

RISING STARS IN CONSUMER STAPLES

Standard & Poor's latest screen finds four companies in the recession-resistant sector that have been upgraded to its top investment rankings

by Beth Piskora

Where should equity investors focus in tricky economic times? S&P Equity Strategy currently has overweight recommendations on 3 of the 10 S&P 1500 sectors: consumer staples, health care, and utilities.

Of the three, consumer staples may be the most widely recognized as a classic defensive play. With that in mind, we screened for those stocks recently upgraded by S&P analysts to the two highest rungs in our Stock Appreciation Ranking System, or STARS: 4 STARS (buy) or 5 STARS (strong buy).

Four stocks made the cut (see the list below). Two are spotlighted here:

CORN PRODUCTS INTERNATIONAL

We believe the company should benefit from improved pricing power, given higher capacity-utilization levels in the high fructose corn syrup industry.

We look for 2008 sales to grow 10%, to about \$3.7 billion. But we forecast no expansion in margins, because improved sales leverage likely will be offset by escalating raw materials costs and more difficult energy cost comparisons. We project that 2008 earnings will rise 10%, to \$2.80 a share, vs. \$2.54 in 2007.

Risks to our recommendation and target price include lower-than-anticipated end-product demand.

Based on our expectations of improved pricing and favorable positioning within the less economically sensitive consumer staples industry, we think the stock will trade near the midpoint of its historical forward p-e range of 12 to 21. Additionally, we believe the shares will trade in line with the S&P 500 on a p-e basis, vs. a 13% historical discount. Applying a multiple of about 15.8 to our 2008 earnings estimate, we arrive at our target price of \$44.

J.M. SMUCKER

Smucker recently reported higher-than-expected earnings for the quarter ended Jan. 31. Sales were up 27%, with about 17% of the increase coming from acquisitions and

the strength of the Canadian dollar. We anticipate future gross profit margin pressure from commodity costs but expect that at least some of this will be offset by price increases, cost management, and efficiencies.

For fiscal 2008 ending in April, we estimate earnings per share of \$3.22, up from \$2.89 in fiscal 2007. For fiscal 2009, we estimate earnings of \$3.47.

Risks to our recommendation and target price include consumer acceptance of new products.

Our 12-month target price of \$60 reflects a p-e that is at a moderate discount to the average valuation that we expect from a group of packaged food stocks. Also in the quarter ended Jan. 31, Smucker repurchased 1.6 million of its shares, and the company recently authorized the repurchase of up to 5 million additional shares.

RECENT CONSUMER STAPLES UPGRADES

Company	Ticker	S&P STARS Rank
Casey's General Stores	CASY	4
Corn Products International	CPO	4
Estee Lauder	EL	5
J.M. Smucker	SJM	5

Piskora is managing editor of U.S. Editorial Operations for Standard & Poor's .