter Ending Nov-11	1.52	1.57	0.05	3.00
Quarter Ending Aug-11	1.45	1.46	0.01	0.66

There is no change between the original and re-evaluation tables.

Consensus Estimates

Original Analysis

# of Estimates	Mean	High	Low	1 Year Ago	
SALES (in millions)					
Quarter Ending Nov-12	19	10,840.60	11,150.00	9,678.70	11,198.60
Quarter Ending Feb-13	19	10,835.50	11,296.00	10,232.40	11,090.10
Year Ending May-12	23	42,916.30	45,440.00	42,349.00	--
Year Ending May-13	24	43,982.80	45,025.50	41,799.10	45,415.80
Year Ending May-14	23	46,619.60	49,475.40	43,523.00	48,595.20
Earnings (per share)					
Quarter Ending Nov-12	25	1.43	1.85	1.32	1.75
Quarter Ending Feb-13	25	1.53	2.14	1.26	1.54
Year Ending May-12	25	6.51	6.62	6.40	--
Year Ending May-13	27	6.48	7.33	5.95	7.33
Year Ending May-14	25	7.83	8.40	6.95	8.34
LT Growth Rate (%)	8	12.41	16.00	8.90	14.68

Re-Evaluation Analysis

# of Estimates	Mean	High	Low	1 Year Ago	
SALES (in millions)					
Quarter Ending Nov-12	19	10,840.60	11,150.00	9,678.70	11,274.30
Quarter Ending Feb-13	19	10,835.50	11,296.00	10,232.40	11,149.60
Year Ending May-12	23	42,916.30	45,440.00	42,349.00	--
Year Ending May-13	25	43,989.50	44,968.00	41,799.10	45,473.70
Year Ending May-14	24	46,546.00	48,709.00	43,523.00	48,595.20
Earnings (per share)					

Quarter Ending Nov-12	25	1.43	1.85	1.32	1.80
Quarter Ending Feb-13	25	1.50	1.71	1.26	1.54
Year Ending May-12	25	6.51	6.62	6.40	--
Year Ending May-13	27	6.48	7.33	6.25	7.35
Year Ending May-14	28	7.84	8.67	6.95	8.34
LT Growth Rate (%)	8	12.41	16.00	8.90	15.28

The only difference between the two tables is the estimates from 1 year ago. Both the sales of the quarter ending Nov 12th and the quarter ending Feb 13th have been revised up slightly (less than 1%). Earnings of quarter ending Nov 12th has been revised up 2.8% and the long-term growth rate has been revised up 4%. The change is very small and they are from one year ago, so I do not think it is relevant.

Estimate Revision Analysis

Original Analysis (10/25/2012)

Last Week		Last 4 Weeks		
Number Of Revisions:	Up	Down	Up	Down
Revenue				
Quarter Ending Nov-12	0	1	1	13
Quarter Ending Feb-13	1	0	1	13
Year Ending May-12	--	--	--	--
Year Ending May-13	0	0	5	5
Year Ending May-14	0	0	2	7
Earnings				
Quarter Ending Nov-12	1	0	0	8
Quarter Ending Feb-13	1	0	0	7
Year Ending May-12	--	--	--	--
Year Ending May-13	1	0	1	5
Year Ending May-14	1	0	3	8

Re-Evaluation Analysis

Number Of Revisions:	Last Week		Last 4 Weeks	
	Up	Down	Up	Down
Revenue				
Quarter Ending Nov-12	0	0	1	1
Quarter Ending Feb-13	0	0	1	0
Year Ending May-12	--	--	--	--
Year Ending May-13	0	1	1	1
Year Ending May-14	0	1	0	4
Earnings				
Quarter Ending Nov-12	1	0	1	0

Quarter Ending Feb-13	0	1	1	2
Year Ending May-12	--	--	--	--
Year Ending May-13	0	0	1	0
Year Ending May-14	0	1	4	2

For the last week, there were 1 up revision and 4 down revisions compare to 5 up revisions and 1 down revision from the original table. We can see that the analysts are less positive about the company's performance estimate recently. For the last four weeks, there were 10 up revisions and 10 down revisions compare to 13 up revisions and 66 down revision from the original table. We can see that the analysts are less negative about the company over the past four weeks.

Analysts' Recommendations

Original Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	13	13	14	15
(2) OUTPERFORM	9	9	9	9
(3) HOLD	8	8	7	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.83	1.83	1.77	1.70

Re-Evaluation Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	13	13	13	15
(2) OUTPERFORM	9	9	9	9
(3) HOLD	8	8	8	6
(4) UNDERPERFORM	0	0	0	0
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	1.83	1.83	1.83	1.70

There was only one change between the two tables. One analyst changed their recommendation from buy to hold.

Company #2: <u>Dover (DOV)</u>

Date Recommended: 11/06/2012

Date Re-evaluated: 11/13/2012

Company Update

According to Reuters.com and finance.yahoo.com, there was several news about company Dover in the two week review period. On Nov 1st, the Board of Director of Dover announced a regular quarterly cash dividend of \$0.35 per share to shareholders. On Nov 5th, Standard & Poor's Rating Services said that Dover's decision to repurchase \$1 billion of common stock did not affect their rating and viewpoint about the company. Dover planned to use cash from the divestitures in its electronic assembly and test division to buy back shares over the next 12 to 18 months.

