

Taking Stock: Invest in AT&T but speculate in Sprint

by Malcolm Berko

Dear Mr. Berko: Why is Sprint stock doing so poorly? The stock market was way up last year and doing pretty good so far this year but Sprint stock is awful. Would you think this is a good stock to buy as a long-term investment because it hasn't gone up like other phone stocks? I'd consider owning 400 shares if you recommended it. And what do you think of AT&T? I would like to own 200 shares. It seems to be doing well and has good earnings. Do you think Cingular wireless, which is the backbone of AT&T, will continue to do well? And can you tell me why Cingular seems to be doing so much better than Sprint's wireless operation? And that makes we wonder if I should buy Sprint because its wireless operations seem to be listless. I'd appreciate a quick answer.

R.G.

Durham, N.C.

Dear R.G.: AT&T and Cingular are doing well because they have superb management and AT&T Inc. (T-\$38.90) is doing well because its wholly owned Cingular Wireless division has AT&T's superb technology, immense resources and a smart, employee-friendly management team. As a result, Cingular, which generates about 35 percent of T's annual revenues, has become the largest wireless carrier with the deepest spectrum portfolio of any carrier in the nation's largest markets.

Cingular, the 800-pound gorilla, now has the resources to roll out new services quickly and enter new markets with a flick of a switch with minimum costs. Ma Bell's new baby (T now owns 100 percent of Cingular) is growing its revenues at 10 percent to 12 percent annually and seems to be the carrier of choice among users.

Poor Sprint Nextel Corp. (S-\$19.36), which pays a stinky 10-cent dividend, just can't get its derriere off the starting block, certainly a tribute to Gary Forsee, Sprint's brilliant, friendly, charismatic and much-loved chief executive officer. Poor Forsee appears a little confused, especially in light of the fact that takeover rumors are swirling around Sprint due to his feckless performance. Sprint's earnings record over the past few years are magnificently disappointing.

Earnings for 2006 (34 cents) are down from 87 cents in 2005 and this year's expected earnings of 84 cents continue to give Forsee agita.

Meanwhile, AT&T's Eddy "E." Whitacre Jr. is basking in the sunshine. Earnings for 2005 were \$1.72 (a 21 percent increase from 2004) while earnings for 2006 increased to \$2.33 (a 35 percent increase) earnings for

this year are expected to reach \$2.61 and earnings for 2008 could exceed \$3.00. And T's \$1.42 dividend yields a sweet 3.6 percent. Cingular is one of AT&T's most powerful growth engines and its contribution to future profits and dividends is expected to be enormous.

I believe T is a grand long-term investment and over the next decade could give you better results than the remaining 29 issues in the Dow 30 Industrial averages. So without question, I'd own 200 shares. I believe T's revenues, T's earnings and T's dividend will continue to provide its shareholders with above average results.

I hope you don't think I'm bonkers, but I'd also buy Sprint. Oh, I wouldn't own Sprint as an investment but rather as a speculation. Two sources seem to believe that Forsee, who realizes he lacks the stature to be top banana, is looking for a face-saving exit and a parachute that will give him a soft landing. If Forsee is replaced, there's little doubt in many minds that new management will have the right stuff to put some zippity do-dah in this bungling carrier.

I'd consider owning Sprint as a speculation because the current takeover talk could become serious conversation in the next 6 months or sooner. The company's stock trades 64 cents below its \$20 book value with a salivating cash flow of \$13 billion. While this cash flow provides Sprint with the means to upgrade its WiMax broadband wireless, its iDen radio and code division multiple access networks, Forsee and his boys appear to lack follow-through capacity.

A buyout will take a record amount of capital, but records are being broken in this business every quarter. So I have no qualms about owning 200 shares (not 400) of Sprint as long as you realize it's not an investment but rather a speculation.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@adelphia.net.

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