Taking Stock: Sprint may be back in the running in the foreseeable future

by Malcolm_Berko

Dear Mr. Berko: I have watched Sprint for a couple of years and the stock has done nothing. In fact Sprint just lost its huge government contract. Why did this happen? Will it affect the company's future revenues and profits? I'm considering the purchase of 1,000 shares as a long-term investment. Please tell me what you think. And do you think that after two years of no appreciation that Sprint may be ready to move higher?

E.C.

San Antonio

Dear E.C.: Sprint Nextel Corp.(S-$22.04) has been providing telecommunications services to the federal government since 1987. In fact the Federal government was Sprint's first major customer when the company began business. No more! Sprint Nextel was knocked out to the box by Verizon, AT&T and Quest for a $5 billion annual contract covering voice, video, data services and technologies for 140 government agencies in 190 countries.

This is another failure of Chief Executive Officer Gary Forsee's muddled management style and Sprint Nextel's bumbling board of directors. Rumor is that Forsee may be looking for another job. If he leaves Sprint Nextel, I'd hop on the shares quicker than a duck on a June bug. I suspect S will zoom when Forsee leaves, so keep at least half your powder dry until then.

Even though it lost its government business, Sprint Nextel is a sound company with a solid cash position plus a humongous $14 billion in cash flow. This impressive cash flow easily enables Sprint to streamline existing operations while upgrading its iDen radio, wireless networks, advanced WiMax broadband system as well as its code division multiple access evolution-data optimized, or CDMA EV-DO. (Wow - that's a tongue twisting technical mouthful!) This will give Sprint perhaps the best cutting-edge mobile wireless service in the country as well as an impressive competitive advantage over its wireless competition.

While 2006 earnings were lousy (45 cents a share), the Street expects 2007 earnings to come in at $1.25 a share with a 10 percent jump in revenues to $45.3 billion. While revenues may only grow by 10 percent, the nearly threefold growth in earnings will be attributable to an increase in net profit margins to 7.6 percent from last year's 3.3 percent.

Meanwhile, Sprint Nextel bought back over $6 billion worth of stock last year and management may use its substantial cash position to purchase more shares.

I think Sprint Nextel is a promising stock, which might become more evident to potential shareholders if Forsee resigns. Sprint is the only one of the large wireless carriers not affiliated with a major phone company. This independence will encourage cable companies (and others) to select Sprint as a partner of choice to provide wireless service to their customers.

Meanwhile, Nextel easily dominates the business services segment of the industry. And if management can smooth out the merger wrinkles, Nextel (because of its unique technology) can smother its competitors.

When Nextel was taken over in 2005, Sprint shares traded at the $25 level and it's been downhill ever since with the stock falling to $17-$18 in February of this year. Since October of 2006, UBS, Credit Suisse, A.G. Edwards, Lohman Brothers, CIBC World Markets, Deutsche Securities, Cowen & Co, HSBC, Bank of America, Oppenheimer, Smith Barney and others all issued downgrades on the stock. Since so much of Wall Street's research is duplication, perhaps its time to buy Sprint!

Frankly, I think Sprint Nextel has bottomed out and right now may be time to take a position. In the coming three to four years, Sprint Nextel's revenues could grow by 50 percent, net profit margins should double and earnings might increase by $250 percent while return on capital and return on equity may easily double. Those are impressive numbers.

I'd be comfortable buying 500 shares now. Because I think Sprint Nextel may zoom if Forsee resigns, purchase your second 500 shares if he does. I think this could be a $40 to $50 stock in the next couple of years.

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