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DE Due for a Breather?

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Deere (DE) had a very impressive quarter, which, as I mentioned in my preview, would be based on strong international demand. In addition, I was expecting a sell-on-the-news reaction to Deere, which is exactly what we are experiencing today.

Deere and its agricultural brethren have had a fantastic run. I think that this group is due for a pullback. For these reasons, I have recently booked my profits in **Monsanto** (MON) and put on a small trading short in the **Market Vectors Global Agribusiness ETF** (MOO) .

Deere reported first-quarter 2008 EPS of 83 cents on net sales and revenue of \$5.2 billion. The company bettered analysts' consensus estimates on both accounts.

Worldwide equipment sales rose 19% year over year. For second quarter 2008, Deere expects equipment net sales to rise 23%, with most of the growth coming from agricultural sales. For the full year, equipment sales are expected to rise 17%, and 3% of growth is expected to come from forex gains.

First-quarter production tonnage rose 21% year over year in the quarter and is expected to increase by 19% in the second quarter and 15% for 2008 vs. prior estimates of 7% for all of 2008.

Agricultural equipment sales rose 33% year over year, of which forex contributed 6% and acquisitions contributed 1%. Inventories increased to meet growing demand. Margins improved by 29 basis points. Wheat, corn and soybean use is projected to exceed crop demand from 2007. Ethanol and biofuels contribute to continued support for these crops.

Commercial and consumer net sales rose 16% year over year, of which 14% came from the Lesco unit. Operating profits declined, though, due to the consolidation of Lesco. While the first quarter is seasonally weak, Lesco results are expected to be breakeven for the year. For 2008, sales are expected to rise 8%, of which 7% is contributed from Lesco.

Construction and forestry sales declined 6% year over year despite the increase in U.S. tonnage production by 2%.

Credit losses remain low, with provisions running below its 10-year average. The rating agencies supported increasing Deere's leverage from 8.5 to 10.0.

Costs for raw materials and freight rose \$50 million in 2007 and are expected to jump by \$250 million in 2008, up from prior estimates of \$150 million to \$175 million.

The tax rate for the quarter was 33% and is expected to average 35% for the full year.

A final thought: Deere is incorporating 3% of its annual growth as a result of forex gains. I believe that there is a very real chance that the U.S. dollar has bottomed and could rally this year -- even if that rally is just a short-term counter-rally in a longer-term trend lower. Thus, the guidance for 2008 may have to be shaved a bit.

Bottom line: Wait for Deere to come in a bit more before buying in.

DE Preview: Overseas Data Hold the Key

Deere (DE) -- the manufacturer and distributor of farming, construction and forestry equipment -- is scheduled to release first-quarter 2008 results before the market opens on Wednesday and follow up with its quarterly earnings conference call later that morning. The company is expected to earn 78 cents per share on revenue of \$5.07 billion. In the year-ago quarter, Deere earned 52 cents per share on revenue of \$4.43 billion.

I think that the bottom line with Deere is going to be overseas, and, by that, I mean Brazil and China. Recently, some of the company's competitors, such as **CNH Global** (CNH), have reported strong international results but are getting hit with weakness in the U.S.

Overall Deere stock has held up fairly well so far this year and is down about 7%, which is basically in line with the major market averages. On the other hand, Deere is trading at a premium relative to its historic multiples and could attract selling if there are any flies in the ointment when the company reports its results or conducts its conference call.

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At the time of publication, Rothbort was short the Market Vectors Global Agribusiness ETF, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

Rothbort holds an MBA in finance and international business from the Stern School of Business of New York University and a BS in economics and accounting from the Wharton School of Business of the University of Pennsylvania. He is a Professor of Finance and the Chief Market Strategist for the Stillman School of Business of Seton Hall University.

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