

Mossberg's Investor Digest

Best Idea Profile

SureWest Communications, Inc. (NASDAQ:SURW)

DESCRIPTION:

Headquartered in Roseville, CA; SureWest Communications, provides a wide range of telecom, digital video, Internet and other facilities-based communications services primarily in the greater Sacramento and the greater Kansas City regions. SureWest seeks to achieve the leading market position in its markets by leveraging its existing advanced fiber network to extend operations throughout Sacramento, Placer and adjacent counties in California, and by providing superior customer service and integrating systems, products and operating functions in the Kansas City area. SURW has 2 reporting segments; broadband (67% of Rev.) and Telecom (33% of Rev.).

KEY INVESTMENT CONSIDERATIONS:

Transitioning Revenue Base – SURW's revenue base is transitioning from the slower growth legacy products to the higher growth broadband services. From '07 to '09 broadband revenue grew from 39% of revenue to 67% of revenue. During this time, the growth in broadband services more than offset declines in telecom revenues.

Key Acquisition and Market Expansion – In Feb '08 SURW acquired Everest for a total purchase price of \$180MM. Renamed SureWest, the Kansas operation is a competitive provider of high-speed data, video and voice services in the greater Kansas City area. The addition of the Kansas City operations accelerates the company's growth strategy and has positioned SureWest as a premier provider of network services to residential and business customers in the markets areas they serve there, as well as in CA.

Vertically Integrated and Expandable Platform – SureWest owns its own fiber optic backbone, which means it does not have to lease network assets from other carriers and has more control over costs and quality. Vertical integration also allows the company to roll out new revenue enhancing services, such as SureWest TeleVideo, which the company offers to subscribers in the Sacramento area using IP, or IP-video capability.

Opportunistic Buying Opportunity – SURW's largest shareholder, a large quantitative investment fund, recently sold their entire position in SURW, leaving the shares trading at substantially lower levels.

Declining Capital Expenditures – SURW has substantially completed its fiber-to-the home initiative, and further CAPEX for this project is not required. Maintenance CAPEX levels are \$15 million, which should provide for approximately \$50 million in Free Cash Flow at the current run rate.

Share Repurchase Program – The Board authorized an increase of one million shares of the company's common stock to the previously authorized repurchase program. This additional authorization increases the total amount available for repurchase under the program from approximately 253,000 shares to approximately 1,253,000 shares.

VALUATION:

In 2Q10, SureWest reported it's fifth consecutive quarter of positive free cash flow. Despite the growth in FCF and revenue, SURW has a depressed valuation. Shares currently trade at a 40% discount to tangible book value and 4.3x EV to TTM EBITDA. Other small carriers comparable to SURW trade at 6x to 8x EV/ EBITDA. The potential for multiple expansion combined with continued growth, should provide more than 50% upside from current levels.

(NASDAQ: SURW)

Investment Data (as of 10/29/10)

Recent Price	\$7.89
52-Week Range	5.61 - 10.37
Fiscal Year End	December
Shares Outstanding	14MM
Average Trading Volume (3 mos)	65,000
Market Capitalization	111MM
Cash	7MM
Long Term Debt	203MM
Enterprise Value (EV)	324MM
LT Debt/ Equity	0.8x
BV/ Share	\$19.20
TTM Revenue	\$241MM
P/ Revenue	0.4x
TTM EPS	\$(0.02)
P/ EPS	NA
TTM EBITDA	73MM
EV/ EBITDA	4.4x

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