

Time for a breather?

North Carolina's 10 most highly valued public companies had a combined stock-market value of about \$465 billion in early December. Only four had buy recommendations from at least 60% of the analysts who track their stocks, reflecting a cautious outlook after the S&P 500 nearly doubled since December 2009. Four of the 10 stocks – Lowe's, Reynolds American, VF and Hanesbrands – more than tripled in that period, including reinvested dividends. Below, owners of four North Carolina-based investment companies predict which of these giants will perform best and worst in 2015.

1. Bank of America Corp.

MARKET CAP: \$185.9 BILLION
P/E RATIO: 44 | **EXPECTED FIVE-YEAR EPS GROWTH: 8%**

Bank of America's shares remain controversial, though the Charlotte-based bank trades at roughly the same price as in 1996 and at a 30%-plus discount to the industry average on a price-to-book value basis. CEO Brian Moynihan has spent his five-year tenure settling lawsuits over flawed mortgage loans and cutting costs, but low interest rates and tighter regulations keep analysts wary about BofA's potential for growth and stock-market gains. A little inflation induced by the Federal Reserve would benefit bank profits, but "there's a chance that 2015 may see a continuation of ultra-low interest rates," S&P Capital IQ analyst Erik Oja wrote in December.

ANALYSTS WITH BUY RECOMMENDATIONS: 58%

2. Lowe's Companies Inc.

MARKET CAP: \$62.1 BILLION
P/E RATIO: 25.3 | **EXPECTED FIVE-YEAR EPS GROWTH: 18%**

The housing recovery is sparking enthusiasm for Lowe's, which enjoyed its biggest one-day stock-price advance in more than five years on Nov. 19 after reporting that quarterly profits jumped 17%. For the year, the stock price of the Mooresville-based retailer outpaced eight of the 10 largest North Carolina companies. It plans to add a net 15 stores in the next year, with earnings per share expected to gain 21% in 2015. It helps that more consumers are buying refrigerators and other big-ticket items – sales of products costing \$500 or more increased by 9% from a year earlier.

ANALYSTS WITH BUY RECOMMENDATIONS: 53%



Bobby Edgerton
Capital Investment Cos., Raleigh

FAVORITE: Bank of America Corp.
 It has too much debt and is overregulated, but their stock hasn't gone up nearly as much as other companies on the list.

LEAST FAVORITE: Red Hat Inc.
 Great company that has gone up too much. We own a lot, but we bought at a much lower price.

3. Duke Energy Corp.

MARKET CAP: \$58.3 BILLION
P/E RATIO: 24 | **EXPECTED FIVE-YEAR EPS GROWTH: 5%**

The coal-ash spill near Duke Energy's Dan River Steam Station plant kept the company in the headlines, but its stock was unfazed. Shares gained 17% through Dec. 1, slightly less than the iShares U.S. Utilities fund. Removing coal ash from 14 sites may cost as much as \$10 billion, which Duke wants to recoup through rate increases. To boost growth, the Charlotte-based utility is buying stakes in eastern North Carolina power plants for \$1.2 billion and investing \$2 billion in a new natural-gas pipeline. Wells Fargo Securities analyst Neil Kalton rates the stock "outperform," citing a "sharpened strategic focus."

ANALYSTS WITH BUY RECOMMENDATIONS: 45%

4. Reynolds American Inc.

MARKET CAP: \$35.5 BILLION
P/E RATIO: 22 | **EXPECTED FIVE-YEAR EPS GROWTH: 9%**

Reynolds American didn't get the memo that higher taxes and tighter regulation would crush Big Tobacco. Shares tripled in five years, while the pending \$25 billion purchase of Lorillard Inc. would make the Winston-Salem-based company the top menthol-cigarette seller as it competes with industry leader Altria Group Inc. To get the deal done, Reynolds will divest Lorillard's market-share-leading blu e-cigarette and focus on its Vuse brand. About 65% of tobacco consumers use vapor cigarettes exclusively. "Reynolds American is entering a new phase of outsized growth," Wells Fargo Securities analyst Bonnie Herzog said in a November report.

ANALYSTS WITH BUY RECOMMENDATIONS: 63%



Frank Jolley
Jolley Asset Management LLC, Rocky Mount

FAVORITE: Bank of America Corp.
 Attractively priced at 12 times estimated 2015 profit. Earnings power will be evident after Federal Reserve moves to normalize interest rates.

LEAST FAVORITE: Hanesbrands Inc.
 Well-run company with stock ahead of itself after 64% gain in the past year. Stock is too expensive, trading at 17.5 times 2015 estimates.

5. VF Corp.

MARKET CAP: \$32 BILLION
P/E RATIO: 25.3 | **EXPECTED FIVE-YEAR EPS GROWTH: 12%**

VF, which focused on making jeans and underwear for much of its history, has been a stock-market rock star since it started buying faster-growing apparel companies in the mid-2000s. After trading for less than \$13 in 2008, shares of the Greensboro-based company have jumped nearly sixfold on soaring sales of brands such as North Face, Timberland and Nautica. Analysts expect a 14% gain in earnings per share in 2015 with outdoor and activewear lines growing faster than Lee and Wrangler jeans. Increased sales to consumers via the Internet, by-passing retailers, are also buoying VF's profit.

