The Stern School Of Business Beats Texas, Miami And 18 Other Schools At Ross Stock Pitch Competition

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If you could hear a stock pitch from undergrads at some of the best business schools, what stock would they pitch?

On October 25th, students from 21 schools gathered at theRoss School ofBusinessand they participated in the 6th annual stock pitch competition, organized by theMichigan Interactive Investments Club. After passing the first round, students from Miami University, the Stern School of Business, and the University of Texas, made it into the final round. Miami pitched Waste Connections, Stern pitched McDermott International, and Texas pitched Gencorp. The final judges came from Tappan Street Partners, Longbow Research, Moore Capital, Whitebox Advisors, and BNP Paribas.

Parth Thakkar, the director of the competition, thanked the sponsors and noted:

The Undergraduate Investment Conference (UIC) was founded with the vision of fostering collaboration and competition amongst talented undergraduates interested in finance. We are proud to see this vision evolve into one of the largest investment conferences in the nation with 21 schools, 18 judges, and 6 sponsors participating in this year's event. This year we were able to host 14 University of Michigan alumni to attend and judge the competition. We look forward to inviting more alumni to the conference in the future.

I would also like to take this opportunity to recognize our sponsors for this year's conference: Tappan Street Partners, Longbow Research, MKM Partners, BNP Paribas, Grosvenor Capital Management, and William O'Neil & Company. We truly appreciate all of your support in making this event possible.

What stocks were pitched?

Listed below is a table that shows the stocks that were pitched by each school and some basic ratios for each stock. The data is courtesy of FactSet. The basic ratios were placed into a multi-factor simple quant screen that I made, and the stocks are sorted by the results of that screen (best stock at the top of the screen).

Who won the competition?

The Stern School of Business won, and they were represented by Thomas Li, Ador Michael Cristofi, Kapish Haldia and Joshua Cao. The students are involved in NYU Stern's Investment Analysis Group, and they manage $25,000 that has been donated by Justin Pollack and other alumni. The group has a portfolio management team of 25 students and a club membership of 250 students.

I interviewed the team from Stern, and this is what they had to say.

[Disclosure - as of this writing, their fund currently does not hold MDR]

You pitched McDermott International, what does the company do?

The company operates in the offshore EPCI space (Engineering, Procurement, Construction, and Installation). They are full service contractors for offshore drilling construction (deep-water, shallow, subsea, etc.). They will design, build, install and maintain oil rigs and support systems for players further downstream.

Why do you like it?

First and foremost, it's a stellar investment opportunity. The stock is cheap no matter how you look at it. First, the deep-water space is slated to grow at 40% through 2018, and MDR has been rapidly transitioning into the space since 2009. Historically this was a shallow water business with a management team that understood that space. Till recently, the transition has been terribly managed. What makes this story compelling now is some bright spots in the transition to deep-water. You have new project bidding teams and an incoming CEO that ran the deep-water/subsea business in the US for the industry leader, Technip, for decades. You have them working on the largest subsea project to date, over $2 billion, and almost guaranteed a win on an even bigger project coming up. You take these [qualities] and compare [them to] a business valued at a fraction of the market value of its very attractive asset base. They're 30% net cash and trading substantially below comps. Most importantly, we think this is a great buyout target and strongly believe Technip is already looking at the possibility. All in all, high growth business, good new management, and cheaper than its lucrative asset base - that's a risk-reward skewed in our favor if we've ever seen one.

What catalysts might help the stock?

Earnings will of course provide clarity on the transition and how new management is doing. They have the largest subsea project bid outstanding at $2.7bn. We think they have that locked up. That announcement will help the stock. And of course, we see a buyout in the books and that would be an immediate catalyst.

Do you have any concerns about the company?

Main concern is if the new management is unable to control costs and win

projects. That's the bread and butter here and if they fail at that, you'll see significant cash burn. Those are the red flags we'll be looking out for.

Who are the competitors and why do you like this company more than the competitors?

Really the main reason we're looking at MDR vs. comps is the valuation. Its peer set is up 250% since the recession while MDR is down 50%+. Technip is the main competitor, along with Saipem and Subsea7. It should be noted that the new CEO, David Dickson, has been at Technip for most of his career, ran their North America division, and was placed on the board of Global Industries a year before they were taken out by Technip in 2011.

What price target do you have and how did you get it?

We have a price target of about $12, which is little over 60% upside using several valuation methods, including a comps, DCF (imperfect for this business), LBO (setting a floor value on strategic buyout), and liquidation analysis. It's a bit of a hard business to value traditionally. We see it more as either they fail at transitioning and are sold in parts, which still yields upside, or succeed in transitioning, in which case you can easily see the equity rise in multiples.

Kai Petainen's views on the market and stocks are his alone, and do not reflect the views of the Ross School ofBusinessor the University ofMichigan.Kai teaches a class on quant screening, F334 - Applied Quant/Value PortfolioManagement, at the Ross School ofBusiness. Kai is aMFolio master at Marketocracy, and is featured in Matthew Schifrin's book, "The Warren Buffetts Next Door".