Taking Stock: Denny's might be a tasty investment

by Malcolm Berko

Dear Mr. Berko: What do you think of Denny's Restaurants for a two- to three-year hold? And what do you think of Google for a two- or three-year hold? I only have about $1,200 to invest in two shares of Google or 200 Denny's. I only want to own just one stock, so don't suggest that I buy 100 shares of Denny's and 10 shares of Google. I want to know which of the two stocks, in your opinion, will give me the best two- or three-year return on my money.

N.F.

Harrisburg, Pa.

Dear N.F.: I eat breakfast, lunch or dinner at Denny's (DENN-$4.63) several times a month and, by Jove, I'm pleased as prince and a pasha. Denny's makes a great salad, a heaping and superb plate of nachos, a fine pepper-grilled tilapia and their cream pies are to die for. I will have breakfast at Denny's once a week and the Mega French Toast Slam as well as their Meat Lover's Omelet is outstanding, and so is the price. And once in a while, when leaving this office late in the evening, I'll stop at Denny's and splurge on a piece of creamy cheesecake or chocolate peanut butter pie. Wow!

Most folks will be surprised at the huge menu of savorous selections, at the excellent service and the reasonable prices. And as more folks become pleasantly surprised DENN's revenues will continue to grow. So if you'd like to be splendidly surprised, I recommend a visit to Denny's any day except Tuesday, which is kids' night out - and a real donnybrook.

DENN, home ported in Spartanburg, S.C., has 1,600 family restaurants of which 550 are company-owned and 1,050 are franchised. Last year, this family style-eatery generated $978 million in revenues and lost $7.3 million, or 8 cents a share. Earnings have been in a see-saw battle for quite a few years but finances are improving, expenses are under control, net profit margins are positive, revenues are growing and Standard & Poor's expects DENN will be profitable this year and next. There are several Denny's in the Harrisburg area and a breakfast, lunch or dinner there might encourage you to own the stock. I do and so do a number of my clients.

Two shares of Google Inc. (GOOG-$473) will almost buy 200 shares of Denny's. In fact, 100 shares of GOOG is almost equivalent to 9,000 shares of Denny's and I'd rather own 9,000 shares of Denny's than 100 shares of GOOG any day of this year.

Last year, GOOG share price gained just a tad under 12 percent (not shabby). Denny's, which was up 15

percent last year, and the S&P 500, which was plus 16.2 percent, did even better.

GOOG derives most of its revenues from targeted advertising, to a lesser extent from licensing its search technology and the company is growing its revenues via a menu of new products that compete with Microsoft. However, advertising is GOOG's main dish. In fact GOOG's chief executive officer expects that cell phones will eventually be swamped with advertising and he expects mobile Internet revenues to be a huge growth engine for GOOG. Some say that future cell phone advertising (pop-ups, photos, jingles, flashes and messages which will stick to your cell screen like porn sites that can't be wiped from your computer) will be so annoying that many users may revert back to land line communication.

Still, GOOG expects to derive an increasingly substantial portion of its revenues from mobile Internet revenues. While GOOG hopes to generate over $32 billion in revenues by 2011 it's suggested that mobile Internet could jump those revenues even more. But at what margins? And there's the rub.

Now Value Line believes GOOG could earn $23 a share by 2011 and that its share price will double to about $950. That's a price-earnings ratio of 41 and while GOOG's growth is impressive, I'm not confident that the stock can maintain such a high P/E. I am confident that revenues and earnings will continue to rise.

However, I think changes in technology, fickle public tastes, cost pressures, competition, an economic downturn, potential management snafus, a bad corporate acquisition, market saturation and other speed bumps may contain the rise in share price. And frankly, the round-trip commission costs to purchase and sell two shares of GOOG could be as high as 20 percent which would certainly dampen your profit potential.

So go for 200 DENN. People always eat and I believe that DENN will give you a better return on your money.

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