Relative Performance



From the chart on finance.yahoo.com, we can see that the stock behaved similar to both the sector and the broad market. From Oct 25th, the stock underperformed compare to sector. After Nov 2nd, the stock raised and outperformed both the sector and the market. After Nov 6th, the stock behaved similar to the sector and the market: they all decreased. The reason for this could be the reelection of Obama and the uncertainty of how the government deals with the fiscal cliff.

Price Charts

The most recent three months

Dover Corporation Common Stock

■ DOV ■ XLI ■ S&P500

Nov 07, 2012



From the chart on finance.yahoo.com, we can see that over the past three month, the stock outperformed both the sector and the market for quite some time and it is more sensitive to the business cycle.

The most recent one year

Dover Corporation Common Stock

■ DOV ■ XLI ■ S&P500

Nov 07, 2012



After observing the most recent one year chart from finance.yahoo.com, we can see that Dover's stock is more volatile than the industrial sector and S&P500. The stock outperformed both the sector and the market around February – March but underperformed both from mid-May until now.

Valuations Analysis

Original Analysis

Ratio Analysis	Company	Industry	Sector
P/E (TTM)	12.64	17.85	23.43
P/S (TTM)	1.24	2.28	1.70
P/B (MRQ)	2.02	1.67	1.18
P/CF (TTM)	8.65	7.13	13.49

Re-evaluation Analysis

Valuation Ratios

	Company	Industry	Sector
P/E Ratio (TTM)	13.05	17.72	22.17
Price to Sales (TTM)	1.28	2.17	1.67
Price to Book (MRQ)	2.09	1.55	1.21
Price to Cash Flow (TTM)	8.93	6.50	12.89

P/E	3.24%	-0.73%	-5.38%
P/S	3.23%	-4.82%	-1.76%
P/B	3.47%	-7.19%	2.54%
P/CF	3.24%	-8.84%	-4.45%

After take a look at the percentage change compare to original analysis, we can see that all the ratios of the company have been increased more than 3%. It indicates that the company's stock has been slightly increased and the market is more confident about the future performance of the company. If we compare Dover's ratios with the industry and sector, we can see that the company outperforms both. All the ratios of both the industry and the sector except the P/B of the sector decreased compare to the original report.

Historical Surprises

Original Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Sep-12	2,249.68	2,208.70	40.98	-1.82
Quarter Ending Jun-12	2,188.38	2,156.51	31.87	-1.46
Quarter Ending Mar-12	2,002.15	2,063.36	61.22	3.06
Quarter Ending Dec-11	2,027.85	2,004.49	23.36	-1.15
Quarter Ending Sep-11	2,180.79	2,203.39	22.59	1.04
Earnings (per share)				
Quarter Ending Sep-12	1.27	1.32	0.05	3.53
Quarter Ending Jun-12	1.13	1.15	0.02	2.03
Quarter Ending Mar-12	1.02	1.05	0.03	2.73
Quarter Ending Dec-11	1.03	1.12	0.09	8.56
Quarter Ending Sep-11	1.12	1.21	0.09	7.86

Re-evaluation Analysis

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
SALES (in millions)				
Quarter Ending Sep-12	2,249.68	2,208.70	40.98	-1.82
Quarter Ending Jun-12	2,188.38	2,156.51	31.87	-1.46
Quarter Ending Mar-12	2,002.15	2,063.36	61.22	3.06
Quarter Ending Dec-11	2,027.85	2,004.49	23.36	-1.15
Quarter Ending Sep-11	2,180.79	2,203.39	22.59	1.04
Earnings (per share)				
Quarter Ending Sep-12	1.27	1.32	0.05	3.53
Quarter Ending Jun-12	1.13	1.15	0.02	2.03
Quarter Ending Mar-12	1.02	1.05	0.03	2.73
Quarter Ending Dec-11	1.03	1.12	0.09	8.56
Quarter Ending Sep-11	1.12	1.21	0.09	7.86

There is no change between the original and the re-evaluation tables.

Consensus Estimates**Original Analysis**

# of Estimates	Mean	High	Low	1 Year Ago	
SALES (in millions)					
Quarter Ending Dec-12	12	2,094.97	2,180.00	2,053.00	2,239.70
Quarter Ending Mar-13	7	2,179.41	2,250.00	2,126.95	2,180.00

Year Ending Dec-12	16	8,478.24	8,680.00	7,900.00	8,702.86
Year Ending Dec-13	15	8,986.47	9,219.20	8,781.52	9,240.78
Earnings (per share)					
Quarter Ending Dec-12	16	1.11	1.23	1.06	1.25
Quarter Ending Mar-13	8	1.19	1.27	1.14	1.15
Year Ending Dec-12	17	4.63	4.73	4.58	4.83
Year Ending Dec-13	17	5.23	5.50	4.95	5.63
LT Growth Rate (%)	4	9.27	12.00	6.80	13.57

