

## FEATURE

| MONDAY, APRIL 5, 2010

# What Metal-Benders and Burgers Have in Common

By ERIN E. ARVEDLUND | [MORE ARTICLES BY AUTHOR\(S\)](#)

*Rapid Ratings gives high marks to food, beverage and tobacco outfits.*

IN THE THREE YEARS SINCE FORMER INVESTMENT banker James Gellert and his partners opened Rapid Ratings International, global capital markets have spun wildly into financial crisis, starting with the 2007 collapse of the U.S. housing market and, by 2010, spreading to Greece's debt market. For Rapid Ratings, a small, independent ratings firm in a market dominated by the so-called Big Three -- Moody's, Fitch and Standard & Poor's -- the crisis and the big credit agencies' failure to foresee it has been a boon to business.

"A lot of traditional models...have now been questioned as solely reliable tools. That's helped us quite a bit," Gellert says from his offices in the Tribeca neighborhood of Manhattan.

[View Full Image](#)



Brad Trent for Barron's

Rapid Ratings' Gellert: "A lot of traditional models...have now been questioned as solely reliable tools. That's helped us quite a bit."





Run by Patrick Caragata, Douglas Cameron and Gellert, the firm produces purely quantitative models based on empirical data. With a staff of about 20 people, Rapid Ratings ranks the financial health of individual companies, banks, U.S. industry sectors, even whole markets, and tracks how that health -- beyond just the likelihood of default -- changes over time. Its assessments (on a 1 to 100 financial-health rating, or FHR scale, with 100 being the most healthy) can change as often as monthly.

The firm, which says its subscriber base has jumped substantially since 2008, has made some notable calls, downgrading [Ford](#) (ticker: F), [General Motors](#) and a number of home builders years before the financial crisis. (Caragata created the system in the late 1990s; Gellert and Cameron acquired it from a previous owner in 2007). When we last checked in with Gellert during the summer of last year ("[Ratings With a Twist](#)," Aug. 31, 2009), his firm liked the financial prospects for [Avon Products](#) (AVP), whose shares have since gained 5%, and [Viacom](#)'s five-year bonds, which Moody's upgraded in October. Then again, its figures showed electric-utility [Mirant](#) (MIR) had an improving outlook, though its stock has dropped 38% since. (The firm makes clear that its rating is just one factor in judging whether a stock is worthy of additional research.)

Despite the Mirant blemish, we thought it would be worth checking back in with Gellert. Generally, he says that last year's "junk rally" has made higher-quality names look like bargains. "In 2010 there has been a shift to more of a stockpickers' market," he says.

What's more, the financial health of Rapid Ratings' overall U.S. coverage universe seems to have bottomed this winter, with the firm's assessment ticking up in January after 10 months of declines. The firm's rating of the 30 U.S. market sectors it covers -- including about 4,500 public companies -- had fallen to 59.7 points, which is on the borderline of low investment grade, in December. It rose to 60 in January and sat at 61 last week.

"We were quite encouraged to see that," he says.

Among sectors that Rapid Ratings smiles upon are food, beverage and tobacco companies, whose financial health is improving most and whose upward momentum is outpacing that of the overall marketplace.

Within that group, Rapid Ratings' 74-point rating of [Kellogg Company](#) (K) is on the high side of the traditional rating agencies' assessment, Gellert says. The stock has appreciated by about 15% since last summer, with a trailing 12-month price/earnings ratio of about 16.9 and positive-trending financials, he says.

One interesting recent food-related highlight was burger-chain [Sonic](#), (SONC), whose relatively high debt load has worried investors. Rapid Ratings has given it a high score of 86. "Sonic is not a large company, but our ratings look at the efficiency of how companies are run; size isn't a factor," Gellert explains. "We remove that size bias. Large companies almost always have a better [credit-agency] rating, but not with us. Leverage isn't [necessarily] bad if they service debt efficiently."

Sonic shares, down 3% since last summer, now trade at a P/E ratio of 17, and this "could possibly be an opportunity to pick up the shares cheap. That's one we'd recommend investors look at." (The shares have jumped in recent weeks.)

One deteriorating name in foods: [Corn Products International](#) (CPO.) Rapid Ratings holds a 29 ranking on the company, down 32 FHR points from a year ago. The stock is trading near its 52-week high, with a trailing P/E of 64. "We look at that and say it could potentially be fully priced," Gellert says. Quarterly profits, he adds, have been the biggest source of deterioration.

#### The Bottom Line

Aside from Sonic and Valmont, Rapid Ratings says Kellogg and Newmont Mining seem to be in improving health. Corn Products International and RTI International look a little pale.

Areas like metals and fabrication companies, consumer services and leisure have all started to stabilize. "We're seeing a softening of the decline for a number of the sectors," Gellert says.

Among specific names, the firm either maintained or upgraded its rankings on metal-benders and mining concerns [Valmont](#) (VMI) to 73, [Kaiser Aluminum](#) (KALU) to 70, and [Newmont Mining](#) (NEM) to 71. However, the firm has downgraded [RTI International Metals](#) (RTI) to 16, which puts it in the firm's highest risk category.

Gellert cautions that these financial-health rankings are a starting point for investors: "Use these to determine an appropriate strategy. If I were a stockpicker, I would put these names through your particular screens to determine an appropriate strategy. You may throw them out because of mitigating factors in equities, or debt or liquidity issues. But we provide data into the process -- we don't supplant it."

ERIN E. ARVEDLUND is a free-lance writer and former staffer at Barron's. She recently published *Too Good To Be True: The Rise and Fall of Bernie Madoff* (Penguin, 2009).

E-mail comments to [editors@barrons.com](mailto:editors@barrons.com)