

Mossberg's Investor Digest

Best Idea Profile:

Michael Baker Corporation (NYSE:BKR)

DESCRIPTION:

Michael Baker Corporation provides engineering, design, planning and construction services for clients worldwide. It works with clients throughout the complete life cycle of infrastructure and managed asset projects. The firm's primary business areas are architecture, aviation, defense, environmental, geospatial, homeland security, municipal and civil, oil and gas, rail and transit, telecommunications and utilities, transportation, urban development and water. The Trans-Alaska Pipeline was one of Baker's signature projects. With more than 3,000 employees in over 100 offices across the United States, Baker is focused on creating value by delivering innovative and sustainable solutions for infrastructure and the environment. The Company was founded in 1940 and is located in Moon Township, Pennsylvania.

KEY INVESTMENT CONSIDERATIONS:

Stock is in Play – Just days ago, management received a letter from a major shareholder urging them to accept a recent buyout offer. The stock is down more than 40% in the last five years, operating results have been substandard and the proposed turnaround may be slowed by economic and industry conditions, as well as by the departure of the CEO in mid-December. The fact that the stock has essentially already been put in play, it may prove difficult to attract a CEO that can implement the cost-cutting program the company has proposed. Although the stock has had a recent run, the stock could be worth as high as \$30 per share based on 7x normalized EBITDA for 2013.

Big Dividend Yield and Share Repurchase Plan – Baker recently initiated a quarterly dividend of \$0.14 per share. This would indicate a yearly dividend of \$0.58 per share and a yield of 2.3%. This amounts to \$5.4 million in annual cash dividends paid out. The board has also authorized a share repurchase program of up to \$10 million in the open market, or otherwise.

Aggressive Cost Cutting – Baker is already well along the way to fulfilling an aggressive plan for cutting costs. Its goal is \$18 to \$20 million in 2013. It has already replaced management and reduced head count. It created an Office of the Chief Executive, composed of the chief financial officer and the chief legal officer, to lead the Company on an interim basis. There are plans for reductions in occupancy costs, transportation expenses and other SG&A expenses.

Focus on Organic Growth – Management indicates it will focus on organic growth as it gets its house in order, and is not currently looking at acquisition opportunities. It believes it has addressed its strategic expansion needs through previous acquisitions and is positioned to take advantage of internal growth.

Solid Balance Sheet – The Company has a solid balance sheet with no long-term debt and cash of \$67 million.

VALUATION:

Despite the stock's recent rise, the ongoing efforts by management to turn around operations will improve financial results and return value to shareholders. In addition, there is upside for shares based on the expectation that there will be continued and expanded interest in the company as an acquisition. There is already one offer on the table of \$24.25, and the likelihood of a lively auction process should the board decide that selling the Company is the best alternative for its investors. The Company generates substantial cash and has wide-ranging operations that would be attractive to an array of potential buyers.

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Investment Data (as of 12/30/12)

Recent Price	\$24.45
52-Week Range	\$17.84 - \$27.43
Fiscal Year End	Dec
Dividend	\$0.56
Yield	2.3%
Shares Outstanding	9.65 M
Average Trading Volume (3 mos)	21k
Market Capitalization	\$233 M
Cash	\$67 M
Long-term Debt	N/A
Enterprise Value (EV)	\$165 M
Book Value	\$23.57
TTM Revenue	\$608 M
P/ Revenue	0.4x
TTM EPS	\$1.00
P/ EPS	24.3
TTM EBITDA	\$32.8 M
EV/ EBITDA	5.0x