[Scott Rothbort]
MCD Downgraded, but Look Deeper
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UBS cut **McDonald's** (MCD) to neutral from buy based on valuation and macro headwinds. I can't blame the analyst for doing so. MCD sold off after its last quarterly earnings report, and from that point has surged 8 points to a new all-time high.

Fiscal 2008 estimates currently stand at $3.52 a share and were bumped up 12 cents in the last 30 days alone. What's important now is what P/E you choose to apply to the stock. At an 18 multiple, which is about industry norm during strong economic conditions, MCD is worth about $64 a share. Should you select a 20 multiple, which can be argued in the case of the well-managed and faster-growing MCD, then a $70 price target is in order. With MCD selling at around $66, UBS clearly had a strong case to take its rating down.

Looking to 2009, MCD should earn in the range of $3.80 to $3.85. Thus, long-term investors should not be shaken out by UBS' call today.

Finally, I want to point out that the annual dividend payout is normally raised by MCD board in August. I expect a boost to be announced from the current payout of $1.50 a share rather soon. My guess is that MCD bumps it dividend up to $1.80 a share.

Position: Long MCD