

Mossberg's Investor Digest

Best Idea Profile:

LB Foster Company. (NUGXUe:FSTR)

DESCRIPTION:

Headquartered in Pittsburgh, Pennsylvania; L.B. Foster Company is a leading manufacturer, fabricator and distributor of products and services for the rail, construction, energy and utility markets. The Company classifies its activities into three business segments: Rail products, Construction products, and Tubular products. For rail markets, Foster provides a full line of rail, trackwork and accessories to railroads, mines and industry. For the construction industry, the Company sells steel sheet pilings for foundation requirements along with precast concrete buildings, fabricated structural steel and bridge decking. For tubular markets, the Company supplies pipe coatings for natural gas pipelines and utilities along with piping for irrigation markets.

KEY INVESTMENT CONSIDERATIONS:

Established Franchise – L.B. Foster has over 109 years of operating experience and has a strong presence in its niche markets. The Company has been named in Forbes list of “Best 200 Small Companies in America” twice in recent years.

Rail Industry Build-Out – Ridership on passenger rail systems remains strong. Transit ridership was up 3.5% in Q1FY2011 and is approaching record levels. This follows a 1.2% gain in FY2010. The current administration strongly favors the rail industry with \$8 billion for high speed rail awarded from the first government stimulus program with another \$2.1 billion for high speed rail in FY2010 budget. There are also 11 national freight projects funded from \$1.5 billion of TIGER (Transportation Investment Generating Economic Recovery) Grants. In addition to all of this, \$600 million in TIGER II Grants in late 2010 included several key rail projects. These grants total \$12.2 billion in new industry infrastructure funding. Capital Spending by Class 1 Railroads was up by 36% in first half of 2011. Railroad capital spending for full year is 2011 is expected to grow by 25%. Rail products is the largest segment of L.B. Foster's operating segments. Rail operations generated \$156 million in sales representing 54% of total company revenues for the first 6 months of FY2011.

Increasing Market Penetration – At the end of FY2010 L.B Foster acquired Portec Rail Products, a leader in I friction management, load detection and freight car securement systems for the Rail industry. Portec provides more in-house products for L. B. Foster and has operations in Canada and the United Kingdom.

Share Repurchase Program – On May 23rd 2011 L.B. Foster Company announced that its Board of Directors authorized the repurchase of up to \$25 million of its common shares until December 31, 2013. The timing and volume of these share repurchases will be at the discretion of management.

Risks – L.B. Foster was informed of a warranty claim by Union Pacific Railroad on July 12, 2011. The railroad said that concrete ties supplied by CXT under a 2005 contract did not meet specifications. The contract supplied 1.6 million concrete ties that were made at the Grand Island facility, to the railroad, according to L.B Foster.

VALUATION

Trading at 10% discount to book value, shares should have limited downside from current levels. Upside is significant, with current consensus estimates projecting 40% earnings growth in 2012 and \$2.95 in earnings per share. Using a modest multiple of 10x to 12x earnings could yield 30% to 50% upside in valuation.

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Investment Data (as of 9/29/11)

Recent Price	\$22.90
52-Week Range	\$16.48 - \$44.06
Fiscal Year End	Dec
Dividend	\$0.10
Yield	0.5%
Shares Outstanding	10MM
Average Trading Volume	65k
Market Capitalization	\$235MM
Cash	\$46MM
Long Term Debt	\$3MM
Enterprise Value (EV)	\$193MM
BV/ Share	\$25.59
TTM Revenue	\$564MM
P/ Revenue	0.4x
TTM EPS	\$1.91
P/ EPS	12X
TTM EBITDA	\$44MM
EV/ EBITDA	4.4x

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