Re-Evaluation Analysis

# of Estimates	Mean	High	Low	1 Year Ago	
SALES (in millions)					
Quarter Ending Dec-12	12	2,094.97	2,180.00	2,053.00	2,239.70
Quarter Ending Mar-13	7	2,179.41	2,250.00	2,126.95	2,180.00
Year Ending Dec-12	16	8,478.24	8,680.00	7,900.00	8,702.86
Year Ending Dec-13	15	8,986.47	9,219.20	8,781.52	9,240.78
Earnings (per share)					
Quarter Ending Dec-12	16	1.11	1.23	1.06	1.23
Quarter Ending Mar-13	8	1.19	1.27	1.14	1.15
Year Ending Dec-12	17	4.63	4.73	4.58	4.83
Year Ending Dec-13	17	5.23	5.50	4.95	5.58
LT Growth Rate (%)	4	9.27	12.00	6.80	13.57

There is no change between the original and the re-evaluation tables.

Estimate Revision Analysis

Original Analysis (11/06/2012)

Last Week		Last 4 Weeks			
Number Of Revisions:	Up	Down	Up	Down	
Revenue					
Quarter Ending Dec-12	0	0	0	9	
Quarter Ending Mar-13	0	0	0	2	
Year Ending Dec-12	0	0	0	13	
Year Ending Dec-13	0	0	1	11	
Earnings					

Quarter Ending Dec-12	0	0	0	14
Quarter Ending Mar-13	0	0	1	3
Year Ending Dec-12	0	0	1	15
Year Ending Dec-13	0	0	0	13

Re-Evaluation Analysis

Last Week Number Of Revisions:	Last 4 Weeks			
	Up	Down	Up	Down
Revenue				
Quarter Ending Dec-12	0	0	0	9
Quarter Ending Mar-13	0	0	0	2
Year Ending Dec-12	0	0	0	13
Year Ending Dec-13	0	0	1	11
Earnings				
Quarter Ending Dec-12	0	0	0	15
Quarter Ending Mar-13	0	0	1	3
Year Ending Dec-12	0	0	1	14
Year Ending Dec-13	0	0	0	11

The only difference is the down revisions in the last four weeks. There were 43 down revisions compare to 45 down revisions in the original report. This is a slightly change so I do not think we can deduce from it. I think the analysts have not changed their opinion about the company's performance.

Analysts' Recommendations

Original Analysis

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	4	4	4	4
(2) OUTPERFORM	7	7	5	6
(3) HOLD	6	5	4	4
(4) UNDERPERFORM	0	0	1	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.12	2.06	2.14	2.13

Re-Evaluation Analysis

1-5 Linear Scale	Current	1 Month	2 Month	3 Month
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		Ago	Ago	Ago
(1) BUY	4	4	4	4
(2) OUTPERFORM	7	7	5	6
(3) HOLD	6	5	4	4
(4) UNDERPERFORM	0	0	1	1
(5) SELL	0	0	0	0
No Opinion	0	0	0	0
Mean Rating	2.12	2.06	2.14	2.13

There is no change between the original and the re-evaluation tables.

Section (C) Sector Recommendations

With the reconstruction and resupply after the hurricane Sandy, I think some industries like building products or construction and engineering will show strong revenue in the near future. Moreover, the holiday season is coming, so many of the industries such as air freight and logistics and airlines will perform well at least in the short-term. On the other hand, with the reelection of Obama and the upcoming “fiscal cliff”, there will be a lot of uncertainty in the industrial sector and the market as a whole.

Based on my research, I recommend CIF to stay put with its current industrial sector holdings. In the short-term future, I think there will be growth in the sector with all the on-going and future events that I have been discussed in this report.

Section (D) Sector Holding Recommendations

Company Name	Ticker Symbol	Date Recommended	Date Re-evaluated	Recommendation (Explain Why)		
				Sell	Adjust “Target Price”	Adjust “Stop-loss Price”
FedEx	FDX	10/25/2012	11/13/2012	No. The company has showed short-term growth, and the recent	No. There hasn’t any event affect	No. The stop-loss price is appropriate for

				news indicates good performance.	the company that lead to any change.	the stock.
Dover	DOV	11/06/2012	11/13/2012	No. With the company's repurchase stock plan and good rating from Citigroup, we should hold on to Dover's stock.	No. The original target price is good.	No. We should keep it the same since there is no big change of the company's estimate.

References

Sector and Companies News, Charts:

<http://finance.yahoo.com/q?s=XLI&qI=0>

<http://finance.yahoo.com/q/h?s=FDX+Headlines>

<http://finance.yahoo.com/q/h?s=DOV+Headlines>

<http://www.reuters.com/>

FedEx Stock Report by Frank McLaughlin

http://www.business.wsu.edu/academics/finance/cougfund/CougFund/StockReport_FedEx_Fall%202012.pdf

Dover Stock Report by Kyle Temple

http://www.business.wsu.edu/academics/finance/cougfund/CougFund/StockReport_Dover_Fall%202012.pdf