ANALYSTS WITH BUY RECOMMENDATIONS: 68%

6. BB&T Corp.

MARKET CAP: \$26.9 BILLION
P/E RATIO: 13.7 | **EXPECTED FIVE-YEAR EPS GROWTH: 7%**

Analysts tracking BB&T are tentative about its prospects with 16 of 28 advising against buying shares of the Winston-Salem-based bank. Its shares held up stronger during the past decade than most regional banks, so it has less room to recover – BB&T shares declined 6% while the iShares U.S. Regional Bank exchange-traded fund slipped 31%. But North Carolina's oldest bank is again hunting for growth, paying \$2.5 billion for Lititz, Pa.-based Susquehanna Bancshares Inc. While it may take three years for the deal to pay off, Morgan Stanley analyst Betsy Graseck noted companies are supposed to think at least five to 10 years out.

ANALYSTS WITH BUY RECOMMENDATIONS: 43%

7. Lorillard Inc.

MARKET CAP: \$22.8 BILLION
P/E RATIO: 20.2 | **EXPECTED FIVE-YEAR EPS GROWTH: 9%**

Lorillard is an arbitrage investment because of its pending sale to Reynolds American – a \$25 billion transaction combining the second- and third-largest U.S. cigarette makers. Reynolds was attracted by Lorillard's Newport menthol brand, which had a 36.9% of the menthol market share in third quarter and is expected to grow under Reynolds. Lorillard shares declined 11% when the deal was announced in July because investors had expected a bigger premium. But the shares have tripled in value over the past five years, the fifth-best advance of North Carolina's 10 largest companies.

ANALYSTS WITH BUY RECOMMENDATIONS: 29%



Don Olmstead
Novare Capital Management LLC, Charlotte

FAVORITE: VF Corp.
 Well positioned to benefit from lower gas prices that lead to more sales and an expected cold winter, good for North Face and Timberland brands.

LEAST FAVORITE: Duke Energy Corp.
 Solid company but limited upside as utilities sector outperformed in 2014. Duke is vulnerable to potentially higher interest rates.

8. Nucor Corp.

MARKET CAP: \$17.5 BILLION
P/E RATIO: 26.2 | **EXPECTED FIVE-YEAR EPS GROWTH: 40%**

Booming car sales and new office buildings are great for the nation's biggest steelmaker, with revenue topping analysts' estimates by 6% in the third quarter. Investors have pushed Nucor shares up more than 75% over the last three years – though the price remains well below record levels achieved before the 2008-09 recession. Two-thirds of analysts following the Charlotte-based company are pessimistic about further advances because Nucor is trading for more than 16 times expected profit in 2015. "Shares look fairly valued as Street estimates already reflect a big earnings recovery," Wells Fargo Securities analyst Sam Dubinsky wrote in October.

ANALYSTS WITH BUY RECOMMENDATIONS: 33%

9. Red Hat Inc.

MARKET CAP: \$11.6 BILLION
P/E RATIO: 65 | **EXPECTED FIVE-YEAR EPS GROWTH: 15%**

One of North Carolina's technology stars after it went public in 1999 and survived the dot-com collapse a year later, Red Hat remains a favorite of analysts. Revenue has consistently topped 10% annually on demand for the company's open-source software. Shares have tripled since former Delta Air Lines Inc. executive James Whitehurst became CEO in January 2008, including a 33% gain during the year ended Nov. 30. T. Rowe Price Group Inc. and four other large financial companies own almost half of the shares of Raleigh-based Red Hat, which is often mentioned as a takeover target of the software industry's giants.

ANALYSTS WITH BUY RECOMMENDATIONS: 81%

10. Hanesbrands Inc.

MARKET CAP: \$11.2 BILLION
P/E RATIO: 33 | **EXPECTED FIVE-YEAR EPS GROWTH: 15%**

Investing in undergarments-maker Hanesbrands has proven alluring, with shares gaining more than 350% over five years, making it the best performer of North Carolina's largest companies. The Winston-Salem-based company has added new brands, such as X-Temp and ComfortBlend, to its staples Hanes, Champion and Playtex. Analysts at Wells Fargo Securities praise its growth prospects after it paid a combined \$1.1 billion for France-based DBApparel in September and Maidenform Brands Inc. last year. The company topped profit estimates each of the past four quarters, and earnings per share are expected to increase 15% in 2015.

ANALYSTS WITH BUY RECOMMENDATIONS: 64%



Ann Benjamin Zuraw
Zuraw Financial Advisors LLC, Greensboro

FAVORITE: VF Corp.
 Excellent management, smart acquisitions and expanded international sales are boosting profit margins and sparking earnings growth.

LEAST FAVORITE: Red Hat Inc.
 Expensive on every valuation metric, so there's no room for disappointing results. Faces competition from Oracle, Amazon, Microsoft and Google.