Goldman SMALL CAP RESEARCH

The Goldman Guide

VOLUME 3 | ISSUE 41 | APRIL 14, 2013

INSIDE THIS ISSUE:

KEY TAKEAWAYS

- *Earnings season is here and people are scared*
- *Financials this week could lead the market's direction*
- *Huge sell-off in gold is not cause for alarm and might be an opportunity*
- *Mobile Stock trading on NASDAQ that is so cheap you have to consider buying it*
- *After years of screw-ups, this NYSE stock is a major turnaround story*

KEY STATISTICS

Index	Close	2013
DJIA	14865	13.4%
S&P 500	1589	11.4%
NASDAQ	3295	9.4%
Russell 2K	943	11.0%

(figures are rounded)

Three Things to Consider

One of the most important themes for the week will be the concern over slowing economic growth, particularly among big banks and major retailers.

Earnings season is in full swing this week for financial players of all sizes and industry segments. On Monday and Tuesday alone, Citigroup (NYSE—C), Charles Schwab (NYSE—CS), M&T Bank (NYSE—MTB), Goldman Sachs (NYSE—GS) and Blackrock (NYSE—BLK) all report quarterly financials. Not to be outdone, Intel (NASDAQ—INTC) and Johnson & Johnson are on tap as well (NYSE—JNJ). Considering how skittish investors are, look for these stocks to determine market direction.

Late last week, gold just completely collapsed which has also spooked even the most passive followers of the yellow metal.

There are a litany of reasons why gold broke below its technical support level and was sold off sharply. They range from economic issues, investment research recommendations, moves by the Federal Reserve, etc. As with most situations of this type, emotions have likely gotten the better of investors and we will likely see at least a dead-cat bounce this week. While gold may trail behind equities' performance this year, the investment themes remain the same and would consider using the sell-off as an opportunity to buy oversold gold stocks or ETFs.

Long live mobile, biotech, and small companies earning money. Good riddance to hardware and software-based PC stocks, big retail, and non-growth names.

We sense sector rotation is in real play here, and that this rotation is most evident with respect to segments that are selling off. Still, we expect that a trade out of one sector into another will become evident during the early part of this quarter's earnings season.

A Mobile Stock Trading for Cash? Sign Me Up

Look, I know we talked last week about avoiding stocks in Asia with the bird flu outbreak and North Korea saber-rattling. Still, we think we may have found a stock that is so cheap it is hard to find reasons why *not* to buy it. Granted, it is a little complex with respect to the detail in which it presents financial data and the limited fashion in which it outlines its offerings. Nonetheless, if you don't mind doing a little work, this stock could be a real winner.

How often do you find a stock that is generating positive cash flow and earnings that is trading for cash?

Singapore-based **Linktone Ltd. (NASDAQ – LTON - $3.04)** provides entertainment–oriented services and content to mobile phone users in China, Singapore, Malaysia, and Indonesia. LTON's offerings include ring-tones, games, icons, news, music, apps, screensavers, e-commerce services, e-books, etc. We should note that as part of its broad array of offerings and services, Linktone has a number of key partnerships.

For example, LTON is the exclusive provider in China of Sony Music's catalog through ringback service in China, which is strongly promoted by China Mobile, one of the 2 major mobile operators. Linktone also provides wireless interactive services for STAR TV's Channel V, a highly popular music channel in Asia, and XKWS, STAR TV's entertainment channel in China. The Company also entered into a cooperative agreement with Aon Media to develop, localize and provide JAVA-based wireless karaoke applications and content to Chinese mobile users. As the largest provider of mobile music in Korea, Aon Media maintains a library of over 40,000 Chinese songs for mobile karaoke, an app it pioneered in the region.

Although revenue and earnings have been uneven, and a valuation discount should be assigned to the stock due to its Singapore domicile and exclusive market in Southeast Asia, LTON trades right around its net cash. That is not a typo. The current market cap is around $125M and the net cash is around $130M, for the Company. By that measure, an investor is buying the company for its cash position and getting all of the operations for free! Ridiculous. Certainly a company generating north of $40M in annual revenue that is profitable is worth more than its net cash alone.

Our back of the envelope estimate suggests that in 2013, LTON should generate at least $0.40 in EPS (or ADS). As a result, LTON should trade at least 11x EPS (ADS) and 1.5 net cash, which suggests a 50% increase from current levels. While the move higher may not occur right away, we believe that when it moves higher, it will do so as quickly.

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Major Turnaround in the Works

(As published in our Market Monitor…)I thought I would never have a favorable attitude about **Rite Aid Corp. (NYSE – RAD - $2.31.)** Until now. Back in the early part of the 1990's Rite Aid was a darling on Wall Street. A major accounting scandal forced bankruptcy which was just the beginning of its troubles.

Later, Rite Aid agreed to pay $7 million to settle allegations that the company had submitted false prescription claims to U.S. government health insurance programs. There were other claims and charges, fits and starts, acquisitions of other chains, and no annual profitability for many years with the exception of 2007.

After following its moves over the past few quarters and seeing the financials release and huge volume late last week, my sentiment has changed dramatically. In our view, all of the bad news and history is reflected in the stock and it appears as if management has enabled it to turn the corner.

Rite Aid, the nation's third-largest drugstore chain recorded its first annual profit since 2007, and reported its second straight quarter of profitability, which leads us to believe that this is not a one-time event. For 4Q13, revenue was $6.45B with EPS of $0.13, versus the $6.44B and break-even results expected by the Street. As a result, the stock jumped 20% on five times the average daily volume and achieved a new 52-week high.

For the full fiscal year, the Company earned $107.5 million, or earnings per share of $0.12 cents, on $25.39 billion in revenue. For fiscal 2014, management now forecasts net income to range between $0.04 cents and $0.20 cents per share, on $24.9 billion to $25.3 billion in revenue. The Street's consensus is $0.03.

The EPS forecast range is wide given that a good deal of the income generation is based upon profits from the sale of generic drugs which, while they carry lower price tags than branded drugs, enable higher profitability. At current levels, the stock trades at roughly 11x the high end of the EPS guidance for next year and under the $2 billion market level.

Now that the Company has proven it has turned the corner in consecutive quarters and just blew away the Q4 EPS estimates, we believe that the stock will continue to be in play. If the trends continue, we would not be surprised to see this RAD stock reach the $3.00 level.

Until next week...

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Rob Goldman founded Goldman Small Cap Research in 2009. Rob has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell-side analyst, Rob was a senior member of Piper Jaffrey's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*. As an investment manager, Rob's model portfolio was once ranked the 4th best small cap growth performer in the U.S. by *Money Manager Review*. In addition to his work at GSCR, Rob is the editor of The Stock Junction (www.TheStockJunction.com.)

Analyst Certification

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