

Taking Stock: BUD's reached its sell-by date

by Malcolm Berko

Dear Mr. Berko: What can you tell me about a bank called East West Bancorp? My cousin used to work for this bank as a loan officer. He has moved to Florida but we keep in touch and he tells me that I should buy 200 shares of this bank. Do you believe it would be a good investment for a conservative-growth Individual Retirement Account? I have 150 shares of Anheuser Bush that I bought for my IRA in 2003 and paid \$51 for the stock. The stock hasn't moved since I bought it and I actually have a \$600 loss. I thought this would be a good stock but it seems I made a mistake. Do you think I should sell my 150 shares of Anheuser Bush and use that money to buy 200 shares of East West Bank?

J.W.

Santa Monica, Calif.

Dear J.W.: East West Bancorp Inc. (EWBC-\$35.21) is a \$600 million revenue retail and commercial bank that seems to have found a unique and profitable niche business. This California bank, in addition to offering a cornucopia of banking services to individuals and mid-sized businesses, provides short-term trade financing to United States importers and manufacturers who conduct business in China and the Pacific region.

EWBC has 58 banking offices in Orange, San Francisco, Alameda, Santa Clara and San Mateo counties as well as a hugely busy representative office in Beijing.

While the California housing market is imploding, and while mortgage defaults are rising and while low interest rates are pinching loan profits, this intrepid, Standard & Poor's Small-Cap bank has developed a unique banking relationship with the West Coast Chinese-American business community. Because trade with China continues to be strong, his cleverly managed regional bank will probably report continued earnings growth of 13 percent or better for the next few years, significantly superior to rival regional banks in a favorable franchise area.

Chief Executive Officer Dominic Ng, Executive Vice President Wellington Chen and Chief Financial Officer Julia Gouw have guided revenues from \$191 million in 2002 to over \$600 million last year and pushed profits from 99 cents to \$2.32. Operating margins of 76 percent outpace regional Pacific banks by a solid 50 percent and net profit margins of 25 percent are breathtaking. There's \$275 million in cash (about \$4.50 per share), book value is \$16.56, \$1.7 billion in debt and a paltry \$0.20 dividend. This is a fine-looking bank and fine looking enough to be a takeover candidate by a larger, handsome suitor seeking to enter EWBC's prodigiously profitable, growing niche market. EWBC opened its teller windows in 1998, split 2-for-1 six years later and there are only 61 million shares trading at 15 times earnings, which is average for the group.

Meanwhile, Fidelity, T. Rowe Price, Neuberger Berman, Franklin and Vanguard Funds own large positions in EWBC and Piper Jaffray as well as Cohen Bros. have "buy" recommendations on the stock. This is a neat niche bank, run by seasoned professionals and I think a 200-share position would look good in a conservative IRA growth account.

Anheuser-Bush Cos. Inc. (BUD-\$50.01) the largest beer brewer in the U.S., holds 49 percent of a plodding American beer market, has dawdling revenue growth, shuffling earnings but an attractively increasing dividend growth.

BUD has significant scale advantages over its competition in the manufacture and distribution of domestic beers. But BUD is having trouble competing with the smaller regional names like Samuel Adams and various imported brands all of which seem to have gained a territorial share of the domestic beer market. As a result the Street reckons that BUD's annual revenue growth will be in the neighborhood of 2 percent to 3 percent, which is not enough for bragging rights.

BUD's a well-run company with a clean balance sheet but an anemic income statement. During the past five years, BUD's shares have languished between \$40 and \$55.

Even though Motley Fool calls BUD the "ultimate growth stock," and even though Warren Buffet recently became a huge shareholder and even though A.G. Edwards gives it the coveted five-star rating and even though management may initiate a buyback program, I would, with alacrity, sell your 150 shares of BUD and buy 200 East West Bank.

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