

## Four Screaming Buys In Smaller Stocks

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As the price-to-earnings ratios of small stocks have contracted, those of the fastest growers have contracted the most.

Since Sept. 30, when the S&P SmallCap 600 was within 5% of its all-time high, the median P/E ratio for all stocks in the index has dropped to 16.8 from 19.4, a 13% decline. Among the one-fifth of S&P 600 stocks with the highest expected five-year profit growth, the median P/E has dropped to 22.7 from 29.9--a 24% decline.

Investors' reluctance to pay up for growth stocks represents an opportunity, provided you're selective. You should not limit your search to companies with the very best expected growth rates, partly because such consensus forecasts are not very accurate. But, particularly with the overall outlook for corporate prospects deteriorating, you should consider redoubling your search for attractively valued growers.

We screened for stocks that are attractive based on all the measures we use when evaluating company growth prospects, including:

- Good long-term records of sales and earnings growth.
- Solid profit-growth forecasts for the current year, upcoming year, and the next five years.
- Strong operating momentum, with recent growth in sales, earnings and cash flow.
- Improving operating profit margins.
- Steady growth in book value per share.
- Favorable trends for returns on assets, equity and investment.

Based on all (or nearly all) of these measures, the four companies reviewed below (and two more mentioned in the current issue) appear attractive. Shares remain reasonably valued, with above-average Quadrix value scores.

**Corn Products International** has finally hit its sweet spot. Since bottoming around mid-2005, the corn refiner's returns on investment, equity and assets have risen steadily.

December-quarter earnings per share reached 61 cents, 4 cents above consensus expectations and up 42% from the year-earlier quarter. Sales rose 30%. The company has been able to successfully transfer higher corn prices to customers as well as increase sales of higher-margin products. For full-year 2007, per-share earnings rose 59% to \$2.59 on a sales gain of 29%.

Corn Products expects 2008 per-share earnings of \$2.65 to \$2.85. Many contracts already negotiated provide for low-double-digit increases in starch and sweetener prices, and the company expects revenue to grow 9% to \$3.7 billion.

While the Asia/Africa segment has been underperforming because of problems in South Korea, the company is taking steps to improve performance there. Freer trade with Mexico should help sustain growth in North America, where revenue climbed 29% in 2007. Corn Products is a best buy.

*Excerpted from the March 2008 issue of Upside. [Click here for two more undervalued buys and best buys in energy and consulting from the new issue of Upside.](#)*